

## **BRICs and the Eurodebt Crisis**

The BRICs economies have become increasingly important to the global economy, world trade and finance in recent years, especially since the global financial and economic crisis of 2008. The BRICs economies are also affected by the ongoing European sovereign debt crisis; it is hurting their economies cutting their economic growth rates, leading to a de-acceleration of their economies and will lead to a rise in unemployment eventually. In the case of Brazil the economic growth rate of the Brazilian economy for 2011 it is estimated will be halved to 3.5% compared to 2010. This is a major reason why Brazil's President Dilma and former President Lula have called on Europe's political leaders to take unified and decisive action to resolve the current Euro debt crisis, and the threat of a Greek default. It can push the global economy into a severe crisis, and world recession. Even China with its strong high growth economy and large foreign exchange reserves can be badly hurt, as the European Union is China's largest export market. This is a contributing factor in the BRICs countries offering to help their European economic and trade partners. China has promised to shore up the Euro by buying up government debt of countries like Spain, and Italy.

The BRICs countries contain more than half of the world's population, and an increasing proportion of global trade and Gross Domestic Product. They cannot afford to let the European economies sink. China is now the world's second largest economy and expected in the future to become the largest global economy, it is the world's largest manufacturer and exporter, and it has the world's largest foreign currency reserves. It has also the world's largest population. However, there has been recent research to show that China is losing its competitiveness as the world's global manufacturing workshop due to the effects of high inflation, and declining labour productivity and the USA's productivity is increasing. It is forecast that three manufacturing million jobs lost by America to China could eventually return to the USA,

Various solutions have been put forward to solve the Euro economic and financial crisis. One radical plan is to divide the current Euro zone and to create a wealthy, financially stable, with strong economies and stable public finances Northern Euro, and a Southern Euro zone of the southern European economies with weaker economies, large budget deficits, and economies based more on tourism and services. This split would mean that the Southern Euro economies could have a softer common currency, which would be cheaper, thus exports could be expanded more easily and unemployment greatly reduced. However, this simplistic solution overlooks that trillions of Euros in contracts for trade, and investment are in Euros, this would have a catastrophic effect upon European banks and even northern Euro zone states. To unscramble the Euro egg would prove extremely difficult and costly for both strong and weak Euro zone economies alike. Former UK Conservative Prime Minister John Major recently suggested in a BBC TV interview that Greece might default, and that the Eurozone banks need to provide funding for European banks to increase their capitalization so they can absorb losses from any Greek default. Shortly French president Sarkozy and the German Chancellor Angela Merkel intend to unveil a plan to sort out the Euro debt crisis, which would require increased capitalization from the central European Financial Stability Fund, these European banks are mainly German and French, which have the heaviest exposure to Greek public debt. Even Britain's Euro-sceptic Minister of Finance George Osborne has spoken out in favour of closer economic coordination and fiscal union for Eurozone economies to make the monetary union work. Germany's Chancellor Angela Merkel, despite her serious concern over the huge funding involved in the bailouts of the indebted weaker Euro economies, she has strongly defended the survival of the Euro, and suggested that the end of the Euro would lead to the collapse of the European Union and its allied institutions. This and would spell the end of European regional economic and political cooperation and integration as we know it.

President Obama recently said publicly that the European Union needs to get its act together, and quickly solve the European debt and economic crisis, which he believes could undermine

the American economy and its recovery, there is the real worry of financial contagion. Europe is too slowly getting its economic and financial act together, the credit agency downgraded the Italy and Spain's debt, and a credit agency in Britain downgraded the credit rating of four leading British banks, such as Lloyds and Nationwide, and strangely the Finance Minister George Osborne supported this, an apparent own goal for Britain's financial system by Mr. Osborne.

In America, there have been peaceful protests of thousands of people in Wall Street against the big Wall Street banks and financial system, and the high level of unemployment in America, and the large social and economic inequality. President Obama expressed sympathy with the frustration felt by the protesters and many other Americans about the financial and economic system. These protests have now spread to other big American cities such as Washington, and Los Angeles.

The Eurozone governments should learn from the experience of BRICs countries, who in the past suffered economic meltdowns and banking crises, yet overcame these difficulties, and are now much stronger globally economically and politically. However, BRICs economies like China and Brazil will be seriously affected by the expected global recession and economic downturn in 2012, which can lead to a big fall in agricultural and commodities export prices, and the end of that boom could hit the Brazilian economy. Brazil is experiencing a deceleration of its economy as a result of the global financial crisis, at the same time inflation is at a six year high of 7%, and the country's economic growth rate of GDP has been halved to 3.5%. There is a real danger of economic recession and job losses affecting BRICs economies like Brazil, Russia with its natural resources based economy, China, and India as well.

The head of the IMF Cristine Lagarde, the former French Finance Minister met her old boss in Paris on 8<sup>th</sup> of October to discuss the Euro financial crisis. Later she will have a meeting with him and the German Chancellor Angela Merkel to debate further what economic measures the Eurozone leaders need to take to bring this serious Euro debt financial and economic crisis to a close, and to prevent it pushing the world economy into a serious recession.

The European Central Bank (ECB) has recently said it would provide unlimited loans to prevent a regional Eurozone credit crunch, where banks would not lend to each other, which would have a dire effect on the Euro land economy. The Bank of England agreed to pump 75 billion pounds into the economy through quantitative easing again, and decided not to increase interest rates, which remain at a low 0.5%. However, the British Prime Minister has refused to provide help for the British economy by reducing the pace of deficit reduction, both he and the Minister of Finance Gordon Osborne have said that there is no gain without pain; this is despite the IMF warning that European governments should go easy on deficit reduction and austerity. The IMF also urges Eurozone governments to recapitalise their banks to avoid a banking and financial crisis, which could follow a Greek default. The IMF said that Europe's stronger economies should avoid imposing budget cuts at the expense of growth. They also said that Europe's big economies such as the United Kingdom, France, and Germany should consider delaying cuts because they can borrow money at historically low interest rates. They also said that an economic recession for 2012 could happen.

The BRICs countries such as China and Brazil have offered to help the Euroland countries, but so far, no concrete practical aid has materialized apart from exhortations. The President of China's huge state-backed Sovereign Wealth Fund on a visit to Brazil denied that China would bail out the Eurozone economies with financial aid, and said that his Fund instead wished to step up investment and purchase of companies in growing emerging markets like Brazil.

President Obama called for the US Senate to pass the urgently needed Jobs Plan, which can create many US jobs, and he said that the Senate must pass this bill, as the fragile US economy needs it to head off an economic recession. The US economy in September 2011 unexpectedly

created 103,000 new jobs, which was a welcome surprise, but not sufficient to dent the unemployment figures which remain at 9.1%. Some economists put the real unemployment rate at 16% when account is taken of those who have dropped out of the workforce, or are underemployed. Bernie Sanders the sole socialist in the US Congress, and an independent US Senator for Vermont suggested that this figure does not take into account the millions who have dropped out of the labour force demoralized from looking for non-existent jobs. He criticised the Obama Administration for spending multi-billions on bailing out Wall Street banks, but failing to provide loans for small businesses to hire people. The big American corporations are holding US\$ 2 trillion in cash, which should be invested instead in capital plant and machinery, and in job hiring to reduce the jobless rate. American businesses should be less risk averse, and start hiring people, this is the position of the President of Starbucks Howard Schultz who plans to open hundreds of new stores in the USA and to create 3,500 net new jobs this year, and he has also started a campaign Create Jobs for USA, and provided US\$ 5 million seed money.

Europe's economic and financial crisis continues with no immediate end in sight. The governments of France, Germany, and Belgium have nationalized the troubled Dexia Bank; the rescue package has pushed the Belgium public debt to a dangerous level 97% of its Gross Domestic product, which could cause the credit rating agencies to downgrade the Belgium government debt. This bank has exposure to a huge global debt of US\$700 billion (\$1.2 trillion), which if this bank was allowed to collapse it would set off a full blown European banking and financial crisis, which could have dire consequences for the weak fragile American economy, and spread outward and lead to a global economic crisis and slowdown. BRICs economies would also be badly hit. The current European economic crisis has led to heavy financial asset losses for BRICs economies.

The main problem facing the Eurozone is that there are 17 separate national governments and fiscal authorities, while what is need is a common fiscal authority to sort out the Euro countries public finances, to prevent heavy budget overspending and big budget deficits and huge public debts. The USA, Brazil has a common monetary union and authority, and that the Euro area needs a common central fiscal authority, which avoids the current banking and financial problems faced by the Euro states. One of the Euro zone's smallest and poorest members Slovakia's Parliament recently voted against the plan to expand the powers of the European Financial Stability Facility, which also involves expanding the size of the Eurozone bailout fund to 440 billion Euros (US\$600 billion, 383 billion pounds). The Slovak Parliament has now finally approved the plan eventually, after an agreement to call soon for a general election, but small states hold the bigger economies for ransom, and can put the spanner in the works for a while. This could in the future can be avoided if a supranational fiscal authority, or body, is created for the whole Eurozone area, which would complement the existing common single currency and monetary union. There are those in Europe argue that the lesson to be learned from the Euro debt crisis is the need for further European integration.

One lesson that can be learned from the current global economic and financial crisis is that it affects everyone, both BRICs economies and developed G8 economies, and including the poor low income developing economies. There is a need to work out a viable solution together to prevent the world sliding into another world recession, as we are all in this together, which will be affected by a global economic slowdown and recession. In 2012 it will be five years since the global credit crunch crisis developed into the worst world economic and financial crisis since the Great Depression of the 1930's, and it has taken to long for the world's leaders and central bankers to come up with an economic recovery plan. We should remember that World War 2 lasted only six years. The Eurozone states need to have a common supranational fiscal body like Brazil, UK, Australia, and the USA if the Eurozone is to work properly and avoid future sovereign debt, financial and economic crises. German Chancellor Angela Merkel said recently that there was no big bang solution to the Euro debt economic and financial crisis. However, the EU's slowness in responding to the Euro debt crisis of Greece and other peripheral economies has made the situation was far worse than it should have been.

Europe's financial crisis has adversely hurt a strong BRICs economy like Brazil, which has had to slash its growth prospects for 2011 to only 3.5%. Europe is China's biggest export market and the Chinese economy can be damaged as exports are halted. Brazil has a well-regulated banking and financial system, state-owned and controlled banks like the Bank of Brazil and Caixa Economica, and which are well capitalised. Brazil's President Dilma Rousseff during her recent visit to Europe had talks with the leading European Union leaders and said that fiscal policies involving cuts in public expenditures can make the economic situation worse by leading to more unemployment, and a lack of economic growth. A rise in European share prices was reversed after the pessimistic German Finance Minister cautioned that a Eurozone debt crisis plan might not be ready at the end of this week. This contradicts the G20 Finance Ministers meeting in Paris on Saturday 15<sup>th</sup> of October who stated that the next EU Summit would deal with the "challenges through a comprehensive plan" when they meet on the 23<sup>rd</sup> of October. The German Finance minister Wolfgang Schoeuble warned the Brussels European Summit was not expected to provide a definitive solution to the crisis, while the financial markets want a definite result. The G20 leaders meet again on the 3<sup>rd</sup> and 4<sup>th</sup> of November. Last Saturday they said that the IMF needed more finance and firepower, but later they said that the IMF had enough funds to deal with the European financial crisis. The European Union leaders and the USA were against expanding the funds of the IMF, perhaps fears of giving too much economic and financial power to the rising emerging economies.

Two respected centre left statesmen former President Lula de Silva of Brazil, and the ex-British Labour Prime Minister Gordon Brown met in Madrid recently to discuss how to solve the European and global economic crisis. One must hope with their considerable experience and influence that they help to provide a viable solution to the crisis. Brazil's President Dilma Rousseff at the IBSA (India, Brazil, and South Africa) Forum of the largest democracies on their respective continents, agreed to a progressive common position and consensus on the European economic crisis, which would mean that any solution would protect the economic and social interests of Europe's poor low income groups, and prevent the crisis from spreading to emerging economies. The writer believes that Greece cannot possibly repay its huge public debt, and that the richer Euro economies must fund a 60% write-off of the Greek debt, combined with billions in extra funds to recapitalize European banks. Otherwise, a Greek default would lead to the collapse of the Euro, and seriously damage the Eurozone economies and the European Union itself greatly. The influential Governor of the Bank of England Mervyn King has suggested that China should import more in order to help solve global financial problems; this is a very good idea. China's huge export surpluses and financial reserves create a serious imbalance in the global economy affecting both rich developed economies, and emerging economies.

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