

Emerging Asia - Ill wind

By James Kyngé and Jonathan Wheatley

Price shifts are often early harbingers of global change. The first inkling the British had of the 13th century Mongol invasions of Europe, for instance, was a spike in the price of fish at the east coast port of Harwich. Baltic fishing fleets had stopped sailing after their crews were redirected to fight the invaders, thus cutting the supply of fish to one of England's biggest markets.

The current economic convulsions emanating from the east are very different, but they do signal changes that imperil global fortunes. Deflation, a prolonged decline in the price of products, is flowing like a draught of cold air from Asia's powerhouse economies and casting a chill over Japan and Europe, while also endangering US efforts to sustain a recovery.

Although aggregate falling prices may sound benign for consumers, they are in fact feared by economic policymakers because they erode corporate profits and force companies to cut jobs, sapping overall demand.

Deflation was blamed for turning the 1929 US stock market crash into the Great Depression. Fears that a downward price spiral might follow the 2008/09 financial crisis was a key impetus behind the decision of Ben Bernanke, then chairman of the US Federal Reserve, to unleash quantitative easing - the monetary policy that has dominated the world's economic cycle ever since.

For these reasons, evidence of a deepening deflationary spiral in Asia - sparked by manufacturing overcapacity, an evaporation of trade demand and anaemic productivity - is a major cause for concern. That anxiety is amplified because of the structural nature of the problem. That it is taking place just as the EU and Japan are slipping back into deflation while the US is struggling with weak corporate earnings, makes Asia's falling prices a pivotal issue.

"There is a chance that



A worker walks in front of a storage area in a logistics center at China Pilot Free Trade Zone's Pudong free trade zone in Shanghai

we are moving towards global deflation," says Alberto Gallo, head of European macro credit research at RBS, the bank. "We have overleveraged everywhere and, instead of reducing capacity, we are creating a prolonged state of industrial overcapacity that is driving down prices. China is the biggest example."

The threat of a worldwide slide into deflation also worries Michael Power, strategist at Investec, an asset management company. He sees declining prices as the result of a fundamental imbalance between an excess of supply from Asia and a dearth of demand from the west. "In economic terms, prices are falling because the coordinated supply out of Asia is overwhelming the west's best efforts to pump up de-

mand via the likes of QE," Mr Power says.

The nightmare deflationary scenario is that falling prices in Asia continue to cut corporate profits, prompting mass redundancies and reducing consumer demand. The drag that this imposes on global demand may then intensify, depressing feeble economic growth in Europe and Japan and damping dynamism in the US. Aspects of this scenario are already in place.

Key to Asia's problem is the particular type of deflation that it is afflicted by. The issue is not with consumer prices; these are still buoyant in most of the region's shops. Instead, it lies with producer prices - the amount that factories, mines, farms and other producers can charge for

the commodities or manufactured products and components that they sell.

The producer price index is at its lowest average point for six years in the 10 largest economies in Asia (excluding Japan), according to Morgan Stanley. Only Indonesia among the 10 is experiencing any producer price inflation, while South Korea, Taiwan and Singapore have been in a deflationary funk for around three years.

China has notched up 42 straight months of falling producer prices, making it the only large economy other than Japan in the 1990s to show such a persistent deflationary trend, according to Chetan Ahya, chief Asia economist at Morgan Stanley.

Overall, China's producer prices are down a cumulative 10.8 per cent from their recent peak in 2011. The speed at which prices are dropping is a cause for alarm. As recently as August last year, the producer price index for commodities was showing only a 1.1 per cent drop; this August

the decline was 12.8 per cent. Even a country such as India, with an otherwise robust economy, has slipped into producer price deflation over the past year.

Nor is Asia's deflation solely the result of the global slide in commodity prices. Pernicious effects are also evident from the decline in the price of manufactured products and components, which fell on average by 4.4 per cent year on year in August in the region's 10 leading economies (excluding Japan).

Chinese industrial companies suffered an 8.8 per cent year-on-year decline in their profits in August, the largest drop since records began in 2011. Elsewhere in Asia, the trend is repeated, with both sales and earnings for the region's top listed companies declining in the second quarter of the year, according to Morgan Stanley.

Some of the corporate fallout is eye-catching. Longmay, a large Chinese coal company, announced last week it was laying off

100,000 workers in a "life and death" struggle to rescue a bleeding balance sheet. Wang Zhikui, the company's chairman, said Longmay had run up huge losses during the first eight months of the year and was closing coking coal mines and selling off assets to meet debt repayments.

Caterpillar, the American heavy equipment maker, generates 60 per cent of its pre-tax profits outside the US, mostly in emerging markets. But it has had to close 20 manufacturing facilities since 2012 and cut 31,000 jobs. It announced last month that 2016 was likely to mark an unprecedented fourth year of falling sales.

Another equipment company, the state-owned China National Erzhong Group, which makes smelting and forging equipment, defaulted on interest payments last month after a local court accepted a restructuring request from one of its creditors.

Such incidents are beginning to look like straws in the wind. There have

“ There is a chance that we are moving towards global deflation

ALBERTO GALLO



Emerging Asia - Ill wind (continued)

been a small but significant number of defaults on foreign currency bonds by emerging market borrowers this year - 16 in the first eight months, more than in all of 2014, according to Standard & Poor's.

The drop in earnings across Asia is particularly serious with a huge overhang of corporate debt raising risks of a "balance sheet recession", in which high debt service charges force companies to focus on saving rather than spending or investing, thus slowing growth. Andrew Polk, senior economist at the Conference Board in Beijing, sees such a recession under way in China, especially among small producers.

The Institute of International Finance (IIF), an industry association, says that Asia - and in particular, China - has taken the lion's share in a fivefold debt increase at non-financial corporations in emerging markets over the past decade. The total, it estimates, now stands at \$23.7tn or 90 per cent of total emerging market gross domestic product.

"The speed in the build-up of debt has been staggering," says Hung Tran, the IIF's executive managing director. "All the research shows that the speed of incurring debt plays a key role in the quality of that debt and in the subsequent crisis," Mr Tran adds. "We do see an increasing burden on corporate borrowers to service that debt."

The impact of this burden allied to the deflationary spiral, which depresses returns on corporate investments, has exacerbated a net outflow of capital from



A man holds a mobile phone as he drives on an electric bike in Hanoi, Vietnam

emerging markets that the IIF estimates is likely to reach \$540bn this year - the first time that net flows have been negative since emerging markets evolved as a concept in the late 1980s.

The problem, in short, is that neither direct investors in plant and machinery or portfolio investors in stocks and bonds see emerging markets - and within that classification, Asia - as an attractive place to put their money right now. Falling producer prices are diminishing corporate returns while debt repayments subtract from profits.

The International Monetary Fund warned last month that the stress on indebted corporations would intensify if the US Federal Reserve

and other central banks tighten their monetary policy. The Fed is expected to increase US interest rates for the first time in a decade later this year or early in 2016.

"Emerging markets should prepare for an increase in corporate failures," said the IMF in its latest semi-annual Global Financial Stability report.

Classic theories of deflation, including that espoused in the so-called Bernanke doctrine, state that falling producer prices result from a collapse in aggregate demand. This leads, as Mr Bernanke said in 2002, to "a drop in spending so severe that producers must cut prices on an ongoing basis in or-

der to find buyers". This diagnosis led directly to the main US response to the threat of deflation; a reflation of demand by pumping liquidity into the economy via QE.

However, in the case of Asia's deflation at least, it appears likely that it is an excess of supply rather than insufficient demand that is the prime factor depressing producer prices.

If this is the case, then endless bouts of QE - or "QE infinity" as Mr Gallo describes it - may be exacerbating rather than alleviating the problem of deflation by acting to prolong oversupply through providing cheap credit to companies.

"By itself, 'QE infinity' could be deflationary in the long run because it means that the issue of overcapacity is not resolved but dragged forward," says Mr Gallo. "This could in turn result in both prolonged deflation and asset price bubbles at the same time."

Mr Power points to crumbling barriers to entry in Asia's manufacturing sector as a reason for the persistent oversupply of products. It has also been driven by government incentives - such as tax breaks, discounts on land purchases and other national policies - aimed at luring manufacturing investment across the region.

"Vietnam has secured Samsung's new mega cell phone factory. Bangladesh is where lower end textile manufacturing is migrating to. Cambodia and Indonesia are starting to win here too," Mr Power says. "Meanwhile, India has launched its own 'Make In India' campaign and is already the leader in scooters

and motorbikes."

This "supply tsunami", as Mr Power describes it, is crashing up against an Asian trade recession. Exports in the region have posted their worst performance since the 2008/09 crisis, falling 7.7 per cent in July to register a ninth consecutive month of year-on-year declines in dollar terms, according to data compiled by Capital Economics, the research firm.

The reason for the evaporation in Asian trade growth, however, is of more concern than the trend itself. Weakening currency values against the dollar are failing to boost export performance - as would normally be expected - but they are nevertheless driving down demand for imports, thus worsening the deflationary trend. A Financial Times study found that import volumes fell by an average of 0.5 per cent for every 1 per cent a currency depreciated against the dollar.

It is hard to see a silver lining at this stage of Asia's deflationary period, with overcapacity still chronic, trade demand weakening, productivity anaemic and the global economy in poor shape.

Mr Tran sees things in terms of historical multi-year cycles. The upward leg of a commodities supercycle, of which he identifies four since the 1890s, has tended to last around 20 years, while the downward legs have lasted 15 to 26 years, he says.

"We are in year four of the downward cycle," he adds. "This is not a problem that can be turned around quickly."

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HUNG TRAN



A worker carries a bag of potatoes at the Pasar Induk Kramat Jati market in Jakarta, Indonesia



North Korean soldiers parade in Pyongyang



North Korean leader Kim Jong Un

By Eric Talmadge in Pyongyang

Kim Jong Un vows N. Korea ready to counter any US threat

NORTH Korean leader Kim Jong Un took center stage at a military parade and mass rally in Pyongyang on Saturday to mark the 70th anniversary of the country's ruling party by declaring in a rare speech that the North has no intention of straying from the socialist track established by his grandfather and is ready to stand up to any threat posed by the United States.

With the eyes of the world upon him, Kim, the youngest and most enigmatic head of state, confidently and firmly delivered the speech from the balcony of the palatial People's Grand Study House as tens of thousands of his countrymen and an unusually large international media contingent watched from their places below on the capital's iconic Kim Il Sung Square.

To punctuate his rhetoric, thousands of goose-stepping troops, tanks, armored vehicles, rocket launchers and a variety of missiles mounted on trucks then rolled through the square. Military aircraft flew in formation above head, forming the symbol of the Workers' Party of Korea — a hammer, brush and sickle. Another group of planes formed the number 70 in the sky.

Kim, who is in his early 30s, walked down a red carpet and saluted his honor guard before taking the podium to deliver the often fiery speech.

"Our revolutionary force is ready to respond to any kind of war the American imperialists want," he said, flanked by visiting Chinese official Liu Yunshan and senior North Korean officials. He said North Korea's policy of putting its military first has made it "an

impenetrable fortress and a global military power."

Brightly colored floats and thousands of civilian marchers waving red and pink bouquets of plastic flowers followed the military show. Others held up cards to spell out Kim's name.

As the parade ended, Kim waved to the crowd and raised clasped hands with Liu.

The afternoon rally, delayed by heavy rains the night before that required extensive

Our revolutionary force is ready to respond to any kind of war the American imperialists want

KIM JONG UN

mopping up of the square, was followed by torchlight rally and fireworks display. The finale was a concert on a special stage set up on a river running through central Pyongyang. Tickets for foreigners hoping to attend the concert were going for 100 euros (\$114) a pop.

Altogether, it was the most elaborate spectacle North Ko-

rea has feted since Kim assumed power after the death of his father, Kim Jong Il, in late 2011.

Though military parades fell out of fashion for about a decade starting in the 1990s, Saturday's was somewhat more elaborate than a similar anniversary event held two years ago, an indication that rolling tanks and missiles through the center of the capital is still seen by the North Korean government as an attention-getting way of showing the world and its own people the Kim dynasty is firmly in control and its military a power to be reckoned with.

But, reflecting North Korea's international isolation, no world leaders were present.

Liu, the No. 5 leader in the Chinese Communist party, was the most senior foreign dignitary, though Cuba, Vietnam and other countries sent delegations. Kim has yet to make state visit abroad — his highest-profile visitor to date was former NBA star Dennis Rodman — and he chose not to attend recent anniversary ceremonies held by his country's two closest allies, Russia and China.

China's official Xinhua News Agency reported that Liu told Kim China was willing to work with North Korea for a quick resumption of six-party nuclear talks. The talks, which aim to end the North's nuclear program and also involve the U.S., South Korea, Russia and

Japan, stalled seven years ago and Beijing has grown increasingly vocal about its discomfort with Pyongyang's nuclear ambitions.

North Korea has shown no interest in giving up its nuclear capability, which it considers the crown jewel of its national defense strategy.

Kim didn't specifically comment on North Korea's nuclear or long-range missile capabilities at Saturday's event and also didn't have anything to say about relations with rival South Korea. He spent most of his speech touting the party's successes in improving the lives of the North Korean people in the face of external threats since the armistice that ended fighting in the 1950-53 Korean War.

An expert at the Korea Institute for Defense Analysis, a security think tank in Seoul, Jin Moo Kim, said North Korea revealed a new 300-millimeter rocket launcher. It also displayed drones and a KN-08 ballistic missile, with an estimated range of 10,000 kilometers (6,200 miles) that the country had previously shown off in 2012.

Kim said the presence of Liu might have prevented the North from revealing its most provocative weapons. Even so, further analysis of the missiles and other weapons on display — which in the past have included mock-ups or fakes — could give experts

clues to the North's actual capabilities.

Some foreign analysts also believe that by putting the particularly strong emphasis this year on making the anniversary of the party's foundation such a lavish fete, and in delivering his own lengthy speech, Kim was trying to build up his own stature along with that of the party relative to the military. Keeping potentially powerful institutions carefully balanced against each other is a key to the stability of Kim's dictatorial leadership.

North Korea maintains that its "military-first policy" is necessary to counter threats from South Korea and the United States, but officials have recently stressed the role of the party in improving the standard of living for the people, who are increasingly aware of how far they lag behind their affluent cousins south of the Demilitarized Zone and in economic giant China.

In the run-up to this year's anniversary, large-scale construction and development projects have been launched and hailed with great fanfare in the state media.

But it is unclear how much of North Korea's limited financial resources have been put into improving the lot of the majority of its citizens who are not fortunate enough to live in the showcase capital. **AP**

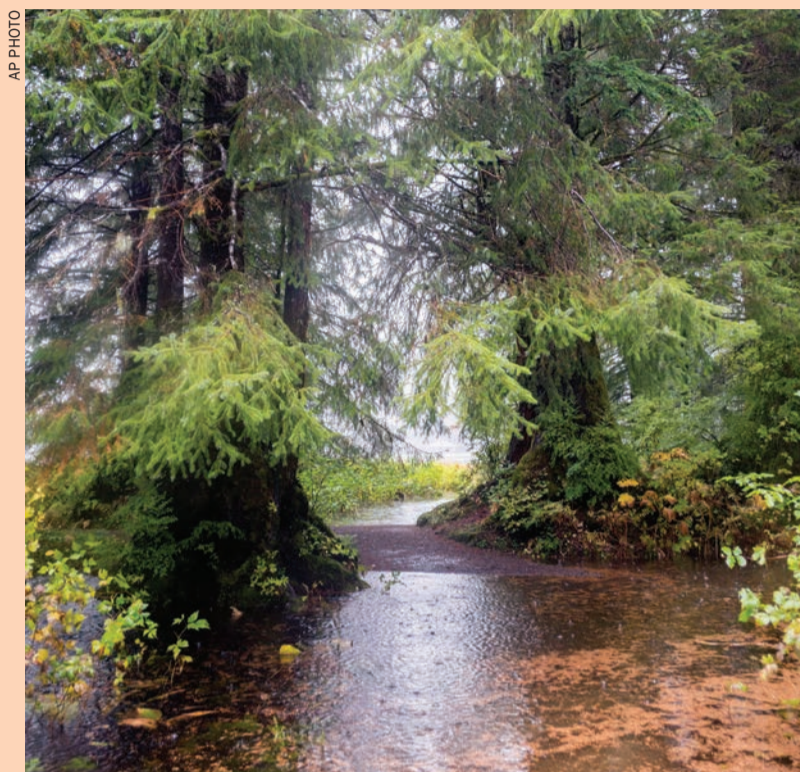
In rare event, remnants of Pacific hurricane hit Alaska

By Becky Bohrer in Alaska

REMNANTS of Pacific Hurricane Oho battered Alaska's southeast coast on Friday, the latest unusual weather event to hit a state that so far this year has dealt with a lack of snow, warmer temperatures and intense wildfires.

The storm on Thursday brought more than 18 centimeters of rain to Ketchikan, a scenic town in Alaska's coastal rain-forest. Gusts of up to 128 kph were forecast for Friday, and more rain was expected across the region. Jon Dorman, deputy emergency manager for the city of Ketchikan, said Friday morning that creeks were swollen and residents were keeping an eye on the storm, but no other major issues had been reported.

The remnants of Oho were picked up by a larger low-pressure system. Oho was among a record number of tropical cyclones in the central Pacific so far this hurricane season, which officials attributed to un-



Water from Ward Lake floods the the trail encircling it near Ketchikan, Alaska

sually warm ocean temperatures from El Nino.

While it's not unusual for Alaska to feel the remnant effects of tropical storms from

the west, it's rare for the remnants of a central Pacific tropical storm to reach this far because tropical systems north of Hawaii often fall apart rapidly

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as they reach cooler water temperatures, said meteorologist Shaun Baines of the weather service's Anchorage office.

The storm is the latest unusual weather event to hit Alaska in 2015: sparse snowfall pushed the start of the Iditarod sled-dog race 640 kilometers to the north; dry conditions fueled one of Alaska's worst fire seasons; and rain made for an especially wet summer in Juneau.

Rick Thoman, a regional climate scientist with the National Weather Service in Alaska, said Alaska's run of sustained odd weather started in the spring of 2013, which saw exceptionally cold weather across mainland

Alaska. By the end of May that year, though, "the switch got flipped," he said, with much of the state experiencing warmer conditions.

That can be attributed partly to persistent high pressure over the eastern Pacific that has helped warm sea-surface temperatures, resulting in a mass of warm water off the coast of the northwest U.S. that has helped coastal areas stay mild and provided more water vapor for storm systems, he said. That helps explain the recent soggy Juneau summers.

Last year, Juneau had its wettest summer on record, with more than 60 centimeters of rain from June through August, Thoman said. Rainfall this past summer was just below 60 centimeters and was 6 centimeters more than the third-wettest summer, in 1961.

The persistence of the high pressure itself is odd. Forecasters' best guess, Thoman said, is that high-energy tropical thunderstorms probably set the stage for the persistent high. Giant tropical thunderstorms extend far into the atmosphere and can modify the jet stream much farther north, affecting weather even in Alaska, he said.

El Nino often means mild weather, particularly in the second half of winter, for much of Alaska, Thoman said. AP

ASK THE VET

by Dr Ruan Du Toit Bester



AFRICAN GREY DIET AND NUTRITION

WE are seeing a lot of Parrots in the hospital and most of them are here for nutritional problems. It is a basic requirement before you get a Parrot or any Bird to research what they need to survive, especially food wise. This week I will focus on the most common Parrot we see, the African Grey.

A large variety of food is important to provide the diet and nutrition that your African Grey Parrot needs to have a healthy and happy life. There are currently many differing opinions and thoughts on their diet and nutrition and there is no exact formula for feeding any parrot. My aim here is to provide the most up to date information on a balanced diet for your African Grey.

As a base, a pellet diet is the best way to go for your parrot. Preferably, an organically processed pellet, and not one that has any additives, such as artificial colouring and flavouring. Seeds, like sunflower seeds, are very high in fat and are not considered a healthy diet for your African Grey. Do not give vitamin supplements to your bird without asking the vet. Most African Greys on a pelleted diet do not need them.

Provide an assortment of fresh, wholesome, organic (if possible) vegetables. As with any child, sometimes it can be a challenge to get them to eat their ve-

ggies so you might have to spend some time encouraging your bird to eat them. Some vegetables contain more nutrients needed for your parrot than others.

GOOD VEGETABLE CHOICES ARE:

- Broccoli (great source of calcium)
- Kale (also a good source of calcium)
- Sweet potatoes
- Carrots
- Celery
- Zucchini
- Cucumbers
- Green beans
- Leaf lettuce (not iceberg)
- Peas - garden and snow
- Celery
- Peppers - green, red, chilli
- Collard greens
- Yellow and Butternut squashes

GOOD FRUIT CHOICES ARE:

- Melons
- Apples
- Kiwi
- Mango and Papaya (skins removed)
- Grapes Oranges
- Berries - Blueberries, blackberries, raspberries, strawberries

A common deficiency we see in African Grey's diets are Vitamin A and Beta-Ca-



rotene, so its important to provide Beta-Carotene vegetables on a daily basis. Calcium is also extremely important, as it is the predominant mineral in bird bodies. It is essential for healthy bones, nerves and heart function, muscle contraction and blood clotting. An avian veterinarian should check your parrot yearly for calcium levels.

Water is also a very important part of your African Grey's care. Make sure they have fresh water in a clean bowl on a daily basis. If you question the water quality, give them bottled spring water - never distilled water as that has all the minerals and nutrients taken away.

In the next article Ill talk about toxic foods for parrots
As the bird owner, you have the control

over what your African Grey is fed to help ensure that you are doing the best you can to help them live a long, disease free life. Use good common sense, don't hesitate to talk to your avian vet, and you will achieve the balance that your African Grey Parrot needs to provide them with a balanced nutritious diet.

Hope this helps
Till next week
Dr Ruan

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