

# China overtakes Japan as No. 2 economy

AFP, Tokyo

Japan lost its 42-year ranking as the world's second-biggest economy to China in 2010, with data on Monday showing a contraction in the last quarter due to weak consumer spending and a strong yen.

While Japan was expected to fall behind a surging China in the year, the data underlined the weak state of a Japanese economy burdened by deflation, soft domestic demand and pressured by the industrialised world's biggest debt.

"It is difficult for the deflation-plagued Japanese economy to achieve self-sustained growth," said Naoki Murakami, chief economist at Monex Securities.

While China's leap forward reflects a shift in economic power as the country transforms itself from poverty-hit communist state to global heavyweight, it highlights the need for shrinking Japan to energise its economy, analysts said.

Japan's post-war "economic miracle" put it at number two behind the United States for more than four decades, but stagnation after the Japanese property bubble burst in the 1990s helped put China on course to supplant its neighbour.

However, Japan remains around 10 times richer on a per capita basis, noted top government spokesman Yukio Edano. GDP per head in Japan is around \$40,000, say economists.

Predictions vary as to when China may overtake the United States as number one economy, but it should happen by 2025,



Two women talk outside a luxury car showroom in Beijing yesterday. China has overtaken Japan as the world's second-biggest economy in 2010, with data showing a contraction in Japan's economy in the last quarter.

according to estimates by the World Bank, Goldman Sachs and others.

Japan's real gross domestic product slipped by an annualised 1.1 percent in the December quarter as the expiration of auto subsidies hit car sales, a new tobacco tax sapped cigarette demand and a strong yen hurt exports.

In contrast, China grew nearly 10 percent in the same

period.

While Japan's first contraction in five quarters was not as severe as forecasts of a 2.4 percent slide, the preliminary data is subject to revision.

The economy grew 3.9 percent in 2010, its first annual growth in three years. But this was not enough to keep it ahead of surging China.

Nominal GDP of \$5.474 trillion in 2010 put Japan

behind China's \$5.879 trillion, the data showed. China first eclipsed Japan in the second quarter.

Despite Japan crawling out of a severe year-long recession in 2009, its recovery remains fragile with deflation, high public debt, an ageing population and a strong yen all concerns for policymakers.

Pressure is on Prime Minister Naoto Kan, who has seen his approval ratings tumble as his government looks to boost the economy without deepening the debt amid a legislative impasse over a \$1.1 trillion budget for next fiscal year.

Last month Standard & Poor's cut Japan's credit rating one notch to "AA-" from "AA", saying the government lacked a "coherent strategy" to ease a debt running near 200 percent of GDP, the highest of any

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developed nation.

Nearly a third of government spending is being swallowed up by a social security system catering to a rapidly greying society, Standard & Poor's warned, with that ratio set to rise without reforms as Japan continues to age.

Private consumption, accounting for about 60 percent of Japan's GDP, slid by 0.7 percent quarter-on-quarter in October-December as the car subsidies expired and cigarette sales were dented by Japan's biggest ever tobacco tax hike.

Exports slipped in the quarter as the yen surged to 15-year highs against the dollar, making Japanese goods more expensive overseas and eroding repatriated profits.

But many analysts expect the economy to rebound in the March quarter as the rising tide of global recovery lifts Japan, amid a recent pick-up in corporate spending and exports.

"The contraction will not last long," said Murakami. "Companies' manufacturing activities are recovering rapidly in January-March this year from their bottom in October 2010."

The government played down Japan's slide to third biggest economy and said it would benefit from having a booming neighbour.

"We welcome, as a neighbouring nation, that China's economy is advancing rapidly," said Kaoru Yosano, minister for fiscal policy.

The Bank of Japan is expected to leave its key rate near zero Tuesday in its ongoing battle with deflation.

Tata in joint venture with US company

REUTERS, Mumbai

Indian conglomerate Tata group said on Monday it had entered a joint venture with US defense manufacturer Lockheed Martin Corp to make aircraft components for the C-130 transport planes.

Lockheed, which has sold India six C-130J transport aircraft in a \$1 billion deal, told Reuters at the Bangalore airshow last week the country had expressed interest in buying another six.

The joint venture between Lockheed and Tata Advanced Systems is not the Indian salt-to-software giant's first foray into defence.

In 2009, Tata Advanced Systems formed a joint venture with Sikorsky Aircraft, a subsidiary of United Technologies Corp. to make aerospace components in India.

The joint venture followed a long-term contract signed in June 2009 between the two companies to assemble Sikorsky's S-92 helicopter cabins.

Tata is now partnering with Lockheed on a transport aircraft considered the world's most advanced.

"This partnership is established as a strategic element of our global supply chain and solidifies our presence in India," Ralph Heath, Lockheed's executive vice president of aeronautics, said in a statement.

## Forty years on, birth of a new Boeing jumbo

REUTERS, Seattle

Boeing Co rolled out a new jumbo jet on Sunday, hoping to relive the glamor of the birth of the 747 over 40 years ago and use it to boost slow sales.

The 747-8 Intercontinental will seat 467 passengers, 51 more than the current version of the 747, and burn less fuel while offering passengers more comfort, the US planemaker says.

"Of all the airplanes that we've built, there is one that is identified more closely with Boeing than any other, and that's the 747," said James Albaugh, head of Boeing's commercial airplane unit, introducing the plane to a crowd of almost 10,000 Boeing employees, their families and a select group of industry VIPs.

The event took place in the same hangar at Boeing's Everett plant outside Seattle where the first jumbo made its debut in 1968.

Near the front of the seated audience was Joe Sutter, Boeing's chief engineer on the original jumbo, and known as the "father of the 747."

The plane itself, unveiled from behind an enormous curtain to rapturous, thudding music, was bright red and white -- a departure from Boeing's recent blue --



Boeing Vice President Pat Shanahan speaks during an unveiling ceremony of the 747-8 Intercontinental at the company's factory in Everett, Washington on Sunday.

bearing generic Boeing livery on the side and '747' on its orange tail.

The unveiling came almost 42 years to the day since the maiden flight of the 747, which went on to become the world's most recognised jetliner and transformed the global travel industry.

It is the first appearance of a radically new version of the passenger jet since the first jumbo, with its humped two-storey cabin and 196-foot (60-meter) wingspan,

took the world's breath away on a sunny morning at Everett in September 1968.

"People were awe-struck. It was a monster, nobody had seen anything like it," said Jim Mullins, a Paris-based science writer who covered the original rollout for King Broadcasting.

"Today it looks ordinary, but at that time there were no airplanes even close to it in size. They opened up the hangar doors and it was just unbelievable. Peo-

ple reacted as if they were rolling out the Empire State Building."

The 747 lost its crown as the world's largest airliner when the 525-seat Airbus A380 was unveiled in 2005. But at 19 feet longer than its predecessors, this one will be the longest.

It is the first time the 747 fuselage has been stretched to make the biggest passenger jet marketed by a US manufacturer.

The 747-8 -- listed at \$317.5 million -- also boasts new wings, a new tail, state-of-the-art engines and a new cockpit, making it, according to specialist magazine Flight International, "unrecognisable from that first jumbo jetliner."

### SLOW SALES

However, big is not yet beautiful for the Boeing order book.

Despite its hopes of securing a new lease of life for the 747 family, Boeing has so far managed to win 33 orders for the 747-8 passenger version including just two airlines -- Germany's Lufthansa and Korean Air Lines.

The first delivery will be to an unnamed VIP customer instead of an airline late this year, but Boeing has said it is confident of winning new orders as the plane enters service.

## India's inflation eases in January

REUTERS, New Delhi

India's inflation eased less than expected in January to 8.23 percent, holding well above the Reserve Bank's comfort zone and reinforcing expectations it will raise interest rates at its March policy review.

India suffers from the highest inflation of any major Asian economy even after seven rates rises in a year and analysts doubt a 7 percent target for the end of March set by the Reserve Bank of India can be reached when price pressures are spreading from food and fuel deeper into the economy.

The wholesale price index (WPI), the country's main inflation gauge, rose in the year through January more than the 8.05 percent forecast in a Reuters poll. But the rise was weaker than an 8.43 percent increase in December's data.

"This is still a very elevated level and above consensus," said Dariusz Kowalczyk, senior economist and strategist at Credit Agricole CIB in Hong Kong.

"We are not convinced that inflation will decline as the RBI is projecting and more tightening from RBI (the central bank) is likely during the course of the year to control inflation expectations."

Global food prices are at record highs and crude oil is on the rise, while India's poor infrastructure and low agricultural productivity add to inflationary pressures.

Wholesale food prices jumped 15.7 percent in January compared with 13.6 percent in December, leading to fears that food inflation was leading to sustained price rises in other sectors of the \$1.3 trillion economy.

One-year and five-year swap rates rose 2 basis after the price data.

The government is increasingly worried high inflation could eat into growth by denting investor confidence. A lack of progress on economic reforms and telecoms corruption scandal that has weakened the ruling coalition also weigh on business sentiment.

High food prices also pose a political challenge, drawing voter ire ahead of state elections later this year that will help determine the strength of the ruling coalition for the rest of its term.

A Times of India poll on Sunday showed that high inflation had eroded household budgets of many Indians and that many voters believed the government had not done enough to tame rising prices.

The central bank said last year it would be comfortable with inflation between 5 percent and 6 percent.

## Credit Suisse secures \$6b from Qatar, Saudi

AFP, Zurich

Swiss banking giant Credit Suisse said Monday that it was raising \$6.0 billion by issuing bonds to Qatar Holding and Saudi Arabia's Olayan Group to help it meet tough new capital adequacy rules.

The convertible contingency or 'CoCo' bonds are to be converted into cash no earlier than October 2013, or exchanged for Tier 1 capital notes issued in 2008, the bank said.

Qatar Holding will take bonds worth \$3.5 billion and Olayan Group \$2.5 billion.

Once the bonds are converted, the bank "will satisfy an estimated 50 percent of our high trigger contingent capital requirement" set by Swiss regulators.

"The completion of a transaction of this size supports our conviction that contingent capital can be a material source of capital for the banking industry," said Brady Dougan, chief executive officer of the bank.

"We see this transaction as a significant development for Credit Suisse Group and our industry as we believe that it will put to rest concerns about the attractiveness of these instruments to investors," he added.



Sony Ericsson unveiled the first smartphone certified for PlayStation with a slide-out control pad delivering 3D-capable mobile gaming. The Xperia PLAY has all the expected equipment -- 5-megapixel camera and a four-inch (10.2-centimetre) multi-touch screen.