

Globalized Business and politics; A View from Muslim world

Weekly report on South Korea & Japan

Report # 122

30th MAY 2010 to 6th June 2010

Presentation Date: 9th June 2010

Wajid Hussain

Summary of Report.....3-12

South Korea

Politico-Strategic Front13-31

- U.S. to Aid South Korea With Naval Defense Plan
- Russian experts arrive to review Cheonan findings
- South Korea Faces Domestic Skeptics Over Evidence Against North
- Ship Sinking Aids Ruling Party in S. Korean Vote
- Wen Says China Won't Take Sides in Korea Dispute, NHK Reports
- S. Korea's Governing Party Surprised by Election
- U.S., South Korea to Move Up Anti-Submarine Drills
- S. Korea hesitates bringing sea attack to UN council
- North Korea Says War With South Korea Could Begin 'Any Moment'
- South Korea Opposition Wins Local Races in Lee Rebuke
- South Korea ruling party chief quits after poll losses
- Seoul to seek support at Asian security summit
- South Korea's Lee urges world to rein in Nth Korea
- U.S. commander says Korea war unlikely but prepared
- S. Korea weighs steps at UN short of resolution-Gates
- Army general accused of spying for N. Korea

Economic Front.....32-42

- North Korea Profits From Brazil World Cup Game With Jersey Deal
- Posco Plans to Invest 320 Billion Rupees in Karnataka Plant
- South Korea's Foreign Reserves Fell to \$270.2 Billion in May
- Daewoo Ship Says Romania May Guarantee Loan to Shipyard Unit
- Risk Aversion End to Boost 'Oversold' Won and Rupee, Fan Says

- Germany's Deka sells S. Korea building for \$150 mln
- South Korea Attracting Japanese IPOs, Says Exchange Executive
- South Korea's Economy Expanded More Than Estimated
- Korean Won Falls as North Korea Says War Can Begin 'Any Moment'
- G-20 Fails on Bank Tax, Calls for Joint 'Principles'

Social Front.....42-45

- 40 people committed suicide daily in 2009
- Soccer-Spain squeeze past South Korea, Fabregas returns
- 136 teachers to stand trial simultaneously

Japan

Politico-Strategic Front.....46-61

- Polls: Support for Japanese PM falls to 17 percent
- Hatoyama Says Will Remain Japan Premier as Popularity Plunges
- U.S. forces said needed here Presence vital for regional threats, Defense Ministry institute reports
- Clinton doesn't blink
- Japan, China seek to prevent maritime friction
- Japanese leader faces mounting calls to step down
- Ambassador: US-Japan ties strong despite base flap
- Court throws out lawsuit to halt two nuclear reactors in Matsue
- China tops Japan in U.S. poll on key ties
- Ties to U.S. Played Role in Downfall of Japanese Leader
- Naoto Kan becomes new Japanese prime minister

Economic Front.....62-73

- Japan factory output up for second straight month
- Panasonic aims to be Japan No. 1 in solar business
- Toyota takes steps to improve image
- Tech Innovator in Japan Sets Its Sights on China
- JAL ends all flights in and out of Kobe
- Wen open to treaty to end gas field row
- Honda says China factory back to work after strike
- Oil imports increase 8.7% on year
- Toyota, Honda lead sales rise

- Fed lends \$6.64 billion in `swap' program
- Japan's New Prime Minister May Seek Weaker Yen, Monetary Easing

Social Front.....74-80

- Japan to stand firm against Australia on whaling
- Lucky England beats Japan in WCup warmup
- Japanese man faces execution in China
- Killer of ex-health bureaucrat, wife to hang
- Narita to test full-body scanners, assess privacy concerns
- Pop idol gets 18 months for drugs
- Japan vows forest conservation support to fight climate change
- Dolphin hunt film canceled in Tokyo after protests

Summary of Report

Summary of Article/report

America's Geisha Ally: Reimagining the Japanese Enemy by Naoko SHIBUSAWA

The book discussed the US prejudiced and biased behavior towards Japanese during WWII and Cold war. Racial and gender discrimination of Japanese population was much more extensive and generalized for all Japanese. National Character of Japanese has been always portrayed in negative terms. "Jap" notoriously became part of popular American culture to denote Japanese as immature and myopic human beings. Author also made this point that this traditional image is now getting changed with the passage of time because they (Americans) felt guilty about the dropping of atomic bombs on Japanese cities then intermarried US-Japanese couples are also playing their role to finish such beliefs. Significant role of Japan in international system and relations is also serving to diminish this opinion but it still persists.

South Korea

Politico-strategic Front:

U.S. to Aid South Korea With Naval Defense Plan Surprised by how easily a South Korean warship was sunk by what an international investigation concluded was a North Korean torpedo fired from midget submarine, senior American officials says they are planning a long-term program to plug major gaps in the South's naval defenses.

Russian experts arrive to review Cheonan findings A team of Russian navy experts has arrived in Seoul to review the findings of a multinational investigation that concluded North Korea torpedoed a South Korean warship on March 26, the Ministry of National Defense said Monday. An investigation team that included experts from the United States, Sweden, the United Kingdom, Australia and Canada announced May 20 that the ship had been hit by a torpedo fired from a North Korean midget submarine.

South Korea Faces Domestic Skeptics Over Evidence Against North South Korea's government is trying to stem skepticism about an inquiry that blamed North Korea for the sinking of a warship, according to local media reports. Prime Minister Chung Un Chan ordered the government to find a way to stop groundless rumors spreading on the Cheonan's sinking, the JoongAng Daily said yesterday. Prosecutors questioned a former member of the panel that probed the incident over his critical comments, the paper said. The Joint Chiefs of Staff sued a lawmaker for defamation after she said video footage of the ship splitting apart existed, a claim the military denies, Yonhap News reported.

Ship Sinking Aids Ruling Party in S. Korean Vote The sinking of the South Korean warship Cheonan, apparently by a North Korean torpedo, has provoked an international crisis that has embroiled big powers like the United States and China. But here in South Korea, it has had another effect: buoying the country's once embattled conservative, pro-American president, Lee Myung-bak. Soon after taking office two years ago, Mr. Lee appeared at risk of losing public support, as he faced mass demonstrations on the streets of Seoul against the import of United States beef. Now, political experts are talking about the "Cheonan effect," as polls show that more than half of expected voters approve of the president and his tougher line toward the North.

Wen Says China Won't Take Sides in Korea Dispute, NHK Reports China won't take sides in a dispute between South Korea and North Korea over the sinking of a South Korean naval ship, Chinese Premier Wen Jiabao was quoted as saying in an interview with NHK, Japan's public broadcaster. He said China will determine its position after studying responses of other countries, according to the report.

S. Korea's Governing Party Surprised by Election President Lee Myung-bak's party has suffered a surprising setback in local elections that were widely seen as a referendum on his handling of North Korea's alleged torpedoing of a South Korean warship. Results from the elections were released on Thursday, and the voter turnout of 54.5 percent was the highest for local elections in 15 years.

U.S., South Korea to Move Up Anti-Submarine Drills The U.S. and South Korea will move up plans to begin joint anti-submarine drills after concluding a North Korean torpedo sank a South Korean warship, Yonhap News reported. The exercises may start on June 8, earlier than a previous plan to begin at the end of June or early next month, the Korean-language news agency said, citing an unidentified South Korean military official.

S. Korea hesitates bringing sea attack to UN council South Korea is ready to ask the U.N. Security Council to censure North Korea for allegedly torpedoing a South Korean warship but is waiting for the "best time," a South Korean official said on Wednesday. South Korea accuses North Korea of torpedoing South Korea's Cheonan corvette in March, killing 46 sailors -- the deadliest military incident since the Korean War. It has vowed to bring the case to the council to demand a rebuke for Pyongyang. U.S. President Barack Obama said on Wednesday North Korea would be held accountable for the attack, "including at the United Nations Security Council."

North Korea Says War With South Korea Could Begin 'Any Moment' A North Korean diplomat today said war on the Korean peninsula could begin at any time over accusations that the government in Pyongyang ordered the sinking of a South Korean warship.

South Korea Opposition Wins Local Races in Lee Rebuke South Korean voters backed the country's main opposition party in key local elections, handing a surprise rebuke to President Lee Myung Bak following his tough stance against North Korea's alleged sinking of a warship. The Democrat party won seven of 16 races, according to the National Election Commission Web site. Lee's party, which held 11 of the 16 mayoral and gubernatorial posts before today, won six, according to the commission.

South Korea ruling party chief quits after poll losses South Korea's ruling Grand National Party (GNP) chief quit on Thursday to take responsibility for the poor showing in local elections, trying to contain the impact on President Lee Myung-bak's pro-business reforms. Lee said he would push through with his agenda, including cleaning up bureaucracy and cutting taxes, which analysts said was unlikely to be derailed by the unexpected strong performance by the opposition Democratic Party.

Seoul to seek support at Asian security summit President Lee Myung-bak begins a two-day trip to Singapore today to attend a regional security summit, better known as the Shangri-

La Dialogue. Defense Minister Kim Tae-young embarked on a three-day trip to Singapore Thursday to attend the conference, amid full-fledged efforts to seek support from the international community over the sinking of the Navy ship Cheonan in March.

South Korea's Lee urges world to rein in Nth Korea South Korean President Lee Myung-bak will urge the world on Friday to respond firmly to North Korean aggression and try to convince the reclusive state to give up its nuclear weapons programme.

U.S. commander says Korea war unlikely but prepared South Korea may not seek a full U.N. Security Council resolution against the North over the sinking of a South Korean warship because of fears over rising tensions on the peninsula, the United States said on Friday.

S. Korea weighs steps at UN short of resolution-Gates The United States said on Friday South Korea may not seek a full-blown U.N. Security Council resolution against the North over the sinking of a South Korean warship because of concerns over rising tensions on the peninsula.

Army general accused of spying for N. Korea The military and state intelligence agency are investigating a two-star army general on suspicion of leaking classified information to North Korea, the defense ministry said Friday. The major general, identified only as Kim, had allegedly handed sensitive information to a former South Korean intelligence agent recruited by North Korea, according to prosecutors and investigators at the Defense Security Command (DSC).

Economic Front:

North Korea Profits From Brazil World Cup Game With Jersey Deal North Korea is returning to the World Cup after 44 years, and venturing into the sports marketing industry that evolved in its absence. Ahead of the June 11 start of the tournament, the soccer team of Kim Jong Il's regime has snared a 4 million-euro (\$4.9 million) jersey contract over four years, according to Daniele Nastro, marketing director of Pompeii, Italy-based sports apparel maker Legea s.r.l. North Korean soccer association assistant general secretary Ri Kang Hong confirmed the deal with Legea, without giving financial details.

Posco Plans to Invest 320 Billion Rupees in Karnataka Plant South Korea's Posco plans to invest 320 billion rupees to set up a 6 million metric ton a year capacity steel plant in the southern state of Karnataka, V.P. Baligar, the state's principal secretary, said over the telephone today.

South Korea's Foreign Reserves Fell to \$270.2 Billion in May South Korea's foreign-exchange reserves declined to \$270.2 billion in May after the euro and pound weakened against the U.S. dollar, the Bank of Korea said.

Daewoo Ship Says Romania May Guarantee Loan to Shipyard Unit Daewoo Shipbuilding & Marine Engineering Co., the world's second-largest shipyard, said its unit in Romania may receive backing for a loan to fund operations from the government of the east European country.

Risk Aversion End to Boost 'Oversold' Won and Rupee, Fan Says The South Korean won, Indian rupee and Indonesian rupiah provide "attractive entry points" after being "oversold" during a shift from riskier assets, according to Fan Cheuk Wan, head of Asia Pacific research at Credit Suisse Private Banking in a Bloomberg Television interview.

Germany's Deka sells S.Korea building for \$150 mln Deka Immobilien, part of Germany's largest operator of open-ended property funds, has sold an office building in Seoul, South Korea, for about 123 million euros (\$150 million), 76 percent more than the purchase price. Deka-ImmobilienGlobal still owns one property asset in South Korea, Asia's fourth-largest economy, the spokesman said.

South Korea Attracting Japanese IPOs, Says Exchange Executive Nine Japanese companies have started procedures to apply for listing on South Korea's stock exchange, said Park Sang-Jo, president and chief operating officer of KOSDAQ's market division.

South Korea's Economy Expanded More Than Estimated South Korea's economy expanded at a faster pace than initially estimated last quarter as exports surged and domestic demand strengthened. Gross domestic product rose 2.1 percent from the previous three months, compared with an April estimate of 1.8 percent, the Bank of Korea said in Seoul today. The economy grew 8.1 percent from a year earlier, more than the previous 7.8 percent.

Korean Won Falls as North Korea Says War Can Begin 'Any Moment' South Korea's won fell, capping a weekly decline, after a North Korean diplomat said war on the Korean peninsula could begin at any time over the sinking of a warship that the South blames on its communist neighbor.

G-20 Fails on Bank Tax, Calls for Joint 'Principles' Group of 20 nations failed to agree on a proposal to impose a global tax on banks that was aimed at making the financial industry shoulder the cost of bailouts, settling instead for a common set of guidelines.

Social Front:

40 people committed suicide daily in 2009 Nearly 40 people committed suicide daily last year, up from 35 in 2008, according to the National Police Agency Wednesday. A total of 14,579 people took their own lives in 2009, up 18.8 percent from 12,270 the previous year. By age group, those aged 60 and above comprised 4,614 or 32 percent of the total suicides — indicating that more senior citizens are at risk — followed by people in their 40s at 2,770 or 19 percent. Though people in their 20s made up only 12 percent at 1,749, this represented a jump of 29 percent from 2008, and 35 percent over the last three years.

Soccer-Spain squeeze past South Korea, Fabregas returns Spain's Jesus Navas scored a stunning late goal to secure a 1-0 World Cup warm-up win over South Korea on Thursday as Cesc Fabregas returned to action after two months out injured. The European champions fielded mainly second-choice players and were restricted to few sights of goal until the closing stages when the substitutes made their presence felt.

136 teachers to stand trial simultaneously The Seoul Central District Court will simultaneously deliver its verdict on 136 unionized teachers and civil servants, indicted for illegal political activities. The court split the 272 teachers and civil servants being charged into two groups of 136. It is unprecedented that a group of more than 100 accused to appear in a courtroom for trial and receive a verdict at the same time.

Japan

Politico-Strategic Front:

Polls: Support for Japanese PM falls to 17 percent Public support for Japan's embattled prime minister fell to 17 percent amid rising calls for his resignation over his broken campaign promise to move a U.S. military base off a southern island, polls showed Monday.

Hatoyama Says Will Remain Japan Premier as Popularity Plunges Japan's Prime Minister Yukio Hatoyama said he intends to remain in his post after polls showed his popularity falling to new lows less than two months before parliamentary elections.

U.S. forces said needed here Presence vital for regional threats, Defense Ministry institute reports The Defense Ministry's key think tank is skeptical about maintaining the Japan-U.S. security alliance without having U.S. forces stationed in Japan, saying in its annual report Tuesday that the forces' role in the "gray area" between peacetime and a war crisis has become vital.

Clinton doesn't blink Foreign Minister Katsuya Okada agreed Monday with U.S. Secretary of State Hillary Rodham Clinton to continue discussions on where to relocate the Futenma military base but said he did not sense a change in Washington's stance over the thorny issue.

Japan, China seek to prevent maritime friction Japan and China agreed on Monday to set up an emergency hotline and set in place ways to prevent maritime friction sparked by Beijing's growing naval reach from getting out of hand. Chinese Premier Wen Jiabao held to Beijing's cautious stance on the sinking of a South Korean warship, which Japanese Prime Minister Yukio Hatoyama has joined Seoul and Washington in saying was certainly torpedoed by North Korea.

Japanese leader faces mounting calls to step down Japan's embattled prime minister faced growing pressure Tuesday from within his own party to resign ahead of July elections over his broken campaign promise to move a U.S. Marine base off the southern island of Okinawa.

Ambassador: US-Japan ties strong despite base flap Ambassador John Roos welcomed last week's U.S.-Japan accord to move a key Marine base to a less crowded part of Okinawa, but said there was still plenty of work to do to carry out the plan - which is vigorously opposed by island residents.

Court throws out lawsuit to halt two nuclear reactors in Matsue The Matsue District Court on Monday dismissed a suit demanding that Chugoku Electric Power Co. shut down reactors at its nuclear power plant here over the risk of accidents posed by major earthquakes. The plaintiffs said they plan to appeal the ruling.

China tops Japan in U.S. poll on key ties China overtook Japan as the most important partner for the United States in Asia for the first time since 1985, reflecting the country's increasing economic weight, according to the results of a survey covering about 200 U.S. opinion leaders released Tuesday by the Foreign Ministry. The Gallup research, conducted almost every year since 1960, demonstrated that U.S. confidence in Japan remains almost unchanged despite the recent bilateral row over the relocation of the Futenma military base in Okinawa.

Ties to U.S. Played Role in Downfall of Japanese Leader When Prime Minister Yukio Hatoyama of Japan abruptly stepped down Wednesday, largely for his failure to move an

American air base off Okinawa, he was essentially admitting he had not won popular support for a prominent campaign pledge: ending Japan's postwar dependence on the United States for its security.

Naoto Kan becomes new Japanese prime minister Hours before he became Japan's latest prime minister, Naoto Kan received a memo from his predecessor, Yukio Hatoyama, that offered some advice that Hatoyama himself couldn't follow. Now Kan, Japan's fifth leader in four years, will inherit the problems that those before him struggled to solve -- a nagging debt, a history of fiscal scandals and lingering questions about the fate of a U.S. Marine base on Okinawa.

Economic Front:

Japan factory output up for second straight month Japan's industrial production rose for a second straight month in April propelled by robust growth in China and the rest of Asia. Factory output expanded a seasonally adjusted 1.3 percent from March when it grew 1.2 percent, the government said Monday.

Panasonic aims to be Japan No. 1 in solar business Panasonic Corp. is banking on the solar-panel business that it gained by acquiring domestic rival Sanyo, aiming for top market share of at least 35 percent in Japan by 2012. New solar generation products, being offered in Japan starting next month, combine Sanyo Electric Co.'s solar technology with Panasonic's sales networks in appliances and housing, said Panasonic Executive Vice President Toshihiro Sakamoto.

Toyota takes steps to improve image With its reputation severely damaged by safety issues, Toyota Motor Corp. announced several steps Tuesday to improve its image, including the establishment of a panel of regional and local quality-control executives that will call the shots on recalls and other steps. The committee, which held its first meeting Tuesday, will also share global information on claims, defects and recalls more speedily, Toyota said.

Tech Innovator in Japan Sets Its Sights on China A Japanese technology giant little known outside Asia is racing to capture the booming Chinese Internet market. And in the process, it hopes to become a global player straddling what is fast becoming the world's most wired region, The New York Times's Hiroko Tabuchi writes.

JAL ends all flights in and out of Kobe Japan Airline Corp. terminated all of its flights Monday at Kobe Airport as part of its restructuring. JAL ended flights between Kobe and Shin-Chitose Airport in Hokkaido and Naha and Ishigaki airports in Okinawa. JAL's withdrawal is a blow to the money-losing Kobe Airport, which is expected to suffer operating losses for both fiscal 2009 and 2010.

Wen open to treaty to end gas field row Chinese Premier Wen Jiabao agreed Monday in Tokyo with Prime Minister Yukio Hatoyama to begin bilateral negotiations on a treaty over gas fields in the East China Sea. Japan and China agreed in 2008 to jointly develop the gas fields, but there has been little progress on implementation.

Honda says China factory back to work after strike Honda Motor Co. said a key parts factory in China resumed full operation Wednesday following a two-week strike over wages that forced Honda to halt production at four assembly plants. The strike highlighted tensions between workers and foreign companies that look to China as a source of cheap labor and a fast-growing market amid weak demand elsewhere.

Oil imports increase 8.7% on year Japan imported 8.7 percent more crude oil in April than a year earlier for the second straight month of growth, the Natural Resources and Energy Agency said Monday.

Toyota, Honda lead sales rise Toyota Motor Corp. and Honda Motor Co. led the 10th straight increase in domestic monthly auto sales as government incentives boosted demand. Sales of cars, trucks and buses, excluding minicars, rose 28 percent to 228,514 vehicles in May from a year earlier, the Japan Automobile Dealers Association said Tuesday. Toyota sold 112,174 units, excluding Lexus-brand cars, up 39 percent.

Fed lends \$6.64 billion in 'swap' program The Federal Reserve says it lent \$6.64 billion through a program aimed at easing strains from the European debt crisis. Most of the money - \$6.4 billion - went to the European Central Bank. The rest went to the Bank of Japan.

Japan's New Prime Minister May Seek Weaker Yen, Monetary Easing Japan's next cabinet may favor a weaker yen and encourage more measures to boost the money supply, according to a lawmaker from the ruling Democratic Party of Japan who has called for more steps to fight deflation.

Social Front:

Japan to stand firm against Australia on whaling Japan will "properly respond" to Australia's legal action at the International Court of Justice against its whaling in the Antarctic Ocean, Chief Cabinet Secretary Hirofumi Hirano said Tuesday

Lucky England beats Japan in W. Cup warmup England missed a penalty shot and needed two own goals to beat Japan 2-1 in a World Cup warmup Sunday, while the Ivory Coast squandered a two-goal lead to draw with Paraguay.

Japanese man faces execution in China Beijing has notified Tokyo of the imminent execution of a Japanese man sentenced to death for smuggling drugs, Chinese Foreign Ministry spokesman Qing Gang said Tuesday. It will be China's first execution of a Japanese national since the two nations normalized diplomatic relations in 1972.

Killer of ex-health bureaucrat, wife to hang No new psych exam for man who murdered 'demons' to avenge dog The Saitama District Court sentenced a 48-year-old man to death Tuesday for killing a former top health ministry bureaucrat and his wife and attempting to kill another woman in a series of attacks in 2008 that stunned the nation.

Narita to test full-body scanners, assess privacy concerns The first test of full-body scanners in Japan will begin in July at Narita International Airport, transport minister Seiji Maehara said Tuesday. Japan has been studying the feasibility of introducing the scanners, which have drawn privacy complaints worldwide because they can essentially see through passengers' clothing, in an effort to tighten security after a failed Christmas Day bombing attempt on a U.S. airliner bound for Detroit from Amsterdam. Many airports offer passengers the option of a physical body search.

Pop idol gets 18 months for drugs The Chiba District Court handed Akira Akasaka, a former member of the pop idol group Hikaru Genji, an 18-month prison term Tuesday for drug use. Akasaka, 36, was given a suspended sentence in November 2007 for possessing amphetamines.

Japan vows forest conservation support to fight climate change In a ministerial meeting in Oslo, Japan vowed to support forest conservation efforts in developing countries to help alleviate problems stemming from climate change, the Foreign Ministry said. Forests absorb carbon dioxide and release oxygen in the process of photosynthesis.

Dolphin hunt film canceled in Tokyo after protests A movie theater in Tokyo decided against showing the dolphin-hunt documentary "The Cove" after nationalist pressure and warnings of protests, the distributor said Thursday. In recent months, activists have protested and screamed slogans outside the Tokyo office of the Japanese distributor, Unplugged, alleging that support for the film signals betrayal of Japanese pride.

South Korea

Politico-strategic Front:

Detailed News:

U.S. to Aid South Korea With Naval Defense Plan

WASHINGTON — Surprised by how easily a South Korean warship was sunk by what an international investigation concluded was a North Korean torpedo fired from midget submarine, senior American officials says they are planning a long-term program to plug major gaps in the South's naval defenses.

Related

They said the sinking revealed that years of spending and training had still left the country vulnerable to surprise attacks.

The discovery of the weaknesses in South Korea caught officials in both countries off guard. As South Korea has rocketed into the ranks of the world's top economies, it has invested billions of dollars to bolster its defenses and to help refine one of the oldest war plans in the Pentagon's library: a joint strategy with the United States to repel and defeat a North Korean invasion.

But the shallow waters where the attack occurred are patrolled only by South Korea's navy, and South Korean officials confirmed in interviews that the sinking of the warship, the Cheonan, which killed 46 sailors, revealed a gap that the American military must help address.

The United States — pledged to defend its ally but stretched thin by the wars in Afghanistan and Iraq — would be drawn into any conflict. But it has been able to reduce its forces on the Korean Peninsula by relying on South Korea's increased military spending. Senior Pentagon officials stress that firepower sent to the region by warplanes and warships would more than compensate for the drop in American troop levels there in the event of war.

But the attack was evidence, the officials say, of how North Korea has compensated for the fact that it is so bankrupt that it can no longer train its troops or buy the technology needed to fight a conventional war. So it has instead invested heavily in stealthy, hard-to-detect technologies that can inflict significant damage, even if it could not win a sustained conflict.

Building a small arsenal of nuclear weapons is another big element of the Northern strategy — a double-faceted deterrent allowing it to threaten a nuclear attack or to sell the technology or weapons in order to head off retaliation even for an act of war like sinking South Korean ships.

In an interview last week, Adm. Mike Mullen, chairman of the Joint Chiefs of Staff, said that the joint training exercise with South Korea planned just off the country's coast in the next few weeks represented only the "near-term piece" of a larger strategy to prevent a recurrence of the kind of shock the South experienced as it watched one of its ships sunk without warning. But the longer-range effort will be finding ways to detect, track and counter the miniature submarines, which he called "a very difficult technical, tactical problem."

"Longer term, it is a skill set that we are going to continue to press on," Admiral Mullen said. "Clearly, we don't want that to happen again. We don't want to give that option to North Korea in the future. Period. We want to take it away."

American and South Korean officials declined to describe details of the coming joint exercises, except to say that they would focus on practicing antisubmarine warfare techniques and the interdiction of cargo vessels carrying prohibited nuclear materials and banned weapons.

To counter the unexpected ability of midget submarines to take on full warships, the long-term fix will mean greatly expanding South Korea's antisubmarine network to cover vast stretches of water previously thought to be too shallow to warrant monitoring closely — with sonar and air patrols, for instance. That would include costly investment in new technologies, as well as significant time spent determining new techniques for the South Korean military.

North Korea presents an adversary with a complicated mix of strengths and weaknesses, said senior American officers.

According to a recent strategic assessment by the American military based on the Korean Peninsula, the North has spent its dwindling treasury to build an arsenal able to start armed provocations "with little or no warning." These attacks would be specifically designed for "affecting economic and political stability in the region" — exactly what happened in the attack on the Cheonan, which the South Korean military and experts from five other countries determined was carried out by a North Korean midget submarine firing a powerful torpedo.

Admiral Mullen and other officials said they believed the Cheonan episode might be just the first of several to come. "North Korea is predictable in one sense: that it is unpredictable in what it is going to do," he said. "North Korea goes through these cycles. I worry a great deal that this isn't the last thing we are going to see."

High-ranking South Korean officials acknowledge that the sinking was a shock.

Russian experts arrive to review Cheonan findings

A team of Russian navy experts has arrived in Seoul to review the findings of a multinational investigation that concluded North Korea torpedoed a South Korean warship on March 26, the Ministry of National Defense said Monday.

Won Tae-jae, the ministry's spokesman, said the Russian delegation will inspect the wreckage of the Cheonan, which was sunk by the North's attack on March 26 in the West Sea. Forty-six sailors were killed in the incident.

An investigation team that included experts from the United States, Sweden, the United Kingdom, Australia and Canada announced May 20 that the ship had been hit by a torpedo fired from a North Korean midget submarine.

The team presented "decisive evidence" that proved the North's involvement, including the remains of a propulsion system that matched a North Korean CHT-02D torpedo, which had Korean markings.

Russia, a Cold War ally of North Korea, has said it will decide its position on South Korea's plan to refer the North's sinking of the Cheonan to the U.N. Security Council (UNSC) after examining the outcome of an investigation into the incident.

In a telephone conversation with South Korean President Lee Myung-bak last week, Russian President Dmitry Medvedev urged a calm response to prevent tension on the Korean Peninsula from escalating further in the aftermath of the sinking of the 1,200 ton warship.

Seoul is pushing for the UNSC to censure North Korea; but winning support from China and Russia, both veto-wielding UNSC members, will be critical to the move to impose new tougher sanctions against Pyongyang.

Meanwhile, the ministry said it plans to open up the wreckage of the Cheonan to Internet users and university students later this week.

The wreckage at the 2nd Navy Fleet Command in Pyeongtaek has been opened to government officials, journalists and former military leaders but not to ordinary citizens.

The move comes as rumors and suspicions over the cause of the incident are continuing even after the ministry-led multinational investigation team concluded that the Cheonan had been torpedoed by a North Korean submarine, ministry officials said.

The ministry will select 20 Twitter users, 10 Internet bloggers, 30 student journalists, five representatives from portal Internet sites and five government officials for the upcoming tour of the wreckage, they said.

The ministry will pick them randomly from among the applicants. The tour is to take place this Friday, they said.

"The event is designed to win public trust in the government and military as well as defuse suspicions raised by those in their 20s and 30s over the cause of the incident," a ministry official said. "Participants will be allowed to take pictures of the wreckage or record images on their video cameras."

South Korea Faces Domestic Skeptics Over Evidence Against North

May 30 (Bloomberg) -- South Korea's government is trying to stem skepticism about an inquiry that blamed North Korea for the sinking of a warship, according to local media reports.

Prime Minister Chung Un Chan ordered the government to find a way to stop groundless rumors spreading on the Cheonan's sinking, the JoongAng Daily said yesterday. Prosecutors questioned a former member of the panel that probed the incident over his critical comments, the paper said. The Joint Chiefs of Staff sued a lawmaker for defamation after she said video footage of the ship splitting apart existed, a claim the military denies, Yonhap News reported.

Almost one in four South Koreans say they don't trust the findings of the multinational panel, according to a poll commissioned by Hankook Ilbo on May 24. North Korea's state-run Korean Central News Agency yesterday accused the South's "puppet military of trying to cover up the truth about the sinking" by seeking to silence opposition lawmakers with the lawsuit.

The news agency yesterday released six English-language articles asserting that the country is innocent in the March 26 sinking and attacking the evidence presented by the inquiry. The denials come as Wen Jiabao, premier of North Korea's main ally, China, is in South Korea for a three-way summit that includes Japan.

South Korea and Japan made a joint stand yesterday blaming North Korea, and want China to also take a stance. Wen May 28 said that while China won't protect anyone found guilty of causing the ship to sink, 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.

'Blinded With Ambition'

"The South Korean conservatives are now blinded with the wild ambition to invent a pretext for escalating the confrontation," the North Korean news service said in one report yesterday. "It has become clearer that a nuclear war is bound to break out," the report said, "as long as such traitors are allowed to be at large."

In another, the agency wrote: "The case of the warship sinking is a sheer fabrication made by the South Korean ruling forces, a hideous burlesque orchestrated by them."

Lee Jung Hee, a lawmaker with an opposition party, the Democratic Labor Party, was sued for defamation by seven people at South Korea's Joint Chiefs of Staff, Yonhap News reported May 25.

Lee said during a speech in parliament that while the Defense Ministry had said there was no feed from a thermal observation device showing the moment the warship's stern and bow split apart, such a video did exist.

Accident Claims

Prosecutors May 28 questioned Shin Sang-cheol, who runs Seoprise, a Web-based political magazine, over his assertion that the Cheonan sank in an accident and that the evidence linking the North to the torpedo was tampered with, the JoonAng said. Shin served on the panel that probed the sinking.

The magnified photograph of writing on the torpedo showed that the marking was written on top of a rusted surface, the newspaper cited Shin as saying. The Defense Ministry asked the National Assembly to eject Shin from the investigation for "arousing public mistrust," the report said.

South Korea intends to present its case against the North to the United Nations Security Council. The U.S., Japan, Australia and the U.K. have all accepted the findings of the panel. The commission included experts from Sweden, which has an embassy in Pyongyang and isn't aligned with South Korea and the U.S.

'Awkward Position'

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 news agency statement. "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.

North Korean Major General Pak Rim Su said in Pyongyang yesterday that the international investigation into the sinking was biased because it was supervised by the South Korean military and included the U.S., the Korean Central News Agency said.

Pak said the North does not have the type of submarines that the South said carried out the attack, Agence France-Presse reported, citing North Korea's Chungang TV. South Korea's Yonhap News quoted South Korean officials as saying the North has about 10 of the Yeono class submarines, AFP said.

Senior Colonel Ri Son Gwon also derided claims that writing on the torpedo was put there by North Korea, AFP reported.

"When we put serial numbers on weapons, we engrave them with machines," Ri said, according to AFP.

Twenty-four percent of respondents said they didn't trust the government's evidence, with more skepticism among younger and better-educated people, the Hankook Ilbo poll found. Almost 90 percent of people over 60 trusted the findings, while only 70 percent of those in their 40s did.

Ship Sinking Aids Ruling Party in S. Korean Vote

BUCHEON, South Korea — The sinking of the South Korean warship Cheonan, apparently by a North Korean torpedo, has provoked an international crisis that has embroiled big powers like the United States and China. But here in South Korea, it has had another effect: buoying the country's once embattled conservative, pro-American president, Lee Myung-bak.

Soon after taking office two years ago, Mr. Lee appeared at risk of losing public support, as he faced mass demonstrations on the streets of Seoul against the import of United States beef. Now, political experts are talking about the "Cheonan effect," as polls show that more than half of expected voters approve of the president and his tougher line toward the North.

Nowhere is the current upwelling of popular support more apparent than in polling for the local elections to be held across South Korea on Wednesday. Mr. Lee's Grand National Party, whose candidates once faced tight races in some districts, now appears poised to sweep the most important races, including hotly contested mayoral elections in Seoul and the nearby port of Incheon.

Kim Moon-soo, the conservative governor of a province outside Seoul, just two weeks ago was in an uphill battle for re-election against a liberal opponent. Now, polls show him with a comfortable 15 percentage point lead.

“The only way to secure national security is to vote Grand National Party!” Mr. Kim recently told a crowd of flag-waving supporters, many of whom wore the sky blue of the governing party.

Such colorful displays are typical of the feisty and contentious election campaigns in South Korea, one of Asia’s most robust democracies. But the emotions unleashed in March by the sinking of the Cheonan, which killed 46 sailors, made what would have been local elections fought over public works and school lunches into an important national referendum on South Korea’s stance toward the North.

Politicians and political analysts agree that voters decisively turned to the Grand National Party after the announcement on May 20 of the results of an international inquiry into the sinking that found North Korea responsible. Political analysts said the results were enough to persuade many undecided voters to swing to the conservatives, who are seen as stronger on defense.

“The Cheonan is having a huge effect by pushing voters to rally around the flag,” said Kim Ki-shik, a political analyst at the People’s Solidarity for Participatory Democracy, a policy research group.

A telephone poll of 800 likely voters conducted Saturday by the East Asia Institute, a political research group, found that 52 percent of respondents approved of Mr. Lee in May, up from 46 percent a month earlier. It also found that 54 percent of respondents would “take the Cheonan into consideration” when casting ballots on Wednesday.

Political analysts said the sinking also soured many of these swing voters against the liberal opposition, which favors resuming engagement with North Korea, and which had been openly skeptical about whether the North was behind the attack. Some on the left have accused the president of manipulating the inquiry’s results to enhance his party’s chances in the elections.

But commentators warn that this wave of anger over the sinking does not signal unconditional support for Mr. Lee. In particular, they say that a majority of voters are against an openly confrontational stance toward the North, much less military retaliation.

In fact, after years of rising living standards and lowered tensions with the North under Mr. Lee’s two liberal predecessors, most South Koreans do not have the stomach for an actual standoff, political analysts say.

This means Mr. Lee must tread carefully, even as he stands with his nation’s closest allies, the United States and Japan, in calling for a firm response to the sinking. If he is seen as provoking North Korea, or pushing it too far, public sentiment could easily swing against him, analysts say.

“Voters are furious at North Korea now,” said Yoon Hee-wong, director of research at the Korea Society Opinion Institute, a polling company, “but the consensus here is clearly against confrontation.”

Mr. Lee’s current stance is that South Korea is willing to resume dialogue with the North, but only after it apologizes for the sinking and brings those responsible to justice.

At a speech in Bucheon, a suburb about an hour from Seoul, Mr. Kim, the candidate for governor, criticized the North for the attack. He did not call for revenge, but instead said that South Korea needed to bolster its own defenses and give moral support to the president in a time of crisis.

“Is this election about judging Lee Myung-bak?” he asked about 500 supporters outside a train station. “Or do we need to judge North Korea and Kim Jong-il?” he added, referring to the North Korean leader.

The supporters of his opponent, Rhyu Si-min of the People’s Participation Party, grouse that the sinking of the Cheonan had hijacked the elections.

“The Cheonan has crowded out all the other important issues,” said Mr. Rhyu’s chairwoman for campaign strategy, Kim Hyun-mee.

In Ilsan, a nearby city, Mr. Rhyu repeated in a hoarse voice his support for “peaceful coexistence” with the North.

Among his supporters at the rally, most of them in their 20s and 30s, suspicions run deep against the president and the United States, South Korea’s longtime protector.

“I don’t think North Korea did it,” said Lee Soo-hong, 39, who said he was between jobs. “I think the United States is using this incident to control South Korea.”

Mr. Kim, the conservative candidate, said that his party’s tradition of closer ties to Washington was helped him with voters.

“When people feel insecure, they feel the necessity of the United States,” said Mr. Kim, who paused before adding, “and the Grand National Party.”

Wen Says China Won’t Take Sides in Korea Dispute, NHK Reports

June 1 (Bloomberg) -- China won’t take sides in a dispute between South Korea and North Korea over the sinking of a South Korean naval ship, Chinese Premier Wen Jiabao was quoted as saying in an interview with NHK, Japan’s public broadcaster.

He said China will determine its position after studying responses of other countries, according to the report.

S. Korea's Governing Party Surprised by Election

SEOUL, South Korea — President Lee Myung-bak's party has suffered a surprising setback in local elections that were widely seen as a referendum on his handling of North Korea's alleged torpedoing of a South Korean warship.

Results from the elections were released on Thursday, and the voter turnout of 54.5 percent was the highest for local elections in 15 years.

Candidates of Mr. Lee's governing Grand National Party had hoped that outrage in South Korea over the sinking of the Cheonan, which killed 46 South Korean sailors, would help them ride a conservative wave to victory. Mr. Lee's government has formally accused North Korea of attacking the ship on March 26 with a torpedo from a submarine, a charge that the North has denied.

"The election results were far less than we had expected and hoped for," Cho Hae-jin, a spokesman for the governing party, said. The party's chairman, Chung Mong-joon, an important ally of Mr. Lee, said he was stepping down over the poor results. Mr. Lee's chief of staff, Chung Chung-kil, also offered to resign.

Pre-election surveys showed that a majority of South Koreans blamed North Korea for the warship incident, which the government characterized as the worst North Korean military provocation since the end of the Korean War. Those surveys and political analysts had predicted that the president's party would win at least 9 of 16 crucial races to elect big-city mayors and provincial governors in the voting on Wednesday.

But the party won only six of the elections. Its main rival, the Democratic Party, won seven. The remaining three races were won by two independents and a candidate from a small opposition party.

The results were a blow to Mr. Lee's efforts to rally popular support for his campaign to punish North Korea. He also wanted a fresh mandate to push through his controversial \$19 billion project to dredge and dam the country's four main rivers.

The mayor of Seoul, Oh Se-hoon, a member of Mr. Lee's party, barely won re-election. But in a hotly contested mayoral race in Incheon, a large port city west of Seoul, the opposition candidate, Song Young-gil, a strong critic of Mr. Lee, won an unexpected victory. The ship's sinking was an especially significant election issue there, because the ship went down within Incheon's jurisdiction.

Both of the central Chungcheong provinces also rejected governing-party candidates. They were unhappy that Mr. Lee canceled the previous government's plan to relocate several central government agencies to a new town to be built in the region.

Nationwide, about 9,900 candidates campaigned for 3,991 posts, including contests for mayor in small cities, as well as members of city councils and education chiefs. In most of those smaller races, too, the opposition prevailed.

Local elections in South Korea are often seen as a midterm referendum on the president. Political analysts said that even before the Cheonan sinking, as the nation's economy recovered relatively quickly from the global recession, Mr. Lee's approval ratings hovered around 50 percent and his party appeared to have a decent chance to win.

But when the Cheonan sank, Mr. Lee's party turned it into a dominating campaign theme to tamp down the domestic disputes, such as the river dredging project. Its candidates lambasted opposition rivals who championed engagement with North Korea.

Opposition politicians contended that Mr. Lee's hard-line approach to North Korea had helped provoke the North to lash out.

"Yes, people agreed with the president that the North needed punishing," said Jeong Chan-soo, a senior analyst at the political consultancy MIN Consulting. "But when the government announced its investigative results on the same day when the election campaign began, and when President Lee chose the Korean War Museum as the venue to deliver his speech to criticize North Korea, they thought he was overreacting.

"They felt a risk of war," Mr. Jeong added. "They thought they needed to rein in their president."

"This is the people's verdict on Lee Myung-bak's arrogance," said Woo Sang-ho, a spokesman for the Democratic Party.

Chung Se-kyun, the leader of the Democratic Party, said the results indicated that Mr. Lee should "abandon his confrontational policy on North Korea and ease tensions on the Korean peninsula."

Security concerns about North Korea had influenced previous elections in the South, almost always helping conservative candidates in a phenomenon known as "the North Wind."

Panicked opposition candidates accused Mr. Lee of exploiting the sinking to raise tensions for political gains. And North Korea joined the fray, urging South Koreans to "deal sledgehammer blows" against Mr. Lee.

U.S., South Korea to Move Up Anti-Submarine Drills, Yonhap Says

June 2 (Bloomberg) -- The U.S. and South Korea will move up plans to begin joint anti-submarine drills after concluding a North Korean torpedo sank a South Korean warship, Yonhap News reported.

The exercises may start on June 8, earlier than a previous plan to begin at the end of June or early next month, the Korean-language news agency said, citing an unidentified South Korean military official.

S. Korea hesitates bringing sea attack to UN council

UNITED NATIONS, June 2 (Reuters) - South Korea is ready to ask the U.N. Security Council to censure North Korea for allegedly torpedoing a South Korean warship but is waiting for the "best time," a South Korean official said on Wednesday.

South Korea accuses North Korea of torpedoing South Korea's Cheonan corvette in March, killing 46 sailors -- the deadliest military incident since the Korean War. It has vowed to bring the case to the council to demand a rebuke for Pyongyang.

U.S. President Barack Obama said on Wednesday North Korea would be held accountable for the attack, "including at the United Nations Security Council."

He repeated U.S. support for South Korea's security and praised its "extraordinary patience and self-restraint." Seoul has announced a series of sanctions against Pyongyang but has not launched any retaliatory military strikes.

After meeting with Mexican U.N. Ambassador Claude Heller, who is president of the council this month, South Korean Vice Foreign Minister Chun Yung-woo told reporters that Seoul has not dropped plans to bring the case to the Security Council.

"I have discussed when would be the best time to refer this case to the Security Council," Chun said about his meeting with Heller. "It depends on the schedule of the council."

Asked when he would submit a letter formally requesting that the council take up the issue, Chun said: "At some point."

"We will have to find out what would be the best time to begin deliberations on this issue," he said. "When the council is ready to take this issue, then we will submit the letter."

DENIAL

Chun denied that South Korea was deliberately delaying its request for the council to discuss the sinking of the ship. He also declined to comment on China's position.

China, which is North Korea's biggest trade partner and which fought alongside the North in 1950-1953 Korean War, has declined to publicly join international condemnation of Pyongyang, saying it is still assessing the evidence.

Council diplomats have said on condition of anonymity that China, a veto-wielding permanent Security Council member and North Korea's only major ally, has made clear that Beijing would prefer not to take up the issue at the United Nations.

China, Western diplomats say, will not tolerate new sanctions against North Korea, while Seoul appears determined to have the council at least agree on some form of rebuke of North Korea.

At a three-way Japanese-Chinese-South Korean summit meeting last weekend, Chinese Premier Wen Jiabao deflected pressure to censure North Korea, instead urging his neighbors to calm tensions over the sinking of the warship and avoid any clash that could shake Asia.
[ID:nTOE64T002]

Wen did not mention North Korea by name, nor did he give any firm indication that China would accept any efforts to have the U.N. Security Council condemn or sanction the North.

North Korea Says War With South Korea Could Begin 'Any Moment'

June 3 (Bloomberg) -- A North Korean diplomat today said war on the Korean peninsula could begin at any time over accusations that the government in Pyongyang ordered the sinking of a South Korean warship.

"The present situation is so grave that a war may break out at any moment," Ri Jang Gon, North Korea's deputy ambassador to United Nations offices in Geneva told a conference on nuclear disarmament there, according to a text of his remarks provided by the UN.

He said South Korea's accusation was the "sheer fabrication" of "authorities who are in desperate need of creating a shocking incident" to block North Korea's development.

South Korea has blamed North Korea for the March 26 sinking of the Cheonan, which killed 46 sailors. The two nations have traded accusations and threats of military retaliation since an international panel that included experts from the U.S., Australia, the U.K. and Sweden concluded that the North was behind the sinking.

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.

South Korea Opposition Wins Local Races in Lee Rebuke (Update1)

June 3 (Bloomberg) -- South Korean voters backed the country's main opposition party in key local elections, handing a surprise rebuke to President Lee Myung Bak following his tough stance against North Korea's alleged sinking of a warship.

The Democrat party won seven of 16 races, according to the National Election Commission Web site. Lee's party, which held 11 of the 16 mayoral and gubernatorial posts before today, won six, according to the commission.

"It seems public concerns over war have partially affected the election," said Kim Yong Hyun, a professor of North Korean Studies at Dongguk University. "It seems people are tired with rising tensions with North Korea and want peace."

The election setback adds to mounting troubles for Lee, who may shuffle his Cabinet this month, the Korea Economic Daily reported, citing a presidential official it didn't identify. The head of Lee's Grand National Party, Chung Mong Joon, offered to step down today, saying he is "humbly accepting" the people's decision, according to a statement on the party's Web site.

Lee's handling of the North's alleged March 26 torpedo attack was expected to boost his popularity going into the elections. The GNP was leading the Democratic Party by 15.8 percentage points before the vote, according to a survey by researcher Realmeter released June 1.

Voting Patterns

The actual results may illustrate shifting voting patterns in South Korea, which had its first directly-elected president in 1993 after decades of mostly military rulers. South Koreans are becoming more savvy about negotiations with the North, said Park Kie Duck, a senior research fellow at the private Sejong Institute in Seongnam.

"People used to support the conservative party when tensions with North Korea were rising," Park said. "But now people are learning how to analyze the situation and whether the ruling party's policies may hurt relations."

The mayor of Seoul, Oh Se-hoon, who is from Lee's party, held onto his post with 47.4 percent of the vote compared with the opposition's 46.8 percent.

The sinking of the Cheonan had dominated campaigning for Seoul mayor and the 3,892 other local government contests held yesterday. Lee said South Korea will cut most trade with North Korea after a multinational team concluded on May 20 that the North fired a torpedo that split the ship apart, killing 46 sailors.

The incident had helped divert attention away from domestic disputes, such as a plan to develop four rivers that critics say will damage the environment, according to Kang Won Taek, professor of political science at Soongsil University in Seoul.

South Korea ruling party chief quits after poll losses

SEOUL (Reuters) - South Korea's ruling Grand National Party (GNP) chief quit on Thursday to take responsibility for the poor showing in local elections, trying to contain the impact on President Lee Myung-bak's pro-business reforms.

Lee said he would push through with his agenda, including cleaning up bureaucracy and cutting taxes, which analysts said was unlikely to be derailed by the unexpected strong performance by the opposition Democratic Party.

"The government needs to go back to the work of economic recovery and sustained growth," Lee told a meeting on Thursday.

The Democratic Party won seven of 16 major races for the country's largest cities and the provinces in an upset that surprised GNP and analysts who had been expecting a large win for the conservative ruling party.

Lee's uncompromising stand against North Korea after blaming it for sinking one of its navy ships had seen him and the GNP bounce back in opinion polls from a voter backlash after a decision to scrap a plan to shift a large part of the government from Seoul and rows over U.S. beef imports and a river project.

The GNP candidate narrowly defeated a Democrat in the race for Seoul mayor but the incumbent conservative lost in the giant port city of Incheon just west of the capital.

The current GNP governor of the Gyeonggi province surrounding Seoul that is home to more than 11 million kept his office.

But the GNP was shut out in the rest of the country except in its tradition stronghold of the southeast in what analysts saw as sign of voter disillusionment with some of Lee's policies.

"We humbly accept the voice of the Korean people of rebuke," GNP chief Chung Mong-joon told a leadership meeting. "I want to take this chance to express my wish to resign."

Chung has been considered a leading candidate to succeed Lee and was expected to run again as party chief in June.

Voting for nearly 4,000 offices around the country had been overshadowed by the March sinking of the South Korean naval corvette Cheonan, fuelling shrill rhetoric from North and South Korea, including threats of war.

At the United Nations, South Korea's vice foreign minister said Seoul was ready to ask the Security Council to take up the incident for censure and was looking for the best time to do it.

U.S. President Barack Obama said the North would be held accountable for the attack, including at the Security Council.

South Korea and the United States are to hold a naval military exercise next week, about a month ahead of schedule, to "demonstrate the strong willingness by both Seoul and Washington to deter North Korea" from further provocations, the JoongAng Daily said on Thursday, quoting military officials.

North Korea denies responsibility for the ship attack and has regularly accused the South of staging the incident to help Lee in the local elections.

Seoul to seek support at Asian security summit

President Lee Myung-bak begins a two-day trip to Singapore today to attend a regional security summit, better known as the Shangri-La Dialogue.

Defense Minister Kim Tae-young embarked on a three-day trip to Singapore Thursday to attend the conference, amid full-fledged efforts to seek support from the international community over the sinking of the Navy ship Cheonan in March.

President Lee will hold a summit Saturday with Singaporean Prime Minister Lee Hsien Loong and give a keynote speech at the 9th Asia Security Summit on Korea's commitment to regional peace and security, and economic growth, Cheong Wa Dae said. "The speech will focus on the country's rise from the devastation of the 1950-1953 Korean War and the goal to assume a greater role in the international community," the office said. The security forum, inaugurated in 2002, will draw defense ministers of 28 countries, including the United States, China and Japan. The event is organized by the London-based think tank, the International Institute for Strategic Studies.

Minister Kim plans to hold bilateral talks with his counterparts from the United States, Japan, the United Kingdom, Australia and other nations on the sidelines of the meeting.

"Minister Kim will deliver a speech titled 'Asia-Pacific Security and Partnerships' and ask for support from regional allies over the Cheonan issue," the ministry said in a news release.

The security summit will, in particular, help explain the background of the sinking of the warship and solicit support from the international community, it added.

A multinational investigation team concluded last month that North Korea was behind the sinking of the 1,200-ton Cheonan in waters near the disputed inter-Korean sea border. North Korea has denied the allegation, threatening to cut all ties with South Korea.

Seoul announced a set of steps in retaliation, including the resumption of psychological warfare programs and the staging of massive naval exercises with the U.S. Navy.

South Korea's Lee urges world to rein in Nth Korea

SEOUL June 4 (Reuters) - South Korean President Lee Myung-bak will urge the world on Friday to respond firmly to North Korean aggression and try to convince the reclusive state to give up its nuclear weapons programme.

Lee, speaking at a security conference in Singapore, will also stress the importance of the North returning to stalled six-party talks on ending its atomic ambitions and reaching a successful conclusion, the presidential Blue House said.

South Korea has blamed the North for sinking a naval vessel, the Cheonan, in March, killing 46 sailors. The North denies responsibility and has regularly accused the South of staging the incident to help Lee in this week's local elections.

"The international community must join in efforts to convince the North's leadership to discard the belief that the way to survival as a powerful nation is by nuclear armament," Lee will say.

Lee will also stress that the six-party talks "must be used to fundamentally resolve the North Korean nuclear problem", the Blue House said.

"Lee will stress the graveness of the North Korean nuclear issue and the Cheonan incident and will underscore the need for the international community to respond firmly to the North's threats to peace and stability of the Korean peninsula and Northeast Asia," it said in a statement.

"The Cheonan incident in particular requires the North to admit to its wrongdoing and promise that similar incidents will not be repeated."

A North Korean envoy said in Geneva on Thursday that war could erupt at any time on the Korean peninsula.

North Korea's troops were on "full alert and readiness to promptly react to any retaliation", including the scenario of all-out war, Ri Jang Gon, North Korea's deputy ambassador in Geneva, told the U.N.-sponsored Conference on Disarmament.

Ri said that only the conclusion of a peace treaty between the two countries would lead to the "successful denuclearisation" of the peninsula. The 1950-53 Korean War ended with an armistice, but no formal treaty.

U.S. commander says Korea war unlikely but prepared

SINGAPORE, June 4 (Reuters) - South Korea may not seek a full U.N. Security Council resolution against the North over the sinking of a South Korean warship because of fears over rising tensions on the peninsula, the United States said on Friday.

Washington also does not see the North preparing new provocations for an attack on the South but is prepared for a confrontation, the top U.S. military commander in the region said. Pyongyang has said war could erupt at any time.

U.S. Defense Secretary Robert Gates said planned joint U.S.-South Korean military exercises may not take place until it becomes clear what action the United Nations will take.

"It is not clear exactly what path the Republic of Korea intends to pursue in the U.N., whether it's a resolution or a president's letter, whatever," Gates told reporters in Singapore on the sidelines of a major security conference.

"... it may be that there's a desire first to see what can be accomplished at the U.N. and then think about next steps beyond that," he said.

A North Korean envoy said in Geneva on Thursday war could erupt at any time on the Korean peninsula and that the North's troops were on "full alert".

Admiral Robert Willard, head of the U.S. Pacific Command, said there were no signs North Korea was preparing a nuclear test or moving troops towards the South, a major U.S. ally.

"Right now we're not seeing indications that North Korea is intending the next provocation," Willard said in Singapore.

"The rhetoric from North Korea is not unusual. But I think everyone in the region is watching North Korea very closely given their unpredictability."

U.S. PREPARED

Willard said the United States was prepared for a confrontation with the North, despite strains on U.S. forces from wars in Afghanistan and Iraq, and was working in concert with South Korea's military in terms of "training and exercise needs".

South Korean President Lee Myung-bak was to address the Singapore conference later on Friday and would urge the world to respond firmly to the North's aggression and to convince the hermit state to give up nuclear weapons, the presidential Blue House in Seoul said.

Lee would also stress the importance of the North returning to stalled six-party talks on ending its nuclear ambitions and reaching a successful conclusion.

South Korea has blamed the North for torpedoing its naval vessel, the Cheonan, in March, killing 46 sailors. The North denies responsibility and has regularly accused the South of staging the incident to help Lee in this week's local elections.

Although Lee's uncompromising stand against the North had led to a bounce back in opinion polls, his Grand National Party fared poorly in the elections. The opposition Democratic Party won 7 of 16 major races for the country's largest cities and provinces.

WAR AT ANY MOMENT

In comments typical of Pyongyang's belligerence, the North Korean envoy in Geneva said war could erupt at any time.

Ri Jang Gon, North Korea's deputy ambassador in Geneva, told the U.N.-sponsored Conference on Disarmament on Thursday only the conclusion of a peace treaty between the two countries would lead to the "successful denuclearisation" of the peninsula. The 1950-53 Korean War ended with an armistice, but no formal treaty.

The North's KCNA news agency accused the South of trespassing into its naval territory ahead of joint U.S.-South Korean military drills next week and said war could break out "at any moment". "It is needless to say that the large-scale 'demonstration of military muscle' and war manoeuvres taking place under this situation are as dangerous acts as playing with fire by the side of a powder magazine," it said. "These moves are, in fact, a prelude to an all-out war."

S. Korea weighs steps at UN short of resolution-Gates

SINGAPORE June 4 (Reuters) - The United States said on Friday South Korea may not seek a full-blown U.N. Security Council resolution against the North over the sinking of a South Korean warship because of concerns over rising tensions on the peninsula.

"It is not clear exactly what path the Republic of Korea intends to pursue in the U.N., whether it's a resolution or a president's letter, whatever," U.S. Defense Secretary Robert Gates told reporters in Singapore on the sidelines of a major security conference.

"Not going for a resolution, I think, is not a manifestation of a lack of recognition of the nature of the provocation we've seen from North Korea but maybe more addressed to the worry about provoking further instability and further provocations," he said after talks with his South Korean counterpart.

Army general accused of spying for N. Korea

The military and state intelligence agency are investigating a two-star army general on suspicion of leaking classified information to North Korea, the defense ministry said Friday.

The major general, identified only as Kim, had allegedly handed sensitive information to a former South Korean intelligence agent recruited by North Korea, according to prosecutors and investigators at the Defense Security Command (DSC).

The information is related to Korean and American forces' military operations drawn up in preparation for the possible breakout of war, they said. The apprehension of the army general on an espionage charge came amid escalating inter-Korean tension caused by the sinking of a South Korean warship by a North Korean torpedo near the disputed sea border in March. Forty-six crewmembers were killed in the nation's most tragic naval incident since the 1950-53 Korean War.

It also came just days after the prosecution arrested a female North Korean for stealing "confidential" information about the National Police Agency and various private firms using people she met through Internet chat rooms. She entered the country by disguising herself as a defector.

The investigation of the general opened after security authorities had two South Koreans in custody Thursday a former executive of a local defense firm and a former secret agent surnamed Park on charges of handing military secrets to the communist North after receiving operational funds. Park acquired military information through the general, relayed it to a North Korean agent in China, and received an unspecified amount of money. Investigators will try to determine if Kim and Park had accomplices.

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.

Economic Front:

Detailed News:

North Korea Profits From Brazil World Cup Game With Jersey Deal

By Alex Duff and Makiko Kitamura

June 3 (Bloomberg) -- North Korea is returning to the World Cup after 44 years, and venturing into the sports marketing industry that evolved in its absence.

Ahead of the June 11 start of the tournament, the soccer team of Kim Jong Il's regime has snared a 4 million-euro (\$4.9 million) jersey contract over four years, according to Daniele Nastro, marketing director of Pompeii, Italy-based sports apparel maker Legea s.r.l. North Korean soccer association assistant general secretary Ri Kang Hong confirmed the deal with Legea, without giving financial details.

"Perhaps it's a sign of incipient capitalism," Jim Hoare, a retired British diplomat who served in Pyongyang, said from London. Although western sports leagues aren't covered by the media in North Korea, officials "would be aware of the value of sports sponsorship," Hoare said.

The deal is timely as North Korea faces trade restrictions. South Korea halted business last month after blaming the communist nation for a torpedo attack on a warship that killed 46 sailors in March. Japan has tightened controls on sending money to the North, which was already under United Nations sanctions for nuclear testing.

Kim's regime is "hungry" for foreign cash, according to Scott Snyder, director of the Center for U.S.-Korea Policy at The Asia Foundation in Washington. "The economy is in a very difficult situation," he added.

1,000-to-1 Chance

Ranked No. 105 in the world, North Korea takes on the Nike Inc.-clad Brazil, the record five-time world champion, in its opening game on June 15 in Johannesburg. Ladbrokes Plc, a U.K. oddsmaker, rates North Korea a 16-to-1 chance to defeat Brazil, meaning a \$1 bet would yield \$16 in profit.

The communist state is given a 1,000-to-1 chance of winning the tournament, according to Ladbrokes.

At the 1966 World Cup in England, when brand names were absent from even European team uniforms, North Korea wore plain red shirts when it upset Italy 1-0 to reach the quarterfinals

and won the affection of the English, who “probably felt sorry for them,” Hoare said. England now commands about 34 million euros a year from Nike Inc.’s Umbro brand, making it the top earner of the 32 teams that will play at the World Cup in South Africa, according to Sport + Markt AG.

No Apparel Market

North Korea’s team is getting an amount similar to what might be paid to a low-ranking team in the English Premier League, the world’s richest soccer league, according to Simon Chadwick, a sports business professor at the U.K.’s Coventry University. Ri, in an interview in Tokyo last week, said it was hard to find a jersey sponsor as there’s “no market” for sports apparel in North Korea.

“If it doesn’t result in sales, there’s no point” for some sporting-goods companies, Ri said.

Legea will provide North Korea with branded World Cup jerseys and training gear, Nastro said. That will help raise the Italian brand’s international profile, although the marketing bet could backfire, Chadwick said.

Legea “will be working overtime to put clear blue water between the team and the regime,” Chadwick said. “It could get to the stage when people stop buying the brand if they’re being seen as propping up a dictatorship.”

While not breaking trade sanctions, Legea is “swimming against the tide” with its sponsorship because of the perception of North Korea, Snyder said. “It’s a bit like sponsoring Tiger Woods at the moment,” he said.

Nastro said he isn’t worried. “In the World Cup, politics will be out,” he said by telephone from Pompeii.

Rival Chinese Bid

North Korea received other bids. It declined an offer by China Hongxing Sports Ltd., the Singapore-listed company that provided its jerseys for qualifying games, according to Kelvin Yeung, chief financial officer of the Chinese company.

European brands might have bid more, Yeung said, without saying how much China Hongxing offered. Ri said the agreement with the Quanzhou, China-based company had expired and declined to comment on why it wasn’t renewed.

North Korea rejected Legea’s first design for its shirts as too modern, frowning upon a white line across a red shirt, Nastro said.

“As a people, we don’t like flashy designs,” Ri said. “For home games, the jerseys are white, which we regard as noble, and it reflects our spirit. For away games, we go with red, which is used in our national flag. It also symbolizes our passion and heart. A simple design expresses that more purely.”

As part of the shirt deal agreed in March, there is a kicker for North Korea: it will get a 10 million euro bonus if it wins the World Cup, Nastro said.

“That’s probably not going to happen,” he added.

Posco Plans to Invest 320 Billion Rupees in Karnataka Plant

By Jay Shankar

June 3 (Bloomberg) -- South Korea’s Posco plans to invest 320 billion rupees to set up a 6 million metric ton a year capacity steel plant in the southern state of Karnataka, V.P. Baligar, the state’s principal secretary, said over the telephone today.

South Korea’s Foreign Reserves Fell to \$270.2 Billion in May

By Frances Yoon

June 3 (Bloomberg) -- South Korea’s foreign-exchange reserves declined to \$270.2 billion in May after the euro and pound weakened against the U.S. dollar, the Bank of Korea said.

Reserves dropped from \$278.9 billion in April, the central bank said in a statement in Seoul today. The euro fell for a sixth month in May and the pound slid 4.8 percent against the U.S. dollar in the month.

South Korea’s foreign-exchange reserves are the sixth- largest in the world after China, Japan, Russia, Taiwan and India as of the end of April, according to the Bank of Korea.

Daewoo Ship Says Romania May Guarantee Loan to Shipyard Unit

June 3 (Bloomberg) -- Daewoo Shipbuilding & Marine Engineering Co., the world’s second-largest shipyard, said its unit in Romania may receive backing for a loan to fund operations from the government of the east European country.

The government may guarantee a loan of about 100 billion won (\$83 million) from a Romanian bank for Daewoo-Mangalia Heavy Industries SA, said Ahn Wook Hyeon, a spokesman at the South Korean shipyard. He declined to identify the bank.

The venture, 51-percent owned by Daewoo, had more debt than capital at the end of last year, hampering its ability to increase capacity. Daewoo-Mangalia Heavy Industries SA has an order backlog for 14 vessels worth about \$1.1 billion, representing more than two years of work.

The South Korean company, which is based in Seoul, backed loans worth 70 billion won to the Romanian unit two months ago, Ahn said. The Korea Economic Daily earlier reported that Daewoo will inject 170 billion won into the venture.

Daewoo was up 2.2 percent to 18,400 won at 10:17 a.m. in Seoul. The stock has risen more than 5 percent this year, compared with a 2 percent decline in South Korea's Kospi index.

Daewoo Shipbuilding bought its stake in Daewoo-Mangalia, which is based in the Black Sea port of Constanta in eastern Romania, in 1997. The remaining share is held by the Romanian government-owned 2 Mai Mangalia Shipyard.

Risk Aversion End to Boost 'Oversold' Won and Rupee, Fan Says

By Bloomberg News

June 4 (Bloomberg) -- The South Korean won, Indian rupee and Indonesian rupiah provide "attractive entry points" after being "oversold" during a shift from riskier assets, according to Fan Cheuk Wan, head of Asia Pacific research at Credit Suisse Private Banking in a Bloomberg Television interview.

Germany's Deka sells S.Korea building for \$150 mln

LONDON, June 4 (Reuters) - Deka Immobilien, part of Germany's largest operator of open-ended property funds, has sold an office building in Seoul, South Korea, for about 123 million euros (\$150 million), 76 percent more than the purchase price.

The sale is part of the Deka-ImmobilienGlobal open-ended mutual property fund's active portfolio management, and not related to the ongoing political crisis in North Korea, a Deka spokesman told Reuters on Friday.

The Deka fund, which bought the Eugene Investment & Securities Building in Seoul for 70 million euros in 2004, sold the property to the Korean Public Officials Benefit Association, a semi-governmental manager of civil servant pension funds.

"After uncertainty in the capital markets last year facilitated the exploitation of investment opportunities, the recovery already evident in some markets can now be used to realise sales at a profit," Thomas Schmengler, managing director of Deka Immobilien, said in a statement.

The 40,000 square metres building, located in Seoul's Yoido business district, is almost entirely leased to Eugene Investment & Securities on a long-term agreement, said Deka, part of DekaBank Group whose property units manage fund assets of over 21 billion euros globally.

Deka-ImmobilienGlobal still owns one property asset in South Korea, Asia's fourth-largest economy, the spokesman said.

South Korea Attracting Japanese IPOs, Says Exchange Executive

June 4 (Bloomberg) -- Nine Japanese companies have started procedures to apply for listing on South Korea's stock exchange, said Park Sang-Jo, president and chief operating officer of KOSDAQ's market division.

A number of those companies are expected to list as early as this year, Park said at a seminar for in Tokyo this week. The exchange, known as KRX, began accepting foreign listings in 2005 and now has 14, including one Japanese, one U.S. and 12 Chinese. Japan's Click Securities Inc., a Tokyo-based online brokerage, said it plans to list on KRX this summer.

"We are aiming to attract foreign companies, to preserve our global competitive position," Park said. "Japanese companies are reliable and have high technological capabilities. It will make it easier for Korean and Japanese companies to form technological alliances."

South Korea has the world's 14th biggest stock market with a capitalization \$784.6 billion as of June 1, according to Bloomberg data. According to KRX, it had 29 initial public offerings this year through May compared with eight in Japan. The exchange said its turnover ratio, or the value of stock trading divided by market capitalization, is 243 percent, exceeding the TSE's 129 percent, indicating greater liquidity. The Kospi last year rose 50 percent, compared to 5.6 percent for the Topix index.

"The benefits of an IPO in Japan are waning," said Naoki Kakahana, managing director of Tokyo-based Mitsubishi UFJ Capital Co. "There is concern that the number of IPOs here will remain low."

South Korea's Economy Expanded More Than Estimated (Update1)

By William Sim

June 4 (Bloomberg) -- South Korea's economy expanded at a faster pace than initially estimated last quarter as exports surged and domestic demand strengthened.

Gross domestic product rose 2.1 percent from the previous three months, compared with an April estimate of 1.8 percent, the Bank of Korea said in Seoul today. The economy grew 8.1 percent from a year earlier, more than the previous 7.8 percent.

“There’s no doubt the economy had very strong growth in the first quarter, but it seems difficult to keep that pace in coming quarters,” said Lee Sang Jae, an economist at Hyundai Securities Co. in Seoul. “It’s premature to withdraw stimulus policies now because of concerns that Europe’s fiscal problems will spread to affect China and the U.S.”

Indonesia and the Philippines joined Australia and Thailand in keeping borrowing costs unchanged this week, as spending cuts by European nations battling to reduce budget deficits raised concerns the global recovery will falter. Bank of Korea Governor Kim Choong Soo left borrowing costs at a record-low 2 percent for a 15th month in May.

South Korea’s economy will likely “continue to see positive growth” in the second quarter as exports and industrial production remain strong, Jung Yung Taek, a central bank official, told reporters after the figures were released.

Exports Surge

Reports this week showed exports surged on demand from China and the U.S., the nation’s two largest overseas markets, and inflation accelerated last month as Asia’s fourth-largest economy strengthens. Overseas shipments climbed 41.9 percent in May from a year earlier, the seventh straight gain, and consumer prices rose 2.7 percent, quickening from 2.6 percent in April.

The government will keep its expansionary economic-policy stance “for the time being” to support the recovery, the Finance Ministry said in its monthly economic report today, citing risks from Europe’s fiscal woes and North Korean tensions.

A North Korean diplomat said this week that war on the Korean peninsula could begin at any time over South Korean accusations that the government in Pyongyang ordered the March sinking of a warship, which killed 46 sailors.

South Korean exports will probably increase by more than 20 percent in 2010, compared with the 12.9 percent gain the government predicted late last year, the Knowledge Economy Ministry said yesterday. Import growth will also likely exceed the initial estimate of 20.8 percent as the domestic economy expands faster than predicted.

Record Profits

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

The won, which plunged to a 10-month low last week as military tensions with North Korea escalated, weakened 0.7 percent to 1,205.5 per dollar as of 9:30 a.m. in Seoul, according to data compiled by Bloomberg. The benchmark Kospi stock index rose 0.3 percent to 1,666.61 at 09:40 a.m.

The currency fell about 8 percent in May, its worst performance since February 2009, as Europe's debt concerns prompted investors to sell riskier assets and buy dollars. The Kospi dropped about 6 percent last month.

Local Elections

President Lee Myung Bak will likely focus more on supporting the middle class after his party's defeat in local elections this week, Kwon Goohoon, an economist at Goldman Sachs Group Inc. in Seoul, said in a note yesterday.

"As regards to macroeconomic policies, inflation and job growth are likely to get renewed focus while the currency's competitiveness could get relatively less priority on concerns about its inflationary implications," he said.

The opposition Democratic Party won seven of 16 races, while Lee's majority party, which held 11 of the 16 mayoral and gubernatorial posts, won six, according to the National Election Commission website.

Goods exports rose 3.7 percent in the first quarter, compared with the April estimate of a 3.4 percent gain, today's report showed. Private consumption advanced 0.7 percent, compared with the previous 0.6 percent. Government spending increased 5.8 percent, more than the previous 5.7 percent.

Other reports in recent weeks showed factory output rose 19.9 percent in April from a year earlier, the 10th straight gain, and the jobless rate fell for a third month to 3.7 percent. Consumer confidence advanced in May for the first time in seven months and manufacturers' confidence held near a seven-year high.

Korean Won Falls as North Korea Says War Can Begin 'Any Moment'

By Frances Yoon

June 4 (Bloomberg) -- South Korea's won fell, capping a weekly decline, after a North Korean diplomat said war on the Korean peninsula could begin at any time over the sinking of a warship that the South blames on its communist neighbor.

The accusation was a fabrication and "a war may break out at any moment," said Ri Jang Gon, North Korea's deputy ambassador to United Nations offices in Geneva, according to a

statement released by the UN yesterday. South Korean President Lee Myung Bak will urge Pyongyang to forfeit its nuclear arsenal at a security conference in Singapore, the Wall Street Journal reported today, citing an advanced copy of a speech scheduled late today in Singapore.

The won's "reaction is a bit muted," said Gerrard Katz, head of foreign-exchange trading at Standard Chartered Plc in Hong Kong. "But the market is not disregarding it. There's also clearly been intervention by the Bank of Korea to dampen volatility in the won."

The won closed 0.3 percent lower at 1,201.80 per dollar in Seoul, after strengthening 1.5 percent yesterday, according to data compiled by Bloomberg. The currency fell 0.6 percent this week and 7.8 percent in May as tensions escalated with North Korea and Europe's debt crisis bolstered demand for dollars. The euro hit a four-year low of \$1.2111 on June 1.

"There is demand for safer assets," said Park Jae Sung, a Seoul-based currency dealer at Woori Investment & Securities Co., a unit of South Korea's third-largest bank by market value. "We'll see pressure for the won to fall if the euro keeps weakening."

Economy, Inflows

Morgan Stanley lowered its forecast for Asian currencies, including the won and India's rupee, saying Europe's debt crisis will curb demand for the region's exports. The won will likely strengthen to 1,175 per dollar by year-end, compared with an earlier forecast of 1,050, according to the report, which was dated yesterday.

The won slid as much as 1.2 percent today before recouping the bulk of its loss after the central bank boosted its estimate for first-quarter economic growth to 2.1 percent, from 1.8 percent, and the finance ministry said last month's current-account surplus was about \$3.5 billion. The Kospi stock index rose to a three-week high as foreigners added to this week's net purchases of Korean shares, after dumping \$5.4 billion of the securities in May.

South Korean bonds declined for a second day as investors sought higher returns in the stock market. The yield on the 4.25 percent note due December 2012 climbed seven basis points to 3.68 percent, according to Korea Stock Exchange. The rate was 3.60 percent at the end of last week.

G-20 Fails on Bank Tax, Calls for Joint 'Principles' (Update1)

By Gonzalo Vina and Theophilos Argitis

June 6 (Bloomberg) -- Group of 20 nations failed to agree on a proposal to impose a global tax on banks that was aimed at making the financial industry shoulder the cost of bailouts, settling instead for a common set of guidelines.

G-20 finance ministers and central bank governors said in a statement in Busan, South Korea, that governments will take account of each nation's "circumstances and options." The result allows nations such as Canada, China and Brazil, whose banks suffered less during the global financial crisis, to skip introducing a tax. European countries and the U.S. have advocated the levy.

"If we're living in an ideal world, a global financial tax would be a good idea but in reality, it is almost impossible to implement," said Tomo Kinoshita, an economist at Nomura Holdings Inc. in Hong Kong. "There are too many obstacles."

Yesterday's statement leaves in place an initiative to seek tighter global standards for capital levels at banks, which is a "more practical" way to help reduce the risk of financial crises, Kinoshita said. Banks have opposed the effort, warning that the costs may curb credit expansion and economic growth.

European governments and the U.S. have advocated a bank tax to be adopted in every major country to prevent lenders from relocating to jurisdictions that don't charge the levy. The International Monetary Fund was asked by the G-20 last year to recommend how to tax the industry.

Ministers yesterday said they now recognized that there's a "range of policy options" open to countries and agreed instead to adopt "principles" that protect taxpayers and reduce the risks of further crises.

Canada's Opposition

Canadian Finance Minister Jim Flaherty, speaking at a press briefing at the conclusion of the two-day G-20 gathering in Busan, said the plan lacked majority backing among G-20 nations and is a "distraction." He said "there is no agreement" to proceed with a tax.

Instead, Canada has proposed that countries force lenders to keep "contingent capital" on hand to ensure taxpayers don't end up paying the bill for any future bailouts. Such securities could convert to equity in a time of crisis to ensure that lenders remain well capitalized.

The IMF recommended that financial institutions' non-deposit liabilities and the sum of their profit and compensation should be taxed to help pay for future bailouts. Led by Canadian opposition, G-20 officials at a meeting in Washington pushed back talks by ordering the IMF to study the issue further.

IMF Task

“The problem is not uniformity, the problem is to do things which are consistent and that do not create arbitrage in terms of regulation and taxation,” the fund’s Managing Director Dominique Strauss-Kahn said in Busan, Korea’s second-largest city. The principles will be written in a way that avoids inconsistency in the different systems, he said.

The G-20 separately said that “it is critical that our banking regulators develop capital and liquidity rules” tough enough to ensure lenders can withstand further crises. The rules should be agreed by November, with implementation targeted for the end of 2012, the statement said.

At stake for banks is the potential need to raise as much as \$375 billion in fresh capital under the proposals being discussed, according to estimates by UBS AG. JPMorgan Chase & Co. predicted in February that annual earnings at 13 of the largest banks would drop by \$20 billion.

Europe, U.S.

Michel Pebereau, chairman of BNP Paribas SA, France’s largest bank, and Clemens Boersig, chairman of Deutsche Bank AG, Germany’s biggest, wrote to G-20 leaders last month on behalf of the European Financial Services Round Table, a lobbying group, saying the new rules would harm bank lending more than capital markets. “Most European countries mainly have a banking- dominated financial system,” they wrote, noting that credit outstanding as a percentage of gross domestic product is almost twice as high in the 27-nation EU as in the U.S.

U.S. banks have made opposite arguments in their meetings with regulators and in letters to the Basel committee: The rules will harm them more than European and Asian lenders. New definitions of capital wouldn’t count certain assets used only by U.S. banks, and the liquidity standards underrate the stability of deposits insured by the Federal Deposit Insurance Corp., the lenders said.

“A fair degree of national discretion will be essential,” the American Bankers Association wrote in April.

British Plan

Chancellor of the Exchequer George Osborne said that Britain will push ahead with a plan to implement a tax and that he will unveil further details in his June 22 budget. The U.K. wants tax revenue to finance general government expenditure, marking it aside from other European nations who want the tax to fund future bailouts.

“If one country goes alone in the bank tax, there will be a risk of regulatory arbitrage,” said Venkatraman Anantha- Nageswaran, who helps manage about \$140 billion in assets as global chief investment officer at Bank Julius Baer & Co. in Singapore.

Social Front:

Detailed News

40 people committed suicide daily in 2009

Nearly 40 people committed suicide daily last year, up from 35 in 2008, according to the National Police Agency Wednesday.

A total of 14,579 people took their own lives in 2009, up 18.8 percent from 12,270 the previous year.

By age group, those aged 60 and above comprised 4,614 or 32 percent of the total suicides — indicating that more senior citizens are at risk — followed by people in their 40s at 2,770 or 19 percent.

Though people in their 20s made up only 12 percent at 1,749, this represented a jump of 29 percent from 2008, and 35 percent over the last three years.

Around 28 percent of suicides took their own lives due to psychological problems, followed by 22 percent because of physical illness. Economic, domestic and love issues were next in the top five reasons.

"Statistics show suicides are rising sharply nationwide, though it's hard to pinpoint a single reason for the increase. Society as a whole should make greater efforts to stop people killing themselves," a police officer said.

News of people committing suicide comes out almost every day. On Monday, a man in his 40s and his 6-year-old son were found dead in his room in Goseong, Gangwon Province, in what is seen as an apparent murder/suicide, police said.

They had died from inhaling toxic gas from burnt coal briquettes in a sealed room. The man left a suicide note, saying: "I don't want to live anymore."

On May 12, a total of eight bodies were found in apparent group suicides in Hwaseong, Gyeonggi Province and Chuncheon, Gangwon Province.

Three men were found in an inn with burnt briquettes in a sealed room. The other four women and a man burned briquettes inside a car. Police suspect they plotted their deaths through Web sites encouraging suicide.

Korea has the top suicide rate among members of the Organization for Economic Cooperation and Development.

As of 2008, 24.3 people out of 100,000 killed themselves, about 10 times the 2.5 out of 100,000 for Greece. Korea was the only country with more than 20 suicides per 100,000 people.

Soccer-Spain squeeze past South Korea, Fabregas returns

INNSBRUCK Austria, June 3 (Reuters) - Spain's Jesus Navas scored a stunning late goal to secure a 1-0 World Cup warm-up win over South Korea on Thursday as Cesc Fabregas returned to action after two months out injured.

The European champions fielded mainly second-choice players and were restricted to few sights of goal until the closing stages when the substitutes made their presence felt.

Arsenal midfielder Fabregas, linked with a move to Barcelona this week, played for an hour without any problems.

"It's been a tough match. We are coming off a long season and a build-up with a lot of training sessions, morning and afternoon, and it tells," Fabregas told Spanish state television.

"The first half was better than the second for me. This has all been a bit like a pre-season for me, but I am feeling good."

Striker Fernando Torres remains the only Spanish player not to have featured in the warm-up matches as he continues his recovery from knee surgery.

South Korea produced a well-organised display in their last warm-up game before travelling to South Africa, where they begin their Group B campaign against Greece on June 12.

Fabregas, starting his first match since cracking a bone in his right leg in Arsenal's Champions League quarter-final first leg against Barcelona two months ago, had the clearest chance to open the scoring after 35 minutes.

HIT CROSSBAR

Juan Mata carved the opening and Fabregas curled a shot against the crossbar, but despite their overwhelming possession Spain struggled to break down their opponents.

The Koreans looked sharp on the counter and Pepe Reina made a double save from Park Chu-yong and Lee Chung-yong after a well-worked move just before the break.

Barcelona goalkeeper Victor Valdes won his first Spain cap in the second half as both sides rang the changes.

Spain substitute David Villa made a few good chances before Sevilla winger Navas picked up the ball outside the area and fired a spectacular shot into the top corner four minutes from time.

After a sluggish 3-2 win over Saudi Arabia last weekend Spain continued to look a little slow and predictable.

They have one more friendly against Poland next Tuesday before starting out in Group H against Switzerland on June 16.

136 teachers to stand trial simultaneously

The Seoul Central District Court will simultaneously deliver its verdict on 136 unionized teachers and civil servants, indicted for illegal political activities.

The court split the 272 teachers and civil servants being charged into two groups of 136. It is unprecedented that a group of more than 100 accused to appear in a courtroom for trial and receive a verdict at the same time.

They are accused of paying dues to the Democratic Labor Party. Laws on civil servants ban them from taking part in any political activities.

The simultaneous trial is to keep the ruling consistent. The prosecution filed charges with the Seoul Central District Court in early May.

When the civil servants and public school teachers were indicted for signing anti-government statements, some courts ruled in favor of the unionized civil servants and other courts found them guilty. The hearing will give an opportunity to all the accused to make final statements.

Japan

Detailed News:

Politico-Strategic Front:

Polls: Support for Japanese PM falls to 17 percent

TOKYO -- Public support for Japan's embattled prime minister fell to 17 percent amid rising calls for his resignation over his broken campaign promise to move a U.S. military base off a southern island, polls showed Monday.

The dismal approval rating came a day after a small party opted to leave Prime Minister Yukio Hatoyama's three-party coalition in protest over his decision Friday to keep the U.S. base on Okinawa, weakening the alliance ahead of a July election.

A survey by the major daily Asahi found the approval rating for Hatoyama's Cabinet was down 4 percentage points from a previous poll in mid-May to a record low of 17 percent.

His disapproval rating jumped to 70 percent from 64 percent, the Asahi said.

Hatoyama, who came to power in September 2009, had pledged to move the U.S. base off Okinawa. But he announced Friday it would stay, a decision broadly in line with a 2006 deal forged by the previous Japanese government.

The move infuriated Okinawans who have long shouldered the heavy U.S. military presence. Okinawa alone houses more than half of the 47,000 U.S. troops in Japan, stationed under a bilateral defense alliance.

For years, Okinawans have complained about base-related noise, pollution and crime, and many want the military presence on the island reduced or the Marine Corps Air Station Futenma moved off the island entirely.

A separate survey by the Yomiuri, Japan's top-selling newspaper, showed Monday some 81 percent of respondents disapproved of Hatoyama's decision to keep the U.S. base on Okinawa. Nearly 60 percent called for his resignation over the issue.

The Asahi conducted the survey on May 29-30 through random telephone interviews. The paper said the survey had 1,106 responses. The Asahi did not give a margin of error, but a poll of the survey's size would generally have a 4 percentage point margin of error.

The Yomiuri also surveyed during the same period through random telephone interviews, with 1,111 responses. The Yomiuri did not give a margin of error, but a poll of its size would also have a 4 percentage point margin of error.

Hatoyama Says Will Remain Japan Premier as Popularity Plunges

By Sachiko Sakamaki and Takashi Hirokawa

May 31 (Bloomberg) -- Japan's Prime Minister Yukio Hatoyama said he intends to remain in his post after polls showed his popularity falling to new lows less than two months before parliamentary elections.

"I intend to work hard for the people of this country," Hatoyama said at his office in Tokyo after meeting with Ichiro Ozawa, the No. 2 official in his Democratic Party of Japan. "I understand the situation is tough." Asked if he would continue as premier, Hatoyama replied: "Of course."

The Social Democratic Party yesterday left the government after Hatoyama fired leader Mizuho Fukushima from the Cabinet for refusing to endorse his agreement with the U.S. to relocate a Marine base within Okinawa. The departure cuts the Democratic Party of Japan-led coalition's majority in the upper house ahead of elections for half the chamber's seats set for July.

Hatoyama's popularity has plunged since the DPJ's landslide August victory in the more powerful lower house, with voters disenchanted over campaign finance scandals and his vacillating over where to move the base. Three polls released today showed his approval rating at or below 20 percent and six in 10 voters think he should quit. The yen fell on the political turmoil.

"This is a blow but it may be temporary because there's another month until the race starts," said Hirotada Asakawa, a Tokyo-based independent political commentator. "It's already expected that the DPJ cannot gain a majority and the party will need a new coalition framework."

Voter Discontent

Hatoyama's favorability rating fell to 19 percent from 24 percent three weeks ago, while his disapproval rating was at 75 percent, the Yomiuri newspaper said today. The Asahi newspaper said his approval rating was at 17 percent, while the Mainichi newspaper put it at 20 percent. Almost 60 percent think he should quit over the base issue, the Yomiuri and Mainichi said.

None of the polls, all of which were taken over the weekend, gave a margin of error.

"I understand I've caused trouble" within the party, Hatoyama told reporters.

The yen declined to 91.48 per dollar as of 6:17 p.m. in Tokyo from 91.06 in New York on May 28. The Japanese currency also slid to 112.54 per euro from 111.77.

Half of the 242 upper-house seats are at stake in the July balloting. The DPJ and its other junior partner, the People's New Party, have 122 legislators, and losing that majority could slow Hatoyama's legislative goals of increasing social welfare spending while aiming to cut the world's largest public debt.

The U.S. and Japan agreed on May 28 to most parts of an existing plan to relocate the Futenma Marine Air Base on the island to the Henoko coastal area. Hatoyama has apologized for breaking a campaign pledge to transfer the facility off of Okinawa. The island, 950 miles (1,530 kilometers) south of Tokyo, houses 75 percent of the American bases and more than half of the 50,000 U.S. troops stationed in Japan to provide for the country's defense under a 50-year-old security treaty.

The U.S. pushed Japan to uphold a 2006 agreement to move Futenma within Okinawa by 2014, as part of a \$10.3 billion plan that would also transfer 8,000 Marines to Guam. The people of Okinawa want it moved elsewhere, citing increased crime, pollution and noise.

U.S. forces said needed here Presence vital for regional threats, Defense Ministry institute reports

Kyodo News

The Defense Ministry's key think tank is skeptical about maintaining the Japan-U.S. security alliance without having U.S. forces stationed in Japan, saying in its annual report Tuesday that the forces' role in the "gray area" between peacetime and a war crisis has become vital.

The 2010 East Asian Strategic Review by the National Institute for Defense Studies stresses the importance of U.S. forces being permanently forward-deployed in Japan, saying their presence is not only required for possible armed conflicts but also for operations against terrorism and piracy, disaster relief and duties related to information-gathering.

This view conflicts with the concept once advocated by Prime Minister Yukio Hatoyama of maintaining military facilities in Japan that would accommodate occasional drills by U.S. forces in peacetime and deploying American forces only in emergencies.

After taking office in September, Hatoyama said he did not plan to discuss making the concept a reality with Washington but that he continues to support the idea.

The paper says if the concept materializes, deployment of U.S. forces could be "physically blocked" by enemies capable of choking off their access, or the United States might be hesitant to send help swiftly to avoid escalating tensions in the region.

The report calls on the government to cooperate more closely with the United States in the area of defense to maintain the U.S. nuclear umbrella amid global talks on advancing nuclear disarmament.

The movement toward nuclear disarmament, bolstered by President Barack Obama's initiative to create a nuclear-free world, could "diminish the relative role of the nuclear umbrella in the entire concept of extended deterrence," and Tokyo should "manage the Japan-U.S. ties in a way it would not mislead" neighbors, it says.

Noting China's military buildup and North Korea's constant atomic threat, the document says the situation surrounding nuclear arms in East Asia "can never be regarded optimistically."

The institute said as the relative weight of nuclear deterrence declines, offensive and defensive capabilities of conventional weapons will be more important, and it will be necessary to strike a balance between conventional Japanese and U.S. forces and foes that could attack Japan.

The paper also casts doubt on the "no first use policy" for nuclear weapons advocated by Foreign Minister Katsuya Okada, saying it is "too early" to adopt it against the backdrop of current security conditions.

The report points out that even if nuclear powers declare no first use, there is no way to confirm this would be the case. It also says the adoption of such a principle wouldn't deter attacks by conventional, biological or chemical weapons.

The think tank says the report does not represent the views of the government or the Defense Ministry, but positions in the document that contradict to the views of Hatoyama and Okada might create controversy.

In a chapter dedicated to North Korea, the report says its missile launches and second nuclear test last year "greatly backpedaled on negotiations to denuclearize" the country and have made the six-party talks on its nuclear ambitions even more dysfunctional.

The six-party talks involve the two Koreas, China, Japan, Russia and the United States. As Pyongyang pursues nuclear arms, there is a "high possibility that the country will repeat its missile launches and nuclear tests," the report said.

The paper warns about the threat of proliferation as the North appears to be deepening its military cooperation with Myanmar and Iran.

On China, the institute says Beijing has been "rapidly building up its military power projection capabilities" with a shift in strategy to expand its areas of concern to space and the open sea, and has "made an impact on the military balance of East Asia that cannot be ignored."

The report points out China registered a double-digit increase in military spending for the 21st consecutive year in fiscal 2009 and expresses concern that Beijing is not making enough efforts to enhance the transparency of its defense budget.

The English version of the strategic review will be available around late May, according to the institute.

Clinton doesn't blink

GATINEAU, Quebec (Kyodo) Foreign Minister Katsuya Okada agreed Monday with U.S. Secretary of State Hillary Rodham Clinton to continue discussions on where to relocate the Futenma military base but said he did not sense a change in Washington's stance over the thorny issue.

During talks on the sidelines of a Group of Eight meeting in Canada, Okada and Clinton also agreed the international community should show unity in dealing with the nuclear standoff with Iran and urge North Korea to return to the six-party talks unconditionally, a Japanese official said.

The talks came after Okada met Defense Secretary Robert Gates in the United States earlier in the day and explained how Japan is reviewing the issues surrounding U.S. Marine Corps Air Station Futenma as it aims to settle the issue of the base's relocation by the end of May.

Japan, China seek to prevent maritime friction

TOKYO (Reuters) - Japan and China agreed on Monday to set up an emergency hotline and set in place ways to prevent maritime friction sparked by Beijing's growing naval reach from getting out of hand.

Chinese Premier Wen Jiabao held to Beijing's cautious stance on the sinking of a South Korean warship, which Japanese Prime Minister Yukio Hatoyama has joined Seoul and Washington in saying was certainly torpedoed by North Korea.

Ties between the world's second- and third-largest economies have improved since 2006, when they set aside years of rancour centered on Japan's wartime occupation of Asia. At Monday's summit, wartime historical disputes did not come up.

Instead, the two leaders agreed on steps aimed at easing military tensions that have continued to keep a cool distance between the two Asian neighbors.

The two nations "must strengthen maritime crisis management and avoid the occurrence of antagonism and clashes," Wen told Hatoyama, according to China's official Xinhua news agency.

They also agreed to resume talks on jointly exploring disputed gas fields in seas between them.

Hatoyama came to office less than a year ago, vowing a more equal relationship with the United States and closer ties with China and other Asian powers. The summit with Wen, however, brought small steps, not big breakthroughs.

The hotline between Beijing and Tokyo would allow leaders to discuss quickly what Wen called "important issues" between the two nations, a Japanese government official said.

Wen later told Japanese business executives the huge economic flows between the two nations, with bilateral trade worth \$238.7 billion last year, would cement closer ties.

"China and Japan have very close economic and trade ties. One could say they are at the point where neither could do without the other," said Wen.

Despite the displays of goodwill, including an early morning jog by Wen, sources of discord remain. China's increasing naval activities in seas near Japan have made Tokyo nervous.

"I told Premier Wen that Japan is concerned about China's activities," Hatoyama told reporters, referring to the naval moves.

Wen did not respond directly to Tokyo's concerns but the two leaders also agreed to set up a crisis management mechanism for maritime incidents, a Japanese official said.

The official Chinese report indicated the arrangement was not yet ready to start. The two sides agreed to "speed up establishing a maritime liaison mechanism between the two countries' defense departments", said Xinhua.

GAS FIELD TALKS, NORTH KOREA

Tokyo lodged a protest with Beijing in April after a Chinese helicopter flew near a Japanese destroyer in waters off Okinawa.

A group of Chinese warships was spotted earlier that month in the high seas near Okinawa. Beijing said the ships were in the area training and violated no international law.

The two nations have also argued over China's exploration for natural gas in the East China Sea, in areas Japan says could impinge on gas fields in its maritime jurisdiction.

In June 2008, they struck a broad agreement intended to solve the row by jointly developing the fields. Informal talks have recently started, but progress has been slow.

Wen and Hatoyama agreed to start formal negotiations on the issue as soon as possible. The official said that was a step forward, since China has long said the environment was not ripe for such talks.

For Hatoyama, the visit comes amid domestic gloom, since many voters have grown disenchanted with his government, and it may act as a reminder that China could soon displace Japan as the world's second-biggest economy after the United States.

Wen's visit to Japan, which began on Sunday, has brought no shift in China's position on North Korea.

China shares longstanding bonds with its communist neighbor North Korea and Beijing has been noncommittal about whether Pyongyang was behind the sinking of South Korea's Cheonan corvette on March 26, which killed 46 sailors.

Hatoyama has firmly backed the findings of a multinational investigation that blamed North Korea for torpedoing the ship, and agrees with Seoul that the U.N. Security Council should censure Pyongyang.

As a permanent member of the U.N. Security Council, China can veto any proposed resolution or statement.

Wen put on a black track suit in the early morning to jog through leafy Yoyogi Park in Tokyo, in a carefully managed effort to show a softer side of China.

Accompanied by panting guards and reporters, he greeted sometimes startled residents jogging or walking dogs, and joined some to practice traditional Chinese Taichi exercises.

"Do you know who I am?" he asked some of them. They did.

"The Chinese people send their greetings," he told others.

When Wen suggested joining some older ladies for their morning exercises, one of them politely noted that it was still 10 minutes before their usual starting time.

Japanese leader faces mounting calls to step down

TOKYO -- Japan's embattled prime minister faced growing pressure Tuesday from within his own party to resign ahead of July elections over his broken campaign promise to move a U.S. Marine base off the southern island of Okinawa.

Prime Minister Yukio Hatoyama's approval ratings have plummeted as he backtracked on the vow to move Marine Air Station Futenma off the southern island, reinforcing his public image as an indecisive leader after only eight months in office.

Many analysts say he may well step down ahead of upper house elections, likely to be held in mid-July - or perhaps right after the elections if his party, the Democratic Party of Japan, does poorly. If he does resign soon, he would be the fourth Japanese prime minister to do so in four years.

Hatoyama has insisted he will stay on, but his comments Tuesday seemed less forceful.

"We will stand up against this national crisis," Hatoyama said, apparently referring to the difficult situation facing the government. We will do "what's best" for the Japanese people, he said.

He said he would meet with senior party members later Tuesday to discuss political management ahead of the elections, and major Japanese newspapers speculated that those gathered would debate whether - or when - Hatoyama might resign.

His government came to power amid high hopes last September after his Democratic Party of Japan soundly defeated the long-ruling conservatives in lower house elections.

But his public image has tumbled amid a political funding scandal and perceived inconsistency and indecision, particularly on his reversal on Futenma. He now says he'll go along with the 2006 agreement to move the base to a northern part of the island, infuriating residents who want it off Okinawa entirely.

Okinawa alone houses more than half of the 47,000 U.S. troops in Japan, stationed under a bilateral security alliance.

Hatoyama's three-way coalition was cut to two members over the weekend when a junior partner, the Social Democrats, withdrew after the prime minister expelled its leader Mizuho Fukushima, who rejected the Futenma decision, from the Cabinet.

The DPJ and a remaining coalition partner still hold a majority in both houses of the Diet, or parliament - though just barely in the less powerful upper house.

Fukushima's dismissal enhanced her public standing as a politician who stood up for her convictions and reinforced perceptions of Hatoyama's wishy-washiness.

The largest Japanese newspaper, the Yomiuri, citing its own survey conducted on Monday, said nine out of 43 upper house lawmakers from Hatoyama's party seeking re-election in July said

Hatoyama's resignation ahead of the poll is unavoidable, while 13 others urged him to make his own decision.

But some Cabinet ministers defended Hatoyama.

Finance Minister Naoto Kan, a man some have speculated might become the next prime minister, said he has supported Hatoyama's leadership and "that has not changed."

Transport Minister Seiji Maehara said he was against frequent leadership change even though Hatoyama should take responsibility for his recent political bungling by staying on to do a better job.

Public support for the current government has slid to 17 percent, down 4 percentage points from a previous poll just two weeks ago, according to the latest survey by major daily Asahi, published Monday. Disapproval rating jumped to 70 percent from 64 percent.

In a weekend telephone survey of 1,033 voter households, Kyodo News agency found that more than half said Hatoyama should step down, while 44 percent disagreed. Kyodo did not give a margin of error, but a poll of that size would normally have a 5 percentage point sampling error.

Ambassador: US-Japan ties strong despite base flap

TOKYO -- Ambassador John Roos welcomed last week's U.S.-Japan accord to move a key Marine base to a less crowded part of Okinawa, but said there was still plenty of work to do to carry out the plan - which is vigorously opposed by island residents.

Roos said relations between the two allies remains strong despite a months-long dispute over where to move Marine Air Station Futenma, located in the middle of a city in Okinawa, which hosts more than half the 47,000 U.S. troops in Japan under a security pact.

Ties with Washington were strained in recent months as Prime Minister Yukio Hatoyama sought to relocate Futenma outside the island. But after finding no viable alternatives, he last week ended up sticking with a 2006 agreement with Washington to move it to less populated, northern part of the island.

"This is an important step, and we still have a lot of work to be done," Roos told a small group of international journalists at the U.S. Embassy in Tokyo. "While we had to work through, and continue to work through, some difficult issues, the alliance and the overall relationship is strong."

Roos declined to say how Washington might deal with intense local opposition to the move. But he did say that the U.S. is committed to reducing the impact of American military bases on

Okinawa, pointing out that the Futenma move is part of a broader reorganization plan that will send 8,000 Marines and their dependents to the U.S. territory of Guam.

Once these moves are completed, 70 percent of the base land in southern and central Okinawa, the most densely populated areas, will be returned to Japan, he said.

"It's the goal of both our governments to close Futenma as quickly as possible," he said.

Roos, who formerly headed a law firm in California's Silicon Valley, also said he welcomed the "green alliance" commitment in the joint agreement issued Friday to introduce renewable energy technology into U.S. bases in Japan.

Court throws out lawsuit to halt two nuclear reactors in Matsue

MATSUE, Shimane Prefecture (Kyodo) The Matsue District Court on Monday dismissed a suit demanding that Chugoku Electric Power Co. shut down reactors at its nuclear power plant here over the risk of accidents posed by major earthquakes.

"Chugoku Electric Power has taken measures based on knowledge gained through studies," presiding Judge Kenichi Katayama said. "Therefore, (the reactors) are not dangerous."

The suit, filed in 1999 by about 140 people, in seven prefectures, including nearby residents, concerned the Shimane plant's No. 1 and No. 2 boiling water reactors, which went operational in 1974 and 1989, in the northern part of Shimane's prefectural capital.

The plaintiffs said they plan to appeal the ruling.

The Hiroshima-based utility disclosed the existence of a fault line about 2.5 km south of the plant in 1998 — long after the two reactors went operational. This prompted local residents and others who had previously asked the utility to look into the existence of an active fault to file the suit.

The company initially said the fault was 8 km long but revised that figure to 10 km in 2004 and then to 22 km in 2008 in reports to the Nuclear and Industrial Safety Agency. The plaintiffs argued that Chugoku Electric Power's studies into active faults was inadequate, saying based on experts' opinions that the fault in question could be 30 km long or more. They predicted that earthquakes with a magnitude of 7.4 could strike the area.

Chugoku Electric Power, using a different scale to measure earthquakes, contended that the reactors were built with sufficient safety margins and that the Nuclear and Industrial Safety Agency has determined their quake-resistance is appropriate.

China tops Japan in U.S. poll on key ties

Kyodo News

China overtook Japan as the most important partner for the United States in Asia for the first time since 1985, reflecting the country's increasing economic weight, according to the results of a survey covering about 200 U.S. opinion leaders released Tuesday by the Foreign Ministry.

The U.S. survey commissioned to Gallup in February and March by the ministry also showed that Japan tied with China for the position of the most important U.S. partner in Asia in a poll of some 1,200 people aged 18 or above among the general public.

Among the opinion leaders, 56 percent said China is the most important, compared with 36 percent who named Japan. The poll of the general public put both countries at 44 percent.

The margin of error was 7 percent for the opinion leaders and 3 percent for the general public, according to the ministry.

As for why the opinion leaders chose China or Japan as the most important U.S. partner in Asia, economic ties and U.S.-bound investment topped the list for both countries, while they cited the size of national land and population for China and the alliance and friendship for Japan as the second-most common reason.

The Gallup research, conducted almost every year since 1960, demonstrated that U.S. confidence in Japan remains almost unchanged despite the recent bilateral row over the relocation of the Futenma military base in Okinawa.

Ties to U.S. Played Role in Downfall of Japanese Leader

SEOUL, South Korea — When Prime Minister Yukio Hatoyama of Japan abruptly stepped down Wednesday, largely for his failure to move an American air base off Okinawa, he was essentially admitting he had not won popular support for a prominent campaign pledge: ending Japan's postwar dependence on the United States for its security.

Mr. Hatoyama's plunge in popularity, just eight months after his victory ended a half-century of nearly unbroken one-party control, suggested that the Japanese public had rejected his attempt to rethink Japan's cold-war-era alliance with the United States, its most important ally. Rising tensions between North and South Korea in recent weeks and an increasingly assertive China reinforced the public's sense that Japan needed the United States more than ever.

The Obama administration's reaction to the resignation suggested that it would not miss Mr. Hatoyama much either. The White House, in its statement, pointedly did not thank or praise him, saying only that the alliance would "continue to strengthen," regardless of who was in

charge. Senior officials often seemed frustrated by his decision-making, and President Obama never developed a rapport with him.

In Washington, some analysts even argued that Mr. Obama played a role in Mr. Hatoyama's downfall, damaging his standing by keeping him at arm's length and refusing to compromise on the air base. Administration officials denied this, saying they worked with Japan in recent months to resolve their differences. Mr. Obama, they noted, lavishly praised Mr. Hatoyama for his decision not to move the base off Okinawa.

What seems clear, analysts said, is that while Japanese were sympathetic to putting the relationship on a more equal footing, they shied away from more fundamental changes, in a country that still views Washington as a largely benign protector.

"The Japanese public was not willing to follow Hatoyama down this path of Futenma and changing the alliance," said Izuru Makihara, a professor of politics at Tohoku University in Sendai, Japan, referring to the American base, United States Marine Air Station Futenma. "The consensus is that Japan needs the United States, with China and North Korea nearby."

Mr. Hatoyama's sudden departure left his Democratic Party scrambling to find a new leader to restore a sense of direction for a party that had swept into power with high hopes last summer in a landslide. The party's control of Parliament's Lower House ensures it will hold on to power despite the resignation.

Party members gathered behind closed doors to select candidates for an internal party vote on Friday that will elect Mr. Hatoyama's successor. The finance minister, Naoto Kan, 63, a former leader of the Democratic Party, emerged as an early frontrunner.

As the party moves to choose Japan's sixth prime minister in four years, many in Japan see Mr. Hatoyama as having frittered away his party's historic electoral mandate on the seemingly minor issue of relocating a single American military installation.

In truth, his government faltered on a host of issues, including scandals over political financing; an inability to deliver on other campaign promises like eliminating highway tolls; and the party's failure to focus on pocketbook issues affecting voters, like unemployment or Japan's anemic growth rates.

Still, Mr. Hatoyama's handling of the base issue seemed to crystallize all that went wrong with his short-lived government, including what many Japanese saw as its fatal flaw: his own indecisiveness. The prime minister seemed to waffle between appeasing Washington and assuring Okinawans that he would honor his campaign vows.

During last summer's election campaign, Mr. Hatoyama pledged to end Japan's dependence on the United States, and improve ties with China and the rest of Asia. His fall is a blow to China, which had hoped to expand its influence in Japan.

The centerpiece of Mr. Hatoyama's push was a pledge to move the Futenma base and its noisy helicopters off Okinawa. But Mr. Hatoyama ran into fierce resistance from the Obama administration. Eager to establish that the United States was not retreating from Asia, it refused to back down from a 2006 agreement to relocate the base to a less populated part of the island.

During a visit to Japan last October, Defense Secretary Robert M. Gates made it clear he had no intention of reopening negotiations.

Public opinion turned against Mr. Hatoyama's handling of Japan's crucial relationship with Washington. His government's approval ratings plummeted from more than 70 percent in September to the high teens in recent weeks.

In the end, the lack of support, and what Mr. Hatoyama called his belated recognition of the importance of the Marines as a deterrent, forced him to accept most of the 2006 agreement. He resigned a week later, as he appeared to be a heavy liability for the Democrats facing parliamentary elections on July 11.

Analysts say that the public did not reject all aspects of Mr. Hatoyama's agenda. His calls for building a more equal relationship with the United States resonated in Japan, which has grown weary of its junior status in the alliance.

"Hatoyama tapped into the feeling of many Japanese that it is time to rethink their nation's place in a changing world," said Takashi Kawakami, a professor who specializes in security issues at Takushoku University in Tokyo. "But wanting to be treated as an equal by Washington is not the same as wanting to be independent of Washington."

A curious aspect to Mr. Hatoyama's fall is that for decades the United States has sought to loosen the Liberal Democratic Party's hold on the country. But the two governments that succeeded in doing so — one in 1993-94, and the current one — simply could not pull the levers of power, leaving American officials deeply frustrated.

Once a new leader is in place, "I do think there will be a desire to exhibit a different kind of management from the outset," said a senior administration official, who spoke on condition of anonymity because he was not authorized to speak publicly.

Analysts said there were lessons in Mr. Hatoyama's fall for the Obama administration. Sheila A. Smith, a senior fellow for Japan studies at the Council on Foreign Relations, said American

officials did not initially show enough patience with the new government. "There was responsibility on both sides," she said.

One immediate upshot of Mr. Hatoyama's failure will most likely be that his successor will avoid making big changes in foreign policy, in favor of focusing on domestic issues.

"Hatoyama self-destructed on Futenma," said Mr. Kawakami of Takushoku University. "His successor is not going to want to touch that issue."

Martin Fackler reported from Seoul, and Mark Landler from Washington. David E. Sanger contributed from Washington.

A look at Japan's recent prime ministers

-- Japan's fickle politics make prime minister a tough job to hold on to. Yukio Hatoyama said Wednesday he would resign after just eight months, becoming the fourth prime minister to step down in as many years. A list of the most recent to serve:

- Junichiro Koizumi's five-year term made him one of the longest-serving prime ministers. The charismatic leader implemented economic reforms and tried to trim Japan's bloated budget during a gradual economic recovery. But he also increased tensions with China and South Korea over territorial disputes and visits to a controversial war shrine.

Koizumi stepped down in September 2006 on his own terms, his approval ratings lower than when he started but still strong.

- Shinzo Abe was Koizumi's appointed successor but his administration repeatedly stumbled. Four of his Cabinet ministers resigned due to financial improprieties, one a week after he was appointed, and his agriculture minister committed suicide over a scandal. His approval ratings sank and his party lost its decades-long majority in parliament's upper house.

He resigned suddenly in September 2007, citing health problems.

- Yasuo Fukuda took office as a political veteran, but faced challenges from the surging opposition. He tried to take a populist tack but was largely seen as dour and curt, and his major legislation was often held up in a divided parliament.

Fukuda quit abruptly in September 2008, saying he was unable to break an impasse with opposition parties.

- Taro Aso was a long-serving politician who served several Cabinet posts before becoming prime minister. He was a colorful personality that vowed to restore the public trust in his party,

but his support suffered amid a deepening recession, and he hurt himself through insensitive comments that upset Japan's neighbors.

Aso left office in September 2009 after his long-ruling Liberal Democratic Party was defeated soundly in lower house elections.

- Yukio Hatoyama's Democratic Party swept to power amid high hopes for political change, defeating the long-ruling conservatives. He promised to make politics more transparent and cut wasteful spending, but a funding scandal and his inability to keep a campaign promise to relocate a U.S. Marine base off southern Okinawa sank his once-high approval ratings.

Four years, four prime ministers in Japan

IT'S LONG BEEN TRUE that Japan seems to get along despite its political leadership, not because of it. With a few exceptions (Yasuhiro Nakasone from 1982 to 1987 and Junichiro Koizumi from 2001 to 2006), Japan's prime ministers have been easily forgettable and, outside of Japan, quickly forgotten. Yet even by Japanese standards, the recent history is dismal. In announcing on Wednesday his decision to step down, quirky, hapless Prime Minister Yukio Hatoyama became the fourth leader in succession to fail before his first year was up. That can't be good, even in a country whose bureaucrats, business leaders and hardworking citizens are accustomed to picking up the slack.

There is some comfort to be found in a couple of corners of this story. First, in his eight months in office, Mr. Hatoyama traveled a path of rediscovery of the importance of the U.S.-Japan alliance. Mr. Hatoyama's Democratic Party of Japan (DPJ) took power by defeating the pro-American, conservative Liberal Democratic Party that had run Japan pretty much uninterrupted for half a century. One plank for the newcomers was a reordering of the alliance, which some Japanese see as overly deferential on their part. The impulse to bring foreign policymaking into the sunlight, instead of leaving it to a few U.S.-Japan hands on both sides, was healthy and no doubt will continue. But the notion that Japan could find equilibrium by moving closer to China, and balancing one great power against the other, was delusional. Most Japanese did not support the idea, and recent events -- in particular North Korea's sinking of a South Korean ship and China's refusal to condemn that act of war -- reminded them why. Mr. Hatoyama tried and failed to find a better way to deploy U.S. forces in Japan than had been negotiated painstakingly over the previous decade. His successor isn't likely to make the same mistake.

Second, despite the failure of this first attempt, the jelling of a two-party system would be healthy for Japan and its friends. One-party rule bred stagnation and cynicism; the old ruling party eventually stood for little other than the perpetuating its rule, and Japanese voters were

delighted last year to have what finally seemed like a true alternative. It's not surprising that the DPJ would make its share of rookie mistakes. But the party still enjoys a massive majority in the more powerful lower house of Japan's parliament, and it still has a chance to right itself.

Its biggest challenge isn't all that different from those facing mature democracies in Europe and North America: how to reconcile globalization, declining economic growth, aging populations and growing mountains of government debt. The DPJ rode to power, it won't shock you to learn, with all manner of popular but irresponsible promises. Mr. Hatoyama wasn't able to square those with fiscal reality or make a start on Japan's needed structural reforms.

The United States should hope that his replacement, to be chosen by the party Friday, has more success. Japan remains the world's second-largest economy and America's most important ally in Asia. It needs and deserves political leaders who are a cut above embarrassing.

Naoto Kan becomes new Japanese prime minister

TOKYO -- Hours before he became Japan's latest prime minister, Naoto Kan received a memo from his predecessor, Yukio Hatoyama, that offered some advice that Hatoyama himself couldn't follow.

"Please take care of Japan-U.S., Japan-China and Japan-South Korean relations," wrote Hatoyama, who never managed in his short stint as premier to balance the needs of his own citizens and his closest ally.

Now Kan, Japan's fifth leader in four years, will inherit the problems that those before him struggled to solve -- a nagging debt, a history of fiscal scandals and lingering questions about the fate of a U.S. Marine base on Okinawa.

The Democratic Party of Japan overwhelmingly elected Kan, the country's finance minister, as its leader on Friday morning. Because the DPJ holds a majority in parliament, the vote all but secured Kan's position as the next prime minister. He formally took the post hours later after a parliament vote.

Analysts in Japan said Kan would have to act quickly. He must select a new cabinet. Within weeks, ahead of a critical July election, he needs to stabilize his reeling party. And during the next months, he must articulate his position on the long-standing dispute over the Marines' Futenma air base -- an issue that has dominated Japanese politics and U.S.-Japan relations for months.

In a speech to party members Friday, Kan said he will emphasize a "Japan-U.S. relationship at its core while contributing for forward development in Asia."

But Kan later added, in a press conference, that he still hopes to lessen the burden on Okinawans who oppose keeping the Marine airbase on the island.

"The [current] agreement is that between the countries," Kan said. "That agreement was reached under Mr. Hatoyama representing DPJ, so it will be the base" of his policy on Futenma. "In addition we have stated in the agreement as well that we emphasize the lessening of the burden on Okinawa. And that needs to be dealt with squarely."

Kan draws on a background that contrasts with those of other recent Japanese prime ministers. He has a humble background and a history as an outspoken populist. He is the first premier since 1996 whose family didn't make politics part of the family trade.

In the mid-1990s, he rose to prominence when, as health minister, he conducted a bold investigation that revealed how his own ministry had promoted the use of HIV-tainted blood for transfusions.

Recently, he broke from Hatoyama to call for Japan to explore a consumption-tax increase as protection against its debt.

"Kan is Mr. Clean. Kan is the citizen-activist -- he's come to politics in that route," Sheila Smith, a senior fellow for Japan at the Council on Foreign Relations, said in a telephone interview.

He took on the bureaucrats in the mid-'90s," she said. "And I think, frankly, he's proven himself to be a thoughtful policy guy. And Kan, in the last six months or so in the Cabinet, has looked very thoughtful and very steady."

When Hatoyama and No. 2 leader Ichiro Ozawa resigned Wednesday, they departed a party -- elected only eight months earlier with unprecedented popularity -- with an approval rating in the teens. A Friday poll conducted by the Yomiuri newspaper indicated that Kan, with 38 percent, was the most popular choice as successor. The other two leading replacements for Hatoyama, Seiji Maehara and Katsuya Okada, threw their support behind Kan on Thursday.

Hatoyama's resignation provided the DPJ a chance to regain popularity before the July 11 election for the upper house of parliament, where the party will try to maintain its commanding majority.

"First thing we must do is to gain trust from the public," Kan said.

"Our society and economy are deadlocked," he added, referencing problems in social welfare and the job market. "These are not natural phenomena. These are results of poor policies."

Kan's career, rooted in domestic politics, offers few clues about how he'll face the Okinawa issue. Kan will almost certainly proceed with the decision to keep the Marine base on Okinawa,

and he "won't be saying things that anger the White House like Hatoyama did," said Michael Green, a D.C.-based Japan expert and a former staff member of the National Diet. "The bigger question is how much political capital Kan will expend" to help the Futenma resolution gain acceptance on Okinawa.

Shinji Tarutoko, 50, who chairs the party's environmental panel, also expressed interest in the prime minister's job, but he received 129 party votes to Kan's 291.

Economic Front:

Japan factory output up for second straight month

TOKYO -- Japan's industrial production rose for a second straight month in April propelled by robust growth in China and the rest of Asia.

Factory output expanded a seasonally adjusted 1.3 percent from March when it grew 1.2 percent, the government said Monday.

The figure, however, undershot Kyodo news agency's average market forecast for a 2.5 percent increase.

Higher output among makers of general machinery and fabricated metals led the advance, according to the Ministry of Economy, Trade and Industry's preliminary report. Parts used in flat-panel televisions also contributed to gains.

Shipments rose 1.6 percent, and inventories were up 0.3 percent.

The latest numbers follow data last week that revealed a mixed picture for Japan's economic recovery.

Exports in April surged more than 40 percent, expanding for a fifth straight month. The country's biggest automakers released data Friday showing major sales and production gains.

Toyota Motor Corp., the world's biggest car manufacturer, said Friday it made 61.5 percent more cars, trucks and buses in April from a year earlier, despite massive global recalls that have hurt its reputation for quality.

But other figures suggested the export boom has yet to positively affect workers and families. The nation's unemployment rate rose to 5.1 percent, and household spending retreated. Deflation continued to deepen as core consumer prices fell 1.5 percent from a year earlier.

The outlook for Japan's factories appears weak as production is expected to decelerate in the next two months. The ministry's poll of manufacturers forecasts production to rise 0.4 percent in May and 0.3 percent in June.

Economists say the likely slowdown is inevitable as governments around the world phase out stimulus measures. In Japan, "eco-points" awarded to buyers of energy-efficient household appliances and tax breaks for eco-friendly cars helped bolster production.

"With both the points and the tax breaks scheduled for termination, it seems unlikely that manufacturers will step up production," said Goldman Sachs economist Chiwoong Lee in a report.

Panasonic aims to be Japan No. 1 in solar business

TOKYO -- Panasonic Corp. is banking on the solar-panel business that it gained by acquiring domestic rival Sanyo, aiming for top market share of at least 35 percent in Japan by 2012.

New solar generation products, being offered in Japan starting next month, combine Sanyo Electric Co.'s solar technology with Panasonic's sales networks in appliances and housing, said Panasonic Executive Vice President Toshihiro Sakamoto.

Panasonic will be able to provide overall energy-saving systems for homes that will include rechargeable batteries, heating and air conditioning, security systems and Net-linking gadgets besides solar panels, which will all be hooked up to each other, he said.

Homes will be able to save on utility costs by selling surplus power from solar power generation systems, and using water heaters at night when utility rates are cheaper, he said.

"You will be living with virtually zero carbon-dioxide emissions through creating, saving, storing and managing energy," Sakamoto said in Tokyo.

Panasonic took over Sanyo in December and gained its solar-panel business as well as other businesses such as home appliances and batteries.

Although overlap in consumer electronics in the two companies is being eliminated, Panasonic has much to gain from Sanyo's technological prowess in solar panels and lithium-ion batteries, which are expected to be in stronger demand as the popularity of green vehicles grows.

The Osaka-based maker of Viera plasma panel TVs, has made being environmentally-friendly a major theme in its growth strategy, hoping to become "the No. 1 green innovation company in the electronics industry" by 2018.

Toyota takes steps to improve image

TOYOTA, Aichi Pref. — With its reputation severely damaged by safety issues, Toyota Motor Corp. announced several steps Tuesday to improve its image, including the establishment of a panel of regional and local quality-control executives that will call the shots on recalls and other steps.

The committee, which held its first meeting Tuesday, will also share global information on claims, defects and recalls more speedily, Toyota said.

"We need to assert a renewed commitment to 'customer first' in reviewing all our work processes from a customer perspective," President Akio Toyoda told the regional and local heads at the start of the meeting at the company's headquarters. "Let this gathering today be our first step. Let us share first-person insights and hold constructive debate. Let us make the most of this invaluable opportunity."

Toyoda has faced mounting criticism that the world's largest automaker has been too slow to react to the massive recalls and accident claims around the globe.

The company also intends to strengthen its on-site information-gathering capabilities in regard to suspected quality problems. The automaker plans to increase the number of technology offices in North America to seven from one, and set up seven new offices in Europe, six in China and more in other regions.

As for its operations in North America, Toyota will cooperate with local authorities to expand the use of its "black box" data recorders, which can provide clues on vehicle operation and driver performance in the wake of accidents, it said.

The automaker will have third-party experts from each region, including one in North America headed by former U.S. Transportation Secretary Rodney Slater, evaluate quality-improvement measures on a regional basis. It also will enlist four third-party experts to review any improvement measures adopted by the special committee for global quality and release the results of its initial review in June.

To train its global staff in quality issues, Toyota said it will set up a string of "CF" (customer first) training centers by July in Japan, North America, Europe, Southeast Asia and China to cultivate quality professionals in each region, the company said.

Toyota has recalled more than 8 million vehicles in recent months for sticky accelerator pedals, floor mats that can jam pedals and braking software glitches found in the latest Prius model and other gasoline-electric hybrid cars.

Toyota, whose quality control regime had long been respected as a model for other Japanese manufacturers, conducted a tour of its headquarters Tuesday to explain its quality-control efforts to about 120 foreign and Japanese journalists. Employees showed how the firm probes for parts defects using CT scans and uses other machines to simulate heavy rain or freezing or soaring temperatures to test how vehicles work in extreme conditions.

"In addressing recent quality problems, I really came to understand that products are our lifeline. If we can regain customer trust in our quality, we can increase production volumes and regain profits." Toyoda said afterward. "Then, everything can work positively."

Toyoda, the grandson of the company's founder, has acknowledged that he may not have been fast enough in responding to claims against its vehicles. The automaker's prospects are still not clear because it is expected to face billions of dollars in costs from a series of lawsuits being filed by U.S. consumers.

Tech Innovator in Japan Sets Its Sights on China

June 1, 2010, 4:57 am

A Japanese technology giant little known outside Asia is racing to capture the booming Chinese Internet market. And in the process, it hopes to become a global player straddling what is fast becoming the world's most wired region, The New York Times's Hiroko Tabuchi writes.

The company, Softbank, already trumps Google in Japan, where it has the country's most popular search engine and e-commerce site. It also runs the fastest-growing mobile phone carrier in Japan and operates its largest broadband network. Softbank is also the sole Japanese carrier for the Apple iPhone; in addition it is the only company providing data service for the iPad, which went on sale Friday to much fanfare.

But Softbank's most promising ventures are in China, where it has made a series of strategic investments in some of the country's most prominent Internet companies.

It invested in the Chinese Web retailer Alibaba in 2000, pushing its founder, Jack Ma, to start Taobao, now the biggest e-commerce site in the country. Softbank remains one of Alibaba's leading investors, with a 34 percent stake in the company.

This year, Softbank will introduce a service that connects Taobao to its Yahoo portal in Japan.

Softbank, based here in Tokyo, also has a 35 percent stake in Oak Pacific Interactive, which owns the hugely popular social networking and game-playing sites RenRen and Kaixin.com.

“We want to be No. 1 in Asia on the Internet,” Masayoshi Son, Softbank’s charismatic chief executive who founded the company in 1981, said in mid-May at an event where he unveiled new cellphones. “Before anyone knows it, Softbank will be a step ahead.”

At the same time, Softbank has established itself as a bridge between Silicon Valley innovations and the growing Asian market, investing in American start-ups in exchange for rights to bring their services to Asia.

In the year to March, Softbank more than doubled its net profit to 96.72 billion yen (\$1.04 billion), driven by strong performance in its mobile business, while operating profit soared 20 percent to a record 465.9 billion yen. This year, Softbank forecasts operating profit of 500 billion yen, and plans to raise capital spending by 180 billion yen, to 400 billion yen.

China has been a notoriously difficult market to crack for overseas Web companies. Google, eBay and Yahoo, not to mention social networking sites like Facebook, MySpace and Twitter, have all struggled there, because of strong domestic competition as well as government blocking and censorship.

American companies also complain that the country is not a level playing field; foreign companies must operate through locally owned firms, creating a cumbersome ownership structure that limits their flexibility. And some critics say foreign companies have failed to grasp the needs of local Internet users.

But in its push into China, Softbank has avoided many of these headaches by focusing on e-commerce, local social networking sites and online games — sidestepping the difficulties of government censorship. For now, Softbank is betting that it will be commerce and entertainment, not the search for information, that drives Internet growth in China.

Softbank has also dodged, so far, the animosity that foreign businesses and, particularly, Japanese companies sometimes face in China, rooted in the troubled historical relationship between the two countries.

Mr. Son’s background — Japanese of Korean descent — gives him pan-Asian credentials. But more important, he is working with existing Chinese start-ups, forging strong capital partnerships but leaving local management in charge, winning him respect there. Mr. Ma of Alibaba sits on Softbank’s board, while Mr. Son is a director at Alibaba.

Softbank executives stress that success in Asia will hinge on mobile technology, because many users in the region are leapfrogging fixed-line Internet connections and using the Web from hand-held devices.

In its push into China, Softbank has exploited its diversity as both a full-fledged mobile carrier and an online business. China has been slow to adopt 3G networks, but users do not seem to mind. It is a huge market: Almost 800 million people already use cellphones in the country, while its population of Internet users is nearing 400 million, and those numbers are expected to grow.

“Being able to integrate our experience in running a mobile carrier, as well as our know-how in applications and handsets, is invaluable,” said Tetsuzo Matsumoto, a senior executive vice president at Softbank. “We no longer see ourselves as a Japanese company, or a cellphone carrier. Our aim is to become a global player on the Internet.”

Daisaku Masuno, who heads information technology and telecommunications research for Japan at Nomura Securities, described Softbank as a “trend-setting cellphone company,” which he characterized as “unheard of.”

“Not only do very few companies have such a huge presence online in both China and Japan, both crucial markets,” he said, but “anywhere else in the world, mobile carriers don’t understand the Internet and can’t keep up, and Internet companies don’t have the deep pockets or know-how to run cellphone networks.”

Mr. Masuno added, “Softbank is unique in that combination, and it’s starting to reap returns.”

Mr. Son is accustomed to handling the cultural crossover his company is undertaking. An early investor in Yahoo, Mr. Son transformed the Yahoo engine, making it Japan’s most recognized Web portal packed with music, games and other content that went beyond a simple search for information.

In 2006, Mr. Son borrowed heavily to buy the British network Vodafone’s troubled operations in Japan, turning around that business with marketing acumen and aggressive pricing.

Then Mr. Son brought together the many parts of his business; for example, handsets that run on Softbank’s cellphone network in Japan now come with a button that lets users jump directly to Yahoo Japan’s mobile site, bolstering the search engine’s visitor numbers.

Two years ago, Mr. Son brought the Apple iPhone to Japan, despite initial skepticism from critics who said the smartphone lacked many of the functions Japanese users were accustomed to — like a wallet phone function and mobile TV.

The iPhone has been successful in Japan; shipments more than doubled, to 1.69 million units, in the year ending March 31, giving Apple a 72 percent share of the country’s smartphone market, according to the MM Research Institute in Tokyo.

In Silicon Valley, some of Softbank's recent investments include the live video-streaming site Ustream and RockYou, which develops applications for social networks. Softbank has said it intends to expand Asian operations for both companies.

Still, the company faces challenges. Though Softbank's interests in China are promising, "revenue streams are mostly still in the future," said Nathan Ramler, a technology analyst for Macquarie in Tokyo. Mr. Ramler said he was also interested in seeing how Mr. Son would make money from some of his latest ideas — like linking Softbank cellphones to Twitter.

Softbank's cutting-edge businesses also make them inherently risky, Mr. Ramler said. "The rate of change and possibility that a new idea could come along and undercut existing business models is always going to be a risk," he said.

JAL ends all flights in and out of Kobe

KOBE (Kyodo) Japan Airline Corp. terminated all of its flights Monday at Kobe Airport as part of its restructuring.

JAL ended flights between Kobe and Shin-Chitose Airport in Hokkaido and Naha and Ishigaki airports in Okinawa.

JAL's withdrawal is a blow to the money-losing Kobe Airport, which is expected to suffer operating losses for both fiscal 2009 and 2010.

The airport will lose much of its landing fees, a pillar of its operations. In 2009, JAL flights accounted about 35 percent of its landing fees of ¥690 million.

"We'd like (JAL) to come back as early as possible," Kobe Mayor Tatsuo Yada said.

Meanwhile low-cost carrier Skymark Airlines Inc. plans to launch five new routes at Kobe between July and December, including to Asahikawa, Hokkaido, and the city of Nagasaki.

At 10:30 a.m. Monday, about 40 JAL employees lined up on an apron and saw off one of JAL's last flights from Kobe.

They held up a sign and banner reading "Thank you, Kobe."

"I have usually taken JAL flights when I traveled. It will be inconvenient," said Hisashi Oshita, a 33-year-old corporate worker in Kobe who was planning to go to Okinawa with his family.

Also on Monday, Japan Air Commuter Co., a JAL unit, terminated all its flights from Matsumoto airport in Nagano Prefecture, including flights bound for Sapporo, Osaka and Fukuoka.

Wen open to treaty to end gas field row

Staff writer

Chinese Premier Wen Jiabao agreed Monday in Tokyo with Prime Minister Yukio Hatoyama to begin bilateral negotiations on a treaty over gas fields in the East China Sea.

Japan and China agreed in 2008 to jointly develop the gas fields, but there has been little progress on implementation.

"There was a clear difference" in Wen's position over the gas fields, said a Foreign Ministry official who attended the summit.

"Until now, (Wen) had said that negotiations would begin only when the environment is set, but this time . . . he said that he wanted to put into practice the June 2008 agreement in order to turn (the disputed area) into a sea of peace, cooperation and friendship," the official said on condition of anonymity.

The two leaders spent about the first 30 minutes of their 80-minute meeting discussing North Korea's alleged sinking in March of a South Korean warship, with Hatoyama urging Wen to back calls for a U.N. resolution against Pyongyang.

But the ministry official didn't divulge any comments on the issue from the Chinese side, saying Beijing asked Tokyo not to do so.

South Korean President Lee Myung Bak released last week the findings of an international probe that concluded a North Korean torpedo fired from a submarine sank the corvette Cheonan, killing 46 South Korean sailors.

Japan and the United States have called for firm measures against Pyongyang, but China, the hermit state's key ally, has called for restraint.

"I support the report that South Korea jointly conducted with other countries," Hatoyama was quoted as telling Wen. "Based on international rules, North Korea should be harshly condemned so that something like this never happens again."

The ministry official said Hatoyama, getting back to discussing the East China Sea, expressed concern over the "recent activities of China in the surrounding sea area."

According to Tokyo, Chinese military helicopters came unusually close to Maritime Self-Defense Force ships in April and Chinese government survey ships confronted Japan Coast Guard survey vessels in Japan's exclusive economic zone in May, raising tensions.

One of the Japanese participants in the meeting said Wen didn't directly address the maritime issues but expressed interest in establishing a crisis-management mechanism to prevent incidents that could trigger bilateral friction, including accidental contact involving military ships.

Hatoyama and Wen also discussed bilateral exchanges and economic cooperation, and signed several agreements, including a food-safety initiative in response to the political row over tainted Chinese-made frozen dumplings imported to Japan in 2007.

Honda says China factory back to work after strike

BEIJING -- Honda Motor Co. said a key parts factory in China resumed full operation Wednesday following a two-week strike over wages that forced Honda to halt production at four assembly plants.

The strike highlighted tensions between workers and foreign companies that look to China as a source of cheap labor and a fast-growing market amid weak demand elsewhere.

Work resumed after employees of the factory belonging to Honda's joint venture, Guangqi Honda Automobile Co., accepted Honda's pay increase offer. The plant in the southern city of Foshan, near Hong Kong, makes transmissions and engine parts.

"Our factory in Foshan is back to normal production," said a Honda spokeswoman who would give only her surname, He. "Every worker is back to their normal production line."

A company statement said Honda's four assembly plants elsewhere in China would remain idle until at least Thursday and no date was set for production to resume.

Companies in China are finding it harder to attract and keep workers, who are demanding better pay and working conditions.

The communist government prohibits independent labor unions but has permitted protests in recent years over labor grievances. Protests are common in the Yangtze River Delta near Shanghai, though rarely reported in the state controlled media.

A man who answered the phone at the Foshan office of the factory's government-affiliated union referred questions to the city government propaganda office. Phone calls there were not answered.

Honda said Monday that the factory's employees agreed to a pay raise of 366 yuan (\$53.60) per month for each full-time worker. That would increase pay for a new employee to 1,910 yuan (\$280) per month.

Some workers held out for more and the factory union said about 30 people fought with union officials Monday, leaving some people hospitalized. Honda said some production at resumed Monday but was halted Tuesday.

The factory in Guangdong province, which abuts Hong Kong, employs 1,900 people.

The strike came at an awkward time for Honda, which announced plans last month to expand production capacity in China to nearly one-third by 2012 to meet surging demand in the world's biggest auto market.

Strong sales in China helped Honda jump from a loss to a 72 billion yen (\$774 million) profit for the January-March quarter.

Output was suspended at two Guangqi Honda factories that make Accord sedans and Odyssey minivans and at Honda Automobile China, which makes Jazz hatchbacks, all in Guangzhou near Foshan. Dongfeng Honda in the central province of Hubei suspended output of Civic sedans and CRV SUVs.

The strike and an outcry over a string of suicides at Foxxconn Technology - a Taiwanese-owned contract manufacturer for Apple, Sony and other major brands - appears to have resonated among many Chinese.

"Honda's workers went on strike as the only effective way to negotiate with the company for better treatment. It seems to be their last resort," said Chang Kai, a labor expert at Beijing's Renmin University.

The official Xinhua News Agency said Tuesday the strike was a reminder of social strains brought on by China's status as "the world's factory." It said "social harmony" might be threatened if workers are not paid reasonably.

The commentary later appeared to have been deleted from the Internet, possibly to avoid inflaming public sentiment while Premier Wen Jiabao was in the midst of an official visit to Japan.

Oil imports increase 8.7% on year

Kyodo News

Japan imported 8.7 percent more crude oil in April than a year earlier for the second straight month of growth, the Natural Resources and Energy Agency said Monday.

Oil shipments from the Middle East accounted for 88.0 percent of the 115.04 million barrels total, down 3.4 percentage points, the agency said in a preliminary report.

Saudi Arabia remained the biggest supplier, selling Japan 35.98 million barrels, up 17.8 percent. The United Arab Emirates was second with 23.96 million barrels, up 7.9 percent, followed by Qatar, which supplied 15.22 million barrels, up 5.0 percent.

Toyota, Honda lead sales rise

Bloomberg

Toyota Motor Corp. and Honda Motor Co. led the 10th straight increase in domestic monthly auto sales as government incentives boosted demand.

Sales of cars, trucks and buses, excluding minicars, rose 28 percent to 228,514 vehicles in May from a year earlier, the Japan Automobile Dealers Association said Tuesday. Toyota sold 112,174 units, excluding Lexus-brand cars, up 39 percent.

Domestic auto sales began recovering from a yearlong slide in August as government rebates and tax cuts for fuel-efficient vehicles rekindled demand. The incentives helped raise sales by about 600,000 vehicles last year and may increase them by about 900,000 this calendar year, the Japan Automobile Manufacturers Association said in December.

"Car sales, especially of hybrids, have been doing very well because of the incentives," said Yoshiaki Kawano, an analyst at auto consulting company CSM Worldwide Inc. "Some carmakers are waiting until after the program expires to bring out new models to offset the expected drop."

May sales rose 16 percent at Honda, while Nissan Motor Co. sold 9 percent more vehicles.

Under a government program started last June, consumers can apply for a rebate of as much as ¥250,000 in the form of a subsidy if they scrap a car more than 13 years old to buy a new one, and ¥100,000 for a new car purchased without scrapping an old one. The program expires at the end of September.

Vehicle sales may fall 4.9 percent to 4.65 million units for the fiscal year that began April 1 as the expiration of the subsidy program will discourage buyers, according to the automakers association.

Fed lends \$6.64 billion in 'swap' program

WASHINGTON -- The Federal Reserve says it lent \$6.64 billion through a program aimed at easing strains from the European debt crisis.

Most of the money - \$6.4 billion - went to the European Central Bank. The rest went to the Bank of Japan.

The Fed is lending much-in-demand dollars to other central banks in exchange for their currencies. In turn, the central banks can lend the dollars out to banks in their home countries to prevent the crisis from spreading further.

The Fed's "swap" program was revived in May as fears rose that Greece's debt crisis could engulf other European countries. European banks need dollars to lend to companies across the Continent. European companies that have operations in the U.S. pay their employees in dollars and buy raw materials with the U.S. currency.

Japan's New Prime Minister May Seek Weaker Yen, Monetary Easing

By Takashi Hirokawa

June 4 (Bloomberg) -- Japan's next cabinet may favor a weaker yen and encourage more measures to boost the money supply, according to a lawmaker from the ruling Democratic Party of Japan who has called for more steps to fight deflation.

Naoto Kan, the frontrunner to become the nation's new prime minister, "is positive about monetary easing," Takeshi Miyazaki, who represents a group of more than 100 members of parliament from the DPJ, said in an interview yesterday in Tokyo.

Kan will run against Shinji Tarutoko, 50, in an election to decide the DPJ's new leader after Yukio Hatoyama, 63, resigned as prime minister on June 2.

Foreign Minister Katsuya Okada and Transport Minister Seiji Maehara yesterday backed 63-year-old Kan, removing his two most senior leadership rivals.

Miyazaki said he had met recently with both Kan and Tarutoko to discuss policies, and both were in agreement on the need for steps that would support economic growth.

"I can't say who will win, but either way, Kan is positive about monetary easing, and Tarutoko is interested in steps to help small- and medium-sized companies," Miyazaki said.

Social Front:

Japan to stand firm against Australia on whaling

Kyodo News

Japan will "properly respond" to Australia's legal action at the International Court of Justice against its whaling in the Antarctic Ocean, Chief Cabinet Secretary Hirofumi Hirano said Tuesday.

Hirano also described the action taken by Australia as "extremely regrettable." The government "will properly respond in light of its conventional position," he said.

On Monday, the Australian government filed a lawsuit with the International Court of Justice in The Hague seeking a halt to Japan's scientific research whaling in Antarctic waters.

The Japanese government has so far maintained that Japan's whaling program in Antarctic waters is based on the 1946 International Convention for the Regulation of Whaling, which allows member states of the International Whaling Commission to hunt whales for scientific research purposes.

Australia has criticized the Japanese whaling program as disguised commercial whaling.

Japan caught 507 whales, only about half the targeted 985, in Antarctic waters between December and March due to obstruction by antiwhaling activists, Fisheries Agency data show.

Lucky England beats Japan in WCup warmup

LONDON -- England missed a penalty shot and needed two own goals to beat Japan 2-1 in a World Cup warmup Sunday, while the Ivory Coast squandered a two-goal lead to draw with Paraguay.

In other games involving World Cup teams, Mexico outplayed non-qualifier Gambia 5-1 with two goals each by Javier Hernandez and Adolfo Bautista; France used a second-half goal from William Gallas to tie Tunisia 1-1; South Korea lost 1-0 to Belarus; and Nigeria tied Colombia 1-1.

Japan's Marcus Tanaka scored a goal for each team and Yuji Nakazawa deflected a cross past his own 'keeper, who earlier saved Frank Lampard's penalty shot against England.

"I am happy for the second half. I think we played better, faster. We found the space," said England coach Fabio Capello, who will name his final squad of 23 on deadline day Tuesday. "(In the first) we played too slow, passes wide. It was easy for the Japanese to defend."

England is in a World Cup group that includes the United States, which left for South Africa on Sunday, along with Slovenia and Algeria.

Like many of the warmup matches, the game was played at altitude in the Austrian city of Graz so that the two teams could get used to playing in the conditions they will encounter next month in South Africa when the competition kicks off June 11.

Paraguay rallied from two goals down to draw 2-2 with Ivory Coast in the French town of Thonon-les-Bains. Didier Drogba and Souleymane Bamba put the Ivory Coast ahead by the 73rd minute, but Lucas Barrios replied in the 75th and Aureliano Torres equalized in the 89th.

"I think everybody understands the message the coach is trying to deliver," Drogba said. "We're still working and we still have some things to change."

Paraguay faces Italy, New Zealand and Slovakia in the World Cup group stage and the Ivory Coast, now coached by Sven-Goran Eriksson, faces Brazil, Portugal and North Korea.

Problems continue to mount for France coach Raymond Domenech, whose team fell behind to Issam Jomaa's fifth-minute strike for Tunisia. Arsenal defender Gallas, recently returned from injury, scored the equalizer in the 62nd minute to save the French.

Hernandez, who is headed for Manchester United, and Bautista scored two goals each in Mexico's victory over non-qualifier Gambia at Bayreuth, Germany. Alberto Medina added the fifth for Mexico, which opens the World Cup against host South Africa on June 11 and then meets former champions France and Uruguay.

In the Austrian town of Kufstein, Syarhey Kislyak's 53rd-minute goal gave non-qualifier Belarus a 1-0 victory and ended South Korea's four-game winning streak that included victories over Ivory Coast and Japan.

South Korea plays Spain in Innsbruck on Thursday in its final World Cup warmup match before traveling to South Africa, where it meets Greece, Argentina and Nigeria in the group stage.

Carlos Valdes gave Colombia a 12th-minute lead in Nigeria's next-to-last warmup game ahead of the competition, but Monaco midfielder Lukman Haruna leveled in the 69th.

Nigeria also faces North Korea in a friendly in Johannesburg on June 5 before meeting two-time champion Argentina in its tournament opener one week later.

Japanese man faces execution in China

BEIJING (Kyodo) Beijing has notified Tokyo of the imminent execution of a Japanese man sentenced to death for smuggling drugs, Chinese Foreign Ministry spokesman Qing Gang said Tuesday.

It will be China's first execution of a Japanese national since the two nations normalized diplomatic relations in 1972.

The move prompted Chief Cabinet Secretary Hirofumi Hirano to say the administration will convey its "concern" over the case to Beijing.

"The issue is a matter of justice in China," Hirano said. "But when it comes to a death sentence, I understand there is certainly public sentiment (against it) and the government will express and convey its concern (to China)."

Chinese authorities identified the man only by his kanji, which can be pronounced as Mitsunobu Akano.

The execution may dampen bilateral relations, which had been moving in a positive direction. China announced last week it had detained a man for allegedly poisoning frozen dumplings that sickened 10 people in Japan between late 2007 and early 2008.

According to sources close to both sides, Beijing conveyed its decision to Tokyo three days after informing the Japanese government that a suspect had been apprehended in the dumpling-poisoning case. "The timing makes it difficult for Japan to object," one of the sources said Tuesday.

China executed a British man in late December convicted of smuggling drugs into the country, drawing strong criticism from British Prime Minister Gordon Brown and human rights groups.

Beijing has traditionally been careful about executing foreigners — especially those from developed countries — but critics say that given its rising global clout and its hardline stance against crime, the government may have decided to apply its capital punishment guidelines equally to both foreigners and Chinese.

Last July, Japan executed a Chinese national convicted of killing three of his compatriots in Kawasaki in 1999.

The Japanese man was arrested in September 2006 for attempting to smuggle about 2.5 kg of stimulants from Dalian airport to Japan, according to closely placed sources with information on bilateral matters.

A high court in Liaoning Province finalized the man's death sentence in 2009 by dismissing his appeal of the lower court ruling issued in June 2008.

Killer of ex-health bureaucrat, wife to hang

No new psych exam for man who murdered 'demons' to avenge dog

SAITAMA (Kyodo) The Saitama District Court sentenced a 48-year-old man to death Tuesday for killing a former top health ministry bureaucrat and his wife and attempting to kill another woman in a series of attacks in 2008 that stunned the nation.

Takeshi Koizumi

In meeting the sentencing demands of prosecutors, presiding Judge Yoshihisa Denda said Takeshi Koizumi should take full criminal responsibility for his acts, which were "tactical and premeditated in great detail."

Koizumi admitted to the charges in principle but pleaded not guilty, claiming he had "killed not people but demons with evil hearts," in a case that was initially thought to be a reaction the health ministry's pension record scandal. Instead, it was found the man was avenging the death of his pet dog.

Koizumi was convicted of fatally stabbing former Vice Health and Welfare Minister Takehiko Yamaguchi, 66, and his wife, Michiko, 61, at their home in the city of Saitama on Nov. 17, 2008.

He stabbed and seriously wounded Yasuko Yoshihara, 73, the wife of another former vice health and welfare minister, at the couple's Tokyo home on Nov. 18 that year, the court ruled.

Koizumi said he had a grudge against the ministry since junior high school because he thought a health care center killed his dog.

His lawyers argued he is mentally incompetent because of a delusional disorder. They asked the court to refrain from using the death sentence and to weigh the fact that he turned himself in.

Their request for another mental exam was rejected.

Narita to test full-body scanners, assess privacy concerns

The first test of full-body scanners in Japan will begin in July at Narita International Airport, transport minister Seiji Maehara said Tuesday.

Japan has been studying the feasibility of introducing the scanners, which have drawn privacy complaints worldwide because they can essentially see through passengers' clothing, in an

effort to tighten security after a failed Christmas Day bombing attempt on a U.S. airliner bound for Detroit from Amsterdam.

Many airports offer passengers the option of a physical body search.

The scanners, which have also raised health concerns because they make use of X-rays and microwaves, have the potential to reveal plastic and other explosives that traditional metal detectors can't, the Land, Infrastructure, Transport and Tourism Ministry said.

The Christmas Day bomber tried to use a combination of liquid and powder explosives that evaded detection.

The body scanners depict the outlines and shapes of objects that reflect electromagnetic or other waves generated by the machines.

The ministry will set up a panel next month to look into any problems with the devices and screening procedures.

Some critics argue the high-tech body scans will lead to privacy violations, such as one that reportedly involved an "ogling" security worker at London's Heathrow Airport on March 10, and some countries have decided against using the devices.

Pop idol gets 18 months for drugs

CHIBA (Kyodo) The Chiba District Court handed Akira Akasaka, a former member of the pop idol group Hikaru Genji, an 18-month prison term Tuesday for drug use.

Akasaka, 36, was given a suspended sentence in November 2007 for possessing amphetamines.

At Tuesday's court session, presiding Judge Kuara Arai said Akasaka didn't resist temptation to use drugs during the three-year suspension of his previous sentence.

"It is regrettable to give a sentence without stay of execution to a former member of a once-popular idol group," the judge said as he handed down the ruling.

According to the court, Akasaka inhaled a small amount of a stimulant drug Dec. 28 at a hotel in Shinjuku Ward, Tokyo.

Akasaka pleaded guilty and his lawyers sought leniency, claiming he is firmly determined to end his use of the drug.

Japan vows forest conservation support to fight climate change

In a ministerial meeting in Oslo, Japan vowed to support forest conservation efforts in developing countries to help alleviate problems stemming from climate change, the Foreign Ministry said.

State secretary for foreign affairs Tetsuro Fukuyama said in a speech to the Oslo Climate and Forest Conference last week that Tokyo has committed to providing \$500 million to reduce greenhouse gas emissions from deforestation and forest degradation and had provided \$160 million in bilateral projects by the end of May.

Fukuyama said Japan will host a followup ministerial meeting on forest conservation and climate change in October on the sidelines of a U.N. conference on preserving biodiversity to be held in Nagoya.

Noting that forest monitoring is particularly important in helping developing countries formulate national conservation plans, Fukuyama said, "Japan will continue to provide support based on a hands-on approach, fully respecting the ownership of developing countries," according to his statement.

About 20 percent of global greenhouse gas emissions are estimated to derive from deforestation and forest degradation in developing countries, and during the U.N. climate conference in Copenhagen last December participating countries recognized the "crucial role" of reducing emissions from such causes.

Forests absorb carbon dioxide and release oxygen in the process of photosynthesis.

Several countries, including Japan, the United States and some European nations, pledged during the Copenhagen meeting a total of \$3.5 billion in aid to assist developing countries in protecting forests.

The October meeting in Nagoya is expected to give momentum to climate negotiations before the next key U.N. conference slated for late November and early December in Cancun, Mexico, so countries can reach an accord on the general rules of reducing emissions from deforestation and forest degradation, a Japanese official said.

Dolphin hunt film canceled in Tokyo after protests

TOKYO -- A movie theater in Tokyo decided against showing the dolphin-hunt documentary "The Cove" after nationalist pressure and warnings of protests, the distributor said Thursday.

In recent months, activists have protested and screamed slogans outside the Tokyo office of the Japanese distributor, Unplugged, alleging that support for the film signals betrayal of Japanese pride.

Theater N Shibuya was scheduled to start showing the film June 26. Unplugged said the theater changed its mind after getting deluged with angry telephone calls and being warned that screenings would be met with protests.

The American movie that won the Academy Award for documentary this year shows undercover footage of the dolphin hunt in a Japanese village and documents efforts by Ric O'Barry, a former trainer for the "Flipper" TV series, to stop the slaughter of dolphins for food.

Takeshi Kato of Unplugged said he remained determined to show the film, and talks will continue with other theaters.

"This is definitely not an anti-Japanese film," he said in a statement. "We believe it is necessary to carry out constructive discussion of the issue."

Most Japanese have never eaten dolphin meat. But some believe killing dolphins and whales is part of traditional culinary culture and resent the interference of outsiders focused on species protection.

"The Cove" screened at the Tokyo International Film Festival in October and at smaller events in Japan but has yet to open to the Japanese public. The Japanese version blurs the faces of some people on screen, such as fishermen, to lessen the possibility of trouble. In April, the U.S. Air Force Yokota Air Base, west of Tokyo, canceled a screening at its on-base theater to show sensitivity to local culture.

O'Barry said the film needs to be shown, so that word would spread and Japanese would want the hunts stopped.

"Why are they so scared about the truth of the dolphin slaughter getting out?" he said in an e-mail Thursday. "Because they know that the massive dolphin slaughter is indefensible - tragically cruel - scientifically unsupportable."