



The internal combustion engine could be facing extinction

THE JOURNAL REPORT

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BUSINESS & FINANCE 17

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Tears for the leadership



A tearful North Korean dancer at a Communist Party parade in Pyongyang Sunday. Article on page 8

IMF summit leaves currency battles raging

By Bob Davis

WASHINGTON—The International Monetary Fund's annual meeting at the weekend failed to ease currency battles roiling markets, pushing the dispute off to a summit next month of leaders of Group of 20 countries, with no clear resolution in sight.

The meeting Saturday might have been more significant for possible solutions ruled out. Chinese central bank officials rejected calls for an international or regional currency accord, and the World Trade Organization's chief said his institution didn't want to get involved in exchange-rate fights.

IMF members scotched an effort by the U.S. to link a bigger Chinese role in the IMF to changes in Beijing's currency policies. "Nobody is linking this," said Egyptian Finance Minister Youssef Boutros-Ghali, who chairs the IMF's policy-making committee.

A U.S. official said the Obama administration would

take the fight over currencies to a Seoul summit of leaders of the G-20 industrial and developing nations in mid-November. The administration used the last G-20 summit in June to prod China to announce beforehand that it would adopt a more "flexible" currency policy, rather than tying the yuan tightly to the dollar. But after the summit, the value of the yuan barely moved, provoking outrage in Congress and frustration at Treasury and the White House.

The U.S., European nations and a number of emerging-market countries complain that China is deliberately undervaluing its currency to aid its exporters. To compete, South Korea, Brazil and other Asian and Latin American nations have taken measures to beat down the value of their currencies as well, leading to fears that these efforts may presage a trade war.

If joblessness persists, "there's a danger countries will turn inward, and, as a re-

sult, international cooperation will falter," said World Bank President Robert Zoellick in a weekend briefing.

The U.S. has turned up the heat on China in the past month and has seen some results. Since White House economic official Lawrence Summers visited Beijing Sept. 6 to press China, the yuan has strengthened about 2% against the dollar. The U.S. official said that the recent pace of appreciation is encouraging but that the U.S. is skeptical the gains will continue without persistent U.S. pressure. Korean summit planners, fearing that the currency battles will dominate the talks, are encouraging the U.S. and China to cut a political deal. But it is far from clear that either side is ready.

China's central bank governor, Zhou Xiaochuan, said he figures U.S. and European pressure will diminish once unemployment in both regions begins to decline. He also dismissed the possibility, suggesting that the possibility, sug-

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Musical show about former national leader is a wow in Malaysia. Page 29

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Why Europeans can't throw a Tea Party. Page 13

Wall Street firms regret generous signing bonuses

By Aaron Lucchetti

Securities firms dangled big bucks to lure thousands of brokers away from rival companies during the past two years. Now those signing bonuses are causing an epidemic of buyer's remorse.

Some of the star financial advisers who were promised six- or seven-figure payments to jump ship have been huge disappointments, failing to generate profits for their new employer. Others quickly abandoned the brokerage firm that wooed them.

And the market's turmoil this year has been a painful reminder of the vulnerability of brokerage operations,

which attracted more money and attention partly because they didn't blow up during the financial crisis as many trading desks and mortgage units did.

"The economics of the business are going to have to change," says one executive at a firm that paid bonuses to incoming brokers. Many deals that look bad in hindsight were struck because asset-hungry brokerages were willing to pay "extremely uneconomic" sums, this person says.

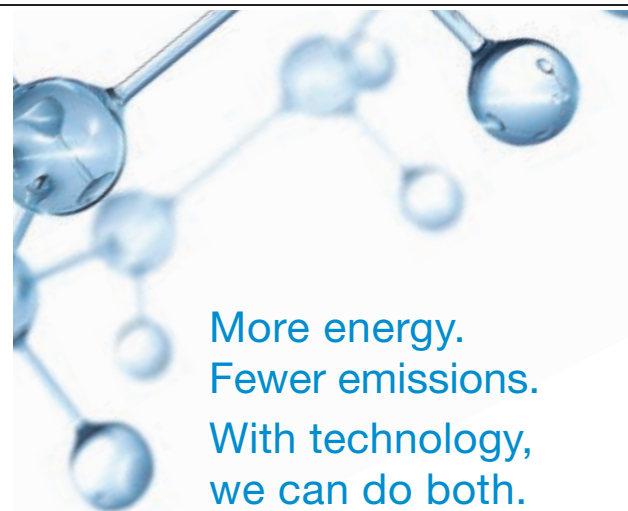
Some frustrated firms have decided they want their money back. Financial Industry Regulatory Authority arbitration panels have issued

about 165 awards related to "promissory notes," a term for payments to brokers, this year. Those cases amount to 17% of all Finra arbitration awards in 2010, the highest percentage in a decade.

Brokerage firms win a high percentage of these cases, though they sometimes agree to be repaid over time or for just a portion of what they are owed, according to securities-industry lawyers.

In September, a Finra arbitration panel ruled that former Wells Fargo & Co. broker Ivan Pulido had to repay about \$1 million he received when he moved to the bank from Merrill Lynch & Co. in

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PAGE TWO

We can't expect any breakthrough on austerity at the G-20 summit

[Agenda]

By IRWIN STELZER



No need to turn on the TV to witness the latest battle of the heavyweights. If, that is, you are willing to settle for an intellectual and policy slugfest among economists and politicians. In the red ink corner we have no less than President Barack Obama; White House aide Larry Summers; Ed Balls, the should-have-been U.K. shadow chancellor; Nobel laureate economists Paul Krugman and Joseph Stiglitz; and economists at the International Monetary Fund.

In the black-ink corner we have U.K. Chancellor George Osborne; European Central Bank President Jean-Claude Trichet; leaders of Spain, Ireland, and Greece; and Harvard economists Alberto Alesina and Silvia Ardagna.

The differences between these two camps are not mere minor matters of nuance. The team in the red corner believes that austerity-now is a major error that risks throwing a fragile world economy into recession, or worse. As they see it, cutting deficits removes spending power from economies already afflicted with excess capacity, consumers too nervous to unzip their wallets, and businesses too uncertain of the future to invest. In the manner of St. Augustine, they do agree that austerity will some day be in order, but please, finance ministers, not yet.

The black-ink corner sees things entirely differently. Breaking ranks with almost all of his central-bank colleagues, Mr. Trichet argues that by reducing deficits, red-ink nations can shore up confidence in their futures, encourage private investment, and accelerate their economic



Larry Summers's economic analysis applies not only to the U.S.

recoveries. He has a strong ally in Mr. Osborne, who trumpets the fact that his planned draconian spending cuts and non-trivial tax increases have driven yields on 10-year gilts from around 4% to below 3% since he got his hands on fiscal policy. This earned Mr.

To demand greater austerity from struggling countries might stifle the growth on which recovery depends.

Osborne the approbation of World Bank President Robert Zoellick on the eve of the convention of finance ministers in Washington this past weekend.

Little wonder that the poor (no pun intended) average citizen doesn't know whom to believe. And therefore relies on the guide that he has found most reliable in the past—self-interest. In Greece, France, and other austerity-minded countries, members of the public sector trade unions, scheduled for layoffs, and for reduced salaries and pensions, say

that now is not the time for cuts, although they fail to specify when such a time might arrive. They nominate the bankers to take their place.

In Britain, middle-class citizens about to lose some of their benefits would not be so gauche as to take to the streets, but they do know how to take to the voting booths at the next opportunity. Meanwhile, bankers and creditors preach the virtue of fiscal rectitude, honoring contracts, cutting spending and raising taxes if necessary to avoid default. And German chancellor Angela Merkel, reconverted to the virtues of balanced or almost-balanced budgets, wants the profligate whipped into line so that German taxpayers do not have to bear the cost of bailing out Greece & Co.—even though a failure to do so would add to the pressure on Germany's shaky banking system, overburdened with sovereign debt from Greece and similarly situated countries.

Perhaps the best arguments for continued spending come from two sources. The first is economic reality. The effective unemployment rate in America

(counting those too discouraged to look for work and forced to work short hours) is over 17%. In Spain, one out of every five workers is unemployed. In Ireland, growth has ground to a halt as the deficit, including bank bailouts, hits 32% of GDP.

To demand greater austerity from these countries might well stifle the growth on which recovery ultimately depends. Indeed, both Greece and Portugal have failed to realize their revenue projections because their economies are shrinking. The IMF numbers crunchers predict that a deficit cut equivalent to 1% of GDP can cut growth by anywhere from 0.5% to 1%, and raise unemployment by 0.3%.

The second comes from Larry Summers, he of the famed IQ and lack of patience with lesser mortals, which means just about everyone. The soon-to-again-be Harvard professor argues that stimulating weak economies is not the only reason for continuing to run deficits. In an analysis applicable not only to the U.S., Summers says this is a time to build the infrastructure that successful, high-productivity economies need. Interest rates are low, making borrowing to pay for construction of bridges, roads and other infrastructure about as cheap as it will ever be. Labor is in plentiful supply, especially in the construction industries, and employing it will reduce the burden on the benefits system without placing upward pressure on wages. Invest now and stimulate growth not only in the near-term, but in years to come.

The gulf between the contestants is too wide to expect agreement. So don't expect the G-20 summit meeting in Seoul one month from now to produce a unified response to slow growth, excessive debts, the threat of future inflation, trade and currency wars, or anything except the time of the photo op.

What's News

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'The whole thing has been a complete waste of time seems to be entirely beside the point.'

David Cottle on how quantitative easing hasn't boost economic activity



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NEWS

Engineers take steps to ready Chile rescue

By MATT MOFFETT

SAN JOSE MINE, Chile—Engineers worked to reinforce part of the 625-meter-long shaft through which they will try to pull out 33 trapped miners, as the government fine-tuned an ambitious rescue operation set to begin Wednesday.

The government said work to install steel casing in the topmost 95 meters of the shaft began Sunday morning and was expected to be finished early Monday. Rescuers will then build a scaffolding above the shaft from which they will lower a rescue capsule into the mine.

"We are going to run all the tests that are necessary until we're comfortable that the system functions," said Mining Minister Laurence Golborne.

The San Jose miners, trapped in a cave-in on Aug. 5, have endured far longer than survivors of any previous mine accident. Their drama has been moving toward a conclusion since Saturday morning, when a powerful rescue drill broke through to an underground chamber where the men have taken refuge some 625 meters underground.

Health Minister Jaime Manalich said miners were intensifying physical training ahead of the extraction operation and were also starting a special diet to ensure that their arterial pressure stays at a healthy level during the ascent. "They look very good," he said. "We have to recognize that anxiety is rising, but we are very content to see them in a good state of health."

The government plans to bring the miners out, one at a time, in a capsule known as the Phoenix that is outfitted with its own oxygen supply and communications system.

Jean Christophe Romagnoli, a doctor specializing in sports medicine who has been putting the miners through workouts, said rescuers were analyzing medical data gleaned from a sophisticated chest strap to make a final determination on the order in which the men will be brought out. He indicated that some of the more experienced and physically fit miners would likely be among the first group taken out, because they would be better able to work out any bugs in the capsule and to provide rescuers with useful information on its performance.

After dropping a camera into the shaft Saturday afternoon, rescuers determined they would need to install pipe in only a small stretch at the top.

"The shaft has been revised and it is in very good condition, leading to the conclusion that this shaft doesn't have to be cased completely," Mr. Golborne said late Saturday.

Engineers and drill operators involved in boring the shaft expressed confidence that it will serve as a secure escape route for the miners. "It's very solid rock," said Brandon Fisher, president of the U.S. company that provided the drill bit technology for the hole, **Center Rock Inc.**, of Berlin, Pa. "The only zones I would think were questionable are zero to 40 meters...softer zones where you could have rocks fall." That is the part of the hole that will be reinforced with pipe.

Mr. Fisher added: "From the

video I've seen of the hole, it's very stable. If I was in the position (the miners) are in, there's no question I'd go through it."

Saturday's breakthrough marked the culmination of weeks of arduous work for Mr. Fisher, one of a handful of Americans laboring on the shaft, which was drilled with a rig made by West Chester, Pa.-based **Schramm Inc.** The Schramm-Center Rock team got to the miners faster than two other drills that the government had brought to the mine.

"It's a wonderful relief," Mr. Fisher said. "We were all in, and throwing everything mental and

physical that we had," at the job.

At about 7:30 a.m. Saturday, rescuers told the miners to distance themselves from the area where the drill would enter the underground chamber. The breakthrough occurred about half an hour later.

President Sebastian Piñera vowed that he wouldn't ease up with the end of the drama in sight. Regarding the timetable for the extracting the trapped men, he said, "whether it is Tuesday, Wednesday or Thursday isn't important. What's important is rescuing them alive and securely and we're not going to spare any effort in that."



Relatives of miners embrace U.S. drill operator Matt Staffel, left, on Saturday.

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EUROPE NEWS

U.K. nears resolution on where ax will fall

By LAURENCE NORMAN

LONDON—The U.K. Treasury is now in the “end game” of completing its spending review, which will set out the size of spending cuts that government departments face in coming years.

U.K. Chancellor of the Exchequer George Osborne is scheduled to announce the spending review in parliament on Oct. 20 in what could prove a pivotal day for Prime Minister David Cameron’s five-month-old coalition government.

According to a person familiar with the matter, the coming days will involve intensive discussions to settle outstanding issues, including still highly contentious questions over the size of cuts to the defense and welfare budgets.

The “star chamber,” which probes departmental plans, will gather Tuesday in the first of at least two meetings this week. The aim on Tuesday will be to finalize capital spending for the 2011-14 spending review period.

The so-called quadrilateral committee, which is the main driver of the spending review, will also hold daily meetings. That group includes Messrs. Cameron and Osborne alongside Deputy Prime Minister Nick Clegg, leader of the junior Lib-

eral Democrats coalition party, and Danny Alexander, chief secretary to the Treasury.

The Treasury expects to reach provisional agreements with smaller and midsize departments by midweek, including the Ministry of Justice and the Department for Transport. Treasury also hopes to have reached a deal with the Department for Business by then, the person familiar with the matter said. That still leaves Mr. Osborne seeking to close a deal with the departments of education, welfare and defense.

“We’re into the end game. We’re aiming to have settled all but the ‘big’ by the middle of the week, so we can focus on them and close the deal,” the person familiar with the matter said.

The scale and detail of the spending cuts will likely shape the political battles of the next few years, possibly all the way up to the next general election, due in 2015.

The cuts, which are expected to average 25% across most government departments, could also play a key role in determining whether the U.K.’s economic recovery takes root or reverses. The Conservative-Liberal Democrat coalition government says the cuts will restore confidence and growth by demonstrating that the government is dealing decisively

with the country’s £155 billion (\$247 billion) budget deficit. The opposition Labour party warn the austerity measures could tip the economy back into recession.

Amid the government’s drive to save money, on Monday U.K. retail entrepreneur Philip Green is to release the findings of his government commissioned review into civil service efficiency. The report will conclude the government has consistently failed to make the most of its scale, buying power and credit rating. Sir Philip’s review will also outline what it says is the “poor quality” of data relating to how the government spends its money.

While the public has been broadly supportive of the need for austerity, there have been growing anxieties in recent weeks. Meanwhile, the scale of the political pain the coalition partners could experience was revealed last week when Mr. Osborne stoked unrest at the Conservative Party’s annual conference by axing a child benefit payment for higher income earners.

Those concerns have crept into comments from senior officials recently. Messrs. Clegg and Cameron have been stressing that the spending cuts won’t come all at once and that the government will seek to protect low-income Britons.



George Osborne at the U.K. Conservative Party conference last week.

Turkey lifts outlook for growth of GDP

By JOE PARKINSON

ISTANBUL—The Turkish government on Sunday dramatically revised upward its gross-domestic-product growth expectations to 6.8% for this year and 4.5% for 2011, underscoring the economy’s rapid recovery from the financial crisis.

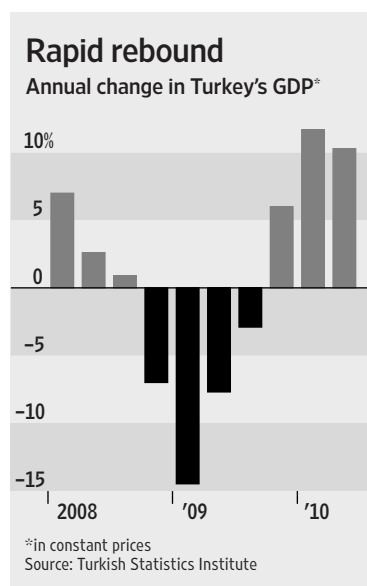
But Ankara, outlining its midterm economic plan, also more than doubled its estimate for this year’s current-account deficit, a persistent weak spot for the economy in times of domestic demand-fueled growth.

The market widely expected the upward growth revision, from 3.5% for 2010 and 4% for 2011. Turkey’s economy has rebounded rapidly from a near-5% contraction last year, expanding 11.7% in the first quarter and 10.3% in the second quarter—tying China for the fastest growth in the Group of 20 leading nations.

Economists said the government’s growth forecasts were “conservative,” while the inflation expectations were “skewed to the low side,” leaving plenty of upside potential.

“The first details present a very doable budget program....Indeed, even if there is some extra pre-election spending in 2011, it doesn’t really matter, as Turkey is in a very comfortable fiscal position, with one of the most credible track records globally, and a falling debt/GDP ratio,” said Simon Quijano-Evans, chief emerging-markets strategist at Crédit Agricole Cheuvreux in Vienna.

With the rapid expansion, however, Turkey’s current-account defi-



cit has widened sharply this year as consumer-fueled growth caused imports to surge, raising concern among some economists and credit ratings agencies that the economy has a structural imbalance that leaves it exposed to external shocks.

The government Sunday raised its forecast for this year’s current-account deficit to \$39.3 billion, or 5.4% of gross domestic product, from \$18 billion. This year’s trade deficit is expected at \$65.8 billion.

The program forecasts that year-end inflation will fall to 5.3% in 2011 and 5% in 2012, from 7.5% this year. Turkey’s unemployment rate is expected to decline to 12% in 2011 and 11.7% in 2012, from 12.2% this year.

Russia lists Moscow mayor candidates

By GREGORY L. WHITE

MOSCOW—Russian President Dmitry Medvedev over the weekend released a short list of candidates for mayor of Moscow, including a top aide to Prime Minister Vladimir Putin, highlighting the Kremlin’s tightening of control over the capital since Mr. Medvedev ousted Yuri Luzhkov from the job last month.

Mr. Putin’s chief of staff Sergei Sobyenin, the most senior of those on the list, was most likely to get the job, politicians and analysts said. The other three on the list were the transport minister, a former Moscow official who is now governor of the Nizhny Novgorod region and a former Luzhkov lieutenant.

The Kremlin said Mr. Medvedev will announce his final choice by Oct. 19. The appointment has to be approved by the Moscow city council, but the ruling United Russia party’s control of that body makes that step a formality.

Meeting with United Russia leaders Saturday, Mr. Medvedev said that “for the new mayor of Moscow the main task...remains maintaining the standard of living in Moscow, resolving social problems, continuing the social policy that was in place, though naturally at a new level.”

Moscow—which accounts for nearly a quarter of Russia’s gross domestic product and about a tenth of its electorate—is vital economically and politically. With parliamentary elections set for late 2011 and a presidential poll months later, the stakes are especially high now for United Russia.

The party’s domination was expected to be confirmed in regional



Putin aide Sergei Sobyenin, seen in a 2005 photo, is on the short list.

elections held Sunday around the country. The Interfax news agency quoted a top United Russia official as saying preliminary results showed support for the party remained strong, with improved showings in several regions. Full results are expected later this week.

“The federal center has taken responsibility for the future of Moscow,” said a senior United Russia legislator. “It doesn’t matter who is appointed mayor of Moscow, the revolution has already happened.”

In Moscow, Mr. Luzhkov won public support with city-funded supplements to pensions and wages for the legions of state workers in the high-cost capital. Analysts noted that tighter Kremlin control of the capital will also bring greater responsibility, since Mr. Luzhkov’s independent political persona allowed

federal officials to distance themselves from unpopular decisions and city problems, such as traffic, overbuilding and allegations of election rigging.

“Now, the center of decision-making has moved,” said the senior legislator. “The decisions will be taken by the president and the prime minister.”

During his 18 years as mayor, Mr. Luzhkov tightly controlled the city, taking it from fears of food shortages in the early 1990s to the glitzy metropolis it is today.

Although he was a founding member of United Russia, his long tenure and strong public support allowed him to retain a degree of independence that few other senior figures were allowed. But after a rhetorical run-in with the Kremlin over the summer in which Mr. Luzhkov seemed to question the president’s authority, Mr. Medvedev fired him last month.

Since then, Mr. Luzhkov, 74 years old, has said he plans to build some kind of political movement to push for what he calls greater democracy, in particular the restoration of elections for regional governors, including the mayor of Moscow.

But politicians and analysts are skeptical that he would become a serious political player again, given his years of close ties to the Kremlin. Instead, some suggest that the talk of challenging the authorities could be an effort to head off potential corruption charges against him or his wife.

Both have repeatedly denied any wrongdoing, and neither has ever been charged. But prosecutors are investigating several corruption cases involving his administration, officials said.

EUROPE NEWS

Serb police crack down on rioters

Associated Press

BELGRADE, Serbia—Serbian riot police fought running battles Sunday with thousands of supporters of the far right who hurled Molotov cocktails and stun grenades to try to disrupt a gay-pride march in downtown Belgrade. More than 140 people were hurt and more than 200 were arrested, officials said.

Thousands of police officers sealed off the streets in the capital where the march took place, repeatedly clashing at several locations with rioters who tried to burst through security cordons.

Several parked cars were set on fire or damaged, shop windows were broken, garbage containers were overturned and streets signs destroyed. Several shops were looted before police restored peace in the late afternoon.

The anti-gay rioters also fired shots and threw Molotov cocktails at the headquarters of the ruling pro-Western Democratic Party, setting the building's garage on fire. The state TV building and the headquarters of other political parties were also attacked, with many windows shattered by stones.

Protesters chanting "death to homosexuals!" hurled bricks, stones, glass bottles and stun grenades at riot police. Police responded by firing tear gas and deploying armored vehicles to disperse the protesters, who remained in the heart of the capital even after the brief pride march ended.

Interior Minister Ivica Dacic said police estimated that 6,000 rioters faced 5,600 policemen. He praised the police "for preventing even more serious bloodshed."

Sunday's gay-pride march was viewed as a major test for Serbia's government, which has pledged to protect human rights as it seeks European Union membership. Right-wing groups broke up a gay march in 2001 and forced the cancellation of last year's event.

"This was undoubtedly a political message, an attempt to destabilize the country and this government," said political analyst Miljenko Dereta. "The rioters had political support."

The protesters hijacked a bus, ordered all its passengers and the driver out, and pushed it down a steep street before it hit an electric pole on a main Belgrade square. They also destroyed a mobile breast-cancer detection unit that was parked on another square.

Police said 141 people, mostly police officers, were injured. They said 207 people were detained, 100 of whom remain in custody, suspected of violent behavior.

Right-wing groups say the gay events run counter to Serbian family and religious values.

Senior Justice Ministry official Slobodan Homen said the state response would be "fierce." He said the city center is covered with surveillance cameras, the rioters have been identified. He said they could face up to eight years in prison.



Police detain a protester in Belgrade on Sunday. Far-right rioters tried to disrupt a gay-pride march in the capital.

Hungary reservoir is seen holding up

Associated Press

DEVECSER, Hungary—Hungarian engineers didn't detect any new cracks overnight in a red-sludge reservoir that was at risk of collapse, officials said Sunday, expressing hope there wouldn't be a repeat of the toxic deluge that killed at least seven people last week.

Disaster agency spokesman Tibor Dobson said the older cracks were being repaired, but that it was too soon to consider lowering the current state of alert. Protective walls were being built around the reservoir's damaged area to hold back any further spills.

"I would describe the situation as hopeful, but nothing has really changed," Mr. Dobson told the Associated Press. "The wall to protect Kolontar is planned to be finished by tonight, but it will likely be several days before residents may be able to move back."

Nearly all of Kolontar's 800 residents were evacuated Saturday, when Prime Minister Viktor Orban said the north wall of the massive storage pool was expected to "very likely" collapse after cracks were detected at several points along the dam.

The roughly 6,000 residents of neighboring Devecser, just north of Kolontar, were told by police Saturday to pack a single bag and get ready to leave at a moment's notice. "This hasn't changed," Mr. Dobson said. "We are still on guard in case of any more spills."

Red sludge is a byproduct of the

refining of bauxite into alumina, the basic material for manufacturing aluminum. Treated sludge is often stored in ponds where the water eventually evaporates, leaving behind a largely safe red clay. Industry experts say the sludge in Hungary appears to have been insufficiently treated, if at all, meaning it remained highly caustic.

On Monday, the sludge flooded three villages in less than an hour, burning people and animals. At least seven people were killed and at least 120 were injured. Several of those who were hospitalized were in serious condition. Around 700,000 cubic meters of the caustic red sludge was released.

The red sludge devastated creeks and rivers near the spill site and entered the Danube River on Thursday, moving downstream toward Croatia, Serbia and Romania. But the volume of water in the Danube appeared to be blunting the sludge's immediate impact.

In Romania on Sunday, local authorities were testing the water every four hours in the village of Bazias, where the Danube enters Romania from Serbia, and will continue to carry out tests this week, said Adrian Draghici, director of Romanian water for Mehedinti county.

Romanian fishermen sailed into the Danube and villagers fished on the banks of the river for pike, which is plentiful in the Danube. But local authorities warned residents about letting animals drink from the Danube and urged them to be careful with fishing.

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U.S. NEWS

Gates to press China on ties between militaries at Asean

By ADAM ENTOUS

HANOI, Vietnam—U.S. Defense Secretary Robert Gates faced a diplomatic challenge as he arrived in Vietnam for a regional defense summit where he will try to persuade Beijing to fully restore military relations, which were frozen in January, at the same time Washington closes ranks with China's regional rivals.

Mr. Gates was set to meet Monday with his Chinese counterpart, Defense Minister Liang Guanglie, on the sidelines of the Association of Southeast Asian Nations summit in Hanoi. The Pentagon sees the meeting as a step toward establishing a more lasting framework for military ties that can endure the "friction and turbulence that is inevitable," said a senior U.S. defense official traveling with Mr. Gates.

The two sides agreed last month to gradually re-engage nearly nine months after China broke off military contacts to protest Washington's move to sell up to \$6.4 billion in arms to Taiwan.

U.S. officials see the meeting with China at Asean, as well as maritime-security talks with China later this week in Hawaii, as only tentative signs of progress. "We don't think we're there yet," a senior U.S. defense official said. Mr. Gates will emphasize in the sideline meetings that maintaining stable military relations with the U.S. is of value to the Chinese, said Pentagon press secretary Geoff Morrell.

At the same time, Mr. Gates, while in Hanoi, will seek to reaffirm U.S. support for Vietnam and other countries in the region that have voiced growing concern about China's military assertiveness.

Tensions have spiked in recent months. A confrontation over a Chinese sea captain's arrest last month escalated into the worst Tokyo-Beijing dispute in years. And last week, Vietnam accused China of detaining



Vietnamese Maj. Gen. Nguyen Huu Manh, second from left, greets Robert Gates, right, as he arrives in Hanoi on Sunday.

Vietnamese fishermen last month near disputed islands in the South China Sea.

But Mr. Morrell said the U.S.'s regional goals aren't mutually exclusive.

"We can have, hopefully, improved bilateral relations with the Chinese while, at the same time, both of us engaging multilaterally effectively in the region," Mr. Morrell said. "They can enhance one another. They don't have to detract from each other."

Underscoring the sensitivities, U.S. Secretary of State Hillary Clinton infuriated China in July when she told an Asean conference in Hanoi that the U.S. had a national interest in freedom of navigation in

the South China Sea. Vietnam, Taiwan, China, the Philippines, Malaysia and Brunei each claim all or part of the Spratly Islands and the nearby Paracels. Substantial reserves of petroleum are thought to be located off the coasts of the islands.

U.S. officials wouldn't say whether Mr. Gates would address the South China Sea dispute as publicly as Mrs. Clinton did, but they made clear he wasn't backing away from the message.

"We absolutely are working with the countries of the region to deal with the security concerns they see," said a senior U.S. defense official.

Another senior U.S. defense offi-

cial added: "There should be no question in anybody's mind about our will, our capability and presence in the region and that we are an enduring feature of the Asian Pacific architecture."

Tensions between China and Vietnam have been simmering since an October 2009 spat when Hanoi accused the Chinese military of beating and robbing Vietnamese fishermen seeking shelter from a typhoon in the South China Sea.

Vietnam responded by strengthening military ties with the U.S. The two countries held their first defense talks in August, 15 years after normalizing relations, and U.S. officials held out the possibility of expanding those ties in the future.

IMF summit fails to tame conflicts on currencies

Continued from first page

gested by some Chinese academics, that Beijing should offer to limit exports to the U.S. temporarily as a way to defuse tensions, in the same way that Japan limited auto exports to the U.S. in the 1980s.

"That's an opinion of a small group of economists," Mr. Zhou said. "It's not seriously considered."

With the two sides at loggerheads, IMF Managing Director Dominique Strauss-Kahn said the IMF will take a bigger role in currency issues. On Friday, he suggested a "systemic stability initiative," in which the IMF would work on a number of fronts to ease currency battles.

But by the end of the IMF meeting on Saturday, he described a narrower effort in which the IMF would focus its reviews of country policies more heavily on currency issues. He said he also will attend the country-review sessions on China, as he already does with those on the U.S. and the euro zone.

Some European officials backed a broader role for the IMF, but the IMF's ability to act is limited because it can't enforce its judgments. The U.S. official said the IMF should continue to play an advisory role to the G-20.

Under the G-20's so-called rebalancing initiative, trade-surplus countries have agreed to shift away from export-led growth to domestic consumption. For China, that implies an appreciation of the yuan. Trade-deficit countries—especially the

Since White House economic official Lawrence Summers visited Beijing on Sept. 6 to press China, the yuan has strengthened about 2% against the dollar.

Scientists find gene sites linked to obesity

By RON WINSLOW

A research consortium says it has identified 18 new gene sites linked to obesity and 13 others associated with how fat is distributed in the body, advances that shed new light on the complex biology underlying one of the world's most pressing public-health problems.

The findings are based on studies involving nearly 250,000 people, making the effort the largest so far to unravel the genetic basis of common human traits, researchers said. They were published online Sunday in two papers by the journal *Nature Genetics*.

All told, researchers found 32 genetic sites associated with obesity, including 14 previously associated with the condition. Only one of the sites linked to body-fat distribution was previously known.

More than 25% of U.S. adults are obese, as measured by a ratio of height and weight known as body mass index, or BMI. Around the world, developed nations and emerging economies alike have seen

alarming rises in the prevalence of obesity, which is associated with higher risks of heart disease, cancer and other serious ailments as well as soaring health-care costs.

Weight gain generally results when people burn fewer calories than they consume. Genes, personal choices and an environment that encourages fast food and discourages exercise all play roles. But many people keep weight off without close attention to diet and exercise, while others put on pounds despite healthy habits. Researchers believe genetic differences may explain some of this variation.

"If we could understand a lot more about why people are resistant to our environment and stay lean despite all the pressures there are to gain weight, we'd have a better shot at getting better therapies than we have now," said Joel Hirschhorn, a physician and researcher at Children's Hospital Boston who was involved in both studies.

But translating the findings into tools for clinicians and consumers is, for the most part, many years off,

researchers said. The new studies identify specific areas of the human genome—not actual genes. More research is needed to determine what genes are involved and, in many cases, to figure out their function before work might begin on new therapies.

Moreover, combining the effects of all 32 variants explained only a small fraction of the differences in BMI.

"If you just ask people whether their parents were obese or not, the ability to predict whether a person is going to be obese is better" than all the gene sites the researchers identified, said Michael Jensen, an obesity expert in the endocrine research unit at Mayo Clinic, Rochester, Minn.

Dr. Jensen, who wasn't involved in the study, said the new findings might help in finding new drug targets for obesity, but measuring variability in DNA "doesn't seem to be where the money is if you want to explain human obesity."

Most of the genes previously linked to obesity are involved in ap-

petite regulation and energy balance. Thus the new results "are pretty exciting" because they indicate that much of the biology underlying obesity is uncharacterized, said Elizabeth K. Speliotes, a physician and researcher at Massachusetts General Hospital, Boston who was involved with both studies.

The 32 gene sites related to overall obesity indicate that people could have up to 64 genetic variants (one from each parent) affecting their risk, Dr. Speliotes said. The study found that people with more than 38 variants associated with increasing body mass index were 15 to 20 pounds heavier than those who had fewer than 22 such variants.

The study related to body-fat distribution found that women were much more likely than men to have genetic variants predicting development of fat in the hips and thighs as opposed to the abdomen. Abdominal fat is associated with a higher risk of diabetes and heart disease. Studies show that fat around the hips and thighs may provide protection against such diseases.

U.S.—have agreed to boost savings and reduce imports.

The IMF meeting did produce progress in continuing efforts to reorganize how the institution is governed. Mr. Boutros-Ghali said he expects a deal by the G-20 summit in which Europe will, in effect, cede two of its eight seats on the IMF's 24-member executive committee.

Developing nations have been pushing for a change to represent their growing importance in the global economy.

With five of the European seats, the board member represents a group of countries, whereas with the other seats board members represent only their own countries.

Mr. Boutros-Ghali said IMF members are coalescing around a European plan to "rotate" the heads of the multinational constituencies, so that the Europeans take a secondary role.

For instance, Belgium represents a constituency that includes Turkey, which has come to have a more significant role in the global economy than Belgium now has. "They'll rotate seats," Mr. Boutros-Ghali said. The board members "won't have a European face" as frequently as before.

U.S. NEWS

Democrat bastions besieged by GOP

By NEIL KING JR.
AND PETER WALLSTEN

Republican challengers are suddenly threatening once-safe Democrats in New England and the Northwest, expanding the terrain for potential GOP gains and raising the party's hopes for a significant victory in next month's elections.

Republican advances in traditionally Democratic states, including Connecticut, Oregon and Washington, may not translate into a wave of GOP victories. But they have rattled local campaigns and forced the Democrats to shift attention and money to races they didn't expect to be defending.

Rising sentiment against the party in power has washed ashore even in coastal Oregon, where Democratic Rep. Peter DeFazio won his 10th re-election two years ago with 82% of the vote.

"I am having the same problem that Democrats are having across the country, which is ennui," he said, noting that his opponent's yard signs "are thick" across much of the district. Mr. DeFazio said he is facing the fight of his political life.

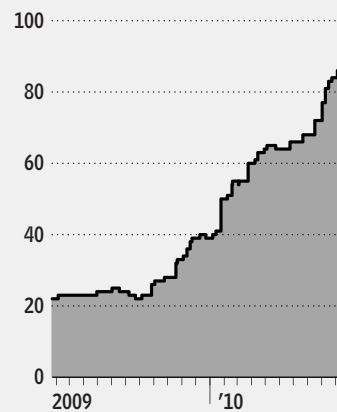
House Republican leaders in recent weeks have tamped down expectations, noting that Democrats still have significant financial resources and could prove resilient. There is plenty of time for voter sentiment to shift, with three weeks before Election Day.

The expanded battlefield map, however, has prompted a shift in tone. Oregon Rep. Greg Walden, vice chairman of the National Republican Campaign Committee, bluntly predicted his party is heading toward a big win. "The Democrats are stand-

Now on the radar | Democratic seats previously thought untouchable

	Jim Himes Connecticut 4th district First term		Chris Murphy Connecticut 5th district Second term
	Tim Walz Minnesota 1st district Second term		Scott Murphy New York 20th district First term
	Peter DeFazio Oregon 4th district 12th term		Kurt Schrader Oregon 5th district First term

Number of endangered Democratic House seats



Note: Figures represent competitive seats or Democratic seats favoring Republicans
Source: Cook Political Report
Photos: UPI (Chris Murphy); Associated Press (5)

ing on a beach with the water going out and there is a tsunami coming their way," he said.

Some Democrats are signaling the potential for a rout, particularly in the House. A new survey by Democratic pollster Stanley Greenberg gives Republicans a six-point edge, 49% to 43%, when likely voters are asked which party they support in House races. That's a margin pollsters generally believe foreshadows large gains.

Mr. Greenberg said the gap is narrowing as the party base becomes more engaged and voters start paying attention to candidates and their television ads. But it must close quickly, he said, for Democrats to be in contention to save their House majority. "I do find move-

ment," with the numbers narrowing a bit, Mr. Greenberg said.

Democrats are buying ads in places they hadn't previously, an indication the battlefield is expanding. That includes New England, which hasn't a single Republican House member. A new ad by the Democratic Congressional Campaign Committee began airing this week in the Massachusetts district covering Cape Cod, where Democratic Rep. Bill Delahunt is retiring and ex-police sergeant Jeff Perry is posting a strong GOP challenge.

In Connecticut, polls published last week show Democratic Reps. Chris Murphy and Jim Himes in dead heats with GOP rivals. The non-partisan Cook Political Report on Friday moved Mr. Murphy's race

into a more competitive category, from a "likely" win to "lean" Democratic.

"It's obviously a sign of the times that these are competitive races," said Democratic Rep. Chris Van Hollen from Maryland, chairman of the House Democrats' campaign committee. He said many of these contested districts would be swing races most years.

Republicans need a net gain of 39 seats to take control of the House. The party could also lose as many as four House seats they now hold. Republicans have fainter hopes of gaining the 10 seats needed to take the Senate.

Nonpartisan handicappers say the GOP appears all but certain to gain about 30 House seats, largely

from conservative or depressed districts in the South, Northeast and industrial Midwest. Pennsylvania, Ohio and New York look particularly vulnerable.

Now, pollsters and analysts say the pressure building in liberal corners of the country points to the potential for a so-called wave election, similar to the drubbing Democrats took in 1994. That could deliver a huge turnover in the House.

Democratic voters remain less interested in the race, a big factor behind the party's woes. The latest Wall Street Journal/NBC News poll found 66% of Republicans reporting intense interest, versus 52% of Democrats.

"What we know in a wave election is, the losing side is discouraged and fails to show up at the polling places," said Democratic pollster Peter Hart, co-director of the Journal poll.

GOP strategists said the party's focus this year on fiscal issues rather than social wedges has helped give centrists comfort in backing Republicans.

In Connecticut, a new survey by the Democratic firm Merriman River Group found Mr. Himes in a statistical tie with his GOP challenger, state Sen. Dan DeBicella. The race has turned nasty. One flier from the state Democratic Party features a picture of Mr. DeBicella with the words "Reckless Radical" scrawled across his face. Mr. DeBicella describes himself as a moderate who supports abortion rights.

"This race is a toss-up, and I think it's going to be seats like this that determine if Republicans will pick up 30 seats or 60 seats," Mr. DeBicella said.

Employers reluctant to fill their openings

[The Outlook]

By MARK WHITEHOUSE

Job openings aren't what they used to be.

Among the explanations for the stubbornly high U.S. unemployment rate, factors such as housing troubles and extended unemployment benefits have played a leading role. Increasingly, though, economists and job seekers are identifying another problem: Employers are being pickier, or not trying as hard as they usually do to fill the openings they have.

The reasons for the foot-dragging are closely related to the reasons employers aren't creating many openings in the first place. Companies lack confidence about the outlook for consumer demand, they're not sure what the government will do with taxes and regulation, and they want to keep squeezing as much output from their current workers as they can. They also feel they have plenty of time to pick the best candidates.

"What we're seeing is delay, delay," says Jeff Joerres, chief executive of staffing firm Manpower Inc., noting that clients are taking a lot longer to fill positions, even when they've been presented with the right

candidate. He says he expects the problem to persist at least through next year.

The slow uptake could actually be a good sign if it means unemployment is being held up more by a temporary lack of confidence than longer-term "structural" flaws such as improperly trained workers. "It means there is some reason to think there's an exit path from the weak labor market that doesn't require us to retrain the entire work force," says Steve Davis, a professor at the Chicago Booth School of Business.

So far, employers aren't showing much sign of the confidence needed to turn the job market around. The unemployment rate held steady at 9.6% in September, and hires are growing even slower than the low level of job openings would suggest. Economists estimate that if openings were turning into jobs at the pace they usually do, the unemployment rate would be about three percentage points lower.

Donald Washkewicz, chief executive of industrial-parts maker Parker Hannifin Corp., says his company is being careful about hiring ahead of the November congressional elections. Uncertainty over issues such as tax increases and environmental policy, he says, are aggravating

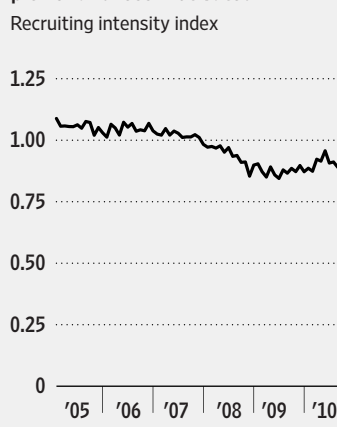
Jobs disconnect

Hires aren't keeping up with openings...



Sources: U.S. Labor Department; Steven Davis, Chicago Booth School of Business

...in part because employers are pickier and less motivated.



concerns about the broader economy: "Anything's possible in November. Things could get better for business—or they could get worse."

Some companies complain that when they do try to hire, they have a hard time finding the right people. Extended unemployment benefits could make people less willing to take the jobs available, or mortgage troubles and poor credit scores could make it difficult for people to move for work.

But job seekers say some of the blame should be placed on the companies—either they're not trying very hard, or they're waiting for the perfect employee.

"I think a lot of companies are fishing," says Korey Stephens, a former mortgage-finance manager who has been looking for work since early 2007, while simultaneously training to update his computer skills. "They're just putting their feelers out, and if they find someone who's ridiculously awesome then maybe

they'll hire them."

John Meline, a 39-year-old patent attorney who was laid off from a major law firm in October of last year, says he's seen some positions in his area of specialization advertised for as long as six months. When he sends in his resume, he gets no response despite his six years of applicable experience.

"It tells me that they're not really serious about filling the job, or they're going to be hyper-selective," he says.

A recent study by three economists—Mr. Davis of Chicago Booth, R. Jason Faberman of the Federal Reserve Bank of Philadelphia and John Haltiwanger of the University of Maryland—suggests the job seekers have a point. Using Labor Department data, the economists constructed an estimate of "recruiting intensity," which encompasses various factors that influence how fast employers fill open jobs, such as advertising, pay and the rigor of their screening process.

As of August, the recruiting intensity index stood 14% below the average for the seven years leading up to the recession. The economists estimate that the lack of intensity accounts for about a quarter of the shortfall in hires compared with openings.

WORLD NEWS

Defector dies as transition begins

By EVAN RAMSTAD

SEOUL—The death of North Korean defector Hwang Jang Yop, the highest-ranking member of the Pyongyang elite to flee the country, leaves the exile community without its strongest voice just as the North's authoritarian regime is beginning a risky transition of power.

Mr. Hwang, 87 years old, was found dead in his home Sunday morning by a security guard. Police said there were no signs of foul play, but they ordered an autopsy to determine a cause of death. He had been in exile 13 years.

He died on the same day the regime he repudiated and fled put on one of its biggest spectacles in years—a military parade in the capital, Pyongyang, that was attended by dictator Kim Jong Il, along with his son and heir apparent Kim Jong Eun. It was the Kims' first joint appearance on live TV in North Korea and another step in a highly choreographed succession plan.

Mr. Hwang for decades served in high offices of the North Korean elite, including as a political party secretary and president of Kim Il Sung University, and was personal clerk to Kim Il Sung, founder of North Korea and father of Kim Jong Il. But Mr. Hwang didn't believe power should have passed to the son and he clashed with Kim Jong Il in the North Korean media in the mid-1990s. He left his family behind when he defected in 1997. On a stop-over in Beijing, while traveling back to North Korea after a conference in Japan, Mr. Hwang fled to the South Korean embassy. A diplomatic standoff followed, as China decided how to proceed. After five weeks, Mr. Hwang was allowed to fly to Seoul.

From then on, Mr. Hwang became one of the most outspoken and harshest critics of the Kim re-



North Korea's Kim Jong Il and his son Kim Jong Eun in Pyongyang Sunday.

gime. He gave lectures once or twice a month in Seoul and contributed columns to the Daily NK website, which is edited by other defectors.

"I feel so sad that he died before Kim Jong Il did," said Hyun In-ae, secretary-general of North Korea Intellectuals Solidarity, a defector group in Seoul. She said Mr. Hwang's defection "surely made other North Korean officials rethink the regime and let people in other countries know how terrible the regime is."

In a column published last week,

Mr. Hwang said Kim Jong Il is "a man who stole a whole country." He also derided the succession process that was formalized during a meeting of the ruling Workers' Party in Pyongyang two weeks ago. The party approved Mr. Kim's decision to appoint his son, who is believed to be 26 or 27 years old, as a four-star general and to several political posts. "Now he is making fun of and humiliating the North Korean people, making them shout 'Hurrah!' and ignoring the world after conferring a boy with the title 'general,'"



Hwang Jang Yop, seen in a 2009 photo, had been in exile for 13 years.

Mr. Hwang wrote.

Earlier this year, South Korean authorities thwarted a plot by North Korean spies to assassinate Mr. Hwang. The North Koreans were later convicted of conspiracy to murder by a South Korean court. A website believed to be affiliated with the North Korean government denied the country's involvement, though official state media said nothing.

In Pyongyang, the Kim regime for weeks had been building up the military parade, conducted for the 65th anniversary of the establishment of the Workers' Party. Trucks, tanks and aircraft were moved to the city for the show in recent weeks. Neither of the Kims spoke during the parade. Kim Jong Il's voice has been heard by the North Korean public only once, at a similar military-type rally in 1992.

The regime was so confident in the spectacle that it invited some Western reporters to cover it. To help them technically, the regime activated Web addresses that it reserved last year but hadn't used, according to Computerworld, a technology-industry trade publication.

That move appeared to be the first time Internet material was published from server addresses assigned to North Korea. A handful of websites affiliated with the North Korean government are run from servers in China and Japan.

Even so, news accounts emerged in recent days of public criticism in North Korea of the succession process. Radio Free Asia, a U.S.-based AM and shortwave service, last week reported on the appearance of anti-Kim graffiti in the city of Chongjin and on criticism of the younger Kim by military officers.

Meanwhile, U.S. officials said last week they are looking for ways to resume a dialogue with Pyongyang next year. Senior U.S. officials have noted some steps toward rapprochement between North and South Korea, following Pyongyang's alleged sinking of a South Korean naval vessel, the Cheonan, in March.

But Washington remains uncertain whether Kim Jong Il's start of a succession will aid international diplomacy aimed at ending the North's nuclear program.

U.S. officials said their interest in re-engaging the North has been heightened by growing concerns in Washington and Asian capitals that Pyongyang may be further expanding its nuclear program after testing two atomic devices over the past four years.

In a meeting with top executives of The Wall Street Journal and its parent company News Corp. last October, Mr. Hwang said Kim Jong Il would never stop North Korea's pursuit of nuclear weapons, and described the dictator, whom he tutored in the 1960s, as an uncurious person who wouldn't do anything difficult. "He never read books about history," Mr. Hwang said. "He is only interested in dictatorship."

—Jaeyeon Woo and Jay Solomon contributed to this article.

Kyrgyzstan votes after year of turbulence

By KADYR TOKTOGULOV

BISHKEK, Kyrgyzstan—Turnout was heavy as voters in this Central Asian republic went to the polls in parliamentary elections Sunday that are likely to bring half a dozen pro-government and opposition parties into parliament just months after bloody unrest that overthrew the previous president and killed hundreds of people in interethnic clashes in the country's south.

Home to an airbase vital to the U.S.-led war effort in Afghanistan, Kyrgyzstan is a strategic country that Western officials hope will become a rare example of democratic rule in a region dominated by autocrats. Though tensions ran high, voters turned out in force, and fears of widespread violence proved unjustified.

Kyrgyz President Roza Otunbayeva, who was swept into power as caretaker leader in April after mobs sent former President Kurmanbek Bakiyev fleeing to Belarus, said the Kyrgyz were choosing to go back to their democratic roots by electing a new parliament that will have vast power in the country's new political landscape.

None of the parties are likely to get a majority of votes to form one-party government. Coalition government is unprecedented for the ex-



A voter casts his ballot into a portable ballot box, helped by an election official.

Soviet Central Asia states ruled by longtime authoritarian leaders.

"We're returning to the constitution of 1993, which was balanced and adhering to democratic principles," Ms. Otunbayeva told reporters after casting her vote in the capital Bishkek at a music school. "This is a day when a small country chooses to be led by its own people."

"A new state is being born. The one with a new form of government which will meet democratic principles and interests of the people," she said.

Ms. Otunbayeva said she expected both her allies and oppo-

nents to be elected in Sunday's vote in an apparent reference to half a dozen political parties that were widely expected to get into parliament. Both the U.S. and Russia—each of which have military bases in Kyrgyzstan—have courted her government. Moscow has warned that the shift to a parliamentary system could bring Islamic extremists to power, while Washington has welcomed the shift as a step toward greater democracy.

The country's Central Election Commission said 57% of Kyrgyzstan's 2.9 million registered voters turned out to cast ballots.

Ms. Otunbayeva said that she didn't mind that some leading parties had sought political support from Russia's and Kazakhstan's leaders to boost their standings during the election campaign.

Ar-Namys party's leader Felix Kulov had a meeting with Russian President Dmitriy Medvedev. Mr. Kulov has positioned himself as a pro-Russian politician and is likely to gather most of his support from ethnic Russians and Uzbeks.

Omurbek Tekebayev, leader of Ata-Meken party, who was one of those behind the April uprising against Mr. Bakiyev and was the main architect of the new constitution, was defiant in the face of Russian criticism, suggesting that Moscow leaders had "tried to impose their vision for development of the country." He attributed Moscow's criticism to its fear that Kyrgyzstan might succeed and set an example for similar political changes in their own countries.

Mr. Tekebayev also said that the future of the U.S. military air base, an important transit hub for the U.S. war effort in nearby Afghanistan, would be up to a coalition government, which would make foreign-policy decisions.

Ata-Jurt party, seen as a party of Mr. Bakiyev's former allies, recognized the vote as "democratic."

Aid worker is slain during rescue attempt

By MARIA ABI-HABIB

KABUL, Afghanistan—A British aid worker kidnapped by insurgents last month was killed by the militants during a failed rescue attempt by coalition forces in eastern Afghanistan, officials said.

The slain aid worker, Linda Norgrove, 36 years old, was traveling along a main road in Kunar province when she was abducted in September by a local Islamist militant faction. She was working with Development Alternatives Inc., one of the largest development contractors working for the U.S. State Department in Afghanistan.

Coalition forces had since undertaken a major effort to locate Ms. Norgrove. They pinpointed her position Friday night and stormed the residential compound where she was being held, said a Western official. She was killed by the insurgents during the rescue attempt, the official said.

Ms. Norgrove's abduction highlighted the risks faced by development workers in Afghanistan, who often travel with far less security than foreign officials or soldiers.

—Arif Afzalzada contributed to this article.

WORLD NEWS

Activist laureates | Nobel peace prize recipients include a number of advocates for political change in their countries. Among them:



2010

Liu Xiaobo Jailed Chinese dissident played a role in pro-democracy protests around Tiananmen Square.

Photos: European Pressphoto Agency; Associated Press (2); Zupress; AFP/Getty Images



1983

Lech Walesa The former shipyard electrician was awarded the prize for leading peaceful strikes that ultimately led to Solidarity—a nationwide movement for democracy in Poland. Walesa was elected Poland's president in 1990.



1993

Nelson Mandela The South African lawyer, who served more than 20 years in prison, shared the prize with President F.W. de Klerk for their battle against apartheid. In 1994, he was elected South Africa's first black president.



2001

Aung San Suu Kyi The Myanmar opposition leader, who won for her peaceful agitation for human rights and democracy, has been under house arrest intermittently since 1989.



2003

Shirin Ebadi The Iranian human-rights lawyer was honored for her work on behalf of pro-democracy activists. She spent time in jail in 2000 for publicizing the murders of dissidents by the government.

Liu dedicates Nobel to Tiananmen

BY JEREMY PAGE

BEIJING—Liu Xiaobo, the jailed Chinese dissident who won the Nobel Peace Prize, has been informed of his award in prison and has dedicated it to those killed when the Chinese government crushed pro-democracy protests around Tiananmen Square in 1989, according to his wife.

Liu Xia said Sunday that she had been allowed to visit her husband over the weekend even as police continued to harass his jubilant supporters, holding three of them after breaking up a celebratory dinner in a Beijing restaurant on Friday night.

Officials at his prison in the northeastern city of Jinzhou had told him on Saturday that he had won the award, said Ms. Liu.

She said Chinese authorities were restricting her movements and blocking her mobile telephone, but in an email sent to a friend and forwarded to The Wall Street Journal, she said her husband dedicated the award to “all the lost souls” of the 1989 Tiananmen protests.

“They used their lives to enact the spirit of peace, democracy, freedom and nonviolence,” she quoted him as saying. “Speaking about them, Xiaobo wept.”

Despite a warning from China, the Norway-based Nobel Committee awarded the prize on Friday to Mr. Liu, who was sentenced to 11 years in prison for “state subversion” in December. The committee paid tribute to his “long and nonviolent struggle for fundamental human rights in China.”

Ms. Liu had been out of contact, her telephone apparently disconnected, since Friday night when she said police arrived at her home and told her they would escort her to see her husband in Jinzhou, about 300 miles from Beijing.

“Brothers, I have come back,” Ms. Liu said Sunday in a message on Twitter that activist friends confirmed was genuine. “I was put under house arrest on the 8th. I don’t know when I’ll be able to see everybody. My mobile phone has been messed up, so I can’t receive phone calls. I saw Xiaobo. The prison told

him the news about his winning the prize on the evening of the 9th. The rest I’ll share with time. Everyone please help me push. Thanks.”

She did not say precisely where or how she met her husband, but she told The Wall Street Journal on Friday that she was permitted to visit him once a month and had last seen him on Sept. 7.

Meanwhile, Chinese authorities continued to block almost all news and online discussion about the award, apart from an official denunciation, and to prevent fellow Chinese dissidents from celebrating publicly.

A group of 17 democracy activists were detained by about 30 plainclothes and uniformed police on Friday night as they arrived at a restaurant in Beijing to celebrate Mr. Liu’s award, according to two people who attended the function. He Yang, one of those who attended, told The Wall Street Journal that three of the activists—Wang Lihong, Wu Gan and Zhao Changqing—were ordered detained for eight days. Mr. He said he and another activist, Xu

Zhiyong, were placed under house arrest. All the others were released.

“First they said they had to check our documents and then they suddenly took us all away,” Mr. He said. “By using violence to stop such peaceful activity, they are only drawing more attention to our movement.”

On Saturday evening, Cui Weiping, a Beijing Film Academy professor, organized a celebratory dinner of leading Chinese liberal intellectuals at a Beijing tourist hotel. However, security staff from the academy showed up and escorted Ms. Cui back to the academy before the dinner ended, according to a person who attended.

On Sunday, police told Zhou Duo, who took part in a hunger strike alongside Mr. Liu during the 1989 pro-democracy Tiananmen protests, to cancel a celebratory lunch he planned that day.

The U.S. and several other Western governments have congratulated Mr. Liu and called for his release, reflecting their renewed concerns about China’s human-rights record

after several years in which they have prioritized commercial and security issues.

However, China has denounced the decision as a “desecration” of the prize, raising fears that it could complicate relations with the West amid already rising tensions over China’s more muscular diplomacy on issues including the value of its currency and its territorial claims.

The friction over territorial issues will be highlighted Monday at a meeting in Vietnam, of defense chiefs from the Association of Southeast Asian Nations, plus eight countries, including the China, the U.S. and Japan. Robert Gates, the U.S. defense secretary, is due to meet his Chinese counterpart, Liang Guanglie, at the two-day meeting for the first time since China suspended military ties with Washington over U.S. arms sales to Taiwan.

Only two other peace laureates have received the prize while imprisoned by their governments: Burmese opposition leader Aung San Suu Kyi in 1991 and the German pacifist Carl von Ossietzky in 1935.

India weighs measure to ease nuclear liability law

BY AMOL SHARMA

NEW DELHI—India is drafting new regulations to assuage nuclear-power companies’ concerns about their potential liability for accidents, a move aimed at securing deals with U.S. nuclear suppliers ahead of a visit by President Barack Obama next month, an Indian official said.

India passed a law in August that exposes to liability companies that provide nuclear reactors and equipment for power plants, a departure from standard practice in most nuclear-energy markets, where liability is channeled to plant operators.

That law spooked firms such as General Electric Co. and Westinghouse Electric Co. and raised the possibility that they might not sell their nuclear technology to India. Such a development would call into

question whether the U.S. will enjoy any commercial benefits from the civil-nuclear-energy agreement the countries completed in 2008, a pact that was considered a breakthrough in U.S.-India relations.

But India is concerned about losing access to foreign equipment as it carries out its plans to spend tens of billions of dollars boosting nuclear-energy capacity, part of its efforts to relieve electricity shortages that plague many parts of the country.

Prithviraj Chavan, minister of state in the office of Prime Minister Manmohan Singh and the official who ushered the nuclear-liability law through India’s parliament, said in an interview the rules being written to implement that law will alleviate concerns of foreign suppliers.

“We’ll clarify what the responsibilities of suppliers will be,” Mr.

Chavan said. “There will be some responsibilities, but they won’t be liable for 80 years, as some people are interpreting the law.”

Under India’s law, the cap on liability for any nuclear accident is about \$322 million. Although plant operators would be primarily responsible for accidents, they could seek “recourse” by suing suppliers.

Mr. Chavan, who is also minister for science and technology, said the goal is to announce equipment-procurement deals when Mr. Obama visits India for several days in early November. “We could announce that we’re going to place two reactor orders from company A or company B,” he said. “We may even go further than that, but let’s see.”

He said Mr. Obama’s domestic political situation—the president will be coming soon after the mid-

term congressional elections in which Democrats are widely expected to lose seats—might have an impact on the trip. “Our only worry is that the focus will shift from U.S.-India bilateral relations to the internal problems the president faces at home,” Mr. Chavan said.

Mr. Chavan said India is also addressing concerns of the Japanese government about the liability law. GE’s nuclear operations are run through a joint venture with Japan’s Hitachi Ltd., and Westinghouse, which has its headquarters in Pennsylvania, is a unit of Tokyo-based Toshiba Corp. Prime Minister Singh is visiting Tokyo later this month to discuss a civil nuclear deal between the countries, Mr. Chavan said.

It isn’t clear what the specifics of the new Indian regulations will be and whether they will go far enough

to persuade foreign companies to sell technology to India. The companies would prefer to repeal the law, or at least the provision that allows operators to sue suppliers.

Vaughn Gilbert, a spokesman for Westinghouse in Pittsburgh, said, “the market in India is one we’re very interested in,” but he declined to give more specifics on possible legislation changes.

GE didn’t immediately respond to requests to comment.

A spokeswoman for the U.S. Embassy in India declined to comment. Last month, U.S. Ambassador to India Timothy J. Roemer said: “The U.S. government is engaged with the government of India to ensure that the full potential of this historic agreement can be realized.”

—Paul Glader
contributed to this article.

INTERVIEW

Necessary and neutral

Head of CLS explains why he isn't taking sides despite the foreign-exchange utility's growing power

[Alan Bozian]

BY KATIE MARTIN

LONDON—Beggars-thy-neighbor currency-weakening efforts aren't the only fight rumbling in the foreign-exchange markets right now.

Central banks around the world are accused of trying to protect exporters by pushing down their currencies against the wobbly dollar, leaving the market in a mess. But beneath the surface, the infrastructure of the business itself is also locked in battle.

Regulators want banks to push some types of currency trading onto exchanges. Politicians want to slap a tax on currency flows. The banks that generate currency prices and pump them around the world are blanching at both prospects and beefing up their lobbying efforts to push back—a tough task while banks remain deeply unpopular.

One institution stands out as perfectly placed to act as go-between amid all these vested interests: **CLS Bank**, the industry utility that steps in after trades are executed, wherever that might be, and handles the dull but crucial task of ensuring all sides of currency deals get paid. It enjoys a close relationship with banks, regulators, politicians and central banks around the world.

But the man in the middle—CLS's new chief executive, Alan Bozian—isn't taking sides.

"If a bank came to us and said they wanted us to put their viewpoint forward to, say, the European Union, then I wouldn't do it. We're never going to do the work of one bank or group or lobby," he says in his first major interview after assuming his new post in July.

"My role is to make sure that the market ecosystem is in good shape, regardless of what the regulators decide. We are [independent]. We care about the overall market infrastructure. We are not paid by any lobby," he says.

Banks balk at the idea of shifting to anonymous exchange-type trading models, with one so-called counterparty standing in the middle of all trades. It's a big shift from the current trading mode, where banks churn out prices over the phone, over their own trading systems, and over systems that pool many banks' prices together for the companies, investors and even retail accounts that need them. While it is complex, this business model helps banks to keep track of who they are trading with and send different prices to different clients accordingly. Previous efforts to establish equities-type exchanges in this market have failed in the face of strong opposition from most banks, despite heavyweight backing, most notably from the Chicago Mercantile Exchange and **Reuters**.

In October 2009, banks sought to highlight CLS as a reason why exchanges were unnecessary, calling politicians' attention to the system's huge repository of historical trading data, which offers transparency on trading flows. But if those banks are expecting the cheerful, New York-based Mr. Bozian to argue that case on their behalf, they are heading for disappointment.

"If the foreign exchange market goes onto an exchange, then so be it," he says. "It's still under discussion, and it is not the preferred option for the market—they think that foreign exchange works fine and that with CLS, settlement risk is removed. Still, it's a very political matter."

For years after its launch in 2002, many banks viewed CLS's business of ensuring that trades are settled as a pointless expense—a sentiment that changed when **Lehman Brothers** collapsed in 2008, leaving some foreign-exchange counterparties



Alan Bozian this summer took over the helm of CLS, which handles the crucial task of ensuring all sides of currency deals get paid.

nursing large and embarrassing losses.

Since that time, participation in the system has increased hugely, with the system now handling around 75% of all the flows in this \$4 trillion-a-day business, from about 55% beforehand. Hundreds of banks and funds have signed up to the system since those scary days. Far from privately lamenting the system and plotting ways to circumvent it, bankers now value CLS highly.

They are not compelled to use it, however. The central banks whose 17 currencies are part of the network encourage banks to use it, but they don't force them.

Again, on this issue, Mr. Bozian prefers to stay on the sidelines for now. "The central banks have never mandated banks to use CLS. I haven't pushed them to mandate it. That's partly because I'm new, and partly because we have to wait and see how the regulatory space shakes out. If they end up mandating a [centrally cleared trading infrastructure], then why not mandate us?" he says.

While he's not playing politics, then, Mr. Bozian intends to focus on the basics: expanding the system, bringing in new currencies and banks, and making the network as robust as possible. "We can't go down.

We really are too big to fail," he says.

In strategy, Mr. Bozian is following broadly the same path as his congenial and well-regarded predecessor, Rob Close, who worked at CLS from the very start, and who began a three-month handover process to Mr. Bozian in March before retiring to indulge his sporting obsessions.

In character, however, he is very different, with a drive that reflects his more recent experience on the front line of banking at **Fortis**, where from 2003 he was the chief executive of the global markets division. He spent the first 24 years of his career at **UBS**, where he started as a currency trader before securing a series of senior managerial positions.

While Mr. Close came under fire for seeking consensus between CLS's varied bank users before making big changes—a process he tweaked before he left—57-year-old Mr. Bozian is more direct.

"We need to retain the same belief we had when CLS first launched, the belief we could overcome all the obstacles to take the service live. We need to be flexible and adaptable," he says.

Like Mr. Close, Mr. Bozian is keen to expand CLS's reach beyond the currencies it already handles, targeting in particular the

emerging markets that may in the past have seen the body as a major-markets' club. As CLS moves from developed-market currencies to the emerging markets, the task of setting up the right technology, processes and legal frameworks, gets tougher, he says.

The big goal is to snag China, which is taking a series of steps toward making its tightly controlled currency, the yuan, easier to trade. "We're at a very early stage, but it's something we're looking at as part of China's efforts to internationalize the currency," Mr. Bozian says, adding that getting the yuan on the network may take several years.

Meanwhile, Chile and Thailand could have their currencies live on the system as early as 2012, he says.

Mr. Bozian hopes he can promote the system to new countries almost as a badge of honor, a sign that a currency has come of age. "By joining CLS, countries establish their markets as having achieved international standards, and become part of a community that now hosts 22 central banks," he says. Being the only major body in the hotly competitive currency market, with no cause to push other than safety, will probably help CLS in its pitch.