

China in 2010: economic power, but more diplomatic isolation

AFP, Beijing

China solidified its financial might in 2010, becoming the world's second-largest economy, but it was often inflexible and isolated on the political stage -- an intransigence typified by the Nobel peace prize drama.

As Beijing's global clout steadily mounted, its relations with key world powers became more complicated and could be further strained in 2011, experts say, with the communist leadership's political stance hardening.

After surpassing France, Britain and Germany in the race to global economic supremacy thanks to years of double-digit growth, China unseated Japan for the world number two spot behind the United States.

The international community sought China's input on pressing issues, especially within the Group of 20, which looked to find a way to rebalance the skewed global economy.

Its currency policy and accusations that the yuan was undervalued dominated world summits, its two interest rate hikes in less than three months moved global markets and it earned a bigger say in the International Monetary Fund.

Decisions made in China have repercussions around the world. Because China does now have a much larger economy, its global political clout has increased," Tom Orlik, an analyst at Stone & McCarthy Research Associates, told AFP.

But this year, the ruling party faced two major headaches -- soaring consumer prices and a wave of strikes in the country's industrial heartland in the south -- both of which have the potential to stoke mass social unrest.

At its annual meeting in October, the party confirmed Vice President Xi Jinping's march towards the presidency of the world's most populous nation, but appeared divided over the thorny issue of political reform.

That debate gained greater significance when jailed dissident Liu Xiaobo, who has long advocated reform of the country's one-party system but was virtually unknown at home and abroad, won this year's Nobel peace prize.



A waitress walks past a New Year billboard at a restaurant in Beijing yesterday. China solidified its financial might in 2010, becoming the world's second-largest economy, but it was often inflexible and isolated on the political stage.

Beijing was furious, calling members of the Oslo-based Nobel committee "clowns". It blacked out foreign TV coverage of the ceremony honouring Liu, calling it an example of "political theatre".

"Is there a 'plot' among the Western countries against China?" the Global Times, a nationalistic state newspaper, asked.

In the more than two months since the Nobel announcement, the constant stream of invective, threats and pressure has painted a picture in the West of an obstinate, bull-headed China -- not exactly how Beijing planned to use its "soft power" to conquer Western public opinion.

"The reactions of the Chinese authorities... only served to reinforce a feeling of increasing mistrust vis-a-vis Beijing," Valerie Niquet, director of the Asia Centre at the French Institute for International Relations, told AFP.

"The perception of China on the inter-

national stage see-sawed," she said, adding that the West was "more worried, faced with a China that seems to be choosing ideological withdrawal and nationalistic affirmation".

On the diplomatic stage, 2010 was for China a year marked by "setbacks in its relations with most major powers", said Jonathan Holslag, of the Brussels Institute of Contemporary Chinese Studies.

"The difficulties with the US showed that there were big differences in interests and expectations that might not be overcome," Holslag said. "In the long run, China does not like American predominance in Eastern Asia."

For Niquet, the year saw a "marginalisation of China on the world stage, especially in Asia", where Beijing sent shivers through regional capitals with its uncompromising response to a territorial spat with Japan.

Its hardline stance on the arrest of a trawlerman whose boat collided with Japanese coastguard vessels in disputed waters sparked fears over the way its other territorial claims in the South China Sea would be pressed.

China was also criticised over its weak response to North Korea's shelling of a South Korean island in November.

While Beijing has yet to condemn its longtime yet wayward ally Pyongyang despite intense international pressure, Japan, South Korea and the United States solidified their three-way alliance, Niquet said.

China's offer to host emergency talks was rejected by Washington, Seoul and Tokyo, who instead met without Beijing.

"The shelling on the Korean peninsula did China a great disservice," said Hu Xingdou, a professor of economics and China policy issues at the Beijing Institute of Technology.

European bond market faces volatile year

AFP, Paris

The European bond market is heading for another turbulent year in 2011, with investors groping for direction in the face of an uncertain US recovery and a stubborn debt crisis in the eurozone.

In 2010 bonds for the first time lost some of their attraction as a safe option, with investors shunning part of the market, according to bond strategist Patrick Jacq of BNP Paribas bank.

German and French bonds were the exception, with their yields falling to their lowest levels as investors who feared for the fate of the US economy saw such assets as a refuge.

But elsewhere sovereign bonds issued by eurozone members had a rough ride in 2010 in response to a debt and deficit debacle in Greece and huge financial pressures on the Irish banking sector.

Both Greece and Ireland, facing sharp hikes in their borrowing costs, eventually had to appeal for a bailout from the European Union and the International Monetary Fund.

The perception that European authorities had been slow to act on the Greek crisis rattled the market further, notably as banks held massive amounts of debt bonds issued by Greece, Ireland, Spain and Portugal, financially weak countries on what became known as the eurozone's "periphery."

Eurozone officials moved faster in response to the Irish banking crisis, determined to shield Portugal and Spain from having to be rescued with outside money.

Analysts now warn that even with the help of the European Central Bank, which since May has been trying to stabilise the market by buying from banks bonds issued by periphery countries, the eurozone's financial difficulties are likely to persist.

"The problem is going to flare up again if demand is insufficient when the peripheral states try to raise money in the market," said Vincent Chaigneau of Societe Generale CIB.

In the new year financial players will be looking closely at Spain's long-term borrowing operations as well as the first emission from the European Financial Stability Facility destined for eurozone states in financial straits.

For economist Patrick Artus of French bank Natixis, the principal risk in the new year is that Spain could find itself unable to finance its debt on the market.

Tower Australia directors back Dai-ichi Life deal

AFP, Melbourne

Shares in life insurer Tower Australia jumped more than 40 percent Wednesday after it unanimously recommended shareholders accept a takeover offer from Japan's Dai-ichi Life Insurance Co.

Shares closed up 41.76 percent at 3.87 Australian dollars (3.91 US), one day after Dai-ichi said it would take over the mid-sized

Australian company by May as it seeks to shore up its business in growing overseas markets.

The Japanese firm is already the largest shareholder in Tower, with a 28.96 percent stake, and to take full control plans to make an additional share purchase, through a tender offer, for about 99.6 billion yen (1.21 billion US).

Tower said the 4.00 Australian dollar per share offer represented

a 46.5 percent premium on Tower's last traded price on December 24.

"The independent directors believe that this offer represents a compelling premium and a highly attractive outcome for our shareholders," Tower chairman Rob Thomas said in a statement.

The deal for Dai-ichi, Japan's second-largest life insurer, would be its first acquisition since the company went public in April.

Japan's deflation persists, but rising output provides hope

AFP, Tokyo

Japan's consumer prices slid last month as deflation kept a grip on the ailing economy, data showed Tuesday, but an uptick in factory output provided a glimmer of hope.

The figures came as Japan's stuttering recovery is hobbled by a strong yen, which hurts the key export sector, and after Tokyo last week forecast growth would slow to a real 1.5 percent next year from 3.1 percent this year.

Finance Minister Yoshihiko Noda described the yen's recent rise -- the unit was trading at 82.44 against the dollar in the afternoon -- as "one-sided" and signalled Japan is ready to step into forex markets again.

"There is no change in our stance that we would take resolute steps when we see excessive volatility," he said, following a massive yen-selling intervention in September, Japan's first in six years.

Japan, long hampered by weak domestic demand, saw its core consumer price index fall for a 21st straight month in November, dropping 0.5 percent from a year ago, although slightly less than the 0.6 percent experts had predicted.

The stubborn price drops, which hurt companies and cost jobs, indicate Japan will find it hard to beat deflation alone, given factors such as its shrinking population, said HSBC Securities chief economist Seiji Shiraishi.

"Deflation may ease if the global economic conditions prove strong, (and) help Japan's external demand," which could help boost Japanese exports and eventually rekindle domestic demand, he told Dow Jones Newswires.

Japan has long conceded that its



A sales clerk introduces a 3D television, a new model with a liquid crystal display at an electronics store in central Tokyo.

battle against deflation has been difficult. Although the government predicts the CPI will stop falling in mid-2011, it said this would not mean the defeat of chronic deflation.

Consumers' sentiment also remained weak, government data showed. Household spending in November fell 0.4 percent, against economists' expectations of a 0.2 percent gain, the internal affairs ministry said.

Despite the long-term woes, there was a more immediate ray of hope in the first rise in industrial output for half a year, with factory production in November up 1.0 percent from the previous month.

The statistic matched market expectations and reflected a pickup in auto production, which has been supported by the government's just-ended incentive programme for purchases of "green cars" such as Toyota's hybrid Prius.

Output in electronics parts, mobile telephones and machinery parts also helped lift overall production, much of it similarly boosted by various public assistance programmes, the industry ministry said.

The ministry also said it expected factory production to continue rising -- by 3.4 percent month on month in December and 3.7 percent in January -- with steel products and auto parts seen to go up in tandem with auto production.

HSBC's Shiraishi said the ministry's forecasts seemed "bit too strong" but served as a "positive sign" going forward.

Satoru Osanai, an economist at Daiwa Institute of Research, also said the forecast seemed a little optimistic, but added that it may be achieved if foreign economies improve significantly.

But Osanai cautioned that the fading effects of stimulus programmes in China -- Japan's top trade partner -- posed worries for exports.



South Korean Prime Minister Kim Hwang-Sik delivers a speech during the opening ceremony of a railway linking the main international airport at Incheon to Seoul on Tuesday. The 58km line started taking passengers yesterday, almost 10 years after the airport itself began operations.