



Harry's Take

August 18, 2020

East Asian Tigers and China, Epicenter of the Bubble, Will Have Biggest Crashes

Many years ago, I was startled by two charts from the Great Depression. The first showed that Great Britain's stock crash and unemployment numbers were not nearly as bad as those of the U.S. The second showed that Manhattan real estate crashed over twice as much as everyday real estate and crashed more than real estate in most other global cities, even though during the Roaring '20s, Manhattan was considered the up-and-coming, most-prosperous city in the world.

For both charts, the important principle at work was this: "The greater the bubble the greater the burst!" The U.S. bubbled the most, crashed the most, and then came out the strongest.

Most people's perception is that the best (meaning the richest or coolest) places and companies will hold up the best.... History clearly disagrees.

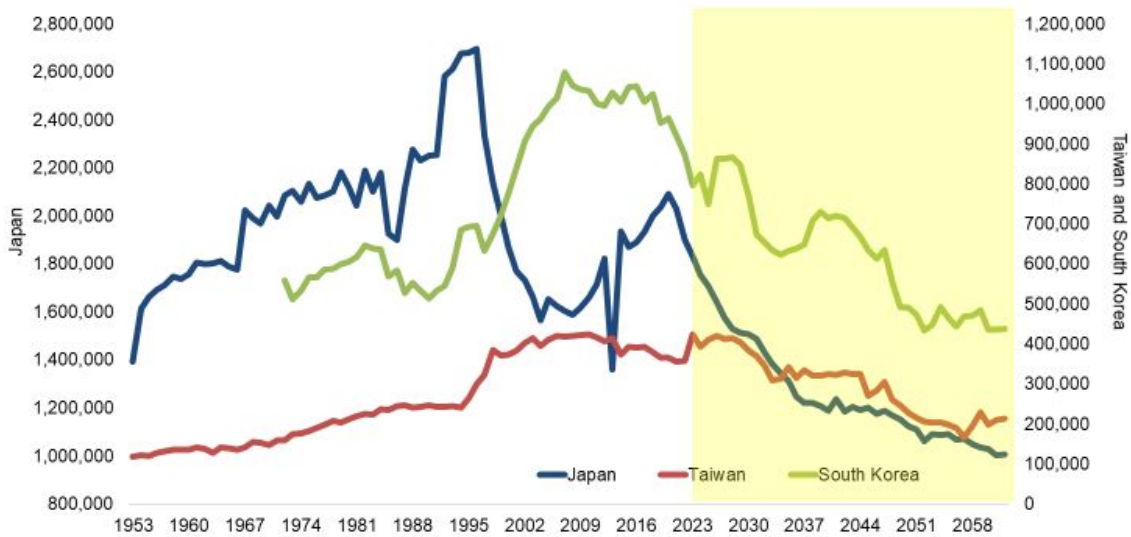
While North America was the up-and-coming region of the world in that last great bubble, China and East Asia are now, in this even-greater and more-global one. The U.S. became a developed country by taking market

share in higher-value-added industries from Europe—and World War I gave the U.S. the launch it needed to accelerate, because Europe suddenly needed more farm and industrial goods.

As much as Europe and North America have benefited from the present great bubble, it has been East Asia that has captured most of the demographic, urbanization and GDP per capita growth. As I've shown, China's Spending Wave grew dramatically, peaked in 2011... and now is falling forever.

Look at this chart of the larger Tiger countries, starting with Japan, which boomed ahead of China.

Tiger Spending Waves Peak in Succession: Japan, S. Korea & Taiwan 47-Year Birth Lag



Source: Ministry of Health, Labor and Welfare, Japan, National Statistics, Republic of China (Taiwan), Statistics Korea

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Japan's Spending Wave peaked first in 1996 and now is down forever; another great fall will happen there after their Millennial generation peaks, this year. South Korea followed. It peaked in 2008, plateaued into 2018,

and then falls forever. Taiwan is the last to plateau; its plateau began in 2010 and will continue through 2023 before declining forever.

The difference between the East Asian bubble boom and that of North America in the early 1900s is that the earlier boom saw continued strong demographic gains from the Baby Boom generation that arose after the Great Depression, in the wake of World War II. In contrast, during the present boom, East Asia will have worse overall demographic declines than even Europe. They will not come out stronger!

But the real story in this boom is the even steeper advances in GDP per capita, because all of these East Asian countries have entered higher-value-added industries. These nations have seen the greatest booms and gains... and, hence, they will see the most painful bursts, as did the U.S. and the rest of North America in the 1930s. This will impact Australia and New Zealand more as well, because they also advanced and bubbled with this region.

That rapid and miraculous surge in economic progress—beyond demographics—will be the subject of the September issue of *The HS Dent Forecast*. This bubble started in Japan, but it will end in China. And East Asia will not lead the next global boom like it did this one, Southeast Asia and India will.

Harry

Got a question or comment? You can reach us at info@hsdent.com.

