



## Merkel bomb scare as devices go off at Athens embassies

EUROPE NEWS 4

## Dudley warns of smaller dividends as BP goes lean

BUSINESS & FINANCE 21

# THE WALL STREET JOURNAL.

VOL. XXVIII NO. 194

EUROPE

Wednesday, November 3, 2010

DOW JONES  
A NEWS CORPORATION COMPANY

europe.WSJ.com

### U.K. and France announce new Entente Cordiale



European Pressphoto Agency

British Prime Minister David Cameron, right, and French President Nicolas Sarkozy shake hands after announcing new treaties promising greater military cooperation. **Articles on pages 2 and 4.**

# Republicans hope to ride gains to 2012

By LAURA MECKLER AND JONATHAN WEISMAN



- Republicans make clean break from Bush years .....6
- Big Read: Tea party rebels take center stage .....16
- Updates and state-by-state results graphics at WSJ.com/campaign2010

WASHINGTON—Republicans were on the verge Tuesday of capturing the House of Representatives and making deep inroads into the Democrats' Senate majority following months of voter discontent over the economy and government policy.

At the halfway point in President Barack Obama's term, as voters went to the polls across the country, even Democrats feared they would be dealt a sizable, possibly history-making rebuke.

Energized Republicans, fueled by a conservative tea-party movement and polling that showed the party ahead of Democrats, were looking for gains across the country, the only question being how high the so-called Republican Wave would go. GOP candidates are hoping to surf that wave into 2012's presidential

election and are already lining up for a campaign that will start virtually the moment the polls close.

"This is going to be a big day," House Republican leader John Boehner said after voting at a church near his West Chester, Ohio, home. Mr. Boehner is likely to become speaker of the House if Republicans win control of the chamber. He said that, for voters who want to reduce government spending, "this is their opportunity to be heard."

Mr. Obama closed out his

campaigning today by phoning in to radio shows that reach African-American and young voters. Mr. Obama also scheduled a news conference for Wednesday, during which he is expected to signal where his administration heads post-election.

"It is time to get out the vote," he told talk radio host Michael Baisden. "My name may not be on the ballot, but the future of the country in terms of us being able to move forward, create jobs, grow the economy, make sure young people get a good education, all that is going to be dependent on me having some folks in Congress who are ready and willing to cooperate."

In the House, Republicans need to increase the seats they hold by 39 to regain control of the chamber. That number once seemed insurmountable. Now, with 100

Please turn to page 6

### The Quirk



Getting these cyclists to use helmets is like tilting at windmills. Page 33

### World Watch

A comprehensive rundown of news from around the world. Pages 34-35

### Editorial & Opinion

Awlaki and the other terrorists that got away. Page 15

## Australia, India raise rates to fight inflation

India and Australia raised interest rates Tuesday to fight inflationary pressure, underscoring the delicate balancing act Asia's fast-growing economies face as the U.S. Federal

By Subhadip Sircar in New Delhi and Enda Curran in Sydney

Reserve is expected to add to the global money supply.

India's move to tighten monetary policy was expected amid rising food prices and a surge in economic growth driven by rising domestic demand.

Australia's move—which surprised markets, sending its currency soaring to a 27-year

high against the U.S. dollar—was the result in part of a China-driven mining boom that has boosted sales of its iron ore, coal and other minerals.

The actions come as central bankers in the U.S. and Japan move in the opposite direction, trying to jump-start their sluggish economies. Short-term interest rates are near zero in both countries and likely to remain there for a long time.

On Wednesday, at the end of a two-day meeting, the U.S. Federal Reserve is expected to announce a plan to print hundreds of billions of dollars to buy long-term U.S. Treasury debt, injecting more money into the economy in an effort

to push down long-term interest rates and push money into riskier assets, such as stocks.

That stance is prompting global investors to shift money to emerging markets with higher interest rates and more robust growth, a development that is pushing up their currencies and assets markets and prompting warnings of incipient bubbles.

India's and Australia's central bank moves follow China and Singapore, which also tightened policy in recent weeks.

Others in the region, such as South Korea and New Zealand, have postponed rate increases after earlier moves amid uncertainty over the

Please turn to page 8

DESIGNED FOR PERFORMANCE. ENGINEERED FOR ELEGANCE.



TIMING PARTNER  
PORSCHE  
MOTORSPORT



TUDOR  
TUDORWATCH.COM

Bahrain BD 1.50 - Egypt \$17.75 (CIV)  
Jordan JD 2 - Kuwait KD 1 - Oman OR 2  
Qatar QR 4 - Saudi Arabia SR 14

THE WALL STREET JOURNAL.

4.4  
9 7792 19 9869 3

## PAGE TWO

# Entente Frugal: there has to be more to defense policy than saving money

## [ Agenda ]

By IAIN MARTIN



When David Cameron and Nicolas Sarkozy marked the signing of their new defense

partnership with a celebratory lunch on Tuesday, the roast beef was British and the red wine was French. Thank goodness it wasn't the other way round—a full-blown diplomatic incident, if not an exchange of fire, could have been the result. Downing Street officials were reluctant to reveal the precise vintage or exact provenance of the wine, but this being the age of austerity it is safe to presume that it wasn't Château Margaux 1989.

These are difficult times for Britain and France. The two old powers have plenty of experience of the long withdrawal from empire and the diminution that comes with postimperial status.

Both now have aging populations, with sky-high social costs attached, and are under pressure to control spending.

But they are still the two largest military powers in Europe, accounting for almost 50% of defense spending in the EU. The pair wants to continue to project a degree of power. The British want to be serious players, even if their ambitions are being scaled back substantially compared with what they were a few years ago under Tony Blair.

In such circumstances, working together and constructing what the Daily Mail in London termed "The Entente Frugal" makes a good deal of practical sense and is welcome.

Britain and France retain operational independence but the framework for a combined Joint Expeditionary Force will be created, which could potentially



A computer-generated image of the future design of U.K. aircraft carriers.

involve up to 5,000 troops from either side if required. That's tiny, when one considers that the British deployed more than 40,000 troops to the war in Iraq. But the agreement is just a start, according to Prime Minister Cameron.

There will be shared use of aircraft carriers, with vessels adapted to ensure both countries can use them. On other issues such as security, nuclear safety, nuclear testing and cyberwarfare,

**Almost everyone involved seems convinced they are getting something different out of these arrangements.**

there will also be much increased cooperation.

In Britain there was inevitable concern as the agreements were signed. Bernard Jenkin, a Tory MP, questioned the deal and said that history proved the French could be duplicitous. There are those on the French side of the channel who think the charge applies equally to Britain.

Would the British contemplate the famed SAS operating under French command? Cue outrage,

until it becomes clear that those elite forces, along with the rest of their colleagues, have long operated under a variety of commands in Afghanistan and elsewhere. Said a senior Ministry of Defence source in London: "It's rubbish. Do people think that when we were in the Balkans with NATO that we didn't have any British special forces there? Of course we did. We fight alongside our partners and under NATO command, but we retain our independent capability."

In the case of aircraft carriers, it's substantially less clear-cut. Thanks to deep defense cuts, for almost 10 years the British will have a carrier, but no planes to fly from it. The French have their own problems, with the country's sole aircraft carrier requiring lengthy periods of maintenance.

Now the two countries will be able to patch together what President Sarkozy termed "fully integrated aircraft carrier capability." That all sounds fine, as long as both countries agree to a particular deployment. Mr. Sarkozy said that it is impossible to imagine a scenario in which Britain and France's interests do not coincide. Both would support the use of the "shared" carriers. Really? That wasn't true in relation to Iraq, and it is

impossible to know what different governments on either side of the channel might make of a particular future threat or international crisis.

And that is where it is worth adding a note of caution amid all the cross-channel bonhomie. Almost everyone involved seems convinced they are getting something different out of these arrangements.

For a domestic audience, Mr. Sarkozy gets proof that his return last year to NATO's military command after a 40-year de Gaulle-orchestrated huff is paying dividends. He has pulled Britain a few steps further away from the United States

Mr. Cameron can save money, suggest his defense cuts have a strategic logic because of this increased cooperation and prove to his Europhile coalition partners, the Liberal Democrats, that he is working with partners in Europe.

Euroskeptics, such as the U.K. Defence Secretary Liam Fox, are pleased that this is an agreement made direct between the two countries. They hope it distracts France from pursuing military co-operation at an EU level.

Yet, truly great partnerships that work and endure—such as NATO, or the Western alliance in the 1940s from which it grew—have at their heart a set of values or a determination to achieve a particular goal. Ideally, it is both. In these terms, defense co-operation is only the most obvious expression of a sustained and much deeper shared commitment.

Mr. Cameron spoke of the pragmatic, hard-headed pursuit of the national interest. That is fine as a formula, as far as it goes. But it has its limitations. Britain and France want to work together on defense to achieve what—and to counter which potential threat—beyond pooling some of their costs? Rather worryingly, neither ally seems to know.

## What's News

■ **Spain's BBVA** said it will spend close to \$6 billion for a stake in a Turkish bank, citing the strong growth prospects of an economy that has been booming. But the bet on Garanti Bankasi isn't without risk, analysts say. 21, 36

■ **Europe's sovereign-debt** crisis is flaring up again, driving up borrowing costs of weaker nations like Ireland and Greece and fueling fears of debt restructurings. 4

■ **Lloyds made a profit** in the third quarter, positioning the lender, 41%-owned by the British government, to end the year in the black. 22

■ **Jürgen Mettpenningen** resigned as the top spokesman for the Catholic Church in Belgium to protest recent comments by Archbishop Andre-Joseph Leonard. 5

■ **A spat between Japan and Russia** intensified as Tokyo said it would call home its ambassador, after Medvedev visited a disputed island. 5

## Inside



New surgery to keep away frightening asthma attacks. 31



White-collar boxing is coming back to New York. 32

## ONLINE TODAY

### Most read in Europe



1. A Dream House in Carmel
2. In Quest for 'Legal High,' Chemists Outfox Law
3. Google Reposts Banned Videos
4. U.K. Pays Price to Save Euro
5. Videogames as Free-Speech Issue

### Most emailed in Europe

1. A Dream House in Carmel
2. U.K. Pays Price to Save Euro
3. A Hedge-Fund Manager's New Groove
4. In Quest for 'Legal High,' Chemists Outfox Law
5. Dutch Cyclists Resist Helmets

### The Source

blogs.wsj.com/source

'Higher asset prices make people feel wealthier. The wealthier they feel, the more they spend.'

**Alan Mattich** on whether quantitative easing's wealth effect will really work



### Continuing coverage



Follow the latest on the U.S. midterm elections at [wsj.com/campaign2010](http://wsj.com/campaign2010)

### Question of the day

**Vote and discuss:** Did investors bid up shares too much in anticipation of this week's election and Fed announcement?

Vote online today at [wsj.com/polls](http://wsj.com/polls)

### Previous results

**Q:** Japan or Russia: Which has the stronger claim on the disputed islands?

Russia

39%

Japan

61%

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 N.V. 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 Teletampa 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 Basinevi.

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

# Jailed Russian tycoon closes case

Associated Press

MOSCOW—Imprisoned oil tycoon Mikhail Khodorkovsky gave an impassioned final address to a Moscow court on Tuesday, telling the judge that the fate of the nation rests on the verdict he is to issue by the end of the year.

In his last words to the court before proceedings were adjourned until Dec. 15, Mr. Khodorkovsky said he was ready to spend the rest of his life in prison, insisting that the principles he believed in were "worth my life."

Mr. Khodorkovsky, 47 years old, was Russia's richest man and the owner of its largest and fastest-growing oil company when he was arrested in 2003 on charges of tax evasion. The eight-year sentence he received and the state's takeover of his Yukos oil company were widely seen as punishment for his decision to challenge the authority of the Russian leader, Vladimir Putin.

He is now a year from release but is being tried on a second raft of charges that could keep him behind bars until 2017.

"Here and now, the fate of every citizen of our country is being decided," Mr. Khodorkovsky, dressed in a black polo shirt and worn-out black suede jacket, said to Judge Viktor Danilkin.

He asked the judge to think of people all over the country who "are not counting on becoming victims of police lawlessness, who have set up a business, built a house, achieved success and want to pass it on to their children, not to raiders in epaulets."

Before his arrest, the oil tycoon financed opposition parties, which gave him clout in parliament and the power to oppose Kremlin legislation. He pursued his own energy policies independent of the Kremlin and at the time of his arrest was on the verge of selling a chunk of Yukos to a major Western oil company.

Mr. Khodorkovsky's imprisonment heralded Mr. Putin's determination to reassert Kremlin control over politics and the economy, in particular Russia's energy sector. Yukos was largely absorbed by state oil company Rosneft, which is controlled by one of Mr. Putin's closest



Mikhail Khodorkovsky, left, and Platon Lebedev in a Moscow court Tuesday.

lieutenants.

Other wealthy businessmen quickly learned the new rules of the game, though one of the few billionaires who stayed in politics, Alexander Lebedev, came under pressure Tuesday when masked Moscow city policemen raided his National Reserve Bank.

Mr. Lebedev, who owns two major British newspapers, is the financial backer of a Russian opposition paper, but he isn't known to be in conflict with the Kremlin. His fiercest political and business rival in recent years has been Yuri Luzhkov, the Moscow mayor who was ousted in September.

Raids on offices in which computers and documents are seized are commonplace in Russia, and in many cases corrupt police officers are said to act on behalf of rival businesses.

Mr. Khodorkovsky and his business partner Platon Lebedev are accused of stealing more than 218 million tons of oil—valued at some \$27 billion—produced by Yukos from 1998 to 2003.

Prosecutors accused them of stealing the oil from Yukos' own production units and then selling the oil abroad at higher prices. The defense called the charges ridiculous, arguing that prosecutors didn't understand the oil business, including the payment of transit fees and export duties.

Mr. Khodorkovsky told Judge Danilkin on Tuesday that he held the fate of more than two people in his hands.

"This is not about me and Platon, or at least not only about us. It is about hope for many citizens of Russia. About hope that tomorrow the court will be able to protect their rights," he said.



3 subsidiaries  
5 expansion plans  
2 strategic options  
One Credit Suisse  
to guide you

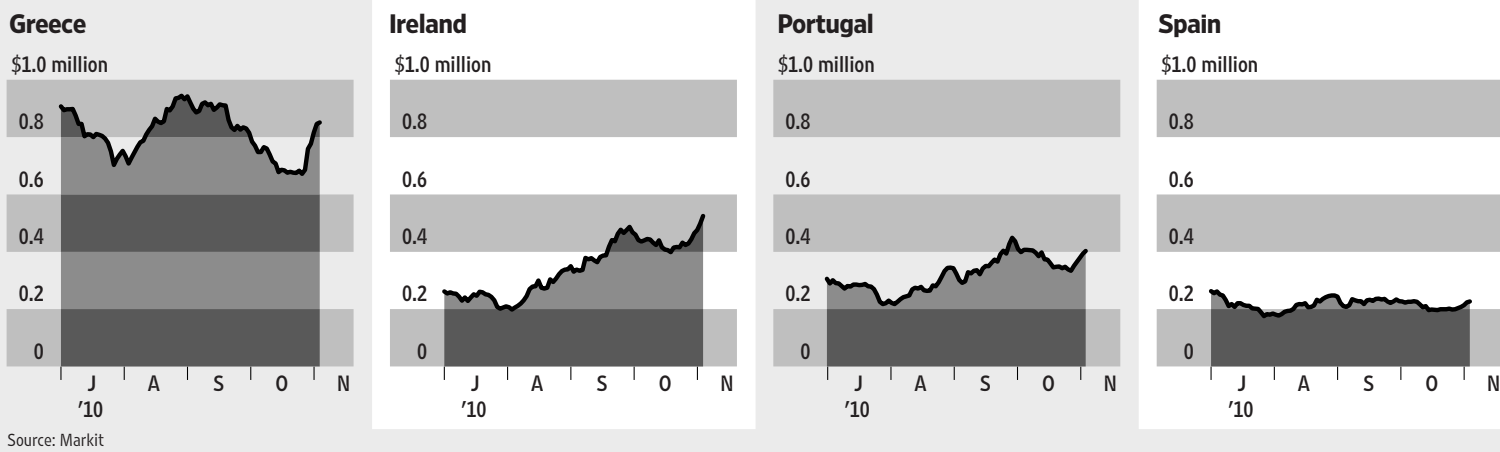
People are not like numbers. They have opinions, goals, passions, and ambitions. That's why we strive to see beyond the financial targets and understand what success means to our clients. We can then deliver what really matters. And ensure our client's voice is never just another opinion. Credit Suisse, working to help its clients thrive since 1856.

[credit-suisse.com](http://credit-suisse.com)

CREDIT SUISSE 

## EUROPE NEWS

## Warning signs | Annual cost of insuring \$10 million of government bonds against default for five years



## Europe's debt worries return

BY NEIL SHAH  
AND DAVE KANSAS

Borrowing costs of weaker euro-zone countries like Ireland and Greece are rising again as fears grow of debt restructurings that could saddle global investors with hefty losses.

Several factors are contributing to the misery of bond markets in countries on the geographic periphery of the 16-nation euro bloc. Ireland's bank bailout is getting ever more costly, and it now looks like taxpayers may have to take control of another large bank. Officials in heavily indebted Greece are talking more openly about potential debt restructuring, and Portugal's political opponents have had a tough time hammering out a convincing budget compromise.

Their struggles contrast with recovery in some of Europe's larger economies. Germany has reported a string of strong economic figures and its stock market closed Tuesday at its highest point in more than 28 months. Outside the euro zone, the U.K. recently reported stronger-than-expected preliminary third-quarter growth figures.

Investors intensified their focus on the economic fringe of the euro zone in part after European Union leaders late last week debated a permanent post-2013 emergency bailout system that could force gov-

ernment bondholders to take losses in future Greek-style rescues. The Germans, along with France, back that approach, but there's no agreement yet on a plan that would replace the current €750 billion (\$1.04 trillion) government bailout fund whose mandate expires in 2013.

European officials said there is no unanimity among governments on the tougher post-2013 proposal. Officials said Jean-Claude Trichet, president of the European Central Bank, made clear during the summit his own misgivings about the idea, saying it could unsettle already jittery bond markets and increase borrowing costs for ailing governments at a difficult time. An ECB spokeswoman declined to comment.

The unresolved EU debate, along with the more local problems in Ireland, Greece and Portugal, have pushed euro-zone borrowing costs sharply higher in the past week. According to data provider Markit, the cost to insure \$10 million in Irish government debt for five years has risen to a record \$525,000 a year, up \$27,000 on Tuesday alone. By comparison, Greek insurance is \$851,000. Portugal is at \$403,000 and Spain is at \$227,000. Those costs also rose Tuesday.

To borrow money for 10 years, Ireland would probably have to pay investors an interest rate of 7.42%, based on market prices, a premium of 4.95 percentage points over Euro-

pean benchmark Germany, and more than one percentage point higher than a week ago, according to Thomson Reuters. But it doesn't need cash soon: The government is fully funded to the middle of next year and has more than €20 billion in liquid reserves.

Greek 10-year bonds yield 10.94%, or 8.47 percentage points more than similar German debt, and the gap, or spread, has widened 1.2 percentage points in just one week. Portugal and Spain have seen similar, albeit smaller, widening of spreads in the past week.

Yield premiums did narrow modestly toward the end of Tuesday's European trading day on talk that the European Central Bank was buying Irish government bonds.

"This issue is far from over," says Jamie Stuttard, head of European and U.K. fixed income at Schroders PLC, which manages some £164 billion (\$263 billion) in assets. "The burden of 'bailer-out of last resort' is shifting from German taxpayers to holders of debt."

There are some signs of hope on the economic front. On Tuesday, Markit reported that euro-zone manufacturing output in October accelerated, with even laggards Spain and Ireland returning to expansion, though Greece was still mired in recession. Still, the manufacturing gains were driven by a solid pickup in Germany, Europe's biggest econ-

omy.

In Ireland, consumer sentiment for October fell to its lowest level in 17 months, separate data showed, as the country braces for large budget cuts aimed at tackling the nation's soaring deficit, which at an estimated 32% of gross domestic product this year is by far the highest in euro-zone history. Eurostat, the European Union statistics agency, is likely to revise Greece's budget deficit for last year even higher from the current estimate of 15% of GDP.

While Greek yields remain the highest, Ireland is fast catching up. The nation's bank bailout is now estimated at €50 billion in a worst-case scenario. On Monday, **Allied Irish Banks PLC** put the proposed sale of its U.K. business on ice, due to insufficient interest from buyers, making it more likely the Irish taxpayer will end up owning the bank. Taxpayers already own **Anglo Irish Bank Corp. PLC**.

In addition, an Irish newspaper article last weekend revived talk of Ireland eventually needing assistance from the International Monetary Fund.

Ireland-based banks are growing more reliant on emergency funding from the European Central Bank, recent data show.

—*Quentin Fottrell, Nicholas Winning, Frances Robinson and Mark Brown contributed to this article.*

## U.K. pact with France is praised by leaders

BY LAURENCE NORMAN  
AND WILLIAM HOROBIN

LONDON—British Prime Minister David Cameron hailed the opening of a new chapter in U.K.-French defense and security cooperation as the two governments signed treaties aimed at deepening military and nuclear coordination.

In a news conference alongside France's President Nicolas Sarkozy in London on Tuesday, Mr. Cameron said the new level of cooperation between the two countries will be "big, bold and radical."

"Today we open a new chapter in a long history of cooperation on defense and security between Britain and France," he said. Mr. Sarkozy said the agreement is "unprecedented and shows a level of trust never equaled in our history."

The agreements signed range from nuclear testing to the sharing of aircraft carriers and the potential deployment of a joint expeditionary force. Mr. Cameron said the treaties won't affect either country's independent nuclear deterrent or lead to a European army, but that cooperation in the nuclear field could save Britain and France "millions" at a time of tight domestic budgets.

Under the accords, the two countries announced 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 to build testing technology. The agreements also said the two countries will develop a combined expeditionary force "for a wide range of scenarios, up to and including high-intensity operations."

The U.K. will adapt the new aircraft carriers it is building to allow French aircraft to use them. The two countries will aim to have, by the early part of next decade, "the ability to deploy a U.K.-French integrated carrier strike group."

On the European A400M military-transport aircraft, the two governments said they are "in the final stages of negotiations with industry to agree a single contract with Airbus Military" that could see integrated support in place for the arrival of the first French A400M in 2013.

The two governments also said they had reached a 10-year strategic plan for the U.K. and French complex-weapons sector, where the two sides "will work towards a single European prime contractor" and generate efficiency savings of up to 30%. Mr. Cameron insisted the close coordination between the two countries is something that the U.S. will warmly welcome.

Asked about a recent attempted terrorist attack involving explosives placed on cargo planes, originating in Yemen, Mr. Cameron said the U.K. is "already at a level where we believe attacks are likely." Alongside Britain's economic challenges, the terrorism threat is "the issue I'm confronting every day in this job," he said. Mr. Sarkozy said the terrorism threat was very serious. "Our vigilance is total, we are working with allies on an hour-by-hour basis," he said.

## Package sent to Merkel is disarmed

Associated Press

BERLIN—German police disarmed a potentially harmful package from Greece at German Chancellor Angela Merkel's office Tuesday, hours after similar small mail bombs exploded outside the Russian and Swiss embassies in Athens in attacks blamed on Greek far-left extremists.

Greek police destroyed at least three more suspected bombs in Athens, and two local men have been charged with mailing bombs.

Ms. Merkel's spokesman said the package, intercepted in the mailroom of her office, was personally addressed to the German chancellor and "would have been able to harm people."

Steffen Seibert said police were able to disarm the package that arrived at the chancellery midday Tuesday. He declined to give further details. A German official said the package came from Greece.

Late Tuesday, Greek authorities



Ms. Merkel arrives at the chancellery Tuesday after the bomb was disarmed.

charged two local men with terrorist acts in connection with the wave of mail bombs in Greece. Court officials said the suspects, whose names weren't released, were

charged with belonging to a terrorist group, acts of terrorism and causing explosions that endangered human lives. The men, both in their twenties, were arrested Monday.

They were allegedly carrying mail bombs addressed to French President Nicolas Sarkozy and the Belgian Embassy, along with handguns and bullets. One wore body armor, a wig and a baseball cap. One of the suspects was wanted in connection with an investigation into a radical anarchist group known as Conspiracy Nuclei of Fire, which has claimed responsibility for a spate of small bomb and arson attacks over the past two years.

No group claimed responsibility for Tuesday's attacks in Greece, which caused no injuries. No warning was given and no link has been made with the recently discovered Yemen-based mail-bomb plot, which used much more powerful devices.

Greece has a vocal anarchist political fringe that opposes most forms of state authority as well as capitalism and globalization.

Ms. Merkel was in Belgium when the package arrived in the mail room of her office. The chancellery wasn't evacuated.

EUROPE NEWS

# Tokyo recalls ambassador to Russia

A territorial spat between Japan and Russia intensified Tuesday as Tokyo said it would call home its ambassador to Moscow a day after Russian President Dmitry Medvedev visited a disputed island in the Russian Far East.

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

The visit, the first one by a Russian or Soviet leader, has rocked the five-month-old government of Prime Minister Naoto Kan, already struggling to manage Japan's bilateral relationship with China and the U.S.

Japanese Foreign Minister Seiji Maehara said Tokyo's decision to order Ambassador Masaharu Kono to return home on a temporarily basis is aimed at information gathering. He didn't say whether it was intended as a protest against the president's visit.

Reigniting a long-simmering dispute between the two nations, Mr. Medvedev paid a visit Monday to one of the group of small islands just north of Hokkaido, known as the Northern Territories in Japan and as the Southern Kurils in Russia. Russian Foreign Minister Sergei Lavrov said Tuesday that he spoke with Mr. Medvedev, who said he plans to visit other islands in the group, though he didn't say when that might happen.

The row comes at a particularly inconvenient time for Mr. Kan, as he prepares to host next week his first

major international gathering since taking office: a summit meeting for the Asia-Pacific Economic Cooperation nations. Mr. Medvedev is expected to attend the meeting scheduled for Nov. 13-14 in Yokohama.

"It was extremely regrettable that the visit took place despite our previous warning," Mr. Maehara said at a news conference. He added, however, that the ambassador's trip was meant strictly as "a temporary return so we can hear more about the situation." He didn't say how long Mr. Kono will stay in Tokyo.

The two sides have been careful not to escalate the dispute to the point reached in Tokyo's recent standoff with Beijing. In the tiff with China, bilateral government and cultural exchanges have been canceled, China has slowed exports of key materials and both countries have seen popular protests. On the other hand, Japan hasn't recalled its ambassador to China in that tussle.

While Mr. Maehara said a meeting between Messrs. Kan and Medvedev during the president's trip to Japan hasn't been set up, he said he intended to meet with his Russian counterpart, Mr. Lavrov. The Kremlin aide told reporters that Russia had no plans to recall its ambassador to Japan, and that Mr. Medvedev's pending Japan trip remained on track.

Russian officials brushed off the Japanese ambassador recall, blaming Tokyo for escalating the conflict. "All of our previous signals that we



are interested in normal neighborly relations with Japan weren't recognized by Tokyo," Konstantin Kosachev, chairman of the International Affairs Committee in the lower house of parliament, told Russian news agencies. "Moreover, they were wrongly interpreted and seen almost as signs of Russian weakness."

Mr. Kosachev said the impact of the conflict on Russo-Japanese relations shouldn't be dramatized, noting that parliament isn't planning to make any official statement on the issue and that President Medvedev plans to go ahead with his visit to Japan for the APEC summit this month.

Senior Russian officials dropped plans to travel to Tokyo this month for a business forum, but officials denied the moves were linked to the

island dispute.

Still, signs of strain are emerging. Chief Cabinet Secretary Yoshito Sengoku said Tuesday, for example, Japan is considering what measures it could take in response to the president's visit, and suggested that one area that could be affected are the current joint efforts to develop the economy of the disputed islands. Thousands of residents left in the 1990s amid economic decline, but Russian officials said the population now has stabilized around 18,000 as the Kremlin has boosted funding for development on the islands, where fish processing is the base of the economy.

Many in Japan are watching how Mr. Kan handles the spat over the next several days as he gears up for the APEC meeting. The prime minister has seen his approval ratings fall

sharply in recent weeks due in large part to what many saw as the government's mishandling of the recent territorial dispute with China.

Regarding its bilateral relationship with the U.S., Tokyo already has said Mr. Kan and U.S. President Barack Obama won't be able to deliver a much-anticipated statement calling for strengthening the bilateral security agreement during the president's visit to the APEC meeting.

A stubborn opposition in Okinawa to the two nations' plan to relocate a U.S. military base delayed efforts to make headway in their broader security cooperation.

One factor that might ease the pressure on Mr. Kan is the relatively small economic bond between Japan and Russia. Japan's exports to Russia amounted to 306 billion yen (\$3.8 billion) in 2009, compared with 10.2 trillion yen to China and 8.7 trillion yen to the U.S.S.

"In the past year, the diplomatic and national-security environment surrounding Japan has deteriorated rapidly and become very unstable," said Takeshi Iwaya, a parliamentarian from the opposition Liberal Democratic Party of Japan.

Mr. Iwaya, known for his expertise in defense issues, said the government must come up with appropriate measures against Russia in the latest spat while trying to prevent it from blocking long-term bilateral efforts to normalize ties by solving the territorial dispute in the Russian Far East.

## Belgian spokesman for church resigns

By JOHN W. MILLER

BRUSSELS—Jürgen Mettepenningen resigned as the top spokesman for the Catholic Church in Belgium to protest recent comments about homosexuality and abuse scandals made by his boss, Archbishop Andre-Joseph Leonard.

A senior Vatican official said support for Archbishop Leonard remained strong in Rome, adding that his comments had been widely "misinterpreted." The Vatican typically ousts bishops only for acts such as committing abuse themselves or publicly defying the pope's authority by consecrating priests as new bishops.

Still, Mr. Mettepenningen's departure on Tuesday is a rare act of rebellion for a Catholic theologian, and exposes divisions within the church as it tries to face up to decades of widespread unpunished sexual abuse by its priests.

Bishop Leonard, Belgium's top Catholic leader, recently answered a reporter's question about whether AIDS is God's punishment for homosexuality by comparing sexual promiscuity to mistreating the environment, and the disease to pollution. He also said that pedophile priests should be forgiven and that punishing them long after the facts was akin to "revenge."

His comment caused a stir in a country hit hard by the abuse scandal. Bishop Roger Vangheluwe of Bruges, a once-respected leader, admitted this spring to raping his nephew for years. He resigned and

currently is in hiding, but because the crime occurred two decades ago, he has escaped punishment from the law or the Vatican.

A recent study commissioned by the church highlighted 497 cases of previously undocumented abuse. The church has said it won't compensate those victims, agreeing only to pay some therapy costs.

In June, Belgian federal investigators raided church headquarters, seeking documents showing cover-ups of abuse. A judge ruled the raid illegal and the documents had to be returned. The special commission appointed by the church to investigate abuse resigned in protest.

Bishop Leonard has been called insensitive, and even criminal, by politicians, liberal Catholics and victims' rights groups. On Tuesday, Jean-Marie de Meester, a socialist member of the Belgian Parliament, filed a charge alleging that Bishop Leonard had broken the law with his antigay remarks.

The archbishop's comments ultimately pushed his spokesman to quit. "He thinks everybody else is wrong," said Mr. Mettepenningen during a news conference in Grimbergen, a suburb north of Brussels. "I was his GPS for three months. But it is the driver who has his hands on the wheel and sets the course."

Mr. Mettepenningen said his boss had promised to abstain from excessively controversial statements. He called the archbishop a "loose cannon."

—Stacy Meichtry contributed to this article.

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).

## U.S. ELECTIONS



**ELECTION DAY:** Clockwise from top left: Republican Senate candidate Christine O'Donnell of Delaware walks out of a voting booth; Republican Senate candidate Carly Fiorina votes in California; Gary Dzik prepares to cast his ballot at the Su Nueva Laundromat in Chicago; voters at a community center in Highwood, Ill.; embattled U.S. Senate Majority Leader Harry Reid talks to reporters in Las Vegas.

# GOP rebranded to escape Bush era

BY GERALD F. SEIB

Republicans were set to come roaring back in Tuesday's midterm election, thanks in no small measure to a feat that would make any marketing executive proud: They rebranded themselves in less than two years.

And for that, they can thank the tea-party movement.

A lot of factors could be credited for a GOP comeback, not least of which were a lousy economy and a Democratic agenda that many voters came to view as an over-reach.

But there also was the tea-party movement. It was crucial not because it produced great candidates—it didn't—or because it energized lethargic Republican voters, though it did that, too.

Instead, there was a less obvious but equally crucial tea-party effect. The movement showed Republicans how to reshape their message in a way that put behind them their association with the policies of President George W. Bush—the very policies that Democrats hoped to use as a millstone to drag them down.

The tea party, in short, showed Republicans how to make a clean break with their recent past.

"Republicans are going through a rebranding effort almost by accident," says Democratic pollster Pete Brodnitz. "They took off their ties and changed their uniforms....That's actually helped them a lot this time." And for that he credits the tea-party movement.

Many Republicans themselves said after their 2008 loss to Presi-

dent Barack Obama and his Democrats that the GOP had lost its way. It became identified not only with wars in Iraq and Afghanistan that turned unpopular, but with federal deficits, rising government spending and congressional earmarks.

The tea-party movement arrived in early 2009 with a clear and simple message in a different direction: cut spending and oppose the Democrats' health-care overhaul. Period. It wasn't always clear that things would work out this way. Initially, the movement frightened some Republican leaders. After all, some of that tea-party anger was directed at Republicans in Washington as well as Democrats in the capital.

But when GOP pollsters looked more closely, they figured out that tea-party voters were, in fact, Re-

publican voters who had simply grown unhappy and found a new way to express themselves. Their natural inclination was to vote Republican, if given a reason to do so.

Soon enough, the GOP chose to embrace the movement, and the tea-party message became the Republican message for 2010: Cut spending, cut government, attack the deficit, stop government over-reach (as symbolized by the health bill). And get outside of Washington as much as possible to deliver that message.

The movement helped Republican leaders engineer a near-unanimous vote against the health-care overhaul. It also inspired them to find ways to make the spending message their own. For example, Rep. Eric Cantor, the second-ranking Republican in the House, launched a

program called YouCut, which invited citizens to cast votes online to support various ideas for cutting spending.

Still, the re-branding was successful. When The Wall Street Journal/NBC News poll asked last week-end whether voters thought Republicans, if they won Congress, would pursue Bush economic policies or have different ideas, 58% said they thought the GOP would bring new ideas, while just 34% said they expected a return to Bush policies. Crucially, 68% of independents said they thought Republicans would bring new ideas. In the end, the movement did what GOP leaders who embraced it had hoped above all: It energized core Republicans at the grass roots in a way the party's traditional leaders couldn't.

## GOP hopes to ride gains to 2012

*Continued from first page*  
seats considered in play, Stuart Rothenberg, a nonpartisan congressional analyst, predicted that Republicans will gain 55 to 65 seats, with 70 or more possible—totals that would dwarf the 54 seats the GOP gained in its banner 1994 midterm victory.

A change of control in the Senate from Democrat to Republican is possible but less likely, but the GOP is expected to at least gain some seats, altering the balance of power in the chamber.

Already, Democrats are pointing fingers over who to blame for the drubbing. Some are calling for major changes in the circle of political advisers Mr. Obama keeps in the White House.

But a senior White House official says the recriminations are misplaced and only two facts are germane to what has happened: First, a

grueling economic slowdown nationally that produced extensive unemployment; and, second, a wide range of swing seats that Democrats won in the last election and were vulnerable to loss with the changing tide.

For example, Democrats find themselves defending seats in fully 49 districts where two years ago the Democrat took the House seat but Republican John McCain won the popular vote for president.

In campaign appearances across the country, Mr. Obama argued that it was Democrats who had stabilized the nation after a historic financial-sector shock and the worst economic crisis since the Depression. GOP leaders, he argued, merely sat on the sidelines and complained about Democrats.

Republicans say that is wrong and that the president, his economic advisers and the Democratic Con-

gress made the economy worse, not better, by ramping up regulation and wasteful government spending.

This election season, Democrats faced twin problems: The same independent voters—a large and growing slice of the American electorate—who propelled Mr. Obama to victory in 2008 swung to the GOP. At the same time, loyal Democratic voters said they were dispirited with the administration and Congress and were thus less likely to go to the polls at all.

The election is likely to end Nancy Pelosi's four-year tenure as Speaker of the House.

She was the first female speaker and was lauded by Democrats for her political skill in moving energy and health-care bills through the House.

But that success turned into a liability when the campaign got under way.

## Tax cuts to dominate in lame-duck Congress

BY DAMIAN PALETTA

The White House and Capitol Hill are preparing for post-election chaos over unresolved economic issues, from taxes to jobless benefits, potentially prolonging what has been a lengthy period of uncertainty for taxpayers and businesses.

The 111th Congress returns to Washington for its final session later this month with what will likely be a weakened president, shell-shocked Democrats and an emboldened Republican Party seeking to define a new political dynamic.

In this unpredictable environment, lawmakers must grapple with a looming tax increase for more than 150 million Americans and expiring unemployment insurance for two million. They also hope to vote

on a bill to fund the government's operations through at least early next year.

Almost all the decisions are expected to worsen the budget deficit—one area both parties have said needs to be addressed.

A primary focus is expected to be whether to extend all or part of the tax cuts pushed by the Bush administration in 2001 and 2003, which expire in December.

President Barack Obama has called for the tax cuts to be extended for everyone earning less than \$200,000 a year, and all married couples filing jointly who earn less than \$250,000 a year.

Republicans and a growing group of Democrats have said the cuts should be extended temporarily for everyone.

U.S. NEWS

# Opinions split on Fed's policy move

BY SUDEEP REDDY  
AND LUCA DI LEO

The Federal Reserve's move to print money to begin a new round of bond-buying, expected to be announced Wednesday, is aimed at lowering long-term interest rates to give the economy a lift. But inside and outside the Fed, there is an unusual divergence of opinions on how much good it will do—if any.

Proponents say buying hundreds of billions of dollars more in Treasury bonds will provide only modest support for the economy.

Foes warn that it could backfire by pushing up commodity prices, sowing seeds of unwelcome inflation in the future, or by undermining confidence in the Fed's ability to manage—and eventually reduce—its holdings.

Opponents stretch across the ideological spectrum, from John Taylor, a Stanford University economist and former Bush Treasury official, to Joseph Stiglitz, the Columbia University Nobel laureate and former Clinton White House official. Mr. Taylor has said the effort, known as quantitative easing, or QE, wouldn't work, and that the government instead should avoid raising taxes and stop imposing new regulations. Mr. Stiglitz has said QE wouldn't work and that the economy needed a big dose of spending increases and tax



Economists John Taylor, left, and Joseph Stiglitz both say the Fed plan won't work.

cuts.

Economists don't even agree on what another round of QE would do. Bank of America Merrill Lynch expects it should help push the 10-year Treasury yield to around 2% late this year from 2.63% today. Mizuho Securities says the effect of any new asset purchases "will be limited."

In a Dow Jones Newswires survey of firms that trade directly with the Fed, economists from Nomura Securities International Inc. said another round of QE would maintain "consumer confidence on track to keep the recovery ongoing." UBS said it would help only "modestly." Deutsche Bank said purchases could hurt the economy if they push the

dollar down too far.

In its first bond-buying program, which ended in the spring, the Fed bought \$1.75 trillion of mortgage-backed securities and Treasuries. The move, during severe stress in financial markets, is credited with helping to pull the economy out of its downward spiral. If the Fed could cut short-term interest rates, its traditional tool, it would. But short-term rates are near zero, so it is seeking an alternative strategy.

Anticipation of another round of bond purchases, albeit smaller, already has bolstered stock prices, put downward pressure on bond-market interest rates and depressed the dollar. Investors expect the Fed to an-

nounce purchases of about \$500 billion in Treasury securities over six months.

Marco Annunziata of UniCredit warned that further benefits will be "marginal," while costs could be "huge." His view: "It's not going to stimulate consumer spending or business investment much," he said. "Consumers in the U.S. are still unwinding years of credit excess and additional liquidity isn't going to get them to spend more."

Others weigh the same pros and cons, acknowledge the impact won't be huge—and come to the opposite conclusion.

"I don't think that anything they will end up doing will instantly and by a huge amount turn the economy around," said former Fed Vice Chairman Donald Kohn. "But it could help on the margin in what is an unsatisfactory situation."

James Hamilton of the University of California at San Diego agreed. "Unemployment is unacceptably high and if there is something the government can do to help things, the Fed should be looking into those options," he said. The move would have a "modest effect" on interest rates, he said, one already factored into markets. "Will anything the Fed does bring down unemployment quickly? The answer is no."

Others say it is simply a bad idea, including Allan Meltzer, a Carnegie

Mellon University professor and Fed historian.

Mr. Meltzer said the Fed's move "won't do much." Pushing investors out of long-term Treasuries into corporate bonds and stocks, as the Fed is trying to do, will repeat past Fed mistakes, he said. "Is that a sensible thing for a central bank to be doing?" He doesn't think so.

Some proponents of QE expect \$500 billion to be just the start. Former Fed governor Laurence Meyer, now a private consultant, estimated the Fed would need to buy \$5.25 trillion of new assets if it wanted to accomplish the equivalent of cutting short-term interest rates by 4.25 percentage points, about what Mr. Meyer's model indicates is needed. But he doesn't expect the Fed will do nearly that much.

Goldman Sachs economists estimate the Fed would have to buy \$4 trillion if it continued its past approach to addressing inflation and unemployment. They forecast the Fed's new purchases will ultimately amount to \$2 trillion, based on the firm's gloomier-than-average forecasts for the economy.

"The Fed can still influence asset prices and spending behavior even if the impact is not especially large," said Goldman economist Andrew Tilton.

—Jon Hilsenrath  
contributed to this article.

## Gulf seafood faces less stringent tests

BY JEFFREY BALL

Gulf seafood is being held to less stringent safety standards than those used after some earlier oil spills, but officials say the overall risk to people remains low.

Among the measures in the Gulf of Mexico seafood-testing program that are less rigorous than those used after the 1989 Exxon Valdez oil spill in Alaska: how much cancer risk from eating seafood is acceptable and how much of the region's seafood a person is likely to eat.

There is no sign any oil-contamination level is high enough to make a person sick from eating a few meals of Gulf fish, shrimp, oysters or crab. At issue is whether the program is strict enough to protect frequent Gulf-seafood eaters from the buildup of toxins years down the road.

The tweaked guidelines were brokered after a debate among regulators who devised the testing program in the early days after the BP PLC well began spewing oil in April. Government officials say that even if they used test standards as strict as those in the Valdez spill, all the seafood they have collected from areas now open to fishing still would have passed.

According to government tests, many samples have had levels of contamination that are essentially undetectable.

Louisiana, the Gulf's biggest seafood producer, has seen its production plummet since BP's well exploded, largely because many fishing waters were closed as a precaution, the state said.

Even now, with many fishing waters back open, grocery stores and

restaurants around the U.S. have canceled orders for Gulf seafood because of concerns about the oil, said Harlon Pearce, chairman of the Louisiana Seafood Promotion and Marketing Board.

"We still have a major perception problem," though it's unfounded, he said.

Officials have subjected thousands of samples of Gulf seafood to chemical tests for oil contamination since the spill started. All, they said, have shown levels of contamination far below those set as "levels of concern." Based on those results, federal and state officials have reopened for fishing thousands of square miles of the Gulf.

The chemical test looks for compounds that are in crude oil, some of which have been found to be potentially cancer-causing. Shellfish ingest contaminants that are in water, and fish can ingest them or take them in through their gills. Shellfish typically are the bigger human-health concern, because they take longer to process and purge the contaminants than fish do, scientists say.

The testing program divides the northern Gulf into dozens of seafood-monitoring zones. Any zone where oil is visible or expected to show up will stay closed to fishing, the rules say. In a zone where no oil is visible or expected, seafood is sampled and subjected to two rounds of tests.

If a seafood sample passes a sniff test—in which trained officials smell it both raw and cooked—it is sent for chemical testing. Only after all samples in a zone pass the chemical test can the area be reopened to fishing.



Capitol Hill in Washington as it appears in Bethesda Softworks' postapocalyptic videogame 'Fallout 3.'

## Court voices doubts on videogame law

BY BRENT KENDALL

WASHINGTON—The Supreme Court expressed doubts Tuesday about the constitutionality of a California law that seeks to ban the sale of violent videogames to minors.

During an hour-long oral argument, several justices suggested the law violated free-speech protections of the First Amendment.

Justice Antonin Scalia said California's logic in banning videogame sales to minors could also apply to a ban on the sale of violent movies or books to children.

"Some of the Grimm's Fairy Tales are quite grim," Justice Scalia told an attorney for California. "Are they OK? Are you going to ban them, too?"

"What about films? What about comic books?" asked Justice Ruth Bader Ginsburg. "Why are videogames special?"

The court also questioned how the state could determine when violence in videogames was excessive.

The case has considerable implications for the videogame industry.

Games rated as "mature," such as Activision Blizzard Inc.'s "Call of Duty" and Take-Two Interactive Software Inc.'s "Grand Theft Auto," are some of the biggest sellers. The industry says American consumers spend more than \$10 billion a year on videogames. The case could also have implications for the broader entertainment industry, specifically for producers of violent movies and television shows. California lawmakers passed the ban in 2005.

It isn't clear which games would be affected by California's law, which defines a violent videogame as one that "includes killing, maiming, dismembering or sexually assaulting an image of a human being." To be subject to the sales ban, the game must lack "serious literary, artistic, political or scientific value for minors," or it must allow a player to virtually inflict serious injury in a manner that is "especially heinous, cruel or depraved in that it involves torture or serious physical abuse to the victim."

The law would impose a fine of as much as \$1,000 for each viola-

tion. Two trade associations challenged the law before it went into effect, and two lower courts ruled the law was unconstitutional.

Zackery Morazzini, an attorney for California, argued that states should be able to ban sales of violent videogames to those under 18 just as they can restrict the sale of sexual material to minors.

Paul M. Smith, arguing for the videogame-industry trade groups, said California's effort was a misguided overreaction to a new medium. Mr. Smith said the industry's voluntary ratings system works well and parental controls could prevent children from playing certain games.

Despite the court's questions, many justices also expressed concern about videogames.

Chief Justice John Roberts noted that some games allowed users to decapitate people, urinate on them and set them on fire. "We protect children from that," he said.

He and others suggested there may be a way for California or other states to write a narrower law that imposed some restrictions.

## WORLD NEWS

# Vietnam premier faces test in scandal

By JAMES HOOKWAY

An unexpected call for a no-confidence vote against Vietnamese Prime Minister Nguyen Tan Dung over his handling of a debt crisis at one of Vietnam's biggest state-owned firms shows that the political fallout from the country's worst-ever financial scandal might just be starting, analysts say.

Lawmaker Nguyen Minh Triet on Monday called on Vietnam's legislature, the National Assembly, to investigate top government officials supervising debt-laden **Vietnam Shipbuilding Industry Group**, or Vinashin, which came close to the brink of bankruptcy this summer after taking on \$4.5 billion in debt and entering into several ill-fated deals that allegedly broke government regulations. He then said Mr. Dung should face a no-confidence vote.

"It's difficult and painful for me to say it," the state-run Tuoi Tre newspaper on Tuesday reported Mr. Triet, who heads a legislative education committee, as saying.

It is unclear whether the National Assembly will hold a no-confidence vote. It exists largely to approve or reject government programs, although if Mr. Dung loses, he would have to step down as premier, a post he has held since 2005.

But analysts in Vietnam suggest that the unusual call for such a motion in the legislature indicates that Mr. Dung will likely face a vigorous grilling at more significant forum: the once-every-five-years Commu-



Vietnam's Prime Minister Nguyen Tan Dung on the sidelines of a regional summit in Hanoi on Saturday.

nist Party Congress in January. "That's where his real test will come," said a Vietnamese analyst.

A number of top posts will be decided at the Congress, including a new president and a new secretary-general for the Communist Party. Analysts say the most watched decision will be whether Mr. Dung will be allowed a second term as prime minister, the most powerful executive position, as is customary in Vietnam.

The Vinashin debacle has badly eroded Mr. Dung's authority. The shipbuilder's former chairman and

chief executive officer, Pham Thanh Binh, was arrested in August for allegedly breaking state rules and four other top executives have also been detained as investigators continue their probe into what went wrong at the firm. The debacle has tarnished Mr. Dung's reputation as a competent economic manager and cast a shadow over his policy to create large state-run conglomerates like Vinashin to keep large parts of Vietnam's quickly liberalizing economy under Vietnamese control.

Several state firms have

branched out into ventures that are far removed from their core businesses. **Electricity Vietnam Group** invested heavily in mobile-phone networks while **Vietnam Oil & Gas Group**, or PetroVietnam, went into tourism, among other businesses. Mr. Dung hoped they would drive the economy forward like South Korean and Japanese conglomerates had done before.

But the crisis at Vinashin drew criticism that the policy crowds out more efficient private firms from the market and triggered questions

about Mr. Dung's relationship with Vinashin's Mr. Binh, whom he supervised directly. Mr. Dung hasn't responded to questions on his involvement in the Vinashin affair, but recently told the National Assembly that the government had undergone a period of "self-criticism" over the controversy.

Internal Communist Party documents seen by The Wall Street Journal also warn that the Vinashin scandal could undermine the respect of ordinary Vietnamese for the state and for the Communist Party.

## Australia, India battle inflation

Continued from first page  
global outlook.

The Reserve Bank of India said it sees little need for additional increases near term as its tighter monetary policy acts to bring down the inflation that has plagued Asia's third-biggest economy after China and Japan.

The central bank raised the repurchase rate, or lending rate, by a quarter of a percentage point to 6.25% and the reverse repurchase rate, or borrowing rate, by the same amount to 5.25%.

It also tightened rules for residential home loans, saying a "sharp rise in asset prices in such a short time causes concern."

Strong domestic demand helped shield India's economy from the worst of last year's global downturn and a brisk pickup in growth has given the bank room to ratchet up interest rates steadily to fight inflation. Finance Secretary Ashok Chawla said the "modest increase" in policy rates Tuesday is unlikely to derail India's firming economic growth.

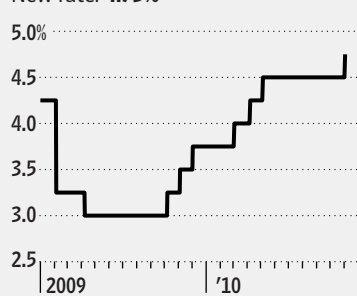
Montek Singh Ahluwalia, who heads the government's main think tank, said he thinks inflation—which was above 10% from March to May—will continue to slow.

"By the time December data is available, you will see food inflation has moderated very significantly," said Mr. Ahluwalia, deputy chairman of the Planning Commission.

Others expect further rate increase. Credit Suisse expects another three-quarter percentage point of increases, with the next quarter-point move in January. Brian Jackson, senior emerging-markets strategist at Royal Bank of Canada, ex-

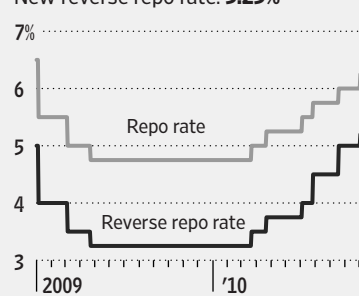
### Rate moves

Australian central bank cash-rate target  
New rate: **4.75%**



Sources: Reserve Bank of Australia; Thomson Reuters Datastream

India's key interest rates  
New repo rate: **6.25%**  
New reverse repo rate: **5.25%**



pects the central bank will lift the repo rate by an additional three-quarter point in 2011.

"The Indian tightening cycle is certainly not over yet," said Glenn Maguire, Asia chief economist at Société Générale.

The Reserve Bank of Australia tightened policy for the first time in six months in a pre-emptive strike to stave off looming inflation pressures. Markets had pointed to a weaker-than-expected report on Australian third-quarter inflation last week.

But the RBA said surging terms of trade are boosting national incomes "very substantially," with the outlook for inflation also expected to rise.

"The board concluded that the balance of risks had shifted to the point where an early, modest tightening of monetary policy was prudent," RBA Governor Glenn Stevens said in a statement.

The bank raised its cash rate target by a quarter of a percentage

point to 4.75%.

Australia is one of the clear stand-out economies after leading the world in 2009 and 2010 by raising rates despite a still-subdued global economy. "It's the expansionary shock from terms of trade and the chance inflation will rise over next year that they are battling. It's a pre-emptive move," said Stephen Roberts, chief economist for Nomura in Sydney, one of a small number of economists to predict Tuesday's increase.

The move prompted **Commonwealth Bank of Australia** to raise variable home-lending rates by 0.45 of a percentage point.

The Australian dollar on Tuesday rose as high as US\$1.0023, its highest level since the currency began floating freely in 1983. Monday afternoon in the U.S., it traded at 99.93 cents.

—Anant Vijay Kala in New Delhi and Geoffrey Rogow in Sydney contributed to this article.

## Coordinated blasts leave scores dead in Baghdad

Associated Press

BAGHDAD—Coordinated rapid-fire bombings and mortar strikes in mostly Shiite neighborhoods of Baghdad killed 76 people and wounded nearly 200 Tuesday, calling into question the ability of Iraqi security forces to protect the capital.

The blasts—at least 13 separate attacks—came just two days after gunmen in Baghdad held a Christian congregation hostage in a siege that ended with 58 people dead. Tuesday morning, hundreds of Christians gathered at a downtown church to mourn their lost brethren.

"They murdered us today, and on Sunday they killed our brother, the Christians," said Hussein al-Saiedi, a 26-year-old resident of the Shiite slum of Sadr City where 21 people were killed in the most deadly incident of the day. He said he was talking to friends on a busy street when the blast occurred.

"We were just standing on the street when we heard a loud noise, and then saw smoke and pieces of cars, falling from the sky," he said. People were fleeing the site in panic, calling the names of their relatives and friends. "They [the government] say the situation is under control. Where is their control?"

There was no immediate claim of responsibility. But the coordination of the blasts, the complexity of the operation and the predominantly Shiite targets point to al Qaeda-linked Sunni insurgents. Iraq has been plagued by conflict between Shiite and Sunni Muslim sects since the 2003 collapse of Saddam Hussein's regime, which was dominated

by the minority Sunnis. It was supplanted by a Shiite-dominated government that remains in power.

The bombings began at about 6:15 p.m. The assailants used booby-trapped cars, roadside bombs, mortars and at least one suicide bomber on a motorcycle. Though most of the neighborhoods hit were Shiite-dominated, a couple struck Sunni neighborhoods as well.

The attacks stretched from one side of Baghdad to the other and were spread out over hours, indicating a high degree of coordination and complexity from an insurgency that just a few months ago U.S. and Iraqi officials were saying was all but defeated.

The casualty information all came from police and hospital officials who spoke on condition of anonymity because they weren't authorized to speak to the media.

Earlier Tuesday, hundreds of grieving Christians and other Iraqis packed a funeral service for members of the faith killed in the militant siege on a Baghdad church. The attack, which an al Qaeda-linked group claimed it carried out, left 58 people dead and dozens wounded.

The complex attack carried out Sunday evening on parishioners celebrating Mass at the Our Lady of Salvation church in an affluent Baghdad neighborhood emphasized the ease with which militants can still strike in Iraq and the particularly dangerous position that the country's Christians occupy among Iraq's sectarian structure.

Iraqi security forces flooded the streets around the church where black-clad parishioners mourned.



Special Advertising Section

# INVESTING IN TURKEY

GETTY IMAGES/Ed Pritchard



## A confident country leads Europe's recovery

*GDP shows robust rise as exports revive; recent reforms aim to attract more investors*

Presenting this year's European champion for economic growth: Turkey. Turkey's economy has not only bounced back from the global economic crisis, it's already doing better than before.

Even though the country's banking system was one of the few healthy ones in the world, Turkey got hit hard by the crisis as exports fell and as investors lumped it with other emerging markets that they shunned during uncertain times.

"In the first quarter of 2009, the decline [in gross domestic product] was very steep, almost 14%," says Josef Pöschl, economist at the Vienna Institute for International Economic Studies. "Nevertheless, everyone is very impressed by the strong recovery." GDP rose 11.7% in the first quarter and 10.3% in the second. Total GDP "is back to the pre-crisis level and even above it," Dr. Pöschl says. Exports, too, are up, rising 13% in the January to August period, though the totals are still below pre-crisis levels.

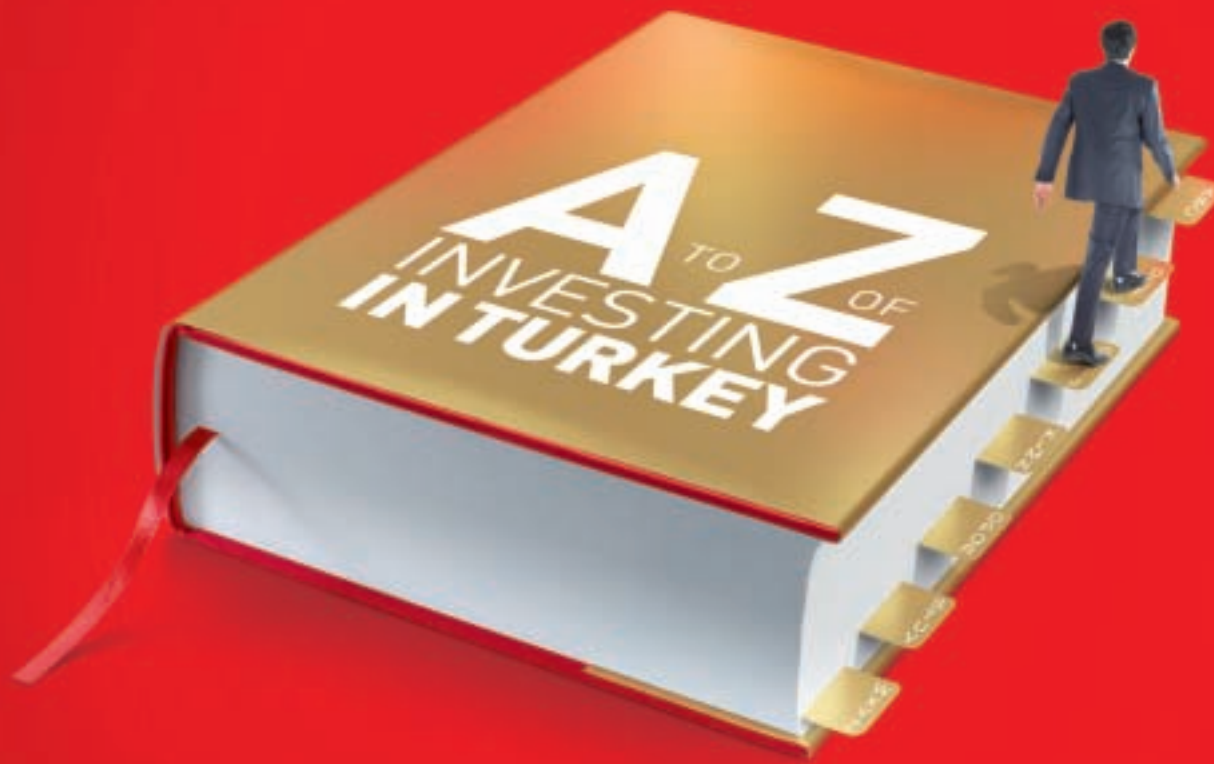
With the economy back on track quickly — Turkey is expected to have one of the fastest-growing economies among members of the Organization for Economic Cooperation and Development, the Paris-based think tank projects in its latest report — Turkey recently has taken steps to solidify its foundation for long-term growth. It has tackled public debt, whittled the government budget deficit and taken steps to raise confidence and interest in privatizations and investment.

The global crisis squeezed Turkey as it did other countries, with rising government expenditures and falling tax revenues. Although Turkey backed away from a proposed law to limit fiscal deficits, it unveiled a three-year Medium-Term Plan, or MTP, that projects a budget deficit of 2.8% for 2011.

Tevfik Aksoy, head of economics

*Continued on following page*

ELEVATE YOUR BUSINESS WITH OUR UNIQUE EXPERTISE.



Akbank, the pioneer bank of Turkey, offers 62 years of expertise, in depth guidance and deep understanding of Turkey's dynamics. From industry and company analyses, structuring, strategic, technical and financial advisory, to execution services and even funding options, our wide range of services is always at your disposal.

If you are ready to launch your business to new heights, Akbank offers international solutions to all related M&A services from a single address. Through our unique expertise on both international and local platforms, team up and see your business take off.

For detailed information:  
[www.akbank.com/investinturkey](http://www.akbank.com/investinturkey)

[www.akbank.com](http://www.akbank.com)

**AKBANK**

Special Advertising Section

## A confident country leads Europe's economic recovery

Continued from previous page

for Central and Eastern Europe, the Middle East and Africa for Morgan Stanley in London, says that's probably on the optimistic side for a year with general elections, although "nobody can look at the MTP numbers and call it election spending." He projects a budget deficit of 3.8% of GDP. "The thing is, 3.8% or even 4%, in today's developed markets are fairly benign numbers," he says. By contrast, the International Monetary Fund projects 2011 budget deficits of more than 5% for Spain and Greece and 6.7% for Ireland.

At the same time, Mr. Aksoy expects the debt-to-GDP ratio to keep declining as GDP continues to rise and the government maintains a primary budget surplus, which is defined as the budget balance excluding interest payments on government debt. "In the past, Turkey was a highly indebted country," he says. "There has been significant improvement." Before Turkey's 2001 banking crisis, government debt was more than 100% of GDP; today it's 45%, one of the lowest in the OECD, he notes.

### Wooing investors

Turkey improved its finances through nearly a decade of reined-in spending. It also held a privatization drive from 2002 to 2007, and used the proceeds to lower general debt. Few assets remain to be privatized, but the government is wooing foreign investors in other ways.

The September referendum on the constitution should improve investor confidence, says Rizanur Meral, president of the Confederation of Businessmen and Industrialists of Turkey, or Tuskon, in Istanbul. The referendum included reforms to the judicial system, which in the past sometimes interfered with privatizations,



The Turkish government is encouraging investment in hydroelectric plants.

he says.

Meanwhile, the government is liberalizing the energy market, instituting new regulations to ensure a level playing field for foreign and Turkish investors alike, says Serdar Sayan, professor of economics at TOBB University of Economics and Technology in Ankara and director of the Entrepreneurship Institute at the Economic Policy Research Foundation of Turkey, or Tepav.

Turkey needs to expand energy production to keep pace with a growing population and a booming economy, while decreasing dependence on oil imports. The government is encouraging investment in hydroelectric plants in particular, with licenses for 1,200 new ones.

In fact, in 2009, the electricity, gas and water supply sectors brought in the most foreign direct investment, besting the financial sector, which had been the FDI leader from 2005 to 2008. Real estate and business services came in second, with finance third, according to data from the Turkish Central Bank. The largest investor was the Netherlands.

"With rapid growth and increased macroeconomic stability, there has been a quantum leap in FDI," says Dr. Sayan. FDI zoomed from \$571 million in 2002 to \$19 billion in 2007. The global crisis put a screeching halt to FDI world-wide in late 2008, including in Turkey,



REUTERS/Osman Orsal

Turkey is becoming wealthier, with per-capita GDP expected to rise to \$10,043 by the end of this year and to \$12,157 next year.

and 2009 remained quiet, with \$6 billion of FDI. From January to July this year, Turkey attracted \$2.5 billion of FDI, says Dr. Pöschl of WIIW.

One reason for the low FDI is that Turkish companies scooped up some of the electrical generation privatizations, says Dr. Aksoy of Morgan Stanley. "The glass is half full. Yes, FDI is down, but the Turkish companies will be borrowing funds from abroad. They're going to bring a lot of quality financing."

Turkey's interest rates are higher than in other countries, because the central bank is

focused on reining in inflation, and that pulls in financial investors. The stock exchange main index is up 40% for the year. The next phase for FDI would be to attract more manufacturing and greenfield investment.

Such a shift would help ease unemployment, which was about 10% before the crisis and about 11.7% today, according to the OECD. The unemployment rate grew despite the economic recovery because Turkey's work force grew — through population growth but also because previously inactive women in urban areas started to look for jobs in

big numbers, says Rauf Gonenc, head of the Turkey desk in the OECD's economics department. Turkey needs to create at least 500,000 jobs a year in the next few years to start to bring the employment rate in line with OECD averages, he says.

Despite the uptick in unemployment, Turkey's economy rebounded mostly thanks to domestic demand. First, it's a big market, with a population of 72

*"It's one of the high-growth stories. With the size of its GDP and population and the upside that it can offer, it's impossible not to be invested in Turkey."*

million. Second, Turkey is becoming wealthier: the government expects per-capita GDP to rise to \$10,043 by the end of this year and to \$12,157 next year, says Mr. Meral of Tuskon.

### A slew of strengths

"Turkey has a number of strengths that have emerged since 2001 and since the global downturn," says Susan Schadler, former deputy director of the International Monetary Fund's European department, where she led surveillance missions to Turkey, among other countries, and senior fellow at the Atlantic Council in Washington. The healthy financial system, a decade of stable governments, strong links to the European Union and a convergence to EU living standards and "a pretty good and growing record on inflation. They've managed to keep it in a 7% to 9% range for several years now."

Mr. Aksoy of Morgan Stanley also sees improvement. "I'm fairly optimistic about Turkey's economy," he says. "It's one of the high-growth stories. With the size of its GDP and population and the upside that it can offer, it's impossible not to be invested in Turkey."

# Heart-core finance.

The first local institution in Turkey to receive the Investors in People (IIP) Certificate.