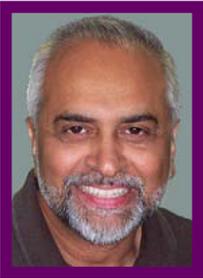


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WRITTEN BY: ASHOK DHILLON



Ashok Dhillon has 40 years of front-line business experience in Canada and International markets. He has founded and led companies in construction and international power development.

Mr. Dhillon has worked and negotiated with highest levels of Governments in Canada and India. He has pursued and won mandates to develop power plants in Canada, and foreign jurisdictions such as Hungary, Iran, Pakistan and India with uncompromising ethical standards. His extensive experience in securing and negotiating multi-hundred million and billion dollar mandates in power project development, gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends.

Mr. Dhillon has been invited to speak on international business at various forums, including as an expert witness for the Standing Senate Committee, Government of Canada, on "The Rise of Russia, China and India".

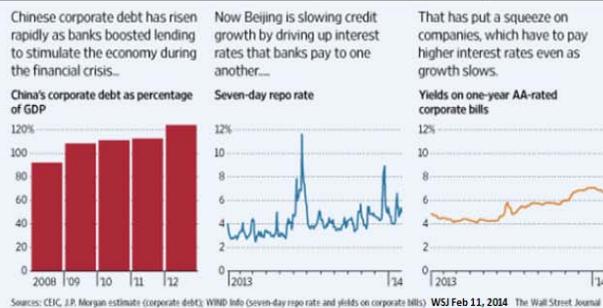
## Chinese Economy, 2014 – Excerpt from Global Economy, 2014 - Looming Catastrophe



### CHINA:

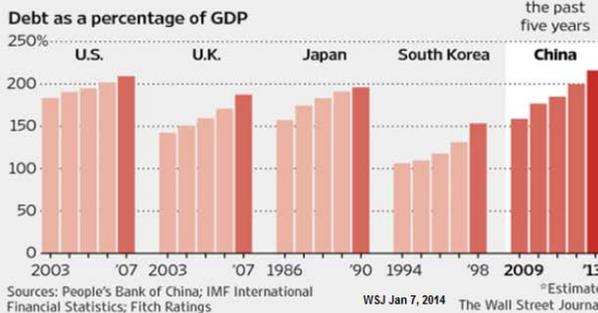
China is now truly in a league of its own. Most numbers pertaining to China nowadays make everything else look rather insignificant in comparison, when compared to most other countries. And presently, China has a homegrown credit bubble that is now comparing ominously to the worst of U.S., U.K., Japan and South Korea's credit growth, in relation to their GDPs, prior to their near financial collapses in 2007, 1990 and 1998 respectively.

#### Chinese Companies Borrow More and Pay More for the Privilege.



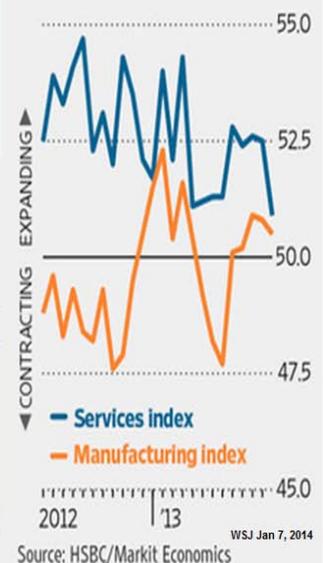
#### Rising Burden

Shadow banks have helped boost China's debt level at a pace that mimics the rise seen by other nations ahead of their financial crises.



#### Double Trouble

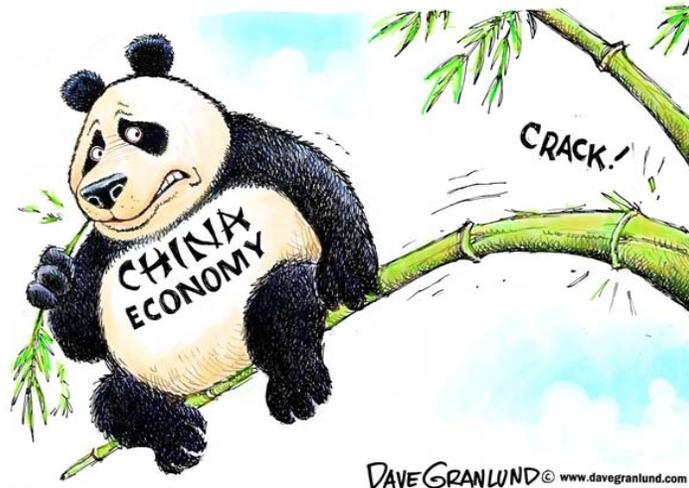
Recent surveys show weakening in both China's services and manufacturing sectors.



Chinese  
Economy, 2014  
– Excerpt from  
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The Government of China had acknowledged the excessive credit growth problem in its last Plenum, and announced its determination to address it. But the reality has turned out to be different as the credit expansion has continued unabated over the past years (*previous chart*) and since the November 15, 2013, 3<sup>rd</sup> Plenum.



The much publicized shadow banking activity has continued to climb, and some of the exotic 'Wealth Demand Products' (WDP) have started to implode. Chinese Government *had* announced that it would allow market forces to function in its financial sector to bring some market discipline, but in the face of a major default it capitulated and stepped in (*as an anonymous investor*) to bail out the Trust Co, to prevent panic from spreading.

The first high profile bailout was of China Credit Trust Co. for its wealth demand product 'Credit Equals Gold #1', where the Government stepped in to the tune of US\$495M. But there is US\$427B worth of such liabilities due in 2014.

Most China watchers, including us, fear there is a lot more bad news to come out of China on its banking/shadow banking side, as this is the tip of the massive credit boom iceberg that is slowly sinking under its extraordinary size and weight. (*Note – China's debt is now closer to 250% of its GDP*)

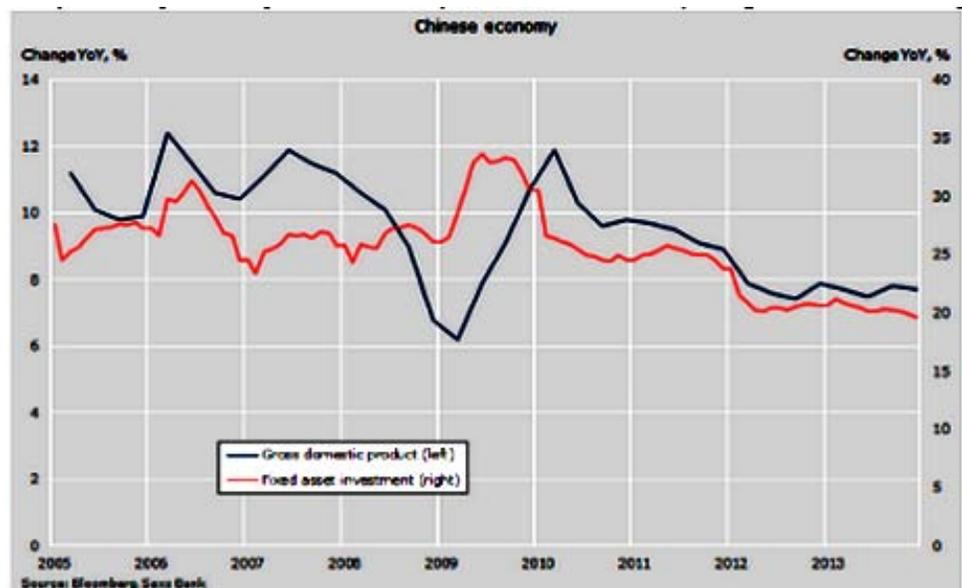


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There is no question that the Chinese Government has tremendous capacity to bailout its sinking institutions, be they financial, industrial, military, political or social. The question is - can the singular might of the Chinese Government bailout all the financial and industrial problems they are experiencing today, most of which are inextricably intertwined. Both of those sinking icebergs, excessive financial leverage and industrial overcapacity, combined, may prove too much even for China's seemingly invincible Government. As the Chart below shows, growth is definitely on a downward trend.



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We have serious doubts that the Chinese Government possesses the kind of unlimited capacity that will be required to hold everything up indefinitely from here on out, in the face of shrinking World demand, and rising internal costs.

The other big problem China has is its limited control on Central, Regional and local governing bodies, that have their own agendas and vested interests. The stated policies of the national leadership, central planners, and national interest, are to a great degree secondary in importance to the regional and local governments and agencies, to their own interests. As everyone is aware, corruption is endemic to the Chinese system and greed is rampant, and the lower and higher levels of governments do that which benefits their interests first, before the national interest.

Those two nasty traits, corruption and greed unmitigated and unleashed together, bode ill for any country and its people, as it has been amply demonstrated in the financial industry in the West, of late. The sheer scale of these two ills in China may make the Western versions look tame by comparison.

We feel that eventually, sooner than later, the cost and fallout from the consequence of these entrenched problems, of endemic corruption and rampant greed, are going to be to scale to the disasters triggered in the West in 2008.

And, while most analysts and commentators have not given much voice to China's dependence on the rest of the World, we have always maintained that China, in the near to medium term, cannot regain or maintain its economic equilibrium without a revitalized global demand. And as we do not see that global demand reviving significantly enough any time soon, we feel that China is heading for much slower growth, barring a collapse of its credit bubble, at which time all bets will be off anyway.

Regardless, we are expecting very challenging conditions in China's financial and industrial sectors in the near to mid-term, and we expect those challenges to multiply and threaten economic stability in China, and hence in the World.

