

# Europe Should Choose The BRICs Alternative

*Indian economist Jayshree Sengupta sent this message to the Feb. 10, 2015 Schiller Institute BRICS Conference in Paris. She had addressed the Schiller Institute's 30th anniversary conference in Frankfurt, Germany, on Oct. 18, 2014. [EIR](#) published her speech in its Oct. 31 issue.*

My greetings from India to all the participants, and I wish you good luck. I hope the discussions will show a way forward for France, which is not only reeling under the recent terrorist attacks, but is also facing a deep economic slowdown. There are a growing number of unemployed people and the economic growth seems to be stagnant. I wish I could join you personally in the seminar, but the distance is too great between India and France!

As an admirer of French civilization and culture, it is very sad for me and others like me to see France in this state of deep malaise. We in India are following closely the problems of the Eurozone countries, with great concern. We wish for a humanitarian solution to the economic problems faced by ordinary citizens. We would like to see that they do not suffer due to the faulty policies of their governments.

In the case of Greece, we are happy that the new government will try to put an end to the austerity measures imposed by the Troika, comprised of the IMF, the ECB, and the European Commission, which has brought unprecedented hardship and misery to the people, especially the young.



EIRNS/Julien Lemaître

Jayshree Sengupta addresses the Schiller Institute's conference in Frankfurt, Germany, Oct. 18, 2014.

Greece has to find a way out of the mess, and so should other members of the Eurozone who are suffering at the hands of the Troika and are having a tough time balancing their budgets, promoting their exports, keeping their welfare programs intact, and creating jobs for youth.

We in India experienced conditionality imposed by the IMF when India had to borrow in order to tide over its balance of payments problem in 1991. There were deep budgetary cuts in agriculture and the social sectors, and a blueprint was drawn up for privatization of state enterprises. Many were sold and are still being sold, and there has been a rise in unemployment.

### **‘Future Potential’ of the BRICS**

Today India proudly belongs to the BRICS—a name coined by an American in 2002 for the emerging market countries. Today BRICS has become a group with a promising future. It is comprised by five giants: Brazil, Russia, India, China, and South Africa. The skeptics are already pointing out that the BRICS are in trouble and would crumble down soon. This is because China's economy has been slowing down and Russia's economy is facing problems due to the drastic reduction in oil prices. The conflict in Ukraine has already set back Russia economically. The sanctions imposed by the West and the anxiety among investors that more sanctions would be coming, have aggravated a slowdown that already started some time ago.

About \$88 billion was pulled out of Russia last year. Standard & Poor's has downgraded Russia's credit rating to junk status (BB+) recently, putting it below investment grade for the first time in a decade. A junk status for a country or company suggests that it is likely to default on its debt. But Russia has \$379 billion in reserves, and in case of real need, China has \$4 trillion in dollar-denominated assets. It could easily lend to Russia. It is, however, true that Russian exports have fallen sharply and imports (due to counter-sanctions by Russia) have also declined, which has already started to have an adverse economic impact on Germany. Russian sanctions are beginning to hurt the Eurozone countries now.

Brazil also is facing problems in its exports, mainly of commodities, because of falling prices. Brazil has iron ore and agricultural commodities like soya, coffee, and sugar, whose prices are falling. It also has a big budget deficit, and there have been allegations of excessive social expenditure.

Only India seems to be poised for better economic growth prospects and a bright economic outlook. India is bound to grow at 6.5% this year. India has also many problems, and there 22% of the population is still below the poverty line, which means around 300 million people are very poor.

South Africa is also facing major problems that could jeopardize its economy. It had only 1.4% growth in 2014, and the unemployment rate was 25%. But given the fact that it has valuable mineral resources and skilled manpower, it may ride out its difficulties.

Whatever may be the problems today, the fact remains that the BRICS will be the economic powerhouse of the future. There is no doubt that the progress achieved by all these five countries cannot be wiped out by temporary market-related turmoil and manipulations that involve falling commodity prices, especially that of oil.

In 2014, the five BRICS represented 3 billion people, which is 40% of the world's population, and a combined nominal GDP of \$4 trillion. The BRICS in 2014 represented 18% of the world economy.

China has had an average growth of 10% for 30 years. It is but natural that it would have to slow down. It is already an economic giant and the factory of the world, and the latest deliberate move by the government has been to move away from export-led growth strategy followed for decades, to a more domestic-demand-driven growth. It seems a reasonable quest, because unless the Chinese people have higher incomes

and are able to demand more goods and services produced by China, higher growth cannot be sustained. China has already had a very high rate of investment, so now is the time to encourage domestic consumption. Also, the global economy's outlook is getting more and more uncertain, with a shrinking growth rate, and export-led growth is clearly not a viable option for China today.

But the BRICS will collectively have a larger GDP than that of the six leading industrial countries combined, by 2030. As India's Prime Minister Narendra Modi said, "For the first time, [the BRICS] brings together a group of nations on the parameter of 'future potential' rather than existing prosperity or shared identities. The very idea of BRICS is thus forward looking." The BRICS is a cause for worry for countries that have long dominated the current economic order.

To be able to reach their potential by 2030, the BRICS, and especially India, have to grow faster. The BRICS will represent a huge part of humanity and global resources. That is why they chose to have their own development and cooperation agenda and have their own bank. It will liberate them from the clutches of the IMF or the ADB [Asian Development Bank], if they want to borrow for development purposes, especially infrastructure, in the future.

The IMF unfortunately does not reflect the growing power of the BRICS, and it has failed to implement reforms in its voting structure and quotas which could have changed the BRICS' low representation. All the BRICS together have 11% of the voting power in the IMF. In 2012, the BRICS nations pledged \$75 billion to boost the lending power of the IMF; but the loan was conditional on IMF voting up reforms—which did not take place. It is high time that the Western powers, or the North, take note of the global South represented by the BRICS and the developing world.

Unlike the Eurozone countries which are under the clutches of the Troika, the BRICS are following their own fiscal and monetary policies. The IMF from Washington and the ECB decide when to bail out a beleaguered country in the Eurozone, and by how much, and they decide what kind of austerity package the country has to follow—and even when there is visible and unprecedented human suffering, they do not seem to relent. Belt-tightening measures have led to a drastic fall in living standards in Greece, Spain, and France. They have led to the youth not having jobs, which can demoralize them for the rest of their lives. The adverse psychological

impact on youth of being jobless is great. As are a result of austerity measures, the Eurozone is facing an economic crisis with a recession. There will be no growth in the Eurozone in the next one or two years, at least.

The BRICS, on the other hand, has to remain a cohesive group. They have to settle their internal differences, like the border issues between India and China. They are today a challenger of the Western powers' clout in the UN, WTO, and the Bretton Woods twins World Bank and the IMF. It must be remembered that all the members are developing countries except Russia. The group intends to expand in the future. They need help in health, education, banking, and infrastructure. France, as a developed industrialized country, can offer support to the BRICS.

The BRICS need to be protected from balance of payments fluctuations. In fact, the New Development Bank has a Contingency Reserve Arrangement (CRA) of \$100 billion, which is aimed at relieving countries faced with problems in their balance of payments. China will be contributing \$41 billion, Russia, Brazil, and India will each contribute \$18 billion, and South Africa will contribute \$5 billion to the CRA.

The New Development Bank's headquarters will be in Shanghai and there will be a democratic approach to the governance, with each member getting equal voting rights. Its primary focus will be lending for infrastructure projects, with authorized lending of up to \$34 billion annually.

South Africa will have the African headquarters of the bank. It will have starting capital of \$50 billion, with capital increased to \$100 billion over time. Brazil, Russia, India, China, and South Africa will initially contribute \$10 billion each, to bring the total to \$50 billion. No member can increase its share of capital without all the other four agreeing. The bank will allow new members to join, but the BRICS' capital share cannot fall below 55%.

One driver for the BRICS Development Bank has been "to promote their interests abroad . . . and highlight the strengthening position of countries whose opinion is frequently ignored by their developed American and European colleagues." Basically the idea is to have a bank for the global South, which was badly needed. Two members of the BRICS, Russia and China, have also undertaken currency swap deals.

In October 2014, Russian and Chinese leaders met in Moscow and signed 40 intergovernmental agreements. Among them is a yuan-ruble currency swap

worth \$24.4 billion, facilitated by the CRA, and a \$400 billion natural gas deal. The swap is among the first concrete steps the BRICS has taken to eliminate the dollar from international trade, and the natural gas deal is the second.

BRICS member countries, however, need to cooperate in food security, water stress, health care, inclusive growth, urbanization, technology transfer, trade, and investment. They are far behind the developed countries in human development. Measured by the Human Development Index, most BRICS members have problems in tackling inequality. The average Gini coefficient [which measures wealth or income inequality] among the BRICS is 0.49, as compared to 0.31 in developed countries. Life expectancy is 68.1 years in the BRICS and 80 years in developed countries. In terms of mean years of schooling, the BRICS average is 8.14 years, and in developed countries it is 13 years. In health care, education, and technology transfer, France's joining the BRICS would be helpful.

The state of infrastructure among the BRICS is also varied. The weighted average of infrastructure investment needed in each BRICS member will be roughly 7% of each member's GDP, which is higher than what

is required in developed countries. India will require 9.6% of its GDP to be infrastructure investment in the next five years.

### How France Can Participate

France's support for the BRICS would be a positive sum game. But given France's focal and important position in the EU, it cannot leave the Eurozone without precipitating a collapse. Still, France has always been a prime mover of change in the international financial system. On Feb. 4, 1965, President Charles de Gaulle denounced the role of the dollar and gold system supporting it. He ordered the Bank of France to begin converting its dollar reserves into gold. The result was a steady drain of America's gold supply, and there was a worse threat that other countries would join France in a gold rush.

America went off gold convertibility and went for an alternative to gold, and Washington proposed that the IMF establish Special Drawing Rights (SDRs) as an international credit account among countries. De Gaulle vetoed the proposal and continued to demand gold for dollars. His move changed the entire international financial system, and in 1971, President Nixon ended the

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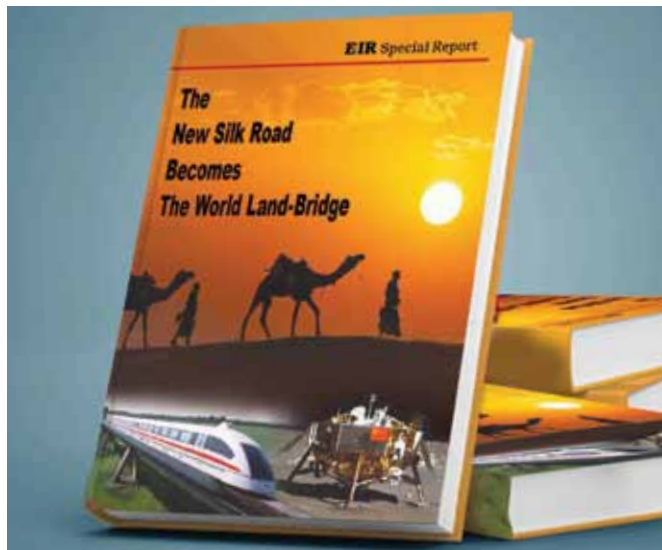
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dollar convertibility to gold. The new economic policy of Nixon marked the beginning of the end of the Bretton Woods international monetary system.

Because of France's leadership in bringing about a change in the global international system, it could intervene today and lend its expertise in many fields to the BRICS; in return, the BRICS would offer the partnership of the most dynamic grouping in the future.

The BRICS would welcome France's help in building institutions, social safety nets for the poor, food security, and enhancing agricultural growth. The BRICS are going to intensify their cooperation in tackling the rise in terrorism, cyber insecurity, and climate change. The BRICS are home to the world's more valuable regions of bio-diversity. They would proactively work to protect these areas and promote sustainable development and preserve the ecological base within each BRICS member.

Lack of full access to financial services and dependence on the dollar as the reserve currency are problems that most BRICS members are facing. The Chinese yuan will gradually emerge as an option for the settlement of global exchanges, especially with growing South-South trade, parallel to the dollar. This will be helped by the fact that China is the largest individual trading partner of Brazil, India, and South Africa.

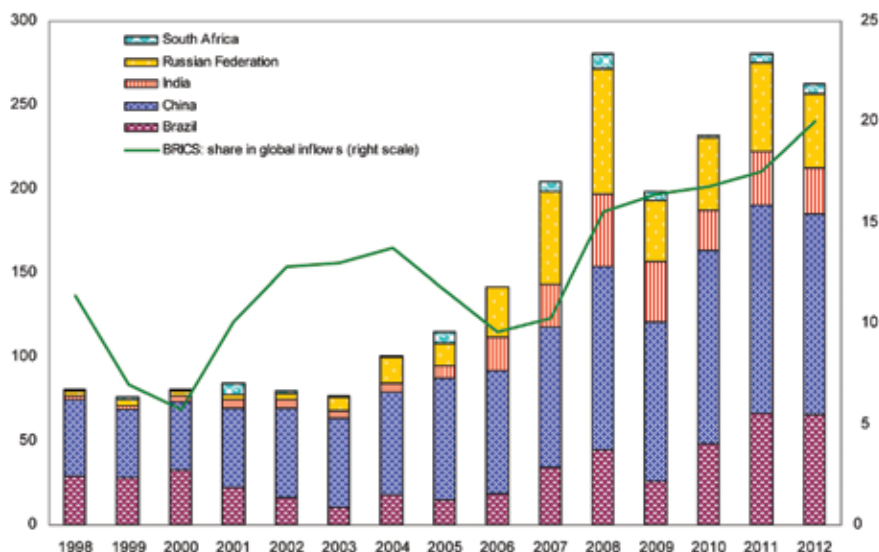
The New Development Bank would welcome solid backing from countries like France. Both the Development Bank and the Contingency Reserve Arrangement will counter the influence of Western-based lending institutions and the dollar.

Thus the BRICS' new and strong emerging identity cannot be ignored by the Eurozone or the IMF. A serious problem faced by BRICS members is financial volatility because of the quantitative easing undertaken by the EU, Japan, and the U.S. This policy allows a central bank to purchase government or other securities from the market, with the goal of lowering interest rates and increasing the money supply, which injects more liquidity into the international financial system. These

FIGURE 1

## BRICS Countries: Foreign Direct Investment (FDI) Inflows and Their Share in Global FDI Inflows, 1998-2012

(\$ Billions and %)



Source: UNCTAD, FDI/TNC database

Note: Data for 2012 are preliminary

funds find their way into the emerging markets of the BRICS and have repercussions on their domestic currencies. Interventions are needed by the central banks of the BRICS countries to stabilize their domestic currencies, in order not to impact their exports adversely.

The volatility of the currency markets has been created by powerful countries to solve their own domestic problems of slow growth and recession. They have been undertaking the monetary easing to rev up their domestic demand. This has been a destabilizing phenomenon in the financial markets today. As soon as there are signs of robust recovery and news of interest rates rising in the U.S., the FIIs [foreign institutional investors] would be returning home. The BRICS want to stabilize the currency markets and have a long-term solution to their foreign investment requirements. They need more FDI [foreign direct investment], and not more FIIs.

People in all the troubled countries today are looking for a different global order and a multipolar world. The global South has to become stronger. The Eurozone meanwhile cannot be dismantled in the near future, and there will be more conservative resolutions to problems through bailouts and harder austerity measures. The option, however, for them is to choose another alternative—the BRICS!