International Business News

Sri Lanka withdraws biscuits over melamine scare

AFP, *Colombo*

Sri Lanka's largest biscuit maker said Thursday it was withdrawing one of its products from sale after Swiss authorities identified it as having traces of melamine.

Ceylon Biscuits Limited said their Munchee Lemon Puff biscuits will be withdrawn from the market because of the reports, but maintained it was not using milk products from China.

The "milk ingredients were sourced only from Australia, Holland and Canada," the company said in a statement.

On Monday, authorities in the Swiss canton of Geneva identified Munchee Lemon Puff biscuits as containing traces of melamine.

Melamine, a poisonous substance generally used in the manufacture of plastic, has been found to be added to Chinese milk, forcing dairy products and some confectioneries off the shelves in many countries.

Four Chinese children are known to have died and at least 53,000 made ill after consuming melamine-laced milk.

Charities criticise rich nations over bailouts

AFP, *Singapore*

Five global charities on Thursday criticised rich nations for quickly bailing out the world's ailing financial sector while "foot-dragging" on aid, climate change and poverty.

In a joint statement, the heads of Amnesty International, World Vision, Oxfam, Greenpeace and Plan International warned of dire consequences if wealthy states used the crisis to cut aid and trade.

"The urgency shown by rich countries to tackle the financial meltdown stands in stark contrast to their foot-dragging and broken promises over aid and poverty alleviation, human rights and climate change," they said.

"Rich countries will be following a myopic and self-defeating strategy if they ignore the most pressing challenges of our times and focus solely on narrow financial interests."

The 123-billion US dollar lifeline thrown by the US government to American insurance giant AIG was 18 billion dollars more than its annual aid package for poor countries, they said.

It was also twice the amount needed to achieve an internationally-agreed goal to reduce poverty by 2015, the organisations added.

Swiss govt props up UBS with massive bailout

AFP, *Zurich*

Switzerland announced emergency measures to prop up its vital banking sector on Thursday, pouring almost 60 billion dollars into the biggest bank UBS, one of heaviest losers from the US subprime crisis.

The crisis help for UBS will result in the Swiss federal state obtaining a temporary stake of 9.3 percent in UBS, and highlights the shock of the financial crisis on renowned Swiss banking.

The country's second-biggest bank Credit Suisse, said it did not need state help.

But it revealed that it had turned to a group of investors, with the largest participant being a Qatari sovereign wealth funds, for 10 billion francs (8.79 billion dollars, 6.54 billion euros) in new capital.

Banking is a driving force of the Swiss economy and UBS, which has announced staggering figures for the damage done by its exposure to the US home-loan market, is one of the main pistons in the Swiss financial system.

AFP

A shopkeeper arranges readymade garments at a stall for customers inside a shopping mall in the business hub of Kuala Lumpur on Wednesday. A leading Malaysian thinktank slashed its 2009 economic growth forecast to 3.4 percent and said there was a risk of recession if the US economy takes a tumble.

Automaker Ford cuts 450 jobs in Australia

AFP, *Melbourne*

Automaking giant Ford will slash 450 jobs in Australia as it battles falling sales and the global financial crisis, it announced Thursday, taking its total job cuts to 1,400 by 2010.

The job losses, which come as Australia's economy slows and unemployment numbers rise, represent about 10 percent of the company's workforce in its plants in the southern state of Victoria.

The latest redundancies will be on a voluntary basis and the company expects that enough employees would sign up for them by the end of the year, Ford Australia chief executive Marin Burela told a news conference.

"It's absolutely critical that we take a proactive step, that we position ourselves for strength in terms of where we're heading into 2009 and beyond," he said.

CREDIT CRISIS

Recession, how deep?

AFP

A shopper leaves a store, which is having closing sales during its final five days in business in a shopping mall in California. US retail sales in September plummeted by the largest amount in three years.

AFP, *Washington*

With recession fears for the US economy growing by the day in the wake of a global financial crisis, analysts are pondering the questions of how deep and how wide the downturn will be.

Most economists say the extraordinary efforts by Washington and other governments to stem the credit crisis appear to be helping confidence but will not prevent recession in the world's biggest economy.

Those fears were hammered home Wednesday with unusually bleak reports on US retail sales, which represents the bulk of US economic activity, and a key regional manufacturing index.

Carl Weinberg, chief economist at High Frequency Economics, said that even if credit flows are restored, the troubles are not over for the entire global economy.

"The world economy is still headed into a recession despite the global financial market rescue effort," Weinberg said.

"The decline will be deep and protracted. It has already started. Nowhere is the economic house in greater disorder than Euroland, although some may argue that Japan is a bigger mess."

On Tuesday, San Francisco Federal Reserve president Janet Yellen became the first central bank official to acknowledge that a recession is probably underway in the United States.

Yellen said she expected essentially no growth at all in the third quarter and "an outright contraction" in the fourth quarter.

"Indeed, the US economy appears to be in a recession," she said.

Reinforcing those fears, the Commerce Department reported that US retail sales -- a key to economic activity -- slumped 1.2 percent in September, the sharpest drop since August 2005 and weaker than market expectations.

"People have dropped shopping. This happened even before the total meltdown in the stock markets. What is ominous is that the declines in spending were broad-based," said Joel Naroff at Naroff Economic Advisors.

Naroff said it is only a matter of time before the recession becomes official.

"The real issue is how long this will last and how deep a slump will it be," he said.

"The answer to that is not clear as it depends upon how fast the rescue plans that have been announced are actually implemented and work. That is likely to take time."

John Ryding at RDQ Economics said the latest reports show recessionary levels for both the consumer and manufacturing activity, an ominous sign for overall economic output and a sharp drop in gross domestic product (GDP).

Ryding predicted a contraction of 0.5 percent in the third quarter and a 2.5 percent drop in the fourth quarter.

"Retail sales levels in September are unlikely to have captured the full impact of the intensification of the credit crisis and we look for further declines in the fourth quarter," Ryding said. "We have a full-blooded consumer recession as sales in September fell across the board."

Amid the grim backdrop, House of Representatives Speaker Nancy Pelosi said she would ask lawmakers to return after the November 4 election for a lame-duck session to consider a 150-billion-dollar stimulus package, following a 168-billion-dollar plan approved earlier this year.

"Congress must try again," Pelosi said.

"I have asked the chairs of relevant committees to schedule hearings in the coming weeks on the key provisions of a fiscally responsible recovery package to get our economy moving again."

The Fed's Beige Book said US economic activity weakened in September across the country with few bright spots and businesses "more pessimistic" about the outlook.

The report, to be used by its policymakers for their October 28-29 meeting on interest rates, offered no surprise in its survey of the past few weeks during a period of heightened market turmoil and tight credit.

The report said activity "weakened in September across all 12 Federal Reserve districts."

Fed chairman Ben Bernanke said in a speech Wednesday that a recovery from the financial crisis "will not happen right away" but that the US economy will eventually emerge "with renewed vigor."

On Tuesday, US authorities unveiled plans to inject billions of dollars into banks to ease a global credit crisis in the first program of its kind since the Great Depression.

The announcement provided a brief thaw in credit markets although it remained unclear how quickly it would jump-start interbank lending needed to fund corporate activity that fuels the economy.

Sara Kline at Economy.com said there have been only modest declines in Libor -- the interbank lending rates seen as crucial in the credit crisis.

These rates "will need to fall further to have a significant impact," Kline said. "The lack of confidence among financial institutions will weigh on the real economy through reduced credit availability to businesses and households."

US retailers set for gloomy Christmas

AFP, *Washington*

US retailers are bracing for a grim Christmas shopping season as Americans rein in their spending and try to weather the storm in the financial markets and a suffocating credit squeeze.

Government data released Wednesday showed US retail sales slumped 1.2 percent in September, their steepest decline since August 2005.

"This is just the beginning -- the worst is yet to come," Howard Davidowitz, national director of retail consultancy Davidovitz and Associates, told AFP.

To try to boost sales, large retail chains are aggressively cutting prices, offering free shipping and launching the Christmas shopping season earlier than usual.

Retail titan Wal-Mart has cut the price of popular toys and offered to ship them for free throughout the Christmas season, which it launched earlier this month.

At Home Depot, the second biggest do-it-yourself chain in the United States, artificial Christmas trees and decorations have already pushed Halloween merchandise off the shelves -- before the October 31st holiday had even happened.

Chicago upscale stationer Chandra Greer kicked off the Christmas season in her shop with a sale.

"Not only have we never had a sale during the Christmas season, but we've never had a sale at all," she said.

Financial audit and consultancy group Deloitte predicts that holiday sales will increase by a modest 2.5-3.0 percent on a 12-month basis between November and January.

This would be less than last year's 3.4 percent increase and one of the smallest gains since 1991, when they rose a mere 2.0 percent.

Deloitte pinned the predicted sluggish Christmas sales on the "many economic factors weighing heavily on consumers' minds and wallets."

As well as the credit and stock market woes, consumers face high fuel and food prices which have eroded domestic budgets.

Household-name shops like home furnishings outlet Linen and Things and restaurant chains like Bennigan's have gone belly-up as the United States struggles to weather the worst financial maelstrom since the Great Depression.

"Look at who's doing well: McDonald's, Burger King, discount shops like Dollar Tree, Family Dollar, Costco, Walmart ... If you sell cheap food or something that the consumer has to have to survive, you're fine," Davidovitz said.

Despite recent falls in energy prices, which have put some cash back into Americans' budgets, consumer confidence declined sharply from 69 points in September to 37 this month, according to the RBC CASH Index, a monthly national survey of consumer attitudes.

The decline was the biggest since RBC began mapping US consumer attitudes in January 2002.

ANALYSIS

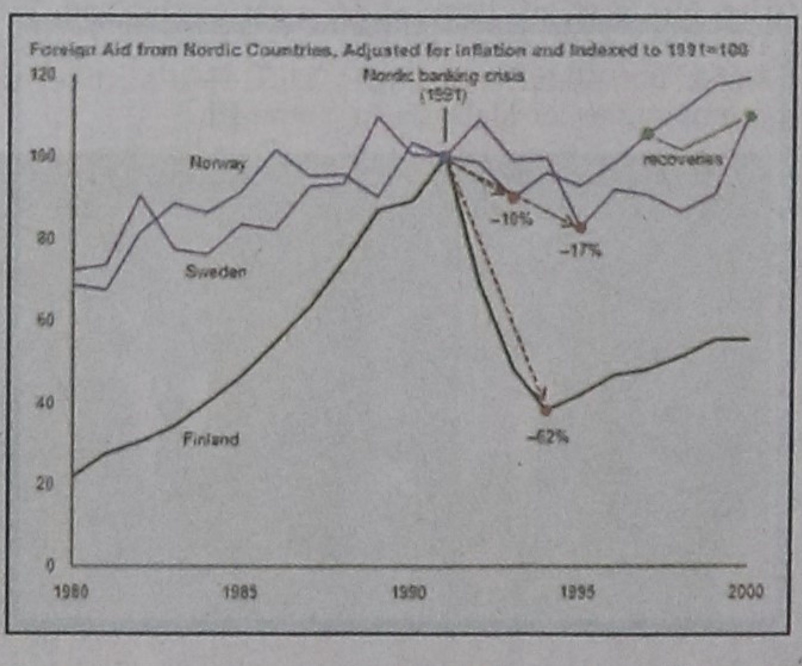
History says financial crisis will cut aid

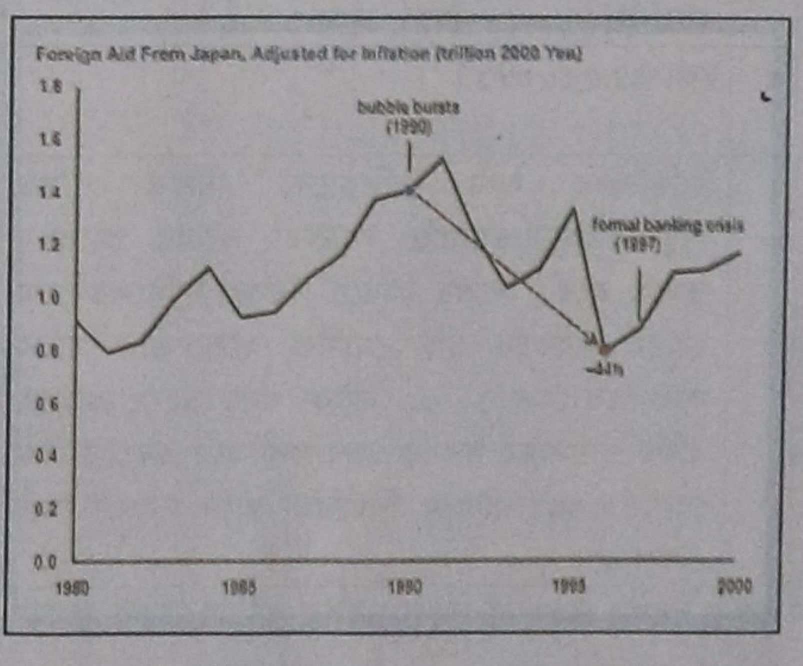
DAVID ROODMAN

Although the financial crisis began in the world's richest nation, there is good reason to worry about how it will affect the world's poor. The contagions of freeze-up and slowdown will spread through many channels: trade, investment, migration, and more.

In particular, as governments pour trillions of dollars and euros of aid into their banks, it will be unsurprising if their spending on aid for poor countries -- currently about $80 billion a year -- falls. After each previous financial crisis in a donor country since 1970, the country's aid has declined. "Every" in this case refers to four instances: Japan after its real estate and stock bubble burst in 1990; and Finland, Norway, and Sweden after their shared crisis in 1991.

How much the global aid total will go down is naturally hard to predict





since donors as a group in 2008 are not some statistical blend of 1990s Japan and Sweden. Will the political consensus in Britain to raise aid to 0.7 percent of gross domestic product flag?

In the United States, Democratic presidential candidate Barack Obama has already suggested that the crisis would slow his promised doubling of US aid, while his Republican rival John McCain has proposed a one-year spending freeze on everything but defence, veteran affairs, and entitlement programmes.

Also unclear is how long a dip would last. Sweden's and Norway's aid totals recovered in 6-9 years. Finland's and Japan's still have not. The latest developments offer hope that most industrial economies will snap back within a few years, as Norway and Sweden did, rather than entering a protracted slowdown like Japan's. And bureaucratic and budgetary inertia in may muffle the effects until 2010. But a decline over the next five years seems possible, even probable.

After the Nordic crisis of 1991, Norway's aid fell 10 percent, Sweden's 17 percent and Finland's 62 percent -- from peak to trough after adjusting for inflation. Finland's plummet apparently owed to a deeper economic contraction: its economy at the time depended heavily on timber exports to the former Soviet Union, whose own economy was collapsing. Those were the days when a forest products company named Nokia saw the writing on the wall and went into mobile phones.