News in Depth: Iran's cheap goods stifle Iraq's economy

THE WALL STREET JOURNAL.

VOL. XXVII NO. 34 | EUROPE | THURSDAY, MARCH 19, 2009

DOWJONES A News Corporation Company | europe.WSJ.com

For information or to subscribe, visit www.services.wsje.com or call +44 (0) 207 309 7799 — Austria €3 - Belgium €3 - Croatia HRK 22 - Czech Republic Kc 110 - Denmark Dkr 25 - Finland €3.20 - France €3 - Germany €3
Greece €3 - Hungary Ft 590 - Ireland (Rep) €3 - Italy €3 - Lebanon L£ 6000 - Luxembourg €3 - Netherlands €3 - Norway Nkr 29 - Poland Zl 12 - Portugal €3 - Slovakia €3.32/Sk 100 - Spain €3 - Sweden kr 29
Switzerland SF 5 - Syria S£ 210 - Turkey TL 4.5 - U.S. Military (Eur) $2.20 - United Kingdom £1.50

What's News

EU leaders aim to hammer out an agreement on a long-debated energy-focused stimulus package during a summit in Brussels that begins on Thursday. Page 2

■ **British jobless claims** soared in February, pressuring the government to intensify efforts to tackle the deepening recession. Page 2

■ **U.S. consumer prices** rose for a second straight month, raising the odds that the nation will avoid a protracted deflationary spiral. Page 9

■ **The World Bank cut** its forecast for China's growth to 6.5% for 2009, below Beijing's 8% target. Page 9

■ **U.S. stocks jumped** following the Federal Reserve's announcement of plans to buy government debt. European shares fell. Page 18

■ **GE Capital's chief** is expected to give investors details about the finance unit's $600 billion in assets and how badly they will be hurt by the recession. Page 3

■ **A judge rejected** Bank of America's bid to keep details confidential about individuals who received bonuses at Merrill Lynch. Page 31

■ **Fannie Mae** and Freddie Mac are due to pay retention bonuses to some executives despite enormous losses at the government-backed mortgage companies. Page 20

■ **China rejected** a $2.4 billion bid by Coca-Cola for one of the country's largest juice makers, citing antitrust grounds. Page 4

■ **Madoff's ex-accountant** was arrested and charged with falsely certifying that he had audited Madoff financial statements. Page 17

■ **An Austrian on trial** for imprisoning his daughter and fathering her seven children pleaded guilty Wednesday to all charges against him.

■ **Sony Electronics** and Google plan a partnership to battle Amazon.com in the digital-books market. Page 30

■ **Madagascar's new leader** canceled a deal for South Korea's Daewoo Logistics to lease over one million hectares to grow food crops.

■ **UniCredit net profit** fell less than expected, and the lender will seek $5.21 billion in government aid. Page 17

Editorial & Opinion

Sarko, the tax cutter
The last supply sider standing may be French. Review & Outlook. Page 11

Breaking news at europe.WSJ.com

Europe's bank crackdown

U.K., Germany call for tougher capital rules and stronger regulation

By Alistair MacDonald And Marcus Walker

Policy makers in the U.K. and Germany set out plans to place a much heavier regulatory burden on banks and other financial institutions in a sign of how rules throughout Europe are likely to change in the wake of the financial crisis.

In the U.K., Lord Adair Turner, chairman of the country's financial watchdog, laid out recommendations for what he called a "profound" overhaul of banking supervision that, if adopted, will mark the end of more than a decade of light regulation in one of the world's financial centers. At the same time, Germany's finance ministry said it had drafted a bill that would give the country's financial supervisor, Bafin, much greater power to control banks in Europe's largest economy.

The changes in the U.K., said Lord Turner, will "inevitably impose some costs," but "the economy will be served better as a result."

If the new rules go into effect, banks in both countries will need to set aside more capital during boom times to help them survive busts, while dealing with a more interventionist regulator probing everything from their books to the capability of their staffs. In the U.K., the Financial Services Authority also wants to extend supervision to all institutions that act like banks, including large hedge funds. For investors, the changes will mean less profitable but safer banks, the FSA said.

The moves come amid regulatory changes world-wide, with countries from the U.S. to Switzerland trying to retool supervisors found wanting during the credit crisis. At a meeting in London on April 2, leaders of the Group of 20 leading economies hope to coordinate what has so far been a patchwork of national plans into some form of international institutions and rules that will address the global nature of modern-day finance.

In the U.K., the FSA's proposals would represent a big shift from the light-touch style that helped to build London into Europe's premier financial hub but left Britain's

Please turn to page 31

The Fed commits to buying Treasurys

By Jon Hilsenrath And Brian Blackstone

The Federal Reserve ramped up its efforts to resuscitate the sagging U.S. economy, saying it would purchase up to $300 billion of long-term Treasury securities in the next few months and hundreds of billions of dollars more in mortgage-backed securities.

By buying long-term government bonds and mortgage-backed securities, officials hope to push up their prices and bring down their yields, and thereby energize the economy. Interest rates on many corporate bonds and consumer loans are benchmarked to U.S. Treasury debt.

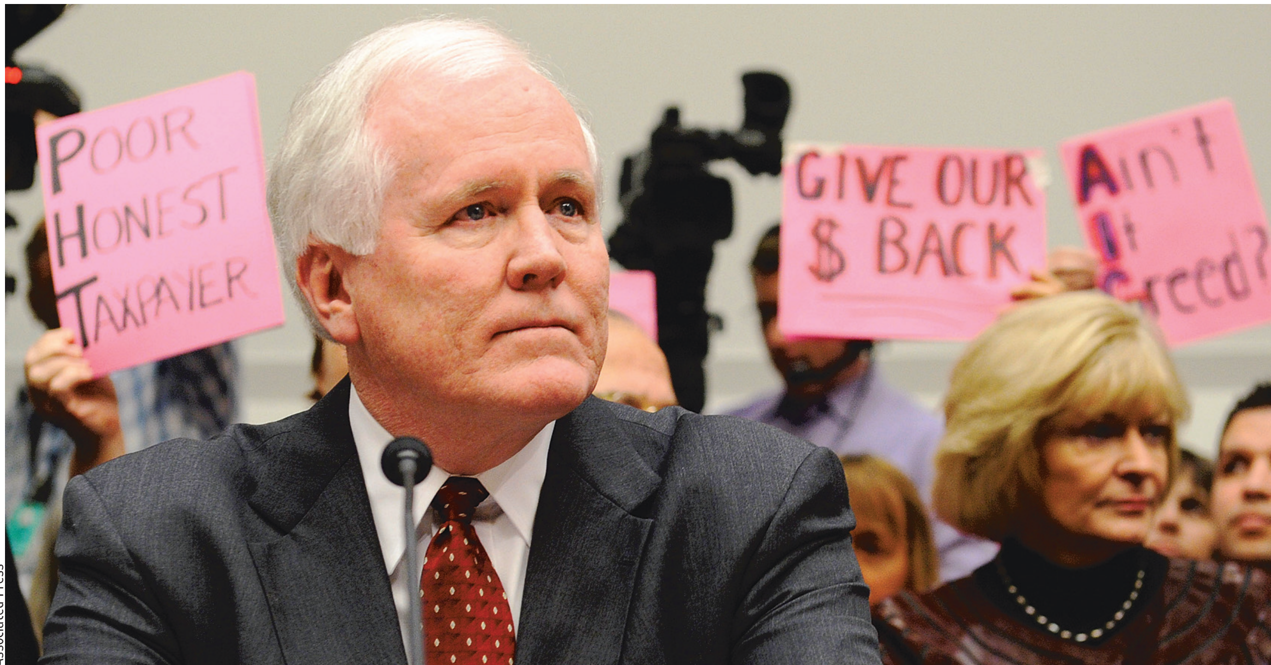
The move was a bold statement of force from the central bank, which during months of internal debate on the issue had been hesitant to begin buying long-term government bonds as the Bank of England recently began to do.

The Fed action underscores the central bank's ability to move aggressively to combat the financial crisis without any action by Congress, an important attribute at a time when Washington has been paralyzed by a political firestorm over bonuses made to employees of American International Group Inc.

Prices on U.S. Treasury bonds soared on the news and yields fell sharply. Yields on 10-year Treasury notes

Please turn to page 3

AIG bows to pressure on controversial bonuses



Associated Press

BACKGROUND CHECK: With protesters behind him, CEO Edward Liddy waits to testify before a U.S. House subcommittee. Page 32.

IBM in talks to buy Sun to add Web heft

By Matthew Karnitschnig, William M. Bulkeley and Justin Scheck

International Business Machines Corp. is in talks to buy **Sun Microsystems** Inc., people familiar with the matter said, a combination that would bolster IBM's heft on the Internet, in software and in fixed and telecommunications markets.

The two companies have a common interest in that both make computer systems for corporate customers that aren't reliant on **Microsoft** Corp.'s Windows software, and their product lines are less dependent than rivals' on Intel Corp.'s microprocessor technologies. The two companies are also strong supporters of open-source Linux and Java software.

People familiar with the matter cautioned that, while talks are under way, a transaction might not occur and that the talks could fall apart. Ian Colley, a spokesman for IBM, declined to comment on questions about any talks with Sun. A spokesman for Sun didn't return calls requesting comment.

If the deal does go through, IBM is likely to pay at least $6.5 billion in cash to acquire Sun, the people said. Including $1.4 billion in cash on Sun's balance sheet, the total deal value would be about $8 billion, or about $10 to $11 a share. That would translate into a premium of more than

Please turn to page 31

Inside

Global reach

Business schools emphasize real-world experiences
Executive Education, page 28

Markets

4 p.m. ET

	CLOSE	PCT CHG
DJIA	7486.58	+1.23
Nasdaq	1491.22	+1.99
DJ Stoxx 600	170.76	-0.75
FTSE 100	3804.99	-1.35
DAX	3996.32	+0.21
CAC 40	2760.34	-0.25
Euro	$1.3111	+1.04
Nymex crude	$48.14	-2.07

Runs Oracle 10x Faster*

The World's Fastest Database Machine
• Hardware by HP
• Software by Oracle

* But you have to be willing to spend 50% less on hardware.

ORACLE

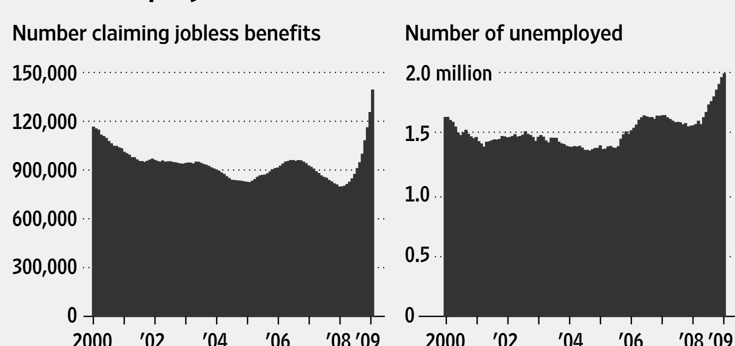
10x faster based on comparing Oracle data warehouses on customer systems vs. HP Oracle Database Machines. Potential savings based on cost/terabyte comparison with selected competitor systems; Oracle Database and options licenses not included. Actual results and savings may vary.

Copyright © 2009, Oracle. All rights reserved.

U.K. jobless claims jump

Unemployment pay will strain a budget stretched by bailouts

BY NICHOLAS WINNING AND JOE PARKINSON



Source: Office of National Statistics

LONDON—The number of Britons claiming jobless benefits soared in February, putting more pressure on Prime Minister Gordon Brown's government to intensify its efforts to tackle the deepening recession.

The higher-than-expected number of claims came as the Office for National Statistics revealed that a more comprehensive measure of unemployment reached two million in the three months ended in January, the highest it has been in almost 12 years.

The statistics office said 138,400 additional people requested unemployment benefits in February—the biggest monthly increase since records began in 1971. January's rise was also revised up to 93,500.

The 13th consecutive monthly increase was larger than the expected rise of 87,500, based on a Dow Jones Newswires survey last week. January's gain was revised from 73,800 reported last month.

U.K. government bonds and the pound weakened on the data.

"Today's labor-market data are truly awful," said James Knightley, an economist at ING in London. "Consequently, we could yet see the need for the BOE's quantitative-easing efforts to be stepped up even further." Analysts said minutes from the central bank's March meeting—also released Wednesday—suggested that the bank could expand the size of its £75 billion ($105 billion) effort to purchase private and public sector securities in coming months.

Unemployment, according to the International Labor Organization's broader measure, rose to 2.03 million in the three months to January, the highest level since the three months to July 1997, the Office for National Statistics said. The unemployment rate rose to 6.5%, up 0.5 percentage point from the previous three months.

As joblessness rises, the possibility of growing public discontent rises too.

Rising unemployment will further strain the government's budget, which is already slipping deeper into deficit due to bank bailouts and falling tax receipts. The rise in joblessness also raises the possibility of growing public discontent.

"These are tough times; these are very bleak figures," Tony McNulty, the U.K. employment minister, said on Sky News. "January and February were always going to be tough, but we'll keep persevering and try to give people the best help we can."

The British Chambers of Commerce said the figures reinforced the need for urgent government measures. "The outlook for unemployment is worsening and there is an urgent need for action," it said in a statement. "At this rate, unemployment looks set to reach 3.2 million in 2010."

The data showed the number of job vacancies slumped to the lowest level since comparable records began in 2001, while layoffs soared to the highest level since that series started in 1995.

Separately, Italian industrial output edged down 0.2% in January, much less than expected but still the seventh monthly decline, national statistics bureau ISTAT said. Analysts said a steep downward revision to December's data meant no recovery was in sight. And Spanish retail sales plummeted by a calendar-adjusted 5.4% in January compared with a year earlier—the 14th straight month of falls—, although the pace of contraction slowed from the previous month.

—Natasha Brereton contributed to this article.

EU leaders' summit to aim for energy plan

*By **Adam Cohen** in Brussels and **Marcus Walker** in Berlin*

BRUSSELS—European Union leaders are hoping at a summit that starts Thursday to agree on a small energy-focused stimulus package they have been arguing over for months.

What they won't be discussing, according to EU diplomats involved in the process, is whether to launch a fresh round of national stimulus packages in response to criticism from the U.S. that Europe isn't doing enough to battle the global recession.

EU officials in Brussels and most of the bloc's 27 governments say they should wait to see how the existing stimulus packages—amounting to about €200 billion ($260 billion), compared with $787 billion for the U.S.—work before discussing new ones. This week's two-day meeting is expected to reaffirm that resistance ahead of an economic summit of the Group of 20 nations in London on April 2. Criticism has come from within the EU, too. Hungary, hit particularly hard by the financial crisis, has asked for a roughly €180 billion fund to be set up to rescue economies in Eastern Europe. That request was quickly rejected.

Angela Merkel

A draft of the summit's final communiqué says the leaders will ask finance ministers to examine whether an existing €25 billion fund for troubled economies can expand. EU leaders expanded the facility from €12 billion in December; about €10 billion has been used.

A German government official said the EU had provided money from the facility at short notice to Hungary and Latvia, and would do so again if a country needed funds. But talking about additional funds now would "send the wrong signal" to financial markets, suggesting that more countries in Central and Eastern Europe need aid to finance their economies, the official said.

Instead of upping the ante, EU leaders will spend much of their summit on Thursday and Friday arguing about the €5 billion they have already committed to the European Commission, the EU's executive arm. The commission wants to spend this money, surplus from its roughly €900 billion budget, on energy and technology networks. Some countries have objected to the plan, because they don't agree on the list of projects and want more control over the cash.

The proposed projects include money for so-called interconnector pipelines to link national natural-gas networks. Also included is money for carbon-capture storage projects, and for the EU's delayed Nabucco project to build a gas pipeline to the Caspian Sea via Turkey.

CORRECTIONS & AMPLIFICATIONS

Existing Deutsche Bank AG executives Michael Cohrs, Anshu Jain, Rainer Neske and Jürgen Fitschen are joining the bank's management board, while Werner Steinmüller and Seth Waugh are joining the group executive committee. A Money & Investing article Wednesday suggested the executives were joining the bank, while in fact they were already executives there.

Nokia Corp. plans to cut as many as 1,700 jobs, with the measures affecting its core device and markets unit, among others. A Corporate News article Wednesday incorrectly said the cuts would affect its media unit.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

Actuant 18
Adobe Systems 18
Aluminum Corp. of China 22
Amazon.com 30
American International Group 18,20,32
Apollo Management....23
Apple 30
AutoNation 5
Bain Capital 23
Bank of America.....18,31
Bayer AG.....................18
Bear Stearns 20
Benetton 7
Bernard L. Madoff Investment Securities 17
Bilbao Bizkaia Kutxa ..18
BMW 5
Boral Ltd. 22
BP 7
Bulgari..........................7
Bâloise Holding 18,23
Caja de Ahorros Castilla La Mancha 18
Candover 23
Candover Investments 23
Centrica 7
China Huiyuan Juice .4,22
China National Petroleum 19
Chugai Pharmaceutical 6,22
Citigroup 18,3
Clear Channel Communications 23
CME Group..................21
Coca-Cola Co. 4,22
Comcast Corp. 5
Countrywide Financial .20
Crocs 18
Danisco 7
Deutsche Bank..........2,20
Discovery Communications.......30
Dow Chemical 3
E*Trade Financial........18
Emirates Airline 6
Eni 7
Etihad Airways 6
European Aeronautic Defence & Space 6
Fannie Mae 20
Fletcher Building 22
Freddie Mac 20
Fujitsu 6
General Electric 3
General Mills 18
General Motors.............5
Global Investment House 3
Goldman Sachs Group 20,22
Google 30
Group Tikehau 21
Groupe Danone 4
GS Engineering & Construction 22
Hangzhou Wahaha Group 4
Hitachi 6
Honda Motor 6
HSBC Holdings 22
Hypo Real Estate Holding 31
Hyundai Motor 5
IBM.............................18
ICAP 21
ICICI Bank 22
Intel..............................1
IntercontinentalExchange 21
International Business Machines 1
Intesa Sanpaolo...........18
James Hardie Industries 22
JetBlue Airways 5
Jos. A. Bank Clothiers .5
Kutxa, Caja Gipuzkoa San Sebastian 18
Lanxess 18
LCH.Clearnet Group.....21
Lear 18
Medicis Pharmaceutical 18
MetLife 18
MGM Mirage 18
Microsoft 1
Mizuho Financial Group 22
Momentive Performance Materials 23
National Oil 19
NEC...............................6
New Century Financial 20
Nissan Motor 22
Nokia 2
Nomura 21
NYSE Euronext 21
Old Mutual 18
Pantheon Partners 23
PepsiCo 4
Qantas Airways 6
Reliance Industries 22
Resona Holdings 22
Rio Tinto 18,22
Roche Holding 6
Royal Bank of Scotland PLC 18
Royal Dutch Shell ..18,19
RWE 7
Samsung Electronics 6
Singapore Airlines 6
Sony 6,30
Sony Electronics 30
Sterling Equities 19
Stora Enso 7
Sumitomo Mitsui Financial Group 22
Sun Microsystems ...1,18
Telefónica......................5
Telenor 7
Thomas H. Lee Partners 23
3i Group 23
TNK-BP 7
Toshiba..........................6
Total SA 18
Toyota Motor................6
TR Capital Group 21
Turkcell Iletisim Hizmetleri..................7
Twittad 5
UltraSuperNew.............5
Unicaja-Caja del Sol 18
UniCredit...........17,18,32
USJ 22
Venture Production 7
Verenex Energy 19
Walt Disney..................5
Warburg Pincus............4
Wells Fargo & Co. 18

THE WALL STREET JOURNAL EUROPE (ISSN 0921-99)
Boulevard Brand Whitlock 87, 1200 Brussels, Belgium
Telephone: 32 2 741 1211 Fax: 32 2 741 1600
SUBSCRIPTIONS, inquiries and address changes to:
Telephone: +44 (0) 207 309 7799
Calling time from 8am to 5.30pm GMT
E-mail: WSJUK@dowjones.com Website: www.services.wsje.com
Advertising Sales worldwide through Dow Jones International. Frankfurt: 49 69 971428 0; London: 44 207 842 9600; Paris: 33 1 40 17 17 01
Printed in Belgium by Concentra Media N.V. Printed in Germany by Dogan Media Group / Hürriyet A.S. Branch Germany. Printed in Switzerland by Zehnder Print AG Wil. Printed in the United Kingdom by Newsfax International Ltd., London. Printed in Italy by Telestampa Centro Italia s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland by Midland Web Printing Ltd. Printed in Israel by The Jerusalem Post Group. Printed in Turkey by GLOBUS Dünya Basınevi.
Registered as a newspaper at the Post Office.

Trademarks appearing herein are used under license from Dow Jones & Co. © 2008 Dow Jones & Company All rights reserved.

Editeur responsable: Daniel Hertzberg M-17936-2003

INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

For more people in the news, visit CareerJournal.com/WhosNews

Bacon, Kenneth 20
Baudrand, Didier 7
Begley, Neil 23
Berry, Michael 21
Chen Deming 4
Ciszuk, Samuel 19
Clark, Tim 6
Cohrs, Michael 2
Colley, Ian 1
Eichiner, Friedrich 5
Ewanick, Joel 5
Faulks, Ben 19
Fitschen, Jürgen 2
Foa, Emilio 7
Frank, Andrew 5
Friedman, Tim 23
Friehling, David 17
Gallois, Louis 6
Ghanem, Shokri 19
Greenberg, Marc 4
Haber, Steve 30
Hackney, William III 4
Hampton, Philip 18
Hendricks, John 30
Hisey, David 20
Horowitz, Jerome 18
Ishida, Yuichi 6
Jain, Anshu 2
Johnson, Jennie 30
Kent, Muhtar 4
Kuijs, Louis 9
Lankler, Andrew 17
LaRoche, Greg 18
LaSala, Joseph A. Jr. 30
Lawcock, Glyn 22
Liddy, Edward 20,32
Lund, Thomas 20
Madoff, Bernard 17,19
Madoff, Ruth 19
Maroone, Mike 5
Marti, Georg 23
Mei Xinyu 4
Monaco, Cynthia 17
Muir, Jonathan 7
Nathansohn, Alberto 7
Neal, Mike 3
Neske, Rainer 2
Nishida, Atsutoshi 6
O'Donnell, William 18
Okamura, Tadashi 6
Owen, James 7
Paatsch, Dean 19
Pimentel, Luiz Carlos 5
Profumo, Alessandro ... 17
Quintás, Juan Ramón .. 17
Reines, Edward 30
Reithofer, Norbert 5
Ridout, Heather 19
Robine, Paul 21
Ross, Lester 4
Sasaki, Norio 6
Sau, Colin 21
Scaroni, Paolo 7
Sheetal, Mike 5
Sherin, Keith 3
Sherry, Nick 19
Shrimpton, Andrew 31
Sprang, Christian 30
Steinmüller, Werner 2
Stringer, Howard 6
Strobel, Martin 23
Swan, Wayne 19
Tas, Marcelo 5
Thong, Damian 6
Tripoli, Marcelo 5
Turner, Adair 32
Wang, Henry 4
Ward, Paul 23
Waugh, Seth 2
Weiss, Martin 20
Williams, Michael 20
Wilpon, Fred 19
Xiulin, Yang 4
Yi Xianrong 4
Zanardo, Marcello 17
Zhu Xinli 4

LEADING THE NEWS

GE Capital chief faces task of taming unit

Neal plays lead role in effort to assuage worries about assets

By Paul Glader

Past leaders of **General Electric** Co.'s finance unit have made their names on the unit's explosive growth, to the point where GE Capital, as recently as 2007, accounted for half its parent's profits.

Now, Mike Neal has the unenviable task of taming and shrinking that business.

Mr. Neal, 55 years old, will be in the spotlight Thursday, when he and GE Chief Financial Officer Keith Sherin appear before investors in New York to try to quell their concerns about GE Capital. The executives have promised to provide unprecedented detail about the unit's $600 billion in assets and how badly their value will be hurt by the recession.

It's an unusually public role for Mr. Neal, a 30-year GE veteran who has spent most of that time at the finance unit. Associates describe him as disciplined, methodical and risk averse. But he will have to answer critics who say GE Capital took on far more risk than it has acknowledged during the easy credit years in pursuit of big profits.

In the past two decades, GE Capital has expanded from its traditional business of lending money to small and midsize U.S. businesses to commercial real estate, mortgages and credit cards around the world.

Investors fearing bigger-than-projected losses in those ventures have sent GE's stock down roughly 36% this year, though it has rebounded in the past week. In 4 p.m. composite trading Wednesday on the New York Stock Exchange, the shares were up 32 cents, or 3.2%, to $10.32.

GE Chief Executive Jeffrey Immelt on Monday told an interviewer in the Middle East that write-offs will climb at GE Capital this year, but that the unit doesn't have "substantial issues," and isn't "a black box," whose contents are a mystery.

But even business partners say they aren't always sure what makes the GE Capital tick. "Historically, that's been a problem for them. No one knew what they do" in finance, says Dana Pasternak, a managing director at corporate-leasing consultant Fairfield Capital Partners LLC, which advises companies on finding leases and loans from finance companies like GE.

Enter Mr. Neal, described by former GE Chairman Jack Welch in his book "Jack: Straight from the Gut," as "the soul of GE Capital."

The barrel-chested Mr. Neal came to GE as an engineer in 1979, a few years after graduating from the Georgia Institute of Technology. He switched to the finance business in the 1980s and has been there ever since. GE Capital made nearly 400 acquisitions between 1991 and 2001 as Mr. Neal was rising through the ranks, including a $5.3 billion purchase of Heller Financial Inc. in 2001, which expanded GE's commercial real-estate lending.

Mr. Immelt named him the head of GE's commercial-finance unit in 2002, when GE Capital was divided into several smaller pieces. When Mr. Immelt put those pieces back together last year, he put Mr. Neal in charge.

GE declined to make Mr. Neal available for this article. But in his annual letter to shareholders last month, Mr. Immelt pushed Mr. Neal further into the spotlight, describing GE's finance business as "Mike Neal's GE Capital Finance business."

Reuters

Mike Neal will be in the spotlight Thursday, when he appears before investors in New York to try to quell their concerns about GE Capital.

Inside GE, Mr. Neal is known as a smart but cautious executive who sometimes has frustrated lieutenants by rejecting unconventional or risky deals. Before the credit crunch and the recession, Mr. Neal regularly assured investors that GE's thousands of risk specialists knew how to protect the company's balance sheet.

"We try not to think about going up the risk curve in search of margins in this type of environment," Mr. Neal told investors in May 2007. "The people who chase risk over return generally only get the former piece of that."

Yet critics say GE did just that, jumping into—and then out of—subprime mortgages in the U.S., as well as mortgages in Europe, and consumer lending in developing economies in Eastern Europe. "They've been destroying their capital," says Robert Maltbie, managing director at Singular Research in Los Angeles.

For all his current troubles, Mr. Neal could have had even bigger problems. In late 2007, he was a finalist for the top job at **Citigroup** Inc., which ultimately went to Vikram Pandit.

Since then, Citigroup has posted $37 billion in losses and required two government bailouts. "He might have lucked out staying where he was," says William Conaty, who retired in 2007 as a top human-resources executive at GE.

Colleagues say Mr. Neal isn't charismatic, but is well-liked and respected. He enjoys sailboats, the latest electronic gadgets and riding his Harley-Davidson Fat Boy motorcycle. "He's not arrogant. He's not elitist. He's a really normal guy," Mr. Conaty says.

Nicholas Heymann, director of global industrial-infrastructure research at Sterne Agee in New York and a former employee of GE's finance units, says Mr. Neal is a pragmatic straight-shooter who has been "resourceful at coming up with ways to mitigate and manage through prior periods of challenge."

Since last fall, that's meant devising a strategy to shrink GE Capital and change a business model that had relied heavily on short-term loans known as commercial paper.

Messrs. Neal, Sherin and Immelt have moved in measured steps, sometimes to the dismay of investors who wanted GE to change more quickly and radically.

Since October, GE has sold $15 billion in equity, $45 billion in bonds—most of them backed by the federal government—shifted $15 billion from the parent company to GE Capital and cut its dividend for the second half of the year to preserve cash. Last week, Standard & Poor's lowered GE's treasured triple-A credit rating to double-A-plus. The move, while largely symbolic, could ultimately make it harder for GE to borrow cheaply, in order to lend to businesses at higher rates.

In his May 2007 presentation to investors, Mr. Neal struck a philosophical note, acknowledging the limits of his influence. "Even though some of us tried to, none of us can predict the future," he said then. "We don't really know what is going to happen in these markets."

Kuwait's ruler dissolves parliament amid bank standoff

By Margaret Coker

ABU DHABI—Kuwait's ruler dissolved parliament Wednesday and called for fresh elections, a long-awaited move that could end weeks of a political deadlock that has stalled an economic bailout program for the Gulf nation's banks.

Many parliamentarians in recent months have stepped up criticism of the government, run by a relative of ruler Sheik Sabah Al Ahmad Al Sabah, whom they blame for squandering public money and exacerbating the fallout from the global economic crisis in Kuwait.

In a live national broadcast Wednesday night, Sheik Sabah said he felt compelled to end "the political chaos" and parliamentary intransigence that he blamed for holding up economic reforms.

However, he stopped short of suspending parliament, a move that would be in breach of the country's constitution but that many analysts had speculated was a possibility given the protracted battles the royal family has fought with its lawmakers.

The Gulf sheikdom has seen five governments fall in three years. The current uncertainty comes amid a standoff between Parliament and the government over a 1.5 billion Kuwaiti dinar ($5.12 billion) bailout package to help the country's ailing investment banks. Kuwait has been accused of moving slowly to bolster its vulnerable financial sector, and this new political vacuum could delay the package further.

The latest political standoff escalatedthis week, when the government resigned. The move was designed to protect the prime minister, a nephew of the emir, from questioning by lawmakers, who have accused the nephew of permitting corruption and mismanagement of public funds in connection with a variety of public-infrastructure deals, including a $17 billion joint venture between **Dow Chemical** Co. and a unit of Kuwait's national oil company that was scrapped earlier this year. The emir and the former prime minister haven't responded directly to the allegations.

Sheik Sabah, a hereditary ruler who has the last say in all matters of state, has backed his nephew in the past, renaming him head of government three times despite widespread public criticism of his work.

In his speech, the ruler accused lawmakers of political grandstanding that had "tarnished the freedom and democracy in Kuwait ... [and] spread atmospheres of tension and chaos."

The current government will remain in a caretaker role until fresh elections, which according to the constitution must occur within 60 days of the legislature being dissolved.

The caretaker government could in theory approve the economic stimulus package without parliament in order to speed through the reform plan drawn up by Kuwait's central banker, a largely apolitical figure widely admired by all political factions as a technocrat.

Leading Kuwaiti firms such as **Global Investment House** have asked the government for help. Global defaulted on most of its $3 billion debt obligation in January, and its share price has dropped 92% since August.

Parliamentarians have held up the economic bailout package, saying that it targets only politically connected firms and doesn't do enough to help small investors or average citizens who have lost substantial assets amid the country's banking crisis.

Fed to buy long-term Treasurys in new bid to revive U.S. economy

Continued from first page

dropped to 2.533% from 3.003% Tuesday. U.S. stock prices also rose and the dollar sank.

The Fed's steps came against a gloomy economic backdrop. "Job losses, declining equity and housing wealth, and tight credit conditions have weighed on consumer sentiment and spending," the Fed said in a statement after its two-day meeting. "Weaker sales prospects and difficulties in obtaining credit have led businesses to cut back on inventories and fixed investment. U.S. exports have slumped as a number of major trading partners have also fallen into recession"

The Federal Open Market Committee, the Fed's policy-making arm, voted 10-0 to hold the target federal-funds rate for interbank lending in a range between zero and 0.25% and to continue using credit programs financed by an expansion of the Fed's balance sheet to stabilize markets. Richmond Fed President Jeffrey Lacker, who dissented in January, went along this time. He had wanted the Fed to focus on buying Treasury purchases as opposed to targeting its lending on various corners of the credit markets. The discount rate that the Fed charges on direct loans to banks was unchanged at 0.5%.

With rates near zero, the Fed is now essentially printing money to increase the supply of credit in the economy. The Fed said it will buy up to $300 billion in long-term Treasurys over the next six months. The purchases of mortgage-backed securities guaranteed by Fannie Mae and Freddie Mac will be expanded to as much as $1.25 trillion from a previous maximum of $750 billion. The Fed also said it would increase the size of its potential purchases of the mortgage giants' debt to $200 billion from $100 billion.

The Fed's strategy appears to be to double down on the programs the central bank believes are working. In addition to commercial paper and money-market mutual-fund facilities, which appear to have stabilized those sectors, Fed Chairman Ben Bernanke has repeatedly highlighted the decline in mortgage rates in response to the agency and mortgage-backed securities facilities, calling it one of the "green shoots" evident in some markets.

By expanding its securities purchase programs, the Fed also is effectively ramping up efforts it can control. The commercial-paper program and a new consumer lending program that commences Thursday are driven by how much demand there is in the markets.

Demand has waned for the commercial-paper program in recent weeks, a sign that market is returning to health.

CORPORATE NEWS

Beijing rejects Coke's takeover attempt

Thwarted Huiyuan Juice deal could chill investment in China, while hampering attempts to expand abroad

China's government rejected a $2.4 billion bid by **Coca-Cola** Co. for one of the country's largest juice makers, citing antitrust grounds—a move that could chill foreigners looking to make deals in China and that risks prompting a backlash against Chinese investing abroad.

*By **Gordon Fairclough** in Shanghai, **Carlos Tejada** in Hong Kong and **Valerie Bauerlein** in Atlanta*

The Commerce Ministry's decision Wednesday to block what would have been the largest-ever takeover of a Chinese company by a foreign buyer also is a major blow to Coke, which had hoped to parlay its high-profile sponsorship of the Beijing Olympics into greater commercial success in a critical market.

Lawyers and investment bankers said Beijing's ruling—the first major test of a new antimonopoly law—undermines the government's public opposition to protectionist barriers, which are under heightened attention amid the global recession.

The ruling sends "a very negative message," said Lester Ross, an attorney in U.S. law firm WilmerHale's Beijing office who wasn't involved in the deal. "I think it was driven by protectionism, fueled by popular resentment against a foreign company acquiring a popular Chinese brand."

Mei Xinyu, a researcher at the Chinese Academy of Trade and Economic Cooperation, which is affiliated with the ministry, said Wednesday's ruling represented "big progress" and had "nothing to do with trade protectionism." Mr. Mei said investors should be encouraged by the fact that China's "laws are properly enforced."

China's rebuff sets back the Atlanta-based soft-drink maker's strategy to expand in China—Coke's fourth-largest market, after the U.S., Mexico and Brazil—when sales in the U.S. are slowing. The deal was part of a broader effort by Coke Chief Executive Muhtar Kent to push more aggressively beyond soda into the fruit-juice business, a sector that is growing far faster than carbonated soft drinks. "We are disappointed," Mr. Kent said in a prepared statement, adding that the company respects the government's decision.

Coca-Cola has encountered antitrust problems in the past as it expands around the world. The company was forced to scale back its acquisition of Cadbury Schweppes PLC's beverage brands when regulators blocked that deal in European Union countries. And France blocked Coke from acquiring Orangina from Pernod Ricard SA on antitrust grounds.

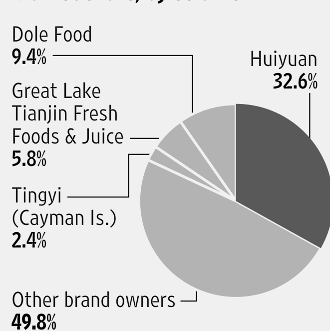
But Coke has worked hard to cultivate an image as a friend of China. Mr. Kent traveled to Shanghai this month to tout plans to invest $2 billion in Coke's China operations over the next three years, a move that some analysts saw as trying to smooth the way for the deal to acquire **China Huiyuan Juice Group** Ltd. Coke said Wednesday there would be no change in those investment plans, which involve distribution, marketing and a new plant, among other things.

Associated Press

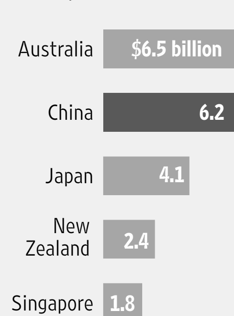
The one that got away

Top sellers of pure juice* in China, by brand owners in 2008

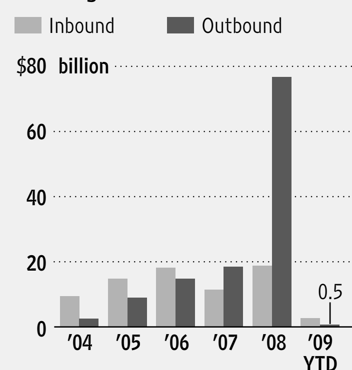
Market share, by volume:



Asia-Pacific nations in largest failed M&A deals, year-to-date**



Completed M&A deals involving China



*Not from concentrate, reconstituted pure juice and pure frozen juice **Includes withdrawn, rejected or expired transactions

Sources: Euromonitor International (market share); Dealogic (failed deals); Thomson Reuters (deals); Associated Press (photo)

Rival **PepsiCo** Inc. recently pledged to invest $1 billion in building its snack and drink businesses in China. Pepsi, too, is keen to build a bigger juice business. With a dominating share of noncarbonated beverage sales in the U.S., Pepsi is out to challenge Coke for sales of fast-selling drinks in emerging markets.

Coke's September offer to acquire Huiyuan came in the wake of August's Beijing Olympics, for which Coca-Cola was a high-profile sponsor. But there were doubts from the beginning about whether the deal would win antitrust approval.

Coca-Cola is the largest seller of carbonated soft drinks in China, with a 52.5% market share, according to research firm Euromonitor. PepsiCo, ranks second, with 32.8%. Huiyuan, meanwhile, is China's largest maker of 100%-juice drinks, with a 33% market share in that high-end segment. Coke also sells juice drinks, and the two companies' combined share of the fruit-and-vegetable juice market last year was 20.3%, according to Euromonitor.

The Commerce Ministry said that if Coca-Cola were allowed to acquire Huiyuan, the combined company's market power could "narrow the room for survival" of smaller players in China's beverage industry and lead to higher prices for consumers.

Merger-and-acquisition lawyers who weren't involved in the deal said the ministry's statement indicates that officials appeared to rely on broader definitions of anticompetitive harm than used by their counterparts in the U.S. The ministry's statement implied that a company's overall size, in addition to its share of any given market, should be taken into account, these lawyers said. The ministry said that Coke might use its dominant position in the carbonated-beverage market to restrict competition in the juice business.

Yi Xianrong, a researcher in the finance and banking section of the government-backed Chinese Academy of Social Sciences, criticized the ministry's rejection, saying it was "groundless" given the intense competition in the industry, and was likely the result of a nationalist backlash against the deal.

Lawyers and bankers said higher antitrust barriers could be a new hindrance to companies trying to conduct deals and invest in China, where it long has been difficult to acquire assets from state-owned companies.

The Finance Ministry on Wednesday announced rules that make it harder for foreign investors in banks and other financial-services businesses to buy or sell their stakes. This follows moves by some foreign banks in recent months to sell holdings in Chinese banks. Over the past five years, 47% of the nearly $72 billion in mergers and acquisitions involving foreigners in China were in the financial sector, according to Thomson Reuters.

Perceptions that China is hostile to foreign investors could hurt the prospects of Chinese companies looking to take advantage of low prices to invest abroad, particularly in oil, metals and other natural resources that Beijing sees as critical to sustaining the nation's economic growth. Such investments have picked up pace since the global downturn began accelerating last autumn.

And the government is looking to loosen the reins further, issuing rules Monday that lower regulatory hurdles for Chinese companies looking to invest overseas. Last week, China's minister of commerce, Chen Deming, called on the global community to "jointly oppose trade protectionism." Shares of mining giant Rio Tinto closed nearly 9% lower Wednesday as speculation increased that the Australian government could reject the mining company's $19.5 billion funding deal with Aluminum Corp. of China.

In the past two years, the value of deals struck by Chinese companies overseas has far exceeded that of deals made by foreign companies in China. Chinese firms completed $76.6 billion in deals abroad last year, compared with $18.6 billion by foreign companies in China, according to Thomson Reuters.

The Commerce Ministry said it had attempted to negotiate with Coca-Cola for a more limited deal that would ease the anticompetitive effects of the acquisition but that the company's response didn't go far enough to address its concerns. Coke didn't comment beyond its prepared statement.

People familiar with the matter said that the antitrust authorities' main concern was that the Huiyuan name itself should remain in Chinese hands, even if other assets were sold. That came as a surprise to Coke executives, who had expected demands for Coke to invest in and expand the Huiyuan brand, the people said. Without Huiyuan's powerful and upscale brand, the people familiar with the matter said, Coke couldn't justify the $2.4 billion price.

Coke's effort to acquire Huiyuan met with public criticism. Shortly after the deal was announced, a poll of about a half-million people by Web portal Sina.com showed that nearly 80% of participants opposed the transaction. "We should protect our national industry," a posting on a popular portal site said last week. "Otherwise all the clothing, food, accommodation and transportation of Chinese citizens will be controlled by foreigners. It's too terrible."

Chinese executives also were critical. Yang Xiulin, the marketing director of beverage company **Hangzhou Wahaha Group** Co. said "if national brands are gone, for the long term, it's not good for the Chinese industry."

Another person familiar with the matter said that officials within the Commerce Ministry were divided on how to proceed, with some arguing that it was a bad idea to block the deal.

"There's a strong desire to keep the brand in local hands," said Henry Wang, a Beijing-based partner of law firm Dechert LLP who wasn't involved in the deal. He said he viewed the decision as a sign that Beijing believes it is time for China's companies and brands to compete on their own in global markets. China's economic planners have been trying to boost the technological sophistication of Chinese industries and improve branding and marketing skills, while seeking to decrease the economy's dependence on less-profitable, labor-intensive industries.

Defining the nationality of brands is increasingly difficult, however. Huiyuan, which trades on the Hong Kong stock exchange, is 23%-owned by France's **Groupe Danone** SA. U.S. private-equity firm **Warburg Pincus** LLC owns 6.8%, while the company's founding chairman, Zhu Xinli owns 36%.

Investor William Hackney III, managing partner of Atlanta Capital Management Co., saw the collapse of the deal as good news for Coke shareholders in the short term as Coke will have more cash on hand. But in the long run, Coke will have to pay more to build its infrastructure in China, he said. His firm has about $7 billion in assets under management, including about 924,000 Coke shares, valued at $38 million. It's also bad news for global markets, Mr. Hackney said. "This is a disturbing, protectionist move by China," he said. "You can't really argue that the juice business is a strategic industry like defense or energy."

Analyst Marc Greenberg of Deutsche Bank AG, who rates Coke shares a "hold," said he expects Coke to resume buying back its own shares, as much as $1.5 billion, now that it has more cash on hand. "I don't think anybody is really heartbroken by this," he said. "As the markets of the world have gotten a little more tepid, the fact that they'll have more money in their pocket is not a bad thing."

He also said the deal's collapse shouldn't be seen as a mark against Mr. Kent, as the Chinese government's decision was "out of his hands." Mr. Greenberg said he expects the CEO to be on the hunt for small deals in Eastern Europe, Latin America or other parts of Asia as companies that might not have been open to a sale a year ago find themselves stalled for growth and strapped for cash.

—Andrew Batson in Beijing and James T. Areddy in Shanghai contributed to this article.

CORPORATE NEWS

BMW keeps 2012 target

Auto maker declines to make '09 forecast amid market woes

BY CHRISTOPH RAUWALD

European Pressphoto Agency

BMW doesn't expect to match its 2008 sales level this year as the auto market continues to shrink. Above, BMW Mini cars at a dealership in England in February.

MUNICH—**BMW** AG Wednesday stuck to its profitability targets for 2012, but said it couldn't make a reliable forecast for this year as it expects global auto markets to remain distressed.

"2009 will be a transitional year for which we cannot make any reliable forecast," BMW Chief Executive Norbert Reithofer said in a statement, adding that he wanted to "preserve the independence" of the company.

BMW doesn't expect to match the 2008 sales level this year. Mr. Reithofer said global auto markets are likely to shrink by between 10% and 20% this year, with the economy starting to pick up next year.

By 2012, BMW, the world's biggest luxury-car maker by sales, targets a return on capital employed of 26% and return on sales in its auto segment between 8% and 10% based on earnings before interest and taxes, or Ebit.

Until now, BMW had aimed to sell 1.8 million cars in 2012. Mr. Reithofer said the company doesn't expect to reach that target, noting that sales in 2012 are expected to come in "at least 100,000 units" below the initial forecast.

"At that point we will also gain additional momentum from our renewed product range. The ramp-up of our highest-volume models between 2010 and 2012 will enforce this trend," he said.

Last week, the Munich-based company posted a fourth-quarter loss before interest and taxes of €718 million ($934.4 million), compared with a year-earlier profit of €1.31 billion. The fourth-quarter earnings were weighed down by charges of €1.13 billion, made up of €931 million related to risk provisions and €197 million tied to job reductions.

Along with almost all other auto makers, BMW is suffering from a steep decline in demand for cars amid the economic downturn, which accelerated toward the end of last year. BMW was particularly hard hit by the sharp downturn in the U.S., its largest single market.

The company has initiated a far-reaching program, dubbed Number One, aimed at streamlining costs and restoring profitability. BMW confirmed that it plans to exceed the initial target of €4 billion of material-cost reductions by 2012 as part of a wider cost-cutting target of €6 billion. Lower expenses in materials, production and development are expected to account for two-thirds of the planned overall cost reduction. Cutbacks on personnel costs are expected to yield savings of as much as €500 million each year from 2009.

BMW issued two profit warnings last year and it announced plans to slash production to adjust to shrinking demand and avoid inventory buildup.

Chief Financial Officer Friedrich Eichiner said BMW cut production by 96,000 cars in the fourth quarter. In the U.S., "the average residual value loss per vehicle declined slightly" in the first two months of the year, he said.

BMW's global sales in 2008 were down 4.3% from 2007 at 1.44 million cars, though its core BMW brand remained the world's best-selling premium brand even as sales fell 5.8% to 1.2 million vehicles.

AutoNation adds layoff guarantee

BY KATE LINEBAUGH

With U.S. unemployment at a 26-year high and vehicle sales at a 28-year low, the auto industry is trying to combat the fear among some buyers that they might lose their job and be unable to make car payments.

AutoNation Inc., the largest U.S. vehicle dealership chain, plans to cover six months of car payments for buyers who become unemployed. Starting at 33 dealerships in Florida, AutoNation plans to roll out the policy to its 239 stores nationwide. The coverage will be free with any vehicle—new or used, leased or financed.

The strategy was pioneered by **Hyundai Motor** Co., which in January launched its "Assurance" campaign. The goal is to allay buyers' fears of making a large purchase at a time of widespread layoffs.

"Consumers were paralyzed," said Joel Ewanick, Hyundai's head of marketing. "We had to find some way to give them peace of mind."

General Motors Corp. said it has looked into a similar plan to combat plunging consumer confidence. The marketing ploy has taken off in other industries as well. Suitmaker **Jos. A. Bank Clothiers** Inc., the Minnesota Timberwolves basketball team and U.S. carrier **JetBlue Airways** Corp. all have offered similar programs to people who lose their jobs.

"You can have all the incentive that you want for a vehicle, but if a customer doesn't have the confidence they are going to be employed it is difficult for them to take advantage of it," said Mike Maroone, AutoNation's president and chief operating officer. Mr. Maroone hopes the program will boost sales 10% to 15%.

What these programs achieve, industry watchers say, is to grab the attention of consumers saturated by offers of cash rebates and below-market loan rates.

The layoff-protection plans are "breaking through the white noise," said Jessica Caldwell, an industry analyst at Edmunds.com.

Hyundai is one of four auto makers to post sales increases this year, raising its market share to 4.1% for the first two months of 2009 from 2.7% in December, before the buyer-assurance program was announced. While the program was believed to play a role, Hyundai also benefited from higher sales to rental fleets and a 40% increase in incentive spending.

Under AutoNation's program, monthly car payments of up to $500 will be covered for six months after the buyer becomes unemployed. The program doesn't kick in until a buyer has made three months of payments, and expires after 12 months.

If, after six months, the consumer still cannot make the payments, the buyer would return the car to the lender. That could hurt the buyer's credit rating.

Chicago-based Warranty Group, an insurance company, will bear AutoNation's cost to a maximum of $3,000 a vehicle. AutoNation is paying Warranty Group an undisclosed sum.

Bloomberg News

Shoppers at an AutoNation dealer in Delray Beach, Fla. The U.S. chain says it will make car payments for six months if a buyer loses his or her job.

In Brazil, Telefónica bets on a celebrity's 'tweets'

BY ANTONIO REGALADO

Marcelo Tas is one of Brazil's best-known TV hosts—a tropical version of Comedy Central's Jon Stewart. His mix of humor and journalism also has made him a hit on Twitter, a social-messaging service where more than 18,000 people have signed up to receive short updates on his thoughts.

ADVERTISING

Thanks to Mr. Tas's growing online following, **Telefónica** SA recently approached him to help pitch the Spanish telecom company's new fiber-optic Internet and TV service in Brazil. As part of the deal, whose financial terms haven't been disclosed, Mr. Tas has agreed to mention Telefónica's service in his Twitter messages.

The arrangement shows one way marketers have started tapping into the fast-growing popularity of Twitter, which was launched less than three years ago and allows users to broadcast messages—or "tweets"—of no more than 140 characters. Users gain "followers" as others sign up to receive their texts.

In the U.S., big marketers such as **Walt Disney** also are striking deals with widely followed Twitter users to get them to pitch products.

Twitter's ranks of users have grown explosively. Unique U.S. visitors to the Twitter.com Web site surged to seven million last month from 500,000 in March 2008, according to Nielsen. And advertisers aren't far behind. The question now: how to tap into the "whuffie"—or influence—of the site's most popular users.

Despite the popularity of social-media sites such as Facebook, such sites have had a hard time attracting significant ad dollars. Some advertisers are reluctant to put ads on pages whose content they don't control. And many Internet users simply ignore ads when they're chatting with friends.

Though plenty of risks remain, some marketers believe Twitter could change all that, partly because of its emphasis on rapid-fire, real-time and mostly public messages. "It's going somewhere that is going to be very powerful in the future," says Mike Sheetal, founder of **UltraSuperNew**, a digital-advertising firm in Tokyo. But, he adds, marketers shouldn't expect Twitter to become the new answer for their brands overnight, "because not everyone is on it yet."

Even so, the site has proved to be an effective way to push agendas. U.S. President Barack Obama has accumulated more than 492,000 followers on Twitter since an aggressive online campaign helped him win the election in November.

Some Twitter users are already trying to cash in. About 3,300 of them have signed up with **Twittad** LLC, a Des Moines, Iowa, firm that tries to connect them to marketers who want to place ads and send commercial text messages from their accounts.

For now, such "sponsored tweeting" is a small-scale business. Twittad founder James Eliason says his highest-earning twitterer makes a "few hundred" dollars a week. Clients average about 750 followers. "At this time in the U.S., there is no known major celebrity doing" sponsored tweeting, Mr. Eliason says. "But they would exert huge influence if they did."

Some corporations have already won recognition for using Twitter effectively. **Comcast** has a customer-service representative who scours Twitter for comments about its service, then intervenes with a "Can I help with anything?"

"There are a lot of brands talking to people directly, and doing well. I would encourage brands to do that before they buy their way into Twitter," says Andrew Frank, an analyst at technology research firm Gartner in Stamford, Conn. Still, he says, "This idea of compensating influentials to talk about your brand is probably going to grow."

Antonio Regalado/The Wall Street Journal

Marcelo Tas, flanked by one of his co-hosts Monday on the Brazilian comedy program "CQC," has a Twitter following of more than 18,000 people.

Mr. Tas, 49 years old, is a distinctive presence in his black suit, thick-rimmed glasses and bald head. He says he began using Twitter regularly last year, mostly as a way to post links to a TV show he hosts. "I never imagined it would be worth any money," he says.

Digital agency iThink, in São Paulo, conceived the Twitter campaign and signed Mr. Tas. Telefónica's fiber-optic service, called Xtreme, is geared to heavy Internet users and is available to only 370,000 homes in Brazil. A TV campaign would have reached too broad a public, says the company's marketing director, Luiz Carlos Pimentel. So over the next six months, Telefónica plans to spend $2.5 million, largely on online advertising.

According to iThink, Mr. Tas will limit his "tweets" related to the Telefónica product to about 20 a month. "Twitter has its own dynamic and the brand can't invade in an aggressive way," says Marcelo Tripoli, iThink's founder and CEO. Mr. Tas's Twitter page will carry a discrete Telefónica logo, because "he is not going to hide that he is promoting the product" Mr. Tripoli adds.

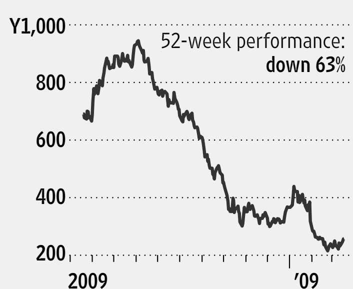
Toshiba chief to step down in June

Major loss looms as expansion pushed by Nishida backfires

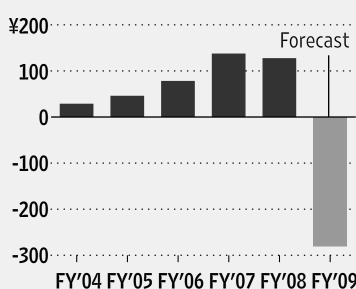
By Daisuke Wakabayashi

Toshiba

Daily share price, Wednesday's close: ¥258, up 0.4%



Net profit/loss



Note: Fiscal years end March 31 of year shown
Sources: the company (net profit), Thomson Reuters Datastream (share price)

Norio Sasaki will take over as Toshiba's president in June

TOKYO—Facing the prospect of a record loss and the possible need for additional capital to shore up a battered balance sheet, **Toshiba** Corp. said its chief executive will step down in June and be replaced by a veteran of the company's nuclear-power business.

Norio Sasaki, the 59-year-old head of Toshiba's infrastructure systems group, will become the next president and CEO in June, pending shareholder approval. The current CEO, Atsutoshi Nishida, 65, will become the company's chairman as part of the management change. Tadashi Okamura, the current chairman, will become an adviser to the board.

Toshiba's shuffle is the latest within Japan's struggling manufacturing industry, which is going through an unusual number of top management changes. It comes two days after **Hitachi** Co. announced its president will step down at the end of March as it heads for the biggest-ever loss by a Japanese manufacturer. **Sony** Corp. also replaced its president, handing CEO Howard Stringer additional responsibilities. **Toyota Motor** Corp., and **Honda Motor** Co. also announced top management changes this year.

The changes at Toshiba come as the company's recent expansion strategy has backfired. Mr. Nishida became president in June 2005 and embarked on an ambitious acquisition and investment strategy rarely seen by the sector since the 1980s, when Japan's sprawling electronics conglomerates dominated nearly every corner of the technology industry. But flaws in Toshiba's strategy have become apparent in the latest economic downturn.

In what was the biggest acquisition in Toshiba's history, the company paid $3.7 billion for a majority stake in nuclear power technology firm Westinghouse in 2006. It has also invested billions of dollars to expand flash memory chip production capacity to keep pace with **Samsung Electronics** Co.

While the deals and investments provided Toshiba a foothold in promising global businesses such as nuclear energy, lithium-ion batteries for electric cars and solid-state memory drives for computers, it has also left the company financially overstretched. Toshiba has incurred heavy losses as chip production lines have gone idle, and its debt-laden balance sheet is dealing with the additional burden of having to make up shortfalls in its pension from a slide in equity prices.

Toshiba is forecasting a record net loss of 280 billion yen ($2.84 billion) for its fiscal year ending March 31. Its credit rating was downgraded in January under the weight of nearly 1.8 trillion yen in debt.

Investors and analysts expect Toshiba to raise capital in the next few months, possibly through issuing shares. At a news conference Wednesday, Mr. Nishida said Toshiba is considering raising capital, but didn't provide any details.

Mr. Sasaki, who led the company's acquisition of Westinghouse and whose motto is "perseverance will open the way," said Wednesday his first priority will be to implement Toshiba's restructuring plan announced in January and return the company to profit in the coming fiscal year. Toshiba's restructuring calls for a 300 billion yen cut in fixed costs, a 50% cut in semiconductor capital spending and reorganizing its chip operations. Mr. Sasaki said he plans to inform the media later of his vision and strategy.

Analysts have said the company will probably need to take additional measures like pulling out of unprofitable businesses.

Mr. Sasaki, whom Mr. Nishida called his "right-hand man," started at Toshiba designing piping systems for nuclear power plants and has an engineering background. He has spent his career in Toshiba's power systems business and has no experience in the company's electronics and semiconductor businesses. His infrastructure systems division was the only Toshiba business division to post a profit in the fiscal quarter ended Dec. 31.

"Toshiba chose the right person because by putting Sasaki in charge it shows that it will be focusing more on its heavy electric business like nuclear power," said Yuichi Ishida, an analyst at Mizuho Investors Securities Co.

Mr. Nishida said that stepping down as CEO had nothing to do with the company's current problems and that he had intended to stay in the role for only four years. His predecessor, Mr. Okamura, held the top job for five years.

"I thought it was important for the person executing our restructuring to be the same one who decides how the company rebuilds afterwards," said Mr. Nishida, who studied German political thought and joined Toshiba through an affiliate in Iran.

With a management philosophy that "the greatest risk is not being willing to take a risk," Mr. Nishida is an unconventional Japanese executive, and Toshiba's aggressive growth strategy reflected his views.

By contrast, Toshiba's rivals, **NEC** Corp. and **Fujitsu** Co., have spent most of the past decade slimming down and moving away from capital-intensive businesses built up over years.

Toshiba's revenue has grown 31% since Mr. Nishida became president, while Fujitsu's revenue rose 11% and NEC's revenue fell 4% during the same period. But while NEC and Fujitsu had slower growth, analysts say they are now better positioned than Toshiba to weather the financial risks.

For its part, Toshiba exited the volatile DRAM chip business in 2002, and Mr. Nishida pulled the plug on its next-generation DVD business. But Mr. Nishida aggressively pursued areas targeted for growth.

Toshiba paid nearly triple the initial asking price for Westinghouse, an investment it saw as necessary to have a global presence in nuclear energy. The total price for Westinghouse was $5.4 billion, but its partners assumed a third of the stake, leaving Toshiba with a $3.7 billion cash outlay.

In the last two fiscal years ending March 31, 2008, the company also spent nearly 800 billion yen in capital expenditures to ramp up output at its chip business, including a 90 billion yen acquisition from Sony of a factory that produces processors used in Sony's PlayStation 3 game console.

Last month, Toshiba said it agreed to acquire Fujitsu's hard-disk drive business for an undisclosed sum.

The Westinghouse deal was considered a risky move in the short term, because it diverted financial resources from the semiconductor business, an industry notorious for its heavy capital requirements, but Mr. Nishida saw the deal as an important part of a long-term plan.

"It's hard to justify then, now and for the near future, but if Toshiba is able to execute its change strategy—and that will be challenging— [the Westinghouse purchase] could be seen in 10 years as the smartest thing it's ever done," said Damian Thong, analyst at Macquarie Securities.

Chugai reveals Roche drug dangers

By Yoshio Takahashi And Kenneth Maxwell

DAILY SHARE PRICE

Chugai Pharmaceutical

Wednesday's close: **1,497 yen, down 5.9%**

Source: Thomson Reuters Datastream

TOKYO—**Roche Holding** AG's new rheumatoid arthritis treatment might have been a causal factor in the death of 15 out of nearly 5,000 people who took the drug in Japan, with serious side effects such as pneumonia and severe fever detected in over 200 people, Roche's Japanese partner said Wednesday.

The drug, Actemra, is one of Roche's most important new products in development.

A spokesman for **Chugai Pharmaceutical** Co., which is 60%-owned by Roche, confirmed Japanese media reports on a study into nearly 5,000 users of Actemra. The spokesman said the company "can't deny" that there may have been "a causal relationship" between the drug and the deaths. He said the company will provide more information so that doctors can have a better understanding of possible side effects.

The study was conducted by the Japanese company as part of requirements imposed by Japan's Ministry of Health, Labor and Welfare when the drug was approved.

Roche said that the death rates among patients taking Actemra were similar to those of rheumatoid-arthritis patient populations generally, and also similar to those of patients taking other biological drugs for rheumatoid arthritis. "We don't see a deviation here that gives us reason for concern," a Roche spokeswoman said.

A pharmaceutical analyst for Morgan Stanley said the death rate of roughly 0.3% of Actemra users is similar to the death rate of Enbrel, an "established RA therapy." Morgan Stanley said it continues to forecast peak Actemra sales of 1.65 billion Swiss francs ($1.39 billion).

Actemra is approved for rheumatoid arthritis in Japan and the European Union but not yet in the U.S., where the Food and Drug Administration has asked the company for a new animal trial of the drug and other information.

—Jeanne Whalen contributed to this article

THE WALL STREET JOURNAL.
EUROPE
Executive Travel Program
Guests and clients of 320 leading hotels receive The Wall Street Journal Europe daily, courtesy of
AdvantiPro
www.advantipro.de

Emirates pulls Airbus A380 from N.Y. route

By Daniel Michaels And Stefania Bianchi

The decision by Dubai's **Emirates Airline** to yank its new Airbus A380 jetliners from service to New York is the latest blow to the reputation of the world's largest passenger plane just as it was starting to recover from a troubled development.

Emirates officials said that falling passenger demand—and not any problems with the A380—had prompted the airline to redeploy its two superjumbos currently flying to New York's John F. Kennedy International Airport onto its Toronto and Bangkok routes beginning June 1. Emirates plans to serve JFK with a smaller Boeing 777 model.

Airlines world-wide, including in the oil-producing Persian Gulf region, have been grounding planes and cutting routes amid the economic crisis. Dubai is particularly feeling the pinch as real-estate development, which had fueled local growth, has plummeted. Both Emirates and Abu Dhabi-based **Etihad Airways** have reported a fall in passenger numbers.

The decision to cut capacity on the route also highlights a little-known reality of the airline business: Few carriers actually make big profits on popular routes served by many competitors, where capacity often exceeds passenger demand.

Emirates' decision to downsize comes days after Airbus said it was addressing a list of complaints from Emirates about the A380's performance. Australia's **Qantas Airways** Ltd., another A380 operator, earlier this month said it was forced to ground temporarily some of its two-deck planes for technical reasons.

The glitches mark a setback for Airbus, which slowly had been restoring the image of its superjumbo after costly and embarrassing delays. Airbus, a unit of **European Aeronautic Defence & Space** Co., is still billions of dollars over-budget on the program and more than two years behind schedule.

EADS Chief Executive Louis Gallois recently said that building the plane "is still a challenge." Manufacturing one A380 requires the same manpower as nine of its single-aisle A320 jetliners, he said.

The A380's first flights got off to a good start. **Singapore Airlines** Ltd said its first A380, which entered service in October 2007, has been flying reliably. But Emirates, which got the first of its four current A380s last July, had to ground them briefly in September due to problems that it later said were tied to the plane's electrical systems.

Other problems have since arisen that were relatively minor but still significant enough to take the planes out of service temporarily. An Airbus spokeswoman said the company was "doing everything we can to eliminate the reported issues as quickly as we can."

Tim Clark, president of Emirates—which is the biggest customer for the A380, with 54 more still on order—said earlier this week that such problems are common with new planes. Officials specified on Wednesday that their decision to take the A380 off the New York service was unrelated to the technical issues.

"When economic conditions improve, we anticipate demand will be restored on the Dubai-New York JFK service, at which time Emirates will certainly evaluate redeploying the A380 on this route," an Emirates spokeswoman said.

GLOBAL BUSINESS BRIEFS

RWE AG

EU will review any buyer of gas-transmission network

European Union regulators said Wednesday they will vet any buyer for **RWE** AG's German gas-transmission network to avoid new antitrust concerns. The German energy supplier agreed last year to sell the network to avoid antitrust fines in a deal with regulators that became legally binding Wednesday. RWE sells natural gas directly to customers but also leases transport space to rival suppliers. The European Commission, the EU's executive arm, had suspected RWE of monopoly abuse, saying it may have refused to transport natural gas for other companies and charged them so much for transmission that they couldn't make a profit when they competed with RWE for gas customers.

Alfa Group

Russia's Alfa Group has cut its stake in Turkish mobile operator **Turkcell Iletisim Hizmetleri** AS to less than 5%, a requirement of a U.S. court ruling in favor of Norway's **Telenor** ASA. Alfa has been in a long fight with Telenor for control of Kyivstar, a Ukrainian mobile operator, in which the two are invested. A U.S. judge ruled in November that Alfa must either sell its stake in Kyivstar or reduce its stakes in competing operators Turkcell and Ukrainian High Technologies to less than 5%. Altimo, Alfa's telecommunications arm, said it sold a 62.2% stake in its Turkish subsidiary, Alfa Telecom Turkey Ltd., for $90 million. Altimo nows holds 4.99% of Turkcell.

BP PLC

British-Russian oil joint venture **TNK-BP** Ltd. said it appointed Jonathan Muir as chief financial officer and Didier Baudrand as executive vice president of its downstream division as well as executive director of the company. Mr. Muir has been acting finance chief of TNK-BP since August, when James Owen resigned amid pressure from shareholders. TNK-BP is owned 50-50 by U.K. oil major **BP** PLC and a group of Russian billionaires. Last year, the holders were in a fierce dispute over control and management of the company. Mr. Baudrand joins the company from BP, where until recently he was senior vice president for refining and marketing special projects.

Stora Enso Oyj

Paper maker **Stora Enso** Oyj warned Wednesday of large production cuts and plunging first-quarter profit as the economic downturn continues to plague the forest-products industry. The Finnish-Swedish company said its operating result in January through March will be "clearly down" from the fourth quarter of 2008 amid weak demand. Stora Enso said it is "committed to preserving cash flow through large production curtailments," including a projected 20% cut in paper and board production capacity. Stora, one of the world's largest forest-product companies, has 85 production plants in more than 35 countries. It employs 32,000 people, down from 36,000 a year ago.

Centrica PLC

U.K. gas and electricity company **Centrica** PLC moved Wednesday to boost its gas reserves and production by buying a 22.3% stake in North Sea gas producer **Venture Production** PLC in a deal valued at £239.4 million ($336 million). Centrica said it might eventually make a full offer for Venture, though there is no certainty at this stage. Centrica acquired about 33 million Venture shares at 725 pence each. Venture said that wouldn't be a good price for the whole company. "This substantially undervalues the company, its prospects and strategic position, particularly with regard to its U.K. gas resources," it said in a statement. It urged its shareholders to take no further action.

Danisco AS

Food-ingredients maker **Danisco** AS swung to a fiscal third-quarter net loss, hit by write-downs, but said it expects to break even for the full year. "We are feeling the impact of the world's economic crisis as customers focus on minimizing inventories and optimizing their cost base," the Danish company said Wednesday. Danisco posted a net loss of 646 million Danish kroner ($113 million) for quarter ended Jan. 31, compared with a year-earlier profit of 258 million kroner. Danisco earlier this month cut its full-year earnings forecast, citing weak demand, and booked a 560 million kroner write-down of assets. Third-quarter sales rose 3.8% to 3.1 billion kroner.

Eni SpA

Eni SpA expects to double its hydrocarbon output in Pakistan in five to six years after signing an agreement with the Asian country to give it "exclusive" access, Chief Executive Paolo Scaroni said. The Italian energy company plans to invest $50 million to $70 million a year in exploration activities in Pakistan. The deal shows that oil companies, in order to acquire more fields, are willing to operate in countries where security is a concern. Pakistan isn't a leading hydrocarbon producer but is seeking to boost output as well as revenue from its natural resources. Eni aims to have its first Pakistani offshore well running next year.

Benetton SpA

Italian apparel retailer **Benetton** SpA tapped Alberto Nathansohn, the finance chief of luxury jeweler **Bulgari** SpA, as its chief financial officer and cut its 2008 dividend. Mr. Nathansohn will take up his new position on May 1. He follows Emilio Foa, who left Benetton late last year. The retailer also lowered its 2008 dividend by 30% to 38 European cents (49 U.S. cents) a share and said it will focus on cutting costs this year. Benetton executives said they will close unprofitable stores, optimize the supply chain and renegotiate fixed costs such as worldwide rents. The board also agreed to seek shareholder approval for a share buyback.

—Compiled from staff and wire service reports.

POWER COUPLE.

THE WALL STREET JOURNAL.

&

Sotheby's
INTERNATIONAL REALTY

One, an expert in global news and information.
The other, an expert in the global real estate market.

An extraordinary collaboration has begun

@wsj.com/sothebysrealty

© 2009 Dow Jones & Company, Inc. All rights reserved. © MMIX Sotheby's International Realty Affiliates LLC. A Realogy Company. All Rights Reserved. Sotheby's International Realty® is a registered trademark licensed to Sotheby's International Realty Affiliates LLC. An Equal Opportunity Company. Equal Housing Opportunity. Each Office is Independently Owned and Operated.

ECONOMY & POLITICS

Believe it or not, Treasury has a plan

Getting capital into and toxic assets out of banks are the main pieces of the White House's strategy

By David Wessel

Yes, Virginia, the U.S. Treasury does have a plan to fix the banks and reignite markets in which loans are turned into securities. It exists as certainly as fear and greed exist, and you know that they abound and give the economy recurrent bouts of euphoria and despondency.

THE CAPITAL

You hear from pundits and other all-knowing observers that the Treasury has no detailed plan. These people have been affected by the skepticism of a skeptical age. Their vision is clouded by a bewildering number of acronyms and proliferating "term sheets." Their attention is distracted by the spectacle of taxpaying families (typical income: $63,000) financing AIG "retention bonuses" (73 people: $1 million or more each on top of their salaries).

The Treasury has thrown pieces of the jigsaw puzzle on the table, but few outsiders can see the whole of its plan. Here's a modest attempt to show the cover of the jigsaw-puzzle box.

Associated Press

U.S. President Barack Obama with members of his economic team, including Timothy Geithner, left, and Lawrence Summers.

The problem: No one has confidence in the financial strength of the nation's big banks. Even banks don't trust other banks. No one is sure what the loans and securities on their books are worth. No one knows which banks are strong enough to survive the recession. The market in which consumer and real-estate loans (made by banks or others) are turned into securities and sold to investors is moribund. Borrowers have trouble getting loans. Banks can't sell loans or securities they don't want.

Fixing banks and securities markets is even trickier in the wake of the uproar over bonuses paid by American International Group after the company was propped up with taxpayer money. President Barack Obama and Treasury Secretary Timothy Geithner cannot expect Congress to approve more bailout money even though they probably need it. So they must leverage the taxpayer money that their predecessors have already secured by luring private money and relying on the Federal Reserve's amazing ability to come up with unlimited sums without congressional consent.

The Treasury's bank strategy is twofold. One, get enough capital into the 19 biggest banks so everyone believes each can withstand a really bad recession. Two, get toxic assets off their books so banks will pick up the pace of new lending and savvy big-money investors will put money into the banks and help achieve the first objective.

The unfortunately named "stress test"—which conjured up images of Citigroup collapsing on a treadmill—was meant to be a confidence builder, though announcing it seems instead to have magnified doubts and uncertainty about the banks. The notion is to figure out by the end of April how much capital cushion each of the 19 big banks needs to survive a bad recession (that's the "stress test") and then give those who need more capital six months, until Oct. 31, to raise it privately or take a bigger taxpayer investment on different terms than former Treasury Secretary Henry Paulson offered. Until then, the Federal Deposit Insurance Corp. will guarantee bank debt so no one need worry about lending to them, or so the Treasury hopes. None of the 19 banks will flunk the test; the only question is which will need taxpayer capital in the fall.

Once upon a time, if you wanted a loan you went to a bank. But the "shadow banking system," where loans are turned into securities, did 40% of consumer lending before the crisis. To restart that dead market, the Fed and Treasury finally are beginning an initiative they announced four months ago to lend money to hedge funds and others on very sweet terms to buy packages of securities made up of new loans. Look for them to offer to do the same with old loans.

The last piece of the Geithner plan comes soon: Buying toxic loans and securities, mostly linked to real estate, from the banks and others. One challenge is putting a fair price on them. The Paulson Treasury spent months trying to fashion auctions in which the government would buy these assets. It never bought any. The Geithner Treasury decided that approach wouldn't work. What's more, it hasn't nearly enough taxpayer money to buy enough of the assets to make a difference.

So the plan is to form joint ventures between the Fed and money managers like Pimco or BlackRock. The Treasury kicks in, say, $1 for every $1 the private guys put in. The private investors, not the government, decide what securities to buy from the $1 trillion or so in securities linked to real estate or consumer loans. The private guys decide what price to pay. That's their business. Taxpayers and the investors would share the profits, if any. If the Fed lends to these ventures, they'll be able to buy more securities and pay more for them.

A separate set of joint ventures will shop among the $1 trillion or so in toxic loans on bank books. This effort will be leveraged by FDIC lending. The hope is that some banks will make themselves more attractive to private investors by selling toxic assets to the new joint ventures, and thus ease both parts of the banking problem simultaneously.

The Paulson Treasury pondered this approach, but feared a political backlash from giving taxpayer money to private investors to manage. (That's no small worry. Imagine the grilling money managers would face from Congress for making megasalaries and killer profits with taxpayer money.) The Geithner Treasury couldn't find an alternative it preferred, and it looked.

The Geithner plan might not work. It does exist.

Downturn puts the brakes on migration within the U.S.

By Conor Dougherty

Migration around the U.S. slowed to a crawl last year, as a housing market in free fall and a scarcity of jobs forced many Americans to stay put.

Demographers say the drop in migration, shown in Census data released Thursday, is among the sharpest since the Great Depression. It marks the end of what Brookings Institution demographer William Frey calls a "migration bubble."

As asset values rose fairly steadily in the past decade, Americans young and old moved around the country in search of jobs or better weather. In many cases, people living in higher-cost housing markets such as San Francisco and New York cashed in their real-estate winnings and moved to outlying counties, or to states like Florida and Nevada, hoping to find a cheaper house and pocket the difference. Now, "people are hanging tight; they're too scared to do anything," said Mr. Frey.

The data, covering the one-year period until July 1, 2008, show this effect across U.S. counties and metropolitan areas—another sign of how this recession has spared few industries or regions.

Migration typically slows during recessions. But in past downturns, the slowdown has been more regional in scope, with workers fleeing weaker job markets for places where companies were still hiring. In the deep 1980s recession, for instance, laid-off auto workers fled the industrial Midwest for energy-rich states in the South with more plentiful jobs.

What's unique this time is migration has slowed almost everywhere. The sharpest year-to-year changes were among what demographers call "domestic migrants," people who moved within the U.S. That doesn't count population changes that result from births, deaths or immigration.

Older metro areas such as New York and San Francisco, which have seen residents move to faster-growing areas, are now losing fewer people. Cities in the formerly hot housing markets such as Nevada and Florida are seeing fewer arrivals and, in some cases, more people move out than in.

At the local level, more people are staying in the city and postponing their move to the suburbs. In 2005-06, metropolitan areas with one million or more people saw a net 688,000 people leave their core counties. In 2007-08, a net 336,000 left, according to an analysis of Census data by Kenneth Johnson, senior demographer at the University of New Hampshire's Carsey Institute.

"Fewer people are leaving the urban cores to go to the suburbs," said Mr. Johnson.

International migration slowed moderately, according to the Census data. In 2005-06, the country absorbed a net of about one million immigrants. In 2007-08, that fell to a net gain of 890,000. The slowdown in international migration was sharpest in suburban fringe areas, where the housing market has in general been worse than in core cities or closer-in suburbs.

The slumping economy, as well as depressed prices of just about every kind of asset, is behind many of these decisions to stay put. Jeff Fallon, a managing partner at a private-equity firm in Cleveland, made two trips to Florida last year looking to buy a home in the Sarasota area. But with the stock market down and real-estate prices still falling, Mr. Fallon decided to hold off for a bit.

"I was looking at a substantial amount of our personal wealth disappear as the stock market spiraled down," he said. "It certainly had a lot of bearing on whether or not I was willing to invest in a second home."

Decisions like his help explain why a net 15,000 people left the Cleveland area for somewhere else in the U.S., compared with a net of 20,000 between 2005 and 2006. Sarasota, meanwhile, saw a net increase of 2,500 residents from inside the U.S, compared with as many as 21,000 during the boom years.

The Census data show that the biggest falloffs were in the worst housing markets. Last year, the Phoenix area gained a net 51,000 domestic migrants, about half as many as two years ago.

Las Vegas increased by a net 14,000 domestic migrants, two-thirds fewer than two years ago. California's Riverside-San Bernardino metro area, a once-booming market that has been hammered by foreclosures and job losses, lost domestic migrants for the first time since 1996.

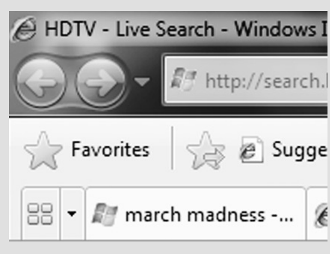
The migration slowdown, if it persists, could further delay the economic recovery in depressed housing markets such as Phoenix and Las Vegas. These places generally have a larger amount of unsold homes, and a disproportionate share of the economy is dependent on construction and other real estate-related trades.

Economists say the housing-centric economies will need to reduce their stock of unsold homes before any meaningful economic recovery takes place. That's hard to do when fewer people are moving there.

Personal Technology

IE8: not quite great

Walter S. Mossberg says new Microsoft browser falls short of Firefox > **Page 27**



ECONOMY & POLITICS

World Bank cuts China forecast

Growth seen at 6.5%, as Beijing is urged to pace stimulus

By J.R. Wu

BEIJING—The World Bank cut its forecast for China's growth this year to 6.5%, below Beijing's target of around 8%, and cautioned that China should be prudent about expanding its stimulus spending this year because it may need to save its ammunition for 2010.

The bank now projects China's consumer-price index, the country's key inflation gauge, will rise a mere 0.5% this year, compared with its previous forecast for a 2% increase. The bank said February's CPI drop didn't necessarily signal "problematic" deflation, with core prices and wages, as well as output, declining in tandem, but cautioned that given the global economic weakness and potential overcapacity in China, "problematic deflation is a risk."

The bank lowered its forecast for China's gross domestic product from its previous estimate of 7.5%, mostly due to the worsening global economy.

Government investment and consumption will help growth this year, it said. But policy makers could do more to spur private consumption and improve social programs to ensure that short-term targets don't undermine the work to rebalance the world's third-largest economy, the World Bank said.

Louis Kuijs, senior economist of the World Bank, said China's year-to-year economic growth will likely be weakest in the early part of 2009. He said declines in Chinese exports may have bottomed in February, but full-year exports will likely shrink significantly from last year. "Overall they remain very grim," he said.

Chinese exports in February fell 25.7% from a year earlier, down for the fourth straight month and a sharper decline than in January.

Mr. Kuijs said it isn't in China's interest to significantly depreciate the yuan because the country wouldn't gain a lot in terms of exports. He said he doesn't expect China to move in this direction.

Government-influenced direct expenditure will account for 4.9 percentage points of total GDP growth, the bank said.

It added that China's fiscal deficit will rise to 3.2% of its GDP this year, a forecast slightly higher than the Chinese government's estimate of nearly 3% due to the bank's lower GDP growth forecast. Much of China's deficit is a result of the government's four trillion yuan ($585 billion) infrastructure-focused stimulus plan, which was announced in November and will run through 2010.

Mr. Kuijs urged China to focus more on consumption-oriented fiscal spending and improve the domestic social safety net.

"Looking ahead, we think that there are limits to how much the government can beef up investment and infrastructure-oriented stimulus packages in the official manner," he said. "Given that China will continue to grow even in the very weak climate, it may make just as much sense to not go for the second or third general fiscal stimulus."

The bank's new overall growth rate estimate is below Beijing's target of around 8%, and down from last year's actual growth of 9%, which snapped five years of double-digit growth in China.

But the World Bank said that while the growth rate projected for this year is "significantly lower" than China's potential growth rate, this isn't likely to jeopardize China's economy or social stability.

"I don't want to be too gloomy. We do see the world economy recovering in the second half of 2009 and also a lot of strength in China's economy," said David Dollar, the World Bank's country director for China. "So, we see China as a relative bright spot in a rather gloomy global economic picture."

The World Bank estimated China's foreign-exchange reserves, the world's largest, will rise to $2.376 trillion by the end of this year, an increase of $425 billion. In 2008, the country's forex reserves rose by $420 billion.

It said China shouldn't worry about the slowing pace in the accumulation of foreign-exchange reserves and estimated China's current-account surplus to rise to $425 billion this year, from an estimated $416 billion last year.

Slowing down

China's GDP, change from the previous year

Source: World Bank

Consumer prices in U.S. increase; trade gap narrows

By Brian Blackstone

WASHINGTON—U.S. consumer prices increased for a second straight month, raising the odds that the economy will avoid a protracted deflationary spiral of falling prices and spending.

The consumer-price index rose 0.4% in February from January, the Labor Department said. The CPI rose 0.3% in January. The core CPI, which excludes food and energy prices, was up 0.2% for a second straight month, slightly higher than expected.

Consumer prices were up 0.2% compared with a year ago, significantly under the 2% annual rate of inflation most Fed officials think is consistent with their dual mandate of price stability and maximum employment.

Meanwhile, the current-account deficit decreased to $132.8 billion in the October-December period from an upwardly revised $181.3 billion in the third quarter, the Commerce Department said. For 2008, the deficit totaled $673.3 billion, down from $731.2 billion in 2007. The current account combines trade of goods and services, transfer payments and investment income.

Subscribe & Save 72%!

Is this economic liberalism gone mad?

The Wall Street Journal Europe has never been one to climb onto bandwagons, economic or otherwise. But neither do we make a habit of climbing *off* of them the moment the ride gets a bit rough.

We take a much more considered view of business and financial developments than that. Reporting on the day's events as they happen across the globe, we step back and analyse prospects over the longer term. So our readers are primed and prepared.

So why *are* we offering such a low rate on a subscription to The Journal?

The answer is simple. We're confident that once you've experienced the benefit of having Europe's most influential business paper waiting on your desk Monday to Friday, you'll want to maintain the habit.

But that's for you to decide later. Right now, climb on board and benefit from our economically air-tight offer while it lasts.

☐ Please start my six month subscription for just €113 (CHF 176.40; UK £54.60). This represents a saving of over 65% off the cover price.

☐ I prefer to subscribe for one year for just €178 (CHF 298; UK £99) and save 72%. **I also qualify to receive a free Amazon voucher worth £30 when I pay by credit card.**

BEST OFFER

Mr/Mrs/Ms Full Name (Circle One) ____

Job Title* ____

Company* ____

Delivery Address ____

City ____

Postcode/Zip ____

Country ____

Email ____

*Optional. All other information is required. Failure to provide obligatory information will result in subscription delays.

PAYMENT METHOD:

☐ I am paying by credit card.

☐ Visa ☐ Amex ☐ Eurocard ☐ MasterCard

Card No. ____ Expiry Date ____

Signature ____ Date ____

☐ Please invoice me/my company (I will pass up the free Amazon voucher.)

TO SUBSCRIBE:

Complete this coupon and post to: Subscriber Relations, The Wall Street Journal Europe, Stapleton House, 29-33 Scrutton Street, London EC2A 4HU, UK

Fax to: +44 (0) 20 7426 3329

Visit: www.services.wsje.com/DMDJM

Phone: +44 (0) 20 7309 7799

Please quote your tracking code when asked: HSHSECM000L

We may provide your information to third parties, including companies outside of the EU, in order to fulfill your subscription request, process data and provide you with promotional information from WSJE, its affiliates and other carefully selected companies.

☐ I do not wish to receive promotional materials from other carefully selected companies.

☐ I do not wish to receive promotional materials from WSJE or its affiliates.

Hand delivery subject to confirmation by local distributor. Offer only open to new subscribers. Please allow 2 weeks for delivery to commence.

©2009 Dow Jones & Company Inc. All rights reserved.

DOWJONES

FREE £30 AMAZON VOUCHER. INCLUDES ACCESS TO WSJ.COM

Pakistani premier seeks power shift, unity

Gilani would restore power to parliament, work with opposition

By Zahid Hussain

ISLAMABAD—Pakistan's prime minister took up the causes of democracy and political unity Wednesday, after gaining in stature this week for his role in defusing a conflict that left the president weakened and his opposition victorious.

In an interview, Prime Minister Yousuf Raza Gilani vowed to return to parliament authority that it lost in 2002 when President Asif Ali Zardari's predecessor, Pervez Musharraf, gave sweeping powers to the presidency, including the power to dismiss parliament.

The return of powers to parliament could help restore democratic checks and balances, advocates of the shift say, and possibly bring the opposition into the ruling coalition. Opposition leader Nawaz Sharif, a former prime minister, describes the current distribution of powers as Pakistan's biggest obstacle to a smoothly functioning democracy.

"We are committed to changing the system," a confident Mr. Gilani said. "My main endeavor is to end the politics of confrontation."

He added that he planned to cooperate with Mr. Sharif. Protests led in part by the opposition leader helped force Mr. Zardari this week to allow the restoration of a former Supreme Court chief justice who had become to many Pakistanis a symbol of rule of law in the nascent democracy.

Associated Press

Pakistani Prime Minister Yousuf Raza Gilani on Wednesday vowed to return to Parliament authority it lost in 2002.

"I am sure we can work with Nawaz Sharif in strengthening the democratic process," Mr. Gilani said. "We have to return to parliamentary democracy on the lines of Westminster."

In 2002, Mr. Musharraf took from the premiership and gave to the presidency the powers to appoint the chief of the armed forces, Supreme Court judges and the chief of the election commission, as well as send back for review any bill passed by parliament. Mr. Musharraf also made the president the supreme commander of the armed forces.

Restoring those powers to the prime minister would return the presidency to its earlier, largely ceremonial position.

That shift would also give more power to Mr. Gilani himself. As prime minister, however, he must answer to the legislature in a way that the president doesn't.

"The presidential system concentrates too much power in one individual whereas a parliamentary system means strengthening institutions," says Maleeha Lodhi, a former ambassador to the U.S. and a political commentator.

Mr. Zardari, the widower of former Prime Minister Benazir Bhutto, pledged to rescind the enhanced presidential powers but hasn't yet done so. A spokesman for Mr. Zardari said the president wants to implement changes that rescind the broad powers of the office "but that requires a constitutional amendment," which calls for a two-thirds majority vote in parliament.

Mr. Zardari, as leader of the Pakistan People's Party, picked Mr. Gilani to be prime minister after elections in February 2008, but in recent months people close to both men say their relationship has cooled.

Mr. Gilani said he would offer Mr. Sharif the opportunity to rejoin the governing coalition. Mr. Sharif's party was part of the coalition after the 2008 elections but he quit over disagreements with Mr. Zardari last summer. "I hope we will go back to our relations," Mr. Gilani said.

Mr. Gilani's remarks come after his own political credibility received a big boost this week when he helped to defuse the political turmoil that threatened to engulf the nuclear-armed nation.

His new assertiveness stems in part from the backing he has received from opposition parties.

As Mr. Sharif and hundreds of thousands of protesters were descending on the capital for demonstrations, Mr. Zardari agreed to reinstate the Supreme Court justice and to petition the court to lift a ban that bars Mr. Sharif from holding elected office.

Mr. Gilani was a key player through negotiations to defuse the crisis, according to members of the opposition and of the government. During those talks, Mr. Gilani said, he spoke frequently with Mr. Sharif by phone and met army chief Gen. Ashfaq Kayani several times. Athar Abbas, chief military spokesman, declined to comment.

BOJ increases its bond purchases

By Megumi Fujikawa
And Tomoyuki Tachikawa

TOKYO—With Japan's recession deepening and corporate financing conditions still tight, the Bank of Japan boosted its purchase of Japanese government bonds to pump more funds into the market.

The central bank also held its benchmark interest rate steady at an ultra-low 0.1%. The bond-purchasing plan was more than analysts had expected and sooner than many had anticipated.

With the BOJ still cautious about financial conditions down the road, Gov. Masaaki Shirakawa said the stepped-up buying of government bonds is intended to stabilize financial markets in the fiscal year starting in April. The move isn't intended to bring down long-term interest rates or finance growing government deficits, he said.

The unanimous decision by the BOJ's policy board reflects the central bank's continuing effort to get the economy moving as Japan struggles with its deepest recession since the 1970s. With exports setting record declines each month and production slowing sharply, Japan's gross domestic product fell 12.1% in annualized terms in the final quarter of 2008 and is expected to post another double-digit decline for the first three months of 2009.

The statement announcing the board's decision said economic conditions in Japan have "deteriorated significantly and are likely to continue deteriorating for the time being."

Like other central banks, the BOJ has cut interest rates to near zero and unveiled a raft of programs to stimulate lending and spark business activity. On Tuesday night, for example, the central bank said it is considering providing one trillion yen ($10.15 billion) in subordinated loans to banks to shore up their capital and encourage them to lend more widely.

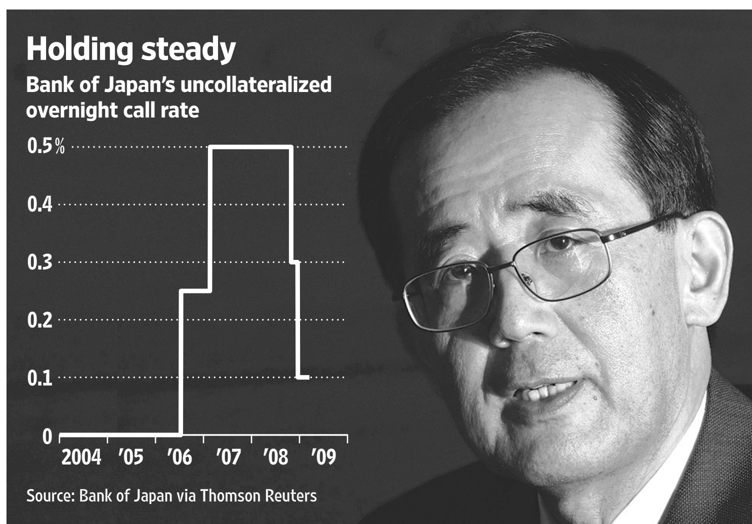
Wednesday's decision—the largest increase to date in the BOJ's outright bond-purchasing operations—will boost purchases of government bonds to 1.8 trillion yen a month and 21.6 trillion yen a year, up from the 1.4-trillion-yen-a-month and 16.8-trillion-yen-a-year level set in January. The market had been expecting a monthly increase of 100 billion yen to 200 billion yen.

Mr. Shirakawa suggested after the meeting that the program is unlikely to be expanded further.

The board decided that increasing the bond purchase is "important to conducting smooth monetary operations to ensure financial-market stability," he said.

Wednesday's move may help the market overcome supply fears from stimulus packages, Royal Bank of Scotland strategist John Richards wrote in a research note.

Government-bond prices rose on the news Wednesday, with the lead June futures contract up 0.3 point in a matter of minutes and cash bonds, which were flat or down before the BOJ decision, gaining across the curve. Profit-taking knocked off some gains, however, and Tokyo shares rose only modestly.



Reuters

Bank of Japan Gov. Masaaki Shirakawa in Tokyo on Wednesday

Energy chief says U.S. is open to carbon tariff

By Ian Talley
And Tom Barkley

WASHINGTON—U.S. Energy Secretary Steven Chu on Tuesday advocated adjusting trade duties as a "weapon" to protect U.S. manufacturing, just a day after one of China's top climate envoys warned of a trade war if developed countries impose tariffs on carbon-intensive imports.

Mr. Chu, speaking before a House science panel, said establishing a carbon tariff would help "level the playing field" if other countries haven't imposed greenhouse-gas-reduction mandates similar to the one President Barack Obama plans to implement over the next couple of years. It is the first time the Obama administration has made public its view on the issue.

"If other countries don't impose a cost on carbon, then we will be at a disadvantage ... [and] we would look at considering perhaps duties that would offset that cost," Mr. Chu said.

Li Gao, a senior Chinese negotiator from the National Development and Reform Commission, told Dow Jones Newswires Monday that a carbon tariff would be a "disaster," would prompt a trade war and wouldn't be legal under World Trade Organization agreements.

Mr. Chu's comments came amid other signs of concern among U.S. trading partners about protectionist rhetoric and legislation from Washington. On Monday, Mexico announced it would put tariffs on $2.4 billion of U.S. goods in retaliation for a measure to limit the access of Mexican truckers to U.S. roads. "Buy American" provisions tied to the recent stimulus package have prompted concerns from some U.S. trading partners, and trade issues are expected to be prominent on the agenda at meetings next month among leaders of the Group of 20 leading nations.

European Union Trade Commissioner Catherine Ashton said in an interview in Washington Tuesday that she hopes the Obama administration will give strong backing to relaunching talks on the WTO's stalled Doha round at the G-20 meeting. Ms. Ashton said U.S. support for completing a new global trade deal would boost confidence in world markets.

The carbon tax issue is important to energy-intensive U.S. industries that worry that costs imposed by climate-change laws will put them at a disadvantage to rivals in nations that aren't bound by similar requirements.

European Union officials are considering a similar tariff, prompting some developing nations to caution that trade restrictions run the risk of retaliatory action.

China is seeking to require importers of its carbon-intensive goods to bear the emission costs, concerned that targets such as those proposed by the U.S. would cripple the nation's growth as an industrializing nation.