

## **Dynamite Economy**

*it is not Bubble, it is the Worst Challenge*

Monday, August 13, 2007

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康索

CtS Cognoscere tenus Solvere

知觉于发生之前 Cognize before Happening

解决于根基之处 Resolve beyond Cause

<http://cognose.blogspot.com>

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### **0. Summary**

*All the world major stock markets are facing several cycles of violent swings.*

*The ability to sustain so many cycles of such violence, underlined it is not a bubble.*

*The biggest corporations, with largest profits are Financial Institutions, and Energy giants. They are producing around 9% of profit.*

*Financial institutions, Retail, Distribution are critical lubricants for market efficiency and energy is the lowest value elements among all factor of production. They are not real wealth generators.*

*The largest wealth generating industry is the automobile industries, and its return is only 1%. Worse, largest General Motor and fourth placed Ford are making huge losses. Combining with other wealth generators like, electronics, electrics, aircrafts, their profit is merely 1/3 and 2/5 of Financial Institutions and Energy giants, respectively.<sup>1</sup>*

*This is analogous to a patient with arteries (banks) bigger than muscles (wealth generators). Huge amount of energy (wealth) is sending through. Yet they find only some weak muscles that are unable to consume this energy to labor, to generate new food (wealth). The arteries will be clogged with excessive wealth (inefficiency), yet driven by zealous heart (hyper-active investors), and soon the patient will have blood vessel exploded, brain hemorrhaged, stroked, paralyzed and perished in a totally warped manner.*

*This is a world economy ready to explode like dynamite.*

*Analysis is provided here, solutions will be presented in series.*

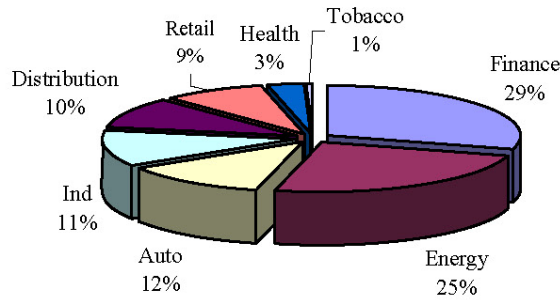
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<sup>1</sup> [http://money.cnn.com/magazines/fortune/global500/2007/full\\_list/index.html](http://money.cnn.com/magazines/fortune/global500/2007/full_list/index.html)

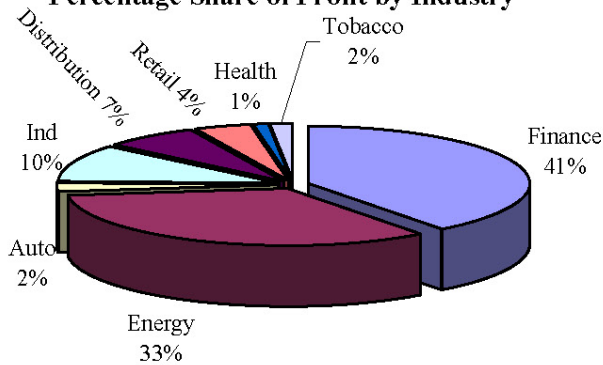
# 100 World Largest Corporation, 2007

[http://money.cnn.com/magazines/fortune/global500/2007/full\\_list/index.html](http://money.cnn.com/magazines/fortune/global500/2007/full_list/index.html)

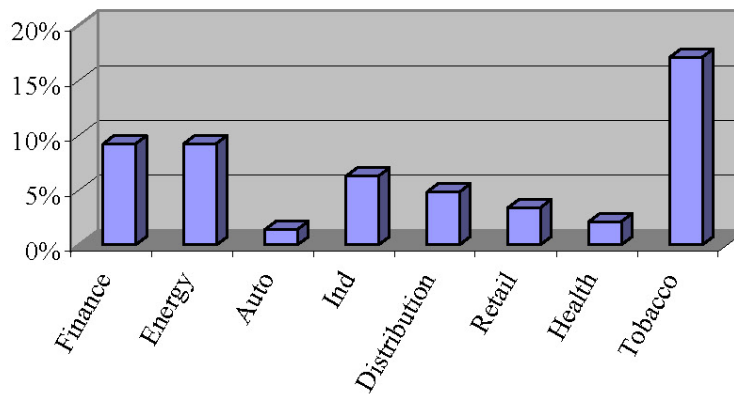
**Percentage Share of Revenue by Industry**



**Percentage Share of Profit by Industry**



**Profit Ratio**



	Finance	Energy Oil&Gas	Auto	Ind	Distribution	Retail	Health	Tobacco
Entry	32	18	10	14	13	8	4	1
Revenue	3,014,680	2,510,885	1,248,418	1,168,843	1,025,266	881,853	308,214	70,324
Profits	277,095	231,656	17,377	73,021	49,326	29,766	6,540	12,022
Ratio	9%	9%	1%	6%	5%	3%	2%	17%

## **1. What is a Bubble**

Today, investors, advisors, leaders hold caution in their hearts even painting rosy pictures to others. Every one of them is on their toe and thinks it is a bubble, recalling the Japanese experience in late 1980s.

What is a bubble?

Bubble Economy of Japan was due to the over confidence in their own economic prowess. The phenomenal boom was engineered by innovating new household electrics and electronics. Every Japanese was in euphoria, buying up a few movie industries, real estates like Rockefeller Center, Brazilian Coffee farms, and countless others. The world was large enough to absorb these neu-riche without causing much inflation.

When Japanese's innovation slowed down, market saturated. This wealth-generating locomotive simmered off, economy bubble burst, dreams shattered. Tokyo Stock Exchange Indices were shaved by factors, and never return till today. Soon this will the second decades Japanese stayed at the valley.

This was a Japan-centric boom. This affected only political, economic situation in Japan. The impact was neither deep nor far-reaching. Wealth generated was relatively small. Once the wealth generator slower down, dreams gone. It was a bubble, merely a bubble. This is what a bubble is.

Even we look at the Great Depression, Dow Jones Industrial Average was chopped by more than half, after the crash, Oct 29, 1929. It led up to Second World War.

From history, we can see what will happen, when an economy ran out of steam, and the effervescence sizzled off.

There is not much excess wealth to support the market, swinging the market up and down. So the dreams gone, the bubble burst.

## **2. Forecasted - 2001**

Around 2000, after my interactions with leaders of technology, economy and nations, i sensed that the economy is coming to stagnation. Because of the urgency, i alerted<sup>2</sup> my leader that technology, particularly electronics, had crossed into the plateau of a S-curve. Three decades of rapid economic growth, after Vietnam War (*that ended in mid 70s*), is no longer sustainable.

In that report, three possible scenarios were stated, and subsequent happenings verified this foresight.

1. **Discover Immense Market of Consumptions.** Market size of consumption bigger than China and India. Chinese government spares no effort to develop rural market consumption. Unfortunately, the hardworking ancient civilization out produced not just their demands, also world demands.
2. **Initiate a war to destroy productivity.** On April 1<sup>st</sup>, 2001, there was a mid-air incident involving American reconnaissance plane. It was crippled and landed in Hainan. i wrote a note formally alerting nation's leader that the next conflict is likely to be in Central Asia, Afghan is the most likely theatre. Within half a year, not only war in Afghan was created, soon Iraq was dragged into. Technology has provided the world with instantaneous graphical reports of war scene. World leaders, common people realized the terrible cost of war, vanity of invasion. First world's armies, industries were spared. Damage to world productivities is neither wide spreading nor deeply felt. Human's hearts mitigated their might.
3. **Create New Industries bigger than Electronics Industries.** After seven years of inventions and examinations, at least 8 new industries not only can be created, they will address key issues civilization is facing. They shall be presented, in series.

After these analyses, a clear opinion was presented to the leader of our national investment arm. i strongly recommended to switch investment from Hi-tech stocks, to retails, telecommunications, banking and finance. This minimizes exposure to high risk, long gestation, low return ventures. Another consideration is to focus all strength to feel the pulse of world economy, to be able to detect first signs of troubles, of opportunities.

**Above all, the most valuable is to detect the emergence of significant new industries.**

Within a day, this opinion received resonance. Within few months, three of top ten richest listed by Forbes came from Wal-Mart family. Wal-Mart since then has stayed as Fortune number 1. The insight, foresight brought pronounced benefit to the nation.

Reflecting, as long as if you seek to the root cause of economic activities and motivation of people, anyone would have made similar conclusions.

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<sup>2</sup> Real Economy, Realities of Economy, Economic Realities, June 2001, edited February 2003. "Cognose – Recover the Lost Key to Infinite Wisdom, Chapter 2, Seeking Truth". Winter 2005. ISBN 9810-313757, also published at [www.cts-ideas.com](http://www.cts-ideas.com)

### **3. Expired Growth Engines**

Over the last thirty years, there were endless new electronics devices that fit everyone's needs, buying power. Immense new consumption thus created.

This no longer is the reality. The reality is that most of the new products, such as LCD screen, MP3 players, digital cameras, are simpler to manufacture, many assembly workers lost their jobs, small photo-shops also closed down. This impacted the roots of jobs creation, which is the most important driving force for any sustainable economic development.

Darling of venture funds, Biotechnology, is not a solution. It was made clear then in 2001, that it is not a solution. In 2006, with deeper understanding, i submitted that Biotech is merely an extension of medicine and herbalists, improving agricultural produce, health and healing. It is important for animal kingdom and civilization alike. But it is unlikely people will spend 10% of their disposable income, swallow 200 gm of drugs, change a few organs in their life time. This is the yardstick electronics industry demonstrated in order to be a significant economic force.

**Bio-tech will progress**

**but will never be a pillar of economy!  
even though may be a pillar for human well-being**

The change of R&D directions of Singapore underlines this point.

#### **4. State of the Economy**

The greatest danger is not unemployment the size of Europeans, Americans. The great recession in 1930 we have witnessed, many experience gained, many theories written, many solutions ready to be tested.

This is not about poverty, this is not about lack of funds.

This is about:

1. The number of excessive labor, India, China, is unprecedented.
2. 30 years of electronics boom has created wealth of magnitude unprecedented. With productive Chinese-Indian labor, this wealth creation is now sky rocketing<sup>3</sup>. This wealth will make money flooding every channel. In same report it was stated that Allan Greenspan will become the least powerful person, when interest rate is close to zero, money is freely available. He could no longer use Monetary Policy to effectively moderate market unless he ventured into negative interest rate.
3. When there is no new technological challenge, the intellects using their complex brains, created a new field, **Financial Engineering**. They repackage high-risk assets into sub-prime tradable. This already defies the primary principle of

*a. **Engineering – reduce intermediaries to improve efficiency and through put,***

*b. **Management – Transparency & Accountability.***

**This complexity seduced a lot of interested parties holding real cash, wealth. Good quality assets are made to support poor quality debts.** This not only insulated banks from high risk lending, this boosted the values of financial institutions. This bloated already excessive wealth into gigantic Goliath. This explained how Financial Institutions, a means for improve market efficiency, lower cost of wealth generation, eventually earn 3 times the return of real wealth generator.

**This is garbage wrapped in pretty gift boxes.**

**Those who think it is Christmas, found dynamites place in their socks.**

4. Globalization provided the vehicle for the eyes of the wealthy, to exert his finger of inflation, to escalate at his fancy, the price of every plot of land, every piece of arts, every head of athletics, even every cake of tea, every gram of chocolate.

These four points clearly stated today's economy is supported by excessive labor, over-abundance of wealth, AND fabrication of wealth from debts.

Its reach is all-penetrating, its effect is excessive; its consequences are long lasting. It is not bubble.

So we must determine what is a greater danger?

Is it powerless, easily burst bubble?

Is it solid gold gilded dynamite?

It is indeed this over-abundance wealth that found no place to invest.

This over-abundance wealth is moving into every corner of the world, moving every item that can change hand, physical, virtual, real, fabricated, existing, will never exist.....

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<sup>3</sup> US\$1.2 trillion foreign exchange, increasing at \$1billion every day, EIU, NY, May 25, 2007

## **5. Feeble Solutions**

The stellar growth of Japan in the 70s and 80s was fueled by Sony and the like. The regain of leadership by American, in the 90s was by IT/Communications. Clinton without IT will face similar challenges as Carter/Reagan facing Sony. We can quite clearly conclude that locomotives for economic growth were not, and will never be created by politicians, economists. These Joseph Stiglitz stated in his recent Raffles Speech in Singapore.

Even seven years latter, only few like DeLong<sup>4</sup> written about this phenomenon, based on dated numbers. In a rapidly changing market, knowing the number, without the cause, nor the scale, is as good as telling you yesterday was sunny. Others, Management Gurus like Michael Porters, have not demonstrated such foresight and insight into the cause and effect, scale and gravity of problems. This can be seen from his recommendation to Singapore government to focus on petrochemicals, fertilizers, and plastics. When low price for farm produce, stagnated electronics, these would not provide a substantial growth path.

Technology, innovations are not able to create enough investment opportunities to absorb over-abundance of wealth, of labor. So funds are rarely invested in Industrial facilities, production spaces. There are no job creations; there is no real wealth generation. The multiplier effects in economic axioms cannot be put into action.

Worse, excessive liquidity inflated the price of even every cake of tea, every gram of chocolate, even pay you to borrow (sub-prime loans), pay to buy others debt (negative value assets repackaged), to beyond imagination.

This demonstrated a fact that experts without grasping the root cause of issues, not only they cannot have foresight, they are even unable to solve problems at hands, not to dream effectively at the root.

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<sup>4 4</sup> DeLong, Bradford, 2007. "Fear of Finance", Project Syndicate, [www.project-syndicate.org](http://www.project-syndicate.org).

## **6. Greatest Danger**

The inflated pricing of assets, is supported by over-abundance, that spinning around looking for way to spend. It is without check and balance, supply and demand. Therefore not only it is not transient, is not trivial, in fact it can last beyond a moment.

**This pricing at free will, will soon increase the cost of living, wasting resources, ignore the most critical element of any survival,**

**efficiency.**

**These will severely impact the lower rung in the society.**

Without new Industries, there is no new employment, not only there is no wealth creation, there is no generous consumption appetite from the populace. The wealth of the richer will not grow.

Using vocabulary from the economy, excess wealth will convert necessities to luxury ornaments, the higher the price, the better it sells. The opulent design of hand-phone, the branding of tea leaves, chocolate, to beyond monthly income of common workers is what is often reported, but how many of us realize the cause, the impact, the danger?

Using common sense, this is a market without check and balance, management without efficiency as objectives, resulting in the detachment of price from value. This will definitely lead to wastage of all resources, polarization of society, unrest in the world.

**In the last few months, we witnessed few rounds of violent rise and fall in the stock market.**

**This is an indicator that we are stepping into an era of greatest danger.**

## **7. Dynamite**

**Great Recession was still bounded by human logical response, restrained by limited reach and wealth, protected by sovereignty and borders, diluted by distance and time taken to travel.**

At this moment, most national governments prop up the market. This action does not create new wealth, nor expand employment. It is only disbursement of public wealth into a few fortunate hands.

This current violent swing will continue, because sovereign funds have overwhelming reserve. This can sustain, but not longer than 2 years.

At this point, wealthy are playing stocks and real estate.

They are not factor of production.

Therefore does not affect common people life, business profitability, social serenity.

But when wealth held by disciplined, national-interest centric government are disbursed into the hand of private, they have no such responsibilities, nor through the rigor of election. They will manipulate other exciting frontiers. Factor of production are of the appropriate size.

**When such volatility spread from stocks, which is not factor of production into key factors of productions, energy and material, transport and communication, rent & taxation, remuneration and kickbacks. Everything physical, virtual, cannot be priced but can be bought, will be chess pieces in the hand of the well-endowed. Pricing is floating without attachment to logic nor reality, market will turn beyond the realm of Great Recession.**<sup>5</sup>

**This is a dynamite in the making !!**

In summary, economy of today is resulting from lack of new growth engines to invest the unprecedented wealth cumulated during the three decades. This over-abundance wealth will lead to lost of conscience and responsibility to develop appropriate policies, relevant product and services, improving efficiency and quality of life for the society.

Without such understanding, we are seeing governments lost directions while privates get richer. Factories closing down, banks are glowing brighter.

**This is worse than**

**cannibalizing others wealth, self-destruction of own wealth generators.**

**This is self-destruction of factor of production for wealth generators.**

**No one, private, government, banks, manufacturers will benefit from such situation.**

New understanding, direction and solution for civilization shall be presented in subsequent articles.

**Dynamite is the most effective means to breakthrough hardest of obstacles!!!**

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<sup>5</sup> some philosophical explanation can be asked from [ideas@cts-ideas.com](mailto:ideas@cts-ideas.com). It needs to explain using audience specific knowledge and expertise.