IS IT POSSIBLE FOR EUROPE TO GET HELP FROM BRICS COUNTRIES?

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Abstract: Within the second decade of the month of September 2011, the Brazilian finance minister Guido Mantega advanced the idea that BRICS countries could offer help to Europe either through the International Monetary Fund or by buying up European bonds. Is this help hiding an interest from the BRICS countries side? I believe it is, because the European authorities have created a financial crisis that is already slowing the world economy and could potentially have even worse effects. In my opinion, this could hurt BRICS countries, including Brazil. I do believe that if the BRICS countries really want to give a hand to Europe, they can, eventually, offer zero or low interest loans in hard currency to the troubled countries. If this move is done correctly, it would allow to those damaged countries to escape the harmful conditions that the European authorities are imposing on them. Of course, Greece would have to default on a lot of its debt to take advantage of this alternative, but the other countries would not. In this way, the BRICS countries could help save Europe from this incompetence of their policymakers!

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1. INTRODUCTION

I do believe that BRICS countries would not help Europe only by throwing money at them. This must not be all! I mean, if we have a family member with a severe addiction, it's better to get him into a treatment facility!

I want to be very honest with you **here** and **now:** I consider that the so-called "Troika" of the Europe, i.e. the European Commission, the European Central Bank and the International Monetary Fund – in fact, the Europe's policymakers – **have a very, very unhealthy, dangerous and harmful habit that needs to be broken!** It seems to be **their** addiction to austerity! It is very clear now, for everyone, that the Greek debt is not possible to be paid, is not payable and this debt needs to be restructured, but in an orderly way. Unfortunately, the Troika's austerity policies have, as a concrete result, the increased Greek debt from 115 percent of GDP when the first IMF program was agreed upon in May 2010, to **189 percent,** projected for the next year!

This last crisis was triggered by the IMF's refusal to release an 8 billion euro loan installment until the Greek government implemented further painful, counter-productive budget tightening. The same European authorities have provoked other crisis, quite recently, by threatening the Italian parliament as well.

That is why I think this is not a primarily a debt crisis that Europe is facing, but a crisis of **policy failure!**

Reverting now to the topic, I do believe that if the BRICS countries really want to give a hand to Europe, they can, eventually, offer zero or low interest loans in hard currency to the troubled countries. If this move is done correctly, it would allow to those damaged countries to escape the harmful conditions that the European authorities are imposing on them. Of course, Greece would have to default on a lot of its debt to take advantage of this alternative, but the other countries would not.

Despite all these, there are different opinions concerning the support possible to be granted to Europe, in the very core of the BRICS organization. For instance, the Russian Deputy Finance Minister considers that such a help coming from the BRICS nations is impossible! Finance ministry and central bank officials from Brazil, Russia, India, China and South Africa met before this week's IMF annual meeting to discuss coordinating policy as Europe reels from a sovereign debt crisis and growth slows in the US. There is a "high" danger that Greece will not fulfill all of its debt obligations, Storchak said. "But whether that means creditors, Greek debt holders, will declare them in default is still a question," he said. "They might not." Declaring Greece in default with the idea of triggering covenants in the country's debt would be a serious step for creditors, he said. "That would mean, at a minimum, a haircut and then maybe even cutting off part of the body."

Neither Brazil nor other members of BRIC, which began including South Africa in its meetings earlier this year, proposed a joint effort to help Europe going into Thursday's meeting, Storchak said. Russia would not want to provide individual help to a country like Greece without seeing a debt stability analysis like those required of Paris Club borrowers.

2. ANALYSES

Different government procedures among the countries make joint action such as a loan or buying bonds impossible. Sovereigns aren't banks, they aren't able to provide a syndicated loan. Methodologically, that would be a fairly difficult thing to do.

Working through the IMF remains the most practical and pragmatic path. Finance Minister Alexei Kudrin said that countries with "major reserves" might consider options to help ease Europe's sovereign debt crisis. The countries said in a statement after their meeting that they would provide support "if necessary" through the IMF or other global financial bodies. The BRICS are also "concerned with the slow pace of quota and governance reforms in the IMF".

With work lagging on implementing changes agreed in 2010, BRICS are more likely to contribute to the new agreement on borrowing as a way to help through the IMF than trying to further boost their sway by raising their shareholding.

The BRICS bailing out the Old World is a scenario that few would have imagined just a few years ago before the financial crisis and recession, when Europe and the United States were on top. But those economies are stagnant now, as countries such as Greece, Portugal, Ireland and Italy struggle with huge debts, government austerity drives and high unemployment.

The BRICS nations met this September in Washington and discussed how to help the European Union get out of this hard situation. BRICS nations would likely increase their holdings of Euro-denominated bonds as a way to provide support for the region's spreading financial problems.

But as new troubles in Europe roil the markets daily, the question is how much the BRICS group can help the embattled 17-member monetary union. Also in

September, the Italian Treasury was forced to pay a record-high yield to sell five-year bonds, reflecting growing concerns about the country's debt burden. Meanwhile, German Chancellor Angela Merkel pleaded for the Euro zone's survival, attempting to defuse growing expectations that Greece is on the brink of defaulting on its debt obligations as the country's cash reserves rapidly deplete and its bond yields skyrocket to unsustainable levels.

Buoyed by strong exports, high growth rates and generally sound fiscal positions, countries in the BRICS group are increasingly taking the role of creditor nations, ready to provide a financial backstop to the so-called PIIGS – Portugal, Ireland, Italy, Greece and Spain. Those countries are suffering through a debt hangover after years of credit-fuelled expansion came to an abrupt halt during the global financial crisis, while recent moves to slash government spending weigh on a fragile rebound.

Mantega's comments came after *Valor Economico*, Brazil's top business newspaper, said any European bond purchases would send a powerful political message to wealthy, though struggling, economies. "The political interest is clear – to appear publicly as contributors to market stability and thereby demonstrate to what extent the balance of the global economy is changing" the paper said.

In other words, bond purchases of euro zone countries would highlight the BRICS' growing economic power and stature. Those countries were once disparagingly knows as members of the Third World. Today, they are potential saviours of the First World.

Among the BRICS, it is China that pioneered the purchase of sovereign junk debt. Since the euro zone crisis started, it has bought Portuguese and Greek bonds, though the value of its purchases is not known. At the half of the month of September, the Italian government revealed that it had met with Chinese officials to encourage China's purchase of Italian bonds and investments in strategic companies. In an interview at the Frankfurt Auto Show, Sergio Marchionne, the Italian-Canadian chief executive officer of both Fiat and Chrysler, said: "If the Chinese are willing to invest, God bless them. But the fact that we had to go there [begging for money] is not a good sign".

In this way, the BRICS countries could help save Europe from this incompetence of their policymakers!

Within the last decade of September, the G20 meeting in Washington sought to discuss solutions to the eurozone debt crisis. The emerging economies, the BRICS countries have also met to discuss possible ways to help out the eurozone debt crisis. At this meeting, they were discussing, the solutions to the euro debt crisis, amongst many other issues. The BRICS grouping is a new grouping in the international affairs that has emerged recently. As a result people increasingly listen to these meetings that they have, though it's unclear to me what exactly these meetings seek to achieve.

When we are talking about solutions to this problem from the BRICS perspective, we are really talking about it is that the Chinese can do, because the Chinese are the ones who are very affluent at the moment and are clearly able to exert an increasing amount of pressure in the international affairs. So, when we are talking about what the BRICS countries can do, we are really talking about what potentially China could do in terms of helping bolster the euro.

The idea is that the Chinese could purchase more European debt or they could try to help out by buying assets in Europe to insure confidence in the eurozone and to help bail out some of the weaker European economies. At the moment, it falls on some big European states to pick up this slack. And in the eurozone, there is an increasing amount of trepidation and concern amongst these big countries that they are going to be constantly bailing out the poor ones. So the idea would be that someone like China could step in and help cope with that role. So, the question becomes what's the payoff as the result. I mean, if we are using China to help save our European economies then the dilemma becomes what it is that they will ask in return.

And, with China specifically, we, of course, have a whole raft of human rights questions that we are concerned about and other issues on the table. That's why I consider that, if we are talking about BRICS countries helping out, we are really talking about what the Chinese can do. The Indians have a lot of concerns of their own. And Brazil has not quite yet come into itself as an international player. And Russia has always been there, but Russia is hesitant to deal with it. And, of course, South Africa, who was also attending the BRICS meeting, equally has its own troubles at home. Nevertheless, the South African president said that it is a possibility that BRICS countries could buy out euro bonds. I think that such an action would be undoubtedly of help, to some degree. It would be a show of confidence. I mean it will be an interesting turn in the international affairs – the developing world helping out the developed world.

The BRICS are huge countries and huge economies and eventually they will come into their own, though, as time goes on, I hope that we will see this happening more and more. I don't think we're at the point, yet, where we can say these countries are going to be able to take the role, for example, of America or Europe players in the international affairs. But it's the sign of their growing maturity.

HSBC Bank International has released the first of three reports revealing findings of a survey of over 4,000 expatriated or the so-called "expats" worldwide and their opinions about finance, lifestyle and family in their host country.

It may come as no surprise, but the latest numbers are in: the typical expat is a middle-aged Englishman with a knack for finance and an appetite for wealth, says "The 2010 Expat Explorer Survey" conducted by HSBC Bank International. Location, however, has seen a definite shift. For its third year in a row, HSBC Bank International continued the annual three-part Expat Explorer survey, upping the total of online samples to over 4,000 expats in more than 100 countries who completed questionnaires related to essentials such as business, quality of life and family environments. "Expats are scattered around the world, and we don't get a lot of general marketing data. This gives us a way to dive into getting resources on expats," says Lisa Wood, head of marketing for HSBC Bank International in Jersey.

3. CONCLUSIONS

When you look at the life of an expat, there is a trade-off between lifestyle, family and finance, it's all about balancing out different things. Demographics maintain the typical expat age, sex and nationality, but the most notable result with expat trends worldwide is a shift in financial interest and opportunity from the euro-zone to developing countries with promising economic growth.

People are tending to move to BRIC countries, and they're faring well there economically says the survey. Expats are earning more, the economy is growing, career opportunities are better in BRIC countries; these things follow one another. Almost two-thirds of expats surveyed agreed that the economic situations have improved since 2009, and 68 percent say career opportunities or financial gain were their main reason for moving to China.

Russia came on top as a number 1 place for earning, disposable income and saving opportunity. Over one-third of expats in Russia earn over USD 250,000 – the country overall is a prime location for those looking to progress with their career and financial gain.

The majority of expats sampled in China and Russia were from the United Kingdom. “There’s a shift in global headquarters, but we can observe that people come to BRIC countries to work three to five years with intentions to go back,” says Noeleen Doherty, Senior research fellow at Cranfield University School of Management in Bedford, England. ”In BRIC countries they earn more and have a higher disposable income, but if you look at the trends they’re repatriating more wealth back into their home country,” Wood said. “We know from findings in the past they aren’t necessarily the best country to raise a family in.”

Euro-zone offers quality, Spain and France: quality over quantity. While financial opportunity seems to be at an all-time low in Europe, the desire for a high quality of life outside a home country keeps expats clinging to countries such as Spain and France. Indeed, Spain and France are two countries bottom-listed in the rankings, resting between no. 22 and no.25 as an overall ranking, income, disposable income and wealth hotspot. “There’s an element of trade-off here between lifestyle, family and finance,” says Wood. “Spain hasn’t done well because the economy has deteriorated, but the type of expats living there is a factor.”

The arguments presented are showing us that through the life of the expatriated we can measure the financial stability and growth in BRICS countries and consequently the quality of life in those countries, things that justify the confidence in BRICS group.

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