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Weekly report on South Korea & Japan

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Wajid Hussain

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- Record 44,210 child abuse cases logged in '09

Summary of Report:

South Korea

Politico-Strategic Front;

U.S., South Korean Forces Begin Naval Exercises Denounced by North Korea The U.S. and South Korea began naval exercises involving a nuclear-powered aircraft carrier off the eastern coast of the Korean Peninsula, maneuvers North Korea threatened to “counter.” North Korea’s National Defense Commission said yesterday its forces will “legitimately counter with their powerful nuclear deterrence the largest-ever nuclear war exercises to be staged by the U.S. and the South Korean puppet forces,” according to the official Korean Central News Agency.

North Korea Nuclear Talks Must Wait to Avoid `Cold War' Divisions, Yu Says South Korea’s Foreign Minister Yu Myung Hwan said resuming six-party nuclear talks with North Korea too quickly risks deepening public divisions between China and the U.S. and renewing “Cold War” behavior.

South Korean Foreign Minister Under Fire for N. Korea Jibe Against Youth South Korean Foreign Minister Yu Myung Hwan came under fire from the opposition after he was quoted as saying young people who criticize the government’s North Korea policies should go and live there.

U.S., Korea May Hold Military Drills in September, Munhwa Says The U.S. and South Korea may hold joint military drills off the western coast of the Asian nation in September, the Munhwa Ilbo reported, citing an unidentified military official.

R. Einhorn to visit Seoul Sunday Robert Einhorn, U.S. State Department special advisor for non-proliferation and arms control, will visit Korea on Sunday for policy consultations with the government over the plan to impose additional sanctions on North Korea.

Ruling party sweeps by-elections Two of President Lee Myung-bak's closest confidants defeated opposition party candidates in the by-elections Wednesday, providing fresh momentum to the newly elected leadership of the governing party and the major initiatives of the Lee administration, observers say.

Japan May Delay Defense Report on Korea Territorial Dispute, Kyodo Reports Japan may delay the release of an annual defense report planned for this week to avoid provoking South Korea ahead of the Aug. 29 centenary of Japan's annexation of the Korean Peninsula, Kyodo News said, citing unidentified sources.

Kim Jong Il Marks War Date With Patriotic Songs as U.S. Exercises Offshore North Korean leader Kim Jong Il attended a concert yesterday celebrating the 57th anniversary of the Korean War as the two main adversaries from that conflict conducted war drills off his country's eastern coast.

Prime Minister Chung Un-chan to resign Prime Minister Chung Un-chan will soon tender his resignation to take responsibility for the government's failure to get parliamentary approval for a project to create a science-business hub in a central region, a government source said Thursday. President Lee Myung-bak is aware of Chung's plan and chances are high that he will accept the resignation, the source added.

Prime Minister resigns over Sejong debacle Cabinet reshuffle likely in early August, Prime Minister Chung Un-chan resigned Thursday despite the ruling party's overwhelming victory in the by-elections a day earlier, taking responsibility for "prompting concerns and disputes" in society over his failed attempt to revise the administrative town project.

Opposition leader offers to resign over defeat Chung Sye-kyun, chairman of the main opposition Democratic Party (DP), offered to resign Friday, taking full responsibility for the defeat in Wednesday's by-elections. However, the DP's Supreme Council members didn't immediately accept his resignation, leaving the decision to be made over the weekend.

S. Korea to Hold Anti-Submarine Drills Next Month, Yonhap Says South Korea's army, navy and air force will hold anti-submarine drills off the nation's west coast between Aug. 5 and 9, Yonhap News reported, citing the Joint Chiefs of Staff.

Economic Front:

Bank of Korea Wanted to Signal Imminent Rate Increase at June Board Meet A majority of Bank of Korea board members wanted to flag an imminent rise in interest rates at their June meeting, before increasing borrowing costs this month for the first time since the global crisis.

KT to Invest \$4.3 Billion to Upgrade Network as Smartphone Demand Surges KT Corp., South Korea's largest phone and Internet company, plans to invest 5.1 trillion won (\$4.3 billion) over five years upgrading its network to meet demand for wireless data from smartphone users.

South Korea Economy Expanded Faster-Than-Expected 1.5% in Second Quarter South Korea's economy grew faster than expected in the second quarter, bolstering the case for a further increase in interest rates as Asia weathers global risks. Gross domestic product increased 1.5 percent from the previous three months, when it gained 2.1 percent, the central bank said in Seoul today. That was more than the 1.3 percent median forecast in a Bloomberg News survey of seven economists. From a year earlier, GDP rose 7.2 percent.

Toyota, Panasonic Recoveries Limited by Yen Strength Japan's recovery is being undermined by the popularity of its currency. The yen has averaged 90.92 against the dollar in 2010, putting it on course for its strongest year against the U.S. dollar since currencies began trading freely in 1971, according to data compiled by Bloomberg. The yen traded at 87.20 at 4:54 p.m. Tokyo time.

Korea's Current-Account Surplus Widens to One-Year High on Global Recovery South Korea's current-account surplus widened to a one-year high in June as the global recovery supported demand for the country's cars and semiconductors.

LG Posts Record Loss From Handsets on Competition from iPhone, Smartphones LG Electronics Inc., the world's third-biggest mobile-phone maker, reported a record loss at its handset business after lagging behind Apple Inc. and smartphone makers in selling models that send e-mails and surf the Internet.

Samsung Electronics Profit Jumps 83% to 4.28 Trillion Won Samsung Electronics Co., Asia's biggest maker of semiconductors, flat screens and mobile phones, said second-quarter profit jumped 83 percent, fueled by a recovery in demand for computer-memory chips.

Shinhan Financial's Profit Rises 34% as Bad-Loan Costs Decline in Korea Shinhan Financial Group Co., South Korea's largest financial company by market value, said second-quarter profit advanced 34 percent as the nation's economy recovered and provisions for bad debts declined. Net income rose to 588.6 billion won (\$496 million) in the three months ended June 30 from 439.7 billion won a year earlier, the Seoul-based company said today in an e-mailed statement. That beat the average of 568.3 billion won from 15 analysts' estimates in last 28 days compiled by Bloomberg.

SK Telecom Profit Rises 17% as Smartphone Demands Drives Up Wireless Bills SK Telecom Co., South Korea's largest mobile-phone operator, reported second-quarter profit climbed 17 percent as demand for computer-like smartphones drove up wireless Internet bills. Net income increased to 364 billion won (\$306 million) in the three months ended June 30 from 311.6 billion won a year earlier, while sales rose 0.7 percent, Seoul-based SK Telecom said today. Analysts expected profit of 410 billion won, according to the average of nine estimates in the last 28 days compiled by Bloomberg.

South Korea Intervened to Weaken Won on Current-Account Data, Traders Say South Korea's central bank bought about \$150 million in the foreign-exchange market in the first hour of local trading today, helping end a six-day rally in the won, according to two traders who asked not to be identified.

Korea to Hire Arrangers for \$5.7 Billion Sale of Majority Stake in Woori South Korea said it will hire three arrangers to start selling its majority stake in Woori Finance Holdings Co., owner of the nation's second-biggest bank.

Social Front:

Seoul designated as UNESCO Creative City for design The United Nations Educational, Scientific and Cultural Organization (UNESCO) designated Seoul as a Creative City for Design, last week. UNESCO graded Seoul's abundant cultural heritage, creative potential and various policies supporting the city's development through design very highly.

Law banning unlicensed medical practices deemed constitutional The nation's highest court ruled Thursday that the current Medical Law, which bans unlicensed individuals from practicing acupuncture and other alternative medical treatments, is indeed constitutional.

Nudist forest to open in Jangheung County Korea's first nudist forest is scheduled to open in Jangheung County, South Jeolla Province in late August. The county said Friday that it is working on a therapeutic park, surrounded by *chamaecyparis obtusa* trees, and will test-run the nudist forest, named "Vivid Ecotopia" in the near future.

Girls' Generation forgives 92 slanderous fans Nearly 100 Internet users accused of posting digitally-doctored nude photos of Girls' Generation in cyberspace avoided punishment thanks to a petition by the popular music group.

Student rights vs. teachers' authority Should elementary schoolers be allowed to hold demonstrations? Do elementary school students have the right to hold rallies? Do teachers have the right to keep them from picketing the school? On the issue, the National Human Rights Commission of Korea sided with the students. It recommended a school principal to reprimand the teachers who had blocked a rally by taking the placards from student protesters in 2008.

Japan

Politico-Strategic News:

Ban visit helps disarmament, Hiroshima says Hiroshima Mayor Tadatoshi Akiba said Monday he hopes U.N. Secretary General Ban Ki Moon's upcoming visit to the city on the 65th anniversary of the atomic bombing helps boost the global movement toward nuclear disarmament. Ban will be the first U.N. secretary to attend the Aug. 6 ceremony, which marks the U.S. atomic bombing of the city in 1945.

Ozawa agrees to more questioning Former Democratic Party of Japan Secretary General Ichiro Ozawa notified prosecutors through his lawyer Tuesday that he will submit to more questioning on a voluntary basis over his alleged misstatements in reporting his campaign funds, sources said.

Report delayed to avoid riling Seoul over isles The government is set to delay the planned release later this week of its annual report on national defense policies, as it seeks to avoid inflaming a territorial dispute with South Korea ahead of a key anniversary related to bilateral ties next month, according to sources.

Sengoku grand coalition talk sparks LDP caution Chief Cabinet Secretary Yoshito Sengoku's recent remarks about a possible grand coalition between the ruling Democratic Party of Japan and the Liberal Democratic Party have drawn cautious responses from the opposition camp.

Washington worried The senior U.S. diplomat for East Asia says Japan's rapid turnover in leadership makes it difficult for Washington and Tokyo to build strong working relationships and confidence. Assistant Secretary of State Kurt Campbell told lawmakers Tuesday the United States would "very much like to see some continuity in Japanese politics."

Panel Recommends Japan Allow Entry of U.S. Nuclear Weapons, Asahi Reports A Japanese government panel will propose shifting defense policy to allow the transportation of U.S. nuclear weapons within the country and lift a ban on arms exports, the Asahi newspaper reported today.

Kan to hold rare news conference on opening day of special Diet session Prime Minister Naoto Kan will hold a news conference Friday on the first day of an extraordinary Diet session in an apparent attempt to reverse his falling popularity. It is rare for a prime minister to meet with the press when a legislative session begins.

Fukushima pressured to quit Social Democratic Party leader Mizuho Fukushima came under pressure from within the party Thursday to step down and take responsibility for the SDP's setback in the Upper House election on July 11.

Marines' move to Guam could be delayed to 2017 The planned transfer of 8,000 U.S. Marines from Okinawa to Guam could be delayed until 2017 from the current target of 2014, the Pentagon suggested in its final environmental assessment report on the U.S. territory, released Wednesday

SESC opens probe into Thai fund The Securities and Exchange Surveillance Commission has searched locations related to Thai-based investment fund Asia Partnership Fund Group over its unit's alleged fictitious investment in a listed Japanese company, according to sources.

Defense draft urges SDF upgrade *Kan team pushes for ability to deal with more than one crisis at a time*, The Self-Defense Forces need to enhance their capabilities to respond effectively to multiple emergencies, an advisory panel for Prime Minister Naoto Kan says, while calling for relaxing Japan's decades-long nonnuclear principles and arms embargo rules.

Economic Front:

China Strikes for Higher Pay Affected 32 Japanese Companies, Asahi Says Strikes in China that lasted nearly two months starting in May affected 43 foreign companies, including 32 Japanese businesses, the Asahi newspaper said, citing its own research.

Next Year to Curtail Debt Japan's government will ask ministries to cut their budgets by 10 percent for the year starting April 2011 as Prime Minister Naoto Kan tries to rein in the world's largest debt load. The reductions will help the government keep spending at this year's 71 trillion yen (\$813 billion), a pledge Kan made last month. The government said it will devote more than 1 trillion yen to growth policies, according to budget guidelines approved by the Cabinet in Tokyo today

Japan's Exports Rise Faster Than Economists Estimated Japan's exports rose faster than economists estimated, sustaining a boost to the recovery that may diminish as global growth cools and the yen strengthens. Shipments abroad advanced 27.7 percent in June from a year earlier, the Finance Ministry said today in Tokyo. The median estimate of 19 economists surveyed by Bloomberg News was for 23.5 percent. From a month earlier, exports fell 1.8 percent.

Japan Growth to Slow as Unemployment Rises, Production Drops Japan's unemployment unexpectedly rose for a fourth straight month and industrial production fell the most in more than a year, signaling the economic expansion is poised to slow.

Japan Tobacco's Quarterly Profit Drops 47% on Domestic Sales, Stronger Yen Japan Tobacco Inc., the world's third-largest publicly traded cigarette maker, said first-quarter profit fell 47 percent after domestic sales dropped and a stronger yen reduced the value of overseas earnings.

JFE Buys \$1 Billion Stake in JSW Steel to Tap Rising Indian Auto Demand JFE Holdings Inc., Japan's second-largest steelmaker, agreed to buy 48 billion rupees (\$1 billion) of securities in India's JSW Steel Ltd. to tap demand in the world's second-fastest growing automobile market.

Mitsubishi Estate First-Quarter Profit Declines 30% as Home Sales Slide Mitsubishi Estate Co., Japan's second-biggest developer, said first-quarter profit fell 30 percent on declining home sales. Net income dropped to 6.77 billion yen (\$78 million) in the three months ended June 30 from 9.64 billion yen in the same period a year ago, the company said in a statement distributed through the Tokyo Stock Exchange today. Sales fell 9.8 percent to 189 billion yen.

Kan Reform Delays May Snap 'Virtuous Circle' in Japan Debt, Barclays Says Japanese government bond yields may surge if Prime Minister Naoto Kan fails to carry out financial reforms, prompting an exodus of foreign money that had been drawn to the safety of the nation's assets, Barclays Capital Japan Ltd. said.

(Cyber Space) Yahoo Japan to use Google search tech Tieup looks to deal domestic blow to Microsoft, Yahoo Japan Corp. said Tuesday it will use Google Inc.'s Internet-search technology in a deal that would dominate the domestic market and pose a possible blow to Microsoft.

(Cyber Space) PayPal plans belated Japan foray PayPal, the online payment unit of Internet commerce firm eBay Inc., is planning to break into the Japanese market — the first time it has entered a region without eBay's powerful auction business.

Nippon Steel Returns to Profit After Boosting Output to Meet Asian Demand Nippon Steel Corp., Japan's largest producer of the metal, returned to a first-quarter profit after boosting output to tap demand in Asia.

Nissan to Reduce Japan Production by 20% in October, November, Kyodo Says Nissan Motor Co. Chief Executive Officer Carlos Ghosn said the automaker will produce 20 percent fewer cars in Japan in October and November, compared with September production plans, Kyodo News reported.

Panasonic Offers \$9.4 Billion to Buy Out Two Units Panasonic Corp., the world's largest maker of rechargeable batteries, offered to buy out Sanyo Electric Co. and Panasonic Electric Works Co. for 818.4 billion yen (\$9.4 billion) to help expand its renewable energy business.

Sumitomo Mitsui Profit Tripled in First Quarter as Bad-Loan Costs Dwindled Sumitomo Mitsui Financial Group Inc., Japan's third-largest bank by assets, said first-quarter profit tripled, beating analysts' estimates as bad-loan charges fell and trading income climbed. Net income jumped to 211.8 billion yen (\$2.4 billion) in the three months ended June 30, from 72.8 billion yen a year earlier, the Tokyo-based company said in a statement today. That's more than the 110 billion yen average estimate of five analysts surveyed by Bloomberg.

Superfund Aims to Raise \$100 Million for New Japan Retail Hedge Fund Superfund, which oversees \$1.2 billion in managed futures funds, aims to raise \$100 million within a year for a new hedge fund targeting Japanese retail investors.

Toyota Recalling 480,000 Vehicles for Steering Flaws Toyota Motor Corp. said it's preparing a global recall of about 480,000 Avalon sedans and Land Cruiser sport-utility vehicles to repair steering parts that may be defective.

Socio-Cultural Front:

Japan women's life expectancy still the longest Japanese women had the longest life expectancy in the world for the 25th straight year in 2009, with an average life span of 86.44 years, a health ministry report showed Monday.

65% of universities are setting academic bar lower for freshmen The number of universities offering high school-level supplementary lessons and other special measures to cope with academic deficiencies among freshmen is on the rise, reaching 65 percent of surveyed schools in fiscal 2008, data compiled by the education ministry showed Monday.

Companies raided for selling moldy rice Police on Monday raided four companies suspected of reselling moldy rice as edible in 2007. The raid took place before the Agriculture, Forestry and Fisheries Ministry filed criminal complaints against the four companies later in the day.

(Cyber Space) ISP blocking of access to child porn gets OK from government team A government working group approved on Monday a plan to get Internet service providers to block access to child pornography images as soon as they are found, without waiting for site operators to grant requests to delete them, officials said.

(Cyber Space) Twitter users gather at Tokyo event for some old-fashioned face time Some 400 Twitter users in Japan gathered to meet Twitter CEO Evan Williams at the third annual Tweetup Japan 2010 event in Tokyo on Friday night.

Record 44,210 child abuse cases logged in '09 Child abuse cases handled by consultation offices hit a record 44,210 in fiscal 2009, rising for 19 straight years since statistics were first compiled in fiscal 1990, a government survey showed Wednesday.

South Korea

Political Front:

U.S., South Korean Forces Begin Naval Exercises Denounced by North Korea

By Shinye Kang - Sun Jul 25 01:33:17 UTC 2010

The U.S. and South Korea began naval exercises involving a nuclear-powered aircraft carrier off the eastern coast of the Korean Peninsula, maneuvers North Korea threatened to “counter.”

“The USS George Washington is moving to the east coast,” Kim Yong Kyu, a spokesman with the U.S. Forces Korea, said by phone today in Seoul.

North Korea’s National Defense Commission said yesterday its forces will “legitimately counter with their powerful nuclear deterrence the largest-ever nuclear war exercises to be staged by the U.S. and the South Korean puppet forces,” according to the official Korean Central News Agency.

The maneuvers come four months after a South Korean warship was sunk by a torpedo that an international panel said was fired by a North Korean submarine. The exercises are designed to send a message to North Korea that its aggressive behavior must stop, General Walter Sharp, the commander of U.S. forces in South Korea, said in a statement on July 22.

North Korea has repeatedly stated it had nothing to do with the sinking of the South Korean warship. The United Nations Security Council condemned the attack, which killed 46 sailors, without naming a culprit.

Military Provocation

North Korea is prepared for “both dialogue and war,” KCNA cited the Foreign Ministry as saying yesterday. The military exercises are “military provocation reminiscent of the ‘gunboat diplomacy’ in the last century,” an unidentified ministry spokesman said, according to the report.

The exercises, involving 20 vessels and 200 aircraft, will be held until July 28. The U.S. and South Korea will stage their annual Ulchi Freedom Guardian military drills between Aug. 16 and Aug. 26.

North Korea is willing to return to the so-called six-party talks on dismantling its nuclear weapons program “on an equal footing,” said Ri Tong Il, an official with North Korea’s delegation that attended last week’s security forum of the Association of Southeast Asian Nations in Hanoi.

The country's economy has been battered by UN sanctions limiting cross-border financial transactions, imposed after its nuclear tests in 2006 and last year. Ri, speaking in Hanoi on July 23, repeated demands that the sanctions be removed.

U.S. Secretary of State Hillary Clinton, who attended the Asean meeting, condemned North Korea for undertaking a "campaign of provocative, dangerous behavior."

The "door remains open for North Korea," Clinton told reporters in Hanoi. "We are willing to meet with them, willing to negotiate, to move toward normal relations" if North Korea commits itself to giving up its nuclear weapons program.

North Korea Nuclear Talks Must Wait to Avoid 'Cold War' Divisions, Yu Says

By Bomi Lim and Bill Austin - Mon Jul 26 04:07:37 UTC 2010

July 26 (Bloomberg) -- South Korea's Foreign Minister Yu Myung Hwan said resuming six-party nuclear talks with North Korea too quickly risks deepening public divisions between China and the U.S. and renewing "Cold War" behavior.

China and Russia have refrained from joining the U.S. in supporting South Korea's accusation that North Korea torpedoed one of its warships in March. China has criticized U.S.-South Korean naval drills aimed at deterring North Korea that began yesterday.

"It's quite an unfortunate tendency that people think China and Russia are backing North Korea while the United States and Japan support South Korea," Yu said in a July 24 interview in Hanoi, where he attended the Asean Regional Forum last week. "It's like a revival of a Cold War paradigm. It's not the right time to jump on the six-party talks."

South Korea has held "very intensive" discussions with China following the sinking, and the two countries share the same goal of maintaining peace in the region, Yu said. Relations with China are much more important than this one issue, Yu said.

South Korea is China's fourth-biggest trading partner after the U.S., European Union and Japan, with two-way commerce of \$156 billion last year, Chinese commerce ministry figures show. China-North Korea trade was \$2.7 billion, the data show.

North's Offer

North Korea, which has boycotted the nuclear forum since December 2008, offered to return to the table after the United Nations Security Council refrained from blaming it for the March sinking of the Cheonan, which a South Korean-led international panel said was caused by a torpedo attack by the North. North Korea should take steps to show its sincerity, such as rejoining the Nuclear Proliferation Treaty or disabling its Yongbyon reactor, Yu said.

“Even China and Russia agreed that it’s not the right time to jump start the six-party talks,” Yu said at the forum, which was attended by all the participants in the nuclear discussions. “We should have proof that North Korea is sincere enough to negotiate on this nuclear issue.”

China said July 13 the disarmament forum is the only way to achieve long-term peace on the Korean peninsula. While China expressed a desire to start the talks in a July 23 meeting with Secretary of State Hillary Clinton in Hanoi, there was a sense of acknowledgment that the time isn’t yet ripe, an official who traveled with Clinton told reporters that day, speaking on condition of anonymity because the meeting was private.

North Korean Torpedo

The panel said in May that the Cheonan sank near the disputed sea border after being attacked by a North Korean mini- submarine. North Korea denies responsibility and the Security Council statement adopted on July 9 didn’t name a culprit.

“The six-party talks is a useful platform to negotiate the denuclearization of North Korea,” Yu said. “At the same time, we shouldn’t let North Korea use it to earn time to divert attention from the Cheonan incident.”

North Korea’s domestic agenda, including preparations for a leadership transfer to Kim’s youngest son, may make it difficult to engage in dialogue, Yu said. A plan to elect new leaders of the ruling Korea Workers’ Party in early September may provide some insight into the succession, he said.

North Korean Foreign Minister Pak Ui Chun argued at the Asean Regional Forum that the U.S. and South Korea fabricated the ship sinking to undermine his nation’s economic reconstruction efforts, Yu said. Pak spoke about the “tremendous results” of a campaign driven by Kim, who is “traveling to every corner of the country, encouraging economic programs,” he said.

Economic Failure

“That is clearly, they themselves recognizing the failure of economic development, so they may wish to find some excuse,” Yu said.

North Korea’s economy has been battered by the UN sanctions imposed after it detonated atomic devices in 2006 and last year. Kim’s regime, which has been reliant on outside handouts to feed its 24 million people since the mid-1990s, faces more sanctions by the U.S., targeted at government officials and the foreign banks that help sustain illicit arms deals.

The U.S. and South Korea began naval drills off the Korean peninsula’s east coast yesterday involving a nuclear-powered aircraft carrier, prompting a North Korean threat to intensify its nuclear program.

“They crossed the red line. Attacking a naval ship is beyond the limit,” Yu said. “We should let them know that kind of provocation will bear consequences.”

South Korea plans to modernize its military hardware including improvements in submarine-detection equipment, some of which dates from the 1980s, Yu said.

South Korean Foreign Minister Under Fire for N. Korea Jibe Against Youth

By Bomi Lim - Tue Jul 27 00:18:05 UTC 2010

South Korean Foreign Minister Yu Myung Hwan came under fire from the opposition after he was quoted as saying young people who criticize the government’s North Korea policies should go and live there.

Yu told South Korean reporters on July 24 in Hanoi that leftist attitudes among the nation’s youth would make it difficult to sustain the country, local media, including MoneyToday, reported yesterday. Yu was in the Vietnamese capital to attend the Asean Regional Forum.

Yu also criticized young people for voting for the Democratic Party in last month’s local elections, when the ruling Grand National Party suffered a surprise defeat.

“Minister Yu Myung Hwan should issue a public apology and resign immediately,” the Democratic Party said yesterday on its website. “Is he suggesting that young voters who support the opposition party have no right to live in this country?”

Foreign ministry spokesman Kim Young Sun told reporters yesterday that Yu had no political motive in making his comments, without elaborating.

President Lee Myung Bak has adopted a more hostile approach to dealing with North Korea, rejecting the past two administrations’ “Sunshine Policy” of engaging the communist country. Lee banned trade with North Korea after his country accused the North of torpedoing one of its warships on March 26, killing 46 sailors.

U.S., Korea May Hold Military Drills in September, Munhwa Says

By Kyung Bok Cho - July 27, 2010 23:33 EDT

July 28 (Bloomberg) -- The U.S. and South Korea may hold joint military drills off the western coast of the Asian nation in September, the Munhwa Ilbo reported, citing an unidentified military official.

The two countries, which will conclude four days of exercises off South Korea’s eastern coast today, will carry out the drills once a month until the end of the year, the Korean-language newspaper said.

R. Einhorn to visit Seoul Sunday

Robert Einhorn, U.S. State Department special advisor for non-proliferation and arms control, will visit Korea on Sunday for policy consultations with the government over the plan to impose additional sanctions on North Korea.

During the three-day visit, Einhorn will meet with Foreign Minister Yu Myung-hwan, a senior presidential secretary in foreign affairs and security, and officials from the finance ministry.

The official will reportedly announce the outline of the financial measures the U.S. plans to take to cut off the cash inflow to North Korea at a news conference to be held next Monday.

His scheduled visit follows Secretary of State Hillary Clinton's announcement earlier after the "2+2" meeting with South Korean foreign and defense ministers that Washington will impose country-specific sanctions on the North by banning illicit transactions by individuals, banks and businesses.

After wrapping up meetings with South Korean diplomats and officials, Einhorn will leave Tuesday for Japan.

Ruling party sweeps by-elections

GNP takes five out of eight districts

Two of President Lee Myung-bak's closest confidants defeated opposition party candidates in the by-elections Wednesday, providing fresh momentum to the newly elected leadership of the governing party and the major initiatives of the Lee administration, observers say.

Campaign watchers said the election outcome can be seen as a major victory for the governing Grand National Party (GNP), given that it performed far better than expected on the home turf of the opposition parties. In the past, opposition parties had prevailed in by-elections.

They also noted that it can be regarded as something of a sweep by the GNP as five of its candidates, including Lee Jae-oh, a close associate of President Lee, and Yoon Jin-shik, the President's former top policy advisor, secured victories in key battlegrounds.

In the electoral district of Eunpyeong B, Seoul, Lee Jae-oh defeated Chang Sang, a unified candidate of three opposition parties and a former Ewha Womans University president.

Lee won in the district, where he had been elected for three consecutive terms until losing in the 2008 National Assembly elections to Moon Kook-hyun, then leader of the minor opposition Creative Korea Party. Moon was stripped of his seat over irregularities last year.

A total of eight parliamentary seats were up for grabs because of Moon's circumstances, the death of a lawmaker and six others who were either involved in illegalities or resigned over the past year.

In the battleground of Chungju, North Chungcheong Province, Yoon defeated his rival Jung Gi-young of the main opposition Democratic Party (DP), who has been vocally critical of the Lee administration's four-river refurbishment project.

The GNP candidates Lee Sang-kwon, Kim Ho-yeon, Han Ki-ho also defeated their opposition rivals in Incheon, a neighboring city of Seoul; Cheonan in South Chungcheong Province; and a district in Gangwon Province, respectively.

The main opposition DP only managed to win in two constituencies in Gangwon Province and one in Gwangju, where the GNP did not field a candidate.

More voters than expected showed up at the polls, despite it being the peak holiday season, reflecting a spike in political interest among citizens here.

Of 1.36 million eligible voters in eight constituencies, some 465,000, or 34.1 percent, had cast a ballot, up 9.3 percentage points from the 24.8 percent recorded during the same time in the last summer by-elections held in 2006, according to the National Election Commission.

Earlier, the election watchdog forecast that the turnout of Wednesday's elections would not exceed 30 percent, given that they were held on a weekday during the summer holidays.

By region, the voter turnouts of the two constituencies in Gangwon Province were tallied at 47.5 and 45.1 percent, followed by that of Chungju with 43.6 and Eunpyeong with 40.5 percent.

Political analysts say DP Chairman Chung Sye-kyun's party leadership is likely to be challenged due to the disappointing campaign results.

As a result, the GNP now commands 172 seats in the 299-member legislature, while the DP has 87.

At the July 14 National Convention, the GNP agreed to a merger with the Future Hope Party, which holds eight parliamentary seats. Thus it will control an absolute majority of 180.

Japan May Delay Defense Report on Korea Territorial Dispute, Kyodo Reports

By Fergus Maguire - Tue Jul 27 21:51:40 UTC 2010

Japan may delay the release of an annual defense report planned for this week to avoid provoking South Korea ahead of the Aug. 29 centenary of Japan's annexation of the Korean Peninsula, Kyodo News said, citing unidentified sources.

The defense policy report describes two South Korean- controlled islets and a number of reefs as an integral part of Japanese territory, Kyodo said.

Japan has declined a South Korean request to delete the description from the report, which will likely now be released in September, Kyodo said.

Kim Jong Il Marks War Date With Patriotic Songs as U.S. Exercises Offshore

By Bomi Lim - Wed Jul 28 00:58:31 UTC 2010

July 26 (Bloomberg) -- North Korean leader Kim Jong Il attended a concert yesterday celebrating the 57th anniversary of the Korean War as the two main adversaries from that conflict conducted war drills off his country's eastern coast.

The State Merited Chorus performed numbers such as "Our General is the Best" and "My Song in the Trench," state-run Korean Central News Agency reported today. The audience gave "enthusiastic cheers" to Kim, the Supreme Commander of the Korean People's Army, who "heartily congratulated them on the victory" in the Fatherland Liberation War.

As Kim took part in celebrations to mark the cease-fire that ended open hostility on the Korean peninsula, U.S. and South Korean forces were putting on a display of military might that included anti-submarine maneuvers intended as a deterrent to the North.

The four-day drills, which end today, are being held after a South Korean-led investigation team in May blamed North Korea for torpedoing the South's warship Cheonan, killing 46 sailors.

The three-year Korean War ended in a cease-fire after China's entry pushed back the U.S. and United Nations forces. South Korea remains technically at war with the North, with the two sides separated by one of the world's most-fortified borders.

Prime Minister Chung Un-chan to resign

Prime Minister Chung Un-chan will soon tender his resignation to take responsibility for the government's failure to get parliamentary approval for a project to create a science-business hub in a central region, a government source said Thursday.

President Lee Myung-bak is aware of Chung's plan and chances are high that he will accept the resignation, the source added.

"Prime Minister Chung plans to hold a news conference later in the day to announce his intent to resign," the source said, asking not to be named.

Chung's fate as prime minister has drawn keen attention since the National Assembly voted down a revision bill a month ago to construct a business city in lieu of the originally planned administrative town in the central region of Chungcheong.

He has been in charge of drawing up the revision of the planned town, called "Sejong City," and the government's efforts to get it passed at the National Assembly.

Chung's move may speed up the process of a widely anticipated Cabinet reshuffle.

Lee is planning to go on a weeklong vacation on Sunday, and the Cabinet shake-up that would affect several ministers is expected in the second week of August.

Prime Minister resigns over Sejong debacle

Cabinet reshuffle likely in early August

Prime Minister Chung Un-chan resigned Thursday despite the ruling party's overwhelming victory in the by-elections a day earlier, taking responsibility for "prompting concerns and disputes" in society over his failed attempt to revise the administrative town project.

Since the National Assembly voted down the bills on the revision in late June, Chung has expressed his intention to resign on several occasions to President Lee Myung-bak.

Lee initially asked him to continue, but eventually had to accept his resignation, presidential aides said.

Chung's departure came amid the forecast that the conservative leader will conduct a sweeping Cabinet reshuffle early next month after returning from his summer vacation.

"With the by-elections over, I thought this was the best time to quit," Chung told reporters. "This is also the last chance to quit as President Lee is seeking a new start in the second half of his tenure."

Chung apologized to the public for creating a fiasco in his unsuccessful efforts to transform the administrative town of Sejong City in South Chungcheong Province into a business complex.

After taking office as the country's 40th prime minister last September, the former Seoul National University president sought to gain parliamentary approval for the revision bills with firm backing from President Lee.

In the face of fierce opposition from residents and a rift between rival factions of the governing Grand National Party (GNP), however, he struggled to make a breakthrough.

Chung came under pressure to step down after the GNP lost in the June 2 local elections. Opposition parties and independent candidates swept mayoral and gubernatorial posts that were up for grabs in the Chungcheong provinces.

His fate became increasingly uncertain in the weeks following as opposition parties and a GNP faction, led by former Chairwoman Rep. Park Geun-hye, combined forces to kill the bills.

Presidential aides said Cheong Wa Dae will soon name Chung's successor.

Potential candidates include Kim Deog-ryong, a former GNP lawmaker and now an advisor to President Lee for national unity, Rep. Sim Dae-pyung, chairman of the minor opposition People First Party, and former South Gyeongsang Province Governor Kim Tae-ho.

Opposition leader offers to resign over defeat

Chung Sye-kyun, chairman of the main opposition Democratic Party (DP), offered to resign Friday, taking full responsibility for the defeat in Wednesday's by-elections.

However, the DP's Supreme Council members didn't immediately accept his resignation, leaving the decision to be made over the weekend.

The main opposition party is scheduled to pick a new leader and Supreme Council members at its national convention to be held in September.

During the meeting with Supreme Council members, Chairman Chung said someone should take responsibility for the election defeat and he should be the one as he holds the party's top job.

"If all ranking members were to resign, it would be unavoidable for the party to be in chaos. I alone will leave my post and others should stay in their positions," Chung was quoted as saying.

He made the remarks in response to the proposal of mass resignations from those who were on the Supreme Council.

Chung has been blamed after the DP barely secured three parliamentary seats out of eight up for grabs in Wednesday's by-elections.

The ruling Grand National Party (GNP) won the remaining five. The election results remained an enigma.

Candidates running in the elections on the ruling GNP ticket had campaigned under a hostile environment created by several blunders, including a slip of the tongue by Rep. Kang Yong-seok of the GNP.

Kang reportedly insulted women television news show hosts by describing the nature of their job in inappropriate terms.

The DP politicized Kang's controversial remarks by painting the ruling party as a group of sexists. In addition, the past by-election results also showed that a main opposition party has more chances of winning than the ruling party.

Despite the bad signs, the ruling GNP obtained a major victory, defeating the DP that won the June 2 local elections. Opponents alleged that Chairman Chung made mistakes in selecting the candidates for the by-elections, urging him to resign.

S. Korea to Hold Anti-Submarine Drills Next Month, Yonhap Says

By Kyung Bok Cho - July 29, 2010 22:18 EDT

July 30 (Bloomberg) -- South Korea's army, navy and air force will hold anti-submarine drills off the nation's west coast between Aug. 5 and 9, Yonhap News reported, citing the Joint Chiefs of Staff.

Economic Front:

Bank of Korea Wanted to Signal Imminent Rate Increase at June Board Meet

By Eunkyung Seo - Tue Jul 27 08:12:26 UTC 2010

A majority of Bank of Korea board members wanted to flag an imminent rise in interest rates at their June meeting, before increasing borrowing costs this month for the first time since the global crisis.

Three out of five members urged Governor Kim Choong Soo to send a stronger signal that rates may start to rise as early as July, according to minutes of the June 10 meeting released today by the central bank.

"It's too late to wait until inflation begins to threaten the economy," one policy maker said at the meeting. "A clear signal should be given that rates may increase by a small margin in July." The minutes didn't identify the member.

The economy grew 1.5 percent over the three months to June, beating estimates and boosting the case for a further increase in rates even as the domestic property market struggles and export concerns linger. Falling home prices contributed to the worst annual contraction in the construction industry since 2008 last quarter, creating a policy dilemma for officials.

Policy makers "can't stop raising interest rates" just because of the building slump, Lee Sung Kwon, an economist at Shinhan Investment Corp., said yesterday in Seoul.

Investors have increased their bets on another increase in interest rates. The yield on one-year treasury bonds has jumped almost 40 basis points since the June 10 policy meeting to close at 3.15 percent yesterday, according to data compiled by the Korea Financial Investment Association.

Price Pressures

The Bank of Korea raised the benchmark rate on July 9 for the first time since the global crisis to 2.25 percent from a record-low 2 percent. Counterparts from Taiwan to Thailand, Malaysia and India have also boosted rates as price pressures outweigh concerns about the impact on exports of Europe's debt crisis, elevated U.S. unemployment, and a slowdown in China.

The Reserve Bank of India today lifted its key reverse repurchase rate more than economists forecast to 4.5 percent, battling to contain a surge in inflation that's led to strikes and street rallies.

South Korea's gross domestic product rose 7.2 percent in the second quarter from a year ago, the central bank said yesterday, slowing from an 8.1 percent jump in the previous period that was the biggest gain since 2002.

The central bank forecast this month that consumer prices will rise 2.8 percent this year, more than the previous estimate of 2.6 percent, and 3.4 percent in 2011. The bank is targeting inflation of between 2 percent and 4 percent on average through 2012.

The Bank of Korea has started to drain excess liquidity supplied during the global crisis. It said in June it would reduce the ceiling on special loans to commercial banks for smaller companies by 1.5 trillion won (\$1.27 billion) to 8.5 trillion won starting this month.

KT to Invest \$4.3 Billion to Upgrade Network as Smartphone Demand Surges

By Shinye Kang - Tue Jul 27 01:40:39 UTC 2010

KT Corp., South Korea's largest phone and Internet company, plans to invest 5.1 trillion won (\$4.3 billion) over five years upgrading its network to meet demand for wireless data from smartphone users.

The nation's sole provider of Apple Inc.'s iPhone will spend 4.07 trillion won on its mobile-phone network from 2010 to 2014 and about 800 billion won on Wi-Fi and wireless broadband, Seongnam, South Korea-based KT said in an e-mail today. The rest of the investments will go toward cloud services and for so-called backbone equipment, it said.

KT said the investments will allow the company to meet "explosive" growth in demand for Internet access. As products such as the iPhone drive up demand for wireless data downloads, the company expects its number of smartphone subscribers to more than double to 6 million next year and tablet-computer customers to jump fivefold to 1 million.

KT fell 0.4 percent to 41,950 won at 10:29 a.m. in Seoul trading, compared with the 0.3 percent gain by the nation's benchmark Kospi stock index.

South Korea Economy Expanded Faster-Than-Expected 1.5% in Second Quarter

By William Sim and Eunkyung Seo - Mon Jul 26 04:31:27 UTC 2010

South Korea's economy grew faster than expected in the second quarter, bolstering the case for a further increase in interest rates as Asia weathers global risks.

Gross domestic product increased 1.5 percent from the previous three months, when it gained 2.1 percent, the central bank said in Seoul today. That was more than the 1.3 percent median forecast in a Bloomberg News survey of seven economists. From a year earlier, GDP rose 7.2 percent.

The growth figures raise the risk of the Bank of Korea boosting rates twice more by year-end, Barclays Capital analysts said today as they increased their 2010 GDP growth projections. The central bank in July joined counterparts from Thailand to Taiwan and Malaysia in raising rates, and India is forecast to boost borrowing costs tomorrow for the second time this month as Asia leads the global recovery and grapples with price pressures.

“The Bank of Korea will be able to raise rates up to 3 percent without much worry about economic growth,” said Lee Sung Kwon, an economist at Shinan Investment Corp. in Seoul. “It’s only a matter of when” the bank will raise the 2.25 percent benchmark rate, he said. “The economy will continue to grow, though at a slower pace, given robust exports and rising domestic demand.”

The won traded at 1,196.30 per dollar as of 12:27 p.m. in Seoul, little changed from the close on July 23, according to data compiled by Bloomberg. The currency has dropped 7.8 percent in the past three months, Asia’s worst performance. The benchmark Kосpi stock index advanced 0.3 percent to 1,763.01.

Inflation Pressure

South Korea’s \$929 billion economy approached “its potential output level” and may face inflation pressure, Central Bank Governor Kim Choong Soo said on July 9 after raising the benchmark rate to 2.25 percent from a record-low 2 percent, the first increase since the financial crisis.

“As our economy has shown stronger-than-expected recovery, it may have already entered a phase of expansion,” Kim Myung Kee, an official at the Bank of Korea, told reporters today. “Robust exports are now spilling into domestic demand.”

South Korean GDP will expand 6.1 percent in 2010, higher than a previous forecast of 5.7 percent, Barclays Capital analysts including Wai Ho Leong, said in an e-mailed report after the growth data were released.

The country’s export-driven economy will grow 5.9 percent this year, more than the 5.2 percent predicted in April, the central bank said on July 12. The Finance Ministry said on June 24 that the nation needs to normalize fiscal and monetary policies.

Consumer Prices

The central bank forecast this month that consumer prices will rise by 2.8 percent this year, compared with the previous estimate of 2.6 percent, and 3.4 percent in 2011. The bank is targeting inflation of between 2 percent and 4 percent on average through 2012.

Goods exports climbed 7.1 percent in the second quarter compared with the previous three months, when they rose 3.7 percent, today's report showed. Private consumption increased 0.8 percent from the first quarter and government spending gained 0.1 percent. Facility investment rose 8.1 percent.

Quarterly growth in the manufacturing sector accelerated to 5.1 percent in the three months to June, compared with 4.2 percent in the first quarter, "driven by strong exports of cars, chips and machinery," the Bank of Korea said in a statement accompanying the release of the GDP figures.

Won Drop

Companies from Samsung Electronics Co. to Hynix Semiconductor Inc. reported record earnings in the second quarter, as a drop in the won enhanced the nation's export competitiveness. The sustained expansion is adding to evidence that Asia's fourth-largest economy is weathering risks to the global recovery from Europe's debt crisis and elevated U.S. unemployment.

The second quarter economic growth numbers should "support sentiment toward the won" and back further interest rate increases, said Brian Jackson, a Hong Kong-based emerging- markets strategist at Royal Bank of Canada, who expects another 50 basis points increase in borrowing costs this year.

Annual sales growth at South Korea's department stores accelerated in June to 11.3 percent, the highest in four months. Overseas shipments jumped 32.4 percent from a year earlier, an eighth straight monthly increase. Exports account for about half of the nation's GDP.

Samsung, Asia's biggest maker of semiconductors, flat screens and mobile phones, this month reported record earnings for the second quarter, as a recovery in demand for computer- memory chips drove up prices.

Record Profit

Hynix, the world's second-largest computer-memory chipmaker, reported record operating profit for the same quarter as sales beat analysts' estimates, buoyed by demand for personal computers.

Goods exports will rise 26.4 percent this year, the Bank of Korea said in its July 12 report, more than an 18.6 percent gain estimated in April. Private consumption will probably increase 3.9 percent this year, and corporate investment on facilities will advance 20.9 percent, the central bank said.

The administration of South Korean President Lee Myung Bak, who suffered an unexpected reversal at local elections on June 2, had pressed the central bank ahead of the polls to hold down rates in a bid to support growth.

Asian policy makers continue to grapple with the implications of Europe's debt crisis, subdued U.S. growth and a slowdown in the Chinese economy as they mull further rate increases.

Temporary Slowdown

Finance Minister Yoon Jeung Hyun said July 13 that the U.S. and China may see a temporary slowdown as government stimulus is withdrawn and growth relies more on the private sector.

South Korean growth is likely to slow further over the rest of the year, but from a "fairly strong starting point," Jackson said.

The Federal Reserve last month cut its forecasts for economic growth this year and next in the U.S., where the jobless rate has been 9.5 percent or higher since August.

Europe stress-tested its 91 largest banks this month to restore confidence following the region's sovereign-debt crisis. China's economic expansion eased to 10.3 percent in the second quarter from 11.9 percent in January-March, the country's statistics bureau said this month.

Toyota, Panasonic Recoveries Limited by Yen Strength

By Naoko Fujimura and Shunichi Ozasa - Tue Jul 27 08:14:52 UTC 2010

Japan's recovery is being undermined by the popularity of its currency.

The yen has averaged 90.92 against the dollar in 2010, putting it on course for its strongest year against the U.S. dollar since currencies began trading freely in 1971, according to data compiled by Bloomberg. The yen traded at 87.20 at 4:54 p.m. Tokyo time.

That will limit profit at Toyota Motor Corp., Panasonic Corp. and other companies scheduled to report earnings over the next two weeks even as exports have climbed for the past seven straight months. South Korean competitors including Samsung Electronics Co. and Hyundai Motor Co. have been the winners as the won fell 7.6 percent against the yen this year, making their goods cheaper overseas relative to Japanese exports.

"The currency is the key thing," Toshihiro Nagahama, chief economist at Dai-Ichi Life Research Institute in Tokyo, said. "First-quarter earnings will be good, but company shares may not rise to welcome the results, because of the yen's gains."

The yen has risen against all the world's major currencies in 2010 and is up about 6.5 percent against the dollar and 17 percent against the euro, which fell to a more than eight-year low

against the Japanese currency last month amid lingering concern over Europe's debt crisis. The won is down about 1.5 percent against the dollar this year.

'Abnormal'

Toyota fell 1.6 percent to 3,040 yen at the 3 p.m. close in Tokyo. Panasonic rose 0.6 percent to 1,138 yen.

"The yen has appreciated too much and levels between 80 and 90 yen are abnormal," Nippon Yusen K.K. Chairman Koji Miyahara said at a forum on July 23. The yen's rise is causing a "rapidly widening disparity with South Korea."

Should the yen remain 10 percent higher than the average export hedging rate set by Japanese companies, annual corporate profits will fall by almost 5 percent, said Tatsushi Shikano, senior economist in Tokyo at Mitsubishi UFJ Morgan Stanley Securities Co. Real gross domestic product would decline by 0.4 percentage point.

Every yen gain against the dollar reduces annual operating profit at Toyota, the world's biggest carmaker, by 30 billion yen (\$344 million) and 16 billion yen at Honda Motor Co., according to the companies. Both companies are basing their full-year earnings forecast on a rate of 90 yen per dollar.

The country's big manufacturers expect the yen to average 90.16 per dollar in the six months to March 2011, according to the Bank of Japan's quarterly Tankan survey released this month.

Exporters may maintain full-year profit forecasts even though first quarter earnings are likely to beat expectations, according to Nagahama.

"That basically means they're lowering second-half earnings outlook because of a stronger yen," Nagahama said.

Shutting Factories

Toyota is forecasting full-year profit will rise 48 percent to 310 billion yen this business year. Panasonic expects to post profit of 50 billion yen after posting a 103.5 billion yen loss last year.

Nidec Corp., the world's biggest maker of disk-drive motors, kept its annual earnings forecast unchanged after changing the exchange rate reference for its full-year earnings estimate to 85 yen to the dollar from 90 yen, the company said in a statement on July 23. The company had better-than-expected earnings in the quarter to June 30.

"We have shut factories and installed new equipment to boost productivity" which is helping absorb the yen's impact, said Masahiro Sakane the chairman of Komatsu Ltd., the world's second-largest construction machinery maker.

Komatsu will complete the closure of a plant north of Tokyo this week after shutting a factory west of the capital in March.

Export Growth

Export growth is slowing in Japan as the rebound from the lows at the depth of the crisis tapers off. Exports accounted for about 13 percent of Japan's economy in 2009.

Shipments abroad rose 27.7 percent in June from a year earlier, the Finance Ministry said yesterday in Tokyo, down from a 32.1 percent increase in May and 40.4 percent in April. Growth is forecast to slow in the U.S. and China, Japan's biggest export markets.

Japanese policy makers signaled last week the yen is a risk to the economic expansion as analysts forecast the government may step into currency markets to help the nation's exporters.

"An abrupt drop in stock prices or an appreciation in the yen could hurt the economy," because the country is still reliant on overseas demand, National Strategy Minister Satoshi Arai said in Tokyo on July 23. Cabinet Office official Keisuke Tsumura said the same day the yen has been "a bit too high."

Importers Gain

Still, companies that rely on imports of commodities such as utilities including Tokyo Electric Power Co. and Tokyo Gas Co., Japan's largest power and natural-gas suppliers, may benefit.

Each yen gain in the currency against the dollar will cut Tokyo Electric's fuel import costs as much as 17 billion yen in the year to March 2011, said Ryo Shimizu, a spokesman for the utility, which supplies more than 28 million customers in the capital and surrounding areas.

"The yen-dollar rate and oil price are the key elements that impact our earnings," said Minoru Iwashita, a spokesman for Tokyo Gas. "It's a simple mechanism: a stronger yen cuts the costs of our liquefied natural gas imports."

Tokyo Gas forecast in April a 21 percent rise in net income for this business year. A one yen move in the Japanese currency can help bolster Tokyo Gas's annual operating profit by 900 million yen, Iwashita said.

While Japanese companies are cutting costs and moving production overseas, their Korean competitors are reaping the benefits of a lower local currency. Samsung said earlier this month it had record operating income of 5 trillion won (\$4.2 billion) in the three months to June.

The advantage will continue as long as the yen stays high, according to Kim Kwang Kook, a deputy general manager at Hyundai Heavy Industries Co.

"The stronger currency will help improve our price competitiveness against rivals," Kim said.

Korea's Current-Account Surplus Widens to One-Year High on Global Recovery

By Eunkyung Seo and William Sim - Wed Jul 28 09:02:54 UTC 2010

South Korea's current-account surplus widened to a one-year high in June as the global recovery supported demand for the country's cars and semiconductors.

The windfall was \$5.04 billion, from a revised \$3.82 billion in May, the Bank of Korea said in Seoul today. The current account is the broadest measure of international trade, tracking goods, services and investment income. The surplus was the biggest since June 2009.

South Korea's economy grew 1.5 percent in the second quarter from three months earlier, beating estimates and adding to evidence that Asia is weathering global risks. Companies from Samsung Electronics Co. to Hynix Semiconductor Inc. reported record second-quarter earnings as a weaker won buoyed export competitiveness.

"The key is how well the economy can sustain its growth momentum amid uncertainties surrounding the global economy," Kwon Young Sun, an economist at Nomura Holdings Inc. in Hong Kong, said before the release. Kwon expects the central bank to boost the benchmark interest rate 50 basis points to 2.75 percent by year-end as the country's expansion adds to the case for higher borrowing costs.

The won fell 0.2 percent to close at 1,184.20 per dollar in Seoul, after strengthening 2.9 percent in the last six days, according to data compiled by Bloomberg. The benchmark Kospi index rose 0.3 percent to 1,773.47.

Robust Exports

July's current-account surplus will be similar to June's on robust exports, Lee Young Bog, a central bank official, told reporters today. The central bank this month forecast a surplus of \$21 billion in 2010, compared with an April estimate of \$10.5 billion and a record surplus of \$42.7 billion last year.

Exports have boosted South Korea's economic recovery and contagion from Europe's debt woes has been "mild," with gross domestic product growth likely to approach 6 percent this year, said Tom Byrne, a senior vice-president at Moody's Investors Service. The outlook for the nation's A1 government bond rating remains stable, the company said today.

Moody's increased its rating for Asia's fourth-largest economy from A2 in April. South Korea's economic performance, continuing gains in governance and regulation, fiscal strength and "moderate" geopolitical risk from North Korea underpinned the ratings outlook, Moody's said.

From a year earlier, South Korea's economy grew 7.2 percent in the second quarter, slowing from an 8.1 percent jump in the first quarter that was the biggest gain since 2002, the Bank of Korea said this week in its latest GDP report.

Benchmark Rate

The central bank raised the benchmark rate on July 9 for the first time since the global crisis to 2.25 percent from a record-low 2 percent. Counterparts from Taiwan to Thailand, Malaysia and India have also boosted rates as price pressures outweigh concerns about the impact on exports of Europe's fiscal woes, elevated U.S. unemployment and a slowdown in China.

Total exports on a customs-cleared basis, which excludes ships, surged 30.1 percent in June from a year earlier, compared with a revised 40.3 percent increase in May. Imports rose 38.2 percent.

The surplus on traded goods widened to \$6.35 billion last month from a revised \$4.17 billion in May, today's report showed. The services deficit, which measures the flow of travel, transport costs and royalties, was \$1.67 billion in June, compared with revised \$643 million in May. The income account had a \$327 million surplus last month, after a revised \$298 million surplus in May.

LG Posts Record Loss From Handsets on Competition from iPhone, Smartphones

By Shinye Kang and Seonjin Cha - Wed Jul 28 10:05:49 UTC 2010

LG Electronics Inc., the world's third-biggest mobile-phone maker, reported a record loss at its handset business after lagging behind Apple Inc. and smartphone makers in selling models that send e-mails and surf the Internet.

Losses from mobile phones totaled 120 billion won (\$101 million) in the second quarter, compared with profit of 620 billion won a year earlier, Seoul-based LG said in a statement today. The loss, the division's first in four years, was triple the size projected by the average estimate of five analysts surveyed by Bloomberg.

The stock fell the most in seven weeks as the results illustrated how Apple's iPhone and Samsung Electronics Co.'s Galaxy S outsold LG in the fastest-growing segment of the mobile-phone industry. The company, which joined Nokia Oyj in reporting earnings that missed estimates, today said the division may recover in the fourth quarter as it aims to introduce about 20 smartphone models this year.

"Key for the second half will be whether the company can regain investors' confidence in its mobile phones, especially smartphones," said Im Jeong Jae, a fund manager at Shinhan BNP Paribas Asset Management Co. in Seoul, which manages \$27 billion, including LG Electronics shares. "The overall environment doesn't seem too bright."

The handset business's loss, the biggest since the company started tracking the division's financials in 2002, drove down overall operating profit 90 percent to 126.2 billion won, missing the 290.6 billion won projected in the Bloomberg survey.

Shares Fall

LG declined 2.9 percent to close at 101,000 won on the Korea Exchange, while the benchmark Kospi index rose 0.3 percent. The stock has lost 17 percent this year.

Net income fell 33 percent to 856.4 billion won. That was almost double the average analyst estimate in the Bloomberg survey after the company changed the way it calculates gains from affiliate LG Innotek Co. The year-earlier figures were revised under International Financial Reporting Standards, which LG adopted from this year.

Profit at LG's home-entertainment division, which makes televisions and DVD players, slid 90 percent to 28.1 billion won, compared with the 40.4 billion won average analyst estimate in the Bloomberg survey. Sales at the division increased 19 percent.

Global shipments of LCD TVs may rise 19 percent to about 169 million units in 2010, according to El Segundo, California- based ISuppli Corp. in May.

Profit at the home-appliances division, which competes against Whirlpool Corp. and Electrolux AB, increased 3.8 percent to 185.1 billion won, in line with analysts' estimates.

Following Nokia

The handset division's performance comes days after Nokia, the world's largest maker of mobile phones, reported profit tumbled 40 percent as competition from the iPhone, handsets equipped with Google's Android operating system and Research In Motion Ltd.'s BlackBerry phones squeezed margins. Apple last week reported net income jumped 78 percent, helped by sales of the iPhone.

"The Apple threat, the RIM threat, we're in the eye of the storm right now," said Neil Mawston, a London-based analyst at Strategy Analytics. "They've known for a good couple of years that the smartphone boom was coming in 3G and they haven't been able to attack that so they are a bit behind the curve. Nokia's known that finger-operated touchphones have been booming as well and they've been slow to attack that market too."

Business Recovery

LG expects the business to recover in the fourth quarter as it "may not be easy" during the current period, Chief Financial Officer David Jung said at a briefing in Seoul today.

LG's second-quarter handset shipments rose 2 percent to 30.6 million units and the company aims to increase revenue from the business by introducing smartphones in North America and South Korea, it said.

The company, which began sales of the LG-GW620 phone equipped with Google's Android last year, said handsets based on the operating system will account for more than half its smartphone models this year.

Worldwide sales of smartphones rose 43 percent to 60 million units last quarter, with Nokia, BlackBerry-maker Research In Motion and Apple widening their lead over smaller producers, research firm Strategy Analytics said this month. Global sales of smartphones may increase 36 percent to 247 million in 2010 and expand 30 percent next year, ISuppli said in April.

“One concern is that by the time the new line-up is all set up, smartphones may not provide the high margins they used to because of tougher competition,” said Yoon Hyuk Jin, an analyst at Shinyoung Securities Co. in Seoul.

Samsung Electronics Profit Jumps 83% to 4.28 Trillion Won

By Sungwoo Park - July 29, 2010 20:27 EDT

July 30 (Bloomberg) -- Samsung Electronics Co., Asia's biggest maker of semiconductors, flat screens and mobile phones, said second-quarter profit jumped 83 percent, fueled by a recovery in demand for computer-memory chips.

Net income climbed to 4.28 trillion won (\$3.6 billion) in the three months ended June 30, from 2.33 trillion won a year earlier, the Suwon, South Korea-based company said in a statement today.

Shinhan Financial's Profit Rises 34% as Bad-Loan Costs Decline in Korea

By Bomi Lim and Seonjin Cha - Thu Jul 29 06:14:22 UTC 2010

Shinhan Financial Group Co., South Korea's largest financial company by market value, said second-quarter profit advanced 34 percent as the nation's economy recovered and provisions for bad debts declined.

Net income rose to 588.6 billion won (\$496 million) in the three months ended June 30 from 439.7 billion won a year earlier, the Seoul-based company said today in an e-mailed statement. That beat the average of 568.3 billion won from 15 analysts' estimates in last 28 days compiled by Bloomberg.

Shinhan is set to benefit in the second half from wider profit margins on lending after the central bank this month tightened monetary policy to damp inflation risks. Economic growth forecast at 5.9 percent this year may reduce bad debts further at Shinhan, which makes the majority of its loans to households and small businesses.

“The net interest margin should rise in the second half, helped by the central bank's rate hike,” said Han Jeong Tae, an analyst at Hana Daewoo Securities Co. in Seoul. Shinhan also makes fewer loans than rivals for construction projects, which may increase bad debts for some lenders, said Han.

The Bank of Korea raised its benchmark interest rate on July 9 for the first time since the global crisis, joining counterparts across Asia in unwinding monetary stimulus as the region leads world growth. The central bank lifted the seven-day repurchase rate to 2.25 percent from a record 2 percent.

Interest Income

Shinhan posted 1.93 trillion won in interest income last quarter, compared with 1.48 trillion won a year earlier. The company's net interest margin, a key measure of profitability from lending, widened to 3.48 percent from 2.77 percent, Shinhan said.

The company in the second quarter set aside 307 billion won in loan-loss provisions, compared with 531.4 billion won a year earlier. Non-performing loans fell to 1.48 percent of total credit, from 1.49 percent three months earlier.

Shares of Shinhan Financial gained 0.6 percent to 49,200 won in Seoul trading before earnings were released. The stock has risen 14 percent this year.

Hana Financial Group Inc., South Korea's fourth-biggest financial company, reported an unexpected decline in second-quarter profit on July 19 after provisions against bad loans increased. Net income fell 8 percent to 180.8 billion won last quarter, compared with the 220.5 billion won median of 23 analyst estimates compiled by Bloomberg.

The Financial Supervisory Service said in June that 65 companies must improve finances or restructure loans with creditors, prompting lenders to set aside combined 2.2 trillion won in additional reserves.

SK Telecom Profit Rises 17% as Smartphone Demands Drives Up Wireless Bills

By Frances Yoon - Thu Jul 29 03:50:49 UTC 2010

SK Telecom Co., South Korea's largest mobile-phone operator, reported second-quarter profit climbed 17 percent as demand for computer-like smartphones drove up wireless Internet bills.

Net income increased to 364 billion won (\$306 million) in the three months ended June 30 from 311.6 billion won a year earlier, while sales rose 0.7 percent, Seoul-based SK Telecom said today. Analysts expected profit of 410 billion won, according to the average of nine estimates in the last 28 days compiled by Bloomberg.

Wireless-Internet sales increased 6.4 percent, led by demand from customers switching to smartphones that send e-mails, download mapping data and surf websites. Earnings may extend their gains after the company became the nation's exclusive carrier offering Samsung Electronics Co.'s Galaxy S phone, which is selling faster than Apple Inc.'s iPhone in Korea, according to analysts including Yang Jong In.

“The Galaxy S is getting a lot of attention, and we expect the momentum to continue to boost earnings in the third and fourth quarters,” Yang at Korea Investment & Securities Co. in Seoul said before the earnings announcement. “Smartphones, including the Galaxy S were definitely a positive factor last quarter.”

SK Telecom is betting on wireless Internet sales and new businesses to help offset stalling revenue growth in a market where more than 95 percent of people own a mobile phone.

Shares Rise

The carrier rose 1.5 percent to 168,500 won at 12:03 p.m. in Seoul trading, trimming the stock’s loss this year to 0.6 percent. The benchmark Kospi index declined 0.2 percent.

SK Telecom said July 14 it plans to roll out the nation’s first fourth-generation services next year to give smartphone customers faster access to the Internet.

The company sold 500,000 Galaxy S handsets within a month of being offered on June 24, four times faster than it took rival KT Corp. to sell the same number of iPhone 3GS phones, Kim Dae Woong, SK’s public relations manager, said by phone yesterday. SK Telecom also started selling smartphones such as Samsung’s Galaxy A and Pantech Co Ltd’s Sirius phones during the second quarter.

KT will offer the iPhone 4 within one or two months, the company said last week. The new model’s popularity will probably help boost overall demand for smartphones, including those offered by SK Telecom, instead of prompting customers to leave the carrier to switch to the iPhone, Daishin Securities Co. said in a report on July 8.

Selling Smartphones

SK Telecom plans to sell 2.5 million smartphones this year, up from a previous estimate of 2 million, the company said on July 14.

Smartphones sales in South Korea may reach 5 million units this year compared with less than 1 million in 2009, according to Baek Jong Suk, an analyst at Hyundai Securities Co. in Seoul.

Second-quarter operating profit rose 5.2 percent to 582.1 billion won as revenue increased 0.7 percent to 3.09 trillion won, SK Telecom said.

Marketing spending, which includes the cost of advertising and subsidizing users’ handset payments, rose 6.5 percent to 887 billion won, SK Telecom said. Analysts in a Bloomberg News survey projected the expenses would be 845.6 billion won.

The Korea Communications Commission said in March it will require phone companies to limit marketing spending to 22 percent of total revenue in 2010 and 20 percent from next year to help

ease competition. The company's operating profit fell in the past two quarters after marketing costs rose.

"Smartphone-driven data revenue growth and more rational marketing competition under government regulation should serve as share price drivers going forward," Stanley Yang, a Seoul-based analyst at Nomura Holdings Inc. in Seoul, wrote in a report July 16. Yang has a buy rating on SK Telecom's stock.

SK Telecom accounted for 51 percent of the Korean mobile-phone market at the end of June, compared with KT's 31 percent and LG Telecom Ltd.'s 18 percent, according to monthly government data.

South Korea Intervened to Weaken Won on Current-Account Data, Traders Say

By Frances Yoon - Wed Jul 28 00:47:30 UTC 2010

South Korea's central bank bought about \$150 million in the foreign-exchange market in the first hour of local trading today, helping end a six-day rally in the won, according to two traders who asked not to be identified.

The won declined 0.5 percent to 1,187.45 per dollar as of 9:44 a.m. in Seoul, after yesterday touching a five-week high of 1,181.33. The Bank of Korea bought U.S. dollars after releasing data today that showed the nation's current-account surplus reached a one-year high of \$5.04 billion in June, the traders said.

Korea to Hire Arrangers for \$5.7 Billion Sale of Majority Stake in Woori

By Bomi Lim and Seonjin Cha - Fri Jul 30 05:18:01 UTC 2010

South Korea said it will hire three arrangers to start selling its majority stake in Woori Finance Holdings Co., owner of the nation's second-biggest bank.

The government plans to select a preferred bidder by the end of March to buy at least 30 percent of Seoul-based Woori Finance, Min Sang Kee, head of the Public Fund Oversight Committee, said at a briefing today. The government's 57 percent stake in the company is valued at 6.8 trillion won (\$5.7 billion) based on current prices on the Korea Exchange.

The sale may help South Korea fulfill plans create a bank big enough to compete on the international stage. KB Financial Group Inc. and Hana Financial Group Inc. have said they may merge with rivals as President Lee Myung Bak presses to raise the banking industry's global competitiveness.

"Woori Finance will be at the heart of restructuring South Korea's financial industry," said Chang In Whan, chief executive officer at KTB Asset management Co., which oversees \$6.4 billion worth of assets in Seoul.

The sale will be open to domestic and overseas bidders. Two of the three arrangers will be domestic and the other a foreign firm, the commission said, without providing any names.

Woori Finance shares fell 2 percent to 15,000 won at 2:13 p.m. in Seoul, trimming the stock's gain this year to 7.9 percent. The benchmark Kospi index declined 0.6 percent.

The company's Kyongnam Bank and Kwangju Bank units, based outside Seoul, will be sold separately, the commission said.

Financial Crisis

Woori Finance was created in 2001 as a holding company for banks that the government rescued during the 1997-98 Asian financial crisis, when South Korea received a \$57 billion bailout from the International Monetary Fund.

South Korea has announced plans to privatize Korea Development Bank, with an initial share sale of its parent company planned for 2011. State-run Incheon International Airport Corp. also plans an initial public offer this year.

Woori Finance had total assets of 325.4 trillion won as end of March and operates three banks, including Woori Bank. It also runs a securities unit, Woori Investment & Securities Co., as well as asset management and private equity business.

Chairman Euh said on June 25 that he doesn't plan to make any takeovers for at least two years and that market conditions will dictate the pace of consolidation among South Korea's financial companies. Combining KB Financial with Woori Finance is one option to consider in the future, he said.

"KB is strong in retail banking while Woori's good in the corporate segment, hence the combination of the two would be the best scenario to boost competitiveness after merger," said Kim In, an analyst at Eugene Investment & Securities Co. in Seoul.

Social Front:

Seoul designated as UNESCO Creative City for design

The United Nations Educational, Scientific and Cultural Organization (UNESCO) designated Seoul as a Creative City for Design, last week.

UNESCO graded Seoul's abundant cultural heritage, creative potential and various policies supporting the city's development through design very highly.

"The designation as the UNESCO Creative City for Design indicates international appraisal and support for Seoul's design administration," Seoul Mayor Oh Se-hoon said.

Seoul now can associate the logo and UNESCO with their projects as well as share cultural programs and information with other creative cities.

The municipal government will sign an MOU with the Korean National Commission for UNESCO and hold an international forum of the Creative Cities Network this year.

Starting in 2005, UNESCO created a Global Alliance's Creative Cities Network, recognizing leading cities for cultural aspects such as Crafts and Folk art, Design, Gastronomy, Film, Literature, Media arts and Music.

Other cities in the network of Creative Cities for Design include Berlin, Buenos Aires, Kobe, Montreal, Nagoya, Shenzhen and Shanghai.

Law banning unlicensed medical practices deemed constitutional

The nation's highest court ruled Thursday that the current Medical Law, which bans unlicensed individuals from practicing acupuncture and other alternative medical treatments, is indeed constitutional.

The Constitutional Court said out of its nine judges, four viewed the law as constitutional while the remaining five opposed it such. However, to produce an "unconstitutional" decision, at least six judges have to deem it so.

Kim Nam-soo, 95, a leading expert in Korean acupuncture and moxibustion, filed a complaint with the court after he saw his practice banned for 45 days in 2008 on charges of practicing acupuncture without an oriental doctor's license.

Kim has made his name through numerous "successful" treatments over the past seven decades using moxibustion.

His unique skill involves heating acupuncture needles with the herb mugwort for various treatments.

The country's medical law states only certified doctors can treat patients and even doctors are not allowed to engage in medical practices for which they are not licensed.

But Kim argued the unlicensed should be permitted to practice medical services, insisting the prohibition violates patients' rights to treatment and individuals' freedom of choice over occupation.

On behalf of Kim, the Busan District Court filed a petition to the Constitutional Court.

But the Association of Korean Oriental Medicine has been insisting that Kim and other unlicensed individuals should be banned from engaging in medical practices to protect the health and lives of patients.

In September 2008, the Seoul Metropolitan Government suspended Kim from practicing. In May 2009, the Seoul Administrative Court upheld the suspension.

Nudist forest to open in Jangheung County

Korea's first nudist forest is scheduled to open in Jangheung County, South Jeolla Province in late August.

The county said Friday that it is working on a therapeutic park, surrounded by *chamaecyparis obtusa* trees, and will test-run the nudist forest, named "Vivid Ecotopia" in the near future.

"We will soon complete construction of the facilities and people can enjoy nature and release stress in the nude," Park Kwang-ho, an official of the county office told The Korea Times.

The official said although the park operator will provide visitors with thin gowns, ultimately all will be encouraged to undress.

"We have already received legal advice that there will be no problems with the park as long as it is built in a shielded area. The main purpose of the park is to treat people suffering from skin diseases such as atopicallergy and help them meditate," he added.

Jeju Island sought to build a nudist beach last year, but failed to carry through the plan due to strong resistance from various interest groups.

The county has invested 4.5 billion won (\$3.8 million) for the establishment of the park and six huts will accommodate approximately 50 people. The administration will not charge visitors this year and decide on the admission fee after the test period.

Girls' Generation forgives 92 slanderous fans

Nearly 100 Internet users accused of posting digitally-doctored nude photos of Girls' Generation in cyberspace avoided punishment thanks to a petition by the popular music group.

The Suwon Provincial Prosecutors' Office said Friday it had decided to drop a defamation case involving 92 netizens after the group filed a petition seeking their impunity.

Presenting a petition does not necessarily mean a case will be dropped because the prosecution holds the exclusive right to decide whether to put the accused on trial.

"Given most of them were minors with no criminal history, we decided not to indict them," a spokesman for the office said. "The handwritten petition by three affected members of the group was largely attributable."

In May, the band's agency, SM Entertainment, asked police to investigate widely circulating fabricated nude photos of the three Yuri, Taeyeon and Jessica on the Internet. Tracking

down origins of these photos, police caught 92 netizens, most of them teenagers, and referred the case to the prosecution.

Student rights vs. teachers' authority

Should elementary schoolers be allowed to hold demonstrations?

Do elementary school students have the right to hold rallies? Do teachers have the right to keep them from picketing the school?

On the issue, the National Human Rights Commission of Korea sided with the students. It recommended a school principal to reprimand the teachers who had blocked a rally by taking the placards from student protesters in 2008.

“The teacher confiscated placards from the students even though they were holding a rally peacefully before the start of class. It was a breach of the freedom of expression guaranteed by the Constitution,” the human rights agency said.

According to the agency, an elementary school in Gangdong-gu, Seoul dismissed a homeroom teacher, identified as Choi, for allowing students to go on a field trip instead of taking the state-run standardized test on Dec. 17, 2008.

In response, some of his students formed a picket line to demand that their homeroom teacher be reinstated. The agency’s decision drew criticism from the conservative Korean Federation of Teachers Association (KFTA).

“It is a decision that overemphasizes the general rights of students but does not reflect elementary students’ capability of judgment, their intellectual levels and each school’s situation,” it said in a statement. “It amounts to ‘human rights populism’ that neglects duty and responsibility in the name of protecting human rights.”

Tip of iceberg

The clash between the human rights agency and the nation’s largest teachers’ group is just the tip of the iceberg.

The entire educational arena seems to be falling into a whirlwind of confusion and conflict as liberal forces which have been suppressed since the inception of the conservative Lee Myung-bak administration are raising their voices following their victory in the June 2 local elections.

Not only the human rights agency but the judiciary is also handing down rulings in favor of liberal educators.

Earlier this week, a court acquitted liberal Gyeonggi's top educator Kim Sang-gon of charges that he neglected his duty by not following the education ministry's order to punish teachers who issued an anti-government statement.

The ruling is expected to give progressive education superintendents fresh impetus to push their liberal policies, including the establishment of a student rights ordinance that will ban corporal punishment and lift restrictions on hair length and allow more freedom of style, among other things.

Superintendent Kim has expressed his will to apply student rights ordinances at schools. Kim stressed that corporal punishment should be banned in Korea and he is considering introducing alternative programs to replace physical punishment.

Passage of ordinance

He is positive about the passage of the ordinance at the gubernatorial council. At the same time, Seoul's liberal Superintendent Kwak No-hyun is also moving to take steps to protect students' rights.

They also plan to eliminate programs they think are designed to boost unnecessary competition. After-school supplementary classes will no longer be compulsory.

Also, students will be free from restrictions regarding the possession and use of mobile phones in school, and they are allowed to pick and choose religious classes. Kim, who is in his second term, proposed the ordinance last March but it was halted at the provincial council, which was dominated by conservative members at that time.

However, after the June 2 elections, liberal members are dominating in the congress, raising the possibility of the passage of the ordinance.

Kwak says he will implement the student's rights ordinance from next year. Their move is facing strong resistance from many principals, teachers and conservative civic groups that argue that the liberalization steps would make it harder to control students.

They say pupils are immature and need discipline.

"Students are in the process of learning and developing. Therefore, they should not be viewed in the same light as adults. Just like we don't give voting rights to the youth, restricting students' of some rights is not always non-educational," the KFTA said.

Japan

Detailed News:

Politico-Strategic News:

Ban visit helps disarmament, Hiroshima says

HIROSHIMA (Kyodo) Hiroshima Mayor Tadatoshi Akiba said Monday he hopes U.N. Secretary General Ban Ki Moon's upcoming visit to the city on the 65th anniversary of the atomic bombing helps boost the global movement toward nuclear disarmament.

Ban will be the first U.N. secretary to attend the Aug. 6 ceremony, which marks the U.S. atomic bombing of the city in 1945.

"If he could send out from Hiroshima a strong message to eradicate nuclear weapons, it would further increase movements toward global (nuclear) abolition," Akiba said at a news conference.

Ban is scheduled to visit Nagasaki, which was bombed three days after Hiroshima, before arriving in Hiroshima on Aug. 5, and will give a speech during the ceremony.

Ban, a former South Korean foreign minister, is also trying to arrange a visit to a memorial site for Korean atomic bomb victims, built next to the Hiroshima Peace Site.

Ozawa agrees to more questioning

Former Democratic Party of Japan Secretary General Ichiro Ozawa notified prosecutors through his lawyer Tuesday that he will submit to more questioning on a voluntary basis over his alleged misstatements in reporting his campaign funds, sources said.

It will mark the fourth round of questioning of the former No. 2 man in the DPJ over alleged false financial reporting involving his fund management body.

"I will of course comply," Ozawa was quoted by the sources as saying. He reportedly said he intends to respect an independent judicial panel's decision that past questioning of him seemed insufficient.

Ozawa hopes the questioning will be arranged after the eight-day extraordinary Diet session slated to convene Friday, according to the sources.

Report delayed to avoid riling Seoul over isles

The government is set to delay the planned release later this week of its annual report on national defense policies, as it seeks to avoid inflaming a territorial dispute with South Korea ahead of a key anniversary related to bilateral ties next month, according to sources.

The rare decision reflects Tokyo's eagerness to avoid any action that could provoke South Korean protests ahead of the Aug. 29 centenary of Japan's annexation of the Korean Peninsula, as the paper, already partly printed, describes a disputed pair of islets as an integral part of Japanese territory, the sources said.

But on Wednesday, Chief Cabinet Secretary Yoshito Sengoku only said the defense paper "needs some more time for editing so it can include how the international community has dealt with the issue of a South Korean warship" torpedoed by North Korea.

Sengoku denied any link between the delay of the paper's release and Tokyo's territorial row with Seoul. The Cabinet of Prime Minister Naoto Kan had been scheduled to approve the report Friday.

The OK is likely to be delayed until around September, they said, a decision that could spark criticism from conservatives who would see such a move as weak-kneed diplomacy.

The bilateral dispute involves two South Korean-controlled islets and numerous small reefs called Takeshima in Japan and Dokdo in South Korea. They lie midway between the two countries in the Sea of Japan.

In its annual defense and foreign policy reports, Japan describes Takeshima as part of its territory, provoking criticism from South Korea.

Ahead of the centennial, Seoul has asked Tokyo through diplomatic channels to drop such a description from this year's report, the sources said.

But Japan will not delete its claim to the islets from the defense white paper, even if it delays publication to September, according to the sources. The government has already printed around 1,000 copies of the report.

Earlier this month in Seoul, a South Korean man threw a stone at the Japanese ambassador to South Korea over the territorial issue, prompting Seoul to apologize to Tokyo.

Tokyo is considering restating its apology for Japan's colonial rule of the Korean Peninsula on the centenary, government sources said earlier.

Sengoku grand coalition talk sparks LDP caution

Kyodo News

Chief Cabinet Secretary Yoshito Sengoku's recent remarks about a possible grand coalition between the ruling Democratic Party of Japan and the Liberal Democratic Party have drawn cautious responses from the opposition camp.

"We will focus on the problem of the ruling parties because we are an opposition party," LDP chief Sadakazu Tanigaki said in a speech Tuesday, denying his party would consider such a tieup.

"We aren't thinking about it," LDP Secretary General Tadamori Oshima said.

Sengoku's remark "is merely intended to maintain the Cabinet" of Prime Minister Naoto Kan, he said at a news conference, also Tuesday.

Sengoku caused ripples in Nagata-cho when he said Monday during a speech, "I don't think a grand coalition or a partial alliance is a false idea." At a news conference later in the day, he said the formation of a grand coalition is "possible."

The DPJ-Kokumin Shinto (People's New Party) ruling bloc lost its majority in the Upper House in the July 11 election, making it almost certain the coalition will encounter gridlock in the Diet.

The DPJ, headed by Kan, seeks to form a partial alliance with opposition parties on a case-by-case basis. But talk continues about the possibility of a DPJ-LDP grand coalition, which was advocated by former DPJ leader Ichiro Ozawa in 2007 when the party was still in the opposition.

Oshima pointed out it was Sengoku who was at the forefront of criticism when Ozawa floated the idea in talks with Yasuo Fukuda, who was then prime minister and LDP president.

Natsuo Yamaguchi, who heads New Komeito, described the idea of a grand coalition as being "like a chimera," saying the DPJ has yet to fully digest the results of the election.

Meanwhile, Kenji Eda, secretary general of Your Party, which scored big gains in the election, said his party will proceed on a different path than the bigger DPJ and LDP.

"We will work on a 'cross alliance' — a majority that would be formed on a policy-by-policy basis — regardless of Mr. Sengoku's remarks," he said.

Washington worried

WASHINGTON (AP) The senior U.S. diplomat for East Asia says Japan's rapid turnover in leadership makes it difficult for Washington and Tokyo to build strong working relationships and confidence.

Assistant Secretary of State Kurt Campbell told lawmakers Tuesday the United States would "very much like to see some continuity in Japanese politics."

Naoto Kan is the sixth prime minister in four years.

Campbell says the high turnover "does raise some concerns for us."

Japan is the world's second-largest economy. But it faces serious challenges, from reducing the bulging budget deficit and reviving growth to fighting deflation and shoring up the social security system as the population ages and shrinks.

Panel Recommends Japan Allow Entry of U.S. Nuclear Weapons, Asahi Reports

By Sachiko Sakamaki - Tue Jul 27 02:05:42 UTC 2010

A Japanese government panel will propose shifting defense policy to allow the transportation of U.S. nuclear weapons within the country and lift a ban on arms exports, the Asahi newspaper reported today.

The recommendations, in response to threats from North Korea and the rise of Chinese military spending, will be submitted to Prime Minister Naoto Kan next month. The panel recommends boosting Japan's submarine capabilities as Chinese naval vessels are active in the area, the Asahi said, citing a draft of the proposal.

Kan's government by December will update national defense guidelines based on the recommendations of the panel, headed by Keihan Electric Railway chief executive Shigetaka Sato. Other recommendations include allowing joint weapons development with other countries besides the U.S., the paper said.

Implementing the proposals would mark a shift away from Japan's three anti-nuclear principles of never developing, possessing or permitting nuclear weapons on its soil. The principles were adopted after World War II, which ended with the U.S. atomic bombings of Hiroshima and Nagasaki. Japan has also barred the export of weapons since 1976.

Japan in March confirmed the existence of long-denied Cold War agreements that permitted U.S. nuclear-armed warships to visit the country's ports. The U.S. provides for Japan's security under a 1960 bilateral treaty, and almost 50,000 American troops are stationed on Japanese soil.

Kan to hold rare news conference on opening day of special Diet session

Kyodo News

Prime Minister Naoto Kan will hold a news conference Friday on the first day of an extraordinary Diet session in an apparent attempt to reverse his falling popularity. It is rare for a prime minister to meet with the press when a legislative session begins.

His office informed the press Tuesday that Kan wants to hold a news conference late Friday afternoon to "express himself to the nation" on his policies.

Kan is apparently hoping to appeal to the public for support after his Democratic Party of Japan suffered a setback in the July 11 Upper House election.

Despite the setback, Kan is widely expected to seek re-election as DPJ president when his term expires in September. If re-elected, it is almost certain Kan will continue on as prime minister because the DPJ controls the Lower House.

On Thursday, Kan was to attend a meeting of all DPJ Diet members to review the electoral defeat, which caused the DPJ-led ruling coalition to lose its Upper House majority.

Fukushima pressured to quit

Kyodo News

Social Democratic Party leader Mizuho Fukushima came under pressure from within the party Thursday to step down and take responsibility for the SDP's setback in the Upper House election on July 11.

Adding to Fukushima's woes is the recent announcement by the party's key lawmaker, Kiyomi Tsujimoto, that she intends to leave the SDP as a show of protest over the leadership. In its executive meetings Thursday, the party decided to try and persuade Tsujimoto to stay on.

The meetings were held as the party assesses the result of the July 11 House of Councilors election, in which the SDP saw the number of its seats in the chamber cut from five to four, including uncontested seats.

It is thought that Fukushima intends to remain in her post. However, her deputy, Seiji Mataichi, said during the meetings that party executives, himself included, should resign.

Kantoku Teruya, the party's Diet affairs chief, told reporters after the meetings that he had urged Fukushima and other leaders to step down to take responsibility for the situation.

Fukushima said at one of the meetings: "We need to discuss how we sum up the election and revitalize the party. We must overcome this crisis with (cooperation) from all party members and supporters."

The SDP is expected to finalize its review of the election at the end of August, when it will hold a meeting of regional chapter heads.

Marines' move to Guam could be delayed to 2017

WASHINGTON (Kyodo) The planned transfer of 8,000 U.S. Marines from Okinawa to Guam could be delayed until 2017 from the current target of 2014, the Pentagon suggested in its final environmental assessment report on the U.S. territory, released Wednesday.

The Final Environmental Impact Statement for the planned relocation of the marines to Guam, however, did not state specify when the transfer would be completed as an alternative to the current target year.

The redeployment is part of a package deal that includes relocating U.S. Marine Corps Air Station Futenma within Okinawa by 2014, when the new base is supposed to be operational, although no construction has started.

The final environmental assessment report estimated that the influx of people to Guam, including construction workers for building necessary facilities and infrastructure for the redeployment, could reach about 79,000 in 2014.

The report pointed to the need to slow the pace of transition of marines to Guam as well as the need for changes in construction schedules or modification of facilities.

SESC opens probe into Thai fund

Kyodo News

The Securities and Exchange Surveillance Commission has searched locations related to Thai-based investment fund Asia Partnership Fund Group over its unit's alleged fictitious investment in a listed Japanese company, according to sources.

The company, Showa Holdings Co., was also raided by the security industry watchdog. The firm, formerly known as Showa Rubber Co., privately issued shares worth about ¥1.2 billion to an APF unit in June 2008.

The following month, Showa Rubber purchased a debt instrument worth about ¥1.1 billion from another APF unit and made an investment in the group's operations, according to market sources, raising suspicions that the share issue may have been a fictitious deal violating the financial instruments and exchange law.

Defense draft urges SDF upgrade

Kan team pushes for ability to deal with more than one crisis at a time

Kyodo News

The Self-Defense Forces need to enhance their capabilities to respond effectively to multiple emergencies, an advisory panel for Prime Minister Naoto Kan says, while calling for relaxing Japan's decades-long nonnuclear principles and arms embargo rules.

A copy of the panel's draft report, which was made available Wednesday, contains proposals on the key defense and national security agenda. The final report will serve as the basis for the government to set its defense policy guidelines for the year from next April and beyond.

The draft report refers to the possibility that in the event hostilities erupt near its territory, Japan could be exposed to missile attacks or battles on one of its remote islands while SDF troops are providing support for U.S. forces.

The draft also warns of possible simultaneous terrorist attacks on domestic facilities or acts of cyberterrorism targeting key governmental entities.

Japan "needs to draw up capabilities" effective enough to cope with such multiple crises and manage built-up defenses properly, according to the report.

The draft thus seeks a comprehensive review of the Cold War-era defense concept, which was set in the mid-1970s and depends on U.S. nuclear deterrence while giving the SDF a very limited role in self-defense.

The panel describes this policy as "no longer efficient" and "a thing of the past."

But it argues the U.S. nuclear umbrella is necessary in light of the need to maintain security not only in Japan but throughout Northeast Asia, adding this idea is "not contradictory to the ultimate goal" of abolishing nuclear weapons.

As for Japan's three nonnuclear principles of not possessing, producing or allowing nuclear arms on its territory, the panel says the most important thing is preventing nuclear states from using their atomic weapons and it is not prudent for Tokyo to stick to these principles just for the purpose of "keeping the United States shackled."

Japan also has a policy of not exporting weapons or arms technology in principle, dating back to the 1960s, when a ban was placed on weapons exports to communist states, countries to which the United Nations bans such exports and parties to international conflicts.

Because of the bilateral security pact, Japan has excluded exports of arms technology to the United States.

Calling for reconsideration of the current export ban, the draft report says the arms embargo has prevented the domestic defense industry from having access to technological development, potentially making it lag behind foreign rivals in the race for defense business.

The report also calls on the government to discuss whether Japan should be able to exercise its right to collective self-defense, suggesting legal interpretations and operational systems have to be changed flexibly from a national interest standpoint.

Tokyo maintains the position that although Japan has the right to collective defense, it cannot exercise it due to constraints under the Constitution.

The draft report also urges the government to consider possessing missiles capable of attacking foreign territory.

The panel's report is due to be submitted to Kan early next month. Based on the report, the Cabinet is expected to endorse by the end of the year the defense policy guidelines for fiscal 2011 and beyond as well as the midterm defense buildup program.

Economic Front:

China Strikes for Higher Pay Affected 32 Japanese Companies, Asahi Says

By Pavel Alpeyev - Fri Jul 30 00:51:25 UTC 2010

Strikes in China that lasted nearly two months starting in May affected 43 foreign companies, including 32 Japanese businesses, the Asahi newspaper said, citing its own research.

Calls for higher wages escalated after Honda Motor Co. agreed to raise salaries 24 percent at a plant in Guangdong, southern China, in early June, the report said. Workers shared the news of wage increases using mobile phones and online forums, spreading the strikes to plants of Toyota Motor Corp. and other manufacturers, it said.

Next Year to Curtail Debt

By Toru Fujioka - Tue Jul 27 09:47:10 UTC 2010

Japan's government will ask ministries to cut their budgets by 10 percent for the year starting April 2011 as Prime Minister Naoto Kan tries to rein in the world's largest debt load.

The reductions will help the government keep spending at this year's 71 trillion yen (\$813 billion), a pledge Kan made last month. The government said it will devote more than 1 trillion yen to growth policies, according to budget guidelines approved by the Cabinet in Tokyo today.

Kan is attempting to restore fiscal discipline in an economy where debt is set to exceed 200 percent of gross domestic product. Fresh from defeat in mid-term elections, Kan may face resistance from politicians who want to bolster spending to protect the nation from a global economic slowdown.

"They have the right attitude, but we have to see if they can really succeed and live up to their fiscal consolidation pledges," said Junko Nishioka, chief economist at RBS Securities Japan Ltd. in Tokyo. "The economic slowdown will become more apparent as the yen gains and stimulus measures start to fade, heightening calls for more spending."

The government already said in its mid-term fiscal plan last month that it would cap spending and new bond sales as well as balance the budget by fiscal 2020.

Cabinet officials including National Strategy Minister Satoshi Arai have indicated they would consider economic measures if needed. Record stimulus packages that included incentives to buy cars and electronics helped pull Japan out of its worst postwar recession. Trade Minister Masayuki Naoshima said last week the yen's advance posed a significant risk to the nation's export-led recovery.

The natural increase in social welfare costs due to an aging population and funds for the ruling Democratic Party of Japan's childcare handout program are exempt from the 10 percent rule. Ministries and agencies are typically asked to submit their spending plans to the Ministry of Finance by August. Bureaucrats use those requests to compile the budget in December.

Japan's Exports Rise Faster Than Economists Estimated

By Keiko Ujikane - Mon Jul 26 08:19:19 UTC 2010

Japan's exports rose faster than economists estimated, sustaining a boost to the recovery that may diminish as global growth cools and the yen strengthens.

Shipments abroad advanced 27.7 percent in June from a year earlier, the Finance Ministry said today in Tokyo. The median estimate of 19 economists surveyed by Bloomberg News was for 23.5 percent. From a month earlier, exports fell 1.8 percent.

While exports have climbed for seven straight months, June's gain was the weakest this year as demand from China and Europe waned. The yen reached a seven-month high against the dollar this month, prompting officials including Trade Minister Masayuki Naoshima to warn that its rise may hurt the economy.

"Given that exports are the sole driver of Japan's moderate economic recovery, the expansion is poised to slow in the third and the four quarters," said Yoshiki Shinke, a senior economist at Dai-ichi Life Research in Tokyo. "The yen's gain is also posing a threat to exporters' profits."

Japan's currency gained 8 percent versus the dollar and 12 percent per euro in the past three months. It rose to 87.13 per dollar at 5:12 p.m. in Tokyo from 87.62 before the report. The Nikkei 225 Stock Average climbed 0.8 percent to 9,503.66.

Imports advanced 26.1 percent in June from a year earlier, leaving a trade surplus of 687 billion yen (\$7.8 billion), 41.1 percent higher than the same month in 2009, today's data showed.

The higher local currency threatens to erode the value of earnings of exporters such as Toyota Motor Corp. Toyota estimates annual operating profit is reduced by 30 billion yen when the currency rises 1 yen against the dollar.

'Appreciated Too Much'

"The yen has appreciated too much," Koji Miyahara, chairman of shipping company Nippon Yusen K.K., said last week. "I'm hoping the yen will depreciate to a range of 95 to 100 to the dollar as soon as possible."

Japanese exporters' currency woes are in contrast with their rivals in South Korea, where a weaker won helped Samsung Electronics Co. and Hynix Semiconductor Inc. post record earnings

in the second quarter. South Korea grew 1.5 percent in the second quarter from the previous three months, a report showed today, faster than the median estimate of economists.

Nomura Holdings Inc., Japan's biggest brokerage, abandoned its recommendation for an "overweight" position in Japanese shares, seeing reduced momentum for earnings and weaker economic-growth prospects. "The recovery in Japanese earnings is already beginning to lose momentum," Nomura analysts including Ian Scott wrote in an e-mailed report dated July 23.

Slower Expansion

Japan's economic growth probably slowed to an annual 1.7 percent rate in the second quarter from 5 percent in the first three months of 2010, according to the median estimate of 11 economists surveyed by Bloomberg News.

Growth is moderating in the U.S. and China, Japan's biggest markets. China's expansion cooled to 10.3 percent in the second quarter. In the U.S., growth eased to an annual 2.5 percent pace in the same period, according to the median estimate of economists surveyed ahead of figures due this week. In Europe, growth is at risk from government spending cuts to stem the region's sovereign debt crisis.

Shipments to China climbed 22 percent in June from a year earlier, moderating from 25.3 percent in May, today's report showed. Exports to the U.S. gained 21.1 percent, more than the previous month's 17.7 percent. Shipments to Europe increased 9 percent, about half the pace of May's 17.4 percent.

Yamaha Motor Co., the world's second-largest motorcycle maker, said this month that sales in North America and Europe may fall twice as much as forecast.

Recovery Intact

Still, economists say the slowdown abroad is unlikely to derail Japan's recovery. The Finance Ministry's regional chiefs raised their assessment of the economy today for a second quarter, saying it is "picking up steadily at a slow pace, although it remains severe."

"Even though external demand will likely lose momentum, it doesn't mean Japan will fall back into a recession," said Yasunari Ueno, chief market economist at Mizuho Securities Co. in Tokyo. "But the downside risks could have a bigger impact on Japan's economy than the upside risks do."

Japan Growth to Slow as Unemployment Rises, Production Drops

By Keiko Ujikane and Mayumi Otsuna - Fri Jul 30 03:36:11 UTC 2010

Japan's unemployment unexpectedly rose for a fourth straight month and industrial production fell the most in more than a year, signaling the economic expansion is poised to slow.

The jobless rate climbed to a seven-month high of 5.3 percent in June, a statistics bureau report showed today in Tokyo. Factory output slid 1.5 percent from May, compared with the median forecast in a Bloomberg News survey of economists for a 0.2 percent gain. Meantime, consumer prices excluding fresh food declined 1 percent from a year before.

Today's data may make it tougher for Prime Minister Naoto Kan to build support for his plans to rein in the government's budget deficit as parliament gathers for the first session since he took office. The Bank of Japan may also come under increased pressure to step up monetary stimulus as a rising yen threatens to contribute to deflation.

"We have to start worry about a slowdown," said Junko Nishioka, chief economist at RBS Securities Japan Ltd. in Tokyo. "Kan will be forced to shelve pursuit of fiscal consolidation and the Bank of Japan will also come under more pressure to take additional monetary policy action."

The yen climbed and stocks fell as today's figures signaled a diminishing investor appetite for risk. The Nikkei 225 Stock Average dropped 1.5 percent to 9,550.18 at the morning close in Tokyo. The yen strengthened to 86.36 per dollar, after reaching 86.25, the highest level since Dec. 1.

Earnings Evidence

The slump in Japan's production is a contrast with reports from several of the nation's companies that indicated an improved outlook. Sony Corp. and Panasonic Corp., the world's largest consumer-electronics makers, signaled Japanese technology companies are withstanding slowing European demand and the stronger yen after raising their earnings forecasts. Fujitsu Corp. also raised its profit projections.

Household spending rose 0.5 percent in June from a year before, snapping a two-month decline, a separate report showed today. The increase in the jobless rate last month came in part as the number of people out of the labor force declined, indicating more people are starting to look for work.

"We should brace for the economy falling into a soft patch toward the first quarter of next year," said Yoshimasa Maruyama, a senior economist at Itochu Corp. in Tokyo. "Kan will have to tread a very delicate line in handling economic policies and fiscal consolidation."

Pressure on Kan

A group of ruling-party lawmakers said today they will press Kan to shift his focus to growth from fiscal restraint and urge the central bank to do more to tackle deflation. Their proposals include pushing the Bank of Japan to buy long-term government bonds and target inflation of 2 percent to 3 percent.

Economy Minister Satoshi Arai told reporters after today's reports that the economy is "gradually recovering" and deflation is easing "little by little." The central bank and the government are working together to overcome falling prices, he added, declining to comment on an inflation target.

Japan's expansion slowed to an annual 1.9 percent pace in the second quarter from the first quarter's 5 percent, according to the median estimate of economists surveyed by Bloomberg News.

A separate report today indicated job prospects are improving. The job-to-applicant ratio rose to 0.52 in June, meaning there are 52 job openings for every 100 candidates, the most since March 2009.

Carmakers Cut Back

Automakers and electronics manufacturers led the drop in production, which was the steepest since February 2009, as demand from abroad weakened. Exports grew at the slowest pace this year in June, a report showed this week.

Manufacturers surveyed by the Trade Ministry plan to cut output by 0.2 percent in July and increase it by 2 percent in August. The ministry kept its view that production is rebounding, while adding that it is "pausing in some areas." Output rose 1.4 percent in the three months to June, the slowest gain since it fell in the first quarter of 2009.

The planned expiry of government incentives to purchase cars may weigh on manufacturing just as growth in China and the U.S. slows. Trade Minister Masayuki Naoshima said today that the government will let the initiative end in September as scheduled, Kyodo News reported. Japan's biggest carmakers are already preparing to scale back as a result.

"Production will slow because exports are losing steam," said Hiroaki Muto, a senior economist at Sumitomo Mitsui Asset Management Co. in Tokyo. "Japan will probably go into an economic lull next year, although it may avoid a double-dip recession."

Japan Tobacco's Quarterly Profit Drops 47% on Domestic Sales, Stronger Yen

By Naoko Fujimura - Thu Jul 29 07:46:10 UTC 2010

Japan Tobacco Inc., the world's third-largest publicly traded cigarette maker, said first-quarter profit fell 47 percent after domestic sales dropped and a stronger yen reduced the value of overseas earnings.

Net income dropped to 22.8 billion yen (\$261 million) for the three months ended June, compared with 42.9 billion yen a year earlier, the Tokyo-based company said in a statement today. Last year's profit was inflated by a one-time gain of 9.1 billion yen from the sale of corporate housing. Total sales rose 0.3 percent to 1.47 trillion yen.

Japan Tobacco said its cigarette sales in Japan may decline 16 percent this fiscal year as the government plans to raise taxes by 70 yen per pack in October. The maker of Mild Seven and Seven Stars will raise prices more than needed to compensate for the higher tax, as it also seeks to offset lower product sales.

Domestic cigarette sales slipped 7.9 percent in the first quarter, “primarily due to the on-going declining trend in consumption and was further depressed by the announcement of a forthcoming price increase,” the company said in the statement.

The company kept its annual earnings forecast unchanged. Net income will probably decline 3.9 percent to 133 billion yen for the year ending March, it said April 28. Sales may fall 2.5 percent to 5.98 trillion yen.

Japan Tobacco fell 1.9 percent to 287,000 yen at the 3 p.m. close on the Tokyo Stock Exchange before the company released its results. The stock has lost 8.3 percent this year, compared with a 5 percent drop in the broader Topix index.

Operating Profit

Operating profit fell 6.1 percent in the first quarter, as domestic sales slumped and the price of overseas tobacco leaf increased, Japan Tobacco said.

Sales after exercise taxes fell 0.6 percent to 601.4 billion yen. The company raised prices of cigarettes in Russia and other overseas countries, helping offset lower domestic sales, Japan Tobacco said.

Japan Tobacco was also hammered by a stronger yen, which has risen against all the world’s major currencies in 2010. A stronger local currency cuts the value of overseas earnings when repatriated. The company booked an exchange loss of 2.65 billion yen in the first quarter.

Japan Tobacco acquired RJR Nabisco’s international businesses, including the Camel and Winston brands, in 1999 and the U.K.’s Gallaher Group in 2007.

Earnings before interest, taxes, depreciation and amortization for Japan Tobacco’s international business rose 1.8 percent in dollar terms, the company said. The company boosted its market share in countries including Russia, Italy and France, it said.

The cigarette maker booked a one-time charge of 13.2 billion yen to settle claims with Canada that its JTI-Macdonald Corp. unit aided cigarette smuggling in the 1990s.

JFE Buys \$1 Billion Stake in JSW Steel to Tap Rising Indian Auto Demand

JFE Holdings Inc., Japan’s second- largest steelmaker, agreed to buy 48 billion rupees (\$1 billion) of securities in India’s JSW Steel Ltd. to tap demand in the world’s second-fastest growing automobile market.

JFE's steel unit will get a 14.99 percent stake in JSW Steel, the Tokyo-based company said today in a statement on its website. Nomura Holdings Inc. advised JFE, while Citigroup Inc. and Amarchand & Mangaldas & Suresh A. Shroff & Co. advised JSW, the companies said.

Buying a stake in India's third-largest steelmaker gives JFE access to an automobile market that grew 32 percent in the first five months of this year, second only to China. Vehicle demand in Japan may fall 2 percent this fiscal year.

"In Japan there's no growth for steel companies," Giriraj Daga, an analyst at Khandwala Securities Ltd., said by phone in Mumbai. "In India it would be over 10 percent for the next decade."

JFE Steel's investment in the Indian partner will exceed 100 billion yen (\$1.15 billion) in total, Shigeru Ogura, vice president at JFE, said today at a press conference in Tokyo.

Shares of JFE Holdings closed down 3.1 percent to 2,656 yen in Tokyo. JSW Steel shares fell 0.9 percent to 1,160.20 rupees at the end of trading in Mumbai.

Waning Demand

"We can no longer count on domestic demand with the declining number of children," Ogura said, referring to Japan's birth rate. "India is an appropriate market for expansion."

Sales of automobiles in Japan may drop to 5.52 million units in the 12 months started April 1 from an estimated 5.63 million the previous year, the auto manufacturers association forecast on March 15.

JFE has been asked by Japanese carmakers expanding in India to supply steel in the country, Ogura said. As part of the alliance, JFE will help improve operations at JSW's Vijayanagar mill, which is close to the factories of automakers, including Hyundai Motor Co., Tata Motors Ltd., and Nissan Motor Co.

The JSW Steel securities will be converted at a minimum price of 1,331 rupees or a maximum of 1,500 rupees a share, depending on the share price performance of JSW Steel, the Mumbai-based company said.

More Ventures

"The big steel mills globally are trying to get into the Indian market through acquisitions or by buying stakes," Goutam Chakraborty, an analyst with ICICI Securities Ltd. in Mumbai, said before today's announcements. "We're expecting there may be more of such activity."

JFE's larger domestic rival Nippon Steel Corp. is also teaming up to sell value-added automotive steel. Nippon Steel and Tata Steel Ltd. will spend as much as 35 billion yen to form a venture to produce automobile steel in India, the Tokyo-based company said Jan. 28. The venture will be

located at Tata Steel's Jamshedpur factory complex in eastern India and will start operations by March 2013.

The deal with JFE will give JSW "cutting-edge" technology and help access the growing market of automobiles in India, Vice Chairman Sajjan Jindal said. The proceeds will also help "de-leverage" the balance sheet, he said.

Earnings

JFE Holdings forecast today net income will rise 2.6 times to 120 billion yen for the year through March 31, 2011, aided by a demand recovery. The outlook fell short of the 173.8 billion yen average of 22 analyst estimates compiled by Bloomberg. Sales may increase 20 percent to 3.42 trillion yen.

The company had a profit of 28 billion yen in the fiscal first quarter, compared with a loss of 41.6 billion yen a year earlier, according to a statement today.

JSW Steel today said profit rose 26 percent to 2.95 billion rupees, or 15.21 rupees a share, in the three months ended June 30 from 2.34 billion rupees, or 12.06 rupees, a year earlier. Sales climbed 21 percent to 48.20 billion rupees.

Total expenses in the quarter rose to 41.40 billion rupees from 36.40 billion rupees a year earlier, JSW Steel said in a separate statement to the Bombay Stock Exchange.

Coking coal expenses in this quarter have remained high and the company expects "some respite" in the next quarter, Jindal said at a media briefing in Mumbai. Iron ore shipments from JSW's Chile mines is expected to start in the third quarter, he said.

Construction of JSW Steel's planned factory in West Bengal state is expected to start this year, Jindal said. Talks have yet to start with JFE on the company's proposed investment in the factory, he said.

Mitsubishi Estate First-Quarter Profit Declines 30% as Home Sales Slide

By Kathleen Chu and Katsuyo Kuwako - Fri Jul 30 06:10:40 UTC 2010

Mitsubishi Estate Co., Japan's second-biggest developer, said first-quarter profit fell 30 percent on declining home sales.

Net income dropped to 6.77 billion yen (\$78 million) in the three months ended June 30 from 9.64 billion yen in the same period a year ago, the company said in a statement distributed through the Tokyo Stock Exchange today. Sales fell 9.8 percent to 189 billion yen.

Japanese developers face record-high office vacancies in Tokyo and a slump in the city's housing market as companies cut spending and the unemployment rate remains above 5 percent.

Mitsubishi Estate today said its residential business had an operating loss of 1.65 billion yen in the first quarter compared with a profit of 2.36 billion yen last year.

Revenue at the company's housing business declined 31 percent in the first quarter, it said. Mitsubishi Estate sold 848 apartments in the quarter, 42 percent less than last year.

Condominiums put up for sale in the Tokyo region declined for a fifth year in 2009 to 36,376 units, according to the Real Estate Economic Institute Co., a Tokyo-based industry researcher.

Office Leasing Business

Operating profit, or sales minus operating costs, in the company's office leasing business fell 2.1 percent to 30 billion yen in the quarter. The company's vacancy rate rose to a five-year high of 4.46 percent in June. Mitsubishi Estate owns more than 30 buildings in Tokyo's central business district.

Tokyo's office vacancy rate rose to 9.1 percent in June, the highest since Miki Shoji Co., a privately held office brokerage company, started compiling monthly data in January 2001.

The developer booked a one-time loss of 1.39 billion yen in the quarter for exiting a project based in Saitama prefecture near Tokyo, it said.

Mitsubishi Estate reiterated its full-year profit forecast of 63 billion yen on sales of 975 billion yen.

Shares of Mitsubishi Estate dropped 4.1 percent to 1,218 yen at the 3 p.m. close on the Tokyo Stock Exchange.

Kan Reform Delays May Snap 'Virtuous Circle' in Japan Debt, Barclays Says

By Shigeaki Nozawa - Wed Jul 28 05:40:14 UTC 2010

Japanese government bond yields may surge if Prime Minister Naoto Kan fails to carry out financial reforms, prompting an exodus of foreign money that had been drawn to the safety of the nation's assets, Barclays Capital Japan Ltd. said.

Stable returns, low volatility and ample demand create a "virtuous circle" that supports Japan's debt market, Tetsufumi Yamakawa, co-head of Japan research at Barclays in Tokyo, said in a forum yesterday.

"The Greek and European debt crisis has drawn investor focus to the sovereign markets of many countries, and overseas investors aren't so bearish on JGBs," Yamakawa said.

Japan's 10-year yields dropped to 1.045 percent on July 22, the lowest since Aug. 14, 2003. The yield was at 1.065 percent today.

Japan's 700 trillion yen (\$8 trillion) in outstanding bonds have a "peculiar ownership condition," he said, with groups such as retirement funds and Japan Post Bank holding about 60 percent of the total. Pension funds are starting to divest as the population gets older, meaning purchases by the Bank of Japan and overseas investors must increase over the long term, he said.

China is heading for its biggest annual increase in its purchases of Japanese government bonds since at least 2005, The finance ministry reported this month. Japan's public pension fund sold more government bonds last fiscal year than it bought for the first time since 2000, central bank data showed this month.

Sharpe Ratio

Measures like the Sharpe ratio, a gauge of gains that takes volatility into account, show Japanese debt is outperforming U.S. Treasuries and global stocks, Yamakawa said. Delays in deregulation and tax reforms will cause destabilization in the debt market and a decline in risk-adjusted returns, which may trigger investor flight, he said.

Japan's public debt is 180 percent of gross domestic product, the highest among members of the Organization for Economic Cooperation and Development. Central and local government borrowing totaled 882.9 trillion yen as of March 31, up 4.3 percent from a year earlier, according to the Ministry of Finance.

(Cyber Space) Yahoo Japan to use Google search tech

Tieup looks to deal domestic blow to Microsoft

Yahoo Japan Corp. said Tuesday it will use Google Inc.'s Internet-search technology in a deal that would dominate the domestic market and pose a possible blow to Microsoft.

Yahoo Japan will use Google's Internet search engine and advertisement delivery system, the Tokyo-based company said without disclosing the financial terms. The length of the agreement hasn't been decided, it said.

Yahoo Japan currently uses Yahoo Inc.'s search engine. Despite the switch, Yahoo Japan will maintain its strategic partnership with the U.S. Internet giant and will continue using the Yahoo brand, it said.

Yahoo Japan has a nearly 60 percent share of Internet-search services in Japan, while Google has close to 40 percent. The tieup will allow them to virtually monopolize the domestic market.

Yahoo Japan's shares rose in Tokyo trading on speculation a tieup may help it expand in the mobile-search business through handsets equipped with Google's Android operating system.

The plan could hurt Microsoft Corp., which last year agreed on a 10-year deal to combine its search business with that of Yahoo Inc.

"If Yahoo Japan started using Google's search engine and if its services were then used on Android smart phones, an agreement may have big implications," said Atsuo Takahashi, an analyst at Mizuho Securities Co. "For Yahoo Japan, this deal could be quite positive."

Yahoo Japan, 35 percent owned by Yahoo in the U.S. and about 40 percent by Softbank, had more than 52 million users as of March and its service accounted for more than 50 percent of the Japanese market, according to a Nomura Holdings Inc. report this month that cited a Nielsen Online survey. Google has about 31 percent of the market, the report said.

Yahoo and Microsoft won regulatory approval in the U.S. and Europe in February to integrate their Web search businesses and challenge Google. Yahoo plans to use Microsoft's Bing search engine on its sites and complete the integration in the U.S. by the end of the year.

(Cyber Space) PayPal plans belated Japan foray

The Associated Press

PayPal, the online payment unit of Internet commerce firm eBay Inc., is planning to break into the Japanese market — the first time it has entered a region without eBay's powerful auction business.

Acquired by eBay in 2002, PayPal in most markets relies on its parent company's online auction behemoth for a steady supply of buyer and seller accounts, plus the lucrative transactions and brand recognition that follow.

But in Japan, where eBay has been largely absent for eight years, PayPal is starting from scratch in a mature market, and must ink individual deals with retailers and shopping sites, as well as convince users to sign on.

"We're very, very new, we have a very small share of the market, so we still see great opportunities for Japan," said Andrew Pipolo, who heads PayPal's operations in the country, told a news conference in Tokyo

The auction company pulled out of Japan in 2002, conceding the booming market to Yahoo Japan, which is still dominant today and operates independently from its U.S. namesake. It was a rare defeat for eBay, which in 2007 announced a minor deal to let Japanese shoppers access its items through Yahoo Japan's site.

Nippon Steel Returns to Profit After Boosting Output to Meet Asian Demand

By Masumi Suga and Yasumasa Song - Wed Jul 28 08:57:44 UTC 2010

Nippon Steel Corp., Japan's largest producer of the metal, returned to a first-quarter profit after boosting output to tap demand in Asia.

Net income in the three months ended June 30 was 26.8 billion yen (\$306 million), compared with a loss of 42.2 billion yen last year, Tokyo-based Nippon Steel said today. The company forecast first-half profit of 60 billion yen. Sales gained 30 percent to 970.6 billion yen in the three months.

Steelmakers in Japan are targeting sales in Asia to offset slower domestic demand, and JFE Holdings Inc., the nation's No. 2 mill, yesterday agreed to buy a 14.99 percent stake in JSW Steel Ltd. to benefit from rising demand in India. Nippon Steel today agreed to develop new products with Australia's BlueScope Steel Ltd. to tap construction demand.

"Demand was brisk as economies are in a recovery trend," Executive Vice President Shinichi Taniguchi said today at a press conference in Tokyo.

Nippon Steel rose 3.7 percent to 306 yen at the 3 p.m. close in Tokyo trading.

The company plans to work with BlueScope Steel to develop coated steel products for global building and construction markets. The market for processed construction steel products is "big," said Taniguchi.

Production Target

Nippon Steel plans to produce about 8.4 million metric tons of crude steel on parent-company basis in the three months to Sept. 30, up from 8 million ton in the preceding quarter and 25 percent more than the 6.73 million tons a year earlier, according to the statement.

Full-year pretax profit from operations may reach 250 billion yen, Taniguchi said, adding the forecast is provisional because the company can't "give a reasonable estimate for the second half." Pretax profit from operations last year was 11.8 billion yen, with net loss reaching 11.5 billion yen.

ArcelorMittal, the world's biggest steelmaker, today said third-quarter profit may slump as much as 30 percent from the prior three months as China's economy slows, cost rise and demand weakens during the European summer.

JFE Holdings forecast yesterday net income will rise 2.6 times to 120 billion yen for the year ending March 31, 2011 aided by a demand recovery. This fell short of the 173.8 billion yen average of 22 analyst estimates compiled by Bloomberg.

Japan's crude steel production increased 36 percent to 9.35 million metric tons in June, compared with a year earlier, the Japan Iron and Steel Federation said July 20.

Sumitomo Metal Industries Ltd. and Kobe Steel Ltd., Japan's third- and fourth-largest steelmakers, are scheduled to report tomorrow.

Nissan to Reduce Japan Production by 20% in October, November, Kyodo Says

By Aki Ito - Tue Jul 27 10:56:20 UTC 2010

Nissan Motor Co. Chief Executive Officer Carlos Ghosn said the automaker will produce 20 percent fewer cars in Japan in October and November, compared with September production plans, Kyodo News reported.

The decrease stems from a stronger yen and the expiration of a government incentive program for car purchases, Kyodo said, citing Ghosn.

Panasonic Offers \$9.4 Billion to Buy Out Two Units

By Mariko Yasu - Thu Jul 29 10:22:03 UTC 2010

July 29 (Bloomberg) -- Panasonic Corp., the world's largest maker of rechargeable batteries, offered to buy out Sanyo Electric Co. and Panasonic Electric Works Co. for 818.4 billion yen (\$9.4 billion) to help expand its renewable energy business.

Panasonic, which may sell as much as 500 billion yen of new stock to fund the deal, offered 138 yen for each Sanyo share it doesn't own and 1,110 yen for every Electric Works stock, the Osaka-based company said in statement today. That's 17 percent and 14 percent more than their July 28 closing prices. The units surged above the offer in Tokyo trading today.

The purchases would build on President Fumio Ohtsubo's plans to expand business such as solar panels amid mounting competition from Samsung Electronics Co. and Sony Corp. in televisions. Panasonic fell the most in more than a year in Tokyo trading on concern the cost of the purchase may strain a company reeling from two years of losses.

"Panasonic faces fierce competition from Samsung and Sony in consumer electronics," Yuji Fujimori, a Tokyo-based analyst at Barclays Capital. "Its rivals are not as competitive in the energy-related products and household electrics systems that Panasonic aims to strengthen."

Sanyo jumped 26 percent to close at 149 yen on the Tokyo Stock Exchange and Panasonic Electric Works climbed 15 percent to 1,124 yen after the Nikkei newspaper reported the buyout plans earlier. Panasonic, the world's largest maker of plasma TVs, declined 7.7 percent to close at 1,077 yen.

The maker of Viera TVs expects the buyouts to add 60 billion yen to Panasonic's annual operating profit, Ohtsubo said at a briefing in Osaka today.

Largest Acquisition

The combined acquisitions would be the largest in Japan this year, according to Bloomberg data. Panasonic owned 50 percent of Sanyo and 51 percent of Electric Works as of today, according to the statement.

The offer, which will start on Aug. 23 and complete on Oct. 6, values Sanyo at 51 times estimated earnings for the year ending March 2011 and almost 36 times estimated profit at Electric Works, according to analyst estimates compiled by Bloomberg. By comparison, companies on the Nikkei 225 Stock Average trade at a multiple of 18, according to Bloomberg data.

Some shareholders said the offer is too low.

“There is no way we would accept this offer,” Huy Hoang, a fund manager at HDH Capital Management Pte, which owns 1.4 million shares of Sanyo, wrote in an e-mail. “Panasonic is trying to time the market and take advantage of minority shareholders.”

Share Swap

Shareholders of Sanyo and Electric Works have the option of accepting the parent’s offer or taking Panasonic shares, according to the statement. The company plans to complete the purchase by around April next year, it said.

Under Japanese law, a company that acquires at least two-thirds of a target through a tender offer can force minority shareholders to give up their holdings through a share swap, said Masaji Hashimoto, a lawyer at Atsumi & Partners in Tokyo.

The maker of Lumix cameras today raised its full-year net income forecast to 85 billion yen from a previous projection of 50 billion yen. The company also increased its estimate for operating profit by 24 percent to 310 billion yen.

In 2008, Panasonic agreed to buy a controlling stake in Sanyo from Goldman Sachs Group Inc., Daiwa Securities Group Inc. and Sumitomo Mitsui Financial Group Inc. Panasonic completed its offer for Sanyo in December last year after clearance from antitrust regulators in the U.S., Europe, Japan and China.

Sanyo was the largest maker of rechargeable batteries in the year ended March 2009, followed by Sony, South Korea’s Samsung SDI Co., Panasonic, China’s BYD Co. and LG Chem Ltd., according to estimates at Japan Economic Center Co. Panasonic and Sanyo accounted for a combined 43 percent of the market, according the Tokyo-based researcher.

Uniting Panasonic

Panasonic said it plans to combine the three companies’ brands, though Sanyo’s name may continue to be used in some regions. The three companies will unite and slim down their operations to start a new business structure in January 2012, Panasonic said.

Panasonic Electric Works, the unit that makes lighting systems, electrical wiring fittings such as wall sockets and electronic materials used in chips, became an affiliate in 1935 and split as a separate entity in 1945.

Panasonic, Japan's biggest maker of home appliances, paid 146 billion yen for a majority stake in the lighting unit in a tender offer in 2003.

Nomura Holdings Inc. advised Panasonic on the latest deal, while Abeam M&A Consulting advised Sanyo and Daiwa Securities Group Inc. advised Electric Works.

Sumitomo Mitsui Profit Tripled in First Quarter as Bad-Loan Costs Dwindled

By Finbarr Flynn - Wed Jul 28 08:18:57 UTC 2010

Sumitomo Mitsui Financial Group Inc., Japan's third-largest bank by assets, said first-quarter profit tripled, beating analysts' estimates as bad-loan charges fell and trading income climbed.

Net income jumped to 211.8 billion yen (\$2.4 billion) in the three months ended June 30, from 72.8 billion yen a year earlier, the Tokyo-based company said in a statement today. That's more than the 110 billion yen average estimate of five analysts surveyed by Bloomberg.

Chief Executive Officer Teisuke Kitayama cut bad-loan costs by 73 percent as Japanese corporate bankruptcies declined for an eleventh month and business sentiment reached a two-year high. Trading income surged threefold on earnings from buying and selling bonds and the 545 billion yen acquisition of securities and investment banking businesses from Citigroup Inc. last year.

"These are very strong earnings with bad-loan costs declining, and gains on trading," said Shinichi Ina, a Tokyo-based analyst at Credit Suisse Group AG. "Market expectation for bank earnings may rise on these figures, which could result in rising stock valuations."

Sumitomo Mitsui shares, which have gained 1.3 percent this year, rose 3.6 percent to 2,679 yen on the Tokyo Stock Exchange before today's earnings announcement.

Ina said there is a "strong possibility" the company will exceed its forecast for full-year profit of 340 billion yen.

Economic Optimism

The government on July 21 said the world's second-biggest economy is "picking up steadily" after sentiment among the nation's largest manufacturers rose to highest level since June 2008, according to the Bank of Japan's Tankan survey. Corporate bankruptcies fell by 19 percent last month from a year earlier, according to data from Tokyo Shoko Research Ltd.

Sumitomo Mitsui's bad-loan costs fell to 31.8 billion yen in the first quarter from 119.8 billion yen a year earlier. Trading income rose to 96.3 billion yen from 33.5 billion yen and fees and commissions increased to 166.5 billion yen from 123.7 billion yen.

"Banks' non-performing loans are likely to trend down this year on the improving economic outlook," Ismael Pili, a Tokyo-based analyst at Macquarie Group Ltd., said before today's announcement.

Net interest income, declined 8.2 percent to 309.3 billion yen last quarter as near-zero benchmark interest rates left banks struggling to boost loan margins.

Loan Demand

While the economy improves and bad debts decline, waning demand for loans in Japan is forcing Sumitomo Mitsui and rivals including Mitsubishi UFJ Financial Group Inc. to consider buying U.S. banks to ensure profit growth.

Lending in Japan fell 2.1 percent in June, a seventh straight month of contraction, to the lowest in almost six years, according to the central bank.

Sumitomo Mitsui may spend as much as \$5 billion to buy a stake in a U.S. bank in the next three years, Hiroshi Minoura, head of international banking at the company's Sumitomo Mitsui Banking Corp. unit, said earlier this month. The bank agreed to invest about \$295 million in India's Kotak Mahindra Bank Ltd. last month.

Sumitomo Mitsui has raised 1.8 trillion yen in two stock sales since June 2009 to replenish capital as global regulators demand lenders hold more capital.

Superfund Aims to Raise \$100 Million for New Japan Retail Hedge Fund

By Tomoko Yamazaki and Komaki Ito - Wed Jul 28 01:51:21 UTC 2010

Superfund, which oversees \$1.2 billion in managed futures funds, aims to raise \$100 million within a year for a new hedge fund targeting Japanese retail investors.

The Superfund Blue Japan, which invests in global equities using a computer-driven model, began its public offering today, said Johann Peter Santer, president of Superfund Securities Japan Co. in Tokyo. The Cayman Island-based fund will employ a market-neutral strategy that seeks to profit regardless of market direction.

Based on theoretical trades, the fund would have had annualized returns of 11.52 percent since August 2007 through June this year. It starts after the MSCI World Index's worst quarter since the last three months of 2008 amid concerns Europe's sovereign debt crisis and a slowdown in China will derail the global recovery.

“The fund has done extremely well when equity markets were falling,” said Santer, 33, in an interview in Tokyo. “Clients can get the benefit of equities while avoiding the downside.”

The fund will invest in the most liquid stocks worldwide and sell index futures to hedge against price declines, he said. It is Japan’s first publicly offered equity market-neutral fund to be based on an automated trading system, which is most often used by managed futures funds, according to Superfund.

The firm aims to tap into an estimated 1,400 trillion yen in financial assets owned by Japan’s individual investors in a nation where interest rates remain near zero and the benchmark Nikkei 225 Stock Average has shrunk to less than a third of its value since its record high in 1989.

Market-Neutral

“Japanese investors had to look for other opportunities much earlier than other global countries” given the declines in their home market, said Santer. “Japan has a high passion and sophistication for systematic trading.”

The Superfund Blue Japan follows two other managed futures funds -- which use computer programs to search for price signals in futures markets ranging from equities and bonds to oil and gold -- offered to Japanese retail investors by Superfund Securities Japan, he said.

Market-neutral funds seek to profit from both rising and falling prices by matching long and short positions in different stocks and indexes to boost returns. The Superfund Blue Japan will only take short positions in futures indexes, while its long bets will be in single securities, Santer said.

The fund will pick investments out of 2,500 stocks globally, based on daily trading volumes and trading commissions, Santer said. The fund’s average number of days for holding a single stock is about 4, he said.

Gold Class

The fund will be offered in both a yen class and a gold class, allowing investors to track the performance of the gold price, according to Santer. The fund in gold class has had an annual return of 40 percent based on simulated trades since January 2008 through June this year.

Superfund aims to start a similar fund in the U.S. and Austria, Santer said, declining to give the timing.

Superfund, founded in Vienna in 1995, has been better known for its managed futures funds, which invest in 150 markets worldwide. The firm’s flagship fund, Superfund Q-AG, has returned an average 13.6 percent annually since its inception 14 years ago through June, according to the firm.

Hedge funds are mostly private pools of capital whose managers participate substantially in the profits from their speculation on whether the price of assets will rise or fall.

Toyota Recalling 480,000 Vehicles for Steering Flaws

By Alan Ohnsman and Makiko Kitamura - Fri Jul 30 00:27:02 UTC 2010

Toyota Motor Corp. said it's preparing a global recall of about 480,000 Avalon sedans and Land Cruiser sport-utility vehicles to repair steering parts that may be defective.

About 400,000 U.S.-built Avalons have a steering-column bracket that can fail and cause the steering wheel to lock up, Toyota said yesterday. The Avalons were built between 2000 through 2004 and include 373,000 in the U.S., as well as versions sold in Japan, Canada, China and Saudi Arabia.

Toyota also said it will recall 80,000 Land Cruisers for another problem involving steering shafts. The world's largest automaker is working to improve quality following global recalls of more than 8 million cars and light trucks for defects linked to unintended acceleration. In the U.S., those recalls prompted congressional hearings and a record \$16.4 million fine.

"Toyota now seems to be very much erring on the side of disclosing everything in terms of defects," said Ed Kim, an analyst at researcher AutoPacific Inc. in Tustin, California. "That's good, but the more problems and recalls are in view of the public, the longer it takes for its reputation to recover."

The recall of Land Cruisers includes 39,000 of its 2003 through 2007 Lexus LX 470 SUVs in the U.S., sold elsewhere as the Land Cruiser 100, said Brian Lyons, a spokesman for the Toyota City, Japan-based company. Toyota said it's not aware of deaths or injuries related to either flaw.

Toyota received seven complaints globally about steering brackets that failed, said Mieko Iwasaki, a Tokyo-based spokeswoman. In three of the cases reported in the U.S., there were unconfirmed "minor" accidents, Lyons said, without elaborating.

Toyota's shares fell 0.5 percent to 3,055 yen as of 9:24 a.m. in Tokyo.

Socio-Cultural Front:

Japan women's life expectancy still the longest

Japanese women had the longest life expectancy in the world for the 25th straight year in 2009, with an average life span of 86.44 years, a health ministry report showed Monday.

Japanese men, along with their female compatriots, saw their average life expectancy register a record high for the fourth consecutive year, according to the report.

The rate for Japanese men was 79.59 years, but it fell to fifth in the world from fourth in 2008.

Average life spans increased from 2008 by 0.39 year for Japanese women and 0.30 year for Japanese men.

The Health, Labor and Welfare Ministry attributed the increase to improved treatment of the three major causes of death among Japanese — cancer, cardiac disorders and strokes — as well as pneumonia.

"If an influenza epidemic doesn't break out, the life expectancy (of Japanese people) is likely to extend further," a ministry official said.

For women, Hong Kong came in second at 86.1 years, followed by France at 84.5 years. Qatar topped the men's list at 81.0 years, followed by Hong Kong at 79.8 years, and Iceland and Switzerland at 79.7 years.

The gap between Japanese men and women widened by almost a tenth of a year from 2008 to 6.85 years.

65% of universities are setting academic bar lower for freshmen

Kyodo News

The number of universities offering high school-level supplementary lessons and other special measures to cope with academic deficiencies among freshmen is on the rise, reaching 65 percent of surveyed schools in fiscal 2008, data compiled by the education ministry showed Monday.

The survey indicates that universities have been accelerating efforts to deal with a decline in the level of academic ability among students following the government's adoption in the late 1970s of a more relaxed education policy, which led to reductions in teaching hours, critics said.

Easier university entrance examinations stemming from the declining birthrate may also have had a part in causing a decline in student performance, a ministry official said.

According to the survey conducted from last December to January on 723 public and private universities, 473 schools were found to have taken special measures to deal with students' insufficient academic ability during the year to March 2009, including grouping classes by academic skill level and holding supplementary lessons.

The number of universities taking such steps represents an increase of 10 from fiscal 2007 and a rise of 37 from fiscal 2006. Of the 473 schools, 70 were national universities, 35 were prefectural or municipal universities and 368 were private.

Under the government's more relaxed education policy, the content of school lessons for younger students has been reduced and universities began implementing a wider variety of entrance tests that don't necessarily gauge scholastic ability.

As a result, universities came to face an increasing number of students lacking basic academic skills that are indispensable to pursue their majors, including economics students who don't understand math and medical students who haven't learned biology in high school, the critics said.

In response to criticism that the relaxed education policy has precipitated a decline in academic skills, the government has recently ditched the policy and is set to increase teaching hours for the first time in some 30 years.

Companies raided for selling moldy rice

YOKOHAMA (Kyodo) Police on Monday raided four companies suspected of reselling moldy rice as edible in 2007. The raid took place before the Agriculture, Forestry and Fisheries Ministry filed criminal complaints against the four companies later in the day.

As the three-year statute of limitations for prosecution over breaching the food hygiene law will expire in about a month, the Kanagawa Prefectural Police are planning to turn their case against the companies' officials to prosecutors by the end of August.

The police searched the offices of Ishida Bussan, a Yokohama-based intermediary business that has closed down, Amakasu Songai Kamotsu, a broker also based in Yokohama, Kyowa Seibaku, a food company in Isehara, Kanagawa Prefecture, and Kyoshin Shoji, a foodstuff wholesale trader in Handa, Aichi Prefecture.

Ishida Bussan is suspected of reselling to Kyoshin Shoji in September 2007 a total of 82 tons of rice for edible use even though the rice was not supposed to be used as food because mold was detected on it during import quarantine.

The police raided the offices of Kyoshin Shoji, Amakasu Songai Kamotsu and Kyowa Seibaku as places linked to Ishida Bussan.

All 82 tons are believed to have been consumed already, and of that amount, 19 tons were used to make "shochu" spirits, according to the ministry's investigation.

The rice was imported from the United States by trading house Toyota Tsusho Corp. under the so-called minimum access World Trade Organization deal that obliges Japan to import a certain amount of low-quality rice in exchange for levying high tariffs on imported rice.

Toyota Tsusho sold the rice to Amakasu Songai Kamotsu for use as foodstuff, and the latter sold it to Ishida Bussan, which then allegedly asked Kyowa Seibaku to fake the ledger to make it appear as if it was processed into foodstuff.

The rice was later distributed through Kyoshin Shoji as food.

Further downstream, some firms bought and resold the tainted rice apparently with knowledge of its shady origins. Those firms included now-defunct Mikasa Foods based in Osaka.

The tainted rice from Mikasa ended up at more than 300 companies and was used to make Japanese cakes and food-service products, including school lunches, an earlier investigation showed.

Many innocent businesses suffered a consumer backlash as the scandal widened.

The scandal started to unfold after the agriculture ministry received a letter from a whistleblower. However, the ministry has been criticized for not moving fast enough once it received the tip.

(Cyber Space) ISP blocking of access to child porn gets OK from government team

Kyodo News

A government working group approved on Monday a plan to get Internet service providers to block access to child pornography images as soon as they are found, without waiting for site operators to grant requests to delete them, officials said.

The approval came at a meeting of bureaucrats from the National Police Agency, the Internal Affairs and Communications Ministry and seven other government offices.

The plan will soon receive a formal endorsement from a meeting of Cabinet ministers in charge of anticrime measures led by Prime Minister Naoto Kan, the officials said.

"The government, by teaming up with the private sector, must take measures to prevent children from being victimized and provide protection to children already victimized as speedily as possible," said Atsushi Oshima, a senior vice minister at the Cabinet Office and chairman of the working group.

The government intends to make the blocking possible within this fiscal year.

"It's crucial to ensure the (plan's) effectiveness," said a senior official at the NPA, which has been calling for speedy implementation of ISP blocking. "Police authorities will provide maximum cooperation" in its implementation.

But a communications ministry official said the plan "can't be separated from the risk of impinging on secrecy of communications and freedom of expression," and this needs to be considered when carrying it out.

(Cyber Space) Twitter users gather at Tokyo event for some old-fashioned face time

Some 400 Twitter users in Japan gathered to meet Twitter CEO Evan Williams at the third annual Tweetup Japan 2010 event in Tokyo on Friday night.

The event was meant for Twitter users to mingle with each other and the staff of Digital Garage Inc., the Tokyo-based company operating Twitter in Japan, as well as with Williams, who flew in from his home base of San Francisco.

"When we started Twitter four years ago, we had no idea where it would go. But what we learned time and time again from listening to people all over the world is that Twitter is open exchange of information. We strongly believe open exchange of information makes the world a better place," Williams said during the event at Yebisu Garden Place in Shibuya Ward.

In his speech, he pointed out that there were 3,283 tweets per second during the Japan-Denmark game in the World Cup soccer tournament, the highest rate ever achieved.

"That shows how engaged Japanese users are," he said.

"Japan is the fastest-growing country in the world," Williams said. When asked what he expects from Japan, he said, "It's gonna be bigger and better."

The number of people visiting twitter.com from Japan reached 6.25 million in June, up 11-fold from a year ago, Digital Garage said in a release, citing Video Research Interactive, an Internet researcher.

Digital Garage spokesman Hiroki Eda said his company owns shares in Twitter, though he declined to give an exact figure.

At the event, seven Twitter users, including mobile application developers and a regular office worker who tweets about his children, addressed the audience about their Twitter experiences.

Many use Twitter to deal with real-life issues. One speaker related how when her friend didn't have enough for train fare, a tweet found a random donor at the station willing to part with the needed ¥20 in exchange for a photo.

One user, Reggae MC "Ryo the Skywalker," who uses his stage name for his Twitter ID, has 240,000 followers — an astonishing figure for someone of his profession.

He was one of the first to use Twitter and is listed as a recommended user, so he has many foreign followers even though his tweets use only a sprinkling of English.

"When I tweeted something people think strange, I get comments like 'You have so many followers, so you need to be responsible with your postings.' What should I do? I never wanted that many followers," he said.

Record 44,210 child abuse cases logged in '09

Kyodo News

Child abuse cases handled by consultation offices hit a record 44,210 in fiscal 2009, rising for 19 straight years since statistics were first compiled in fiscal 1990, a government survey showed Wednesday.

The figure reflects an increase of 1,546 cases from fiscal 2008, when the previous record was set, the Health, Labor and Welfare Ministry said in a preliminary report.

During the reporting year, which ended in March, there was only one case requiring counselors to visit a household where child abuse was suspected, after the family had rejected the investigation, down from two cases in fiscal 2008 when such measures became possible under the revised child abuse prevention law.

"The increase (in cases processed) likely comes against the backdrop of growing public awareness," a ministry official said, noting moves by local governments to expand their consultation services may also be a contributing factor.

The cases include those in which child consultation offices run by the 47 prefectural governments as well as 20 municipal governments took action. These actions included temporarily taking children into protective custody or visiting families after receiving inquiries or being informed about suspected child abuse.

The number of cases increased from fiscal 2008 in 24 prefectures, with Mie seeing the largest percentage increase — 37 percent — 541 cases, followed by Ibaraki with a 34 percent rise to 718 cases and Miyazaki up 27 percent to 365 cases.

Among the 11 cities where the number of cases increased, Osaka had the biggest jump — 84 percent — to 1,606, ahead of Shizuoka's 52 percent surge to 279 cases and a similar rise in Kanazawa, Ishikawa Prefecture, to 226.

Of the 23 prefectures and nine municipalities where the number of cases declined, Nagasaki Prefecture reported the largest decrease, with a 31 percent fall to 197 cases. Niigata was the city with the biggest slide, dropping 17 percent to 266 cases.

Meanwhile, a ministry panel said about half of the child abuse cases involving deaths in fiscal 2008 occurred even though consultation offices, medical facilities or schools were in involved in some way.

Of the 67 deaths in 64 cases between April 2008 and March 2009 that the ministry is aware of, such institutions had some sort of contact with the families in 35 cases.