

## The Deutsche Mark is Back

Call it the Euro, if you want, but its value, stability, and interest rates are all German. After almost two decades of crippling reconstruction costs, integration of East Germany, and slow growth, Germany is back with a vengeance. Having initiated sweeping structural reforms and austerity plans at home and abroad, German businesses (and bankers) are driving Euro-zone policy and experience, much to the dismay of its neighbors.

The inclusion of the former Soviet Bloc nations of Eastern Europe in the EU has given German firms cheap, skilled labor in its backyard. This helps Germany to extract value to its manufacturing sector, fueling export growth, and leading to the largest trade surpluses since the 1980s. In addition to luxury cars and appliances, German manufacturing produces many of the machine parts and technical expertise utilized by China, India, and other developing nations. Unlike the rest of the advanced industrial world, Germany has maintained and grown its manufacturing and engineering sectors rather than outsourcing them.

German financial institutions capitalized on the financial boom/bubble of the mid-2000s expanding into emerging markets on the periphery of Germany as well as Asia, the Middle East, Africa and Latin America. Much of the debt of Ireland, Portugal, Spain and Greece is held by German institutions. Social and economic policies in countries struggling with high debt burdens, huge public liabilities, and soaring inflation are severely limited in the policy choices by their financial relationship with low inflation Germany and the Euro. Austerity comes at a huge cost and the inclusion of economically dysfunctional states in the Eurozone, as well as those pegged to the euro, is both a boon and a bane for Germany. Without devaluation as an option, and with interest rates set to help Germany and France, The European Central Bank has effectively created two Europes.

The rich core nations of Austria, Belgium, France, Germany, Luxembourg, and the Netherlands prosper from exports, low interest rates, stable markets and cheap labor on their periphery. The rest of the Eurozone struggles to catch up economically while facing excessively public liabilities, increasing labor costs, soaring real estate, and high inflation. Greece, Ireland, Italy, Spain, and Portugal would all benefit from higher interest rates and from devaluing their currency yet the only way for this to occur would be for these nations to exit the Euro. Germany and France will not allow this to happen, so the only choice available to national governments is to continue to clean up the economic mess and shore up the Euro.

A collapse of the Eurozone is highly unlikely yet strict austerity programs and bloated public liabilities undermine the social and political elements tying the EU together. Social unrest in Germany will force a much harder stance on austerity in the fiscally ailing nations than is economically advisable. Social unrest in Greece and elsewhere will make accepting German demands for austerity increasingly difficult. The German Banks are at the heart of the Euro's woes. It is very bitter for the Irish, Greeks, and Spaniards to make concession after concession and the Germans (from the Southern European prospective) to profit from them in both good times and bad.

Europe's economic woes are not limited to its shores; uncertainty created by the debt crisis is affecting markets around the globe. Due to the very nature of economic union, sovereign interests are now at odds with good global governance. Without a leader willing to look beyond short term (political) gains there can be very few long term (economic) issues resolved. Global growth is anemic at best. China and India are starting to feel the effects of weak/no growth in North America and Western Europe. However, there are opportunities even in a down market.

Euroasian is in a strong position to assist you with your development goals providing creative funding solutions and expertise.