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IMF, reversing course, urges capital controls

By Bob Davis

WASHINGTON—International Monetary Fund economists, reversing the fund's past opposition to capital controls, urged developing nations to consider using taxes and regulation to moderate vast inflows of capital so they don't produce asset bubbles and other financial calamities. It said emerging markets with controls in place had fared better than others in the global downturn.

The recommendation is the IMF's firmest embrace of capital controls and a reversal of advice it gave developing nations just three years ago. The IMF has long championed the free flow of capital, as a corollary to the free flow of trade, to help developing countries prosper. But the global financial crisis has prompted the fund to rethink long-held beliefs. It recently suggested the world might be better off with a higher level of inflation than central bankers now are targeting.

"We have tried to look at the evidence and tried to learn something from the current crisis," said Jonathan Ostry, the IMF's deputy director of research, who wrote "Capital Inflows: The Role of Controls" with five other IMF economists.

Money is flooding into emerging markets, producing fears that asset bubbles are forming in China, South Korea, Taiwan, Singapore and elsewhere, particularly in real-estate markets. This year, about $722 billion in private capital is expected to flow to developing nations, a 66% increase over 2009 but far below the $1.28 trillion that flowed to emerging markets in 2007 before the financial crisis, according to the Institute of International Finance, a banking trade association.

Private investment generally helps growth, the IMF says, but a too-rapid increase can lead to a boom and then a bust. About six months ago, IMF economists started examining the ability of capital controls to limit financial damage. Countries that had controls in place before the global recession, they found, were much less likely to have suffered a sharp economic downturn. "The less risky financial structure meant you were less likely to undergo a credit boom-credit bust cycle," said Mr. Ostry.

The IMF recommends that countries first look at whether traditional policies, such as allowing currencies to appreciate, will work to moderate capital inflows. Countries whose currencies are appropriately valued and that are wary of lowering interest rates to ward off inflows should look at "unconventional" measures, Mr. Ostry said. The IMF examined capital restrictions tried by Brazil, Chile, Malaysia and other countries, such as explicit taxes on capital inflows, re-

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Shrugging off complaints from China

The White House

Barack Obama didn't meet with the Dalai Lama during a visit to Washington ahead of Mr. Obama's first visit to China last November. The two finally met on Thursday to discuss human rights and religious freedom for the people of Tibet. Article on page 7.

Dutch nearing Afghan pullout

AMSTERDAM—An election promise to pull Dutch troops out of Afghanistan by the end of 2010 threatens to topple the Netherlands' coalition government and undermine the U.S. mission as the Pentagon steps up operations against the Taliban.

By John W. Miller in Brussels and Maarten van Tartwijk in Amsterdam

Deputy Prime Minister Wouter Bos, leader of the left-leaning Labor Party, campaigned in 2007 on a pledge to bring home Dutch forces and on Thursday he reaffirmed that promise, putting him at odds with the North Atlantic Treaty Organization, and with the prime and foreign ministers of his own three-party ruling coalition. A Dutch withdrawal would be a blow to the Obama administration which has worked hard to persuade European nations to maintain—and ideally expand—their troop commitments to Afghanistan.

Dutch Prime Minister Jan-Peter Balkenende and Foreign Minister Maxime Verhagen, whose Christian Democrat Party is to the right of

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Two New York communities duke it out over a forgotten U.S. president. Page 29

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THE WALL STREET JOURNAL.

Remember: It's their oil, not ours

[Agenda]

By Paolo Scaroni

Bloomberg News

Unlike the rest of the world, mineral rights in the U.S. belong to landowners

One of the big themes of the 21st century will be how to combine population growth and sustainable economic development with the challenge of limited natural resources—food, water, metals, and, of course, energy.

This is not a new concern. Thomas Malthus raised it as long ago as 1798. But, over the years, seemingly inevitable crises have been avoided time and time again, thanks to technological advances which have increased production, reduced waste and changed the way we do things.

Looking ahead, innovation and technology will need to kick into action again. And this is particularly true in the energy sector where the challenge is to combine energy availability with environmental preservation.

International Oil Companies (IOC) are ideally placed to crack this challenge. But to do so, they need to work much more in partnership with their National Oil Company (NOC) counterparts.

The rise in power and importance of the NOCs poses a major challenge to the traditional business model of IOCs.

First of all, the oil is quite literally "theirs" rather than ours. Legally, in every country except the U.S., the mineral rights to what is underground belong not to those who own the land above, but to the national government. NOCs are sitting on 90% of global oil reserves, while all the IOCs put together only hold 10%. That means Exxon, the largest IOC, is in fact ranked only 21st globally as measured by reserves.

Secondly, companies like Saudi Aramco of Saudi Arabia, Brazil's Petrobras and Malaysia's Petronas now have the internal expertise required to develop much of the oil in their home countries without the help of the IOCs.

And finally, some national oil companies now have the skill to go global. Some, like Petrobras, Petronas and Russia's Gazprom, are expanding from a strong domestic presence. Others, like Chinese oil and gas companies CNPC, Sinopec and CNOOC, were conceived to compete for resources abroad.

So, are international oil companies like dinosaurs: big, powerful but destined for extinction?

That's quite possible, unless we acknowledge a simple fact. The oil is not ours. It is theirs. It belongs to oil-producing countries.

If IOCs want to play a role in the future of this industry, we must add value. And that means building a corporate strategy on two pillars:

Firstly, we must improve our competitive position in exploration and production. This means becoming faster and more efficient, investing in people and managerial competencies, and in particular maintaining and increasing our technological leadership.

Despite the increasing competencies of the NOCs, IOCs still lead the field on "difficult oil": oil that is located in deep or ultra-deep waters, in areas which are frozen for many months of the year, or in mature fields where production is declining. For an idea of how important technology is, just think that of all the oil in place in the world, we currently have the means to extract only 35%. New technology has much to contribute and the IOCs are well placed to invest.

The second way we can add value is by developing a real partnership with oil-producing countries; sitting side by side with them to work out how we can help them meet their needs and the needs of their people.

For Eni, this is not a new idea. Eni was born as a tiny Italian company in a field which was dominated by the "Seven Sisters," the precursors of Exxon, Chevron, BP and Royal Dutch Shell.

As a small, politically insignificant upstart, it had to find a way to get its foot in the door. Its competitive edge was precisely this: It built a reputation for mutually beneficial partnership, for example, offering the host country a greater share of the revenue from any production there.

Today we carry on and build on this legacy approach. Our Eni model is based on long-standing and solid relationships, particularly in Africa, where we pursue a true partnership aimed at providing solutions to local community needs.

What kind of shape can a partnership approach take?

The bare minimum is to ensure that local communities benefit from the ordinary activity of the IOCs. That means local employment, transferring skills, providing advanced healthcare and protecting the environment. But IOCs can go much further than that.

Our integrated business model means we are ideally placed to design 360° solutions to a country's energy needs: for example, building power stations fired by the "associated gas" found alongside oil. This generates electricity for the domestic market. It protects the environment because it uses gas that is traditionally burned or "flared." And it maximizes the amount of energy destined for export.

This is what the Eni model is all about, and what we are doing in the Republic of Congo, in Angola, in Nigeria, in Kazakhstan and elsewhere around the world.

The growing role of NOCs is not just pushing IOCs to become more technically advanced and fairer in dividing up the benefits of oil. It also provides an added incentive for IOCs to invest in other areas of the industry where they are naturally positioned to take a leadership role, like the search for truly effective and efficient alternative-energy sources. These are not yet within reach, but they represent the long-term future of the industry and a conclusive answer to combining economic development with environmental preservation. For our part, we have invested $50 million in partnership with MIT looking into advanced solar technology. Others are focused elsewhere in the renewable debate. All are important initiatives.

Their oil, not ours. That's the key to understanding the role that IOCs can play in the global game that is 21st Century Oil. A role which will involve true partnership built on a real and sustainable commitment to the development of host country economies and infrastructures, coupled with research into technologies that will deliver increased production from today's oil fields and the alternative-energy sources of tomorrow.

—Paolo Scaroni is chief executive officer of Eni SpA.

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Reader Comment

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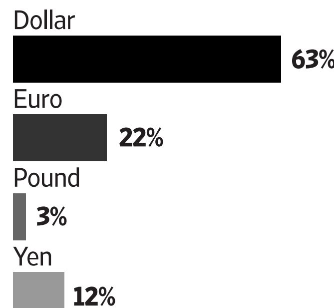

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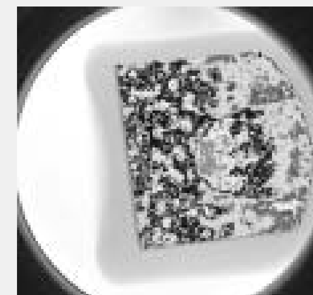

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WORLD NEWS

Climate chief quits

Yvo de Boer to leave U.N. post following failure of Copenhagen pact

Reuters

Yvo de Boer, seen here in Copenhagen last year, will become a KPMG adviser.

By Jeffrey Ball

The top climate-change official at the United Nations is leaving to become a private consultant, a move that follows the failure of a U.N. climate summit in Copenhagen to produce a binding agreement to curb global greenhouse-gas emissions.

Yvo de Boer said he will leave his post as the executive secretary of the U.N. Framework Convention on Climate Change on July 1 to take a job as a climate-change adviser with consulting firm KPMG. His final day will be about two months before his term was to end in September.

The failure of the Copenhagen conference to come up with a legally binding global emission-cutting pact has highlighted deep fissures among nations about which of them should have to spend money to curb their emissions the most. It suggests that the world's biggest emitters are willing to curb greenhouse-gas output only to the extent that they believe doing so will help them in more-immediate ways, such as fighting smog and creating so-called green jobs. Those economic realities will continue to face whomever succeeds Mr. de Boer.

In a statement Thursday announcing his departure, Mr. de Boer cast the Copenhagen result in an optimistic light. "Copenhagen did not provide us with a clear agreement in legal terms, but the political commitment and sense of direction toward a low-emissions world are overwhelming," he said. A spokeswoman for Mr. de Boer said he was unavailable to comment further.

"It's a very difficult period," Janos Pasztor, head of the climate-change team for U.N. Secretary-General Ban Ki-moon, who will name Mr. de Boer's successor, said in an interview. "It doesn't matter what a senior U.N. civil servant does, ultimately," he said. If governments are "not ready to sign off on an agreement, then they will not sign off on an agreement."

Mr. de Boer's exit comes as the U.N.'s push for a global crackdown on greenhouse-gas emissions faces mounting difficulties. A string of recent revelations about questionable practices and outright mistakes by scientists who contributed to a big 2007 U.N. climate-science report has led some politicians to advocate slowing the push for legislation.

Among those mistakes: The 2007 report by the U.N.'s Intergovernmental Panel on Climate Change said Himalayan glaciers might disappear by 2035, a claim the IPCC now says was inaccurate. As U.N.-sponsored organizations, the IPCC and the UNFCCC are linked. The IPCC's mission is to provide assessments of climate science for use in policy making—including policies pursued by the UNFCCC, which Mr. de Boer headed.

Mr. de Boer could have asked Mr. Ban to appoint him to another term in his U.N. post. "We never came to that point," Mr. Pasztor said. Asked whether Mr. Ban would have reappointed Mr. de Boer, Mr. Pasztor said: "That we don't know."

Mr. de Boer, 55 years old, worked before coming to the UNFCCC as deputy director general of the environmental ministry of the Netherlands, his home country. He also previously worked as an adviser to the Chinese government and to the World Bank. KPMG said it is hiring Mr. de Boer for a global job "advising business, governments and other organizations on sustainability issues."

Mr. Ban will begin looking for a successor for Mr. de Boer "extremely quickly," said Mr. Pasztor, who said he didn't know who might be considered for the post.

In three years as head of the U.N.'s climate-change program, Mr. de Boer won both fans and foes for doggedly—some say undiplomatically—trying to prod countries to pledge deep cuts. In frequent public statements, he stoked expectations for a grand international agreement at the Copenhagen conference.

But the Copenhagen conference ended without any legal agreement, as the U.S., China and dozens of other countries traded barbs about which of them should be most responsible for curbing emissions.

—*Stephen Power contributed to this article.*

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EUROPE NEWS

U.K. borrowings rise

Public sector loans hit a record in January as tax revenue fell

BY LAURENCE NORMAN

LONDON—Britain's public sector borrowed a record amount in January, as tax revenue fell sharply and central-government spending grew amid signs of a struggling economic recovery.

The Office for National Statistics said Thursday the public sector borrowed a net £4.3 billion ($6.74 billion) in January versus economists' forecasts of net debt repayment of £2.8 billion. That is the first time since the ONS started taking monthly records in 1993 that there has been net borrowing in January, which is traditionally a big revenue month. For the financial year to date, which started in April 2009, Britain has borrowed £122.4 billion—more than double the figure from a year earlier.

With investors already jittery about high-deficit countries, the unexpectedly bad borrowing data put pressure on sterling, causing the pound to lose almost half a cent against the dollar. Prices for U.K. government bond futures also fell, with the March futures contract down 0.23 on the day at 114.51.

Yet the Treasury insisted the latest numbers leave the government "on track" to meet a full-year net borrowing forecast of £178 billion, or a record 12.6% of gross domestic product.

The data showed that central government tax receipts fell 7.7% in January from a year earlier, to some £4.2 billion. One of the biggest revenue declines came from income and wealth taxes, including capital gains tax, which fell a total of 16.2% on the year.

In December's pre-budget report, the treasury had predicted a huge reduction in capital-gains receipts to £2.5 billion in this financial year from £7.8 billion in the last one. That is mainly because this year's receipts came from profits generated in the 2008-09 financial year when prices of stocks and many other assets plummeted.

In total, central government spending was up 5.8% in the financial year to date, compared with the government's forecast of a 7.5% increase.

The treasury may also end up raking in extra revenues this year from the government's tax on bankers bonuses, which is now widely expected to bring in far more than the £550 million originally forecast.

"These [January's] figures reflect a sharp fall in tax revenues representing tax collected now on business activity at the low point of the recession ," said Ian McCafferty, chief economic adviser at the Confederation for British Industry. "However, they were not much worse than we expected and we are still in line for a deficit of some £180bn for the year as a whole. "

But economists also warn that the U.K. still faces the specter of a downgrade to its AAA credit rating if an upcoming general election doesn't quickly result in a convincing debt-reduction plan.

The opposition Conservative Party, current favorites to win an election due by June 3, said in a statement that January's "appalling" data illustrated a crisis in public finances. The government says its borrowings are on track.

In other economic news, the stock of U.K. business loans contracted at a record annual pace in December, and that weakness looks set to continue, with lenders reporting that net lending flows remained weak in January, Bank of England data showed.

In its monthly Trends in Lending survey, the BOE said the stock of loans to businesses shrank 8.1% in December after a 7.7% drop in November. That marked the largest decline since the series began in 1999.

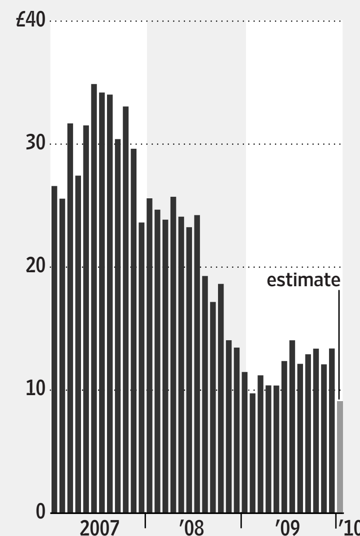
The Council of Mortgage Lenders said U.K. gross mortgage lending slumped to its lowest level for a decade in January.

Deteriorating finances | U.K. economic indicators

Spending rises, revenue falls

Central government revenue in January, change from previous year	**-7.7%**
Central government spending in January, change from previous year	**9.7%**
Public sector net borrowing from April 2009 to Jan 2010 vs. £58.4 billion the previous year	**£122.4 billion**
Full-year government budget-deficit forecast	**12.6% of GDP**
January 2010 net debt vs. 50.0% in January 2009	**59.9% of GDP**

Gross mortgage lending fell to a 10-year low in January, in billions



Note: U.K. financial year April 6, 2009 to April 5, 2010
Sources: Office for National Statistics and U.K. Treasury (left); Council of Mortgage Lenders and Bank of England (right)

German union strikes pay deal

BY NINA KOEPPEN

FRANKFURT—German employers and metal-workers' union IG Metall on Thursday agreed a two-year wage deal aimed at job protection for roughly 700,000 workers in the state of North Rhine-Westphalia.

The agreement reached in Germany's most populous region is regarded as a benchmark for the rest of the country, where the IG Metall negotiates pay and working conditions for roughly 3.4 million people in the engineering, automotive, steel and paper industries.

The deal foresees a one-off payment of €320 ($433) to all skilled workers and €120 to trainees. In April 2011, a 2.7% pay increase will come into effect. The wage agreement runs through to March 2012. Negotiations focused on job protection in an industry badly hit by last year's slump in global demand. To avoid laying off skilled workers, many companies have programs under which staff work shorter hours.

It's a "good result ... which helps secure jobs throughout the crisis," said IG Metall chief Berthold Huber.

"Wage negotiations have been relatively tame and the deal shouldn't place too much of a burden on German companies," said Alexander Koch, an economist at UniCredit.

Hannes Hesse, an executive director at VDMA engineering industry association, said the deal takes account of an "extremely difficult economic situation." He added that "the moderate wage increase is an adequate compensation for inflation."

VDMA represents 3,000 mainly small and medium-size companies in the German engineering industry.

Separately, consumer sentiment across the 16 countries that use the euro fell for the first time in 10 months in February, data from the European Commission showed Thursday. The flash estimate of euro-zone consumer confidence fell to minus 17.4 in February from minus 15.8 in January.

The commission said it was able to publish its new flash estimate of consumer confidence due to the "distinct characteristics of consumer surveys, making compilation time shorter."

The decline is likely to reflect consumers' view of the general economy, following official data that confirmed gross domestic product growth was slower in the fourth quarter of 2009 than in the third.

Consumers are also likely to be concerned over expectations that ballooning government deficits must begin to be reined in.

"The recovery in euro-zone consumer confidence is showing signs of faltering," said Martin van Vliet, euro-zone economist for ING Bank.

"Consumers' expectations about the economy and unemployment were probably negatively affected by the triple whammy of the sovereign-risk related selloff in equity markets, the fiscal tightening plans in some peripheral economies, and the disappointing economic growth figures for the fourth quarter of last year," Mr. van Vliet said.

Euro zone must address ways to avoid fiscal crises

[Brussels Beat]

BY STEPHEN FIDLER

As the crisis of confidence continues in the euro zone, attention among academics and others is turning to how such turmoil can be prevented in the future.

The question isn't one that European governments appear to want to address now. Officials asked about this usually deflect the question, which they see at best as premature. They want to manage the current crisis with the structure they've got before looking to the longer term.

However, even longer term, there seems scant prospect that European governments are interested in addressing the issue at the center of the problem: The euro zone is a monetary union whose members are free to follow widely differing economic policies.

The reason for this freedom is that governments haven't wanted to cede more authority to Europe in fiscal and other matters than they already have.

One senior European finance official, speaking late last month, said there is just no appetite in Europe for greater political union.

Paul de Grauwe of the Center for European Policy Studies in Brussels says the crisis arose because the lack of a political union leads economic and budgetary divergences to build up. Yet the very absence of a greater political union makes dealing with the crisis so hard when it arises.

The prospect for change doesn't appear great: "Even the thought of adding just 0.1% to the EU budget makes some countries extremely jittery. Thus, a very small-scale fiscal union that would transfer just a few percentage points with respect to budgetary and tax responsibilities appears to be out of the question."

Euro-zone fiscal rules are guided by the European Stability and Growth Pact, adopted in 1997, under which members of the euro zone are supposed to keep annual budget deficits below 3% of gross domestic product.

The pact was criticized almost from the outset. In 2002, then-European Commission President Romano Prodi described it as "stupid" and "rigid".

Its limited usefulness as a tool for discipline over governments was underlined by the way in which the euro zone's two largest members, France and Germany, breached the deficit rules and suffered no sanctions in 2003. Greece's flouting of its strictures, and cheating on its disclosures to European authorities, has merely driven a last nail into the coffin.

With the pact not fit for purpose, the question of what mechanisms can be used to deal with future Greece-style crises is one to which Europe will return to time and again.

There are two elements. The first concerns what can be done to stop such crises developing, and the second, what sort of mechanisms should be in place to deal with nations that hit fiscal and debt-repayment difficulties. On both counts, the question is what to do if governments don't do as they're told.

Barry Eichengreen of the University of California, Berkeley, argues that "completing the monetary union requires Europe to complete a proper emergency financing mechanism.

"The Greek crisis shows that Europe is still only halfway toward creating a viable monetary union. If it stays put, the next crisis will make this one look like a walk in the park," he says in an article on the Project Syndicate Web site (http://www.project-syndicate.org/commentary/eichengreen14/English).

Bailouts, he says, should come with more than tough economic and financial conditions attached.

Countries receiving a bailout should be required to cede temporary control of their budget to a committee of what he calls "Special Masters," trusted Europeans, appointed by the European Union.

If the government doesn't like it, well, nobody's forcing it to take the money.

Such prescriptions by economists are often accused of ignoring political realities. His would not only have a big impact on the way the EU is run, but also raise prospects for national constitutional crises. What would happen if the Special Masters ordered a particular course of action and the Greek parliament said no? Or if, having received the money, the Greek parliament reversed an earlier decision.

Mr. Eichengreen said he understands that his idea for federal intervention would go down easier in California than in Europe, where people think of themselves first as Germans or Greeks rather than as Europeans.

For historical and other reasons, the idea of national sovereignty remains important to Europeans, but he says Europe will have to get over that if it is serious about monetary union.

However, there are less ambitious—albeit interim—proposals out there. Mr. de Grauwe says two institutional developments, suggested by other academics, could go some way to dealing with the problem.

The first is a European Monetary Fund that would be funded by countries running deficits. This would be in a position to give out loans in a crisis but be able to attach economic conditions to them, in the way that the International Monetary Fund does.

A second idea would be a European bond market, denominated in euros. Every country would receive a share of the proceeds, and the interest rate would be a weighted average of what governments pay to issue their own debt. Thus, Greece would pay a higher interest rate than fiscally more virtuous countries. This would, he says, go a long way to softening German concerns about moral hazard: the idea that the profligate would be rewarded for errant behavior.

EUROPE NEWS

Lagarde seeks more CDS regulation

Speculation is a factor in euro-zone problems, French finance minister says, and sovereign market needs controls

PARIS—The market for sovereign credit-default swaps needs to be regulated more firmly, French Finance Minister Christine Lagarde said Thursday, adding that speculation is partly to blame for the euro zone's current debt troubles.

By *Gabriele Parussini, Adam Cohen* and *Matthew Dalton*

Ms. Lagarde's statement, which echoes comments she made in a closed-door hearing Wednesday at the French National Assembly, underscores the European Union's anxiety about lightly regulated financial instruments and the firms that trade them.

Spreads on sovereign credit-default swaps—which provide a kind of insurance against government default—have recently faced scrutiny in the euro zone. Burgeoning budget deficits are fueling fears that Greece or another country could wipe out its creditors.

A widening in a country's spreads can add to such fears, to the chagrin of government officials who say that the widening comes from purely speculative bets in a volatile market, rather than the underlying soundness of a country's finances.

In the wake of the 2008 financial crisis, the EU has tried to clamp down on speculative trades. Lawmakers have lashed out at short selling, complex derivatives and hedge funds, demanding a slew of new legislation.

The European Commission, the EU's executive arm, plans to propose new rules for derivatives, including sovereign credit-default swaps, later this year.

"The sovereign CDS market is a narrow one, with few players," Ms. Lagarde said on the sidelines of a news conference in Paris on Thursday. "It's a market that needs better regulation."

Greece, which had a budget deficit of almost 13% of gross domestic product last year, saw its CDS spreads surge in recent weeks. Other heavily indebted euro-zone countries, including Portugal and Spain, also have been affected.

Reuters

French Finance Minister Christine Lagarde says speculation is partly to blame for the euro zone's debt problems.

CDS spreads for these countries have been volatile recently, as fears of a default compete with rumors that the euro zone will support these states.

The price of Greece's five-year sovereign credit-default swaps was at 3.59% Thursday afternoon, up from 2.82% at the end of last year. This spread hit a high of 4.25% in early February, according to figures from financial information company Markit.

At Wednesday's hearing, Ms. Lagarde also said that six financial institutions have been singled out for speculating on Greek debt during the crisis, according to Henri Emmanuelli, a lawmaker at the hearing, which was closed to the press.

Ms. Lagarde told lawmakers that the six institutions are all "Anglo-Saxon," a word French politicians and media use to designate U.S.- and U.K.-based companies.

Some hedge funds have started to adjust their investment strategies as European officials voice harsher criticism of investors who have used exotic investments to bet against the debt of countries like Greece, traders said.

Elected leaders in France and Germany have highlighted what they view as a potentially destabilizing but largely hidden influence of banks, hedge funds and other investors in the markets for Greek sovereign bonds.

The officials have taken the strongest aim at the use of credit-default swaps, insurance-like contracts that pay out when an issuer defaults, and rise in value as credit conditions deteriorate.

One recent report in Spain's El País newspaper said the country's intelligence service is investigating "speculation" in Europe's markets.

Some players whose strategy was to purchase credit-default swaps that would pay out in the event of a Greek default were spooked last week by talk that European officials might try to make such swap trades illegal.

Though investment strategies are constantly in flux, given the potential precariousness of that market, some hedge funds began shifting toward a more currency-driven strategy, say people familiar with the matter.

The European Commission in October outlined a regulatory plan for derivatives that aims to route this market, where trades now occur mainly between individual investors, through clearinghouses and onto exchanges.

The plan would also require investors to disclose information about their trades in centralized trading registries. The commission is now examining how such rules might have slowed speculation in the sovereign CDS market, according to an EU official familiar with the matter.

EU officials say a requirement to trade through a clearinghouse would increase the collateral hedge funds and other investors need to back their trades, which likely would reduce the total volume of speculative trading.

The commission is also considering whether additional measures might be needed to prevent this kind of speculation, the official said.

Registering derivatives trades in data centers will give officials more information about the now-opaque derivatives market, said commission spokeswoman Chantal Hughes.

"Regulators and supervisors will have a better idea of systemic risks in the market," she said.

Later this year, the commission also is planning to review the EU's market-abuse laws, which mainly deal with insider trading, to ensure that regulators can detect and sanction any manipulation of derivatives trading, Ms. Hughes added.

—Gregory Zuckerman and Kate Kelly in New York and Mark Brown and Adam Bradbery in London contributed to this article.

Greece's next test will come in a bond sale

By Michael Wilson And Costas Paris

LONDON—Dogged by deep public-sector deficits and dubious budget accounting, Greece must soon turn again to bond-market investors to cover its funding needs.

The nation's next bond issue could come as early as next week, and market watchers will be scrutinizing it to see how readily Greece can refinance its maturing debts.

Greece needs to borrow €20 billion ($27.21 billion) to repay debts due in April and May, out of more than €54 billion of debt it has to issue this year. Other members of the 16-nation euro zone have pledged to support Greece but so far haven't put any hard cash on the table.

Greece has until March 16 to begin cutting its budget deficit, estimated at 12.7% of gross domestic product last year, and the European Union has threatened to intervene if Athens doesn't deliver.

"The EU want to show they are behind the peripheral [euro-zone countries] without having to put their money where their mouths are," said Jim Reid, a Deutsche Bank credit strategist. "Such commitment seems to be enough to stabilize the situation in the short term, but will it be enough to leave it at that by the time the next funding point comes around? We're concerned that it won't be," he added.

So far in 2010, Greece has raised €13.6 billion via the sale of Treasury bills and bonds, according to the Public Debt Management Agency.

The nation plans to sell as much as €5 billion of 10-year bonds as soon as next week, people familiar with the situation said Thursday. The offer would be in line with comments by Spyros Papanikolaou, head of the Public Debt Management Agency, who said in January Athens planned a 10-year bond in February.

Investment bankers say investors are likely to be cautious after a five-year bond issued in January performed badly. The bonds quickly lost as much as 2.5% of their value, partly because of the decision to increase the deal's size to €8 billion, from €3 billion to €5 billion.

"Part of the reason the Greek bond didn't perform is that is it was too big," a senior European syndicate banker said. This suggests that Greece will stay within its stated size limits because buyers will want to be sure they aren't going to suffer a repeat performance.

Such concerns are balanced by the fact that other embattled sovereign borrowers have proved it is possible to tap markets for cash at the right price. Portugal—also in the spotlight recently due to its large debt pile—passed a test of investor sentiment last week when it sold €3 billion in 10-year bonds. Spain also got a much-needed boost Wednesday when its new €5 billion bond issue was received well by investors.

"Peripheral concerns will have been soothed somewhat by the carefully managed issuance of €5 billion of 15-year notes by the Kingdom of Spain," said Barclays Capital's Puneet Sharma. "With a significant amount of issuance expected in 2010, the calm market reaction to this deal could encourage further transactions to come to market."

Both Portuguese and Spanish issues priced with a premium of about 0.1 percentage point over existing bonds, much less than the 0.5 point Greece paid to sell its January deal. Bankers said that in a bid to bring down debt-servicing costs, Greece will be looking to be "more aggressive" on its next issue.

Indeed, Greece needs to cut costs wherever possible if it is to bring its budget deficit within the European Union's limit of 3% of GDP. Greece is due to present its first deficit-reduction plan by March 16 to the EU.

The EU wants Greece to impose at least €2 billion in spending cuts and tax increases to narrow its deficit, but Athens fears possible unrest if it takes more austerity measures, say people familiar with the government's thinking. "The pressure from the EU is tremendous," one person said. "Greece could very well face social unrest if the government adopts more measures in the short term. It's a very difficult situation."

Some people in Greece have already judged the current plan—which includes cutting four percentage points off the deficit this year through freezing or cutting wages, raising taxes and capturing tax evaders—as too aggressive.

Finance Ministry workers walked out in a protest over the cuts. Customs officials declared a three-day strike, while tax officials taxi drivers and fuel-truck drivers are threatening to strike.

However, Brussels has so far expressed only tentative support for the plan, with some EU officials saying the cuts aren't big enough.

If Greek progress on budget cuts doesn't satisfy the EU, the 27-nation bloc reserves the right to impose further measures on Athens. The EU can take control of Greece's budget under article 126.9 of the Lisbon Treaty.

Another person familiar with the Greek government's thinking said Greece hasn't asked for a bailout, but if the need arises it would prefer a long-term loan of about €25 billion rather than guarantees for its bonds.

A second person familiar with Athens' thinking said EU finance ministers proposed an increase of one to two percentage points in the value-added tax, now 19%, as well as cutting public servants' bonuses by the equivalent of at least a month's salary, and even mass layoffs from the public sector. The VAT increase would be extremely painful for Greeks as consumer spending makes up around 75% of GDP.

EUROPE NEWS

Saakashvili slams French sale plan

Georgian leader echoes regional concerns about impact of Russia's intentions to acquire warship, armored vehicles

By Guy Chazan

LONDON—Georgian President Mikheil Saakashvili blasted France's plans to sell a warship to Russia, which critics of the deal say highlights how some European powers are turning their backs on their erstwhile protégés in the former Soviet Union.

The proposed sale has soured relations between Georgia and France, whose president, Nicolas Sarkozy, brokered a cease-fire to end the five-day war between Georgia and Russia in August 2008.

Mr. Saakashvili said the "very unusual and very risky" warship deal could be seen as a "reward" to France from Moscow for not forcing Russia to fully comply with the terms of the cease-fire. Georgia accuses Moscow of failing to withdraw its forces to positions held before the war broke out, a charge Moscow denies.

Mikheil Saakashvili

A French diplomat declined to comment, beyond saying France hasn't signed a contract with Russia for the sale of the ship.

Russia's negotiations to purchase the 21,300-metric-ton Mistral-class helicopter-carrier reflect a drive to modernize its armed forces after the conflict with Georgia exposed the deficiencies of its Soviet-era military hardware. The Russian Navy lacks ships in the class of the Mistral that are capable of conducting a large-scale amphibious landing.

But the deal has raised concern among some of Russia's neighbors, and also sowed discord between France and some of its allies. Mr. Sarkozy has defended the sale, saying "one cannot expect Russia to behave as a partner if we don't treat it as one." But Baltic states like Latvia and Estonia have warned such big arms purchases could upset the balance of power in the region. A Pentagon spokesman said this month that the U.S.'s "friends and allies" in Eastern Europe had "good reason" to be nervous about the deal.

European Pressphoto Agency (left); Panhard (right)

Georgian leader Mikheil Saakashvili criticized Russia's plans to buy a warship like the Mistral, left, seen in St. Petersburg in November, and French armored vehicles.

A huge vessel capable of carrying tanks and helicopters, the Mistral-class warship could potentially cement Moscow's domination of the South Caucasus region, if deployed to the Black Sea.

Admiral Vladimir Vysotsky, commander of Russia's Navy, said last year that with such a ship Russia's Black Sea Fleet could have won the war against Georgia "in 40 minutes instead of 26 hours."

Russia already has thousands of troops stationed in South Ossetia and another breakaway region of Georgia, Abkhazia, and this week signed a deal to create a permanent military base in Abkhazia.

Mr. Saakashvili told reporters in London, where he met British officials, that if Russian Prime Minister Vladimir Putin "gets tanks, ships, missiles—technology which he's also shopping for—then we are getting into a very, very risky zone." He said Georgia has had an "informal exchange of opinions" with Paris about the warship deal but hadn't made an official protest.

The president also criticized Moscow for its plans to purchase French armored vehicles, saying they could be used in any invasion of Russia's neighbors.

French firm **Panhard General Defense** SA, which makes the vehicles, said talks on a deal were still at an early stage, and denied they would enhance Russia's offensive capability.

The warship deal, if it goes ahead, will mark the first time a NATO member has sold advanced military technology to Russia. It would be a godsend for the Saint-Nazaire shipyard, which builds the Mistral-class ships: The owner of the yard, South Korean-controlled shipbuilder **STX Europe** AS, announced last year it was cutting 351 jobs there due to a lack of orders.

Mr. Sarkozy has approved the sale of one warship to Russia, but the Russian Navy has requested three more, to be built in Russian shipyards. France is examining the request and a final decision is expected within weeks.

Mr. Saakashvili also criticized French state-owned satellite operator **Eutelsat** SA for blocking a Georgian-run, Russian-language TV channel called Perviy Kavkazky last month. "They knocked it off the air on political grounds—because Russia doesn't like it," he said. Eutelsat has denied coming under any pressure from Moscow to block the channel. The dispute between the Georgian public broadcaster and Eutelsat is now being heard in a French court.

—David Gauthier-Villars in Paris contributed to this article.

Dutch troop pullout threatens Afghan mission

Continued from first page

Mr. Bos, have staked their political future on a position that the troops must stay, even if in a reduced role.

Since the start of Dutch operations there in 2006, 21 of their soldiers have died, watering down public support for the mission. Recent opinion polls, as well as the Dutch Parliament, favor withdrawal.

NATO Secretary-General Anders Fogh Rasmussen sent the Dutch government a formal letter on Feb. 10 asking that Dutch troops be assigned to a mission to train security forces in an area called Uruzghan, in central Afghanistan, until August 2011. Mr. Rasmussen's request was meant as a peace offering to mollify Dutch public opinion, say NATO officials. At the alliance's headquarters in Brussels, the Dutch force of roughly 1,550 is regarded as a small, yet key, asset.

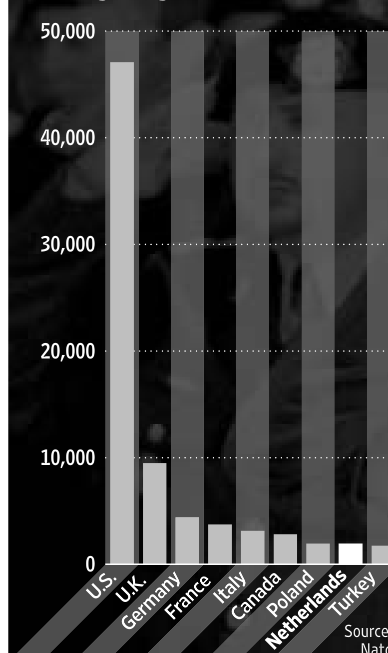
"They've always been seen as there fighting with the warrior troops, the British, the Canadians, the Americans, the Australians," says Brooks Tigner, who covers NATO for Jane's Defence Weekly. "Even though it's a small country, it's an important one."

Senior American officials had once talked of NATO adding as many as 10,000 new troops to the 30,000 U.S. forces that are currently surging into Afghanistan, largely drawn from major alliance powers like Germany and France. But both countries have largely rebuffed the U.S. requests.

NATO officials stressed caution, as no decision as been taken yet. Officials at the U.S. mission to NATO didn't return telephone calls seeking comment.

The loss of the 2,000 Dutch troops would further exacerbate the military gulf between NATO and the U.S., which is assuming an ever-larger share of the combat burden in Afghanistan.

Meanwhile, the Netherlands could soon lose its government.



Dutch soldiers who served in Afghanistan in Arnhem, the Netherlands, Jan. 29

European Pressphoto Agency

There are local elections on March 3 and Mr. Bos is anxious to make a splash, say analysts. His party trails in the polls.

If Mr. Balkenende can't persuade Mr. Bos to a compromise solution by March 1, the Labor Party could leave the coalition, toppling the government. At a Friday cabinet meeting, Mr. Bos will have the option of negotiating a compromise with Mr. Balkenende, postponing a decision, or pulling out of the coalition. He has already indicated what way he would lean. "By the end of this year, the last soldier should have left Uruzghan," Mr. Bos told a party meeting this week.

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The Dalai Lama walks outside the White House after visiting with U.S. President Barack Obama Thursday.

Dalai Lama, Obama talk

Human rights, religious freedom in Tibet dominate hour-long chat

By Jonathan Weisman And Sky Canaves

WASHINGTON—President Barack Obama met with the Dalai Lama of Tibet on Thursday to discuss human rights and religious freedom for the people of Tibet, shrugging off the official protests of China.

The carefully choreographed meeting lasted more than an hour in the Map Room of the White House's main residence. Mr. Obama didn't see the spiritual leader of Tibet in the Oval Office, a move designed to signal that the U.S. doesn't view him as a political leader of Tibet, which Washington officially views as Chinese territory.

The Dalai Lama, speaking to reporters after the meeting, took advantage of a moment before the cameras on the White House grounds to thank the U.S. president for the meeting and declare himself "very happy."

"Since my childhood, I always admired America not as a military power, but mainly as a champion of democracy, freedom, human value, human creativity," the Dalai Lama said, wearing the robes of a Tibetan monk and flip-flops in snowy, cold Washington.

Mr. Obama expressed what White House press secretary Robert Gibbs termed "his strong support for the preservation of Tibet's unique religious, cultural and linguistic identity and the protection of human rights for Tibetans in the People's Republic of China."

After a relative decline in the number of high-profile meetings by the Dalai Lama with world leaders, Thursday's meeting between the U.S. president and the Tibetan spiritual leader could chill already frosty U.S.-China relations.

China has expressed repeated objections to the meeting. This past Friday, China's Ministry of Foreign Affairs issued a written statement calling it a "wrong decision."

In the statement, foreign ministry spokesman Ma Zhaoxu said China resolutely opposes the Dalai Lama's visit to the U.S., and any contact between U.S. leaders and the exiled Tibetan leader.

"We urge the U.S. side to fully understand the high sensitivity of Tibet-related issues, honor its commitment to recognizing Tibet as a part of China and opposing 'Tibet independence,' " Mr. Ma said.

White House aides said they gave Beijing ample warning, before and during Mr. Obama's visit to China in November, that the meeting would take place.

Administration officials said Sino-U.S. relations were mature enough to handle the meeting, especially because every president since George H.W. Bush has entertained the Dalai Lama.

Thursday's meeting took on a carnival-like atmosphere. Hundreds of Tibetans crowded Pennsylvania Avenue outside the White House and waved Tibet's distinctive blue, red and yellow flag. They stood in a large circle singing and dancing, many of them in traditional garb.

"We want freedom of speech, freedom of religion, like what we have in the United States. We don't have any of this" in Tibet, said Tenzin, 16, who goes by one name, as is traditional in Tibet.

The Dalai Lama adopted a playful demeanor after the meeting. He told the U.S. president "the female is biologically more sensitive about others' pain, others' suffering" and therefore should have more leadership roles. "The president agreed," he said.

Mr. Obama declined to meet the Dalai Lama during the Tibetan spiritual leader's trip to the U.S. in October, to avoid heightening tensions ahead of the U.S. president's first state visit to China in November.

Beijing always has objected to meetings between foreign leaders and the Dalai Lama. The Dalai Lama began visiting Washington in 1991.

In late 2007, George W. Bush presented the Dalai Lama with the Congressional Gold Medal in the first public appearance of a U.S. president with the Tibetan spiritual leader.

Since then, and after riots swept through Tibetan areas of China in early 2008, China has stepped up its opposition to the Dalai Lama's international outreach.

In late 2008, China lashed out at French President Nicolas Sarkozy's announcement that he would meet with the Dalai Lama by abruptly pulling out of an annual EU-China summit.

A meeting with the Danish prime minister in May 2009 drew such strong recriminations from China that the Danish government subsequently issued a statement explicitly opposing Tibetan independence.

"China has had a huge run of success in this strategy of using the Dalai Lama as a sort of *casus belli*," says Robert Barnett, director of the modern Tibetan studies center at Columbia University.

The result has been a sharp reduction in the number of meetings between the Dalai Lama and foreign leaders: two last year, compared with an average of four per year during the previous four years.

Several governments, including the U.K. and France, have issued statements supporting Chinese sovereignty over Tibet and rejecting Tibetan independence.

Against this background, Mr. Barnett says Thursday's meeting took on greater significance than past meetings between American presidents and the Dalai Lama.

Mr. Obama's willingness to meet with the Dalai Lama despite Beijing's objections could pave the way for more meetings with foreign leaders.

With every nuance in the Obama administration's approach to the meeting scrutinized, Mr. Barnett noted another important shift.

While the meeting will again be private, the White House has described the Dalai Lama's position not only as a religious leader (the standard formulation), but also as a "spokesman for Tibetan rights."

Yang Xiyu, a researcher with the China Institute of International Studies, said the meeting would create another sore point in U.S.-China relations, already strained by contentious matters such as the $6.4 billion sale of arms by the U.S. to Taiwan, human-rights issues and increasing pressure on China to allow its currency to appreciate.

"The meeting between Obama and Dalai Lama represents one disaster after another, like adding frost to the snow," said Mr. Yang, citing a Chinese idiom.

—Gao Sen in Beijing contributed to this article.

U.S., Europe growth gap offers economic lessons

[Capital Journal]

By Gerald F. Seib

Amid the cacophonous economic debate echoing in Washington, what's most striking are two numbers: 5.7% and 0.4%.

Those are the economic-growth rates in the latest quarter for the U.S. and Europe, respectively. The difference is so strikingly in America's favor that it warrants a little more attention, both because of what it says about the current state of affairs and for the lessons it might offer policy makers.

The gap between American and European growth can be attributed partly to economic cycles and partly to some artificial expansion in that big U.S. growth figure for the last quarter of 2009. But the disparity also suggests that, amid all the scrambling and stumbling, at least a few things were done right in the American response to the economic crisis of the past two years, and a few things less right in Europe.

Such questions haven't been parsed much in this week's economic debate in Washington, which has been simple, if not simplistic. This week marked the first anniversary of President Barack Obama signing the $787 billion economic-stimulus package, a milestone that set off a shouting match between the White House and Republicans over what the stimulus has accomplished.

That question won't be settled this week, or by November's elections. But it's safe to assume that the stimulus package hasn't been as useful as the White House claims, or as useless as Republicans assert.

More intriguing is the question of how the whole combination of forces the U.S. brought to bear is working out, and why the picture looks so different right now on the other side of the Atlantic.

Last April, Mr. Obama went to Britain for a summit of leading economic nations, amid much skepticism among European leaders about the value of economic-stimulus measures, doubts about the wisdom of the bank "stress test" the U.S. was planning, and a degree of confidence that Europe's regulatory system was better at preventing and controlling problems.

Now, the picture looks scarier in Europe than in the U.S., as banking problems merge with national debt troubles.

Then there is that lagging European economic growth. Part of the trans-Atlantic growth disparity can be attributed to a bit of fluff in the latest U.S. numbers. Fourth-quarter growth here was pumped up in part because businesses were rebuilding inventory. That may have been a temporary jolt. And, as disappointing new figures on jobless claims released Thursday suggested, growth hasn't yet translated into a surge in hiring.

Beyond that, some of the disparity can be attributed to differences in economic cycles. The U.S. went into decline earlier and may simply be pulling itself out earlier. "We're ahead of them in the cycle," says Michael Mussa, a former economic counselor at the International Monetary Fund who's now with the Peterson Institute for International Economics.

But timing doesn't explain everything. Different economic structures and policy decisions also play a role. For starters, America's Federal Reserve has been more aggressive than its European counterpart in lowering interest rates and opening the monetary spigots, and that is helping.

"Our policy has done more, and sooner, in that direction than Europe has been able to do, or in some cases, wanted to do," says Mr. Mussa.

In addition, though the U.S. hasn't succeeded yet in legislating a full change in its financial-regulatory system, regulators' moves in that direction have helped to prod banks to clean up their balance sheets, reduce their leverage and shore up their capital.

Current data show that American banks have written down bad assets and raised new capital faster than their European counterparts, and have reduced their leverage further.

As that suggests, one oft-maligned American move—the Treasury Department's "stress test" of big banks to see which ones could and couldn't handle more economic pressure—actually did its job.

It compelled shaky banks to shore up their capital and reassured financial markets that others were in decent shape. As a result, financing is at least starting to move more normally through the U.S. banking system.

And, yes, that stimulus package has added some to economic growth. Perhaps best of all going forward, one of the complaints voiced a year ago by critics of the stimulus—that its big infrastructure projects would take so long to roll out that they wouldn't be of much immediate help on the jobs front—has proved correct. That means there's actually more in the pipeline to be spent this year than was rolled out last year.

Europe, meantime, is struggling with the shortcomings built into its efforts to create a unified economic zone across many nations. It finds it more difficult politically to move quickly on monetary policy, and far more difficult to coordinate spending and regulatory systems.

So now the U.S. manufacturing picture is brightening, and even its troubled car companies are doing better than their European counterparts.

That hardly means the U.S. is out of the woods, or that Europe won't find its way out, or that America's debt woes won't return to haunt it. It does suggest policy makers on both sides might make some notes and stuff them into their playbooks for next time.

Getty Images

Sen. Michael Bennet, center carrying child, marches at a Martin Luther King Day parade in Denver in January.

Obama heads out West

President hits road to support vulnerable Democratic incumbents

BY ELIZABETH WILLIAMSON AND NAFTALI BENDAVID

President Barack Obama visits Western battleground states this week in a show of support for two of his party's vulnerable 2010 candidates, in particular embattled Senate Majority Leader Harry Reid of Nevada.

The Western swing, an unusual effort so early in an election year to bolster a top party figure, was to begin Thursday with a fund raiser for Democratic Sen. Michael Bennet, who is running a tight race.

In Nevada, which has the second-highest jobless rate in the nation and the highest level of home-mortgage foreclosures, the president was to headline a Democratic National Committee fund raiser Thursday evening. On Friday, flanked by Mr. Reid, he will hold a town-hall meeting and speak to business leaders.

Harry Reid

Immigrants, union members and the working poor helped swing traditionally Republican swaths of the Mountain West into Democrats' column in 2008. Now, about half a dozen congressional seats are toss-ups, as are Nevada's and Colorado's Senate and governors' seats.

Part of the White House message will focus on the economy and jobs. Administration officials have fanned out across the country this week to tout the administration's economic-stimulus package, which was passed one year ago Wednesday.

Mr. Obama said Wednesday the spending has helped the U.S. avoid a rerun of the Great Depression.

Republicans used its one-year birthday to renew complaints that the $787 billion effort hasn't lived up to its billing.

Mr. Reid's advisers say this week's trip will focus on the economy, and is not a campaign trip.

Still, it highlights the predicament facing Mr. Reid, one of the most powerful Democrats in Washington and also one of its most endangered.

Most recently he has come under fire for scotching a bipartisan deal on an $85 billion jobs bill—which he nixed for including a number of non-employment spending measures—in favor of a slimmed-down $15 billion bill.

"How does Harry Reid fly back to Nevada from Washington where he has gone on a massive deficit spending spree and claim we are experiencing 'robust growth' in our economy?" asked one of his possible Republican opponents, Sue Lowden, referring to a comment on Mr. Reid's Web site.

Mr. Reid has responded by highlighting the federal spending he has directed to Nevada.

The stimulus package included a provision that saved thousands of jobs at Harrah's Entertainment Inc., he contends.

The bill also funds a north-south electric transmission line he says will provide hundreds of jobs.

A Las Vegas Review-Journal poll in January found that 52% of Nevadans had an unfavorable opinion of Mr. Reid.

If a vote were held today, Mr. Reid would garner about 40% of the vote against his top two Republican opponents, Ms. Lowden and Danny Tarkanian, the poll found.

Mr. Reid's opponents are using last week's maneuvering over the jobs bill to bolster their argument that Mr. Reid is too tied to Washington and has done little to bring jobs to Nevada.

Sens. Max Baucus (D., Mont.) and Charles Grassley (R., Iowa) unveiled a jobs bill that included provisions not directly tied to employment, such as emergency aid to agriculture. Some Democrats complained it had been stuffed with extra provisions to attract Republican support.

Mr. Reid stripped the bill down to its basic job-creation elements, including a payroll-tax holiday for new hires and an extension of transportation projects.

In Colorado, Mr. Bennet was named to replace Interior Secretary Ken Salazar as the junior Colorado senator last year; he is now hoping to be elected in his own right.

He is running a well-funded and aggressive campaign, but faces a primary challenge from Andrew Romanoff, former speaker of the Colorado House of Representatives, who is fashioning his candidacy in opposition to Washington.

—Henry J. Pulizzi and Laura Meckler contributed to this article.

New jobless claims increase

BY LUCA DI LEO

U.S. jobless claims rose last week in another reminder of the sluggish pace of the labor market's recovery, but some analysts dismissed the increase as a fluke likely caused by snowstorms that shut government offices.

The number of workers filing new claims for jobless benefits jumped by 31,000 to 473,000 in the week ended Feb. 13, the Labor Department said Thursday.

Bad weather can make it harder to calculate jobless claims, among other things making it more difficult for state agencies that collect and process the numbers to adjust for seasonality and forcing some states to simply estimate claim levels.

To be sure, some analysts saw the number as a sign that layoffs still persist.

"The 31,000 increase largely reverses a 41,000 drop in the prior week and leads to new concerns that jobless claims are stalling at a high level," said Abiel Reinhart, economist at J.P. Morgan Chase.

Ralph Lauren captures a resurgent confidence

[Heard on the Runway]

HIGHLIGHTS FROM NEW YORK FASHION WEEK

After showing his Fall 2010 collection of floor-sweeping velvet gowns, black beaded cocktail frocks and buttery shearling vests on Thursday morning, designer Ralph Lauren triumphantly strutted down the runway greeting his front-row guests, including editors Tina Brown, Anna Wintour and Graydon Carter.

Mr. Lauren's catwalk is never about wild, needle-moving fashion. He has a knack for taking a season's trends, be they velvet, mohair knitwear or fingerless gloves, and making them timeless and tasteful. Backstage, Mr. Lauren, clad in black, said he had been thinking about balance.

"This is about clothes that can go on forever—showing that versatility for young sexy downtown girls and uptown girls," he said. The collection, he said, "had a little bit of romance...and I think a youngness and a contemporary-ness," he added.

The mood of the show, with tile floors and black chandeliers, was a departure from last season, when Mr. Lauren showed a spring vision of heavily distressed overalls, cotton shift dresses and pinstriped suits that drew inspiration from "The Grapes of Wrath." For fall, instead of saying "With hard work, we'll make it through this," Mr. Lauren seemed to be whispering, "We made it—now let's drink a Kir Royale."

A year after the passage of the economic stimulus package, the American fashion industry seems to be quietly celebrating the reality that the sky isn't going to fall. Unemployment numbers have started to improve, and luxury retailers' monthly sales are no longer hovering in negative territory. After realigning supply to meet diminished demand, and scaling back opulence to appeal to consumers' changing tastes, American fashion is once again gaining confidence. For designers, that means returning to their core visions and offering looks that will be recognizable to their longtime customers. Throughout New York Fashion week, which ended on Thursday, designers like Michael Kors, Carolina Herrera, and Narciso Rodriguez successfully stuck to their knitting, with looks that will dazzle their customers without overwhelming them.

On Wednesday night, Jack McCollough and Lazaro Hernandez, the design duo behind the label Proenza Schouler, did just that. Their collection of short double-faced wool skirts, cropped sweaters and thigh-high tights paired with towering high chunky heels channeled the drama of American prep school, albeit a highly fashionable one.

Backstage, Mr. Hernandez said he and Mr. McCollough were inspired by "the lexicon of classic American dressing, but subverting it, playing with it, mixing it up and making something new from that language."

Kurt Wilberding/The Wall Street Journal

A model at the Ralph Lauren show

Saks Fifth Avenue's president, Ron Frasch, said he found the whole show to be "quite extraordinary." Although Mr. Frasch noted that Messrs. McCollough and Hernandez nodded to fall trends like colorful fur and tailored sportswear, he said the best trend was "the personality of this design house—going back to what they do well."

Isaac Mizrahi was also celebrating American style, zeroing in on the magic of New York City with a collection called "Central Park Story Book," that according to the show notes was "sort of Avedon meets Avatar." It was a love letter to New York, and a reaffirmation of his love of color, texture and bling. A backdrop of a New York City skyline, sheer screens printed with leaves, fake snow flurries, and a live band completed the picture as models walked the runway in bright fur coats, a bias-cut ball gown printed with skyscrapers, and a pink sequined cocktail dress. One standout look was a shift dress decorated with crystals in a pattern that resembled crocodile skin.

—Rachel Dodes

Nordic punk, Anna Sui

Anna Sui hasn't met a print she doesn't like or can't work with. The designer applied her eclectic aesthetic to a potpourri of styles, from Bohemian to flapper, during her runway show Wednesday evening. One model wore a cornflower blue velvet jacquard dress—with polka dots and a metallic leaf design—over a navy and charcoal plaid blouse.

To add an edge, Ms. Sui styled the models as if they were auditioning for a Nordic punk rocker band. Chunky boots and furry ear-flap hats added texture and toughness to the soft dresses, as did black accents, including a long leather trench.

But Ms. Sui abandoned her rebellious side for the final few looks and adopted a more romantic, Victorian vibe. Her matte metallic pieces gave way to sequin-covered, fringe-trimmed flapper frocks. One standout look was a short and frilly ivory burnout dress paired with a powder-blue fox fur stole. She ended the show with an ivory vintage lace and velvet dress with a lace-accented hat that can only be described as a wedding dress—as you do, when you're Anna Sui.

—Elizabeth Holmes

WORLD NEWS

Soldiers in Niger seize presidential palace

By Cassandra Vinograd
And David Gauthier-Villars

Soldiers staged a coup in the uranium-rich West African nation of Niger on Thursday, seizing president Mamadou Tandja amid a barrage of gunfire.

"Sporadic gunshots have continued to be heard in and around the Presidential Palace for sometime," a statement from Niger's U.K. consul, Chuma Igbokwe, said.

Adrienne Diop, spokeswoman for the Economic Community of West African States, said that insurgents were holding the president with other ministers and people close to him, but that he is apparently uninjured.

"This didn't come as a surprise," Dr. Diop said. "There has been a crisis for the past six or seven months. We were hoping that there would be a peaceful settlement to dialogue between the opposition and the government, but Ecowas couldn't bring the parties together through mediation."

Ecowas, a regional economic organization of 15 African states, said it condemned the coup.

Reached by telephone, several government officials said that the attack took place while Mr. Tandja was presiding over a cabinet meeting with ministers of his administration.

After going for the day without any news reports, the military anthem took over the radio airwaves in the evening, Niamey residents said.

"That's a sign that the military has taken power," 43-year-old Abdoulaye Sounaye said by telephone. "We are expecting to hear from them... a major announcement tonight."

France's foreign ministry posted a note on its Web site, recommending that French citizens living in Niger stay home. The ministry also urged travelers to avoid Niger, even for transit, "because of events under way in Niamey."

Niamey resident Mohammad Karimoune said he heard gunshots Thursday afternoon. Markets closed and offices were shuttered as the disruption lasted for more than an hour, he said by telephone, adding that he still heard shots in late afternoon.

Niger is one of Africa's poorest countries, with frequent famines, but it has one highly prized export commodity: uranium. Through French state-controlled nuclear-energy company Areva SA, France has a facto monopoly on Niger's uranium output.

In recent years, however, Niger has tried to open up its uranium mining industry to other foreign partners, granting mining concessions to companies from China, for example.

The country saw a flurry of coups and rebellions until Mr. Tandja took power in 1999. While his election was democratic, he has drawn criticism and protest for passing a new constitution that removed term limits and refusing to step down when his term expired in December.

The international community had taken action against the deteriorating political situation. The European Union had announced it suspended all non-humanitarian aid to Niger.

Agence France-Presse/Getty Images

Mamadou Tandja in 2004 photo.

Dominican ties with Haiti improve

Neighbors' relations warm in quake's aftermath; in tragedy, they see new opportunities for development

By José de Córdoba

SANTO DOMINGO, Dominican Republic—President Leonel Fernández paid an unannounced visit to his Haitian counterpart, René Préval, less than 48 hours after last month's earthquake devastated the Haitian capital of Port-au-Prince.

Mr. Préval had regrouped with surviving members of the Haitian government in a grimy one-story police station near the airport. "I found him alone in a darkened office, totally shattered by what had happened," says Mr. Fernández in an interview in a gilded hall of the presidential palace here. "The streets were littered with bodies. ... We quickly began to make plans to see what immediate measures we could take" to help.

Alice Blanchet, a special adviser to Haitian Prime Minister Jean-Max Bellerive, was in New York when the quake struck. Watching Mr. Préval on television, "I saw a man who was totally devastated," she says, "You could feel the whole weight of the disaster on him."

For two centuries, Haiti and the Dominican Republic have been the most uneasy of neighbors. The two countries share the small island of Hispaniola, but they speak different languages, and their bloody and confrontational histories have made each distrust, fear and resent the other. In the aftermath of the Jan. 12 quake, people on both sides of the border see an opportunity to improve relations.

In addition to millions of dollars in government and private aid, the Dominican Republic has sent 15 bussized field kitchens to Haiti that each serve more than 60,000 hot meals a day, as well as dozens of generators and dozens of teams of electrical workers to help turn the lights on in Port-au-Prince. It has donated old school buses to serve as temporary classrooms, and is making plans to put thousands of Haitian students in Dominican schools and universities. Dominican doctors hastily turned a planned clinic on the border into a state-of-the-art hospital where thousands of injured Haitians have been treated.

John Pendygraft/St. Petersburg Times

Haitian quake victim Manuela Manuela, 10, at a Dominican hospital Sunday.

"The Dominicans were the first to arrive with help, with doctors, food and aid," says Ms. Blanchet. "They were stellar."

"I think the tragedy has had the blessing of bringing our countries closer," says Mr. Fernández. "From something bad something good can emerge." Still, he warns, if a mass of Haitians cross the border to the Dominican Republic, it would add to pressure on strained public services, potentially threaten the Dominican government—and could turn into a regional security problem for the U.S. "Drug trafficking would increase. We could turn into failed states," he says, referring to the possibility of a Haitian collapse.

Race has been an important factor in the island's history. Haiti's black slave revolutionaries, who wrung independence for their nation from Napoleon's grenadiers in 1804, quickly overran the eastern, Spanish part of the island. It was only in 1844 that the Dominican Republic won its independence from Haiti—not from Spain, as had other Spanish colonies, but from the French-speaking Haitians. Spanish-speaking and relatively light-skinned, Dominicans looked down on, but feared their Creole-speaking, predominantly black neighbors.

"There was a war that took place for 17 years between our two nations," says Mr. Fernández, who with generations of Dominicans was brought up on the national narrative of how Haitian troops slaughtered Dominicans by the thousands during the war of independence. In 1937, Dominican dictator Rafael Leónidas Trujillo ordered the massacre of an estimated 30,000 Haitian migrants, most of whom worked in Dominican cane fields. On Mr. Trujillo's orders, soldiers killed Haitians along the border, identifying them by asking them to pronounce the word *perejil*, Spanish for parsley. Creole-speaking Haitians, who supposedly couldn't roll the "r," were executed.

Leonel Fernández

The Dominican Republic has made steady progress since it began to emerge from the shadow of the 31-year Trujjillo dictatorship in 1961, but Haiti has plunged into chaos again and again after 29 years of dictatorship by the Duvalier family ended in 1986. Both are poor countries with populations of about nine million. But Haiti's gross domestic product is less than $6 billion, and 78% of the population lives on less than $2 a day. The Dominican Republic has a GDP of $45 billion, and a poverty rate of 48%. It is currently home to as many as a million Haitians, many of whom work in agriculture and construction.

Mr. Fernández says he hopes the international community will invest the billions of dollars in time and effort needed to "re-found" Haiti. But he and many others here fear that attention will wane, and the pressure of a failed Haiti will spur massive migration to the Dominican Republic. That would add to the woes of his country, which suffers from endemic corruption, increasing infiltration by drug traffickers, and hours-long blackouts that have hindered economic development.

Mr. Fernández says he is working with top Haitian officials, as well as the U.S., Canada, and multilateral agencies on a long-term development plan for Haiti to be unveiled at an international conference here in June. Among issues to be addressed, says Mr. Fernández, are ways to revitalize Haitian agriculture, develop tourism and stimulate Haiti's textile manufacturing industry.

It is an enormous job. In a report Tuesday, the Inter-American Development Bank concluded that the Haitian earthquake has been the worst, costliest disaster in history.

The quake killed as many as 250,000 people, claiming more lives as a percentage of the population than any other recorded disaster, and caused as much as $13.2 billion in damages. A decade after the disaster, Haiti's economic output is likely to be roughly 30% lower than it otherwise would have been, the report said.

The quake has spurred an outpouring of support from individuals and businesses. Dominican companies have donated some $17 million in aid.

IMF, reversing course, suggests capital controls for emerging markets

Continued from first page

quirements that a portion of foreign capital be held interest-free at the central bank, and various regulations to reduce foreign lending.

The IMF says such restrictions have tended to make it harder for investors to pull money out of a country quickly, thus reducing financial fragility. It isn't clear whether the measures also reduce the total capital that enters the country, the IMF said.

In 2007, before the crisis, a very different IMF gave very different advice. In a July 2007 speech in Bangkok, the IMF's managing director at the time, Rodrigo de Rato, advised nations that capital controls "rapidly become ineffective" and are easily circumvented.

The IMF now says that finding a way around restrictions increases costs for investors and acts as "sand in the wheels" of international capital. Columbia University economist Jagdish Bhagwati, who criticized IMF opposition to capital controls during the Asia crisis in the late 1990s, applauded the change. "Better late than never," he said. "This is so clearly an area where letting markets rip isn't a good idea."

Deploying restrictions to maintain undervalued currencies, the authors warned, would be undesirable: Money would flow to other countries, pushing up their currencies and making their exports less competitive. The authors didn't mention any country, but it is clear they were warning China. The IMF has labeled the yuan as undervalued, joining the U.S. and Europe in pressing China to let its currency rise.

WORLD NEWS

U.A.E. pursues Hamas-killing probe

Authorities examine five U.S.-issued credit-card accounts in looking into militant group leader's slaying in Dubai

Authorities in the United Arab Emirates are probing five U.S.-issued credit-card accounts, which officials say were used by five of the 11 suspects in last month's killing of a Hamas leader in Dubai, according to a person familiar with the situation.

By ***Chip Cummins*** *in Dubai,* ***Alistair MacDonald*** *in London and* ***Joshua Mitnick*** *in Tel Aviv*

Dan Kitwood/Getty Images

Israeli Ambassador to Great Britain Ron Prosor leaves the Foreign Office in London after a meeting on Thursday.

The credit cards, issued by a U.S.-based financial institution, were used to buy travel-related items, such as plane tickets, connected to the alleged assassination operation, this person said.

Dubai police said in a news conference here Monday that they were seeking 10 men and one women in connection with the killing of Mahmoud al-Mabhouh, a senior commander in the Palestinian militant group. His body was found in a Dubai hotel room on Jan. 20.

Dubai's police chief, in interviews with the local press Thursday, blamed Israel's intelligence agency Mossad for the killing, after several weeks of contradictory statements from his office about Israel's alleged involvement.

"It is 99%, if not 100%, that Mossad is standing behind the murder," Lt. Gen. Dahi Khalfan Tamim told the National, an Abu Dhabi-based, English-language newspaper. A Dubai police official didn't return phone and e-mail messages requesting comment on Thursday.

Israeli officials observing longstanding practice, declined to confirm or deny any involvement. Foreign Minister Avigdor Lieberman told Israeli Army Radio on Wednesday that there is no proof Mossad carried out the killings.

Muddying the waters, officials in the Palestinian territories identified two Palestinians, now held in Dubai in connection with the case, as former Palestinian security officials. The two were arrested in Amman, Jordan, over the weekend by Jordanian police and intelligence officers, and extradited to the U.A.E. at the request of the Dubai police, according to a Jordanian intelligence officer. (Dubai is one of seven, semi-autonomous emirates that make up the U.A.E.)

Hamas, which controls the Gaza Strip, blames Israel for the killing. A Hamas spokesman said Thursday that both Palestinians held in Dubai had fled Gaza after Hamas took over the territory in a putsch in 2007, ousting its more moderate Palestinian rival, Fatah. The spokesman, Fawzi Barhoum, said Hamas wasn't accusing Fatah of complicity in the killing and was awaiting results of Dubai's investigation.

The fresh revelations from Dubai come as European capitals ratchet up pressure on Israel, amid indications that the perpetrators of the crime stole the identities of citizens of the U.K., Ireland, Germany and France.

On Monday, Dubai police released photos and passport details of the 11 suspects, identifying six as British passport holders, three as Irish citizens—including the sole woman—a German and a Frenchman. Dubai officials released surveillance video of the suspects, going through Dubai immigration at the airport, checking into various hotels, meeting in at least one mall and leaving Dubai again, all in less than 24 hours.

In the footage, some suspects appear disguised at times with wigs and fake beards; some appear to have impersonated hotel staff or tourists. In one clip, two suspects toting tennis rackets ride in an elevator with Mr. Mabhouh.

In addition to the 11 identified suspects, Dubai officials are trying to identify at least five others—including another woman—caught on surveillance video, who may be related to the operation, the person familiar with the situation said.

The five U.S.-issued credit cards could provide a fresh thread in the probe. It wasn't clear Thursday whether American investigators were assisting. An official in the U.S. embassy in the U.A.E. declined to comment Thursday.

The release of the passport details touched off a political furor in Europe.

Most of the identified passport holders quickly surfaced, bearing little resemblance to the released passport photos, suggesting their identities had been stolen by the alleged killers.

The U.K., Ireland and France all summoned their respective Israeli ambassadors, seeking explanations. British foreign minister David Miliband said Thursday that the U.K. wants Israel to cooperate fully in a British investigation into the apparent fraudulent use of U.K. passports in the case.

"We want to give Israel every opportunity to share with us what they know about this incident," said Mr. Miliband, adding that he will meet and discuss the issue with the Israeli Foreign Minister on Monday in Brussels.

British officials have said, however, said that an investigation must be completed before conclusions can be drawn. Israel's ambassador to London, Ron Prosor, said in a statement: "I was unable to shed any further light on the events in question."

At least seven of the European passport holders are dual Israeli citizens. That added to suspicions in Israel and abroad that the killing was the work of Mossad.

—Max Colchester in Paris and Mohammed Najib in Ramallah, West Bank, contributed to this article.

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Mugabe presses black-takeover law

Zimbabwe President Robert Mugabe and his allies are pushing ahead with plans to force foreign companies to sell majority stakes to locals, threatening a fragile political partnership with the country's prime minister, who opposes such moves.

By ***Farai Mutsaka*** *in Harare, Zimbabwe, and* ***Peter Wonacott*** *in Johannesburg, South Africa*

In meetings this week, Zimbabwe's government failed to agree on whether to implement a controversial black-empowerment law. Under the law announced last month, foreign-owned firms have 45 days from March 1 to inform the government how they will achieve majority black shareholding within five years. Top executives at companies that refuse could face jail.

Prime Minister Morgan Tsvangirai, until February 2009 an opposition leader, has ordered the law withdrawn, saying it will heighten Zimbabwe's reputation as a risky investment destination. He and his partners have said the law was published without their consent.

Mr. Mugabe, 85 years old, said foreign companies should be content with holdings of up to 49%. "It's only foolish ones who will say no," he told reporters. "Wise ones would take it up."

The law is another sign of the cracks at the top of Zimbabwe's government. Although the prime minister and the president share power on paper, the latest row underscores how influence remains largely with Mr. Mugabe.

The European Union on Tuesday renewed sanctions against Zimbabwe for another year, citing unsatisfactory progress in implementing a government power-sharing pact.

Amid the uncertainty, some companies have liquidated holdings; others have held off on new investments. "If this ends up being rammed through, it's going to kill all new foreign investment," said Andrew N. Cranswick, chief executive of **African Consolidated Resources** PLC, an exploration company in Zimbabwe.

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