

**THE SOLUTION TO THE FINANCIAL PROBLEMS SHOULD BE QUITE EASY,
ACTUALLY – IF COUNTRIES COULD WORK TOGETHER,
AND PUT ASIDE THEIR DIFFERENCES**

The financial crisis that was created by the United States has gone global.

This is hardly news because, viewing the falls in the market capitalisations of companies, listed on major equity markets, last week, from Wall Street to Zanzibar, it is obvious.

But what is not obvious, at all, is the solution(s) to the financial crises that has swept the world.

Putting their heads together are the pencil pushers at The International Monetary Fund, The World Bank and the ministers of The Group of Seven (G7), representing Canada, France, Germany, Italy, Japan, The United Kingdom, and the United States of America.

The present situation could be likened to an internal combustion engine, suddenly having run out of lubricating oil and, as the engine block heats up, the entire engine is in danger of seizing up, completely.

At some point, the entire engine will implode, a piston, perhaps, shooting through the engine block, making it worthless.

Many people in the US have looked to the US Federal Reserve and its Chairman, Dr Ben S. Bernanke, expecting that his magic wand will be waved and then, Bingo! The troubles will cease to exist.

Well, it is not going to be that way.

There is no magic wand; and, there is no clear-cut solution to the problems, confronting the entire, international financial community – because this is a unique quandary.

However, while one may not be able to make much headway in trying to move Mount Kilimanjaro, the highest mountain in Africa, in order to make way for a new communications project, one does have the ability to chip away at its base in order to lay the foundations for the project to be started in the future.

As more and more banks and financial institutions, not just in the US, but in Eastern Europe, Latin America and the Pacific Rim, admit their tight cash problems, so it becomes more and more obvious that the solution to the world's financial problems has to be a unified movement of many nations, coming together for a common purpose.

Because there are so few nations of the world that can escape the fast-moving, financial contagion that had its roots in the US, it is essential that countries put aside political differences for the benefit of all.

The common enemy of every nation, today, is the fast-moving, international financial crises which have the ability to bankrupt any nations – including the United States.

Unless a unified approach is undertaken, smartly, the probability exists for the crises to metamorphose into decreased levels of economic activity, unseen in living history.

While the Government of the People's Republic of China (PRC) makes the claim that economic activity in the country will decrease for fiscal 2008, compared with the economic growth of fiscal 2007, and in fiscal 2009, the decrease will be from double-digit, growth figures to single-digit, growth figures, how low will be the economic growth figures will depend, to a great extent, on the financial health of the US and the European Union (EU), the 2 regions of the world that are the PRC's biggest trading partners.

It is true that the PRC has created a very large, domestic consumer market, but, exports are, still, the lifeblood of the country and will continue to be an essential ingredient to financial health of the most-populous country of the world.

Japan, Ireland and several European countries are, already, suffering from recession (at least, 2 consecutive quarters of negative growth) and, should other countries, also, face recession, it will impact on trade, from one part of the world to another.

The PRC, as **TARGET** () has stated, many times in the past, is the tailor of the US, the manufacturing base for countless products, exported to many parts of the globe, from microwave ovens, to refrigerators, to motorcycles, to piecegoods, to condoms.

If consumers in the US and the EU cut back, dramatically, on spending, it must impact on the economic growth of the PRC.

The spending habits of consumers in the US and the EU are unlikely to change, radically, but big-ticket items, as they are known – new motor cars, refrigerators, etc – will be a long way down the list of things to purchase on the coming Christmas shopping list.

This will, undoubtedly, be made patently clear when the statistics are gathered, collated and analysed in respect of Christmas shopping spree and those statistics are compared with the 2007 Christmas shopping statistics.

It is, almost, a given, today, the way that things stand, that the statistics will be a shock to many people.

As the economies of the world sink further into the mire – and they, undoubtedly, will – unemployment will rise, and rise quickly.

The rise in unemployment will not just be in the US and the EU, but in most parts of the world.

In order to meet the challenges that, clearly, the world is facing today, a unified, international response is required as a matter of urgency.

Each country of the world has its own, unique financial problems, to be sure, and, due to this fact, the requirement for each country, in order to solve its unique problems, must be a national requirement, not an international requirement.

But, coupled with the need for national solutions to parochial problems, there is the matter of international commitments to trading partners, those obvious in today's world and those in the making.

A strategy, aimed at coordinating efforts, internationally, appears to be essential for the benefit of all.

Known in some academic circles as the Common Enemy Syndrome, there is the story of a missile, landing in the middle of a country which is at loggerheads with its neighbours.

After making recriminations to the neighbours, but being unable to remove the missile or to disarm it for fear of the consequences, it became obligatory, in the interests of all, to try to solve the riddle of the missile which, in time, had come to be known as the Common Enemy.

By the time that the ticking within the missile had stopped and nothing dramatic had taken place, all parties

sat down, relieved, and, out of mutual necessity, became friendly, putting aside the previous reasons for their past differences.

The Common Enemy of today is the financial crises, sweeping the world.

The solution to this Common Enemy is an international policy, aimed at stimulating economic activity.

The US Government, actually, started the ball rolling when it passed into law its \$US700-billion, rescue package.

This law is designed, inter alia, to take over what are, today, termed '*toxic assets*' – in particular, mortgaged-backed securities.

The US Government is ready and quite able, financially, to take over these mortgaged-backed securities and hold them to maturity, thus alleviating the pressures on banks.

Easing monetary policy is, already, underway in the US and it is quite likely that this policy will be accelerated in the coming months.

It seems, also, essential to boost the confidence of consumers and depositors in order to stop the rot and, by so doing, consumers/depositors will not be anxious to withdraw their funds from banks.

Also, this would have the added benefit of deterring countries from considering trade sanctions in the vain hope of protecting their economies.

Recapitalising banks, those especially known to be on the precipice of bankruptcy, would send a strong message home to depositors: Your money is safe!

Agreements must be reached, internationally, as to the best way to tackle loans that have been exported and re-exported from Peter, to Paul, to Ah Sing, to Ah-Cha.

Lastly, it is obvious that increased levels of deposit insurance are required in order to stop depositors from feeling threatened that their life savings are at risk.

While one may ascribe blame, in respect of the present situation, to the US and the mortgage-backed securities that led to the current crises on confidence, world-wide, it is fruitless to harp on the root causes of the problem.

What is required, today, is mapping out an international policy to resolve the current catastrophe in order to save the bacon from being burnt to a crisp.

Then, there is time to consider actions to try to guarantee that there is no recurrence of such a similar situation in the future.

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