

China bent on taming inflation despite growth slowdown

REUTERS, Beijing

When Premier Wen Jiabao spoke to reporters at the end of China's annual parliamentary session in March, he likened inflation to a wild animal. "Inflation is like a tiger. Once you let it out, it's very hard to cage again," he said solemnly.

Months later, prices in China are far from tamed despite a flurry of policy tightening measures which have caused the turbo-charged economy to slow, alarming global investors.

Higher interest rates and tighter credit have hurt many small businesses, sparking calls for Beijing to end its anti-inflation campaign or even ease policy to spur growth.

But Chinese leaders see a gradual moderation in growth in a positive light, which could spur much-needed structural changes to improve efficiency and rein in over-investment following an unprecedented credit surge in the past two years, analysts say.

Inflation, meanwhile, looks to be entrenched, driven by a worsening drought and power shortages, and the central bank is expected to push up interest rates and bank reserve requirements further in a bid to get prices under control.

"There is no room for the government to relax policy. Both interest rates and bank reserve ratios are likely to rise," said Lu Zhengwei, senior economist at Industrial Bank in Shanghai.

HSBC's flash PMI eased to 51.1 in May, the lowest since July



A Chinese authority inspects a smuggled iPad that was seized at a customs checkpoint in south China's Shenzhen municipality yesterday. While rising demand for Chinese goods boosts growth, it also means the central bank has to work harder to control the value of the yuan, which has been fuelling inflation.

2010, adding to evidence the world's second-largest economy is moderating due to the double whammy of credit curbs and power shortages.

But inflation in May is widely expected to accelerate from 5.3 percent in April, which was near 32-month highs.

That would push real interest rates deeper into negative territory, given the one-year bank deposit rate is now at 3.25 percent, and prompt more Chinese to put their money into property

rather than bank deposits.

"Despite a slowdown in industrial production, inflation still remains a key problem, alongside an asset price bubble. China should continue with its tightening bias, though it would have to tread carefully with the mix of policy measures," said Connie Tse, an economist at Forecast in Singapore.

Lu at Industrial Bank has penciled in two or three interest rate rises by the end of this year, lifting the benchmark deposit rate to

3.75-4 percent. He also expects four more increases in banks' required reserves by the year-end, taking the level to 23 percent.

Economists differ on how aggressive the central bank may be in steering policy in coming months due to global and domestic economic uncertainties, but most agree that it's too early for the government to declare victory over inflation.

Any rush to take the foot off credit brakes could lead to more vicious price rises over the lon-

ger term and more over-investment, already evident by empty airports, colossal new government buildings and ghost towns of new buildings with no occupants.

The People's Bank of China has raised bank reserve requirements -- its preferred tool to mop up excessive cash in the economy -- eight times and raised interest rates four times since October.

The government has ordered banks to cut lending to the red-hot property sector and local government financing vehicles.

UPHILL BATTLE

Over the longer term, Chinese leaders face an uphill battle against inflation as wages and raw material costs rise. The root cause of price pressures -- too much cash sloshing around in the economy -- will persist due to capital inflows and the hangover from the government's record economic stimulus during the global financial crisis.

Wang Jun, an economist at CCIEE, a government think-tank, said he now expected inflation to peak in the third quarter, rather than in June as he earlier predicted, due to soaring food costs driven up by the worsening drought in central China.

"Inflation looks to be far more stubborn than we initially thought," he said.

Tang Jianwei, an economist at Bank of Communications, predicted food prices rose 0.3-0.8 percent in May from April, pushing up inflation to 5.5 percent in the year to May.

Sony: PlayStation recovery delayed in parts of Asia

REUTERS, Tokyo

Sony Corp said on Tuesday it was not certain when it could fully restore PlayStation Network videogame services in Japan, Hong Kong and South Korea, five weeks after a massive network security breach forced the company to shut them down.

Sony's delayed response to the attack and a series of other network security problems has sparked criticism from governments and experts and threatens an online strategy meant to unite the sprawling electronics conglomerate.

Full services in the rest of the world will be restored by the end of the week, Sony said in a statement, just missing the initial target date of May 31.

The theft of information on 77 million PlayStation accounts and millions more from a PC-based gaming network angered many users, some of whom have said they would switch to rival Microsoft's Xbox Live service.

A spokesman for Sony Computer Entertainment, the company's games unit, said the delay in restoring services in Japan was due to the need to comply with government guidance on information security, but he declined to specify reasons for the delay in other parts of Asia.

Japan, South Korea and Hong Kong together account for less than 10 percent of the PlayStation Network user accounts affected, but the news sparked angry comments.

"Why are you so slow dealing with Japan...? Is Sony really a Japanese company?" fumed an anonymous post on Yahoo Japan's news site.

Sony's shares were up 1.4 percent by 1 a.m. EDT in line with the broader Nikkei index up 1.7 percent. Sony's shares have slumped about 10 percent since it revealed the attack.

Sony has said it expects the hacking to drag down operating profit by 14 billion yen (\$172 million) in the current financial year, including costs for boosting security measures.

PlayStation Network users in Japan have already had online play services restored but do not yet have access to some other services, such as the PlayStation Store, where they can buy games.

Samsung to stick with Google for its tablets

AFP, Seoul

Samsung Electronics will depend on Google's Android mobile-device software to run future versions of its tablet computers, a senior Samsung official said in an interview published Tuesday.

"We'll continue to work with Android on future tablets," J.K. Shin, head of the South Korean giant's mobile division, told The Wall Street Journal.

Samsung Electronics is the world's second-largest cellphone maker after Finland's Nokia but trails Apple's iPhone and iPad in smartphones and tablets.

However, the Android system has boosted its smartphone business and Samsung hopes to do the same with tablets.

The iPad surprised competitors with the success of its launch early last year. Samsung responded by choosing Android for its tablets and introduced the seven-inch (17.8 centimetre) Galaxy Tab in October 2010 to take on Apple.

Samsung will launch new versions of the Galaxy Tab this summer in an 8.9-inch and 10.1-inch model. Both will run the latest version of Android, known as Honeycomb.

Despite Apple's status as a major customer for Samsung components, the two companies are embroiled in lawsuits.

The US firm sued its South Korean rival, claiming it copied the look and feel of the iPhone and iPad. Samsung launched its own suits, alleging that Apple violated patents covering Samsung's cellphone transmission technologies.

Unique classrooms support Chinese migrant children

REUTERS LIFE! Beijing

The school day has ended but class is not yet over for students heading for their local community centre and a very different sort of classroom -- one built from shipping containers.

The children, who are from China's "floating population" of migrant workers, don't hold Beijing residency, which means they do not have the right to access free education at public schools.

Migrant families who have settled in Beijing are now so permanent that city officials tolerate, but do not certify, about 260 private schools dotted around the capital specifically to serve migrant children. These schools are also often located on marginal land earmarked for other projects, and can be subject to sudden demolition.

This was why Compassion for Migrant Children's Education has decided on the unusual solution of shipping containers for their latest community centre, located in a grimy northeastern Beijing suburb called Heiqiao, where it runs after-school programs for children of migrant workers.

"In the event that we need to move because of urban development, we can just pick up these containers and move with the families," said Yin Chia, the NGO's Australian-Chinese manager.

"These classrooms, they are built out of shipping containers, they are completely renovated."

The charity has already lost one community centre to Beijing's bulldozers as the migrant workers living around it were moved to make way for a shopping centre.

All the programs and classes at the shipping container school are free, making the centre popular. The after school program is limited to 200 students, though anyone can use the basketball court and sports equipment.

The evening is divided into hour-long sessions, with teachers spending the first hour overseeing homework, and sports and arts classes afterwards. The project aims to fill a gap for students who would otherwise spend their evenings home alone while their parents work.

"The homework the teacher gives us to do in the evenings is quite hard," said 9-year-old student Li Jianjing.

Models display the new summer business style, designed by Japan's casual-wear giant Uniqlo in Tokyo yesterday. Japan's environment ministry will start summertime energy conservation campaign to wear casual wears in office "Super Coolbiz" to reduce electric consumption to set temperature of air conditioners at 28 degree Celsius since electricity supply problems in this summer caused by stricken nuclear power plant.



AFP

German government wants nuclear exit by 2022 at latest

REUTERS, Berlin

Germany plans to shut all nuclear reactors by 2022, Chancellor Angela Merkel's ruling coalition announced on Monday, in a policy reversal drawn up in a rush after the Fukushima disaster in Japan.

The coalition, sensitive to accusations it may increase dependence on highly polluting brown coal, said it planned to cut power use by 10 percent by 2020 and further expand the use of renewables such as wind and solar power.

Merkel's bid to outflank the opposition smacks of opportunism to many Germans but could ease an alliance with the anti-nuclear Greens that may be her best bet to stay in power. Polls clearly show that most Germans dislike nuclear energy.

In nine months, she has gone from touting nuclear plants as a safe "bridge" to renewable energy and extending their lifespan to pushing a nuclear exit strategy that rivals the ambitions of the Social Democrats and Greens.

Her change of heart coincides with a string of disastrous election results for her Christian Democrats (CDU) and their Free Democrat (FDP) allies that have been partly blamed on her unpopular pro-nuclear policy so far.

"I don't think she will take many votes from the Greens, who have promoted this issue for decades," said Carsten Koschmieder, a political scientist at Berlin's Free University.

"But with the FDP so weak and Merkel looking for other allies, who might be the Greens, the atomic issue was the main obstacle that needed to be removed," he said.

Merkel may be hard pressed to sell the plan as anything but a political defeat at the hands of her Social Democrat (SPD) and resurgent Green rivals. Tens of thousands of people demonstrated against nuclear energy at the weekend all across Germany.

The proposal, which quickly came under fire from abroad, may



Visitors sit in a merry-go-round turning on the compound of the former nuclear power plant in Kalkar, western Germany, near the border with the Netherlands, on Saturday.

be even more ambitious than the plans of the SPD and Greens, taking 8 of 17 nuclear plants offline now and 6 more by 2021.

But the most drastic decision by an industrialized country after Fukushima could still face opposition from utility firms.

CUTTING POWER USAGE

In financial markets, share prices of renewables surged higher. SolarWorld was up 9.8 percent, Q-Cells gained 13.9 percent and Renewable Energy and Vestas both gained 3.1 percent.

Only nine months ago Merkel announced an extension of the lifespan of unpopular nuclear plants by an average 12 years. In March, after Japan's earthquake and tsunami, she reversed that and put Germany's entire energy strategy under urgent review.

"Our energy system has to be fundamentally changed and can be fundamentally changed. We want the electricity of the future to be safer and, at the same time, reliable and economical," Merkel told reporters on Monday.

To accompany the nuclear exit, Germany plans to cut electricity usage by 10 percent by 2020 and double the share of renewable energy sources to 35 percent over the same period, according to a government paper seen by Reuters.

Merkel did not outline further details but the government paper said Germany's goal of reducing greenhouse gas emissions by 40 percent by 2020 remained in place.

The government could still lose 2 billion euros a year in revenues, one official said.

Most voters in Germany oppose atomic energy, which provided 23 percent of overall power before the seven oldest stations were shut down in March.

Sweden, whose state-owned power group Vattenfall operates two of Germany's nuclear plants, said setting a date to shut them was the wrong approach. Berlin should instead focus on boosting the use of renewable energy.

Merkel's about-turn has done little to gain her support, but has drawn scorn from the opposition and her own party ranks.