



A turbulent history surrounds China's clash with Google

THE BIG READ 16-17

Bull market is showing its age as 'sweet spot' ends

BUSINESS & FINANCE 19

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Russian protesters muzzled during rally



A police officer detains a participant in an anti-Kremlin protest. Several hundred demonstrators gathered in a central Moscow square Sunday, defying a ban imposed by authorities. The protesters said the rally was banned in violation of the Russian constitution's guarantee of the right to gather.

Germans are offered Swiss account data

Switzerland faced a renewed assault on its private banking system as Germany considered paying for secret Swiss account data detailing alleged tax evasion by about 1,500 German taxpayers.

By David Crawford in Berlin and Deborah Ball in Zurich

German authorities familiar with the investigation said Sunday that a confidential informant offered to sell them secret data detailing alleged tax evasion for €2.5 million (\$3.5 million). The officials, who say the information was stolen from a Swiss bank, say authorities examined samples of the data that proved to be authentic.

Swiss banking, built on the promise of confidentiality, is still reeling from a bruising battle last year with the U.S. over allegations regarding tax evasion by U.S. taxpayers.

Many Swiss bankers worry that such cases will erode client trust and lead to a flight of accounts to other countries. Under pressure from the U.S. and other countries, Switzerland recently watered down its banking-secrecy laws. Yet tax evasion isn't a crime in Switzerland, and countries across Europe continue to complain that the alpine nation is an attractive refuge for tax cheats.

A confrontation with Germany could represent the biggest challenge Switzerland has faced thus far. Though the Swiss clash with the U.S. drew much attention, Americans with offshore accounts in Switzerland represented no more than 5% of Switzerland's \$1.8 trillion offshore-banking business, according to KPMG.

German officials say the country's taxpayers have about €175 billion in Swiss bank accounts, or more than 10% of the total. According to

KPMG, as much as 80% of European Union account holders' money in Switzerland is undeclared, and experts say Germans are among the biggest groups of tax evaders in Switzerland.

Swiss officials reacted sharply to news of the latest data breach, cautioning Germany not to acquire what Switzerland considers stolen property.

"I consider it rather insidious that a state operating under the rule of law would make use of illegal data," Swiss President Doris Leuthard said Sunday on the sidelines of the World Economic Forum in Davos, Switzerland. "It's a development that we cannot accept."

The Swiss Bankers Association released a statement calling on Germany to return the data. "Should this indeed turn out to be a case of data theft, we expect the German

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The Quirk



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World Watch

A comprehensive rundown of news from around the world Pages 30-31

Editorial & Opinion

Jacek Rostowski on the secret of Poland's success. Page 15

U.S. budget aims to cut deficit

By JONATHAN WEISMAN

WASHINGTON—President Barack Obama will propose a \$3.8 trillion budget for fiscal 2011 that foresees the deficit hitting a record \$1.6 trillion in the current fiscal year but falling to about \$700 billion, or 4% of the gross domestic product, by the end of his term in 2013.

But to meet his promise of getting the deficit down even further, to 3% by 2015, the president will rely on a bipartisan debt commission to recommend what steps to take, according to budget analysts briefed on the proposal. The president is expected to issue an executive order establishing the commission as part of the budget he is set to unveil Monday.

The deficit hit a record \$1.4 trillion in the last fiscal year. With unemployment still

at 10%, the president is finding it difficult to meet his promise to cut the \$1.3 trillion deficit he inherited in half by 2013. The 2010 budget foresees the deficit falling to 5% of GDP—or about \$830 billion by the Congressional Budget Office's new economic forecast—by 2013 through economic growth alone. Policy changes, such as a proposed freeze in nonsecurity, domestic spending, would shave an additional percentage point.

A bipartisan, 18-member debt commission would forward deficit-reduction proposals to Congress after this year's midterm elections on how to cut the deficit further in the short term and rein in long-term growth of entitlement programs, such as Medicare, Medicaid and Social Security. Commission members would have to come up with between \$180 billion and \$190

billion in cuts to meet the president's target.

Congressional leaders have promised the president that they would submit the recommendations to an up-or-down vote in the lame-duck session of Congress, after the elections but before the newly elected House and Senate take office.

White House officials said they were ready to make some tough choices to get the deficit under control. White House communications director Dan Pfeiffer wrote on the White House Web site this weekend that the budget would propose to terminate or cut back more than 120 programs, saving about \$20 billion in the fiscal year that begins Oct. 1.

These include consolidating 38 education programs into 11, cutting the National

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PAGE TWO

The euro zone faces tough dilemmas at its core as well as its periphery

[Agenda]

BY IRWIN STELZER



All eyes seem to be focused on Greece, Portugal and those other countries—now including Britain—that are having difficulty bringing their fiscal deficits under control. And all ears seem to be attending to French President Nicolas Sarkozy, who talked last week at Davos of his desire to restructure the world's banking system, end the U.S. dollar's rein as the world's reserve country, replace floating exchange rates with some new Bretton Woods-style agreement, and otherwise lay violent hands on the economic and financial structure of capitalist countries.

Interesting stuff. But not a great deal to do with what is going on Europe's principal economies. There is little doubt that the European Union periphery countries are in difficulty. Spain, Greece and Portugal—the latter last week reporting an unexpectedly high 2009 budget deficit equal to 9.3% of GDP—will continue to struggle as weak domestic demand prevents the recovery that seems to be gathering pace in “core” countries.

Business confidence is on the rise in Germany, France and even in somewhat beleaguered Italy, driven in the latter case by the fastest rise in retail sales since September 2005. As Goldman Sachs, itself beleaguered as a result of its bonus-paying proclivities, reports, “The European Commission's surveys ... continue to portray a European economy that is recovering at a healthy pace.” Economists at Bank of America Merrill Lynch agree—“the euro-zone recovery remains



European Central Bank President Jean-Claude Trichet

intact”—although they warn that such recoveries “don't move in a straight line.”

Nor are they necessarily robust. The best example of the somewhat anemic nature of the euro-zone recovery is provided by the recently released forecasts of the International Monetary Fund. The IMF is forecasting global growth at a rate of 3.9% this year,

Such growth as is being chalked up is heavily dependent on stimulative fiscal and monetary policies

with China and India leading the way at 10% and 8%, respectively, in 2010 and almost that in 2011. Compare that with the forecast for Germany: growth of 1.5% this year, and 1.9% next year. Or with Bank of America Merrill Lynch's forecast of 2.1% for the euro zone as a whole. It will be quite some time for the excess capacity in many EU countries, most especially Germany, to be sopped up by a combination of internal and external demand.

Indeed, were it not for growth

in China, India and other emerging markets, Euroland might not yet be out of recession. Exports are leading the way to recovery, and the bulk of those exports are headed toward China and India. If the industries that are suffering from competition by Chinese imports succeed in turning the EU protectionist, those export sales might just be significantly reduced—another example of the sensitivity of the recovery to government policy. Meanwhile, EU policy makers continue to complain about the pressures created by the reckless fiscal policies of the peripheral countries, while quietly reveling in the export-stimulating effect of the weaker euro.

Such growth as is being chalked up in the euro zone is heavily dependent on stimulative fiscal and monetary policies. Mike Turner, head of Global Strategy & Asset Allocation at Aberdeen Multi-Asset Fund is advising clients that “for the G-7 countries fiscal policy is the main support and activity would not be sustained without it.”

So far, so good.

The inflation rate remains benign, which means the European Central Bank need not

raise interest rates. Yet.

Simon Junker, economist at Frankfurt's Commerzbank, in a recent economic briefing worries that “the ECB will be too cautious in reversing its easy policy stance. Hence, in a couple of years, excess liquidity might substantially boost the inflation rate.”

The bank expects the area's economy to be on a sufficiently satisfactory growth path for the ECB to begin to raise rates at the end of the year. But not before. That will involve some exquisite timing not only by the ECB, but also by fiscal policy makers in key countries. Standard Life analysts see the possibility of policy error by the world's authorities as “a key risk for investors in 2010.” They are right.

Which brings us to Jean-Claude Trichet, president of the European Central Bank. He is holding the line against a bailout of Greece, Portugal and other deficit-ridden euro-zone countries, while being careful not to be so tough as to force any of them seriously to consider dropping out of Euroland in order to recapture the power to devalue their own currencies—and pay off debts on the cheap. And trying to figure out how to get the euro zone growing at a respectable pace.

With reason. Talk at the Davos gathering of the world's financial muck-a-mucks is that the EU's inability to enact growth-inducing economic reforms is weakening its ability to prevent Europe from sinking into irrelevance in a G-2 world dominated by the U.S. and China. That prospect is surely weighing as heavily on Mr. Sarkozy's mind as the court ruling last week that determined his past and, now, future rival, Dominique de Villepin, isn't guilty of slander and forgery.

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

What's News

■ **Davos attendees** are pinning hopes on developing nations to keep the world economy growing, amid worry about the strength of recovery in advanced economies. Most at the World Economic Forum said they expect Western Europe and Japan to grow at a feeble pace. 4

■ **Toyota is gearing up** for a publicity offensive Monday morning, with a senior U.S. executive going on television to discuss solutions to the company's recalls. 19

■ **Israeli officials said** a Hamas militant leader found dead in a Dubai hotel was a key link in smuggling operations ferrying Iranian weapons to militants in Gaza. 10

■ **The huge stockpile** of crude oil kept on tankers amid a supply glut is showing signs of shrinking. 21

■ **The U.S. economy surged** 5.7% in the last three months of 2009, driven by slower inventory liquidation. 7

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Iain Martin on Politics

blogs.wsj.com/iainmartin

“... At times it seemed Blair thought he had come along to the Iran rather than the Iraq Inquiry.”

Iain Martin on how Tony Blair was prepared to tackle questions on Iran.



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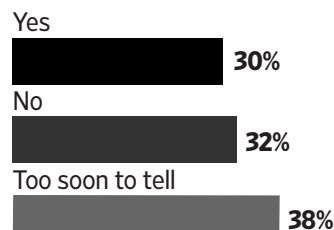
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Q: Do you think the Apple iPad lives up to the hype?



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NEWS

China looms in art

Auction houses look to East to bid up offerings from the West

BY KELLY CROW

Markets around the world are looking to China to buoy their financial prospects. So are art-auction houses.

After a dismal year, **Sotheby's** and **Christie's International PLC** are set to begin a major round of art auctions in London on Tuesday, and experts say Chinese collectors may emerge as the latest power players to bid up Western icons they once ignored, from Pablo Picasso to Pierre-Auguste Renoir.

Auction houses are hoping the coming sales will build on a number of successful offerings—including a \$48 million Raphael sold in December—that appear to indicate an art market turnaround.

The coming two weeks could be a crucial period for re-establishing price levels that have dropped amid a global recession, dealers said.

Until recently, Asians have fixated on collecting their own cultural heritage, a focus that has steadily lifted prices for everything from Imperial porcelain vases to contemporary painters such as Zeng Fanzhi.

Now, an influx of collectors from mainland China, Hong Kong and Taiwan are branching out to seek artists from the 20th century Western canon, such as Claude Monet, Paul Gauguin and Edgar Degas.

Asian collectors, many of whom were educated in the West or travel there frequently, are seeking Impressionist artworks as new status symbols.

Joseph Lau, a billionaire real-estate developer from Hong Kong, is one of the bigger buyers, having paid Sotheby's \$39 million for Gauguin's Tahitian bathing scene, "Te Poipoi (The Morning)," in late 2008.

Asian collectors, many of whom were educated in the West or travel there frequently, are seeking Impressionist artworks as new status symbols, said David Norman, co-chairman of Sotheby's Impressionist and modern art world-wide.

They are buying colored gems and Champagne for similar reasons, he said.

"These people are already sophisticated buyers of their own work," he said, "but they've got an international outlook now, and they want the best-known names in art."

Their purchasing power was evident during the last major round of auctions in New York in November, when Asian collectors won several works, including Christie's \$10.7 million Degas ballet scene, "Danseuses," and Sotheby's \$8.1 million Picasso portrait, "Femme au chapeau vert."

For the coming week's round of Impressionist and modern-art sales in London, expect auction houses to market their roster of offerings to suit.

On Wednesday, Sotheby's will try to sell Paul Cézanne's smoky-colored still life, "Pichet et fruits sur une table," for at least \$16.1 million.

Christie's, meanwhile, is offering Picasso's 1963 "Tête de femme (Jacqueline)," a blue portrait of the artist's second wife that is priced to

sell for at least \$4.8 million.

The auction house said it sought out the work after late-period Picassos turned up in several gallery and museum surveys last year, including one at the National Gallery.

A highly anticipated Picasso exhibit is also going up at the Metropolitan Museum of Art in New York this spring.

Other bidders to watch include Russian and Ukrainian collectors, many of whom slowed their art

spending last year but also seem to be back and bidding up hometown favorites such as Natalia Goncharova and Sonia Delaunay.

Ms. Goncharova's red floral "Espagnole," from around 1916, is priced to sell at Christie's for at least \$6.4 million.

Overall, Sotheby's and Christie's expect to bring in at least \$365.3 million combined, up 56% from \$234 million last February but down from \$964 million in 2008.



Sotheby's will offer Paul Cézanne's 'Pichet et fruits sur une table' Wednesday, seeking at least \$16.1 million for the Impressionist painting.

ALBERT STORCH

“It's time for a change”

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DAVOS 2010: WORLD ECONOMIC FORUM

A view from on high | At the annual Davos gathering, leaders discuss how to fix banking



'I do agree with separating proprietary trading and commercial lending. But all this shouldn't be done in the context of bashing bankers.'

RICHARD GELFOND
CEO, Imax Corp.



'Going forward, one of the priorities should be not more regulation but rather improved and closer supervision of all financial intermediaries.'

ANA BOTÍN
Executive chairman, Banesto



'What is important is that bankers themselves understand that business needs to be changed.'

LORD PETER LEVENE
Chairman, Lloyd's



'I believe in great compensation for great performance,' but banker pay in many cases has 'gotten out of whack.'

JEFFREY JOERRES
CEO, Manpower Inc.



'I'm worried that in those countries where regulation was too weak, now it could become too strong.'

SLAWOMIR SKRZYPEK
President, National Bank of Poland



'Make sure [the bankers] change, or change them.'

RACHID MOHAMED RACHID
Trade and Industry Minister, Egypt

Photo credits: Bloomberg News (Gelfond, Joerres, Botin); Agence France-Presse/Getty Images (Skrzypek, Levene, Rachid)

Financiers gorge on humble pie

Usually cozy gathering takes a darker turn as bankers generate a backlash over their role in global financial crisis

BY MARCUS WALKER
AND EMMA MOODY

DAVOS, Switzerland—Not so long ago, financiers ruled the roost at the glitzy annual gathering of the global economic elite here in the Swiss Alps. At this year's of the World Economic Forum, the unofficial theme seemed to be "First, kill all the bankers."

The ire directed at bankers from all sides is palpable, acknowledged Donald Moore, chairman of **Morgan Stanley** in Europe, as he stood alone reading some charts amidst the hub-bub at the forum's Global Village café. Asked which other groups of people have been similarly unpopular in Davos in the past, he said: "terrorists."

The quip reflects the mounting alarm with which bankers have come to view their besieged profession—even in Davos, a usually cozy gathering.

The scorn poured on the industry at this year's get-together in the Swiss ski resort is a sign of a mounting international backlash against the financial sector. Popular anger

about banks' role in the financial crisis, and their behavior in its aftermath, has spilled over to the world's elite business executives, politicians and regulators. Since gathering here Wednesday, they aimed sometimes bitter recriminations at the tainted masters of the banking universe. The talks ended Sunday.

"I think that the relationship between government and banks has changed irreversibly," said Peter Sands, group chief executive of **Standard Chartered PLC** and a co-chair of the Davos meeting. "I think the banks have not helped themselves at all. We have been tone deaf, and shot ourselves in the foot," he said, adding, "We all need a little humility."

Such servings of humble pie are just a taste of a political atmosphere that has turned poisonous for banks. Many bankers kept a low profile, preferring private meetings to appearances on discussion panels.

Support is growing among governments and regulators for a more aggressive clampdown on banks' practices than looked likely only a few weeks ago.

Proposals for tough new taxes and rules from the U.S., U.K. and other governments are feeding a growing determination among officials on both sides of the Atlantic not to let the financial sector off lightly, after banks' losses nearly caused a global economic crash.

Relief about the easing of the economic crisis is giving way to demands for far-reaching change, dismissals of banks' objections, and questioning of the value of many financial sector activities.

"We should stop the blame game and we should start looking forward," **Deutsche Bank AG** Chief Executive Josef Ackermann said Friday, arguing that a plethora of new taxes and proposals is damaging the banking sector. "If you don't have a strong financial sector to support the this recovery...you're making a huge mistake and you will regret that later on," he said.

Mr. Ackermann and other leading bankers met behind closed doors with finance ministers, central bankers and regulators from major economies in Davos on Saturday in an attempt to build bridges.

Bankers who attended said that the talks were "constructive," but little concrete result emerged and officials continued to express their determination to beef up regulation.

One European bank chairman complained that the organizers of the conference had invited too many politicians and regulators to what was formerly a friendly get-together for the business elite.

A widespread view heard here is that banks have brought much of the anger upon themselves, by appearing to return to high risk-taking and lavish pay as soon as they were out of intensive care.

"I think banks have misjudged the deep feelings of the public regarding the devastating effects of the crisis," said Guillermo Ortiz, until recently Mexico's central-bank governor.

Even banks that acted conservatively face new regulations that could make doing business more complicated and costly.

"The banks who stayed strong are angry at the banks who had poor management," Robert Diamond, president of the British bank **Bar-**

clays PLC, said at a debate on rethinking financial-systemic risk. "I've seen no evidence that shrinking banks and making banks...more narrow is the answer," Mr. Diamond said, criticizing the U.S. proposals.

If regulators try to eliminate the risk of banking crises entirely, said Alessandro Profumo, chief executive of Italian lender **Unicredit**, the result will be "a very inefficient system, and I think we are moving towards that."

That argument fell on deaf ears at Davos.

Jean-Claude Trichet, president of the European Central Bank, said the financial crisis has fundamentally changed the relationship between the banks and government because taxpayer money was used to rescue the financial system.

One group enjoying the bankers' pain at the global capitalism-fest in Davos is the trade-union movement.

"We were never sure if we were really welcome here. This time, we are speaking on panels, we have a seat at the table," said Philip Jennings, general secretary of the **UNI Global Union**.

Developing countries take center stage

BY EMMA MOODY
AND MARCUS WALKER

DAVOS, Switzerland—The business and government leaders who gathered here in recent days are pinning high hopes on developing countries to keep the world economy growing, amid widespread worry about the strength of recovery in advanced economies.

Most people at the World Economic Forum meeting, an elite annual jamboree for top executives and officials that ended Sunday, expected Western Europe and Japan to grow at a feeble pace, thanks to high public debt, overcapacity in industry and other problems.

The year ahead "is going to be a better year than 2009, but still not the year we were hoping for," said Carlos Ghosn, chief executive of car makers **Renault SA** in France and

Nissan Motor Co. in Japan.

Many participants also weren't convinced that the U.S. recovery is bouncing back just yet, despite the fast pace of economic growth posted in the fourth quarter.

Lawrence Summers, head of the National Economic Council at the White House, said the U.S. is in "a statistical recovery and a human recession." He said far more Americans are out of work than official unemployment statistics show.

In contrast, businesspeople and officials from major emerging economies exuded confidence, showing how fortunes have shifted thanks to the financial crisis.

An often-heard view at this Swiss ski resort in recent days: The financial weaknesses of developed economies will preoccupy the world for years to come, a reversal from the 1980s and 1990s, when the financial

problems of developing countries were the big concern in the global economy.

Brazilian Finance Minister Guido Mantega, for example, drew one of the brightest pictures of any major economy represented in Davos, saying Brazil's growth is strong enough for the government to remove some stimulus measures already.

"The Brazilian economy is undergoing growth which is sustainable growth and is not going to generate inflation," Mr. Mantega told a news conference.

Few people from Western countries could say the same. "It seems like it's hard in many markets to find meaningful signs of recovery that are not easily traced to the stimuli that's been provided," said Duncan Niederauer, chief executive of **NYSE Euronext**.

Many executives said they expect

to rely on fast-developing markets such as India, China and Brazil to achieve most of the growth in their business.

At German conglomerate **Franz Haniel & Cie.**, which owns wholesale trading, logistics and other businesses around the world, business in many developing countries is growing robustly along with such countries' overall economic advances.

But finding growth in stumbling advanced economies requires searching for niches that are doing better than the average, says Haniel Chief Executive Jürgen Kluge.

Sometimes those niches are highly specialized. In Germany, for example, a Haniel unit that recycles titanium scrap is a star performer, Mr. Kluge says.

In the U.S., Haniel's Kaiser+Kraft unit's sales of office supplies do best when people are starting lots of new

businesses. "So far we're not seeing it" in the present recovery, Mr. Kluge said.

Even in the big emerging countries, there could be problems ahead despite currently stellar growth rates, some warned.

China's deputy central-bank governor, Zhu Min, cautioned that the country's investment boom has created massive excess capacity in steel and other heavy industries, and said China's coming challenge would be to strengthen its consumer demand through economic restructuring.

Some executives who came to Davos thinking the recovery was getting stronger globally left with a bleaker impression.

"The definition of a pessimist is an optimist who went to Davos," said **Nestlé SA's** Chief Executive Paul Bulcke, quoting a quip that did the rounds here.

DAVOS 2010: WORLD ECONOMIC FORUM

IMF chief urges coordinated action

Multilateral accord needed on bank rules

BY MARCUS WALKER
AND STEPHEN FIDLER

DAVOS, Switzerland—The head of the International Monetary Fund warned the U.S. and European countries against launching separate initiatives to beef up the regulation of banks, instead urging governments to pursue multilateral agreements. “I’m worried about the possible inconsistency of different countries’ proposals,” the IMF’s managing director, Dominique Strauss-Kahn, said in an interview at the World Economic Forum meeting here.

He also repeated his call for countries to keep up their economic-stimulus measures, saying a premature end to support for a fragile economic recovery presents a graver risk than reining in budget deficits slightly later than necessary.

Recent proposals by U.S. President Barack Obama to curb banks’ size and activities contain much that “makes sense in isolation,” as do proposals by the U.K. and some other European countries, Mr. Strauss-Kahn said.

“What Mr. Obama and others have said is good news in that it shows political momentum hasn’t vanished,” he said. “The bad news is we need a multilateral solution.”

Mr. Strauss-Kahn’s comments echo concerns by international regulators and some bank executives that governments’ closely coordinated efforts to tackle the financial crisis in late 2008 and 2009 could give way to diverging initiatives across major economies as politicians’ focus on domestic concerns.

Bankers at the Davos forum, an annual gathering of the financial and business elite, say they want a level playing field, and some say the financial-services sector could migrate to countries that impose the least amount of extra regulation.

Purely national moves “may not be effective,” Mr. Strauss-Kahn said.

The 60-year-old former French finance minister said the world has avoided an economic crisis as severe as the Great Depression “because of the strength of international cooperation,” especially through the Group of 20 leading economies.

In recent weeks, governments including the U.K. and U.S. have unveiled various national proposals for taxing and regulating banks, partly in response to rising voter anger at banks’ perceived return to risk-taking and excessive bonuses. “Because everybody thinks the crisis is behind us, which is wrong, the idea that they can devote more of their time to domestic concerns is a natural move. To this extent, the pendulum is moving a little backwards,” Mr. Strauss-Kahn said. “Political pressure is national pressure.”

But he added that he believes national leaders understand the need to work together, saying he was “rather optimistic” the G-20 framework won’t fall by the wayside as a vehicle for addressing the lessons of the financial crisis.

Mr. Strauss-Kahn also expressed optimism that struggling European country Greece will be able to manage its budget problems, with support from European institutions.

“If needed, we will be happy to help, but I don’t think it will come to that,” Mr. Strauss-Kahn said.

The global economy is recover-

ing faster than the IMF expected only last fall, but Mr. Strauss-Kahn said growth in advanced economies “still relies on public support. Private demand is still very weak.”

Financial markets are signaling growing concern about many countries’ high and rising levels of public debt, putting governments under pressure to repair their public finances soon.



Christine Lagarde, finance minister of France (left) and Dominique Strauss-Kahn, managing director of the IMF

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EUROPE NEWS



Reuters

U.K. Prime Minister Gordon Brown opened the Poetry Live for Haiti event at Central Hall in London on Saturday. Proceeds from the fundraiser are to be donated to earthquake relief.

Brown says economy still needs lift

BY LAURENCE NORMAN

LONDON—The U.K. still faces “tough” economic times, even after moving out of recession, Prime Minister Gordon Brown said Saturday.

In his weekly podcast, released as polls showed his Labour Party closing the gap on the Conservatives, the prime minister celebrated the news that the U.K. economy had returned to growth at the end of last year but warned that strong, sustainable expansion isn’t yet around the corner.

“Times have been tough, and these are still tough times,” Mr. Brown said. “Return to strong, sus-

tainable global growth is still some way off. So I can reassure you that we are not about to jeopardize Britain’s economic future by suddenly pulling the rug from under the recovery.”

The opposition Conservative Party has accused the government of not mapping out cuts to deal with the U.K.’s record deficit. But, in a softening of the tone of how widespread spending cuts would be in the first financial year of a new government, leader David Cameron and finance spokesman George Osborne suggested in interviews that cuts wouldn’t be aggressive. Mr. Osborne told the BBC that “there is a limit to

what you can do in-year... but you’ve got to make a start.”

Mr. Brown argued that his government is putting in place a plan for growth that is built around a “diverse” economy, including investment in key emerging sectors such as clean energy, electric cars and life sciences. He said this plan will spark the “return to confidence” needed, alongside continued government spending to boost the economy, and a debt-reduction program that promises to halve the deficit over the next four years.

The Conservatives have warned that the U.K. faces a debt crisis and have promised to cut the deficit

deeper and faster than the government if they win power in an election due by June.

Official data Tuesday showed the economy grew by 0.1% in the final three months of 2009, after six straight quarters of contraction. The U.K. was one of the last major economies to emerge from recession.

Polls this weekend suggested Labour was continuing to chip away at a once 20-point Conservative lead, raising the prospect of a hung parliament—where no single party commands a majority.

An Ipsos MORI survey of 1,001 people for the Daily Mirror showed the Conservatives at 40% of support

and Labour at 32%—the governing party’s highest rating since April. The Liberal Democrats would get support of 16% if there were an election now, the poll showed. A YouGov poll for the Telegraph showed the Conservative lead falling to seven points from 10 points last month.

Meanwhile, the Conservatives’ charge of Britain facing a Greece-like debt crisis incurred the wrath of Business Secretary Peter Mandelson. Speaking to the BBC Sunday, Lord Mandelson accused Messrs. Cameron and Osborne of talking down the economy in comments to international investors at the World Economic Forum at Davos.

Germans offered Swiss bank data

Continued from first page
government to ... return the data to its owners and take criminal measures against the thief,” it said.

Swiss finance-ministry spokesman Roland Meier said German officials haven’t yet informed their Swiss counterparts about the offered data. Mr. Meier said Switzerland is concerned about possible violations of Swiss law, including theft of bank data. Referring to a possible criminal investigation, he added, “It is a problem when illegally obtained information is introduced.” Switzerland expects Germany will ask Switzerland for legal assistance based on the information, Mr. Meier said.

A spokesman for the German finance ministry said that Germany has no set policy on when it is proper to pay a reward to a provider of evidence in tax-evasion cases, “Each case is decided on an individual basis,” he said. He declined to comment on a specific case.

German politicians were divided over the weekend on whether to purchase the data.

Volker Wissing, a member of Germany’s business-friendly Free Democratic Party and chairman of the German parliament’s finance committee, said he supports the pur-

chase if German officials conclude it wouldn’t violate German law.

“The sale of stolen goods is a crime, but any legal means of obtaining important evidence should be considered with an open mind,” said Mr. Wissing, adding that his finance committee will discuss the proposed sale at a hearing Feb. 10. German officials said the information could help them retrieve as much as €200 million in back taxes.

Other politicians were more skeptical. “It would not be proper for the German government to purchase stolen property,” said Michael Fuchs, deputy parliamentary party chairman and a member of Chancellor Angela Merkel’s conservative Christian Democratic Union.

Mr. Fuchs said Germany should press Switzerland to provide evidence of tax fraud through the process of international legal assistance.

He said he would ask German Finance Minister Wolfgang Schäuble to raise the issue of closer bilateral cooperation in tax investigation cases with his Swiss counterparts.

A spokesman for Germany’s finance ministry said a decision on any new purchases of evidence would be made after state govern-

ment officials conclude a preliminary investigation. The informant offered the data to tax authorities in the state of North-Rhine Westphalia.

Germany has purchased stolen bank data for tax prosecutions in the past. In 2008, Germany’s foreign intelligence service paid about €4.2 million to Heinrich Kieber, a former bank employee, to buy account files stolen from **LGT Treuhand AG**, a subsidiary of Liechtenstein’s largest bank, **LGT Group**. An LGT spokesman and Liechtenstein banking officials say Liechtenstein-based LGT didn’t violate Liechtenstein law.

The records, which included information on accounts held by about 600 Germans, led to the arrest in February 2008 of Klaus Zumwinkel, then-chief executive of **Deutsche Post AG**, one of Germany’s biggest companies.

A German court subsequently gave Mr. Zumwinkel a two-year suspended sentence and fined him €1 million on tax-evasion charges.

Deutsche Post referred questions last year to Mr. Zumwinkel, who declined to comment.

A spokesman for LGT said the bank has reorganized its client relationships to ensure they are in accord with the law.

British housing outlook improves as prices climb

BY JOE PARKINSON
AND ILONA BILLINGTON

LONDON—U.K. house prices rose in January for the ninth straight month, lifting the year-on-year measure to its highest level for more than two years, the Nationwide Building Society said.

And the Centre for Economics and Business Research upgraded its forecast for growth in U.K. house prices, predicting gains of 6.5% in 2010 and 3.4% in 2011, propelled by an improved lending outlook and continued low interest rates. The economic-research firm had previously forecast rises of 2.6% in 2010 and 2.6% in 2011.

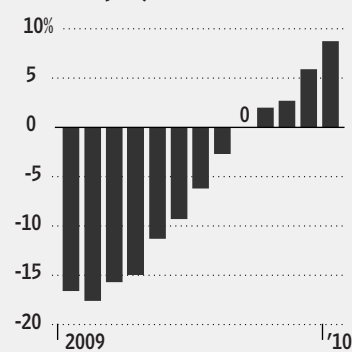
Still, the stronger-than-expected figures weren’t enough to dispel concerns that the rally could run out of steam because of continued economic weakness and still-tight credit conditions.

Nationwide said house prices rose a seasonally adjusted 1.2% from December and 8.6% from January 2009—the strongest annual rise since a 9.7% gain in November 2007.

The data were stronger than expected. Economists surveyed by

Moving up

Year-to-year percentage change in U.K. house prices, seasonally adjusted



Source: Nationwide Building Society

Dow Jones Newswires last week had estimated that prices grew 0.5% from December and by 7.5% from a year earlier. “Unless there is a fall in property values in February, annual house price inflation is likely to move into double-digit territory next month for the first time since May 2007,” said Martin Gahbauer, Nationwide’s Chief Economist.

U.S. NEWS

Growth is at fastest pace in 6 years

Gains are fueled by stabilizing inventories, but employers remain cautious and aren't in a rush to hire

By JUSTIN LAHART

The U.S. economy grew at its fastest pace in six years during the last three months of 2009, expanding at a 5.7% yearly rate over the previous quarter, as businesses drew less from their stockrooms and stepped up purchases of equipment and software. Exports surged and consumers spent more.

But the pace of the recovery is unlikely to continue as strongly once the temporary jolt from the inventory drawdown passes and government stimulus fades, keeping unemployment high through the end of the year.

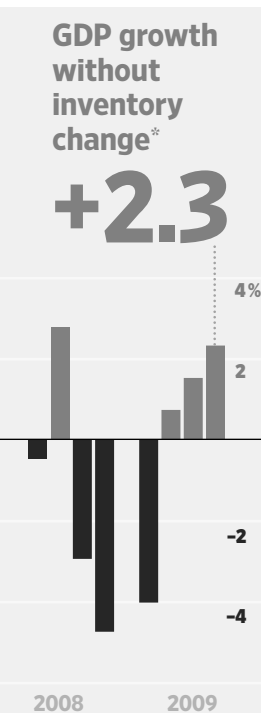
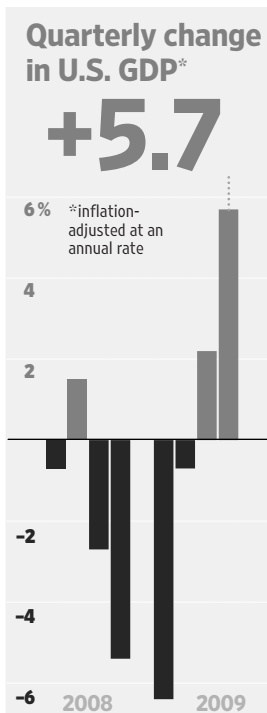
"You get a one-off boost, but that's not going to be repeated in the first quarter," said Michael Carey, chief economist at Calyon Securities in New York.

Of the 5.7% rise in gross domestic product, 3.4 percentage points came from businesses shrinking inventories more slowly than in the previous quarter. That's a plus for economic growth: When businesses pull fewer goods from warehouses, they have to produce more. Total inventories fell at an annual rate of \$33.5 billion in the fourth quarter, compared to a \$139.2 billion reduction in the previous quarter.

Stocks jumped higher following the report, but finished the day down despite the news of the growth spurt. The Dow Jones Industrial fell 53.13 points, or 0.52%, to 10067.33.

In Washington, reaction was subdued as policymakers focused on the high unemployment rate. "We need to be vigilant that this increase in GDP translates into an immediate increase in jobs," said Rep. Caroline Maloney, the New York Democrat who chairs the Joint Economic Committee.

Manufacturers and distributors are benefitting from the inventory-related bounce. But they are treating it cautiously and don't seem to



be in a rush to hire.

"I'm not seeing much of a recovery right now," said Clint Binley, president of Pallets Inc., a maker of wooden pallets in Fort Edward, N.Y.

Orders have picked up, said Mr. Binley, but rather than hiring more workers, he has increased hours. He says he doesn't foresee hiring anyone this year.

Collings Guitars Inc., a maker of acoustic guitars and other instruments in Austin, Texas, has seen an inventory-related uptick in orders. Hit during the downturn, many guitar shops cut the number of instruments they had on hand, and Collings saw orders drop. Now stores are restocking, and orders are bouncing back. "I can't just ramp things up to meet that," says general manager Steve McCreary.

After logging fewer hours last year, Collings 66-employee workforce is spending more time on the

clock. Mr. McCreary is also looking to add a few people.

The U.S. economy began contracting in the first quarter of 2008. It eked out a bit of growth in the second quarter of that year and then contracted sharply over the en-

Wages and salaries of civilian workers rose a seasonally adjusted 0.5% in the quarter.

suaging four quarters until growth returned at a 2.2% annual rate in the third quarter of 2009. Even after the fourth-quarter gain, GDP remains 1.9% below its peak 2008 level.

After inventories, an increase in

consumer spending was the largest contributor to GDP growth in the fourth quarter. Consumer spending grew at a 2% annual rate, the Commerce Department said.

That was down from the third-quarter, when spending grew at a 2.8% rate, boosted by auto sales related to the government's cash-for-clunkers program. Sales of goods besides autos grew at a faster clip than in the third quarter. That suggests households are spending more freely, said Barclays Capital economist Dean Maki.

"That is likely because wage and salary income is improving," he said. "Consumers are spending the additional money."

The Labor Department said Friday that wages and salaries of civilian workers rose a seasonally adjusted 0.5% in the fourth quarter. That was the largest increase in over a year, but was muted by his-

toric standards.

Separately, the Reuters/University of Michigan consumer sentiment index rose to 74.4 for January from 72.5 in December. That's up from a low of 56.3 last February, reflecting improved confidence among households. But it's still well below its levels prior to the recession's start in December 2007.

"I tend to watch what I'm buying a bit more," says Wade Walter, 34, of Jacksonville, Fla., who works the deli counter at a Costco, the big-box discounter. "I'm not just buying DVDs or games or going out as much as I used to. I don't want to say I'm buckling down, but I put my money into things that are more worth it, or put it in the bank."

Lost wealth and tight credit are keeping household spending in check. This suggests Americans are likely to increase their spending only once companies step up hiring and wages. That leaves the recovery more dependent on firms' confidence than in past upturns, when increases in consumer spending helped lead recoveries.

One sign from the GDP report of improved confidence at companies was an annualized 13.3% increase in spending on equipment and software—the biggest gain in nearly four years. In the past, rises in capital spending have tended to signal an increased willingness to hire.

When it reported results for its most recent quarter on Wednesday, Rockwell Automation Inc., a leading producer of factory-automation equipment and software, said it expects revenue of \$4.4 billion to \$4.6 billion for its fiscal year ending September, better than the \$4.1 billion to \$4.4 billion it previously forecast.

"We believe we are at the start of a recovery," said Rockwell CEO Keith Nosbusch. "Our goal is to be very successful as it returns." But the company is cautious, and has increased hiring only slightly despite its expectation for better sales.

Obama's budget aims to reduce the U.S. deficit

Continued from first page
Park Service's Save America's Treasures and Preserve America grant program and eliminating the Advanced Earned Income Tax Credit, which allows low-wage workers to get tax-credit checks in advance but which is rife with abuse. The Brownfields Economic Development Initiative, a favorite of former Vice President Al Gore's, would also be cut, and payments ended to states to restore abandoned mines, many of which have been long cleaned up.

But some of those efforts, such as the abandoned mines and Advanced Earned Income Credit cuts, were proposed last year in Mr. Obama's first budget. They were ignored by Congress.

Other planned cuts are presidential perennials, attempted without success by Presidents Clinton and Bush before Mr. Obama, such as eliminating whaling partnerships and implementing deep cuts to the Army Corps of Engineers. The president will also call for halting the National Aeronautics and Space Administration's plan to return astronauts to the moon, a tough sell in vote-rich Florida.

"There's no question there's a range of domestic discretionary that can be scaled back," said one Democratic budget analyst. "Politically, they will never get through."

Meantime, the president will ask for large increases in spending on education, the 2010 census, and civilian scientific research, according to analysts who have been briefed on the budget plans. Democratic aides in Congress said Mr. Obama would also propose \$25 billion for cash-strapped state governments, mainly to offset their portion of Medicaid payments.

Mainly, the president will rely on a budget commission and budget rules in an effort to force Congress's hand. The budget assumes the enactment of pay-as-you-go rules that would force any tax cut or spending increase to be offset by tax increases or spending cuts. Isabel Sawhill, a budget expert at the left-leaning Brookings Institution, criticized the president's goal—a deficit of 3% of GDP long after the recession has ended—saying it amounted to "defining deficits down." By the White House's economic forecasts, that 3% deficit would total \$570 bil-



U.S. President Barack Obama

lion.

"The pay-go rules will make it more difficult for Congress to dig the hole deeper but won't affect currently projected red ink; and the commission will likely be a paper tiger," Ms. Sawhill wrote on Friday. "In short, these proposals will still leave us with unsustainable deficits

as far as the eye can see. It is depressing to discover that we can no long even aspire to balance the budget once the recession is over."

Even proposed changes to the process are running into trouble. The deficit commission foresees six members appointed by Democratic leaders in Congress, six members appointed by Republican leaders, and six appointed by the president—four Democrats and two Republicans. But Republican leaders are under pressure from conservatives not to cooperate, due to concerns that the commission would recommend tax increases.

"Look, I don't think anybody in the country thinks we have a problem because we tax too little, I think the problem is we spend too much," Senate Minority Leader Mitch McConnell (R., Ky.) said on CNN's "State of the Union" on Sunday. "So, I like the commission idea, just as I said a few months ago. I think a better way to do it is target spending."

Deficit hawks in both parties say the commission must be able to look at spending and revenue to make a dent in the deficit in the near term. But politically, its members could be

boxed in. Not only are Republicans opposing tax increases, but they are also attacking Democrats for proposing cuts to Medicare. Democrats are balking at many of the spending cuts Mr. Obama is proposing.

"Everything has to be on the table," Sen. Judd Gregg of New Hampshire, the ranking Republican on the Senate Budget Committee, said in an interview last week. "Otherwise it's just not credible."

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U.S. NEWS

Trustbusters try to reclaim ground

Court decisions have curbed antitrust act, but Democrats, agencies are pushing back

By THOMAS CATAN

WASHINGTON—If populism is emerging as a potent new force in American politics, then government trustbusters and sympathetic Democrats in Congress stand ready to offer a new outlet. But first, they'll have to overcome a major hurdle: the judges.

THE OUTLOOK

Over the past three decades, U.S. courts have sharply limited the scope of the 120-year-old Sherman Antitrust Act, which has been used to target companies from Standard Oil to Microsoft Corp. In so doing, judges have clipped the wings of two agencies charged with policing anticompetitive behavior: the Justice Department and the Federal Trade Commission.

Now Democrats on Capitol Hill are joining forces with antitrust cops to push back against the judicial tide. Congress is preparing measures to reverse the effect of court rulings that have made it harder for the government to win antitrust cases and break up monopolies, while the FTC and Justice Department are trying out new legal tactics to reclaim lost powers.

If successful, the efforts could presage an upswing in antitrust cases against America's leading companies and reverse the legal trends of recent years.

Sensing a shift in the political landscape, big business is girding for a fight. "Voters are demanding jobs and growth, but Washington is moving in the opposite direction by advancing an agenda focused on increased litigation against business,"

said Lisa Rickard, president of the U.S. Chamber Institute for Legal Reform, an offshoot of the Chamber of Commerce that seeks to ease the burden of civil litigation for businesses.

Antitrust enforcers since the 1980s have had an increasingly hard time winning cases against accused monopolists. Judges have largely agreed with the reasoning of the so-called Chicago School of economists, which holds that big companies aren't necessarily bad and that the market—not government—is best placed to promote competition.

The administration of George W. Bush largely agreed. Its Justice Department didn't accuse a single company of improperly acquiring or maintaining a monopoly in a case not involving a merger. In 2008, it enshrined its thinking in official guidelines that significantly raised the bar for bringing such a monopolization case.

The new administration is taking a different tack. President Barack Obama vowed to "reinvigorate" antitrust enforcement, and his antitrust chief, Christine Varney, ripped up the Bush-era guidelines last spring.

So far, the talk hasn't been matched by action. The Justice Department in the Obama administration has yet to bring a monopolization case. And the only FTC case brought so far—against microchip giant Intel Corp.—was already being built when it came to power.

In part, that's because the Supreme Court has embraced many antitrust principles that the Bush administration advocated, said Joseph Angland, an antitrust lawyer at



Antitrust chief Christine Varney testifies before the Senate Judiciary Committee on Capitol Hill in October.

White & Case. "Those changes are now law of the land and they do constrain the ability of the Obama administration to bring certain types of actions," he said.

Congressional Democrats want to show they can protect consumers. They say they want to aid family farmers squeezed by giant seed manufacturers and distributors. They want to free up Internet retailers to discount products below manufacturers' minimum price. And they want to stop pharmaceutical companies from paying generic-drug makers to delay cheap copies of medicines. In each of these areas they are blocked by recent Supreme Court decisions, so Congress is considering a series of legislative fixes.

A bill sponsored by Sen. Arlen Specter (D., Pa.), with a matching version pending in the House, would try to counter a 2007 Supreme Court decision—Bell Atlantic Corp. v. Twombly—that made it easier for defendants to get antitrust claims

dismissed.

Trial lawyers, who as a group are among the top financial donors to the Democratic Party, have declared passing the bill among their top legislative priorities. AT&T Inc., Procter & Gamble Co., Verizon Communications Inc. and other big companies oppose the bills, saying they would trigger a flood of frivolous and costly cases.

"Every business group I've spoken to regards this as a very serious issue, especially given the economy and the expense of dealing with frivolous litigation," said John Thorne, Verizon's deputy general counsel.

Antitrust enforcers are taking parallel action. The Justice Department is looking for test cases to expand its antitrust authority. And the FTC wants to circumvent the courts' narrow interpretation of the Sherman Act by reclaiming a legal tool it has hardly used in more than two decades—Section 5 of the 1914 law

that created the agency.

Invoked in the FTC's Intel suit, that law allows the FTC to act against a company that engages in "unfair methods of competition." The law largely fell into disuse after courts repeatedly slapped down the FTC for using it too broadly.

The U.S. Chamber of Commerce staunchly opposes what it calls "the Section 5 revival movement."

It may be that the economic crisis has achieved what trustbusters have been unable to do in 30 years. In September, the influential Judge Richard A. Posner, who spearheaded the movement to apply Chicago School economics to antitrust law, declared he had lost faith in the theory that had previously guided his work. His new guiding light: John Maynard Keynes, the British economist who advocated a hefty role for government in the economy.

If this act of ideological apostasy is anything to go by, the judicial tide may already have turned.

White House urges Senate on jobs bill

By COREY BOLES

WASHINGTON — The White House on Sunday pressed the Senate to pass legislation quickly to stimulate growth in the moribund jobs market, as it ramps up efforts to address bread-and-butter issues important to voters.

White House press secretary Robert Gibbs, speaking on CNN's "State of the Union," said the administration was seeking a jobs bill that would cost about \$100 billion. "The president hopes that the next order of business the Senate will take up is this package," he said.

Despite indications that an economic recovery is under way, the U.S. jobless rate has remained high at 10%, and polls suggest voters are increasingly dissatisfied with the way the government is handling the issue. Mr. Obama and Democratic lawmakers, with an eye towards this year's midterm election, are seeking to focus more on job growth, putting efforts to overhaul the health-care system on a slower track.

Mr. Gibbs said the jobs-creation plan should include a tax credit for employers who hire new workers,

increase salaries or expand hours for existing workers, as well as spending on infrastructure projects.

He said the administration also planned to lend out money repaid to the Treasury's financial markets-rescue program to community banks that are the main providers of capital to small businesses.

"Obviously we are not creating the jobs we would like, and I think that some additional recovery or stimulus money is important in order to again create an environment for small businesses" where they feel confident hiring new workers, Mr. Gibbs said.

The House of Representatives passed legislation incorporating some aspects of the administration's plan in December.

Michigan Governor Jennifer Granholm on Sunday welcomed the White House push for a new jobs program. "It's overdue, like a million jobs overdue, you bet it's overdue," she told CNN.

Michigan has been among the hardest-hit states in the economic downturn. The jobless rate in the state reached 14.6% in December, the highest in the country.

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WORLD NEWS

U.S.-China ties cool on arms deal

Chinese foreign ministry says suspension of military exchanges would affect meetings on security, arms control

By Andrew Browne
and Jason Dean

BEIJING—China's suspension of military exchanges with the U.S. in retaliation for a \$6.4 billion arms sale to Taiwan heightens the risk of friction between Beijing and Washington at a time when they are already at loggerheads over a host of security and economic issues.

China announced the freeze on military exchanges Saturday, and summoned the U.S. ambassador to Beijing for a formal complaint, following the Obama administration's announcement Friday that it is proceeding with the sale of antimissile systems, helicopters and other arms to Taiwan.

U.S. officials believe the risks with China can be contained, with neither side wanting to allow what is arguably the most important bilateral relationship in the world to veer out of control.

Still, relations are likely to get rockier before any improvement, as the Obama administration appears increasingly frustrated by Beijing's refusal to budge on a range of sensitive subjects, from Iran to currency policy to climate change. Further raising the temperature, President Barack Obama is expected to meet soon with the Dalai Lama, the Tibetan spiritual leader Beijing denounces as a separatist for his efforts to win greater autonomy for the Himalayan region.

The Chinese foreign ministry said Saturday that the suspension of military exchanges would affect vice-ministerial meetings scheduled soon on security, arms control and antiproliferation. China also will impose sanctions on those U.S. companies involved in the arms sales to Taiwan.

In the meeting with U.S. Ambassador Jon Huntsman, Vice Foreign Minister He Yafei said the arms package for Taiwan "constitutes a gross intervention into China's internal affairs," according to a foreign-ministry statement. China is "extremely indignant," it said.

Beijing previously suspended military exchanges with the U.S. after George W. Bush authorized a separate weapons package for Taiwan in October 2008. But military ties were re-established last year and had been gradually mending before the Obama administration announced the latest arms sale Friday.

With military exchanges on ice again, the immediate danger is that



Army soldiers demonstrate weapons to Taiwan Defense Minister Kao Hua-chu during a military exercise in Penghu on Friday in this military-handout photograph.

wider relations will become more vulnerable to the kind of flare-ups that periodically roil them. Last March, for example, a U.S. surveillance ship narrowly avoided a collision with Chinese vessels crowding around it in the South China Sea. Bilateral military exchanges are aimed, in part, at reducing that kind of danger by building mutual trust and understanding.

The 1979 Taiwan Relations Act obligates the U.S. to "provide Taiwan with arms of a defensive character." But such arms sales infuriate China, which claims democratically governed Taiwan as part of its territory, and has threatened to use force to prevent it from permanent independence. Taiwan has long been seen as the most sensitive issue in U.S.-China relations—the one problem thought to have the potential to

provoke armed confrontation between the world's reigning superpower and a rising Asian economic juggernaut.

The U.S. arms package doesn't include F-16 fighters, which Taiwan covets. But it does include other sophisticated weaponry, such as 114 advanced Patriot antimissile systems, valued at \$2.8 billion. The largest element is 60 Blackhawk helicopters, costing \$3.1 billion. Two mine-hunting ships, 10 Harpoon missiles and 25 advanced command and control systems also are included.

The latest row further dashes expectations the Obama administration harbored in its early days that it could partner with China to deal with a range of global issues. Instead, the rhetoric from both sides has grown sharper in recent weeks.

On Friday, Secretary of State Hillary Clinton said China risks diplomatic isolation and economic uncertainty if it doesn't join the push to further sanction Iran for its nuclear program. Mrs. Clinton's comments were some of her most pointed on Beijing's reluctance to support United Nations penalties to curb Iran's pursuit of nuclear technologies and weapons-delivery systems.

Beijing, meanwhile, has reacted angrily to U.S. calls to fight Internet censorship and to allegations that Chinese hackers targeted computer systems of dozens of U.S. companies, including Google Inc.

Also causing friction is disagreement over how to address global warming. On Thursday, in keeping with December's Copenhagen agreement, China submitted a letter reiterating its previously announced

goals to cut its carbon emissions relative to economic output by 40% to 45% from 2005 levels by 2020. But Beijing has refused firm caps on its total emissions, and has been increasingly strident in its stance that developed countries like the U.S. should be held to tougher limits on emissions than developing nations.

Taiwan's President Ma Ying-jeou, a champion of better ties with China, said the arms sales would actually help the effort. "With these weapons, we could guard Taiwan more confidently. This will be also helpful for the further development of the cross-strait relationships," Mr. Ma said on a flight home from a state visit to Central America.

—Jay Solomon in Washington, Ting-I Tsai in Taipei and Shai Oster in Beijing contributed to this article.

Clinton presses China to aid Iran sanctions

By Jay Solomon

PARIS—U.S. Secretary of State Hillary Clinton said China risks diplomatic isolation and economic uncertainty if it doesn't join the international push to further sanction Iran for its nuclear program.

Mrs. Clinton, speaking in France on Friday during intensified efforts to pressure Tehran, voiced perhaps her most pointed comments on Beijing's reluctance to support United Nations penalties to curb Iran's pursuit of nuclear technologies and weapons-delivery systems.

The Obama administration also said Friday that it intends to sell

\$6.4 billion in arms to Taiwan, a long-anticipated decision that is nonetheless expected to further strain a tense relationship between the U.S. and China.

A Chinese Embassy spokesman in Washington said Beijing had lodged a formal protest with the U.S. against the sale, adding that his government was "strongly angered" by the decision.

The White House is already engaged in a diplomatic row with Beijing over allegations Chinese hackers violated computer systems of dozens of U.S. companies, including Google Inc. In addition, President Barack Obama is expected to meet

soon with the Tibetan spiritual leader, the Dalai Lama, who is deemed a separatist by Beijing.

The tensions come as Mr. Obama increasingly needs China's support for a range of issues, particularly efforts to gain an international consensus for new sanctions against Iran. China has expansive economic and military ties to Iran and has emerged as the principal obstacle to the Security Council's passage of a new U.N. sanctions resolution, U.S. and European diplomats say.

U.S. officials say they have initiated a formal dialogue in New York among the five permanent members of the U.N. Security Council, plus

Germany, to identify new financial penalties on Tehran.

"As we move away from the engagement track that has not produced the result that some had hoped for, and move forward the pressure and sanctions track, China will be under a lot of pressure to recognize the destabilizing impact that a nuclear-armed Iran would have in the Gulf [region] from which they receive a significant percent of its oil supplies," Mrs. Clinton said.

Chinese Foreign Minister Yang Jiechi, who met with Mrs. Clinton in London on Thursday, repeated Beijing's position that economic sanctions imperil a diplomatic track.

In London, Russian Foreign Minister Sergei Lavrov indicated Moscow was moving toward the U.S. position of backing new sanctions on Iran after Tehran rejected a nuclear-fuel accord that Russia helped broker. U.S. officials hope Moscow's position could leave Beijing isolated on the Security Council.

The U.S. is also working with Saudi Arabia and the United Arab Emirates to assure Beijing that it can increase its oil supplies from key energy-producing Arab states to offset a cut in supplies from Iran in the event of fresh sanctions.

—Peter Spiegel in Washington contributed to this article.

WORLD NEWS



A file picture dated Oct. 4 shows the leader of the Taliban in Pakistan Hakimullah Mehsud (center)

Death report scrutinized

Pakistan to determine if Taliban leader was killed in airstrike

By ZAHID HUSSAIN

ISLAMABAD—Pakistan is investigating reports that the leader of the Taliban in the country died from wounds sustained in mid-January in an airstrike carried out by a U.S. drone aircraft, Pakistani officials said Sunday.

Rumors of Hakimullah Mehsud's death have been swirling for days, and officials had been largely dismissive of the reports. But on Sunday, the state-owned Pakistan Television Corp., citing unnamed officials, said Mr. Mehsud had succumbed to wounds sustained in the Jan. 15 airstrike and was recently buried in one of the Taliban-dominated tribal areas that border Afghanistan. The report didn't say exactly when he died.

Maj. Gen. Athar Abbas, chief spokesman for Pakistan's military, said authorities couldn't confirm whether Mr. Mehsud was alive or

dead. "We are checking the veracity of the reports of death," he said.

A U.S. official in the region said the Americans, too, were uncertain about Mr. Mehsud's fate. "We've heard all the same rumors," the official said. U.S. intelligence agencies are investigating the reports, according to officials in Washington.

The Jan. 15 missile strike that may have killed Mr. Mehsud hit a compound in a village on the border between South Waziristan and the neighboring North Waziristan tribal area. In its immediate aftermath, militants insisted Mr. Mehsud had left the compound minutes before the strike. He subsequently released audio messages denying he was anywhere near the attack. But his messages failed to quell rumors that he had been seriously wounded.

If the latest reports of his demise prove true, it would be the second time in six months that American missiles have slain the leader of the

Pakistan Taliban; Mr. Mehsud's predecessor Baitullah Mehsud, who wasn't a relation, was killed in August by a U.S. drone.

Sunday's report also wasn't the first time Hakimullah Mehsud, who is in his late 20s or early 30s, was said to have died. For almost two months after he was named the leader of the Pakistan Taliban, an offshoot of the Afghan movement, Pakistani and U.S. officials insisted he had been killed in a power struggle for control of the group. The rumors didn't stop circulating until he held a small press conference in the tribal areas in early October.

Mr. Mehsud has since gone on to order a series of terror attacks on Pakistan's major cities.

But he has also faced an onslaught from Pakistan's army in his home base, the South Waziristan tribal area.

—*Matthew Rosenberg in New Delhi contributed to this article.*

Slain Hamas leader tied to arms group

By CHARLES LEVINSON

JERUSALEM—A top Hamas militant leader found dead in his Dubai hotel room on Jan. 20 was a key link in smuggling operations ferrying Iranian weapons to Hamas militants in the Gaza Strip, and replacing him could take months, current and former Israeli security officials said on Sunday.

Hamas has accused Israel of assassinating Mahmoud al-Mabhouh, 50 years old, and vowed revenge. Mahmoud al-Zahar, one of the movement's top Gaza-based leaders, warned Israel in an interview on Saturday with Al Jazeera that "Hamas can hit all Israeli targets abroad—anytime, anywhere."

"Israel wants to change the rules of the game and to open the international field for battles—so it will be responsible for this," Mr. Zahar said.

Israel declined to comment.

Mr. Mabhouh was a founding member of the movement's military wing, the Izzedine al-Qassam Brigades, which has carried out scores of attacks against Israel.

In 1989, Mr. Mabhouh plotted the kidnapping and killing of two Israeli soldiers, according to Israeli officials and Hamas's Web site.

He fled Gaza that year and settled in Damascus, where he rose through the ranks of the group's military leadership.

Col. Barak Ben-Zur, a senior official in Israel's internal Shin Bet security service until 2007, said that while in Damascus, Mr. Mabhouh became "very close to Khaled Meshal," Hamas's Damascus-based leader.

"He was one of the main figures in the military branch of Hamas," he said.

A senior Israeli defense official said Mr. Mabhouh, unlike other Hamas leaders, kept a very low profile, using fake names and avoiding the media.

As Hamas grew closer to Iran in recent years, Mr. Mabhouh came to play a critical liaison role between Hamas militants in Gaza and Iran, including orchestrating weapons deliveries to Gaza-based militants, the official said.

On Jan. 19, Mr. Mabhouh arrived in Dubai and checked into the five-star Bustan Rotana hotel, located near the Dubai airport, according to Hamas officials and local Dubai media.

A spokesman for Hamas in Damascus told the Associated Press that Mr. Mabhouh was laying over in Dubai on his way from Syria to an unspecified third country.

But the following day, he was found dead in his hotel room. Mr. Mabhouh's death became public on Friday, a day after his body was returned to Damascus.

On Saturday, Dubai's police chief, Dhahi Khalfan, told Al Jazeera that he couldn't exclude the possibility that Israel's Mossad intelligence agency was behind Mr. Mabhouh's death, which he said occurred by suffocation.

Dubai security officials, meanwhile, told the state news agency that an "experienced criminal gang" with European passports committed the murder, but said the perpetrators had already fled the country.

The Israeli defense official said Mr. Mabhouh's death would deal a serious setback to smuggling efforts by Hamas.

"The fact that this guy is dead, I think it will only make the situation in our area much better," the official said.

"It won't be easy to replace him because these guys live in secret, all their connections are in secret, so you can't just replace him the next day. It can take a few months and sometimes much longer," the official added.

In recent months, there have been a string of attacks in Lebanon, Syria and Sudan that appeared to target people involved in smuggling weapons to Israel's top two Iran-backed enemies, Hamas and Hezbollah.

Israel has maintained a policy of not commenting on the attacks, but also of not discouraging reports suggesting it is responsible.

For example, a number of Israeli cabinet ministers on Sunday responded to questions from Israeli media about the death of Mr. Mabhouh by refusing to comment, but then offering unsolicited praise for Mossad chief Meir Dagan.

Analysts say the policy of ambiguity allows Israel to increase its deterrence by taking credit for the attacks, even those it may have had nothing to do with, while avoiding international repercussions.

The string of attacks widely attributed to Israel prompted Egypt's state-owned Al Ahram newspaper to dub Mr. Dagan "Israel's superman" in a profile last month.

Environmentalists raided

By GREGORY L. WHITE

MOSCOW—Russian police this week raided the offices of a prominent environmental group that had protested government plans to reopen a paper mill on the shores of Siberia's Lake Baikal.

Marina Rikhvanova, head of Baikal Ecological Wave, said local police in the Siberian city of Irkutsk seized the group's computers in a raid, saying they sought suspected pirated software. Ms. Rikhvanova denied the allegations and said she suspected authorities were trying to thwart her group's efforts to organize a demonstration next month against the reopening of the mill.

In a statement, Irkutsk city police denied the raid was aimed at the group's activities, saying it was motivated by a written complaint from a citizen. Police said a decision would be made soon on whether to pursue charges against the group.

Ms. Rikhvanova said: "This has happened to other civic groups, so we bought licensed software for all our computers some time ago."

For several years, independent civic groups and media have said Russian police often use charges of software piracy as a means to pressure government opponents. Authorities deny those charges.

Ms. Rikhvanova said officers from the antiextremism division

also participated Thursday. Police officials couldn't be reached to confirm that. Opposition groups have long claimed that antiextremism laws are used to muzzle critics.

Baikal Wave is one of Siberia's older environmental groups. It has for years fought the operation of OAO Baikalsk Pulp & Paper Mill, a Soviet-era factory that had dumped waste into Lake Baikal, the world's largest body of freshwater.

Last week, the government announced that Prime Minister Vladimir Putin had lifted restrictions that prevented the plant from dumping waste into the lake.

—*Olga Padorina contributed to this article.*

Yemen turns down offer of cease-fire from rebels

Associated Press

SAN'A, Yemen—Yemen's government on Sunday rejected a cease-fire offer from the country's northern rebels and issued a fresh demand calling on the militants to pledge not to attack neighboring Saudi Arabia.

After more than five years of sporadic fighting with the rebels, Yemen has come under international pressure to quickly end the conflict in order to free up resources to confront a separate threat from an al Qaeda offshoot that has set up operations there over the past year.

On Saturday, the leader of the country's northern rebels, Abdel-Malek al-Hawthi, said he is ready to accept the government's original conditions for a cease-fire. That announcement came days after the militants declared a unilateral cease-fire with Saudi Arabia.

Yemen's Supreme Defense Council on Sunday rejected that offer, but added that it was ready to halt military operations "under a certain framework."

The council said the rebels must first comply with the government's original cease-fire offer from September.