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THE BIG READ 20-21

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THE WALL STREET JOURNAL.

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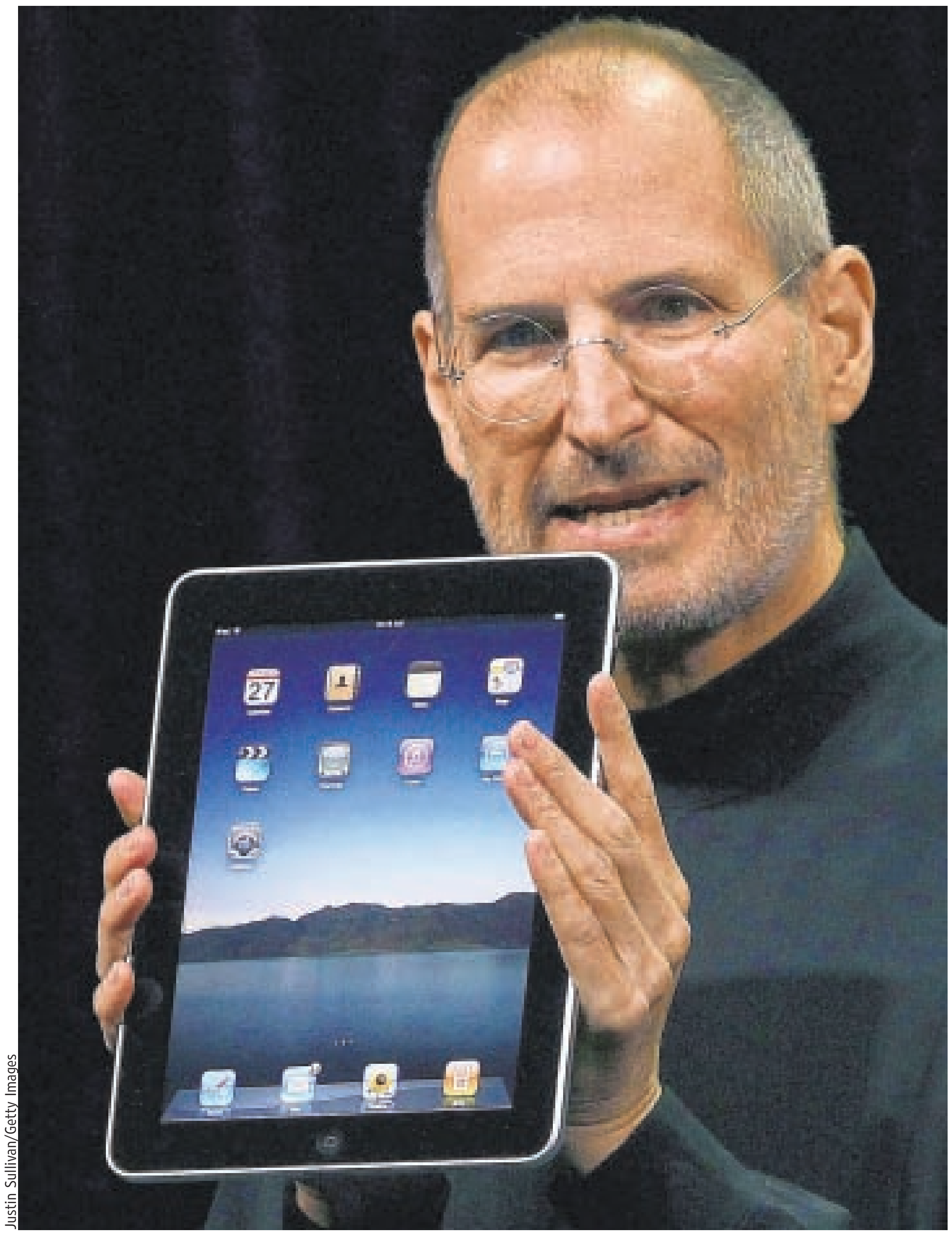
Apple launches iPad on to the browsing world



Justin Sullivan/Getty Images

Apple's Steve Jobs unveils the iPad tablet browser in San Francisco Wednesday, See article **page 28**

Geithner feels political fury over AIG role

By Michael R. Crittenden

WASHINGTON—U.S. lawmakers blasted decisions that allowed **American International Group** Inc.'s major trading partners to make out with billions, as the architects of the government's 2008 response to the financial crisis defended their actions.

"In effect, the taxpayers were propping up the hollow shell of AIG by stuffing it with money, and the rest of Wall Street came by and looted the corpse," Rep. Edolphus Towns (D, N.Y.) said before a standing-room only crowd in a Capitol Hill hearing room on Wednesday.

Rep. Darrell Issa (R, Calif.) said that he has "lost confidence" in Treasury Secretary Timothy Geithner, who was head of the Federal Reserve Bank of New York when the government made the controversial decision to rescue AIG, in part by paying the insurer's counterparties a total of $62 billion to tear up troubled insurance contracts, at the height of the financial crisis.

Mr. Geithner swung back hard, his voice rising as he frequently cut off questions. It would have been irresponsible for policy makers to "stand back and let it burn", he said, warning of an "utter collapse" of the nation's economy.

"Thousands of more factories would have closed their doors, millions of more Americans would have lost their jobs," he said. "Utter collapse. I don't know a better way to say it than that."

Lawmakers weren't convinced. Rep. Stephen Lynch (D., Mass.), yelled at Mr. Geithner that "you had every opportunity to weigh in on behalf of the American people!" Rep. John Mica (R., Fla.) accused Mr. Geithner of "giving lame excuses".

Mr. Geithner retorted to Mr. Mica that "you don't know me very well."

"I have worked in public service all of my life, I have never been a politician," Mr. Geithner said.

The House Committee on Oversight and Government Reform has subpoenaed more than 250,000 pages of internal documents on the AIG deliberations. Lawmakers have focused on documents that show little effort was made to negotiate with AIG's trading partners, and that after the rescue Fed officials sought to hamper efforts to disclose the names and amounts big banks received.

Mr. Geithner, former Treasury Secretary Henry Paulson and New York Fed General Counsel Thomas Baxter defended their actions in the final four months of 2008.

"We did not act to protect the financial interests of individual institutions. We did not act to help foreign banks," Mr.

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The Quirk

An American town's plan to draw tourists: Throw money down a hole. **Page 37**

World Watch

A comprehensive rundown of news from around the world. **Pages 38-39**

Editorial & Opinion

The Iraq War and the trial of Tony Blair. **Page 18**

Sarkozy attacks globalization

By Alessandra Galloni And Geoffrey T. Smith

DAVOS, Switzerland–French President Nicolas Sarkozy delivered an impassioned call for coordinated efforts to regulate the global financial system in a keynote speech here that comes as countries try to breathe renewed momentum into stalled efforts to design new rules for the banking sector.

In his speech before the world's political and economic elite gathered at the World Economic Forum, the French president also criticized countries that deliberately undervalue their currencies, saying it could lead to a protectionist backlash.

"This was not just a global crisis, but a crisis in and of globalization," Mr. Sarkozy said before a packed audience. "We will only save capitalism by refounding it, by making it more moral."

International financial officials are hoping that last week's moves by U.S. President Barack Obama to curb the size and spread of Europe's largest banks will revive international efforts to design a new set of rules for the financial sector.

So far, leaders from the Group of 20 club of the world's top economies have agreed to new international guidelines to curb compensation packages and limit risky behavior at banks across the globe.

Since then, however, there has been concern that countries are tending toward more unilateral actions—particularly on controversial issues such as how much capital banks should be required to hold in case of another crisis.

Mr. Sarkozy said he supported President Obama's plans, but he said the G-20 was the right forum to reach coordinated financial regulation.

"How can we conceive that in a competitive world, we can insist that European banks have three times more capital to cover the risks of their market activities, without demanding the same of American and Asian banks?" Mr.

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DAVOS 2010

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04

‘Cohesive capitalism’ has a following

[Agenda]

By Patience Wheatcroft

How would you define “cohesive capitalism?” Today in Davos, Ben Verwaayen, chief executive of French telecom company Alcatel-Lucent, will have a go at explaining the concept and how he sees it as the way forward.

In a session entitled “Rethinking Market Capitalism,” the former BT boss will bravely try to encapsulate much of the talking going on here among those who believe the Davos agenda of “Rethink, Redesign, Rebuild” needs to go far beyond reforming the banking industry.

In a gathering such as the World Economic forum—which brings together politicians, nongovernmental organizations, social entrepreneurs and academics as well as business leaders—there is inevitably a debate that wages much more widely than that at a meeting of financiers or venture capitalists. Among many of these people, the belief is that capitalism in its current form has failed and a new model needs to be devised.

With participants who range from Muhammad Yunnus, the Nobel prize-winning founder of Bangladesh’s Grameen Bank, which makes microloans to the poorest, and who simply shakes his head in despair at the failings of the developed world’s financial model, to the latest red-blooded capitalist to emerge from the formerly red Russia, a complete meeting of minds in Davos is never going to be achieved.

And with his speech yesterday, French President Nicolas Sarkozy may have said enough to frighten bankers into putting their houses in order before governments get carried away in that direction.

But the involvement of Mr. Verwaayen as not merely a participant but a leader in this debate indicates there are also some business people who, once transported into such an eclectic mix of company, are prepared to admit recent times have produced failure that can’t be deposited solely at the door of the bankers.


Bloomberg News

Ben Verwaayen, chief executive of French telecom company Alcatel-Lucent

They point to the widening of discrepancies between the richest and the poorest in the developed world; the high rate of youth unemployment, widespread failing in education and a lack of trust in corporations as the negative legacy of a period in which economic growth raced ahead.

Those who argue that capitalism has failed would put capitalists into straight jackets

A backlash is inevitable.

What Mr. Verwaayen and his co-thinkers are trying to avoid is that backlash going too far.

It would be unfair to say “unfettered capitalism” has prevailed for the past couple of decades but the fetters weren’t tight. Now, those who argue that capitalism has failed would put capitalists into straight jackets.

A surfeit of legislation and regulation is the danger that must be avoided, hence “cohesive capitalism”—a system that would try to ensure benefits of growth are shared more widely but that is led by the business world.

The session this afternoon, which includes Jacob Wallenberg, chairman of the Swedish Investor AG organization, won’t produce a firm blueprint for a shiny new economic model but it does aim to get the debate moving and—which will be a relief to the bankers who continue to get a battering here—to move the agenda beyond them and their bonuses.

The bonuses, Mr. Verwaayen says, are more a symbol of the crisis rather than its cause. That was a sentiment also voiced by Lord Levene, chairman of insurance group Lloyds of London, at the WEF yesterday. Yes, he conceded, some of the sums that had been involved were “obscene” but they weren’t a recent phenomenon. Investment bankers had been rewarded extravagantly over a long period and remuneration should be treated as a side issue in the debate, he said.

Nevertheless, Lord Levene, a former mayor of the City of London but once a banker himself, finds the sums involved hard to justify, he just doesn’t see them as the cause of the debacle that has enveloped financial markets.

Shareholders, he remarked, were perfectly quiescent for years as the bonus system paid out. And shareholders certainly will feature in tomorrow’s discussion about the future of capitalism. Their attitude toward ownership of businesses must be held partially responsible for the crash that ensued. A system of “cohesive capitalism” would entail some redrawing of shareholder responsibilities that would militate against the short-term approach that dictates so many investment decisions by major funds. Jacob Wallenberg, who is involved with the Global Agenda Council on the Future of Long Term Investing, can be expected to make that case tomorrow.

But while Mr. Verwaayen and his colleagues will be trying to widen the focus, the discussion here still keeps creeping back to banks and their regulation. On that front, the call for restructuring the banks now seems rather one-sided.

Although Barclays President Bob Diamond tried to make the case for universal banks, arguing that multinational companies operating in global markets needed financial institutions to match their scale and operation, the argument seems largely lost. Protests that those countries which move against the current bank structure will simply see the business migrate to other jurisdictions are failing to convince those determined on the path to change.

Barney Frank, a Democrat and chairman of the U.S. House Financial Services Committee, argued that the developed world, working together, would be able find ways to keep less-regulated financial centers from usurping their position.

“Mommy and Daddy can’t be played against each other any more,” he said. Speaking in London Tuesday, the U.K.’s governor of the Bank of England, Mervyn King, outlined a recipe for splitting global banks into their national parts.

With Jean-Claude Trichet, the president of the European Central Bank largely endorsing U.S. President Barack Obama’s plans, and French President Sarkozy weighing in with his support yesterday, the possibility of a unified move toward change in the West seems real.

What’s News

■ **The Swiss government** wants the U.S. to name thousands of U.S. tax dodgers who came forward in an amnesty last year so that Switzerland can comply with a court ruling that blocks it from handing over information about UBS accounts. **23**

■ **The Fed issued** a slightly more upbeat reading of the U.S. economy’s outlook, but it left short-term interest rates near zero to help support the soft recovery. **12**

■ **Rusal shares fell 11%** on their first day of trading in Hong Kong, and CEO Oleg Deripaska blamed the weak debut on global markets. **16**

■ **Germany boosted** its growth forecast for 2010 to reflect a pickup in exports, but expressed caution over private consumption. **9**

■ **Portugal’s unexpectedly** large 2009 budget deficit reminded investors that Greece isn’t the only euro-zone nation with fiscal problems. **10**

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An NBA star makes a fast break to a Chinese team. **36**

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Davos Live

blogs.wsj.com/davos

“The public may be angry at bankers, but … bankers are angry, too. Who are the bankers angry at?”

Stephen Fidler on why Barclays chief Robert Diamond is mad at failed banks

Continuing coverage

Get complete analysis of President Obama’s State of the Union address at **wsj.com/politics**

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Previous results

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Deficit **58%**

Unemployment **42%**

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NEWS

Camp survivors dwindle to a few

By John W. Miller

OSWICIEM, Poland—For decades, Alberto Israel avoided talking about his experience at the Auschwitz concentration camps. "There were plenty of others to do the talking," he says.

Now, the 82-year-old Mr. Israel is one of the few Holocaust survivors healthy enough to attend ceremonies commemorating the liberation of the camps. He has been four times in the past four years. "I don't even like going," he says. "It reminds me of when I was 17, and that's painful."

Amid the rhetoric at this week's commemoration of the liberation of the Nazi concentration camps, Jewish groups focused on a more crucial question: how to keep the memory of the Holocaust alive after the last survivors die. It is a real problem that needs addressing, say Jewish leaders.

"There'll be just a few more short years before the living memories become memories," said Ronald Lauder, president of the World Jewish Congress. Their solution, the leaders say, is to step up the number of Holocaust-related events and make sure that Mr. Israel and other survivors attend, as well as casting the crime in the light of modern geopolitics, so that ordinary people can relate. There was plenty of the latter at ceremonies Wednesday in Krakow and Berlin and at the Auschwitz concentration camps.

Speaking to the German parliament, Israel President Shimon Peres called the Iranian government "a fanatic regime" and said its nuclear program "represents a threat to the entire world."

Mr. Lauder compared Iranian president Mahmoud Ahmadinejad to Adolf Hitler. Mr. Ahmadinejad has threatened to destroy Israel and questioned whether the Holocaust happened. Hitler "had the same words, and people didn't take him seriously," Mr. Lauder said in a speech. The Iranian mission the United Nations didn't respond to calls seeking comment.

Israel Prime Minister Benjamin Netanyahu attended a ceremony at the Auschwitz-Birkenau camps in southern Poland, where 1.3 people, mostly Jews, were murdered between 1940 and 1945. He warned that "there are yet again threats to exterminate the Jewish people." But more important than rhetoric, say Jewish groups, is increasing the number of events commemorating the Holocaust.

"It needs to be more than historical theory," said Ari Zuckerman of the Paris-based European Jewish Congress. In 2005, Jewish groups created the World Holocaust Forum, dedicated to preserving the memory of the crime.

As well as this week's events, the forum has organized ceremonies marking the 60th anniversary of the camps' liberation and the 70th anniversary of Kristallnacht, an infamous Nazi night of violence against Jews. Since its founding, "we have lost many, many survivors and liberators," said Moshe Kantor, president of the European Jewish Congress.

The increase in the number of events means that people like Mr. Israel have become even more treasured and will have to travel more. The 82-year-old from the Greek island of Rhodes was the only Holocaust survivor on a plane of Jewish activists and European politicians that flew to Krakow from Brussels on Tuesday.

Mr. Israel was deported from Rhodes to mainland Greece in 1943 and held there before being shipping to Auschwitz in 1944. His parents and two brothers died there.

He kept quiet about the Holocaust, he said, until a few years ago when he met Stipan Bosnjak, a Serb of Roma origin whom he met in Brussels and the two became friends. Two years ago, Mr. Bosnjak helped Mr. Israel write a book.

Mr. Israel also showed visitors around the camp.

European Pressphoto Agency

Visitors enter the Auschwitz-Birkenau camp Wednesday amid ceremonies marking the 65th anniversary of its liberation.

DAVOS 2010: WORLD ECONOMIC FORUM

Fears that recovery will fall into a dip

Davos attendees predict clouds for Europe and U.S., pin hopes on emerging economies; sparring over bank regulation

By Marcus Walker
And Stephen Fidler

DAVOS—The global economic recovery could lose pace later this year, according to leading economists and investors, a risk many of them said could be heightened by heavy-handed or premature measures to beef up financial regulation.

Wednesday's opening session of the World Economic Forum's annual meeting here was dominated by debate over U.S. President Barack Obama's proposals to tax big banks and curb their speculative trading.

Financier George Soros told reporters he supported the moves but said implementation of the tax on short-term borrowings was "premature." Mr. Soros, chairman of **Soros Fund Management** LLC and founder of The Open Society Institute, said the tax would interfere with banks' efforts to build their capital cushions through boosting their earnings. "The banks are not out of the woods," he said.

Overreaction to the banking crisis by regulators and politicians could become a significant drag on economic growth, said David Rubenstein, co-founder of private equity firm **Carlyle Group**. The idea that tougher regulation can forestall all future financial crises is an illusion, he said: "We're not going to eliminate asset bubbles."

Bloomberg News

Financier George Soros, speaking Wednesday at the World Economic Forum at Davos, called the Obama administration's bank regulation proposals "premature."

The annual gathering of much of the world financial elite at this Swiss ski resort offers a chance to gauge the mood of business, regulators and analysts about the year ahead. Wednesday's debate also suggested that while the global economy is growing again, the good times haven't necessarily returned.

The world economy faces a long, slow recovery "ending in sub-par growth," with the risk of a renewed recession along the way, said Nouriel Roubini, an economics professor at New York University, who has gained a following for accurately predicting the global financial crisis in Davos three years ago.

Hopes for global growth, he and other participants said, will continue to rest on fast-developing countries such as India and China. While Mr. Roubini was uncharacteristically optimistic about the prospects for the world's emerging economies, he foresaw problems there as well, in the form of Chinese asset-price bubbles, Russia's aging population and political obstacles to structural overhauls in Brazil and India.

In the U.S. and Europe, heavy debts will weigh on governments and households for some time, predicted participants at the meeting's opening debate on the economy. The U.S. and Europe will have "U-shaped" or "W-shaped" recoveries, economists argued, meaning they believe the upturn since late 2009 will fizzle out later this year.

Mr. Rubinstein—speaking at an event whose theme is "Improve the State of the World: Rethink, Redesign, Rebuild"—said the U.S. needs to improve the state of "three d's: debt, the deficit and the dollar."

Economists and investors also singled out the euro area as a problem zone, echoing widespread concerns in international financial circles that the euro's weaker southern members, particularly Greece, could face severe difficulties in managing their ballooning public debts.

Even if Greece, Spain, Portugal and Italy can avoid a fiscal crisis, their loss of international competitiveness in recent years could condemn them to years of feeble growth, Mr. Roubini said.

Greece's hopes of selling up to €25 billion in bonds to Chinese and other Asian investors dimmed Wednesday, after China signalled potential interest only in a much smaller amount of Greek debt, according to a person familiar with the matter. Greece needs to raise over €50 billion this year to fund its gaping budget deficit.

A more optimistic note was sounded by Olafur Ragnar Grimsson, the president of Iceland, which became one of the biggest victims of the financial crisis when its banking system collapsed. Mr. Grimsson predicted his country's economy would recover earlier than expected, in the second half of this year and 2011.

Mr. Grimsson said a decline in the country's currency, the krona, is helping revive its export industries such as fishing, manufacturing and aluminum. "For Britain or the U.S., Iceland offers important lessons: If the financial sector becomes too strong, it will dry up the talent necessary to make the productive sector competitive in the global market," he said. "A booming financial sector may have a benefit in the short term. But Iceland shows that it has dangers in the long term."

Participants sparred over how proposals for international bank rules would play out in financial markets. Raghuram Rajan, finance professor at the University of Chicago, sounded concerns about overregulation, saying "there is a danger that governments will just inflict a blow for the sake of it."

Mr. Roubini disagreed. "I think the proposals are going in the right direction. But they are not enough," he said. He advocated the return of the Glass-Steagall Act of 1932, which separated commercial banking from investment banking after the collapse of many U.S. commercial banks in the 1930s.

Mr. Soros said he backed the U.S. plan to stop retail banks from betting on financial markets through proprietary trading. "I'm very supportive of it but I don't think it goes far enough," he said, predicting the proposal would lead big banks to split up and spin off their investment arms, which themselves would become "too big to fail."

The University of Chicago's Mr. Rajan said growing protectionism poses a serious risk to continued recovery. "We have moved from a period of great economic uncertainty to a period of great political uncertainty," he said.

The combination of 10% unemployment in the U.S. and 10% economic growth in China could prove politically toxic, as U.S. politicians might resort to "populism" and protectionist measures, he said.

Mr. Rajan was one of several commentators in Davos to say that growth will come mainly from emerging economies. "Emerging markets used to be associated with indebted governments, lax monetary policy, suspicion of markets, a polarized electorate and a suspect private sector," he said. Now, he said, that description better fits the world's advanced economies.

Sarkozy urges coordinated financial regulation

Bloomberg News

Nicolas Sarkozy said the only way to save capitalism is 'by refounding it.'

Continued from first page

Sarkozy said.

Mr. Sarkozy also reiterated that France would put its quest for a new global monetary order at the center of its agenda during the country's chairmanship of the Group of Eight next year.

The undervaluation of "certain currencies...militates against fair trade, against competition." Mr. Sarkozy said. "We will not allow monetary dumping."

European officials have tried to lobby China to let its currency appreciate more quickly, fearing that artificially cheap Chinese goods are taking market share from European companies.

Those concerns have lessened somewhat in recent weeks, as the euro has dropped significantly against the dollar, due to concerns over ballooning government debts in the euro zone and the political will to deal with them.

"I think he was right to warn the Chinese over their currency in blunt terms," said Charles Grant, director of the Center for European Reform, a London-based think tank, after the speech.

Mr. Sarkozy's blunt rhetoric hasn't always been followed by concrete actions, however.

When the global financial crisis struck, Mr. Sarkozy was among the first leaders to call for tougher regulation of the banking industry, and he has repeatedly voiced concerns that pay scandals would fuel voter resentment.

In practice, however, Mr. Sarkozy has acted with a softer hand.

He shelved his own proposal aimed at capping bonuses in absolute terms saying that France couldn't introduce such measure unless the U.S., the U.K. and other large financial centers followed.

His administration has rejected a proposal put forth by opposition Socialist lawmakers last year, and calling for a special tax on bank profit.

Mr. Sarkozy's cabinet argued that it would put French banks at a competitive disadvantage.

Turkey-Armenia pact is threatened

Azeri president says he's confident Ankara won't sign pact until occupied territory is returned to Azerbaijan

A deal between Turkey and Armenia to open their border and establish diplomatic relations after generations of dispute over genocide allegations and territory is under growing threat of collapse.

By **Marc Champion**
in Istanbul
and **Marcus Walker**
and **Stephen Fidler**
in Davos, Switzerland

Armenia is pushing for rapid ratification of the deal, signed in October, while Turkey has a longer time frame. On Wednesday, Azerbaijan President Ilham Aliyev added to concerns for the deal when he said he was confident Turkey wouldn't ratify the agreement until Armenia has returned Azeri territory it occupies, including the mainly ethnic-Armenian region of Nagorno Karabakh.

"There is a common understanding in the region that there should be a first step by Armenia to start the liberation of the occupied territories," Mr. Aliyev said in an interview with The Wall Street Journal on the margins of the World Economic Forum in Davos, Switzerland. He said he was "fully satisfied" with Turkey's understanding of the issue, despite harshly criticizing Turkey's handling of it in the past.

"If the two issues are disconnected, then probably Armenia will freeze negotiations with Azerbaijan" over Nagorno Karabakh, said Mr. Aliyev, adding he believed economic pressure was a main incentive for Armenia to come to the table. Mr. Aliyev has warned previously that pushing ahead with the deal regardless of Nagorno Karabakh and the resulting freezing of negotiations could lead to renewed war.

Turkey's leaders, including Prime Minister Recep Tayyip Erdogan, have repeatedly linked the border opening and settlement of the Nagorno Karabakh conflict.

There is no sign of progress in the 15-year-old peace talks. But some ambiguity remains in Turkey's position. The territorial dispute isn't mentioned in October's protocols.

"Now we are approaching the moment when things get more and more difficult," said Vigen Sargsyan, deputy chief of staff to the Armenian president. Pressure on the Armenian president to abandon the diplomatic effort is building as the next annual April 24 U.S. presidential commemoration of the 1915 Ottoman massacre of up to 1.5 million ethnic Armenians approaches.

Turkish officials, by contrast, talk about an open-ended process that could last a year or more. Turkish Foreign Minister Ahmet Davutoglu also recently expressed anger at a decision by Armenia's constitutional court that he said in effect puts conditions on the deal—a claim Mr. Sargsyan dismissed.

Mr. Sargsyan said that while Armenia's government is sending ratification papers for the deal to parliament, it is also preparing legislation to enable the president to withdraw his signature from treaties. "If this opportunity is lost it will push the whole region back, not to where we started when talks began but beyond that," said Mr. Sargsyan. He said trust between the two sides would be destroyed.

Turkey closed its border with Armenia in 1993 in protest at the occupation by Armenia-backed forces of Nagorno Karabakh and seven districts around it that were seized as buffer zones. But in the wake of the war between Georgia and Russia in August 2008, Turkey's government said it was ready to negotiate an end to Armenia's isolation.

Mr. Aliyev has expressed anger over the talks by threatening to reroute Azeri natural-gas and oil exports away from Turkey.

The Azeri president also expressed frustration over the delays in construction of the EU's planned Nabucco pipeline, which would carry natural gas from the Caspian Sea to EU markets via Turkey.

Azerbaijan President Ilham Aliyev walks past an honor guard in Paris, Wednesday Dec. 9, 2009.

Reluctant partners

Turkey and Armenia have been negotiating to reopen their border for more than a year, but opposition from Azerbaijan threatens to kill the deal.

1993: Turkey closes its border with Armenia to protest Armenia's occupation of Nagorno Karabakh.

August 2008: Turkey bids to become the key player in creating stability in the Caucasus in wake of the Georgia-Russia war.

September 2008: President Gül visits Yerevan to attend a soccer match.

Spring 2009: Protocols aimed at establishing diplomatic relations and re-opening the border, while setting up a joint commission to examine historical issues – such as the 1915 Ottoman slaughter of Armenians – are ready for signature. Turkey balks at signing due to vehement protest from Azerbaijan and nationalist opposition in Turkey.

April 22, 2009: Armenia and Turkey issue a joint statement saying the two sides have identified a road map.

April 24, 2009: U.S. President Obama commemorates the 1915 massacre of up to 1.5 million Armenians in what is now Eastern Turkey, without terming it genocide.

August 31, 2009: Armenia and Turkey issue a joint statement setting six-week deadline to sign a deal.

Oct. 10, 2009: Turkey and Armenia sign the protocols, but only after agreeing that neither side would make accompanying statements.

Oct. 12, 2009: Azerbaijan describes reopening the Turkish-Armenian border as contradicting directly the "national interests of Azerbaijan" and "brotherly relations between Azerbaijan and Turkey".

Oct. 14, 2009: Armenian President Sargsyan attends second leg of soccer match in Turkey.

Organizers work to keep Haiti on Davos agenda

[Davos Notebook]

REPORTS FROM BLOGS.WSJ.COM/DAVOS

International aid officials said the relief effort in Haiti is moving ahead, but faces significant challenges.

"This is the most massive urban calamity we have faced in our history and perhaps the most complex," said Josette Sheeran, executive director of the United Nations' World Food Program.

Organizers at the World Economic Forum's annual gathering of the elite in Davos are taking pains to adjust this year's lineup to address devastation in Haiti. They have added several sessions to the agenda and are encouraging companies to link up with relief agencies. On Thursday, former U.S. President Bill Clinton will give an address about how the international community can help rebuild Haiti.

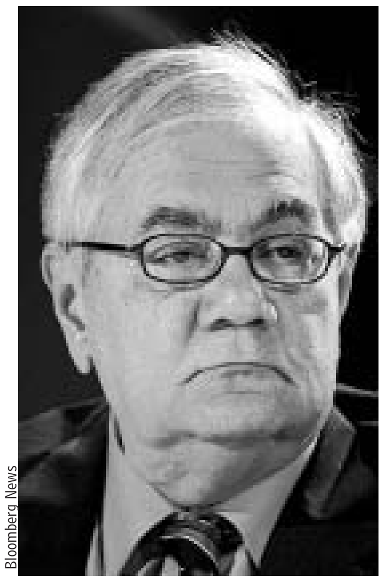
"The most urgent need is operations from the earthquake itself," said Catherine Bragg, Assistant Secretary-General for the United Nations' Office for the Coordination of Humanitarian Affairs. So far, there has been no spread of communicable diseases, she said.

The need for temporary housing and tents is acute, since aftershocks have left many people living on the streets. The impact on children is particularly worrisome, said relief workers. The U.N. has launched a major effort to find and help "unprotected and abandoned" children, said Ann Veneman, executive director of the United Nations' Children's Fund.

—Rebecca Blumenstein

Frank talk on farming

In a debate at the World Economic Forum about the threat of global protectionism, U.S. Rep. Barney Frank (D., Mass.), chairman of the House Financial Services Committee, managed to take on Thomas Jefferson.



Bloomberg News

U.S. Rep. Barney Frank challenges Jeffersonian ideas on farming

He said the Jeffersonian notion that farming was a superior form of life has led to subsidies and protectionism in the U.S. Similar problems exist in the European Union. Saying EU agriculture policy is "ridiculous," Mr. Frank claimed European farmers should be bought out. The idea that the "noble yeoman" must be protected at all costs leads to protectionism, Mr. Frank said.

—Neal Lipschutz

Crimping the carry trade?

Where's the next financial-market bubble coming from? A developing opinion appears to be around the emerging markets, and the reappearance of the so-called carry trade.

In the carry trade, hedge funds and others pile funds into economies with high interest rates and a prospective stable or appreciating currency. As hot money floods in, it can create chaos as central banks have to deal with an overheating economy and escalating asset prices.

Guillermo Ortiz, the former president of the Mexican central bank, said this needed watching closely.

He was echoing comments Tuesday from the Institute of International Finance, whose leaders issued a similar warning.

Don't be surprised, they said, if others follow the Brazilian example last year of taxing short-term capital inflows to make the carry trade less lucrative.

—Stephen Fidler

Davos dangers

Hitting the piste in this alpine resort is a welcome perk before the serious business of discussing how to fix the world's economic ills begins.

It isn't without risk, as the chief of the world's largest state-owned oil company can testify. Saudi Aramco's Khalid Al Falih was moving gingerly on crutches Wednesday on the first day of the forum after busting a knee on the wintry slopes.

—Andrew Critchlow

DAVOS 2010: WORLD ECONOMIC FORUM

Barclays' Diamond rips Obama plan

By Ainsley Thomson

DAVOS, Switzerland—**Barclays** PLC President Robert Diamond criticized U.S. President Barack Obama's banking plan, saying there was no evidence that shrinking banks or narrowing their activities would help the global financial system.

Speaking at the World Economic Forum's annual meeting on Wednesday, Mr. Diamond said forcing banks to shrink and restricting their trading would have a "very negative" impact on global trade.

Mr. Diamond's comments follow President Obama's proposals, announced last week, which seek to limit the size and activities of commercial banks. Those plans would prevent such banks from owning and investing in hedge funds and private-equity firms and would limit the trading they do for their own accounts, known as proprietary trading.

Associated Press

Robert Diamond said that 'without risk, we don't have a banking industry.'

Mr. Diamond cautioned that given banks' roles as market makers, it is very difficult to differentiate between the risks banks take on behalf of their clients and risks they take on their own behalf.

"It is very important to step back and be very thoughtful about the role of trading and the role of risk in banks, because without risk, we don't have a banking industry," he said. "We want to have a safe and sound financial system and we want to have jobs and we want to have economic growth. Having banks that are willing to take to risk, particularly cross-border risk, is essential for having jobs and economic growth."

He said it is critical that the new regulatory framework be globally integrated. Under the terms of the new framework, he said, banks will have to hold more and better-quality capital, have less leverage and bigger pools of liquidity, all within in an environment with more regulation.

"That's good, that's not a bad thing. The one thing I would ask for is that this regulation is also connected between the major economies," he said.

Mr. Diamond also hit out at the banks that collapsed during the financial crisis, saying their failure and weak management had caused anger among the "stronger" bankers.

He said everyone at Barclays was "immensely proud" the bank didn't take any direct money from any government.

"Yet we recognize that we benefited from the incredible monetary and fiscal stimulus," Mr. Diamond said. "But here's the important point, so did everyone—so did every government, every private-equity firm, every asset manager. The system was saved."

Iceland leader says recovery will come early

By Marcus Walker

DAVOS, Switzerland—The president of Iceland, which became one of the biggest victims of the financial crisis when its banking system collapsed, predicted an economic recovery earlier than expected.

"In the second half of this year and 2011, the recovery will be gaining strength," Ólafur Ragnar Grímsson said in an interview at the World Economic Forum's annual meeting here.

Mr. Grímsson said a decline in the country's currency, the krona, is helping to revive its export industries such as fishing, manufacturing and aluminum. But he hinged any real recovery on a resolution of Iceland's debt dispute with the U.K. and the Netherlands.

Iceland is in a row with the two nations over the payment of a debt stemming from the collapse in 2008 of Icesave, an online bank that attracted deposits from thousands of British and Dutch consumers.

Last year, Iceland's government agreed to pay the two countries €4.9 billion ($6.91 billion) to reimburse them for the cost of covering consumer deposits. But Mr. Grímsson refused to sign the necessary law this month, citing strong public opposition to a deal most people in Iceland believe is unfair. The payment equals roughly half of Iceland's gross domestic product.

The president's decision triggered a referendum on the issue that is scheduled for early March. Opinion polls suggest voters will reject the payment.

U.K. and Dutch officials have signaled that Iceland could lose access to vital loans from other European countries and the International Monetary Fund if it doesn't honor the debt.

Mr. Grímsson said he had no talks scheduled with officials from either country. "This is a big village square. Whether we meet in the village remains to be seen."

Mr. Grímsson spoke on the same day Iceland's central bank cut its key policy rate by half a percentage point for the third month in a row and said there may be scope for further cuts.

—Ian Edmondson contributed to this article.

EUROPE NEWS

Germany lifts 2010 growth forecast

Government says uneven private spending will imperil economic upturn, which Brüderle calls 'slow and arduous'

By Andrea Thomas
And Nina Koeppen

BERLIN—The German government raised its growth forecast for 2010 to reflect a pickup in exports, but expressed caution over private consumption and said the upswing remains fragile.

In its annual economic outlook, the German government now forecasts its gross domestic product will rise 1.4% this year, compared with 1.2% growth forecast in October.

Recovery in the European Union's largest exporter is vital to the economic health of the euro zone, now burdened with government debt and deficits across the bloc. But while Germany's exports are improving, private spending is expected to fall, in part due to fewer auto purchases as government car-scrappage incentives expire.

"We have passed the trough, but the climb will be slow and arduous," Economics Minister Rainer Brüderle said Wednesday.

In a news conference, Mr. Brüderle called the government's report "cautiously optimistic."

That is why the government will focus on budget cuts and its debt-limit rule starting next year, Mr. Brüderle said.

The government has committed itself to get its deficit in line with the 3%-of-GDP threshold set by the European Union by 2013.

Exports, which crashed last year and slowed Germany's economy, are forecast to become a growth pillar again and rise 5.1% this year after last year's 14.7% slump.

Imports are expected to rise 3.4% this year, after last year's 8.9% drop.

Fragile recovery | German government's economic forecasts for 2010

Change from previous year

Exports	5.1%
Imports	3.4
Investment in plant and equipment	3.1
Gross Domestic Product	1.4
Construction	1.1
Private consumption	–0.5
Domestic demand	–0.6
Unemployment rate	8.9%

Source: German Economics Ministry

Getty Images

A worker rotates a gas turbine during assembly at the Siemens factory in Berlin.

The government forecasts that domestic demand will rise 0.6% this year, after the 1.8% drop in 2009.

However, private consumption, which has long been hampering Germany's economic performance, is expected to fall 0.5% this year after last year's 0.4% rise.

Meanwhile, German consumer prices eased by more than expected at the start of the year, pulled down by seasonal discounts for items such as package holidays and holiday apartments, preliminary data from the Federal Statistics office showed.

Consumer prices fell 0.6% in January from December, but increased 0.8% from January 2008, the data said.

"German inflation seems to be dead as a doornail recently" with retailers responding to weak domestic demand with sharp price discounts at the start of the year, said Andreas Rees, chief German economist at UniCredit Research.

—Patrick McGroarty contributed to this article.

U.K. retail sales falter

By Joe Parkinson
And Paul Hannon

Bloomberg News

Price increases over the holiday season dampened U.K. retail spending.

LONDON — British retail sales fell in January, highlighting the fragility of the economic recovery, but a senior policy-maker said business surveys and data suggest that growth was stronger in the three months of last year than the Office for National Statistics estimated.

U.K. gross domestic product grew just 0.1% quarter-on-quarter in the final three months of 2009, the ONS said Tuesday. While that confirmed the economy emerged from the longest recession on record, the size of the increase was smaller than expected .

In the first public comment on the ONS figures by a central banker, Andrew Sentance said the growth rate may be revised up in future estimates. The ONS will publish its second calculation on Feb. 26.

"Other indicators—from the labor market, business surveys and measures of retail spending—continue to suggest that recovery started earlier and may have been stronger than the provisional GDP estimates currently suggest," Dr. Sentance said. Dr. Sentence is a member of the bank's Monetary Policy Committee.

But the monthly Distributive Trades Survey's retail sales balance dropped to -8 in January from +13 in December, as cold weather and a rise in value-added tax dampened consumer demand, a survey by the Confederation of British Industry showed Wednesday.

The balance is the difference between the percentage of retailers reporting higher sales and those reporting lower sales. It was marginally stronger than the consensus estimate of -10 from a Dow Jones Newswires survey last week.

"The drop in January's U.K. CBI distributive trades survey will reinforce concerns that the U.K. economy could relapse at the start of this year after its meager growth in the fourth quarter of last year," said Vicky Redwood, U.K. economist for Capital Economics.

As a result, retailers surveyed by the CBI were only marginally more optimistic about trading in February, with a balance of -1 expecting business volumes to rise.

"2010 has opened on a weak footing, especially compared to the tail-end growth of 2009, but the picture should stabilize in February" said Andy Clarke, chairman of the CBI's Distributive Trades Panel. "The big freeze kept many shoppers away from the January sales and the VAT hike has hit bigger purchases like furniture and electricals," he said.

—Ilona Billington contributed to this article.

World trade rose 1.1% in November

By Paul Hannon

LONDON–World trade volume increased for the third straight month in November, indicating the global economic recovery is gaining traction.

Figures compiled by the Netherlands Bureau for Economic Policy Analysis—also known as the CPB—showed Wednesday that trade volume rose 1.1% in November. The CPB also raised its growth estimate for October to 1.4% from 0.8%.

The CPB said trade flows remain well below levels common before the intensification of the financial crisis after the collapse of Lehman Brothers in September 2008, though. The CPB's figures are closely watched by policy makers, including a number of central banks, because they provide the earliest available measure of global trade.

World trade flows plummeted in the final months of 2008 and the early months of 2009, declining at the sharpest rate since the Great Depression and to the greatest extent since World War II.

Flows began to level out in the second quarter of last year, and now appear to be on the increase.

The recovery in trade flows was cited by the International Monetary Fund as one reason for its decision to raise its growth forecast for the global economy Tuesday.

The CPB said it now expects world output to rise 3.9% this year and 4.3% next year, having previously forecast growth of 3.1% and 4.2%, respectively. In November, flows were 12% below their April 2008 peak, but 10% above their recent trough, in May 2009.

Developing economies continued to drive the rebound in trade, the CPB said.

The CPB said the rebound in trade continued to be driven by developing economies. While imports to developing economies grew 5% in November, imports to developed economies grew just 2.6%.

The euro zone was the only major region to record a decline in imports, a drop of 1.7%.

Mirroring the pickup in trade, the CPB said world industrial production also continued to rise in November, by 1.2% from October. Once again, growth was strongest among developing economies, where factory output increased 1.6%.

EUROPE NEWS

Associated Press

Viktor Yanukovych, the front-runner in a run-off election scheduled for Feb. 7, campaigning in western Ukraine last week.

Yanukovych baits IMF

Ukrainian candidate pledges spending that would imperil aid deal

By James Marson

KIEV—Ukrainian presidential front-runner Viktor Yanukovych said Wednesday that, if elected, he would force through social spending rises that could threaten vital loans from the International Monetary Fund.

The fund suspended its $16.4 billion lending program late last year after parliament passed a law raising wages and pensions. The increases, which the IMF opposed, threatened to bust the budget amid an estimated 15% economic contraction last year.

"Social standards must correspond to the real situation of life in the country. The authorities must protect the vulnerable among the population. These are first of all pensioners, the disabled, orphans and large families," Mr. Yanukovych said in an interview with a small group of foreign reporters. "This is what we demanded—and passed the relevant law, which must be implemented."

"We will work out a program of cooperation that will suit the IMF and Ukraine and we will create relations that are transparent and comprehensible to Ukrainian society and which will be supported by the Ukrainian parliament," he added.

Mr. Yanukovych, who garnered 35% support in first-round voting on Jan. 17, will face Prime Minister Yulia Tymoshenko, who secured 25%, in a runoff on Feb. 7. Ms. Tymoshenko was the driving force behind measures to secure loans from the IMF to stabilize the economy.

Mr. Yanukovych said he wouldn't work with Ms. Tymoshenko after the elections, accusing her of an "ineffective approach" to reforms and the economy.

He signaled there was a high likelihood of snap parliamentary elections, which could delay tough measures required by the IMF to resume lending. "The negotiation process to form a new coalition will begin immediately after the presidential election," Mr. Yanukovych said. "There will be a snap election if a coalition is not created."

Analysts and government officials say Ukraine needs further loans from the IMF, which has already disbursed almost $11 billion, to help cover payments including budget spending on wages and pensions as well as Russian gas.

Mr. Yanukovych also said he would seek to revise gas contracts with Russia to achieve a lower, "fair" price. Gas contracts signed by Ms. Tymoshenko last year foresee a market-based price for 2010, but Mr. Yanukovych indicated he would push for a discount from Moscow.

Eighty percent of Russian gas exports to Europe flow through Ukraine, and disputes over prices and payment in January 2009 led to cuts to supplies.

Russia is building two pipelines around Ukraine, known as Nord Stream and South Stream, which Mr. Yanukovych said "did not correspond to Ukraine's national interests" as they would result in lower gas flows and lost budget revenues. In seemingly contradictory comments, he suggested that Ukraine could take part in the construction of the pipelines.

In a nod to Moscow, which supported his failed presidential bid in 2004 but has kept equal distance from both candidates this time, Mr. Yanukovych criticized the West for "double standards" in recognizing the independence of Kosovo from Serbia, but not South Ossetia and Abkhazia, which broke away from Georgia with Russian support in 2008.

Mr. Yanukovych, who in 2008 called for Ukraine to recognize the break-away republics' independence, refused to say whether he would take such a step as president.

Portugal's red ink adds to euro's woes

By Jeffrey T. Lewis
And Katie Martin

LISBON—The euro came under renewed pressure after Portugal's report of an unexpectedly large 2009 budget deficit reminded investors that Greece isn't the only euro-zone country with fiscal problems.

Indeed, concern is rising that other countries could join Greece and Portugal in the euro-zone intensive-care unit. Spain, Italy and Ireland are grappling with budget issues amid anemic economic growth and lower-than-expected tax revenue. The cost of insuring against a sovereign-debt default by Greece, Portugal, Spain and Italy rose on Wednesday.

Late Tuesday, the Portuguese government said it would record a higher-than-expected budget deficit of 9.3% of gross domestic product for 2009. The government pledged to reduce the deficit to 8.3% of GDP in 2010. The European Commission had projected an 8% budget deficit for 2009. The Commission, the European Union's executive arm, has given Portugal until 2013 to bring its deficit below 3% of GDP, as required for euro membership.

The euro fell to $1.4021, a five-month low, from $1.4079 late Tuesday in New York, before recovering somewhat. U.S. Treasurys and German government bonds rose as investors sought safer assets amid the continued difficulties along the edges of the euro zone.

"Everyone has been focusing on Greece, but now they are waking up to the fact that it's not just Greece," said Ian Stannard, a currencies analyst at BNP Paribas.

Greece, however, is in worse shape than Portugal. Its reported budget deficit is 12.7% of GDP, but some economists are skeptical and think it could be even higher.

In setting its 2010 budget, the Portuguese government said it would freeze government wages and reduce payrolls through attrition. It also planned to introduce a 50% tax on bonuses paid in 2010 to top executives in financial institutions and to resume sales of state assets.

Market participants say parliamentary approval for the relatively modest cutbacks is likely. That means the next big risks could come from ratings agencies unconvinced that Portugal is doing enough to put its fiscal house in order.

More troubling, Portugal's reticence in dealing decisively with its deficit, especially compared to the tough choices made by Ireland to reduce spending, has increased concern that ailing euro economies are banking on a bailout from bigger euro-zone countries, such as Germany.

European Commission and European Central Bank officials have stated in strong terms that no such bailout is going to happen. At the same time, allowing a euro country to default on its debt also seems unlikely, underscoring the conundrum facing euro-zone policy makers.

Debt markets reflected rising concern about Portugal and Greece. The annual cost of insuring €10 million (about $14 million) in Portuguese five-year sovereign bonds against default using credit default swaps rose to €138,000 Wednesday from €130,000. By comparison a similar insurance for Greek debt rose to a record €370,000.

— Jonathan House, Clare Connaghan and Emese Bartha contributed to this article.

Greek stocks, bonds hit by funding worries

By Costas Paris
And Alkman Granitsas

ATHENS—Greece's stock market tumbled nearly 4% and bond yields jumped amid a mix of jitters about stock markets in general and Greece's own need for cash.

The government denied reports of a planned bond sale to China, as it scaled back its plans to tap Asian borrowers.

The Athens Stock Exchange general index fell below the psychologically important 2000-point level to finish down 3.9% at 1972.93. Bank shares led declines; **Alpha Bank** skidded 7.9%, **National Bank of Greece** SA declined 5.6%, and **Eurobank** lost 5.4%.

"The international markets are going through a correction and we are seeing selling in a lot of peripheral markets," said Sergios Melachrinos, an analyst at Solidus Securities in Athens. "And investors think that Greece is a high-risk asset."

Greek bond markets slumped as well. Investors demanded a record premium, or spread, of 3.70 percentage points over 10-year German government bonds, the European benchmark, to hold 10-year Greek debt. The 10-year yield climbed to 6.682%.

"The 10-year area is under pressure, not helped by the denial of speculation that Greece might issue large amounts of debt to China," Crédit Agricole's investment banking arm Calyon said in a research note.

In a statement Wednesday, the Greek finance ministry denied that it had reached a deal to sell Greek bonds or state-linked assets, such as Greece's largest bank, to Chinese investors, or that it had mandated any investment bank to negotiate a sale on its behalf.