

Views expressed in GETAnalysis reports and commentaries are strictly for information only. All images and content contained herein are subject to copyright. All rights reserved.

WRITTEN BY: ASHOK DHILLON



Ashok Dhillon has 40 years of front-line business experience in Canada and International markets. He incorporated his first construction company in 1974, and since then has founded and led companies in construction and international power development.

Over the last 20 years Mr. Dhillon, has led and worked with top Canadian talent in the legal, engineering and accounting firms, such as Fasken Martineau, Russell & DuMullen, Stikeman Elliott; Hatch, Monoco Agra, New Brunswick Power, SNC Lavalin; and Ernst & Young, Arthur Anderson, and Grant Thornton. And in London, worked with Perkins Couie and Morgan Grenfell. Mr. Dhillon's companies have partnered and worked with Pan Canadian Oil & Gas, WestCoast Energy, TransCanada Pipelines, and international companies such as AES, Enron Power, Hyundai Heavy Industries.

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".

Government of Top Three Economies Distracted

It is most unfortunate timing, that when the global economic engine is sputtering at best, and stalling in Europe, that three out of the four largest economies in the World have Governments that have been preoccupied with matters of self-preservation, rather than the focused coordination of national and international economic policies.

In the largest economy of the World, the United States, it being Presidential election year, the incumbent government under President Barack Obama, has been in serious campaign mode for most of this year, and perhaps a little earlier. During this time the U.S. economy has struggled mightily and failed to find real traction on the very slippery slope of a persistent global recession. Persistent because of the reasons outlined in my previous two reports.

A government in election mode, when facing a particularly tough fight and a very uncertain outcome, is prone to take decisions that will, to the greatest extent possible, get it the quickest and the most 'flattering' results to better its pre-election image. As opponents and challengers mount relentless and at times irresponsible attacks, and keep up a barrage of criticism for perceived lack of performance, well thought out and sound policies are made unacceptable by the need for quick results. Challengers are gleefully immune from real life constraints that the incumbent administration faces, and therefore can make unrealistic promises and raise unrealistic expectations of the voting public, further forcing the Government's hand. As a result money is thrown at deep structural problems in an effort to generate faster results.

This compulsion, used by most governments under re-election pressure, usually creates a bigger problem down the road.

The unprecedented liquidity in the American financial system, due partly from the rescue required of the collapsing economy post October 2008 crash, and partly from the need to deliver unrealistically speedy results due to an impending election this year, is going to further distort economic re-development at home and abroad. Trillions of printed dollars injected into the economy are going to erode the value of the American dollar long-term, create a downward spiral of competing trade currencies, as other equally struggling economies/countries ratchet down their own currencies to try and keep their competitive trade advantages. Currently, China's tightly controlled Renminbi versus the U.S. dollar is the most obvious example of such competition between the currencies. But of course it goes a lot further than that and extends to all currencies, including Canada's.

In its trade and foreign policy, the U.S. Government, due to the same pressures, has to appear more hawkish than perhaps is warranted, or even desirable. It is to the current administration's credit that it has resisted the temptation to become strident and hawkish, and has tempered its rhetoric against its trade competitors and its political foes so far. The same cannot be said for China, the 2nd largest economy in the World, which is going through its own, once in a decade, transition of power and leadership.

The leadership in China is trying to maintain the appearance of a smooth and orderly transition

Government of Top Three Economies Distracted

WRITTEN BY: ASHOK DHILLON

of power within the ruling communist party, which is underway this year. That appearance is becoming increasingly difficult to maintain with the generally hidden, but increasingly known intense infighting that is taking place among politburo factions. Additionally, with the simmering restlessness of the Chinese population being of constant concern to the ruling elite, the Government decided to raise the scepter of the old nemesis, Japan, to whip national sentiment into a frenzy. This focusing of the public's attention on an external enemy is a time tested strategy employed by most governments, wanting to deflect negative public attention at a time of particular sensitivity and/or vulnerability. This 'fight' that China has started with Japan, at this time, comes at a particularly bad time in terms of the global, Japan's and China's collective economic challenges. But, the compulsions of politics and power almost always override sound long-term economic and geo-political strategy, and while the 'territorial dispute' is going to negatively affect the business and geo-political relations between both countries for years to come, China's leadership needed to shift the public's focus from itself, especially at this time of political vulnerability. Additionally, China is not confining the territorial dispute to just disagreement with Japan for a few islands, but is claiming sovereignty to the whole of South China Sea, with active confrontations with Taiwan, Vietnam, Malaysia and the Philippines. Much of China's saber rattling is primarily for internal political reasons when it needs to rally public support, but at this time when all governments are under pressure, it will have a negative long-term impact on its relations with its neighbours.

India, the fourth largest economy in the World, ranked third by the IMF in terms of 'Purchasing Power Parity', is not in an election year, but is

currently and very severely affected by serious internal political dysfunction.

The ruling coalition government, led by the most dominate political party in independent India's history, the venerable Congress Party, has been paralyzed for over a year under the sustained assault of accusations that have emanated from a seemingly endless number of major corruption scandals.

These misdeeds have been brought to light by a number of social activists that have become household names, and by the office of the Comptroller Auditor General (CAG). The 'corruption scandals' are of a financial scale so large (in the multi-Billions each) that an otherwise complacent and mostly complicit public, has finally been shocked into an energized and angry population, demanding accountability. The ever opportunistic opposition parties have of course added to the Government's woes by ratcheting up the public pressure, and by being totally uncooperative in the Parliament, making it practically impossible for the Government to effectively govern.

At this time when India, like most economies, is facing serious problems as a result of the global economic recession, this paralysis in Government has directly contributed to the sharper than warranted decline in GDP output. As government agencies became increasingly afraid to take decisions, under the greatly heightened public scrutiny, businesses have been unable to get timely governmental approvals or policy clarifications. This policy paralysis has resulted in greatly diminished economic activity, as capital investment and planned projects stalled. Additionally, all of the second generation policy reforms, so desperately required to further free the Indian economy from public ownership and stifling

Government of Top Three Economies Distracted

October 25, 2013
Page 3

WRITTEN BY: ASHOK DHILLON

bureaucratic control, have either been put on hold, or have been pushed back indefinitely, due to the Government's greatly diminished legitimacy, and the resulting empowerment and un-cooperation of the opposition parties.

The cumulative effect of having Governments of the largest economies in the World, distracted by personal rather than strict governance concerns, and taking decisions that under circumstances less threatening to their survival, they may not have, is going to further complicate economic recovery and have far reaching effects on growth and trade.

The United States, whether President Obama wins or the challenger Mitt Romney wins, is going to aggressively push down the path of unanimously proclaimed self-reliance as is being endlessly promised by both candidates on the election trail. The focus will be to spur immediate national economic growth and the accompanying job creation. This proclaimed turn towards greater self-reliance will be to the detriment of its trading partners as investment and the resulting jobs are going to be increasingly kept at home. The extraordinary liquidity through prolonged stimulus spending adding to the record national debt will deflate its currency value in the longer term. That could assist exports and thereby help towards the reduction of the growing trade deficits, but, that will make other equally aggressive (desperate) governments to try and further lower the value of their currencies, possibly triggering currency and trade wars.

China's ruling elite, in an effort to keep the veneer of internal solidarity and public harmony intact, is going to continue to antagonize its neighbours with claims of sovereignty in South China Sea, to its long-term detriment. China will also have to keep pumping money into its highly

suspect banking system to prevent any financial crisis of its own, even though it will continue to inflate an ever growing bad loans problem, and to continue to stimulate its economy which is facing a growing number of challenges, such as significantly lower demand and profits from its manufacturing, resultant over capacity, overall rising costs, labour unrest and rising expectations of its people.

India's Government is facing a crisis of confidence, mistrust and legitimacy, resulting in its inability to effectively govern a country that at best of times is impossibly difficult to govern. The effects of such dysfunction are clearly evident in the dramatically slowing economy, general policy paralysis, and the regression of its second generation reform agenda that has made foreign investment take serious pause.

These three countries carry huge heft in the overall global economic order. Unfortunately at this time of great global economic vulnerability, each of their governments are distracted with pressing internal issues that are preventing them from focusing on the vital national and international coordinating effort that is required, to stabilize the global economy. Coupling their less than optimal governance capacity at this time, with Japan's ongoing malaise, and with the absolute crisis that the euro zone is struggling with, it all makes for a very challenging time ahead.