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BUSINESS & FINANCE 17



Time for price rise, say watchmakers

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Agence France-Presse/Getty Images

China's President Hu was welcomed at the White House with full military honors before talks with his U.S. counterpart, Barack Obama. Trade, human rights and North Korea are on the agenda.

Obama support rebounds as talks with Hu begin

U.S. President Barack Obama welcomed Chinese President Hu Jintao to the White House on Wednesday, kicking off a summit that will help redefine the relationship between the world's longtime superpower and its rising Asian rival.

The closely watched meeting comes as Mr. Obama is riding a wave of support, with more Americans approving of his performance and more seeing him as a political moderate, a new Wall Street Journal/NBC News poll finds.

In a survey of 1,000 adults, 53% said they approved of the job Mr. Obama is doing as president, up eight points from December. Forty-one percent said they disapprove

of the his performance, down from 48% last month. Concerns about U.S. unemployment still loom, however.

At a joint White House news conference, Mr. Hu defended his country's progress on human rights, though he said more "needs to be done" as China continues to develop. In an unexpectedly candid assessment, he suggested China has a ways to go to promote democracy and rule of law.

Mr. Obama said that he has told Mr. Hu that China's currency is still undervalued. Mr. Obama said that while some steps have been taken to make the yuan market-based, progress has not come fast enough. The U.S. and other countries charge that

China keeps its currency artificially low in order to maintain an export advantage.

U.S. and Chinese officials are squaring off on an array of economic and national-security issues, including North Korea, trade imbalances, and China's currency policy.

Since Mr. Hu last visited the White House in 2006, his country's influence has surged and its relationship with the U.S. is now widely seen as the world's most important bilateral matchup.

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- Summit photos and video at WSJ.com/US

Spain steps in again to help savings banks

By SARA SCHAEFER MUÑOZ AND JONATHAN HOUSE

Spain plans to inject billions more euros into its troubled savings banks and to force them to adopt more transparent structures, people familiar with the matter said, an acknowledgment that previous efforts to fix the sector have largely failed.

The hope is that the moves will quell investor jitters about Spain's finances. Already, the government is battling speculation that it may need an international bailout, which has added to the strains on the euro. Fears that the savings banks, known as *cajas*, can't raise funds on their own and will need to turn to the government was one reason Moody's Investors Service put Spain's credit rating on review for a downgrade last month.

But raising fresh capital—as much as €30 billion (\$40.16 billion), by some estimates—could put even more strain on Spain's finances. Economists already estimate that it needs to borrow €125 billion this year to finance its deficit and roll over maturing debt, and UBS, for one, estimates that the final cost of cleaning up the *cajas* could be anywhere between €20 billion and €120 billion.

As a first step in this latest clean-up effort of the *cajas*, Spain is preparing a €3 billion bond issue for its bank recapitalization fund, the Fund for Orderly Bank Restructuring, or FROB, these people said. Meetings with prospective investors are under way, although the offerings isn't expected this week. Government officials are putting plans in place to eventually raise more than €30 bil-

lion, according to people close to the discussions, although some say the final tally will be less.

Another likely step will be to simplify the complex structures of the *cajas* and make them more like traditional banks. The *cajas*, which account for 42% of the country's banking assets, have traditionally featured confusing ownership and governance structures and disclosed far less financial information than traditional banks. Their boards consist of local politicians, union members, clients and in some cases, Catholic priests, many who have been reluctant to relinquish their influence over lending decisions.

These banks, with €1.3 trillion in assets, also were among the biggest losers of the bust that has followed

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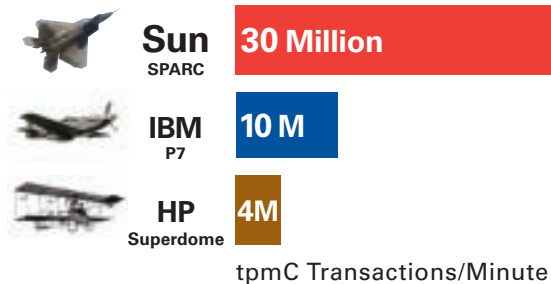
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David Davis: Reagan's clarity would still serve us well 30 years later. Page 12

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PAGE TWO

Home of the butter mountain still has considerable reserves of good old fudge

[Agenda]

BY GEOFFERY SMITH

Another day, another rumor of debt restructuring, another mini-panic.

Markets are doomed to repeat this cycle over and over again in the course of 2011 if they don't take on board some basic realities of Europe. The essence of postwar Europe is fudge, muddle and compromise—in short, all the possibilities that political dialogue allows. Markets do not need to price in a default or restructuring scenario until the EU has exhausted its very considerable reserves of fudge.

This is not denying the risk of default. The debt ratios of Greece and Ireland, at the very least, look unsustainable to most eyes under the current framework that forces them to regain competitiveness by deflation. As everyone has grasped by now, this only magnifies the debt burden.

Rather, this is about understanding the scale of the political forces that compel reluctant sovereign states to work together, forces that will undoubtedly be mobilized to put off the final day of reckoning as long as possible.

The larger, richer countries of monetary union have everything to lose by forcing Greece, Ireland or anyone else into an early restructuring. Not only will it turn the guarantees that have been given into actual loans that need to be booked in the national accounts, but it also deprives their respective banking systems of time to prepare for the write-downs that this would entail. That in turn raises the risk of needing to throw yet more taxpayer money at saving the banks.

For a struggling center-right coalition like Germany's, to give such ammunition to the left-wing opposition would be an act of political folly.

Nor is it only the legitimate



German Chancellor Angela Merkel defending the euro in Berlin last week.

left that it would be encouraging. Germany's tradition of left-wing violence has been extinct for only about 15 years, and is a far more real threat to civil peace than its analogue from the nationalist right.

No one is going to turn violent because of a rescue package. Whereas another wave of handing over billions to fat cats in Frankfurt, Düsseldorf and Munich is much more likely to revive the violent left.

The same could equally be argued of France, but then the government has in any case been more sympathetic to the debtor nations.

The complexities of Europe's debt issues...may well be too much for any single human being to grasp.

So it makes more sense to price in a "restructuring by a thousand cuts," only the very last stage of which would actually force private-sector creditors to

accept a loss of principal. To try to activate a radical restructuring before all other avenues have been exhausted would expose either debtor or creditor to very well-founded accusations of bad faith, with serious, real implications for years ahead.

The EU and the International Monetary Fund have agreed to fund Greece and Ireland, if necessary, for the next three years. Neither party can suddenly change its mind and walk away from that agreement without a terrible loss of political capital. Expect them to suggest voluntary bond buybacks and maturity extensions and plenty more before. When German Chancellor Angela Merkel says default is a last resort, she means it.

Likewise, for all that the numbers scream that Greece must default, restructure and leave the euro, the politics won't allow it until everything—everything—else has been tried first.

Default and devaluation would jeopardize Greece's existing trade privileges with the rest of the EU; it would weaken its position vis-à-vis Central and Eastern European countries that compete for the

EU's structural budget resources; it would risk another generation of brain drain; it would risk losing any leverage it has over EU policy toward Turkey. Most importantly, by slashing the purchasing power of its entire population, it would be risking civil disorder just as surely as by sticking to the IMF/EU austerity plan.

Likewise Ireland. It faces all the above risks just as much as Greece does, only for Turkey, substitute Britain. The Irish have been trying to escape Britain's sphere of influence for centuries. The EU gave Ireland a chance to escape it without even having to leave home. What price do the Irish people want to put on that?

This is what is actually meant when the politicians talk of political solidarity, ever closer union, and all the other pompous phrases that Anglo-Saxon ears, in particular, find so nauseating.

Traders and commentators in London, whose default way of thinking is to trace a direct line from the Spanish Inquisition and Armada to the euro via Richelieu, Napoleon and the Luftwaffe, are perennially in danger of underestimating how deeply the idea of "Europe" is synonymous with peace and order, and how real, how recent and how awful the alternatives are in Continental minds.

The need to understand is one of the most basic human psychological imperatives. The complexities of Europe's debt issues—all the interconnectedness, all the political implications as well as all the economic ones—may well be too much for any single human being to grasp. The temptation will therefore always be to simplify reality until it becomes comprehensible.

It may be psychologically necessary, but markets do this at their peril. The truth, as Oscar Wilde said, is rarely pure and never simple. The smart money should stay on fudge, muddle and compromise until the very last possible moment.

What's News

■ **Goldman Sachs's earnings** declined 52% in the fourth quarter, showing the company isn't immune from the market slowdown and generally weak demand for investment banking and other Wall Street activities. 17, 32

■ **The U.K. unveiled** a plan to revamp the National Health Service amid protests from doctors, as a fight over state-financed health care moved into high gear. 4

■ **Hungary's prime minister** confronted critics in the European Parliament, defending his economic policies and a new media law. 5

■ **Danielle Chiesi**, a former consultant to hedge-fund firm New Castle Funds, became the 16th person to plead guilty in the Galleon insider-trading case. 17

■ **Roche said** data show a new drug helps patients with advanced forms of skin cancer live longer and without the illness worsening. 17

Inside



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Reader Sean Francis on 'Apple Soars, but Is Silent on Jobs'



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NEWS

U.K. consumers facing financial squeeze

By AINSLEY THOMSON

LONDON—U.K. consumers face a brutal squeeze in 2011 as wage increases fail to keep pace with soaring inflation and the threat of rising unemployment tempers people's ability to negotiate pay increases.

Growth in pay, excluding bonuses, remained at 2.3% in the three months to November, data showed Wednesday. Meanwhile, data Tuesday showed annual inflation jumped to 3.7% in December from 3.3% in November.

This means many households find themselves in the situation of

being worse off now than they were last year, which will constrain consumer spending at a time when the recovery remains fragile.

"Sky-high consumer-price inflation coupled with subdued wage inflation and little, if any, rise in employment means that household real incomes are being squeezed," said Alan Clarke, an economist at BNP Paribas SA. "This reaffirms our belief that consumer spending growth will be much weaker than consensus expectations this year."

And with many economists expecting that inflation will rise above 4% this spring—double the Bank of

England's target rate—the situation is unlikely to ease anytime soon.

Tuesday's inflation figures have increased the pressure on the Bank of England to lift its key interest rate—a move that would heap more pain on households because any rise in rates will push up the cost of servicing mortgages.

Interest-rate investors are betting that the BOE will lift rates before the end of the year.

The BOE's Monetary Policy Committee has found itself in the difficult position of trying to balance encouraging the economic recovery and keeping the public's inflation

expectations under control.

Earlier this month the MPC voted to keep its program of buying bonds with freshly created money at the previously agreed level of £200 billion (about \$319 billion) and to maintain its key interest rate at 0.5%. But opinion has been divided at recent meetings, illustrating the difficulty of the choices the central bank faces, with MPC member Andrew Sentance calling for an immediate rate rise, and Adam Posen for more bond purchases.

Wednesday's wage-growth figures will therefore come as some relief to the MPC because they show

that higher consumer-price inflation so far hasn't pushed up wages, which would be considered an indication of an upward price spiral.

"It suggests that there is little chance of a wage-price spiral developing and supports the argument that inflation will come back down to target next year once the temporary factors have fallen out of the calculation," said Andrew Goodwin, senior economic adviser to the Ernst & Young ITEM Club.

The MPC will, however, be carefully watching wage growth from now until April, when most private-sector wage deals are negotiated.



There are journeys that turn into legends.

Bahamas Islands. 10:07

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EUROPE NEWS

U.K. unveils plans to revamp NHS

BY JEANNE WHALEN
AND ALISTAIR MACDONALD

The U.K.'s Conservative-led government unveiled a plan to revamp the 63-year-old National Health Service amid loud protests from doctors and other health-care professionals, as a closely watched fight over state-financed health care moved into high gear.

Prime Minister David Cameron's plan is meant to cut huge swaths of bureaucracy and give doctors responsibility for deciding how most of the system's annual budget is spent. It will also allow more private health-care companies to compete to provide services.

The Department of Health said the plan, which needs to be approved by lawmakers, will improve care and save as much as £1.7 billion (\$2.7 billion) a year—money that will be reinvested in the health service.

But unions representing doctors and nurses have assailed the speed and scope as "extremely risky and potentially disastrous."

The public debate over the NHS—considered a sacred cow politically—came into focus Wednesday when Mr. Cameron addressed the topic in Parliament.

"We won't be able to get waiting times down, we won't be able to improve our public health in this country, unless we cut the bureaucracy in the NHS," he said.

But the opposition Labour Party moved quickly to capitalize on Britons' attachment to the NHS.

"He's breaking his promise on no top-down reorganization of the NHS," said Labour leader Ed Miliband. "It's the same old story—you can't trust the Tories on the NHS!"

Mr. Cameron's overhaul is an attempt to address a problem debt-laden Europe faces: how to tackle the ever-increasing costs of state-financed health systems without incurring the wrath of voters.

France, Italy and Spain are all

slashing spending on brand-name pharmaceuticals and encouraging use of lower-cost generic drugs. To plug a projected €11 billion (\$14.7 billion) deficit in Germany's health-care budget in 2011, the country is raising premiums for the vast majority of Germans enrolled in statutory health-insurance funds, and cutting spending on pharmaceuticals, hospital and doctor visits.

Since the NHS's founding in 1948, health care has taken an increasingly large part of Britain's public spending. In the year ending March 31, the government is expected to spend £122 billion on health care—17.5% of its total budget and the second-biggest slice of the public purse after social-protection payments such as the state pension and welfare.

The previous Labour government more than doubled the NHS's budget in real terms over its 13 years of power. Public satisfaction rose, but numbers from the Office of National Statistics show the NHS's productivity fell 2.3% from 1997 to 2008.

"Like every other Western industrialized nation, we won't sustainably live within our means with unreformed public services and outdated welfare systems," Mr. Cameron said in a speech this week. He has pledged not to cut spending on the NHS, but says he wants to make it more efficient by "opening up the system, being competitive and cutting out waste and bureaucracy."

One of the project's main goals is to cut a large layer of financial managers and ask general practitioners to oversee spending. The idea is that doctors are best suited to decide what sort of treatment to fund. The government hopes this will improve care and cut wasteful spending, but not everyone is convinced.

In a recent survey by pollsters ComRes, 57% of general practitioners asked said they don't want to take on the responsibility for planning and buying health-care services, with almost half saying they didn't think it would lead to an im-



David Cameron, left, leader of the then-opposition Conservative Party, talks last year with a patient at Royal Sussex County Hospital in Brighton.

provement in patient care.

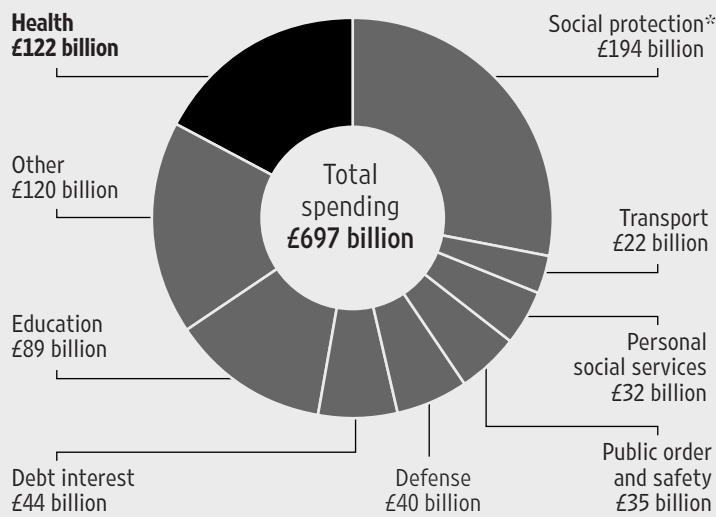
The new health-care bill also allows patients more flexibility to choose their health-care providers, and gives private health-care companies more opportunity to compete for NHS work. The British Medical Association—the main union for doctors—said in a report last month that it is "concerned about the role of the market in the NHS."

In polls, the NHS is typically cited by Britons as being one of the issues that most affects their voting behavior. The public's belief that the Conservative Party would slash the budget of the NHS and privatize it contributed to the party's three massive election defeats at the hands of the Labour Party.

—Vanessa Fuhrmans contributed to this article.

Medical bill

Health care takes up the second-biggest slice of U.K. government spending. Figures for year ending March 31, 2011



*Payments including state pensions and welfare
Note: Figures have been rounded.

Source: H.M. Treasury

Poland lifts interest rates

BY MARCIN SOBZYK
AND MALGORZATA HALABA

WARSAW—Poland raised interest rates Wednesday and its central bank governor said further increases are likely as inflation fears mount in the largest economy of the European Union's eastern tier.

"I wouldn't interpret today's decision as a one-time adjustment," Marek Belka, governor of the National Bank of Poland, told reporters after the bank's Monetary Policy Council voted to raise policy rates by a quarter point, bringing the reference rate to 3.75%.

It was the first rate increase in Poland since June 2008, and demonstrated that inflation worries have grown to outweigh concerns that higher rates will slow economic growth and risk sparking an inflow of so-called hot money.

Consumer prices rose 3.1% in Poland in December, compared with the year-earlier period, above the central bank's target of 2.5%. Food and fuel prices have been the main drivers, and the monetary council said inflation is building as Poland's recovery accelerates.

Poland's gross domestic product, a broad measure of economic activ-



Marek Belka, the central bank's chief.

ity, rose more than 4% in last year's third quarter from the year-earlier period. That is helping push wages higher and adding to inflation concerns.

Corporate-sector wages rose 5.4% last month compared with December 2009.

Mr. Belka, the central bank governor, said rate-setters would need to react to rising global prices for food and other commodities as well as purely domestic price pressures. The council meets again in March.

"The tightening cycle will likely be gradual, with an increase once a quarter the most likely scenario," predicted Piotr Kalisz, an economist for Citibank in Warsaw.

As expectations rose that a rate

increase was imminent, foreign funds flowed into Poland, pushing the country's currency, the zloty, to near a nine-month high.

Mr. Belka said Wednesday that the zloty could appreciate by an additional 10%. He didn't say over what time frame he thought that might occur.

Jan Winięcki, a member of the monetary council, said at Wednesday's press briefing that Polish exporters should be able to handle the stronger zloty, which will make their goods more expensive abroad.

Poland was the only member of the European Union to have avoided a recession following the start of the global financial crisis in 2008. The depreciation of the zloty at the time helped to keep Poland's exporters competitive and the economy growing.

The zloty has since regained much of its precrisis strength. In April 2010, the central bank, under its previous governor, intervened to weaken the zloty when its value was near the level it is at again now.

Citibank's Mr. Kalisz said Wednesday's rate increases will help Poland meet its inflation target, boost the zloty and brake economic acceleration.

Youths in Italy are Europe's most 'idle'

BY NATHANIA ZEVI

ROME—One in five young people in Italy is neither working nor studying, in what marks the highest number of "idle" youths in the European Union, according to Italian national statistics agency Istat.

The two million people from the age of 15 to 29 who are in the category that Istat calls Neet—or not in education, employment or training—represent 21% of that age group, Istat said.

While the proportion of youth in this plight is higher in Italy's south, it is growing even in the richer and more industrialized northern regions, Istat added.

As a recession followed by an acute debt crisis has beset Europe over the past two years, young people across the Continent have been among the hardest hit by job cuts and hiring freezes at both private and public companies.

In countries such as Spain, Greece and Italy, the youth unemployment rate has risen particularly fast, becoming one of the most

pressing matters on these countries' political agendas.

According to the Istat study, called "We Italy," women's employment is also suffering across the country. The report said that 48.9% of Italian women—nearly one in every two—doesn't have a job nor is looking for one. That level of inactivity is lower only in Malta, according to Istat.

The study also said that Italy spends less than its European counterparts on education. In 2008, it spent about 4.6% of its gross domestic product on education, compared with an average in the rest of the European Union of 5.2%.

Less than 20% of Italians in their 30s have a university degree.

The Italian Parliament has recently given its final approval to an overhaul of the country's university system, a measure that is part of the government's wide-ranging austerity measures and that is aimed at making the university system more efficient.

The overhaul sparked weeks of often-violent student protests.

EUROPE NEWS



Hungarian Prime Minister Viktor Orban spoke Wednesday in Strasbourg, France.

Hungary prime minister warns EU not to meddle

By GORDON FAIRCLOUGH

Hungarian Prime Minister Viktor Orban confronted critics in the European Parliament Wednesday, defending his economic policies and a new media law as his country takes on the presidency of the European Union.

When Mr. Orban rose to speak in the parliament's chamber in Strasbourg, France, dozens of members of the EU legislature put tape over their mouths in protest against what they see as restrictive limits on freedom of expression in Hungary.

Mr. Orban, outlining the agenda for Hungary's six-month stint in the EU's rotating presidency, said that if

European politicians tried to interfere improperly in Hungary's domestic policy-making, "obviously, I am ready to fight."

Criticism of Hungary's media law, enacted at the end of last year, has overshadowed the start of Hungary's presidency and threatens to slow progress on important EU measures aimed at bolstering the stability of the euro and speeding the bloc's economic recovery. If Hungary's media law continues to distract attention, Mr. Orban warned, "it won't be Hungary that sees the detrimental effects but the EU that will." He said that if the EU could find persuasive legal reasons for changing the law, it would be amended.

The prime minister said the EU needs to focus on improving cooperation in order to create jobs and boost economic growth.

Mr. Orban said that Hungary's public debt outstanding would shrink next year, and pledged to keep the state budget deficit below 3% of the country's gross domestic product.

Mr. Orban has faced criticism from the EU and even the governor of Hungary's own central bank, which argue that Budapest is relying too much on short-term tax increases to achieve its budget targets and that some policies could hurt growth and add to indebtedness in the long run.

Lower yields for Portugal at debt auction

By EMESE BARTHA

FRANKFURT—Portugal's latest sale of short-term debt was largely stress-free, a significant change from recent months, as the cost of those funds fell sharply from the previous auction.

But analysts remained cautious, suggesting that a better test will come when the government issues longer-term debt, which attracts more interest from foreign investors. The improvement in investor sentiment remains fragile, they said, and the country is still paying a high price to borrow because of speculation it may still need outside help to pay its debts.

The government could announce Thursday whether it plans to sell bonds next week.

Wednesday, Portugal sold a planned €750 million (\$1 billion) in 12-month Treasury bills at an average yield of 4.029%, down from 5.281% at the previous auction for the same maturity on Dec. 1.

"The good result at [the auction] will likely reassure investors, but we continue to lean on the cautious side as underlying sentiment remains fragile and uncertainty is still high," said Chiara Cremonesi, a strategist at UniCredit Bank in London.

The country's deputy finance minister called the results "very satisfactory" and noted the country's latest three debt sales were executed under "constantly more favorable conditions."

Carlos Costa Pina said the results were evidence that the financial markets are beginning to take note of the positive measures being taken to reduce the country's budget deficit. The government has insisted that it doesn't need to follow Ireland and Greece in requesting a bailout and has implemented a mix of spending cuts and tax increases to shore up its finances.

An analyst at ratings agency Moody's Investors Service said the results of the auction wouldn't change its view on the government's debt. "These are short-term fluctuations and the results from various auctions are quite dramatically different," said Anthony Thomas, a senior analyst in the sovereign risk group.

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U.S.-CHINA RELATIONS: HU IN WASHINGTON

U.S. ambassador charms, unsettles

BY JEREMY PAGE

BELJING—Summoned for a diplomatic dressing down last year, Jon Huntsman Jr., the American ambassador to Beijing, hopped on his sturdy “Forever” brand Chinese bicycle and pedaled off to the Foreign Ministry.

Flustered guards there, expecting the U.S. representative to sweep up in an armored Cadillac made him park by a side gate and walk in.

The unceremonious arrival—at once suggesting humility and defiance—was typical of Mr. Huntsman, a Mandarin-speaking former Mormon missionary and the son of a billionaire who has set himself the ambitious goal of “humanizing” the world’s most important bilateral relationship.

Since taking over one of America’s top ambassadorial posts in 2009, the former Utah governor and possible Republican presidential candidate has made a habit of challenging diplomatic protocol to both charm and unsettle his hosts.

Over the past year, the father of seven children who used to drive a Harley-Davidson around Salt Lake City has, in fact, turned up on his bicycle to receive several official reprimands over issues including U.S. arms sales to Taiwan.

Jon Huntsman Jr. first went to Beijing in 1984 as a White House aide. He accompanied Ronald Reagan in a meeting with Deng Xiaoping, China’s former leader.

His unusual approach encapsulates the increasingly symbiotic, yet conflicted relationship between the world’s dominant power and its emerging rival.

Mr. Huntsman gave key advice to both sides on how to sell the relationship to their respective domestic audiences ahead of Chinese President Hu Jintao’s trip to the U.S., and will be on hand for Mr. Hu’s full itinerary to help choreograph the visit and ensure its success.

“If I were to summarize kind of what everyone’s trying to do I think it’s to humanize the U.S.-China relationship, to put it in terms that people on both sides really understand,” Mr. Huntsman, 50 years old, said in an interview late last week.

“If you can’t humanize the relationship, and prove that it’s of value to the average citizen, then they’re not going to support it, in which

Road to China

■ **1984** Visits Beijing as an aide with Ronald Reagan

■ **1987-88** Learns Mandarin on Mormon mission to Taiwan

■ **1989-91** Deputy commerce secretary for region

■ **1992-93** Envoy to Singapore

■ **1993-2001** Works in Huntsman family businesses.

■ **2001-03** Deputy U.S. trade representative

■ **2004-09** Governor of Utah

■ **2009-present** China ambassador

case it’s of limited value.”

That message rings as true for Beijing as it does for Washington as they try to define their respective roles in the world following a global financial crisis in 2008 that amplified China’s emergence as a world power.

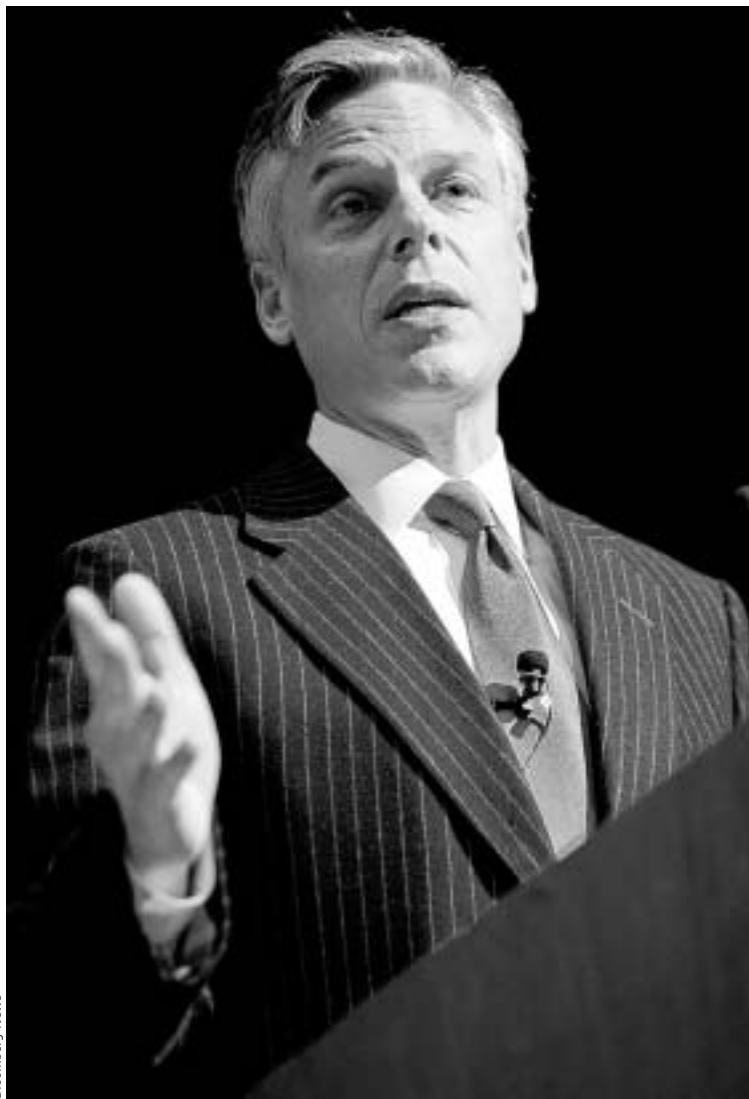
The diplomatic certainties that once anchored relations between the two countries have long disappeared. During the Cold War, they found common cause in opposition to the Soviet Union. When China embraced capitalism in the late 1970s, American businesses rushed in to profit from a vast new market for their goods and services. Now, following a series of public disputes last year, China and the U.S. are struggling to define a common agenda that spans the full range of their political, military and economic interests.

“This is a historic visit in the sense that it’s the first time ever that both the United States and China have been on the world stage together and they’re trying to figure out how to cooperate,” Mr. Huntsman said.

“We’ve met before but never with the glare of the spotlight quite like it is today and the expectations being as high as they are.”

Mr. Huntsman was an unconventional choice for the Beijing job. Previous presidents have mostly chosen loyal political supporters with a strong security or business pedigree. Only one was a former elected official, James Sasser, who served in Beijing from 1996 to 1999, and he was at the end of his political career.

When President Barack Obama asked Mr. Huntsman to take the post in May 2009, the move was hailed by some Washington pundits as a way to neutralize a potential rival in



Ambassador Jon Huntsman Jr. has challenged diplomatic protocol.

the 2012 presidential election.

If that was indeed the idea, its success isn’t yet guaranteed: Mr. Huntsman agreed to do the job for only two years, and hasn’t ruled out running in 2012.

He is unusually qualified to represent the U.S. in China, following a career that has also included stints as ambassador to Singapore, deputy assistant commerce secretary, deputy trade representative, and an executive in the family plastics business, **Huntsman Corp.**

His life encompasses the span of modern China-U.S. relations.

In 1971, as an 11-year-old, Mr. Huntsman accompanied his father, a plastics tycoon and special assistant to President Richard Nixon, to the White House and met Henry Kissinger just as he was heading to the airport on a secret mission to open diplomatic contacts with China.

Mr. Huntsman recalls being allowed to carry Mr. Kissinger’s briefcase to a waiting car.

After dropping out of high school

in the 1970s to play keyboard in a rock band, Mr. Huntsman spent two years living as a Mormon missionary and learning Mandarin in Taiwan, the island that Beijing regards as a rebel province.

He later resumed his studies and gained a degree in international politics from the University of Pennsylvania.

He first went to Beijing in 1984 when, as a White House aide, he accompanied Ronald Reagan in a meeting with Deng Xiaoping, China’s former leader.

As a trade official and as Utah governor, he visited China several times and learned the art of negotiating with Chinese officials. He and his wife also adopted a Chinese girl who was abandoned in a vegetable market in the eastern city of Yangzhou.

In the meantime, Huntsman Corp. has become a major investor in China, with at least five manufacturing facilities.

Since taking over as ambassador,

he has drawn on his experience to keep relations on track during one of the most testing periods of their evolution.

Soon after he arrived, he invited about 70 Chinese and foreign reporters to his residence, greeted them in fluent Mandarin, and told them to “Take a look around and feel at home.”

Mr. Huntsman has also made a point of bicycling around the neighborhood where he lives. He queues with his wife for a table at a local hot-pot restaurant, and one of his favorite lunchtime haunts is a simple street food stall serving spicy Sichuan food close to the embassy that is a bit too basic even for his staff.

Recently, he invited local reporters to the embassy and began by telling them how his adopted Chinese daughter—one of his seven children—was born in the Year of the Rabbit, about to come around again, and was designing his Lunar New Year card.

Touches like these undoubtedly generate goodwill—and positive write-ups in state media. But Mr. Huntsman’s political prospects have done as much, if not more, to enhance his influence and access among senior Chinese officials, who follow U.S. politics increasingly closely. His understanding of U.S. and Chinese politics also puts him in the unusual position of being able to explain the importance of improving China’s image with the American public.

“It’s awfully hard for American families who are trying pay the bills and make some sense of the complicated world we live in to kind of take China and recognize it for what it is and put it in rational terms, particularly after reading [about] the latest flight of the stealth J-20 on the Drudge Report,” he said.

The idea that he could, in theory, one day lead the U.S. may also explain why he gets away with some of his less-conventional exploits, according to fellow Western diplomats.

When Chinese authorities abruptly canceled a trip they had organized for him to the mostly Muslim northwestern region of Xinjiang in July, Mr. Huntsman went on his own anyway as a private citizen.

“Trade is all good: 400 billion bucks—that’s a big account. But there are some other perhaps more sensitive and subtle issues that I think are a direct extension of who we are as people,” he said.

“If you can’t somehow fit that in to what you do, even if you break the rules every now and again, then we’re just like any other country.”

Closer look at China’s new J-20 stealth fighter

[Washington Wire]

BY NATHAN HODGE

When the first grainy images of China’s J-20 fighter appeared online, they seemed to confirm the fears of some China watchers: Beijing appeared to be on track to develop a “fifth-generation” aircraft that featured the radar-eluding properties of advanced U.S. aircraft like the F-22 Raptor.

But exactly how stealthy is the J-20? And does it mean that China can challenge the U.S. for control of the skies?

In an interview with The Wall Street Journal, Richard Aboulafia, an aviation analyst with the Teal Group, an aerospace and defense consulting firm, said China is still years away from perfecting stealth aircraft.

“It’s certainly stealthy-looking,” Mr. Aboulafia said. The plane looks like it’s got some of the

faceting and some of the shaping that characterizes the front of the F-22, for example.

“But then you look the details and you realize this thing is just sort of cobbled together,” he added.

Take, for instance, the canards: forewings close to the nose that provide maneuverability. According to Mr. Aboulafia, “There’s no better way of guaranteeing a radar reflection and compromise of stealth” than

adding canards to the aircraft.

The same goes for the engine nozzles, which Mr. Aboulafia said were clearly not designed to be stealthy, as well the large overall size of the aircraft.

Still, appearance of the J-20 prototype was a dramatic prelude to Chinese President Hu Jintao’s visit to Washington this week. But Mr. Aboulafia said that China still lacks the command-and-control networks, aerial refueling capabilities and other systems

that allow the U.S. to project air power around the globe.

What China does seem to be on track to produce, Mr. Aboulafia said, were aircraft that may eventually be on par with fighters like the F-22, which was designed by the U.S. in the 1980s.

“It’s quite possible that in 10 years they have a functioning equivalent of the F-22, but by then, the West will have moved on to something far more impressive,” he said.

U.S.-CHINA RELATIONS: HU IN WASHINGTON



United Press International (4)

Clockwise: Hu Jintao embraces Hillary Clinton; the U.S. Army Old Guard Fife and Drum Corps performs; Sasha Obama waves American and Chinese flags; the two leaders greet guests at the White House.

Obama, Hu touch on friction issues

By JARED A. FAVOLE
AND MICHAEL R. CRITTENDEN

WASHINGTON—U.S. President Barack Obama formally welcomed Chinese President Hu Jintao to the White House on Wednesday, with both leaders calling for a renewed effort of cooperation as they embarked on a summit that will help redefine the relationship between the world's longtime superpower and its rising Asian rival.

At a joint White House news conference later Wednesday, Mr. Hu defended his country's progress on human-rights issues, though he acknowledged more "needs to be done" as China continues to develop.

Mr. Hu, appearing alongside Mr. Obama during an afternoon news conference, said China is committed to the "protection and promotion of human rights" and cited progress the country has made in recent years. Still, in an unexpectedly candid assessment, he suggested China has a way to go to promote democracy and the rule of law.

"In this context, China still faces many challenges in economic and social development. And a lot still needs to be done in China in terms of human rights," said Mr. Hu, who rarely interacts with the media.

The comments came during a question and answer session in which reporters pressed both Mr. Obama and Mr. Hu on China's human-rights record. A number of U.S. officials and private groups have protested Mr. Hu's state visit to the White House, noting that Chinese author and dissident Liu Xiaobo—who was awarded the Nobel Peace Prize in absentia at a December ceremony—remains incarcerated in a Chinese prison.

Mr. Obama said the U.S. wouldn't back down in its efforts to oppose human-rights abuses around the world.

"We do so because we believe that by upholding these universal rights all nations, including China,

will ultimately be more prosperous and successful," Mr. Obama said.

Mr. Obama also said at the news conference that he has told Mr. Hu that China's currency is still undervalued. Mr. Obama said that while some steps have been taken to make the yuan market-based, progress hasn't come fast enough.

The U.S. and other countries charge that China keeps its currency artificially low in order to maintain an export advantage.

Mr. Obama says a market-based yuan would not only increase U.S. exports to China, but would also help Mr. Hu reach his goal of increasing domestic demand.

Highlighting the heavy emphasis on the U.S.-China business relationship, a senior administration official said that in the run-up to the summit, U.S. and Chinese companies have signed about \$45 billion of export deals.

The Obama administration has been pressing China to make big investments and splashy joint ventures as a way to demonstrate concrete achievements.

On Tuesday, it orchestrated a series of energy-related announcements by U.S. and Chinese business leaders intended to show the upside of working together.

At an appearance with business leaders Wednesday, Mr. Hu said he welcomes U.S. businesses to China and stressed U.S. firms will get "equal treatment." He said the outlook for trade between China and the U.S. is promising.

Mr. Hu was speaking while surrounded by President Barack Obama, Treasury Secretary Timothy Geithner and more than a dozen CEOs from U.S. and Chinese firms. Among the companies represented were **Boeing Co.**, **General Electric Co.** and **Lenovo Group Ltd.**

Mr. Obama said he hopes U.S. and Chinese firms can compete fairly, a comment possibly reflecting concerns that China gives its own companies unfair advantage. Mr. Obama said the U.S. must rid itself

Tale of the tape

Gaps still remain between the U.S. and China, two major world economies.

	U.S.	China
GDP at official exchange rates	\$14.6 trillion (2009 est.)	\$5.475 trillion (2009 est.)
GDP per capita	\$47,000 (2010 est.)	\$7,400 (2010 est.)
Population	310 million (July 2010)	1.330 billion (July 2010)
Average lifespan (total population)	78 years (2010 est.)	74.51 years (2010 est.)
Military spending	4% of GDP (2005)	4.3% of GDP (2006)

Source: CIA - The World Factbook

of the stereotype that China just takes U.S. manufacturing jobs. China, Mr. Obama said, is a key trading partner of the U.S.

Both Messrs. Hu and Obama acknowledged a number of hotly contested issues that will be on the agenda for this week's state visit. U.S. and Chinese officials are set to square off on an array of economic and national-security issues, including developments on the Korean peninsula, trade imbalances, and China's currency policy.

Mr. Hu, suggesting that both sides are unlikely to give ground on some issues, said the two sides "should adopt a long-term perspective, seek common ground while resolving differences."

"China and the United States should respect each other's choice of development path and each other's core interests," Mr. Hu said.

Mr. Obama, in what was likely a veiled reference to the touchy issue of China's human-rights record, noted that the world is better "when the rights and responsibilities of all nations and all people are upheld, including the universal rights of every human being."

Separately, General Electric said it plans to sign five agreements with Chinese partners this week that are expected to generate more than \$1 billion in U.S. exports and create or support more than 4,500 U.S. jobs. GE noted it had agreed to a joint

venture with **China Huadian Corp.** to develop gas power generators. The venture is seen generating \$500 million in revenue over the next five years.

The White House said in a statement Wednesday that China has committed to expanding access for U.S. manufactured goods and will strengthen enforcement of intellectual-property rights. China also pledged to eliminate, during government-procurement decisions, policies that discriminate against where a product is made, the White House said.

In building its "indigenous innovation" program, China had already agreed not to discriminate on the basis on where a firm's intellectual-property rights are registered. The Chinese are taking that a step further now, saying that they will separate the policies on this program from its normal government procurement policies altogether, the Obama administration official said.

In addition, in December, China agreed that its government agencies and state-owned enterprises would be required to use legal, licensed software. Now they are agreeing to audit the results of its software legalization and publish the results.

Since Mr. Hu last visited the White House in 2006, his country's influence has surged and its relationship with the U.S. is now widely recognized as the world's most im-

portant bilateral matchup.

In some ways ties have strengthened, as in the growing trade and business evident in a series of big commercial deals signed this week.

But the two countries also seem increasingly buffeted by disagreements, including Beijing's handling of North Korea, China's own military expansion, its exchange-rate policies and its treatment of foreign businesses.

Ahead of Mr. Hu's arrival, the Chinese leader, in responses this week to questions from The Wall Street Journal and the Washington Post, suggested he wanted to move past such tensions with the U.S. where possible. "The strategic significance and global impact of China-U.S. relations have been on the rise," Mr. Hu wrote. "We both stand to gain from a sound China-U.S. relationship, and lose from confrontation."

However, Wednesday, U.S. congressional lawmakers at a hearing of the House foreign affairs panel into issues affecting the U.S.-Chinese relationship expressed outrage that the U.S. would welcome Mr. Hu as a fellow global leader.

Rep. Chris Smith, R., N.J., a leading congressional critic of China, said he believes Mr. Hu should "be at the Hague to be held accountable for his crimes, rather than being treated to a state dinner" in Washington.

Rep. Albio Sires, D., N.J., said he thought China's hidden agenda is "world domination" and that rather than condemn the country, the U.S. was in fact helping it achieve its goal.

The session was convened to coincide with Mr. Hu's visit and was structured as an opportunity to highlight lawmakers' strong concerns about the Chinese government.

On Wednesday night, the two were set to attend first state dinner for China since President Bill Clinton hosted Chinese President Jiang Zemin in 1997.

U.S. NEWS

Obama ratings rise, poll says

BY JONATHAN WEISMAN
AND DANNY YADRON

WASHINGTON—President Barack Obama is riding a wave of public support into next week's State of the Union address, with more Americans approving of his performance and more seeing him as a political moderate, according to a new Wall Street Journal/NBC News poll.

But public concern is coalescing around the stubbornly high unemployment rate, a potential pitfall for the president. If rising optimism about the economic recovery fades, the surge of support for Mr. Obama could prove transitory, pollsters say.

In the survey of 1,000 adults, conducted Jan. 13-17, 53% said they approve of the job Mr. Obama is doing as president, up eight percentage points from December. Forty-one percent said they disapprove of the president's performance, down from 48% last month.

Among political independents, positive views of Mr. Obama's job performance surpassed negative views for the first time since August 2009. He also won the first net positive rating from white voters in a year.

The poll found that Republicans, whose hand in Congress was strengthened by the November elections, face low voter expectations, with a quarter of respondents saying they will bring the right kind of change to the country. In January 2007, 42% of voters said the same of Democrats, as they took control of Congress. Among those surveyed, 55% predicted Republican lawmakers would be too inflexible in dealing with the president. At the same time, 55% said Mr. Obama will strike the right balance between flexibility and standing his ground.

"We've lived through a recent situation where the far left and the far right have been doing all the talking, and they're so far apart on



President Obama, seen Wednesday in Washington, has seen his ratings climb, but voters remain concerned about jobs.

solutions," said James Barnes, a 59-year-old independent. "Everyone is going to have to move toward the middle before things start getting done," said Mr. Barnes, a retired accountant in Blue Springs, Mo. "I'm not so sure with the tea party folks who got elected are coming in with the thought we're moving toward the middle."

Bill McInturff, a Republican pollster who co-directs the Journal/NBC News poll with Democrat Peter Hart, said the president's popularity often surges after national tragedies. Bill Clinton saw a four-point jump after the Oklahoma City bombing and George W. Bush a huge surge after the attacks of Sept. 11, 2001.

"The president has the benefit of

the doubt, and Republicans, based on this data, have the burden of proof," Mr. Hart said.

The poll comes after December's lame-duck session of Congress gave Mr. Obama the chance to tack to the center to notch major bipartisan victories on taxes and arms control, while winning the long-sought liberal goal of allowing gays to serve openly in the military.

More recently, Mr. Obama's nationally televised speech after this month's Arizona shootings was an opportunity to strike a tone of national unity that has eluded him since the presidential campaign, a senior administration official said.

The president is likely to sound similar themes at Tuesday night's State of the Union address. Republi-

can and Democratic lawmakers have promised to sit together during the speech, and adopt a less-partisan posture after the shootings. Six people died in the Arizona rampage and 14, including Rep. Gabrielle Giffords (D., Ariz.), were injured.

Mr. Obama's rising approval numbers come amid signs of renewed optimism about the economy.

This month, 40% said they believe the economy will improve over the next year, up from 32% in December.

WSJ.com

ONLINE TODAY: For the methodology and additional details on the poll, go to WSJ.com/Politics.

Economic gains fail to reach builders

BY SARA MURRAY

New-home construction dropped in December to its lowest level in more than a year as the feeble housing sector ended 2010 on a weak note.

Private building of new homes dropped 4.3% in December from a month earlier to a seasonally adjusted annual rate of 529,000—the lowest level of housing starts since October 2009, the Commerce Department said Wednesday.

The construction industry continued to stumble last year even as economic growth picked up and private-sector job creation returned. Housing starts ended the year 8.2% below December 2009, and there's little sign building will pick up early this year.

"From what we've heard from builders, they're not very hopeful for recovery in 2011," said Mark Vitner, a Wells Fargo Securities economist. "The first half of the year, it looks like housing's going to be dead in the water."

A survey of builder sentiment released Tuesday showed they were still pessimistic about the home-building landscape in January.

Last month's construction weakness was the result of a decline in single-family housing starts, which make up the vast bulk of new residential construction. New single-family home construction dipped 9% to 417,000. It was the lowest level of single-family home construction since May 2009.

Demand for single-family homes has been battered during the recession and subsequent recovery as home builders competed with an excess supply of previously owned homes—fueled in part by a flood of foreclosures by banks—and faced difficulties gaining credit for new projects.

New single-family home construction ended the year down 14.2% from December 2009.

Prospective buyers have been pinched by tighter lending standards and lingering worries over high unemployment. Hard times have forced some families to double up in housing, which has been a factor in curbing demand for new homes.

The housing industry received a boost early last year from a first-time home-buyer tax credit that helped revive sales, but activity faltered once the credit expired.

As fewer Americans opt for home ownership, demand for apartments has been strengthening. Construction of multifamily housing, which includes more than five units, was up 25.9% in December from the prior month.

Monthly changes in multifamily housing tend to be volatile. Still, building for new multifamily housing was up 30.8% from the same time a year ago.

On a more upbeat note for housing, building permits for all types of residential housing were up 16.7% in December, though part of the increase could stem from a change in building codes in certain states that went into effect during January, according to the Commerce Department.

Kennedy kin spearheaded Peace Corps

[Remembrances:
Sargent Shriver]

BY STEPHEN MILLER

Sargent Shriver, who died Tuesday at age 95, was founding director of the Peace Corps and the chief general of President Lyndon Johnson's War on Poverty.

Young, dynamic and married to President John F. Kennedy's sister Eunice, Mr. Shriver personified the Camelot glamour of the early 1960s. But his political ambitions collided with the criticism that engulfed antipoverty programs later in the decade.

Mr. Shriver's only political campaign ended in a landslide defeat, after he was tapped as an emergency replacement candidate for vice president in George McGovern's ill-fated 1972 campaign.

For the previous two decades, though, his professional rise had been stratospheric. In 1955, at 39, the influential local businessman became president of the Chicago Board of Education.

Mr. Shriver worked on the 1960 Kennedy presidential



Sargent Shriver, left, receives from U.S. President John F. Kennedy the pen used to sign legislation creating the Peace Corps in this March 1961 photo.

campaign and then served as the president-elect's chief headhunter for talent to staff federal agencies. Soon he got an appointment of his own, to fulfill a campaign promise the new president had made for a youth-service program.

Looking back at his appointment as Peace Corps director, Mr. Shriver told *Time* in 1963 that Mr. Kennedy said "that

everyone in Washington seemed to think that the Peace Corps was going to be the biggest fiasco in history, and it would be much easier to fire a relative than a friend."

Instead, Mr. Shriver made the Corps an emblem of the Kennedy administration's commitment to international idealism and an enduring Washington institution.

Within two years, there were nearly 5,000 volunteers in 50 countries.

Mr. Shriver stayed on in the Johnson administration, where he added to his portfolio a New Deal-style flowering of programs meant to alleviate poverty under the rubric of the Office of Economic Opportunity. Among these was Job Corps, to train urban youth; Vista, a kind of domestic Peace Corps; and Head Start, a child-development program. He spoke of eliminating poverty within a decade.

But the programs proved controversial in many quarters.

He left Washington in 1968 to become ambassador to France.

Through his wife, Eunice, who had founded the movement, Mr. Shriver got involved with the Special Olympics, serving as president in the 1980s and then as chairman.

In recent years he suffered from Alzheimer's disease. In 2004, his daughter, Maria Shriver, the wife of former California Gov. Arnold Schwarzenegger, wrote a children's book about her father's ailment, "What's Happening to Grandpa?"

WORLD NEWS

Tunisians, Swiss target family's funds

Authorities in Tunisia and Switzerland moved to track and freeze the assets of Tunisia's former president and his extended family, fleshing out allegations that the leader and his relations illegally enriched themselves during his 23-year rule.

By Margaret Coker in Tunis and David Gauthier-Villars in Paris

Tunisian officials said Wednesday they had opened an investigation into allegations that Zine al-Abidine Ben Ali and his relatives illegally transferred assets and currency overseas, according to the state news agency. The probe targeted Mr. Ben Ali, his wife, Leila Trabelsi, and dozens of their relatives.

Federal authorities in Switzerland announced Wednesday an immediate freeze of all Swiss assets belonging to Mr. Ben Ali, his wife and about 40 family members.

In France, anticorruption activists said they filed a complaint with Paris prosecutors Wednesday, urging judicial officials to freeze French assets of Mr. Ben Ali and about 12 members of his family—which they say includes bank accounts and real estate in Paris and the French Riviera—alleging misappropriation of public funds and money laundering.

Mr. Ben Ali and an unknown number of his relatives fled from Tunisia to Saudi Arabia on Friday. The surprise exit followed a month of popular protests against the pres-



Tunisia's now-overthrown president Zine al-Abidine Ben Ali and his wife, Leila, greeting a woman during October elections.

ident that included allegations that the lavish lifestyle of the president and his family was funded by corruption.

Tunisian state television reported Wednesday that authorities have arrested 33 members of Mr. Ben Ali's extended family. It wasn't immediately clear who the individuals were, when they were arrested or why they were detained.

Since fleeing to Saudi Arabia last week, Mr. Ben Ali has made no pub-

lic statements. It is unclear whether the former leader or his relatives have engaged legal representation, and calls to several Tunisian businesses owned by Mr. Ben Ali's relatives went unanswered.

Members of Mr. Ben Ali's immediate family control stakes in at least three major banks and hold significant shares in at least two of the country's cellphone companies and at least one of its airlines, according to intelligence sources and

local lawyers with knowledge of the businesses.

Holding companies controlled by family members hold partnership agreements with major foreign companies with operations in Tunisia, businesses that include the Tunisian branches of European car makers and retailers, these sources say.

Daniel Lebègue, head of the French arm of anticorruption group Transparency International, estimated Mr. Ben Ali and his clan con-

trolled an estimated 35% of Tunisia's economy. Tunisia's gross domestic product reached an estimated \$44 billion last year. His claim wasn't immediately verifiable.

The Tunisian actions represents the latest in a series of decrees by the North African country's new caretaker government aimed at meeting public demands for widespread political reform and justice.

On Tuesday, Tunisia's former ruling party revoked the membership of Mr. Ben Ali, its founder. On Wednesday, Tunisia's new caretaker government started work, with multiple members taking their oath of office.

Earlier this week, Prime Minister Mohammed Ghannouchi announced commissions to investigate corruption and alleged illegal enrichment by Tunisians during Mr. Ben Ali's rule.

The focus of inquiries into Mr. Ben Ali and his family became clearer on Wednesday with the government announcement that authorities were investigating alleged transfers of assets and currency overseas.

"An investigation in illegal acquisition of personal property, real estate and stock-market investments abroad has been opened by the Public Prosecutor," the statement said, according to state news media.

Meanwhile, Switzerland's federal authorities announced an immediate freeze of all assets belonging to Mr. Ben Ali and dozens of members of his extended family.

Ivory Coast to get more U.N. troops

The United Nations Security Council voted unanimously to deploy 2,000 more peacekeepers to Ivory Coast, moving to bulk up its presence in the West African nation as President Laurent Gbagbo clings to power and neighbors consider the use of force to oust him.

By Joe Lauria in New York and Will Connors in Abidjan, Ivory Coast

The fresh U.N. troops will be deployed in the commercial hub of Abidjan and near the western border with Liberia, where ethnic tensions are high. There are currently 9,100 U.N. troops in the country, with 750 circling the Golf Hotel in Abidjan to protect Alassane Ouattara, the U.N.-declared winner of the Nov. 28 presidential election. Mr. Gbagbo has rejected those results and refused to relinquish the presidency.

The Security Council also authorized the transfer of three attack helicopters from the U.N. mission in Liberia. A U.N. diplomat said they would be used to defend against pro-Gbagbo mortar emplacements surrounding the hotel. The resolution approved the deployment of 60 U.N. police units "to meet threats posed by unarmed crowds."

The imminent U.N. deployment signals rising concern that the Ivory Coast political crisis could spiral toward another civil war in the world's largest cocoa producer.

The standoff has led to mediation efforts from African nations, with some threatening to use force

to topple Mr. Gbagbo's government.

The West African regional bloc Ecowas has said it is considering the use of military force, but several countries have publicly stated that they wouldn't send troops. Ecowas officials this week began visits to Russia, China, the European Union and the U.S. to solicit support for a military intervention.

The U.N. has defied an order from Mr. Gbagbo to leave the country, but it hasn't been able to halt a mounting civilian death toll. More than 200 people have been killed since the crisis began last year.

U.N. troops have been blocked from visiting sites of alleged mass graves, and they have been unable to protect civilians during street battles in several Abidjan neighborhoods. On Wednesday, three people were killed during clashes in the Adjame and Attécoubé neighborhoods, near the U.N. mission.

Meanwhile, diplomatic efforts have failed to dislodge Mr. Gbagbo from power. On Wednesday, Kenyan Prime Minister Raila Odinga left Ivory Coast after a second mediation effort failed.

"The breakthrough that was needed did not materialize," Mr. Odinga said after his visit.

Mr. Odinga said Mr. Gbagbo had guaranteed the lifting of a blockade around the Golf Hotel but "broke that promise—for the second time in two weeks." A Gbagbo government spokesman accused the mediator of bias against the incumbent.

—John James in Abidjan contributed to this article.

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WORLD NEWS

Vietnam premier is set to get new term

By JAMES HOOKWAY

HANOI—Vietnam's Communist Party reappointed Prime Minister Nguyen Tan Dung to its elite Politburo at a secretive congress Wednesday, in a move that paves the way for the nation's top leader to serve a second term, despite economists' concerns about his willingness to apply tough measures to tackle double-digit inflation rates.

Political analysts say the decision of the party's 175-person Central Committee to reappoint Mr. Dung—whose second term as premier requires confirmation by the country's National Assembly in May—indicates Vietnam will likely continue its pro-growth policies. In recent years, that has meant plowing billions of dollars into subsidizing lending programs and other state-driven spending plans to maintain rapid expansion despite bouts of inflation.

Across much of Asia, inflation has become a hot-button issue. It also has spurred fears about whether government efforts to prevent sudden price rises will stunt regional growth, which has helped drive the global recovery.

China last week introduced new reserve requirements to slow credit growth and imposed selective price controls in some areas, while India began importing onions from Pakistan and banned the export of many kinds of rice, pulses and cooking oils to contain inflation. In Indonesia, authorities have called on residents to grow their own chili peppers in an effort to help limit price rises of the nation's key ingredient.

But Vietnam presents a troubling vision of what can happen in other fast-growing parts of the world if policy makers fail to put on the brakes in time.

Vietnam's inflation rates steadily increased in 2010, hitting 11.75% on year in December, and worsening a crisis of confidence in the dong currency, which already had been hit by a series of devaluations.

Vietnamese individuals have responded by buying up dollars and hoarding gold, or speculating on land in the hope of retaining their savings. Private businesses, meanwhile, have struggled to compete with powerful state-owned enterprises for bank loans as policy makers belatedly try to slow credit growth, which expanded more than 27% last year.

The Communist Party's conclave is a grand event held every five years. The outcome is largely prearranged, people familiar with its workings say. This time the party appointed its chief Marxist theorist and head of the national legislature, Nguyen Phu Trong, as the party's new boss—a move analysts said would strengthen Mr. Dung's hand.

Another high-ranking candidate for party boss, Truong Tan Sang, who is widely perceived as one of Mr. Dung's main rivals, was expected to move to the largely ceremonial post of president.

Mr. Dung's and Mr. Sang's positions will likely be confirmed by the rubber-stamp National Assembly.

—Nguyen Anh Thu
contributed to this article.

Afghan parliament is delayed

By YAROSLAV TROFIMOV
AND MARIA ABI-HABIB

KABUL—Afghan President Hamid Karzai delayed the incoming parliament's opening by a month to give a tribunal more time to investigate fraud allegations, as the conflict over controversial legislative elections intensified.

Mr. Karzai has repeatedly criticized the new parliament, which was scheduled to convene for the first time Sunday, as unrepresentative because it doesn't allocate enough seats to the country's biggest ethnic group, the Pashtuns. Mr. Karzai, a Pashtun who created the special court last month to review fraud claims by losing candidates, agreed to that court's request for the delay just hours after it was made.

The president's move puts him at odds with the United Nations and the U.S.-led coalition, which have accepted the election's results, as certified by Afghanistan's Independent Election Commission in December.

The IEC and the U.N.-backed watchdog, the Electoral Complaints Commission, are refusing to cooperate with the special court, saying the judges have no legal authority to interfere with election results under the Afghan constitution. Mr. Karzai on Wednesday ordered all Afghan government bodies to collaborate with the inquiry.

Over the past year, the Afghan Parliament has emerged as a check on Mr. Karzai's powers, vetoing his ministerial candidates and opposing several of his policies. The new Parliament's composition is seen as even more hostile to Mr. Karzai. Some Western diplomats say the Afghan president's true goal is to weaken the new legislature—and to keep it from convening for as long as possible.



Sediqullah Haqiq, chairman of a court probing fraud allegations in September's Afghan poll, speaks in Kabul Wednesday.

Delaying the inauguration "is something that will hurt the legitimacy and the credibility of the new Parliament," said Haroun Mir, the director of the Afghanistan Center for Research and Policy Studies, who unsuccessfully ran for Parliament himself.

Western diplomats said representatives of the international community will gather Thursday to discuss how to react to Mr. Karzai's move. The U.S. Embassy in Kabul said its views on the election are reflected by last month's U.N. Security Council statement, which welcomed the election commission's certification of the results and urged "all Afghan institutions act within their clearly defined areas of competence, in accor-

dance with the relevant laws and the Afghan Constitution."

The Sept. 18 parliamentary election had the lowest turnout of any Afghan election since the Taliban regime was ousted in 2001. While international observers agree there was widespread fraud, they say the electoral commission behaved far more professionally last year than in the 2009 presidential election.

Afghanistan's attorney general, a close ally of Mr. Karzai, is seeking criminal charges against top IEC and ECC officials for their alleged involvement in fraud during the parliamentary vote.

Incoming lawmakers said they are worried that the political crisis will spill onto the streets of Afghani-

stan's major cities, pitting Pashtuns against the country's minorities, such as the Hazaras, who are well-represented in the new legislature.

It isn't clear how the special court will carry out its probes, as both the IEC and the ECC said they won't share any information with the judges, referring them instead to the election commissions' websites.

The special court's chairman, Sediqullah Haqiq, raised the possibility that the entire election may be thrown out. "We have received complaints from all the provinces, and in each province people complained about fraud," he said Wednesday.

—Arif Afzalzada
and Habib Khan Totakhil
contributed to this article.

India's Singh shuffles cabinet

By ABHRAJIT GANGOPADHYAY

NEW DELHI—Indian Prime Minister Manmohan Singh reorganized his cabinet in an effort to invigorate a coalition government hit by corruption scandals and faced with growing criticism for failing to keep a lid on surging food prices.

Mr. Singh shied away from sweeping changes on Wednesday, and promised a more extensive reorganization after the federal budget is delivered in February.

The shuffle—the first since the Congress party-led United Progressive Alliance returned to power in May 2009—signals Mr. Singh's resolve to retain control of high-profile ministries and to promote those who did well as junior ministers.

Mr. Singh left the finance, home, defense and foreign ministries intact, but switched some key portfolios, including petroleum, civil supplies, consumer affairs, steel and civil aviation.

Sharad Pawar, under fire for failing to bring down food prices, was removed from his post at the Ministry of Consumer Affairs, Food and Public Distribution, but he will keep his position as minister of agriculture.

Kapil Sibal—who took over as telecom minister when A. Raja resigned in November amid allegations of favoritism and manipulation in the allocation of telecommunications



Prime Minister Manmohan Singh at swearing-in ceremonies in New Delhi.

bandwidth in 2008—will keep his post, and will continue to be in charge of education.

Petroleum Minister Murli Deora will move to the corporate-affairs ministry, while S. Jaipal Reddy will take his place.

"Reddy is seen as a more people-oriented person, though Deora isn't to be blamed for the oil-price hike," said Subhash C. Kashyap, historian and former secretary-general of the Lok Sabha, India's lower house of Parliament.

India's state-run fuel retailers raised gasoline prices Sunday for the eighth time in the past seven months following a jump in global

crude-oil prices, adding to persistent inflationary pressure.

Among the other cabinet changes, Steel Minister Virbhadra Singh was succeeded by Beni Prasad Verma, while Civil Aviation Minister Praful Patel has been moved to the heavy industries ministry. Vayalar Ravi will succeed Mr. Patel as civil aviation minister.

Roads and Highways Minister Kamal Nath will be succeeded by C.P. Joshi and will move to the urban-development ministry. Analysts said Mr. Nath's departure comes as the pace of fund raising to mend damaged roads fell short of expectations.

The government has been strug-

gling for months to clean up its image after the graft-tainted Commonwealth Games in October, and the Raja-related allegations of the sale of 2G telecom licenses for a fraction of their value.

Also, the inflation rate based on the wholesale-price index accelerated to 8.43% in December from a year earlier, compared with 7.48% in November, driven mostly by surging vegetable and fruit prices.

Some critics said the cabinet changes, which come before polls in some important states, were too little, too late.

"The big picture is missing. The key ministries have been left undisturbed. It has been a game of musical chairs," said analyst Brahma Chellany of the Center for Policy Research. "I wonder how the government will convince the public about this being an important political exercise."

The opposition Bharatiya Janata Party has kept up a sustained attack on the government, leveraging on mounting public anger over food inflation.

The increasing discontent is eroding the Congress party's mass appeal, a risk the party can't ignore as West Bengal and Tamil Nadu states—two strongholds of UPA allies—face elections this year.

—Vibhuti Agarwal
and Anant Kalain
contributed to this article.