INTERNATIONAL

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Shawn Baldwin for The New York Times

Hamza Abu Zanad of Jordan, at right, finds Dubai disorienting. "There are fancy cars, but don't speed. You can have prostitutes, but don't get caught with a woman."

Democrats balk on bailout plan; 2 banks regroup

Wall Street searching for silver linings

By Vikas Bajaj, Jenny Anderson and Leslie Wayne

NEW YORK: Even as U.S. policy makers worked on details of a $700 billion bailout of the financial industry, Wall Street began looking for ways to profit from it.

Financial companies were lobbying to have all manner of troubled investments covered, not just those related to mortgages.

At the same time, investment firms were jockeying to oversee all the assets that the U.S. Treasury Department plans to take off the books of financial institutions, a role that could earn them hundreds of millions of dollars a year in fees.

Foreign banks, which were initially excluded from the plan, lobbied successfully over the weekend to be able to sell the Treasury the troubled U.S. mortgage debt owned by their American subsidiaries, getting the same treatment as U.S. banks.

This could be a boon to HSBC, the large British bank with significant operations in Asia, which was a major buyer of mortgages over the past decade.

Nobody wants to be left out of the Treasury's proposal to buy up bad assets of financial institutions.

"The definition of 'financial institution' should be as broad as possible," the Financial Services Roundtable, which represents big financial services companies, wrote in an e-mail message to its members Sunday.

The group said that a wide variety of institutions as varied as mortgage lenders and insurance companies should be able to take advantage of the bailout and that these companies should be able to sell off any investments linked to mortgages.

The scope of the bailout grew over the weekend. As recently as Saturday morning, the proposal by the Bush administration called for the Treasury to buy residential or commercial mortgages and related securities.

By that evening, the proposal was

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Japanese lenders snap up bargains as markets sour

By Andrew Ross Sorkin and Stephen Labaton

NEW YORK: Sea changes in the world of finance failed to reassure stock markets on Monday as the U.S. government's $700 billion rescue plan ran into resistance in Congress, and the last two major independent American investment banks have declared an end to an era.

At the same time, cash-rich Japanese banks, which have largely escaped the turbulence thrashing their counterparts in the United States and Europe, scooped up bargains at the beleaguered investment bank Morgan Stanley as well as from the remains of Lehman Brothers.

A day earlier, Morgan Stanley, along with Goldman Sachs, decided to transform themselves into traditional bank holding companies — subject to far greater regulatory oversight — in a bid to calm investors' concerns.

But coming off a rally on Friday, markets in Europe and Wall Street turned decidedly downward as they tried to digest the implications of the U.S. government bailout — and the refusal of governments in Europe and Japan to emulate it on Monday.

The resistance by Democrats, who control the U.S. Congress, to automatically go along with the administration of President George W. Bush, as well as emerging opposition from some conservatives, increased the prospect that the $700 billion plan might not go through quickly, despite an expression of confidence from the U.S. Treasury Department that an agreement could be reached with Congress this week.

Major European markets fell 1.3 percent to 2.3 percent. Wall Street opened down and was about 2 percent lower in afternoon trading.

The dollar took a 2 percent dive against the euro, which rose to $1.4768. Reflecting market jitters, oil for October delivery soared $12.70 a barrel in New York. (Page 20)

"We've seen such dramatic changes in the financial landscape in recent days," said Martin van Vliet, an economist at ING Group in Amsterdam. "It's understandable why there's caution in the market."

Investors are still seeking clarity on important questions, he said, like these: How will the assets that are being bought be valued? Will the valuations be enough to solve the deep capital problems at banks? Are conservative midsize lenders going to be punished for their prudence?

Trying to rally support, Bush headed to the United Nations to explain his ad-

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A vision of a modern Arab world

Fast-moving, fast-growing Dubai offers unsettling freedom

By Michael Slackman

DUBAI: In his old life in Cairo, Rami Galal knew his place and his fate: to become a maintenance man in a hotel, just like his father. But here, in glittering, manic Dubai, he is confronting the unsettling freedom to make his own choices.

Here Galal, 24, drinks beer almost every night and considers a young Russian prostitute his girlfriend. But he also makes it to work every morning, not something he could say when he lived back in Egypt.

Everything is up to him. Everything: what meals he eats, whether he goes to the mosque or a bar, who his friends are.

"I was more religious in Egypt," Galal said, taking a drag from yet another of his ever-burning Marlboros. "It is moving too fast here. In Egypt there is more time. They have more control over you. It's hard here. I hope to stop drinking beer — I know it's wrong. In Egypt, people keep you in check. Here, no one keeps you in check."

In Egypt, and across much of the Arab world, an Islamic revival is being driven by young people for whom faith and ritual are increasingly the cornerstones of identity. But that is not true in the ethnic mix that is Dubai, where 80 percent of the people are expatriates, with 200 nationalities.

This economically vital, socially freewheeling yet unmistakably Muslim state has had a transforming effect on young men. Religion has become more of a personal choice and Islam less of a common bond than national identity.

Dubai is, in some ways, a vision of what the rest of the Arab world could become — if it offered comparable economic opportunity, insistence on following the law and tolerance for cultural diversity.

In this environment, religion is not something young men turn to because it fills a void or because they are bowing to a collective demand.

That, in turn, creates an atmosphere that is open not only to those inclined to a less observant way of life, but also to those who are more religious. In Egypt, Jordan, Syria and Algeria, a man with a long beard is often treated as an Islamist — and sometimes denied work. Not here in Dubai.

"Here, I can practice my religion in a natural and free way because it is a Muslim country and I can also achieve my ambition at work," said Ahmed Kassab, 30, an electrical engineer from Zagazig in Egypt who wears a long dark beard and has a prayer mark on his forehead. "People here judge the person based on productivity more than what he looks like. It's different in Egypt, of course."

No one can say for sure why Dubai has been spared the kind of religion-fueled extremism that has plagued other countries in the region. There are not even metal detectors at hotel and mall entrances, standard fare from Morocco to Saudi Arabia. Some speculate that Dubai is like Vienna in the Cold War — a playground for all sides.

There is a robust state security system. But there is also a feeling that diversity, tolerance and opportunity help breed moderation.

"There is not going to be somebody who has a grudge against the system," said Tarik Yousef, dean of the Dubai School of Government. "You might have

DUBAI, Continued on Page 6

Swedes offer U.S. possible road map on crisis tactics

Lenders made to pay for rescue in 1990s

By Carter Dougherty

A banking system in crisis after the collapse of a housing bubble. An economy hemorrhaging jobs. A market-oriented government struggling to stem the panic. Sound familiar?

It does to Sweden, which was so far in the hole in 1992 — after years of imprudent regulation, shortsighted macroeconomic policy and the end of its property boom — that its banking system was, for all practical purposes, insolvent.

But unlike the United States, whose Treasury has made a proposal to deal with a similar situation, Sweden did not just bail out its financial institutions by having the government take over the bad debts. It also clawed its way back by pugnaciously extracting equity from bank shareholders before the state started writing checks.

That strategy kept banks on the hook while returning profits to taxpayers from the sale of distressed assets by granting warrants that turned the government into an owner. Even the chairman of Sweden's largest bank got a stern answer to the question of whether the state would really nationalize his bank: Yes, we will.

"If I go into a bank," Bo Lundgren, Sweden's finance minister at the time, said, "I'd rather get equity so that there is some upside for the taxpayer."

The tumultuous events of the last few weeks have produced a lot of tight-lipped nods in Stockholm. And for all the differences between Sweden and the United States, Swedish officials say there are lessons to be learned from their own nightmare that Washington may be missing. Lundgren even made the rounds in New York in early September, explaining what the country did in the early 1990s.

A few American commentators have proposed that the U.S. government extract equity from banks as a price for the bailout they are likely to receive, as Sweden did. But it does not seem to be under serious consideration yet in the Bush administration or in Congress.

That's despite the fact that the U.S. government has already swapped its sovereign guarantee for equity in Fannie Mae and Freddie Mac, the mortgage finance institutions, and American International Group, the insurance giant.

Putting taxpayers on the hook without offering anything in return could be a mistake, said Urban Backstrom, a senior Swedish Finance Ministry official at the time. "The public will not support a plan," he said, "if you leave the former shareholders with anything."

The Swedish crisis had strikingly similar origins to the American one. Norway and Finland went through related experiences, and they also turned

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- **Europe and Japan turn cold shoulder to U.S. plea for bailout help.** *Page 15*
- **Who will lead the U.S. Treasury after Paulson?** *Page 15*
- **Financial rescue plan resembles a huge sovereign wealth fund.** *Page 15*
- **A billionaire is buying half of a major Russian investment bank.** *Page 17*

China fires chief of quality controls

The head of China's top quality-control agency resigned Monday in the face of a growing scandal over the country's tainted milk supply, the state-run Xinhua news agency reported. The toxic milk has sickened more than 50,000 infants and has killed at least four so far.

The resignation of Li Changjiang, head of the General Administration of Quality Supervision, Inspection and Quarantine, an agency that is supposed to monitor food and product quality and safety, was announced Monday. His departure came amid a widening government investigation into how an industrial chemical contaminated baby milk formulas and milk products produced by some of the country's biggest dairies.

The government has arrested 19 people suspected of intentionally spiking dairy supplies with melamine, an industrial chemical that is used to make plastics and fertilizer and that can be used, illegally, to artificially inflate protein levels in milk. *Page 2*

Vincent Yu/The Associated Press

A boy waited for a checkup at a Hong Kong hospital Monday as the Chinese crisis grew.

McCain tries to turn focus to foreign policy

With the financial crisis the unavoidable topic of the week in Washington and in New York, the McCain campaign was struggling Monday to draw attention to foreign policy and national security, two of Senator John McCain's strongest selling points and the focus Friday of the first debate between the presidential candidates. *Page 4*

N. Korea presses IAEA

North Korea asked the International Atomic Energy Agency on Monday to remove seals and surveillance cameras from the country's nuclear reprocessing facility. *Page 7*

3rd bombing rattles Spain

A soldier was killed in a car bombing in northern Spain early Monday. Officials blamed the bombing, the third within 24 hours, on the Basque separatist group ETA. *Page 3*

India refashions military

India used to focus its military on self-defense against two neighbors, Pakistan and China. Now it is aggressively recreating itself as an armed power with a global reach. *Page 7*

CURRENCIES *New York*

Monday, 2 p.m.		*Previous*
€1=	$1.4749	$1.4406
£1=	$1.8537	$1.8312
$1=	¥106.245	¥106.860
$1=	SF1.0785	SF1.1086

Full currency rates | *Page 20*

OIL *New York, Monday, 2 p.m.*

Light sweet crude	$111.75	▲	$7.85

STOCK INDEXES *Monday*

The Dow 2 p.m.	11,174.59	▼	1.88%
FTSE 100 close	5,236.30	▼	1.41%
Nikkei 225 close	12,090.59	▲	1.42%

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