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Gitmo detainee ties to plot probed

Two former prisoners are believed to be leaders of al Qaeda group claiming role in Northwest bomb attempt

BY EVAN PEREZ
AND JAY SOLOMON

WASHINGTON—U.S. investigators are pursuing possible links between the Christmas Day airline bomb plot and former Guantanamo Bay prisoners who are now believed to be leaders of an al Qaeda affiliate in Yemen.

Said Ali al-Shihri and Muhammad al-Awfi, released from Guantanamo in 2007, are thought to be leaders of al Qaeda in the Arabian Peninsula, according to Defense Department documents released earlier this year. Al Qaeda in

the Arabian Peninsula is the Yemeni group that on Monday claimed responsibility for the bombing attempt on Northwest Airlines Flight 253.

Umar Farouk Abdulmutallab, the 23-year-old Nigerian man charged in the botched plot, told investigators he was given the bomb by operatives of al Qaeda in Yemen. Investigators are still trying to verify the claim, though law-enforcement officials say they are operating under the assumption his claim is true.

Possible links between former Guantanamo prison-

ers and the bombing attempt are intensifying criticism of the Obama administration's effort to close the Guantanamo Bay, Cuba, prison in part by resettling some detainees in third countries.

A senior Obama administration official said authorities still think closing the facility is a national-security priority for the U.S. "The detention facility at Guantanamo has been used by al Qaeda as a rallying cry and recruiting tool—including its affiliate al Qaeda in the Arabian Peninsula," the administration official said.

Messrs. Shihri and Awfi

were released in their native Saudi Arabia to participate in a deradicalization program, but disappeared soon after completing it.

The U.S. recently released some Yemeni detainees in Yemen. There are more than 90 Yemenis remaining in Guantanamo, constituting the largest single group of prisoners there.

A U.S. official working on Middle East policy said Monday that the revelations about al Qaeda's operations in Yemen "will make it very difficult to return more."

The Yemeni government said Mr. Abdulmutallab had

spent the four months preceding the botched plot inside Yemen. He entered the country to study Arabic at a language institute where he had studied before, according to Yemen's foreign ministry, and his passport had a valid U.S. and other foreign visas.

"There was nothing suspicious about his intentions to visit Yemen, especially considering he had also visited the U.S. in the past," the foreign ministry said in the statement.

Mr. Abdulmutallab's Yemen connection likely will focus attention on U.S. counterterrorism activities in that

country. After receiving no funding for counterterrorism assistance in Yemen in 2008, the Pentagon was given \$67 million this year. U.S. officials say the Obama administration is considering a substantial increase for next year.

In a recent interview, Ali Anisi, a senior security aide to Yemeni President Ali Abdullah Saleh and the director of the president's office, said the government was determined to rid Yemen of al Qaeda and was cooperating with U.S. officials in that fight. "There is coordination and collaboration in the fight against terror," he said.

Cold snap heating up energy costs

Unusually heavy snowfall brought traffic jams throughout Russia. In the Siberian city of Krasnoyarsk (pictured), cars crawled along decorated streets, while traffic was backed up throughout Moscow, the capital.

Meanwhile, a cold snap throughout Europe is driving up energy prices. U.K. natural gas rose on expectation of increased demand, while freezing weather in continental Europe, in particular in Germany, is likely to lift prices next week.

One U.K. trader noted that the cold snap before Christmas "saw a lot of supply come out of store."



Lehman Europe clients back payback plan

BY AINSLEY THOMSON

LONDON—Former clients of Lehman Brothers' European operations voted in favor of a plan to speed up the return of about \$11 billion in frozen client assets, the collapsed bank's European administrator said Tuesday.

The administrator, PricewaterhouseCoopers, said more than 90% of the bank's former clients voted for the plan, a multilateral contract known as a claim-resolution agreement. The agreement governs the basis on which

the administrators can return the assets.

The former clients, who number about 1,000 and are mainly hedge funds, must now file their claims for the frozen assets by March 19. PwC said it anticipates it will begin distributing the assets shortly after the deadline.

Steven Pearson, joint administrator and partner at PwC, said he was delighted the plan has received the "overwhelming support" of the clients. "The claim-resolution agreement now provides an agreed basis on which to

systematically settle clients' claims and reunite them with their assets," he said.

PwC said it held meetings

Lehman's collapse prompted nearly 80 subsidiaries world-wide to fold.

with former clients of the bank in London and New York in December to garner approval for the plan. At least

90% of the clients had to be in support for the plan to be implemented.

The claim-resolution agreement was proposed by PwC after the U.K. Court of Appeal last month rejected the use of a "scheme of arrangement" to expedite the return of the client assets.

The scheme of arrangement was designed to speed up the return of assets by dealing with the bank's clients collectively, rather than negotiating bilateral agreements. However, the court ruled it didn't have jurisdiction to sanction

the plan.

When PwC was appointed as administrator on Sept. 15, 2008, Lehman's European arm held \$32 billion in client assets. Since that date, \$13.3 billion has been returned via bilateral agreements.

Lehman's collapse made worse the financial chaos that was already mounting around the world. It caused nearly 80 Lehman subsidiaries world-wide to fold.

Each subsidiary is being wound down under the legal regime of the country in which it is based.

The Quirk



A picky California home buyer pursues an epic hunt for 'the one.' Page 29

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& Opinion

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PAGE TWO

China's scope for clever job creation

[Agenda]

By DANIEL H. ROSEN

While everyone is glad to put 2009 behind them, 2010 could be an even tougher economic year for China. To climb out of the global contraction, Beijing has engineered a property bubble characterized by oversupply in commercial real estate and unsustainable price gains for residential property. The consequences of this will bite in the new year.

To soak up and justify this excess, China's leaders are trying to stoke demand by accelerating the already epic urbanization trend, reducing constraints on migration and urban registration. The leadership is betting on the connection between accelerated urbanization and consumption, too. In 2008, 43% of China's population was considered urban, versus an average of 79% for Latin America, 73% in the euro area and 82% in the U.S. China still has a long way to go.

By front-loading this urban growth, China will bolster prices for upstream raw materials like iron ore and aluminum in the near term and keep construction companies busy. But many people are concerned that China's urban factories already are overbrimming with overcapacity in almost all sectors, and boosting urban migration will just aggravate overproduction, which will spill into world markets.

If China is already suffering overcapacity in everything, then indeed swelling the urban population would just exacerbate problems. But it isn't. In fact, there are huge swaths of economic activity and employment simply missing from the Chinese marketplace. Policies that address the reasons for this can create tens of millions of new jobs in traditional and new sectors in the years ahead, adding to domestic consumption and diverting the country from a collision course with its trading



China has 10 teachers per thousand people, as opposed to 22 in the U.S.

partners.

Consider three sectors: healthcare, manufacturing white collar, and education.

Healthcare: China has 1.6 doctors per thousand people; the U.S. has more than 23. Not that China wants to replicate everything about U.S. healthcare, but given rising pathology and mortality due to aging baby boomers, changes in diet, lifestyle,

There are huge swaths of economic activity and employment missing from the Chinese marketplace

longevity and environmental contamination, filling this shortfall is critical. Reaching the U.S. ratio would mean adding almost 30 million doctors, not to mention multiples of the current low numbers of supporting staff—nurses, palliative-care specialists, hospital administrators and hundreds of other subspecialties comprising the modern healthcare sector.

Manufacturing White Collar: For all its storied manufacturing-sector prowess, China's goods makers skimp on R&D, quality control, brand management, financial planning, environmental-health safety and almost every other white-collar position that

turns a manufactured commodity into a branded product and generates intangible value for the firm: value that makes up a third or more of assets in most Organization for Economic Cooperation and Development firms.

While China Inc. may have overcapacity on the assembly line, it has extraordinary undercapacity in the business functions that turn a \$10 generic toaster coming out of a Chinese factory into a \$75 Braun-branded toaster sold at retail in the U.S. or Europe.

China would need at least 60 million more white-collar workers to be comparable with the U.S. on this score. Given the different development levels, we might cut that in half, but 30 million missing office-worker bees is a lot of jobs.

Education: The missing-jobs number is also huge in education. China has 10 teachers per thousand people, as opposed to 22 in the U.S. Basic education for urban migrant-workers' children is a critical task if accelerated urbanization is to generate more prosperity and not just worsening income inequality, social tension and developmental problems like crime and an underclass. China currently needs another 16 million teachers to reach the ratio in the U.S., as well as attendant teacher-trainers, guidance counselors, school administrators, and other related employees.

Of course there are reasons

why these jobs don't already exist.

In the case of healthcare and education, Beijing has chosen to save resources or transfer them to state-owned enterprises rather than make sufficient public expenditures, while simultaneously preventing private enterprises from investing in these areas as businesses. There are some low-price private hospitals and clinics in China, but with limited resources and market shares. In manufacturing, the cost of capital to build up white collar employment for private and SME firms is typically two-to-five times that of the low nominal rates heavier state-owned enterprises enjoy. And when they are able to build a brand and their own intellectual property, poor enforcement of regulations and intellectual-property protection jeopardizes their ability to recover their investment.

These three sectors just scratch the surface of new job potential: China is far from suffering "overcapacity in everything." The problem is that what is overcapacity doesn't create many jobs.

Steel, aluminum, cement, plate glass and upstream petrochemicals together create just 14 million jobs in a labor pool of 780 million, which is fewer than the number of service-sector jobs in Guangdong Province alone.

China's consumption-urbanization policy thinking is the right way to go, but only if policy simultaneously addresses the biases in the financial sector that starve job-creating sectors while larding other industries with capital. What China needs to make its urbanization strategy the solution rather than an unsustainable bubble machine, to put it simply, is affirmative action for labor-intensive industries.

—Daniel H. Rosen is the principal of Rhodium Group, an advisory firm focusing on China, and is also a visiting fellow with the Peterson Institute for International Economics and an adjunct associate professor at Columbia University.

What's News

■ **The euro zone enters 2010** with a full-blown debt crisis. The European Commission warned that public finances in half of the euro-zone nations are at risk of becoming unsustainable. Governments will spend the next year and beyond reining in public-sector debt and trying to sustain the economic recovery. 3

■ **Rusal won backing** for its \$2 billion Hong Kong IPO from Asian tycoon Robert Kuok and two prominent hedge funds. 17

■ **China executed** a British national for drug smuggling, sparking outrage from British leaders, who had appealed for clemency on mental-health grounds. 9

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■ **AIG's general counsel**, who quit over U.S. pay curbs, is set to get several million dollars in severance. 19

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"People are dreaming if they think the London investment banking world is going to move."

Analyst **Tim Dawson** on the impact of the U.K.'s bonus tax on London finance



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Question of the day

Vote and discuss: Should all airline passengers undergo body scans?

Vote online at wsj.com/dailyquestion. Plus, follow developments in the investigation of Northwest Flight 253 and see more on the suspect, Umar Farouk Abdulmutallab, at wsj.com/us

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Q: Are you better off today than you were 10 years ago?

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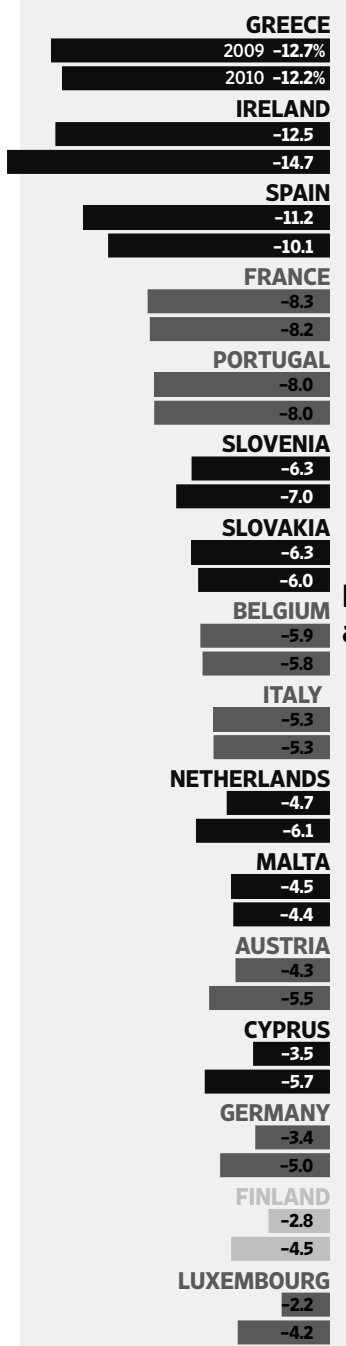
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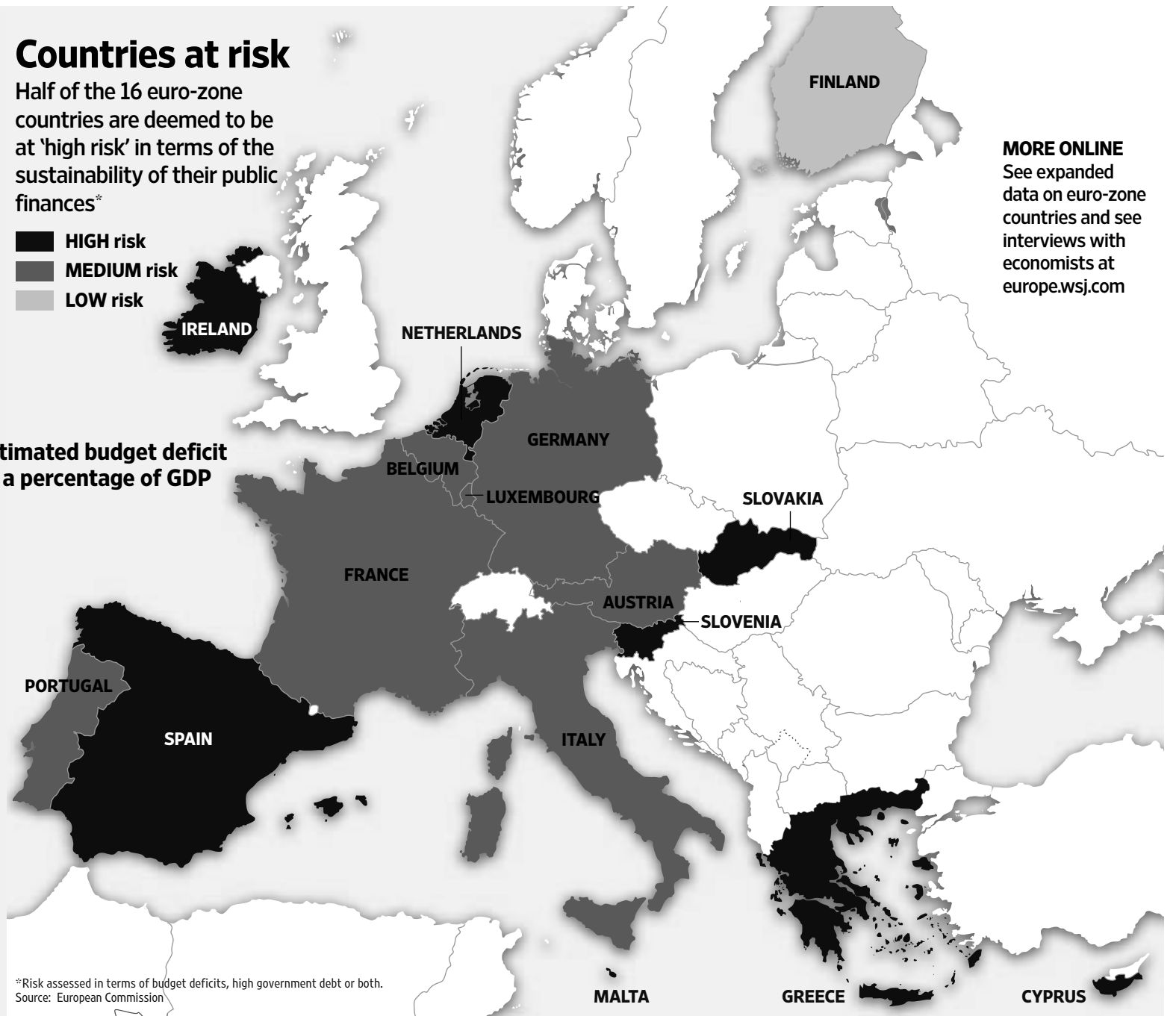


Countries at risk

Half of the 16 euro-zone countries are deemed to be at 'high risk' in terms of the sustainability of their public finances*

- HIGH risk
- MEDIUM risk
- LOW risk

Estimated budget deficit as a percentage of GDP



MORE ONLINE
See expanded data on euro-zone countries and see interviews with economists at europe.wsj.com

*Risk assessed in terms of budget deficits, high government debt or both. Source: European Commission

Euro zone grapples with debt crisis

In 2010, many nations in the currency bloc will attempt to shore up finances and sustain fitful economic recoveries

BY TERENCE ROTH

After two years of crashing banking systems and economic recession, the euro zone enters 2010 with a full-blown debt crisis.

The European Commission warns that public finances in half of the 16 euro-zone nations are at high risk of becoming unsustainable.

Governments will spend the next year and beyond balancing the urgent need to fix public-sector debt and deficits—without imperiling what appears to be a feeble economic recovery.

Even the staunchest optimists in Brussels and Frankfurt see a rocky process, with rating firms poised for more downgrades and bond markets meting out daily judgment over how governments are doing.

Greece and Spain saw their ratings downgraded. Ireland and Portugal have been warned they could be next. Even broader downgrades threaten if other European governments don't shape up.

Fitch warns in a December report that particularly the U.K. (which isn't in the euro zone) and Spain and France (which are) risk being downgraded if they don't articulate more-credible fiscal-consolidation programs during the coming year given the pace of fiscal deterioration.

With the young currency bloc facing the first major test of its fiscal reliability, financial markets are hedg-

ing their bets.

The euro ended 2009 slipping off its highs for the year and bank stocks were sliding on perceptions that their government-bond holdings could lose value. Economists worry the fiscal damage could take years to repair. The recession that has gripped the euro zone since mid-2008 collapsed tax revenues and sent welfare costs soaring.

Billions of euros dedicated to fiscal-stimulus plans and bank bailouts completed the devastation to government finances.

Investors also worry about the danger of a "double dip" European recession if governments get the timing and pace of budget consolidation wrong and choke off the recovery.

That prospect comes alongside concerns of more ratings downgrades and higher default risk if governments act too slowly.

Budget deficits for the region as whole in 2009 swelled to 6.4% of gross domestic product from 2% the year before. The EU forecast sees that gap widening to nearly 7% in 2010 before the worst is over.

European Central Bank President Jean-Claude Trichet says he worries that runaway government borrowing could undermine his ability to hold down inflation, and wasted no opportunity to cajole governments back into line. But ECB officials also acknowledge that countries such as Greece and Spain may



European Central Bank President Jean-Claude Trichet earlier this month.

need to move earlier in reducing deficits and the amount of debt flooding European bond markets.

By contrast, Germany and France will increase spending to add fresh fiscal stimulus in 2010, in France's case swelling its budget gap to more than 8% of GDP next year, according to EU projections. The concern in Berlin and Paris is that rising unemployment, a lagging indicator that continues to rise in the early stages of recovery, will do enough to limit domestic de-

mand without the governments also turning off the taps too early.

The fiscal juggling acts within a multinational currency union frame the test that worried skeptics before the euro's launch a decade ago.

They said a monetary union un-supplemented by a political union risked a fiscal free-for-all among governments, especially in a full-blown recession. The next year will be a good time to prove them wrong.

The focus in early 2010 will remain on Greece and its budget deficit at 12.7% of GDP, four times the EU limit. The Greek government is trying to hammer together a political consensus in parliament for a plan to bring down public spending without triggering more social unrest seen in the country's streets at the close of 2009.

Europe has told Athens that it has to get itself into shape without outside help. Not many Europe watchers believe the euro zone would allow one of its own to go into default, discrediting the euro currency and the philosophy of a monetary commonwealth behind it.

If things did get that far, euro-zone governments would be expected to rush in with a rescue plan to absorb some of Greece's debt, or issue guarantees.

As if to cover all possibilities, ECB legal counsel Phoebus Athanassiou in December discussed in a working paper how and under what

conditions a euro-zone country might withdraw or be expelled from the currency union.

But Brussels is still taking a hard line. The European Commission, in its latest quarterly economic report issued in December, said the strong reaction in financial markets to signs of fiscal laxness highlights the priority of getting a handle on runaway government spending.

It called Greece "a source of serious concern," but urged other member states to bring public finances into sustainable parameters of borrowing and debt.

The ECB is equally unforgiving. "One has to be very clear: The ECB has no mandate or intention to take into account the situation of a specific country, especially not with regard to public finances," Ewald Nowotny, the Austrian member of the ECB's Governing Council, said in a December interview with The Wall Street Journal.

That leaves it up to national leaders to take the pain to the people with varying combinations of more taxes, deeper spending cuts and scaled-back social programs. The tale of what Europe's big fiscal crackdown will look like, and how it will be received, will unfold over the next two years. The first chapter in Europe's big fiscal crackdown comes in January, when Greece is due to submit what is expected to be a radical fiscal overhaul.

EUROPE NEWS

Once jailed, executive counters

Russia limits detentions for white-collar suspects, highlighting efforts of anticorruption lobbyists

BY GREGORY L. WHITE

MOSCOW—Yana Yakovleva says her career is pretty standard for Russia's new business class. She helped start a chemical company, rose to finance chief, then spent seven months awaiting trial in a Moscow jail for white-collar crime charges.

What happened next was less typical: Her case dropped, the 38-year-old is now campaigning to change a Russian justice system she says let bribe-seeking officials pressure her and other executives by throwing them in jail.

Ms. Yakovleva's experience shows that while much of civil society has been squeezed by the Kremlin in recent years, some elements are having a measure of success.

On Tuesday, President Dmitry Medvedev signed a law banning pre-trial jailing of suspects in first-offense tax cases. The move is the latest legal change that removes one of the levers that critics say police and regulators have used against executives.

Ms. Yakovleva's campaign, which began about two years ago, appears to have received fresh urgency following the jailhouse death last month of Sergei Magnitsky, an investment-fund lawyer who had sought to blow the whistle on what he said was major police corruption.

Russian regulators, police and prosecutors have long been criticized for threatening legal action as a way to extort money or seize a business on behalf of competitors. These officials say the problem isn't widespread. But the issue has gained the attention of lawmakers and other top officials. Mr. Medvedev, using a word borrowed from criminal slang, has repeatedly called on the government to stop "nightmarizing" businesses.

Change has been slow, however, and it is unclear how much momentum remains. Ms. Yakovleva and other activists estimate that tens of thousands of people in pre-trial detention are charged with white-collar crimes, though official statistics aren't available. Almost none are acquitted, but many receive sentences that don't involve prison time.

"It's an assembly line," Ms. Yakovleva says, joking darkly that the large number of business people in jail now bears parallels to how Soviet strongman Josef Stalin built a virtual shadow economy with specialists held in his labor camps.

Ms. Yakovleva splits her days between her chemical-company post and her work for Business Solidarity, the group she set up to help pressured businesspeople and lobby for legal changes.



Yana Yakovleva, jailed on charges that were later dropped, is interviewed about legal reforms last week at the Russian Duma.

Protection for business

Russian President Medvedev has pledged to ease government pressure on business. Some of the changes:

- Pre-trial detention is banned in tax cases against first-time offenders.
- In other white-collar crime cases, rules aim to reduce use of pre-trial detention.
- Regulators must seek higher-level authorization and give notice before auditing businesses, a move to curb surprise audits.
- Tax offenders can't be prosecuted criminally after they've paid debts to the government.
- Pending law would limit use of criminal prosecution against businesses for licensing violations.

She has gained an unusual mix of allies, from Lyudmilla Alexeyeva, a Soviet-era dissident who now heads the Moscow Helsinki Group, to Mikhail Grishankov, a former officer of the Federal Security Service who is deputy chairman of the Security Committee in the Duma, Russia's lower house

of parliament.

"She's very effective," says Mr. Grishankov, a member of the ruling United Russia party. He credits her businesslike approach for drawing attention to clauses in the law that could lead to abuse. "The development of this country depends on this."

Ms. Yakovleva says her own legal problems started in 2006, after she and her partner turned down an offer from an officer of the antidrug police to pay kickbacks on sales of diethyl ether, an industrial solvent that can be used in illicit-drug production.

About two weeks after they rejected the offer, she says, the antidrug police opened a criminal case into their company for selling the chemical without necessary licenses, using laws against "illegal entrepreneurship" and money laundering.

Ms. Yakovleva says she was arrested as she left her health club. "It's so nice to detain decent people," she recalls one officer telling her.

She awaited trial in a Moscow jail for women, where her cellmates included white-collar suspects and women pulled in on petty crimes. She led cellmates in exercises, she says.

As she waited nearly six months for trial, her lawyers started to draw attention to the case, winning support from activists like the Helsinki group's Ms. Alexeyeva.

Officials at the antidrug police publicly defended the prosecution.

But ultimately, they dropped the charges when a court struck down the rule that had made ether a controlled substance. Ms. Yakovleva filed a complaint alleging official corruption. Officials denied the allegations. No charges were filed.

Out of jail, she began working with chemical-industry officials caught up on various charges, then formed Business Solidarity to help jailed entrepreneurs.

Other business groups shied away from such controversial cases.

"In Russia, entrepreneurs are a high-risk group," says Ms. Alexeyeva, noting that she tried for years to find someone from business to work on the issue but couldn't find anyone willing to take the risk.

"I don't want to be a human-rights activist," says Ms. Yakovleva. "But I got offended."

She says the public attention brought by her group helped get several businesspeople out of jail. She also started working with legislators to change laws to make it harder to put those accused of white-collar crimes in jail before trial. Last week, she attended hearings in Russia's lower house of parliament on changes to the "illegal entrepreneurship" and money-laundering articles under which she was charged.

"They all say the right things," she said as she left the hearings. "We'll see what actually happens."

Russia to build new weapons, impeding talks

ASSOCIATED PRESS

MOSCOW—Vladimir Putin said Tuesday that Russia will build new weapons to offset the planned U.S. missile-defense system and urged Washington to share detailed data about its missile shield under a new arms-control deal.

The Russian prime minister's remarks, posted on the cabinet's Web site, set a defiant tone and signaled new difficulties in talks between the two nations on a successor to the 1991 Strategic Arms Reduction Treaty that expired on Dec. 5. Moscow and Washington had hoped to strike a deal before the end of the year, but problems persist.

Mr. Putin's comments also showed that the former Russian president is continuing to shape his country's foreign policy, which under the constitution should be set by his successor, Dmitry Medvedev.

Mr. Putin said the arms-control talks were proceeding in a positive way, and added that Mr. Medvedev and U.S. President Barack Obama would eventually decide whether to strike an arms deal. But the Russian prime minister warned that a missile-defense system would give the U.S. an edge and could erode the deterrent value of Russia's nuclear forces.

"The problem is that our American partners are developing missile defenses, and we are not," Mr. Putin

Mr. Putin's comments show the former president is continuing to shape foreign policy.

said. "After the balance is broken, they will do whatever they want and grow more aggressive."

Mr. Obama removed a major irritant in relations this year by scrapping the previous administration's plans to place interceptor missiles in Poland and a radar system in the Czech Republic, deployments Russia treated as a threat. The Kremlin has praised Mr. Obama for the decision, but Russian officials have also said they want to know more about the sea- and land-based systems the U.S. plans to put in place instead.

Mr. Putin said that Russia has no intention of building a missile shield of its own, but will have to develop new offensive weapons to offset a future U.S. missile-defense system.

"In order to preserve a balance, while we aren't planning to build a missile defense of our own, as it's very expensive and its efficiency is not quite clear yet, we have to develop offensive strike systems," he said. Mr. Putin added that the U.S. must share information about its missile-defense plans if it wants Russia to provide data on its new weapons.

"They should give us all the information about the missile defense, and we will be ready then to provide some information about offensive weapons," he said. Russia had been pushing for an explicit link in the new treaty between offensive weapons and missile defense. A joint statement in July by Mr. Medvedev and Mr. Obama linked the two, but the U.S. will be unlikely to accept any missile-defense restrictions.

Kremlin targets speculative-capital inflows

BY IRA IOSEBASHVILI

MOSCOW—Russia will adjust regulations to limit the inflow of speculative capital into the country while encouraging long-term investments, Prime Minister Vladimir Putin said Tuesday.

The comments are a departure from previous statements from top officials and represent the first time that Mr. Putin has mentioned changing the rules on capital accounts, which were liberalized in 2006 to encourage foreign investment.

"We now have conditions that attract inflows of speculative capital. We have to change the rules in order to make the country less attractive to speculators," Mr. Putin said in Vladivostok.

Mr. Putin didn't say what form the measures would take, only that they would be gradual. "We don't plan on doing anything that will shake up the markets," he said. A gradual transition to a free-floating ruble will also help fight speculative capital, Mr. Putin said.

Russia has sought ways to stem a

tide of "hot money" that has flooded the ruble in recent months, attracted by the country's comparatively high interest rates. The tide of speculative capital increases the risk of volatility in Russia's financial system and damages the competitiveness of domestic exporters abroad by causing the ruble to strengthen.

"It flows in quite well, it works here, but then it causes problems, because if a crisis hits, it leaves quickly," Mr. Putin said.

The central bank has cut rates 10

times since April, bringing the refinancing rate to a historic low of 8.75%. The regulator has also said it is considering "soft" measures to staunch capital inflows, including limiting borrowing by Russian companies abroad. Measures taken so far, however, haven't been enough to cap the appreciation of the ruble. Although it lost a third of its value in the wake of the financial crisis, when Russia saw \$130 billion of capital fleeing the country, the currency is up by nearly 22% against the dollar since hitting its year low in February.



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EUROPE NEWS



Publicans from across the U.K. protest the price of beer outside the Enterprise Inns headquarters near Solihull on Monday.

Press Association

Hangover for pub operators?

Tenants union plans industrial action after the New Year over prices paid to owners

BY MICHAEL CAROLAN

LONDON—Thousands of U.K. pub tenants are to vote on industrial action in the New Year, as trade union GMB joins the fight against the practices of Britain's largest pub operators.

The GMB said thousands of tenants of pub companies, such as Enterprise Inns PLC and Punch Taverns PLC, will take part in a ballot for industrial action to secure an average cut of £12,000 (about \$19,200) in wholesale prices they are forced to pay the firms each year. "The aim is to achieve very substantial cuts in wholesale prices and a resolution to a wide range of grievances experienced by the tied tenants at the hands of the [pub companies'] middle managers and their agents," said Paul Maloney of the GMB.

Pub companies say they are already providing financial support to struggling tenants, with Punch investing £2 million each month, through rent and drink discounts.

The ballot affects the U.K.'s 25,000 "tied pubs," in which indi-

vidual landlords rent a pub from a pub company and then must buy beer from the same company. Critics of the model say the firms charge far higher prices for beer than a tenant could obtain on the open market.

GMB represents 3,500 of the country's 25,000 tied-pub tenants and is on a recruitment drive to sign up more.

Tom Gavaghan, who has a lease on a pub in London's Hammersmith neighborhood, said he is tempted to join the union so that he can vote in favor of industrial action.

"I am getting to the point where I am getting very frustrated," he said. I could actually go down to the wholesalers and get products far cheaper than the prices I am actually getting from my landlord. That's just crazy."

Pub manager David Gay, who used to be a tenant, said he could buy some of the products for his pub for half the price in the supermarket were it not for the "tied in" agreements. "I'm not sure [voting on industrial action] will have a great impact on the industry but it is certainly a good move," he said.

The union's Mr. Maloney said that if the industrial action passes, it would take the form of buying beer from outside of the tie. This will effectively be a breach of contract. Indeed, Enterprise's chief executive, Ted Tuppen, described the practice as "theft" earlier this year.

"When an individual does it, they are easily picked off," Mr. Maloney said. Collective action will increase the bargaining power of the tenants, he said.

The seven largest tied operators are Admiral Taverns Ltd., Enterprise Inns, Fuller Smith & Turner PLC, Greene King PLC, Marston's PLC, Punch, and S&N Pub Enterprises, which is owned by brewer Heineken Holding NV.

Criticism of the tied pub operators' practices has grown as the recession has driven down the wages of pub tenants, and resulted in huge numbers of pub closures.

Mr. Maloney said that tied-lessees are charged up to double the wholesale prices available on the open market. This contributes to two thirds of them earning less than £15,000 per year.

U.K. regulator Office Of Fair Trading decided not to investigate pub practices in October after finding the model wasn't detrimental to consumers. It said at the time that disputes between pub companies and their tenants were outside its remit.

Tied pub tenants have therefore combined into the GMB to take direct action to secure negotiations with pub companies, the union said.

Any action is likely to face legal objections from the pub companies. As pub tenants are effectively entrepreneurs and not employees of the pub groups, "industrial action" will be difficult to define.

Mr. Maloney said the Office of Fair Trading had already classified the matter as a trade dispute and that tied tenants therefore had "legal immunity" if they are members of an independent and registered trades union.

Mr. Maloney said the £12,000 annual price cut would cost the seven pub companies just £300 million, an amount they "can well afford."

—Javier Espinoza
contributed to this article.

Data suggest uneven upturn across Europe

BY NICHOLAS WINNING
AND ROMAN KESSLER

LONDON—A pickup in German inflation and a jump in Italian business confidence in December suggest the euro-zone economy continues to recover from its most severe recession since World War II.

But other data on Tuesday showing a sharp drop in Spanish retail sales and modest third-quarter economic growth in France indicate that the outlook remains fragile and some countries may be feeling pain well into 2010.

Preliminary official figures showed Germany's European Union-harmonized consumer-price index rose 0.9% on a monthly basis in December after dropping 0.2% in November. On an annual basis, the inflation rate rose 0.8% in December, compared with 0.3% in November.

Germany is the euro zone's largest economy, and the pickup in inflation there makes it very likely that prices also rose more rapidly in the entire currency area. Inflation returned to the euro zone in November, following five months in which prices were either unchanged from or down from same month of 2008.

"A surprise for the market is the price increases of goods and services... like clothing and shoes," said Dominique Barbet, an economist at BNP Paribas. "Retailers seem to be less sensitive to the poor consumer demand, or well prepared for weak demand."

Also in Germany, a survey of 44 business associations by the IW research institute found that 20 expected output, sales and profits to increase next year. But 27 associations said their sectors would be cutting jobs next year.

"The international financial and economic crisis has still not been overcome and will hit some sectors hard next year also," IW Director Michael Huther said. "But overall, the worst seems to be over and most sectors see an upward trend."

Separately, Manfred Wittenstein, the president of Germany's VDMA industry association, warned that machinery production would stagnate in 2010 and more jobs would be lost. The VDMA says the machinery-production sector is the largest industrial employer in Germany.

Meanwhile, Italy's state-funded ISAE research center said business confidence in the euro zone's third-biggest economy rose to an 18-month high in December.

However, Spain's National Statistics Institute said retail sales fell 5.5% from a year earlier once adjusted for seasonal effects in November, after dropping 2.7% in October and 3.4% in September. Economists blamed rising joblessness following the implosion of Spain's once-booming construction sector during the credit crisis. Spain's unemployment rate hit 19.3% in October—nearly twice the euro-zone average and the second-highest rate in the EU after Latvia.

Data from France confirmed the euro zone's second-biggest economy grew 0.3% in the quarter ended Sept. 30, the second such rise in a row. But French gross domestic product was 2.3% weaker than in the third quarter of last year. Household consumption, the main engine of the French economy, increased just 0.1% in the quarter from the previous period, after growing 0.4% in the second quarter.

—Christopher Bjork, Emese Bartha and Andrea Thomas
contributed to this article.

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Italy tax amnesty draws funds

BY SABRINA COHEN
AND JENNIFER CLARK

MILAN—Italians declared €95 billion (\$136.59 billion) in assets under a tax-amnesty plan, the country's Economy Ministry said Tuesday, noting that 98% of the money will be brought to Italy from offshore.

The amount—based on data as of Dec. 15—surpasses the ministry's earlier €80 billion total. The higher

figure is the result of "a last-minute acceleration" in people making voluntary disclosures, Economy Minister Giulio Tremonti said.

In October, the Italian government launched the tax-amnesty plan—the third in the past eight years—which gave Italians through Dec. 15 to repatriate funds from tax havens outside the country. Under the plan, individuals would have to pay a 5% fine on the total amount of assets repatriated

and wouldn't have to declare how they earned the money.

Earlier this month, Mr. Tremonti announced the extension of the plan, but with higher fees. Italians who repatriate assets by Feb. 28 will have to pay a 6% fee on those assets, while assets declared by April 30 will have a 7% fee.

In a statement, the ministry said the extension of the tax amnesty to April 2010 would be the "last one and definitive."

U.S. NEWS

Four ways to rein in the U.S. deficit

Getting the gap to 3% of GDP is one huge task for budget director Orszag; if all else fails, 'magic asterisks' might help

By JOHN D. MCKINNON

Think your job is tough? Consider the task facing Peter Orszag, the White House budget director.

Mr. Orszag is good with numbers—he is a London School of Economics-trained economist and the son of a Yale math professor. But even Mr. Orszag is going to have trouble solving this puzzle: how to bring long-term annual U.S. deficits down from their highest sustained levels since the early 1990s.

He is aiming to lower the deficit to 3% of gross domestic product within five years, down from an average of 5% that is projected for the decade beginning in 2010. In fiscal 2015, for example, it would require eliminating \$180 billion from the \$739 billion deficit that President Barack Obama's administration projects will occur under current budget plans.

To get a sense of how much money \$180 billion is, consider that it is roughly the combined current annual spending of the U.S. departments of Commerce (\$15.8 billion), Energy (\$46.3 billion), Interior (\$13 billion) and Transportation (\$90.5 billion) departments.

The impetus to act is growing. Foreign investors such as the Chinese government, the U.S.'s largest creditor, are showing impatience with Washington's spending. With an eye to the 2010 elections, independent voters are worrying about the deficit.

Complicating matters, the Obama administration must time its budget surgery perfectly. Cut the deficit too fast, and it could depress demand and stifle the recovery. Cut too slowly, and it could force up interest rates and stifle the recovery.

The timing issue appears to worry Mr. Orszag as much as his preparing next year's budget, which will be released in February. That document "will reflect our best judgment about how to walk that line," he said in late November in a written response to a request for comment.

The Obama administration also might propose setting up a commission and requiring Congress to act on its recommendations. Sen. Kent Conrad (D., N.D.), who is proposing a deficit-reduction commission of his own, says he believes momentum is building for the idea.

But the administration could propose a commission that doesn't have much influence. And Congress could change the rules about the commission's authority later if it wanted to avoid difficult choices. For example, the Medicare prescription-drug bill of 2003 established a trigger mechanism to force Congress to consider deficit-reduction measures when Medicare's financial situation deteriorated. But since then, Congress has simply switched off the trigger each time it was set to force action.

"Too often, commissions are a way to pretend you are doing something or create the appearance of something being done when in fact it isn't," said Robert Reischauer, president of the nonpartisan Urban Institute and a former director of the Congressional Budget Office. "The process can't force the Congress to do that which it doesn't want to do or regards as political suicide."

And many Republican leaders say they doubt the Obama administra-



Budget director Peter Orszag, during Senate testimony in March. The Obama administration aims to lower the deficit without stifling a recovery or triggering higher interest rates.

tion's commitment to deficit reduction, especially while the White House is promoting a planned expansion of the government's role in health care.

Sen. Judd Gregg of New Hampshire, the Senate Budget Committee's top Republican, says he doubts the White House will propose any meaningful action on deficit reduction. "It's so disingenuous it's almost laughable," he says of the administration's—and Mr. Orszag's—promises to address the deficit problem. "I don't think there is any seriousness to it at all."

Each method of cutting the deficit has its own particular drawback. Here is a look at some of the possibilities:

1. Do nothing

Strange as it seems, the easiest way to get the deficit under control is to do nothing.

Some of the biggest drivers of long-term deficits are an array of middle-class tax breaks set to expire at the end of 2010. They include rate cuts made during the administration of President George W. Bush, child credits and the annual relief that Congress regularly passes to shield middle-income earners from the Alternative Minimum Tax. (The AMT, a 1960s-era provision aimed at high-income Americans, is hitting more people because it was never indexed for inflation.)

If Congress and the White House let those breaks die next year, the deficit problem would be solved overnight.

That isn't going to happen. Such a move would violate Mr. Obama's pledge not to raise taxes on families making less than \$250,000. Congressional Democrats also are wary of allowing the Bush-era tax breaks to expire now that they are in charge. In-

stead, they likely will allow only those for the well-to-do to disappear, raising taxes for families with incomes around \$250,000 and up.

2. New taxes

One idea that has garnered attention is a value-added tax, essentially a tax on businesses' sales of goods and services, which is widely used in Western Europe. It would stir fierce opposition among companies at a time when the administration is trying to reassure business that it is safe to start adding jobs again.

Because a VAT is a tax on consumption, it would tend to fall disproportionately on lower-income earners. There are ways to cushion that impact. But administration officials haven't shown much enthusiasm for a VAT.

Another possibility is a tax on Wall Street trading. That could raise huge sums, as much as \$150 billion a year. Some in the administration, including Treasury Secretary Timothy Geithner, worry it could drive trading offshore unless it is coordinated with other countries, a process that could take years.

3. Fundamental changes

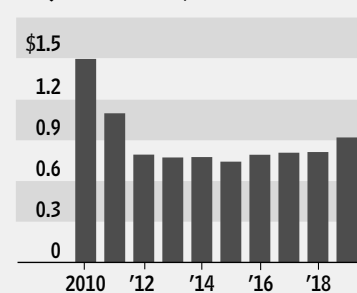
Changes to entitlement spending and income taxes could be on the table. Among the possibilities are raising Social Security taxes for higher earners; limiting the rate of entitlement benefit increases; and further tightening health-care spending rules that Congress has spent much of this year crafting. For corporations, one idea would be to put an expiration date on business tax breaks so that they would die unless Congress voted to extend them.

Since these changes would face

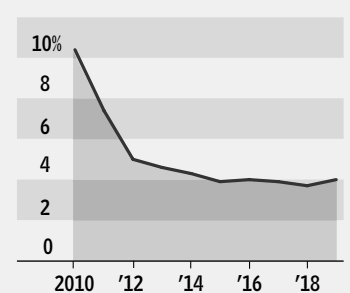
Red ink blues

U.S. budget deficits will remain well above 3% of GDP – the level economists consider sustainable – for the foreseeable future under current White House projections.

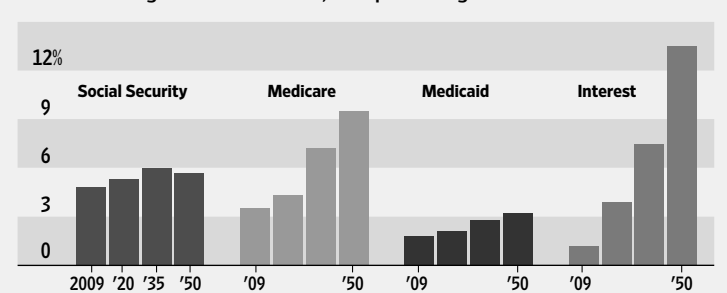
Projected deficit, in trillions



Projected deficit, as share of GDP



Projected growth in major entitlement spending and related interest costs under one congressional forecast, as a percentage of GDP:



Sources: White House Office of Management and Budget (deficit forecasts); Congressional Budget Office (entitlement spending)

tough opposition, the administration might prefer to build consensus for some of them through a special commission. Congress has created special deficit-reduction mechanisms in the past, but those measures have met with only mixed success.

4. Magic asterisks and rosy scenarios

In Washington, if all else fails, fudge. Such techniques were referred to derisively as "magic asterisks" and "rosy scenarios" during the

Reagan administration in the 1980s.

"If the [Securities and Exchange Commission] had jurisdiction over the White House, we might have all had time for a course in remedial economics at Allenwood Penitentiary," former Reagan budget director David Stockman recalled in his memoir.

For example, the administration could set specific targets for deficit reduction—or spending cuts or revenue increases—without specifying how they would be achieved.

WORLD NEWS

Gangster trials spotlight China battle

A crackdown on organized crime in Chongqing is seen as largest local operation in 60 years of Communist rule

BY SKY CANAVES

BEIJING—A series of criminal trials in Chongqing, one of China's biggest cities, is spotlighting a byproduct of the country's rapid social and economic change: the spread of organized crime.

The court in Chongqing, a city of more than 30 million people, is expected to reach verdicts in coming weeks on the charges against two prominent defendants.

Wen Qiang, the former head of Chongqing's municipal justice department, is charged with using his official position to provide protection to organized-crime gangs. Li Qiang, a billionaire businessman who was until recently a member of the local legislature, faces nine charges, including organizing and leading criminal gangs, bribery and tax evasion.

Officials say the two men ran an underworld empire that included prostitution rings, illegal casinos, bribery and murder.

The Chongqing crackdown is the largest local operation against organized crime in 60 years of Communist Party rule, according to Wang Li, a law professor at Southwest University in Chongqing who studies organized crime. Some 800 people have been formally arrested and more than 2,000 others detained. A dozen high-ranking officials and hundreds of civil servants have been implicated.

The trials have focused national attention on a scourge that has mushroomed since China began economic reforms in the late 1970s. The situation has worsened over the past decade, as rapid development—combined with loosening controls on individuals, limited law-enforcement resources and widespread corruption—has created an environment in which gangsters thrive, often in collusion with local authorities, say experts.

While experts say gang activity doesn't appear to have infiltrated the highest levels of China's government, it is an increasing challenge for China's Communist Party, which rates public anger about corruption as a major potential threat to its rule.

In Chongqing, Bo Xilai, a former commerce minister installed as the city's chief in 2007, has turned up the heat on the issue.

"The mafia crackdown is emphatically demanded by the people, as revealed to us by the numerous blood-shedding crimes," he is quoted as saying by the central Communist Party Web site. "The lawful complaints of the injured people must be addressed; this is our essential duty."

The government says police have broken up nearly 13,000 gangs and detained 870,000 suspects since the latest nationwide crackdown began in early 2006. Some 89,000 of those had been formally arrested as of September, according to the state-run Xinhua news agency.

"Organized crime in China is coming back with a vengeance," says Ko-lin Chin, a criminologist at Rutgers University who studies Chinese gangs.

In addition to infiltrating Chongqing's government, organized crime has moved into sectors from property development to privately run bus routes to pork products, officials say.

Mr. Wen's sister-in-law, known as



Xie Caiping (left), dubbed the 'godmother' of a mafia-style gang, stands trial with other suspects in Chongqing, China last month.

Gangland, China

Chinese authorities are increasingly cracking down on organized crime.

1. Shijiazhuang, Dec. 10: Police bust a gambling gang operating an illegal casino in an abandoned mine, arresting people, and seizing about \$30,000 in cash and 26 vehicles.

2. Kunming, Dec. 7: Forty-one gang members are sentenced on charges including drug trafficking, racketeering, fraud and selling counterfeit currency.

3. Yangjiang, Dec. 3: Forty-five people sentenced on gang-related charges, including gang leaders Xu Jianqiang (the 'Hammerhead') and 'Spicy Qin' Lin Guoqin, who are also ordered to pay multi-million dollar fines.



4. Yibin, Dec. 2: Police announce a bust of what they claim is the largest drug-making operation in the country, which involved five gangs, detention of 85 suspects and the closure of eight drug-production facilities.

5. Liaoyuan, Nov. 24: A court sentences 30 people for involvement in gang crimes, including the former police chief of the city of Tonghua, and two former police officers.

6. Chongqing: Since June, nearly 3,000 people have been detained in an ongoing gang crackdown. Of those, more than 800 have been formally arrested.

"the Godmother of Chongqing," has already been sentenced to 18 years in prison and fined around one million yuan (\$146,000) after her conviction on charges including organizing and leading a criminal group, operating illegal casinos, illegal imprisonment and bribing officials.

A pair of 23-year-old twins received sentences of 17 years apiece on convictions of organizing and leading a criminal group and intentional injury of others, among other charges.

Judicial and law-enforcement officials in Chongqing have declined to comment on the cases.

Since the Chongqing trials began in October, dozens of gang members elsewhere in China have also been sentenced, with at least 18 receiving death penalties.

On Monday, the Associated Press said a Chongqing court sentenced two men, Chen Zhiyi and Yang Quan, to death for involvement in gangs and handed jail terms to 19 others ranging up to life imprisonment.

In early December, a court in the southwestern city of Kunming sentenced five people to death for involvement in a gang that dealt in drugs, counterfeit money, fraud and racketeering.

In southern China, a court in Yangjiang sentenced five men, in-

cluding mob bosses nicknamed "Hammerhead" and "Spicy Qin," to death for murder and for running a massive illegal gambling empire.

In Sichuan, police arrested 85 people in what officials called the largest drug bust in China's history.

Organized crime was rampant in China before the communists took over in 1949, but was largely extinguished in the decades afterward by the totalitarian Maoist state. It has flourished since reforms began in the late 1970s.

Some 800 have been arrested and more than 2,000 detained. A dozen high-ranking officials and hundreds of civil servants have been implicated.

"The rise of mafia-like organizations in modern society is closely connected with the development of the market economy," says Mr. Wang of Southwest University.

The current crackdown gained momentum after a July speech by Chinese Minister of Public Security Meng Jianzhu, who emphasized the importance of breaking

up the "protective umbrellas" through which local officials shield gangsters.

Chinese police receive small salaries but enjoy almost unchecked power over the increasingly wealthy communities they oversee. As a result, bribery is common, experts say.

Without protection from law enforcement, "criminal organizations would not be able to develop on such a large scale and to such a high level," says Pu Yongjian, a professor at the business school of Chongqing University.

In some cases, police are discouraged by local governments from cracking down on prostitution, gambling and loan-sharking, as long as violence isn't involved, says Mr. Chin of Rutgers.

"These are very profitable businesses," he says. "They support the local economies and are seen as part of a transition period towards development. There is a boundary—between local officials and mafia-like gangs."

China's gangs tend to be fragmented and local. When organized crime spreads or penetrates higher levels of government, as in Chongqing, the party usually cracks down to ensure its ultimate power isn't challenged, says Mr. Chin.

At times, ties between gangsters and governments have eroded public trust, sometimes pushing individuals to take matters into their own hands.

In September 2008, 18-year-old Zhang Xuping, of Xiashuixi village in Shanxi province, stabbed the local party chief to death. Villagers allege the official ran a gang that used harassment and violence to take over their farmland.

Mr. Zhang's mother, Wang Hou'e, had previously spent a year in detention after she complained to authorities about property damage she attributed to the party boss.

Ms. Wang has organized a petition seeking leniency for her son; it has been signed by 21,000 residents of 48 villages in the area.

Officials in the district government that administers Xiashuixi declined to comment.

"I wish that we would have as aggressive a crackdown in our area as there is in Chongqing," says Ms. Wang. "But there are so many illegal things happening [here] every day, My true feeling is that the mafia forces will not only continue to exist, but become even more rampant."

—Sue Feng
contributed to this article.

WORLD NEWS



The U.K.'s Reprieve group released this 2007 photo of Akmal Shaikh in Poland. China executed him by lethal injection Tuesday. Agence France-Presse/Getty Images

Briton executed in China

U.K. decries rebuff of calls for clemency on mental-health grounds

BY LORETTA CHAO

BEIJING—China executed a British national for drug smuggling, sparking outrage from British leaders, who had appealed for clemency on mental-health grounds, and threatening to strain relations between the countries.

Akmal Shaikh, convicted of carrying around four kilograms of heroin two years ago at Urumqi Diwopu International Airport in northwestern Xinjiang province, was executed by lethal injection on Tuesday after China's Supreme People's Court upheld his death sentence, China's state-run Xinhua news agency reported.

British Prime Minister Gordon Brown condemned the execution, saying he is "appalled and disappointed that our persistent requests for clemency have not been granted." He expressed his "sincere condolences" to Mr. Shaikh's family and friends.

"I am particularly concerned that no mental-health assessment was undertaken," he added.

Ivan Lewis, a Foreign Office minister, summoned Chinese Ambassador Fu Ying in London on Tuesday to express the U.K.'s "strong condemnation" of the execution, officials said.

"I made clear that the execution of Mr. Shaikh was totally unacceptable and that China had failed in its basic human-rights responsibilities in this case, in particular that China's court had not considered the representations made about Mr. Shaikh's mental condition," Mr. Lewis said. "It is an important element of a mature bilateral relationship that we are able to speak frankly about issues on which we disagree and that those concerns are heard."

Chinese Foreign Ministry spokeswoman Jiang Yu earlier dismissed the British complaints. At a regular news briefing she said the Chinese government is "strongly dissatisfied and is absolutely opposed to the unjustifiable condemnations" from the U.K.

"We urge the British side to show respect to China's judicial supremacy and redress the mistake immediately to avoid damaging bilateral relations," Ms. Jiang said.

Cousins of Mr. Shaikh visited him on Monday, his first direct family



Police stand guard near the building where Shaikh was executed Tuesday. Associated Press

contact in two years, and issued a last-minute plea for mercy, the Associated Press reported. The cousins said they felt the 53-year-old father of three, a small-business owner from London, wasn't rational and needed medication. They said he was lured to China by men who promised to help him launch a career in pop music.

Xinhua quoted a statement issued by the Supreme People's Court as saying there was insufficient proof that Mr. Shaikh had any mental-health issues and that the evidence against him was "certain and the facts were clear."

Mr. Shaikh's rights were fully granted, the court said, adding that drug crimes are serious criminal offenses with "severe negative social impact," according to the Xinhua report. According to Chinese criminal law, people trafficking more than 50 grams of heroin can be punished by death.

News of the execution triggered angry reactions among members of an online group called Stop the Execution of Akmal Shaikh, which organized a candlelight vigil outside the Chinese embassy in central London.

Ed Hall, a member of the group, with about 6,750 members, wrote to the political counselor at the Chi-

nese embassy in London: "A Christmas execution in the face of widespread international appeals for a review of Mr. Shaikh's mental condition seems to me to have been a political act and I find that abhorrent."

Mr. Hall's letter added: "Somewhere in Beijing in the last 24 hours a group of senior politicians decided that a man was to die without any certainty as to the mental condition of the man they were condemning."

Reprieve, a London-based prisoner-advocacy group that lobbied for Mr. Shaikh, said he is the first European to be executed in China in 58 years. The last person was an Italian, Antonio Riva, who was shot by firing squad in 1951, along with a Japanese man, Ruichi Yamaguchi, after being convicted of involvement in what China alleged was an American plot to assassinate Mao Zedong and other high-ranking Communist officials.

The execution again put a spotlight on China's use of the death penalty and its judicial processes, which have attracted criticism from international human-rights groups.

The Chinese central government doesn't disclose death-penalty statistics. But Amnesty International estimates that China executed at least 1,718 people last year, the most of any country, followed by 346 people executed in Iran, 102 in Saudi Arabia, and 37 in the U.S.

Roseann Rife, the deputy director of Amnesty's Asia Pacific program, said the number of executions in China in 2008 could be as high as 5,000 or 6,000. She said Mr. Shaikh's nationality didn't seem to be a factor in his sentencing, but because his case received high-profile attention there was reason to hope for a different outcome.

Ms. Rife called the lack of consideration for outside concerns "a comment on the Chinese government's disregard for international opinion, disregard for international human-rights obligations, and also a real disregard for the rule of law."

Ms. Jiang said China "is very cautious in applying the death penalty." She added: "China is a country ruled by law, and our justice agencies are strictly doing their job based on law."

—Cassandra Vinograd and Javier Espinoza in London contributed to this article.

Iran assails U.S., Britain as meddling in its affairs

BY CHIP CUMMINS

DUBAI—Iran lashed back at the U.S. and Britain on Tuesday, accusing the two governments of interfering in its affairs after rebukes from Washington and London over Tehran's crackdown on protesters.

Iranian foreign-ministry spokesman Ramin Mehman-Parast also signaled a hardening of resolve in Tehran's response to protesters, who have dogged the regime since June, when demonstrations erupted amid accusations of vote-rigging in the presidential election. On Sunday, protests flared anew, with at least eight killed during clashes with security forces.

Mr. Mehman-Parast on Tuesday accused individuals who orchestrated the Sunday protests, which occurred on Ashura, a holy Shiite Muslim day, of "rebellion," according to state media. He also accused foreign powers, including the U.S. and Britain, of encouraging the Sunday protests, according to state media.

"If countries support this violation of law and encourage the protesters, this is considered as interference in internal affairs of countries," he added, according to Press TV, the state-run, English-language media outlet.

On Monday, U.S. President Barack Obama and British Foreign Secretary David Miliband signaled strong support for Iranian demonstrators. Mr. Mehman-Parast said his government had summoned the British ambassador in Tehran for an explanation.

In a statement Tuesday, the British foreign office said its ambassador responded "robustly to criticism of David Miliband's statement...and reiterated the foreign secretary's comments that the Iranian government must respect the human rights of its own citizens."

Mr. Mehman-Parast said foreign governments were using "mistaken calculations" regarding the scope of the demonstrations, suggesting protests were much smaller than foreign observers believe.

On Tuesday, state TV showed footage of large, pro-government rallies in various cities, with demonstrators carrying pictures of the late founder of the Islamic Revolution, Ayatollah Ruhollah Khomeini, and current Supreme Leader Ayatollah Ali Khamenei, according to Reuters.

In raids Monday and Tuesday, Iranian authorities arrested a handful of opposition figures, including senior aides to opposition leaders, according to opposition Web sites. Nobel Peace Prize winner Shirin Ebadi told opposition Web sites on Tuesday that her sister, a professor at a medical institute in Tehran, was rounded up the previous evening and imprisoned.

Mr. Obama's comments Monday, in televised remarks from Hawaii, were his strongest words of support for demonstrators, possibly signaling a new, less-accommodating approach by Washington toward Tehran. The Obama administration, along with other Western powers, has kept criticism muted amid talks with Tehran over Iran's nuclear ambitions.

Iran says its nuclear program is peaceful. Western officials worry that Tehran wants to build weapons.

Mr. Obama has set a year-end deadline for progress in those talks. With little indication that Tehran is willing to make concessions, Washington and its allies have been considering fresh economic sanctions against Iran.

The biggest roadblock in talks has been Iran's refusal so far to agree to an International Atomic Energy Agency-brokered deal to ship much of Iran's uranium to Russia, where it would be further enriched and sent back for use in a medical-research reactor. After Iranian negotiators appeared to agree to the deal, Iranian officials balked at signing, issuing a series of sometimes-contradictory demands for alterations.

With little indication that Tehran is willing to make concessions, Washington and its allies have been considering fresh economic sanctions against Iran.

On Tuesday, Iranian foreign minister Manouchehr Mottaki said his country was willing to produce and enrich itself the uranium it needs for the medical reactor, without assistance from outside.

Appearing to turn the tables on Western powers, he said it was Iran that was waiting for a response to its counterproposal to the IAEA-brokered proposal.

Mr. Mottaki earlier this month said Iran was willing to swap its own low-enriched uranium for higher-enriched fuel on the Iranian island of Kish. Iran has also suggested it could go out and buy needed nuclear fuel from third parties. Western officials have dismissed both proposals.

"If a logical decision is not made in a timely manner about its purchase or exchange (of enriched uranium), Iran will produce the fuel," he said Tuesday. "We will not give more time."

The Associated Press reported Tuesday that an unspecified intelligence report circulating among IAEA members said Iran was negotiating to buy fuel from private suppliers from Kazakhstan.

Israeli whistleblower arrested

ASSOCIATED PRESS

JERUSALEM—Nuclear whistleblower Mordechai Vanunu was ordered to be put under house arrest after being charged with violating a condition of his 2004 release from an Israeli prison.

A police spokesman said Mr. Vanunu met with "a number of foreigners," something he was ordered not to do for fear he might divulge classified information. His lawyer, Avigdor Feld-

man, said Mr. Vanunu was arrested because he has a Norwegian girlfriend, whom police have interrogated.

Mr. Vanunu was a former low-level technician at an Israeli nuclear plant who leaked details and pictures of the operation to the Sunday Times of London in 1986. Israeli intelligence agents kidnapped him in Rome and brought him back to Israel for trial. He served 18 years, but he isn't allowed to leave the country.

WORLD NEWS

Al Qaeda in Yemen | Major events since 2000

Agence France-Press/Getty Images; Karim Ben Khelifa/Oeii Public for WSJ



U.S.S. Cole after the attack in 2000.



Members of the Yemeni army Counter Terrorism Unit training under the supervision of an American Special Forces instructor in April of 2009.

October 2000 Militants bomb the U.S.S. Cole docked at the Yemeni port of Aden, killing 17 sailors and wounding 39 others.	November 2002 Unmanned U.S. military drones kill the former head of al Qaeda in Yemen, Abu Ali Al Harithi.	February 2006 23 militants, including the suspected U.S.S. Cole mastermind, escape from a high-security Yemeni prison.	September 2006 Suicide bombers attack two Yemeni oil installations.	July 2007 Suicide bombers attack Spanish tourists in Yemen, killing eight Spaniards and two Yemenis.	September 2008 Militants attack the U.S. Embassy in the Yemeni capital Sana'a, killing 17.	January 2009 Al Qaeda sympathizers in Yemen announce a new umbrella organization: Al Qaeda in the Arabian Peninsula, or AQAP.	August 2009 AQAP claims responsibility for a cross-border attempted assassination of Saudi deputy interior minister, the top antiterrorism official working with the U.S.	December 2009 Yemen, with U.S. military assistance, launches two separate attacks on alleged Al Qaeda strongholds across the country. At least 30 militants and reportedly upward of 40 civilians are killed. AQAP vows revenge.
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Yemen leader may be endangered ally

Saleh struggles with rebellious provinces, dwindling finances and younger jihadis led by two freed Guantanamo detainees

BY MARGARET COKER

As Washington steps up its fight against al Qaeda in Yemen, it is counting on a partner, Yemeni President Ali Abdullah Saleh, who is already struggling with two separate rebellious provinces, dwindling financial resources and a significant weakening of his once-strong influence over Islamists in his country.

Underscoring Yemen's challenges, Foreign Minister Abu Bakr al Qirbi told the British Broadcasting Corp. in an interview Tuesday that Yemen's battle against Islamist militants is being undermined by a lack of international financial and technical support.

"We have to expand our counterterrorism units, and this means providing them with the necessary training, military equipment, ways of transportation—we are very short of helicopters," Mr. al Qirbi

told the BBC. "The U.S. can do a lot, Britain can do a lot, the European Union can do a lot in that regard."

Yemen is one of the Middle East's poorest countries. Revenue from oil, the country's economic mainstay, has dwindled, making Yemen more reliant on international aid, from the U.S. and Saudi Arabia in particular, to bolster internal security efforts.

In a telephone call with U.S. President Barack Obama two weeks ago, Mr. Saleh, 63 years old, reiterated his support in combating terror, according to the state-run Yemeni press agency. But serious questions remain both in Washington and the region about his efficacy, as al Qaeda in the Arabian Peninsula—the Yemen-based branch of the organization—steps up its global profile.

The group has claimed responsibility for providing Nigerian Umaru Farouk Abdulmuttallab with the ex-

plosive device he allegedly used in a failed attempt to blow up a Detroit-bound jet on Christmas Day. Mr. Abdulmuttallab had earlier told officials he obtained the device from Yemeni extremists.

Complicating Washington's relations with Mr. Saleh is his own political juggling act, which has helped keep him in power for so long. Part of that has involved alternately coddling and cracking down on Islamist militants as he scrambles to solidify his power within an increasingly fractious and unstable nation.

Mr. Saleh came to power in a military coup in 1978. He led the Yemen Arab Republic—the northern part of present-day Yemen—during a civil war with communist-controlled South Yemen and became president of the re-united country in 1990.

At the time, Yemen, much like its larger, wealthier northern neighbor Saudi Arabia, re-established ties

with and, in some cases, welcomed back hundreds of Islamist militants who were returning from fighting the Soviet army in Afghanistan.

Mr. Saleh, mirroring public opinion, treated them as heroes and gave many of them places in the country's military and security forces. The army even used these Afghan veterans to help put down a fresh revolt by southern opposition leaders in 1994.

A little more than a decade later, in 2006, U.S. officials worried that Mr. Saleh's political deals with these groups might undermine his own stated support for combating global terror when 26 al Qaeda militants, including the convicted mastermind of the 2000 attack on the USS Cole, escaped from a high-security Yemen jail.

Al Qaeda in the Arabian Peninsula is headed by one of the militants who escaped from prison at the time. His deputies include two Saudi nationals, both former Guan-

tanamo detainees who were released in November 2007 from Guantanamo back to Saudi Arabia into the custody of the Saudi government but then slipped across the unregulated border into Yemen.

They represent a new generation of jihadis whom Mr. Saleh has had a harder time controlling, according to Arab diplomats and Yemeni analysts.

In the past, analysts have said, Mr. Saleh not only cut deals with competing groups, including the Islamists, but also played them off against each other. Beyond the Islamist threat, the president also is grappling with a secessionist movement in the south and an unrelated rebel movement in the north.

"He keeps power by keeping the whole situation unbalanced," said Bernard Haykel, a Yemen expert and professor at Princeton University. "That game is coming apart,"

Online posts show faith, loneliness

BY GUY CHAZAN

Messages on an online forum that appear to have been posted by the Nigerian accused of trying to bomb a U.S. airliner reveal a lonely, devout young man—but one who, by his own admission, indulged in "jihad fantasies."

Law-enforcement officials said they are looking into the postings, but so far can't verify that they were made by Umar Farouk Abdulmuttallab, who is charged with trying to bomb a Detroit-bound Northwest Airlines flight on Christmas Day. However, information from the messages appears to jibe with biographical details already known about the suspected attacker.

Many of the messages on the Islamic Forum Web site appear to have been posted while the alleged bomber was at boarding school in the west African state of Togo. They were made under the name "farouk1986"—a combination of his

middle name and the year of his birth.

In one online posting, dated Feb. 20, 2005, he said: "I imagine how the great jihad will take place, how the muslims will win insha Allah and rule the whole world, and establish the greatest empire once again!!!"

The post concludes: "So usually my fatasis [sic] are about islamic stuff. The bad part of it is sometimes the fantasies are a bit worldly rather than concerning [sic] in the hereafter. Do I need to clarify anything further???"

Other details of Mr. Abdulmuttallab's life also came into focus on Tuesday. Much attention in the case has focused on the fact that Mr. Abdulmuttallab spent about three months in Yemen directly before the attempted attack.

However, the Associated Press reports that Yemen's government said Tuesday that he also spent about a year in Yemen in 2004 and 2005—before he went to college at University College London.

In London, meanwhile, the Federation of Student Islamic Societies said Mr. Abdulmuttallab had been president of UCL's Islamic Society during 2006 and 2007, while he studied mechanical engineering there. The Federation of Student Islamic Societies said fellow students and staff were "shocked and horrified at the arrest of someone who was considered engaging, friendly and keen to seek common cause with all people."

During his time as president of the Islamic Society, "there was no indication that he held extremist views," said Faisal Hanjra, a spokesman for the federation. "Everyone was very complimentary about him," he said. "He worked very hard to build up relations between different faiths and raise money for charity."

In the postings on the Islamic Forum Web site, farouk1986 sought advice and friendship, often revealing a deep sense of isolation and emotional turmoil. In February 2005, he wrote

that he was lonely sometimes "because I have never found a true muslim friend." The postings were previously reported by the Washington Post.

"I have no one to speak too [sic], no one to consult, no one to support me and I feel depressed and lonely," he wrote in January 2005. "I do not know what to do. And then I think this loneliness leads me to other problems."

He added that he struggled to control his "natural sexual drive" which led him to "minor sinful activities like not lowering the gaze" in the presence of women. He also touched on his "dilemma between liberalism and extremism."

Yet in other posts he appears as a typical young man, obsessed with football and full of apprehension about applying for college. In one post, he said he intends to study engineering at Stanford University, the University of California, Berkeley, or Imperial College London, and in an-



Umar Farouk Abdulmuttallab is seen during a 2001 school trip to London.

other, complains about his score on the Scholastic Aptitude Test. "I tried the SAT. It was a disaster!!!" he wrote.

—Evan Perez
contributed to this article.