A recommendation on bonuses for executives: stop giving them
THE JOURNAL REPORT: BUSINESS INSIGHT 13-16

What to make of banks' ever-growing cash reserves
HEARD ON THE STREET 24

THE WALL STREET JOURNAL.

VOL. XXVII NO. 211 | EUROPE | Monday, November 30, 2009

DOW JONES A News Corporation Company | europe.WSJ.com

THE WALL STREET JOURNAL.

£1.50

Bahrain BD 1.50 - Egypt $1.75 (C/V) Jordan JD 2 - Kuwait KD 1 - Oman OR 2 Qatar QR14 - Saudi Arabia SR 14

Iran will add nuclear plants; standoff looms

BY FARNAZ FASSIHI

BEIRUT—Iran announced a massive expansion of its nuclear program on Sunday and threatened to pull out of the Nuclear Non-Proliferation Treaty, a move that could dramatically escalate the country's standoff with the international community.

President Mahmoud Ahmadinejad revealed in a cabinet meeting Sunday plans to build 10 more nuclear facilities for enriching uranium, according to Iran's official news agency IRNA. The facilities would eventually produce enough nuclear fuel to meet the country's demand for 20,000 megawatts of nuclear energy by 2020, Mr. Ahmadinejad said. Western officials, however, suspect that Iran wants to build an atomic bomb, although Iran says its nuclear program is peaceful.

At the same time, Iran's parliament issued a statement signed by the majority of lawmakers on Sunday asking the government to draw up a plan to end cooperation with the International Atomic Energy Agency, the United Nations nuclear watchdog. Ali Larijani, the speaker of Iran's parliament and a former chief nuclear negotiator, warned Iran could pull out of the treaty that binds it to international regulations and supervision of its nuclear program.

International reaction to Iran's announcement indicated cautious concern because Iran's true intentions aren't always clear. Analysts said that the surprise revelation and strongly worded threats could be pure rhetoric but that nonetheless Iran's disregard for international opinion and brazen defiance were still troubling.

In Washington, the White House said the move "would be yet another serious violation of Iran's clear obligations under multiple U.N. Security Council resolutions and another example of Iran choosing to isolate itself," the Associated Press reported. "Time is running out for Iran to address the international community's growing concerns about its nuclear program," White House press secretary Robert Gibbs said.

British Foreign Secretary David Miliband described Iran's move as a provocation. "This epitomizes the fundamental problem that we face with Iran," he said. "We have stated over and again that we recognize Iran's right to a civilian nuclear program, but they must restore international confidence in their intentions. Instead of engaging with us, Iran chooses to provoke and dissemble."

In Israel, Ephraim Asculai, a former senior official in Israel's Atomic Energy Commission as well as a former IAEA program officer, said, "This is empty bragging on a huge scale. This is really a statement of defiance, telling the world that 'We are going to go ahead with our nuclear plans.' "

If Iran pulled out of the non-proliferation treaty, it would become the only nation apart from North Korea to do so and the move would open

Please turn to page 9

Associated Press

President Mahmoud Ahmadinejad said Iran plans to build 10 more nuclear facilities for enriching uranium. Mr. Ahmadinejad is pictured above at a news conference last week while visiting Brazil.

The Quirk

Nature plays prank on scientist seeking a killer's traits in his clan. Page 37

World Watch

A comprehensive rundown of news from around the world Pages 38-39

Editorial & Opinion

Europe's war: NATO's chief on how to win Afghanistan. Page 18

U.A.E. central bank intervenes

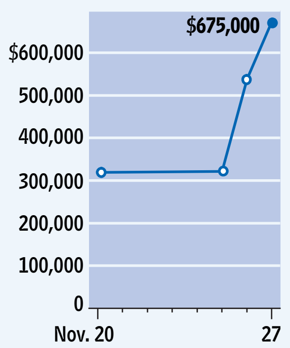
BY CHIP CUMMINS AND ANDREW CRITCHLOW

DUBAI—The United Arab Emirates central bank said Sunday it is offering an additional liquidity facility to local and international banks in the U.A.E. and stressed that it "stands behind" the lenders.

On Wednesday, Dubai said it would seek to delay debt payments of its flagship company, **Dubai World**, spurring a swoon in global markets last week. The federal government in Abu Dhabi, which bailed out Dubai to the tune of $10 billion earlier this year, hasn't indicated fresh support, shocking investors.

The central bank's move appeared aimed at restoring confidence before Monday, when banks and banks and markets reopen after a long Muslim holiday. But the statement pointedly didn't mention Dubai.

Dubai's debt insurance*



*Annual cost for five years of insurance on $10 million of debt.
Source: Barclays Capital

The central bank said in an emailed statement that it had issued a notice to banks "making available to them a special additional liquidity facility linked to their current accounts at the central bank, at the rate of 50 basis points [half a percentage point] above the three months Eibor," or the Emirates interbank offered rate.

The central bank didn't specify the size or value of the facility. It added that the U.A.E. banking system "is more sound and solid than a year ago."

The central bank could still issue a more explicit statement of support for Dubai before markets opened Monday.

According to people familiar with the situation, federal officials, bondholders and even executives who had worked with Dubai and Dubai World officials on their financial woes weren't warned about the standstill announcement last week.

Please turn to page 4

PAGE TWO

Sick at home but strong overseas, Spain needs to find a new footing

[Agenda]

By Irwin Stelzer

Because its housing boom took the economy on an especially giddy ride, the world-wide bust in house prices hit Spain even harder than it did other European countries. Construction investment has declined for eight consecutive quarters to 18% below its peak, according to Bank of America Merrill Lynch; a "deep retrenchment," according to Goldman Sachs.

Unemployment is officially reported as 19.3%, and is headed toward 20%. And it's likely to prove very difficult to bring down, for several reasons.

First, the Spanish jobless rate was between 16% and 23% for many years (1984-1998), and hasn't been below 9% for the past 30 years. So "the Spanish population has gotten used to unemployment. Many people have the impression unemployment is like a Spanish 'pandemic,'" I am told by Jaime García-Legaz, an economist-member of congress and secretary general of former Prime Minister José María Aznar's think tank, Fundación para el Análisis y los Estudios Sociales (+AES). Mr. García-Legaz says this impression is incorrect: In his term in office (1996-2004), Mr. Aznar "brought the unemployment rate from 23% to 11%."

Spaniards' impression that unemployment is a natural condition isn't the only factor in the relatively calm acceptance of a 20% rate. There is the generous benefits system that for two years pays 80% to 90% of the wages last earned, making the unemployed reluctant to accept almost any job offer. Which compounds the problem: Employers are reluctant to hire people who have been content to be out of work for two years, especially since if they are subsequently laid off, the employer has to pay the equivalent of 30-to-45 days' salary for every year worked.

Reuters

People enter a government job center in Madrid

Finally, there is the black economy, providing income for many who are also collecting unemployment benefit. Mr. García-Legaz and others with whom I have spoken estimate the output of the black economy is between 20% and 25% of GDP.

> **Many people have the impression that unemployment is like a Spanish 'pandemic.'**

Adding to the unemployment picture is an equally bleak fiscal situation. Falling tax revenues are combining with an €8 billion public-works stimulus to produce a deficit on the order of 10% of GDP, up from 3.8% in 2008. That has forced Prime Minister Zapatero to ignore OECD advice that he defer fiscal tightening until 2011, and promise a 2010 austerity budget that includes a 4.5% cut in government spending (€8.6 billion) and tax increases equal to 1.5% of GDP (€15 billion), with the usual sin taxes and an increase in the capital-gains tax the most likely candidates. But unless Mr. Zapatero overcomes his trade-union backers' opposition to labor-market reform, which he has shown no inclination to do, continued increases in labor costs will put robust growth beyond his grasp. Some people, the prime minister told the press, "want to deregulate workers' rights, deregulate social rights.... I do not dance to that tune.... Spain is not ... going to take a single step back in terms of rights that we have conquered." The OECD is expecting the Spanish economy to decline at an annual rate of 0.3% in 2010, while the euro-zone area as a whole grows at a rate of 2.5%.

But that hasn't damped investor enthusiasm for shares in Spanish companies. Data provided by Goldman Sachs show that so far this year total returns on Spanish shares included in Spain's IBEX 35 exceeded those in the FTSE 100, the Stoxx 600 for euro-land, and the S&P 500. This is probably due to the success of leading Spanish companies in offsetting the decline at home with successful expansion.

BBVA, with a strong balance sheet, is expanding banking operations throughout Asia. Telefónica has become the third-largest phone company in the world in terms of customers and is moving into China, Germany and Brazil. Repsol has made a promising discovery of light oil in the Gulf of Mexico. The Zara fashion brand is achieving world-wide fame. Iberdola Renovables is America's second-largest wind developer, devoting the $2 billion proceeds of a recent bond sale to support its U.S. expansion.

Then there is Banco Santander, the euro zone's biggest bank by market capitalization (€90 billion), its 170,000 employees serving 90 million customers. With the exception of the unfortunate purchase of Sovereign Bancorp in the Northeast U.S. four years ago, Santander has avoided many problems faced by other banks world-wide by remaining committed to plain-vanilla retail and commercial banking.

The *cajas de ahorros*, the small regional savings banks, are less fortunate. About a third are in such difficulty that the central bank is arranging their acquisition by stronger institutions.

Spain's rulers hope to cut unemployment and convert their nation from reliance on the cyclical construction industries into a 21st-century knowledge-based economy. It will take more than wishes and speeches if Spain is to avoid becoming *el enfermo de Europa*.

—Irwin Stelzer is a business adviser and director of economic-policy studies at the Hudson Institute.

What's News

■ **Iran announced** a massive expansion of its nuclear program and threatened to pull out of the Nuclear Nonproliferation Treaty, a move that could dramatically escalate the nation's standoff with the international community. 1

■ **The United Arab Emirates** central bank said it is offering an additional liquidity facility to local and international banks in the U.A.E. and stressed that it "stands behind" the lenders. 1, 30, 31

■ **Swiss voters approved** a ban on the construction of new minarets on mosques, defying government appeals to reject the proposal. 3

■ **Renault agreed** with Russia to put jointly about $3 billion into AvtoVAZ, as the French firm tries to salvage a risky investment. 25

■ **Shoppers in the U.S. spent** only slightly more money in stores this Black Friday than they did last year, according to preliminary data. 27

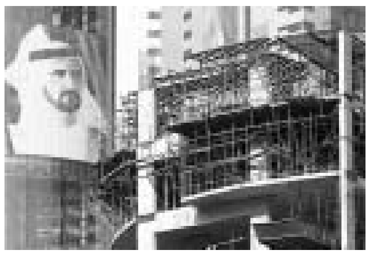
Inside

Emerging markets hold key to growth for paint giant. **11**

Gambling crackdown hits team sponsors in Poland. **36**

ONLINE TODAY

Most read in Europe



1. Dubai Jitters Spread
2. Opinion: Rigging a Climate 'Consensus'
3. A Strong Economy Isn't Built on Sand
4. Abu Dhabi Gets Pressure
5. Party Crashers Cause Hangover

Most emailed in Europe

1. Opinion: He Can't Take Another Bow
2. Opinion: Rigging a Climate 'Consensus'
3. An Economists Invisible Hand
4. Dubai Jitters Spread
5. WTO Opponents Protest in Geneva

The Source

blogs.wsj.com/source

What's driving the sales surge at U.K.-based retailer Carphone Warehouse?

Lauren Mills on why smartphone sales are taking off.

Continuing coverage

Follow the action in stocks, foreign exchange, oil, gold and more, at **WSJ.com/Markets**

Question of the day

Q: How do you grade the EU Commission's new team?

Vote online at europe.wsj.com

Previous results

Q: Do you think the Copenhagen summit in December will produce meaningful accomplishments?

Yes **5.9%**

No **94.1%**

THE WALL STREET JOURNAL EUROPE
(ISSN 0921-99)
Stapleton House, 29 - 33 Scrutton Street, London, EC2A 4HU

SUBSCRIPTIONS, inquiries and address changes to: Telephone: +44 (0) 207 309 7799. Calling time from 8 a.m. to 5 p.m. GMT. E-mail: subs.wsje@dowjones.com. Website: www.services.wsje.com

ADVERTISING SALES worldwide through Dow Jones International. Frankfurt: 49 69 9714280; London: 44 207 842 9600; Paris: 331 40 17 17 01.

Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Baslnevi.

Registered as a newspaper at the Post Office.

Editeur responsable: Patience Wheatcroft M-17936-2003.
Registered address: Boulevard Brand Whitlock, 87, 1200 Brussels, Belgium

NEWS

Woods speaks out on his car crash

Golfer puts statement on Web site about incident that sent him to hospital, cancels meeting with investigators

By Corey Dade
And Reed Albergotti

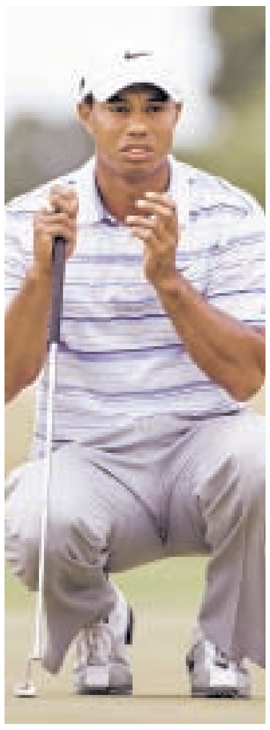
ORLANDO, Fla.—Tiger Woods broke his silence Sunday about his car crash by posting a statement on his Web site, while police said he declined to meet with crash investigators for the third straight day and hired an attorney.

In a statement posted online early Sunday afternoon, Mr. Woods blamed himself for the accident, said his wife, Elin, acted "courageously" in helping him at the scene, and denounced reports speculating about the circumstances surrounding the incident.

"This situation is my fault, and it's obviously embarrassing to my family and me. Although I understand there is curiosity, the many false, unfounded and malicious rumors that are currently circulating about my family and me are irresponsible," Mr. Woods said.

Investigators are seeking information from Mr. Woods and his wife about the accident early Friday in which Mr. Woods drove his Cadillac Escalade into a fire hydrant and a tree in front of his neighbor's home sometime after 2 a.m. He was found by police bleeding and semiconscious on the ground near his vehicle.

His wife told authorities she had smashed the rear window of the sport-utility vehicle with a golf club to try to rescue Mr. Woods. Police said alcohol wasn't involved.



Source: WSJ research Photos: Associated Press/Orlando Sentinel; Associated Press (Tiger Woods)

Sgt. Kim Montes of the Florida Highway Patrol said that Mr. Woods could be charged with violations, but "we always want to give the driver an opportunity to respond first."

At 2:28 a.m. Friday, a neighbor of the Woodses was awakened by the sound of the crash and called 911, according to Jim Solomons, a spokesman for the Orange County sheriff's office, which has jurisdiction over Isleworth, the gated neighborhood where the Woodses live. Mr. Solomons said the man, whose name hasn't been released, walked out of his home and saw Mr. Woods on the ground and visibly injured.

A transcript of the 911 recording shows that the caller said Mr. Woods appeared to be unconscious but breathing as he lay beside his black Cadillac Escalade. Police arrived at 2:33 a.m.

Mr. Woods, 33 years old, was taken by ambulance to a local hospital shortly after the accident and released Friday in "good condition," according to his spokesman.

A police officer arriving at the scene found Mr. Woods lying on the ground beside his vehicle and his wife crouched over him, said Police Chief Daniel Saylor of Windermere, the city that borders Isleworth. Mr. Woods had cuts on his face and was semiconscious, according to Mr. Saylor. He said the officer was providing first aid to Mr. Woods when he noticed broken glass on the ground from the vehicle's window and asked his wife about it.

"She said, 'I had to take a golf club and break the window to get him out,' " the police chief said. He said a window was broken at the rear of the SUV but that he couldn't explain exactly how Ms. Woods managed to remove her husband.

In response to media reports that a domestic dispute between the Woodses may have preceded the accident, Mr. Solomons, the sheriff's office spokesman, said authorities found no such evidence.

"I've not got even the slightest information that the Woodses were in any kind of a tiff," he said.

The Florida Highway Patrol, which is investigating the crash, said it received a call Sunday from Orlando attorney Mark Nejame, saying he represents Mr. Woods and that his client wouldn't participate in a meeting with investigators that had been scheduled for Sunday afternoon at the golfer's home.

Switzerland votes to ban minarets

By Deborah Ball

ZURICH—Swiss voters Sunday approved a ban on the construction of new minarets on mosques, defying appeals from the government to reject the proposal and raising the specter of a new round of tensions in Europe concerning the role of Islam on the Continent.

The vote highlights the persistent conflict over the integration of Europe's growing Muslim population into civil society. Earlier this month, France considered whether to bar Muslim women from wearing full-face veils, sparking a heated debate in which one French politician described burqas, or head-to-toe veils worn by very devout Muslim women, as "walking coffins." The government issued a recommendation against wearing them, but stopped short of an outright ban.

European governments also have struggled in recent years with popular opposition to the construction of mosques—a backlash to the murder of a filmmaker in the Netherlands by a Muslim extremist, and to the reaction in some Muslim countries to the publication in Danish newspapers of cartoons of the prophet Muhammad.

The yes vote in Switzerland could raise interfaith tensions in a country that has largely escaped similar conflicts. In a surprise outcome, the Swiss voted strongly for the ban, with initial projections showing 58% of votes in favor of the initiative. Until about a month ago, polls had predicted that voters would solidly reject the ban, although support for the ban had been edging up in recent weeks.

The referendum, promoted by Switzerland's right-wing People's Party, sparked an emotional national debate over the place of Muslims in Swiss society. The party, arguing that the minaret is a symbol of Islamic intolerance, led a drive to call the referendum that collected more than 100,000 signatures, twice the number required.

Minarets are tower-like structures that are often used to launch the call to prayer for Muslims. In Switzerland only four of the country's 150 mosques have minarets, and none are used for the call to prayer because of strict noise-pollution rules.

Swiss Justice Minister Eveline Widmer-Schlumpf released a statement saying the government respected the vote, but emphasized that it "is not a rejection of the Muslim community, religion or culture."

Muslim leaders warned that a yes vote could damage relations with greater Swiss society. The yes vote "isn't worthy of Switzerland," said Farhad Afshar, president of the Confederation of Muslim Organizations in Switzerland. "Muslims no longer feel accepted in Switzerland, and that is a shame, because Islam in Switzerland is a model for other European countries."

Swiss diplomats have quietly been reassuring leaders in Muslim countries that the government opposed the referendum. About 7%, or 14.5 billion Swiss francs ($14.4 billion), of Switzerland's exports go to Muslim countries.

DUBAI DEBT CRISIS

The sprawling rise of Dubai World

By Chip Cummins

DUBAI—Pressure mounted Friday on the federal government of the United Arab Emirates to step in with fresh financial support, after this city-state's decision to request debt-payment delays spurred an initial swoon in global markets.

Thursday's market turmoil appeared to take federal officials in the capital Abu Dhabi by surprise. One person familiar with their thinking said there was dismay over the reaction to the handling of the announcement. But it wasn't clear if officials were worried enough to step in now.

In February, the U.A.E.'s central bank subscribed to $10 billion in Dubai-issued bonds to shore up its finances. On Wednesday before the debt-standstill announcement, Dubai said it had raised commitments for an additional $5 billion from two Abu Dhabi-controlled banks.

The federal government's reluctance thus far to step in on behalf of Dubai World has fanned speculation among bankers, investors and analysts of tension between Dubai and the U.A.E. capital over how best to handle the debt crisis.

At the heart of the debt woes is Dubai World, a conglomerate that for years has led the emirates' high-profile overseas and domestic investment ambitions.

Starting in the 1980s, Dubai launched a building boom that transformed the desert town into a dazzling canyon of skyscrapers and beachside luxury hotels. To build it, the government turned in large part to Dubai World. Dubai World turned to international debt markets.

About half of the estimated $80 billion to $90 billion in total Dubai debt is related to Dubai World and its entities, according to Standard & Poor's.

The recent oil boom of the past few years helped turn Dubai World's ambitions overseas. Many early deals were grounded in the company's experience running ports in Dubai. In 2006, Dubai World was caught in a political maelstrom in Washington after agreeing to buy a British competitor that operated a handful of U.S. ports. Dubai agreed to shed the U.S. assets because of security concerns.

Later deals marked diversification far beyond the company's core business. It joined up with **MGM Mirage** in the $8.5 billion CityCenter project then under way in Las Vegas. Dubai World agreed to purchase half the mixed-use casino project in August 2007, just as the Las Vegas real-estate market reached its peak.

Two years later, MGM Mirage said it was writing down around $2.34 billion for the project, which devalued Dubai World's stake by around $1.17 billion, to $2.44 billion.

Also in August 2007, Dubai World's investment outfit Istithmar agreed to buy high-end retailer Barneys New York, after a bidding war drove the price up to just under $1 billion. Istithmar is now exploring a possible Barneys restructuring.

Later that year, Dubai World floated DP World on a new stock market in Dubai, becoming the Middle East's largest initial public offering at the time and raising nearly $5 billion.

The city's property market was in full swing. Nakheel, Dubai World's property developer, was building the city's iconic palm-shaped island development. It started dredging two other palm-tree shaped developments.

In February 2008, Nakheel opened sales for the Waterfront, designed to add 800 kilometers of new beachfront property and house 400,000 people. Demand was so strong that a black market formed just for appointments with sales officers.

In late 2008, Dubai chairman Sultan Ahmad bin Sulayem hosted a $20 million party on the palm island. Australian pop singer Kylie Minogue performed for a 2,000-person guest list.

Dubai property prices, however, were already falling. Dubai World started shedding workers at its property divisions. In June, Mr. Sulayem brought in Alix Partners to advise on corporate restructuring. It consolidated units and cut jobs.

Debt woes started surfacing. In the spring, Dubai World signaled it could restructure a $3.5 billion bond issued by Nakheel coming due in December. But with oil prices rocketing back up, investor sentiment across the region soared again. Just before the standstill announcement Wednesday, the December Nakheel bond was trading at a premium. Late Friday, it had fallen to 57 cents to the dollar.

—Alexandra Berzon contributed to this article.

European Pressphoto Agency

Workers at a construction site near the Burj Dubai, which, at 800 meters, is scheduled to open in January as the world's tallest building.

U.A.E. tries to boost confidence in its banks

Continued from first page

"Nobody checked anything with anyone," according to one of these people.

The scramble has fanned speculation of tension between the local governments of the two city-states. Abu Dhabi and Dubai are two of seven semi-autonomous emirates that make up the U.A.E. The capital is based in oil-rich Abu Dhabi, reflecting the emirate's wealth and power in the federation.

Officials in both places have repeatedly denied any rift and say discussions over financial support for Dubai have always been conducted between Dubai and federal institutions, such as the central bank and finance ministries.

But Dubai's action hammered Abu Dhabi's banks and government-controlled corporations. Investors punished Dubai bonds after the announcement, but they also sold down those of Abu Dhabi, which in recent months has raised funds aggressively on global debt markets.

At one point Thursday, some Abu Dhabi bondholders saw the cost of insuring against a default leap by 40% on the Dubai news. The announcement also slammed U.A.E. banks, both in Dubai and Abu Dhabi, among the biggest lenders to Dubai and its corporate entities. Credit agencies have put several on watch for possible downgrades.

The handling of the announcement triggered "absolute dismay" among federal officials, according to one person familiar with the situation. A spokesman for the federal government in Abu Dhabi declined to comment.

The confusion has been compounded by a lack of transparency from Dubai over the standstill request. A spokesman for the Dubai Department of Finance, which issued the standstill statement, said he couldn't comment beyond the statement.

Lenders to Dubai World, including U.K banks, had been discussing the possibility of a standstill on payments for several months before Wednesday's announcement, people familiar with the matter said. But talks dragged on, and amid a surge of optimism about further federal support, the unilateral standstill announcement took lenders by surprise. British bankers were angered that creditors weren't informed in an orderly manner, according to a person close to the banks.

A Dubai World spokesman declined to comment on when the company first informed bondholders about the standstill request. Thursday night, after two days of global market carnage, Sheikh Ahmed bin Saeed Al Maktoum, a senior Dubai finance official and the chairman of Emirates airline, said in a statement that the standstill announcement had been carefully planned and promised more details this week.

"This is a sensible business decision," he said in the statement.

The standstill announcement appeared to represent the latest in a string of missteps and half measures by Dubai's leader, Sheikh Mohammed bin Rashid Al Maktoum, and his small coterie of economic advisers as they struggled to deal with the fallout of the global economic crisis swirling around them.

At the start of the 20th century, Dubai was little more than a pearl-trading center and regional entrepôt. An oil discovery in the 1960s triggered a burst of infrastructure spending, but by the next decade it was clear that its limited oil resources wouldn't last forever. Dubai's ruling family created other opportunities, at one point building the region's largest port and investing in tourism and transportation.

When Sheikh Mohammed took over as crown prince, he assumed effective control of the emirate's economic development. He organized the city-state's economy around state-owned conglomerates, picking loyal deputies to head each one.

Sultan Ahmad bin Sulayem, the son of a close adviser to Sheikh Mohammed's father, led Dubai World, the government-owned ports and real-estate conglomerate.

In 2007, Dubai World listed part of its ports operation on a new Dubai exchange, raising just under $5 billion in the Middle East's largest IPO. The same year, Dubai World joined up with MGM Mirage in Las Vegas's $8.8 billion CityCenter casino development. A private-equity arm of the group won a bidding war for Barneys New York. And Dubai's stock exchange bought Nordic exchange OMX, in a deal that gave it big stakes in the Nasdaq stock market and the London Stock Exchange.

When the global financial crisis hit the next year, the value of these assets deflated. But Dubai officials were also slow to grasp the implications for its speculative real-estate market at home.

Associated Press

Russians light candles Sunday at a Moscow cathedral for victims of Friday's train wreck. Officials said terrorism was the likely cause.

Russia investigates train bombing

Officials call the deadly attack terrorism and say they have gathered evidence against a group of potential suspects

By Gregory L. White

MOSCOW—Russian investigators searched for clues in a deadly train crash that authorities called terrorism, making it the country's most serious attack outside the volatile North Caucasus since 2004.

Officials said they had gathered some evidence against what they said was a group of potential suspects in the bombing Friday night of the Nevsky Express train from Moscow to St. Petersburg. A bomb planted under the tracks detonated as the high-speed train passed, authorities said, throwing its last three cars from the rails. Although reports of the death toll varied, officials said at least two dozen were killed and nearly 100 injured.

There were no credible claims of responsibility. If the attack proves to have been terrorism, it would be the first such major attack in the Russian heartland under President Dmitry Medvedev. The Kremlin marshaled its response over the weekend, with Mr. Medvedev shown on state television Saturday meeting with top officials to coordinate relief work and the investigation. The Kremlin said Sunday that he was getting regular updates on the situation.

Terror attacks blamed on Islamist separatists from the Caucasus republic of Chechnya shook Moscow and other parts of central Russia until 2004. Since then, they have all but stopped in and around the capital, though suicide bombings and other attacks have picked up in and around Chechnya over the last year.

Friday's bombing seemed to shake Russians' sense of security. TV networks canceled entertainment programming. News coverage highlighted the relief efforts, as well as the grim task of identifying the dead. Interior Minister Rashid Nurgaliev said authorities were considering ways to tighten security on the country's massive rail network.

The Nevsky Express is popular among business executives and government officials. A former senator and an official from the economy ministry were among the dead.

Moscow drafts a new European treaty

By Marc Champion

Russia on Sunday published the draft text of a new European security treaty it wants to see adopted, adding flesh to calls President Dmitry Medvedev has made for new security architecture.

The text, published on the Kremlin's official Web site, would create an umbrella agreement to be signed by governments in places "from Vancouver to Vladivostok," as well as by existing security organizations including the North Atlantic Treaty Organization, the European Union, the Organization for Security and Co-operation in Europe, and the Collective Security Treaty Organization, which consists of Russia and six ex-Soviet states.

Western leaders have reacted skeptically to Mr. Medvedev's calls for a new security treaty until now. Last week he said he would publish the draft in response to demands for detail. Russia's draft treaty would enable any signatory to call a summit if it considered its security under threat. The draft also includes collective security clauses, similar to NATO's, and would give signatories a wide-ranging rights to object to actions by others that it considers contrary to its security interests.

The goal of the treaty, according to a Kremlin statement, would be that "no one state, and no one international organization could strengthen their security at the expense of other countries and organizations."

Western diplomats and analysts said the draft would be read with caution by the U.S. and other NATO members, worried that the treaty could be used to undermine existing security institutions—NATO in particular.

Moscow has been pushing for a fresh security arrangement in Europe since the runup to the August 2008 war in Georgia. While much of the draft treaty fits Mr. Medvedev's goal of creating a wider security framework in which Russia can play a role, the text also includes some "potentially mischievous" clauses, said Stephen Flanagan at the Center for Strategic and International Studies, a Washington-based think tank.

Under the draft, signatories would have to ensure that "any actions" they take on the territory of another treaty signatory don't significantly affect the security of a third treaty signatory. That could give Russia more leverage to block NATO activity on the territory of its members in Central and Eastern Europe, said Mr. Flanagan, including the potential positioning of patriot missiles in Poland, or rotating U.S. and NATO troops in Poland or Romania for training. Signatories also would have to ensure that any actions by alliances they belong to don't conflict with the new treaty, or with international law and decisions of the United Nations Security Council. Had such a treaty been in place in 1999, when NATO bombed Serbia to drive its troops out of Kosovo, NATO would have been in breach. The UN Security Council didn't approve NATO's bombing campaign, due to opposition from Moscow.

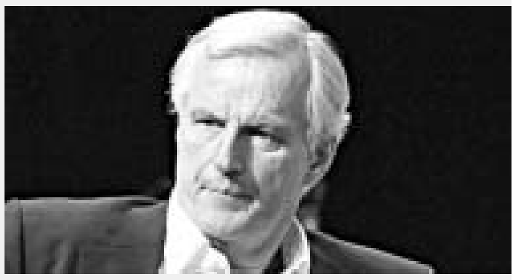
Spokesmen for NATO and the U.S. State Department spokesman could not be reached for comment Sunday. A spokeswoman for EU foreign policy chief Javier Solana declined to comment before the text has been studied.

Publication of the draft came just days before Kazakhstan will ask the OSCE to hold a major summit next year to discuss restructuring the 56-member organization, the only existing pan-European security bloc, according to a Kazakh paper seen by the Wall Street Journal that's to be presented at an OSCE ministerial meeting in Athens this week.

Kazakhstan wants the OSCE to get more involved in hard security, including border control missions in Afghanistan and elsewhere in Central Asia, while downgrading its current focus on monitoring elections in the former Soviet bloc, according to a person familiar with Kazakh thinking. Moscow has backed the proposal and is pressing for a similar re-weighting of the OSCE.

Western diplomats familiar with the matter said agreement to such a summit appeared unlikely. A Kazakh government spokesman could not be reached for comment Sunday.

Political choices | The commission's new heavyweights lack business experience



Joaquin Almunia, Spain

Role: Competition
Age: 61
Party: Socialist

A member of Spain's parliament for 25 years before becoming EU commissioner for economic affairs in 2004. Held various ministerial jobs while the Socialists were in power in Spain. Stood unsuccesfully for prime minister in 2000. More fluent in economic matters than Neelie Kroes, the Dutchwoman who is currently antitrust chief, but also less blunt and forceful than Mrs. Kroes, who relished tangling with the world's biggest corporations.

Karel De Gucht, Belgium

Role: Trade
Age: 55
Party: Liberal

A lawyer by training who came up through the ranks of the center–right Liberal party in Flanders, Belgium's Dutch–speaking north. Became the EU's aid–and–development commissioner this year to serve out the remaining months of the term of his countryman Louis Michel. A free marketer and free trader, he served for five years as Belgium's foreign minister.

Michel Barnier, France

Role: Internal Markets
Age: 58
Party: Union pour un Mouvement Populaire (center-right)

A close ally of President Nicolas Sarkozy who will be doing his second tour in Brussels: was EU commissioner for regional policy from 1999 to 2004. Served as France's agriculture minister–a key post in a nation that receives more farm subsidies than any other–between 2007 and 2009. Was bestowed the nickname "Silver Fox."

Agence France-Presse/Getty (left, right), European Pressphoto Agency/Belga (center)

A commisioner's commission

Nominees for the top economic posts lack the business background of the likes of Neelie Kroes

BRUSSELS—The European Union's choices for the top jobs in the European Commission suggest the bloc is looking for predictability and consistency as it labors to emerge from the financial crisis.

By Charles Forelle, Stephen Fidler and John W. Miller

On Friday it nominated Spaniard Joaquín Almunia for competition, Belgian Karel De Gucht for trade and Frenchman Michel Barnier for internal markets. All three are career politicians from Western Europe.

Mr. Almunia, now the economic-affairs commissioner, spent a quarter-century as a Socialist politician in Spain. He will replace Neelie Kroes, who ran a business school and served on corporate boards before becoming antitrust chief.

The 27 European Commissioners, one from each nation, oversee the EU's vast civil service, which has the dual mandate of proposing legislation and enforcing it. They broadly set their own agendas, and the three commissioners responsible for the key economic portfolios are regarded as the most powerful.

The nominations—which still must be approved by the European Parliament—conclude a brisk several days of horse-trading among countries and political parties. The economic picks come one each from the EU's major political groups: Mr. Almunia from the left, Mr. Barnier from the right and Mr. De Gucht from the more-centrist Liberals.

Of them, Mr. Barnier may raise the most hackles. A member of President Nicolas Sarkozy's UMP party and a minister at various times of environment, agriculture and foreign affairs, he is seen as loyal to Mr. Sarkozy—who has openly advocated tighter EU financial regulation, anathema to the U.K. In an interview published over the weekend in French newspaper Le Monde, Mr. Sarkozy noted that it was the first time in 50 years that France had secured the internal-markets portfolio. "The British are the big losers in this affair," he said.

The French president said he would travel to London to calm concerns. "It's not that the British were hesitant" about Mr. Barnier's appointment, Mr. Sarkozy said. "They were absolutely against it."

People who have followed his career describe Mr. Barnier, who takes over from Ireland's Charlie McCreevy, as a pragmatic politician rather than an ideologue or technocrat. Nonetheless, said one lobbyist, "he won't have McCreevy's instinctive reflex against regulation."

For the first year, much of Mr. Barnier's financial-service agenda is set. He will likely be involved in reconciling the final version of legislation on hedge funds and an EU financial-supervisory structure. He will be expected to advance derivatives regulation. In other areas, such as amending capital requirements for financial institutions, the parameters will largely be set by broader international discussions.

Mr. Almunia, 61 years old, will have large shoes to fill stepping into Mrs. Kroes's role. She vigorously pursued big companies and has ordered changes to state bailouts. She also issued much bigger fines than her predecessors.

Mr. Almunia worked as a labor-union economist before going into politics. He became a protégé of Socialist Prime Minister Felipe González, who transformed his party from a Marxist group to one focused on centrist economic policies.

Mr. Almunia's appointment was generally welcomed by antitrust lawyers, who cite his economic background and moderate public stances as advantages. "He knows the institutions," says Alec Burnside at Linklaters LLP in Brussels. "He comes from the Socialist side, but he is not a Socialist firebrand." The 55-year-old Mr. De Gucht has the reputation of an avowed free-trader.

Traditionally Belgium, a heavily unionized country, has stood with protectionist nations like Italy and France when negotiating the EU's shared tariff policy. Under Mr. De Gucht as foreign minister between 2004 and 2009, however, Belgium began to side with free-trading nations such as the U.K. At a conference of lobby groups for manufacturers, who generally support import duties, there was disappointment at Mr. De Gucht's appointment, several participants said. "People have been expecting somebody maybe more protectionist," Fredrik Erixon, an analyst for the European Centre for International Political Economy, a Brussels-based think tank.

Mr. De Gucht's appointment, however, is unlikely to advance the stalled Doha round of global trade talks, analysts say. He will likely continue to defend the EU's position of keeping many of its import tariffs and domestic subsidies for agricultural goods, a big stumbling block for countries like India.

—Adam Cohen contributed to this article.

Gloom returns to consumers in the U.K.

By Ilona Billington And Paul Hannon

The U.K.'s consumer confidence weakened in November and its service sector reported an unexpected decline in sales and profits.

According to Gfk NOP's monthly survey, consumer confidence declined to minus 17 in November from minus 13 in October as households took stock of the damage caused by the longest recession since records began. That contrasts with the euro zone's economic recovery, which gathered pace in November, as consumer and business confidence continued to rally.

The Confederation of British Industry's quarterly service-sector survey found that not only were sales and profits down in both consumer-led and business and professional firms, but companies continued to report difficulties in raising funds.

The lack of confidence in the economy and slow sales in the key services sector suggests if the economy does grow in the fourth quarter of the year it will likely be at a weak pace.

A separate survey published by housing intelligence firm Hometrack also published Monday shows that U.K. house prices rose for the fourth straight month in November, by 0.2% from October, but the annual measure remains negative. Prices fell 2.9% compared with November 2008.

Democrats' dilemma

Voting gets tricky for those in traditionally Republican districts

By Gary Fields

DANVILLE, Va.—The challenge facing Rep. Tom Perriello can be seen all along U.S. 58 where Republican campaign signs outnumber those for Democrats 7-to-1.

Mr. Perriello is a freshman Democrat.

As both U.S. parties gear up for next year's congressional elections, the most vulnerable candidates are those among the 49 Democratic House members from districts that supported the Republican presidential nominee, Sen. John McCain, in the 2008 election. Republicans rank Mr. Perriello, who squeaked out a victory in this southern Virginia district by 727 votes, as perhaps their biggest target. The majority party usually loses seats in its first midterm election after the inauguration of a new president.

To remain viable re-election candidates, many of these Democratic congressmen are casting votes alongside Republicans in Washington. That is causing difficulties for the Democrats' health-care legislation, climate bill and a revamp of financial-sector regulation, issues on which the party's more-conservative members have some misgivings.

The tension is a direct product of a strategy followed in the 2006 and 2008 elections, in which Democratic leaders picked candidates whose political ideology represented their districts, not party orthodoxy. Gone were litmus tests on hot-button issues such as abortion and gun control. In came sometimes conservative or populist lawmakers who bucked the party line.

Today, managing this diverse caucus is "the big issue for us," said Democratic Congressional Campaign Committee Chairman Rep. Chris Van Hollen of Maryland. "It's a hard challenge to keep our coalition together so we can get enough votes to get us over the finish line, while giving enough members the latitude to reflect the views and values of their districts."

Mr. Perriello's district supported Mr. McCain heavily in last year's presidential race. It helped sweep a slate of Republicans running for statewide offices into power earlier this month. And the youth and black vote that came out strongly in 2008 likely won't be there next year in such numbers. Six Republicans, including a popular state senator, and one candidate who plans to run as an independent, have already said they plan to challenge him.

Getty Images

Freshman Democratic Rep. Tom Perriello at an August town-hall meeting on health care at Fluvanna Middle School in Fork Union, Virginia.

During a trip in his district where he attended the funeral of a slain Danville youth as well as met with farmers to talk about them potentially losing their farms, Mr. Perriello said he can't be too concerned with who is opposing him. "Last weekend I was in a city with 22% unemployment. The worst thing that happens to me is I lose re-election," he said.

The lawmaker has nonetheless tried to straddle Washington and southern Virginia, sometimes uneasily. Mr. Perriello, 35 years old, voted against Mr. Obama's budget on the grounds that it wasn't balanced, despite a phone call from White House Chief of Staff Rahm Emanuel seeking his support. He opposed releasing part-two of TARP. He is likely to side with Republicans on extending Bush-era cuts to the estate tax, to help farmers in his district.

On the other side of the ledger, he supported the stimulus and a cap-and-trade bill, which opponents used in ads against him. He also voted for the House's health-care overhaul, despite opposing an earlier version, although he bucked the party by voting for beefed-up abortion restrictions.

"It's almost as if he's willing to go down guns blazing," said Paul Lindsay, deputy communications director for the National Republican Congressional Committee, the party's campaign arm in the House. "He's so willingly supporting these things clearly not in line with his constituents."

In an interview, Mr. Perriello said his fate and that of other Democrats will likely hinge on what the economy looks like in November 2010. "If the economy is stabilized Democrats will get some credit for that and people will be glad," he said. "If it's spiraling down, that will be tough."

WORLD NEWS

Associated Press

Demonstrators in Multan, Pakistan, this month protested an amnesty agreement that protected some political leaders from corruption cases. The National Reconciliation Ordinance expired on Saturday

Pakistan's power struggle deepens

President Zardari transfers command of nuclear arsenal to prime minister, but move fails to appease opponents

By Zahid Hussain

ISLAMBAD—Pakistan's beleaguered president, Asif Ali Zardari, is under increasing pressure to step down or to relinquish most of his sweeping powers immediately, as growing political tension threatens the stability of the Muslim nation in the midst of a critical battle with Taliban militants.

In an attempt at defusing the situation, Mr. Zardari over the weekend transferred command of the country's nuclear arsenal to Prime Minister Yousaf Raza Gilani, signaling his willingness to shed some of his powers. Mr. Gilani said Sunday, the transfer of the chairmanship was "a true litmus test" of relations between him and the president.

Mr. Zardari's move could be the first in a series to diminish his power in an effort to retain his party's backing. He is under pressure also to shed his powers to dismiss the parliament and to make key military appointments.

Asif Ali Zardari

But analysts said the president's weekend maneuver had only symbolic value. It seems to have failed to appease his opponents, who said the president needed to act sooner.

"It does not have any political value for Mr. Zardari in the power struggle," said Maleeha Lodhi, a former Pakistani ambassador and a senior fellow at Woodrow Wilson Cenntre Washington.

Shabaz Sharif, the chief minister of Punjab, Pakistan's most powerful province, called on the president Sunday to move before it was too late. "The nation will appreciate if he abolishes the 17th amendment in the constitution immediately," said the chief minister, who is also the younger brother of Nawaz Sharif, the main opposition leader.

That amendment, introduced by former military ruler Gen. Musharraf in 2002, had shifted the balance of power to the president.

Mr. Sharif's statement came as an amnesty agreement shielding Mr. Zardari and some of his key ministers from graft charges expired, raising further speculation about the president's political future. Some analysts believe it may be difficult for Mr. Zardari to survive his growing unpopularity.

"There is some possibility of him surviving if he agrees to become a figurehead," said Hasan Askari Rizvi, a former professor of politics at the University of Punjab and a leading defense analyst.

The president could be removed only through an impeachment process requiring a two-thirds vote in the parliament, which his opponents are unlikely to get. That leaves it to the Supreme Court to decide his future. The court is expected to start proceedings on two petitions challenging Mr. Zardari's eligibility to hold office. The cases had been protected under the National Reconciliation Ordinance that expired on Saturday.

The crisis is intensifying just as U.S. President Barack Obama is preparing to announce his Afghan policy this week.

The deepening power struggle raises fears that Pakistan's military operation in the tribal region bordering Afghanistan will be undercut. Pakistani military said its offensive in South Waziristan has reached a decisive phase. Forces last month launched a ground offensive to drive out Taliban and al Qaeda militants from the region, and the military said it has succeeded in uprooting the militants from large part of the area.

People familiar with the matter said the military was uneasy with Mr. Zardari's control of the country's nuclear weapons because it views him as too close to the U.S.

Iran plans to expand its nuclear facilities

Continued from first page

the door for the country's hardliners to pursuit nuclear ambitions without any international supervision. Many analysts believe that Iran was reserving this option as a last resort in case of a military strike against its facilities by either Israel or the U.S.

Sunday's announcement comes after months of tumultuous negotiations and near-deals between Iran and the IAEA. Iran initially agreed to a compromise reached with world powers and the IAEA whereby it would ship its enriched uranium abroad in exchange for nuclear fuel it needs to support its peaceful programs. But after lengthy deliberations, the deal was shot down by the country's Supreme Leader Ayatollah Ali Khamanei, who has the last word in all state matters, according to Iranian media reports.

Mr. Larijani, a pragmatic politician who is often critical of Mr. Ahmadinejad, had initially warned that Iran wouldn't accept the compromise, calling it "political trickery," a term he used again in Sunday's parliament session. "I advise these countries not do something that will make Iran's parliament and people drastically change our attitude toward the atomic agency," Mr. Larijani said, according to official Iranian news agencies.

The International Atomic Energy Agency, the U.N.'s nuclear watchdog, passed a resolution Friday censuring Iran for its lack of transparency and for not heeding to calls to halt enriching uranium. The resolution was the first the agency has passed against Iran since 2006, when it agreed to send Iran's case to the United Nations Security Council. Friday's resolution won the support of all five permanent members of the Security Council—the U.S., Britain, France, China and Russia.

Iran's rebuke paves the way for tougher economic sanctions on Iran. President Barack Obama had set an end-of-the-year deadline for negotiating with Iran before his administration pursues alternative options. After the news on Sunday, Israeli officials urged the international community to impose sanctions.

"Now is the time for action; we are waiting to see how will the international community respond to this Iranian intransigence," a senior Israeli official in Prime Minister Benjamin Netanyahu's office said.

Mr. Netanyahu is to travel to Berlin Monday for a day of meetings with German leaders. Germany is a member of the P5+1 and Iran will take up a large part of the agenda, a spokesman for Mr. Netanyahu said.

A spokesman for the IAEA declined to comment on Iran's surprise announcement until he could confirm whether Iran had informed the agency of its expansion plans. In Germany, the nation that proposed the IAEA resolution, a spokeswoman on Sunday said the German foreign ministry is following the reports of Iranian plans for new enrichment facilities "with concern," but that it had no direct knowledge of Iran's statements.

Mr. Ahmadinejad said Sunday that Iran would also increase the level of its uranium enrichment because it would need to produce about 500,000 centrifuges. The new plants will be similar in size and scope to the existing one in Natanz. Iran's atomic agency will begin construction for five of the nuclear sites within two months and identify five more locations for the future, Iran's official news agency IRNA reported.

"We treat all countries with kindness and friendship but at the same time we will not compromise on our absolute national right," Mr. Ahmadinejad told his cabinet, according to IRNA.

—Charles Levinson in Jerusalem and David Crawford in Berlin contributed to this article.

WORLD NEWS

EU voices its frustrations with yuan

In frank exchanges, European finance officials in China urge Beijing to allow for gradual increase in currency

By James T. Areddy

Agence France-Presse/Getty Images

European Central Bank President Jean-Claude Trichet, at a news conference on Sunday in Nanjing, offered little hope of a near-term change in China's yuan policy.

NANJING, China—European finance officials relayed to China's premier and central-bank governor frustration over the Chinese currency's rigid exchange rate at talks on Sunday, but said they didn't expect a change in policy soon.

"We were explaining that it is difficult to convince our general public that the fastest-growing country in the world... is depreciating," Jean-Claude Juncker of Luxembourg, chairman of the group of euro-zone finance ministers, told reporters at the start of a two-day European Union-China meeting.

"I can't say I'm more optimistic than I was before coming here," Mr. Juncker added later.

The Chinese yuan is tightly linked to the dollar, not the euro. As the dollar has declined against the euro, the yuan has fallen with it, making Chinese goods cheaper in Europe and European goods more expensive in China.

The yuan has emerged as the focus of wider frustrations roiling Europe's relations with China. There are political concerns that the euro's strength against the yuan is undermining economic recovery in the euro area, where unemployment remains stubbornly high, and that Beijing's exchange-rate policies mean Europe isn't benefiting fully from China's surging growth.

Ahead of the Copenhagen climate-change summit next month, Europe is challenging China's argument that as a developing country it isn't able to cap its output of global greenhouse gases. "I certainly asked the Chinese and all our partners to explore the outer limits of their positions," said European Commission President José Manuel Barroso.

The European Union Chamber of Commerce in China warned last week that China's massive economic-stimulus program risked unleashing a new wave of industrial exports and sparking trade conflicts.

European officials in Nanjing said they stuck by a strategy communicated ahead of the meetings—which continue Monday in this historic eastern city—that they want Beijing to permit an orderly and gradual rise in the value of the yuan. They say a yuan that begins rising, including against the euro, would benefit China itself and make the broader global economy better-balanced.

Europe shares Washington's concern that the roughly 21% rise in the yuan against the U.S. dollar since mid-2005 is insufficient given China's rapid growth. The euro area has seen even less movement: In the two years since a previous round of Sino-EU talks, the yuan has risen about 7% against the euro.

Yet since Beijing loosened its peg to the dollar more than three years ago, the yuan has actually fallen against the euro, pushing the European currency up about 2.6% against the yuan since 2005.

Premier Wen Jiabao didn't comment publicly after Sunday's meetings. The state-run Xinhua news agency quoted him as saying, "The meeting with Euro Group leaders constitutes an important part of [the] dialogue mechanism between China and the EU. Such a mechanism was established the year before last, demonstrating the further growth of Sino-EU relations."

European officials said they were encouraged that Beijing's economic stimulus is helping expand domestic demand in China, not merely adding infrastructure, and they waved off concerns about bubbles in the Chinese economy.

But while the frank exchanges ensured that Europe's message on the currency got through, European officials offered little hope of immediate policy change. "I would not overinterpret" any signs that Europe made progress on the yuan as leading to near-term action, European Central Bank President Jean-Claude Trichet told reporters.

"The Chinese are telling us exactly what they told President [Barack] Obama," Mr. Barroso said after a dinner with Premier Wen. The U.S. president failed to extract any public concessions on the yuan on his visit to China last month.

The European officials dismissed concerns that debt problems in Dubai could spread to their own highly indebted nations. "I don't see any default problem in Europe," said Mr. Juncker. The officials said the global economy remains fragile and it was too early to back off from stimulus efforts.

—Joy C. Shaw contributed to this article

China's state firms hold fast to their cash

By Andrew Batson

BEIJING—Getting China to spend rather than save turns out to be harder than it sounds.

THE OUTLOOK

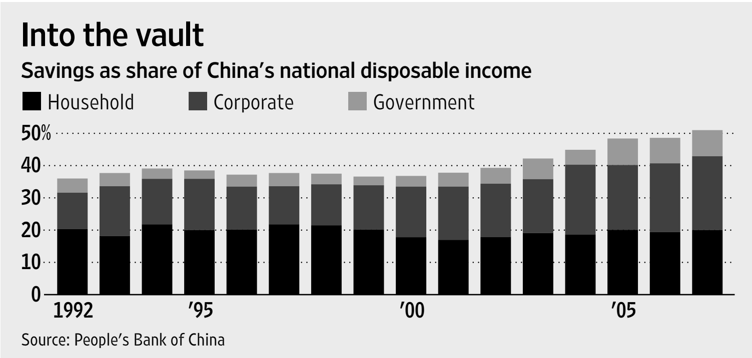
The nation collectively socks away over half its income, an extraordinarily high rate. By comparison, the average for developed countries is about 21%.

China's high savings show up all over the place: they're piling up not just in household bank accounts, but also in company vaults. Those corporate savings—basically, profits that haven't been invested or returned to shareholders—have boomed. On central bank estimates, they rose to 23% of national income in 2007 from 12% a decade earlier.

Much of that money comes from China's resurgent state enterprises, now hugely profitable and dominant in key industries. Taking money away from those powerful state firms and shifting it to consumers would be good economics, many observers think—and seemingly in line with socialist principles. But such changes threaten the interests of enormous corporations and perhaps even the ideas driving China's hybrid command-market economy.

After a wave of closures in the late 1990s, the government has enthroned a smaller number of strong state firms at the commanding heights of China's economy. There are now three oil companies, three phone companies, two electricity distributors—all majority owned by the state. The profits of state firms were rising more than 30% a year before the crisis. On average they pay employees 82% more than private firms.

Chinese officials flubbed their first attempt to extract some savings from these cash-rich state enterprises. A requirement for state firms to pay a new dividend to the government has had little impact since its launch in 2008, bringing in revenues of just 0.2% of gross domestic product. And most of the money was used to aid state companies themselves, not support consumers.



Many argue that the current payout of 5% to 10% of profits should be increased. And there's also a push for putting the money into the general government budget, where it could support social programs. The U.S. Treasury and the International Monetary Fund have also both urged China to take more money out of the pockets of state firms and use it to support household incomes.

This consensus is somewhat surprising, as economists in the West haven't focused much on corporate savings. Since households ultimately own companies, the theory goes, what matters is the overall level of savings by the private sector, not how it is split among households and corporations. Any increase in corporate savings should just be offset by lower household savings, or vice versa.

But recent research by the IMF shows that in China, and other Asian countries, the recent rise in corporate savings hasn't been matched by lower household savings. Shareholders of these companies seem unable to make managers stop hoarding cash and start paying dividends.

Even supporters are not optimistic that these changes will come quickly. An overhaul to the dividend policy could threaten the agency that now administers it—the State-owned Assets Supervision and Administration Commission, or SASAC—and cause resistance in the bureaucracy. A gradual approach is more likely to win support, said Wen Zongyu, a researcher at the Ministry of Finance's think tank, with changes phased in at the end of the dividend policy's initial three-year trial period. Perhaps not by coincidence, that 2011 timetable would coincide with the end of the current administration's term—so the tough calls could be pushed off even further.