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Emerging Giants Look at Europe Aid

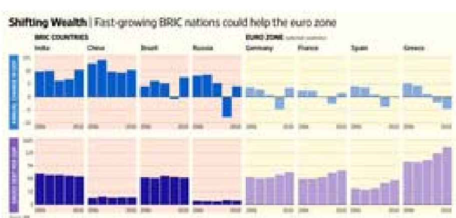
By JOHN LYONS in São Paulo and BOB DAVIS in Washington

Asia Today: China isn't likely to rescue Italy's debt-hobbled government, but could other countries in the BRICs step in to help the euro zone out of its financial crisis? Also, the Asian Development Bank forecasts a small drop in Asia's growth numbers.

Brazilian Finance Minister Guido Mantega said Tuesday the world's big developing economies may propose joint aid to help resolve Europe's debt crisis, underscoring worries Europe's problems may become a headache for global capitals from Beijing to Brasilia.

Mr. Mantega said joint aid would come up as a topic when leaders from China, Brazil, India and Russia gather in Washington in advance of an International Monetary Fund meeting on Sept. 24. He gave few details.

"We're going to see what we can do to help the European Union get through this situation," Mr. Mantega told reporters.



While it's far from clear what kind of long-term solution the developing nations might provide, the mere fact that they may be in a position to help illustrates the enormous transformation of the global economy in recent years. With the U.S., Europe and Japan mired in economic malaise, China, Brazil, India and other nations now drive global growth.

While Mr. Mantega gave few specifics, analysts say the nations could help by using some of their foreign-exchange reserves to buy bonds issued by wobbly European countries such as Italy. In one possible scenario, the countries might purchase mostly symbolic amounts of bonds in a highly public way—an effort to inject a jolt of optimism into European bonds markets.

"Are they going to get together and promise $100 billion of aid? Probably not," said Cornell University economist Eswar Prasad. "But if the emerging-market countries make a public show of buying the bonds, it could have a slight impact on confidence."

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Led by China, the world's second-biggest economy, emerging-market central banks have amassed enormous war chests of international reserves in recent years—partly as a byproduct of efforts to keep their own currencies from rising too fast against the weak dollar. China has $3.2 trillion in reserves, and adds an estimated $1.7 billion every day to its stockpile.

Even Brazil, which for decades had its own currency and financial crises, has become strong enough that there has been talk—and some jokes—about helping out its former colonial master Portugal. Brazil has about $350 billion in foreign-currency reserves.

Any joint action would serve as a reminder that the seemingly insulated emerging world has a stake in the European crisis. For starters, Europe is a crucial market for Chinese exports. So a European downturn would likely impact the Chinese economy. That, in turn, would be bad news for Brazil. Latin America's biggest economy has boomed as a major supplier of iron ore, soy and other commodities to China.

Emerging-market countries have attracted enormous sums of investment capital from the developed world in recent years. An economic catastrophe in the developed world, such as a disorderly sovereign default in Europe, could prompt panicky investors to suddenly withdraw their cash from the developing world, causing currencies and other assets to plunge.

Despite the heady talk of developing nations coming to the rescue of the old continent, there are big questions over how nations like China might help and whether a disparate group of nations can put aside their differences to support such a plan.

For starters, the countries are unlikely to put large quantities of reserves at risk, experts say. Analysts on Tuesday placed little credence in reports that China—which has been careful to invest its reserves along commercial rather than political lines— might buy large amounts of Italian bonds.

In the case of Brazil, President Dilma Rousseff told Portuguese officials months ago that her government could consider buying bonds or providing some other sort of aid for Lisbon, but so far neither has happened.

What's more, the so-called Brics—Brazil, Russia, India and China plus South Africa—have a poor record when it comes to acting together. That's because next to the moniker, the countries have few shared interests. The countries failed to agree on a consensus candidate to replace IMF chief Dominique Strauss-Kahn earlier this year, even though they have collectively demanded a bigger emerging-world voice at the IMF for years. Frenchwoman Christine Lagarde got the job.

Brics often spend as much time arguing with one another as they do promoting solidarity. Fighting a flood of Chinese imports that have undermined local manufacturers, Brazil's government has adopted a series of tariffs and other protectionist measures in recent months. Last week, in efforts to safeguard domestic suppliers to the country's booming oil industry, Brazil imposed a levy on imported steel tubes commonly used in oilfields.

To have an impact, any move would require significant participation by the Chinese. Top Chinese politicians touring Europe regularly say they are committed to the euro zone's future and that they are buyers of European sovereign debt. But it's hard to know whether Beijing has picked up the pace of its euro buying because it keeps the composition of its holdings secret.

The Chinese are also wary of making big bets on risky investments. The country's reserves are considered a national treasure—and a way for leaders to finance their way out of major economic and social problems. So the Chinese central bank looks for the safest possible investments.

The same is generally true of China Investment Corp., the country's big sovereign-wealth fund, whose management was harshly criticized for making bad investments before the global financial meltdown of 2008-2009 when it invested in Wall Street firms.

Brazil also eschews bringing risky assets into its reserves mix. Aldo Mendes, its central bank's monetary-policy director said Tuesday, "The chief objective of our investment policy is security." He said 97% of Brazil's $352 billion in foreign reserves were invested in triple-A bonds and only 3% in double-A bonds.

Meanwhile, a government official, who wished not to be identified, said Brazil's government was frankly skeptical about the ability of Brazil, Russia, India and China to reach a consensus on coordinated action regarding Europe, citing "different situations and priorities" among the countries.

—Paulo Prada in São Paulo contributed to this article.

Write to John Lyons at john.lyons@wsj.com and Bob Davis at bob.davis@wsj.com