

Predicting the Future - Sample Report



Mark Anderson, Info-Tech Research Fellow and CEO of Strategic News Service™, writes the most accurate predictive reports covering the computing and communications industries. This weekly newsletter covers must-have information for strategy development and business technology planning.



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Update: Asian Shifts

Published May 31, 2012

In the last week or so, several major events have transpired involving Asia, which will likely have impact on global markets for technology and other products. These include:

1. The EU vs. Huawei and ZTE.

Last Thursday, the EU Commission, in a closed-door session with its 27 member states, declared that it had developed “very solid evidence” that Chinese mobile-equipment network makers Huawei and ZTE had benefited from illegal government subsidies, selling products in the EU below cost. This practice is referred to in international trade circles as “dumping.”

Our members will have been aware of this issue regarding Huawei, after reading our recent focus on the company (Huawei, [Parts I](#) and [II](#); April, 2012).

This EU action confirms what I expressed to several Australian audiences, including the annual Telstra CIO Forum and Helen Dalley’s Sky TV program, while in Australia in March, as the Gillard Administration announced Huawei’s ban from bidding on the nation’s National Broadband Network (NBN).

While Huawei has been growing like topsy for years under the wing of the Chinese government in its domestic markets, partly by stealing IP from foreign makers of equipment in its target markets, the company’s real “go out” export play (as the government calls it) occurred when it plowed a wide swath through EU government contract bids for major infrastructure projects over the last three years.

The result: By bidding an average of 40% below the flock, Huawei came out with almost all of the deals.

Another result: job losses for nearly all of its competitors, including Siemens, and subsequently the merged Nokia Siemens. When some bright grad student does a piece on the bow wake of this devastation, it will turn out to have included Motorola, Lucent, Alcatel, Siemens, Nokia Siemens, Cisco, and others.

Sadly, the Swedes, in trying to protect Ericsson from Chinese retribution, seem to be playing the cowards, begging the EU to hold off on penalizing China for dumping in the telecoms equipment marketplace. Shame on you, Stockholm; stand up and act like the great nation you represent. No one owns you – so don't act like they do. One must now ask: Did all of this market carnage occur thanks to subsidies from the Chinese government? That would be unfortunate, and, for many free-traders, enlightening.

How do free-market capitalist economists now feel about, say, silicon, which the U.S. appears ready to tariff at the 30% range (a testosterone test for Obama's team), after proving China was dumping it and destroying U.S. (and German) companies?

Or steel? Having damaged global markets for steel by flooding the world with unneeded product, the Chinese government this week just approved \$70B in additional steel plant construction. Copper? Rare earth metals? Wind turbines?

The patterns here are obvious. The global economy is no longer driven by free markets.

2. Currency manipulation.

This week, predictably, the U.S. Treasury Department again gave China a pass on not being a "currency manipulator." This comes on the heels of Secretary Tim Geithner's recent trip to China, and, more interestingly, complaints aired by the U.S. on Japanese currency manipulation.

Since politics have clouded Mr. Geithner's mind, and since an honest and true report-out would have caused all kinds of interesting responses around the world (and the shift of billions of dollars of wealth), it's worth taking a quick pause to review what is actually happening in the [Predicting the Future] world of Currency Wars. Here is the simple view: the three mercantilist nations of the Pacific Rim – namely Japan, South Korea, and China – continue, or are increasing, government currency interventions on global markets.

That was easy, wasn't it?

In Japan's case, after a brief respite, perhaps caused by the incessant change of prime ministers and cabinets, the current government has vowed to vastly increase the funds available for intervention, and all indications are that the country will return now to its normal (decades-long) pattern of the Bank of Japan stepping into forex markets every few weeks or months, doing its best to support the country's exporters, spending hundreds of billions of dollars on market manipulation.

South Korea is quieter about its interventions (if not more active), which have also been an organic part of government fiscal policy, again favoring exporters, for a very long time. This follows the pattern of the South Koreans doing almost everything the Japanese learned to do, but just a bit more of it.

China, however, makes these countries look positively laissez-faire, as it intervenes almost daily to maintain a “peg” range (trading band) that is defined both in terms of bandwidth per trading day and total change allowed. In other words, while allowing some increase over the last five years (in the neighborhood of 8%), this remains the opposite of a free market: the Chinese government sets the band, sets the absolute limits of change, and then calls the renminbi fair-market-priced.

I guess you’d have to ask someone in real markets to define what a market really is. The renminbi value is purely the result of daily manipulation, otherwise still known as the peg, with a bit of a band now around it as window dressing. Most economists continue to see the Rnb as under-priced by 25%-40%.

Why is Obama so afraid to tell the truth?
For the same reasons Bush II was, and Clinton was, and ---

These leaders think that bowing to threats is the best path. There is almost no chapter in the past to justify this reluctance to confront blatant misbehavior. Indeed, history is extremely unkind to capitulators and appeasers. Just look up the name Neville Chamberlain.

3. The state of the Japanese corporate economy.

This week, Nobel economist and New York Times columnist Paul Krugman made an interesting concession, stating that the pundits had gotten the whole story of “Japan in recession” wrong, and essentially expressing the wish that the U.S. should be so lucky as to be like Japan today.

One got the impression of: if Japan is in recession, I’ll take two, please.

Our members are familiar with this perspective; we’ve been saying it for about five years.

Welcome aboard, Paul. Now help us to figure out where the money is stashed, along with the second set of corporate exporter books.

One note of how poorly the global media “get,” or at least report, this story:

The Wall Street Journal ran a piece this week entitled “Cash-Rich Japanese Firms Go on Global Buying Spree.” The authors led with the line: “Flush with cash and bolstered by a strong currency, Japanese companies are in the midst of the biggest boom in overseas investment the country has ever seen.”

OK, fine. Corporate Japan is minting money, and spending it on global acquisitions, right? Finally, someone gets it. But, no –

“...This boom is powered by fear, as a shrinking home market and stagnant economy threaten earnings, bankers and corporate executives say.”

Keep in mind, this is on the front business page of the WSJ this week.

The real figures, just out, are the opposite of what was reported regarding the current status of Japanese corporate earnings this quarter: they are up an average of approximately 60%.

What?

Yes, the Nikkei is down, for other reasons having to do with international traders (whose trading volumes are over 50% of the total). But I would not describe earnings as stagnant or threatened.

And that is the whole problem with how most global business media, and the WSJ, cover Japan.

And yes, Japan’s export companies are using their cash to buy major corporations all around the world. And that is the real story, for those who are paying attention to actions, not words.

4. The China slowdown.

Everyone is talking about it, but how real is it? How real is anything in this new non-market economy?

Here are the “tells” which I think prove that, whatever one might call the “real” Chinese domestic economy, is slowing down:

- The Chinese have started breaking contracts and leaving raw materials at the docks – including iron, despite the top-down order noted above for more steel production.
- Wealthy travelers and shoppers from the mainland almost stopped flowing to Hong Kong, suddenly, in March. Oops.
- The government GDP is looking increasingly U.S.-like, buoyed by government spending (and, in China, outside investment – in the U.S., it’s debt). Last year’s GDP was roughly 50% investment-driven.
- The Chinese government has decided to reflate the housing/real estate bubble, which is already taking effect on city prices, and which can be categorized as either brilliant in its inspiration, or the last signs of desperation.

In other words, actions are indicating that the real slowdown is not only serious, but also looking to be much worse

than words would indicate. I think the Politburo is running out of runway on fake solutions that look like growth, but really are just taking Other People's Money and spending it. Again, not so different in nature from other nations' deficit spending, but larger.

Here is a separate but also interesting economics question: If you take a bunch of prisoners, or people paid at slave wages, and force them to build a (highway, city, train track), what effect does this have on GDP? (Positive, but how positive?)

Is that a good reason to keep doing it over and over again?

Hint: *No*.

Each of these Asian shifts are flags above a larger trend, and are mentioned here for that reason. We are seeing a large-scale change in Asian economics, and these are some selected signs indicating much larger patterns of change. Your comments are always welcome.

Sincerely,
Mark R. Anderson

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Research Fellow

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