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Weekly report on South Korea & Japan

Report # 119

16th MAY 2010 to 22nd MAY 2010

Presentation Date: 19th May 2010

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(Summary) HOW TO SOLVE A PROBLEM LIKE YASUKUNI

Yasukuni shrine founded in 1869 by Emperor, means “peace for the nation” has become controversial because of enshrining high class criminals in 1978. Shrine has been a bridge between Shinto religion and State until WW II. After that US-made-constitution separated the state craft from religion so shrine become independent entity. Though shrine has been dominated by a specific faction but it still is working for joint-place of whole society. Japanese PM tried to avoid the political implications of this shrine because china and South Korea have some reservations upon the existence of this shrine. One enduring solution to this issue of national identity is to remove dead bodies of Class-A criminals from this place which is significantly resisted from the descendents of these individuals. Other option is to build another but new national monument which may symbolize the honor of victims of Japan’s war. This may able the Japanese to respect them with out provoking the wrath in neighbors.

Summary of Report:

South Korea

Politico-Strategic Front:

North Korea Aid Request Rejected by Chinese Premier Wen, JoongAng Reports China rejected North Korea's request for aid at a meeting between Premier Wen Jiabao and Kim Jong Il, which may explain why Kim cut short his stay in Beijing, the Seoul-based JoongAng Ilbo newspaper reported. China can't support North Korea beyond the framework of sanctions set by the United Nations Security Council, Wen told Kim at their meeting on May 6, the Korean-language daily said, citing an unnamed source in Beijing.

Obama to Send Clinton to S. Korea After Ship Probe Results U.S. President Barack Obama will send Secretary of State Hillary Clinton to South Korea next week for discussions on how to deal with the March sinking of a South Korean naval warship near the disputed border with North Korea.

South Korea Tells Japan That North Involved in Ship Sinking, Kyodo Reports South Korean Foreign Minister Yu Myung Hwan told Japanese counterpart, Katsuya Okada, that North Korea's involvement in the sinking of a South Korean warship was evident, Kyodo News said, citing diplomatic sources.

What motivates North Korea, and the possible consequences? Tension on the Korean peninsula rose another notch at the weekend when two North Korean boats crossed a disputed sea border in the dark of night, triggering warning shots from the South's navy. Kim is probably disappointed at the less than total support from China after his trip from which he came back with no pledge of investment in his destitute state. Some North Korea experts say he is also angry with the South for rejecting earlier overtures for dialogue and refusing to give aid.

North Korea calls rare parliament session, silent on agenda North Korea has called a rare second session of parliament, with a possible major announcement in store, two months after a meeting which changed the constitution to boost leader Kim Jong-il's powers.

UN's Ban: Report on S. Korea ship attack "troubling" U.N. Secretary-General Ban Ki-moon said on Wednesday that a report on the results of an international investigation that blamed North Korea for the sinking of a South Korean naval ship was "deeply troubling."

South Korea Says 'Obvious' North Korea Sank Ship, AFP Reports South Korea's Foreign Minister Yu Myung Hwan said it is "obvious" that North Korea sank its naval warship in March

and South Korea has “enough evidence” to bring the issue to the United Nations Security Council, Agence France-Presse reported.

North Korea Blamed for Torpedo That Sank South's Ship South Korea demanded a “stern” global response to the findings of an international panel that North Korea torpedoed one of its warships, killing 46 sailors.

South Korea says North torpedoed ship South Korea accused the reclusive North on Thursday of torpedoing one of its warships, heightening tensions in the region and drawing a warning from Washington that Pyongyang must face consequences.

Dynamics change as North Korea blamed for ship South Korea said on Thursday the evidence was overwhelming that a North Korean submarine fired the torpedo that sank one of its navy ships in March, killing 46 sailors. Market players do not see the South planning a revenge strike on the North, but expect it to increase its military presence near the sea border where its ship went down. They worry that Seoul could then be more likely to attack North Korean vessels nearing the border, instead of issuing warnings first, as it has done before, leading to firefights that spook markets. However, the two global powers may not be able to prevent brief, live-fire exchanges between the rival Koreas who station more than 1 million troops near their border. But North Korea may persist in saber-rattling that often includes missile tests and threats to attack its capitalist neighbor as it tries to win concessions from global powers to decrease the threat it poses to the economically vibrant region. The most feasible recourse for the South will be to enlist the Security Council for tougher sanctions against the North. North Korea has tested nuclear devices twice. A third test would put it closer to having a working nuclear bomb, but it would also deplete its meager supply of fissile material, which is thought to be enough for six to eight bombs. Straight after the South announced the findings of the probe on the sunk ship, North Korea's powerful National Defense Commission warned of war if Seoul retaliates with sanctions.

Clinton: U.S. condemns North Korea sinking of South's ship U.S. Secretary of State Hillary Clinton said on Friday that Washington “strongly condemns” North Korea's sinking of a South Korean naval ship and called for an international response. Clinton was speaking after talks with Japanese Foreign Minister Katsuya Okada in Tokyo.

Tension mounts as two Koreas play hardball The two Koreas are on a collision course after a multinational investigation team announced Thursday that North Korea torpedoed the South Korean frigate Cheonan near their maritime border in the West Sea on March 26.

South Korea vows caution over ship, North sees war South Korea said after a rare emergency security meeting on Friday it would respond prudently to the sinking of one of its naval ships by the North, but Pyongyang warned the peninsula was being driven to war. U.S. Secretary of

State Hillary Clinton strongly condemned North Korea's action and called for an international response.

Clinton Heads to China in North Korea Torpedo Crisis Secretary of State Hillary Clinton arrived in Asia today for talks with China and U.S. allies now focused on how to manage a crisis over suspected North Korean involvement in the sinking of a South Korean warship. Kurt Campbell, the U.S. assistant secretary of state for East Asia, said the “central issue” for Clinton will be getting assessments of how to respond to North Korea after an international probe blamed the communist regime for firing a torpedo that killed 46 South Korean sailors on March 26.

South Korea Says It May Raise Military Surveillance Alert Level South Korea is considering raising its military surveillance alert level after the nation concluded North Korea was responsible for the sinking of a warship, Defense Minister Kim Tae Young said on the sidelines of a briefing in Seoul.

Clinton Says N. Korea Role in Sinking Demands Response U.S. Secretary of State Hillary Clinton urged international action to answer North Korea’s suspected sinking of a South Korean warship, just before she arrived in China for talks set to deal with the crisis.

North Korea Restates Demand to Inspect Ship Sinking Evidence North Korea restated its demand that it be allowed to inspect evidence gathered by an international panel that links the communist country with the sinking of a South Korean warship.

Economic Front:

Korea Vulnerable to Escalation of Europe Debt Crisis, Ex-Minister Lim Says South Korea is vulnerable to an escalation of Europe’s debt woes and should rein in its budget deficit to protect the economy, according to the official who steered the nation through the 1997-1998 Asian financial crisis.

Samsung Plans Record Spending to Widen Lead in Memory Samsung Electronics Co. plans to outspend Intel Corp., International Business Machines Corp. and Sony Corp. combined to widen its lead as the world’s largest maker of memory chips and flat-panel displays.

Samsung May Be ‘Uncatchable’ With \$15.6 Billion Spending Plan Samsung Electronics Co.’s record 18 trillion won (\$15.6 billion) capital spending plan may widen its lead in the memory-chip and flat-screen industries to the extent rivals can’t catch up, investors and analysts said. Samsung will invest 11 trillion won this year to expand its capacity to manufacture chips, 5 trillion won on liquid-crystal displays and 2 trillion won on televisions and mobile-phones, the Suwon, South Korea-based company said yesterday. Combined with research and development, spending will increase to 26 trillion won, 67 percent more than in 2009.

Police Fire on Farmers Protesting Land Acquisition for Posco Steel Project Posco's plan to set up a \$12 billion steel plant in India received a setback after police opened fire on local farmers protesting the government's move to acquire agricultural land for the project.

Hyundai Home Shopping applies for up to \$236 mln IPO South Korea's Hyundai Home Shopping Network, an affiliate of Hyundai Department Store (069960.KS), has applied for an initial public offering to raise up to 270 billion won (\$236 million), the Korea Exchange said on Wednesday. Hyundai Securities, HI Investment & Securities and HMC Investment & Securities are handling the IPO.

Reuters Summit-Samsung eyes early launch of bada-phone Samsung Electronics (005930.KS) plans to launch the first smartphone based on its own operating system in the next few weeks, as it seeks to catch up with bigger rivals in the booming high-end market.

Korea Electric Shares Rise Most in a Week After Canadian Uranium Discovery Korea Electric Power Corp., South Korea's biggest electricity producer, climbed the most in a week in Seoul trading after announcing a high-grade uranium discovery in Canada. The shares rose 3.5 percent, the biggest gain since May 13, to close at 32,400 won. The stock is the best performer in the MSCI AC Asia Pacific utility index, which excludes generators in Japan. The benchmark Kospi index dropped 0.8 percent.

Korean Won Extends Decline After Weakening Beyond 200-Day Moving Average South Korea's won weakened, poised for its biggest two-day drop in 10 months, after the currency's slide beyond its 200-day moving average fanned concern further losses are likely.

South Korea Needs Global-Scale Bank to Withstand Crisis, Kamco's Lee Says South Korea's banking industry, dominated by four financial groups, needs a national champion that's strong enough to compete globally and withstand the funding pressures that swept the country into the global credit crunch, according to Korea Asset Management Corp.

DriveTime Plans Debt Amid Doubts on Success of EU Bailout: New Issue Alert DriveTime Automotive Group Inc., the used-vehicle retailer, is offering securities as high-yield, high-risk bond prices show investor doubt that a European Union bailout this month will solve the region's debt crisis.

National Shipping and Saudi British Bank: Saudi Equity Preview The Saudi operator of crude oil and chemical tankers cancelled a contract for two vessels with SLS Shipbuilding Co. of South Korea, citing delays on delivery. The shares dropped 2.6 percent to 18.5 riyals.

Corn Demand From Korea to Jump as Sweetener Use Gains After Sugar Surge Corn demand in South Korea, the third-biggest buyer, may climb as much as 6 percent after a surge in sugar

prices earlier this year spurred a shift to the grain as a sweetener, the nation's top food processor said. Consumption may increase to as much as 8.8 million metric tons this year from 8.3 million tons in 2009, Sung J. Park, Executive Vice President at CJ CheilJedang Corp., said in an interview yesterday. Corn demand for food use may jump 26 percent, while raw sugar consumption may drop 6 percent.

Social Front:

Korea Milling Wheat Imports May Drop 5% as Rice Flour Use Increases Milling wheat imports by South Korea, Asia's second-biggest grain importer, may decline by about 5 percent this year as the country boosts consumption of rice flour, said an executive at the nation's biggest food processor. Shipments may fall to about 1.9 million metric tons from 2 million tons in 2009, Sung J. Park, executive vice president at CJ CheilJedang Corp., said in an interview yesterday.

Japan

Politico-Strategic Front:

17,000 Japanese Rally Against U.S. Military Base, AP Reports About 17,000 Japanese linked hands and surrounded a U.S. military base to protest its presence on the southern island of Okinawa, the Associated Press reported, citing local government official Hitoshi Nakou. Protesters lined up along barbed-wire fences and city streets on the perimeter of the Futenma air base, raising their linked arms and chanting slogans, AP said.

China's Wen to visit at end of month Chinese Premier Wen Jiabao plans to pay a three-day official visit to Japan from May 30 and hold talks with Prime Minister Yukio Hatoyama on May 31, sources said Saturday.

Ozawa grilled again on shady funds Noose tightens as prosecutors question DPJ bigwig for third time over Tokyo land deal Prosecutors questioned Democratic Party of Japan Secretary General Ichiro Ozawa on Saturday over his fund management body's alleged false reporting of political funds, sources said.

Okada Says Japan-U.S. Okinawa Base Deal Not Ready Before Clinton's Visit Japan will not reach an agreement with the U.S. over where to relocate an American military base by the time Secretary of State Hillary Clinton arrives at the end of the week, Foreign Minister Katsuya Okada said. Japanese Prime Minister Yukio Hatoyama is struggling to meet his May 31 deadline to secure a location to move the Futenma Marine Air Base in Okinawa. The Obama administration wants him to adhere to relocate the base within the island, 950 miles (1530 kilometers) south of Tokyo, while local residents want the facility moved somewhere else entirely.

Hatoyama may go it alone on base Prime Minister Yukio Hatoyama may not seek approval from Cabinet members later this month for his proposal on where to move the Futenma military base, amid differences in opinion among the ruling parties, Chief Cabinet Secretary Hirofumi Hirano suggested Monday.

Clinton to play down Japan base dispute in public Secretary of State Hillary Clinton is likely to play down a military base dispute when she visits Japan on Friday, mindful that public pressure only aggravates Prime Minister Yukio Hatoyama's domestic woes. When running for office last year, Hatoyama raised hopes that the Futenma Marine airbase might be moved off Okinawa entirely despite a 2006 deal with Washington to move it from a crowded city to a less populous site on the island.

DPJ official admits illegal donations A former accountant of Democratic Party of Japan lawmaker Chiyomi Kobayashi admitted in court Tuesday to receiving ¥16 million in illegal donations from a teachers union for Kobayashi's election campaign.

Japan envoy says won't postpone U.S. base decision Japan, on the eve of a visit by U.S. Secretary of State Hillary Clinton, said on Thursday it would not postpone a decision on the future of a U.S. air base that has strained ties between the two allies. But Japan's ambassador to Washington, Ichiro Fujisaki, cautioned in an interview with Reuters that it was still not clear whether both sides would be able to find a new way to resolve the dispute over the air base on Okinawa island.

Japan says U.S. military presence indispensable Japanese Foreign Minister Katsuya Okada said on Friday that the U.S. military presence in Japan was indispensable for the security of Japan and the region.

Japan, US stress tight ties despite airbase feud Japan and the United States played down on Friday a feud over a U.S. airbase which has frayed relations, saying the alliance was more vital than ever given regional threats such as an unpredictable North Korea. A dispute over the U.S. Marines' Futenma airbase on Japan's southern Okinawa island has distracted the allies as they try to cope with changing regional dynamics, including a rising China.

Economic Front:

Bank of Japan May Provide Loans to Growth Sectors, Nikkei Says The Bank of Japan may start a lending program this summer to support the energy, health care, environment and other growth sectors, Nikkei English News reported, without citing anyone.

Toyota, Plato, Apple, Arkema, Moore in Court News The federal judge overseeing sudden-acceleration lawsuits against Toyota Motor Corp. appointed 21 plaintiffs' lawyers to manage litigation involving U.S. claims.

Nissan Leaf Electric Car Will Be Available in U.K. in February Nissan Motor Co. plans to offer its Leaf electric car in the U.K. starting in February at a price of 23,350 pounds (\$33,660) after government incentives are taken into account.

Kan, Ozawa yet to talk tax reform Finance Minister Naoto Kan said Tuesday he agrees with Democratic Party of Japan Secretary General Ichiro Ozawa on the need to cut wasteful spending to help rebuild the nation's tattered finances but has yet to hold detailed discussions with him on whether to raise the consumption tax to cover shortfalls.

US, EU raise worries over Japan Post The United States and European Union contested the status of Japan's mammoth postal, banking and insurance conglomerate on Friday, saying the special treatment of the group hurts private-sector competitors.

SAP, Honda Find Ways to Work Around Thailand Protests SAP AG, Honda Motor Co., and LG Electronics Inc. are asking their Bangkok-based employees to work at home or in temporary offices outside the city's downtown, where anti-government protests have left at least 35 people dead.

Toyota to Raise Steel Price for Suppliers in Oct., Nikkei Says Toyota Motor Corp. will raise the price of steel it provides to parts suppliers in October, rather than once a year in April, Nikkei English News reported, without saying where it got the information.

Toyota Pays Record \$16.4 Million Fine to U.S. Auto Regulators Toyota Motor Corp. paid the record \$16.4 million U.S. fine for failing to alert auto-safety regulators quickly enough about vehicle defects that could cause unintended acceleration, the Transportation Department said.

Honda fine-tuned to give Japan a boost Once a Dutch master, now a Russian tsar, midfielder Keisuke Honda could prove to be Japan's most potent weapon at the World Cup in South Africa. Honda's directness and powerful running will be Japan's trump card as the Blue Samurai look to catch Cameroon cold in their opening Group E match.

IMF calls for gradual rise in Japan sales tax - Japan should start fiscal consolidation next year, including gradually raising the country's sales tax, taking advantage of solid growth now, the IMF said on Wednesday. The recommendation by the International Monetary Fund contradicts Prime Minister Yukio Hatoyama's pledge not to raise the sales tax rate at least until the next lower house election, which does not need to be held until 2013.

Japan's Promise aims to cut workforce by 34 pct Japanese consumer lender Promise Co (8574.T) said on Wednesday it plans to cut its workforce by more than 30 percent as part of a restructuring plan.

Nikkei suffers biggest weekly drop in over a year Japan's Nikkei average posted its biggest weekly drop in more than a year on Friday, as investors reduced holdings of riskier assets including equities on deepening worries about disunity in the euro zone on its debt crisis.

BOJ outlines new loan plan, cautious on Europe woes The Bank of Japan raised its outlook for the economy by a notch on Friday and announced a loan scheme targeting growth industries, but also warned that Europe's debt debacle posed a risk to the global economy.

Strong fiscal plan is vital, Moody's says The government must unveil a "decisive" fiscal plan next month for Moody's Investors Service to keep a "stable" outlook on the country's rating, Senior Vice President Thomas Byrne said Wednesday. Prime Minister Yukio Hatoyama's plan must be "credible," Byrne said in Tokyo. Moody's currently rates the government's debt as Aa2, the third-highest ranking.

Economy picks up despite deflation The economy grew at its fastest pace in three quarters as an export surge prompted companies to increase capital spending even as the nation endures persistent deflation at home. Gross domestic product rose 4.9 percent pace in the first three months of 2010 at an annual rate, less than forecast, a Cabinet Office report showed Thursday. So-called nominal GDP, which is unadjusted for price changes, increased 1.2 percent on a quarterly basis, the most in a decade.

Grads landing jobs near all-time low Only 91.8 percent of people who graduated from college in March secured jobs, the second-lowest employment rate on record, according to a government survey released Friday. The figure, compiled as of April 1, was down 3.9 percentage points from a year earlier and neared the all-time low of 91.1 percent registered in 2000. The employment market for college students that year was likened to the ice age due to the economic slump in the early part of the decade.

20% of female students cite abuse One in five female high school and college students has experienced verbal, sexual and other abuse from people they date, a citizens' group says. Aware, a Tokyo-based group that assists victims of partner abuse, said a poll it conducted also found that 8.9 percent of male students considered themselves to be victims of an abusive romantic partner.

Miyazaki Increases Stock Cull as Foot-and-Mouth Disease Outbreak Spreads Japan ordered more than 1 percent of its swine herd to be slaughtered after Miyazaki prefecture, the nation's

second-biggest growing region, declared a “state of emergency” as an outbreak of foot-and-mouth disease spreads.

Japanese pin hopes on acupuncture as beauty secret Forget cosmetic surgery. The ancient treatment of acupuncture is gaining new popularity as a beauty secret in Japan about 1,500 years after it first came there from China. As aesthetic sessions increasingly go organic or employ traditional remedies, women at the "Beauty World Japan" exhibition this week lined up to try acupuncture, long known for its health advantages.

Girl, 8, stabbed on street in Osaka An unemployed woman was arrested Monday on suspicion of stabbing an 8-year-old girl in the chest, head and other areas of her body on a street in Osaka, police said. Setsuka Tamaki, 32, of Sumiyoshi Ward, was arrested for attempted murder and admitted she stabbed the girl, who she said she had not met before.

Women shake up male-dominated restaurants Traditionally, restaurant kitchens are among the most male-dominated workplaces in Japan. However, thanks to a lot of talent, hard work and perseverance, some women are managing to break through the glass ceiling and in turn have become an inspiration for younger aspirants.

"Human rights" urged for whales and dolphins Whales and dolphins should get "human rights" to life and liberty because of mounting evidence of their intelligence, a group of conservationists and experts in philosophy, law and ethics said Sunday.

Saudis learn from Japan to combine tradition and modernization Japan's education and ideals are receiving keen attention in Saudi Arabia, where a special TV series on the nation has generated high ratings. The series of about 30 five-minute episodes includes footage shot by a hidden camera of a parent and child picking up a billfold dropped on a Tokyo street and taking it to a "koban" police box.

Stamps commemorate security pact Japan Post Network Co. will issue a sheet of 10 ¥80 stamps on June 23 to commemorate the 50th anniversary of the revised security treaty with the United States.

China holds man over drug smuggling Chinese customs authorities have detained a Japanese man for allegedly trying to smuggle an illicit substance to Japan, the Japanese Consulate General in Qingdao said Tuesday.

Japan to Cull Breeding Cattle on Disease Outbreak, Yomiuri Says Japan will cull 49 of 55 breeding cattle in the southern prefecture of Miyazaki as it seeks to contain the spread of foot-and-mouth disease, the Yomiuri newspaper said.

South Korea

Detailed News:

Politico-Strategic Front:

North Korea Aid Request Rejected by Chinese Premier Wen, JoongAng Reports

China rejected North Korea's request for aid at a meeting between Premier Wen Jiabao and Kim Jong Il, which may explain why Kim cut short his stay in Beijing, the Seoul-based JoongAng Ilbo newspaper reported.

China can't support North Korea beyond the framework of sanctions set by the United Nations Security Council, Wen told Kim at their meeting on May 6, the Korean-language daily said, citing an unnamed source in Beijing.

Kim made his first trip to China in four years amid speculation, denied by North Korea, that his regime may have been responsible for the March 26 sinking of a South Korean naval ship, which killed 46 sailors.

North Korea quit nuclear disarmament talks in April 2009 after UN condemnation of its test-firing of a ballistic missile. China is host of the six-party forum, also including Japan, Russia, South Korea and the U.S., which hasn't convened since December 2008.

Obama to Send Clinton to S. Korea After Ship Probe Results

U.S. President Barack Obama will send Secretary of State Hillary Clinton to South Korea next week for discussions on how to deal with the March sinking of a South Korean naval warship near the disputed border with North Korea.

Obama pledged the U.S. will "be in close discussions with South Korea about future responses" in a 25-minute telephone conversation today with his South Korean counterpart, Lee Myung Bak, Lee's office said in a statement. The White House also confirmed the leaders' conversation separately.

Lee provided an update for Obama of the probe into the March 26 incident, which claimed lives of 46 sailors, the statements said. Lee said results of the investigation will be announced on May 20, the South Korean government said. South Korea has said a torpedo most likely split the ship apart, indicating North Korea may have played a role.

Clinton's visit to South Korea signals U.S. backing for South Korea and may help Lee forge a global response against those responsible for the sinking of the 1,200-ton Cheonan. Clinton will

be in Beijing next week for the U.S.-China Strategic and Economic Dialogue, while Lee will host his counterparts from China and Japan later this month.

North Korea on April 17 denied any responsibility for the incident. The country's leader, Kim Jong Il, reiterated that position during his May 3-7 trip to China, Tokyo-based Kyodo News reported on May 15.

Lee has pledged "resolute" responses once South Korea determined what sank the Cheonan, which he said was not caused by a "simple accident." South Korea's Foreign Minister Yu Myung Hwan said last month the country may take the incident to the United Nations Security Council if North Korea's role is confirmed.

China, North Korea's largest trading partner and a political ally, has veto power on the UN Security Council. China is also host of the six-party talks on ending North Korea's nuclear weapons program. The disarmament forum also involves Japan, Russia, South Korea and the U.S.

Obama and Lee reiterated that Kim Jong Il's regime must live up to its pledge to eliminate its nuclear weapons program, their offices said.

South Korea Tells Japan That North Involved in Ship Sinking, Kyodo Reports

By Fergus Maguire - May 17, 2010

South Korean Foreign Minister Yu Myung Hwan told Japanese counterpart, Katsuya Okada, that North Korea's involvement in the sinking of a South Korean warship was evident, Kyodo News said, citing diplomatic sources.

Japan is considering assisting the South in imposing new economic sanctions on the North, the report said.

What motivates North Korea, and the possible consequences?

SEOUL, May 17 (Reuters) - Tension on the Korean peninsula rose another notch at the weekend when two North Korean boats crossed a disputed sea border in the dark of night, triggering warning shots from the South's navy.

Following are some questions about what North Korea's reclusive leader, Kim Jong-il, may be up to, and the impact on relations between Pyongyang and other states.

WHAT IS KIM JONG-IL UP TO?

Many people ask this question on a regular basis. Kim, believed to have suffered a stroke in 2008, spent about a week since his return from a rare trip to China in seclusion before re-emerging this weekend to give field guidance at a power plant construction site.

At the same time, two North Korean patrol boats infiltrated the South's waters, prompting warning shots by South Korea's navy. The incident coincided with a meeting of foreign ministers of China, the North's biggest benefactor and only major ally, Japan and South Korea at a retreat in South Korea. [ID:nTOE64E010]

The naval confrontation comes at a time of heightened alert in the wake of the sinking of the South Korean corvette Cheonan in March killing 46 sailors. Investigators are set to release their findings on the sinking on May 2 and are likely to point the finger at North Korea. [ID:nSGE64D0E7]

Kim is probably disappointed at the less than total support from China after his trip from which he came back with no pledge of investment in his destitute state. Some North Korea experts say he is also angry with the South for rejecting earlier overtures for dialogue and refusing to give aid.

WILL THERE BE ARMED CONFLICT?

Possibly, but on a limited scale. The North Korean intrusion off the west coast has elevated the chance of an exchange of gunfire. South Korean President Lee Myung-bak has chided his navy for being unprepared for the navy ship sinking in March.

The Saturday night intrusion may signal the North is about to wage further provocations in disputed waters.

The South Korean navy already operates under a different set of rules of engagement that gives commanders power to strike back quickly, as evidenced by the swift victory in a clash last year, in which South Korea pounded the North's intruding vessel with thousands of rounds of gunfire.

Military officers say the North, if it comes looking for a fight again, will likely make sure it is not so outgunned.

WILL THE U.N. SECURITY COUNCIL GET INVOLVED AGAIN?

It may be the only feasible recourse for South Korea. Seoul knows it cannot retaliate by force against the North without risking greater conflict and undermining its own economy, which is just recovering from the global financial downturn.

But President Lee has said the country will not act alone if and when a culprit is found, indicating he will call on allies and the United Nations to help impose punishment.

The question is whether China will again take sides. South Korean and U.S. officials are aware that they will need indisputable evidence against the North if they want China, a permanent Security Council member, on board. But getting China to agree to penalise the North won't be easy, as witnessed in the on-again-off-again six-party talks aimed at reining in North Korea's nuclear weapons programme.

U.S. Secretary of State Hillary Clinton and Treasury Secretary Timothy Geithner visit Beijing for a strategic and economic dialogue next week. Clinton is later expected to be in Seoul as a show of support.

CAN THE SIX-PARTY TALKS RESUME SOON?

Highly unlikely. Three countries -- South Korea, Japan and the United States -- have indicated they will not sit down with the North if it is found to be the culprit in the ship sinking.

China, the host of the talks, has stressed the need to resume dialogue but has not sounded convinced they can be restarted soon.

North Korea calls rare parliament session, silent on agenda

SEOUL (Reuters) - North Korea has called a rare second session of parliament, with a possible major announcement in store, two months after a meeting which changed the constitution to boost leader Kim Jong-il's powers.

A brief dispatch by the official KCNA news agency did not say what was on the agenda for the new session of the rubber stamp Supreme People's Assembly.

Analysts said the extra session, which state media said would be held on June 7, could provide an opportunity to reveal crucial personnel changes or new economic projects with the destitute country's major ally, China, following Kim's trip in early May.

Kim did not attend the last session, on April 9, which amended the constitution to strengthen the powers of the National Defense Commission, the focus of leadership in the reclusive state which he heads as chairman.

Analysts said the session could also mark the 10th anniversary of a summit between the two Koreas by overturning pledges of reconciliation made then in light of accusations in the South it was responsible for sinking a South Korean naval vessel in March.

"There could be a review of the 10 years of North-South relations ... and a decision to change policy in the wake of the Cheonan incident, which (the North) denies responsibility for," said Paik Hak-soon of the Sejong Institute near Seoul.

Such a move would sharply elevate tension on the Korean peninsula as the South prepares to make a formal response to the sinking of its navy ship, widely believed by officials in Seoul to have been torpedoed by North Korea.

A team of international investigators probing the sinking, after they lifted the two severed parts of the 1,200-tonne corvette Cheonan near disputed waters between the Koreas, will release their findings on Thursday.

North Korea has accused the government of President Lee Myung-bak of trying to use the incident for political gain ahead of local elections on June 2.

South Korean President Lee spoke to President Barack Obama on Tuesday and discussed a coordinated response to the ship sinking, Lee's office said.

Obama said he "had full confidence and support for the South Korean response and the work of the team of international investigators" probing the incident, South Korea's presidential Blue House said.

Secretary of State Hillary Clinton will visit Seoul next week to discuss follow-up measures to the probe, it said.

UN's Ban: Report on S. Korea ship attack "troubling"

UNITED NATIONS, May 19 (Reuters) - U.N. Secretary-General Ban Ki-moon said on Wednesday that a report on the results of an international investigation that blamed North Korea for the sinking of a South Korean naval ship was "deeply troubling."

"The secretary-general has learned of the results of the investigation into the sinking of the Cheonan naval ship of the Republic of Korea with a heavy heart and serious concern," Ban's press office said in a statement.

"The facts laid out in the report are deeply troubling," the statement said. "As secretary-general of the United Nations, he will continue to closely follow developments."

South Korea Says 'Obvious' North Korea Sank Ship, AFP Reports

May 19 (Bloomberg) -- South Korea's Foreign Minister Yu Myung Hwan said it is "obvious" that North Korea sank its naval warship in March and South Korea has "enough evidence" to bring the issue to the United Nations Security Council, Agence France-Presse reported.

North Korea Blamed for Torpedo That Sank South's Ship

South Korea demanded a “stern” global response to the findings of an international panel that North Korea torpedoed one of its warships, killing 46 sailors.

The Korean won and South Korean stocks fell after North Korea threatened “all-out war” war if the United Nations toughens sanctions that have already crippled a country suffering from crop failure and mass hunger.

Evidence including torpedo parts that matched technical drawings from North Korean military-sales pamphlets provided “conclusive” proof of the country’s role in the sinking, according to the report released today in Seoul. “There is no other plausible explanation,” the group’s statement said.

Tying North Korea to the March 26 attack, the deadliest blamed on the country in more than two decades, may help unify international efforts to isolate Kim Jong Il’s regime. China, which hosted Kim during his first overseas visit in four years earlier this month, will find it harder to defend its political ally, said Park Joon Young, an academic who follows North Korea.

“It will be very difficult for China to resist punishing North Korea with such evidence,” said Park, international relations professor at Ewha Woman’s University in Seoul. “China not only has to worry about its relations with North Korea, but also how it will be seen as a member of the global community.”

Won Weakens

The Korean won weakened the most in 10 months, falling 2.5 percent to close at 1,194.80 per dollar in Seoul. The Kospi index declined 1.8 percent to 1,600.18 at the close.

“People are worried about North Korea since they talked about all-out war,” said Dariusz Kowalczyk, chief investment strategist at SJS Markets Ltd. in Hong Kong.

After months of resisting pressure from the U.S., China, which has veto power on the United Nations Security Council, this week said it would back a proposal for tougher sanctions on Iran over its nuclear program. While the U.S. and Japan voiced their support for South Korea, China’s Vice Foreign Minister Cui Tiankai described the sinking as an “unfortunate incident.”

“China is making its own assessment” of the ship sinking, Foreign Ministry spokesman Ma Zhaoxu said today in Beijing. He called for “calm and restraint.”

South Korea Foreign Ministry spokesman Kim Young Sun called for a “stern” global response to condemn North Korea’s “military provocations,” and said the government is reviewing its options.

White House press secretary Robert Gibbs said the U.S. is “in consultation” with South Korean officials “as they contemplate their next step.” Gibbs, in his daily briefing, declined to say what actions may be taken.

‘Made in North Korea’

The 1,200-ton Cheonan was split apart near the disputed western maritime border by an “external underwater explosion caused by a torpedo made in North Korea,” the investigation team, including experts from the U.K., Australia and Sweden, said. The area witnessed naval skirmishes occurred in 1999, 2002 and November last year.

Metal plates in the ship were bent inwards by the blast, and the explosion sent a column of water 100 meters (330 feet) into the air, the report said, citing a South Korean sentry who witnessed the blast.

The group collected parts with markings in the Korean language consistent with those seen on a previously obtained North Korean torpedo. The components also matched technical drawings and specifications in North Korea’s pamphlets used for overseas buyers of military equipment, the team said.

Intelligence reports confirmed that a submarine group left its North Korean base two to three days before the attack and returned two to three days afterwards. Submarines from neighboring countries were in or near their home bases, the report said.

Six-Party Talks

China, which provides the trade and aid that keeps Kim’s regime afloat, is also host to six-party talks on North Korea’s nuclear weapons program, which include Japan, Russia, South Korea and the United States. North Korea is already under UN sanctions after carrying out its second nuclear test in 2009.

South Korean President Lee Myung Bak plans to deliver a nationwide message next week on the incident.

This “unacceptable behavior” deepens North Korea’s isolation, the White House said in a statement, adding that President Barack Obama “fully supports” the South. U.S. Secretary of State Hillary Clinton will be in Beijing May 24 and 25 before traveling to South Korea.

‘Casus Belli’

U.S. Representative Gary Ackerman, chairman of a House Foreign Affairs subcommittee on the Middle East and South Asia, called North Korea's action "a clear potential casus belli," or justification for war.

Ackerman, a New York Democrat, urged the Obama administration to relist North Korea "as a state sponsor of terrorism," revoking the Bush administration's decision in October 2008.

The sinking of South Korea's warship is "unquestionably the most belligerent and provocative incident since the 1953 armistice was established," Ackerman said. The action undermines peace, increases tension in northeast Asia and follows North Korea's sales of military weapons to Hamas and Hezbollah in the Middle East, he said.

"These intolerable actions necessitate a strong U.S. response," Ackerman said in the letter yesterday to Clinton.

"This is extremely regrettable and we strongly criticize North Korea," Japanese Prime Minister Yukio Hatoyama told reporters in Tokyo. "Should South Korea pursue this through the Security Council, Japan will be first in line to support them."

Empty Threat

"North Korea's threat of war is just rhetoric to claim its innocence," said Kim Yong Hyun, professor of North Korean studies at Seoul-based Dongguk University. "Any more UN sanctions will be symbolic at best, given North Korea is already under sanctions."

North Korea's National Defense Commission said today it will send a team to South Korea to examine the evidence, according to KCNA.

South Korea and North Korea remain technically at war since their 1950-1953 conflict ended in a cease fire. The deadliest attack blamed on North Korea was in 1987 when a South Korean airliner was downed, killing 115 people.

China is North Korea's principal trading partner and major ideological ally, having fought alongside the country in its war against South Korean and U.S.-led UN troops. About 28,500 U.S. soldiers are still stationed in South Korea.

The UN's World Food Program said earlier this month that food aid to North Korea will run out by the end of June following a drop in international donations after the country's nuclear detonation. Kim's regime has relied on outside aid to feed the country's 24 million people since the mid-1990s when famine caused by floods, drought and economic mismanagement is estimated to have killed as many as 2 million people.

South Korea says North torpedoed ship

SEOUL/WASHINGTON (Reuters) - South Korea accused the reclusive North on Thursday of torpedoing one of its warships, heightening tensions in the region and drawing a warning from Washington that Pyongyang must face consequences.

Jittery South Korean financial markets and its currency fell as Seoul vowed to take "firm" measures against its neighbor. Nuclear North Korea, furiously denying the charge, warned it was ready for war if fresh sanctions were imposed.

The United States, which has about 28,000 troops stationed in the South following the 1950-53 Korean War, said it stood ready to help South Korea defend itself against any further "acts of aggression."

Seoul has made clear it has no plans for a retaliatory strike but will press the international community to take action, probably more sanctions, against the North.

Amid international condemnation of North Korea, the impoverished country's only major ally, China, said it would make its own assessment of the South Korean investigation.

Mindful of the tension on the Korean peninsula, U.S. Defense Secretary Robert Gates and spokesmen for the White House and the U.S. State Department chose their words carefully in their responses to the report.

"Clearly this was a serious provocation by North Korea and there will definitely be consequences because of what North Korea has done," said State Department spokesman P.J. Crowley.

Gates said the United States was consulting with South Korea, which would decide what action to take.

A report by investigators, including experts from the United States, Australia, Britain and Sweden, concluded that a North Korean submarine had fired the torpedo that sank the Cheonan corvette in March, killing 46 sailors.

FINANCIAL MARKET FALLOUT

The escalating tension weighed on South Korean financial markets, already worried that investors jumpy about global financial concerns may pull out their money.

The South Korean won suffered its biggest daily fall against the dollar in 10 months. Stocks closed at their lowest level in almost three months.

U.N. Secretary-General Ban Ki-moon called the result of the South Korean investigation deeply troubling. Envoys at the United Nations suggested the issue could come before the Security Council early next week if Seoul asked the 15-nation body discuss it.

President Barack Obama's administration was talking to South Korea's neighbors and the U.N. Security Council on what to do next, White House spokesman Robert Gibbs said.

Japan said it would be difficult to resume nuclear disarmament talks between five regional powers and the North, and said Washington shared its view that such negotiations, aimed at aiding Pyongyang in return for a promise to drop its nuclear arms, were unthinkable.

The State Department's Crowley did not go as far as that, saying only that Washington would consult Japan, China and South Korea on the six-party talks in the coming days.

Chinese Foreign Ministry spokesman Ma Zhaoxu urged both sides on the divided Korean peninsula to exercise restraint.

China, a veto-wielding member of the U.N. Security Council, could derail any efforts to impose tougher sanctions on Pyongyang. Its hesitance to echo the international condemnation of the North could also complicate U.S. diplomatic efforts to work with Beijing on bilateral and global issues.

South Korean President Lee Myung-bak will hold an emergency meeting of his National Security Council on Friday.

"We will be taking firm, responsive measures against the North, and through international cooperation, we have to make the North admit its wrongdoing and come back as a responsible member of the international community," Lee's office quoted him as telling Australian Prime Minister Kevin Rudd.

The South Korean report said intelligence had shown that North Korean submarines were likely operating near the scene of the sinking.

"The evidence points overwhelmingly to the conclusion that the torpedo was fired by a North Korean submarine," it said.

North Korea said the South's conservative government was using the incident for political gain.

"Our army and people will promptly react to any 'punishment' and 'retaliation' and to any 'sanctions' infringing upon our state interests with various forms of tough measures including an all-out war," the North's official news agency quoted the powerful National Defense Commission as saying.

North Korea has previously made bellicose threats to turn Seoul into a "sea of fire". But military experts do not believe its army is any match for the modern military forces of the South and those of its ally, the United States.

Dynamics change as North Korea blamed for ship

SEOUL (Reuters) - South Korea said on Thursday the evidence was overwhelming that a North Korean submarine fired the torpedo that sank one of its navy ships in March, killing 46 sailors.

The following is a look at how regional security dynamics could change in the wake of one of the deadliest strikes since the end of the 1950-53 Korean War and the likely reaction in financial markets:

SOUTH KOREA FLEXES ITS MUSCLES

Market players do not see the South planning a revenge strike on the North, but expect it to increase its military presence near the sea border where its ship went down. They worry that Seoul could then be more likely to attack North Korean vessels nearing the border, instead of issuing warnings first, as it has done before, leading to firefights that spook markets.

When news first broke of a possible North Korean link shortly after the vessel, the Cheonan, sank in late March, shares on Wall Street fell, the won dropped and the price to insure South Korean sovereign debt rose to 83 basis points from 78.

KEEPING A LID ON THE SITUATION

The South's main military ally, the United States, and the North's biggest backer, China, both see it in regional and global interests to prevent escalation and will pressure Seoul and Pyongyang to keep their tempers and armies under control.

However, the two global powers may not be able to prevent brief, live-fire exchanges between the rival Koreas who station more than 1 million troops near their border.

MISSILES, ARTILLERY AND TAUNTS

But North Korea may persist in saber-rattling that often includes missile tests and threats to attack its capitalist neighbor as it tries to win concessions from global powers to decrease the threat it poses to the economically vibrant region.

Markets are long used to this and do not expect such moves to have any impact on trading. But any test firing of a longer-range ballistic missile designed to hit all of the South, most of Japan and U.S. military bases in Guam would increase long-term risks, and market jitters might ripple beyond the South or the region.

MORE U.N. SANCTIONS

The most feasible recourse for the South will be to enlist the Security Council for tougher sanctions against the North.

This will require convincing China to come on board, involving a long and intricate diplomatic maneuver to bring Beijing around to the argument that in spite of the risks of destabilizing the leadership in Pyongyang, the world must not be left to watch the North get away with unprovoked aggression.

NUCLEAR TEST

North Korea has tested nuclear devices twice. A third test would put it closer to having a working nuclear bomb, but it would also deplete its meager supply of fissile material, which is thought to be enough for six to eight bombs.

Because a third nuclear test would not significantly alter market perceptions of risks, any negative impact on asset prices would again be relatively small and short-term.

Experts say even if North Korea develops a bomb, it has no practical means to deliver it.

SOUTH KOREA REVAMPS MILITARY POSTURE

South Korean President Lee Myung-bak has been critical of the way the navy ship was vulnerable to a torpedo attack and how the military's chain of command in the immediate aftermath of the ship's sinking nearly broke down.

Lee has repeatedly said the military must build on the findings of the probe and improve its readiness. There has also been a call to change the military's focus from passive defense to pro-active deterrence.

Some analysts say such a change would not be effective against the North's military that itself stresses deterrence, raising the possibility of a direct confrontation.

South Korea will likely upgrade its joint training with U.S. forces, especially on defense against North Korean submarines and torpedo attacks, a move which is certain to provoke the North, which has said such drills are preparations for war.

WAR?

Straight after the South announced the findings of the probe on the sunk ship, North Korea's powerful National Defense Commission warned of war if Seoul retaliates with sanctions.

North Korea has on previous occasions made bellicose threats to turn Seoul into a "sea of fire" and reduce the South to "ashes". But military experts do not believe the North's army is any match for the modern military forces of the South and its ally, the United States.

Clinton: U.S. condemns North Korea sinking of South's ship

TOKYO (Reuters) - U.S. Secretary of State Hillary Clinton said on Friday that Washington "strongly condemns" North Korea's sinking of a South Korean naval ship and called for an international response.

Clinton was speaking after talks with Japanese Foreign Minister Katsuya Okada in Tokyo.

South Korea accused the North on Thursday of torpedoing one of its warships, heightening tension in the economically powerful region and testing the international position of China, Pyongyang's only major backer.

Seoul said after a rare emergency security meeting earlier in the day that it would respond prudently to the sinking of its ship, but Pyongyang warned the peninsula was being driven to war.

Tension mounts as two Koreas play hardball

The two Koreas are on a collision course after a multinational investigation team announced Thursday that North Korea torpedoed the South Korean frigate Cheonan near their maritime border in the West Sea on March 26.

Foreign policy experts warned of the catastrophic state of security on the Korean Peninsula, calling on the government to sit down with the North. They said a diplomatic breakthrough may come if the two sides meet and have a frank talk. Their advice came as military tensions mounted on the peninsula in the wake of the Cheonan sinking.

In a statement released Friday, North Korea described the current circumstances as a state of war, threatening to react firmly to any measures taken by the South.

The North further warned that South Korea's possible retaliatory measures will take a heavy toll on inter-Korean relations, joint economic cooperation projects and even the non-aggression treaty as it is ready to scrap or shut down all of these.

Such a tough reaction came a day after North Korea's National Defense Commission called the multinational investigation team's findings "fabrications."

It also said the North's military was willing to send a fact-finding team to the South to see if the evidence the investigation team found was genuine.

South Korea hasn't backed off. Prime Minister Chung Un-chan said the government would react firmly to the North.

"Watching the investigation team's presentation, I was shocked and was barely able to control my emotions. All we need now is unity," he stressed during a meeting with high-ranking government officials.

The government is seeking a two-track approach — economic and diplomatic measure — to deal with the North. It plans to cut inter-Korean trade to press the North, whose economic condition went from bad to worse after a failed currency reform last November.

South Korea is also preparing to take the maritime disaster to the U.N. Security Council.

Given that the North has denied its involvement in the Cheonan sinking and reiterated retaliatory measures against the South, a clash seems to be unavoidable if the two sides cling to their hard-line positions.

Rep. Song Min-soon of the main opposition Democratic Party told The Korea Times over the phone that many questions still remained unanswered even after the investigation team presented its findings.

To quench suspicions, the former foreign minister said the government needs to accept the North's proposal of sending its team to the South to see if what the investigation team found was true.

"The government can also invite Chinese experts, along with the North Korean team, to let them see the evidence in person. If all parties agree that the evidence is clear enough, then we can demand that the North admit its deeds or apologize for what it has done," he said.

Regarding the North's offer to dispatch a team, South Korea said it is not in a position to accept it. The two Koreas are technically still at war and the U.N. Command Military Armistice Commission is in charge of the management of affairs associated with armistice, the government said.

North Korea watcher Kim Yong-hyun called on the government to accept the North's offer if it officially makes the proposal through the U.N. body.

"If the two sides meet, I think they can find ways of easing military tensions," he said.

Some North Korea experts say if South Korea rejects the North's offer, suspicions about the evidence will not be quenched.

South Korea vows caution over ship, North sees war

SEOUL (Reuters) - South Korea said after a rare emergency security meeting on Friday it would respond prudently to the sinking of one of its naval ships by the North, but Pyongyang warned the peninsula was being driven to war.

U.S. Secretary of State Hillary Clinton strongly condemned North Korea's action and called for an international response.

The South announced on Thursday that it had overwhelming evidence a North Korean submarine had entered its waters in March and attacked the Cheonan corvette, killing 46 sailors in what President Lee Myung-bak called a "military provocation."

North Korea denied the accusation and said it was ready to tear up all agreements with the South, with whom it remains technically at war under a truce that ended fighting in the 1950-53 Korean War.

"It was a military provocation and violation of the U.N. Charter and the truce agreement," Lee, whose two years in office have seen relations with the North turn increasingly frosty, said in a statement.

"Since this case is very serious and has a grave importance, we cannot afford to have a slightest mistake and will be very prudent in all response measures we take," his office quoted him as telling a rare emergency National Security Council meeting.

Lee is expected to announce his response early next week.

CLEAR MESSAGE, INTERNATIONAL RESPONSE

Clinton, speaking in Tokyo after talks with Japan's foreign minister, said there must be a clear message to North Korea that provocative actions have consequences.

"We cannot allow this attack on South Korea to go unanswered by the international community," Clinton said after talks with Japanese Foreign Minister Katsuya Okada.

Clinton did not say what international action she wanted to see. Steps could range from fresh U.N. Security Council sanctions on North Korea, although those might be opposed by China, to a statement of condemnation by the world body.

South Korean Defense Minister Kim Tae-young said Seoul would work with the international community to come up with non-military sanctions against the reclusive state.

In the past, both sides had put a limit on their hostility.

"North Korea has surpassed these limits. For those acts, the government will definitely make sure North Korea pays," Kim said.

Yonhap news agency reported South Korea and the United States were considering raising the alert status on North Korea as tensions build.

A senior U.S. official with Clinton told reporters the United States has already increased the vigilance of its military forces in the region.

"PHASE OF WAR"

North Korea was typically defiant.

"From this time on, we will regard the situation as a phase of war and will be responding resolutely to all problems in North-South relations," the North's Committee for the Peaceful Reunification of the Fatherland said in a statement.

"If the South puppet group comes out with 'response' and 'retaliation', we will respond strongly with ruthless punishment including the total shutdown of North-South ties, abrogation of the North-South agreement on non-aggression and abolition of all North-South cooperation projects."

Seoul has repeatedly said it would not strike back at the North, aware that would frighten away investors already jittery about the escalating tension on the divided peninsula.

Apart from international sanctions, there is little else it can do. Economic relations have come to a near standstill since Lee became president, apart from a joint factory park just inside impoverished North Korea which now has to rely almost entirely on China, its only major ally.

Yonhap News cited government sources saying Seoul may shut down sea routes that allow North Korean vessels sail through South Korean waters near its southern end and save costs.

North Korea has often threatened to attack Seoul but most analysts say that, in the face of a much better equipped South Korean army backed by some 28,000 U.S. troops on the peninsula, any major confrontation would be suicidal for Pyongyang.

Some analysts still warned the more the North's now frail leader Kim Jong-il is pushed into a corner, the greater the risk of clashes. Kim is also trying to secure the succession for one of his sons.

China has so far maintained its support of the North and said it would make its own assessment of the investigation into the sinking of the Cheonan.

U.S. officials said they were confident South Korea would seek measured actions and that they saw no signs that North Korea, known for its bellicose rhetoric, was bracing for war.

"The South Koreans do not wish to go to war and they will not take steps that run that risk," said a second U.S. official traveling with Clinton, who will meet top Chinese officials in Beijing on Monday and Tuesday, including President Hu Jintao.

U.S. officials made clear they would try to enlist China's help in deterring North Korea.

"We'd like to see them acknowledge the reality of what happened and then join with South Korea, Japan and us in helping to fashion a response that helps to change the North Korean behavior," said this official.

North Korea's foreign ministry accused Washington of using the Cheonan sinking "to totally break off the Korean peninsula denuclearization process" -- a reference to long-stalled talks to persuade Pyongyang to abandon its nuclear ambitions.

Clinton Heads to China in North Korea Torpedo Crisis (Update2)

May 21 (Bloomberg) -- Secretary of State Hillary Clinton arrived in Asia today for talks with China and U.S. allies now focused on how to manage a crisis over suspected North Korean involvement in the sinking of a South Korean warship.

Kurt Campbell, the U.S. assistant secretary of state for East Asia, said the "central issue" for Clinton will be getting assessments of how to respond to North Korea after an international probe blamed the communist regime for firing a torpedo that killed 46 South Korean sailors on March 26.

South Korean President Lee Myung Bak today convened a National Security Council meeting as North Korea threatened to sever all ties and reiterated its war threat in response to any retaliation. Defense Minister Kim Tae Young rejected as "outrageous" a North Korean request to send a team to examine the evidence contained in the report.

U.S. Defense Secretary Robert Gates said South Korea must take the initiative in any response. "This was an attack on a South Korean ship and the South Koreans need to be in the lead," he said yesterday.

The U.S. is "facing a very serious set of circumstances in the coming days," Campbell said in Washington on May 19.

Clinton arrived in Tokyo, en route to China, to spend a few hours in meetings with Foreign Minister Katsuya Okada and Prime Minister Yukio Hatoyama to discuss how to respond to the report.

'Message' to North Korea

"We'll discuss what kind of message we can send to North Korea on the ship incident, and how Japan, the U.S. and South Korea can coordinate," including action at the United Nations, Hatoyama said today. The UN Security Council toughened sanctions against Kim Jong Il's regime after his country carried out a second nuclear test in 2009.

Okada and Clinton will also likely discuss a dispute over where to relocate an American military facility on Okinawa. Hatoyama, who initially said he would move the Futenma Marine Base off the island in response to local sentiment, said earlier this month he will transfer the base within Okinawa, largely in line with a 2006 U.S.-Japan agreement.

Tension over North Korea is overshadowing the planned centerpiece of the Asia trip. Clinton and Treasury Secretary Timothy Geithner will be in Beijing May 23-25 to take part in the second annual Strategic and Economic Dialogue between the two nations, part of one of the largest groups of U.S. Cabinet and sub-Cabinet officials ever to visit China.

Climate, Energy Security

While Geithner will press the Chinese to improve domestic demand and address the value of the yuan, Clinton's agenda with Chinese leaders includes climate change, energy security and sanctions to curb Iran's nuclear ambitions.

U.S. officials said all those issues will take second place to talks about the South Korean finding that its 1,200-ton naval ship "Cheonan" was torpedoed by China's ally, North Korea. China called for "calm and restraint" yesterday, and Foreign Ministry spokesman Ma Zhaoxu said China was conducting its own assessment of the incident.

Clinton is scheduled to stop in Seoul on May 26, after her visit to China, and focus on the steps that need to be taken in reaction to the South Korean report.

The U.S. was "deeply, actively involved in all aspects of the investigation and the United States strongly supports its conclusions," Campbell said.

Improving Strained Ties

The talks in China come as both countries are trying to improve ties after strains earlier this year. Chinese censorship of Google Inc., the Mountain View, California-based Internet- search company, a Washington visit by the Dalai Lama and disagreements over China's currency weighed on relations.

"It felt like both countries went right up to the edge then looked over into the abyss below and backed away from it," said Taiya Smith, a senior research fellow at the Carnegie Endowment in

Washington. "Now the attitude is, we want to be partners, can we use our time at the highest level to engage on issues in ways that are in each countries' best interests."

Clinton will start the China portion of her fifth trip to Asia in Shanghai, host to the 2010 World Expo, where she will focus on commercial diplomacy and visit the U.S. pavilion.

South Korea Says It May Raise Military Surveillance Alert Level

May 21 (Bloomberg) -- South Korea is considering raising its military surveillance alert level after the nation concluded North Korea was responsible for the sinking of a warship, Defense Minister Kim Tae Young said on the sidelines of a briefing in Seoul.

Clinton Says N. Korea Role in Sinking Demands Response (Update1)

May 22 (Bloomberg) -- U.S. Secretary of State Hillary Clinton urged international action to answer North Korea's suspected sinking of a South Korean warship, just before she arrived in China for talks set to deal with the crisis.

The U.S. wants China to help shape a response to North Korea, an American official told reporters yesterday in Shanghai. China is an ally of North Korea and has hosted now stalled international talks on reining in the regime's nuclear arms effort. The U.S. official, who asked not to be identified, said South Korea doesn't want war to break out over the crisis.

The evidence that North Korea fired a torpedo and sank the ship is "overwhelming and condemning," Clinton said at a press briefing in Tokyo with Japanese Foreign Minister Katsuya Okada during a short stop before she flew on to China. The March 26 sinking of the 1,200-ton Cheonan killed 46 South Korean sailors.

South Korea's options for a response include seeking action by the United Nations Security Council, shutting down humanitarian aid work and the Kaesong industrial park in North Korea, and joint military exercises with the U.S., according to John Park, director of the Korea Working Group at the U.S. Institute of Peace in Washington.

"The U.S. is in a tough position" at the UN, Park said in an interview. "With talks on Iran sanctions going on, they will be asked by countries like China what their priority is."

China joined the U.S., U.K., France and Russia this week to back a draft UN Security Council resolution on Iran that would bolster an arms embargo, restrict financial transactions and enhance authority to stop and seize Iranian cargo suspected of ties to nuclear or missile work.

War Threat

The United Nations Command is convening a special investigation team consisting of UNC members and the Neutral Nations Supervisory Commission to review the findings of the international panel and to determine the scope of any armistice violations, the UNC said in Seoul today in a statement on its website. The team will report the findings to UN, according to the statement.

Kim Jong Il's regime in North Korea, already under UN sanctions for its second nuclear-weapons test last year, threatened "all-out war" if the international body imposes additional restrictions.

In Tokyo, Clinton and Okada offered unqualified support for South Korea after an international panel issued a report saying evidence provided "conclusive" proof of North Korea's role in the ship incident.

Okinawa, Japan

"The importance of the Japan-U.S. alliance is increasing as the sinking of the South Korean ship shows the instability" in the region, Okada said.

Another U.S. official told reporters in Shanghai that the sinking shifted Japan's attitude in a dispute over moving an American base on Okinawa and that Japan would make a contribution on a deal. The official also asked not to be identified.

Clinton and Okada discussed the dispute over where to relocate the American military facility. Prime Minister Yukio Hatoyama, who initially called for moving the Futenma Marine Base off the island in response to local sentiment, said earlier this month he will transfer the base within Okinawa, largely in line with a 2006 bilateral agreement.

Clinton said both countries share the same goals on moving the base and are seeking an "operationally viable and politically sustainable" solution. Both sides would try to conclude the matter by the end of the month, Okada said.

Tension on the Korean peninsula is overshadowing the planned centerpiece of Clinton's Asia trip. She and Treasury Secretary Timothy Geithner will be in Beijing May 23-25 to take part in the U.S.-China Strategic and Economic Dialogue.

Climate, Energy

While Geithner will press the Chinese to improve domestic demand and address the value of the yuan, Clinton's agenda includes climate change, energy security and Iran. She then will go to Seoul to discuss the South Korean report.

The talks in China come as both countries are trying to improve ties after strains earlier this year. Chinese censorship of Google Inc., the Mountain View, California-based Internet- search

company, a Washington visit by the Dalai Lama and disagreements over China's currency weighed on relations.

In Shanghai, Clinton will visit the U.S. pavilion at the 2010 World Expo. More than 4 million people already have visited the \$44 billion, six-month exposition that opened May 1, including French President Nicolas Sarkozy.

North Korea Restates Demand to Inspect Ship Sinking Evidence

May 22 (Bloomberg) -- North Korea restated its demand that it be allowed to inspect evidence gathered by an international panel that links the communist country with the sinking of a South Korean warship.

North Korea's National Defense Commission sent a further notice that it will dispatch an inspection team to South Korea to probe the results of the investigating panel, the official Korean Central News Agency said today. South Korea yesterday informed the government of Kim Jong Il that it rejected a similar demand made on May 20.

"There is no ground whatsoever for the south side to refuse to receive the inspection group of the National Defense Commission if the results of the investigation are objective and scientific as claimed by the south side," KCNA said.

South Korea's Defense Minister Kim Tae Yong yesterday said the North's request to send a delegation was "outrageous."

Evidence including torpedo parts that matched technical drawings from North Korean military-sales pamphlets provided "conclusive" proof of the country's role in the March 26 attack that killed 46 sailors, the panel said May 20. "There is no other plausible explanation," the group's statement said.

North Korea has denied any involvement in the sinking.

Economic Front:

Korea Vulnerable to Escalation of Europe Debt Crisis, Ex-Minister Lim Says

South Korea is vulnerable to an escalation of Europe's debt woes and should rein in its budget deficit to protect the economy, according to the official who steered the nation through the 1997-1998 Asian financial crisis.

"Korea's state debts are rising as fast as those troubled countries in Europe, which concerns me," former deputy prime minister and finance minister Lim Chang Yuel said in a May 14

interview in Seoul. "Growth is driven by fiscal stimulus and government-driven growth can't be sustained for long."

President Lee Myung Bak's administration boosted spending by 38.8 trillion won (\$33.6 billion) last year to combat the global recession, and extended part of the stimulus program into this year. It did so even as the central bank forecasts the economy will expand 5.2 percent, the fastest pace since 2006.

"One of the key lessons from my experience with the Asian financial crisis is that the government should not intervene into the market too much," said Lim, who took office two days after South Korea sought emergency loans from the International Monetary Fund to avert a sovereign default in 1997.

South Korea's government debt rose 16 percent in 2009 to 360 trillion won, or 33.8 percent of gross domestic product, and may rise to 37.6 percent in 2011, according to Finance Ministry projections. The fiscal stimulus this year will more than halve to 17.1 trillion won, cutting the budget deficit to 2.7 percent of GDP from 4.1 percent in 2009.

Greek Government

Lim said that a European rescue package for Greece may be derailed unless the government and people unite behind restructuring.

In 1998, Lim slashed 8.1 trillion won of spending and imposed 4.3 trillion won of extra taxes. South Korea also raised interest rates to attract international capital, a policy that helped drive 22,828 companies into bankruptcy and push almost 2 million people out of work, according to former Financial Supervisory Service Governor Kim Yong Duk's book, "The Asian Financial Crisis and the New International Financial System."

South Korea shut or merged 264 financial companies, or one in eight, between the end of 1997 and August 1999, according to the book.

"You should dump big luggage to save passengers when the airplane is about to run out of fuel," Lim said. "We faced the crisis as a matter of life or death."

The government also ran a campaign to raise its gold reserve that saw 3.5 million Koreans donate 227 tons of gold, valued at \$2.2 billion, to fill the nation's near empty reserves, according to the book.

'Wild Fire'

“The Greece crisis can pose a big threat to Korea if it flows into Spain and Portugal,” Lim said. “We should remember that the 1997-98 Asian financial crisis, which started in Thailand, became a sudden wild fire hitting Korea.”

A crisis in Spain would flow on to Europe and prompt investors from the continent, which also accounts for about 13 percent of Korean exports, to flee emerging markets including South Korea, he said.

South Korean financial companies had \$400 million of exposure to Greece and Portugal as of the end of 2009, according to Korean financial regulators. That included loans, payment guarantees and other securities to parties in the two countries. South Korea’s foreign reserves stood at \$278.9 billion in April, compared with \$20.4 billion at the end of 1997.

President Lee has called for renewed attention to South Korea’s budget, though his government says that the nation’s fiscal status is better than most major economies.

Lim said he didn’t think at the moment that the country’s economy was accelerating enough to raise rates “quickly.”

The Bank of Korea kept its benchmark interest rate at a record-low 2 percent for a 15th month on May 12, while signaling it may increase borrowing costs in coming months.

Central Bank Governor Kim Choong Soo reiterated at the meeting that the board will “maintain the accommodative policy,” while dropping a reference to keeping that stance “for the time being.”

President Lee said in a radio speech today that domestic private demand has almost recovered to pre-crisis levels and “the green light is finally on” for the real economy.

Samsung Plans Record Spending to Widen Lead in Memory

Samsung Electronics Co. plans to outspend Intel Corp., International Business Machines Corp. and Sony Corp. combined to widen its lead as the world’s largest maker of memory chips and flat-panel displays.

Capital expenditure will jump to 18 trillion won (\$15.6 billion) this year from 8 trillion won in 2009, Suwon, South Korea-based Samsung Electronics said in a statement today. Including research and development, spending will increase to 26 trillion won, it said.

The largest spending budget in the technology industry may help Samsung build on its market lead and force smaller competitors to boost investments to keep up. Samsung’s purchases may be a boon for equipment makers including Applied Materials Inc. as the industry recovers from the global recession.

“I believe this massive amount of spending during tough times will cement Samsung’s leadership,” said Kim Young Joon, who oversees \$932 million of stocks at NH-CA Asset Management in Seoul as head of equity investment, including Samsung shares. “The investments could pressure competitors to follow suit, which could be a burden for smaller rivals that aren’t as financially strong as Samsung.”

Samsung fell 3.2 percent to close at 784,000 won on the Korea Exchange, compared with the benchmark Kospi index’s 2.6 percent decline.

‘Substantial’ Increase

Samsung, which said last month it would “substantially” increase its 2010 spending budget, plans to invest 9 trillion won in the memory-chip business, compared with an earlier budget of 5.5 trillion won. Spending on liquid-crystal displays will rise to 5 trillion won from 3 trillion won, it said.

Investments for semiconductors will include a new production line for memory chips and adding capacity to an existing manufacturing facility, Samsung said. The company also plans to build a new production line for LCDs on so-called eighth-generation technology to meet rising demand.

Today’s decision “was made to address indications of improving market conditions throughout the global consumer electronics and IT industries, while further strengthening Samsung’s leadership in memory semiconductors and LCD panels,” Samsung said in the statement.

Samsung, which had about 20 trillion won in cash, equivalents and short-term investments at the end of March, is able to spend “aggressively” compared with rivals who are still recovering from the industry’s three-year slump, according to Lee Sun Tae, a Seoul-based analyst at Meritz Securities Co.

Return to Profit

The computer-memory chip industry posted net losses for 10 consecutive quarters before returning to a profit last year, El Segundo, California-based researcher, ISuppli Corp. said this month. Weaker demand amid the economic downturn prompted manufacturers to cut production and investment plans, helping ease the industry glut.

Samsung posted losses at its semiconductor division in the fourth quarter of 2008 and the following three-month period after chip prices declined. That compared with seven consecutive quarterly losses for Hynix between 2007 and 2009 and Micron’s three years of losses.

Samsung said last month it would “substantially” increase spending in 2010 after first-quarter net income jumped almost sevenfold to a record.

Samsung’s investment in chip-making technology has helped the company reduce manufacturing costs and make faster semiconductors. Demand for personal computers, projected to increase 20 percent this year by researcher Gartner Inc., is also driving up computer-memory prices.

“Distributed Unevenly”

“The benefits of the current up-cycle will be distributed unevenly as the gap between first tiers and second tiers has widened, in terms of both capability to add capacity and technology,” Chung Chang Won, an analyst at Nomura Holdings Inc., wrote in a report last month.

Samsung had a 32.3 percent share of the global dynamic random access memory, or DRAM, market in the first quarter, compared with second-ranked Hynix’s 21.5 percent, according to Dramexchange Technology Inc., operator of Asia’s biggest spot market for semiconductors. Japan’s Elpida Memory Inc. had a 17.4 percent share, while Micron had 14.1 percent.

While investment by computer-memory chipmakers will almost double to \$8.4 billion this year, it’s still 32 percent less than 2008, according to Taipei-based Dramexchange.

Don’t Have Potential

Samsung’s spending isn’t a sign that the market “is going to fall apart,” according to Song Myung Sup, an analyst at HI Investment & Securities Co. “If the smaller companies join and increase investment together, then that can be a danger signal. But right now, the others don’t seem to have the potential.”

Global revenue for DRAM, which temporarily holds data and helps computer processors run multiple programs simultaneously, will probably climb 40 percent to \$31.9 billion this year, ISuppli Corp. said in February.

Samsung, the world’s largest LCD maker, is also boosting spending for the flat screens to meet rising demand. LG Display Co., the second-largest, last month raised its budget by about 38 percent to 5.5 trillion won for 2010.

Global shipments of LCD TVs may rise 24 percent to more than 180 million units in 2010, Austin, Texas-based DisplaySearch said in March.

Samsung in April forecast profit, which exceeded that of rival, iPhone-maker Apple, in the latest quarter, will probably rise in the current period on sales of chips, flat-screens, TVs and mobile phones.

Analysts predict Samsung's earnings growth will probably extend until the third quarter, while higher memory-chip and flat-panel prices will help the company post record profit in 2010.

Samsung May Be 'Uncatchable' With \$15.6 Billion Spending Plan

Samsung Electronics Co.'s record 18 trillion won (\$15.6 billion) capital spending plan may widen its lead in the memory-chip and flat-screen industries to the extent rivals can't catch up, investors and analysts said.

Samsung will invest 11 trillion won this year to expand its capacity to manufacture chips, 5 trillion won on liquid-crystal displays and 2 trillion won on televisions and mobile-phones, the Suwon, South Korea-based company said yesterday. Combined with research and development, spending will increase to 26 trillion won, 67 percent more than in 2009.

Samsung, which posted record profit last quarter, may avoid accelerating the typical shortage-to-glut cycles in the chip and LCD industries as competitors can't afford boosting outlays, analysts at Meritz Securities Co. and NH Investment & Securities Co. said. The investments may push spending in the memory-chip industry to the highest since 2007, a boon for equipment manufacturers such as Applied Materials Inc.

"Who can catch up to Samsung? No one," said Choi Min Jai, a fund manager at Seoul-based KTB Asset Management Co., which manages about \$9.3 billion in assets, including Samsung shares. "If others invest together, then the industry may fall apart but there's no one able to race with Samsung right now."

Samsung gained 0.8 percent to 790,000 won at 9:41 a.m. on the Korea Exchange today, compared with the benchmark Kospi index's 0.1 percent decline.

The company's investment budget, the largest in the technology industry, exceeds those of Intel Corp., International Business Machines Corp. and Sony Corp. combined.

Have Difficulty

Smaller rivals will have difficulty in keeping up with Samsung, which had about 20 trillion won in cash, equivalents and short-term investments at the end of March, because they are still recovering from the industry's three-year slump, said Lee Sun Tae, a Seoul-based analyst at Meritz.

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DRAM Leader

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While investments by memory chipmakers will more than double to \$18.8 billion this year, it’s still 41 percent less than that of 2007, according to Merrill Lynch & Co.

“Previously, when Samsung increased its investment others followed, but under current circumstances, they don’t have the potential and may be conservative in their spending plans,” said Seo Won Seok, an analyst at NH Investment.

Global revenue for DRAM, which temporarily holds data and helps computer processors run multiple programs simultaneously, will probably climb 40 percent to \$31.9 billion this year, ISuppli said in February.

Samsung’s investment “does raise the specter that the DRAM capex spend battle will escalate and eventually lead to an overcapacity (and oversupply situation),” Patrick Ho, an analyst at Stifel Nicolaus & Co., wrote in a report yesterday.

Flat Screens

Samsung, the world’s largest LCD maker, is also boosting spending on flat screens to meet rising demand. LG Display Co., the second-largest, last month raised its budget by about 38 percent to 5.5 trillion won for 2010.

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Police Fire on Farmers Protesting Land Acquisition for Posco Steel Project

Posco's plan to set up a \$12 billion steel plant in India received a setback after police opened fire on local farmers protesting the government's move to acquire agricultural land for the project.

Thirty people were injured on May 15 after police fired rubber bullets to disperse protesters at the Balitutha plant site in eastern Orissa state, Press Trust of India said. The Communist Party of India (Marxist-Leninist) Liberation will hold a rally in New Delhi on May 20 against the state's use of force, PTI cited party General Secretary Dipankar Bhattacharya as saying.

Posco, Asia's most profitable steelmaker, has waited for almost five years to acquire the land it needs for a 12 million metric ton integrated steel mill. The first phase of the South Korean company's project, including a captive port and iron ore mine, was expected to be commissioned by July this year.

"The Left parties condemn the firing and the resort to force by the armed police against thousands of men and women who were resisting and blocking the predatory moves of Posco to take over large tracts of fertile land," four communist parties, including the Communist Party of India (Marxist), said in a statement in New Delhi on May 15.

India's main opposition Bharatiya Janata Party, which was part of the provincial government that approved the project in 2005, has asked its team to prepare a report on the May 15 incident. It plans to send a team to the Posco site for a first-hand assessment of the situation.

'Police Atrocity'

"We will meet victims of police atrocities and will submit the report to party leadership," Rudra Narayan Pany, a member of the team and a federal lawmaker, said by phone today from the Orissa state capital, Bhubaneswar. "The government is exploiting the people and indulging in police assaults."

ArcelorMittal, which aims to build two mills in India, one each in Orissa and neighboring Jharkhand, also has yet to acquire any land. Similar projects by Tata Steel Ltd. and Vedanta Resources Plc are languishing because of land delays.

"When you are setting up projects of this size there are bound to be some people who will dissent," Posco India General Manager Simanta Mohanty said in an interview on April 6. "The challenge before us is to mobilize the support of the people and get the required land."

At the Niyamgiri Hills in Orissa, a tribal community and non-governmental agencies have stalled a bauxite mine planned by Vedanta Aluminium Ltd., a unit of London-based Vedanta Resources. Construction has been delayed for more than four years.

Hyundai Home Shopping applies for up to \$236 mln IPO

SEOUL, May 19 (Reuters) - South Korea's Hyundai Home Shopping Network, an affiliate of Hyundai Department Store (069960.KS), has applied for an initial public offering to raise up to 270 billion won (\$236 million), the Korea Exchange said on Wednesday.

Hyundai Home Shopping, No. 3 in the country's online shopping market, plans to raise between 220 billion to 270 billion won from the IPO, the country's main bourse said in a statement.

The company is expected to list in early September, with the offering mostly consisting of new shares, a source close to the deal said.

Hyundai Securities, HI Investment & Securities and HMC Investment & Securities are handling the IPO.

Reuters Summit-Samsung eyes early launch of bada-phone

SUWON, South Korea, May 19 (Reuters) - Samsung Electronics (005930.KS) plans to launch the first smartphone based on its own operating system in the next few weeks, as it seeks to catch up with bigger rivals in the booming high-end market.

"You need a proprietary system to drive growth in the smartphone market and bada will do the job, as it is designed to support all segments from low to high end," Lee Ho-soo, head of Samsung's smartphone operating system, told the Reuters Global Technology Summit on Wednesday.

Bada, which means ocean in Korean, is at the heart of Samsung's drive to emulate success by the likes of Apple (AAPL.O) and RIM (RIM.TO) in the smartphone market, develop new revenue sources from its own Samsung App store, and create synergies with other businesses such as its TV business, which is the world's biggest.

But it is still a daunting task to attract third-party developers as Samsung is not yet a big player in smartphones and its volume is also diluted by its multiplatform strategy.

Samsung also has to quickly boost its small pool of software bells and whistles to rival firms such as Apple, which boasts more than 200,000 iPhone apps, and needs to crack into the U.S. market, where carriers show little interest in its bada phone and are increasingly adopting popular Android models.

"We have a very strong response from application developers... and we see strong potential in bada to become a major operating system," said Lee, who took charge of Samsung's Media Solution Center two years ago to develop its own smartphone system.

Lee said Samsung planned to launch Wave, its bada-based high-end model, in coming weeks in Britain and Germany and also open its own applications store in June to provide contents for its bada smartphone users.

THE OCEAN OF OPPORTUNITY OR CHALLENGES?

Samsung is the world's No.2 mobile phone market with around 20 percent market share but it has a little traction in the smartphone market and is making a big push to treble smartphone sales to around 18 million units this year.

Asian technology firms vying for a bigger share of the smartphone market also face an uphill battle after Hewlett-Packard (HPQ.N) snapped up Palm (PALM.O). [nN28209016]

Unlike Apple and RIM, Samsung supports multi-operating systems such as Symbian, Windows and Android and added bada, hoping its developer partners see the wide opportunity offered by the world's No.2 handset maker, which sold 227 million phones last year.

Samsung plans to introduce one third of its smartphone offerings this year with the bada system but Lee, who joined Samsung in 2005 after 20 years with IBM, said it had no immediate plan to open its operating system to other manufacturers such as Nokia (NOK1V.HE) to boost its market share.

"We have no such plan and bada is rather aimed at offering a unified platform for a wide range of products we offer such as TVs and computers," Lee said.

"Bada is also aimed at offering customised products for carriers and consumers and thus it will help us achieve broad-based shipment growth in smartphone market as it gets bigger." Analysts have however cautioned that rising competition may pose a threat to Samsung's ambition, as non traditional handset vendors such as computer makers enter the market and as Samsung has a long way to go to catch up in building contents.

Nine main operating systems have either launched or are in development, underscoring the increasing fragmentation likely within this market.

"Markets will continue to remain fragmented and competition will only get tougher as players will push hard to develop new system or upgrade existing ones to offer customised products for mobile carriers," said Lee.

Android phones, which Google says are sold 65,000 units every day, are likely to nearly triple its market share this year to 11 percent, according to UBS.

Korea Electric Shares Rise Most in a Week After Canadian Uranium Discovery

Korea Electric Power Corp., South Korea's biggest electricity producer, climbed the most in a week in Seoul trading after announcing a high-grade uranium discovery in Canada.

The shares rose 3.5 percent, the biggest gain since May 13, to close at 32,400 won. The stock is the best performer in the MSCI AC Asia Pacific utility index, which excludes generators in Japan. The benchmark Kospi index dropped 0.8 percent.

South Korea, which imports almost all of its energy and minerals needs, is competing with China, India and Russia in the search for uranium to power nuclear reactors. About 200 gigawatts of atomic capacity are planned or under construction globally as demand for clean energy rises, according to a report by Nomura International in January.

"The uranium discovery would be a positive factor in the long term," said Yoo Deok Sang, an analyst at Dongbu Securities Co. Investors who seek safety in utilities during market uncertainty are buying Korea Electric shares, and weaker crude prices also supported the stock, said Yoo.

Crude oil, trading near seven-month lows, will help cut raw-material costs for the utility.

Exploration Spending

Korea Electric and its partners have spent \$15 million since January 2008 on exploration in the Waterbury Lake area, the state-run utility said in a statement today, without giving details including reserves and the expected timing of production.

Annual uranium consumption in South Korea may rise to 7,600 metric tons by 2020 from about 4,000 tons, Chang Joo Ok, vice president of Korea Electric, said on March 19. South Korea plans to add eight atomic plants by 2016.

Partners in the Canadian venture include Korea Hydro & Nuclear Power Co., Korea Nuclear Fuel Co., Hanwha Corp. and Gravis Capital Corp. Among the Korean companies, Korea Electric holds the biggest stake of 20 percent while Korea Hydro owns 15 percent. The other three companies have 5 percent each. Canada's Fission Energy Corp. has 50 percent.

Canada, Australia and Kazakhstan collectively supply about 60 percent of the world's uranium, Ivan Lee, an analyst at Nomura, said in the January report.

Korean Won Extends Decline After Weakening Beyond 200-Day Moving Average

South Korea's won weakened, poised for its biggest two-day drop in 10 months, after the currency's slide beyond its 200-day moving average fanned concern further losses are likely.

The currency sank to a three-month low as overseas investors sold more Korean shares than they bought, as they have done on all but two days this month. The Standard & Poor's 500 Index declined yesterday after Germany's ban on some speculative bets against European debt and record U.S. mortgage foreclosures curbed demand for riskier assets.

"The 200-day moving average is an important resistance level for the exchange rate," said Dariusz Kowalczyk, chief investment strategist at SJS Markets Ltd. in Hong Kong. "Now more people may leave the long won trade. There seems to be a lot of downward pressure on our region from stock market action in the U.S."

The won weakened 0.7 percent to 1,173.55 per dollar as of 9:54 a.m. in Seoul, after yesterday sliding 1.6 percent, according to data compiled by Bloomberg. It reached 1,176.43, the weakest level since Feb. 5, after yesterday closing at 1,165.08. The 200-day moving average was 1,163.06.

SJS's Kowalczyk said he expects the won to slip 4.2 percent to 1,225 by the end of the year.

In technical analysis, investors and analysts study charts of trading patterns and prices to forecast changes in a security, commodity, currency or index. A resistance level for South Korea's exchange rate refers to an area on a chart where orders to buy the won and sell U.S. dollars may be clustered.

South Korea Needs Global-Scale Bank to Withstand Crisis, Kamco's Lee Says

A file photograph shows Lee Chol Hwi, Korea Asset Management Corp. chief executive officer, speaking during an interview in Seoul. Photographer: Seokyong Lee/Bloomberg

South Korea's banking industry, dominated by four financial groups, needs a national champion that's strong enough to compete globally and withstand the funding pressures that swept the country into the global credit crunch, according to Korea Asset Management Corp.

"Our country doesn't have a main player that could attract stable funding in the global financial markets," Chief Executive Officer Lee Chol Hwi, 56, said in an interview in Seoul yesterday. "Size does matter for you to secure a pipeline of funds, even during times of crisis."

South Korea is drawing up plans on how to sell a 57 percent government stake in Woori Finance Holdings Co., owner of the nation's second-largest bank. The sale could trigger consolidation in the industry, with the Financial Services Commission considering a merger of Woori with one of its rivals as an option for the privatization.

Lee, who last year withdrew his candidacy to run KB Financial Group Inc., the holding company that houses South Korea's biggest lender, didn't comment on the sale of Woori Finance. His term at Kamco, as the state-run agency is known, ends in December. Lee may reconsider applying for the post at KB Financial, which has been vacant since September, he said yesterday without elaborating.

KB Financial gained 1.5 percent to 49,450 won at the 3 p.m. close in Seoul trading after falling as much as 3.1 percent earlier in the session. The 60-member index of financial companies dropped 0.7 percent.

'Niche Markets'

KB Financial should play a leading role in creating a "mega bank" in South Korea, acting Chairman Kang Chung Won told employees on April 2, signaling the company's interest in acquisitions.

Hana Financial Group Inc., the nation's fourth-largest financial group, may be the most feasible candidate to merge with Woori Finance, Citigroup Inc. said in a Jan. 7 report

Global talks on the need to restrict the size and operations of banks may provide opportunities for Korean lenders to find "niche markets" overseas, especially in Asia, said Lee.

KB Financial and Woori Finance both reported first-quarter profit that beat analysts' estimates as an economic recovery helped lower their bad-loan provisions. Hana Financial returned to profit in the quarter and Shinhan Financial Group Co., South Korea's biggest financial company by market value, had a six-fold gain in earnings as provisions against bad loans declined and lending profitability improved.

Funding Crunch

Asia's fourth-largest economy expanded at a faster-than-expected 1.8 percent in the first quarter and the central bank forecasts growth of 5.2 percent in 2010, the quickest pace in four years.

Still, at the height of the financial crisis, the government was forced to guarantee as much as \$100 billion of banks' foreign-currency debt following the collapse of Lehman Brothers Holdings Inc. South Korea also tightened overseas funding requirements for local lenders last year, and limited the amount of foreign-currency forward contracts banks sign with exporters.

Concerns about foreign-currency funding led Moody's Investors Service to cut credit ratings on South Korea's largest lenders, including KB Financial's Kookmin Bank, in February 2009. In

October 2008, Standard & Poor's had placed the biggest financial firms on CreditWatch, citing difficulties in refinancing debt.

Daewoo International

The smaller size of South Korean banks relative to global rivals contributed in part to their funding crunch, the Korea Capital Market Institute, Korea Institute of Finance and Korea Insurance Research Institute said in a February study.

Kamco has bought 12.6 trillion won (\$10.9 billion) worth of bad debts and assets from cash-strapped companies since the fourth quarter of 2008. The Seoul-based agency has spent 1.2 trillion won of a 40 trillion won fund set up since the financial crisis to buy delinquent loans and help companies restructure debt.

"Our economy made a turnaround faster than expected," Lee said. Kamco has earmarked 10 trillion won this year to help buy bad debt.

Kamco picked Posco, Asia's third-largest steelmaker, as a preferred bidder for control of Daewoo International Corp. on May 14 in what would be the biggest acquisition deal in South Korea so far this year when completed.

Market uncertainties may make it unlikely for Kamco to sell Ssangyong Engineering & Construction Co. this year, Lee said.

DriveTime Plans Debt Amid Doubts on Success of EU Bailout: New Issue Alert

DriveTime Automotive Group Inc., the used-vehicle retailer, is offering securities as high-yield, high-risk bond prices show investor doubt that a European Union bailout this month will solve the region's debt crisis.

DriveTime, the operator of more than 75 dealerships, may sell \$200 million of seven-year notes to repay debt, according to a person familiar with the offering. The sale would push out maturities on a combined \$195 million of debt maturing through 2013, Bloomberg data show.

Relative yields on speculative-grade debt rose yesterday to the highest since March 1, erasing gains after EU leaders set up an almost-\$1 trillion financial lifeline for indebted nations including Greece, Spain and Portugal. The extra yield investors demand to own high-yield bonds widened 13 basis points to 659 basis points, the most since March 1, according to the Bank of America Merrill Lynch U.S. High Yield Master II Index.

"Whatever they may think about the U.S. economic outlook and the implications for default rates, shedding risk is the byword for many high-yield investors at the moment," Martin

Fridson, the chief executive officer of New York-based Fridson Investment Advisors, wrote yesterday in an e-mail.

High-yield, high-risk bonds are rated below Baa3 by Moody's Investors Service and BBB- by Standard & Poor's. A basis point is 0.01 percentage point.

High-Yield Spreads

Spreads on the debt narrowed 22 basis points to 625 on May 10, according to the index, after the EU said it would offer as much as 750 billion euros (\$962 billion) to countries facing instability, and the European Central Bank said it would buy government and private debt. The yield gap was 614 basis points on May 13, the last day it narrowed.

DriveTime, based in Phoenix, filed for an initial public offering worth as much as \$200 million in February. Dealership groups AutoNation Inc. and Sonic Automotive Inc. sold debt in March, the first offerings by automotive retailers since Asbury Automotive Group Inc. issued \$150 million in March 2007, according to Bloomberg data.

Dave & Buster's Inc., the closely held operator of restaurant entertainment complexes, sold \$200 million of notes due in 2018, and American Tire Distributors Inc. issued \$250 million of seven-year debt in yesterday's only high-yield offerings, Bloomberg data show. This week's \$1 billion of high-yield issuance compares with \$2.14 billion during the corresponding period a week earlier, and is 17 percent of the 2010 weekly average of \$5.82 billion, Bloomberg data show.

Appalachian Power Sale

Investment-grade spreads widened five basis points to 186 basis points, according to the Bank of America Merrill Lynch U.S. Corporate Master Index. Yields rose to 4.41 percent from 4.36 percent, the index data show.

Appalachian Power Co., an electricity provider, sold \$300 million of five-year senior notes yesterday, Bloomberg data show. Investment-quality companies have sold \$3.68 billion of the debt this week, compared with \$8.81 billion in the week earlier period.

Following is a description of \$5.52 billion of pending sales of dollar-denominated bonds in the U.S.

Investment Grade

SABIC CAPITAL, a unit of Saudi Basic Industries Corp., hired HSBC Holdings Plc, JPMorgan Chase & Co. and Royal Bank of Scotland Group Plc to sell a benchmark-sized bond, Sabic Chief Financial Officer Mutlaq al-Morished said in a May 17 telephone interview.

CHILE plans to sell \$1 billion of 10-year bonds, along with its debut sale of peso securities, Finance Minister Felipe Larrain said. The country will “certainly” issue the debt this year, Larrain said.

DOHA BANK QSC, Qatar’s third-largest bank, plans to sell senior notes in dollars, the lender said in a statement on the Qatari bourse, without disclosing the size of the offering.

FORETHOUGHT FINANCIAL GROUP INC. plans to sell \$150 million of 10-year bonds, according to a person familiar with the transaction, who declined to be identified because terms aren’t set. S&P assigned the notes a grade of BBB- in a March 24 report.

Not Rated

INTERNATIONAL CONTAINER TERMINAL SERVICES INC., the Philippines’ largest port operator, plans to sell as much as \$200 million of 10-year bonds, according to a person familiar with the matter. The company said in a regulatory filing it will add the notes to the \$250 million of 7.375 percent bonds it sold in March. The filing didn’t disclose the planned size.

The PROVINCE OF CORDOBA, Argentina, plans to sell as much as \$350 million of bonds in international markets once the federal government completes a restructuring of defaulted debt, Banco de Cordoba said.

SENSIENT TECHNOLOGIES CORP. said it entered into an agreement with a group of four financial institutions for the issuance of \$110 million in fixed-rate, senior notes, according to a Nov. 19 statement distributed by Business Wire. The company plans to issue seven-year debt in May with a fixed coupon rate of 4.91 percent and proceeds will be used to repay existing indebtedness, Sensient said in a March 1 regulatory filing.

High Yield

ALLEGIANT TRAVEL CO., the passenger airline that caters to leisure travelers in small cities, plans to offer \$250 million of senior unsecured notes due in 2017, according to a company statement. Proceeds will be used to pay for MD-80 and Boeing 757 aircraft under contract, to repay existing debt due through 2011 and for general corporate purposes, the Las Vegas-based company said in a May 18 statement distributed by PR Newswire. Moody’s assigned the notes a rating of Ba3.

DRIVETIME AUTOMOTIVE GROUP INC. may sell \$200 million of seven-year notes, according to a person familiar with the offering. Proceeds from the sale of the senior secured notes may be used to repay debt, said the person, who declined to be identified because terms aren’t set.

IRSA INVERSIONES Y REPRESENTACIONES SA, Argentina's biggest real-estate company, said it plans to sell \$150 million of senior notes. The offering may be increased to as much as \$250 million, the company said in a May 17 statement distributed by PR Newswire. S&P assigned the notes a grade of B-, six steps below investment quality, it said in a report.

CAPELLA HEALTHCARE INC., the hospital operator backed by private-equity firm GTCR Golder Rauner LLC, plans to sell \$500 million of seven-year notes, according to a person familiar with the transaction. Proceeds will be used to refinance Capella's existing first lien credit facilities and second lien term loan, Moody's Investors Service said in a report.

INDOSAT PALAPA CO., a unit of Indonesia's second-largest phone operator, may sell 10-year senior notes in a benchmark offering, according to a person familiar with the transaction. Moody's assigned a provisional Ba1 rating to the notes and S&P rated them BB, one step lower.

TITAN INTERNATIONAL INC., the maker of tire and wheel systems for off-highway equipment, said it plans to sell at least \$150 million of senior unsecured notes. Proceeds will be used to repurchase the 8 percent senior unsecured notes due in 2012 and for general corporate purposes, the Quincy, Illinois- based company said in a May 13 statement distributed by Business Wire.

SKILLSOFT PLC, the provider of education software for businesses, plans to sell \$310 million of eight-year notes, according to a person familiar with the offering.

BWAY HOLDING CO., the paint-container and aerosol-can maker being acquired by Madison Dearborn Partners LLC, plans to sell \$200 million of notes to help pay for its acquisition, according to a person familiar with the offering. It's also seeking \$565 million in bank debt, said the person, who declined to be identified because terms aren't set.

INVENTIV HEALTH INC., the provider of sales and marketing services to science companies that is being acquired by Thomas H. Lee Partners, may sell \$275 million of senior notes to back the purchase, it said in a regulatory filing.

CITGO PETROLEUM CORP., a U.S.-based unit of Petroleos de Venezuela SA, plans to sell \$1.5 billion of notes due in 2017 and 2020, according to a person familiar with the offering. S&P assigned the notes a grade of BB+, one step below investment quality.

LEARNING CARE GROUP NO. 2 INC. is planning to sell \$265 million of payment-in-kind notes that can pay interest in the form of additional debt, according to a person familiar with the transaction. The company plans to issue five-year senior secured notes, of which 10.5 percent can be paid in cash and 2.5 percent in additional debt, said the person, who declined to be identified because terms aren't set.

COMMUNITY EDUCATION CENTERS INC. plans to sell \$210 million of six-year, senior secured notes that may yield 12.75 percent to 13 percent, according to a person familiar with the offering. The notes, which can't be called for the first 3 1/2 years, will be sold in a private placement, said the person familiar with the transaction. The company, which initially planned to sell the debt in a 144A transaction, will borrow the money through a private offering. Proceeds from the sale may be used to repay debt, the person said. Jefferies & Co. is underwriting the sale.

Offerings in Pipeline

ANGOLA received credit ratings from Moody's, S&P, and Fitch Ratings that put it on par with Nigeria, Lebanon and Belarus, and paved the way for a planned sale of international bonds this year. The southern African nation's creditworthiness was rated at B+ by S&P and Fitch, four levels below investment grade. Moody's assigned an equivalent ranking of B1.

EURASIAN NATURAL RESOURCES CORP., a London-based iron ore and alumina producer with operations in China and Russia, hired Deutsche Bank AG and Morgan Stanley to help it sell dollar bonds for the first time, according to a person familiar with the transaction. The company will begin meeting with investors in Hong Kong on May 17, followed by Singapore on May 18, Frankfurt on May 19 and London on May 20, said the person, who asked not to be identified as details are private.

KAZAKHSTAN plans to sell between \$500 million and \$750 million in bonds to investors abroad in the autumn, Kazakh Finance Minister Bolat Zhamishev said in a May 14 interview in Zagreb. The bonds will probably be denominated in dollars and will be used to set a benchmark for corporate borrowing, Zhamishev said.

TRANSNET LTD., the South African state-owned transportation company, delayed a sale of dollar bonds after meeting with U.S. and European investors because of adverse market conditions, according to Barclays Plc-owned Absa Capital, which advised on the transaction. Transnet didn't respond to e-mailed questions seeking comment on the postponement the bond sale and its spokesman was unavailable when contacted on his mobile phone. The transport company is rated BBB+ by S&P, the third-lowest investment grade. Transnet said in February that it planned to sell \$2 billion of international debt to help fund infrastructure.

QATARI DIAR REAL ESTATE INVESTMENT CO. may raise about \$1.5 billion by selling global bonds backed by Qatar, according to a person familiar with the sale plan. The developer may offer 10-year conventional bonds and 5-year Islamic securities, said the person who declined to be identified because details of the transaction haven't been completed. HSBC Holdings Plc and Barclays Capital are among banks expected to manage the sale, according to the person.

CREDIT EUROPE BANK LTD. plans to sell three-year bonds in dollars, according to people with knowledge of the sale. The notes may be priced to yield 7.75 percent to 8 percent, the people said. Citigroup Inc. is managing the sale.

JONES APPAREL GROUP INC. postponed an offering of \$250 million of senior notes due 2018. The New York-based retailer is paying \$180 million for a 55 percent stake in Stuart Weitzman Holdings LLC, a closely held maker of women's apparel, according to a May 6 statement distributed by PR Newswire. Proceeds from the notes sale will be used for general corporate purposes and to help fund the acquisition, the company said. Citigroup Inc., JPMorgan Chase & Co., SunTrust Banks Inc. and Wells Fargo & Co. will manage the sale.

ESSAR STEEL HOLDINGS LTD. postponed a sale of dollar-denominated bonds amid rising investor concern over contagion from Europe's debt crisis. Essar "decided to postpone their planned financing," company spokesman Manish Kedia said in a statement.

BANCO CRUZEIRO DO SUL SA postponed an offering of 10-year dollar bonds after global market turmoil pushed up borrowing costs, the company said.

CHINA ORIENTAL GROUP CO. plans to sell senior notes to provide working capital and the possibly to finance the purchase of steel mills and iron ore assets in China. Deutsche Bank AG will manage the sale with ING Groep NV, according to a statement to the Hong Kong stock exchange.

DSW HOLDINGS INC., a unit of DS Waters Enterprises LP, postponed a \$475 million sale of senior secured notes due in 2017, according to a person familiar with the transaction, who declined to be identified because the marketing is private.

OAO SBERBANK hired DZ Bank AG, JPMorgan Chase & Co. and Royal Bank of Scotland Group Plc to organize meetings with bond investors, according to a banker involved in the transaction.

BANK FOR INVESTMENT & DEVELOPMENT OF VIETNAM received approval from the central bank to issue 7 trillion dong (\$369 million) of notes and another 3 trillion dong (\$158 million) worth of dollar-denominated notes in 2010, according to a statement on State Bank of Vietnam's Web site.

BOLIVIA plans its first international bond sale in more than 70 years as early as the end of 2011, Finance Minister Luis Arce said. He didn't disclose the size of the offering.

GLORIOUS PROPERTY HOLDINGS LTD. postponed its first sale of dollar-denominated bonds, citing unfavorable market conditions. The postponement was disclosed in an e-mailed statement by an external spokeswoman for the Hong Kong-based bank. Glorious Property had planned to sell five-year bonds denominated in U.S. dollars, according to a person familiar with

the matter, who declined to be identified before a public announcement. Glorious said in a filing that it had hired Deutsche Bank AG, JPMorgan Chase & Co. and Standard Chartered Bank to manage the offering.

FIRSTRAND LTD., South Africa's second-largest banking group, said it postponed a planned sale of dollar bonds because of volatile market conditions. The sale may now take place later this year, Andries du Toit, group treasurer at FirstRand in Johannesburg, said in an interview.

KOREA FINANCE CORP. plans to sell \$100 million to \$200 million of foreign-currency bonds in its first overseas debt sale since October, Edaily reported, without citing anyone. The state-run agency also plans to sell \$1 billion of global bonds in the U.S. in the second half of the year, the Korean-language online newspaper said.

NATIONAL AGRICULTURAL COOPERATIVE FEDERATION of South Korea, known as Nonghyup, hired five banks to help it sell U.S. dollar-denominated bonds, according to two people with knowledge of the matter. Citigroup Inc., Credit Agricole CIB, ING Groep NV, Morgan Stanley and Royal Bank of Scotland Group Plc will help the company with the benchmark offering, the people said. The federation, which provides credit and banking services to farmers, is considering a maturity of 5 1/2 years, according to one of the people. Moody's Investors Service rates Nonghyup A1.

PTT PRODUCTION & EXPLORATION PCL, the Thai oil explorer, hired Credit Suisse Group AG and Royal Bank of Scotland Group Plc to help it sell global bonds, according to two people familiar with the matter who asked not to be identified as the plan is private.

UNION BANK OF INDIA LTD. plans to sell bonds denominated in U.S. dollars, according to a person familiar with the matter. Barclays Plc, Citigroup Inc., Deutsche Bank AG and Standard Chartered Plc will manage the sale, the person said.

MALAYSIA may raise \$1 billion to \$1.5 billion from the sale of dollar-denominated Islamic bonds, its first global offering in almost eight years, according to a finance ministry official with direct knowledge of the plan. The Southeast Asian nation is raising less than originally planned as it needs fewer funds to plug its budget deficit given the country's economy is recovering, said the official who declined to be identified because the deal has yet to be completed. The government is still aiming to start the debt sale in June, the official said.

POWER SECTOR ASSETS AND LIABILITIES MANAGEMENT CORP. of the Philippines may sell between \$750 million and \$1.5 billion of dollar-denominated bonds "anytime" to help refinance maturing debt thru next year, Vice Chairman Jose Ibazeta said. The company manages the finances of state utility National Power Corp.

BRISBANE AIRPORT CORP., owner of Australia's third-busiest airport, may sell bonds in the U.S. later this year as it pursues new markets to help refinance debt and pay for a new runway. The company is considering a 10- or 15-year U.S. private placement and a five- to seven-year Australian dollar bond sale in late 2010 or early 2011, Chief Financial Officer Tim Rothwell said in a phone interview from Brisbane.

VIETNAM NATIONAL COAL-MINERAL INDUSTRIES GROUP, the state- owned coal producer known as Vinacomin, plans to sell as much as \$500 million of bonds overseas this year to fund mining and energy projects, according to Deputy Chief Executive Officer Nguyen Van Hai.

FINLAND may sell five-year bonds denominated in dollars this year, the Finnish Treasury said in a document posted on its Web site.

POLAND may delay selling dollar-denominated bonds until July or even the autumn, Deputy Finance Minister Dominik Radziwill was quoted as saying by PAP newswire. Poland may sell bonds in euros as early as the autumn to prefinance its 2011 borrowing needs, Radziwill was quoted as saying.

MONGOLIA plans to sell as much as \$1.2 billion of bonds overseas this year to fund infrastructure to support its mining industry, Finance Minister Sangajav Bayartsogt said. This is Mongolia's first benchmark offering of dollar-denominated debt. Investment banks are advising Mongolia to issue debt with maturities of between five and 10 years, Bayartsogt said in an interview. The securities may offer a yield of between 8 percent and 11 percent, he said.

National Shipping and Saudi British Bank: Saudi Equity Preview

May 22 (Bloomberg) -- The following stocks may rise or fall in Saudi Arabia's market. Stock symbols are in parentheses and prices are from the last close.

The Tadawul All Share Index retreated 2.4 percent, to 6,401.06, the lowest level since Feb. 16.

National Shipping Co. (NSCSA AB): The Saudi operator of crude oil and chemical tankers cancelled a contract for two vessels with SLS Shipbuilding Co. of South Korea, citing delays on delivery. The shares dropped 2.6 percent to 18.5 riyals.

Saudi British Bank (SABB AB): The lender that's 40 percent- owned by HSBC Holdings Plc signed a Shariah-compliant property- fund deal with a Jeddah-based company. The shares were unchanged at 45.2 riyals.

Corn Demand From Korea to Jump as Sweetener Use Gains After Sugar Surge

Corn demand in South Korea, the third-biggest buyer, may climb as much as 6 percent after a surge in sugar prices earlier this year spurred a shift to the grain as a sweetener, the nation's top food processor said.

Consumption may increase to as much as 8.8 million metric tons this year from 8.3 million tons in 2009, Sung J. Park, Executive Vice President at CJ CheilJedang Corp., said in an interview yesterday. Corn demand for food use may jump 26 percent, while raw sugar consumption may drop 6 percent.

Corn in Chicago has tumbled 14 percent this year on forecasts for increasing output from Argentina and Brazil, the biggest exporters after the U.S. Sugar reached a 29-year high of 30.4 cents per pound on Feb. 1. Prices have since fallen 54 percent, partly on bets that higher output in India and Brazil will curb a supply deficit.

"Raw sugar futures have come down sharply this year, but spot prices are still pretty high from a year ago," said J.H. Song, general manager in CJ CheilJedang's grain and sugar purchasing strategy team. Korean importers normally secure import contracts about four months before delivery and have already covered almost 70 percent of annual needs, he said.

The nation's corn imports may climb 6.4 percent to 8.3 million tons in the marketing year that begins Oct. 1, a unit of the U.S. Department of Agriculture said in a report on May 6.

Raw Sugar

Demand for food corn, used to make high-fructose syrup and starch for beverages and ice creams, may increase to as much as 1.9 million tons, while feed-corn may rise only 1 percent to 6.9 million tons, CJ's Park said.

Raw sugar consumption in South Korea, which imports almost all its corn and raw sugar needs, may drop to 1.45 million tons this year from 1.54 million tons a year earlier, Park said.

"Prices for spot purchases have not fallen as much as the drop in futures," Park said. The company purchased Brazilian sugar for its Indonesian plant that produces amino acid for feed because of high Thai sugar premiums, he said.

Raw sugar for July delivery gained 1.9 percent to 14.16 cents a pound on ICE Futures U.S. in New York. The price had dropped 5.3 percent in the previous three sessions.

South Korea purchases raw sugar from Australia, Guatemala, Brazil, Thailand and South Africa. Australia supplies about 65 percent of the total.

An outbreak of foot-and-mouth disease in the country could curb demand for feed corn if the animal illness expands and cuts meat consumption, Park said. The virus may spread nationwide after new cases of the disease were found, the Korean government said April 22.

Social Front:

Korea Milling Wheat Imports May Drop 5% as Rice Flour Use Increases

Milling wheat imports by South Korea, Asia's second-biggest grain importer, may decline by about 5 percent this year as the country boosts consumption of rice flour, said an executive at the nation's biggest food processor.

Shipments may fall to about 1.9 million metric tons from 2 million tons in 2009, Sung J. Park, executive vice president at CJ CheilJedang Corp., said in an interview yesterday.

Wheat futures have tumbled 13 percent this year on the Chicago Board of Trade because of reduced demand for U.S. grain and climbing global stockpiles. South Korea, which imports virtually all its wheat, plans to replace about 10 percent of domestic demand with rice flour. The government is also encouraging local production to reduce imports.

"The wheat market in South Korea is saturated, so a likely increase in rice consumption and domestic wheat production may lead to a further decline in import demand," Park said from the company's headquarters in Seoul. In the long-term, import demand may decline to about 1.5 million tons, he said.

The country imported 2.3 million tons in 2008. South Korea is the fifth-biggest export market for U.S. wheat in terms of volume year-to-date through March, according to a U.S. Department of Agriculture report May 13. Wheat for July delivery was little changed at \$4.6875 a bushel at 12:37 p.m. in Seoul.

Japan

Detailed News:

Politico-Strategic Front:

17,000 Japanese Rally Against U.S. Military Base, AP Reports

May 16 (Bloomberg) -- About 17,000 Japanese linked hands and surrounded a U.S. military base to protest its presence on the southern island of Okinawa, the Associated Press reported, citing local government official Hitoshi Nakou.

Protesters lined up along barbed-wire fences and city streets on the perimeter of the Futenma air base, raising their linked arms and chanting slogans, AP said.

Prime Minister Yukio Hatoyama's government is seeking to solve a dispute over the relocation of the base. The U.S. wants Japan to adhere to a 2006 agreement to move the base to a less crowded part of Okinawa, while local residents want it moved off the island entirely.

Today's demonstration was timed to coincide with the weekend anniversary of Okinawa's return from U.S. to Japanese administration in 1972, AP said.

It follows an April 25 rally that organizers said attracted more than 90,000 people.

Okinawa, 950 miles (1530 kilometers) south of Tokyo, hosts more than half of the 50,000 American military personnel in Japan.

China's Wen to visit at end of month

BEIJING (Kyodo) Chinese Premier Wen Jiabao plans to pay a three-day official visit to Japan from May 30 and hold talks with Prime Minister Yukio Hatoyama on May 31, sources said Saturday.

Wen is scheduled to hold an audience with Emperor Akihito during the visit, and is expected to sign with Hatoyama a new bilateral initiative to ensure food safety.

The two countries made progress in investigations into a case involving tainted Chinese-made dumplings that sickened 10 people in Japan in December 2007 and January 2008, after Chinese police arrested a Chinese suspect earlier this year.

Ozawa grilled again on shady funds

Noose tightens as prosecutors question DPJ bigwig for third time over Tokyo land deal

Prosecutors questioned Democratic Party of Japan Secretary General Ichiro Ozawa on Saturday over his fund management body's alleged false reporting of political funds, sources said.

Tokyo prosecutors and Ozawa met at a Tokyo hotel for the third round of questioning over the shady funds. Ozawa apparently again denied any involvement in the false reporting, according to the sources.

"Based on my recollection, I straightforwardly explained the facts and processes," Ozawa said in a statement released later the same day, adding the interview lasted from around 5 p.m. to 9:30 p.m.

The prosecutors' latest action followed an April 27 decision by an independent judicial panel, which decided that Ozawa merits indictment. The decision opened the way for the Tokyo District Public Prosecutor's Office to reinvestigate the case.

"It's only natural as the panel voted for an indictment," said Sadakazu Tanigaki, head of the Liberal Democratic Party, the main opposition force, after hearing of Ozawa's questioning.

"Ozawa has flip-flopped several times in explaining (the shady funds)."

The reopening of the investigation has dealt another blow to the ruling DPJ.

Ozawa has consistently denied involvement in the scandal, claiming his secretaries handled all the funds and he was not aware of the alleged wrongdoing by his fund management body.

In February, the prosecutor's office decided not to charge Ozawa after questioning him on Jan. 23 and 31, citing a lack of evidence.

The inquest panel will revisit the case, which involves the purchase of land in Tokyo, if the prosecutors decide once more not to file charges against Ozawa or fail to come to a decision within three months.

Okada Says Japan-U.S. Okinawa Base Deal Not Ready Before Clinton's Visit

Japan will not reach an agreement with the U.S. over where to relocate an American military base by the time Secretary of State Hillary Clinton arrives at the end of the week, Foreign Minister Katsuya Okada said.

Japanese Prime Minister Yukio Hatoyama is struggling to meet his May 31 deadline to secure a location to move the Futenma Marine Air Base in Okinawa. The Obama administration wants him to adhere to relocate the base within the island, 950 miles (1530 kilometers) south of Tokyo, while local residents want the facility moved somewhere else entirely.

"We're not at the stage of holding top-level negotiations," Okada told reporters today in Tokyo. "We'll hold such a meeting when necessary, but that timing won't be when she visits."

The main topics of Clinton's May 21 visit will be Iran's nuclear program and the March sinking of a South Korean naval vessel near the disputed border with North Korea, he said. Clinton will visit Seoul next week to discuss how to respond to the incident.

The U.S. wants Japan to uphold a 2006 agreement to move Futenma within Okinawa, as part of a \$10.3 billion plan that would also transfer 8,000 Marines to Guam. Hatoyama earlier this month apologized to local residents, saying he would have to break a campaign promise to

move the facility off the island. Okinawa hosts 75 percent of the U.S. bases and more than half of the 50,000 American military personnel in Japan.

The two countries held working-level talks last week in Washington. Japan has proposed minor changes to the agreement, including building the facility on a platform in shallow waters at Okinawa's Camp Schwab rather than on reclaimed land, media including the Asahi newspaper has reported.

Hatoyama may go it alone on base

Prime Minister Yukio Hatoyama may not seek approval from Cabinet members later this month for his proposal on where to move the Futenma military base, amid differences in opinion among the ruling parties, Chief Cabinet Secretary Hirofumi Hirano suggested Monday.

"There may be a way for the prime minister to speak" on the government's stance on the relocation of U.S. Marine Corps Air Station Futenma, instead of collecting approval signatures from all members of the Cabinet, Hirano said at a news conference.

Hirano's remarks came after consumer affairs minister Mizuho Fukushima, leader of small ruling coalition member Social Democratic Party, said Sunday she will not approve the government's current plan to keep most of Futenma's operations within Okinawa.

Hatoyama has repeatedly said he will try to decide where to relocate the airfield by his self-imposed deadline of May 31 by securing consent from his coalition partners, the communities that would host replacement facilities and the United States.

The new approach to meet the deadline has been floated, although Hatoyama, Hirano and other ministers on Friday indicated Cabinet approval is needed on the relocation plan.

Hirano signaled that Hatoyama may hold separate talks with Fukushima and Shizuka Kamei, who heads the other coalition partner, Kokumin Shinto (People's New Party), to explain his latest idea.

Fukushima's party has been calling for the base to be transferred outside of Japan, suggesting Hatoyama doesn't need to settle the relocation issue by the May 31 deadline.

"I knew from the beginning that the situation would be tough. I will do my best toward the end of May," Hatoyama told reporters when asked about Fukushima's stance.

Hirano said there is no possibility that the government will try to win approval from the SDP later this month by avoiding mentioning the plan to relocate the base within Okinawa.

"We won't use cheap tricks," Hirano said.

U.S. nixes new plan

The United States has rejected the latest proposal for the relocation of the Futenma air base in Okinawa Prefecture, telling Japan the new site should stay roughly in the area the two countries agreed to in 2006, diplomatic sources said Monday.

The U.S. objection has increased the possibility that the new site will end up not much different from the existing plan.

Clinton to play down Japan base dispute in public

WASHINGTON (Reuters) - Secretary of State Hillary Clinton is likely to play down a military base dispute when she visits Japan on Friday, mindful that public pressure only aggravates Prime Minister Yukio Hatoyama's domestic woes.

When running for office last year, Hatoyama raised hopes that the Futenma Marine airbase might be moved off Okinawa entirely despite a 2006 deal with Washington to move it from a crowded city to a less populous site on the island.

With his self-imposed deadline of settling the matter by the end of May approaching, Hatoyama has changed tack, saying he has come to realize some Marines must stay on the island to deter threats.

The result has been a political morass that has irritated the United States, Japan's closest ally, and eroded domestic support for Hatoyama's Democratic Party of Japan (DPJ) because of a belief among voters that he has mishandled the dispute.

Support for Hatoyama's government is languishing around 20 percent while disapproval has risen to two-thirds, according to recent public opinion polls. More than half of voters think he should resign if he does not settle the dispute this month.

The Marine base, which has been on the island since the end of World War II, is deeply unpopular in Japan because troops based there have a history of criminal misconduct, including rape. Aircraft safety is also a concern, following the August 2004 crash of a Marine transport helicopter.

In a move that could further undercut him domestically, Japan's Yomiuri newspaper reported on Wednesday that Hatoyama would abandon seeking major changes to the 2006 deal on relocating the base within the island.

Mindful of his political troubles with an upper house poll looming, Clinton is likely to push the issue in private but not in public, where analysts and officials said she would try to temper the view that the dispute has tainted the alliance.

TRACK RECORD OF DELAY

Clinton is scheduled to meet Hatoyama and Japanese Foreign Minister Katsuya Okada during her brief visit to Tokyo on Friday, her first stop on a one-week trip to East Asia that is built around strategic and economic talks with China and will conclude with a brief stop in Seoul on Wednesday.

"There is nothing to be gained by publicly pushing this hard," said Victor Cha, a former National Security Council Asia director now at the Center for Strategic and International Studies think tank in Washington.

Cha and other analysts said the likely outcome -- already telegraphed in one Japanese news report -- is that Hatoyama will ask for more time to try to resolve the matter.

"There is a historic track record of obfuscation and delay on lots of civilian-military issues with Japan," said Charles "Jack" Pritchard, a former National Security Council and State Department official now at the Korea Economic Institute.

"The track record suggests that the Hatoyama government will punt," he added, saying it is too weak to "force something down the throats" of Okinawans or the United States."

According to the Yomiuri newspaper, Hatoyama planned to abandon a proposal to build a new runway on piles in the pristine waters off Nago City in northern Okinawa and revert to the 2006 agreement's plan to build on landfill.

Neither option is popular locally.

Japanese daily newspaper Sankei Newspaper reported on Saturday that Japan would postpone the May deadline for resolving the dispute, saying the decision would be conveyed to the United States as early as this week.

Kurt Campbell, the U.S. Assistant Secretary of State for East Asian and Pacific Affairs, said the United States had not been formally advised of any plans to put off a decision.

"We have not heard anything officially of that sort," he told reporters, saying Clinton looked forward to her talks with Hatoyama and Okada "to hear quite clearly from them about what their plans are."

DPJ official admits illegal donations

SAPPORO (Kyodo) A former accountant of Democratic Party of Japan lawmaker Chiyomi Kobayashi admitted in court Tuesday to receiving ¥16 million in illegal donations from a teachers union for Kobayashi's election campaign.

But Michiru Kimura denied that Kobayashi was involved in the illegal funds, claiming during the trial he did not think of discussing the matter with the lawmaker although he was aware the donations should not be openly logged in fund reports.

The trial at the Sapporo District Court was concluded in one session as Kimura pleaded guilty to violating the Political Funds Control Law. A sentence will be handed down on June 9.

Prosecutors sought a six-month prison term for Kimura, claiming his crime betrayed the trust of people who voted for the DPJ. His lawyer asked for a suspended term.

Kimura, 46, stood accused of receiving ¥12 million from the late chairman of the Hokkaido Teachers Union on three occasions between December 2008 and May 2009 and another ¥4 million from Hideki Osada, a stand-in chairman, last July. Osada has been indicted on the same charge.

Japan envoy says won't postpone U.S. base decision

WASHINGTON (Reuters) - Japan, on the eve of a visit by U.S. Secretary of State Hillary Clinton, said on Thursday it would not postpone a decision on the future of a U.S. air base that has strained ties between the two allies.

But Japan's ambassador to Washington, Ichiro Fujisaki, cautioned in an interview with Reuters that it was still not clear whether both sides would be able to find a new way to resolve the dispute over the air base on Okinawa island.

Prime Minister Yukio Hatoyama "has made it very clear that he will do his utmost to come to a resolution of this issue by the end of May. That is only 10 days away," the ambassador said in Washington.

When running for office last year, Hatoyama raised hopes that the Futenma Marine air base might be moved off Okinawa entirely despite a 2006 deal with Washington to move it from a crowded city to a less populous site on the island.

With his self-imposed deadline of settling the matter by the end of May approaching, Hatoyama has changed tack, saying he has come to realize some Marines must stay on the island to deter threats.

Fujisaki dismissed as speculation a report in Japan's Sankei Shimbun daily last week that Hatoyama had decided to put off a decision on the thorny base issue until November.

"He has never said I'm going to postpone it for six months," he said.

"We are trying to ... study the feasibility of some of the ideas which we have discussed and that we are discussing still now," said Fujisaki.

"But I cannot say that we have come up or we will be coming up with some new ideas," he cautioned.

Support for Hatoyama's government is languishing around 20 percent while disapproval has risen to two-thirds, according to recent public opinion polls. More than half of voters think he should resign if he does not settle the dispute this month.

CLINTON TO MEET HATOYAMA

Clinton is scheduled to meet Hatoyama and Japanese Foreign Minister Katsuya Okada in Tokyo on Friday, her first stop on a one-week trip to East Asia centered on strategic and economic talks with China and a visit to South Korea on Wednesday.

Clinton is expected to underscore U.S. support for ally Seoul over the sinking of a South Korean warship. Experts from the United States, Australia, Britain and Sweden concluded that a North Korean submarine had fired the torpedo that sank the Cheonan corvette in March, killing 46 sailors.

Fujisaki reiterated Japan's backing for South Korea: "We fully support and stand by the ROK on this issue, so we will work together with the ROK and the United States and our support is unequivocal."

South Korea is expected to call for more international sanctions on North Korea over the torpedo attack.

"We have been taking quite tough measures," Fujisaki said when asked if Japan could tighten already stringent curbs on trade and contacts with North Korea. But he did not rule out further steps, pending any announced plans by South Korea.

Previewing themes for the upcoming Group of 20 economic summit in Toronto, Fujisaki said financial regulation will remain the top issue on the agenda but said the European debt crisis will also be an important topic.

"I think that people will be interested to hear from European countries how they are coping with this issue," he said.

Japan says U.S. military presence indispensable

TOKYO, May 21 (Reuters) - Japanese Foreign Minister Katsuya Okada said on Friday that the U.S. military presence in Japan was indispensable for the security of Japan and the region.

"I want to explain frankly to the Japanese people that the presence of U.S. troops in Japan is indispensable to Japan's security and to the peace and stability of the region in the current security environment," he told a news conference after a meeting with U.S. Secretary of State Hillary Clinton.

Japan, US stress tight ties despite airbase feud

TOKYO, May 21 (Reuters) - Japan and the United States played down on Friday a feud over a U.S. airbase which has frayed relations, saying the alliance was more vital than ever given regional threats such as an unpredictable North Korea.

A dispute over the U.S. Marines' Futenma airbase on Japan's southern Okinawa island has distracted the allies as they try to cope with changing regional dynamics, including a rising China.

Japanese voter perception that Prime Minister Yukio Hatoyama has mishandled the row is eroding support before a mid-year election his party needs to win to avoid policy paralysis, and has even sparked speculation he may resign. Calling the 50-year-old alliance "rock solid," U.S. Secretary of State Hillary Clinton said the two allies were working together to resolve the dispute.

"This partnership is essential for meeting the challenges not only of today but also of tomorrow," she told a joint news conference with Japan's foreign minister during a brief visit. Her trip includes stops in China and Seoul, where Pyongyang's sinking of a South Korean navy ship will top the agenda.

"It is good to be reminded, as we recently were with the unprovoked attack on the Korean vessel, that there are still dangers and challenges that confront us together," she told the news conference, where she strongly condemned Pyongyang's action and called for an international response.

South Korea accused the North on Thursday of torpedoing one of its warships, heightening regional tension.

"We need to be aware this could happen to us. There is no guarantee it won't happen to Japan," Japan's Foreign Minister Katsuya Okada told a solo news conference after a joint appearance with Clinton.

A senior U.S. official traveling with Clinton said the two sides had made headway in talks on settling the Futenma issue but he offered no details.

"We've seen some progress," said the official who spoke to reporters on condition of anonymity in Shanghai, where Clinton began a four-day trip to China.

"We still have some work to do, but I would say that the meetings today were somewhat hopeful," he added, saying Hatoyama and Okada had given assurances "that we would be able to resolve these matters expeditiously".

ISLANDERS SPLIT

In the election that swept his Democratic Party to power last year, Hatoyama raised hopes on Okinawa -- host to about half the U.S. forces in Japan -- that Futenma could be moved, despite a 2006 deal to shift it to a less crowded site on the island.

Hatoyama has set himself an end-of-May deadline for resolving the issue, but with no new deal in sight has changed tack, saying some Marines would have to stay on the subtropical island to deter threats. That shift has outraged many Okinawans and upset a small ruling coalition partner, the Social Democratic Party.

Domestic media say the two governments will announce on May 28 an agreement to stick to the 2006 plan with minor changes, a decision likely to be greeted with anger when Hatoyama visits Okinawa on Sunday for the second time this month.

But in a development that will encourage Hatoyama, a panel representing the tiny community of Henoko, adjacent to the proposed site of the relocated facility, voted on Friday to accept the 2006 plan with conditions, Kyodo news agency said.

Those conditions include shifting the site of the proposed new runways further out to sea to reduce noise, and increasing the amount of compensation, Kyodo said.

"It's not that we want to attract the base, but if the government is forced to come back to us, we want to ask for the best possible conditions," Kyodo quoted Yasumasa Oshiro, the head of the local assembly, as saying.

Both Okada and Hatoyama stressed after meeting Clinton the need for the U.S. troop presence in Japan, whose own military is constrained by its pacifist constitution.

"I want to explain frankly to the Japanese people that the presence of U.S. troops in Japan is indispensable to Japan's security and to the peace and stability of the region in the current security environment," Okada told the news conference.

Economic Front:

Bank of Japan May Provide Loans to Growth Sectors, Nikkei Says

May 16 (Bloomberg) -- The Bank of Japan may start a lending program this summer to support the energy, health care, environment and other growth sectors, Nikkei English News reported, without citing anyone.

The loans, to be provided through financial institutions, are likely to be offered at an annual interest rate of about 0.1 percent for terms between six months and a year, the Nikkei said.

The bank will discuss the measure at its regular policy meeting scheduled for May 20-21, the report said. Governor Masaaki Shirakawa said last month he wants to bolster economic growth by helping private companies nurture technological innovation in such industries as energy and the environment.

Toyota, Plato, Apple, Arkema, Moore in Court News (Update1)

May 17 (Bloomberg) -- The federal judge overseeing sudden- acceleration lawsuits against Toyota Motor Corp. appointed 21 plaintiffs' lawyers to manage litigation involving U.S. claims.

Toyota, the world's largest automaker, faces at least 228 federal and 99 state lawsuits including proposed class actions over economic loss and claims of personal injuries or deaths caused by sudden-acceleration incidents. The federal lawsuits were combined April 9 in a multidistrict litigation, or MDL, before U.S. District Judge James V. Selna in Santa Ana, California.

More than 70 plaintiffs' lawyers sought appointments to leadership positions in the federal lawsuits, including about 60 who spoke at a May 13 hearing before Selna. Before the hearing, Selna proposed limiting the number of plaintiffs' attorneys on leadership committees to 12.

"The court became convinced at the initial hearing that a larger group of counsel is needed to meet the needs of the case," the judge said in the May 14 order. Selna set the next hearing in the lawsuits for May 28.

The company, based in Toyota City, Japan, has recalled more than 8 million vehicles for fixes related to sudden, unintended acceleration. The automaker announced in September that it was recalling 3.8 million Toyota and Lexus vehicles because of a defect that may cause floor mats to jam accelerator pedals. The company later recalled vehicles over defects involving the pedals themselves.

Selna appointed as co-lead counsels for the economic loss plaintiffs Steve Berman at Hagens Berman Sobol Shapiro LLP in Seattle, Marc M. Seltzer at Susman Godfrey LLP in Los Angeles and Frank Pitre at Cotchett Pitre & McCarthy in Burlingame, California.

He appointed Elizabeth Cabraser at Lieff Cabraser Heimann & Bernstein LLP in San Francisco and Mark P. Robinson Jr. at Robinson Calcagnie & Robinson in Newport Beach, California, as co-leads for personal injury and death cases. Cabraser's firm has filed at least 20 lawsuits against Toyota claiming deaths or injuries caused by unintended acceleration incidents, and Robinson has won multiple million-dollar verdicts against automakers.

The economic loss and personal injury committees will each have nine members, including the lead counsel. Selna also appointed three lawyers as plaintiffs' liaison counsel for state and related federal cases while naming Monica R. Kelly, of Ribbeck Law in Chicago as a consultant to the committees on foreign law issues.

Nissan Leaf Electric Car Will Be Available in U.K. in February

May 17 (Bloomberg) -- Nissan Motor Co. plans to offer its Leaf electric car in the U.K. starting in February at a price of 23,350 pounds (\$33,660) after government incentives are taken into account.

The battery-powered car will be available in Britain, Ireland, Portugal and the Netherlands before sales are expanded across Europe by the end of next year, the Yokohama, Japan-based company said today in a statement. The initial European markets were chosen based on government incentives and infrastructure for electric cars, the company said.

The manufacturer is spending more than \$5 billion to develop electric cars to compete with Toyota Motor Corp.'s Prius and Honda Motor Co.'s Insight hybrids. Nissan Chief Executive Officer Carlos Ghosn said last week that he aims to have capacity to build 500,000 electric cars a year by 2012.

Ghosn, who also leads Renault SA, Nissan's biggest shareholder, predicts that electric cars will represent 10 percent of global car sales by 2020. Consultants including Advanced Automotive Batteries and the Boston Consulting Group have forecast a smaller market share.

Kan, Ozawa yet to talk tax reform

Finance Minister Naoto Kan said Tuesday he agrees with Democratic Party of Japan Secretary General Ichiro Ozawa on the need to cut wasteful spending to help rebuild the nation's tattered finances but has yet to hold detailed discussions with him on whether to raise the consumption tax to cover shortfalls.

Kan's remarks came after Ozawa, the ruling party's No. 2 and widely seen as the real power behind Prime Minister Yukio Hatoyama's government, expressed disapproval Monday of the DPJ's plan to include in its platform for this summer's Upper House campaign a pledge to increase the consumption tax after the next Lower House election.

Kan said it is his understanding that Ozawa meant it is necessary to take active pump-priming measures and to cut back on wasteful spending in reviewing the national budget, adding he agrees with that.

On whether they share the same view on tax reform, Kan said, "I haven't talked about it with the secretary general."

Ozawa said Monday that he believes the DPJ's current policy pledges can be implemented for the time being by eliminating wasteful spending of public money.

US, EU raise worries over Japan Post

GENEVA, May 21 (Reuters) - The United States and European Union contested the status of Japan's mammoth postal, banking and insurance conglomerate on Friday, saying the special treatment of the group hurts private-sector competitors.

Japan Post's status creates an unlevel playing field for private competitors in the insurance, banking and express delivery sectors, the U.S. ambassador to the World Trade Organization, Michael Punke, and EU acting ambassador John Clarke, told their Japanese counterpart, Shinichi Kitajima.

"We met jointly with Japan to underscore the deep level of concern that we both share regarding Japan's preferential treatment of Japan Post in light of Japan's national treatment commitments under the WTO," Punke said in a statement.

With assets of 300 trillion yen (\$3.3 trillion), Japan Post is a major player in Japan's banking and insurance markets as well as in mail and courier services. As the holder of about a third of Japanese Government Bonds it is also a key partner in the government's debt management programmes.

But its future has become highly political, with Japan's Democratic Party-led government rolling back plans to privatise the institution but set to endorse a proposal to double deposit limits at its banking unit, raising the possibility of funds draining from other banks but making it easier for Japan to fund its growing debt. [ID:nTOE62U024]

Both the United States and European Union are neutral on whether Japan Post should be privatised, the U.S. statement said.

But they expressed disappointment that draft postal reform legislation submitted to Japan's Diet does not address U.S. and EU concerns about the preferential treatment that Japan Post currently receives compared to private-sector companies.

They also said they were worried by proposals to allow Japan Post's banking and insurance units to expand their operations before a level playing field is established.

One US and EU concern is that Japan Post's insurance operations have preferential access to the postal network, giving it an advantage over private financial companies.

Japan gives full national treatment to foreign companies in the insurance sector under WTO rules, and Japan Post's special treatment could breach those commitments, they said.

Japan Post's foreign competitors in the delivery sector include United Parcel Service (UPS.N), FedEx (FDX.N), TNT (TNT.AS) and Deutsche Post (DPWGn.DE).

SAP, Honda Find Ways to Work Around Thailand Protests (Update1)

May 17 (Bloomberg) -- SAP AG, Honda Motor Co., and LG Electronics Inc. are asking their Bangkok-based employees to work at home or in temporary offices outside the city's downtown, where anti-government protests have left at least 35 people dead.

SAP, the world's biggest maker of business-management software, said workers have been serving customers from home while clashes between the Thai military and several thousand demonstrators have paralyzed parts of the capital. Honda said it moved its Bangkok operations to a suburb.

The unrest has sent the nation's stocks and currency tumbling. Finance Minister Korn Chatikavanij has said it may reduce economic growth by as much as two percent this year. Japan Airlines Corp. and All Nippon Airways Co. moved their Bangkok operations to the main international airport, 29 kilometers (18 miles) from the city's center.

"On a number of days our guys have actually stayed home, but they're servicing our customers as best they can," Steve Watts, president of Asia-Pacific and Japan at SAP said today in a Bloomberg Television interview.

Japanese hard-disk drive makers Hitachi Ltd. and Melco Holdings Inc., said their factories in outlying areas are producing at normal levels, unaffected by Thailand's worst political violence in two decades. Toyota Motor Corp., the world's largest carmaker, last week said it would shut a factory in Thailand, a decision unrelated to the protests, the company said.

Investors React

Thailand's benchmark SET index fell 2 percent to close at 753.26 in Bangkok, the biggest decline since May 7. The baht touched 32.50, the weakest level since March 26, according to data compiled by Bloomberg.

Some global hotel chains have increased security while keeping their facilities open. The Peninsula Bangkok today reiterated that because its hotel is outside the protest area, it remains open.

"The situation continues to be calm in the area where the Peninsula Bangkok is located," said Sian Griffiths, director of communications, said in an e-mail reply to questions.

The Shangri-La Hotel, in the capital's Bangrak district, also remained open, said spokeswoman Sirirat Traisupa.

Safe Areas

Government steps to pressure protestors to move out of the city is escalating tensions at sites near where violence has occurred," Sirirat said by e-mail. "These locations are not near the hotel at all. We are safe and secure."

Qantas Airways Ltd., Australia's largest carrier, said services to and from Bangkok are operating as normal today with the airline allowing passengers to change their tickets if they reconsider travel.

There has been very little change to travel plans by customers and the airline hasn't removed any staff from Thailand, Olivia Wirth, a spokeswoman for the Sydney-based carrier, said by telephone.

Toyota to Raise Steel Price for Suppliers in Oct., Nikkei Says

May 18 (Bloomberg) -- Toyota Motor Corp. will raise the price of steel it provides to parts suppliers in October, rather than once a year in April, Nikkei English News reported, without saying where it got the information.

The increase will help suppliers more quickly reflect price fluctuations, and won't affect earnings because the parts makers can pass on steel costs through their prices, Nikkei said.

Toyota Pays Record \$16.4 Million Fine to U.S. Auto Regulators

May 18 (Bloomberg) -- Toyota Motor Corp. paid the record \$16.4 million U.S. fine for failing to alert auto-safety regulators quickly enough about vehicle defects that could cause unintended acceleration, the Transportation Department said.

Toyota, the world's largest automaker, on April 19 agreed to the fine levied by the agency's National Highway Traffic Safety Administration. Transportation Department spokeswoman Olivia Alair announced the payment today in an e-mail.

Honda fine-tuned to give Japan a boost

TOKYO (Reuters) - Once a Dutch master, now a Russian tsar, midfielder Keisuke Honda could prove to be Japan's most potent weapon at the World Cup in South Africa.

Honda's directness and powerful running will be Japan's trump card as the Blue Samurai look to catch Cameroon cold in their opening Group E match.

The CSKA Moscow midfielder player has been a revelation for Takeshi Okada's Japan since cementing his place as a regular in the side last year.

The muscular midfielder will give Japan more physical presence at the World Cup while keeping opposition defenders on their toes with his pace and eye for goal.

Honda, who turns 24 the day before Japan face Cameroon on June 14 in Bloemfontein, also has a penchant for scoring spectacular long-range goals.

Honda's partnership alongside fellow European-based midfielder Makoto Hasebe adds an element of surprise to a Japan attack that had become predictable and plodding without it.

With playmaker Shunsuke Nakamura's ability to pick out a killer ball, Honda's runs will give the Japanese another outlet as they look to defy the odds in South Africa.

Honda's knowledge of Dutch football -- he played for Venlo in the Dutch championship for almost two years -- may give Japan valuable inside information for the clash with the Netherlands but garnering points from Cameroon and Denmark appears a more realistic proposition.

If Honda and the rest of Japan's midfielders are firing on all cylinders Japan could cause problems with their pace but the fear is they will be pressed into extended defensive duties.

Honda's versatility means Okada could also use him at full back although Japan's best option could be to give free rein to their best players.

Japan have blown hot and cold under Okada's second term in charge, the temperature only rising above freezing when Honda and Hasebe have been involved.

Four goals in 12 Japan games attest to the danger Honda presents and with his tail up after helping CSKA to reach the last eight of the Champions League, he could be the man to watch.

IMF calls for gradual rise in Japan sales tax

TOKYO, May 19 (Reuters) - Japan should start fiscal consolidation next year, including gradually raising the country's sales tax, taking advantage of solid growth now, the IMF said on Wednesday.

The recommendation by the International Monetary Fund contradicts Prime Minister Yukio Hatoyama's pledge not to raise the sales tax rate at least until the next lower house election, which does not need to be held until 2013.

"With global scrutiny of public finances increasing, the need for early and credible fiscal adjustment has become critical," the IMF said after its annual review of Japan's economy and economic policies.

"In our view, fiscal adjustment should start in 2011/12, beginning with a gradual increase in the consumption tax, to take advantage of cyclical recovery," the IMF said.

Japan's outstanding debt as a ratio of gross domestic product is the highest among industrial nations.

Investors are on edge over countries with large debt burdens after a crisis of confidence in Greece's fiscal policy roiled financial markets and prompted the European Union to roll out a \$1 trillion rescue package to defend the falling euro.

Some market players think Japan could become the next target of markets, although many market players think the country can muddle through at least in the near future because of huge domestic savings.

"Our assessment is that there's limited risk of any kind of sovereign debt event (in Japan). But no matter how small the risk is, it must be a bit higher as a result of recent events. That suggests a need for early action. The fact that the economy is showing strength now shows it is a propitious time to begin adjustment," an official at the IMF said.

The IMF said the Japanese recovery is gaining momentum and that prices in the country will start rising in late 2011.

GDP data due on Thursday is expected to show the economy grew an annualised 5.4 percent in the first months of this year. [ID:nTOE64504A]

The IMF also said the BOJ's easing steps have helped stabilise financial markets and support the economy.

But it added the BOJ could consider additional easing measures such as extending the maturity of the central bank's fund-supplying operations.

Japan's Promise aims to cut workforce by 34 pct

TOKYO, May 19 (Reuters) - Japanese consumer lender Promise Co (8574.T) said on Wednesday it plans to cut its workforce by more than 30 percent as part of a restructuring plan.

Promise and its rivals such as Acom Co (8572.T) and Takefuji Corp (8564.T), which offer unsecured personal loans mainly to borrowers with low credit, have been crippled by regulations introduced in 2007 that lowered maximum interest rates and court rulings forcing them to repay charges beyond the new limits.

Promise said in a statement that the latest restructuring plan calls for the voluntary reduction of 900 jobs, or 34 percent of the group's total workforce of 2,680.

Promise on May 10 warned it would likely fall back into the red this financial year, defying expectations for a small profit in a sign the struggling industry may not be past the worst.

Nikkei suffers biggest weekly drop in over a year

TOKYO (Reuters) - Japan's Nikkei average posted its biggest weekly drop in more than a year on Friday, as investors reduced holdings of riskier assets including equities on deepening worries about disunity in the euro zone on its debt crisis.

A lack of policy coordination in Europe and fears that Germany may force weaker euro zone members out have rattled investors, leading them to cut back on positions in riskier assets and boost cash holdings while they wait for calm to return to the market.

"Deepening worries that the debt crisis might hamper the global financial system are pushing investors to sell Japanese stocks, which likely poses a bigger risk here than one that might come from economic risks," said Masaru Hamasaki, a senior strategist at Toyota Asset Management.

"Investors are shifting toward cash as you can see from such moves as investors were even selling gold yesterday. There's uncertainty over the extent of the fallout from the crisis, such as whether it would end up leading to a halt in financial trades like after the Lehman shock."

On the week, the Nikkei fell 6.5 percent, its biggest weekly drop since January 2009.

That compares with a 5 percent fall so far this week in the Dow Jones Industrial Average .DJI and a 4 percent decline in the FTSEurofirst 300 .FTEU3 index of top European shares as well as in Shanghai stocks .SSEC.

The benchmark Nikkei .N225 ended Friday down 2.5 percent at 9,784.54, its lowest close in more than five months.

The broader Topix fell 2.1 percent to 879.69.

The Nikkei's relative strength index (RSI) stood around 28. Anything from 30 and below is considered oversold.

Market players said falls in the market so far appeared inevitable given sharp slides in overseas markets, though some short-covering emerged at its lows.

Still, uncertainty remains as to at what point stocks would stop falling and eyes are on performance in overseas stocks and the currency market, they said.

The Nikkei's next target is seen around its November low at 9,076, which also roughly coincides with a 50 percent retracement of its 2009-2010 rebound.

"What may change sentiment like this is usually policy steps such as providing liquidity," said Kazuhiro Takahashi, general manager at Daiwa Securities Capital Markets.

U.S. stocks sank about 4 percent on Thursday on growing fears the euro zone's efforts to tackle its sovereign debt crisis will fall short, jeopardizing the global economic recovery.

EXPORTERS HIT, SONY UP

Worries about a stronger yen hurt shares of exporters after the euro slipped to its lowest against the yen since November 2001 below 110 yen the previous day. It rebounded to trade around 113.20 yen in Asia on Friday.

Investors fret about a stronger yen as it curbs exporters' profits when repatriated. Many Japanese exporters have set their currency assumption rates for euro/yen around 120-125 yen.

Canon Inc (7751.T) fell 2.6 percent to 3,725 yen and TDK Corp (6762.T) shed 3.6 percent to 5,440 yen. Honda Motor Co (7267.T) skidded 2.5 percent to 2,823 yen.

Toyota Motor Corp (7203.T) lost 1.9 percent to 3,355 yen. Toyota and electric carmaker Tesla Motors plan to partner on electric vehicles in California.

Among rare gainers, Sony Corp (6758.T) rose 0.6 percent to 2,884 yen after the Japanese electronics maker said it was teaming up with Google Inc (GOOG.O) on Web television.

Sony and Google, along with microchip maker Intel Corp (INTC.O), have said the TV sets, dubbed "Google TV" would be ready in time for the Christmas season.

Mizuno Corp (8022.T) rose 1.5 percent to 398 yen after the sporting goods maker forecast operating profit to jump 44 percent to 4 billion yen in the year ending March 2011 on brisk sales of running shoes and golf equipment.

Trade was moderate, with 2.6 billion shares changing hands on the Tokyo exchange's first section, the second-highest daily volume this week. Declining shares outnumbered advancing ones by nearly 19 to 1.

BOJ outlines new loan plan, cautious on Europe woes

TOKYO (Reuters) - The Bank of Japan raised its outlook for the economy by a notch on Friday and announced a loan scheme targeting growth industries, but also warned that Europe's debt debacle posed a risk to the global economy.

The central bank said the world's second-largest economy was "starting to recover moderately" -- striking a slightly more optimistic tone than in previous statements.

However, market turmoil surrounding euro zone's struggle to limit the fallout from the Greek debt crisis and the yen's ensuing rise against the euro clouded the outlook. The central bank did not mention the currency, but Finance Minister Naoto Kan warned of the potential damage of sharp yen gains.

"A close watch is needed so that yen rises do not become excessive," he said before meeting Prime Minister Yukio Hatoyama.

Kan said the prime minister ordered him to monitor market conditions but said the government was not considering any specific steps on the economy for now.

He also played down the need for any global action to deal with sharp currency and stock market swings and said there were no plans for the Group of Seven finance ministers to discuss market developments this weekend, the way they did two weeks ago.

"We expected the situation to calm down, but it hasn't settled yet. But I don't think we need to do anything additional now."

Worries about Europe's financial woes pushed the euro to an 8.5-year low against the yen on Thursday, lifting the Japanese currency also sharply against the dollar.

As widely expected, the central bank kept the benchmark rate on hold at 0.1 percent and outlined its plan to offer loans at that rate to banks that will fund projects in sectors with growth potential.

The central bank has said monetary easing was not the aim of the loan plan and economists expect it to stay pat on policy for the time being given signs of improvement at home and fears that Europe's belt-tightening may derail global economic recovery.

"The BOJ is aware of what is going on in Europe, but they want to avoid giving unintended policy signals," said Kyohei Morita, chief Japan economist at Barclays Capital

"The new funding scheme isn't a policy change. It is just a new system."

Analysts were skeptical about how effective the new scheme would be given that persistently weak demand for credit rather than lack of affordable funds seemed to be holding the economy back.

Bank lending matched the biggest annual decline in four years in April, showing how limp fund demand has been.

"At least the BOJ could keep away from political pressure while showing an attitude of working in tandem with the government to support growth ahead of the upper house election," said Hirokata Kusaba, senior economist at Mizuho Research Institute, referring to elections expected in July.

Japan's economy grew at its fastest rate in three quarters in the first three months of this year, outpacing its euro zone and U.S. peers mainly thanks to robust exports to the rest of Asia and government stimulus measures.

But analysts expect growth to slow ahead as the stimulus effect fades and Europe's belt-tightening threatens to dent demand of Japan's exports. Yen gains threaten to further undermine the recovery by eating into exporters' profits and prolonging deflation that encourages consumers and businesses to delay spending.

Strong fiscal plan is vital, Moody's says

The government must unveil a "decisive" fiscal plan next month for Moody's Investors Service to keep a "stable" outlook on the country's rating, Senior Vice President Thomas Byrne said Wednesday.

Prime Minister Yukio Hatoyama's plan must be "credible," Byrne said in Tokyo. Moody's currently rates the government's debt as Aa2, the third-highest ranking.

"The stronger the plan, the more support it gives to the current rating and outlook," Byrne said. "A weaker plan would probably add some pressure."

Policymakers are considering targeting a budget surplus by 2020 or a reduction of the budget deficit to 3 percent of GDP from the current 9.4 percent, a government official said last month.

"It would help if the targets have a significant reduction," Byrne said. "Including an overall deficit target, particularly a debt-to-GDP target, would be setting goal posts that would force fiscal discipline."

Standard & Poor's cut the outlook on Japan's AA grade in January, citing diminishing "flexibility" to cope with the nation's swelling debt load, which is the largest in the industrialized world. Finance Minister Naoto Kan said for the first time last week the government should cap next year's bond sales below the record ¥44.3 trillion budgeted for this year.

Japanese officials have been emphasizing fiscal discipline in light of sovereign-debt woes in Europe that prompted policymakers in the region to unveil an unprecedented rescue package for its most indebted nations last week.

Economy picks up despite deflation

The economy grew at its fastest pace in three quarters as an export surge prompted companies to increase capital spending even as the nation endures persistent deflation at home.

Gross domestic product rose 4.9 percent pace in the first three months of 2010 at an annual rate, less than forecast, a Cabinet Office report showed Thursday. So-called nominal GDP, which is unadjusted for price changes, increased 1.2 percent on a quarterly basis, the most in a decade.

The Cabinet report shows that more than half of growth came from trade, with consumer spending contributing less than one-fifth to the expansion. Finance Minister Naoto Kan warned within minutes of the release that the economy continues to be in a deflationary state and kept up his pressure on the Bank of Japan to sustain its efforts to halt the slide in consumer prices.

"The data raise concern for the outlook of consumption in the second quarter" as fiscal stimulus efforts wear off, said Hiroaki Muto, a senior economist at Sumitomo Mitsui Asset Management Co. "The improvement in wages is still lagging behind and failing to take over the role of locomotive" for the economy.

In the first quarter, companies from Nissan Motor Co. to Tokyo Electron Ltd. reaped the benefits of a recovery in world trade from its worst postwar collapse, as they forecast higher profits and spending on plant and equipment.

The export-fueled rebound also started feeding into wages and the labor market. Earnings rose for the first time in 22 months in March and the ratio of job openings to applicants advanced for a third month.

The reliance on overseas demand may also be a vulnerability as Europe's debt crisis sparks concern about the durability of the global economic recovery.

"The best thing Japan can do is to bring inflation back to their economy," said Huw McKay, a senior international economist at Westpac Banking Corp. in Sydney.

Sustained nominal GDP growth will help stoke inflation expectations and start to narrow the nation's fiscal deficit, he said.

The 4.9 percent annualized growth rate followed a revised 4.2 percent expansion in the previous quarter. The median forecast of 21 economists in a survey was for a 5.5 percent gain in GDP last quarter.

Social Front:

Grads landing jobs near all-time low

Only 91.8 percent of people who graduated from college in March secured jobs, the second-lowest employment rate on record, according to a government survey released Friday.

The figure, compiled as of April 1, was down 3.9 percentage points from a year earlier and neared the all-time low of 91.1 percent registered in 2000. The employment market for college students that year was likened to the ice age due to the economic slump in the early part of the decade.

However, the margin of yearly decline marked this spring was the largest ever, according to the survey conducted jointly by the Health, Labor and Welfare Ministry and the Education, Culture, Sports, Science and Technology Ministry.

Among those seeking work after graduating from high school, 91.6 percent found jobs as of the end of March, down 1.6 points from a year before. This means that about 15,000 students left high school without finding jobs, up about 1,000 from a year earlier.

Some 92.0 percent of male college graduates found jobs, down 3.9 points, while 91.5 percent of female college graduates secured employment, also down 3.9 points.

Among high school graduates, the rate stood at 94.1 percent for male students, down 1.4 points, and 88.2 percent for female students, down 2.0 points.

The survey also showed 94.5 percent of graduates at state- or local government-run universities found jobs, down 2.1 points. The proportion for those at private colleges came to 90.8 percent, down 4.6 points.

The largest percentage decline, a drop of 6.1 points to 88.4 percent, was registered by graduates of two-year colleges, while the figure for those who completed courses at vocational schools dropped 4.4 points to 87.4 percent.

By region, the employment rate among college graduates was the highest at 94.7 percent in the Kinki region centering on Osaka Prefecture. The lowest was 88.9 percent in Kyushu.

By prefecture, the highest employment was seen in Toyama and Fukui, both of which came to 98.1 percent. The lowest was 75.9 percent in Okinawa, followed by 79.3 percent in Hokkaido and 86.2 percent in both Osaka and Kochi.

The survey covered 6,250 students at 112 two-year and four-year colleges across the nation. Data on high school students were compiled via polls conducted by prefectural boards of education.

20% of female students cite abuse

One in five female high school and college students has experienced verbal, sexual and other abuse from people they date, a citizens' group says.

Aware, a Tokyo-based group that assists victims of partner abuse, said a poll it conducted also found that 8.9 percent of male students considered themselves to be victims of an abusive romantic partner.

"The survey shows that many young people mix up violent acts with expressions of affection and have ambiguous perceptions of violence," Aware representative Noriko Yamaguchi said.

The survey covered 2,494 students, presumably aged from their teens to their 20s, who attended its lectures from 2006 to 2007, the group said.

Of the 535 female and 314 male students who said they had been in romantic relationships, 121 females (22.6 percent), and 28 of the males (8.9 percent), said they had been abused by their partners in some way, including sexually.

Miyazaki Increases Stock Cull as Foot-and-Mouth Disease Outbreak Spreads

Japan ordered more than 1 percent of its swine herd to be slaughtered after Miyazaki prefecture, the nation's second-biggest growing region, declared a "state of emergency" as an outbreak of foot-and-mouth disease spreads.

A total of 105,519 pigs and 8,612 beef cattle and dairy cows will be killed in the prefecture on the southern island of Kyushu, said Takehisa Yamamoto, an official at the animal health division of the Ministry of Agriculture, Forestry and Fisheries. That's a 42 percent increase in the past four days.

Foot-and-mouth is one of the most contagious livestock diseases and can have high mortality rates in young animals, according to the Paris-based World Organization for Animal Health, or OIE. The cull is more than 100 times larger than during Japan's last outbreak in 2000. Miyazaki Governor Hideo Higashikokubaru declared an emergency today as they have failed to stop the disease from spreading.

"We would like to ask residents living in the affected areas to stay home" unless they have urgent reasons to go out, Higashikokubaru was quoted by spokesman Tomofumi Yagoshi as telling reporters today. The request is aimed at containment as the possibility the disease may spread "across Kyushu island, or nationwide," cannot be ruled out, he said.

Affected Communities

Suspected cases of foot-and-mouth were found yesterday in cows in Shintomi town, raising the number of affected communities in the prefecture to five from four, Yamamoto at the agriculture ministry said. Shintomi is located about 10 kilometers south of Kawaminami town, where most cases of the disease were discovered.

Japan's previous foot-and-mouth outbreak occurred in 2000, when 740 animals were killed in Miyazaki and on the northern island of Hokkaido.

"It is difficult to determine how the disease is being transmitted," Prime Minister Yukio Hatoyama told reporters today. "The most important thing is that the government will take all possible measures to prevent the disease from spreading further."

Hatoyama has set up a cabinet team to deal with the problem as opposition parties' criticism of Agriculture Minister Hirotaka Akamatsu's handling of the issue intensifies before the nation's upper-house election planned for July.

Rebuilding Business

The Agricultural Ministry's Animal Diseases Experts committee recommended today that the government vaccinate animals against the disease to prevent it spreading further.

Japan has enough reserves of the vaccine to inoculate 700,000 animals, Nobuyuki Terakado, deputy chairman of the committee, said at a briefing today.

The government may spend as much as 20 billion yen (\$216 million) on measures to prevent the spread of the disease and to help affected farmers rebuild their businesses, the Nikkei newspaper reported today, citing an unidentified person in the Ministry of Finance.

To contain the disease, Japan has restricted animal movements and is killing all stock at farms with suspected cases and disinfecting the properties. The first case was reported on April 20.

Miyazaki is Japan's second-largest pig-farming region, accounting for about 9.2 percent of the nation's herd, which was estimated by the agriculture ministry at 9.9 million as of Feb. 1, 2009. The prefecture is also the third-biggest beef cattle grower, accounting for 10 percent of the country's total herd of 2.9 million.

The foot-and-mouth virus found in Miyazaki is similar to the type discovered in South Korea, according to the ministry.

In South Korea, the farm ministry said April 22 that two cases were found at a pig farm in Chungju, south of Seoul, indicating the virus had spread inland. A new outbreak was discovered on April 9 on Ganghwa island, less than a month after the nation declared itself free of the disease.

Japanese pin hopes on acupuncture as beauty secret

TOKYO (Reuters Life) - Forget cosmetic surgery. The ancient treatment of acupuncture is gaining new popularity as a beauty secret in Japan about 1,500 years after it first came there from China.

As aesthetic sessions increasingly go organic or employ traditional remedies, women at the "Beauty World Japan" exhibition this week lined up to try acupuncture, long known for its health advantages.

Inserting tiny needles into faces, boosts natural facial healing powers, says therapist Takeshi Kitagawa.

"This is not a medical or surgical procedure," said Kitagawa, acupuncture therapist and owner of Yojo spa.

"We use the healing powers that a person's body naturally possesses, and within the general trend toward a more 'natural beauty' our acupuncture is very well accepted."

Japan is the world's number two market for beauty products and services, with sales estimated at over \$15 billion last year alone.

Acupuncturist licensing began during Japan's Meiji Era, about 130 years ago, and Kitagawa says his clients, mainly in their 30s, are increasingly pinning their hopes on the treatment, seeing cosmetics or facelifts as pricey and not as healthy.

"It's different from plastic surgery, it doesn't have the risk of failure. Besides, it uses the innate power of human body to create beauty, and that's the reason I like it," said Rie Hayashida.

Japan has an estimated 40,000 registered acupuncturists and over 150 schools, mainly focused on traditional uses.

Girl, 8, stabbed on street in Osaka

OSAKA (Kyodo) An unemployed woman was arrested Monday on suspicion of stabbing an 8-year-old girl in the chest, head and other areas of her body on a street in Osaka, police said.

Setsuka Tamaki, 32, of Sumiyoshi Ward, was arrested for attempted murder and admitted she stabbed the girl, who she said she had not met before.

The victim, in the second grade of elementary school, was stabbed around five times but was able to scream for help, the police said.

A 44-year-old man working at a nearby auto repair shop rushed to the scene and found Tamaki standing there with a vacant expression, the police said. The man, together with other neighbors, surrounded her and turned her over to the police.

The attack took place in front of the victim's house in Higashisumiyoshi Ward at around 3:05 p.m. after she had parted with a neighbor woman who walked with her from school after picking up her own child, the police said.

The girl was taken to a hospital, where doctors said she was able to speak

Women shake up male-dominated restaurants

Traditionally, restaurant kitchens are among the most male-dominated workplaces in Japan. However, thanks to a lot of talent, hard work and perseverance, some women are managing to break through the glass ceiling and in turn have become an inspiration for younger aspirants.

Mika Yamasaki, 45, runs the restaurant Yamasaki in Shinjuku Ward, Tokyo. It won a star in the 2009 and 2010 Michelin Guides, which rate the world's premier eateries on a scale of one to three stars.

Yamasaki began her apprenticeship as a cook at a Tokyo restaurant in 1994. She said in those days she was just about the only female cook there. She worked as hard as her male colleagues and had little time left for her private life.

Once she struck out on her own and went into business in 2002, she realized that being a woman could be a serious handicap. She was immediately shown the door at a bank when she tried to take out a loan to open her restaurant. But she managed to raise funds from a public financial institution that had a lending plan dedicated to women.

Despite the various difficulties she has experienced, Yamasaki encourages aspiring female cooks to take the plunge and aim high. "There is always a way," she says. "It's up to you."

"It seems like it's always women who win prizes in cooking contests, but they never make their careers at Japanese restaurants," says Kikuko Hirose, head of Tokyo Seishin Technical College for Cooking. "Now restaurateurs have become quite willing to hire women, maybe because of a shortage of talented cooks."

Hikomitsu Nozaki, owner of Waketokuyama, a restaurant in central Tokyo, is happy more women are entering professional kitchens.

"Female cooks have high skills and their presence in a restaurant mellows the atmosphere, while men tend to use harsh words," he says, but adds the system is still stacked heavily toward men.

Chisako Hori, 45, who used to be an apprentice cook, battled against the odds and is now in charge of the Tokyo operations for Kikunoi, a Kyoto-based establishment that runs two restaurants there and one in Tokyo. The flagship restaurant in Kyoto received three stars in the 2010 Michelin Guide.

When she worked in the kitchen, she proposed introducing modern culinary utensils and other changes to enhance efficiency, earning the wrath of her more tradition-bound male colleagues.

The experience prompted her to make the best of her talent outside the kitchen. Hori is now responsible for deciding the menu and as a close managerial aide to President Yoshihiro Murata she is one of the chief architects of the Kikunoi brand.

Cooking school chief Hirose says, "Women are suited for work in the Japanese food business, which requires a high level of finesse, because they have dexterous hands and see food as an object of love."

"Human rights" urged for whales and dolphins

OSLO (Reuters) - Whales and dolphins should get "human rights" to life and liberty because of mounting evidence of their intelligence, a group of conservationists and experts in philosophy, law and ethics said Sunday.

Japan, Norway and Iceland, the main whaling nations, oppose such arguments that would outlaw hunting or even keeping the mammals in marine parks. They have long said there is no real evidence that they are smarter, for instance, than cows or pigs.

Participants at a University of Helsinki conference said ever more studies show the giant marine mammals have human-like self-awareness, an ability to communicate and organize complex societies, making them similar to some great apes.

"We affirm that all cetaceans as persons have the right to life, liberty and wellbeing," they said in a declaration after a two-day meeting led by the Whale and Dolphin Conservation Society (WDCS).

Thomas White, director of the Center for Ethics and Business at Loyola Marymount University in California who was at the Helsinki talks, said dolphins can recognize themselves in a mirror, an ability rare in mammals that humans only acquire at about 18 months of age.

"Whaling is ethically unacceptable," he told Reuters. "They have a sense of self that we used to think that only human beings have."

Hal Whitehead, a biology professor at Dalhousie University in Canada and an expert on deep-water whales, said there was more evidence that whales have human-like culture.

SPERM WHALES

He said that sperm whales have sonars to find fish that are so powerful that they could permanently deafen others nearby if used at full blast. Yet the whales do not use sonars as weapons, showing what Whitehead called a human-like "sense of morality."

"It's like a group of human hunters armed with guns," he told Reuters. "There's a clear sense of how the sonar can be used."

Nations in the International Whaling Commission will debate a proposal to approve limited hunts for 10 years by the main whaling nations at a meeting next month, relaxing a 1986 moratorium imposed after many species came close to extinction.

"We want a shift to putting the individual at the center of conservation," said Nicholas Entrup, of the WDCS. That would mean giving minke whales, relatively plentiful and most often hunted, the same protection as endangered northern right whales.

But one expert biologist, who was not at the conference, said many researchers had wrongly concluded that whales and dolphins were smart because they have big brains.

"There's nothing to separate them from other mammals -- seals, lions or tigers," Paul Manger of Johannesburg's University of Witwatersrand, told Reuters. They had evolved big brains largely to keep warm in the chill waters.

Saying whales were not especially bright was not the same as advocating hunts, he said. "We protect fish stocks even though no one argues that they are intelligent," he said.

Saudis learn from Japan to combine tradition and modernization

RIYADH — Japan's education and ideals are receiving keen attention in Saudi Arabia, where a special TV series on the nation has generated high ratings.

The series of about 30 five-minute episodes includes footage shot by a hidden camera of a parent and child picking up a billfold dropped on a Tokyo street and taking it to a "koban" police box.

"I'm surprised," reporter Ahmed al-Schugairy of Saudi satellite television broadcaster MBC said after the segment was aired during Ramadan last fall. "They took the wallet (containing ¥7,000) to police."

The title of the series is "Khwater (Thoughts) — Kaizen (Improvement)."

It is not uncommon in Saudi Arabia and other Arab countries to see people ignore traffic signals, throw cigarette butts on the street and leave a large quantity of leftovers.

Al-Schugairy, while reporting on Japanese society, declared "it's unbelievable" as citizens followed signals at crosswalks, dog owners cleaned up after their pets and elementary school children cleaned classrooms.

Japanese education and ideals are a focus of attention as factors that contribute to a peaceful coexistence of tradition and modernization.

Saudi Arabia, a nation adhering to strict Islamic discipline and which boasts the world's largest crude oil reserves, has a high percentage of young people. It faces the daunting tasks of dealing with high unemployment and improving its education system.

Saudi conservatives believe the country should learn from Europe and the United States regarding modernization, while avoiding an influx of individualism and equal rights for women.

Commenting on the TV program becoming a hit in Saudi Arabia, a Japanese expatriate in Riyadh said: "Saudi Arabia looks at Japan as a country that has realized modernization while keeping its traditions. It sees Japan as a model of achieving developments other than Europe and the United States."

Al-Schugairy said that according to domestic media reports, "There are a lot of things we can learn from Japanese society, such as consideration for others and a sense of being neat and clean."

Amid the ongoing Japan boom, the Japanese government and private firms cooperated and opened the Saudi Electronics & Home Appliances Institute in Riyadh last September to teach Saudis how to become technical experts and appliance repairmen.

At present, about 90 young men aged 18 to 21 from across the country are studying repairing air conditioning units and television sets after passing the appropriate exams.

Stamps commemorate security pact

Japan Post Network Co. will issue a sheet of 10 ¥80 stamps on June 23 to commemorate the 50th anniversary of the revised security treaty with the United States.

Each sheet will consist of two kinds of stamps showing Prime Minister Nobusuke Kishi and President Dwight Eisenhower signing the treaty and the government buildings of the two countries.

China holds man over drug smuggling

BEIJING (Kyodo) Chinese customs authorities have detained a Japanese man for allegedly trying to smuggle an illicit substance to Japan, the Japanese Consulate General in Qingdao said Tuesday.

The man was apprehended last Wednesday after about 2.5 kg of stimulant drugs was found in his luggage, the consulate said.

Japan to Cull Breeding Cattle on Disease Outbreak, Yomiuri Says

May 17 (Bloomberg) -- Japan will cull 49 of 55 breeding cattle in the southern prefecture of Miyazaki as it seeks to contain the spread of foot-and-mouth disease, the Yomiuri newspaper said.

The remaining six cattle will be moved out of the affected area, the newspaper said, citing local authorities. The government has ordered the destruction of more than 85,000 pigs and cows at 111 farms since the outbreak began last month.

Japanese Prime Minister Yukio Hatoyama today committed to provide as much as 100 billion yen (\$1.08 billion) to deal with the outbreak, the Yomiuri said in a separate report. The cost has so far reached 16 billion yen, which doesn't include the value of the breeding cattle, the Yomiuri said, citing the local industry association.

Miyazaki, on the southern island of Kyushu, is the nation's third-largest growing region for beef cattle. Japan's so-called wagyu meat, known for its flavor and tenderness, is often priced at a premium to other cuts of beef.

Foot-and-mouth is one of the most contagious animal diseases and can have high mortality rates in young animals, according to the Paris-based World Organization for Animal Health.