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Ashok Dhillon has 40 years of front-line business experience in Canada and International markets. Mr. Dhillon's 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. He 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".

The Unraveling of India – More Than Just Economics

A few years ago, after the 2008 crash, a number of Western and Asian economists were very bullish on India, favouring it over China for the 'post-crash' growth potential. The consensus had been that China's government had achieved its past decades of blistering growth rates at the expense of a stable economy and a solid banking sector, while the Indian government had chosen a slower but more prudent path towards growth that would insure stability for years to come. The assumption was that China would flounder and India would continue its uninterrupted growth. Since that time, while China has floundered, India has been slowly unraveling.



The global economic condition is partially responsible for India's and other emerging countries' current woes. The massive and seemingly insatiable demand of the western consumers that fueled growing exports for so many years, has shrunk dramatically and has not recovered, negatively impacting economic growth. The slower growth rates have in turn impacted internal growth and prosperity, further reducing demand. The monetary stimulus by governments in the years just after the crash helped stabilize the financial system but since then has been increasingly ineffective in stimulating economic growth. Now, as the ongoing impact of the 'Great Recession' continues to take its toll globally, emerging markets are increasingly affected. Apart from reduced exports - slowing industrial production, less foreign direct investment and overleveraged banking sector - are all working together to take the air out of major emerging markets of China, Brazil and India. But apart from the economic factors, in India particularly, the impact of vertically integrated bad governance, from local

the impact of vertically integrated bad governance, from local village, to municipal, to state, all the way to the central government, has added serious impetus to the unraveling.



The unraveling really started from India's hosting of the Commonwealth Games in 2010. Initially estimated to cost US\$260 million the 'Games' became the most expensive and controversial **ever**, with the uncovering of the largest corruption scandals involving the officials of the Game's Organizing Committee (final cost estimated by Business Week at an eye-popping US\$9.5 billion). Until then the incumbent government had had a relatively good reputation with the public, but the scale and extent of the corruption throughout the political establishment broke that trust. Since then the governments (Central and State) have struggled to re-establish trust with the public and largely failed, and the Country has squandered its growing potential and its international goodwill and credibility, by creating an environment of consistent corruption, and inconsistent-shortsighted - contradictory -illogical, at times nonsensical, political, regulatory and policy train wreck.

Political parties of all stripes and names lacking real credibility in vision, knowledge or capability (meaningful ideology not really required), compete at winning elections by out-promising give-aways to the public, everything from set mandatory quotas in education and training institutions, jobs in public agencies, writing-off of bank and government loans, free power to free rice, blankets, computers, bicycles and myriad other 'sops' (benefits) that the politicians and their parties can dream up, all at the expense of the

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state or central government exchequer. The voting public faced with a choice of bad candidates to worse ones, in spite of the 'sops', are then additionally wooed through the appeal to religion, caste, sub-caste and ethnic groupings, thus eventually electing political parties and leaders that are not only unfit for the most important jobs in the country and states, but that also sow the destructive seeds of division and greater discontent. Instead of unifying, the current political system has become dependent on divisive politics that has created suspicions, rivalries and hatred among the endlessly diversified 'Indians', along all differential lines possible.

Once the municipal, state or central elections are over the systemic plundering of the country starts by those in power, leaving all policy making to the government's daily reaction to vested interests, opposition parties, the public sentiment and the constant pressure of an ever emerging crisis, of which there are many. This policy making tradition of 'reacting on the run' to constantly changing pressures, both internal and external, with no apparent, clear, sane long-term vision to solve the country's perennial and serious problems confounds semi-sane governments, outside analysts, economists, investors and observers. Currently the practice of reactive policy making on the run in response to daily crisis seems to be in full flight. This extent of country wide dysfunction only benefits India's internal and external enemies, and hurts its reputation, and its long suffering albeit generally apathetic public.

India at this time is suffering from the confluence of a number of 'long-in-development' internal trends that are threatening its economic, political, social, and geographic integrity. It is not possible to cover all the aspects of India's deterioration in this blog so we'll focus on the key elements of

general economic impact at this time.

First and foremost, India's generally inept and incredibly overbearing political and bureaucratic rulers stifle the majority of what is productively possible in the country by being incredibly self-centered and self-preservation oriented, rather than being people or country-centered. And distressingly, some 66 years after independence from the British, except for a minimal retraction of "Babu Raj" (bureaucratic rule) since the reforms initiated in 1993, the Indian sub-continent is still and increasingly in the grip of dysfunctional and pervasive governing bodies, from the municipal to the central level. To be fair, there are some bright, honest and well meaning politicians and bureaucrats, who work for the good of the public and the country, but they are so few that their work and impact is nullified by the overwhelming mass of the mediocre, the downright bad and the ever corrupt.



To a degree all emerging countries have similar issues negatively impacting them, issues of across-the-board corruption, ineptness and self-centeredness in political and bureaucratic bodies, which has held them back for decades. But, in India the sheer scale and the current confluence of these negative factors (explained in bullet to follow) are destroying what the outside world considered the strength of the fundamentals of India - its democracy, demographic edge, its ethnic, religious and geographical unity, and the economic potential of its massive internal market of emerging a large middle class, and the vast (approximately 1 billion people) disenfranchised poor that need to emerge from crushing poverty into a slightly more empowered lower middle

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class status, as a start.

- Its democracy is being destroyed by virulently divisive politics.
- Its demographic advantage is being neutralized by a persistent and hopelessly entrenched bureaucratic system, and outdated socialistic, vote buying economic policies that do not create gainful employment for its tens of millions of under employed & frustrated youth.
- Its amazing diversity is being turned against itself by the corrosive, insensitive, ignorant, feudal, political and bureaucratic classes that neither understand nor appreciate India's ethnic, religious and geographic strength in diversity, but deal ham-handedly with those that are different, thereby alienating larger groups of its own society. The internal - Naga, Miso, Naxal, Maoist, Sikh, Hindu and Muslim and other extremist movements are to a degree manifestations of the alienation felt by groups of Indians that feel the mistreatment and indifference of a self absorbed heavy handed ruling class.
- Its economic potential is stalled by stultifying and pervasive control of the public sector and its socialistic ideology, even though that ideology has been thoroughly discredited in all parts of the world, including Russia and China.
- The appalling state of its infrastructure continues to exact a heavy toll on the country, its people, and its economic potential, but successive governments seem to be incapable of driving through the reforms necessary to break through the endless log jams that prevent any major progress.

Of course, this level and longevity of dysfunction would not be possible without the tacit and ongoing complicity of the public. The Indian public while constantly de-crying the corruption and ineptness of the governing bodies are in fact most content to indulge in the corruption and the activities in their own lives that they daily decry. Without the complicity of the public, India could not maintain this level of dysfunction in all its public and private institutions. But we digress.....

Apart from the above, the key areas that threaten India's financial credibility and integrity today are

its deteriorating economic fundamentals driven by the rising international interest rates on talks of 'Fed-tapering', the very high running current account deficit and the growing fiscal deficit of the Indian government. Lately the cumulative effect of these economic realities drove the Indian currency (the "Rupee") to unprecedented lows against the U.S. dollar reaching record levels of almost 65 Rupees to the US\$1. The advantages of a low Rupee for exports are heavily negated by the rise in cost of imports, as India is a net importer, particularly in energy and gold. The rapidly rising cost of higher prices is causing serious problems for the government in its attempts to contain inflation, and relieve further pressure on the Rupee.

This serious deterioration in the overall economic fundamentals of India has been many years in the making. The massive corruption scandals that came to light in the past few years at the central and state government resulted in brief but vocal periods of public outrage, and gave opposition parties, who were not entirely clean, needed ammo to bring policy making and implementation of them to a practical standstill. It also eroded public and international investor confidence in the government. Hamstrung and under continuous pressure the Indian government, at all levels and in all sectors, has brought about inconsistent and at times contradictory policies that has caused confusion, delayed important decisions, and further eroded confidence. That increasing lack of confidence in India's governing bodies has significantly slowed internal economic activity and given critical impetus to the flight of foreign capital, over and above the general flight to the U.S. dollar taking place currently in most emerging markets. The greatest tragedy for India and its people is the squandering of the country's potential which is consistently touted but never realized, the neutralizing of its many strengths by its own governments and its people, its loss of opportunity to rise and take its place as a respected power amongst the global powers, and the resulting historic reality that brings focus on its inherent and ever abiding weaknesses.