

# Turning back to the stakes on the Bank of the South

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## Two opposite tendencies at play in Latin America

On one hand, the United States government and the European Union countries succeed in sealing bilateral agreements of free trade, in favour of their business houses, with the countries of the region. The massive privatisations of the 1980s and 1990s benefited them as they took control over a large number of economic sectors vital for development. Capital flux from the region towards the most industrialised countries via debt servicing, profit repatriation of trans-national corporations of the North, the flight of capital devised by the Latin-American capitalists; the internal public debt is on a high increase; the living conditions stagnate and the most exploited are further impoverished even though certain public aid programmes keep the damage under control (Brazil, Argentina, Venezuela, Ecuador).

On the other hand, the numerous popular mobilisations of the last few years translate in the election of governments, some of whom try to reverse the historical course of the last thirty years and confront the first tendency described above by re-enforcing a public control on the country's natural resources (Venezuela, Bolivia, Ecuador), on other key sectors of the economy (Venezuela) and by foiling certain strategic projects of the United States (failure of the FTAA in November 2005 and difficulty in launching the Plan Colombia due to the opposition of Venezuela, Ecuador [1] and Bolivia). Certain governments undertake social reforms by following a re-distributive policy. Venezuela from 1999, Bolivia since 2006 and soon afterwards Ecuador decided to modify their constitution towards a democratic direction. The Bolivarian Alternative for Latin America and the Caribbean (ALBA) unites Venezuela, Bolivia, Cuba, Haiti, Nicaragua and Ecuador, as an observer.

The creation of a Bank of the South projected by the end of 2007 is an important part of that counter-tendency.

## The preparations for the Bank of the South

Since February 2007, Argentina and Venezuela, joined by Bolivia, are into an agreement for creating the Bank of the South. Very soon Ecuador, Paraguay, and very recently, since 3<sup>rd</sup> May, Brazil officially joined these three countries. The text, which was submitted for a ministerial discussion, before Ecuador intervened in the development with an original proposal, was dated 29<sup>th</sup> March and constituted a proposal of Argentina and Venezuela. Ricardo Patiño, the Finance Minister of Ecuador, and four members of its cabinet worked out the Ecuadorian proposal. Three of us from outside, Jorge Marchini [2], Oscar Ugarteche [3] and myself, were involved in the process. On 30<sup>th</sup> April, the

Finance Minister accompanied by his cabinet and myself submitted this proposal (which was worked out during fifteen hours or so on the 27<sup>th</sup>, 28<sup>th</sup> and 29<sup>th</sup> April) to President Correa. President Correa ratified this proposal, which was immediately sent to the representatives of other countries. The ministerial meeting, chaired by the President of Ecuador, lasted from 4 to 5 hours on 3<sup>rd</sup> May at Quito. I was invited to be a part of the Ecuadorian delegation. Generally, the Finance Minister, plus a deputy minister and an assistant represented the other countries.

At present, a presidential summit is something to watch out, which will take place before end-June, as per Quito Declaration. This summit will adopt a text defining the Bank of the South and ultimately proclaim the creation of this institution.

### **What was the orientation leading to the text drafted by Argentina and Venezuela?**

The initial text drawn up by Argentina and Venezuela is absolutely surprising and shocking because the diagnosis, from the beginning, considers issues as completely compatible with the neo-liberal vision, the vision of the World Bank (WB), the vision of the dominant economic thinking, the vision of the capitalist class regarding the reasons behind Latin America's limitations. The text highlights that the slow development of the financial markets would be the principal cause for the problems of Latin America. The general prescriptions specify the need to promote the formation of multinational corporations with regional capital, without specifying that they must be public. Knowing Argentina's orientation, the fact that nothing is specified about the corporations being public, is to say that either they are private, or that they are mixed. It is always pointed out in the general considerations, that it is a question of promoting the development of the capital markets and the regional financial markets.

Second element: the project proposes to create a Bank of the South, which would simultaneously function as the Development Bank and the Monetary Stabilisation Fund. A Monetary Stabilisation Fund consists of a regional organisation, which comes to the aid of the regional countries whenever they are subjected, for example, to speculative attacks. They need important exchange reserves for protecting themselves against these speculative attacks. The joint Argentine-Venezuelan project proposed only a single organisation called the Bank of the South, which can function like the Development Bank and the IMF at the same time. There is nothing shocking about this approach. Rather, what is shocking is the declaration that the function is to develop the capital markets, to support industry, the development of infrastructure, energy, and trade. In this project, the environmental protection or the cultural and educational policies are not given primary importance. Considering the initial diagnosis, one can apprehend that the macro-economic policies, which are to be recommended, remain in the logic of the Structural Adjustment and orthodox monetarist policies. It is also said that the Bank will be indebted to the financial markets.

The important and shocking third element: the proposal of Argentina and Venezuela foresees that the voting rights will depend on each country's contribution. Thus, if Argentina contributes thrice more than Ecuador or Paraguay, Argentina's voting rights will be thrice more. The scale of voting rights, prevailing in the WB, the IMF, and the IABD (Inter-American Bank of Development) is applied here. An antidemocratic criterion is thus applied and moreover, at the level of its operation, an exact replica (which are largely criticised) of these institutions is created. As regards membership, the Argentine and Venezuelan proposal brings forth the possibility of the African and Asian states taking part in the Bank, with observer status. It is positive because that increases the dimension of the South but, although it is not explicit, one can think that a place would also be allotted to multilateral financial institutions. It is furthermore known that, in the discussions of, March and April 2007, certain members of the cabinet, particularly from Argentina, envisaged the WB and the IABD as shareholders (without voting rights) of the Bank of the South. The worst is the last part, chapter 8, "Immunity, Exemption and Privilege", which is a reproduction of the statutes of the WB, the IMF and

the IABD. Article 42 of this project mention that the records are inviolable, that is to say that audits of the Bank of the South are not possible. It is also known that the bank's personnel, directors, officials and employees, are exempted from tax. Article 45 says that - it's a pure and simple copy-paste of the WB and IMF - that there is total immunity on the legal and administrative procedures regarding what the civil servants do within the framework of their mission.

This project resulted from the meetings of a technical commission and would have been the only project under discussion, had Ecuador not decided to present a new proposal. The text proposed by Argentina and Venezuela is completely coherent with the policy, which dominates the orientation of the Kirchner government in Argentina; on the other hand it is completely incoherent compared to the positions adopted by Venezuela. A plausible explanation: the Argentinian and Venezuelans Sherpas who created this text are technicians trained in Anglo-Saxon universities, and are approving of the dominant neo-liberal economy. One hopes that this text was not really read, approved and adopted by the Venezuelan President.

### **What does Ecuador's propose compared to this Argentine-Venezuelan scheme?**

Ecuador proposes three instruments: a Regional Monetary Fund, a Bank of the South and the creation of a common currency of the South. Ecuador proposes to shift towards a South American currency, allowing the countries to do exchanges in their own currency, whereas today the exchanges among the Latin American countries are carried out primarily in dollars. This third instrument was immediately accepted by Argentina, Venezuela, Brazil, Paraguay and Bolivia.

The text proposed by Ecuador starts with important general considerations. The first consideration says that the two organisations, the Southern Monetary Fund and the Bank of the South, or the single organisation if there is only a Bank of the South, must guarantee the effective application of human rights and must allow the application of the agreements and criteria and international treaties which refer to the economic, social and cultural rights. It is an approach in term of human rights. It is a question of installing economic measures, which must be used to guarantee the application of the fundamental human rights. In the considerations, it is as well stated (although implicitly) that the neo-liberal policies of the WB and the IMF, led to a deterioration of the living conditions of a great part of the populations, with an increase in the inequalities in wealth and income distribution, the regional countries' loss of control over their natural resources, with a reinforcement of the migratory tendency. Vis-à-vis that, it is necessary to put public policies into practice to reinforce public structures, allowing countries to recover their control of the natural resources and their regional productive apparatus, including one good part transferred to the trans-national companies of North.

### **What are the other original proposals of Ecuador regarding the Bank of the South?**

It is important that these two organisations should not be indebted to the capital markets unlike the World Bank and the IABD. It is known that the WB, which is indebted to the capital markets, very often justifies its neo-liberal policy saying that it is fundamental to keep the AAA rating as a borrowing bank in the capital market, to be able to borrow at the lowest rate. If we want to follow policies not looking at profitability at any cost, we should not depend on this rating. This is why the capital of the Bank of the South, which enables it to grant loans, should come from four sources: 1) from a capital contribution by the Member States; 2) from the Bank's borrowing from the Member States; 3) from common global taxes, namely various types of global taxes to be applied by the Member States and whose receipt would be transmitted to the Development Bank, like a Tobin tax, a tax on the incomes repatriated by the trans-national companies, a tax of environmental protection, etc; 4) from the donations.

If a Southern Monetary Fund is set up, it is expected that the money would aid the needy countries, would be a part of the reserves of each Member State put at the Fund's disposal in the event of need. When necessary, the Fund can call for 20% of the exchange reserves of all the member countries. For example, if Bolivia is attacked by speculators: immediately the Fund asks the Central Bank of Brazil, Argentina, Venezuela, Paraguay and Ecuador to transfer, in a few hours, 20% of the reserves for defending Bolivia. It is important to note that the funds are not permanently blocked, they are clubbed together only in the event of need.

Another major element in the general principles of the Ecuadorian proposal is that the Member States are the interlocutors of the Bank of the South or the Fund. The idea is to give loans intended for public companies, to small producers, the co-operative sector, the indigenous communities, etc. Theoretically, it should not grant loans to large trans-national companies of the South, such as the ones in South America: Petrobras, large private-public Brazilian company; PDVSA, the Venezuelan oil company; Techint, Argentinean private company... Theoretically, a loan cannot be granted to these companies, it has to be to the public sector, the small producers, the local communities, municipalities, provinces, etc. The money should be lent via the Member States to them. The idea is to stop the Bank of the South from becoming a "mastodon". One should avoid what happens with the WB, it has nearly 13,000 employees, with multiple objectives in all the corners of the South. These missions deliberately weaken the authorities. The idea is to have a structure of the Bank of the South, which is not very developed as far as the number of employees is concerned, and whose interlocutors are the States. The objective is that the States, in accordance with the Bank's orientation, lend mainly to those who require it, for finding an alternative model, reverent to the environment, seeking to promote social justice and assisting those who do not have easy access to capital, therefore by definition not lend initially to large private companies.

### **Other differences between Ecuador's project and the Argentinean-Venezuelan text**

According to the Ecuadorian project, it is planned that each Member State will install a mechanism so that, each year, it will be accountable for the operation and the activity of the Bank and the Fund. This mechanism must include a public parliamentary discussion.

Instead of saying that the records are inviolable, the principle should be to form part of the public domain. There can be provisional exceptions, certain decisions of the Fund being temporarily able to maintain a confidential character under speculative attacks.

The authorities of the Bank of the South and the Fund are subject to tax.

There is no immunity, it is indicated that the authorities of the Bank and the Fund will be answerable to the judiciary system for their acts. The Bank and the Fund are conceived as moral identities, and can be prosecuted.

What can be assessed from this ministerial meeting of the 3<sup>rd</sup> May?

First of all, the outstanding fact is that Brazil, who until that point hesitated to join the Bank, affirmed that it adhered to the Bank of the South. It should however be noted that Brazil, in accordance with the economic and social policy and the foreign policies of the Lula government, especially considers this Bank of the South as an instrument of commercial policy, speaks primarily about the economic bloc and accepts the European Union (EU) as its model, without being critical. For the CADTM and a series of social movements - European or elsewhere - the EU does not fully represent a model as such. Of course, there are important positive aspects: the fact of having a common currency, a space where the internal borders are withdrawn and people are allowed to move extensively. But certainly the current model of the EU supports the application of neo-liberal

policies, and upholds the circulation of capital more than the movement of people, since among the new Member States, in the east, there are certain restrictions on the movement of citizens. The EU preserves a very strong competition among the workers. Within the EU's framework, the working conditions have not been improved and the employers' obligations towards the workers have not witnessed any progress. Where favourable systems of social security are still to be found, as in Hungary, the tendency is to privatise as part of its participation in the EU.

This uncritical vision regarding the EU, expressed by Brazil, is of course shared by other Latin American governments: either they have illusions about the EU, or, most probably, in light of the causes, they find that Europe is doing very well in its current situation, with a common idea that it is rather necessary to advocate a model which remains completely close to neo-liberalism.

### **What to think of Brazil's accession to the Bank of the South?**

Given the strength of the Brazilian economy in Latin America, Brazil's participation strengthens the Bank from the beginning that is significantly more important. The problem with Brazil is that of the orientation of the Lula government and the economic and social model, which it practises. It is clear that Brazil's integration to the Bank of the South puts it in a much more traditional design, not too far from neo-liberalism, while if Brazil did not participate in it, it would be simpler to have a definition closer to the alternative model that we uphold. Brazil has joined the Bank of the South because it cannot be absent from it: if the foundations of the Bank of the South had not been built from the initiative of Venezuela and Argentina, Brazil would not have even spoken about it. But to maintain its regional economic dominance Brazil cannot stay away from the Bank of the South. If we step in the shoes of Ecuador, Venezuela and Bolivia, it is comprehensible that these governments are interested to have Brazil in the Bank of the South, because it is an important economic power and because a series of progressive governments of the region want to maintain a good relationship with Brazil so that it does not strengthen its affinity with the United States, which would weaken the region vis-à-vis the American aggressiveness. A truly diplomatic and geo-strategic game is being played. Ideally the Brazilian government should adopt a truly leftist policy, an alternative to its alliance with the US and its basic support to the agro-exporting industry, alternative to an industrial export-based policy, which goes off to conquer the regional markets. One is far from that.

### **Which tendency will take it to a regional scale?**

The current government of Paraguay is a rightist one, and this government can be replaced after this year's presidential elections. A left-wing priest is likely to win the elections. As for Argentina, there is anti-IMF and anti-neo-liberal rhetoric but the Argentinean government is oriented towards strengthening capitalism in Argentina. In fact, two great initiatives are at work today in Latin America. On one hand we have the Bank of the South and the MERCOSUR which is expanding. To start with, it included Brazil, Argentina, Paraguay and Uruguay. Venezuela, which wants a stronger regional alliance opposing the United States' proposed FTAA adhered to the MERCOSUR, so did Bolivia, and Ecuador is in it as an observer. There is thus an economic bloc, which is defined mainly by the trade and economic relations and is dominated by a capitalist model. This bloc allows the fortification of exchanges and supports a certain type of regional integration.

Then there is another initiative, the ALBA, or the Bolivarian Alternative for Latin America and the Caribbean, where Venezuela and Bolivia take part. Cuba, Haiti and Nicaragua have also joined it, with Ecuador as an observer. A meeting of the ALBA was held in Venezuela five days prior to the Quito meeting on the Bank of the South. The ALBA is a political group with Cuba-Venezuela-Bolivia as its central axis. The governments of these three countries affirm explicitly that they have

undertaken to carry out “Socialism of the 21<sup>st</sup> century”, an anti-capitalist and anti-imperialist orientation, aiming at solidarity among the people.

Thus we have a completely unique context in Latin America and in the Caribbean region, where one has two types of projects, partly competing with each other, but which coexist, since several countries are members of both. Venezuela and Bolivia are in MERCOSUR and ALBA; on the other hand Brazil is not in ALBA, because ALBA manifests clearly a more leftist orientation than the MERCOSUR, and also because Cuba is in it. Brazil, without being opposed to Cuba, clearly affirms its friendship with the Washington government.

The Bank of the South is placed between the two, though it is closer to MERCOSUR than to ALBA. It does not include key members of the ALBA, to start with Cuba, but also Haiti and Nicaragua. Of course, it would be logical for the Bank of the South to extend to the Caribbean region and the Central America in future, and why not in Mexico if there is a change of government, and to develop privileged relations with the other continents of the developing countries, namely Africa and Asia. MERCOSUR is primarily an economic bloc, largely dominated by Brazil. In fact Brazil is “mini-imperialism”, an economic powerhouse in the area, which dominates its economic partners. As for Argentina, Venezuela, Ecuador or Paraguay, these countries have a negative trade balance with Brazil as Brazil exports to them much more than they export to Brazil. Brazil is equipped with trans-national corporations such as Petrobras, which dominate the key economic sectors of its neighbours. Petrobras dominates gas and Bolivian oil, along with the other trans-national companies; other Brazilian companies dominate Paraguay. MERCOSUR, dominated by Brazil and Argentina, rather resembles the EU dominated by the Franco-German-British trio, with dominant neo-liberal capitalism, while the ALBA is a project more political than economic, more based on exchanges like barter and donations. Venezuela donates handsomely to Nicaragua, Bolivia and Haiti. The ALBA seems to be a really interesting project to me. What will be the determining factor? It is the policy guideline of the governments and the struggle of the social movements.

Ecuador has a radical orientation, supporting an income distribution to the most oppressed. Ecuador will not renew the agreement to the US for accessing the Manta military base from 2009 onwards. Ecuador calls into question the type of oil exploitation, which destroys a part of its territory. Take Amazonia for example. It can be well seen that Ecuador’s policy, from this point of view there, is closer to Venezuela and Bolivia than Brazil. In Paraguay, one could have a change of president towards the left. Moreover, the great mobilisations in Brazil should not be excluded, particularly that of the Movement of the Landless Peasants (MST), which reinforces the action for a true land reform, in contradiction with Lula’s policy. In the coming months and years, we would see a reinforcement of the dynamics of the people in action and project of the ALBA. The orientation of the Bank of the South will depend on the governments, which support its creation. Even if there is reason to fear that the orientation advanced by Brazil and Argentina prevails, the game is still open. One should now charge at full gear so that the project of the Bank of the South fulfils all the hopes it sows.

## Notes

[1] Rafael Correa, the Ecuadorian president has announced that he will not renew the permission for the US military base at Manta in 2009 when a fresh renewal has to be made.

[2] Member of the Leftist Economists of Argentina (EDI), member of the International Debt Observatory (OID) and Professor of Economics at the University of Buenos Aires (UBA).

[3] Professor of Economics at the University of Mexico, member of the Latindadd and the OID.

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**P.S.**

\* From the CADTM website: <http://www.cadtm.org>

\* Translated by Suchandra De Sarkar and Sushovan Dhar.