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Global Economy, 2014 – Stall Speed

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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".



Every year, since the financial crash of 2008, economic recovery targets have been set by G-20 Global Leaders, and every year (*going on to almost six years now*) the 'Recovery' has failed to materialize as anticipated, and the projected growth numbers have been revised downward...*this year was no different*. The global economic growth is stalling due to failed policies.

This year, 2014, the 'Global Economic Recovery' was really supposed to take hold. Instead the World Leaders at the recent G-20 meeting held in Australia, acknowledged the persistent broad-based global economic weakness and a particularly pronounced and worrisome contraction in some of the major economies and economic regions by the second quarter. And (*surprise!*) they reacted as they have in the past 5 years by reiterating the need for further monetary and fiscal stimulation for the decelerating economies. Twenty plus Trillion Dollars worth of 'Economic Stimulus' (*estimated*) spent globally after the crash of 2008, was just not enough to foster a recovery.

In our view, indulging in more of the same (*throwing more money at the persistent problems*) isn't going to bring about the desired change either, but will only exacerbate the significant and growing risks to the global economy.

Our readers have known that we were consistent in our position that a 'Global Economic Recovery', post the debacle of 2008 crash, **was not possible** with just monetary and fiscal 'stimulus', regardless of its duration. That fact has proven correct consistently every year, and is hardly news anymore. Apparently, what is news to the 'Global Experts' who have so far

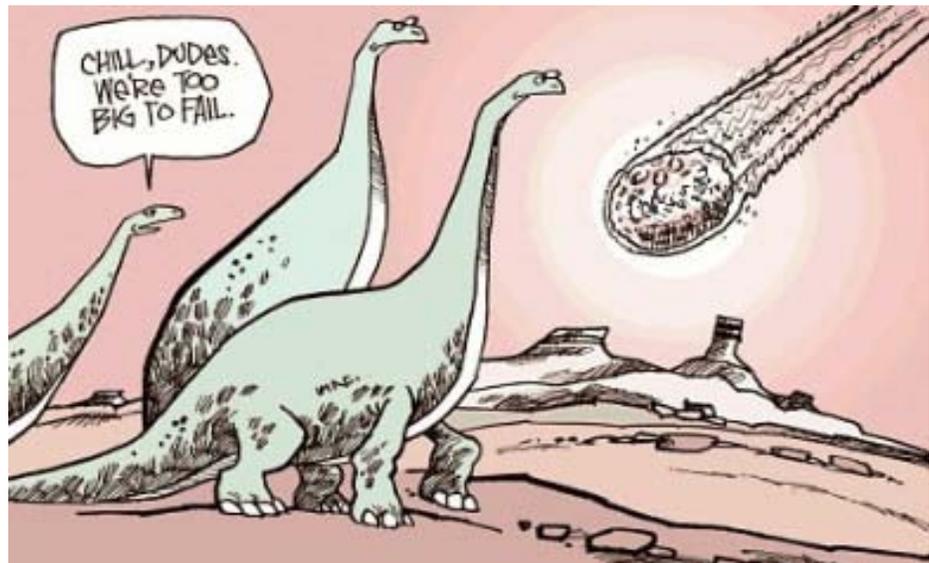
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been touting a Global Recovery, is the sharp **deceleration** this year, particularly in Europe, Japan, Brazil and China, after years of active stimuli.

Well, as there is no real Global Recovery taking hold, they (*the G-20 Finance Ministers and their Central Banks*) are going to undertake more 'stimulus' and facilitate greater 'easing', this time 'targeted', as if the previous years were random, until the hitherto elusive 'Recovery' indisputably takes hold.

In our view, this current artificially induced edifice called the 'Global Economy' will crumble long before any such recovery takes place, under the weight of Trillions in unproductive capital encouraging rampant speculation in asset markets, ever riskier reach for yield, and mountains of debt - this time held by governments and ever bigger - in fact 'too big to fail' banks.



The rapidly deteriorating economic conditions in Japan, South Korea, Europe, Argentina, Brazil, Russia and China, as indicated by the events and numbers of the first half of this year, portend worse troubles to come, as collectively those countries make a big block of the global economy that is doing very poorly indeed, and will therefore negatively impact the rest of the shaky economies that were doing a bit better.

The United States and China, with the active and consistent support of their Governments and Central Banks, are fighting to maintain positive growth momentum. But, ultimately they are going to lose that fight as the drag from the deteriorating geo-political-economic global conditions and their own growing internal imbalances, caused by incredibly myopic policies, corrupted and alarmingly shaky financial and credit markets, and resurging speculative asset bubbles, create economic conditions that are impossible to sustain.

In fact, both these economic heavy weights are poised for major corrections in their financial and real estate/credit markets, respectively, as is now widely expected.

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These corrections, or swing to the mean, as we view it, are being artificially delayed by the consistent intervention of their Central Banks and the continuing aggressive stimulative policies of their Governments. As these exceptionally prodded and 'goosed' economies continue to struggle against a naturally occurring and necessary deleveraging global economic cycle, it is inevitable that one or both will stumble, triggering a general mass collapse.

Europe and Japan were seemingly stabilizing while actively fighting the forces of deflation, but are now the poster boys of persistent deflatory trends and depression- like economic malaise.

As we anticipated, India, is recovering from the legacy of decades of bad policies, bad-governance, corrosive corruption, and general dysfunction, and it will take the new Government, with all its inherent and expected capability, some significant time to right most of the wrongs, if that is at all possible in a country that specializes in self immolation. Yet perhaps the impact on India in the coming downturn will be least severe amongst the major economies, due to its very large high demand-driven internal market, and low thresh holds.

Some countries in Latin America, Eastern Europe and Russia were still problematic, but the general consensus amongst global experts, analysts, economists, bankers, and governments, was that the worst was over and the post 2008 crash ultra-stimulative monetary policies of the Central Banks had worked and the global economies were past the heavy damage inflicted by the 2008 crash, and were slowly healing.

We emphatically disagreed, being more of front line business, geo-political analysts, and not purely academic ones, and so we waited to see if perhaps we had been wrong. We weren't wrong. The global economic growth in 2014 is once again revised downward, and parts of the World are crumbling.

Since the start of QE 3, it has been our contention that the global economy is not going to heal with just fiscal and monetary easing, no matter how

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protracted, and in fact is going to continue to deteriorate significantly in an interlocked mutual downward spiral. And that is exactly what it has been doing these past years. Now, the downward momentum is accelerating as the policies of continuing stimulus become increasingly ineffective and start to get overwhelmed by the structural imbalances in the major economies - and thus the whole global economy.

Additionally we see the extraordinary protracted monetary and fiscal easing, and support, as a narrow misguided economic policy that is creating obvious and dangerous wealth imbalances in the economic and social strata of most countries.

The extraordinarily blatant largess of cheap/free money, available almost exclusively to the already privileged, has almost singularly benefitted the wealthy of all countries, enriching them extraordinarily at the cost of the majority. Additionally, the exceptionally low interest rate regime has fueled casino like speculation in the asset markets by the rich, with little to no risk, as the risk has been backstopped by the Central Banks. The 'zero rate' policy has instead robbed, penalized and punished the savers, the working class, the prudent and the elderly amongst the general public. The cumulative effect of these unbalanced biased policies has resulted in extraordinary enrichment of the already rich and the powerful, at the cost and marginalization of the global working class majority.



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But, it is the beleaguered working class that make the economies grow through their productivity and consumption. Hence after almost 6 years of unprecedented stimulus and easy money, all we have to show for it is no real recovery and the widening of the gulf between the favoured minority rich and the perennially exploited rest. Plus, we have grossly imbalanced economies to boot that continue to falter in spite of 'Tens of Trillions' spent in years of prolonged stimulus, with no commensurate rise in economic activity.

The sustainable recovery can only truly take hold if the excessive monetary and fiscal priming are removed and structural reforms with proper and fair regulations that direct the financial and trade policies to favour the majority are implemented. The reduction of debt and healthy sustained consumption by the majority is what is required to restore the global economies.

With the prolonged trajectory of the record setting financial markets, we have seen a false sense of security start to take hold, and many die-hard perma-bears have thrown in the towel and capitulated to the side of the bulls. This false sense of security is generated by the ever up-trending asset markets, and artificially induced sporadic signs of economic activity that have no real fundamental economic underpinning.

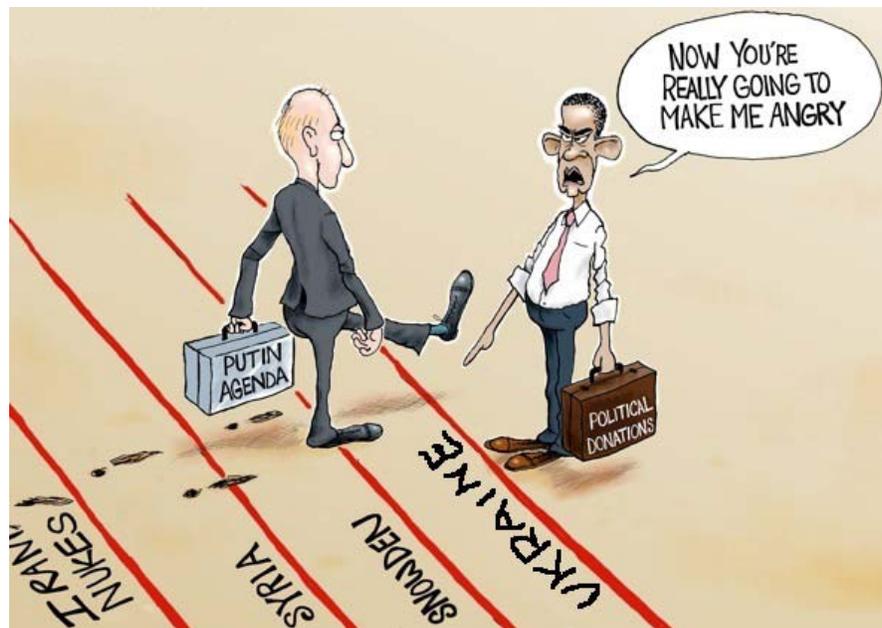


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Additionally, the ever record setting financial markets, largely detached from economic reality, seemed to brow beat the bears, and boosted general optimism. But the high-flying markets give us greater cause for worry rather than allay any of our fears, as, in our opinion, they only add to the myriad financial and geo-political risks that we see as growing threats to near term economic stability.

The expectation of most analysts and economists in the second quarter of this year was that from here on out the global economies were well on their way to sustainable economic growth, in spite of the various financial and geo-political threats. But as the financial markets, and to a much lesser extent economies, continued to inflate with the ongoing monetary and fiscal stimulus, in our view, the threats of financial imbalances grow.



And now, there are the growing geo-political threats in Europe, Ukraine, Iraq and Syria and South China Seas that add weight to the future destabilization of the trade/financial/energy markets and hence the entire global geo-political-economic order. With the coming of winter, an already weak and rapidly deteriorating, susceptible Europe is further at risk of an energy shock from a belligerent and determined Russia. Compromises will most likely be made by both sides, but the situation is quite untenable as the long term acceptable solutions of the two sides, Russia and the West, are not really acceptable to the other, as currently stated.

Additionally, the Federal Reserve's commitment to boosting asset prices at all cost, and China's commitment to inflating GDP growth at the precise rate of 7.5% to maintain illusions of growth, regardless of national and global economic reality, are both grave threats to long term global economic stability. The hope of both governments is to keep stimulating the economies.

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and the asset markets, and simply out-run the threats of bubble implosions constantly nipping at their heels, due to past and current policies.

It is an obviously dangerous and desperate strategy but one that is much more palatable to both governments than the alternative which is to bite the bullet and let the people suffer the pain for the past excesses and current indiscretions of governments, financial institutions and the public, all of whom binged on debt and leverage for short term speculative gain - and hence long term pain.

Since pre 2008, things have not changed much in the intervening years as Central Banks replaced the reckless credit expansion of regular banks and non-banks and other financial institutions, with their own massive, speculative and prolonged credit expansion strategy, that is dwarfing previous excesses. The question of course is, who will bail out the Central Banks (*their printing presses notwithstanding*) when the global economic house of cards that they have built comes crashing down, as eventually it must. The beleaguered global consumer is in no shape to bail out the economies yet again, let alone step-up and absorb the next coming crash. In 2014, the global consumer is coming up short of expectations and is being blamed for a spate of weak current economic numbers.



If our readers were to go back to some of our earliest economic reports (*end of 2012*), it will be clear that we anticipated prolonged chronic weakness in global consumption, after the crash of 2008, and based our prediction of the general failure of continuing 'Quantitative Easing' as tool of Governments and Central Banks to foster sustainable global economic recovery. So far we have been right. Prepare for worse to come!