News in Depth: Irish mogul's empire totters as slump tames Celtic Tiger

THE WALL STREET JOURNAL.

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■ **Anglo American said** it will cut 19,000 jobs as the diversified miner reported a 29% fall in profit for 2008. Page 7

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Breaking news at europe.WSJ.com

Eastern European bailout

Western neighbors call for doubling IMF's war chest as crisis intensifies

By Sebastian Moffett and Marek Strzelecki in Warsaw and Marcus Walker in Berlin

European leaders called for doubling the International Monetary Fund's war chest for bailing out financially stricken nations, amid new signs that Europe's former Communist East is sliding into a full-blown economic crisis with worrying implications for the continent as a whole.

Europe's developing economies from Poland to Ukraine are facing their worst economic crisis since the fall of the Berlin Wall 20 years ago. Capital is fleeing Europe's east, sending currencies sliding and threatening the region with deep declines in output and employment, and a deluge of debt defaults. Poland's industrial output in January fell at a painful 15% annual rate; its currency last week hit an all-time low against the Swiss franc.

The spreading trouble—which on Friday claimed the government of Latvia—could force more countries on Europe's periphery to seek help from the international community. Latvia's economy alone could shrink by as much as 10% this year, according to some estimates.

The IMF already has bailed out four ex-Communist countries, as well as Iceland and Pakistan in recent months.

This weekend's call by the leaders of Europe's major economies to double the IMF's war chest, to $500 billion, highlights their concern about the financial trouble brewing to the east. The statement however, was short on specifics. For instance, it didn't say where fresh funds might come from at their Berlin meeting.

The West European leaders' brief proposal falls short of demands by the World Bank and governments including Austria and others for Europe's wealthy West to prop up the continent's vulnerable East.

Until the past couple of weeks, the turmoil mainly hurt Eastern Europe's most fi-

Please turn to page 27

German Chancellor Angela Merkel and European leaders at a news conference on Sunday after meeting in Berlin on financial reforms.

Reuters

Obama plans to attack deficits

By Jonathan Weisman And John D. McKinnon

Stepping up a campaign to persuade Americans he is serious about the U.S. budget deficit, President Barack Obama this week will proposed using mandatory, across-the-board spending cuts to offset any new initiative that expands the government's red ink.

The proposal, which would apply to any new tax cuts or spending, would return the government to the budget constraints that existed in the 1990s, a senior administration official said. Mr. Obama wants those rules to come in the form of a law, passed by Congress and signed by him. That would put presidential prestige on the line, raising pressure on Congress to observe the limits. (Please see related article on page 2).

Such restrictions have been revived in recent years, but only in the form of rules adopted by Congress, and enforced by the lawmakers themselves—with spotty results.

Any meaningful budget-restraint rules likely would face opposition from both Republicans and Democrats. Many Republicans oppose constraints on tax cuts, which they say spur economic growth and generate government revenue. Some liberal Democrats also have qualms about rules that could thwart long-sought expansions of govern-

Please turn to back page

U.A.E. to lend Dubai $10 billion for debts

By Chip Cummins

DUBAI—The United Arab Emirates is spending $10 billion to bail out its once-high-flying emirate of Dubai, whose huge construction and financial-sector expansion plans became a symbol of boom times, and now of a world-wide retrenching.

Dubai financed much of its recent growth with international borrowing, and a big chunk of that debt comes due this year. Regional bank EFG-Hermes estimates Dubai's principal and interest payments due in 2009 would amount to around $14 billion.

Debt analysts and investors have questioned whether Dubai is able to service all that borrowing, especially as the city's once red-hot property market sours. Unlike its neighbor, U.A.E. capital Abu Dhabi, Dubai doesn't have much oil to support its budget.

The effective bailout, in the form of a long-term bond, will enable Dubai to "meet all upcoming financial obligations," the U.A.E. said in a statement.

Dubai's property market soared after it was opened to foreigners in 2002, but prices have fallen back to earth more recently. In some cases, prices for the most luxurious property have fallen by more than 50% in just a few months.

That has Dubai's developers—many of them govern-

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Rich experience

Offspring of the well-to-do do well for themselves
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DJ Stoxx 600	176.93	-3.52
FTSE 100	3889.06	-3.22
DAX	4014.66	-4.76
CAC 40	2750.55	-4.25
Euro	$1.2623	-0.57
Nymex crude	$38.94	-1.37

Oil, gas, coal, biofuels, nuclear, wind, solar... to fuel the future we need them all.

Meeting future demand will take more than just oil. We'll need to tap every practical source of energy: from natural gas and coal to nuclear and renewables. But whatever the source, we'll need technology to help us use it as efficiently and cleanly as possible. The story continues at exxonmobil.com

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THE WALL STREET JOURNAL.

LEADING THE NEWS

Expectations of March ECB rate cut grow

Survey of businesses shows contraction may be accelerating

By Paul Hannon

Signs that the euro zone's economic contraction is accelerating, with little prospect of a near-term turnaround, are underpinning expectations that the European Central Bank will cut its key interest rate further next month.

A survey of purchasing managers at manufacturers and service providers this month showed the composite Purchasing Managers' Index—which measures private-sector activity—fell to 36.2 from 38.3 in January to hit a record low, the Markit Economics research firm said. The report coincided with data showing French business confidence is at its lowest ebb this month since sentiment was first gauged in 1976.

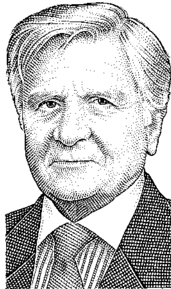
Economists see the PMI as one of the earliest indicators of how the euro-zone economy is performing. A reading below 50 indicates that activity is contracting, a point the euro zone crossed in June.

The unexpected drop appeared to extinguish early hopes that the pace of the contraction in the 16 economies sharing the euro had stabilized in early 2009, fueled by surveys in January of an improving outlook among purchasing managers and German financial analysts.

According to Markit's analysis, the PMI data indicate that euro-zone gross domestic product in the current quarter will contract at a more rapid pace than the fourth quarter's 1.5% rate, which was by far the largest drop in activity since records for the currency area began in 1995.

Other economists continue to believe the contraction in the current quarter won't outpace that seen in the fourth quarter. But analysts agree February's PMI data suggest the contraction could surpass expectations.

"The latest survey data support our view that the euro-zone recession will be deeper and more prolonged than most forecasters expect," said Ben May, an economist at Capital Economics.



Jean-Claude Trichet

Many economists took the news as more evidence that the European Central Bank will cut interest rates again in March.

"If there was any doubt about a [half-percentage-point] cut from the ECB next month, those doubts should now be put to rest," said David Mackie, an economist at J.P. Morgan.

The ECB has cut its key interest rate in each of the four months from October to January as the region slipped into recession, but left its key interest rate unchanged at 2% in February.

Speaking in Paris on Friday, ECB President Jean-Claude Trichet said the economy won't emerge from its slump anytime soon. "There will be some time before this crisis is over," he said.

The Markit PMI survey showed new orders fell for the 10th straight month, declining at a record pace. As a result, backlogs of work fell for the 11th straight month, also at a record rate.

In response, businesses cut payrolls for the eighth straight month. Purchasing managers also reported that their companies were cutting their prices at the fastest pace on record.

Separately, the French consumer-price index in January dropped 0.4% from the previous month, cutting the yearly increase to 0.7%, national statistics bureau Insee reported. The outcome showed the possibility of zero inflation, or even a period of deflation, creeping into euro-zone price levels this year.

Insee also reported that an index measuring business confidence fell to 68 in February from 73 the previous month, bringing it to its lowest level since 1976. Economists had been expecting a more modest fall to 70.

Italy's statistics agency, meanwhile, said industrial orders fell by 15% in December from a year earlier, compared with a 26% drop in November.

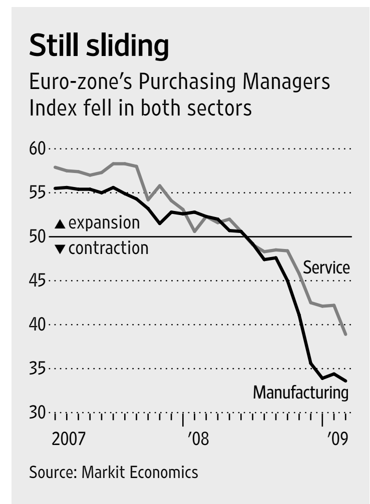
The U.K., which isn't in the euro zone, reported contradictory economic news Friday.

Seasonally adjusted retail sales rose 0.7% in January from December after an upwardly revised 1.7% increase in December, according to the U.K. statistics office.

Economists had a difficult time squaring the reported increases with rising unemployment, tumbling home and asset prices and confidence at record lows.

Underscoring that discrepancy, the U.K. council of mortgage lenders reported that the number of U.K. homes that were repossessed declined slightly in the fourth quarter, but the figure for 2008 as a whole soared to its highest level in 12 years.

—Geraldine Amiel, Gabriele Parussini, Joe Parkinson and Natasha Brereton contributed to this article.



Still sliding

Euro-zone's Purchasing Managers Index fell in both sectors

Source: Markit Economics

Obama has much to juggle in coming week

By Jonathan Weisman

It was an eventful first month for the Obama administration, with the U.S. president's economic plan—his stimulus package plus his housing plan—already measuring 13 digits.

But the first week of his second month is when President Barack Obama's term in office will really take shape.

Monday, the president convenes a "fiscal responsibility summit"—a four-hour wonkfest, which will be opened by Mr. Obama then led by economic aides and cabinet members who will divide the 130 participants into sessions on health care, taxation, Social Security, contracting and procurement, and budget processes.

Tuesday, the president will speak to a joint session of Congress, revealing much of his budget vision and policy plans for the next four years. He also will lay out other steps he plans to take to reverse what may become the most serious economic crisis since World War II.

Then Thursday, the White House unveils a 10-year budget blueprint that will tip the president's hand on his plans for near-universal health care, changes to entitlements such as Social Security and Medicare, tax policy, and a budget deficit widening into territory never seen in peacetime.

With the federal deficit heading toward $2 trillion, the emphasis all week will be on addressing the nation's fiscal problems over the long haul. Economists Alan Auerbach of the University of California, Berkeley, and William Gale of the Brookings Institution released a paper last week predicting annual trillion-dollar deficits over the next decade—in their optimistic scenario.

By the end of last week, Mr. Obama was at work on his Tuesday-night speech, meeting with his budget writers and economic advisers.

"The budget rollout will be one aspect of it," said White House spokesman Robert Gibbs. "But I think the president will speak extensively, not just about the budget... also he'll talk about the recovery plan. He'll talk about foreclosures."

And there's also a complete overhaul of the U.S. financial regulatory structure, due by the G-20 summit on April 2 in London.

CORRECTIONS & AMPLIFICATIONS

The three-month London interbank offered rate on Feb. 11 was 0.9845 percentage point higher than the expected average federal-funds target rate over the next three months, as represented by the overnight index swap rate. The difference between the two rates had narrowed from a recent high of more than 3.65 percentage points in October 2008. The scale in the chart that accompanied a Leading the News article on stabilization in global markets in the Feb. 12 issue was incorrect.

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Agence France-Presse/Getty Images

Areva CEO Anne Lauvergeon and French President Nicolas Sarkozy, center, tour a French nuclear plant under construction.

Areva faces cash crunch

Nuclear firm looks to state, partners for investment funds

By David Gauthier-Villars

As governments increasingly look to nuclear power for electricity, France's **Areva** SA should be sitting pretty. The world's largest nuclear-engineering company by revenue recently won orders in China and is in advanced talks with power companies to sell reactors in the U.S., the U.K. and India.

But the global recession has left Areva scrambling for cash. When Areva reports earnings Wednesday, executives are expected to urge the French government to act quickly to help fill a gap of as much as €3 billion, or around $4 billion, in Areva's 2009 investment budget—a hole that should have been plugged several months ago. An Areva union said Friday that layoffs may be necessary if something isn't done soon.

This year's budget need marks only the beginning of Areva's dash for cash. The company requires roughly €10 billion over the next four years to finance investments in uranium mines, nuclear-fuel production plants and heavy-parts manufacturing. Areva also needs €2 billion by 2012 to buy back shares in its nuclear-reactor unit after minority shareholder **Siemens** AG pulled out. Areva may also have to pay a hefty penalty because of delays in building a nuclear reactor in Finland.

Areva's scramble for cash highlights how far the global credit drought has spread, hurting even those industries that should be enjoying healthy growth.

Areva is profitable, thanks to its maintenance services and strong sales of nuclear-plant parts. It posted a net profit of €760 billion on revenue of €6.17 billion in the first half of last year. Still, the company consumes more cash than it generates from operations. And with its credit rating placed under negative watch by Standard & Poor's last month, Areva says it won't take on much more debt than the €4.5 billion it had last summer.

On Friday, France's white-collar labor union said any government delay in filling holes in Areva's finances could force the company to freeze investment, something that would "lead to job cuts."

The government, which is Areva's majority owner, is looking at a number of options, including allowing Areva to dispose of noncore assets to free up cash or merging the company with French heavy-engineering company **Alstom** SA. During a recent visit to a nuclear reactor under construction in northern France, President Nicolas Sarkozy said the government would decide soon on how to finance Areva's expansion but he didn't give details.

The question is whether Paris can come up with funding before such competitors as Japan's **Toshiba** Corp. and **General Electric** Co. of the U.S. gain market share.

Areva was created in 2001 when the French government pooled all its nuclear-engineering assets under one roof. The idea was to provide power companies with a one-stop shop where they could buy nuclear fuel, reactors and waste-management services. The strategy has paid off. Last year, China ordered two nuclear reactors from Areva and enough nuclear fuel to power the machines for 20 years. Areva aims to garner a third of the world's nuclear-reactor orders in coming decades and build at least seven reactors in the U.S.

The French company first needs financing. In 2004, Areva sought to raise cash through a rights issue, but the government shelved the plan on concerns it would dilute state control over an asset with strategic value. Areva Chief Executive Anne Lauvergeon had said she was keen on reviving plans to tap the stock market. But she and other Areva executives said recently the current weak state of global markets now makes that difficult. The company said Ms. Lauvergeon declined to comment for this article because of the company's coming earnings report.

Areva is inviting partners to share investment costs to meet immediate financing needs. Areva executives say the French company is in advanced talks to sell a 2.5% stake in a €3 billion uranium-enrichment plant under construction in southern France to Japan's **Kansai Electric Power** Co. Kansai didn't respond to requests for comment. Areva has already sold a 5% interest in the facility to French energy utility **GDF Suez** SA. Areva last year said it would pair up with U.S. defense contractor **Northrop Grumman** Corp. to build nuclear-reactor vessels, steam generators and other pieces of heavy equipment at Northrop's shipyards in Newport News, Va.

Alstom, a French maker of high-speed trains and power-generation plants, says it would like to create a vast heavy-engineering conglomerate by combining Alstom and Areva in a single entity. But Ms. Lauvergeon has said she sees no advantage in such a combination.

Areva may solicit direct state aid to finance immediate needs, people familiar with the situation say. But the French government has competing priorities as it tries to help other companies hit hard by the financial crisis, especially in the banking and auto sectors.

Areva also sell could assets, such as its Transmission & Distribution unit, which makes high-voltage equipment for substations, or its 26.43% stake in French mining company **Eramet** SA, the people familiar with the matter say. Analysts say the Transmission & Distribution unit could sell for as much as €5 billion. But Areva executives say they fear that selling a division that employs 39% of the group's 66,000 workers would sap the company of industrial heft. Meanwhile, Eramet's stock-market value has dropped sharply in recent months, putting the value of Areva's stake at roughly €950 million.

While Areva hunts for financing, its competitors have started flexing their muscles. Toshiba, owner of U.S. nuclear-reactor maker Westinghouse, has started to emulate Areva's integrated strategy by investing in uranium projects. Siemens has said that, although it is pulling out of its joint venture with Areva, the German company still aims to expand its nuclear business, possibly through partnerships with Russian companies.

UBS says naming clients would violate Swiss law

By Carrick Mollenkamp

UBS AG said in a U.S. court filing Friday that its employees would be forced to violate Swiss criminal law to comply with the U.S. government's demand for the identities of 52,000 private account holders as part of a massive tax-evasion inquiry.

Friday's filing threatens to draw both the U.S. and Swiss governments deeper into the already acrimonious showdown between the U.S. and UBS over the bank's private-banking practices. UBS argues in the filing that Swiss law "strictly prohibits UBS and its employees from disclosing to the [Internal Revenue Service] the account information located in Switzerland." Instead, the bank says, the U.S. government's petition "simply ignores the existence of Swiss law and sovereignty."

UBS also argued in Friday's filing that the IRS's demand would require the rewriting of tax treaties between the two countries that dictate how and what information can be disclosed. "To the extent that the IRS is not satisfied with treaties that the U.S. government has negotiated, that concern should be remedied through diplomacy, not an enforcement action," UBS said in the court filing.

The filing is UBS's first response in federal court since the U.S. government sued the bank last week to obtain the account identities. The lawsuit was filed Thursday, a day after UBS agreed to settle a parallel criminal inquiry and turn over information on 250 U.S. citizens who used the bank to evade taxes.

That settlement, the result of a criminal inquiry aided by a former UBS banker, was a significant move by U.S. tax authorities to reduce the use of secretive bank accounts to evade U.S. taxes. But the legal fight pitting the U.S. Justice Department and the IRS against UBS over the 52,000 accounts could last months, with the outcome uncertain for both sides.

In its request for the account information, the Justice Department said that it is basing its demand for the 52,000 identities on a 2004 internal UBS document that showed some 32,000 accounts with cash and 20,000 with securities.

Central to the current wrangling is a mid-2008 court order that authorized the IRS to issue a summons to UBS seeking account information for unidentified U.S. taxpayers with Swiss accounts at UBS.

UBS's response to the lawsuit was filed ahead of a conference between the U.S. and UBS lawyers scheduled for Monday afternoon.

In its response, UBS said the IRS demand places "UBS and its employees in an untenable position, stuck between the enforcement power of this [federal court] and the criminal law of their sovereign home country."

"UBS may find itself caught in a Catch-22 between the U.S. District Court's enforcement powers, that include the imposition of sanctions, and Switzerland's bank secrecy laws," said Milan Patel, a former IRS trial attorney now with Withers LLP in Geneva.

Spokespeople for the Justice Department and UBS didn't immediately reply to requests for comment.

RBS plans pullback, job cuts as it refocuses its business

By Sara Schaefer Muñoz

LONDON—**Royal Bank of Scotland Group** PLC is preparing to divest assets, pull back from many global markets and cut jobs as part of a strategic plan meant to clarify the ailing bank's future, according to people familiar with its plans.

RBS Chief Executive Stephen Hester intends to unveil the plan when the bank, which is majority-owned by the U.K. government, reports 2008 results Thursday.

As part of the plan, Edinburgh-based RBS has hired Morgan Stanley to shop the Asian assets it acquired when it bought part of ABN Amro Holding NV in 2007, according to people close to the matter. It also plans to eventually sell or wind down its ABN Australian units, its aircraft leasing operation and portfolios of mortgages from Charter One Financial in the U.S, this person says.

RBS is also expected to indicate that it plans to withdraw from half the 60 countries it operates in, including parts of Eastern Europe, as well as from businesses like leveraged finance. Mr. Hester is expected to say the bank will focus instead on brands like its NatWest U.K. retail unit, its insurance business and parts of its U.S. retail bank Citizens, as well as investment banking in areas including Hong Kong.

The moves are part of a broader strategy to cut 10% to 15% of total expenses over the next three to five years, according a person familiar with the plans.

RBS already signaled it planned to dial back in Asia last month when it sold its 4.3% stake in Bank of China for roughly $2.37 billion.

Possible buyers of the bank's ABN Asian operations include **Australia & New Zealand Banking Group** Ltd. and U.K.-based **Standard Chartered** PLC, which has an extensive presence in Asia, a different person close to the matter said.

The strategic review was launched by Mr. Hester to get the nearly 300-year-old bank back on its feet after it foundered amid the credit crunch and was forced to take a £20 billion ($28.9 billion) government capital injection last fall. During his tenure, former CEO Fred Goodwin had expanded the bank's balance sheet to some £2 trillion.

ABN assets in Asia were part of what RBS got when it purchased part of the Dutch bank in 2007. They included operations in India, China, Pakistan and Indonesia. The India business is desirable because ABN already has a hard-to-get banking license there, people close to the matter say.

RBS paid £10 billion for those and other assets. However, given the economic and financial market downturn, the value of many of these assets has deteriorated. The bank has said it could have 2008 losses as high as £28 billion when it announces results—tied largely to goodwill on its acquisitions.

Also this week, RBS will announce the extent of its participation in the U.K.'s asset-insurance program.

CORPORATE NEWS

GM's troubles travel beyond the U.S.

Swedish unit Saab files for bankruptcy protection as car maker seeks help from Canadian government, workers

By Ola Kinnander
And Leila Abboud

The global fallout from **General Motors** Corp.'s difficulties worsened as its Swedish subsidiary, Saab, sought protection from creditors and other GM operations went begging for local government aid.

GM on Friday asked the Canadian government for help in covering fast-growing retiree costs. At a news conference, Canadian Minister of Industry Tony Clement said GM indicated it is seeking a loan of C$6 billion to C$7 billion ($4.77 billion to $5.56 billion).

GM's future in Canada has become uncertain as money-saving labor deals in the U.S. and the weak American dollar reduced Canada's competitive edge in labor costs. GM said help from the Canadian government, as well as from the Canadian Auto Workers union, would allow it to continue to build cars and trucks in the country.

Saab's filing in Sweden on Friday came as the car maker looks to reorganize and find a way to become independent of GM, which is scrambling to pare its operations and meet the terms of the $13.4 billion in loans it has received from the U.S. government.

On Tuesday, GM filed a reorganization plan with the U.S. Treasury that calls for it to strike a deal with bondholders to reduce debt and work with the United Auto Workers to cut labor costs. GM also said it plans to phase out its Saturn and Hummer brands, shrink Pontiac and warned that Saab could file for reorganization.

GM told the government in the plan that it may need as much as $16.6 billion in additional U.S. loans to reorganize.

Officials of the Obama administration's auto task force met for the first time Friday to weigh the bailout plans submitted by GM as well as **Chrysler** LLC. Led by Treasury Secretary Timothy Geithner and Lawrence Summers, President Barack Obama's chief economic adviser, the group of about a dozen officials spent 90 minutes digging into the two companies' rescue plans.

Administration officials say the GM and Chrysler reorganization plans are simply the start of a grueling series of discussions and negotiations.

"There is gloom all around. This is a terrible situation," an administration official said. "But the administration is committed to figuring this out. We are clear-eyed on the scope of the challenges we face."

The administration also decided to appoint financier Steven Rattner, a lead player at private-equity firm Quadrangle, to the auto task force after having decided earlier against making him the administration's overall "car czar" and instead relying on a committee.

GM has sought financial help in various countries outside the U.S., but so far those requests are falling on less-receptive ears.

The Swedish government declined to bail out Saab, saying it didn't believe a plan to restructure the money-losing car maker was realistic.

In Germany, GM's Opel subsidiary said Friday it would need far more government aid than previously anticipated, blaming a rapidly deteriorating auto market. Opel said it would need "at least" €3.3 billion ($4.24 billion) in new capital to survive and become more independent of its ailing parent, up from a €1.8 billion request last year.

The German government said it would consider the request when it received Opel's formal restructuring plan. One option might be for the government to take a stake in Opel, which has 25,000 workers in Germany.

Associated Press

SAAB chief Jan-Ake Jonsson talks to reporters after the company filed for bankruptcy. Sweden's government declined to bail out the auto maker.

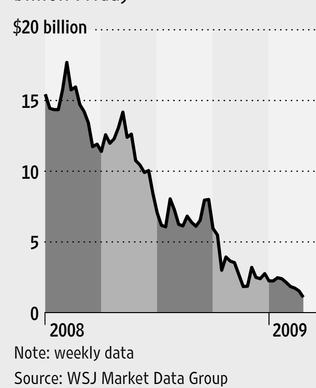
Germany's new economic minister said he has set up an informal working group with the U.S. treasury secretary aimed at finding a way to save GM's German-based Opel unit, the Associated Press reported, citing comments published in a newspaper Sunday.

Karl-Theodor zu Guttenberg said he had contacted Mr. Geithner about setting up a working group in hopes of finding a way to secure the future of Adam Opel GmbH, according to Bild am Sonntag. "I will use my first visit to the USA in March to hold further talks" on the issue, Mr. zu Guttenberg was quoted as saying.

In Korea, GM's Daewoo unit asked the government for financial aid last week but was turned down. On Friday, Daewoo asked for an undisclosed amount of emergency funding from state-run Korea Development Bank as the car maker faces a liquidity crunch.

No brakes

GM's market value fell to $1.08 billion Friday



Note: weekly data
Source: WSJ Market Data Group

Auto makers have been rocked in the past six months by plummeting demand for vehicles and a tightening credit market, which makes it harder to fund their capital-intensive operations and for consumers to make purchases.

Countries including France and the U.S. have responded with sizable aid packages to car makers, while Germany, Spain and Italy have passed measures to encourage people to buy cars. The European Union has said it would extend some €7 billion in aid for companies that develop more environmentally friendly cars or technologies.

As part of GM's recovery plan, the company pledged to squeeze $1.2 billion in savings out of its European operations. That has led Opel and Saab to say they will likely seek independence from GM by either selling themselves to or joining forces with other auto makers. But analysts say finding such opportunities right now would be difficult.

Saab, which has rarely turned a profit since GM first invested in the brand in 1990, sought an estimated $572 million in aid from the Swedish government. But its sales have fallen so far that its viability as an independent company is "very low," Joran Hagglund, state secretary at the Swedish Ministry of Enterprise, Energy and Communication, said in an interview.

Workers at Saab are frustrated by the government's refusal to help, said Paul Akerlund, a union representative. "I don't think the government understands what a serious situation this is," he said. "Sweden is making a serious mistake. At the end of this crisis, countries like France and the U.S. will have helped save their car makers, while Sweden will have nothing left."

—Roman Kessler and Sharon Terlep contributed to this article.

Ford lures new customers as GM and Chrysler stumble

By Matthew Dolan

Ford Motor Co., which hasn't taken a dime of U.S. government bailout loans, is benefiting from the troubles of its two cross-town competitors in Detroit, **General Motors** Corp. and **Chrysler** LLC.

GM and Chrysler are required to seek cost concessions from the United Auto Workers union under the terms of their federal loans. That allowed Ford to open parallel talks with the UAW, which has a history of working out the same conditions at each company.

Last week, Ford and the UAW reached an agreement to cut pay for laid-off workers, ease work rules and eliminate wage increases tied to the cost of living—two days before GM and Chrysler reached the same deal.

At the same time, while GM and Chrysler have been hit with a steady stream of negative news—including growing concern they may need to file for bankruptcy protection—Ford has been having more success at luring away its competitors' customers.

Ford's share of the U.S. retail market rose in each of the past four months, while GM's and Chrysler's fell, Ford said.

In January, 45% of Ford buyers turned in cars or trucks of other manufacturers, up from 38% in August, according to Edmunds.com, an auto-shopping Web site. Meanwhile, the "conquest rate" for GM's Chevrolet was 43% last month, down from 49% in August, and for the Chrysler brand, the conquest rate was 60% last month, down from 67% in August, according to Edmunds. "That's a sign that there is something definitely going on for Ford," said Jesse Toprak, an analyst at Edmunds Inc.

Signs of a shift

In the past four months, Ford has increased its retail market share in the U.S. as its cross-town competitors have seen their market share slide.

Ford's retail market share

Month	Share
October 2008	13.1%
October 2007	12.7%
November 2008	13.1
November 2007	12.3
December 2008	13.0
December 2007	11.9
January 2009	12.3
January 2008	12.2

Source: the company

For some domestic-car buyers, the bankruptcy talk has been enough to cause them to defect to Ford. John Grassi of Warren, Mich., recently turned in his leased Dodge Grand Caravan minivan and replaced it with a Ford Fusion.

"The future of GM and Chrysler certainly played a part in my decision," said Mr. Grassi, 50 years old, who works for Warren's parks-and-recreation department. "Ford seems to be the most sound in terms of staying solvent. I mean, you look at your warranty and you want that warranty to be good."

Still, Ford has many challenges. Edmunds's Mr. Toprak said the company is "weighed down" by the perception of many consumers that it is in the same boat as GM and Chrysler. All auto makers are suffering from the recession and credit crunch, which have sent sales plummeting. In January, Ford's sales were down 40%. And the company continues to post huge losses, including $5.5 billion in the fourth quarter, that are eating up its cash.

Ford isn't assuming its trend of recent market-share increases will continue. "This market provides limited opportunities. You can't will yourself to higher sales," said Ford sales analyst George Pipas.

Ford has told the federal government it doesn't need loans for now, mainly because it raised about $23.5 billion in 2006 by mortgaging almost all of its plants and assets. The company said it had $13.4 billion in cash as of Dec. 31 and drew down its last line of credit for an additional $10.1 billion in January.

So far, GM has won $13.4 billion in loans from the U.S. Treasury Department, and last week asked for as much as $16.6 billion more in a revitalization plan it was required to give the government. Chrysler has received $4 billion and has asked for $5 billion more.

The UAW concessions reached last week could save the auto makers hundreds of millions of dollars a year—for Ford, a windfall from its rivals' struggles. The union agreement "was styled in such a way to benefit all three companies," UAW President Ron Gettelfinger said in an interview Thursday with Detroit radio station WWJ.

The terms of the government loans also require GM, Chrysler and the union to work out a way for the companies to put less cash and more stock into trust funds to cover the cost of health care for retired union workers. That has opened the door for similar talks at Ford, although no agreements have been reached yet.

Ford also is believed to be seeking concessions from its bondholders and dealers, also required by the loans given to GM and Chrysler. Ford has been less forthcoming about the state of these talks. But Ford Chief Executive Alan Mulally said during an earnings call last month that "I really believe from the ongoing conversations that we are having with all the stakeholders and the U.S. government that as we go through this and we continue to take the actions that we need to take that we will not be disadvantaged."

Meanwhile, Ford seems to have made headway with customers as both GM and Chrysler nearly ran out of money over the past few months. In Centerline, Mich., Bob Thibodeau said he has noticed more owners of other makes shopping at his Ford dealership.

Ford also may be seeing more customer traffic because it just launched a redesigned version of its F-150 pickup truck, the top-selling vehicle in the U.S., and its finance arm is healthier than the lenders GM and Chrysler work with, GMAC LLC and Chrysler Financial.

Advertisement Advertisement

Seoul: Asia's Next Market

A Regional Finance Center Takes Shape

By Andrew Salmon

At the epi-center of Northeast Asia, one of the world's top three zones of economic activity, lies the Korean peninsula. At the "belly button" of the peninsula nestles Seoul. And at the heart of Seoul is an island now positioning itself as Asia's next regional finance center.

"Yeouido is where much of Korea's finance is centered, and is the only business district in Seoul with the development potential to become the dominant financial center," says Jonathan Perratt, president of Skylan Development, a multinational raising a US$2.2 billion mixed-used complex on the island. "The authorities are actively promoting the city as a major financial and business hub in North Asia which will stimulate demand for leasing and investment as Seoul upgrades to match other business centres in the region."

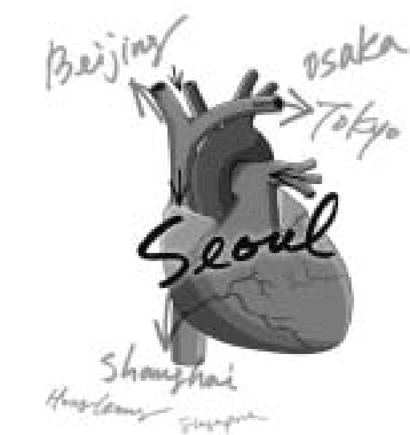
Heart of Seoul : *Yeouido*

Designated as International Finance District

Once a sleepy island on the Hangang River that bisects Seoul, the 3.97 million square meter Yeouido has played key roles in the capital's modern development. In 1916, it was Seoul's first airfield; the plaza in its central park is the last remnant of the old runway. That changed in 1968, when Yeouido was designated as the site for Korea's National Assembly. Today's Yeouido - with its high-rise architecture, park and wealth of financial institutions, it is dubbed "Seoul's Manhattan"- was re-designated Korea's official financial center on January 21, 2009 by the Financial Services Commission. The FSC said Yeouido will be given state support and be expanded as a general financial hub.

Seoul boasts three business districts: One north of the river, one south of it, and Yeouido. The island, connected to three arterial roads and two subway lines is dead center. It is also convenient for Incheon International Airport, a 45-minute drive, or 62-minute subway ride, away.

The designation, offering tax breaks and easing building restrictions, makes *de jure* what is already *de facto*. On Yeouido are clustered the Financial Supervisory Service, the main office of the Korea



Stock Exchange, the Korea Securities Dealers Association, the Korea Securities Depository, the Asset Management Association of Korea and the Korea Futures Association. With 32 of 62 Korea-based securities firms, 38 of 57 futures companies, and 40 of 59 asset managers, Yeouido hosts Korea's largest conglomeration of financial talent.

Befitting Yeouido's new designation, two world-class developments are currently rising, to open between 2011 and 2013.

One is the Seoul Metropolitan Government/AIG-invested Seoul International Finance Center - a complex of office buildings, international hotel, convention center and shopping mall - on a 33,000 square meter site. The other is the privately-invested Parc1, a complex of international hotel, two office towers – one, at 72 stories, will be Korea's tallest building – and shopping mall spread over 46,000 square meters. These projects will re-define Yeouido's skyline, inject sophistication, and fill the current dearth of A-grade office space.

Heart of Asia : *Seoul*

Opportunities You Cannot Overlook

Meanwhile, Seoul is garnering plaudits from players and pundits

"Seoul's core advantages are the energy and drive of its people, its ability to move very quickly, its communications infrastructure and its proximity to North Asian markets," says John Walker, Korea head of Australia-based finance multinational the Macquarie Group. "These inherent advantages position Seoul well to achieve to its aim as a financial service centre in the region."

Seoul ranked in ninth place in both Mastercard's "Worldwide Centers of Commerce 2008" study and AT Kearney's "2008 Global Cities," index.

"Centers of Commerce" studied 75 cities. In the "Financial Flow" category, comparing financial services networks and securities transactions, Seoul came ahead of Tokyo, Singapore and Hong Kong. It also scored strongly as a "Business Center" – rating air traffic volumes, property developments and five-star hotels – beating Frankfurt, Chicago and Sydney.

In "Global Cities," among 60 cities, Seoul ranked fifth in "Information Flow," which studied broadband connections and the volumes of internationally dispersed news and information the city generates. It came seventh in "Business Exchange" which studied capital markets, the number of Fortune 500 companies and goods flows. And in "Cultural Experience," ranking the attractions a city offers to visitors and residents, Seoul came tenth.

In 2007, Seoul, home to 10 million, netted two-thirds of Korea's total foreign direct investment. Seoul's expatriates are served by 21 international schools, and 10 English-speaking clinics.

As capital of the world's 13th largest economy, with champion manufacturers in semiconductors, LCDs, cellphones, ships, autos and steel, Seoul is no Singapore or Hong Kong: Its hinterland comprises a consumer market of 48 million South Koreans (per capita GDP: US$25,000). Yet Korea's core competency is its artery of connections to the region.

"It is right in the center of Northeast Asia, so offers easy access to all of the neighborhood," says James Rooney, chairman of financial consultancy Market Force Company. "If you are based in Shanghai or Tokyo, you focus overwhelmingly on the local economy: Here, you can look beyond."

Others agree, but stress that an appropriate regulatory structure must be emplaced for Korea to realize its potential.

"Decades of experience in global trade, the global name-recognition of local corporations and the ever-improving social infrastructure of the city means that Seoul has the opportunity to become a competitive financial center for North Asia," says Pietro Doran, chairman of multinational developer Doran Capital. "I expect it to happen - subject to Korea being able to achieve the regulatory framework required."

An ambitious reform of financial regulation takes effect in February. "Korea's financial and legal reforms look set to steal a march on both China and Japan," says Michael DeVere, Country Representative of investment manager Standard Life Investments Asia.

And Korea is not only geographically central to the region, it is culturally neutral. While Japan and China compete for regional leadership, Korea is an acceptable middleman.

"If an Asian Monetary Fund was to be established, Seoul would be the best possible location," said Nobel Economics Laureate Dr. Robert Mundell of Columbia University.

Interview with Seoul Mayor

"We will Accelerate Deregulation and Tax Reduction"

Oh Se-hoon,(48) served in the National Assembly with the ruling Grand National Party before wining Seoul's mayor ship in 2006. Prior to entering politics, he worked as a lawyer, and maintains a strong interest in environmental affairs and design. He is halfway through his four-year term.

Q: Why does Seoul want to become a regional finance center?

A: Korea grew to be the world's 13th largest economy driven by export-based manufacturing industries. Now, Korea has to grow its service sector, and finance can lead this. Moreover, opportunity beckons. Japan, the world's second largest economy is to our east; China, the world's fastest growing economy, is to our west; and the Russian Far East, with its un-tapped natural resources, lies to our northeast. By harnessing our financial industry to these opportunities, Seoul wants to kick-start a new regional growth engine.

Q: What benefits will Seoul offer to investors through the designation of Yeouido as the official financial district?

A: Seoul will foster Yeouido as world-class multifunctional district of business residence, and tourism. We will develop Yeouido by dividing it into three areas: a central business area, a back-office services area and a residential area

Regarding the central business area, Seoul City is on the progress of designating the area as "promotional area" in order to attract global financial institutions and facilitate the development of the area. Through the designation, Seoul will be able to offer various incentives such as supplying infrastructures, easing development restrictions, reducing acquisition and registration tax, and funding support for facilities construction. We will prioritize the construction of international schools and world-class medical centers for foreigners by securing the public land.

Q. What impact will Yeouido's financial district designation bring to Seoul?

According to the Korea Institute for International Economic Policy, if Seoul succeeds in positioning itself as a regional finance center, between 2009 and 2020, the gross production of the finance industry in Seoul is estimated to reach KRW 85.46 trillion (approximately US$ 6.17 trillion), while creating 800,000 new jobs.

Q: The financial world is being shaken by unprecedented turmoil. Is now the time to promote this project?

A: Turmoil is not unprecedented for us! In 1997, we were pounded by the Asian economic tsunami, but we moved fast: Recovery was quicker than anyone predicted. The financial reforms undertaken then are bearing fruit now as we undertook reforms earlier than competitors. This, and our crisis control expertise, underwrites Seoul's viability.

If Yeouido is the "hardware" that lays Seoul's foundation as a regional finance center, the "software" has been installed in February 2009, when Korea implemented the Capital Markets Consolidation Act (CMCA), a move expected to detonate a "Big Bang."

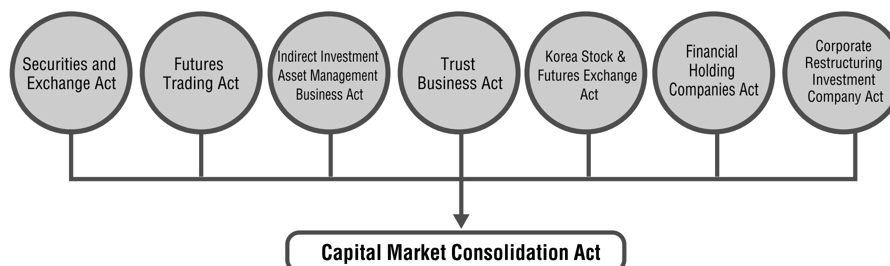
Combining seven separate finance-related acts into one, the CMCA eradicates overlapping regulations and barriers, enabling a greater range of products and services. This will rebalance Korea's finance sector, from its traditional emphasis on banking, to one where banks and capital market players compete equally. The CMCA also moves regulation from a positive system under which anything new requires specific permission to a negative system under which anything not forbidden is permitted. This will dissolve much of the red tape which so frustrates foreign investors.

"We expect both immediate and long-term effect, and some changes have already happened," said Financial Services Commission Director General Yoo Jae-hoon, citing eight new investment business licenses granted. "Through promotion of industry, but also market development, we hope the longer-term effect will bring about a more mature capital market."

Korea's capital markets already boast significant economies of scale. According to the Annual Report of the World Federation of Exchanges in 2007 (the year with the latest data available), Korea's markets were valued at US$2.01 trillion - close to Hong Kong's (US$2.71 trillion), and ahead of Singapore's (US$0.92 trillion). Korea's combined stock and bond markets were Asia's 4th largest, and the world's 14th.

Sophistication is increasing too: In September 2008, the FTSE raised Korea to the status of "Developed Market."

Booting up the Software for a "Big Bang"



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CORPORATE NEWS

Marketers' squeeze play

GM, Anheuser try to wrest easier terms from ad producers

By Suzanne Vranica

GM has raised an uproar among the production firms that make its commercials by playing hardball on payment terms. Above, an ad for the auto maker's Cadillac brand

Some of the biggest advertisers in the U.S., including auto maker **General Motors** and brewing giant **Anheuser-Busch InBev**, are putting the squeeze on companies that produce and broadcast their ads, as part of an effort to rework contracts with suppliers to cut costs.

As the economy's slump continues, GM has raised an uproar among the production firms that make its TV spots by playing hardball on payment terms. Other advertisers could follow suit, bringing pressure on the small companies that make up that business.

ADVERTISING

Over the past few weeks, GM, whose brands include Cadillac, Buick and Pontiac, has offered to pay ad-production firms 50% of a commercial's production costs 60 days after the first day of shooting and the remaining 50% when the ad is finished. That's a major departure from the standard practice of paying 50% or 75% of the cost before production starts.

A car commercial can cost anywhere between $500,000 and $1.5 million, say production executives.

"This has the potential to destroy the commercial-production business," says Matt Miller, chief executive officer of the Association of Independent Commercial Producers, the New York-based trade group that represents production companies.

The move is the latest in a long list of cost-cutting moves cash-strapped GM has adopted as it seeks to avoid a bankruptcy filing. Last year, GM asked its ad agencies to cut their fees by as much as 20% for 2008 and 2009.

Historically, GM has been one of the U.S.'s biggest ad spenders, shelling out $1.6 billion to buy ad time and space for the first nine months of 2008, according to ad tracker TNS Media Intelligence, a unit of London-based ad-holding company **WPP**.

So far many production companies have balked at GM's terms, but people familiar with the matter say that some firms have agreed to the new payment structure.

GM declined to comment specifically on its moves, but a spokeswoman said, "We have and continue to work closely with our suppliers, partners and vendors in an effort to improve the efficiencies of our marketing."

Anheuser-Busch InBev is trying to overhaul all its vendor contracts, including advertising-related deals. The world's largest brewer by sales recently told media outlets that they will now be waiting 120 days after an ad runs to receive payment versus the typical 30-day standard.

"The challenging global economic environment has resulted in AB InBev, like many other multinational companies, reviewing its standard terms and conditions of payment," the company said in a statement.

GM has been trying to persuade TV-production companies to accept its new payment terms by suggesting it is looking to have a few "preferred vendors." In order to be on the list, the production company would have to agree to the new fee structure. Production executives believe about 30 firms have received calls about the matter in the past few weeks. The new set-up reflects a broader policy change GM began applying to all its vendor contracts last year, according to a person familiar with the matter.

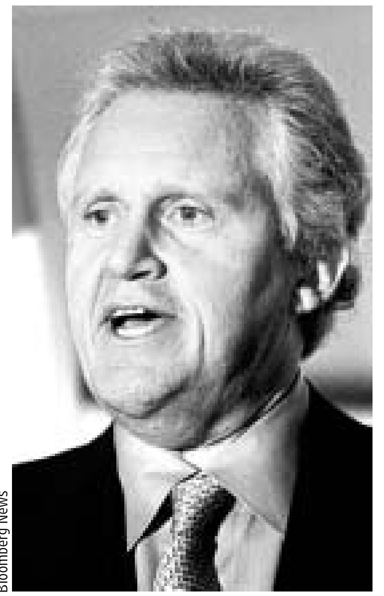
"Our business is not the same as buying lug nuts" says Cami Taylor, president and co-owner of **Crossroads Films**, a Los Angeles production firm that has said no to GM's new payment terms. Crossroads also works with major marketers like Anheuser-Busch and **Procter & Gamble**.

Donald Block partner and executive producer at **Gartner Films**, a production company in Santa Monica, Calif., adds: "GM and other brands are finding ways to delay payments more and more."

—Emily Steel contributed to this article.

Slide in blue chips puts pressure on GE's Immelt

By Paul Glader



Chairman Jeffrey Immelt saw GE's stock close below $10 a share Friday.

A sliding stock market is turning up the heat on executives at blue-chip companies. Just ask **General Electric** Co.'s chairman and chief executive, Jeffrey Immelt.

Mr. Immelt, who turned 53 years old on Thursday, saw his company's stock price fall below $10 a share Friday and below $100 billion in market capitalization, both low-water marks for the conglomerate.

The share price of the Fairfield, Conn., company dipped as low at $8.98 during Friday trade, an 11% drop from the previous close of $10.06 and a 77% drop from the 52-week high of $38.52. GE's stock hit its lowest level since April 17, 1995. On the day, GE fell 68 cents, or 6.8%, to $9.38.

"There's a real drumbeat of negative sentiment out there," said Peter Sorrentino, a portfolio manager at Huntington Asset Advisors in Cincinnati, which owns GE shares. "I'm not sure it is legitimate." He said Mr. Immelt and other GE executives have been making strides in shrinking the company's riskier financial units and being transparent about company strategy.

Beyond the broader market decline that dragged GE down Friday, some speculated that GE was also hurt by a report from Sanford C. Bernstein & Co. analyst Steven Winoker that predicted lower profits at GE because of "declines never seen before at GE Capital."

Others speculated that short-sellers also weighed GE's shares down. An increasing number of GE shares are involved in short positions, shares that have been borrowed and sold, with lender awaiting return of the shares to close out the stock loan. Recent data show the short interest had increased 265% to 168 million shares from 46 million shares a year ago. That is still only 1.5% of GE's total 10.56 billion shares outstanding.

In past years, half the company's profit came from financial services, which have been hit hard by losses and delinquencies during the credit crisis and economic downturn in the past 18 months. GE, one of the largest corporate-bond issuers, saw liquidity seize up last fall and had to use a government bond-guarantee program to issue bonds in recent months. It also had to sell commercial paper to the government last fall when such short-term funding markets dried up.

In recent weeks, many institutional investors believed the company was out of the woods as its stock price hovered between $10 and $15 and the company made moves to reduce its debt, shrink its financial business and cut costs through layoffs. At the same time, it has been focusing on its more profitable industrial businesses.

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Anglo Irish says only 18% of 'golden circle' loans repaid

By Quentin Fottrell

DUBLIN—**Anglo Irish Bank** Corp. Chairman Donal O'Connor said Friday that the bank lent €451 million ($570.8 million) to 10 "long-standing clients" of the bank to buy shares in the recently nationalized corporate lender, of which only €83 million has been repaid.

The "golden circle" loans, as they have come to be known in Ireland, have been one of the most closely watched of several scandals related to Anglo Irish that led to the bank being nationalized last month.

"As well as the shares being held as security for the loans, there is additional recourse to the individuals' personal assets equivalent to 25% of their borrowings," said Mr. O'Connor.

He said the value of the underlying shares won't be clear until the assessor's work is complete, but added that the bank will seek repayment.

The impairment charge for the six months ended March 31 will include a provision "in the region" of €300 million "for losses incurred in respect of lending where the security consisted solely of shares," Mr. O'Connor said.

The loans made by the bank to the 10 businessmen were used to buy part of a stake in the bank held by Irish billionaire businessman Sean Quinn, chairman of Irish insurance and building company **Quinn Group** Ltd., and his family.

Mr. O'Connor said the recent issuance of €3.8 billion of covered bonds from the bank's new mortgage arm, Anglo Irish Mortgage Bank, "is an important initial step in improving liquidity and funding."

According to the annual report released Friday, outstanding loans to executive directors at the end of September totaled €179 million, up from €46 million in 2007. Loans issued to directors totaled €255 million in fiscal 2008, the report said. The figure includes loans to former Anglo Chairman Sean FitzPatrick of €83.3 million.

Last December, Mr. FitzPatrick resigned from his post after revelations about loan transfers between Anglo and Irish Nationwide Building Society to conceal €122 million in borrowings from Anglo Irish Bank to avoid including them in Anglo's year-end results.

Anglo Chief Executive Officer David Drumm and Chief Financial Officer Willie McAteer also resigned in the wake of that scandal.

CORPORATE NEWS

Anglo American cuts jobs

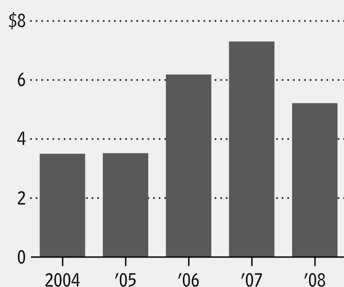
Miner to suspend dividend as profit tumbles 29%

By Jeffrey Sparshott

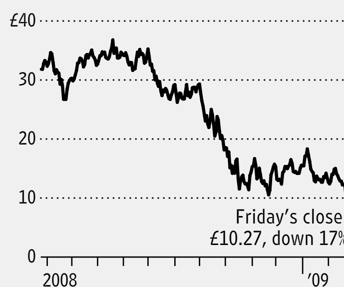
Digging deep

Mining group, Anglo American PLC shares dropped 17%, after posting a 29% fall in 2008 net profit

Net profit
In billions of dollars



Share performance
52-week change: down 68%



Sources: the company (profit); Thomson Reuters Datastream (share price)

LONDON—**Anglo American** PLC said Friday it will cut 11% of its work force and suspend its dividend, as the miner reported a 29% drop in net profit for 2008 amid slumping metals demand.

In addition to cutting 19,000 jobs, the company plans to reduce capital spending and production and put its $4 billion stock-buyback program on hold, citing "unprecedented" economic uncertainty.

Chief Executive Cynthia Carroll said Anglo American was taking the steps to preserve cash so it could emerge from the global downturn in a position to resume growth, though she acknowledged a rebound is difficult to predict. "It's a very uncertain time," Ms. Carroll said in a conference call on Friday.

Cynthia Carroll

Anglo American shares fell 17% in London.

The company's net profit declined to $5.22 billion from $7.3 billion in 2007. Its base-metals division, which produces copper, nickel, zinc and lead, was the biggest drag on profit amid lower prices and sales, coupled with rising costs.

Revenue fell 7.6% to $32.96 billion, reflecting the sale of the company's Mondi packaging business and reduction of its stake in gold miner **AngloGold Ashanti** Ltd.

The mining sector has been hammered by a sudden and sharp downturn in commodity prices during the second half of last year.

Mining companies, particularly those with heavy debt loads, are scrambling to shore up their balance sheets. Anglo-Swiss miner **Xstrata** PLC is turning to the market with a $5.9 billion rights issue, while Anglo-Australian miner **Rio Tinto** plans to raise $19.5 billion by selling convertible bonds and pieces of assets to **Aluminum Corp. of China**, known as Chinalco.

Anglo American Finance Director René Médori said the company is comfortable with its level of debt and its efforts to preserve cash. "We don't believe that we need to contemplate a rights issue," he said.

Anglo American in December lowered its 2009 capital-spending target by more than half to $4.5 billion, delaying some projects in the face of falling demand.

With Friday's announcement, the company's share-buyback program was effectively suspended in October with purchases totaling $1.66 billion since August 2007.

But Anglo is still carrying about $11 billion in debt, leaving it unable to scoop up bargains in a beleaguered market. Ms. Carroll said the company would focus on developing existing projects, many of which are due to start production around 2011.

She said the company has no plans to invest in Australian iron-ore producer **Fortescue Metals Group** Ltd. Fortescue said Wednesday that it has had meetings with Anglo American and **China Investment** Corp. over investment opportunities.

—Robb M. Stewart in Johannesburg contributed to this article.

Lafarge, Saint-Gobain to seek cash

By Jethro Mullen

Building-materials companies **Lafarge** SA and **Cie. de Saint-Gobain** SA cut their dividends Friday, and each unveiled plans to ask shareholders for €1.5 billion ($1.93 billion) in extra funds.

While the companies provide different products—Lafarge is the world's largest cement and aggregates maker while Saint-Gobain is a world leader in glass-related products—their ills stem from the same source: a collapse in global construction markets brought on by the credit squeeze.

The two companies also proposed asset disposals, ramped up cost cutting, and improvements in working capital. While analysts had expected a capital increase from Lafarge along with other measures to address its imposing €16.88 billion net debt, Saint-Gobain's move was unanticipated.

Lafarge's €4.5 billion package of measures to repair its balance sheet was generally well received by analysts and investors and its shares declined a modest 2.4%. Saint-Gobain's stock, meanwhile, dropped 15%, pulling its largest shareholder, **Wendel**, down 24% in its wake.

Saint-Gobain posted a 7.3% decline in 2008 net profit to €1.38 billion from €1.49 billion, as activity in the construction sector crumbled toward the end of the year. Revenue edged up to €43.8 billion from €43.42 billion.

Lafarge halved its dividend to €2 after it reported an 89% drop in fourth-quarter net profit to €40 million from €375 million a year earlier. A €250 million goodwill write-down mainly stemming from its U.K. and U.S. cement operations hit Lafarge's bottom line. Revenue was up 7.2% at €4.65 billion from €4.34 billion.

In an effort to bring down its €16.88 billion of debt, pushed up 94% last year by the acquisition of Egypt's cement giant Orascom, Lafarge said it would introduce a €4.5 billion action plan to improve its financial position.

Lafarge's €1.5 billion rights issue is fully underwritten and its two main shareholders, **Groupe Bruxelles Lambert** SA and NNS Holding, agreed to subscribe to shares valued at a total of €500 million, the company said.

Both companies expressed the hope that stimulus packages initiated by Western governments should help their businesses, although Lafarge cautioned that the boost is more likely come in 2010 than 2009.

—Geraldine Amiel in Paris, Gustav Sandstrom in Stockholm and Adrian Kerr in London contributed to this article.

China aims to scoop up U.K. bargains

BEIJING—Chinese companies plan to purchase $2.23 billion of products and services on a buying spree in the U.K., a person familiar with the situation said.

The trip is part of a European tour as Beijing looks to boost overseas investments and take advantage of tumbling asset values in hard-hit Western economies. The trip, organized by China's Ministry of Commerce and set to take place this month, will also include Germany, Switzerland and Spain.

A senior official said Wednesday that China is looking to use its nearly $2 trillion of official foreign-exchange reserves to invest abroad.

As members of the delegation to the U.K., **HNA Group**, an aviation-industry conglomerate, and unit Hong Kong Airlines Ltd. will buy a combined $1.33 billion of aircraft engines and related services from **Rolls-Royce Group** PLC, the person familiar with the plan said. Officials at HNA Group weren't available to comment.

An unspecified Chinese company will pay a combined $615 million for 3,000 Jaguar and 6,000 Land Rover automobiles on the same British tour, the person said.

—Steven Yang and Shen Hong

New Yahoo chief readies a major reorganization

By Jessica E. Vascellaro

Almost six weeks into the job, **Yahoo** Inc. Chief Executive Carol Bartz is preparing her first major move: a company-wide reorganization.

The plan aims to speed up decision-making and give Yahoo products a more consistent appearance by consolidating company-wide functions—like product development and marketing—into standalone groups, people familiar with the matter say. Ms. Bartz has completed a rough blueprint for the organization, these people say, and details are being finalized. The plan could be announced next week, they add.

The new structure underscores Ms. Bartz's belief that the Internet company could benefit from some more top-down management. Much of her plan involves pulling together pieces that have been spread out across the company in order to better focus employees on specific functions.

Under one likely scenario that has been discussed, Yahoo's chief technology officer, Aristotle Balogh, would expand his role to become head of product, say people familiar with the matter. Hilary Schneider, currently in charge of the company's advertising, publishing and audience groups in the U.S., would become head of North America. Yahoo's European, Asian and emerging markets divisions would be consolidated under one leader, said these people, cautioning that the roles and executives tapped to fill them could change.

The announcement would just be a first step and implications of the changes—including likely departures—could take months to trickle down. Ms. Bartz also has a few high-level executive searches under way, including a search for chief marketing officer and other senior executives she is hoping will professionalize her leadership team, people familiar with the matter said.

She's following a pattern she set while chief executive of software company Autodesk Inc. After joining the company in 1992, Ms. Bartz moved quickly to bring in new executives and a top-down leadership approach.

Already at Yahoo, she's begun to tackle some bigger strategic issues. In January, Ms. Bartz assembled a task force to evaluate whether Yahoo should keep its search business, which is stuck far below **Google** Inc. in second place. Some employees have reported back that the answer depends on a variety of factors, including whether the business can gain market share, according to people familiar with the discussions.

The reorganization comes as Yahoo is still digesting a management shake-up that was announced last June by Jerry Yang, the company's former chief executive, and Susan Decker, its former president. The plan was designed to give some of the international markets more autonomy over their own products and to consolidate some functions, but drew criticism for creating confusion about who was responsible for certain decisions.

The Web site AllThingsD previously reported that Ms. Bartz may announce a new management structure next week. The publication is owned by Wall Street Journal publisher Dow Jones & Co., a unit of News Corp.

Ms. Bartz has already begun to reshape Yahoo's culture. A straight-talker, she has become known for stubbornly starting meetings on time and demanding that employees aren't distracted during them, say employees. She doesn't bring her BlackBerry into meetings, say employees who have stopped staying glued to theirs as well.

She's gotten up to speed by requesting briefings with staff at several levels of the organization, asking for updates on major projects and testing employees by asking, "What would you do if you were me?" according to people familiar with her process.

U.S. safety agency launches inquiry on Chinese drywall

By Michael Corkery And Melanie Trottman

The U.S. Consumer Product Safety Commission is investigating complaints about Chinese-made drywall believed to be emitting unpleasant odors and causing unusual air-conditioner problems in dozens of Florida homes.

The commission is focusing on whether sulfur-based gases emitted by the drywall are corroding household wiring and posing a potential safety hazard, CPSC spokesman Joe Martyak said. If the commission determines there is a safety hazard, he said, it could order a halt in sales of certain drywall products. The CPSC has no safety standards for the material, commonly used to make interior walls, and isn't aware of other federal standards for the product.

On Friday, Taylor Morrison, a unit of London-based Taylor Wimpey PLC, became the latest big builder to acknowledge a drywall problem in some of its houses. The company said it identified at least eight Florida homes with defective Chinese drywall and is relocating many homeowners while it replaces the material.

Lennar Corp. has identified 80 homes believed to have defective Chinese drywall in Florida and is testing an additional 40 houses. The Miami-based builder has had to relocate an undisclosed number of homeowners while it deals with the problem.

Manufacturers say the drywall was imported from China because of a shortage during the housing boom in 2006. Many builders say they were unaware the drywall they used had been imported from China. Lennar recently filed a lawsuit in a Florida state court, alleging that the drywall manufacturers should have known the drywall was defective.

The Florida Health Department, which has received nearly 100 complaints about drywall, is investigating whether the material poses health problems. An environmental consultant hired by Lennar has indicated that the drywall isn't a health threat.

CORPORATE NEWS

Telenor hit with damages

Russian investments could be threatened by $1.7 billion ruling

By Gregory L. White

MOSCOW—A Siberian court slapped **Telenor** ASA with a ruling for $1.7 billion in damages that the Norwegian telecom company said could threaten its largest Russian investment. Telenor denounced the decision as illegal and vowed to appeal.

The case has been watched as a sign of whether foreign investors will be able to protect their rights in Russia's weak courts as the financial crisis fuels conflicts with powerful local players.

"This suit is an illegal attempt to steal Telenor's investment in Russia," said Jan-Edvard Tygesen, head of Telenor's Central and Eastern European operations. Telenor owns 29.9% of OAO Vimpel Communications, Russia's No. 2 cellphone company.

For several years, Telenor has been in a dispute with its Russian partner in Vimpelcom, the telecoms unit of Russia's **Alfa Group**, one of the country's most influential conglomerates.

In a related proceeding in October, the court briefly froze Alfa's stake in Vimpelcom, effectively preventing Alfa's Western creditors from taking the shares, which had been pledged as collateral for a loan. Within days, a Russian state bank lent Alfa the money to pay off the loan and the freeze was lifted.

The case against Telenor was brought last spring by a little-known British Virgin Islands company, **Farimex Products** Inc., which said it held a small stake in Vimpelcom.

ITAR-TASS/Landov

Mikhail Fridman, chairman of Russia's Alfa Group. Telenor has been in a dispute with its Russian partner in Vimpelcom, Alfa Group's telecom unit.

Telenor charges that Farimex is acting on behalf of Alfa and says that representatives of Alfa executives involved in the latest trial admitted as much in open court. Alfa also filed an arbitration claim in Geneva making essentially the same arguments as the Farimex suit. Publicly, Alfa officials deny any connection to Farimex.

Farimex charged that Telenor's representatives on Vimpelcom's board had delayed the company's expansion into Ukraine and sought $2.8 billion in damages for Vimpelcom. Farimex won in a lower court, but Telenor appealed.

Telenor was encouraged in late December when the Eighth Arbitrage Appellate Court in Omsk threw out the lower-court ruling. But the same court upheld most of Farimex's suit in Friday's decision, which takes legal effect when the court releases the full opinion in about a week. Alfa welcomed the ruling Friday.

Kjell-Morten Johnsen, Telenor's Russia representative, vowed to keep fighting, saying, "We would never pay a single dollar based on a case like this." He said that Telenor hopes for a fair hearing when the case reaches Russia's higher courts.

Lufthansa remains firm on Austrian Airlines deal

By Flemming E. Hansen

VIENNA—**Deutsche Lufthansa** AG said Friday it is sticking with its offer to take over **Austrian Airlines** AG, even though the Austrian flagship carrier's net loss has surpassed more than half of its issued share capital.

Forced by stock-market regulations, Austrian Airlines late Thursday said its net losses excluding write-downs on the depreciation of aircraft and other charges for 2008 and January have exceeded half of its €264 million ($339 million) share capital. The carrier had previously said it expected a 2008 net loss before write-downs and charges of between €100 million and €125 million.

"Our 2008 guidance is still valid," said Livia Dandrea-Böhm, a spokeswoman for Austrian Airlines. "We anticipated that [the loss exceeding half of the share capital] would happen sooner or later. It was not a big surprise to us, and also not to Lufthansa."

Austrian Airlines' continued course of losses has no influence on the takeover scenario, Lufthansa spokeswoman Claudia Lange said Friday. "Lufthansa is a reliable partner and stands by its offer," she said.

Lufthansa has signed a deal with Austrian Airlines' controlling shareholder, state-owned holding company ÖIAG, for its 41.6% stake in the carrier, depending on European Union approval of a €500 million debt-aid infusion paid by the government. Lufthansa also has said it will offer €4.49 for each remaining share in the carrier. The deal is expected to be finalized this summer.

However, the German carrier said Friday that it expects a significant restructuring contribution from Austrian Airlines' external partners. Lufthansa named **Vienna Airport** AG as a partner that could assist with restructuring the airline, as well as Austrian oil-and-gas company **OMG** AG, which supplies Austrian Airlines with jet fuel.

Reuters

Lufthansa has signed an agreement to take a 41.6% stake in Austrian Airlines.

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Kirin to acquire stake in brewer

TOKYO—**Kirin Holdings** Co. said it will acquire a 43.25% stake in the beer unit of **San Miguel** Corp., in a deal that will strengthen Kirin's business in Asia and Oceania.

The deal, valued at 58.91 billion Philippine pesos ($1.22 billion), also provides Japan-based Kirin an exit strategy from San Miguel Corp., the dominant Philippine food-and-beverage company that recently diversified into heavy industries.

Kirin will sell its 19.91% stake in San Miguel Corp. for 39.61 billion pesos to Manila-based investment-management company Q-Tech Alliance Holdings to help fund the purchase of the stake in Manila-based **San Miguel Brewery** Inc. Kirin expects to complete the deal in May.

GLOBAL BUSINESS BRIEFS

Prudential PLC

U.K. insurer agrees to sell Taiwan business to China Life

U.K. insurer **Prudential** PLC said it is selling its Taiwan agency distribution operations and agency force to Taiwan's **China Life Insurance** Co. for one New Taiwan dollar (three U.S. cents) and will buy £45 million, or about US$65 million, of new shares to be issued by the Taiwanese insurer, for a 9.95% stake. Prudential also reported a 5.2% rise in new business sales for 2008, to £3.02 billion and said its financial position remained strong. Its stock jumped 12% in London on Friday. Still, the company said it expects "a challenging year. Prudential is exiting direct-selling operations in Taiwan, one of the world's most competitive insurance markets, just as European regulators are implementing tougher accounting rules on capital reserves for insurers.

Shire PLC

U.K. pharmaceutical maker **Shire** PLC said Friday it is acquiring the rights to sell Belgian drug maker **UCB** SA's hyperactivity drug Equasym for €55 million ($71 million), in a move to gain immediate access to the European market for hyperactivity medicines. Equasym generated net sales of €16.9 million in 2008 and is sold in a number of countries outside North America. The deal will be earnings neutral for 2009 and earnings accretive from 2010, Shire said. Shire markets Adderall XR, the top-selling hyperactivity treatment in the U.S., as well as Vyvanse, which is set to become Shire's key hyperactivity product once Adderall XR becomes generic on April 1. Vyvanse was launched in the U.S. in 2007, but is still in late-stage trials in the European Union.

Fiat SpA

Car maker **Fiat** SpA has secured a €1 billion ($1.28 billion) loan from **Intesa Sanpaolo** SpA, **UniCredit** SpA and **Crédit Agricole** SA's Calyon, a legal adviser to the three banks said Friday in an email. A Fiat spokesman on Friday confirmed the value of the loan. Fiat's industrial debt soared to €5.94 billion at the end of 2008 from €355 million at the end of 2007, the company reported Thursday. The car maker blamed the rising debt on rapidly declining sales in the final three months of 2008. "The loan was granted to support Fiat's liquidity needs," law firm **Allen & Overy** LLP, the legal adviser to the three banks, said in the statement. Intesa Sanpaolo's head of corporate markets, Gaetano Micciché, said Intesa Sanpaolo and UniCredit will have an equal share of the loan.

Johnson & Johnson

Johnson & Johnson Chief Executive William Weldon declined a merit raise for this year from his 2008 salary because of the current global economic situation, according to a regulatory filing Friday. Though the board of the New Brunswick, N.J., health-care company voted to give Mr. Weldon an increase, he asked to remain at his 2008 salary of $1.8 million. Mr. Weldon was awarded a bonus of $3.5 million, a decrease of $200,000 from the previous year. He also received stock options. Chief Financial Officer Dominic Caruso will receive $727,600 in 2009 and was awarded a bonus of $900,000 for 2008. General counsel Russell Deyo will be paid $835,000 and received a $1.5 million bonus, and consumer-health head Colleen Goggins received a salary of $800,100 plus a bonus of $1.1 million.

Toyota Motor Corp.

Toyota Motor Corp. said Friday that it is bringing back Yoshi Inaba, a former senior executive, to revamp its North American operations. Mr. Inaba, who was credited with laying the groundwork for Toyota's fast growth in the U.S. over the past several years, left the Japan-based auto maker in 2007 to run an international airport close to Toyota's headquarters. The announcement follows Toyota's move last month to name Akio Toyoda to be the company's next president, pending shareholder approval in June. Mr. Toyoda became an executive vice president in 2005 and added international operations to his responsibilities in June last year. Mr. Toyoda is expected to ask Mr. Inaba to focus on overhauling Toyota's sales network in the U.S.

Assicurazioni Generali SpA

Assicurazioni Generali SpA and **Alleanza Assicurazioni** SpA have called respective board meetings today to approve their merger, according to people with knowledge of the situation. As already announced by the two Italian insurers, the deal won't entail any right of withdrawal for the shareholders of the companies involved, the people said. The deal will have to be approved by shareholders of the two companies at their respective annual meetings set for April. Assicurazioni Generali, Europe's third-largest insurer with a market capitalization of €18.7 billion ($24 billion), controls a majority in Alleanza. The move paves the way for a reorganization of Generali's Italian operations.

Chery Automobile Co.

China's **Chery Automobile** Co. said it has produced a prototype of its first alternative-energy vehicle. The company also is setting up a separate electric-car company, people familiar with the matter said. A Chery spokesman said such a "possibility can't be ruled out" but that the company's plans "have not been settled yet." The electric car, called the S18, travels 120 to 150 kilometers on a charge. It can be fully charged in four to six hours using a 220-volt home outlet, the auto maker said Thursday. Chery said its car will be priced at a level that is "very suitable for families to buy." The company didn't say when the car would be available. China's BYD Co. began selling its plug-in electric hybrid car in China in December. BYD's car, priced at 150,000 yuan, or around $22,000, can run 80 to 100 kilometers exclusively on electricity.

Satyam Computer Services Ltd.

The board of **Satyam Computer Services** Ltd. will seek regulatory approval this week for a strategic investor, and recommended to the Ministry of Corporate Affairs for the removal of **Price Waterhouse** as its auditor. The company also said it has received unsolicited offers from banks for funding and has secured $250 million of new purchase orders and extensions since Jan. 7. Chairman Kiran Karnik said Satyam's revival was "on a fast-track mode." Board member Deepak Parekh said the process would be detailed once it had regulatory approval. Satyam plunged into turmoil after revelations last month that its founder and former Chairman B. Ramalinga Raju overstated profits and revenues and created a fictitious cash balance of more than $1 billion.

—Compiled from staff and wire service reports.

Turkish mogul butts heads with premier

Secularist media magnate faces tax charges he says are politically motivated by an Islamist-tinged government

By Andrew Higgins

ISTANBUL—An acrimonious feud between Turkey's leading media mogul and the country's Islam-tinged government has escalated sharply, amid fears in an embattled secular elite that intolerance of critical voices is eroding the Middle East's only Muslim democracy.

Speaking in his first interview after being hit recently with a tax charge and fine of around $500 million, Turkish media, energy and property magnate Aydin Dogan accused Prime Minister Recep Tayyip Erdogan of seeking to muzzle criticism and create a "calm and silent Turkey."

"The basis for all this is political," said Mr. Dogan, chairman of **Dogan Sirketler Grubu Holdings** AS, a conglomerate that controls seven newspapers, 28 magazines and three Turkish television channels as well as gasoline, electricity and other energy interests.

Turkey's ruling AK Party maintains that Mr. Dogan and his supporters are themselves trying to politicize a routine tax matter. The Finance Ministry said the fine and tax charge related to tax irregularities and had no other motive.

Mr. Dogan denies dodging taxes, and the company said it will contest the penalties.

The levy against Mr. Dogan's media group, Dogan Yayin Holdings, followed months of increasingly angry denunciations by Mr. Erdogan of "made-up news" about corruption.

The confrontation has sharpened tensions between Mr. Erdogan's party, which took power after a 2002 election, and a wealthy secular elite that previously dominated the economic and political affairs of a nation founded as a secular republic by Mustafa Kemal Ataturk in 1923.

A pillar of Turkey's secular establishment, Mr. Dogan, 72 years old, said he initially supported many AK Party policies, particularly its push to get Turkey into the European Union. Mr. Erdogan, he said, "has changed," veering away from early efforts to make Turkey more open and tolerant.

"Mr. Erodgan came to power using democracy. He is a product of democracy, but he can accept democracy only for himself," said Mr. Dogan, speaking in his palatial Istanbul office Friday. "He cannot accept side components of democracy such as free media."

Nearby, a television set—tuned to one of the channels owned by Mr. Dogan—broadcast yet another attack on his media by Mr. Erdogan.

Andrew Higgins/The Wall Street Journal

Aydin Dogan in his Istanbul office. The TV is tuned to a channel he owns, reporting on his feud with Turkey's prime minister.

Commenting on the broadside, Mr. Dogan said: "I used to get annoyed. Now I take it for granted."

Mr. Erodgan, who caused a stir last month by storming off the stage during a debate about Gaza at the World Economic Forum in Davos, Switzerland, has repeatedly denied wanting to silence media critics. He has said the government is merely trying to force businesses to obey the law and to end the unfair privileges that he argues they enjoyed under previous governments.

At a campaign rally last Thursday ahead of municipal elections in March, Mr. Erdogan accused Mr. Dogan's media company of joining forces with opposition politicians "to cover up its wrongdoings." He earlier mocked foes in the media as "dear dogs" that "sleep with" the opposition.

Bulent Gedikli, AK Party deputy chairman for economic affairs, said that Mr. Dogan's business faced a "routine tax examination" but that "what is not routine is the exaggerated manner" of the uproar that has followed. "This is very misleading to public opinion," said Mr. Gedikli.

Most of the levy relates to money earned by Dogan media from the sale of a stake to German media group **Axel Springer** AG, Mr. Dogan said.

Opposition politicians and free-press campaigners have condemned the government over the affair. Critics accuse Mr. Erdogan of adopting tactics similar to those used by Russian leader Vladimr Putin, who dismembered independent media group Media-Most and silenced other critical voices by deploying tax inspectors and other state functionaries to combat alleged economic crimes.

Turkey, however, has a far more robust free media and open society than Russia.

Mr. Dogan said seven of his companies are being investigated by tax inspectors. Relations with the government, he said, first "went haywire" early last year when his media outlets reported on the business dealings of Mr. Erdogan's son and the wife of another son. The mood soured further when Mr. Dogan's newspapers started digging into a criminal case in Germany involving a Turkish charity accused of funneling funds to Mr. Erdogan's AK Party.

"He could not put up with this and wanted to silence us. We refused to accept silence. The situation with the government got out of control," Mr. Dogan said.

Mr. Erdogan in September urged supporters to boycott Mr. Dogan's newspapers, the most prominent of which are Hurriyet and Milliyet.

Mr. Dogan said this only boosted circulation but added that the prime minister's anger has branded his various companies with an "X mark" that makes it difficult to do business. "All our business is tied up in red tape," he said, "Everything is delayed." Projects on hold include plans to build an oil refinery by Petrol Ofisi AS, majority owned by Mr. Dogan's group.

Mr. Dogan said he and Mr. Erdogan haven't spoken since 2006, though they did shake hands late last year at a wedding.

Latvia's government collapses

By Alan Cullison

Latvia's prime minister and cabinet resigned Friday, making it the third European government, after Iceland and Belgium, to be toppled by the economic crisis.

The fall of the Baltic country's center-right coalition government—following weeks of political instability as the Latvian economy nosedives after years of strong growth—deepens worries that eastern Europe's economic problems could send fresh shockwaves to its neighbors in the west.

Latvian President Valdis Zatlers called for talks to patch together a new government, after accepting the resignation of Prime Minister Ivars Godmanis.

Analysts say the political turmoil likely spells trouble for a €7.5 billion ($9.5 billion) International Monetary Fund loan program Latvia agreed to last year, which has helped underpin Latvia's currency, the lat.

The government collapse could scuttle an unpopular austerity program that Latvia agreed to in order to avoid a currency devaluation. In January, social and political tensions exploded into some of the worst rioting since the collapse of the Soviet Union on 1991.

Reuters

Latvian Prime Minister Ivars Godmanis and his cabinet resigned on Friday to stem a fall in popularity during a deep economic crisis.

Any devaluation of the lat would likely have a knock-on effect elsewhere in the Baltics and in Scandinavia, whose banks were big lenders to Latvia and other Baltic states in the form of euro-denominated loans.

The turmoil in Latvia comes amid fears that weakening currencies in Eastern Europe could cause new defaults with western banks, and worsen the economic spiral in Europe. Shares of Scandinavian banks sank on news of the government resignation Friday, as did the value of the Swedish currency, the kronor.

Friday came new data that the contraction in Europe is accelerating. A major purchasing managers index measuring private-sector activity in the euro zone hit a record low in January, Markit Economics research firm said. The data coincided with a report showing French business confidence in January at its lowest since sentiment was first gauged in 1976.

Netanyahu pitches unity in forming government

By Charles Levinson

JERUSALEM—President Shimon Peres tapped former prime minister Benjamin Netanyahu to lead Israel's next government, and the two leaders immediately started imploring Tzipi Livni, leader of the top vote-getting Kadima Party, to join the government to give Israel a united front.

Ms. Livni, who favors handing over land for a Palestinian state in exchange for peace, has said she won't join Mr. Netanyahu's "extreme right wing government," because of its unwillingness to compromise with the Palestinians. Some observers suspect her reluctance is a bargaining tactic to secure a more influential role.

If Ms. Livni joins Mr. Netanyahu's government, it would bolster his chances of serving a successful four-year term, and would make him less susceptible to pressure from his right and from the U.S. Without her support, he'll likely find himself at the helm of the country's most conservative government in more than a decade, backed by a bloc of conservative, religious and nationalist parties who favor a hard line with the Palestinians, which could deal a further setback to dim peace hopes in the region.

"The minute he moves even slightly toward some sort of compromise with the Palestinians, his government will be brought down," said Gadi Wolfsfeld, a political science professor at Hebrew University.

Mr. Netanyahu could still fail to form a government of at least 61 seats in the country's 120-seat parliament within the six-week period allotted by Israel's election law, though that appears unlikely. Should he fail, Ms. Livni will be given a chance. If she fails, the country will likely hold new elections. Though Ms. Livni's party won the most parliamentary seats in the Feb. 10 vote, Mr. Netanyahu's allies routed the left-leaning parties who support Ms. Livni, leaving her unable to stitch together a coalition.

ECONOMY & POLITICS

Gulf states bet on Africa

Investment comes as recession threatens cross-border flows

By Margaret Coker

DJIBOUTI—Africa may be bracing for a commodities bust, but the still-rich investors of the Persian Gulf are doubling down here.

Through the worst of the global financial crisis in recent months, Gulf investors have committed to pouring billions of dollars into sub-Saharan Africa. The timing comes just as recessions in much of the developed world, and sharply slowing growth almost everywhere else, threaten most other cross-border investment flows. Indeed, sub-Saharan Africa's ability to grow—the International Monetary Fund still projects the region's economy will expand 3.5% this year and 5% in 2010—depends on the Middle Eastern investors carrying through on their commitments.

THE OUTLOOK

Apart from aid money, rich industrialized countries have spent little on Africa. In each of the past two years, the continent, which has 12% of the world's population, has attracted only 3% of global foreign-direct investment, which includes buying assets or setting up businesses. Today's downturn threatens even that modest outlay.

The Arab world's petrostates are also suffering. Oil prices have tumbled, and real-estate markets in places like Dubai are in the dumps. If things get worse, these investors may have to rein in their Africa bets.

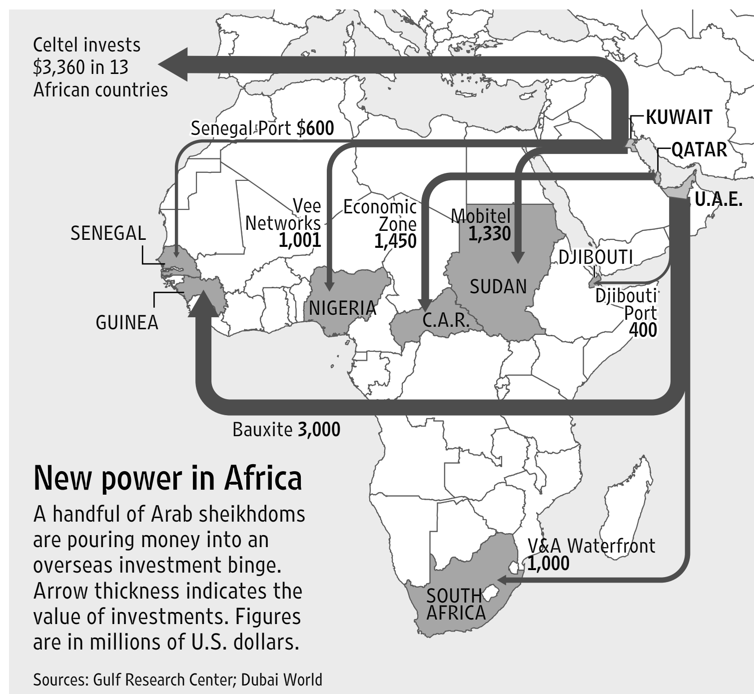
Many African leaders, frustrated by the mercurial attention paid by outside investors, especially their former European colonizers, have embraced white knights from the Persian Gulf. Arab investors are interested in ports, agriculture and telecommunications, as well as the minerals and oil patches that have attracted Western and Asian investors.

"What the Arabs are doing for us is what colonialists should have done for Africa," said Djibouti President Ismail Guelleh, whose sliver of a nation on the Horn of Africa is enjoying an economic turnaround thanks primarily to Gulf money. "It's like a new Marshall Plan."

The stream of Gulf investment could boost Arab states' economic and political clout in Africa. U.S. officials involved in Africa view money flows from the Arab world as a positive trend in a region beset by poverty. And some in Africa view Middle Eastern money as a counterweight to dependence on China. The Arabs "aren't just interested in taking things," Kenyan President Moi Kibaki said last year, alluding to the natural-resource deals that Chinese firms favor.

From 2007 until mid-2008, Gulf states and their government-backed corporate entities spent $15 billion in foreign direct investment in sub-Saharan Africa, according to the Dubai-based Gulf Research Center.

By contrast, Beijing has poured as much as $40 billion into the region over the past decade. But most of that has come in the form of bilateral aid and project financing aimed at maximizing trade relations. China contributed just $6 billion of the $43 billion in foreign direct investment in sub-Saharan Africa for all of 2007, the latest figures available from the United Nations Agency for Trade and Development.



New power in Africa

A handful of Arab sheikhdoms are pouring money into an overseas investment binge. Arrow thickness indicates the value of investments. Figures are in millions of U.S. dollars.

Sources: Gulf Research Center; Dubai World

Among the many deals put together by Middle Eastern investors, Dubai World, the Gulf emirate's state-owned conglomerate, last month announced it was negotiating a multibillion-dollar energy-sector deal in Nigeria. In December, Qatar offered a $3.5 billion loan to Kenya to build a deepwater port and rebuild coastal roads.

Zain Group, a cellphone company owned by Kuwait's Mobile Telecommunications Co., unveiled plans last week for a mobile-phone-based banking network across East Africa. The company already operates in 16 African countries, and it said in November that it was willing to spend $4 billion of its $4.5 billion war chest on acquisitions in Africa.

For places like Abu Dhabi, Dubai and Qatar, sub-Saharan Africa is a vast, untapped market full of cheap assets. It's relatively close to home, and the two regions enjoy longstanding trade ties. Gulf companies also view their assets in Africa as a hedge against recent losses racked up in U.S. and European banking and real-estate deals.

Private Saudi investors have opened banks in Sudan and signed agricultural deals there. Ras Al Khaimah—one of the emirates that, along with better-known Dubai and Abu Dhabi, make up the United Arab Emirates—is building residential communities in the Democratic Republic of Congo. Aluminum Bahrain has invested $300 million in bauxite mines in Guinea.

"Africa is as important to us now as it was six months ago," Mohammed Sharaf, DP World's chief executive, said during a trip earlier this month to Djibouti for the opening of the company's new container terminal, the largest in sub-Saharan Africa.

Dubai's investment has reshaped Djibouti, a torrid and dry land dotted with expansive salt flats and craggy plains. When Mr. Guelleh took office in 1999, he helped mediate an end to a long civil war. Traffic at the port, the country's main revenue source, had dried to a trickle.

The World Bank and IMF prescribed a familiar remedy: Cut government payrolls, privatize national assets, clean up corruption and raise taxes, all as a condition for receiving low-cost financing. But Mr. Guelleh said he believed those moves alone weren't enough to reverse Djibouti's fate as a forgotten corner of a poor continent.

In May 2000, he flew to Dubai and inked a broad deal with the city-state's ruler that included an exclusive, joint-development plan for the port. Djibouti awarded DP World of Dubai a 20-year concession to run its existing port. Dubai also agreed to build a $400 million oil terminal and a container terminal. Djibouti would own a two-thirds stake in each, with Dubai holding the rest.

Other Dubai World subsidiaries took over management control of Djibouti's customs authority, and struck a deal to build a seaside residential community and the country's first luxury hotel. Last year, Dubai World bought an equity stake in the local carrier, Daallo Airlines.

Throughout the Horn of Africa, the new Djibouti port has triggered spinoff investments, especially from construction, banking and energy businesses interested in entering Ethiopia, Africa's second-most-populous country. Meanwhile, Djibouti's turnaround has prompted Gulf investors to look elsewhere in sub-Saharan Africa for money-making opportunities—a development that can help Africa sustain its surprising recent growth.

Tough budget choices for Pentagon

By August Cole

The Obama administration is expected to unveil a Defense Department budget this week that ensures wrenching decisions at the Pentagon about which weapons programs should face cuts.

The financial crisis and the $787 billion economic-stimulus package have shaken up many long-term assumptions about government spending. The preliminary budget for fiscal 2010, which starts Oct. 1, will be the White House's first chance to reveal what its spending priorities will be across the U.S. government. A more detailed version is expected in April.

With fiscal pressure mounting, many in the defense industry are braced for what could be a protracted campaign to pare spending on big programs. Most defense companies reported record profits in 2008, and some contractors have grappled with cost overruns and delays on their biggest weapons programs, making them easy targets for cutbacks.

Clinton puts China focus on economy, not rights

By Jay Solomon

BEIJING—U.S. Secretary of State Hillary Clinton concluded her first diplomatic mission to China, where she laid out a vision for U.S. relations with Beijing that prioritizes cooperation on the financial crisis and global warming while playing down disagreements over human rights.

Mrs. Clinton ended her weeklong, four-nation Asian trip Sunday highlighting to the Chinese public the "intertwined" nature of the U.S. and Chinese economies.

Hillary Clinton

"It would not be in China's interest if we were unable to get our economy moving," Mrs. Clinton said in an interview with the Chinese television talk show "One on One."

Noting that Washington is borrowing more to fund stimulus spending, she praised China—the world's largest holder of U.S. Treasurys—for its continued purchases of U.S. government debt.

"So by continuing to support American Treasury instruments, the Chinese are recognizing our interconnection. We are truly going to rise or fall together."

Earlier in the day, Mrs. Clinton attended service at the state-sanctioned Beijing Haidian Christian Church, and held a "Women's Leadership Forum" with 22 prominent Chinese scholars, executives and media celebrities. She asked the group of women about progress on gender equality, and "continuing obstacles" for Chinese women.

Mrs. Clinton discussed a range of security issues, including North Korea, Iran and Zimbabwe.

But Mrs. Clinton—who as first lady in 1995 angered Beijing by bluntly criticizing its human-rights record at a conference here—never mentioned human rights during the one-hour women's forum Sunday, and generally avoided sensitive subjects in public statements during her visit.

Mrs. Clinton had signaled in recent days that she wouldn't focus on issues such as human rights and Tibet during her meetings in China. She told reporters Friday that to do so risked undermining efforts to combat the global economic crisis.

"We have to continue to press them" on human rights. "But our pressing on those issues can't interfere with the global economic crisis, the global climate change crisis and the security crisis," Mrs. Clinton said. "We have to have a dialogue that leads to an understanding and cooperation on each of those."

That statement angered rights activists. The remarks "send the wrong message to the Chinese government," Human Rights Watch said in a statement, arguing that past progress on human rights in China has come partly as a result of outside pressure.

Mrs. Clinton focused on the economy, along with key security and environmental issues, in meetings Saturday with senior Chinese leaders. She said her Chinese counterpart, Minister of Foreign Affairs Yang Jiechi, will visit Washington in early March to help coordinate a U.S.-China response to the economic downturn ahead of the Group of 20 industrial and developing countries in April in London.

At a joint appearance, Mrs. Clinton and Mr. Yang both acknowledged the interdependence of their two economies, but Mr. Yang didn't offer any commitment on Beijing's future investment policies regarding its Treasury holdings.

Mr. Yang said China wants to ensure the "safety, value and liquidity" of its foreign exchange reserves, and will determine the future use of the reserves with those criteria.

Washington and Beijing are extending a Bush administration initiative to hold regular high-level talks to discuss key economic and strategic issues. The exact structure of the talks is to be announced when U.S. President Barack Obama meets Chinese President Hu Jintao at the G-20 meeting. Mrs. Clinton said she and U.S. Treasury Secretary Timothy Geithner would be involved in the dialogue.

Mr. Geithner upset Chinese officials in January when he accused Beijing of "manipulating" its currency—a statement widely seen as an escalation of U.S. complaints that China artificially depresses the value of the yuan to bolster its exports.

Aside from the economy, Mrs. Clinton's biggest emphasis in Beijing was on coordinating with China's leaders on confronting environmental challenges. She has appointed a special envoy on climate change, Todd Stern, and the two visited the gas-fired Taiyanggong Power Plant, which was designed to reduce emissions and water consumption. The plant was built by **General Electric** Co. of the U.S. in partnership with the Chinese government.

"What we see here is the type of in-depth cooperation that we have to encourage," Mrs. Clinton said in remarks delivered at the plant.

In meetings with Mr. Hu and Premier Wen Jiabao, Mrs. Clinton discussed a range of security issues, including North Korea, Iran, Myanmar and Zimbabwe.

Mrs. Clinton asked China to curb its oil and gas investments in Iran in a bid to force Tehran to give up its nuclear program, according to a senior U.S. official, who said the Chinese leadership offered no signs they'd honor Washington's request. Mr. Yang said these investments don't violate United Nations sanctions against Iran, the official said

At their meeting at Beijing's Great Hall of the People, Mr. Hu thanked Mrs. Clinton for making Asia her first overseas trip.

This "shows the new administration attaches great importance to developing relations with Asia and with China. I greatly appreciate it," Mr. Hu said. "I believe Madam Secretary that during your tenure you will make positive contributions to the growth of U.S.-Chinese relations."

—Jason Leow contributed to this article.