



Nice people make it to the top, but then strange things happen

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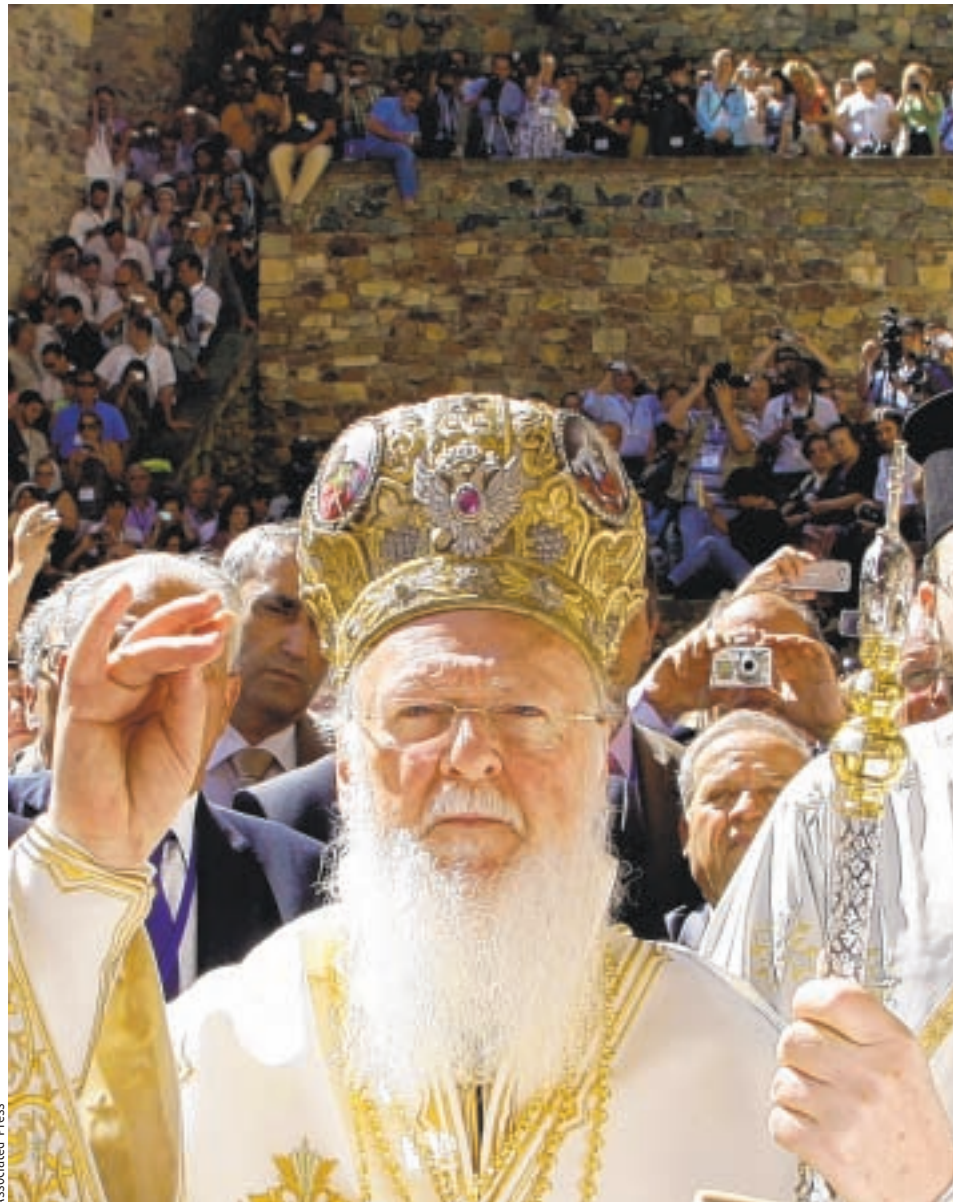
EUROPE

Monday, August 16, 2010

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Turkey allows historic Christian service



The religious leader of the world's Orthodox Christians, Ecumenical Patriarch Bartholomew I, conducts a service at the Sumela Monastery in Trabzon, Turkey, on Sunday. It was the first official service to take place at the monastery since the creation of modern Turkey. **Related article, page 4**

China is set to take No. 2 economy spot

China is getting closer to surpassing Japan as the world's second-largest economy, an unprecedented position for a still-developing country and one that has brought strains as well as triumphs.

By Andrew Batson, Daisuke Wakabayashi and Mark Whitehouse

Japan was to report on Monday morning its economic output for the second quarter, and analysts were expecting it to fall short, in U.S. dollar terms, of the \$1.339 trillion China has already reported for the three months ended in June. Though China's economy has previously produced more than Japan's during in a single quarter, many economists expect China to overtake Japan as the world's second-largest national economy in U.S. dollar terms once final numbers for all of 2010 are compiled.

The move would be "a milestone for the global economy," says Bruce Kasman, chief economist at J.P. Morgan Chase & Co. in New York. "The impressive thing in China is how well they've gone through what has been a really difficult time for most countries and kept growing at a strong pace."

China's exact global ranking is a function of how economies are measured. For example, in terms of purchasing-power parity, which takes into account the goods and services a country's currency actually buys at home, China has long since surpassed Japan for second place behind the U.S. By contrast, China's output per person, at about \$4,000, is about a tenth that of Japan.

The shift in position has come as the Japanese economy has muddled through two decades of sluggishness, in stark contrast to China's sizzling growth. Japan has

seemed resigned over the past few years to the inevitability of its loss of economic pre-eminence in Asia.

In an April survey of 2,392 people conducted by Asahi Shimbun, one of Japan's largest newspapers, 50% of the respondents said they considered Japan's economy being passed by China's and falling to the No. 3 spot a "major problem"—but 46% didn't think it was.

The divergence in fortunes between the two countries is evident to Tokyo taxi driver Koichi Yamata, who says he is picking up more Chinese tourists these days as increasingly cost-conscious Japanese take fewer cabs. However, he says, it is a sad reminder of how far Japan has fallen.

"It might not be right to say, but I honestly find it a little frustrating to see the Chinese enjoying the type of economic boom that we once had," says Mr. Yamata.

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The Quirk



Could John the Baptist be the Bulgarian economy's savior? Page 29

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Editorial Opinion

The fat tax proposals are not about public health concerns but government revenue demands. Page 13

German workers' wages belie country's rebound

By ANDREA THOMAS

BERLIN—Germany has surprised the world with a sharp acceleration in its economic recovery, but perhaps the least impressed by this feat are Germans themselves.

The German economy expanded a sharp 2.2% in the second quarter from the first—the fastest pace since reunification in 1990. But, despite the export-driven rebound, most German workers aren't getting any richer.

One in five is working in the low-wage sector, defined as earning less than €9 (about \$11.50) an hour. Nearly a third of the job openings are temporary and often badly paid.

Michael Wolff, a 45-year-old sound engineer from Berlin, earns €5 an hour producing radio plays when he has assignments, but he says he also needs social welfare to survive. "There is no economic upswing for me; there's no work," he said. Working full time plus overtime could bring him about €1,000 a month, he said. "It's an absolute disgrace that we can't make a living with our work."

Chancellor Angela Merkel's government has hailed Germany's "job miracle" after whittling the jobless rate down to 7.6% of the work force, compared with unemployment levels of about 10% in the U.S. and France.

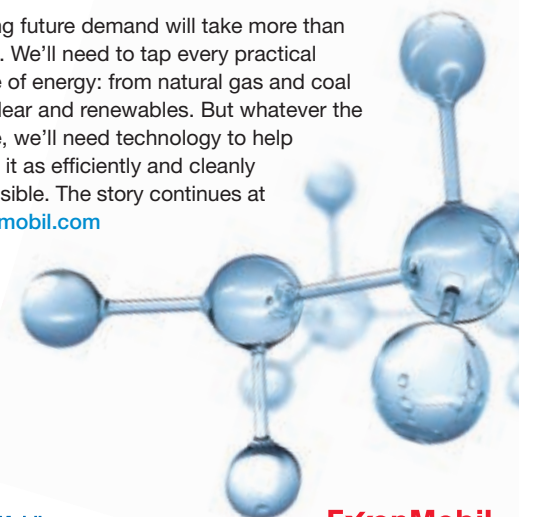
But the bulk of that reduction has come from the emergence of part-time jobs, often at low pay. That helps explain why German domestic demand has remained sluggish even as German exporters boast booming foreign orders. The disparity has drawn accusations from Germany's neighbors, notably France, that it is exploiting the world recovery without contributing to global demand.

Average annual net income per employee has fallen steadily since 2004, reaching €15,815 in 2009, down from €16,471 in 2004. As part of the so-called Hartz IV labor-market overhaul program to

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PAGE TWO

Trichet must decide whether he wants to drive in the fast or the slow lane

[Agenda]

By IRWIN STELZER



A two-speed Europe has always been unacceptable to advocates of the European project. Insistence on a one-speed Europe might, only might, prove to be a feasible political policy. But when it comes to economics, a two-speed Europe is here, and is here to stay for a long while.

Germany is in the midst of an export-led boom that saw its economy grow at an annual rate of over 8% in the second quarter, the fastest pace since reunification in 1990. Profits are good and employers are hiring or adding hours to those working part time. All this to the delight of anti-Keynesian fiscal conservatives. Opponents of further fiscal and monetary stimulus are saying that Germany's rather spectacular performance is due at least in part to the budget-balancing policies initiated by Chancellor Angela Merkel—no Obama-style borrow-and-spend for Europe's new Iron Lady.

But Germany is not euroland. It is easy to dismiss what we have come to call the periphery countries (Greece, Spain, Ireland, Portugal), but their combined GDP almost equals that of Germany. And they are in trouble. Greece is in recession: Its economy contracted at a rate of 6% in the second quarter, while both Spain and Portugal grew at annual rates of less than 1%.

Unfortunately, unlike history, in economics the past is not necessarily prologue. The euro-zone economy is unlikely to repeat its recent performance. Jean-Claude Trichet, president of the European Central Bank, expects performance during the



Germany wants Jean-Claude Trichet to step on the brakes.

rest of the year to be "significantly less dynamic," his forecasters attribute second-quarter performance to "temporary effects," and Standard & Poor's says, "Europe's growth most likely peaked at midyear."

For one thing, German exports are unlikely to continue their red-

An increased burden will be placed on the unwilling shoulders of euro-zone consumers.

hot growth, especially if the euro remains at approximately current levels. Growth in China, an important market, is slowing, in part because of efforts by the regime to avoid overheating. America, another important export market, is experiencing a slowdown that has some economists talking "double-dip" and some Federal Reserve Board officials whispering about Japanese-style deflation. Britain has been growing at a decent rate, but reality in the form of the austerity measures the new

government is promising to impose has yet to bite.

With export growth slowing, an increased burden will be placed on the unwilling shoulders of euro-zone consumers, who are not in a particularly buoyant mood. Kenneth Weinstein, CEO of the Hudson Institute and a colleague who follows French affairs (the economic ones, that is) closely, says that growth in euroland's second-largest economy, which did pick up, remains "too anemic" to create many private-sector jobs. Jacques Dupre of international consultants Symphony IRI, says that "frugal fatigue" might have prompted French shoppers to loosen their purse strings recently, but retail sales will increase only a bit more than 1% in the second half of this year. Indeed, French spending on manufactured goods declined by 1.4% in June, reversing a 0.6% gain in May, according to the National Institute of Statistics and Economic Studies, France's keeper of national statistics.

Nor can the periphery countries be expected to snap up many German exports. Greek consumers aren't in the market for many Mercedes these days, Spain's recent slight growth is

likely to come to an end with the summer tourist season, and the Irish are still digging out of a huge deficit hole. Meanwhile, German consumers must be counted as consumption-shy.

Equally important, the financial problems of the periphery countries and of the euro-zone banks are far from solved. The spread between Greek, Irish and Portuguese IOUs and those of Germany are rising again, and confidence in the ability of euro-zone banks to raise needed capital, temporarily buoyed by initial cursory examinations of the stress tests, is rapidly dissipating. Ireland's government has had to add €10 billion (\$12.7 billion) to the €14.3 billion it has already pumped into Anglo Irish Bank Corp., which S&P has placed on credit watch. As for Spain, its banking system remains troubled, unable to obtain financing in the market, and therefore forced to borrow a record €130.2 billion from the European Central Bank in July, the highest amount since the Bank of Spain began keeping records in 1999. Greek, Portuguese and Italian banks also are relying on the ECB to meet their capital needs.

Which leaves Mr. Trichet undecided whether to drive in the fast or slow lanes. Germany, ever fearful of inflation, is encouraging him to continue the exit strategy that has seen excess liquidity drop from €300 billion to €100 billion, and the three-month interbank rate rise by over 20 basis points, according to AllianceBernstein estimates. But Germany's euroland partners have no desire to see Mr. Trichet step on the brakes. They prefer him to keep his foot on the accelerator, and continue supporting troubled banks, even if he must face down a tirade from that ever-present speed cop, Angela Merkel.

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

What's News

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NEWS

Russia's grain export ban begins

BY JACOB GRONHOLT-PEDERSEN

NOVOROSSISK, Russia—The port of Novorossiysk on Russia's Black Sea coast should be frantic with activity as Russia's wheat harvest is sent to markets world-wide. Sunday, however, the grain terminal here with its giant silo towers fell silent as Russia's export ban came into effect.

The last rail wagon was off-loaded at 3 p.m. Saturday, in time for the last shipment to be sent off by midnight. Less than a handful of the more than 200 workers employed by the company were in sight.

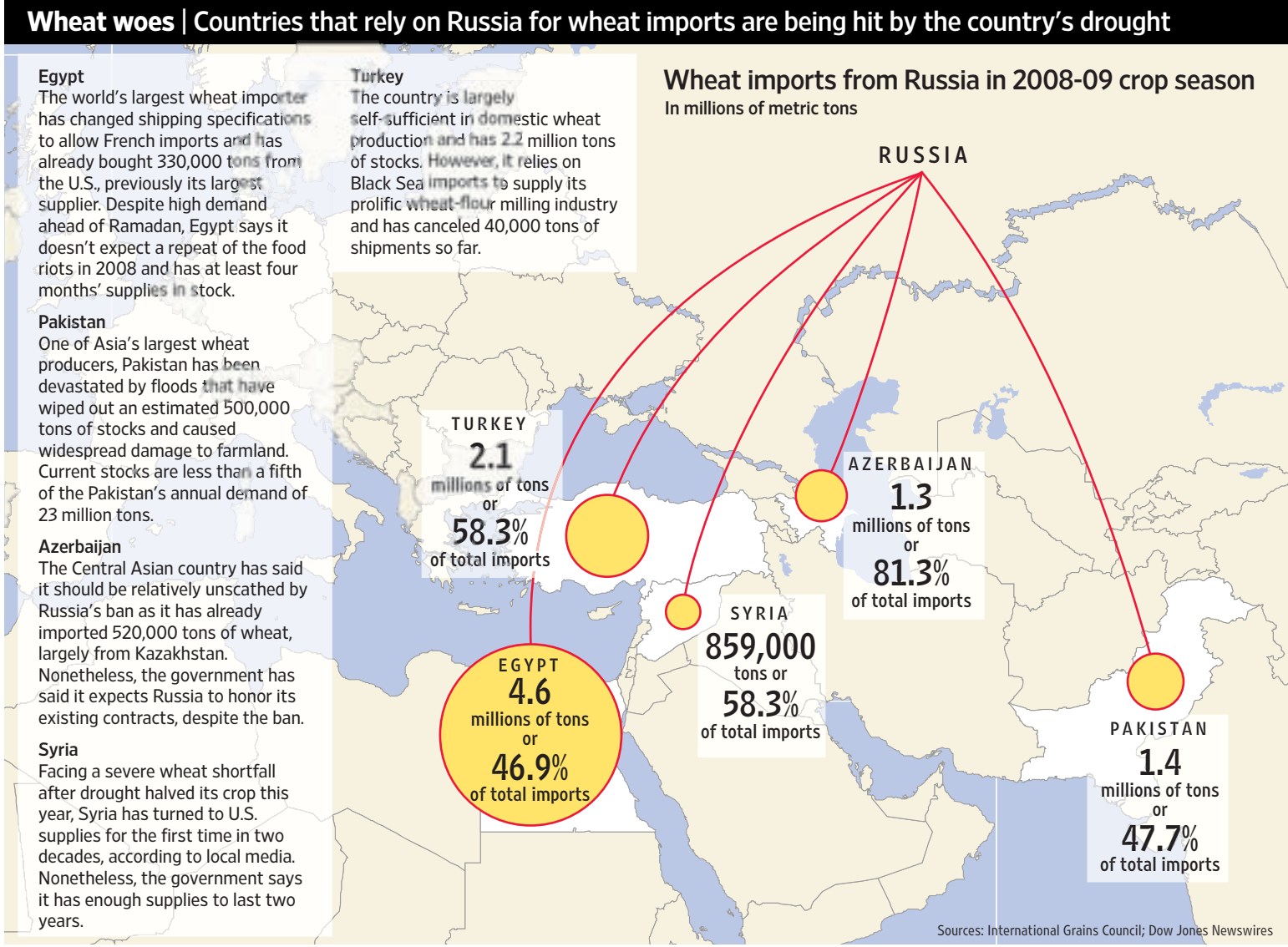
The grain from these terminals, part of the fourth-largest port in Europe measured by cargo turnover, could have gone to Egypt, Turkey, Pakistan, Azerbaijan, or any of the many countries that last year were major importers from Russia. Now, they're looking for alternative sources, a job made more difficult by the aftershocks Russia's ban could have on grain markets.

The record temperatures and dry weather, that has blanketed many regions in Russia in wildfires and smoke, has caused the government to lower its forecast for 2010 grain harvest by a third.

Russia was the world's third biggest wheat exporter last year—sending 18.3 million tons abroad, according to the International Grains Council—and it shocked markets this month by placing a ban on grain exports starting Aug. 15. The news sent global wheat prices soaring and underscored the risk of a broad shock to the global food supply.

The problem for countries that planned to rely on wheat from Russia is that other producers in the region, notably Kazakhstan and Ukraine, are seen as unreliable replacements. Kazakhstan last year exported 5.8 million tons. However, agricultural analyst UkrAgroConsult said last week that it was expecting Kazakhstan, which is in a customs union with Russia, to also ban exports and divert its high-quality wheat to Russia.

Kazakhstan has said it isn't planning any such ban.



Another cheap source would be Ukraine, the fifth-largest wheat exporter, which last year exported 12.9 million tons. However, Ukraine's government last week discussed bringing in quotas on grain exports after adverse weather affected the harvest.

The result: Egypt, which has become increasingly reliant on cheap Russian wheat imports in the past five years, has said that it wants supplies from outside the region despite higher costs.

U.S. Department of Agriculture Secretary Tom Vilsack said Wednesday that the Egyptian government has "reached out" to the USDA for information on the availability of U.S. wheat supplies. The U.S. is the world's largest wheat exporter, shipping 26.8 million tons last year.

Australia is expecting a bonanza, while licenses to export soft wheat from Europe rose 35% within days of the export ban being announced.

One key question is how long Russia's production shortfall will

last. The dry weather is adding to concerns about next year's crop. Global wheat production in the 2010-11 season is expected to fall 3% from 2009-10 to 656 million tons, due to shortfalls in the Black Sea region, according to Germany-based analytical firm F.O. Licht. The small window to plant winter crops is approaching without any rains in sight. If the crops are planted in the spring yields are much lower.

At Novorossiysk, Mikhail Pektrenko, chief executive of Novorossi-

ysk Grain Terminal, says the next few months will be taken up with maintenance. Watching one of the final cargoes being loaded, 30,000 tons bound for Egypt, he says he's planning on taking his family out on the Black Sea in a 10-meter motor boat that he bought last year.

The hot weather may have withered Russia's grain harvest, but he notes that for pleasure cruising it good news. "The water is 30 degrees. It's never been so warm before," he said.

German workers say rebound not trickling down

Continued from first page
support low-income groups, the government has spent €50 billion in welfare subsidies since 2005 for people who earn too little to make a living.

Lobby groups for low-paid and unemployed workers worry that an increasing number of jobs have to be subsidized. "Hartz IV has made it possible for companies to get their profit subsidies from the general public, with companies paying starvation wages while those affected need Hartz IV to survive," said Martin Behrsing, spokesman for the Unemployed Forum Germany.

Another measure for low-income workers is looking at people who earn two-thirds or less of the average income. By that measure, the number of low-paid workers increased by almost 2.3 million people to 6.55 million between 1998 and 2008, according to a recent study by the Institute for Employment and Qualification at the University Duisburg-Essen.

The Organization for Economic

Cooperation and Development's employment outlook report 2010 shows that 21.5% of Germans worked in the low-pay sector in 2008, up from 16% in 1998. In an international comparison, the share of low-paid workers remained unchanged at 24.5% in the U.S. and increased only slightly in the U.K. to 21.2% from 20.8%. The average among OECD countries is 16%.

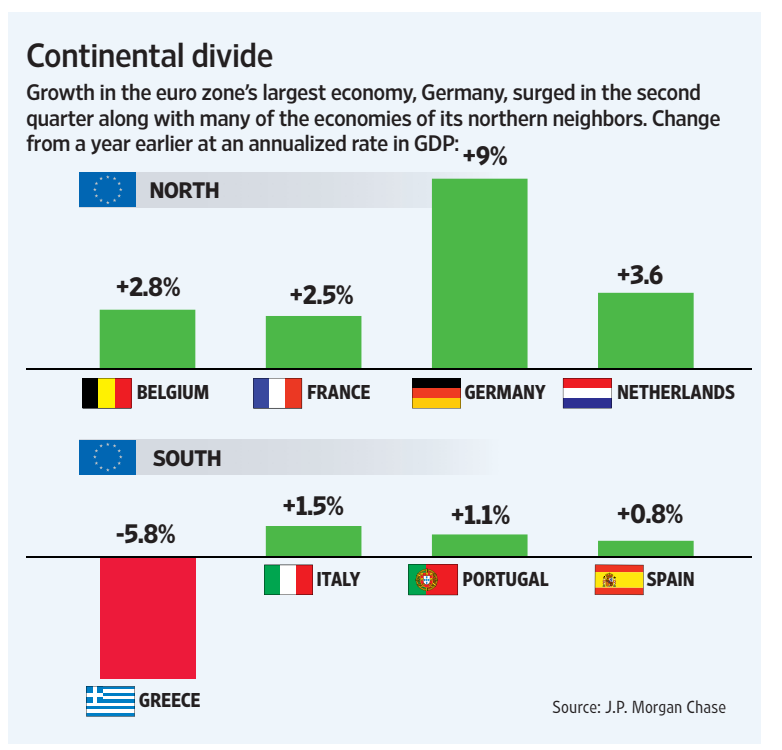
"I think we have seen in Germany for quite a while now an expansion of the low-wage sector, since the mid, late 1990s," said Herwig Immervoll, an economist with the OECD, which is based in Paris. "There is an increase in the inequality in Germany. We see this in other countries too, but maybe not as much as in Germany."

Duisburg-Essen University's employment institute puts it even more starkly: "No other country has experienced a similar increase in the low-income sector over the past years and a differentiating of wages to the downside as Germany has," it says in its study.

Klaus-Dieter Friedrich, a 51-year-old master butcher from Wetzlar, in central Germany, ran his own business before he started working for a big company, which requires him sometimes to work as much as 70 hours a week without any extra pay or compensation time.

"The upswing hasn't reached me. What I am witnessing is exploitation. There is more and more low-paid work. People don't find work, and if so only as temporary work, which is a great mistake because it's destroying the wage system," Mr. Friedrich said. "It might well be that the upswing has reached the big companies and that they are making more money, but it's the opposite for the ordinary guy," he said.

Such sentiments are weighing on Ms. Merkel's center-right government, whose popularity has been tumbling in opinion polls that increasingly favor the center-left opposition. One recent poll showed that four out of five Germans say they aren't personally benefiting from the rebound.



EUROPE NEWS

Turkey allows service in monastery

By MARC CHAMPION

SUMELA, Turkey—The Turkish government allowed Christians to pray Sunday at a spectacular and politically sensitive Greek Orthodox monastery for the first time since the country's creation, seeking to improve the country's record on religious tolerance and boost tourism.

The emotional, three-hour service at Sumela monastery in Turkey's Black Sea region was the first of two special church openings the government recently has permitted. The second is due Sept. 19 at the Armenian Aghtamar Church on Lake Van in eastern Turkey.

Security was tight Sunday, with helicopters buzzing overhead and a large police presence. Most of the hundreds of people packed into Sumela's tiny cliff-hanging monastery were descendants of Pontic Greeks, forced from the coastal areas of the Black Sea in a huge population exchange between Turkey and Greece in 1923. Others fled to Russia.

"This is our fathers' land and the land of our grandfathers," said Father Athenagoras, from Thessaloniki, Greece, explaining the event's importance as he returned from wading into the crowd with a chalice of wine for communion. Other priests passed huge baskets of bread over the heads of jostling worshippers.

"We came because we think this is our native town," said Violetta Popova, a 20-year-old language student and Pontic Greek descendant who lives in Piatagorsk, Russia. Two Russian Cossacks in uniform held up an icon throughout the service. "We came to support our Greek brothers," said Ataman Oleg Gobelinski.



Greek Orthodox Patriarch Bartholomew I, top left, leads a Mass at the ancient Sumela Monastery in Turkey on Sunday.

Ecumenical Patriarch Bartholomew thanked Turkey's government—and the medieval Ottoman Emperors who helped the monastery—in his sermon. He led the service with top prelates from Greece and Russia. But Turkey's government kept a low profile, represented by the mayor of the local town, Macka.

The political atmosphere in Turkey has transformed since the Islamic-leaning government agreed to the two church openings, more than a year ago. At the time the govern-

ment was focused on a Democratic Opening policy, aimed at finding nonmilitary means of ending the country's decadeslong conflict with militants claiming to represent the country's ethnic Kurds by improving minority and religious rights. Those have been key demands of the European Union, which Turkey is negotiating to join.

But last fall, the Democratic Opening went sour. Attacks by the Kurdish Workers Party, or PKK, have renewed, triggering a nationalist backlash that dominates the politi-

cal agenda ahead of elections due by next July. At the same time, negotiations to open the border between Turkey and Armenia are in deep freeze, with neither side ratifying a deal outlined last year.

That failure has fueled skepticism among some Armenians over September's service at the 10th century Aghtamar, which served at one time as a seat of Armenia's national church. "This ceremony is pure propaganda to cover for the crimes of modern Turkey—the destruction of 3,000 Christian monuments," said

Hayk Demoyan, director of the Armenian Genocide Museum in Yerevan, Armenia's capital. The museum honors the hundreds of thousands of Armenians killed around 1915. Turkey denies a genocide took place and says the dead were victims of civil war.

Turkey's culture ministry said in emailed responses to questions that the decision to open the two churches was a result of the ministry's "evaluation that visitor activity brought by religious tourism would contribute in solving economic, political and social problems in these regions and would have a positive impact on relations with neighboring countries."

While analysts say the Pontic Greeks and Armenians, and the church services, pose no threat to Turkey's territorial integrity, their talk of a lost homeland risks fueling Turkish nationalists. Trabzon, the major city near Sumela, is a hotbed of nationalism and there were scuffles last year when Christian worshippers sought to pray at the monastery. A gunman who shot Armenian journalist Hrant Dink in 2007 was from Trabzon.

Until now, worshippers have been barred from conducting services at the monastery, which was founded in the 4th century.

"No one should fear believers, whether Christians or Muslims. The most dangerous people are nonbelievers," said Ivan Savvidi, a legislator from the Russian Duma and a diaspora leader of Pontic Greeks, said in response to questions from reporters at Sumela on Sunday.

■ Bulgaria looks to John the Baptist relics to aid its economy. 29

Russia will provide Iran with nuclear fuel

By JAY SOLOMON

WASHINGTON—Russia said it would begin loading nuclear fuel into Iran's Bushehr nuclear-power plant on Aug. 21, marking a crucial final step towards making Tehran a nuclear power.

The Obama administration, which has previously been critical of Moscow's role in Bushehr, largely voiced support for the Russian position Friday. It's part of Washington's broader campaign to prevent Tehran from obtaining atomic weapons.

Senior U.S. officials said the White House consented in recent months to Russia pushing forward with Bushehr in order to gain Moscow's support for a fourth round of United Nations sanctions against Iran, which passed in June.

These officials acknowledge the Bushehr project undercuts the U.S.'s efforts to present Tehran as isolated internationally. But they stressed that Bushehr doesn't pose a proliferation risk and challenges Iran's argument that it needs to produce nuclear fuel indigenously in order to power its civilian power plants.

Moscow will supply all the low-enriched uranium needed to fuel Bushehr. Russia will also be charged with removing the spent fuel from the reactor and transferring it off Iranian soil. These safeguards, said U.S. officials, coupled with the oversight role to be played by the United Nations nuclear watchdog, the International Atomic Energy Agency, assures that Bushehr's nuclear fuel

won't be diverted for military purposes.

Bushehr "quite clearly, I think, underscores that Iran does not need its own enrichment capability if its intentions, as it states, are for a peaceful nuclear program," White House spokesman Robert Gibbs said.

Despite the Obama administration's positive spin on Bushehr, a number of counter-proliferation experts say the development could mark a dangerous expansion of Tehran's nuclear capabilities. They said it would be difficult for monitors to track the large amounts of fissile material set to be produced by the reactor. And they said Washington was relying on a Russian government that often hasn't protected Washington's interests.

"We have forgotten very quickly that just a few years ago this was seen as a very dangerous project," said Henry Sokolski, executive director of Washington's Nonproliferation Policy Education Center. "It's very difficult to ferret out what's illicit from what's okay."

The same technologies countries need to produce nuclear fuel can also be utilized to make atomic weapons. The U.S. has placed a focus in its diplomacy on making sure that Iran doesn't continue enriching uranium domestically. U.S. and U.N. officials say Iran already has enough material to produce two atomic weapons if it decides to produce weapons-grade fuel.

If Moscow follows through with its pledge to start Bushehr, Iran will



Russia will supply Iran's Bushehr nuclear-power plant starting later this month.

complete a more than 40-year campaign to produce nuclear power. Iran's former monarch, Shah Reza Pahlavi, first moved to develop the site in Bushehr in the 1970s in cooperation with U.S. and European companies. When he was overthrown in 1979, Iran's new Islamist government then contracted with Russian nuclear firms for \$1 billion in 1995 to finish developing the reactor in the coastal city of Bushehr.

Moscow has repeatedly pledged in recent years to commission the Bushehr reactor, but repeatedly backed off. U.S. officials in both the Bush and Obama administrations believed Moscow was using the power plant to maintain its leverage over Tehran in its nuclear talks with

the international community. Russia was also seen as fixated on maintaining its economic interests in Iran.

In its negotiations with Russia over Bushehr, U.S. officials said they have sought out the least harmful position from a nonproliferation standpoint. They decided, ultimately, that gaining Moscow's support on sanctions was more important than preventing Bushehr from moving ahead.

Both Russian and Iranian officials hailed the announcement on Bushehr as a milestone. And the head of Iran's Atomic Energy Agency, Ali Akbar Salehi, pledged to allow the IAEA full monitoring authority of the facility.

"We consider the opening of the plant when electricity is produced, and that will probably take about two months," Mr. Salehi said, according to Iranian news agencies.

U.S. officials in recent weeks have voiced confidence that new sanctions imposed upon Iran in recent months are beginning to affect President Mahmoud Ahmadinejad's government.

In addition to the U.N. sanctions, the European Union approved expansive new penalties in July that forbid any new European investment in Iran's oil-and-gas sector. U.S. President Barack Obama, meanwhile, signed into law last month new sanctions that will target any international firms doing business with blacklisted Iranian banks and Tehran's elite military unit, the Islamic Revolutionary Guard Corps.

The U.S. Treasury Department last week began implementing this new legislation by releasing new guidelines to international financial firms. The notice outlines that the U.S. will ban from the American financial system any firms seen doing "significant" transactions with Iranian entities banned by the U.N. or U.S. or believed to be supporting Tehran's ballistic-missile or nuclear programs.

"This is new in that it places at risk something that's very important to every financial institution," which is access to the U.S. banking system, said Stuart Levey, the Treasury's undersecretary for terrorism and financial intelligence.



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U.S. NEWS

New U.S. fees on visas irk outsourcers

By DON CLARK

New U.S. legislation that sharply boosts visa fees to pay for tighter border security may play well in some parts of the country, but the applause is faint in Silicon Valley.

The measure, signed into law by President Barack Obama on Friday, is expected to raise operating costs for outsourcing firms that use large numbers of foreign-born employees to serve their U.S. customers. But the biggest impact, critics say, is to increase the perception that America is becoming more protectionist and hostile toward foreigners.

"It's adding to the negativity about America," said Vivek Wadhwa, a visiting scholar at the University of California and research associate at Duke University who studies immigration issues. "The money raised is insignificant, and the damage is huge."

Backers of the bill predict the visa fee increase will raise about \$200 million a year to help pay for a \$600 million appropriation to beef up security on America's border with Mexico. The money is expected to pay for improvements that include hiring more border guards, boosting the number of federal agents and drone aircraft used for surveillance.

The fee increase applies only to companies with at least 50 employ-

ees in the U.S. and 50% or more of their work force holding one of two widely used types of visas. The fee for them to apply for an additional H-1b visa—which covers temporary skilled workers—rises under the legislation from \$320 to \$2,320. The fee for additional L visas, which cover transfers within a company, increases from \$320 to \$2,570.

Big U.S. companies that augment their work forces with small percentages of foreign workers wouldn't be affected by the measure, nor would small start-ups led by a handful of entrepreneurs from abroad. But the carefully crafted criteria strike some observers as discriminatory, because most of the outsourcing firms targeted by the measure are based in India.

"It is just like a tax, but why are you only taxing one group of people?" asks Vish Mishra, president of the Silicon Valley chapter of the Indus Entrepreneurs, a forum for executives from South Asia.

Sen. Charles Schumer, a New York Democrat, the chief sponsor of the measure, on Thursday said it is "simply untrue" that the purpose of the legislation is to target Indian information-technology companies. Rather, he said, the measure targets firms—regardless of where they are based—that use the H-1b program in ways that are contrary to its intent.

The program, Mr. Schumer said,



Agence France-Presse/Getty Images (Obama); Associated Press

President Barack Obama signed the measure into law on Friday. Sen. Charles Schumer, right, said the program was principally designed to help companies hire foreign-born students who would help develop innovative products.



was principally designed to help companies such as **Microsoft Corp.** and **Apple Inc.** to hire foreign-born students who would help develop innovative products and ultimately become U.S. residents. Outsourcing firms, by contrast, are essentially creating "multinational temp agencies" that pay less than prevailing U.S. wages and drive down the pay of American workers, he said.

Sen. Schumer's statements were challenged Friday by the National Association of Software and Service Companies, which represents Indian tech companies. The group argued that India outsourcing firms have added significantly to the U.S. economy, hired American workers and used the H-1b program properly.

The broader issue for Silicon Valley is that the flow of technology talent has now reversed. Most students who get advanced degrees at

U.S. universities no longer hope to stay in the country, said Mr. Wadhwa, partly because of stiffened immigration policies but also because job opportunities in places such as Bangalore and Shanghai are so attractive. The visa increase is just "another shot across the bow" that sends another signal to foreign engineers that they aren't welcome, he added.

At the same time, many U.S.-based start-ups are locating the bulk of their workers in countries where wages are lower and talent is plentiful. One is **Zoho Corp.**, a company based in Pleasanton, Calif., that has about 20 employees there—most of them American-born—and about 1,000 in India. "I don't remember the last time we applied for a visa," said Sridhar Vembu, Zoho's chief executive.

There has indeed been evidence

that some outsourcing firms pay less than prevailing U.S. wages and that is a problem, said Rob Atkinson, president of the Information Technology and Innovation Foundation, a Washington policy think tank. But he argued that the way to combat that issue is to analyze outsourcing payroll records and penalize those that don't play by the rules, not a fee increase that affects companies that do.

Sen. Schumer acknowledged broader problems that would be tackled only by comprehensive immigration reform. But he said the visa-fee increase would make it more expensive to bring in foreign tech workers to compete with Americans for tech jobs in America—and cited comments by some Indian companies that the fee increase would push them to hire more American workers.

Housing ills cloud fate of Fannie, Freddie

By NICK TIMIRAO

All year long, the Obama administration has defended its decision to postpone the debate over the fate of **Fannie Mae** and **Freddie Mac** by arguing that it first needed to put the housing market back on track.

Now, as mortgage industry executives and government officials prepare to meet for a summit on Tuesday to begin those discussions in earnest, policy makers are facing an unexpected problem: The housing market appears to be stalling.

That will make officials more cautious in considering any dramatic overhaul, because a shaky outlook further underscores the market's

heavy dependence on Fannie and Freddie, which together with the Federal Housing Administration are backstopping nine out of every 10 new loans.

"It pulls the debate in the opposite direction," said Howard Glaser, an industry consultant. "If we're stuck in the midst of this semi-permanent housing crisis, the question of the federal role becomes almost intractable."

Over the past year, housing prices across much of the U.S. began to stabilize as the government spurred sales by providing federal tax credits for home buyers and by holding down mortgage rates. The removal of those supports has ex-

posed lingering weakness, putting renewed pressure on prices.

Still, Tuesday's sessions could help build support for the road map the White House has promised to deliver by early next year. They may also help shield the administration against accusations of foot-dragging as the two-year anniversary of the government takeover of Fannie and Freddie approaches.

Panelists include capital markets veterans Lewis Ranieri, the co-inventor of the mortgage-backed security, and **Pacific Investment Management Co.**'s Bill Gross; the heads of the mortgage banking divisions at **Wells Fargo & Co.** and **Bank of America Corp.**; and academics.

Already, administration officials have said the previous ownership model for Fannie and Freddie should be discarded. For decades, a fuzzy "implied" guarantee allowed the companies, owned by private shareholders, to borrow cheaply because investors assumed that the government would rescue the firms at the first whiff of trouble.

At the same time, a consensus of academics, industry officials and investors has coalesced around the idea of using the government to provide explicit guarantees for securities backed by mortgages that meet certain standards.

Tough questions loom over how those guarantees would be struc-

tured and priced and what entities would provide them.

Some conservatives, including congressional Republicans, have come out against returning to any mortgage market that relies on government subsidies or guarantees. That could lead to higher costs, but they say it is the only way to prevent taxpayers from being on the hook again for massive losses.

While the administration has promised to deliver "fundamental change," officials are likely to proceed slowly—focusing as much attention on any transition as they do on the final destination—to avoid rattling the \$5 trillion bond market for government-backed mortgages.

Truck in California race kills eight and injures 12

Associated Press

LUCERNE VALLEY, Calif.—An off-road truck plowed into a crowd moments after sailing off a jump at a race in Southern California Saturday night, killing eight people and leaving 12 injured, authorities and witnesses said.

The accident happened shortly before 8 p.m., just after the start of the California 200 race, said San Bernardino County sheriff's spokeswoman Cindy Bachman.

Ms. Bachman said eight people

died and 12 were injured, several of them seriously. Seven ambulances and 10 emergency aircraft responded to the scene. Most of the injured were airlifted to hospitals.

Officials said the driver wasn't hurt but had to flee the scene to escape angry spectators.

The 200-mile race is part of a series held in Soggy Dry Lake Bed near the city of Lucerne Valley in the Mojave Desert, 100 miles northeast of Los Angeles.

David Conklin, a photographer covering the event for off-road mag-

azines, said the Prerunner truck was among the first 20 off the line in the race, and had just gone over a jump known as "the rockpile" about two miles into the race.

Tens of thousands of people attend the California 200, in which a variety of off-road vehicles take jumps and other obstacles and reach speeds up to 100 miles an hour on the 50-mile off-road course.

The crowd was standing within 10 feet of the track with no guard rails separating them from the speeding vehicles.

"There were no barriers at all," Jeff Talbott, inland division chief for the California Highway Patrol, told the Riverside Press-Enterprise. He said that the driver, who wasn't named, was forced to run from the scene when the crowd grew unruly and some began throwing rocks. It wasn't clear why he lost control.

The event was sponsored by the South El Monte-based Mojave Desert Racing. No one picked up the phone at a number listed on the group's website, and its message mailbox was full.

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U.S. NEWS

Obama to test golden touch on tour

By JONATHAN WEISMAN

WASHINGTON—President Barack Obama embarks Monday on his most extensive political trip of the mid-term election season, touching all four corners of the continental U.S. in a test of whether his political problems have dented his fund-raising prowess.

On top of the economic woes and political fights that have battered his popularity, the president's press secretary this week angered liberals when he suggested critics from "the professional left" ought to be drug-tested.

Attacks from the right are growing more vitriolic. Ben Quayle, the son of former Vice President Dan Quayle and a candidate for Congress, called Mr. Obama "the worst president in history."

And Republicans on Sunday seized on Mr. Obama's weekend comments on the controversy over building a mosque near the site of the World Trade Center, folding it into their election-year narrative that Washington is out of touch with the rest of the country.

"The administration, and the president himself, seems to be disconnected from the mainstream of America," Sen. John Cornyn (R., Texas), who heads the Republicans' campaign committee in the Senate, said on Fox News Sunday.

A debate in New York City has heated up in recent days over whether an Islamic mosque and community center should be built as planned two blocks from where the World Trade Center towers fell in

Cash dash

Fund-raisers that President Obama is scheduled to appear at this week:

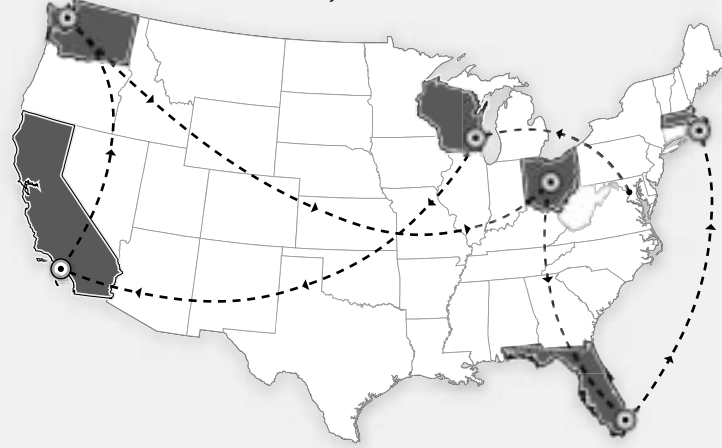
MONDAY
Where: Milwaukee
For: Mayor and gubernatorial candidate Tom Barrett and the Wisconsin Democratic Party
Where: Los Angeles, home of television producer John Wells and his wife, Marilyn
For: Democratic Congressional Campaign Committee

TUESDAY
Where: Seattle
For: U.S. Sen. Patty Murray

WEDNESDAY
Where: Columbus, Ohio
For: Gov. Ted Strickland

Where: Miami
For: Florida Democratic Party

THURSDAY
 Vacation begins at Martha's Vineyard, Mass.



the 9/11 terrorist attacks.

At a dinner Friday celebrating the start of the Islamic holy month of Ramadan, Mr. Obama said Muslims have a right, as a matter of religious freedom, to build a religious center near Ground Zero in accordance with local laws. On Saturday, the president said he wasn't weighing in on where the mosque project should be built but on the principle of religious freedom.

But Mr. Obama has proved his popularity among a segment that could help his party mitigate losses this November. "Obama is clearly popular among Democrats who

write checks," said Martin Frost, a former congressman and chairman of the Democratic Congressional Campaign Committee, the party's vehicle to elect House members.

Mr. Obama will travel to Milwaukee Monday to raise money for Mayor Tom Barrett's Wisconsin gubernatorial bid. That night, he will attend a dinner for the Democratic Congressional Campaign Committee at the Los Angeles home of "West Wing" television producer John Wells, co-hosted by the likes of Steven Spielberg, Jeffrey Katzenberg and Barbra Streisand, among others. The entrance fee for the cocktail re-

ception: \$2,500 a person. Add a presidential photo and the title of co-host and the figure jumps to \$30,400 a couple.

On Tuesday, the president will headline a fund-raiser in Seattle for Sen. Patty Murray (D., Wash.), a newcomer among the ranks of embattled Democrats. On Wednesday, he will attend a lunch event in Columbus, Ohio, for the re-election campaign of Gov. Ted Strickland, before flying to Miami Beach for a glitzy Florida Democratic Party fund-raiser at the Fontainebleau Hotel, featuring gubernatorial candidate Alex Sink and Senate candidate

Kendrick Meek.

On Thursday, the Obamas begin their summer holiday on Martha's Vineyard, Mass.

"The president takes that [political] role seriously, and we are obviously getting closer and closer to some important elections," said White House press secretary Robert Gibbs.

Democratic candidates around the country are calculating the benefit of a presidential visit against the potential political cost. Some congressmen have shown reluctance to have the president campaign alongside them as his approval ratings have fallen. It is no accident that Mr. Obama will be in the Democratic redoubts of Milwaukee and Seattle, rather than the more conservative towns of Green Bay and Walla Walla, said Stuart Rothenberg, editor of the non-partisan Cook Political Report.

Republicans will likely try to turn the presidential appearances into a liability. "We think it will do Patty Murray more negative in the long run than positive, because it is going to remind people that she is a loyal soldier for every part of the Obama agenda," said Luke Esser, chairman of the Washington State Republican Party.

Aaron Pickrell, campaign manager with Mr. Strickland, made it clear the governor and president have their disagreements, over capping carbon emissions in a coal state, for instance. But, he said, "the president will be politically helpful to the governor."

—Eliza Gray and Siobhan Gorman contributed to this article.

Another weight on economy: boomers cut back

[The Outlook]

By MARK WHITEHOUSE

America's baby boomers—those born between 1946 and 1964—face a problem that could weigh on the economy for years to come: The longer it takes for the economy to recover, the less money they'll have to spend in retirement.

Policy makers have long worried that Americans aren't saving enough for old age. And lately, current and prospective retirees have been hit on many fronts at once: They have less money, they earn less on what they have, their houses aren't rising in value and the prospect of working longer to make up the shortfall has dimmed significantly in a lousy job market.

"We will have to learn to make do with a lot less in material things," says Gary Snodgrass, a 63-year-old health-care consultant in Placerville, Calif. The financial crisis, he says, slashed his retirement savings 40% and the value of his house by about half.

Banks, home buyers and bond issuers are all benefiting as the U.S. Federal Reserve holds short-term interest rates near zero to support a recovery. But for many of the 36 million Americans who will turn 65 over the next decade the resulting low bond yields, combined with a volatile stock market, are making a dire

retirement picture look worse.

Low yields present retirees with a difficult choice: Accept the lower income offered by safer bonds, or take the risk of staying in the stock market. Either way, their predicament could put a long-term damper on the consumer spending that typically drives U.S. growth.

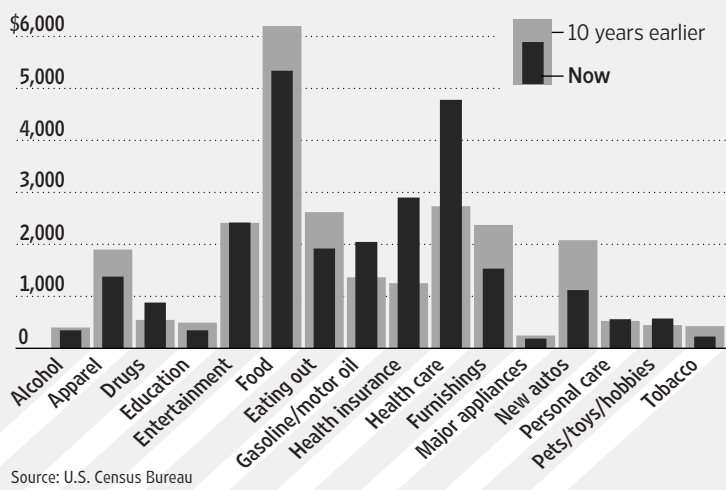
"If these rates stay as low as they are, then a lot more people are going to be hurting," says Jack Van Derhei, research director at the Employee Benefit Research Institute. The nonpartisan outfit estimates that if current conditions persist, nearly three in five baby boomers will be at risk of running short of money in retirement.

Despite the market's rebound from the lows of 2009, nest eggs remain severely impaired. As of the first quarter of 2010, net household assets—homes, 401(k) plans, pension assets and other investments minus debts—stood at \$54.6 trillion, down 18% from the end of 2007. That's an average of about \$171,000 per person, much of which is concentrated in the hands of the wealthiest.

At the same time, the return people can hope to earn on their assets has fallen, particularly for those who switch into bonds or annuities to guarantee a fixed income. The average yield on U.S. government, corporate and mortgage bonds stands at about 2.4%, while stock-market valuations suggest a long-term

Getting older, spending less

More people are reaching retirement age, and they'll likely cut spending sharply when they do. Average annual spending by people aged 65 to 74, compared to ten years earlier:



return of about 6%. At those levels of return, some 59% of people aged 56 to 62 will be at risk of not having enough money to cover basic living and health-care costs in retirement, estimates Mr. Van Derhei.

Before the recession hit, many economists assumed people would solve their retirement problems by staying in the work force longer. Now, "the recession has blown that idea out of the water," says Alicia Munnell, director of the Center for Retirement Research at Boston College.

Older workers, who typically

fared better than their younger counterparts in recessions, have been hit just as hard by layoffs this time around. As a result, the fraction of people 65 or older who are working has leveled off after a long period of growth. As of July, it stood at 15.9%, down from 16.3% in mid-2008.

With overall unemployment hovering at 9.5%, many older workers have found themselves at the back of the line to return to the work force. "Many employers seem to think it is not worth their time or effort to train me," says Kathleen McCabe, 59, a former

apartment manager in Tulsa, Okla., who has been out of work since April 2009. "They assume I will leave for retirement soon."

The diminishing work prospects will require many older folks to make do with less—a discouraging outlook for firms hoping to sell them everything from restaurant meals to cars.

As of 2008, the latest data available, people aged 65 to 74 were spending 12.3% less than they did 10 years earlier, in inflation-adjusted terms.

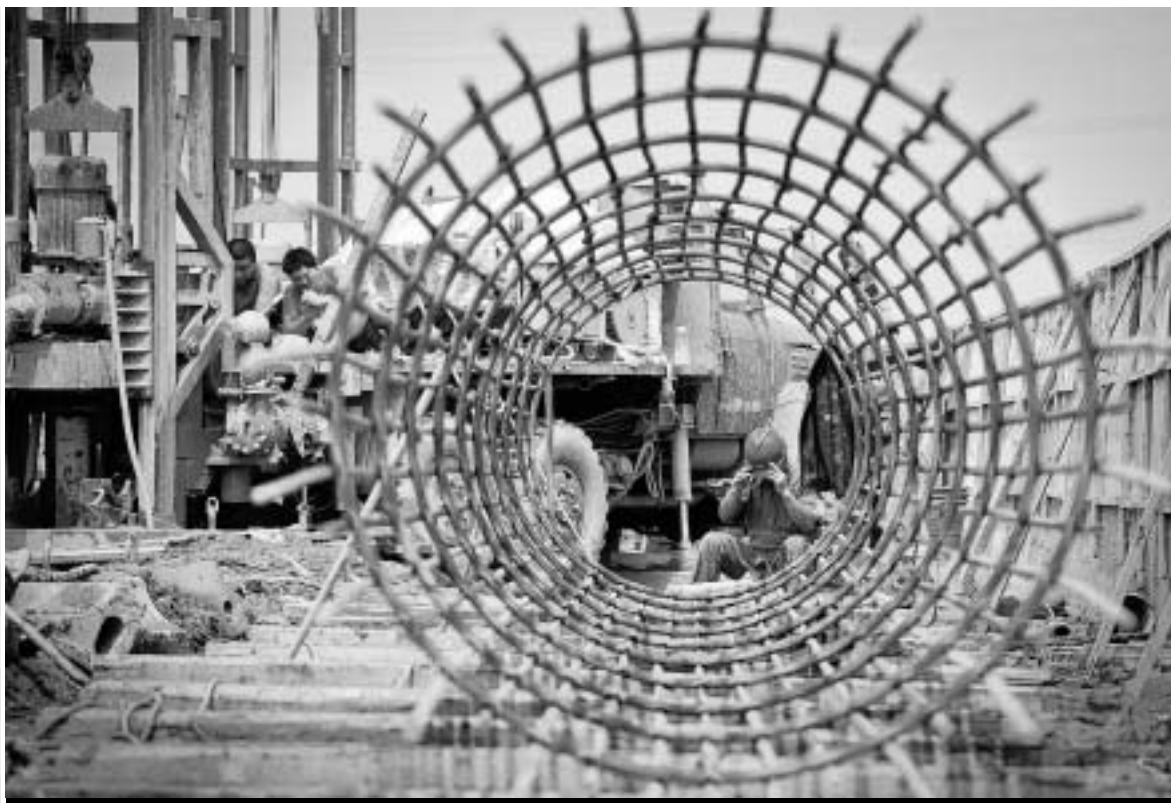
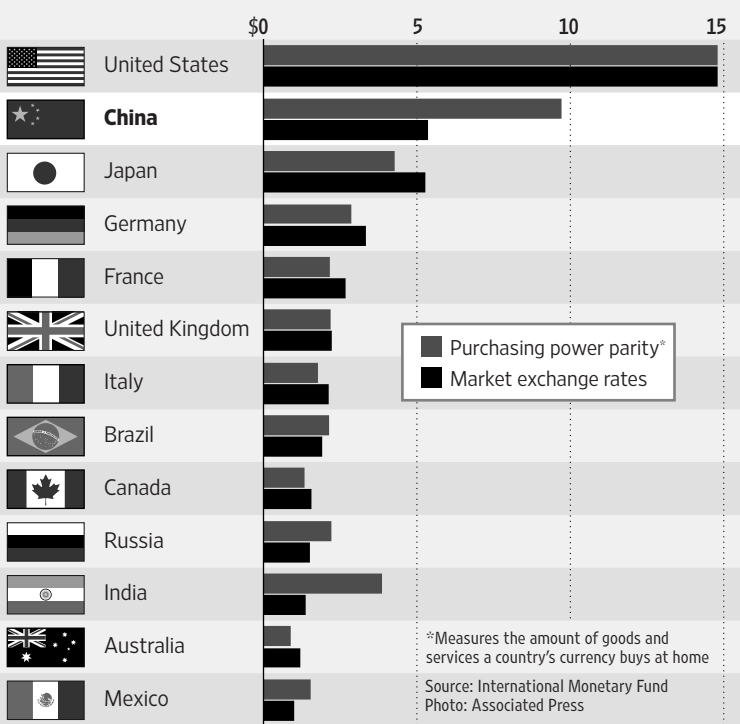
The impact isn't limited to people on the verge of retiring. Younger people, too, will have to reduce consumption now to save enough money to get by in retirement. That's one reason Richard Berner, chief U.S. economist at Morgan Stanley in New York, estimates that even after the economy recovers, consumer spending will grow at an annual, inflation-adjusted rate of about 2% to 2.5% in the long term, compared to an average of 3.6% in the ten years leading up to the last recession.

Policy makers have more immediate concerns, such as how to create jobs for the nearly 15 million unemployed. The predicament of retirees, though, demonstrates how policy decisions—for example, on whether to stimulate the economy through interest rates or government spending—can have repercussions for many years to come.

WORLD NEWS

Rising power

Projected 2010 economic output in trillions of U.S. dollars



Chinese workers at a highway under construction in Tianjin, China

China's economy is set to be No. 2 U.S. seeks boost in Asia presence

Continued from first page
In some ways, China is retracing the path Japan blazed through Asia during its boom years of the 1980s, when Japan was the new economic heavyweight and its companies were putting money into building factories around Asia. To bolster its position, China has focused on reassuring neighbors about its plans for a "peaceful rise," spread aid and investment with fewer conditions than Western countries, and worked seriously in cultural outreach for the first time.

There is increasing awareness in foreign-policy circles that China's increasing economic weight can be threatening as well as attractive, and needs to be handled carefully. "China has to consider its actions and its tone of voice, so that the world recognizes that we are a nice country and a nice people," says Liu Jiangyong, a professor at the Institute of International Studies at Tsinghua University in Beijing.

China's collective wealth is starting to translate into political clout, but also making it a target of criticism. Many Western officials, for example, see China's policy of export-led growth as the main cause of global trade imbalances. While China's economic strength may give it power and influence, it doesn't always win friends.

"There are very real limits to China's ability to translate its economic strength into soft power," says Andrew Shearer, senior research fellow at the Lowy Institute of International Studies in Sydney. "China always seems to overreach or underdeliver," he says, pointing to a series of recent diplomatic tiffs with once-eager partners such as Vietnam, South Korea and Australia.

For South Korea, the March sinking of its patrol boat Cheonan in waters near North Korea has emerged as a turning point in its relations with China. The aftermath of that event, in which 46 South Korean sailors died, has underscored for South Koreans that while China may be their biggest trading partner, it is also the main ally of adversary North Korea.

A May probe into the sinking, led by South Korea and involving investigators from the U.S., U.K., Sweden and Australia, blamed it on a torpedo attack by North Korea. China delayed for a month giving South Korea condolences on the sailors' deaths, and Beijing hasn't acted on South Korea's invitation to review the evidence of the investigation. China has also criticized military exercises carried out by the U.S. and South Korea since the incident.

"China's behavior is quite the opposite of Korea's expectations," says

Han Suk-hee, a professor of Chinese studies at Yonsei University in Seoul. "It's a disappointment," because some South Koreans had hoped strong economic ties would translate into better diplomatic and military relations. Earlier this year, a poll by the Pew Global Attitudes Project found 56% of South Koreans have an unfavorable view of China while 39% have a favorable one.

For Southeast Asian countries, China is a central economic partner: Last year, it became the largest trading partner of the 10-member Association of Southeast Asian Nations, overtaking longtime leader Japan. But China's recent handling of long-simmering tensions over competing claims to islands and waters in the South China Sea has rung alarm bells.

At a forum last month that included Asean nations as well as China and the U.S., Secretary of State Hillary Clinton urged all the countries with claims over the sea to participate in a joint process to resolve them. Diplomats said at least 12 countries supported the U.S. proposal to establish a dispute-settlement mechanism, which went against China's expressed preference for separate bilateral talks.

China reacted sharply to the coordinated push, and Foreign Minister Yang Jiechi spoke out against the U.S. proposal. China's foreign ministry, in a statement after the meeting that summarized Mr. Yang's comments, said Mrs. Clinton's "seemingly impartial remarks were in effect an attack on China" and "exposed the scheme of some to internationalize the South China Sea issue."

That pushback from China lent credence to fears among smaller Southeast Asian nations that the increasingly strong Chinese navy could start to dominate important international waterways while Chinese diplomats played different countries off against one another.

"The response was a little off-script, and it unmasked what Southeast Asians all feared about China," says Ernest Bower, director of the Southeast Asia program at the Center for Strategic & International Studies in Washington. "This has cost [China] years of good work in terms of kinder and gentler relations."

The U.S. is seeking to strengthen its presence in Asia in an effort to boost U.S. exports and provide a counterbalance to China's increasing dominance in the region.

By Kathy Chen in Washington and Brian Spegele in Beijing

High-level U.S. officials, after years of focusing chiefly on the Middle East, have stepped up visits and a range of commercial and security activities in Asia. The U.S. is attending more regional forums and is in talks with countries about new trade pacts, joint military programs, and other cooperation. And Washington is taking a tougher stand on issues of regional concern, such as territorial conflicts with China in the South China Sea.

The shift is happening at a time when countries in the region are increasingly worried about a more activist foreign policy in Beijing, and when the U.S. is eager to expand its exports to create jobs at home.

"Asia is the fastest-growing area of the world," said Robert Hormats, the U.S. State Department's undersecretary for economics, energy and agricultural affairs. "If the U.S. is not actively engaged and other countries like China become more proactive, we'll find that our position will erode."

While most Asian countries generally welcome more U.S. involvement, the outreach by the U.S. could stir tensions with China. China itself has made significant inroads into the rest of Asia in recent years, investing billions of dollars in business ventures and reaching bilateral trade agreements across the region. Security issues especially are touchy.

China reacted angrily when U.S. Secretary of State Hillary Clinton suggested at a meeting in Hanoi last month that countries should work through the Association of Southeast Asian Nations, or Asean, to resolve territorial disputes in the South China Sea, including those with China. Beijing was particularly

irked by her offer to have Washington "facilitate" such initiatives.

"Superpowers often adopted the strategy of 'divide and rule,'" China's state-run Xinhua news agency said recently, in a rhetorical shot across the U.S. State Department's bow. "They stirred up tensions, disputes and even conflicts, then set foot in to pose as a 'mediator' or a 'judge' in a bid to maximize their own interests."

China and Southeast Asian countries such as Vietnam, Malaysia and the Philippines have long tussled over the region's islands and waterways, some of which are believed to hold deposits of oil and minerals. China has stepped up exploration and naval patrols in the area, a move that has raised tensions.

While current and former U.S. officials say Washington's goal isn't to contain China, they argue that the U.S. needs to strengthen its alliances in the region to define its own relationship with China and keep U.S. influence in the region strong.

"If you want to engage China, you need leverage," said a senior Obama administration official. "To do that, we have to be actively engaged, to strengthen alliances and seek new friends."

The U.S. has a long history of involvement in Asia. But after the country was attacked by terrorists in 2001, attention largely shifted to the Middle East, South Asia and the fight against terror. Condoleezza Rice, secretary of state in the George W. Bush administration, opted not to attend some Asean meetings, an absence noticed by member countries.

The Bush administration scored notable achievements in Asia, including negotiating a free-trade deal with South Korea, though that has yet to be approved by Congress. And the administration strengthened relations with major Asian powers including China, Japan and India. But diplomats in Asia say broader efforts by the U.S. pale beside China's.

—Yayu Yuniar in Jakarta, Patrick Barta in Singapore and Alex Frangos in Hong Kong contributed to this article.

Varying views

Net percentage having a positive view of China's growing economy and overall power affecting their country.



WORLD NEWS

Iraqis weigh new post in bid to finally form a government

By SAM DAGHER

BAGHDAD—Senior Iraqi politicians involved in forming a new government said they are weighing the creation of a new federal position that could break the nearly-six-month logjam over which faction gets the coveted premiership.

Since March elections, the two top vote-getting blocs have failed to secure the majority needed in Parliament to form a government. Politicians from some of the biggest factions have warmed to the idea of creating an executive post they hope would better balance out power between the two sides, said people taking part in negotiations.

These people said the idea was floated during negotiations months ago, but that it went nowhere until American officials put forth a concrete proposal during Vice President Joseph Biden's July visit to Baghdad.

Hoshyar Zebari, Iraq's foreign minister in the current government led by Nouri al-Maliki, compared the talks to a game of musical chairs.

"There are a limited number of chairs," he said. "So, [U.S. officials] want to increase the number of chairs."

Mr. Zebari is one of the lead negotiators for the Kurds, seen as American allies and kingmakers in the current tussle. Mr. Zebari said the creation of the new position was high on a list of fresh Kurdish demands sent last week to all contenders to the premiership.

The proposal appears to have gained broader traction in recent weeks because more U.S. officials are saying they believe the only way to end the impasse is to push Mr. Maliki, whose bloc won 89 seats in Parliament, and his rival, former Prime Minister Ayad Allawi, with 91, to form the core of the next government. Neither has been able on his own to muster a coalition of the minimum 163 seats required to form the government.

A U.S. official said Washington was helping the two sides reach an agreement "on governing principles and modalities," adding that Washington isn't "dictating terms." Jeffrey Feltman, the U.S. assistant secretary for Near Eastern affairs, arrived in Baghdad over the weekend in a bid to push talks forward.

The new post would head a "council on national strategy," whose members include the prime minister and his two deputies, key ministers, the president, the two



Ayad Allawi, left, and Nouri al-Maliki at a July 20 meeting in Baghdad.

vice presidents, the speaker of Parliament and the president of the northern semiautonomous Kurdish region, among others, said people involved in the negotiations.

Iraqi politicians said the new body would issue binding decisions and effectively provide another layer of checks and balances on the prime minister's powers. Many Iraqi politicians say they feel Mr. Maliki went too far over the past four years in using the premiership to consolidate his grip on power. Iraqi politicians said the new council would have to be created by special legislation and that it might be the first order of business for Parliament, if a deal is struck.

Since the 2003 U.S.-led ouster of Saddam Hussein, Iraq's political factions have been split largely on ethnic and sectarian lines. In the previous government, Mr. Maliki inherited the plum job of prime minister. At the time, he represented a broad Shiite coalition that swept previous polls.

Iraq's Kurdish bloc won the largely ceremonial post of president. Sunnis, who largely boycotted the polls, were handed the less-powerful parliamentary speaker post.

In the March polls, a coalition including powerful Sunni politicians

and led by Mr. Allawi won a narrow victory over Mr. Maliki's largely Shiite slate. Mr. Allawi, a secular Shiite, led the first post-2003 transitional government.

The looming deadline for the withdrawal of all U.S. combat troops, on Aug. 31, and a recent surge in violence has complicated efforts to form a government, with various factions blaming the others for inciting violence or doing too little to quell it.

Two people were killed and five wounded on Sunday when a minibus hit a roadside bomb in Baghdad, while a police officer was killed when a bomb placed inside his vehicle detonated, a security official said. This came a day after two policemen, asleep in their patrol vehicle, were shot and killed and then set on fire.

The weekend attacks were the latest in a brazen campaign of violence targeting Iraqi security forces, including traffic police.

Meanwhile, gunmen robbed four commercial ships anchored near the southern oil hub of Basra in a rare attack off the Iraqi coast, the Associated Press quoted the U.S. Navy as saying Sunday.

With the U.S. winding down its combat mission here, insiders and

outside observers are increasingly viewing sectarian- and ethnic-based political clashes as an extension of the interests of countries seeking to maintain a strong influence here, including Washington and Tehran.

Osama al-Nujaifi, a Sunni Arab leader in Mr. Allawi's bloc, known as Iraqiya, said American officials have been pressuring his group to relinquish the prime minister's post to Mr. Maliki, in favor of the new position and key ministries in the next government. U.S. officials declined to address Mr. Nujaifi's comment.

Mr. Nujaifi said Iraqiya would continue to resist this scenario, insisting the premiership was Mr. Allawi's electoral right. He warned that Sunni insurgents in Baghdad and northern and western Iraq, where Mr. Allawi won the most votes, would be emboldened if Iraqiya were to lose the premiership.

"The extremists will take the initiative if the politicians fail," he said.

Meanwhile, Khalid al-Asadi, a leader in Mr. Maliki's State of Law bloc, said the security situation would deteriorate if the premiership didn't revert to Mr. Maliki.

Tehran is pushing for another Shiite-led coalition headed by Mr. Maliki, but the biggest obstacle to that ambition is deepening fissures among Shiite parties, said several Iraqi politicians. Iran's new ambassador to Iraq denied any meddling in Iraq's domestic politics.

The Iraqi National Alliance, or INA, a Shiite umbrella slate separate from Mr. Maliki's, controls a parliamentary bloc of 71 seats and has tentatively said it was willing to join forces with Mr. Maliki to form a new government. But it has also adamantly refused to back him for another term as prime minister.

The INA recently suspended government-formation talks with Mr. Maliki and launched a separate track with Mr. Allawi's bloc. A powerful faction headed by anti-U.S. cleric Muqtada al-Sadr, which controls 40 of the INA seats, is also opposing Mr. Maliki for a second term.

Amir al-Kenani, a leader in Mr. Sadr's faction, said the INA was still committed to a Shiite-led coalition that would include Mr. Maliki's bloc but exclude him from the prime minister's post. Mr. Kenani warned that the U.S.-backed proposal to create a new federal job was "unconstitutional" and would only complicate things further.

—Munaf Ammar
contributed to this article.

U.N. chief seeks faster support for Pakistan

By ZAHID HUSSAIN

United Nations Secretary-General Ban Ki-moon on Sunday urged the international community to speed assistance to Pakistan, as raging floodwaters spread to western Balochistan province and forced hundreds of thousands of more people to flee their homes.

Mr. Ban flew into Pakistan on Sunday to boost support for millions of victims of the worst natural disaster in the country's history.

"In the past I have witnessed many natural disasters around the world, but nothing like this," the secretary-general said. "I am here ... to share my sympathy and solidarity of the United Nations together with the people and government of Pakistan. ... I am here also to urge the world community to speed up their assistance to the Pakistani people."

At least 1,500 are dead and more than 20 million are estimated to have been affected by the natural calamity. Some 875,000 homes were either washed away or damaged. Mr. Ban said some six million people would need constant food aid for next several months.

At least 1,500 are dead and more than 20 million are estimated to have been affected by the floods.

Aid agencies said many affected areas, particularly in the northwest, are facing acute food shortages. At least five children were reported to have died of starvation and several thousand more children were said to be at risk in the Kohistan region in Kyber Pakhtunkhwa province, which has been isolated because of the destruction of the area's communications infrastructure.

Mr. Ban flew by helicopter to some of the affected areas in southern Punjab province soon after his arrival in Islamabad.

"It's evident that this is an enormous disaster that will require a huge international response," said Martin Nesirky, a spokesman for the U.N. chief. He said Mr. Ban's visit highlighted the urgency of the situation.

"The speed with which the situation is deteriorating is frightening. Huge swathes of the country remain underwater, and we are extremely concerned about the risk of diseases such as malaria, cholera and dengue fever," said Neva Khan, Oxfam's country director in Pakistan. "We hope that [Mr. Ban's] visit to Pakistan will inspire the world's wealthiest countries to respond more quickly to this grave humanitarian crisis."

Raging waters have now entered Jaffarabad district in Balochistan province forcing hundreds of thousands of people to abandon their homes and seek safety under the open skies. Millions more are still at peril as the bloated Indus River has expanded from its usual width of about one mile, or 1.6 kilometers, to 12 miles in some areas, Pakistani authorities said.

Impasse fuels frustration in Baghdad

By SAM DAGHER

BAGHDAD—Everyday Baghdadis have grown increasingly frustrated amid seemingly endless political wrangling over the formation of a new government here.

That has been especially the case since last week's start of Ramadan, a nearly one-month period of daytime fasting and prayers for Muslims that typically slows down most pressing business.

Hoshyar Zebari, Iraq's foreign minister, said it would be a "miracle" if the impasse was broken dur-

ing the traditional Ramadan lull.

That is exasperating a public coping with frequent violence, which politicians from rival factions have blamed on each other, and chronic disruptions of basic government services, like electricity.

"Utter scandal!" said Haidar Zaid, a 28-year-old resident of Baghdad's Khadimya district. "The people are paying the price."

Mr. Zaid, unemployed, said his neighborhood receives only four hours of intermittent electricity each day amid worsening shortages of fuel needed to power generators.

Many Iraqis have found an escape in one of the many coffee shops and cafeterias that have sprung up all over Baghdad. Television dramas and satirical shows, a staple of Ramadan, are also a balm—when there is power.

One show, a "Chair for Ownership," on the popular Sharqiya television station, pokes fun at a prime minister called "Abu so and so," who refuses to leave power, a thinly veiled jab at Prime Minister Nouri al-Maliki.

On a recent evening at the Four Seasons café in the middle-class

neighborhood of Al-Harthiya, cooling fans blew mist on patrons smoking hookahs and playing dominoes.

A group of physician friends belonging to opposing sects sat around one of the tables. They all said they were willing to live with a dysfunctional government, no electricity and even sporadic bombings.

But they said they feared a return to the sectarian conflict that consumed Iraq in 2005 and 2006.

"Maybe the generation that comes after us, in 50 years, will live the democracy of Europe," said Mohammed Naser, 26.

INTERVIEW

Italy's numbers guy wants statistics to add more value

[Enrico Giovannini]

BY CHRISTOPHER EMSDEN
AND CHIARA VASARRI

ROME—Enrico Giovannini is a statistician with a mission—to make statistics so relevant and accessible, ordinary people are able to use them to assess and improve their own living standards.

Since taking the helm of Italian national statistics institute Istat a year ago, Mr. Giovannini, 53, has spearheaded the agency's efforts to present its data in more meaningful ways.

This push enters a new phase in December, when Istat launches an online, interactive site that will allow users to obtain more fine-grained pictures of the state of the Italian economy and society, and their own position within them.

For example, Mr. Giovannini says, a "40-something couple with children in Milan" would learn how their peers are faring in terms of income and costs.

As a result, he says, he expects an interesting psychological effect, in which Italian residents will no longer insist that Istat's findings are wrong but rather that "they themselves are wrong, as in they aren't placed where they want to be."

Before joining Istat, Mr. Giovannini spent eight years as chief statistician at the Organization for Economic Cooperation and Development in Paris, where he also served on the high-profile Stiglitz Commission that laid out the case for updating the concept of gross domestic product.

And now, following the global banking and credit crisis, he expects tangible changes in the world of statistics, both in the way data are scrutinized and in the way in which they are presented.

The crisis raised concerns that policy makers based their decisions on faulty information. The problem, he argues, wasn't with the accuracy of the data but with their presentation and application. "The thing is, since a lot of people predicted the crisis, then arguably the data must have been there," says Mr. Giovannini.

"So, more than the data, it was an interpretation issue," he says, speaking in his large, wood-paneled Rome office, amid piles of statistical tomes in multiple languages.

In the future, "one big shift will be from flows to stocks," he says. "We may have been giving too little emphasis on the latter."

In a statistician's lexicon, flows are made up of transactions or movements of assets; the archetype of a "flow" concept is gross domestic product. Stocks, on the other hand, are absolute levels that can rise or fall. The key measure of stocks is capital, which can consist of anything from machinery to education or social cohesion, to the number of trees in a forest.

As an example, Mr. Giovannini points to household balance sheets in some countries—for instance, the U.S. or Spain—as having been harbingers of the global financial crisis.

Viewed in flow terms, the surge in house prices didn't seem so alarming, as GDP appeared to be rising robustly and low interest rates kept mortgage payments under control. But considered in stock terms, or by looking at absolute levels of household debt as a share of disposable income, the spike was extraordinary and should have triggered alarms about the risk of a housing bubble.

Any shift in post-crisis attention to



Enrico Giovannini, head of Italian statistics institute Istat, has spearheaded the agency's efforts to present its data in more meaningful ways.

stocks from flows will probably lead to big changes in the sort of information on which policy makers will need to focus, Mr. Giovannini says. For example, he says, there will be a greater focus on household wealth—using data on demographics, household consumption and assets—rather than purely income as a critical indicator.

And the spotlight will increasingly fall on one of Mr. Giovannini's most cherished themes: sustainability.

"It [capital] is the only way to link the well-being of the current generation to that of future generations," says Mr. Giovannini, who is the father of two. "Capital is a stock that I can build up or deplete and which can be put to productive use," he adds. "If my generation leaves adequate capital to the future generation to satisfy its needs, then we are in a regime of sustainability."

Mr. Giovannini notes that, along with the U.S., Italy has seen the greatest growth in inequality of any OECD member in the past decade. Calculated by income—a flow concept—Italy's Gini coefficient, a measure of inequality in which lower scores signal greater equality, is 0.35. But using wealth—a stock concept—as a measure, the national Gini coefficient is 0.61. For Mr. Giovannini, the gap—a function of Italy's high taxation on labor income and low tax rates on capital—can serve as a guide for policy makers to measure real inequality trends.

A look at recent employment trends also raises concerns, he says. While the Italian model used to consist of young people being unemployed and their parents working a lot

of overtime, reforms in the mid-1990s introduced more flexibility in employment contracts and ushered in a jobs boom for the younger generation. This brought the unemployment rate down to 6% by the spring of 2007, from 12.3% in April 1996.

But despite all the new jobs, nobody felt flush. In fact, average annual disposable income in Italy actually fell by €360 (\$457) a resident from 2000 through 2009 in real terms—"a big, big number," Mr. Giovannini says. What's more, "parents felt they were earning less, while youth felt they were on lousy salaries," he adds.

'If statistics are to add value, it will be because people use the information to know more about the world they live in.'

"This is the kind of point where we statisticians need to stop insisting their data are right and start trying to understand the views of households," Mr. Giovannini says.

Citizens tend to be cynical, he notes, adding that all Italians are sure they know better than Istat when it comes to inflation and the scale of the underground economy.

Istat—which measures more than 50,000 prices a month—and its sister organizations were inevitably proven right, he says, when they claimed that inflation wasn't galloping at a double-digit pace after the euro was introduced in 2001.

But there is little solace in being right, he says, as Istat missed the opportunity to detect a shift in relative prices—for example salaries compared with household costs—that might have allowed for easier recognition of the weak wage growth of the past decade.

Many Italians—whose doctors, plumbers and baby-sitters ask to be paid in cash—also find official estimates of the underground economy laughably low.

In a study published last month, Istat figures put the black economy at 17.5% of GDP. But as the public sector and large companies are largely unable to do without tax receipts, people are right that evasion levels in the rest of the economy are roughly twice as high as Istat's headline figure, Mr. Giovannini says.

One way for statisticians to up their game, he says, is to push back against interpretations that rely too much on the classic averages that institutes such as Istat publish.

Variation tells the story, not just averages, Mr. Giovannini says. He points to one piece of Italian data—residential rental costs—that mixes housing units on the real-estate market and those in public housing schemes, so the final average bears no relation to the two realities that the vast majority of Italians experience.

Some argue that making statistics more user-friendly may drive up salary demands. Mr. Giovannini simply says, "If statistics are to add value, it will be because people use the information to know more about the world they live in."