



CUMBERLAND
ADVISORS

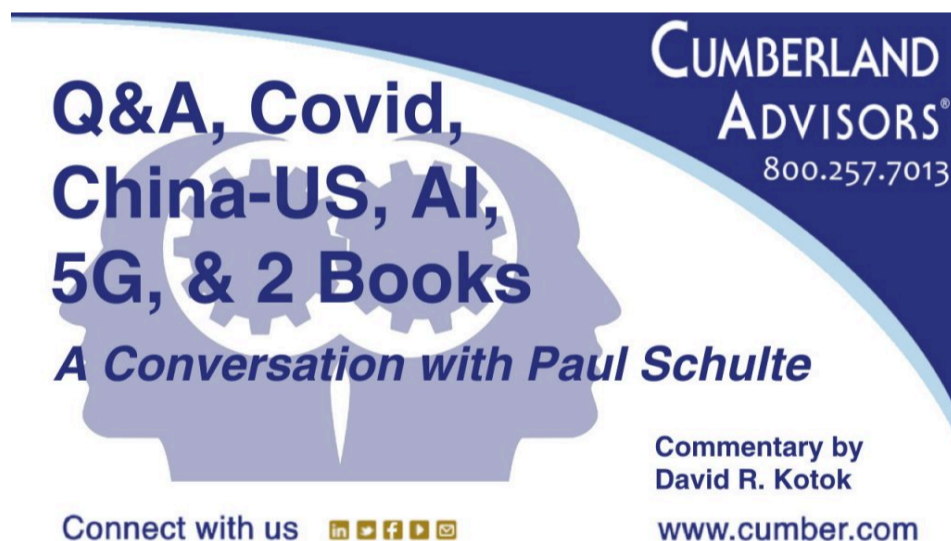
A Registered Investment Advisory Firm Since 1973

[CLIENT LOGIN](#)

Paul Schulte: Q & A, Covid, China-US, AI, 5G, 2 Books

David R. Kotok
Fri Jul 10, 2020

With honor and gratitude, we wish to introduce Paul Schulte, the founder of Singapore-based Schulte Research. He has three decades in applied financial research and has worked for all three branches of the US government, including the NSC at the White House. He teaches worldwide, has written five books, and a whole lot more. His expertise in finance and technology are sought globally by serious investing institutions. I read nearly everything he writes. We thank Paul for agreeing to answer a few questions in this Q&A. But first, let me recommend two of his books; both are in my library.



His latest co-authored book is *The Race for 5G Supremacy: Why China is Surging, Where Millennials Struggle & How America Can Prevail (2020)*. In this book, Paul and his coauthor, Austin Groves, after an analysis of what is propelling China forward and what is holding America back, propose parallel “Apollo Programs” for America—one focused on helping America to catch up with China and even surpass it technologically, and the other focused on generational issues of millennials, a generation key to American success, but one “bogged down by a host of under-appreciated and intertwined issues which cause anxiety and alienation and lead to massive losses in workplace productivity.” Readers can find the book on Amazon: <https://www.amazon.com/dp/B0894345YG/>.

Here’s a quote from page 63: “The charts in Sections 5.1 and 5.2 show the phenomenon that is Huawei. It has emerged as the predominant global player in 5G at a time when the US does not have a single major player in this area. Its total revenues have exceeded US\$100 billion. It operates in more than 100 countries. It is the dominant player in Africa and Asia, and it has overtaken Apple in global market share. ATT and Verizon are trying to get up to speed but are at least 1–2 years behind Huawei.” This book is a “must” for anyone interested in investing in the technology and communications sectors. Paul’s thinking is global. His views are all supported with curated expertise.

His previous co-authored book is *AI & Quantum Computing for Finance & Insurance: Fortunes And Challenges For China And America (2019)*, available on Amazon at this link: <https://www.amazon.com/dp/B07R8CL879/>. Paul and his coauthor, David Kuo Cheun Lee, equip readers with the technological literacy to assess and map the future of AI in the financial and banking industries. We will quote from page 41. “Alibaba has expanded its e-commerce business Taobao and Tmall to Finance (Ants Financial) and Tech Service Provider (Alibaba Cloud). Figure 2.8 shows the fullest AI ecosystem that is unmatched by any other, and it has achieved all these innovations while being the most profitable of any tech companies. Alibaba will produce its own AI chip as well as

develop quantum processors expanding into a semiconductor business 2019Q2. AiNPU, the new AY chip, had the potential to support technologies used in autonomous driving, smart cities, and smart logistics and driven by its R&D arm, Damo Academy. Pingtoug, a new semiconductor subsidiary will focus on customized AI chips and embedded processors.”

Dear readers who are serious about the worldwide tech sector and how to invest in it, we recommend you buy and read both books now.

Here's the Q&A with Paul. We thank him for taking the time to answer these questions.

Q1. In the US we have a COVID-19 disaster. Many Americans do not understand how the Chinese applied technology to rapidly address COVID outbreaks. Can you describe the reaction function and techniques used recently when the cluster of new cases erupted in the Beijing food market? We want our readers to learn what a high-tech reaction function can look like so they can compare it to what they see happening in the US.

Schulte: Asia learned the hard way to deal with viruses when SARS struck in Hong Kong in 2003. SARS had a mortality rate of 50% (and it hit hard in Beijing). So, most governments (Taiwan, Singapore, HK, China, Korea) had established pandemic response teams to deal with COVID when it hit. China had one of the most draconian responses in human history. It made more than 500 million people stay home for 56 days. This was to [prevent] the virus from spreading, i.e., getting the R0 way below 1. (As a result, China is now back to normal). One person (the same person) was allowed to leave the house to buy groceries. Drone food deliveries became common. Autonomous vehicles were used to sterilise streets. 5G was used to transmit remote thoracic scans to hospitals. China built one mass hospital in Wuhan in 6 days from pre fab equipment. Two weeks ago, there was an outbreak in a vegetable market, and China closed locked down two districts of Beijing. (These districts have about 2 million people each.) It conducted 300,000 tests in 48 hours. Each phone in China (and here in Singapore) has an app to show where you have been to accelerate contact tracing and to alert people if they have been exposed to the virus. China is doing exactly what Dr. Fauci says over and over. Test. Discover. Isolate. Quarantine if necessary. Retest, Discover. Repeat.

Q2. The intensity of “blame game” rhetoric is growing in both the US and China. Some characterize the widening divide as a “cold war.” How do you see the evolution of this competition? Can the US successfully “catch up” in the 5G race? What happens after the November elections in America?

Schulte: I worked in the NSC in the 1980s in Reagan II. I see the same dynamics at play now in the conflict with China as I saw in the Cold War with the USSR. Hegemonic powers who claim a superior way of life need to hold on to transportation, roads, seaways, telecoms, space, mail (now email), and money in order to maintain political and economic control. This is the nature of a hegemon. 5G rollout by China (with no rollout in the US at all) poses a threat to the US as it can disrupt the monopoly on telecom that the US *had with 4G*. So, it makes sense for the US to try to slow China down in order to buy time to catch up. There really is no “alternative” to 5G at the moment, as it is a system which is already “baked in the cake.” Why? The US military is loath to give up spectrum to the private sector. Also, ATT and Verizon might have dropped the ball here. But China has already rolled out 5G in hundreds of cities and is doing fascinating things in melding finance to property. Banking and insurance are now mixed with commercial, residential and industrial property to create entirely new industries. The US should pay attention.

Q3. Hong Kong is on the minds of global financial managers. Will there be a capital flight? A brain drain? Is the “one country, two systems” model permanently dead? Please give us your views from the unencumbered Asian financial center of Singapore.

Schulte: I lived in Hong Kong a total of 18 years before decamping to Singapore two years ago. The center of wealth in America is New York, and it revolves around financial transactions. The GFC created animosity toward the elites on Wall Street. The center of wealth in Hong Kong is the Peak — the TOP of the island occupied by the property tycoons. These billionaire tycoons have had a cartel for decades and have literally funded the government through highly controlled land sales for decades. This has created THE most expensive city in the world while the salary for a college graduate from a TOP Hong Kong university is about \$21,000 Hong Kong dollars a month. This is USD \$2,000 per month after tax. The average rent for a SMALL one bedroom apartment in Hong Kong is \$1,500–\$2000 per month. So, you either live in very cramped conditions with your family or get a second job just to feed yourself. Incidentally, while the housing price index has gone up four times since 2008, these salaries are virtually unchanged. So, the standard of living has collapsed for most Hong Kong people.

Somehow, people do not blame inept HK government policies which wholly ignored these problems festering right in front of everyone's eyes. They do not blame property tycoons who made billions in HK property and then invested their profits overseas. They blame China. It's not surprising, as blaming a foreign power is easier than taking an honest look at one's own shortcomings. There's a lot of that going around now.

Watch this space, though. China has implemented the new national security law to create a “Special Branch” similar to what the British had for decades. (It was disclosed that the US Congress — presumably through the CIA — had provided \$2 million for ‘secure communications’ for the protesters). So, this is the kind of thing that China wants to go after. Imagine if it was discovered that the PLA had provided \$2 million in funds to help Antifa protesters in Atlanta or Raleigh? The US would flip its lid.

In the same breath, China has reinforced its support for the Hong Kong Stock Exchange and more Chinese listings. Hong Kong will remain a dollar funding center full of very unhappy people. I presume many will leave to find a better way of life. Hong Kong people are some of the toughest and hardest working people I have ever met. Any country would be lucky to get them.

Q4. The US has two aircraft carrier groups on maneuvers in the South China Sea. The regional tensions are rising, and many countries are involved. Do you fear a cold war risk becoming a “hot war” event? Even with leaders trying to avoid shooting war, accidents happen. And some players, like North Korea, are dangerous and unpredictable. Please give us your geopolitical risk assessment.

Schulte: I’m very skeptical that there will be any violence between US and Chinese naval vessels. It’s the height of the election season in the US, and having a war is bad electoral strategy. However, I do believe that either party who gains power in 2021 will carry on an aggressive hegemonic game with China. Even if Biden were to reverse course, which is unlikely, it takes a few years for the Pentagon and company to reverse course. So, we should expect things to heat up in 2021 to 2022. 2023–2024 will likely see them get to the peace table for talks.

So, the US has FINALLY pivoted to Asia after threatening to do so for many years. It is solidifying its alliances with Japan, Korea, Singapore, Australia, and (tentatively) India. This is basically surrounding China. In its corner, China has its own territories, Hong Kong, Pakistan, Philippines (kind of), and the Spratly Islands. Both Trump and Xi get poor marks for soft power, but I strongly believe a new non-aligned movement is being created just like the one in the 1960s. Back then, its center was Jakarta. Now it is Beijing. The question is, non-aligned with whom?

Q5. This question is personal. On visiting Singapore, I experienced a long walk around the world-famous Bonsai Garden. And, of course, I toured the Orchid Garden before a lovely lunch in the glass-enclosed restaurant at the bottom of the hill. In the Arctic, the temperature is rising three times faster than it is on the equator. But accelerating climate change and the damage from it is frightening worldwide. How do you experience it on the equator? And for personal information, how are those gardens faring today?

Schulte: Climate change is having a particularly devastating effect on poor countries who cannot afford state-of-the-art systems for flood control, landslides, avalanches, and flash flooding. Singapore’s temperature is the same every day — 77 degrees at night and 96 degrees at day. We have had very heavy rains this year, but the superb quality of flood control and water runoff means there are rarely any floods. If you have the foresight and money, climate change can be kept at bay. Poorer countries like the Philippines, Bangladesh, and those in the Caribbean are being persistently devastated. (And yes — the bonsai and orchids gardens are still there. Come and visit.)

Q6. What’s the likely outcome for the Singapore elections?

Schulte: The PAP is likely to sweep into power again with more than 80 seats in the 89-member Parliament. Singaporeans are often cynical about the PAP; but when you nail them down, they are very proud of what they have achieved. There is inequality. But there is no crime. No guns. No widespread drug addiction. No religious strife or sectarian violence. No flooding or frequent mudslides. There is strict rule of law and a highly responsive civil service which is squeaky clean. And the response to COVID has been quite good [after] a wobbly start. And 80% of people live in decent crime-free and drug-free public housing. I was having a dinner party with three people from the World Economic Forum a few months ago, and one (American) person said, “I think this is what is known as governance. America should try it.” There is grousing on the fringes about a lack of entrepreneurship, too much rote education, a lack of planning for what Singapore wants to become. But these are high quality problems which do not cause people to switch parties. I left Hong Kong two years ago because a blind person could see that it was a seething cauldron. People here have trust and confidence in their government and in each other. It’s a good example of consent of the governed.

Paul, we thank you for sharing these views with our readers. Please be safe and careful. When the opportunity presents itself, lunch in Singapore or New York or on a fishing trip to Maine is on the list for the future.

David R. Kotok

Chairman of the Board & Chief Investment Officer

[Email](#) | [Bio](#)

Links to other websites or electronic media controlled or offered by Third-Parties (non-affiliates of Cumberland Advisors) are provided only as a reference and courtesy to our users. Cumberland Advisors has no control over such websites, does not recommend or endorse any opinions, ideas, products, information, or content of such sites, and makes no warranties as to the accuracy, completeness, reliability or suitability of their content. Cumberland Advisors hereby disclaims liability for any information, materials, products or services posted or offered at any of the Third-Party websites. The Third-Party may have a privacy and/or security policy different from that of Cumberland Advisors. Therefore, please refer to the specific privacy and security policies of the Third-Party when accessing their websites.

[Sign up for our FREE Cumberland Market Commentaries](#)

Cumberland Advisors Market Commentaries offer insights and analysis on upcoming, important economic issues that potentially impact global financial markets. Our team shares their thinking on global economic developments, market news and other factors that often influence investment opportunities and strategies.

Cumberland Advisors is registered with the SEC under the Investment Advisers Act of 1940. All information contained herein is for informational purposes only and does not constitute a solicitation or offer to sell securities or investment advisory services. Such an offer can only be made in the states where Cumberland Advisors is either registered or is a notice filer or where an exemption from such registration or filing is available. This presentation does not purport to be a complete description of our investment services. Please feel free to forward our commentaries (with proper attribution) to others who may be interested. It is not our intention to state or imply in any manner that past results and profitability is an indication of future performance. All material presented is compiled from sources believed to be reliable. However, accuracy cannot be guaranteed.



ABOUT

- Culture
- Our Process
- History
- Community
- Camp Kotok

CLIENTS

- Advisors
- Private Wealth
- Institutional

INVESTMENTS

- Philosophy
- Fixed-Income Strategies
- Equities Strategies
- Balanced Strategies

MEDIA

- In the News
- Week in Review
- Video Gallery
- Market Commentary

OUR TEAM

- Leadership
- Advisors
- Private Wealth
- Institutional
- Career Opportunities

DISCLOSURES

- Privacy Policy
- Terms of Use
- Diversity Policy
- Website Accessibility Policy
- ADV Part 2 A
- ADV Part 2 B
- ADV Part 3

One Sarasota Tower
2 N. Tamiami Tr., Ste. 303
Sarasota, FL 34236

800.257.7013

Follow Us: ► 