

**Globalized Business and politics; A View from Muslim world**

**Weekly report on South Korea & Japan**

**Report # 121**

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**Wajid Hussain**

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## Summary of Report

### Japan

**Futenma to stay in Okinawa: new pact** Japan and the United States broadly agreed Saturday on a fresh pact that effectively states that U.S. Marine Corps Air Station Futenma in Okinawa will be relocated to the coast of the Henoko district of Nago, also in the prefecture, as per an existing Japan-U.S. accord, sources said. The pact, expected to be announced May 28, was prepared by Foreign Minister Katsuya Okada, U.S. Ambassador to Japan John Roos and foreign and defense officials of the two countries.

**Karzai to visit Japan from June 16** Afghan President Hamid Karzai will visit Japan for five days from June 16, Foreign Minister Katsuya Okada said Friday. Okada made the announcement during a news conference.

**Hatoyama offers an apology to Okinawa** Prime Minister Yukio Hatoyama apologized Sunday for failing to keep his promise to move Futenma air base out of Okinawa, despite months of searching for an alternative. The administration's plan now is to shift U.S. Marine Corps Air Station Futenma from a residential area in the city of Ginowan to the coast near Nago, a move similar to the original relocation plan signed with the U.S. in 2006 but strongly opposed by Okinawa Gov. Hirokazu Nakaima.

**Tokyo considers more sanctions** Prime Minister Yukio Hatoyama ordered the Cabinet on Monday to study additional sanctions against North Korea to punish the hermit state over its sinking of a South Korean warship in March. The Security Council of Japan, chaired by Hatoyama, met in the afternoon to express strong support for South Korea after it suspended trade with North Korea and banned its merchant ships from Seoul's waters for torpedoing the corvette Cheonan and killing 46 sailors.

**LDP hits Hatoyama for keeping its base deal** Liberal Democratic Party Secretary General Tadamori Oshima indicated Monday that the main opposition force may introduce a no-confidence motion against the Cabinet of Prime Minister Yukio Hatoyama for reneging on his promise to move the Futenma base out of Okinawa.

**Marine admits stickup** A 19-year-old U.S. Marine pleaded guilty Monday to robbing and injuring a taxi driver in Okinawa last August in the first lay judge trial involving an American serviceman. Lay judges were selected from the public at the Naha District Court earlier in the day.

**Hatoyama Fires Coalition Partner Who Balks on Okinawa** Japanese Prime Minister Yukio Hatoyama fired a Cabinet minister yesterday for opposing a U.S. military accord, risking a rupture in the ruling coalition two months before an election that will help determine his legislative agenda.

## **Economic Front:**

**NPO head diverted funds to pay debts** The head of a group assisting Bangladesh diverted ¥11 million received in donations last year from postal savings depositors to repay his personal debts, sources said Saturday. The 42-year-old director of the Tokyo-based nonprofit Japan Bangladesh Foundation admitted to the allegation but said he has since borrowed more money to provide assistance to the impoverished country.

**Global car sales to top 20 million** Global sales of Japan's seven major automakers are expected to reach 20.21 million units in the year through next March, the first time in three years that the number will clear 20 million, according to their sales plans compiled through Saturday. The seven automakers' global sales declined for the second year in a row through this March.

**U.S., EU press Japan on post privatization** Senior United States and European trade officials challenged Japan on Friday to ensure a level playing field in insurance, banking and delivery services as it privatizes its postal system and creates the world's largest commercial bank.

**Pretax profits up 27.4% for major companies in '09: Nikko Cordial** Major companies other than financial firms saw their combined fiscal 2009 pretax profits jump 27.4 percent from the previous year by cutting costs and taking advantage of an economic recovery in emerging countries, Nikko Cordial Securities Inc. said Friday. But the profits at 1,184 companies listed on the first section of the Tokyo Stock Exchange in the year to March were still limited to half the fiscal 2007 level, before the global recession started. Even though their sales declined 12.8 percent in fiscal 2009, their combined net profits soared 14-fold.

**Record growth in foreign assets** Japan's net foreign assets grew in 2009 to a record ¥266.22 trillion at the end of the year as investments in stocks and bonds abroad expanded and the yen's weakening helped increase the value of overseas investments, the Finance Ministry said Tuesday. Net foreign assets at the end of December were 18.1 percent higher than a year before, rising for the first time in two years. The previous record was ¥250.22 trillion at the end of 2007. Japan remained the world's largest holder of net foreign assets for the 19th consecutive year.

**Honda to up China output 28% by 2012** Honda Motor Co. will raise production capacity in China by 28 percent to 830,000 vehicles a year by the second half of 2012 and introduce two new models, Chief Executive Officer Takanobu Ito said Tuesday in Guangzhou. Guangqi Honda Automobile Co., a Chinese joint venture owned by Honda and Guangzhou Automobile Group Co., will double the capacity of its Zengcheng plant to 240,000 vehicles a year by the second half of 2011, Honda said.

**Soybean Imports by Japan May Gain 1.5%, Group Says** Soybean imports by Japan, the largest Asian buyer after China, may increase 1.5 percent this year after reaching a 34-year low in 2009 on higher costs, an industry group said.

**Japan Tightens Control on Sending Cash to North Korea** Japan tightened controls on sending money to North Korea and authorized the Coast Guard to search the communist regime's ships in response to the deadly attack on a South Korean naval vessel. Japan's unemployment rate unexpectedly increased in April, household spending fell and deflation deepened, signaling domestic demand is restraining the nation's recovery from its worst postwar recession. Jordan is in talks with Japan to send a major economic mission around early June to explore the possibility of cooperating in nuclear power generation, railway system improvement and renewable energy development, Jordanian sources said Friday.

## **Social Front:**

**Stud bull slaughtered for foot-and-mouth** One of six stud bulls separated from other cattle after the spread of foot-and-mouth disease in Miyazaki Prefecture has tested positive for the highly infectious virus and was slaughtered, the prefectural government said early Saturday. The development will likely deal a devastating blow to the livestock industry in the prefecture because the bulls are used to breed the prefecture's prized Miyazaki beef. It may also affect some other top-range beef producers outside the prefecture who raise calves from Miyazaki.

**EV breaks record with 1,003-km run** A Tokyo civic group said Sunday it managed to get an electric car to run 1,003.184 km without a recharge, shattering its own world record from last year. The Japan Electric Vehicle Club said it will ask Guinness World Records to officially recognize the journey, which was completed at a racing course in Shimotsuma, Ibaraki Prefecture, as the world's longest.

**¥79 million awarded over 'karoshi'** The operator of the major restaurant chain Nihonkai Shoya and its four top managers were ordered Tuesday to pay about ¥78.6 million in damages to the parents of an employee who died of overwork. The Kyoto District Court's decision was the first in Japan finding the top management of a major corporation liable for damages in a suit involving death by overwork, or "karoshi," according to attorney Tadashi Matsumaru. The parents of Motoyasu Fukiage, 24, who died while employed at a Nihonkai Shoya outlet in Shiga

Prefecture, had filed a ¥100 million damages suit against operator Daisyo Corp., its president, Tatsu Taira, and other managers.

**Ship sails for U.S.-led aid program** A Maritime Self-Defense Force vessel left port Sunday to become the first Japanese ship to join an annual U.S. Navy-led medical aid program in the Asia-Pacific region. The effort is part of Prime Minister Yukio Hatoyama's "yu-ai (fraternity) boat" initiative.

**Ozawa endorses postal reform bill** Democratic Party of Japan kingpin Ichiro Ozawa on Sunday endorsed a bill to scale back the planned privatization of state-owned Japan Post Holdings Co., increasing the likelihood the legislation will pass through the Diet in the current session.

**National health insurance a basic universal safety net** All Japanese citizens are required by law to be covered by public health insurance. Because of this universal system, most medical treatment is covered and the costs are reasonable. The first health insurance law took effect in 1927 to protect laborers, and in 1938 the umbrella was extended to farmers, according to the Health, Labor and Welfare Ministry. After World War II, many organizations stopped providing health insurance. To make sure every citizen was covered, the government revised the national health insurance law in 1958.

**Cows, pigs get shots, set to die** Vaccination of all cows and pigs within 10 km of farms hit by foot-and-mouth disease in Miyazaki Prefecture was expected to be finished by the end of Tuesday before they are slaughtered, agriculture minister Hirotaka Akamatsu said. Akamatsu said 73 percent of some 200,000 cows and pigs set to be slaughtered had been vaccinated as of Monday night.

**Online survey starts on parental child 'abductions'** The government Tuesday began soliciting views via the Internet on the possibility of ratifying the international convention on protecting children from being wrongfully taken out of their home country by a parent.

## **South Korea:**

### **Politico-Strategic Front**

**S. Korea's Lee to Give Speech, Measures Against North** South Korea's President Lee Myung Bak will say in a speech that the country will take "all possible strong measures" against any additional provocation by North Korea, after an alleged attack by the North in March that sank one of South's warships, the presidential office said.

**South Korea to Define North Korea as 'Main Enemy', Yonhap Says** South Korea plans to define North Korea as its "main enemy" when it maps out military strategies, Yonhap News reported, citing a government official it didn't identify.

**U.A.E. Agrees to Buy K11 Rifles From South Korea, UPI Reports** The United Arab Emirates agreed to buy K11 rifles from South Korea, becoming the first export customer for the weapon, United Press International reported, citing the U.A.E.'s Defense Acquisition Program Administration.

**Russia to Make Own Assessment of Sunken South Korean Warship** Russia will make an independent assessment of the sinking of a South Korean warship that a multinational investigation blamed on North Korea. South Korea invited a Russian team to examine the evidence, the Kremlin said in an e-mailed statement late yesterday. The U.S. and its allies hold communist North Korea responsible for the March 26 incident, in which 46 sailors died.

**North Korea Severs Ties With South on Ship Sinking** North Korea said it will sever all ties with South Korea and expel the South's workers from a joint industrial zone as "punishment" for accusing it of sinking a warship and killing 46 South Korean sailors.

**Mobius Says South Korean Policies May Change North** South Korean President Lee Myung Bak's measures against North Korea may accelerate change and help to open up the communist country "in the long run," according to Mark Mobius.

**South Korea May Accept UN Censure for North, Easing China Fears** South Korea's government is prepared to omit sanctions from any United Nations action against North Korea over the sinking of a warship, a concession that may ease tension and help head off Chinese opposition.

**Elections of education officials turn into lottery pick** Three-quarters of voters remain undecided as to whom to vote for in the election of superintendents and education board members, which will take place as part of the June 2 local polls, the latest surveys suggest.

**N. Korea vows to rip up military safeguards with South** North Korea said on Thursday it was ripping up military agreements signed with the South in a step seen as a prelude to shutting down a joint factory park, just as Seoul staged anti-submarine drills in tense border waters. Signs also emerged that China, the North's main benefactor and ally, is reviewing ties with the isolated state, a week after international investigators accused Pyongyang of torpedoing a South Korean warship in March. The sinking killed 46 sailors and sharply raised tensions in economically significant East Asia.

**China PM visits S. Korea amid storm over warship sinking** Chinese Premier Wen Jiabao begins a two-day visit to South Korea on Friday for talks with East Asian trading partners, but the issue of how to reign in provocative North Korea is expected to dominate. With Seoul and Tokyo convinced that North Korea torpedoed a the South Korean warship Cheonan in March, China's attempts to balance those ties with its traditional support of North Korea will see Wen face his neighbours' disquiet over Beijing's reluctance to press Pyongyang.

**South Korea says no chance North will go to war** South Korea sees no chance of the latest tension on the divided peninsula turning to outright war but is deeply concerned that the North may try terror attacks on civilians, a high ranking South Korean official said on Friday. He also said that though both sides have been careful not to push too far, Seoul was ready to send in troops if there is what he called "extreme provocation" by the North.

**Russia plans big naval exercise off North Korea** Russia will hold large-scale naval exercises near North Korea next month that were planned before the current stand-off on the Korean peninsula, naval officials said on Thursday.

**U.N. sees North Korea exporting nuclear technology – envoy** A new U.N. report suggests that North Korea has been using front companies to export nuclear and missile technology and has helped Iran, Syria and Myanmar, a Western diplomat said. The findings were detailed in a report by a U.N. panel of experts charged with monitoring compliance with Security Council sanctions against Pyongyang, the diplomat told Reuters late on Thursday on condition of anonymity.

**China, South Korea to Deepen Ties Amid North Tension** China agreed to deepen ties with South Korea and Japan at an annual summit overshadowed by accusations that its ally North Korea sank one of the South's warships. The North rejected the charges as "sheer fabrication" to justify a "a war of aggression against it."

**Ban's Call to Sanction North Korea Pushes Limits of UN Top Post** United Nations Secretary-General Ban Ki-moon, a former South Korean foreign minister, is setting aside the traditional impartiality of his post to push for sanctioning North Korea over a suspected naval attack.

## **Economic Front:**

**North Korea 2009 Trade Shrank 9.7% on Sanctions, S. Korea Says** North Korea's international trade shrank 9.7 percent last year amid United Nations sanctions, a state-run South Korean agency said. The value of the communist country's trade dropped to \$5.09 billion in 2009, the Korea Trade-Investment Promotion Agency said in a report today. North Korea doesn't release official trade data.

**Korea May Get Developed Status at MSCI, BNP Says** South Korea may be upgraded to developed-market status by MSCI Inc. in a review next month, helping to reduce the stock market's "discount," according to BNP Paribas. A "neutral" allocation by developed-market funds will prompt net inflows of \$13.7 billion to the market, while a 1 percent "overweight" will boost fund inflows to \$32.6 billion, BNP analysts led by Ryan Tsai wrote in a report today. Larger inflows and potential credit-rating upgrades should narrow Korea's discount to other developed markets, they also said.

**Korea Won Falls 4.1% as Yonhap Reports Kim Ready for Battle** The South Korean won declined as much as 4.3 percent after the nation's Yonhap news agency reported that North

Korean leader Kim Jong Il ordered military bodies to prepare for battles. The currency weakened to as low as 1,272.45 after Yonhap cited a defector group for the information.

**Hyundai Steel Plans New Automotive Products, Expands Research** Hyundai Steel Co., South Korea's second-biggest steelmaker, will develop new automotive products for use in cars including the Sonata and Elantra by adding about 200 researchers, increasing competition for Posco.

**South Korea April Current-Account Surplus Narrows on Dividends** South Korea's current-account surplus narrowed in April as the nation's companies paid more of their dividends to international investors. The surplus was \$1.49 billion last month and a revised \$1.8 billion in March, the Bank of Korea said in Seoul today. Dividend payments to foreign shareholders amounted to \$2.25 billion in April.

**Bank of Korea Must Hold Rate to Avoid 'More Turmoil,' KDI Says** The Bank of Korea should keep its benchmark interest rate unchanged as escalating military tension with North Korea and Europe's debt crisis have shaken investors' confidence, the head of a state-run research institute said.

**South Korea's industrial park in the North,** North Korea said it was cutting all ties with the South, including shutting down a liaison office located at a jointly run factory park, after Seoul imposed sanctions on Pyongyang for torpedoing one of its warships. Here are some facts about the complex located in the North Korean border city of Kaesong, where South Korean companies use cheap North Korean land and labor to make goods:

**What G20 finance chiefs will discuss in South Korea** Finance ministers and central bankers from the Group of 20 wealthy and developing economies gather in South Korea next week to grapple with Europe's debt crisis, financial reforms and efforts to rebalance the global economy. The June 4-5 meeting in the port city of Busan will lay groundwork for a summit of G20 leaders in Toronto on June 26-27.

**UAE's Borouge awards EPC contracts worth \$2.6 bln** United Arab Emirates petrochemicals firm Borouge has awarded three Engineering Procurement and Construction contracts (EPC) totalling \$2.6 billion for its plant expansion, the firm said on Wednesday. The new expansion -- Borouge 3, will see capacity increase to 4.5 million tonnes per year (tpy) by 2013, making it the largest integrated polyolefins site in the world.

**S. Korea's Nonghyup Said to Buy 55,000 Tons of Corn** Nonghyup Feed Inc., South Korea's biggest buyer of feed grains, purchased 55,000 metric tons of corn for arrival in October in a tender, according to two industry executives who took part in the bidding late yesterday.

**S. Korea Samsung Total completes 40,000 T LPG tanker** South Korea's Samsung Total said on Friday it had completed a \$41 million liquefied petroleum gas (LPG) tanker with a storage

capacity of 40,000 tonnes. Until now the firm produced only about 3,000 tonnes of LPG per month.

**South Korea steps nearer to controlling currency risks** South Korea looks increasingly close to imposing some form of foreign exchange controls, albeit relatively moderate ones, to try to stop gyrations in the won and end the constant risk of sudden capital flight. Foreign bank branches are likely to be included in measures.

**South Korean Manufacturers' Confidence Holds Near 7-Year High** South Korean manufacturers' confidence held near a seven-year high as the nation's economic growth accelerates. An index measuring expectations for June fell to 104 from 107 in May, the Bank of Korea said today. The May reading was the highest since the fourth quarter of 2002, when the bank published its confidence survey on a quarterly basis. A measure of non-manufacturing companies' expectations fell to 90 from 94.

## **Social front:**

**Female North Korean spy caught** The National Intelligence Service and prosecutors said Sunday that they had a female North Korean spy in custody who obtained "confidential" information about companies and the National Police Agency from people she met through Internet chat rooms.

**Japan, Korea to Exchange Information on Emissions Trading** Japan and South Korea agreed to exchange information on a proposed emissions-trading mechanism, the Japanese environment ministry said today in a statement. Minister Sakihito Ozawa met South Korean counterpart Lee Maanee for bilateral discussions yesterday, ahead of today's three-nation meeting with China, according to the statement.

**Koreans' use of Internet for news highest in OECD** South Korea is well-known as the world's most wired and Internet-friendly nation, with nearly all businesses and households here linked to high-speed broadband networks.

**134 unionized teachers face dismissals in June** The 134 unionized public school teachers, who hold indicted for illegal membership in the Democratic Labor Party(DLP), will be forced to stop teaching from June 1, the education authorities said Thursday. The KTU is protesting the government's decision

**Smokers in public places will be fined** Seoul Metropolitan Government said Thursday it will impose fines on smokers if they are caught smoking in designated public places such as bus stops, parks and school zones. It revised its ordinance to impose fines of up to 100,000 won (\$97) for those who smoke such places or within 200 meters of a school.

**3% of pregnant women smoke** About three out of every 100 pregnant women continue smoking during their pregnancy, seriously threatening the health of both the mother and the fetus, a group of doctors said Friday. Professor Jun Jong-kwan of Seoul National University, Professor Jhun Hyung-joon of Korea University and others studied urine samples of 1,057 pregnant women visiting gynecologists nationwide, of which nicotine was detected in 3.03 percent. But in a written questionnaire given to 1,135 pregnant women in the same study, only 0.5 percent admitted to smoking.

**Multiculture brings changes to college campus** Korean universities are no longer just for native Koreans — more than 75,000 foreign students are taking domestic degree courses. This ethnic diversity on campuses is leading to changes in their structure, admission system and even legal framework. A notable change is the emergence of foreign students' associations

**Seoul mulls safety measures for workers at Gaeseong site** South Korea warned North Korea Friday that it will take strong action, if Pyongyang inflicts harm on South Koreans working at a joint industrial complex in the North's city of Gaeseong.

**Recruitment of female ROTC cadets may begin next year** The Ministry of National Defense is considering allowing female college students to join the Reserve Officers' Training Corps (ROTC) program as early as next year, in an effort to secure more talented female military officers, ministry officials said Friday. The ROTC program was introduced in Korea in 1963, but female college students have been banned from entering the program, which some critics say is discriminatory.

## Japan

### Detailed News:

## **Politico-Strategic Front:**

### **Futenma to stay in Okinawa: new pact**

*Japan, U.S. reach deal that rehashes existing accord*

Kyodo News

Japan and the United States broadly agreed Saturday on a fresh pact that effectively states that U.S. Marine Corps Air Station Futenma in Okinawa will be relocated to the coast of the Henoko district of Nago, also in the prefecture, as per an existing Japan-U.S. accord, sources said.

The pact, expected to be announced May 28, was prepared by Foreign Minister Katsuya Okada, U.S. Ambassador to Japan John Roos and foreign and defense officials of the two countries.

It outlines where to transfer the Futenma base by May 31, the deadline set by Prime Minister Yukio Hatoyama for settling the issue, and says the two countries will not delay the current environmental assessment being conducted under the existing bilateral deal, the sources said.

The existing plan agreed in 2006, which stipulates that two runways in a V-shaped configuration will be built on land to be reclaimed by filling in the sea near U.S. Marine Corps Camp Schwab, has already been subject to nearly three years of environmental assessment.

By affirming the assessment process, the new pact effectively states that Japan will follow the existing plan, giving up on a new relocation proposal that would entail a new environmental assessment.

The agreement also says the two governments will consider joint usage of the new facility by U.S. forces and the Self-Defense Forces, the sources said.

The two countries also agreed to transfer part of U.S. drills outside Okinawa in a bid to lessen the burden on the residents of the prefecture, which hosts the bulk of U.S. forces in Japan, according to the sources. However, the agreement fails to specify where the drills will be transferred to and leaves this up to future negotiations.

The new pact says Japan and the United States will come up with a detailed relocation plan by September.

Hatoyama was to visit Okinawa on Sunday in an attempt to win local support for the proposed relocation site by the end of this month. He was also to hold talks with Okinawa Gov. Hirokazu Nakaima and local business leaders.

But the plan outlined in the new pact is expected to face opposition as Nakaima said earlier he will tell Hatoyama that Okinawa will not accept Futenma's transfer to the Henoko area, even if the prime minister requests it.

The upcoming visit will follow Hatoyama's trip to Okinawa on May 4, when he publicly announced for the first time his intention to relocate some of the airfield's functions within the prefecture.

### **Karzai to visit Japan from June 16**

Kyodo News

Afghan President Hamid Karzai will visit Japan for five days from June 16, Foreign Minister Katsuya Okada said Friday.

Karzai is expected to hold talks with Prime Minister Yukio Hatoyama and other officials during his visit to exchange opinions over assistance aimed at rebuilding Afghanistan.

Okada made the announcement during a news conference.

### **Hatoyama offers an apology to Okinawa**

NAHA, Okinawa Pref. (Kyodo) Prime Minister Yukio Hatoyama apologized Sunday for failing to keep his promise to move Futenma air base out of Okinawa, despite months of searching for an alternative.

The administration's plan now is to shift U.S. Marine Corps Air Station Futenma from a residential area in the city of Ginowan to the coast near Nago, a move similar to the original relocation plan signed with the U.S. in 2006 but strongly opposed by Okinawa Gov. Hirokazu Nakaima.

While clarifying the plan, Hatoyama said he will ask other prefectures at a meeting Thursday to take on some of the U.S. military drills currently staged in Okinawa.

"This is the heartbreaking conclusion I've reached to return the Futenma base" site to Okinawa, Hatoyama said during a meeting with Nakaima that was open to the media.

"I offer my heartfelt apology for causing confusion to the people of the prefecture in the process of being unable to keep the promise to move it out of the prefecture," he said.

Nakaima expressed "extreme regret" about the administration's decision and repeated that local residents are disappointed that Hatoyama has given up on trying to remove Futenma's operations from the prefecture.

"The gap between people's expectations (and the latest government decision) is huge. I expect the prime minister to take time to offer further explanations and work out a solution that will satisfy us," Nakaima told Hatoyama.

Nakaima later said that Hatoyama "betrayed" Okinawa.

During their meeting, the prime minister said he will ask other prefectures to accept some of the U.S. military drills conducted in Okinawa when at a meeting of the governors convenes Thursday.

Hatoyama also said the administration gave up on Futenma's removal in light of "remaining uncertainties in East Asia" — especially the Korean Peninsula.

"As prime minister, I have to say we can't allow the situation in which deterrence provided by the U.S. forces in Japan will diminish," he said.

Later, Hatoyama said the administration will try to continue negotiating with the United States beyond his May 31 deadline for settling the issue.

Hatoyama's visit was his second to the island prefecture this month as he struggles to soothe local residents angered by the thorny relocation issue.

Before he arrived, protesters held a rally outside the prefectural government office and called on the prime minister to stick to his campaign pledge and give up on trying to keep the base in the prefecture. Many held up red cards bearing the kanji for "anger."

Japan and the United States broadly agreed Saturday on a fresh accord that effectively states Futenma will be relocated to a filled in area at Cape Henoko in Nago off the coast of Camp Schwab, sources said. The accord is expected to be announced Friday.

The agreement is basically in line with the existing relocation plan, which was hammered out in the Japan-U.S. accord signed in 2006.

During his one-day trip, Hatoyama also met with Nago Mayor Susumu Inamine and 11 other mayors. Inamine, who was elected in January on the strength of his opposition to the Futenma relocation plan, also repeated his position.

"I can't hide my rage at the new Japan-U.S. accord as it betrays the sentiment of people in Nago and Okinawa," Inamine told Hatoyama. "As Nago mayor, I express my firm opposition . . . Nago needs no new base."

After the meeting, Inamine told reporters that the possibility of moving Futenma to his city is "close to zero," because local opposition has been gaining momentum. He also said Hatoyama didn't provide specific information on how the replacement facility would be built.

In the afternoon, the prime minister held talks with local business representatives in Naha to discuss the base issue and measures to invigorate the Okinawan economy.

Eiji Chinen, head of a local business group, told Hatoyama that participants were ready to tell him about the prefecture's conditions but changed their minds after learning of his message to the governor.

"We'd rather like to ask your views on the base issue and explore what we should do," he said.

Mizuho Fukushima, leader of the Social Democratic Party, said in Fukuoka she is against the Futenma plan. The SDP is one of the Democratic Party of Japan's small but vital coalition partners.

Okinawa hosts about 75 percent of the land area used for U.S. military facilities in Japan and half of the roughly 50,000 U.S. service personnel in the country.

Before coming to power, Hatoyama, who also heads the DPJ, pledged during the Lower House election campaign last summer that he would seek to remove the base from Okinawa to ease such related problems as noise pollution, accident risks and crimes associated with the U.S. military presence.

### **Tokyo considers more sanctions**

Compiled from Kyodo, Staff report

Prime Minister Yukio Hatoyama ordered the Cabinet on Monday to study additional sanctions against North Korea to punish the hermit state over its sinking of a South Korean warship in March.

The Security Council of Japan, chaired by Hatoyama, met in the afternoon to express strong support for South Korea after it suspended trade with North Korea and banned its merchant ships from Seoul's waters for torpedoing the corvette Cheonan and killing 46 sailors.

During the meeting, Hatoyama instructed the Cabinet to study what additional sanctions Japan can take against the North, officials said. The meeting also confirmed that Tokyo will take concerted action with Seoul and Washington.

Afterward, Chief Cabinet Secretary Hirofumi Hirano said Hatoyama also expressed a willingness to pass a bill through the Diet as soon as possible that would allow Japan to inspect vessels sailing to and from North Korea.

The inspections, which would be conducted in both Japanese territorial waters and on the high seas, would be in line with a U.N. Security Council resolution adopted last year following Pyongyang's test of a nuclear weapon.

While Japan has economic sanctions in place against North Korea over abductions of Japanese nationals, Hirano said the government is ready to take its actions up a notch, noting, "We need to consider sanctions of our own separately from that of the U.N."

In addition to the foreign and defense ministers, the justice and financial services ministers attended the meeting Monday.

## **LDP hits Hatoyama for keeping its base deal**

Kyodo News

Liberal Democratic Party Secretary General Tadamori Oshima indicated Monday that the main opposition force may introduce a no-confidence motion against the Cabinet of Prime Minister Yukio Hatoyama for reneging on his promise to move the Futenma base out of Okinawa.

"Hatoyama has no competence to resolve the issue. We'll decide on the next step after we see what Hatoyama will say at the end of this month," Oshima said, referring to Hatoyama's plan to announce on Friday a basic agreement with the U.S. on the relocation of U.S. Marine Corps Air Station Futenma.

Under the plan, the Futenma base is likely to be moved to the Henoko coast of Nago at Camp Schwab, the same location agreed on by the two countries in a 2006 accord when the LDP was in power.

"I wonder what was the purpose" of Hatoyama's visit to Okinawa on Sunday, Oshima said. "He just made an excuse and left there, only deepening a split between him and Okinawa residents. That's a very naive political tactic."

Sunday's meeting between Hatoyama and Okinawa Gov. Hirokazu Nakaima immediately drew fire from members of the opposition camp, who said the prime minister betrayed the wishes of local residents.

"It has become clear that, realistically, it is difficult to resolve the matter by the end of May," LDP President Sadakazu Tanigaki said Sunday in Sasebo, Nagasaki Prefecture.

"The next prime minister would find it difficult to work if (the public) thinks a remark about staking one's job is as light as (Hatoyama) has made it seem," he said, urging the prime minister either to quit or to call a snap election.

Hatoyama said last month he was staking his political fortunes on resolving the base question, as his administration continued to review the bilateral deal reached by the previous LDP-led government.

Tanigaki said his party will consider submitting a no-confidence motion against Hatoyama in the Diet.

Natsuo Yamaguchi, head of New Komeito, said Hatoyama is not qualified to be prime minister.

"He betrayed the people of (Okinawa) prefecture by raising their hopes for (Futenma's) relocation outside the prefecture," Yamaguchi said in the city of Saitama.

Hatoyama is trying to resolve the matter "in a fraudulent manner," he said.

Japanese Communist Party policy chief Akira Koike released a statement calling Hatoyama's action "the worst betrayal" of the people of Okinawa and the Japanese public, and the government's effort to find a new relocation site has clearly broken down.

Koike went on to call for an unconditional removal of the Futenma facility.

Your Party leader Yoshimi Watanabe called for Hatoyama to step down, saying in the city of Chiba he must take responsibility for raising the hopes of the people of Okinawa that the base would be moved out of the prefecture.

### **Marine admits stickup**

Kyodo News

A 19-year-old U.S. Marine pleaded guilty Monday to robbing and injuring a taxi driver in Okinawa last August in the first lay judge trial involving an American serviceman.

The suspect, stationed at the U.S. Marine Corps Makiminato Service Area in Urasoe, is accused of injuring the driver with a knife and robbing him of ¥21,000 and \$100 in cash on the night of Aug. 1. The marine's name was not released.

Lay judges were selected from the public at the Naha District Court earlier in the day.

The district court will hold the next trial sessions Tuesday and Wednesday and hand down a ruling Thursday.

### **Hatoyama Fires Coalition Partner Who Balks on Okinawa (Update1)**

May 29 (Bloomberg) -- Japanese Prime Minister Yukio Hatoyama fired a Cabinet minister yesterday for opposing a U.S. military accord, risking a rupture in the ruling coalition two months before an election that will help determine his legislative agenda.

Mizuho Fukushima said today her Social Democratic Party may quit the government after Hatoyama dismissed her as consumer affairs minister because she wouldn't support his agreement to relocate a Marine air facility within Okinawa. Japan's southernmost prefecture hosts the majority of U.S. military personnel stationed in the nation.

"I take my firing as a discarding of the Social Democratic Party," Fukushima said on a news program shown on Tokyo Broadcasting System Holdings Inc.

Hatoyama's approval rating has fallen by 50 points since he took office eight months ago, in part due to his vacillating on where to move the Futenma Air Base. A departure by the Social Democrats would reduce the Democratic Party of Japan-led government's majority ahead of July elections for the less-powerful upper house, which can hold up legislation.

'50-50'

“It’s fifty-fifty” whether the SDP leaves, said Hirotada Asakawa, a Tokyo-based independent political commentator. “Hatoyama’s political skills will come under scrutiny.”

Chief Cabinet Secretary Hirofumi Hirano will replace Fukushima as consumer affairs minister, public broadcaster NHK reported.

“I cannot betray the people of Okinawa,” Fukushima told reporters in Tokyo last night after her dismissal. She said her party will discuss on May 30 whether to remain in the coalition.

Hatoyama, who campaigned last year on moving Futenma off Okinawa, agreed to most parts of an existing plan to relocate the base on the island to the coastal region of Henoko, the U.S. and Japan said in a statement. President Barack Obama spoke to the prime minister by phone to convey appreciation for the resolution to an eight-month dispute that frayed ties.

Hatoyama apologized last night for abandoning his campaign pledge on the base relocation, citing security threats from countries such as North Korea, which cut off ties with South Korea and threatened war after an international probe concluded it was behind a deadly attack on a South Korean naval ship.

‘Excruciating’

“I apologize from my heart that I couldn’t keep my word and that I’ve hurt the people of Okinawa,” Hatoyama said. “We’ve made this decision after carefully considering deterrence by the U.S. forces in Japan including Marines.” Firing Fukushima was “excruciating,” the prime minister said, adding that he wants to keep the Social Democrats in his government.

Obama “agreed to deepen Japan-U.S. ties,” Hatoyama told reporters earlier today. They also discussed North Korean aggression and agreed to “respond firmly” through the United Nations Security Council, he said.

“The president and the prime minister called on North Korea to end its provocative behavior toward its neighbors and to abide by its commitment to eliminate its nuclear weapons program,” according to a White House statement.

Japan yesterday further tightened controls on money transfers to North Korea.

U.S. Pressure

The U.S. pushed Japan to uphold an 2006 agreement to move Futenma within Okinawa, an island 950 miles (1,530 kilometers) south of Tokyo, by 2014 as part of a \$10.3 billion plan that would also transfer 8,000 Marines to Guam. The people of Okinawa, which hosts 75 percent of the U.S. bases in Japan, want it moved elsewhere, citing increased crime, pollution and noise.

“The U.S.-Japan alliance remains indispensable not only to the defense of Japan, but also to the peace, security and prosperity of the Asia-Pacific region,” U.S. Secretary of State Hillary

Clinton, Defense Secretary Robert Gates, Japanese Foreign Minister Katsuya Okada and Defense Minister Toshimi Kitazawa said yesterday in a statement. The four officials “reaffirmed the commitment to reduce the impact on local communities, including in Okinawa.”

The two sides will conduct a study to come up with a construction plan for the new facility near the existing Camp Schwab, including building a 1,800-meter runway in the waters off Henoko, the statement said.

## **Economic Front:**

### **NPO head diverted funds to pay debts**

Kyodo News

The head of a group assisting Bangladesh diverted ¥11 million received in donations last year from postal savings depositors to repay his personal debts, sources said Saturday.

The 42-year-old director of the Tokyo-based nonprofit Japan Bangladesh Foundation admitted to the allegation but said he has since borrowed more money to provide assistance to the impoverished country.

The money was received under a postal savings program that provides grants to NPOs and other groups supporting developing countries with donations from depositors. The program, launched in 1991, had collected ¥20.7 billion by 2007, when it stopped accepting donations with the privatization of postal services operations.

The quasigovernmental Management Organization for Postal Savings and Postal Life Insurance, which inherited the remaining donations, said it didn't notice the diversion when it audited JBF's Japan office in April.

Set up in 2000 and running a vocational training center for fish farming and other projects, the group received about ¥55 million in total from the program over five years to 2009.

The director said he used ¥11 million of the roughly ¥17 million the management organization transferred to the group last year to repay part of a ¥15 million loan he received from an acquaintance last May for running his business as an electrician.

To make up for part of the money diverted, he said he borrowed about ¥8 million from a JBF staff member.

### **Global car sales to top 20 million**

Kyodo News

Global sales of Japan's seven major automakers are expected to reach 20.21 million units in the year through next March, the first time in three years that the number will clear 20 million, according to their sales plans compiled through Saturday.

All the carmakers save industry leader Toyota Motor Corp. are bullish about their sales prospects on anticipated robust demand in China and other emerging economies, as well as in North America.

Among them, Nissan Motor Co. expects global sales to reach an all-time peak of 3.80 million units, up 8.1 percent from the previous year. Honda Motor Co. anticipates sales will total 3.62 million units, up 6.6 percent.

Both Mitsubishi Motors Corp. and Fuji Heavy Industries Ltd. expect double-digit growth for the year. MMC forecasts sales of 1.12 million units, or an increase of 16.8 percent, while Fuji Heavy anticipates sales of a record 630,000 units, or a rise of 11.9 percent.

Factoring in solid growth in India and Southeast Asia, Suzuki Motor Corp. projects sales to hit 2.48 million units, up 5.7 percent. Mazda Motor Corp. forecasts sales of 1.27 million units, up 6.4 percent.

Toyota, reeling from recent massive recalls of some of its models, set its sights low at 7.29 million units, a modest rise of 0.7 percent.

But one auto analyst said Toyota's forecast is too low, adding that the carmaker will be able to market more cars in Asia and North America than it anticipates.

The seven automakers' global sales declined for the second year in a row through this March.

### **U.S., EU press Japan on post privatization**

GENEVA (AP) Senior United States and European trade officials challenged Japan on Friday to ensure a level playing field in insurance, banking and delivery services as it privatizes its postal system and creates the world's largest commercial bank.

In a joint statement following a three-way meeting in Geneva, the United States and the European Union said they shared concerns that the privatization was maintaining preferential treatment for Japan Post, which holds more than 400 million accounts and 24,500 offices in Japan.

The U.S. and EU insisted that their position was neutral as to whether the post should be privatized. But they insisted that Japan respect international trade rules, and impose the same regulations on the new commercial bank that it requires of foreign competitors.

"We strongly urge Japan to address our shared level playing field concerns and to live up to its WTO obligations as it proceeds with its postal reform legislation," said John Clarke, the EU envoy to the World Trade Organization.

New U.S. Ambassador Michael Punke said he voiced the same concern at the meeting with his Japanese counterpart, Shinichi Kitajima.

Japan Post has assets exceeding \$3 trillion at current exchange rates, eclipsing Citigroup, with assets of \$2.2 trillion. Its privatization began Monday.

The massive changeover is the result of 2005 reforms instituted by then Prime Minister Junichiro Koizumi, a former posts and telecommunications minister who championed the issue in his landslide elections victory that year.

Brussels and Washington have complained about Japan Post's advantages in insurance, banking and express delivery operations for years, saying its status as a public-sector competitor crowded out foreign suppliers of the same services. For example, the insurance arm has special access to the company's vast postal network, they claim.

The statement said Japan Post companies would now gain new competitive advantages as private competitors, and may enjoy less stringent auditing and reporting requirements.

Brussels and Washington made no threat of launching a trade case against Tokyo.

Japan's privatization promoters say the reforms will encourage Japanese to move away from very low interest rates at banks to more productive investments such as stocks. It will also fuel competition and be a boon to foreign banks and investment companies, they argue.

### **Pretax profits up 27.4% for major companies in '09: Nikko Cordial**

Kyodo News

Major companies other than financial firms saw their combined fiscal 2009 pretax profits jump 27.4 percent from the previous year by cutting costs and taking advantage of an economic recovery in emerging countries, Nikko Cordial Securities Inc. said Friday.

But the profits at 1,184 companies listed on the first section of the Tokyo Stock Exchange in the year to March were still limited to half the fiscal 2007 level, before the global recession started.

Even though their sales declined 12.8 percent in fiscal 2009, their combined net profits soared 14-fold.

Including financial firms, 1,313 companies on the TSE's first section expanded their total pretax profits 2.3-fold and posted net profits instead of net losses in the previous year.

The surveyed firms reported their fiscal 2009 earnings through Thursday.

Of the 33 industry sectors covering the firms, 13 saw pretax profits increase and seven returned to the black. But the remaining 13 posted pretax losses or declines of profit, including the steel and construction industries.

Among those that swung back into the black were the electrical machinery and automobile sectors.

### **Record growth in foreign assets**

Kyodo News

Japan's net foreign assets grew in 2009 to a record ¥266.22 trillion at the end of the year as investments in stocks and bonds abroad expanded and the yen's weakening helped increase the value of overseas investments, the Finance Ministry said Tuesday.

Net foreign assets at the end of December were 18.1 percent higher than a year before, rising for the first time in two years. The previous record was ¥250.22 trillion at the end of 2007.

Japan remained the world's largest holder of net foreign assets for the 19th consecutive year.

Finance Minister Naoto Kan, however, expressed concern Tuesday about a decline in foreign investments in Japanese markets.

"It is desirable for Japanese funds to flow abroad, and so it is for (overseas) funds to come in (to Japan)," Kan said. "We cannot take only delight (in that result)."

Net foreign assets are the sum of gross foreign assets — direct and other investments made overseas by Japanese companies and individuals — minus gross foreign liabilities — direct and other investments made in Japan by foreign companies and individuals.

Kan suggested Japan needs to put its economy back on a growth track to lure foreign investors.

"We need to rebuild the fundamentals and I believe it is one of the missions for the Hatoyama administration after it achieved a change of government (last September)," he said.

The ministry said gross foreign assets totaled ¥554.83 trillion at the end of 2009, up 6.9 percent from a year earlier, while gross foreign liabilities fell 1.7 percent to ¥288.60 trillion.

In 2009, the yen dropped 2.0 percent against the dollar, according to the ministry.

International Monetary Fund data, which do not include figures for Taiwan or Middle Eastern nations, indicate China was the second-largest holder of net foreign assets, with ¥167.73 trillion, followed by Germany with ¥118.86 trillion

### **Honda to up China output 28% by 2012**

Boosting capacity to keep up with soaring demand

GUANGZHOU, China (Bloomberg) Honda Motor Co. will raise production capacity in China by 28 percent to 830,000 vehicles a year by the second half of 2012 and introduce two new models, Chief Executive Officer Takanobu Ito said Tuesday in Guangzhou.

Guangqi Honda Automobile Co., a Chinese joint venture owned by Honda and Guangzhou Automobile Group Co., will double the capacity of its Zengcheng plant to 240,000 vehicles a year by the second half of 2011, Honda said.

The unit will add production of the Accord Crosstour wagon this year and in 2011 introduce the Everus sedan, the first car made under the new Li Nian brand.

Japanese automakers, including Toyota Motor Corp. and Nissan Motor Co., are rushing to add capacity in China as economic growth spurs demand in the world's largest auto market.

China's vehicle sales may rise 17 percent this year to 16 million as annual demand for automobiles may eventually exceed 30 million, according to an official at the State Information Center.

"Increased production capacity in China is positive for Honda," said Satoru Takada, a Tokyo-based senior analyst at Toward the Infinite World Inc. "Limited production capacity is why Japanese automakers have not been able to increase their market share."

Honda may increase China sales 9 percent this year to 630,000 vehicles, Ito said last month. On Tuesday he said sales growth in China may slow during the second half of this year.

Honda has three car factories in China and is preparing to open another with Dongfeng Motor Group Co. in Wuhan in the second half of 2012. Guangqi Honda builds Accord sedans, Odyssey minivans, Fit compacts and City compacts.

The expansion at the Zengcheng plant will raise Guangqi Honda's total capacity by a third to 480,000 units annually from 360,000, Honda said.

Guangqi Honda's sales increased 19 percent to 365,000 units in 2009, while sales in the first four months of this year rose 36 percent to 134,000 vehicles, according to the company.

### **Soybean Imports by Japan May Gain 1.5%, Group Says (Update1)**

May 28 (Bloomberg) -- Soybean imports by Japan, the largest Asian buyer after China, may increase 1.5 percent this year after reaching a 34-year low in 2009 on higher costs, an industry group said.

Imports may advance to 3.44 million metric tons from 3.39 million tons last year, the Japan Oil & Fat Importers & Exporters Association said today in a statement. The volume in 2009 was the smallest since 1975, when Japan imported 3.33 million tons for crushing and food production, data from the association show.

The price of soybeans has declined 9.7 percent this year, reversing last year's 7 percent gain, on forecasts of record production in Brazil and Argentina, the biggest exporters after the U.S. Futures in Chicago touched \$9.275 a bushel on May 25, the lowest level for a most-active contract since March 15.

"We expect Japanese imports will stop declining this year," Kiyozumi Fukao, executive director of the association, told reporters in Tokyo today. "Domestic feed production is holding steady and the use of soymeal in feed is increasing."

Soybean is crushed to produce cooking oil and soymeal, a source of protein for animals. Japan's soybean imports reached a peak of 5.17 million tons in 2003.

Soybean imports by China may exceed a forecast of 46 million tons on higher demand for vegetable oil and animal feed, Cao Zhi, director at the China National Grain & Oils Information Center, said on May 25.

Japan's purchase of rapeseed may rise to 2.1 million tons this year from 2.07 million in 2009, the association forecast. Imports of palm oil, including oil from palm kernel, may increase to 601,000 tons from 594,446 tons, it said. Palm oil is a cheaper alternative to soybean oil and rapeseed oil in Japan.

### **Japan Tightens Control on Sending Cash to North Korea (Update3)**

May 28 (Bloomberg) -- Japan tightened controls on sending money to North Korea and authorized the Coast Guard to search the communist regime's ships in response to the deadly attack on a South Korean naval vessel.

The cap on undeclared cash transfers will be lowered to 3 million yen (\$32,800) from 10 million yen, Chief Cabinet Secretary Hirofumi Hirano said today in Tokyo. Parliament passed a bill allowing the boarding of ships in international waters suspected of carrying North Korean nuclear or missile technology.

The toughened sanctions come a week after an international report concluded that a North Korean torpedo sank the 1,200-ton Cheonan in March, killing 46 sailors. Japan banned almost all trade with Kim Jong Il's regime last year in response to a second nuclear weapon test and several missile launches.

"The cabinet has decided to take these new measures prompted by the unforgivable torpedo attack," Hirano said. Japan also reduced the amount of money an individual can legally take into North Korea to 100,000 yen from 300,000 yen, he said.

Prime Minister Yukio Hatoyama will hold a two-day summit with South Korean President Lee Myung Bak and Chinese Premier Wen Jiabao starting tomorrow on South Korea's Jeju Island. Japan and the U.S. are pushing Wen to acknowledge and condemn North Korea's role in sinking the ship.

### Koreans in Japan

Japan is home to about 589,000 Korean nationals, based on 2008 data, most of them the descendents of forced laborers brought back from the peninsula during Japan's 1910-1945 occupation. South Koreans number almost 400,000 and North Koreans about 40,000, according to the Korean Residents Union, a pro-South group in Tokyo. Chosensoren, a Japan-based group that supports North Korea, doesn't disclose its membership numbers.

North Korean residents in Japan have sent billions of yen in money and goods back home to relatives since the 1953 end of the Korean War, much of it derived from their operation of pachinko gambling parlors. Sanctions imposed last year and in 2006 have reduce the amount.

"Japan has imposed so many sanctions in the past that the new measures won't have much impact," said Pyon Jin Il, author of the "The Truth of Kim Jong Il" and chief editor of the Tokyo-based monthly Korea Report. "This is more symbolic, to show the world that Japan is doing something."

In the 11 months through February, 55 million yen was wired or brought to North Korea from Japan, down from 280 million yen in the April to March 2006 fiscal year, according to Ministry of Finance data.

Trade between Japan and North Korea fell 97 percent to 793 million yen in 2008 -- all in Japanese exports -- from 21.4 billion yen in 2005. Last year's sanctions added to a previous ban on exports of luxury goods imposed in 2006 following the communist nation's first nuclear test.

### **Japan Jobless Rate Unexpectedly Rises, Prices Drop (Update1)**

May 28 (Bloomberg) -- Japan's unemployment rate unexpectedly increased in April, household spending fell and deflation deepened, signaling domestic demand is restraining the nation's recovery from its worst postwar recession.

The jobless rate rose to 5.1 percent from 5 percent, the statistics bureau said today in Tokyo. The median forecast of 23 economists surveyed by Bloomberg News was for no change. Consumer prices excluding fresh food slid 1.5 percent from a year earlier after dropping 1.2 percent in March.

The reports come a day after government figures showed an extended rebound in exports, driven by demand from Asia's emerging economies, and highlight Japan's reliance on trade to sustain growth. Finance Minister Naoto Kan said he will try to spur employment that's "crucial" to overcoming price declines.

"Japan's dependence on exports will continue," said Yuichi Kodama, chief economist at Meiji Yasuda Life Insurance Co. in Tokyo. "Deflation is persisting, and that will dissuade consumers and companies from spending."

Concern that the European sovereign debt crisis will damp global demand for Japanese goods sent the Nikkei 225 Stock Average 11 percent lower this month. It rose 1.7 percent at the lunch break in Tokyo after shares gained in Europe and the U.S. on China's pledge to invest in the euro zone.

#### Household Spending

Household spending dropped 0.7 percent in April from a year earlier, the bureau said. The median estimate of economists surveyed was for a 2.5 percent increase. Retail sales rose 4.9 percent from a year earlier, led by gas stations and auto showrooms.

"Last quarter's consumer spending was still focused on durable goods," said Yoshimasa Maruyama, a senior economist at Itochu Corp. in Tokyo. "It's still unclear whether consumers feel ready to spend money again."

Exports fueled Japan's 4.9 percent annualized expansion in the three months ended March, data showed last week. That report also showed that outlays on long-lasting products increased at a slower pace, adding to concerns that boosts from government incentives to buy cars and electronics are fading.

From a month earlier, the economy lost a net 280,000 jobs, marking the third month of declines. Payrolls in industries including agriculture, manufacturing, real estate and education dwindled. The labor force shrank by 220,000.

#### Hiring Plans

"Given the situation in Europe, there's still some uncertainty about the outlook, and that's why companies can't aggressively expand their hiring plans," Maruyama said.

Europe's woes have caused the yen to strengthen this month against all 16 major currencies tracked by Bloomberg, threatening the competitiveness of the nation's exporters. Japan's

currency traded at 91.16 per dollar from 90.98 before today's reports, and 112.21 against the euro from 112.31.

A separate report today showed the ratio of jobs to applicants fell to 0.48, meaning there are 48 jobs for every 100 candidates. It was the first deterioration in eight months.

Takeda Pharmaceutical Co. aims to reduce its workforce by about 10 percent, it said this month. Asia's largest drugmaker wants to save 50 billion yen (\$550 million) over three years.

Retailers continue to cut prices to spur consumer spending. Nitori Co., an operator of furniture stores, this week said it will lower prices of about 500 items by as much as 40 percent - - the company's ninth round of discounts since 2008.

"Employment conditions have an impact on deflation because if employment improves, that will help wage growth and narrow the gap between demand and supply," Finance Minister Kan told reporters in Tokyo today.

#### Cheaper Tuition

The drop in consumer prices was exacerbated by the government's introduction of a waiver on high school tuition fees to assist households. The central bank has estimated the step will lower core prices by about 0.5 percentage point.

"Excluding the school fee effect, which is temporary, downward pressure on prices will keep waning, but the pace will be very slow," said Hiroshi Watanabe, a senior economist at Daiwa Institute of Research in Tokyo. "Given this, the Bank of Japan's exit from its emergency policy mode is still remote."

The Bank of Japan has faced pressure to fight deflation from the government, whose ability to spur the economy is constrained by record public debt. Kan has been urging the bank to adopt an inflation target, and today reiterated that the government and the BOJ will work together to fight deflation.

#### **Jordan eyes big economic mission**

AMMAN (Kyodo) Jordan is in talks with Japan to send a major economic mission around early June to explore the possibility of cooperating in nuclear power generation, railway system improvement and renewable energy development, Jordanian sources said Friday.

Participants in the mission, planned for June 6 to 9, will include seven Cabinet ministers, making it the country's largest-ever economic mission abroad, they said, adding that Prime Minister Samir Rifai may also visit if there is a chance to meet with Prime Minister Yukio Hatoyama.

The mission comes after Jordan's King Abdullah II traveled to Japan in April. During their talks, the king and Hatoyama agreed that their nations should start negotiations for a deal that would presage the export of nuclear reactors.

Japan is pinning hopes on Jordan's plan to build two nuclear reactors, given that Japanese companies have recently made a series of unsuccessful bids for nuclear power plant projects overseas.

## **Social Front:**

### **Stud bull slaughtered for foot-and-mouth**

MIYAZAKI (Kyodo) One of six stud bulls separated from other cattle after the spread of foot-and-mouth disease in Miyazaki Prefecture has tested positive for the highly infectious virus and was slaughtered, the prefectural government said early Saturday.

The development will likely deal a devastating blow to the livestock industry in the prefecture because the bulls are used to breed the prefecture's prized Miyazaki beef.

It may also affect some other top-range beef producers outside the prefecture who raise calves from Miyazaki.

The prefectural government slaughtered the bull, named Tadafuji, on Saturday, as it has tested positive twice for the virus under a gene examination. Tadafuji was the top stud among the six bulls in terms of semen provided.

As for the remaining five bulls, the local government has decided to take a wait-and-see approach for about a week as an exceptional measure in an effort to preserve the brand-name beef after consulting with the Agriculture, Forestry and Fisheries Ministry, officials said.

The five bulls normally would be slaughtered as they were raised with Tadafuji, but that would mean Miyazaki losing all 55 of its stud bulls, as the other 49 have already been earmarked for slaughter.

Miyazaki Gov. Hideo Higashikokubaru told reporters he will ask the central government to spare the 49 after confirming their health condition.

Together accounting for 90 percent of artificial breeding in the prefecture, the six bulls were evacuated May 13 from a facility close to a town hit by foot-and-mouth disease.

Samples taken from Tadafuji tested positive on Wednesday and Thursday, however, bringing the tally of suspected infection cases to 21 cows and pigs at 12 locations in two cities and five towns in Miyazaki and the number of animals to be slaughtered there to about 133,000 in total.

The government's field task force, meanwhile, began vaccination of all cows and pigs within a 10-km radius of farms hit by the disease.

The livestock will be slaughtered after being vaccinated as part of the government's efforts to prevent the spread of the disease.

According to the farm ministry, about 160,000 cows and pigs will receive vaccination. It is the first time that vaccinations have been given in Japan, but all the animals will be killed anyway.

The government had difficulties in obtaining consent for the slaughter from local authorities because local livestock farmers had been dissatisfied with the government's support measures, including the amount of compensation for slaughter.

The Agriculture, Forestry and Fisheries Ministry decided Friday to pay farmers ¥59,000 for each slaughtered cow as financial support for them until the resumption of their operations and to pay farmers for rents of land lots used to bury the slaughtered livestock.

A total of 27 teams made up of veterinarians were created for the vaccination program. The teams will prioritize vaccination of about 20,000 pigs.

"The government should have listened to the feelings of farmers directly," said Tadao Matsuura, a 55-year-old farmer who raises about 25 cows in Kawaminami, the most affected area in Miyazaki Prefecture.

"It is really heartbreaking to see the cows being killed," Matsuura said.

### **EV breaks record with 1,003-km run**

Kyodo News

A Tokyo civic group said Sunday it managed to get an electric car to run 1,003.184 km without a recharge, shattering its own world record from last year.

The Japan Electric Vehicle Club said it will ask Guinness World Records to officially recognize the journey, which was completed at a racing course in Shimotsuma, Ibaraki Prefecture, as the world's longest.

The vehicle, powered by Sanyo Electric Co.'s lithium-ion battery system, ran for about 27 1/2 hours until around 2:30 p.m. Sunday, at a speed of about 40 kph, the group said. A total of 17 people took turns at the wheel.

Guinness World Records has officially recognized a 555.6-km journey the group made in an electric car from Tokyo to Osaka last November as the longest ever by electric vehicle without recharging.

### **¥79 million awarded over 'karoshi'**

KYOTO (Kyodo) The operator of the major restaurant chain Nihonkai Shoya and its four top managers were ordered Tuesday to pay about ¥78.6 million in damages to the parents of an employee who died of overwork. The Kyoto District Court's decision was the first in Japan finding the top management of a major corporation liable for damages in a suit involving death by overwork, or "karoshi," according to attorney Tadashi Matsumaru. The parents of Motoyasu Fukiage, 24, who died while employed at a Nihonkai Shoya outlet in Shiga Prefecture, had filed a ¥100 million damages suit against operator Daisyo Corp., its president, Tatsu Taira, and other managers.

Presiding Judge Shinichi Oshima said Daisyo failed to properly take into account its employees' working hours, noting it set salaries under the premise that employees would work 80 hours of overtime a month, equivalent to the government criteria for determining karoshi.

Fukiage worked at the Nihonkai Shoya outlet in Shiga after joining the company in April 2007. He died that August from acute heart failure while sleeping at home, after working an average of 112 hours of overtime per month.

### **Ship sails for U.S.-led aid program**

HIROSHIMA (Kyodo) A Maritime Self-Defense Force vessel left port Sunday to become the first Japanese ship to join an annual U.S. Navy-led medical aid program in the Asia-Pacific region.

The effort is part of Prime Minister Yukio Hatoyama's "yu-ai (fraternity) boat" initiative.

A team of about 40 medical, dental and other officers from all three branches of the Self-Defense Forces are aboard the 8,900-ton transport ship Kunisaki to take part in the Pacific Partnership 2010 program for about two weeks each in Vietnam and Cambodia.

They will be joined by 22 members of Japanese nongovernmental groups working in those countries.

The program has been organized by the U.S. Pacific Fleet since 2007 and involves about 20 countries.

The Japanese participants will provide medical services and introduce Japanese culture, government officials said.

Slated to return July 15, the team is also aiming to enhance its skills in medical and transport support during international disaster relief efforts, the officials said.

### **Ozawa endorses postal reform bill**

Kyodo News

Democratic Party of Japan kingpin Ichiro Ozawa on Sunday endorsed a bill to scale back the planned privatization of state-owned Japan Post Holdings Co., increasing the likelihood the legislation will pass through the Diet in the current session.

"I take this opportunity to promise to have the bill enacted during this Diet session" in cooperation with the ruling coalition, the DPJ secretary general told national post office chiefs.

Deliberations on the bill started last Tuesday, and a tug-of-war between the ruling coalition and opposition parties is expected in the runup to the June 16 close of this session and this summer's House of Councilors election.

Under the bill, the cap on savings accounts at the postal group's banking unit will be doubled to ¥20 million, while the group will be obliged to offer "universal" banking and insurance services throughout the country in addition to mail services.

### **National health insurance a basic universal safety net**

By NATSUKO FUKUE

Staff writer

All Japanese citizens are required by law to be covered by public health insurance.

Because of this universal system, most medical treatment is covered and the costs are reasonable.

The first health insurance law took effect in 1927 to protect laborers, and in 1938 the umbrella was extended to farmers, according to the Health, Labor and Welfare Ministry.

After World War II, many organizations stopped providing health insurance. To make sure every citizen was covered, the government revised the national health insurance law in 1958.

Here is some basic information about how the system now works:

What types of public health insurance are available?

There are basically four types. Company employees are mostly under "kenko hoken" (health insurance), also known as Kenpo, managed by the national health insurance association or health insurance unions. Civil servants are covered by mutual aid insurance. Sailors and fishermen have seaman's insurance, while farmers and other self-employed people must apply for the Kokuho national health insurance managed by local governments.

Can nonregular workers, including temporary employees and day laborers, also be insured by Kenpo?

Yes. If temporary workers have a contract exceeding two months and if they work at least 30 hours or four days a week, they can be covered by the insurance provided by temp staff dispatching agencies.

Day laborers with a contract of two months or less are covered by special insurance for day workers, according to the Social Insurance Agency.

Do people on welfare also have to pay into the health insurance program?

No. Their medical costs are fully covered by medical aid, which is a part of public assistance.

Are dependents of the insured also covered?

Yes. Relatives in the first, second and third degree benefit from the insurance if they are financially supported by the insured.

How about foreigners?

Foreigners whose length of stay is more than a year and who are not covered under Kenpo need to apply for the Kokuho coverage. Foreign students should be covered by Kokuho even if they stay in Japan for less than a year.

Foreign residents are required by law to join one of the health insurance schemes, but some opt out because they have their own insurance contracts with private firms or they do not want to pay the fees.

There is no penalty for not joining public insurance. But the Justice Ministry's Immigration Bureau asks foreign residents to show their public health insurance cards when applying to renew their visas to urge them to join the health care system.

Are there people who are not under any public health insurance?

Yes. For example in Saitama Prefecture, 36.4 percent of 962 workers who answered a questionnaire from the prefecture in March were not covered by public health insurance because they didn't apply for Kokuho for financial or other reasons.

In 2009, a survey by the city of Yokkaichi, Mie Prefecture, found 24 percent of 473 Brazilian residents in the city had not applied for health insurance because they couldn't afford the fee. Yokkaichi is known for its high population of foreign factory workers.

How much are the individual monthly premiums?

They vary a great deal depending on the type of insurance. The monthly Kenpo fee is based on income. For example, in the case of Kenpo coverage managed by the national insurance association, the workers' share of the burden — 50 percent of the total fee — in Tokyo ranges from about ¥2,700 to ¥56,000. The rest is paid by their employers.

How about for medical treatment?

Patients under 70 years old are required to pay 30 percent and those between 70 and 74 have to pay 10 percent of medical costs, including fees for checkups, treatment and medicine at a hospital or pharmacy.

People aged 75 and above also pay 10 percent of their medical costs, but the expenses are deducted from their pensions.

There are basically no medical charges for children whose parents pay into public health insurance, and each local government sets its own age limit. In Tokyo, children aged 15 or younger are eligible for free medical treatment in many municipalities, according to the metropolitan government.

What happens if people covered under Kokuho fall behind on their premiums?

According to the metropolitan government, local governments first send a reminder. If they still do not pay the fee, they will receive an insurance card valid only for several weeks to months. They will also be charged in arrears.

Does public health insurance cover all types of checkups, treatment and medicine?

No. Periodic health checks, vaccines for influenza, mumps, chickenpox and some infectious diseases, and advanced medical treatment conducted at authorized university hospitals, are not covered.

Health insurance also doesn't cover the cost of birth control pills.

What if a person has really high medical costs?

If the actual medical cost exceeds the fixed upper limit patients have to pay, an insurance organization refunds the difference. In average, the monthly limit is ¥80,100 for patients under 70. If their income is particularly high, the limit is ¥150,000. Patients who are 70 or above have to pay up to ¥44,400.

How about births?

Regular checkups and the costs for childbirth must come out of pocket. However, local governments provide various ways to offset these costs. Prefectures offer ¥420,000 in childbirth assistance, and local governments have their own financial aid for checkups and births on top of this amount. In the event of a Caesarean section, the cost is covered by insurance.

Is it true relatives of the insured or their dependents can receive burial fees?

Yes. In the case of Kenpo, ¥50,000 is provided. For those under Kokuho, the amount of payment varies depending on the local administration.

## **Cows, pigs get shots, set to die**

Kyodo News

Vaccination of all cows and pigs within 10 km of farms hit by foot-and-mouth disease in Miyazaki Prefecture was expected to be finished by the end of Tuesday before they are slaughtered, agriculture minister Hirotaka Akamatsu said.

Akamatsu said 73 percent of some 200,000 cows and pigs set to be slaughtered had been vaccinated as of Monday night.

"The remainder is some 30,000, so I believe vaccinations will be finished by the end of today," Akamatsu said.

Slaughtering the cows and pigs will be carried out quickly because people who were involved in the vaccinations will be able to help, Akamatsu said.

Touching on a request by Miyazaki Gov. Hideo Higashikokubaru that 49 seed bulls in the prefecture be kept alive, Akamatsu repeated the ministry's stance that they should be destroyed to prevent the spread of the disease.

The Liberal Democratic Party is stepping up criticism against Akamatsu, saying he failed to contain the disease at an early stage.

The party is also trying to legislate its own steps to fully compensate affected cattle farmers, including the government's purchase of the land where destroyed animals will be buried.

"How could cattle farmers start over again on the land where dead animals are buried?" LDP Lower House lawmaker Taku Eto, who hails from the Miyazaki No. 2 district, asked a Diet panel. "It will take at least 10 years before the dump sites can be used again."

## **Online survey starts on parental child 'abductions'**

Kyodo News

The government Tuesday began soliciting views via the Internet on the possibility of ratifying the international convention on protecting children from being wrongfully taken out of their home country by a parent.

The online survey by the Foreign Ministry asks people who have been involved in the so-called abductions what they think about Japan's accession to the 1980 Hague Convention on the Civil Aspects of International Child Abduction.

Complaints are growing over cases in which a Japanese parent, often the mother, brings a child to Japan without the consent of the foreign parent, often times disregarding custody rulings of other countries, and denies the other parent access to the child.

The convention provides a procedure for the prompt return of such children to their habitual country of residence and protects parental access rights.

Prime Minister Yukio Hatoyama has suggested he is considering Japan's accession to the Hague Convention and ratifying it during next year's ordinary Diet session.

Foreign Minister Katsuya Okada said Tuesday that the government will examine opinions collected through the online survey while studying the possibility of joining the convention. The questionnaire will be posted on the Web site of the Foreign Ministry and its 121 diplomatic missions abroad, he said.

At present, 82 countries are parties to the Hague Convention. Of the Group of Eight major powers, only Japan and Russia have yet to join.

## **South Korea:**

### **Detailed News:**

### **Politico-Strategic Front:**

**S. Korea's Lee to Give Speech, Measures Against North (Update1)**

By Seonjin Cha

May 23 (Bloomberg) -- South Korea's President Lee Myung Bak will say in a speech that the country will take "all possible strong measures" against any additional provocation by North Korea, after an alleged attack by the North in March that sank one of South's warships, the presidential office said.

Lee will deliver the speech at 10 a.m. local time tomorrow, and will define the ship's sinking as a "clear military attack." South Korea will come up with decisive countermeasures against North Korea, while it will take a cautious stance over issues related to the Gaeseong industrial complex jointly operated by the two countries, according to a statement on presidential office's website.

Lee will also mention the issue of raising the ship's sinking with the United Nations Security Council, while discussions among related countries are progressing, the statement said.

Lee on May 21 that the North's attack was a violation of the UN Charter, armistice and basic agreement between the two Koreas. South Korea's foreign minister Yu Myung Hwan on April 20 said that the country may bring the issue to UN Security Council once the North's role was confirmed in the ship sinking.

The detailed steps will be announced at a joint news conference tomorrow by the country's foreign, defense and unification ministers, according to Lee's office.

### **South Korea to Define North Korea as 'Main Enemy', Yonhap Says**

By Sangim Han

May 25 (Bloomberg) -- South Korea plans to define North Korea as its "main enemy" when it maps out military strategies, Yonhap News reported, citing a government official it didn't identify.

### **U.A.E. Agrees to Buy K11 Rifles From South Korea, UPI Reports**

May 28 (Bloomberg) -- The United Arab Emirates agreed to buy K11 rifles from South Korea, becoming the first export customer for the weapon, United Press International reported, citing the U.A.E.'s Defense Acquisition Program Administration.

The contract is due for final signing in July, the report said, adding that the price per rifle is estimated at \$14,000.

In December, the U.A.E. awarded an \$18.6 billion order for nuclear reactors to a group led by Korea Electric Power Corp.

### **Russia to Make Own Assessment of Sunken South Korean Warship**

May 27 (Bloomberg) -- Russia will make an independent assessment of the sinking of a South Korean warship that a multinational investigation blamed on North Korea.

South Korea invited a Russian team to examine the evidence, the Kremlin said in an e-mailed statement late yesterday. The U.S. and its allies hold communist North Korea responsible for the March 26 incident, in which 46 sailors died.

“President Dmitry Medvedev believes it is of the utmost importance to establish the true cause of the ship’s sinking and determine exactly who holds personal responsibility,” the Kremlin statement said.

Russia, like China, has refrained from joining calls to punish North Korea for the sinking of the 1,200-ton Cheonan with new United Nations sanctions. Russia and China have veto power in the UN Security Council and participate in the stalled six- party talks that include the U.S., Japan and the two Koreas.

Medvedev’s remarks echoed Chinese statements appealing for calm and further investigation. At the same time, the president said “measures deemed necessary and appropriate by the international community” should be adopted once the guilty party is found.

After resisting U.S. calls for tighter sanctions against Iran for its nuclear program, Russia and China last week gave tentative approval for a UN Security Council draft resolution on a harsher embargo.

### **North Korea Severs Ties With South on Ship Sinking (Update3)**

May 26 (Bloomberg) -- North Korea said it will sever all ties with South Korea and expel the South’s workers from a joint industrial zone as “punishment” for accusing it of sinking a warship and killing 46 South Korean sailors.

“There is no need to show any mercy or patience for such confrontation maniacs,” the official Korean Central News Agency reported late yesterday. North Korea will “abrogate the agreement on non-aggression” and handle all issues with South Korea under wartime law.

North Korea will cut off all communication links, ban passage of South Korean ships and airlines through its territory and resume propaganda broadcasts across the border, KCNA said. The communist country earlier yesterday warned of military action in the disputed maritime area off the peninsula’s west coast after accusing the South of violating its territory.

Last week’s report concluding that a North Korean torpedo sank the 1,200-ton Cheonan on March 26 has heightened tension on the peninsula to a level not seen since the 1987 bombing of a South Korean airliner. The U.S. designated North Korea a state sponsor of terrorism after its agents were implicated in the airline attack, which killed 155 people.

North Korean leader Kim Jong Il told the military to be combat-ready in a message that coincided with the announcement, a Seoul-based dissident group reported, prompting the Korean

won to weaken 3 percent against the dollar and the Kospi stock index to fall to the lowest in more than three months yesterday.

South Korea will take steps to protect its currency, Vice Finance Minister Yim Jong Yong said today.

#### Clinton in Seoul

In a show of support for South Korean President Lee Myung Bak, U.S. Secretary of State Hillary Clinton will stop in Seoul today on her way back to Washington. Clinton said yesterday in Beijing that she will consult with China on her Seoul visit and will discuss with the Chinese the results of the planned visit later this week to South Korea by Chinese Premier Wen Jiabao.

China is North Korea's top trading partner and has hosted international talks intended to prod the North to abandon its nuclear weapons program.

President Barack Obama's administration urged North Korea to address the root of the crisis. "North Korea should come forward with the facts regarding the Cheonan attack and stop its belligerent and threatening behavior," Michael Hammer, a spokesman for the White House National Security Council, said in an e-mail.

#### Obama Agenda

The North Korean crisis comes as Obama is already dealing with a crowded international security agenda and is pursuing a strategic goal in Asia of deepening ties with China as its economic and military power expands.

Obama is intensifying the war in Afghanistan, managing the pullout of troops in Iraq and pushing international efforts to pressure Iran over its suspected nuclear arms development program. The European debt crisis and an oil spill in the Gulf of Mexico are also occupying his attention.

In Washington, the chairman of the U.S. House Foreign Affairs Committee said new international pressure should be brought against the North Korean regime.

"This unprovoked and deliberate attack was a clear violation of the Korean War Armistice," Representative Howard Berman, a California Democrat, said in a statement.

#### Military Exercises

In response to the sinking, the U.S. military is preparing exercises with South Korea in anti-submarine maneuvers and interdicting vessels. The U.S. has about 28,500 troops in South Korea, a legacy of its Korean War involvement in the 1950s.

“With all the talk about military drills, this is an opportunity for the U.S. to increase its influence in the region,” Abraham Kim, Asia analyst for the Eurasia Group, a New York-based political-risk analysis firm, said in an interview. “China would consider that problematic, so they may feel forced to take some kind of measures to stabilize the situation.”

Kim’s military order was broadcast on May 20 by O Kuk Ryol, vice chairman of the National Defense Commission, according to the website of North Korea Intellectuals Solidarity, a group run by defectors from the communist country.

“For Kim Jong Il to be giving such an order is pretty serious,” said Kim Yong Hyun, professor of North Korean studies at Seoul-based Dongguk University, adding that he doubted that such a direct order was given.

Clinton said China understands the gravity of escalating tensions with North Korea.

“We expect to be working together with China in responding to North Korea’s provocative action and promoting stability in the region,” Clinton told reporters in Beijing at the end of two days of talks with Chinese leaders.

### Beijing Talks

Clinton said her discussions in Beijing about North Korea had been “very frank and detailed.” China has yet to publicly accept the finding of an international panel on North Korea’s role in the warship’s sinking.

“We do not agree on every issue, we don’t agree even sometimes on the perception of an issue, but that is partly what this dialogue is about,” Clinton said, adding that this enabled the discussion to include areas of discord including missile sales to Taiwan and human rights.

While Kim doesn’t want war, North Korea is ready to counter any attacks, O said in the message, according to the dissident group, which cited an unidentified person in the country. The organization was among the first in South Korea to report on North Korea’s botched currency revaluation late last year.

Defectors formed North Korea Intellectuals Solidarity in 2008. It has about 250 members and is led by a former computer- science teacher in the communist country.

### Threats of War

Threats of war by North Korea carried by the state-run Korean Central News Agency are common. A March 26 report warned of “unprecedented nuclear strikes” against enemies while a June 9, 2009, bulletin warned of “merciless strikes” using the country’s nuclear deterrent.

Lee Jong Joo, a spokeswoman at the Unification Ministry in Seoul, said she couldn’t confirm the defectors’ report as the closed-circuit radio, on which the message was said to be delivered,

cannot be monitored by South Korea's government. A spokesman at the South Korean Defense Ministry, who declined to be identified, said the government can't comment on North Korea's military status.

The won fell 3 percent to 1,251.1 per dollar as of the 3 p.m. close in Seoul, the biggest drop since March 30, 2009, according to data compiled by Bloomberg. The Kospi index sank 2.8 percent to 1,560.83.

### **Mobius Says South Korean Policies May Change North (Update3)**

May 27 (Bloomberg) -- South Korean President Lee Myung Bak's measures against North Korea may accelerate change and help to open up the communist country "in the long run," according to Mark Mobius.

The probability of war between the nations is "quite low" even as tensions have escalated, Mobius, who oversees about \$34 billion in emerging-market assets as executive chairman of Templeton Asset Management Ltd., said in a blog posting today. "In the short term, of course, there will be anxiety."

South Korea on May 24 said it will seek United Nations Security Council action against North Korea and halt trade with its neighbor over the deadly torpedoing of a warship in March that killed 46 sailors. North Korea said the next day it will sever all ties and expel the South's workers from a joint industrial zone as "punishment" for the accusation.

The Kospi Index slumped 2.8 percent on May 25, driving it 11 percent below the April 26 high, after a report that North Korean leader Kim Jong Il ordered the military to get ready for combat. The drop pushed valuations to 9.6 times estimated earnings, the lowest in Asia after Pakistan, according to data compiled by Bloomberg. The gauge rebounded today for a second day, advancing 1.6 percent to 1,607.50, the most since May 13.

Mobius said yesterday in an interview in Cairo that Templeton Asset hasn't reduced holdings in South Korea because the companies it owns were "relatively inexpensive" when it purchased them and may benefit from international sales should South Korea's economic rebound stall.

#### **Blog Posting**

"Despite all the geopolitical concerns, South Korea has continued to grow," Mobius said in his blog posting today.

The communist country's official Korean Central News Agency reported today North Korea will retract all military assurance agreements with South Korea. The agreements are intended to avoid accidental armed clashes.

South Korea's economy expanded 1.8 percent in the first quarter on stronger overseas sales and domestic spending and the Bank of Korea forecasts 2010 growth of 5.2 percent.

The Kospi, which gained 50 percent last year, has fallen 4.5 percent this year, partly on concern European austerity measures and China's attempts to combat asset bubbles will crimp demand for Korean autos and other exports.

South Korean stocks may rebound 25 percent from a selloff triggered by tension with the North and concern over Europe's debt crisis, Henry Seggerman, president of New York-based International Investment Advisers, said in a Bloomberg Television interview yesterday.

Valuations "make it a screaming buy for investors looking for a quick rebound," he said. "The pullback in the Korean stock market is making it the cheapest market in Asia."

### **South Korea May Accept UN Censure for North, Easing China Fears**

May 28 (Bloomberg) -- South Korea's government is prepared to omit sanctions from any United Nations action against North Korea over the sinking of a warship, a concession that may ease tension and help head off Chinese opposition.

South Korea expects China to maintain a "strategic ambiguity" over whether its ally sank the 1,200-ton Cheonan, though it is unlikely to openly block attempts to bring the case to the UN Security Council, a South Korean official said today, speaking on condition of anonymity. The council passed a statement condemning North Korea's launching of a ballistic missile over Japan in April 2009, imposing sanctions a month later after the country's second nuclear test.

China hasn't followed South Korea, Japan and the U.S. in blaming North Korea for the March 26 sinking, which killed 46 sailors. The North has threatened "all-out war" if it faces any punitive action over the sinking, including the imposition of new UN sanctions.

Chinese Premier Wen Jiabao is due to meet with South Korean President Lee Myung Bak today in Seoul before a three-way summit with Japan's Yukio Hatoyama on the resort island of Jeju.

The Chinese government has called for restraint and said it is still considering evidence from all sides following a May 20 report by a panel of international experts that concluded North Korea was to blame.

The older generation of Chinese leaders are still fixed to their alliance with the North, the Korean official said. That allegiance was forged on the battlefield during what was known in China as the "Resist American, Support Korea" war from 1950-1953.

### **Old Allies**

Wen met with North Korean leader Kim Jong Il earlier this month in Beijing, when the government offered help and advice on how to develop along Chinese lines. North Korea's

economy has been crippled by UN trade sanctions, failure of crops and mismanagement, while China's market-oriented reforms have put it on course to overtake Japan as the world's second-biggest economy this year.

China wants to avoid a conflict on the Korean peninsula, and is concerned that taking South Korea's side may provoke North Korea into further escalations and even lead to war, Shen Dingli, vice dean of the Institute of International Affairs at Shanghai's Fudan University, said earlier this week.

China has a big stake in stability in Northeast Asia. Japan and South Korea are China's third- and fourth-biggest trading partners after the European Union and the U.S., with combined two-way trade reaching \$485.1 billion in 2009, Chinese customs figures show.

### Falls Into Chaos

"If our region falls into chaos it will undermine the interests of all parties concerned," Vice Foreign Minister Zhang Zhijun said earlier.

South Korea's navy yesterday began exercises off its western coast, including anti-submarine operations involving the firing of depth charges, a military official said. About 10 warships are participating in the two-day drill, the official said, asking not to be identified because of security concerns.

South Korea, Japan and the U.S. want the North to acknowledge its responsibility for the incident. An international panel on May 20 concluded North Korea was behind the attack. South Korea wants China to acknowledge the findings.

"They won't be able to ignore the truth," South Korean Foreign Minister Yu Myung Hwan said this week at a joint press conference with U.S. Secretary of State Hillary Clinton in Seoul. President Lee said on May 24 that "no responsible country in the international community will be able to deny the fact that the Cheonan was sunk by North Korea."

### Japan Next

Wen will fly to Japan on May 30 and meet with Hatoyama the next day.

China may be willing to condemn the sinking of the Cheonan in a United Nations Security Council resolution provided that North Korea is not singled out for blame, Shen said. Such an outcome may end the cycle of escalation, he said.

Kim's regime, which has been relying on handouts since the mid-1990s, is suffering from worsening shortages of goods after its botched currency revaluation late last year. Academics including Rudiger Frank, professor of East Asian Economy and Society at the University of

Vienna, said that was aimed at rolling back an experiment with free markets that had loosened the state's control over jobs, food and patronage.

The UN World Food Program said this month its food aid to North Korea will run out by the end of next month.

UN sanctions imposed on North Korea after its second nuclear test caused the country's international commerce to shrink 9.7 percent last year, according to Seoul-based trade agency, Kotra. The North doesn't release its own trade figures.

### **Elections of education officials turn into lottery pick**

Three-quarters of voters remain undecided as to whom to vote for in the election of superintendents and education board members, which will take place as part of the June 2 local polls, the latest surveys suggest.

Observers say this poses great concern as the elected members will have authority over the employment of some 400,000 teaching staff nationwide and an annual education budget of more than 40 trillion won (\$33 billion).

New education superintendents will wield power in guiding and reshaping the public education system, while board members will play the role of checking the power of the new heads.

A total of 16 education superintendents and 82 board members will be picked in the forthcoming local polls. The competition rate is 5.1 to 1 for superintendents and 3 to 1 for board members.

As to the election of a regional education board member, 81.8 percent of survey respondents replied that they were unaware of candidates running for such a seat.

Only 2.5 percent answered that they were fully aware of the candidates in their constituency, while 20.4 percent said they knew the contestants only to a certain extent, according to the Korea Society Opinion Institute (KSOI) from May 21 to 22.

Asked about the election of superintendents, 75.8 percent answered that they were ignorant of candidates, 3.8 percent replied that they were fully informed of the contenders, while 20.4 percent said they knew them to a limited degree, the poll said.

A joint survey carried out by the Hankook Ilbo, a sister paper of The Korea Times, and Media Research on May 24 also found that more than 7 out of 10 people failed to recognize education board candidates.

The poll found that people were ignorant of contestants irrespective of academic background, vocation, and age group.

As for superintendent candidates, 76.9 percent with a college degree, 75 percent of white-collar workers and 75.7 people in their 40s answered that they were ill-informed of the contenders.

Mothers are known to have stronger interest in their children's education, but 76.2 percent of them also knew little about both candidates and their campaign promises.

Some political watchers fear that the elections of top education officials will turn into a "lottery pick," as the majority of voters are expected to select candidates in a random manner.

They say candidate numbers 1 and 2 will likely have a higher chance of winning the elections than those most competent for the job who have a better vision for the public education system.

The selection of candidates will be more challenging to many voters as the races for the nation's top education seats are non-partisan and party affiliation is banned.

The direct election of education board members will be scrapped from the 2014 local elections, according to the National Election Commission.

### **N. Korea vows to rip up military safeguards with South**

SEOUL, May 27 (Reuters) - North Korea said on Thursday it was ripping up military agreements signed with the South in a step seen as a prelude to shutting down a joint factory park, just as Seoul staged anti-submarine drills in tense border waters.

Signs also emerged that China, the North's main benefactor and ally, is reviewing ties with the isolated state, a week after international investigators accused Pyongyang of torpedoing a South Korean warship in March. The sinking killed 46 sailors and sharply raised tensions in economically significant East Asia.

In the latest chapter of blistering rhetoric, North Korea accused the South of driving 10 years of developing ties into the ground and said it would scrap pacts between the two sides' militaries guaranteeing the safety of cross-border exchanges.

The move could push the North a step closer to severing a border link which provides access to a joint industrial complex in the North Korean city of Kaesong.

"We will completely repeal the military guarantee measures that our army is to enforce related to North-South cooperation exchange," the North's army chief of staff said in a notice carried by Pyongyang's official KCNA news agency.

It could also mean the beginning of the end for the Kaesong industrial project, where more than 100 South Korean firms use cheap local labour and rent to make consumer goods and has been one of a few legitimate sources of income for the North, worth tens of millions of dollars a year.

Mounting antagonism between the two Koreas has unnerved investors, worried the bitter rivalry could spill over into conflict.

The KCNA statement also said the North was cancelling agreements aimed at preventing confrontations in the waters off the peninsula's west coast and cutting off naval hotlines.

The North this week threatened to shut the last road link with the South if Seoul resumes loudspeaker propaganda broadcasts across their heavily armed border. It has warned of war if the South goes ahead with sanctions announced this week.

## INTRUSIONS

The South Korean naval exercise is aimed at better detecting intrusions by North Korean submarines after the sinking of the South Korean corvette Cheonan.

The drills, which also come after the South's military upgraded its alert level, are likely to further anger Pyongyang, which has already cut most ties with Seoul after it sanctioned the hermit state over the Cheonan's sinking.

Most analysts say that neither side is ready to go to war but warn there could be more skirmishes, especially along their disputed sea border off the west coast.

Traders said the issue continues to hang over the market, although it is no longer driving prices down as it did early in the week. The won KRW= ended a five-day losing streak as investors turned to the country's financial markets on the view that recent declines may have been excessive.

Washington is looking for ways to avoid the issue collapsing into conflict, with Secretary of State Hillary Clinton pressing Beijing to coax its North Korean ally into changing course.

## CHINA'S ROLE

Clinton, visiting Seoul on Wednesday, called on China to join efforts to pressure the North to change its ways. China almost single-handedly props up the North Korean government and its destitute economy.

U.S. officials travelling with Clinton said China has shown indications that it was rethinking its ties with Pyongyang.

South Korea will ask the U.N. Security Council as early as next week to take up the issue, its Yonhap news agency said.

South Korean officials anticipate some form of progress in China's response when Premier Wen Jiabao visits Seoul on Friday for a summit with President Lee Myung-bak.

The two will travel to the South Korean resort island of Jeju on Saturday for a regional summit that also involves Japanese Prime Minister Yukio Hatoyama, where the issue is likely to overshadow discussions on boosting trade.

North Korea's Supreme People's Assembly is scheduled to meet on June 7, two months after the rubberstamp parliament passed constitutional amendments that strengthened leader Kim Jong-il's powers. Experts say a major announcement is likely.

### **China PM visits S. Korea amid storm over warship sinking**

SEOUL, May 28 (Reuters) - Chinese Premier Wen Jiabao begins a two-day visit to South Korea on Friday for talks with East Asian trading partners, but the issue of how to reign in provocative North Korea is expected to dominate.

With Seoul and Tokyo convinced that North Korea torpedoed a the South Korean warship Cheonan in March, China's attempts to balance those ties with its traditional support of North Korea will see Wen face his neighbours' disquiet over Beijing's reluctance to press Pyongyang.

Wen will be the first Chinese leader to meet South Korea's President Lee Myung-bak after Seoul accused Pyongyang of torpedoing its corvette and will also meet Japan's Prime Minister Yukio Hatoyama at the three-nation regional summit on the resort island of Jeju at the weekend.

U.S. officials said this week that there were signs that China, the North's main benefactor and ally, is reviewing ties with the isolated state a week after an investigation headed by Seoul released evidence accusing the North for the sinking.

But South Korean officials were more sceptical on whether Beijing will make the dramatic gesture of siding with the South, and the United States, when Seoul takes the North to the U.N. Security Council.

A senior South Korean official said Seoul did not expect Beijing to come forward on the side of condemning Pyongyang or imposing fresh sanctions but will in the end not block the move to censure the North at the Security Council. [ID:nTOE64R01H]

North Korea has escalated blistering rhetoric since the release of the investigations' findings, threatening to sever all ties with the South and possibly shut down the Kaesong factory park, which is the last remaining major commercial link between the rivals that had been a symbol of reconciliation.

On Thursday, the North's military said it was taking the first steps in severing the border link which provides access for South Korean workers to the Kaesong project.

The move has fuelled concerns in the South that some of the hundreds of its workers who stay in the North Korean border city on a typical day may become stranded.

The South will send in troops if the North shuts down the border and holds its citizens hostage in Kaesong, the South Korean official said on Friday on the condition of anonymity.

Such a move would be a major escalation of tensions that have so far remained bluster on the part of Pyongyang following the March 26 sinking of the Cheonan that killed 46.

Mounting antagonism between the two Koreas has unnerved investors, worried the bitter rivalry could spill over into conflict.

South Korea's navy is conducting a three-way exercise aimed at better deterring submarine infiltration by the North, having upgraded its alert. But its defence minister was quoted as telling senior local journalists that there were no indications that North Korea may be getting ready for further provocations.

Most analysts say that neither side is ready to go to war but warn there could be more skirmishes, especially along their disputed sea border off the west coast.

Traders said the issue continues to hang over the market, although it is no longer driving prices down as it did early in the week.

### **South Korea says no chance North will go to war**

Fri May 28, 2010 5:15am BST

By Jonathan Thatcher

SEOUL, May 28 (Reuters) - South Korea sees no chance of the latest tension on the divided peninsula turning to outright war but is deeply concerned that the North may try terror attacks on civilians, a high ranking South Korean official said on Friday.

He also said that though both sides have been careful not to push too far, Seoul was ready to send in troops if there is what he called "extreme provocation" by the North.

Relations on the peninsula have plunged back into the Cold War freezer following the March sinking of a South Korean warship, killing 46 sailors, which an international investigation last week said was caused by a North Korean torpedo in one of the deadliest incidents since the end of the 1950-53 Korean War.

"I can assure you North Korea will never use that option (full scale war), simply out of national interest," the South Korean official, who asked not to be named, told foreign reporters.

He said Pyongyang knows major conflict, including the use of nuclear and chemical weapons, would result in the forced reunification of the peninsula.

Analysts say the million-strong but poorly equipped North Korean military is no match for the South and its U.S. ally, which keeps 28,000 troops on the peninsula.

Asked about possible civilian attacks, the official said: "That's the part over which we have the most concern".

The South Korean government is already stepping up security ahead of the G20 summit which Seoul hosts in November.

There have been some concerns that the North might use South Korean workers in a joint industrial park just inside its border as hostages.

"In that case we would use the military," said the official.

But he doubted the North would do anything to damage the Kaesong industrial estate for fear of triggering social unrest. Tens of thousands of families in the area rely on it for their income, in a country which uses handouts to feed its population.

"North Korea is very afraid of shutting down Kaesong," he said. Most of the salaries for the workers go straight to Pyongyang, making Kaesong an important source of legitimate income for the North Korean leadership.

Both Koreas have said they would fight if the other attacks but have scrupulously avoided giving the impression they would be the first to attack.

However, some analysts warn that the more the hermit North feels pushed into a corner, the more dangerous it will become.

It was that reason that the South has not directly accused North Korean leader Kim Jong-il, the official said.

The mounting tension comes at a difficult time for the North.

Kim Jong-il's health appears to be waning after a suspected stroke nearly two years ago and he is trying to ensure the succession of his youngest son to the leadership of the family dynasty that has run the impoverished state since its founding after World War Two.

Kim has also set 2012 as the year to reverse his country's steady economic decline and turn the destitute state into a prosperous nation -- something it has no chance of doing without massive outside aid.

"If you read carefully, North Korea is afraid ... and we are careful not to hurt their (the military's) pride," said the South Korean official.

### **Russia plans big naval exercise off North Korea**

VLADIVOSTOK, Russia

Thu May 27, 2010 2:44pm BST

VLADIVOSTOK, Russia (Reuters) - Russia will hold large-scale naval exercises near North Korea next month that were planned before the current stand-off on the Korean peninsula, naval officials said on Thursday.

## World

Tensions between the two Koreas are at their highest level in years, a week after international investigators accused the North of torpedoing a South Korean warship in March, killing 46 sailors.

Moscow, which maintains ties with North Korea, has issued repeated calls for calm and restraint from both sides to prevent tension from bubbling over into armed conflict.

The Kremlin says it wants more information about the accusations that a North Korea torpedo sank the warship.

A flotilla of warships will set off for the Sea of Japan from Vladivostok, the home port of Russia's Pacific fleet, its spokesman Roman Martov said. Vladivostok is in the Primorsky Krai, the only Russian region that borders North Korea.

For the first time, other fleets of Russia's navy will also join in the war games.

The Black Sea fleet's flagship Moskva missile cruiser, dubbed "the aircraft carrier killer" in the Russian media, will take part alongside the heavy nuclear-powered cruiser Peter the Great, flagship of the Northern fleet.

Martov did not say whether the planned show of force had any relation to the current precarious stand-off on the Korean peninsula.

The Pentagon has announced plans for a joint U.S.-South Korean anti-submarine drill "in the near future" and said talks are under way on joint maritime interdiction exercises.

"It is business as usual for the (Pacific) fleet," Martov said, without elaborating.

A navy spokeswoman in Moscow said "the exercises had long been planned." She gave no further details.

A permanent member of the U.N. Security Council, Russia like China has the right to veto any sanctions against North Korea over the sinking.

Next week Russian torpedo experts will fly to South Korea at Seoul's request "to examine material evidence" and say whether the South Korean warship was indeed sunk by a North Korean torpedo in March, Itar-Tass news agency quoted a navy source as saying.

The Kremlin said in a statement on Wednesday that "if there is veracious information on someone's complicity (in sinking the South Korean corvette), the culprits must be given punishment which is judged necessary and adequate by the international community."

### **U.N. sees North Korea exporting nuclear technology - envoy**

Louis Charbonneau

UNITED NATIONS

UNITED NATIONS (Reuters) - A new U.N. report suggests that North Korea has been using front companies to export nuclear and missile technology and has helped Iran, Syria and Myanmar, a Western diplomat said.

The findings were detailed in a report by a U.N. panel of experts charged with monitoring compliance with Security Council sanctions against Pyongyang, the diplomat told Reuters late on Thursday on condition of anonymity.

"The details in the report are not entirely surprising," the diplomat told Reuters. "Basically it suggests that North Korea has exported nuclear and missile technology with the aid of front companies, middlemen and other ruses."

"The point is that North Korea has been providing that kind of aid to Iran, Syria and Burma (Myanmar)," he said.

The diplomat said the evidence was preliminary and would need further investigation.

Western intelligence officials and diplomats have long suspected North Korea was providing banned technology to Iran, which the United States and its allies suspect is developing nuclear weapons under cover of a civilian atomic energy program.

Tehran denies the charges and insists its nuclear ambitions are limited to the peaceful generation of electricity.

Western spy agencies also have suspected that Myanmar was interested in acquiring nuclear technology from North Korea.

In 2007, Israel bombed what Western officials said was a Syrian nuclear reactor based on a North Korean design. Syria also denies being involved in clandestine nuclear activity.

The North Korea report reached members of the U.N. Security Council as the 15-nation panel prepares for a possible discussion of allegations that the North Korea attacked a South Korean naval ship in March, killing 46 sailors.

Pyongyang was hit with U.N. sanctions after testing nuclear devices in 2006 and 2009. Those sanctions include bans on the export or import of nuclear and missile technology by communist North Korea.

Iran has been hit with three rounds of U.N. sanctions for refusing to halt its uranium enrichment program. It rejects Western allegations that it is seeking atomic weapons and says its nuclear ambitions are entirely peaceful.

The Security Council is currently negotiating on a draft resolution that would impose a fourth round of sanctions against Tehran.

### **China, South Korea to Deepen Ties Amid North Tension (Update1)**

May 29 (Bloomberg) -- China agreed to deepen ties with South Korea and Japan at an annual summit overshadowed by accusations that its ally North Korea sank one of the South's warships. The North rejected the charges as "sheer fabrication" to justify a "a war of aggression against it."

Chinese Premier Wen Jiabao has steered clear of public discussion of North Korea's role in the sinking since he arrived in South Korea yesterday. In contrast, Japanese Prime Minister Yukio Hatoyama today paid his respects at a cemetery where the 46 sailors who died in the sinking are buried, before flying to the resort island of Jeju for the two-day summit. There he said he would back any South Korean move to take the case to the United Nations Security Council.

The three countries agreed to set up a permanent liaison office in South Korea in 2011 and to pursue a free-trade agreement, the South's presidential office said today in a statement. The leaders also agreed to cooperate more closely on regional security issues, including getting North Korea to abandon its nuclear weapons, the statement said.

South Korea is "focusing all our efforts on holding North Korea responsible," presidential spokesman Park Sun Kyoo told reporters yesterday in Seoul, adding that this would be a key aim at the summit also.

Today's trilateral summit mostly focused on economic issues, and other regional issues including North Korea's recent attack will likely be discussed tomorrow, Kazuo Kodama, press secretary for Japan's Ministry of Foreign Affairs, told foreign media reporters.

### **Security Council**

South Korea wants China to accept findings that the North fired a torpedo that sank the 1,200-ton Cheonan on March 26. China holds veto powers in the Security Council, so its acquiescence is needed to win a resolution condemning the North. Wen yesterday said that while China won't protect anyone found guilty of the attack, it is still assessing the evidence.

China is North Korea's largest trading partner and main political ally, having fought alongside the North and against the U.S. in the 1950-1953 Korean War.

“The case of the warship sinking is a sheer fabrication made by the South Korean ruling forces, a hideous burlesque” intended “to stir up the atmosphere of escalated confrontation,” state-run Korean Central News Agency said.

At the three-way summit, President Lee Myung Bak stressed the need to enhance economic cooperation between the three countries and work toward integrating their economies, Lee’s spokeswoman Kim Eun Hye told reporters.

### Silence for Dead

Hatoyama proposed a silent prayer for the dead at the start of the meeting, after pledging “active support” for South Korea’s push for UN action over the deadliest attack blamed on the North Korean regime in more than two decades.

North Korea warned the UN to be wary of evidence that it said falsely accuses the country of torpedoing the warship, likening the case to the claims of weapons of mass destruction that the U.S. used to justify its war against Iraq in 2003.

The Security Council risks being “misused” by the U.S., the country’s foreign ministry said last night in a statement carried by KCNA. “The U.S. is seriously mistaken if it thinks it can occupy the Korean Peninsula just as it did Iraq with sheer lies,” the statement said.

The U.S. is joining South Korea in blaming North Korea for the sinking to “put China into an awkward position and keep hold on Japan and South Korea as its servants,” KCNA said.

China proposed to the U.S. a joint investigation with North and South Korea into the sinking, the Seoul-based Hankyoreh newspaper reported, citing a diplomat it didn’t name. Russia plans to send its own team to South Korea for an independent assessment of the incident. A South Korea-led team involving experts from the U.S., U.K., Australia and Sweden blamed North Korea for the sinking in a May 20 announcement in Seoul.

### **Ban’s Call to Sanction North Korea Pushes Limits of UN Top Post**

May 27 (Bloomberg) -- United Nations Secretary-General Ban Ki-moon, a former South Korean foreign minister, is setting aside the traditional impartiality of his post to push for sanctioning North Korea over a suspected naval attack.

Ban has endorsed the conclusion of an international probe that North Korea was behind the March 26 sinking of a South Korean warship, before neighboring China and Russia have judged the findings. In a departure from the tradition that UN chiefs let the Security Council take the lead in such disputes, he said May 24 the body should adopt “necessary measures appropriate to the gravity and seriousness of this issue.”

South Korea has said it will bring the case to the Security Council with U.S. backing. Secretary of State Hillary Clinton told reporters yesterday in Seoul that the U.S. appreciated Ban's "strong statement."

"It is the duty of the secretary-general to be objective, but not to sit on the fence on all issues," Ban's spokesman, Martin Nesirky, told reporters yesterday in New York. "He has consistently expressed strong concerns on any number of worrisome events."

Ban's validation of the investigation and his expression of concern were "extremely timely and important," said Evans Revere, former president of the Korea Society in New York and now a senior director for the Albright Stonebridge consulting group in Washington.

### Humanitarian Needs

The UN chief balanced his talk of concern with a pledge to meet the humanitarian needs of the North Korean people, said Revere, a retired U.S. diplomat who just returned from a visit to the region and advised American and South Korean officials.

The Korean tensions have roiled stock markets and currency exchanges. The won fell 3 percent on May 25 to 1,251.1 per dollar, the biggest drop since March 30, 2009. The Kospi index sank 2.8 percent to 1,560.83 before rallying yesterday to recover about half of the decline.

Playing an active role in the crisis leaves Ban open to criticism that he is favoring South Korea. Ban was advised to limit his role by China, Japan and Russia when he took office on Jan. 1, 2007.

Ban's involvement should be "informal, low key, silent," Wang Guangya, then China's ambassador to UN, said at the time.

### No Holding Back

"Usually the secretary-general holds back in order to be available to parties that want to find ways out of unwanted escalations," Jeff Laurenti, a political analyst at the New York-based Century Foundation, said in an interview. "It might seem to some now that he was reverting to his previous employment."

China and Russia have limited their reactions to the South Korean report to urging restraint from all sides.

Ban, 65, told reporters May 24 that while he's bound to be "objective and fair," his South Korean roots and former diplomatic role make it difficult to stay on the sidelines.

"I myself participated as one of the negotiators in drawing up a joint declaration for the de-nuclearization of the Korean Peninsula in 1991 and 1992," Ban said. "I myself served as vice chairman of the Joint Nuclear Control Commission between South and North Korea. Therefore, I

have a very strong attachment and even a sense of responsibility. This is most troubling for me to see what is happening. That's my motherland.”

Ban asked reporters to understand why he would “limit as much as I can my answers or involvement in this case.”

‘Deeply Disturbed’

After North Korea carried out a second nuclear-bomb test a year ago, Ban said he was “deeply disturbed.” The Security Council voted unanimously on June 12 to curb loans and money transfers to North Korea and step up inspection of cargoes suspected of ties to development of nuclear weapons or ballistic missiles.

Ban's ability to intervene is constrained by his inability to establish a direct line of communication with Pyongyang leaders. He sent his top political aide, former U.S. diplomat Lynn Pascoe, to North Korea in February in part to solve that problem.

While Pascoe described the visit as “useful” and met with officials including Foreign Minister Pak Ui Chun, the trip didn't secure a communications link for Ban. He hasn't spoken to North Korean leader Kim Jong Il.

“The challenge in this situation is to get China on board,” John Park, director of the Korea Working Group at the U.S. Institute of Peace in Washington, said in an interview. Ban's role “is to build consensus rather than being a prime mover. The real movers will be China and the U.S.”

Diplomacy

Chinese Premier Wen Jiabao arrives tomorrow in South Korea for a summit with President Lee Myung Bak and Japanese Prime Minister Yukio Hatoyama. China, North Korea's main ally and trading partner, has so far refused to take a stand on the sinking of the Cheonan, in which 46 South Korean sailors died.

In the Korean crisis, Park said Ban may see the need to build support for a second five-year term, a decision the UN General Assembly and the Security Council will make next year. Winning another term requires the support of the five permanent members of the Security Council: China, Russia, the U.S., U.K. and France.

## **Economic Front:**

**North Korea 2009 Trade Shrank 9.7% on Sanctions, S. Korea Says**

May 24 (Bloomberg) -- North Korea's international trade shrank 9.7 percent last year amid United Nations sanctions, a state-run South Korean agency said.

The value of the communist country's trade dropped to \$5.09 billion in 2009, the Korea Trade-Investment Promotion Agency said in a report today. North Korea doesn't release official trade data.

China, North Korea's biggest trading partner, accounted for 53 percent of the total at \$2.68 billion, the report said. Excluding shipments across the North-South border, commerce with China was 78.5 percent of North Korea's trade.

North Korea's trade may deteriorate further this year as the United Nations may toughen sanctions against the country, said the South Korean agency. The North is already under UN sanctions following its second nuclear test in 2009. Trade dependency on China should also increase, the agency said.

An international panel said it found "conclusive" proof of North Korea's role in the March 26 sinking of a South Korean warship, which killed 46 sailors. The UN Command said in Seoul yesterday it convened an investigative team to review whether the incident is a violation of the armistice that ended combat in the Korean War, and will report its findings to U.N.

Trade between the two Koreas totaled \$1.68 billion last year, 7.8 percent less than in 2008 and comprising 33 percent of North's commerce, today's report said. North Korea had a 2009 trade deficit of \$1.1 billion as exports slid 3.2 percent and imports dropped 13 percent from a year earlier, it said.

### **Korea May Get Developed Status at MSCI, BNP Says (Update2)**

By Shiyin Chen

May 24 (Bloomberg) -- South Korea may be upgraded to developed-market status by MSCI Inc. in a review next month, helping to reduce the stock market's "discount," according to BNP Paribas.

A "neutral" allocation by developed-market funds will prompt net inflows of \$13.7 billion to the market, while a 1 percent "overweight" will boost fund inflows to \$32.6 billion, BNP analysts led by Ryan Tsai wrote in a report today. Larger inflows and potential credit-rating upgrades should narrow Korea's discount to other developed markets, they also said.

The benchmark Kospi index gained 0.3 percent to 1,604.93 at the close of in Seoul, erasing losses of as much as 0.9 percent. The gauge, down 4.6 percent for the year, is valued at 11.8 times reported earnings, compared with 16 times for the MSCI World Index of developed nations, according to data compiled by Bloomberg.

“We believe that potential MSCI reclassification of Korea to developed market will lead to a short-term rally at the least,” the analyst said, citing the performance of the nation’s equities after FTSE Group said in September 2008 it would reclassify the nation’s status.

Investors should accumulate stocks with large market capitalizations ahead of a possible reclassification by MSCI, according to the BNP Paribas analysts. Their top picks are Samsung Electronics Co., Hynix Semiconductor Inc., Shinhan Financial Group Co., KB Financial Group Inc. and KT Corp.

### Evaluation

New York-based MSCI said in June 2009 it will evaluate South Korea for a reclassification in 2010. The index provider had left the nation’s status unchanged last year, saying its currency isn’t fully convertible, the “rigidity” of its investor registration system makes some trades more difficult, and that real-time data didn’t meet requirements.

The analysts said they don’t expect any stumbling blocks this time. “Korea Exchange appears confident that local regulations are effective and sufficient to overcome hurdles for foreign investors who benchmark against developed-market indexes,” they wrote.

While Korea still doesn’t offer 24-hour trading for the won, there may not be “true demand” for such markets, BNP said. Meanwhile, regulators have now made it easier for foreign investors to acquire “fund IDs” more easily, the brokerage said.

### Strategies

A 2 percent overweight on South Korea would see net inflows surge to \$51.4 billion, the BNP Paribas analysts said. They recommended investors adopt seven equity derivative strategies including a “long” bet on a basket of the top 10 stocks making up the MSCI Korea Index.

Korea Exchange Inc. said in September that FTSE Group’s upgrade of the market will draw as much as \$21.3 billion of funds. European investors bought a net 6.3 trillion won (\$5.2 billion) of Korean stocks between March and July 2009, the bourse said on Sept. 10.

“In September 2008, there was a large but temporary inflow into Korea immediately after the FTSE reclassification announcement, which had reversed the persistent outflow trend throughout the year,” the analysts wrote. “Moreover, we noticed the similar sharp up-tick in net-buying by overseas investors in September 2009, when the actual upgrade had become effective.”

## **Korea Won Falls 4.1% as Yonhap Reports Kim Ready for Battle**

By Frances Yoon

May 25 (Bloomberg) -- The South Korean won declined as much as 4.3 percent after the nation's Yonhap news agency reported that North Korean leader Kim Jong Il ordered military bodies to prepare for battles.

The currency weakened to as low as 1,272.45 after Yonhap cited a defector group for the information.

## **Hyundai Steel Plans New Automotive Products, Expands Research**

By Sungwoo Park

May 26 (Bloomberg) -- Hyundai Steel Co., South Korea's second-biggest steelmaker, will develop new automotive products for use in cars including the Sonata and Elantra by adding about 200 researchers, increasing competition for Posco.

The steelmaker wants to make lighter, stronger and easy-to- shape sheets for Hyundai Motor Co. and Kia Motors Corp., Senior Executive Vice President Cho Won Suk, 57, said in an interview. The carmakers are South Korea's largest.

Hyundai Steel, spending 6.2 trillion won (\$5 billion) on two plants, is competing with bigger rival Posco in South Korea's automotive market as sales soar for the nation's largest carmakers. The "challenge" is to compete on quality after the expansion, said Nomura International Ltd.

"Auto steel requires the best technology among steel products and not everyone can enter the market," Lee Jin Woo, who helps manage \$8.8 billion at KTB Asset Management Co., said in Seoul. "It will take time, but Hyundai Steel will be able to go up to that level. Posco cannot help but to be hit one way or another."

Hyundai Steel has dropped 2 percent this year in Seoul trading, outperforming the 26 percent decline of Pohang-based Posco, the nation's largest producer of the metal.

The steelmaker will spend 80 billion won on product development over the next 12 months, and expand its research department by up to 67 percent in two to three years, Cho said. Cho, who holds a doctorate in metal engineering from the University of Michigan, Ann Arbor, didn't forecast how much sales to its sister company may increase by.

### **Automotive Steel**

Hyundai Steel sold 700,000 metric tons of automotive steel, or 7 percent of total sales, last year and may increase that for 2010, Chief Executive Officer Park Seung Ha said in January.

Hyundai Motor sources 40 percent of its steel from Posco, 10 percent from overseas mills including Nippon Steel Corp., according to Nomura. The rest were from affiliate Hyundai Hysco.

“Our edge is that we can get involved in an early stage of car development, which will enable us to tailor make products” for Hyundai Motor, Cho said at Hyundai Steel’s research and development center in Dangjin, where technicians were tearing apart vehicles to study the steel used.

Hyundai Steel plans to start supplying steel for the exterior part of cars, which is the “the most difficult area” technology wise, next year, he said. Cho was previously head of two research centers in the U.S. for Hyundai Motor and Kia.

Hyundai Motor boosted sales 26 percent in the first quarter, helped by its revamped Sonata sedans and Tucson sport-utility vehicles. The carmaker, which also makes the Elantra compact sedan, and affiliate Kia are seeking to sell 5.4 million vehicles this year, a 17 percent gain from a year ago.

#### Captive Market

Hyundai Steel “has a captive market that will digest its output to some degree, which is a big merit,” said Kim Gyung Jung, an analyst with Eugene Investment & Securities Co.

The mill began commercial operation of its first blast furnace in April, and production at the second one may start next year, boosting capacity 70 percent to 19.5 million tons. The plants may help boost operating profit 69 percent to 1.27 trillion won in 2011, KB Investment & Securities Co. said May 6.

Hyundai Steel, which is considering a third blast furnace, made steel in electric-arc plants that use scrap as raw materials before the new mill started. Blast furnaces burn iron ore and coal.

#### **South Korea April Current-Account Surplus Narrows on Dividends**

May 27 (Bloomberg) -- South Korea’s current-account surplus narrowed in April as the nation’s companies paid more of their dividends to international investors.

The surplus was \$1.49 billion last month and a revised \$1.8 billion in March, the Bank of Korea said in Seoul today. Dividend payments to foreign shareholders amounted to \$2.25 billion in April.

“The current-account surplus will likely rise to \$2.5 billion in May, the biggest so far this year,” Lee Young Bog, a Bank of Korea official, said at a press briefing after the release. He said there is “no sign” that the European debt crisis is affecting the nation’s “export and capital flows.”

Asian economies have benefited from an export rebound that’s helped lift growth from Singapore to Taiwan as the region leads the recovery from last year’s global slump. South Korea’s economy expanded 1.8 percent in the first quarter on stronger overseas sales and domestic spending and the Bank of Korea forecasts 2010 growth of 5.2 percent.

“Robust export growth will likely keep a steady current- account surplus,” said Lee Sang Jae, an economist at Hyundai Securities Co. in Seoul. “The surplus, however, will have limited impact on the currency as investors are struggling with the euro troubles and geopolitical tension in Korea.”

The won plunged to a 10-month low this week after a defector group reported North Korea’s military was ordered to prepare for combat on May 20, when South Korea said its communist neighbor was responsible for the March sinking of a warship in which 46 sailors lost their lives.

#### Currency, Shares

The won gained 0.9 percent to 1,242.75 per dollar at the opening in Seoul, according to data compiled by Bloomberg. The benchmark Kospi stock index advanced 0.1 percent to 1,583.56 at 9:39 am.

The Bank of Korea kept its key interest rate unchanged at a record-low 2 percent in May as policy makers faced risks from the European debt crisis with signs that the domestic economy continues to recover.

Samsung Electronics Co., Asia’s biggest maker of semiconductors, flat screens and mobile phones, posted a seven- fold jump in profit in the first quarter as rising demand drove up prices. Hyundai Motor Co., South Korea’s largest automaker, reported a record profit in the same period by boosting sales in the U.S. and China.

The surplus on traded goods widened to \$5.19 billion last month from a revised \$4.5 billion in March, today’s report showed. The services deficit, which measures the flow of travel, transport costs and royalties, was \$1.85 billion in April, compared with a revised \$2.1 billion in March.

#### Exports Surge

Total exports on a customs-cleared basis, which excludes ships, surged 30 percent last month from a year earlier, compared with a revised 34.2 percent increase in March. Imports rose 42.2 percent, from a revised 48.3 percent rise in March.

The capital and financial account posted a record surplus of \$8.85 billion last month as foreign investors bought a net \$5.53 billion of South Korean securities. Banks, mostly branches of foreign lenders, borrowed \$5.73 billion from overseas to buy South Korean bonds.

The current account is the broadest measure of international trade, tracking goods, services and investment income.

#### **Bank of Korea Must Hold Rate to Avoid ‘More Turmoil,’ KDI Says**

May 27 (Bloomberg) -- The Bank of Korea should keep its benchmark interest rate unchanged as escalating military tension with North Korea and Europe's debt crisis have shaken investors' confidence, the head of a state-run research institute said.

"It's not a good idea to raise rates now," Hyun Oh Seok, president of the Korea Development Institute, said in a May 26 interview in Seoul. "It will only stir more turmoil."

Pressure on the central bank to raise rates has been increasing as growth accelerates and policy makers from India to China tighten monetary policy. The Bank of Korea on May 12 dropped the phrase "for the time being" from its yearlong commitment to keep an easy policy stance.

"It remains to be seen how the North Korean issue and the European case develop and affect our economy," said Hyun, a key economic adviser to policy makers at the central bank and in the government. "I'm much more concerned about the possible fallout of the debt crisis in southern Europe as it could jeopardize the still fragile global economic recovery."

The bank needs to draw up well-designed exit strategies to contain inflation as the key rate is very low and the economy is approaching its growth potential, Hyun said. He said the "normalization" of rates should be done at a gradual pace. The bank cut the rate to a record-low 2 percent in February 2009.

South Korean government officials have repeatedly said that it's "too soon" to raise borrowing costs as the economy still faces many uncertainties, including Greece's debt crisis.

### Robust, Resilient

Hyun said he expects the economy will grow 5.9 percent this year on strong exports and domestic demand. It expanded a faster-than-expected 1.8 percent in the first quarter and the Bank of Korea projects 2010 growth of 5.2 percent.

"Our economy is very robust and resilient," Hyun said. "The government should try to earn more confidence from investors with consistent and predictable policies."

Inflation pressure will build up fast "soon" as the domestic economy strengthens and a recovering global economy drives up raw material prices and other costs, Hyun said.

Inflation will reach 3 percent this year from 2.8 percent in 2009, the institute forecast. That would still be within the central bank's target range of between 2 percent and 4 percent on average for the three years to 2012.

The won will likely regain its strength once Europe finds some stability and investors return to looking at economic fundamentals, Hyun said, calling for a careful approach when the government intervenes in the market. "The general trends are for a firmer won," said Hyun. "Both the foreign-exchange authorities and investors should decide whether its recent decline was caused by economic fundamentals or one-time passing events."

The currency plunged to a 10-month low this week after a defector group reported North Korea's military was ordered to prepare for combat on May 20, when South Korea said its communist neighbor was responsible for the March sinking of a warship in which 46 sailors lost their lives.

South Korea's government and central bank pledged coordinated action on May 26 to keep the won stable, promising to take prompt measures including supplying sufficient foreign liquidity. The commitment helped to ease the slide in the won.

### **South Korea's industrial park in the North**

Wed May 26, 2010 3:50am BST

(Reuters) - North Korea said it was cutting all ties with the South, including shutting down a liaison office located at a jointly run factory park, after Seoul imposed sanctions on Pyongyang for torpedoing one of its warships.

Here are some facts about the complex located in the North Korean border city of Kaesong, where South Korean companies use cheap North Korean land and labor to make goods:

#### **OPERATIONS**

Just over 120 small to medium-sized South Korean companies employ about 40,000 North Korean workers to make products such as cooking pots, clothes, shoes and watches. The companies receive tax breaks and other incentives from the South to set up there and pay workers a basic monthly salary and social welfare benefits that total \$70.

#### **REASON FOR EXISTENCE**

The project, which began construction in 2003 and is run by a Hyundai Group affiliate and the South's Korea Land Corp, was designed to serve as a model of future economic cooperation between the states, which have not formally signed a peace treaty to end their 1950-53 war. South Korea's leaders envisioned the park eventually employing more than half a million North Koreans working at 2,000 firms, while adding a peace park and hotels.

#### **BENEFIT FOR NORTH**

Wages and other fees paid by the South in hard cash go directly into the coffers of the North's leaders. Critics say the park allows the North to exploit the Kaesong workers for its own benefit with funds generated there helping Pyongyang pay for its various weapons programmes.

#### **RECENT TROUBLES**

North Korea has previously restricted traffic over the border, making it more difficult for goods and workers from the South to enter. Last year, North Korea said it was cancelling all wage, rent and tax deals at Kaesong in what analysts said was a hard-nosed negotiating ploy to squeeze

more money out of the South. The North held a South Korean worker at the Kaesong complex for about five months for defaming the North's leaders and also lifted restrictions on border crossings.

## LOGISTICS

The South Korean-built park is located about 70 km (45 miles) northwest of Seoul. A new highway and restored rail link run through the Demilitarized Zone buffer dividing the two since the end of the Korean War, taking materials to and from the park. The fenced-off park, with its new buildings, paved roads and steady supply of electricity from the South, marks a stark contrast to the North's impoverished city of Kaesong, with its dilapidated buildings and broken down infrastructure.

## RISKS AND REWARDS

At present, the park brings in tens of millions of dollars a year in legitimate cash for the North's secretive leaders. But it poses risks because the gleaming South Korean factories turning out high-end consumer goods unavailable in the destitute North serve as a vivid reminder to the expanding North Korean workforce of the vast wealth gap between the two states.

### **What G20 finance chiefs will discuss in South Korea**

Thu May 27, 2010 11:54pm BST

May 27 (Reuters) - Finance ministers and central bankers from the Group of 20 wealthy and developing economies gather in South Korea next week to grapple with Europe's debt crisis, financial reforms and efforts to rebalance the global economy.

The June 4-5 meeting in the port city of Busan will lay groundwork for a summit of G20 leaders in Toronto on June 26-27. Following is a summary of key points for their talks:

## GLOBAL ECONOMY

\* Euro zone debt crisis: the G20 will publicly show unity in supporting efforts to resolve Europe's debt crisis and calm market turmoil. But behind closed doors, the United States and China are likely to urge euro zone countries to quickly implement a \$1 trillion aid package and budget reforms to stoke investor confidence. U.S. Treasury Secretary Timothy Geithner sharpened his language on the topic this week in London, saying, "What markets want to see is action." China threw its weight behind the euro, denying it was reviewing its holdings of euro sovereign bonds. It will likely want some assurances that this is the right move. Continued European turmoil will rattle markets worldwide and could derail a U.S. recovery and strong Asian growth.

\* Different paces of recovery: Agreement on fiscal and monetary policy is difficult given differing speeds of regional recovery. Euro zone countries with large deficits face very slow growth as they adopt austerity measures. China and many fast-growing emerging market countries face inflation and property bubble risks. The United States is now growing solidly but has a heavy debt burden. Ministers are likely to urge that national policies to start to withdraw fiscal support do not choke off global recovery.

\* Chinese yuan/rebalancing: Criticism of the yuan's dollar peg has given way to softer persuasion in recent months. Geithner in Beijing this week said the decision to revalue was "China's choice." [ID:nTOE64O02B] Analysts say the weak euro means China is unlikely to move soon to strengthen the yuan and the G20 discussion may center on reducing trade barriers and on longer-term structural reforms aimed at boosting domestic growth in China and other export-dependent emerging markets and at boosting savings in wealthier countries.

## FINANCIAL REGULATION

\* Coordination: Finance ministers have said financial reforms such as bank levies, new capital standards and restrictions on some kinds of trading must be coordinated globally to ensure a level playing field. But some are acting unilaterally. Germany's move to ban some forms of short selling angered European Union partners, spooked investors and drew U.S. criticism. Taking a cue from Geithner and German finance minister Wolfgang Schaeuble this week, ministers may focus more on points of agreement rather than disagreement [nLDE64Q1DP]. The United States will likely try to present its financial reform plans, which aim to rein in banks' riskiest activities, as a blueprint for others. The U.S. reforms are due for completion this summer.

\* Global bank tax: The IMF is likely to give more details on its proposals for a levy on banks to fund future bailouts and a tax on bank profits and pay. The United States and EU countries favor new bank taxes -- and want them to be global to deter avoidance. But countries whose banks did not come close to collapse -- such as Canada, Australia and most emerging economies -- are opposed. [ID:nLDE64Q135].

\* Bank capital: The G20 wants banks to set aside more capital with a higher proportion in common stock or retained earnings by end of 2012. Many countries back the principle but not all agree with specific leverage ratios. Banks argue that leverage limits and a steep increase in capital requirements for their trading books could reduce their capacity to lend.

\* Hedge funds: The G20 agreed big hedge funds should report data to supervisors. The EU has gone much further by proposing inclusion of private equity groups and restrictions on non-EU fund managers wooing European investors. The United States says that would discriminate against U.S. funds.

\* Credit ratings agencies: Still smarting from damage wrought by complex mortgage securities that did not deserve their triple-A ratings, many major market countries are seeking to reform credit rating agencies.

The EU has adopted a law mandating registration and direct supervision that takes effect this year. A U.S. bill includes similar provisions. China is keen for agencies to put greater weight on developed countries' high budget deficits.

### **UAE's Borouge awards EPC contracts worth \$2.6 bln**

ABU DHABI, May 26 (Reuters) - United Arab Emirates petrochemicals firm Borouge has awarded three Engineering Procurement and Construction contracts (EPC) totalling \$2.6 billion for its plant expansion, the firm said on Wednesday.

The new expansion -- Borouge 3, will see capacity increase to 4.5 million tonnes per year (tpy) by 2013, making it the largest integrated polyolefins site in the world.

Italy's Maire Tecnimont (MTCM.MI) and its joint-venture partner Samsung Engineering (028050.KS) of South Korea were awarded a contract to build two enhanced polyethylene and polypropylene units.

The pair were also awarded a contract worth \$400 million for the construction of a low density polyethylene unit.

The annual capacity of the polyethylene units stands at 1.08 million tpy, while annual polypropylene units have a capacity of 960,000 tpy.

A \$935 million contract for the utilities and off-site facilities for the expanded plant was awarded to Hyundai Engineering and Construction of South Korea.

Borouge is owned by Abu Dhabi National Oil Company and Borealis.

### **S. Korea's Nonghyup Said to Buy 55,000 Tons of Corn (Update1)**

May 26 (Bloomberg) -- Nonghyup Feed Inc., South Korea's biggest buyer of feed grains, purchased 55,000 metric tons of corn for arrival in October in a tender, according to two industry executives who took part in the bidding late yesterday.

The feed maker paid a premium of 198.90 cents a bushel over the Chicago Board of Trade corn futures for December delivery, the officials said today, asking not to be identified because tender results are confidential.

The company rejected offers for another 55,000 tons of the grain and 55,000 tons of wheat, they said.

## **S. Korea Samsung Total completes 40,000 T LPG tanker**

SEOUL, May 28 (Reuters) - South Korea's Samsung Total said on Friday it had completed a \$41 million liquefied petroleum gas (LPG) tanker with a storage capacity of 40,000 tonnes.

Samsung Total plans to use the tanker to import 1 million tonnes of LPG per year from October, 600,000 tonnes of which will be fed into its cracker instead of naphtha and the remainder sold to local gas stations for use as auto fuel, the company said in a statement.

Until now the firm produced only about 3,000 tonnes of LPG per month.

Samsung Total plans to import 80,000-90,000 tonnes of LPG per month from the Middle East including Saudi Arabia and Qatar, the statement said.

Samsung Total, a joint venture of Samsung Group and France's Total (TOTF.PA) has a total of 13 plants including a 900,000 tonne-per-year (tpy) naphtha cracker at Daesan, 145 kilometres southwest of Seoul. (\$1=1222.9 Won)

## **South Korea steps nearer to controlling currency risks**

Jonathan Thatcher - Analysis

SEOUL (Reuters) - South Korea looks increasingly close to imposing some form of foreign exchange controls, albeit relatively moderate ones, to try to stop gyrations in the won and end the constant risk of sudden capital flight.

The issue has been on the boil for months, but the won's dive this week on a mix of the euro zone tremors and North Korea's war-like rhetoric, appears to be persuading policy makers they must do something, though the turbulence makes the timing tricky.

Foreign bank branches are likely to be included in measures.

The question now seems to be less if, than when and how.

"I felt sick," one senior official, involved in policy discussions, said of seeing such a scary fall in the won early this week. He asked not to be identified.

At one stage on Tuesday, the won plunged 5 percent against the dollar, an unusually large move for a currency even in emerging markets.

At its low point, the won had dropped 6.5 percent from the end of last week. Then it turned and rallied 9 percent to close the week little changed.

The won faces one of its worst months since the 1997/98 Asia financial crisis almost pushed the economy into the abyss, underlining investor fright as they fret about a renewed financial crisis stemming from the euro area debt storm.

This time, Asia's fourth-largest economy, is relatively strong and its banking system largely sound. But after such currency volatility, officials lament that it remains vulnerable to sudden capital outflows.

#### SHORT-TERM CURRENCY DEBT

For a number of reasons, South Korea tends to have large short-term currency debt, currently about 60 percent of currency reserves, or a ratio three times that of Taiwan.

The nearly 40 foreign bank branches operating here account for more than 60 percent of the total owed by all banks operating in South Korea.

A major factor behind the high level of short-term debt is a high level of demand for dollar hedging by heavy industry exporters -- a dominant part of the economy -- owing to a long gap between orders and delivery. For shipbuilders it is typically around three years.

But because the forward market is not liquid -- importers tend not to hedge -- banks end up with long dollar forward positions which they have to square on the spot market. To cover that time gap, they borrow in the money market, which leads to the short-term debt positions.

It is that short-term debt which most concerns officials.

#### BEGGING FOR DOLLARS

The last major hit was in late 2008 at the height of the global credit crunch when foreign banks pulled out funds to meet demands at their cash-squeezed head offices, leaving South Korean banks begging for dollars.

The official declined to be identified but said everyone on what he called the Finance Ministry frontline was on board with the need for some form of regulation.

However, the Financial Services Commission -- the chief regulator which would impose any controls -- has so far declined publicly to come down clearly on either side, saying it is still looking into the issue.

Officials make no secret of their concern and that they have been looking at a wide range of measures, but still debate which ones would work without scaring off investors and foreign banks or stepping out of line with other G20 governments.

Foreign bankers in Seoul warn that draconian measures -- such as including them in foreign exchange liquidity controls applied to local banks -- would simply see them go elsewhere.

One senior foreign banker said foreign banks account for about \$75 billion in offshore borrowing, about a third of which is directly related to trade financing. The rest is mostly invested in local bonds.

## OPTIONS UNDER STUDY

Korea announced measures in November to protect banks against the impact of capital flight, including a ban on trade in foreign exchange forwards worth more than 125 percent of the value of exports.

A senior official at the Financial Supervisory Service regulator said further limits on currency forwards was a possibility being studied.

But officials say, contrary to market speculation, they had no plan to put limits on positions in non deliverable forwards. Such a move would be a last resort, they said.

Most officials ask not to be identified in discussing the increasingly sensitive issue. Foreign bankers are worried they will be a target of tighter controls, while some parliamentarians question why foreign banks are not a target.

Critics question why the last set of foreign exchange liquidity controls was only aimed at local banks.

The argument has gathered momentum with the latest heavy inflow of funds, much of it directed at the relatively high yielding bond market and which could leave just as quickly.

Officials say Thailand, mostly retail investors, is currently the biggest buyer of South Korean T-bonds.

Foreign investors have bought a net 7.3 trillion won worth of bonds so far this month, compared to 6.5 trillion won worth of net selling in the main stock market .

In April, foreigners were net buyers on both markets for a total of 12.7 trillion won.

## EXCESSIVE INFLOW

"The excessive inflow of capital to domestic markets can cause serious problems. The government has agreed to introduce regulations on foreign exchange once the European crisis eases," presidential economic adviser Shin Hyun Song told the JoongAng daily earlier this week.

The Princeton University professor, on secondment to the president as he prepares to host the G20 summit later this year and seen as a proponent of more regulation, said the focus would be on regulations on forward currency positions.

"The regulations are necessary in order to obtain independence for monetary policies and overcome the markets' vulnerability caused by too much liquidity," he said.

But he did not go into details.

However, one top official -- who declined to be identified -- said it was still not a done deal.

He said the government would certainly wait until after the June 4-5 meeting of G20 finance ministers meeting in the South Korean port city of Busan when financial market regulation is expected to be high on the agenda.

### **South Korean Manufacturers' Confidence Holds Near 7-Year High**

May 28 (Bloomberg) -- South Korean manufacturers' confidence held near a seven-year high as the nation's economic growth accelerates.

An index measuring expectations for June fell to 104 from 107 in May, the Bank of Korea said today. The May reading was the highest since the fourth quarter of 2002, when the bank published its confidence survey on a quarterly basis. A measure of non-manufacturing companies' expectations fell to 90 from 94.

"It seems the concerns over North Korea and Europe barely hurt overall business sentiment as many firms are still positive about the global economic recovery," said Son Won, an economist at the Bank of Korea. "Unless the jitters actually lead to a decline in their sales, sentiment may improve further."

South Korea's economy grew a faster-than-expected 1.8 percent in the first quarter on strong overseas sales that helped Samsung Electronics Co. post a seven-fold increase in profit and Hyundai Motor Co. boost sales. The Bank of Korea, which has kept interest rates unchanged at a record low for 15 months, projects 2010 growth of 5.2 percent.

Today's report showed an index measuring the outlook for exports climbed to 118 from 116 a month ago, and a gauge for the domestic sales outlook for June also advanced to 117 from 116.

The survey, conducted between May 17 and May 24, is based on responses from 1,534 manufacturers and 820 non-manufacturers.

## **Social front:**

### **Female North Korean spy caught**

The National Intelligence Service and prosecutors said Sunday that they had a female North Korean spy in custody who obtained "confidential" information about companies and the National Police Agency from people she met through Internet chat rooms.

They said the 36-year-old woman, identified as Kim Soon-nyeo, had been arrested on espionage charges, as had Oh Byung-doo, a 52-year-old former executive of the Seoul Metro subway service, who supported her financially.

The announcement comes at a time when inter-Korean relations are at their worst in years after the Seoul government confirmed last week that North Korea was behind the sinking of a South

Korean warship in the West Sea on March 26, killing 46 sailors. President Lee Myung-bak has vowed to take “resolute countermeasures” against the North in cooperation with the international community.

Also, it was made public with just 11 days remaining before the June 2 elections.

According to prosecutors, Kim, disguised as a North Korean defector, crossed the border into China in February 2006 and worked as an accountant at a hotel in Zhangjiajie, Hunan Province. Running a cosmetics shop there independently, she lured some South Koreans into relationships through Internet chat rooms and obtained information on South Korea from them.

Alongside the former Seoul Metro executive, other South Koreans involved included a 29-year-old college student, and two travel agency workers.

The spy collected “confidential” information about the subway system from Oh, information about local universities from the student, and a list of names of high-ranking police and public officials from the travel agents.

Oh maintained extramarital relations with the spy since his first encounter with her in China in May 2006, and transferred nearly 300 million won (\$252,000) to “help” her cosmetics business. In June 2007, he became aware that she was a North Korean spy, but continued the relationship.

“What Oh handed over to the spy included contact information of emergency situation responses and other not-so-important internal data,” Kim Jung-hwan, a Seoul Metro spokesman, told The Korea Times, dismissing concerns that it could be used in possible acts of terrorism here by the North. Kim retired from his post in 2008.

Kim attempted to enter South Korea as a “defector” in September last year, but her identity was discovered during questioning by security officials, the prosecution said.

In April, two North Korean spies were caught attempting to enter the country, also claiming to be defectors. They were seeking to assassinate Hwang Jang-yup, the highest-ranking North Korean defector here, Seoul’s spy agency said.

### **Japan, Korea to Exchange Information on Emissions Trading**

May 23 (Bloomberg) -- Japan and South Korea agreed to exchange information on a proposed emissions-trading mechanism, the Japanese environment ministry said today in a statement.

Minister Sakihito Ozawa met South Korean counterpart Lee Maanee for bilateral discussions yesterday, ahead of today’s three-nation meeting with China, according to the statement.

The three countries today adopted a five-year plan that pledges cooperation on the environment, focusing on 10 areas including climate change and biodiversity conservation, the statement said.

A climate bill before the Japanese Diet calls for a so-called cap-and-trade mechanism to help cut greenhouse gases, and South Korea has said it's also considering the system. Japan wants bilateral trading to reduce volatility in the carbon market and lower the risk of domestic companies shifting production overseas where regulations are more lax, Nikkei English News reported last week.

Under a cap-and-trade system, a ceiling is imposed on emissions, and companies that pollute too much must buy credits from companies that don't exceed their limit.

### **Koreans' use of Internet for news highest in OECD**

South Korea is well-known as the world's most wired and Internet-friendly nation, with nearly all businesses and households here linked to high-speed broadband networks.

With the globe's highest Internet penetration, it is no wonder that an increasing number of individuals are getting their news from cyberspace, while shunning newspapers, TV and other traditional media outlets.

According to a recent report released by the Organization for Economic Cooperation and Development (OECD), about 77 percent of Koreans surfed the Internet for news in 2008, the highest among the world's 30 most advanced economies.

Norway came in second with 73 percent of Norwegians getting their news from the World Wide Web, followed by Iceland at 69 percent and Mexico at 61 percent. But only 17 percent of Italians and Irish turned to cyberspace for the news.

On average, more than 50 percent of individuals in OECD countries obtained news online, clearly indicating that the Internet has been replacing traditional news outlets more and more over the years.

"Still, newspapers and TV are important sources of news for many. But the Internet is rapidly encroaching these conventional media markets, with most online-savvy young adults in their 20s and 30s reading the news in cyberspace," the OECD report said.

With the Internet rapidly emerging as the main source for news across the world, the global newspaper market has been conversely contracting. In 2008, it declined 5 percent from the previous year.

By country, the size of the U.S. newspaper market shrank by 34 percent in 2008 since 2004, with those of Britain and Japan declining 34 percent and 18 percent, respectively.

But the report also said many individuals in Korea and other countries, mostly those in their 40s and older, still subscribe to newspapers and other paper-based mediums, regarding Web portals and other online news providers as secondary sources.

### **134 unionized teachers face dismissals in June**

The 134 unionized public school teachers, who hold indicted for illegal membership in the Democratic Labor Party(DLP), will be forced to stop teaching from June 1, the education authorities said Thursday.

The education ministry said it has ordered regional education offices to dismiss the teachers, all members of the Korean Teachers and Education Workers' Union (KTU), for having regularly paid dues to the progressive minor opposition party since 2005.

The related civil servant laws bar public workers and teachers from taking part in political activities. It is the first time that more than 100 public school teachers face dismissal for their political activities since the inception of the teachers' union in 1999.

The KTU is protesting the government's decision.

"There is no precedent for dismissing teachers just a week after announcing the punishment," a KTU official said. "There is political intention behind it ahead of the June 2 local elections."

The union said it will allow the disciplined teachers to retain their KTU membership.

The ministry said it will also take strong disciplinary measures against 83 civil servants and 35 private school teachers who were DLP members.

### **Smokers in public places will be fined**

Seoul Metropolitan Government said Thursday it will impose fines on smokers if they are caught smoking in designated public places such as bus stops, parks and school zones.

It revised its ordinance to impose fines of up to 100,000 won (\$97) for those who smoke such places or within 200 meters of a school.

"We will protect citizens from the harm of passive smoking and raise the quality of the city prior to important international events such as the G-20 summit in November," a city official said. The National Health Promotion Act designating public areas as non-smoking zones was passed at the National Assembly last month.

The city will give advance notice of rules in July and implement the municipal ordinance this year, after receiving approval from a council session scheduled in October.

The city surveyed the effects of second-hand smoke last May and 91 percent of Seoulites supported reinforcing anti-tobacco policies — 67 percent of smokers also agreed to the plan.

### **3% of pregnant women smoke**

About three out of every 100 pregnant women continue smoking during their pregnancy, seriously threatening the health of both the mother and the fetus, a group of doctors said Friday.

Professor Jun Jong-kwan of Seoul National University, Professor Jhun Hyung-joon of Korea University and others studied urine samples of 1,057 pregnant women visiting gynecologists nationwide, of which nicotine was detected in 3.03 percent. But in a written questionnaire given to 1,135 pregnant women in the same study, only 0.5 percent admitted to smoking.

"Multiple logistic regression analysis revealed that early gestational period, low educational level and marriage with a smoker were major factors prompting pregnant women to smoke," Jhun said Friday, three days ahead of the "World's No Tobacco Day."

While the overall smoking rate has been showing a downward curve due to public anti-smoking campaigns on the harmful effects of tobacco, the habit among women, especially pregnant ones, is still evident, the researchers said.

"Smoking among pregnant women in Korea is not negligible and those who are concerned about maternal and child health should be aware of this possibility among pregnant women in countries with similar cultural backgrounds," Jun said.

Experts warned that smoking during pregnancy could trigger serious health problems to both the mother and the fetus, which could become life-threatening.

"Smoking during pregnancy is associated with adverse reproductive outcomes and health problems in the fetus and neonate. When a woman smokes, she is exposed to more than 4,000 toxic chemicals, including carbon monoxide, nicotine, cyanide and cadmium. It is a significant and preventable factor affecting ectopic pregnancy, placental abruption, placenta previa, and premature rupturing of the membrane. It also increases the risk of having a child with a congenital anomaly," the researchers said.

The doctors cited a U.S. Department of Health and Human Service report that if all pregnant women in the United States quit smoking, there would be an 11 percent reduction in stillbirths and a 5 percent reduction in newborn deaths.

Seo Hong-gwan, head of the Korean Association of Smoking and Health said, "Nicotine is a highly addictive substance, as potent as narcotics such as heroin or cocaine. Therefore, despite widespread recognition of the harmful effects of smoking, many addicted women are unable to quit even after they become pregnant. We need stronger regulations on cigarette distribution and more campaigning on its harm."

Earlier this year, the group said it will petition the National Assembly for banning the sale and distribution of cigarettes in Korea.

## **Multiculture brings changes to college campus**

Korean universities are no longer just for native Koreans — more than 75,000 foreign students are taking domestic degree courses.

This ethnic diversity on campuses is leading to changes in their structure, admission system and even legal framework.

A notable change is the emergence of foreign students' associations.

The Catholic University of Daegu recently had a foreign students' association established by a Chinese student majoring in journalism. Nearly 400 non-Korean students from 10 countries — mostly in Asia — are registered with it.

"Sadly, only a handful of foreign students here get along with Korean students. The language barrier and cultural differences are to blame," said Xen Ju-reung, its founder. "The top priority of our association is boosting interaction with Korean students so that our members can be more familiar with their life in Korea and eventually stay here with a sense of belonging."

He said the association's executives plan to launch a campaign to encourage universities in its vicinity to establish similar groups.

Seoul National University (SNU), the top university of the nation with more than 1,200 foreign students, has a similar association, SNU International Students Association (SISA), established in 2007. SISA has hosted a variety of sporting events and organizes community services on a regular basis to get closer to their Korean peers and local community.

Kyung Hee University with 3,500 foreign students plans to appoint some foreign students as executives of its Korean students' association, which wields great clout in student welfare.

"This measure is aimed to ensure complaints from our foreign peers don't go unheeded," said Yoo Seung-hyun, the association head. "This is a step to build a better environment for our new friends."

The admission process is also undergoing changes.

In March, Seoul National University modified its admission regulations to make it possible for foreigners to enter in September. It was a measure in response to complaints from foreign applicants familiar with September admissions. In Korea, the new school year begins in March. Other universities are expected to follow suit since SNU has virtually served as a "trend-setter" in academia.

The government is no exception in creating an environment friendly to foreign students.

The Ministry of Justice said Wednesday foreign students on student visas will be able to receive F-2 residence visas if they meet certain criteria, which have yet to be set.

"Those staying on a student visa have gone through a cumbersome process to extend their residence period and earn approval to work here. But the F-2 visa requires nothing," an immigration official said, raising expectations to attract more foreign talent to the domestic industry.

The ministry favors those taking a doctoral degree course in basic science and high-end technologies.

### **Seoul mulls safety measures for workers at Gaeseong site**

South Korea warned North Korea Friday that it will take strong action, if Pyongyang inflicts harm on South Koreans working at a joint industrial complex in the North's city of Gaeseong.

"Seoul will take stern measures if Pyongyang harms South Korean workers staying at the Gaeseong Industrial Complex, even by a tiny amount," Lee Jong-joo, a spokeswoman at the Ministry of Unification, said.

The remark came a day after the communist North issued a statement that it would scrap an inter-Korean pact to ensure the safety of South Koreans crossing the Military Demarcation Line (MDL), which separates the two Koreas.

On Wednesday, Pyongyang also threatened to close the industrial park if Seoul begins broadcasting anti-North Korea propaganda through loudspeakers along the Demilitarized Zone (DMZ).

"We can neither let North Korea harm our citizens in retaliation to the resumption of psychological warfare against it, nor tolerate such rationale," the spokeswoman said.

Nearly half of the 1,000 South Koreans working at the inter-Korean industrial site have returned home due to escalating tensions on the Korean Peninsula, following the sinking of a South Korean Navy ship by North Korea on March 26.

Established in 2003, the complex is considered the last symbol of improved inter-Korean ties. More than 120 South Korean companies employ about 42,000 North Koreans there, according to the ministry.

The government announced Monday that it planned to reduce the number of workers in the North by 40 to 50 percent as part of a set of measures to make the North accountable for the naval tragedy which took the lives of 46 sailors.

Sources say the government is mulling military means to rescue people, if the reclusive North takes its citizens working at the Gaeseong complex hostage.

They say specific countermeasures will be drawn up for possible scenarios at a meeting of top military commanders to be held today.

The meeting will be presided over by Gen. Lee Sang-eui, chairman of the Joint Chiefs of Staff, a defense ministry official said.

### **Recruitment of female ROTC cadets may begin next year**

The Ministry of National Defense is considering allowing female college students to join the Reserve Officers' Training Corps (ROTC) program as early as next year, in an effort to secure more talented female military officers, ministry officials said Friday.

The ROTC program was introduced in Korea in 1963, but female college students have been banned from entering the program, which some critics say is discriminatory.

Military authorities had originally planned to consider lifting the ban from 2014 as part of a long-term military reform plan.

But President Lee Myung-bak asked Defense Minister Kim Tae-young to lift the ban earlier than planned, the officials said.

Since 1998, Korea has allowed women to enter military academies. Currently, there are some 2,900 female military officers in the country, accounting for about 4 percent of total officers.

ROTC is a college-based, officer commissioning program, developed in the United States. It is designed as a college elective that focuses on leadership development, problem solving, strategic planning and professional ethics.

In a National Assembly inspection of the ministry last year, Rep. Kim Ok-ee of the governing Grand National Party said, "To increase more competent female personnel in the military, the ministry should consider allowing female college students to become ROTC cadets."

The lawmaker cited a 2008 survey showing that 94 percent of female respondents said they support female ROTC cadets.

The survey said about 36 percent said they were willing to apply for the ROTC.

Korea maintains a compulsory conscription system in which all men over 19 are required to serve 24 to 27 months in the military.