



## Asia-Pacific manufacturing lags, but China and India buck trend

WORLD NEWS 9

## U.K. and France go ahead with joint military accord

EUROPE NEWS 4

# THE WALL STREET JOURNAL.

VOL. XXVIII NO. 193

EUROPE

Tuesday, November 2, 2010

DOW JONES  
A NEWS CORPORATION COMPANY

europe.WSJ.com

# Democrats brace for big losses

BY JANET HOOK

Candidates across the U.S. sharpened their arguments in the final day of a long mid-term-election campaign, as Democrats scrambled to stem expected losses and a top Republican advanced a pointed attack against President Barack Obama.

Republicans are positioned for large gains in Tuesday's voting, likely retaking the House and picking up seats in the Senate, amid strong voter frustration.

Ohio Republican Rep. John Boehner, who is in line to become speaker if his party wins control of the House, accused Mr. Obama of describing his political opponents as "enemies" in a recent pitch to Latino voters.

In remarks prepared for a campaign rally in Cincinnati Monday night, Mr. Boehner said: "Mr. President, there's a word for people who have the audacity to speak up in defense of freedom, the Constitution and the values of limited government that made our country great. We don't call them 'enemies.' We call them patriots."

Mr. Boehner has been trying to spotlight a comment Mr. Obama made to a Spanish-language radio station. In that interview, Mr. Obama said Democrats would suffer on election day "if Latinos sit out the election, instead of saying, 'We're going to punish



Stanly Emond, left, and Ziqir Berisha at a Tea Party Express rally Monday in Waterbury, Conn. Polls suggested Republicans are likely to gain a House majority.

our enemies, and we're going to reward our friends who stand with us on issues that are important to us."

The White House had no immediate comment.

Mr. Obama, who finished a multistate campaign swing on Sunday, made phone calls to boost the morale of activists and party organizers. The campaign wrapped up amid

new warning signs for Democrats.

With polls suggesting Republicans are likely to gain a House majority, Democrats redoubled efforts to keep the

GOP from picking up the 10 seats it needs to win control of the Senate. That effort hinges on the outcome in five to seven states that may be headed for a photo finish.

- Midterm showdown .....6-7
- Opinion: Wall Street still doesn't love the GOP ..... 12
- Big Read: How the tea party got started ..... 14-15
- Updates .....WSJ.com/US

## The Quirk



Fresh test: grocery store automats get a rise out of German bakers. Page 29

## World Watch

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

## Editorial & Opinion

Ukraine could become Europe's star economic liberalizer. Page 13

## Calls to simplify airline screening come amid fresh safety threats

This week's renewed global concern over how to ferret out dangerous air cargo comes as rhetoric also grows heated over another major area of airline safety, passenger screening.

By Daniel Michaels in Brussels and Keith Johnson in Washington

Friday's failed attempts to place explosive devices onto passenger and cargo jets have added fuel to recent debates over procedures at passenger security points, increasing pressure on the U.S. and European Union to improve and simplify screening, industry officials say.

At issue is the increasing

complexity and variation of passenger-screening rules in the U.S. and EU. British Airways PLC Chairman Martin Broughton sparked the debate with comments early last week criticizing apparently arbitrary differences among procedures. Addressing a group of British airport operators last Tuesday, he criticized U.S. security procedures and singled out some security measures, such as removing laptops from carry-on bags, as "redundant."

"I was just as critical of the U.K. and the EU," Mr. Broughton said in an interview.

Regulators say they are trying to harmonize rules. An early opportunity to do this will be a planned meeting of

U.S. and EU aviation regulators in Washington later this month, say organizers.

But regulators also say differences in national laws—and deliberate efforts to be unpredictable—mean inspections are bound to vary from place to place. "There are still differences between the systems," said Daniel Calleja-Crespo, director of air transport in the EU's transportation commission, who will participate in the coming talks. "What we are seeking is security, compatibility and to avoid duplication."

The U.S. and EU both set minimum screening standards. Please turn to page 3

■ Tribal ties cloud fight in Yemen.....A8

© 2010 Intel Corporation. Intel, the Intel logo, Intel Sponsors of Tomorrow™ and Intel Sponsors of Tomorrow logos are trademarks of Intel Corporation in the U.S. and/or other countries.

Bahrain BD 150 - Egypt \$175 (CIV)  
Jordan JD 2 - Kuwait KD 1 - Oman OR 2  
Qatar QR14 - Saudi Arabia SR 14

THE WALL STREET JOURNAL.

4.4  
9 7792 19 9869 24



## PAGE TWO

# Unusual turn for European business

## [ Agenda ]

BY PATIENCE WHEATCROFT



Europe now has an industrial policy. It was unveiled at the end of last month, in a manner so low-key that many industrialists may not be aware of its existence. But it is potentially hugely significant.

Introducing his new policy document, Antonio Tajani, the European Commission's vice-president responsible for industry and entrepreneurship, declared: "Europe is more than the sum of its parts. We must raise our joint ambitions in the area of industrial policy, step up our actions and strengthen European governance. This is not business as usual."

Just how different from usual becomes apparent from the commission's commentary, which states: "In this era of intensifying globalization, the concept of national sectors and industries is obsolete." Given the relative scale of the EU in relation to the rest of the world, there may be some logic in the statement. The EU has a population of 500 million, compared with India's 1.2 billion and China's more than 1.3 billion.

Yet following through on that logic has huge implications. Does it mean, for instance, that national governments should be content to see large tracts of particular industries concentrated in one country at the expense of others? And what are the implications for competition policy?

Current thinking is that over-consolidation in one country is to be avoided since competition is good for consumers, keeping standards up and prices down. But if the national view is "obsolete," should national competition authorities now be forced to consider the implications of their judgments solely in the European context? In which case, should they consider themselves to be obsolete?



Antonio Tajani, the European Commissioner for Industry and Entrepreneurship.

Perhaps there is a need for discretion here and what is required is a flexible approach that would acknowledge that some industries need European mass if they are to be able to compete in the wider world. Take something very specialist such as Isotope Ratio Mass Spectrometry instruments. In 2007, the U.K.'s Competition Commission decided that it was not in the public interest for two of the largest suppliers of these specialist instruments to combine because their customers in university research departments and the nuclear industry would see a substantial lessening of competition.

## Largely unmentioned is the cost of the employment legislation that is such a hindrance.

But imagine that the U.K. had two of these highly specialist manufacturers, each relatively small businesses with ambitions to conquer the world. If they argued that by combining, they would create a European champion—better placed to break into the U.S. market and, potentially, India and China—ought the U.K. authorities to take the view that the market in highly

specialist laboratory equipment is a world market and national competition considerations have to be thrown aside?

The commission dodges this issue. Its "Integrated Industrial Policy for the Globalisation Era" is vague in its section on competition policy. It states that "By enhancing innovation and productivity, competition policy is an efficient instrument for European firms to tackle emerging global competitiveness issues, including their position in international markets." National regulators, however, think national, not European.

Coming up with a strategy for European industry is no easy task, given the differing performances of the 27 member states. Although Germany is powering ahead and Monday brought surprisingly bullish news on U.K. manufacturing, overall, according to the commission, industrial production levels remain more than 10% below the levels of before the financial crisis.

Hence Mr. Tajani has come up with 10 key actions that he intends should improve Europe's industrial competitiveness. A call for "better regulation" at both the national and the European level will resonate with businesspeople throughout the region. Rigorous impact assessments of regulation and a determination to "reduce the administrative burden" on business could only help business.

Yet largely unmentioned in the document is the cost of the employment legislation that is such a hindrance to competitiveness.

Lord Young of Graffham, who has just been appointed by Prime Minister David Cameron as the U.K.'s new small business champion, is thought to be enthusiastic about reducing some of the employment legislation which makes it difficult, and costly, for firms to part with staff. Other European countries have even more restrictive legislation than the U.K. in this area.

The new policy makes much of the need to improve access to finance for business, saying it remains "a major challenge, especially for SMEs." Yet on Tuesday Lloyds, the British banking group, is likely to make the point that it is a lack of demand rather than a failure of supply which is keeping bank lending down. Its own net lending to SMEs has increased in the third quarter but applications for loans remain 25% lower from two years ago, while agreed lines of credit are only being utilized to the extent of about 60% of the available finance.

Mr. Tajani has high hopes of his industrial policy. He proclaimed that "Industry is at the heart of Europe and indispensable for finding solutions to the challenges of our society." Certainly job creation is pivotal in dealing with one of the biggest challenges society faces, unemployment. And some of his programs should have positive effect, most notably going for better regulation, although most businesses would happily settle for just less regulation.

But it is the cost of employing people that remains a weight on competitiveness. Mr. Tajani, a former spokesman for Italian Prime Minister Silvio Berlusconi, has a long way to go to come up with a route that would really bolster EU industry. However, he may have started an interesting new debate on the shape of competition policy in the region.

## What's News

■ **The U.K. and France** will sign defense treaties Tuesday bringing greater cooperation between Europe's two biggest military powers in areas ranging from nuclear testing to potential deployment of a joint expeditionary force. **4**

■ **A U.K. agency** that has clashed with the drug industry through its attempts to control health-care costs could lose some power under the new government. **17**

■ **Ireland's high court** ruled against Patrick McKillen, effectively clearing the way for the nation's state-loan agency to buy \$2.92 billion of his property loans from banks. **17**

■ **Ryanair raised** its full-year earnings forecast after reporting a 32% increase in second-quarter profit as higher yields and capacity offset higher fuel costs. **19**

■ **Yemen deployed** more troops against al Qaeda in the south, but tribal feuds could hinder the offensive. **8**

## Inside



Poker play: keeping the party going at Viacom. **27**



If referees get too smart, advantage can be a disadvantage. **28**

## ONLINE TODAY

### Most read in Europe



1. In Quest for 'Legal High,' Chemists Outfox Law
2. Opinion: Requiem for the Pelosi Democrats
3. When Refs Get Too Smart
4. U.K. Pays Price to Save Euro
5. U.K. Bomb Designed to Detonate in Flight

### Most emailed in Europe

1. Book Review: Eloise's Mum
2. U.K. Pays Price to Save Euro
3. In Quest for 'Legal High,' Chemists Outfox Law
4. A Dream House's Difficult Birth
5. Defaulters Who Live for Free

### Reader comment

europe.wsj.com/community

"America's biggest enemy is not any one person holding political office. It is voter complacency or apathy."



### Continuing coverage



WSJ.com offers six hours of live video coverage for U.S. midterm elections at [wsj.com/campaign2010](http://wsj.com/campaign2010)

### Question of the day

Vote and discuss: Which country has the stronger claim on the disputed islands, Russia or Japan?

### Previous results

Q: Which Europe House of the Day is your favorite?

Italian Coastal Villa

23%

Spain Beachfront Villa

32%

Mallorca Bay Villa

29%

Villa Romana

16%

THE WALL STREET JOURNAL EUROPE  
(ISSN 0921-99)  
Commodity Quay, East Smithfield,  
London, E1W 1AZ

SUBSCRIPTIONS, inquiries and address changes to:  
Telephone: +44 (0) 20 3426 1234. Calling time from  
8 a.m. to 5 p.m. GMT. E-mail: [subs.wsje@dowjones.com](mailto:subs.wsje@dowjones.com).  
Website: [www.services.wsje.com](http://www.services.wsje.com)

ADVERTISING SALES worldwide through Dow Jones  
International, Frankfurt: 49 69 29725 390;  
London: 44 203 426 1111; Paris: 331 40 17 17 01.  
Printed in Belgium by Concentra Media NV. Printed in  
Germany by Dogan Media Group / Hürriyet A.S. Branch  
Germany. Printed in Switzerland by Zehnder Print AG WIL.  
Printed in the United Kingdom by Newsfax International  
Ltd., London. Printed in Italy by Telesampa Centro Italia  
s.r.l. Printed in Spain by Bermont S.A. Printed in Ireland  
by Midland Web Printing Ltd. Printed in Israel by The  
Jerusalem Post Group. Printed in Turkey by GLOBUS  
Dünya Basınevi.  
Registered as a newspaper at the Post Office.  
Trademarks appearing herein are used under license from  
Dow Jones & Co. ©2010 Dow Jones & Company. All  
rights reserved. Editeur responsable: Patience Wheatcroft  
M-17936-2003.  
Registered address: Boulevard Brand Whitlock, 87, 1200  
Brussels, Belgium



NEWS

# Russia, Japan row grows over islands

Moscow reacted angrily to criticism from Tokyo of President Dmitry Medvedev's visit Monday to disputed islands in the Far East, threatening to create another foreign-policy flashpoint for the embattled Japanese government.

*By Yuka Hayashi in Tokyo and Gregory L. White in Moscow*

Russia and Japan exchanged angry statements and summoned each other's ambassadors for protests after Mr. Medvedev became the first Russian or Soviet leader to visit the small islands, known in Russia as the Southern Kurils and in Japan as the Northern Territories. Soviet troops occupied them at the end of World War II, but Japan still claims them and the dispute has poisoned relations between Tokyo and Moscow for decades.

Monday's visit by Mr. Medvedev fueled the long-simmering tensions, prompting complaints from Prime Minister Naoto Kan and Foreign Minister Seiji Maehara. Japanese news agencies said the government was considering possible retaliatory steps, such as withdrawing its ambassador from Moscow.

Russian officials fired back. Calling Tokyo's reaction "unacceptable," Foreign Minister Sergei Lavrov said, "This is Russian land and the Russian president is visiting Russian territory."

It wasn't clear how far both sides would allow the dispute to es-



Russian President Dmitry Medvedev walks near a Soviet-era fortification during his visit to Kunashir, one of the Kuril islands, Monday. Mr. Medvedev is the first Russian or Soviet leader to visit the islands.

calate, however. Officials and analysts said Mr. Medvedev appeared to be responding to what Moscow viewed as a hardening in recent months of Japan's rhetoric on the territorial dispute.

After Japanese officials publicly warned against a planned visit in September, the Kremlin leader had no choice but to go, because Russia views the islands as its territory, officials and analysts said. The Sep-

tember visit was canceled because of bad weather.

"You can't break us over your knee and our position won't be changed by pressure," Mikhail Margelov, chairman of the International Affairs Committee in the upper house of parliament told the Interfax News Agency Monday.

But Fyodor Lukyanov, a foreign-policy analyst in Moscow, noted that the Kremlin avoided the more pro-

vocative option of stopping at the islands later this month on the way to a summit of Asian powers in Yokohama. "That would have been a slap in the face," he said.

Tokyo, too, has reasons to keep the current conflict from escalating, analysts said. Mr. Kan's government is already facing criticism at home for its handling of a dispute with Beijing following a ship collision in the disputed waters in the East

### Islands hopping

The disputed Kuril Islands have shifted back and forth between Russian and Japanese control for over a century.

■ **1600-1700s** Russian explorers claim islands as Tsarist empire expands eastward; Japanese explore islands from the south.

■ **1811** Japanese capture Russian naval officers on Kunashir.

■ **1855** Treaty sets border between Iturup and Urup.

■ **1875** Russia cedes Kurils to Japan (in return for Japan giving up claim to Sakhalin).

■ **1945** Soviet troops occupy Kurils to just north of Hokkaido.

China Sea in early September. After the government freed a Chinese sea captain without indicting him, many in Japan have criticized Mr. Kan, saying he capitulated under Beijing's pressure.

A poll published Monday by the Nihon Keizai Shimbun economic daily showed the approval rating for Mr. Kan's cabinet plunged to 40% in late October from 71% in September soon after the prime minister defended his position as the head of the ruling Democratic Party of Japan in an internal party election and shuffled his cabinet.

## Coherent airline screening

*Continued from first page*  
dards, such as requiring passengers to remove laptop computers from their bags and forbidding liquids in carry-on bags. But in some cases, countries and airports exceed these standards, which contributes to the sense of randomness.

Britain and the Netherlands, for example, at some airports have deployed body-imaging scanners, which are still experimental inspection techniques. Since the EU hasn't approved them to replace existing methods, the body scanners are an additional step in screening. The U.S. Transport Security Administration has also installed body scanners at some airports.

The U.K. also recently ran an 18-month test of next-generation scanners that can examine a computer inside hand baggage. Screeners told passengers not to remove laptops, which pleased some and confused others. The test, at London's Heathrow Airport and Glasgow Airport, ended in February 2009.

One of the biggest differences across the Atlantic is that the U.S. demands large amounts of data about passengers before they are allowed to fly into the country. This information isn't required for out-bound or domestic flights, a differentiation that has irked foreign visitors to the U.S., including BA chairman Mr. Broughton, who criticized the system.

Mr. Broughton's comments drew a rebuke from the TSA, which said its officials confer regularly with EU counterparts. TSA officials said the data help reduce reliance on time-consuming inspections at airports.

"Off-the-cuff comments by one individual in no way reflect the close working relationship between the

U.S. and the U.K. and are not indicative of the cooperative security efforts enjoyed by our two nations," said TSA spokesman Nick Kimball. "These comments are not in touch with current intelligence-driven security policies."

U.S. and European regulators say they are working to streamline airport security. EU Transport Commissioner Siim Kallas in September visited Washington for talks, and improving aviation security procedures was a central topic, Mr. Calleja said. Soon after, the U.S. and EU jointly sponsored a measure adopted by the United Nations' aviation arm, the International Civil Aviation Organization, to improve global-security cooperation.

Securing international cooperation on aviation security has been a priority this year for Janet Napolitano, secretary of Homeland Security, which oversees the TSA.

The coming U.S.-EU meeting in Washington is part of a series of gatherings, organized under a 2007 aviation treaty between the two, that regularly touch on security, officials say. One issue already slated for discussion is a plan to begin "one-stop security" in April. That would allow passengers flying across the Atlantic to change planes without being screened again before boarding connecting flights.

Friction between the U.S. and Europe over security dates back to the Sept. 11, 2001, terrorist attacks, which prompted different security measures. Both the U.S. and EU have added layers of passenger and baggage screening and information-gathering, but have rarely removed new measures. That results in cumbersome procedures for many passengers.

PURE BREITLING

The Navitimer World

WWW.BREITLING.COM

BREITLING 1884

INSTRUMENTS FOR PROFESSIONALS™



## EUROPE NEWS

# U.K., France to sign treaties

BY ALISTAIR MACDONALD  
AND WILLIAM HOROBIN

The U.K. and France will sign defense treaties on Tuesday bringing greater cooperation between Europe's two biggest military powers in areas ranging from nuclear testing to the potential deployment of a joint expeditionary force, officials from both countries said.

The two treaties will bring the two militaries closer as both countries look to save costs and bolster their position as top-tier forces after decades of shrinkage.

"This is unprecedented between France and U.K., but also compared to our links with other partners," a French official said.

The U.K. and France together account for half of defense spending in the European Union and two-thirds of defense research and development in the region. But since the Cold War, both countries have seen their relative defense spending shrink, a process that in Britain has accelerated in the last decade. Last month, Britain's coalition government announced cuts of 8% in its military budget over five years.

The U.S. worries that Europe's declining defense spending will hit the capability of the North Atlantic Treaty Organization. The U.S. believes cooperation is a good thing and won't undermine its close military relationship with the U.K., British and U.S. military officials said.

"There could be times in the years to come...when a combined Franco-British capability can help, in a pre-emptive way, with stabilization ops, conflict prevention, conflict containment," said Sir Nicholas Houghton, the U.K.'s vice chief of defense staff, at a briefing in Washington.

On Tuesday, the two countries will announce that, for 50 years beginning in 2015, they will share resources on the testing of nuclear warheads. The U.K. will use a French facility to test its nuclear capability and a U.K. site will be used for the building of testing technology. Both



French President Nicolas Sarkozy, left, talks to U.K. Prime Minister David Cameron, right, in Brussels on Friday.

countries say they will maintain separate nuclear deterrents and have complete autonomy over their tests.

The sharing will lead at first to costs in "the region of several hundred millions of euros," but result in significant savings later, both sides said.

The two countries will train a combined expeditionary force that could be used in roles from the evacuation of civilians from hostile environments and eventually deployment on NATO or bilateral operations. This will not be a standing force with headquarters and leadership will be decided at the time of a deployment.

The two sides will look to share access to each other's aircraft carriers. The U.K. will have access to the French carrier Charles de Gaulle because the recent British defense cuts

will leave it with no carrier-strike capability for around 10 years.

The prospect of so-called carrier sharing has already raised criticisms that could bedevil other aspects of Tuesday's deal. Analysts ask how the two countries can share carriers when they are designed for their own aircraft, and won't have, for instance, stocks of parts for each others' planes.

"Shared capabilities makes sense for both, but how far you can share things like carriers is uncertain," said Andrew Dorman, a senior lecturer in defense studies at King's College London. Mr. Dorman asks, for instance, if the French would allow the U.K. to sail their carrier to the South Atlantic if the Falkland Islands were threatened.

Other areas for cooperation will include training and support for the

A400M military transport aircraft, military satellite communications and the U.K. offering France its spare air-refueling capacity and developing drone technology. Further down the line, the two will cooperate in developing "complex weapons" such as missiles and on counterterrorism and cybersecurity.

Both sides say further cooperation is possible, though French officials seemed more enthusiastic about the idea on Monday. "This list isn't the end of the story; it's only a beginning," said one.

Mr. Cameron told Parliament on Monday that the treaties won't infringe on sovereignty in the U.K., which has been a less enthusiastic advocate of closer cooperation than France.

—Julian E. Barnes in Washington contributed to this article.

## PKK denies role in attack in Istanbul

BY MARC CHAMPION  
AND AYLAL ALBAYRAK

A group representing the Kurdish Workers Party on Monday denied responsibility for a weekend suicide-bomb attack in Istanbul that wounded 32 people, and said it was extending a unilateral cease-fire until the middle of next year.

Turkish media had fingered the Kurdish Workers Party, or PKK, as a prime suspect in Sunday's bombing, in which the suspected suicide attacker tried to board a police bus in Istanbul's busy Taksim Square and blew himself up next to it when he failed. Fifteen of the wounded were policemen.

But on Monday, the Union of Communities in Kurdistan, a group that shares a common leader with the PKK and often speaks on its behalf, sought to distance itself from the attack, which took place earlier on the day the PKK's four-month unilateral cease-fire had been due to expire.

"On a day when our movement was preparing an historic step to extend our cease-fire decision for peace and a democratic solution, it is impossible for us to have conducted this kind of an action," the statement said.

The PKK in recent years has backed away from demanding a separate Kurdish state, focusing instead of obtaining political autonomy and language rights for Turkey's ethnic Kurds. Turkey, the U.S. and the European Union list the PKK as a terrorist organization.

State newswire Anadolu Ajansi said Monday that police had determined Sunday's bomb was made from a plastic explosive of Austrian origin that in the past has been used by two radical leftist terror groups in Turkey, as well as by the PKK. Interior Minister Besir Atalay told reporters it was too early to draw conclusions about who carried out the bombing.

The statement from the Union of Communities in Kurdistan accused Turkey's government of failing to endorse a democratic solution that would satisfy the country's large ethnic Kurdish minority and end the conflict with the PKK. But it said "the movement" would extend its cease-fire until Turkey's elections, set for June next year.

The statement set out five demands Turkey's government should fulfill in order to stop the conflict: end military operations against the PKK; release arrested Kurdish politicians; open the way for Abdullah Öcalan, the PKK leader jailed on an island outside Istanbul, to take part in peace negotiations; establish constitutional and truth commissions; and lower the threshold for political parties to enter parliament from the current 10% of votes cast.

So far, the government has shown little sign of meeting those demands. On Monday, Prime Minister Recep Tayyip Erdogan repeated his government's complaint that some European countries aid the PKK by giving members safe harbor.

The PKK has been waging a war in Turkey since 1984, with an estimated 40,000 people dying as a result of the conflict on both sides.

## U.K. cuts' impact seen understated

BY ILONA BILLINGTON

LONDON—The U.K. private sector will need to create about 1.6 million jobs over the next five years to keep the economy running at the current pace, the Chartered Institute of Personnel and Development said Tuesday.

The CIPD estimates that is the number of jobs that will be lost as a result of government spending cuts and an impending sales-tax increase.

"The full impact of the coalition government's planned fiscal tightening has been understated," said John Philpott, chief economic adviser at the CIPD.

The U.K. Office for Budget Responsibility estimates the government's deficit-reduction drive will cost the country 490,000 public-sector jobs over the next five years.

The CIPD says the toll is likely to be closer to 700,000 jobs. The survey suggests the private sector could shed as many as 900,000 jobs, taking into account the impact of the sales-tax increase.

The standard rate of value-added tax is set to rise to 20% in January

from 17.5% currently.

The institute calculates that the private sector is capable of adding 300,000 jobs a year by 2015-16, provided the economy continues to grow at a healthy clip of around 2.5% per year.

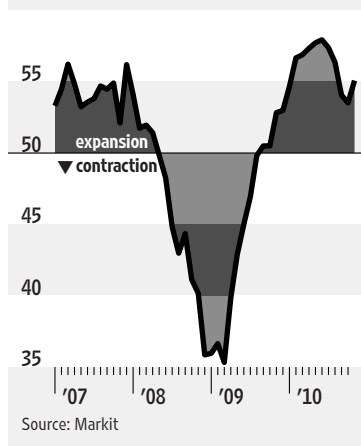
"But given the headwinds facing both the global and U.K. economy, this looks like a tall order, especially prior to 2013, and consequently unemployment is likely to rise throughout 2011 and much of 2012," Mr. Philpott said.

There are some signs that businesses are hiring more workers. A monthly survey of purchasing managers in the manufacturing sector found that in October, employment rose at the fastest pace in four months.

"The rate of job creation picked up sharply in October," the Chartered Institute of Purchasing and Supply said.

The survey showed that growth in the manufacturing sector accelerated in October for the first time since March, boosted by a sharp increase in export orders. The purchasing managers index for the manufacturing sector rose to 54.9 in

Surprise jump  
U.K. purchasing managers index  
for the manufacturing sector



October from 53.5 in September.

"Exports are very much the engine of growth within manufacturing at the moment," said David Noble, chief executive officer at the Chartered Institute of Purchasing and Supply.

"Whilst it is very positive to see

the sector expanding strongly again, it's difficult to predict the impact of fluctuations in export markets, so the recovery may continue to be bumpy. What is clear is that manufacturing looks set to drive further GDP growth in the fourth quarter," he said.

The data come hot on the heels of more upbeat data last week. Official Office of National Statistics indexes reported third-quarter U.K. gross domestic product rose a stronger-than-expected 0.8% on the quarter, while the first look at retail sales data from the Confederation of British Industry reported a further strong showing in October.

"This report confirms that the improving picture painted by last week's good GDP data has continued into the final quarter of the year," said James Knightley, U.K. economist for ING Bank.

"Nonetheless, with the pain yet to bite from government spending cuts, we remain cautious and see growth slowing through 2011. As a result, we still see the possibility of further stimulus from the Bank of England in the form of additional quantitative easing next year."





Every day, Chevron relies on small businesses around the world. Electricians. Mechanics. Manufacturers. We spent billions on local goods and services last year. And helped thousands of entrepreneurs get ahead with microloans. We're helping small businesses thrive. Because we need them. Just as much as they need us. Learn more at [chevron.com/weagree](http://chevron.com/weagree)



# BIG OIL SHOULD SUPPORT SMALL BUSINESS.

**WE AGREE.**

*Steve Tomkovicz*  
 Steve Tomkovicz  
 President  
 S&S Supplies and Solutions

*Leo Lonergan*  
 Leo Lonergan  
 Chief Procurement Officer  
 Chevron



## U.S. ELECTIONS



President Barack Obama, in Chicago on Saturday, sharpened his rhetoric against Republicans during the midterm campaign.

## Obama toughens his tone as fight for votes wraps up

BY LAURA MECKLER

CLEVELAND—President Barack Obama closed out his 2010 campaign season here Sunday with a mocking rebuke of Republicans, in stark contrast to the lofty, hopeful rhetoric that marked his 2008 campaign.

With Democrats facing potentially big losses on Election Day Tuesday, Mr. Obama has projected a rougher tone than he did two years ago. The bad economy? Blame Republicans, he said. Bipartisanship to solve problems? No, the president said, the GOP has no interest.

Bits of the 2008 spirit were still in evidence in a weekend of campaigning, but Mr. Obama's calls for change now came with caveats. He still exhorted, "yes we can!" but added that change will take some time.

Democrats say the shift in message is to be expected given the changed circumstances. Mr. Obama is no longer the outsider looking in, but an incumbent president deep in all things Washington. Also, Democrats have worked to make this election a choice between the parties, not a referendum on Mr. Obama, so talking about the GOP's weaknesses is key to that strategy.

"You have to get down right where the voters are and you've got to answer" Republican attacks, said

Sen. Dick Durbin (D., Ill.), who is close with Mr. Obama. "We're learning that the hard way. We have not been as forceful as we should have been."

In Cleveland, Mr. Obama said Republicans didn't want voters to remember that he had inherited a bad economy. "Their basic political strategy has been to count on you having amnesia," he told about 8,000 people at Cleveland State University's Wolstein Center.

This was the president's fourth trip to Ohio in support of Democratic Gov. Ted Strickland, who faces a tight race with Republican John Kasich. Vice President Joe Biden joined the president, making his sixth visit to Ohio to campaign for Mr. Strickland, as the White House put on a strong effort to keep the state in Democratic hands.

Republicans responded that the visit only reminded Ohioans about Democratic stewardship of the economy. "They are very, very concerned about the fact that the unemployment rate is the highest it's been in the country, and Ohio has been one of the worst-hit states, frankly, with little chance of improving," said Sen. George Voinovich (R., Ohio).

In his speeches, Mr. Obama works hard to rekindle the energy that seemed to envelop his 2008

campaign. He says the forecasters have it wrong now, just as some did two years ago. He calls on voters to "finish what we started in 2008." But almost gone is the man who asked Americans to rise above partisanship to unite the nation. Now he speaks of Republicans as obstructionists who sat on the sidelines during the country's toughest times.

Off the stump, his language can be just as tough. In an interview with Univision, the Spanish-language network, he urged Latinos to look at the election this way: "We're going to punish our enemies and we're gonna reward our friends."

To be sure, in 2008 Mr. Obama was tough on his Republican opponent, Sen. John McCain, and on then-President George W. Bush. He said Mr. Bush had failed and that Mr. McCain would represent more of the same. But two years ago, Mr. Obama's criticism was directed specifically at those two men, not the Republican Party writ large, and was mixed with a high-minded call for unity.

At times he speaks of the need for the parties to work together. That message was part of what drew independent voters to Mr. Obama in 2008, and many of them have abandoned Democrats this year. To win re-election in 2012, strategists say, he'll need them back.

a liberal political website, showed Democrat Jon Hulburd leading Mr. Quayle 46% to 44%. Mr. Quayle's camp has played down the poll but acknowledged a tough race.

Mr. Quayle's troubles began well before the general election. During a brutal ten-way Republican primary race, Mr. Quayle's association in 2007 with a raunchy website cataloging Scottsdale nightlife emerged. According to the website's founder, Mr. Quayle wrote for the site. Mr. Quayle has said he only posted satirical comments there.

Mr. Quayle won the primary with 23% of the vote, beating his nearest rival by five points, but the damage was done. Republicans never fully coalesced behind him after the divisive primary. A GOP loss would be a substantial upset for the party in an election season that has been stormy for Democrats nationwide.

Mr. Quayle's campaign spokesman noted early voting data as of Friday showed more registered Republicans than Democrats had cast ballots in Maricopa County, which includes the Third District.

## Reagan's rebound offers a template for Democrats

[ Capital Journal ]

By GERALD F. SEIB



As they lick their wounds during what figures to be a tough election night Tuesday,

Democrats might want to reflect on the 1982 experience of President Ronald Reagan and take away some lessons from it.

In particular, they might want to reflect on the political virtues of economic growth.

Mr. Reagan entered Election Day in 1982, the first midterm of his presidency, overseeing an unemployment rate even higher than it is today (10.4% then, compared with 9.6% now). His approval rating in the Gallup survey was even lower than President Barack Obama's is today (42% for Mr. Reagan, 44% for Mr. Obama). And his party ultimately lost the overall national vote in House races by a whopping 12 percentage points, even worse than Democrats are expected to do this year.

Mr. Reagan's Republicans didn't lose control of the House that year, because they didn't have control in the first place. The fact that they lost only 26 seats (as opposed to the 50 or so Democrats may lose this year) was in part a fluke of history and redistricting. Congressional districts weren't drawn then to produce seat counts that tracked the overall vote as closely as they are now, and more of the marginal districts were held by Democrats rather than by the more vulnerable Republicans.

Despite that midterm hit, Mr. Reagan survived and thrived. He went on to win a smashing re-election in 1984, survived the Iran-Contra scandal in his second term and closed out his presidency on a wave of popularity that allowed him to help turn the White House over to his vice president, George H.W. Bush.

How did he do it? Simply put, he convinced Americans that his party was the party of economic growth, and then put the numbers on the board to prove it.

In that dark year of 1982, the economy shrank by 1.9%. By the presidential-re-election year of 1984, it had undergone a remarkable turnaround and was growing at a rate of 7.2%. The unemployment rate had dropped to 7.4%—still a painfully high rate, but one that seemed more tolerable because the underlying economic growth fostered a belief that it would continue heading downward.

By 1984, the darkness of the 1982 economy had turned into the "Morning in America" theme on which Mr. Reagan ran for re-election.

Some Democrats think that, in a similar way, political recovery for their party requires an intense focus on economic growth.

"My view is that when you have an election like this, even when Democrats manage to squeeze by, you have to really take stock of yourself and question



Economic growth helped President Ronald Reagan bounce back from the GOP's 1982 midterm losses.

your long-term relevance if you don't change," says Jim Kessler, vice president for policy at Third Way, a think tank that advances the ideas of moderate Democrats. "Democrats have to transition from being an economic-security party to an economic-growth party."

Mr. Kessler argues that "the 80-year mission to fashion a strong safety net is basically over with the passage of health care, and a new mission must take its place. And that mission has to be growth."

Indeed, history may tell us that the Democrats' slide in this cycle began with the fateful decision to pursue a health-care overhaul in 2009 rather than to invest political capital on more steps to stimulate the economy.

It's easy to see why that happened; health care is a time-honored priority for Democrats. They enjoyed majorities in Congress that made a big expansion of health coverage possible for the first time in decades, and the 2008 campaign put health atop the party's to-do list. Still, the decision took the focus off economic growth while also opening up Democrats to the charge they were pumping up the size of government at the wrong time.

As that suggests, the political/economic problem Mr. Obama faces now is the opposite of the one Mr. Reagan faced then. Even as he pushed policies for economic growth, Mr. Reagan was accused of ignoring the social safety net ("shredding the social safety net" was the popular phrase at the time). As Mr. Obama pushed policies to strengthen the safety net (above all that health bill), he's been accused of ignoring the imperative of economic growth.

A Democratic growth agenda will require devising a new strategy to stimulate the economy. Consumers remain hunkered down, and the Federal Reserve is nearly tapped out in providing monetary stimulus, so it can't replicate the sharp cuts in interest rates that gave the economy a big lift in the 1980s. As a result, much will depend on loosening up business spending, meaning the president needs to foster an increase in business leaders' confidence in Washington.

Those tasks are difficult. But Ronald Reagan showed that the rewards can be great.



U.S. ELECTIONS

# Republicans ready to reap big gains

BY PETER WALLSTEN  
AND DANNY YADRON

Republicans are positioned for large gains Tuesday, likely retaking the House and picking up seats in the Senate, amid strong voter frustration with President Barack Obama and the Democratic-run Congress, according to a new Wall Street Journal/NBC News poll.

Republicans held a six-point edge, 49% to 43%, when likely voters were asked which party they hoped would be in charge.

Nearly half of voters who favored GOP control of Congress said their feelings reflected a vote of protest against the Democrats—an unusually high proportion that pollsters said reflected deep frustration among many voters.

Mr. Obama ended a pre-election campaign swing Sunday in Cleveland with a call for Democrats to vote Tuesday. But the poll results suggest he is turning off many swing voters—the same voters who are expected to decide close races.

A majority of likely voters in the survey, 52%, disapproved of Mr. Obama's job performance, while one-third of independents approved.

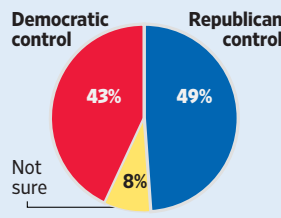
"The Democrats are about to feel the full force of a tidal wave, tsunami or a 7.0 earthquake," said Democratic pollster Peter Hart, who co-directs the survey with Republican pollster Bill McInturff.

Mr. McInturff said the poll results were a "grim set of data that projects a larger election for Repub-

## Findings from the latest WSJ/NBC News Poll

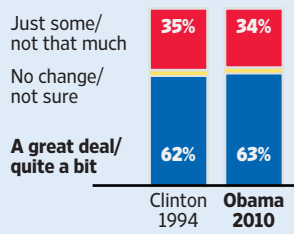
### Congress

Preference for control of Congress among likely voters:



### President

Change needed in direction the president is leading:



\*Up to two answers accepted

Source: WSJ/NBC News telephone poll of 1,000 registered voters; margin of error: +/-3.1 pct. pts.

### Voters

Most important message to send with your vote for Congress:

	Among Democrats	Independents	Republicans
Focus on economy/jobs	36%	45%	38%
Return to principles of Constitution	8%	22%	41%
Work with other party	27%	26%	17%
Balance federal budget	11%	21%	20%
Look out for working people	18%	17%	12%
Stop outsourcing jobs	14%	17%	16%
Support Obama's agenda	27%	6%	2%
Opposition to health-care law	2%	9%	19%
Don't return to Bush's policies	16%	5%	1%
Support for health-care law	12%	3%	2%

licans than 1994."

That year, the GOP swept into power with a net gain of 54 House seats. This year, Republicans need a net gain of 39 seats to win the House.

Mr. Obama sought this weekend to counter the Republicans' apparent advantage. The president stopped in Connecticut, Philadelphia

and Chicago on Saturday and spoke Sunday in Ohio, where Democratic Gov. Ted Strickland is fighting for re-election and five Democratic House seats are in play.

Republican leaders generally continued to predict a GOP takeover of the House.

In the Senate, the GOP is expected to make gains. But the non-

partisan Cook Political Report concluded Sunday the party's chances of retaking the chamber were "non-existent."

The newsletter predicted a Republican gain of six to eight seats, which would give the GOP 47 to 49 seats in the 100-member Senate.

In a last-minute twist, Republicans expressed concern Sunday

about the possibility that a little-known Democratic Senate candidate in Alaska, Sitka Mayor Scott McAdams, could slip past a fading tea party-backed Republican, Joe Miller. The incumbent, Republican Sen. Lisa Murkowski, is waging a write-in campaign after losing the primary.

Sen. John Cornyn of Texas, chairman of the GOP's Senate campaign committee, said Republicans would "make a lot of headway" Tuesday but predicted his party would not contend for the majority until 2012.

Despite voter concerns about government spending, the Democrats' national committee aired a new ad featuring Mr. Obama that warned of record cuts in education if Republicans take control of Congress.

The new Journal poll found the economy is a major factor motivating voters.

The survey showed a clear majority of Americans "very dissatisfied" with the U.S. economy. Of that group, 63% said they would vote Republican for Congress on Tuesday, compared to 30% who planned to back a Democrat.

The survey suggested rising enthusiasm among some core Democrats, narrowing the "enthusiasm gap" with the GOP. But the gap is still substantial, with 70% of Republicans describing themselves as intensely interested in the election compared to 58% of Democrats.

—John D. McKinnon  
contributed to this article.

# New orders, exports lift manufacturing

BY SARA MURRAY

U.S. manufacturing picked up steam last month, aided by rising exports and a surge in new orders that suggests the factory sector will continue to bolster growth through the rest of this year—even as American voters remain largely disappointed with the economy's slow rebound and consumers have reined in spending.

The Institute for Supply Management's index of overall manufacturing activity, based on surveys of purchasing managers, rose to 56.9 in October from 54.4 the month before. Any number over 50 points to expansion.

The latest reading marks the 15th month in a row the index has pointed toward growth and comes as the Federal Reserve is poised to announce this week a new round of bond-buying to lower long-term interest rates in the hopes of speeding growth in the broader economy.

Another report released Monday showed consumer spending rose only slightly ahead of the holiday season. Personal incomes declined, as payrolls fell for government workers and those at goods-producing companies.

The manufacturing report showed production ramping up in a wide range of industries, including machinery and apparel. A subindex in the report that tracks exports climbed to 60.5 last month from 54.5 in September, partly helped by the weak U.S. dollar. Imports declined by five points to 51.5. The

employment index ticked up.

Demand is booming at **Bremen Castings Inc.**, a foundry and machining company in Bremen, Ind. Sales are up 49% so far this year and the manufacturer has been adding employees, said James L. Brown, the company's president. Bremen also has spent some \$4.2 million this year to beef up facilities and equipment. Still, Mr. Brown is trying to balance aggressive moves with caution because it isn't clear how long the demand will last, he said.

Price pressures popped up in raw materials last month, and some companies with heavy ties to commodities are feeling the pinch. **Cooper Tire & Rubber Co.** said Monday that its earnings fell despite stronger demand because of rising raw-material costs. The company's third quarter earnings fell 4.8% even as sales were up 10%.

For demand to continue rising, the economy needs to add jobs so Americans can keep spending. Consumer spending rose just 0.2% in September, the Commerce Department said Monday.

The lackluster spending is tied to tight budgets. With the unemployment rate at 9.6% and high joblessness expected for a while Americans are uneasy. And many families are increasingly reliant on government benefits to get by.

"It was a little disappointing," John Ryding, an RDQ Economics analyst said of the report. "It really speaks to the need to get jobs going to start putting more income into household pockets."

Go ahead and make the

# TOUGH DECISIONS.

D&O insurance that will be there for you.

The risks faced by directors, officers and companies are constantly changing. That's why we've enhanced our Directors and Officers liability insurance to safeguard individuals' personal assets and protect the organisations they serve in today's changing risk landscape. It's market-leading coverage built on 40 years of D&O experience. Learn more and find out if your current insurance is doing enough.

Europe: [www.chartisinsurance.com/BusinessGuard](http://www.chartisinsurance.com/BusinessGuard)  
UK: [www.chartisinsurance.com/uk/d&o](http://www.chartisinsurance.com/uk/d&o)

**CHARTIS**  
Your world, insured

All products are written by insurance company subsidiaries or affiliates of Chartis Inc. Coverage may not be available in all jurisdictions and is subject to actual policy language. For additional information, please visit our website at [www.chartisinsurance.com](http://www.chartisinsurance.com).



## THE YEMEN PLOT

## Tribal ties cloud Yemen fight

By MARGARET COKER

SAN'A, Yemen—The government of President Ali Abdullah Saleh has ordered 3,000 more troops, including members from two of its U.S.-trained counterterrorism units, to southern strongholds of the al Qaeda affiliate suspected in last week's foiled package-bomb plot, according to a Yemeni security official.

The military campaign, nearly a year old, has garnered few clear victories against the group, al Qaeda in the Arabian Peninsula, or AQAP. While the bomb plot renews the pressure on Mr. Saleh to show progress, his government faces a major hurdle: Tribal disputes inflamed by the U.S.-backed counterterrorism campaign have drawn much-needed local tribal allies away from aiding the government.

That blurring of allegiances is also undermining the already weak hold Mr. Saleh has over the country, Yemeni officials and analysts say.

"We always told the Americans that it's hard to gauge loyalty among the tribes," said an adviser to Mr. Saleh. "In Yemen, the tribe comes first, and once tribal blood starts to spill, the bloodshed is hard to stop."

U.S. and United Arab Emirates officials have said the sophisticated nature of the package bombs—one discovered at an airport in England and one in Dubai—is a hallmark of AQAP, though the group hasn't claimed or denied responsibility for sending the bombs.

U.S. officials say the U.S. is now considering expanded military options that would allow teams under the Central Intelligence Agency to strike suspected terrorist targets in Yemen. The White House is also considering adding armed CIA drones to its arsenal.

Complicating any military effort is the web of tribal loyalties here. Tribal rules and customs run much of day-to-day life in Yemen, where the central government is weak and, in remote provinces, institutions are almost nonexistent.

Tribal allegiances complicate political loyalties as well, with ties between the north and southern parts of the country strained after a bitter civil war and suspicions that the president and northern clans are unjustly enriching themselves off energy reserves located in the



Agence France-Presse/Getty Images

south.

President Saleh has wooed some southern tribes in the past to bolster his hold on power. But those alliances aren't subject to change, for example if a relative with al Qaeda sought sanctuary.

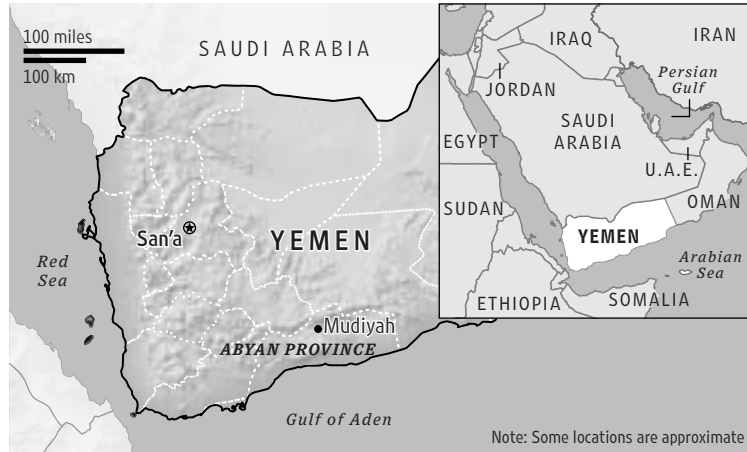
The Yemeni security official said newly deployed troops are being sent to Shebwa and Abyan provinces, where the government is already engaged in two-month-old offensives, as well as Mareb province.

A recent military campaign in Mudiayah, a town of low-slung cement-block buildings in Abyan, showed the difficulty the government faces in winning and holding onto tribal support.

Early last month, the government deployed two separate units of 500 regular army troops and 200 men from U.S.-trained counterterrorism units to Mudiayah. Several leading al Qaeda members are believed to have come from the town, and officials say they believe the families of the militants offered sanctuary to them when they escaped from an earlier offensive in Shebwa. The mayor of Mudiayah said 40 to 50 militants had moved to the mountainous areas around the town by mid-September, some taking refuge with their extended families.

The first days of the military campaign in the town were fierce. Mr. Saleh's army used light and heavy weaponry against outgunned but nimble al Qaeda units armed with rocket-propelled grenade launchers and mortars, according to local residents and security officials.

But as the fighting wore on through October, tribal loyalties be-



Yemeni soldiers man a checkpoint at the entrance of the province of Abyan in an Aug. 31 photo. The government has found it difficult to win support there.

gan to take precedence. As large-scale military bombardments gave way to smaller skirmishes in and around town, local tribal members and residents said that identifying who was fighting for the government and who for al Qaeda became difficult.

On Oct. 14, a gunman riding a motorcycle shot and killed the security director of Mudiayah, Abdullah al-Baham. The government blamed al Qaeda, which had released a list of government officials targeted for assassination that included Mr. Baham.

The governor of Abyan and his brother, members of the same tribe as Mr. Baham, rushed to Mudiayah to investigate. Gunmen then ambushed their multicar convoy en route, killing the governor's brother. Security officials with the governor failed to capture any militants at the scene.

Then members of the governor's tribe, the al Mai'asers, traveling in the convoy and living in the area, sprang into action. They pursued suspected attackers fleeing the scene to the crest of a neighboring mountain, according to Mohammed al-Nakhaei, the mayor of Mudiayah.

The governor's office alerted the military, who told the tribe that it launched airstrikes against the suspects, according to the mayor.

The tribe never recovered any bodies, and it is unclear if any of those who had fled the attack were killed. Tribal members said because of the inconclusiveness of the government response, they were forced to take matters into their own hands, and exact the normal tribal

blood price: the death of a suspected assassin or members of his tribe.

On Oct. 16, al Mai'aser members surrounded the home of a man they suspected was a key operative in the ambush. The Yemeni security official says the man is a known al Qaeda sympathizer who also works as an officer in a U.S.-trained counterterrorism special-forces unit deployed in Mudiayah. The military didn't return calls seeking comment.

A gunfight broke out and one of al Mai'aser's rivals was killed and at least six others injured, although not the suspect himself, according to local residents.

A day later, tribal elders intervened to mediate a truce, a discussion that involved local government officials and military personnel who were also members of the two tribes. By Oct. 28, in a deal brokered by the tribal mediation, 15 men had surrendered to the governor for their alleged role in the attack on his convoy.

Late Monday, the governor announced that the 15 men would be handed over to Yemen's security agency—a move that appears to break the tribal guarantees given to the men to surrender.

The governor's office didn't release the names of the 15 men or say whether they were al Qaeda members.

A website run by the Yemeni military identified the men as "leading al Qaeda members."

—Abdullah al-Qubati in Mudiayah, Yemen and Hakim al-Masmari in San'a contributed to this article.

## Bombs help U.S. defend against suit over cleric

By EVAN PEREZ

WASHINGTON—The latest bombing attempt from Yemen could strengthen the Obama administration's defense against a lawsuit challenging alleged government efforts to kill Yemeni-American cleric Anwar al Awlaki.

U.S. authorities say Mr. Awlaki, whose fiery Islamist sermons are popular on jihadist Internet forums, is a leader of al Qaeda in the Arabian Peninsula, the group authorities believe is behind last week's bombs.

U.S. officials say evidence indicates the packages were the work of bomb makers of AQAP. The group was earlier suspected of sending a Nigerian man to carry out the foiled bombing of a U.S. airliner last Christmas Day. U.S. authorities say Mr. Awlaki's role with AQAP is to encourage and sometimes help prepare plots against the U.S.

The AQAP tie to the latest bombing attempt appears to bolster the "imminent threat" arguments behind the Obama administration's targeting of Mr. Awlaki. He is believed to be among top terrorist leaders included in a secret U.S. targeted-killing program.

Next Monday, lawyers are set to make oral arguments in federal court in Washington in a lawsuit filed by U.S. civil-liberties groups representing the father of Mr. Awlaki, Nasser al Awlaki.

Part of the father's lawsuit turns on the question of whether the younger Mr. Awlaki, a U.S. citizen, is an imminent threat to the U.S.

Lawyers with the American Civil Liberties Union and the Center for Constitutional Rights, who represent the father, argue that the government shouldn't be allowed to carry out an extrajudicial killing of an American in Yemen, far from the main al Qaeda battlegrounds of Afghanistan and Pakistan.

The package-bomb attempt "bolsters the argument that there is a continuing and imminent threat," said Robert Chesney, a University of Texas law professor who served on a Justice Department task force on terror-detainee issues.

The government is seeking to have the lawsuit dismissed on the grounds that the father has no standing to sue. The civil-liberties groups say that the father would suffer a loss if his son is killed and thus has a right to bring the lawsuit.



Associated Press

Anwar al Awlaki is a leader of al Qaeda in the Arabian Peninsula.

## Source of tip-off on plot is named

By MARGARET COKER AND HAKIM AL-MASMARI

SAN'A, Yemen—The source of a tip that alerted security agencies around the world to the package-bomb plot late last week was Jabir al-Fayfi, a Saudi national and former Guantanamo Bay inmate, a Yemeni security official said Monday.

The tip-off has been heralded as a major intelligence coup. But the detainee's shifting loyalties to al Qaeda over the years also underscore the challenges in battling the group.

Mr. al-Fayfi was released from Guantanamo in late 2006 into Saudi custody and entered a Saudi re-education program designed to sway Islamic militants away from violence. He appears to have joined up with al Qaeda in Yemen in 2008.

His defection after the re-education program in Saudi Arabia, as well as that of other key Saudis now leading the ranks of the Yemeni branch of al Qaeda, raised questions about the effectiveness of the Saudi method in dealing with their home-grown jihadis. But now, Mr. al-Fayfi's alleged role in uncovering the package-bomb plot could boost international confidence in the Saudi tactics.

Instead of detention facilities like Guantanamo, Saudis employ religious scholars to persuade militants to forsake violence and offer generous social and job benefits to entice the men to settle into routine lives.

It isn't clear if Mr. al-Fayfi was a Saudi mole, working inside al Qaeda in the Arabian Peninsula, as the Yemeni branch of the group is known,

or whether he genuinely rejoined al Qaeda and then had second thoughts.

Saudi officials didn't return calls seeking comment. The Yemeni official didn't comment. Whatever the case, U.S. and Arab officials said that without the tip-off, it would have been very difficult to have intercepted the package bombs last week. U.S. and European officials were quick to credit Saudi Arabia with providing the intelligence tip-off.

Mr. al-Fayfi had been held in the Guantanamo Bay detention facility after being accused of training and fighting with al Qaeda at Tora Bora in Afghanistan against U.S. soldiers.

At Guantanamo, he denied being a member of al Qaeda or of ever shooting a weapon in Afghanistan. He passed a U.S. review of his be-

havior and was released into Saudi custody in early 2007.

It is unclear when exactly Mr. al-Fayfi left Saudi Arabia and returned to Yemen to join the ranks of al Qaeda there, or where he was based or living in Yemen.

Ahmed al-Zurqa, a Yemeni analyst and researcher specializing in al Qaeda in his country, said Mr. al-Fayfi's role in the Yemeni hierarchy was to train militants in urban warfare and on sniper skills.

In mid-September, jihadist websites circulated reports that Mr. al-Fayfi had been arrested in Yemen. On Oct. 16, Yemeni and Saudi authorities said Mr. al-Fayfi had struck a deal to surrender to the Saudis and return home. At the time of the announcement, officials said he had become homesick and wanted to reunite with his family.



WORLD NEWS

# China, India surge; rest of region lags

BY MICHAEL S. ARNOLD

SINGAPORE—Manufacturing in China and India continued to surge in October, bucking the trend in the rest of the Asia-Pacific region, where strong currencies and concerns over the health of the global economy are dragging down business sentiment.

The results should give heart to those who feared the engine of the global recovery was sputtering after Chinese manufacturing gauges dipped briefly into contractionary territory earlier this year.

But they also suggest the region's other economies can't count on China's growth to spur their own, with a growing portion of China's economic growth becoming domestically driven and with strengthening currencies pressuring other countries' exports' competitiveness.

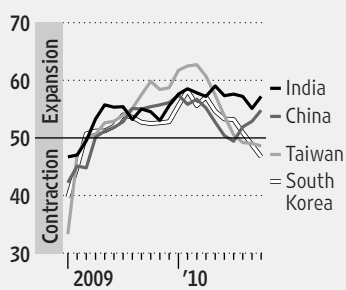
The strong reading in India also demonstrates how more-domestically driven economies are insulated from the uncertain recovery in the world's advanced economies.

The results contributed to a surge in Asian stock markets Monday. China's benchmark Shanghai Composite stock index jumped 2.5% and Hong Kong's benchmark index added 2.4%.

U.S. stocks rose in early afternoon trading on the news out of China as well as on a stronger-than-expected reading of U.S. October manufacturing activity from the Institute of Supply Management, but

### Diverging paths

Purchasing Managers' Index for selected Asian countries



Source: Markit

Electronic parts are inspected at a factory in Suining, China, on Monday.



then fell back. Late in the U.S. afternoon, the Dow Jones Industrial Average was down 37.54 points, or 0.3%. Oil prices rose on hopes a growing China would lift demand.

China's official purchasing managers' index rose to 54.7 in October from 53.8 a month earlier, the China Federation of Logistics and Purchasing said Monday. A PMI reading above 50 indicates an expansion, while a reading below 50 signals contraction.

Meanwhile, a China PMI produced by HSBC Bank rose to 54.8 from 52.9, one of the largest month-to-month rises since the bank began issuing the data in 2004.

Glenn Maguire, Société Générale's chief economist for the

Asia-Pacific region, said China's strength should continue to flow through to the rest of the region but warned that the knock-on effects might not be as strong as in the past.

"The last upswing we saw in PMIs, in 2009, was largely driven by production due to China's massive infrastructure and investment package: The strong pickup in China PMIs corresponded nicely with strong exports from Australia, Taiwan, South Korea, Brazil—economies leveraged off the China growth model," Mr. Maguire said.

"The recovery now is perhaps being driven more by developments that have been sourced domestically, so there's not the same call on the rest

of Asia."

In India, the October HSBC PMI rose to 57.2 from 55.1. Output was driven by new orders and export demand, but the pace of expansion in new orders remained muted compared with that in the initial months of 2010. Export orders rose at their weakest pace since November 2009.

Outstanding orders rose, suggesting pressure on production capacity continued, the survey said. A pile-up of unfinished orders helped add staff in October, marking a reversal of shrinking employment in the three months before October. Meanwhile, input-price inflation across the manufacturing industry, measuring items such as raw materials, rose in October.

Société Générale's Mr. Maguire said much of the weakness in the numbers excluding China reflected soaring currencies that have hurt local exporters. "Rightly or wrongly, these economies' manufacturers are acutely sensitive to the exchange rate, and in thin-margin businesses, it tends to be the be-all and end-all of considerations," he said.

But he predicted brighter skies ahead. "It's important to remember that the infrastructure programs announced [by the Chinese government] in November 2008 are still occurring and are still flowing through to the world's commodity exporters and capital-goods producers," he said.

In export-reliant Taiwan, HSBC's PMI fell to 48.6 from 49.0, the third-straight contraction, as new orders continued to slow. The South Korea PMI fell to 46.75 from 48.81, declining for a sixth straight month.

"The global-restocking bounce has finally come to an end, and Korea is feeling the chill," said Song Yi Kim, an economist at HSBC Asia.

Australia's manufacturing sector contracted as well, hurt by labor shortages and a strong currency, though the pace of decline slowed.

The Australian Industry Group-PricewaterhouseCoopers Australian Performance of Manufacturing Index remained contractionary at 49.4 but was up 2.1 points from a month earlier.

—Aaron Back in Beijing, In-Soo Nam in Seoul and Aries Poon in Taiwan contributed to this article.

## 52 killed in Iraq church

A Wall Street Journal Roundup

BAGHDAD—Iraqi security forces stormed a Baghdad church where militants had taken an entire congregation hostage for four hours, leaving more than 50 people dead, including a priest, Iraqi officials said Monday.

It wasn't immediately clear whether the hostages died at the hands of the attackers or during the rescue late Sunday night in an affluent neighborhood of the capital.

The incident began at dusk Sunday when militants wearing suicide vests and armed with grenades attacked the Iraqi stock exchange before capturing the nearby Our Lady of Deliverance church, one of Baghdad's main Catholic places of worship, taking about 120 Christians hostage.

Maj. Gen. Hussein Ali Kamal, the deputy interior minister, said 52 people were killed and 67 wounded. Officials said at least one priest and 10 policemen were among the dead. Many of the wounded were women.

The attack, while not the bloodiest in recent months, has drawn special attention because of the high death toll to Iraq's small and dwindling Christian population. One Christian lawmaker put the Christian death toll—including worshippers and Church workers—at 25.

Prime Minister Nouri al-Maliki condemned the attack Monday, saying it was an attempt to drive more Christians out of the country. Pope Benedict XVI denounced the assault as "ferocious" and called for renewed international efforts to broker peace in the region.

Christians have been subjected to years of intimidation in Iraq, but



Men tie up a coffin of a victim from the attack at a church in Baghdad.

Sunday's attack during evening worship resonated widely among Iraq's mostly Muslim population, hardened to nearly weekly reports of deadly bombings that have punctuated the country.

Security services reported that most of the casualties occurred when the assailants detonated explosive vests inside the church. Eventually, Iraqi security forces stormed the church, taking casualties themselves. It was unclear how many hostages inside the church were killed in the rescue operation, and the extent of U.S. assistance. Despite an Aug. 31 official end to U.S. combat operations, U.S. troops have assisted and participated in a number of antiterror operations.

A Christian member of parliament on Monday described the Iraqi rescue operation as "not professional," saying "it was a hasty action that prompted the terrorists to kill the worshippers." A cryptically

worded statement posted late Sunday on a militant website allegedly by the Islamic State of Iraq, appeared to claim responsibility for the attack. The group, which is linked to al Qaeda in Iraq, said it would "exterminate Iraqi Christians" if Muslim women in Iraq weren't freed.

An al-Qaeda linked organization claimed responsibility for the attack, according to the Associated Press.

"We have no clear picture yet whether the worshippers were killed by the security forces bullets or by terrorists, but what we know is that most of them were killed when the security forces started to storm the church," Younadem Kana said.

Video footage from an American drone that was overhead during the attack showed a black plume of smoke followed by flashes from inside the building before what appears to be soldiers going in.

## CLASSICAL DEWITT AUDACITY



EVERY DEWITT IS BUILT BY A DEDICATED MASTER HOROLOGIST AND EACH INCLUDES AN AUDACIOUS TWIST ON THE CLASSICAL WATCHMAKERS ART.

WWW.DEWITT.CH



## WORLD NEWS

# Clinton presses Cambodia on China

By JAY SOLOMON

PHNOM PENH—U.S. Secretary of State Hillary Clinton pressed Cambodia to remain independent of China on economic and environmental issues, as she continued a pan-Asian tour aimed at expanding Washington's diplomatic influence in the region.

Mrs. Clinton told Cambodian officials Monday that the Obama administration is willing to explore new mechanisms through which to retire nearly \$450 million in debt accrued by Phnom Penh's Vietnam War-era government.

Mrs. Clinton also told Prime Minister Hun Sen's government that she will seek to raise more funding for a United Nations-backed tribunal set to try leaders of the Khmer Rouge government that committed genocide in Cambodia during its 1975-1979 reign.

The U.N.-supported court is scheduled to begin prosecuting four of the Khmer Rouge's most senior officials early next year, but financing shortfalls and squabbles over the selection of judges have hobbled the process. To date, Washington has provided \$5 million to the tribunal.

"We are committed to help Cambodia hold accountable those senior Khmer Rouge leaders most responsible for atrocities," Mrs. Clinton said at a news conference with her Cambodian counterpart, Hor Namhong. "And I want to urge the Cambodian government to offer its full support to the Tribunal."

Cambodia marks the third country stop on the Mrs. Clinton's seven-nation Asia-Pacific tour, which is aimed at enhancing the nation's presence in a region increasingly un-



Secretary of State Clinton views victims of the Khmer Rouge at Phnom Penh's Tuol Sleng Genocide Museum on Monday.

der the influence of China's economy and military.

On Saturday, Mrs. Clinton attended a regional conference in Vietnam that was dominated by China's festering maritime disputes with Japan and a number of Southeast Asian countries. The U.S.'s top diplomat urged the attendees of the East Asia Summit to establish an international legal process through which to mediate these disputes, drawing the ire of Beijing, which views all of the South China Sea as sovereign Chinese territory.

U.S. officials privately worry that Cambodia is one of the Southeast Asian nations most under Beijing's sway. China is among Phnom Penh's largest single aid donors, and Chinese firms dominate Cambodia's in-

rastructure sector. Prime Minister Hun Sen has often sided with Beijing on key regional security issues.

On Monday, Mrs. Clinton attended a town-hall meeting with Cambodian students in Phnom Penh and was asked her view on the Hun Sen government's relationship with China. She said the U.S. encouraged strong relations between Phnom Penh and Beijing but believed Cambodia should hew to an independent foreign policy.

"It's up to your government and your people to determine your own relationships with other countries," Mrs. Clinton told the gathering of 700 students and representatives of nongovernmental organizations. "But I think it's smart for Cambodia to be friends with many countries. Look for

balance. You don't want to become too dependent on any one country."

Mrs. Clinton also said Phnom Penh should hold discussions with Beijing to address concerns that Chinese policies are disrupting Cambodia's economic development and harming its environment. She specifically cited China's damming of the upper Mekong River and its impact on Cambodian agriculture.

Mr. Hor Namhong, the Cambodian foreign minister, declined to comment on China-Cambodia relations during the news conference.

Mrs. Clinton also said Monday that the Obama administration hoped the Cambodian government would allow the office of the U.N. High Commissioner for Human Rights to remain opened. Mr. Hun

Sen's government has indicated it might close the office after disagreements with its chief representative in Phnom Penh, Christophe Peschoux.

Mr. Hor Namhong, however, said during the news conference that no decision had been made.

Meanwhile, regional fallout continued from China's diplomatic rows with Japan and some Southeast Asian countries over territorial and resource issues. Saturday, the Japanese and Vietnamese governments said they would jointly seek to explore and extract rare-earth minerals used in producing flat-screen televisions, computers, and hybrid cars, following concerns about China's role as a reliable supplier.

China produces roughly 95% of the world's supply. But Japanese companies have reported disruptions in purchases of the materials since a dispute between Beijing and Tokyo broke out last month over jointly claimed islands in the East China Sea.

"Vietnam has decided to have Japan as a partner for exploration, mining, development, and separation and production of rare-earth minerals in the country," Vietnam's and Japan's prime ministers said Saturday after bilateral talks.

Vietnamese Prime Minister Nguyen Tan Dung also announced at a closing ceremony of the East Asia Summit on Saturday that his government would reopen the Cam Ranh Bay port facility in southern Vietnam to foreign navies. The U.S. military used the port as a base during the Vietnam War. And the Russian navy used the facility following the unification of Vietnam under communist rule in 1975.

## Java eruptions hurt relief work Pakistani wheat plan hit

By PATRICK BARTA  
AND YAYU YUNIAR

Aid workers responding to one of Indonesia's latest natural disasters are gearing up for a longer-than-expected relief effort, as they grapple with a volatile volcano that experts say may stay active for weeks.

Mount Merapi on the Indonesian island of Java erupted again on Monday, after killing 38 people in a series of earlier explosions starting last Tuesday. Most residents have been evacuated from the area, and there were no immediate reports of casualties from the latest blast. But the severity of Monday's explosions—which sent ash and debris around six kilometers from the volcano's top—underscores fears that authorities will have to keep residents away from their homes indefinitely, leaving as many as 69,000 displaced people scattered across central Java, many in temporary camps.

Some of those camps have as few as five toilets per 1,000 residents, aid workers say. Meanwhile, government soldiers are scrambling to prevent farmers from going home to check on their crops and livestock—a task that will likely become harder as residents' anxiety over the state of their property grows.

The worries at Merapi come as aid workers are struggling to deliver aid to the Mentawai islands, a remote chain off the coast of Indonesian Sumatra that was hit hard by a tsunami last Monday. The deadly wave triggered by a 7.7-magnitude



Indonesian residents flee from a risky area on Monday as the Merapi volcano releases ash clouds in Balerante village.

earthquake killed 450 people; fewer than 100 are still missing. Many families remain homeless or lack adequate medical care.

Indonesian disaster-management officials have developed extensive response plans for the disaster-plagued country in recent years, especially following the December 2004 tsunami that killed more than 226,000 people across Asia.

The latest disasters have presented unique challenges. The Mentawai islands are about 12 hours from Sumatra on a normal day, and recent bad weather has delayed aid deliveries. The Merapi eruptions, meanwhile, could continue for longer than anticipated, stretching government resources.

"The government is still building its capacity" when it comes to re-

sponding to volcanic eruptions, says Wayne Ulrich, a disaster-management delegate with the International Federation of Red Cross and Red Crescent Societies. Although aid efforts have been well-organized at Merapi so far, he says, it is unlikely the government would have planned for so many displaced people.

Andi Arief, a special staff aide to President Susilo Bambang Yudhoyono on disaster management, said he considered the Merapi response to be "well organized" so far.

"A volcano is not a sprint game, it is a marathon game. We have to be ready for a long and uncertain" period of eruptions, he said, adding, "we don't know for sure when people can return home. It is up to the mountain."

By TOM WRIGHT

ISLAMABAD, Pakistan—Pakistan's most-populous province wants to export wheat just a few months after deadly flooding, sparking criticism from some aid groups that say the food situation remains too precarious to support the diversion of wheat overseas.

Agriculture officials in Punjab province, on Pakistan's eastern border with India, wrote the federal government last week to seek permission to export wheat, citing excess stockpiles.

Despite the massive flooding, which killed almost 2,000 people, affected 20 million others and inundated 10% of agricultural land, Punjab officials said supply of wheat, the nation's staple food, was largely unaffected as the annual planting season is only just beginning.

Other crops, like sugarcane and cotton, bore the brunt of the flooding, which hit the country in July and August.

Punjab, which produces three quarters of the nation's annual average 22 million metric tons of wheat output, is sitting on stocks of 6.1 million tons and fears a severe drop in prices come harvest time in April, said Irfan Elahi, the provincial secretary for food production.

"Pakistan will not have a shortage," said Mr. Elahi, who sent the letter requesting the government lift restrictions on wheat exports.

An official at the Agriculture Ministry in Islamabad, the federal capital, acknowledged receiving the

request but said the government has yet to make a decision.

Some aid groups working in the flood-hit areas of Punjab, Sindh and Khyber-Pakhtunkhwa provinces say it is too early to talk about exports until the impact of the floods on the harvest is clearer.

"It's premature to be talking about exports. Punjab is the food basket. This could have major implications for food security for Pakistan," said Fatima Naqvi, an agricultural expert with Oxfam International, the U.K.-based charity.

The government has come under fire for a perceived slow response to the floods. Now, some aid groups say officials have been too quick to say additional emergency relief isn't needed.

Some farm areas in southern Punjab look like colossal sand dunes have been dumped on them, and can't be planted with wheat, said Aftab Alam Khan, regional agriculture coordinator for U.K.-based ActionAid International, which also opposes wheat exports.

"We have a good surplus of stored wheat at the moment. But this time we fear there will be less wheat production," Mr. Khan said.

Farmers in Punjab and Khyber-Pakhtunkhwa, in the northwest, have only this week begun sowing this year's wheat crop.

In Sindh, Pakistan's southernmost province, the planting season began two weeks ago, but was delayed in some areas due to still-high water levels.