International Business News

China recalls milk in food scare

AFP, *Beijing*

Chinese store shelves were emptied of some of the country's most popular dairy brands Friday, as shoppers vented their fury amid a snowballing crisis over the poisoning of the nation's milk supplies.

The government ordered a mass recall of dairy products after authorities revealed that an industrial chemical initially reported to be only in milk powder had also been detected in regular milk, yoghurt and ice cream.

"All problem products have been banned from our stores," an executive at Jian-Mart, a popular supermarket chain, told AFP.

Authorities initially blamed the chemical, melamine, for killing four babies and sickening more than 6,000 others, with symptoms including kidney stones, being unable to pass urine, and vomiting.

But there were fears the problem could be much bigger after other dairy products were found to be at risk of contamination.

Only black coffee was being served at some Starbucks outlets after the government identified one of its main suppliers, Mengniu, as having tainted regular milk.

A Starbucks spokeswoman in Shanghai and a waiter in one of its Beijing outlets confirmed milk was not on the menu.

"We had to stop serving it today because the milk is being inspected. We have to wait for the results," the waiter told AFP.

India lifts ban on local editions of foreign news magazines

PALLAB BHATTACHARYA, *New Delhi*

In a move to further liberalise the print media, India has withdrawn a decades-old ban on local editions of foreign news magazines but limited the ceiling of 26 percent on foreign direct investment (FDI) in such joint ventures.

A meeting of the Indian cabinet presided over by Prime Minister Manmohan Singh approved the local publication of foreign news magazines in partnership with domestic firms.

While the FDI cap on these magazines has been placed at 26 percent, which is the ceiling for all news media in print and TV, there is no cap on their foreign and local content.

"The cabinet has given approval to review the print media policy by allowing Indian editions of foreign magazines publishing news and comments. Periodicals falling under the news and current affairs category will now be allowed with 26 percent FDI", said Information and Broadcasting Minister PR Dasmunsi.

At present, only technical, specialised and educational foreign magazines are permitted with the same FDI cap.

The government said the move would help Indians get foreign news magazines at a much cheaper rate.

AFP

Vendors wait for customers in front of a huge advertisement for a new shopping mall in Jakarta on Friday. Investment in Indonesia should grow more than 10 percent this year despite global financial turmoil, the trade minister of Southeast Asia's biggest economy said.

HSBC says it scraps bid to buy S Korean bank

AFP, *Seoul*

Banking giant HSBC announced Friday it has scrapped a six billion dollar deal to buy a major South Korean bank after the international credit crisis cut asset values worldwide.

HSBC said in a statement it had terminated the deal to buy a 51 percent stake in Korea Exchange Bank (KEB) from US buyout fund Lone Star, "taking into account all relevant factors including current asset values in world financial markets."

It said discussions with Lone Star "have not led to agreement on how the transaction might proceed on a basis acceptable to HSBC," apparently indicating differences over pricing.

The transaction had also been dogged by legal disputes over Lone Star's 2003 purchase of KEB. South Korea's watchdog Financial Services Commission (FSC) had not yet given approval for the latest deal.

GM eyes selling truck business to Japan's Isuzu

AFP, *Tokyo*

Struggling General Motors Corp. is talking to Isuzu Motors about selling its truck business, in what would mark the first Japanese takeover of a business from the US Big Three, a report said Friday.

Isuzu, Japan's second biggest truck maker, is "positive" about the deal, which would be worth tens of billions of yen (hundreds of millions of dollars), the Nikkei business newspaper said in its evening edition.

But an Isuzu spokesman denied the report.

"The company has not been approached by General Motors," he said.

The US Big Three automakers have been suffering major losses as soaring oil costs and a slowing US economy sap sales.

GM is widely expected to lose its nearly eight-decade-old crown as the top world automaker this year to Japan's Toyota Motor Corp.

FINANCIAL CRISIS

Great Depression memories come into play

AFP, *Washington*

While its details have not been formally disclosed, economists say a US government plan to rescue the financial industry described as the "mother of all bailouts" will not be a simple task and could cost up to a trillion dollars.

Treasury Secretary Henry Paulson said the rescue plan, drafted with the Federal Reserve and Congressional leaders to help purge bad assets from the banking sector, will cost the government "hundreds of billions" of dollars.

"This needs to be big enough to make a real difference and get at the heart of the problem," Paulson told reporters.

The proposal was sent to Congress late Friday, an administration official said. According to The New York Times, it is likely to cost 500 billion dollars, with some experts predicting the cost could run as high as one trillion.

Analyst Mary Ann Hurley at DA Davidson & Co. called the plan the "mother of all bailouts" and said it seemed to "establish a toxic debt dumpster to purge the banks of bad debt."

"The trillion dollar question (is) how will the government price the toxic debt?" she added. "Will the banks and financial institutions still have to suffer severe losses?"

Some said the massive rescue could be modeled on the Resolution Trust Corp. established to clean up US savings and loans after huge losses for those depository institutions in the 1980s, but the form of the new entity was not immediately clear.

Nouriel Roubini, a New York University economist, said the government should revive the Depression-era Home Owners' Loan Corporation (HOLC) to "buy impaired mortgage assets at a discount from banks rather than a RTC that restructures assets from already-defaulted banks."

He added that "buying up mortgages assets at a discount may push some banks into insolvency as they would have to book the lower value and take the writedown against capital that might not be there," and that another effort may be needed to recapitalise banks.

Senator Charles Schumer proposed a strategy rooted in the Depression, arguing that the RTC model would involve taking distressed assets off the books of troubled banks and transferring "excessive risk to the US government without addressing the plight of homeowners."

Schumer proposed using a model from the 1930s called the Reconstruction Finance Corporation to stabilize the banking system. This would provide capital to struggling financial institutions in exchange for an equity or preferred stock stake in the banks.

Brian Bethune, economist at Global Insight, said that "what is lurking in the balance sheets of commercial and investment banks and insurance companies, no matter how we try to reshuffle the deck, is about 1.25 trillion dollars of illiquid mortgage assets."

He said banks have already written off around 500 billion dollars leaving nearly 800 billion dollars to deal with, although not all of these assets are held by US banks.

Because of a lack of trading in these assets, Bethune said "it is difficult, if not impossible to assign a fair market value" but that it could be fair to assume a writedown of 60 percent or more.

"The initial cost will be in the hundreds of billions of dollars, to be funded by the US Treasury," he said.

"However, the ultimate cost to the taxpayer should be much lower, presuming that the economy and the housing market recover perhaps in the second half of 2009 and 2010."

Other Depression-era tools were being used to steady a financial system reeling from a housing meltdown that has engulfed the financial sector.

The Treasury on Friday agreed to insure money market funds under the Exchange Stabilisation Fund, established by the Gold Reserve Act of 1934 to promote financial stability.

"If you are a fan of irony, consider this: The conservative movement has utterly hated FDR (Franklin Roosevelt), and his New Deal programs," said Barry Ritholtz of Ritholtz Research and Analytics.

"We now see that the grand experiment of deregulation has ended, and ended badly. The deregulation movement is now an historical footnote, just another interest group, and once in power they turned into socialists."

Conservative columnist Michelle Malkin noted that "this is a Republican White House presiding over the mother of all bailouts."

Since the rescues began, she said "we've heard that every bailout step was just a one-off. Each step was supposed to calm the markets ... Each new package of goodies rewarding irresponsible behavior and bad financial decisions was supposed to prevent new ones. None did. And now, here we are."

AFP

Clouds are seen above the US Treasury on Friday in Washington, DC. US Treasury Secretary Henry Paulson has announced that the Treasury will insure money market mutual funds as one part of a massive government bailout that is attempting to stabilise the current financial crisis.

Does bailout show US double standards?

AFP, *Washington*

The United States criticised Asian economies for attempting to bail out cash-starved companies during a regional financial crisis a decade ago -- yet now throws a lifeline to its own companies ravaged by a credit crisis, a move experts say smacks of double standards.

In a bid to avert bankruptcy, the US Federal Reserve, the country's central bank, pumped a 85 billion dollars to bail out America's largest insurer AIG on Tuesday, sending global markets in a tailspin that continues to reverberate Thursday.

Earlier, Americans saw up to a 200 billion dollar federal rescue of financially-stricken mortgage giants Fannie Mae and Freddie Mac, and a nearly 30 billion dollar injection to prevent a default by investment bank Bear Stearns.

The moves to rescue them, some economists say, contrasted with the approach the United States and the International Monetary Fund took during the 1997-98 Asian financial crisis, when the region was told to let inefficient corporation bleed to death.

"I guess some of the pundits in Washington arguing against government money being used (to bail out local companies) in Asia at that time are now basically calling for various government intervention," noted Raghuram Rajan, the chief economist at the International Monetary Fund between 2003 and 2006.

"Well, it's when it hits you that you realise what other countries were experiencing," he told AFP in a telephone interview from the University of Chicago, where he resumed teaching after the IMF stint.

"It's all very well to say, 'Let the financial system go, let it find its equilibrium,'" he said. "But when it is in the face of speculative attacks and prices are being hammered and it looks like the larger institutions are going to collapse, it is pretty natural for the government to step in and say, 'Yes' we can't let this happen.'"

When the IMF pledged 20 billion dollars to help South Korea survive the Asian crisis, it was on condition that Seoul allowed ailing banks and other companies to collapse rather than bail them out, economist Yung Chul Park, who was deeply involved in the talks with the IMF, was quoted saying in the New York Times on Thursday.

Now a professor of economics at Korea University in Seoul, he said that while the US crisis was different -- it is global rather than restricted to one region like Asia -- "Washington is following a different script this time."

Unlike the US crisis, which was triggered largely by a rapidly inflated real estate, the Asian turmoil stemmed from a collapse of currencies of several economies, whose banks had taken enormous risk financing investments using foreign currency-denominated loans.

Indonesia, Thailand and South Korea used the bulk of their currency reserves attempting to prop up their exchange rates after investors fled. More than 100 billion dollars of loans were arranged by the IMF for them to cover their foreign exchange denominated debt.

But some experts defended the US bailout, saying it was inevitable to save the global financial system.

"I think the United States has done a tremendous service to the rest of the world in preventing the collapse of AIG because the main losers in an AIG collapse would have been European banks," said Nicholas Lardy, an Asian expert at the Washington-based Peterson Institute for International Economics.

"You are looking at institutions that lie at the heart of the global financial system," he said, comparing the crisis to the Asian turmoil.

The US Treasury, he said, did not pursue a blanket bailout policy, noting that it had allowed Lehman Brothers, America's fourth-largest securities firm, to file for bankruptcy -- a move that produced the worst day on Wall Street in seven years sending global markets in a tailspin.

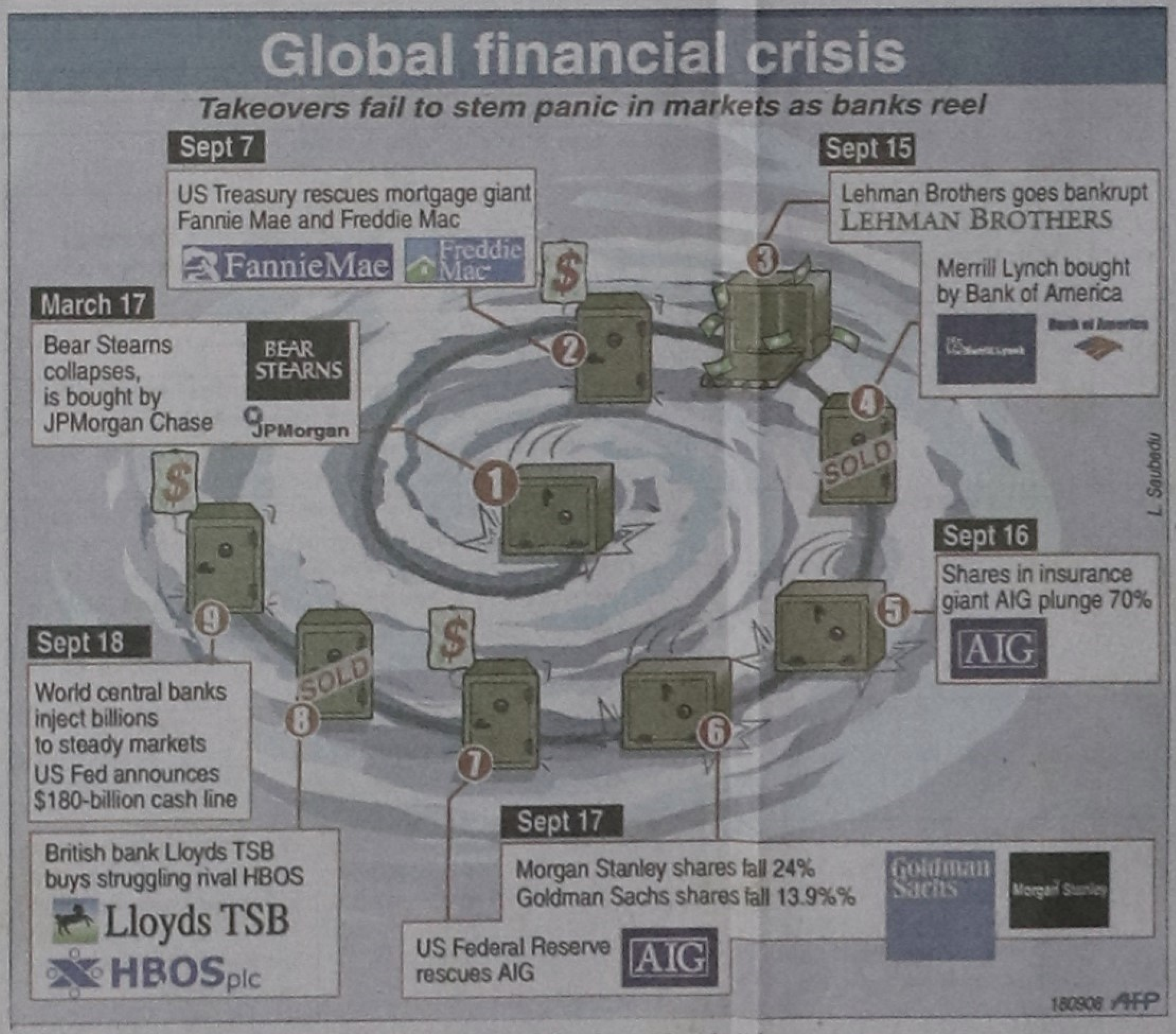
Some US experts also doubted the perception that Washington was against Asian governments stepping in to save their companies during the regional turmoil.

"Although there was a debate inside the US government and the IMF how best to do those kinds of interventions, I don't think there was ever a position that there was never a need for a government to stand by its domestic banks," said Brad Setser, who was at the US Treasury during the crisis.

He cited the "large recapitalisation" then of domestic financial systems using public resources in Thailand, South Korea and Indonesia.

The IMF bailouts were also backed by the United States, a principal contributor to the Fund's capital, said Setser, now with the Council on Foreign Relations, a think tank in New York.

Washington, he said, may have pushed Asian governments against cutting "special favour deals" and to make sure that the bailouts were based on more explicit deposit insurance and in ways where equity investors took losses.



Graphic chronology of the global financial crisis since March 17