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Dolphins ambush Patriots to end NFL record streak

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By John Vinocur Relying on Russia: A question of risks

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New design duo is sculpting a futuristic Ferré

SUZY MENKES ON FASHION 11



China fires its chief of quality controls

Tainted milk scandal claims top official

By David Barboza

SHANGHAI: 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. The government also dismissed the head of one large dairy company in what appears to be one of the nation's worst food safety scandals.

The milk crisis has forced the recall of millions of gallons of dairy products in China, Hong Kong, Taiwan, Singapore and other countries that imported dairy goods from China, devastating the country's fast-growing \$18 billion industry. Chinese dairy products are not approved for export to the United States, but they are being exported, in small quantities, to Japan, Africa and some other parts of the world.

The Health Ministry reported Sunday that nearly 13,000 children were still hospitalized — with most of them being treated for kidney stones — after they drank tainted formula. The ministry said 104 of them were in serious condition.

The government in Hong Kong said Monday that a second child in the territory had been diagnosed with a kidney stone, The Associated Press reported. The government said the child, a 4-year-old boy, was in stable condition.

While melamine can cause kidney stones in infants, its long-term effects and its effects on adults are unclear. The chemical, which is often made from coal, is banned from being used in food production in China.

"It's clearly a serious food safety issue," said Hans Troedsson, the chief representative in China for the World Health Organization. "We're discussing this with the government. They are investigating how these delays have occurred. It's important to know so we can prevent this in the future."

Questions from consumers have become more pointed in recent days about why reports and complaints about tainted milk did not reach the public for months — until after the Olympics — and whether large dairy operators and government officials conspired to cover up the details and possible scope of the problem.

Fonterra Group, a New Zealand dairy giant, said it was aware in August that its Chinese partner, the Sanlu Group, was producing tainted milk — weeks before it was made public in China. Fonterra said its officials had pressed China to release more information.

Worried parents, meanwhile, have been rushing to hospitals to have their children checked for kidney stones and other ailments, and dairy executives were scrambling to save their companies, promising to compensate victims and overhaul their product safety tests.

Beijing, which has for years encouraged children to drink more milk as part of a national health campaign, is now trying to demonstrate its commitment to food safety a year after the

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A farmer crying after her fresh milk was thrown away at a factory near Wuhan because the authorities had closed the facility.



Families who had rushed their babies to a hospital in Chongqing. China has ordered free treatment for affected infants.

India extends the reach of its military

By Anand Giridharadas

MUMBAI: The Mumbai, an Indian warship, was slicing through choppy monsoon seas one morning when a helicopter swooped in overhead. Commandos slithered down a rope, seizing control of the destroyer.

It was a drill, Indian soldiers taking over an Indian ship. But the purpose was to train them to seize other countries' ships in distant oceans, a sign of a new military assertiveness for the world's second most populous nation.

India, which gave the world the idea of Gandhian nonviolence, has long derided the force-projecting ways of the great powers. It focused its own military on self-defense against two neighbors, Pakistan and China.

But in recent years, while world attention has focused on China's military, India has begun to refashion itself as an armed power with global reach: a power willing and able to dispatch troops thousands of kilometers from

Weapons and bases assert new power

the subcontinent to protect its oil shipments and trade routes, to defend its large expatriate population in the Middle East and to shoulder international peacekeeping duties.

"India sees itself in a different light — not looking so much inward and looking at Pakistan, but globally," said William Cohen, a secretary of defense in the Clinton administration and now a lobbyist for U.S. firms seeking weapons contracts in India. "It's sending a signal that it's going to be a big player."

India is buying armaments that major powers like the United States use to operate far from home: aircraft carriers, giant C-130J Hercules transport planes and airborne refueling tankers. Meanwhile, India has helped to build a small air base in Tajikistan that it will share with its hosts. It is modern India's first

military outpost on foreign soil. India also appears to be positioning itself as a caretaker and patroller of the Indian Ocean region, which stretches from Africa's coast to Australia's and from the subcontinent southward to Antarctica.

"Ten years from now, India could be a real provider of security to all the ocean islands in the Indian Ocean," said Ashley Tellis, an Indian-born scholar at the Carnegie Endowment for International Peace in Washington. "It could become a provider of security in the Persian Gulf in collaboration with the U.S. I would think of the same being true with the Central Asian states."

"India," he added, "is slowly maturing into a conventional great power." Middle-aged Indians remember a time when their country would watch thousands of Indians in jeopardy in a foreign land and know that there was nothing their military could do.

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Taro Aso after being elected Monday as president of the Liberal Democrat Party.

Japan's ruling party chooses Aso as leader

Taro Aso, a former foreign minister and a conservative who has advocated a return to old-style government spending to stimulate Japan's economy, was chosen Monday by the governing Liberal Democratic Party to be the nation's next prime minister. He won two-thirds of the vote to head the party, and the party's control of the lower house of Parliament virtually ensures that he will replace Prime Minister Yasuo Fukuda. **Page 3**

Foreign banks check U.S. bailout's fine print

If the bailout plan is approved in Congress and signed into law, the benefits would be large for European banks with licensed operations in the United States. Banks like UBS and HSBC incurred big losses from mortgage-linked securities. **Page 15**

CURRENCIES New York		
	Monday, noon	Previous
£1=	\$1.4694	\$1.4406
€1=	\$1.8497	\$1.8312
\$1=	¥106.240	¥106.860
\$1=	Sf1.0825	Sf1.1086

Full currency rates | Page 20

OIL New York, Monday, noon		
Light sweet crude	\$109.16	▲ \$5.26

STOCK INDEXES Monday		
The Dow noon	11,188.53	▼ 1.76%
FTSE 100 close	5,236.30	▼ 1.41%
Nikkei 225 close	12,090.59	▲ 1.42%

Speculation turns to who might succeed Henry Paulson Jr. as Treasury secretary. The crisis has expanded the secretary's authority. **Page 15**

Nomura reaches deal to buy Lehman's Asian operations. The amount of the deal was not disclosed. **Page 15**

Democrats in Congress are setting their own terms for the rescue plan, including a call for more direct assistance for homeowners. **Page 17**

As the bailout is negotiated, three economists offer their thoughts about the administration's moves. **Page 16**

General Electric, also a lending giant, is dragged down along with banks in the market turmoil. **Page 19**

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Change at Goldman and Morgan Stanley heralds end of era

By Andrew Ross Sorkin and Vikas Bajaj

NEW YORK: Goldman Sachs and Morgan Stanley, the last big independent investment banks on Wall Street, will transform themselves into bank holding companies, subject to far greater regulation. And turning to a new source of capital to stay afloat amid the market turmoil, Morgan Stanley said it would sell a 10 percent to 20 percent stake in itself to the largest bank in Japan.

The decision to convert themselves into bank holding companies fundamentally reshapes an era of high finance that defined the modern Gilded Age, with its seven-figure bonuses and lavish perks for even midlevel executives.

The companies requested the change themselves, even as Congress and the administration of President George W. Bush rushed to pass a \$700 billion rescue package for financial companies.

It was a blunt acknowledgment that their model of finance and investing had become too risky and that they needed the cushion of bank deposits that had kept big commercial banks like Bank of America and JPMorgan Chase relatively safe amid the recent turmoil.

As it sought to shore up its financial health last autumn, Morgan Stanley sold

a 9.9 percent stake in itself to China's \$200 billion sovereign wealth fund.

On Monday, Morgan Stanley said it would sell a stake of up to 20 percent to Mitsubishi UFJ Financial Group "as soon as practicable." Mitsubishi said that the size of its stake would depend upon the book value of Morgan Stanley and other due diligence. In return, Mitsubishi will be able to appoint at least one director to Morgan Stanley's board.

Mitsubishi UFJ plans to invest in Morgan Stanley.

"Mitsubishi UFJ would be a valuable partner as we transition to a bank holding company and build our bank services and deposit base," John Mack, Morgan Stanley's chairman and chief executive, said in a statement. "This alliance also would build on Morgan Stanley's deep ties and market leadership in Japan and throughout Asia."

Mitsubishi also has sought to bulk up its presence in the United States recently. In August, it agreed to buy the one-third of UnionBanCal, a major bank in California, that it did not already own.

The decision by Goldman Sachs and Morgan Stanley to transform themselves effectively returns Wall Street to the way it was structured before Congress passed a law during the Great Depression separating investment bank-

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Global firms seek share of expanded U.S. rescue

By Vikas Bajaj, Jenny Anderson and Leslie Wayne

NEW YORK: Even as 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 toxic U.S. mortgage debt owned by their American subsidiaries to the Treasury, getting the same treatment as U.S. banks. (Page 15)

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

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

"The definition of 'financial institu-

tion' should be as broad as possible," the Financial Services Roundtable, which represents big financial services companies, wrote in an e-mail message to 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 administration of President George W. Bush called for the Treasury to buy residential or commercial mortgages and related securities.

By that evening, the proposal was broadened to give the Treasury discretion to buy "any other financial instrument."

The lobbying became particularly intense because Congress plans to approve a package within just two weeks, without the traditional hearings and committee process.

"Of course there will be fierce lobbying," said Bert Ely, a financial services industry consultant in Alexandria, Virginia. "The real question is, who

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