1-25-2008

Seven South American Countries Inaugurate Banco del Sur

LADB Staff

Follow this and additional works at: https://digitalrepository.unm.edu/notisur

Recommended Citation
Seven South American Countries Inaugurate Banco del Sur

by LADB Staff
Category/Department: Region
Published: 2008-01-25

Six South American presidents met in Buenos Aires, Argentina, on Dec. 9, 2007, to formally inaugurate the Banco del Sur, or Bank of the South, a development lending bank that the leaders say will improve regional integration and allow better economic growth than that provided by US-controlled lending banks (see NotiSur, 2007-03-23). Seven South American nations joined as members of the lending institution, although only six presidents were present for the formal inauguration. Uruguayan President Tabare Vazquez signed on shortly afterward.

The bank's members include Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela. Notably absent from the bank are Chile, Colombia, and Peru, the three countries on the continent that have free-trade agreements (FTAs) either in effect or pending with the US (see NotiSur, 2008-01-11).

Another step away from the IMF, IDB, World Bank
The institution of the regionally controlled development bank represents a step away from US-dominated multilateral lenders like the International Monetary Fund (IMF), the Inter-American Development Bank (IDB), and the World Bank, institutions that some presidents at the Dec. 9 ceremony blamed for economic and social damage to their countries.

Argentina and Brazil, for example, paid off their debts to the IMF, rhetorically condemning the strict conditions that its ostensible financial support placed on their countries (see NotiSur, 2006-01-13).

Argentine leaders in particular blame the IMF for the 2001-2002 meltdown that caused havoc in the Argentine economy (See NotiSur, 2001-08-10, 2002-05-17 and 2002-12-20). In attendance at the ceremony were Presidents Luiz Inacio Lula da Silva of Brazil, Evo Morales of Bolivia, Rafael Correa of Ecuador, Nicanor Duarte Frutos of Paraguay, and Hugo Chavez of Venezuela.

Outgoing Argentine President Nestor Kirchner and his wife Cristina Fernandez the incoming president hosted the ceremony at the presidential palace in Buenos Aires the day before her swearing-in as president. Chavez first proposed the bank in 2004. Chavez has been at the center of many projects seeking to increase South American integration and economic development (see NotiSur, 2007-08-24).

Along with proposals like the Banco del Sur, he has also pushed energy-distribution projects like a gas pipeline that would cover huge swathes of the continent and Petrocaribe, a deal to supply energy to Caribbean countries (see NotiSur, 2006-03-03 and NotiCen, 2008-01-24). He frames the integration and aid projects under the Alternativa Bolivariana para las Americas (ALBA), calling them an alternative to neoliberal development schemes pushed by the US and other wealthy nations. Neoliberalism refers to economic principles that stress privatizing public resources, reducing public spending, and keeping economies open for foreign investment and capital. Chavez’s vision also includes trade alliances.
Morales indicated that the bank could be a first step toward a single currency for the continent. US $5 billion-US$7 billion in initial funding With as much as US$7 billion in expected start-up capital, backers say the Banco del Sur will offer Latin American countries loans with fewer strings attached than those given by the World Bank, the IMF, or the IDB. The leaders signed the "founding act," which gave each country one vote to determine bank actions. Each member will have one vote, irrespective of its size or funding, a deviation from the one-dollar, one-vote design of first-world multilaterals, where, critics say, the US and the European Union (EU) have too much power because the number of their votes comes from the amount of their contribution. "Not long ago there was a general chorus singing the praises of neoliberalism" in the region, Chavez said in a speech. "But we are now hearing the great voice of our nations."

Bolivian President Morales, whose country is the continent's poorest, praised the bank as a new tool to fight poverty and ease inequalities, and he criticized what he characterized as the heavy-handed practices of international lenders who demand austerity prescriptions as conditions for extending credit. "Only strong and united can South America occupy its rightful place among nations," Brazilian President Lula said. "This will be the first international bank truly controlled by the nations of our continent."

Venezuela, with South America's largest known oil reserves, is expected to be a leading financier along with Brazil. But critics say much remains to be determined about how the bank will operate, and they say it might turn out to be a largely symbolic project used by Chavez to spread his oil-financed influence. "Chavez has very large resources at his disposal and will continue to promote his vision for the hemisphere," said Peter DeShazo of the Washington-based Center for Strategic and International Studies (CSIS). But he said it remains to be seen "whether it's going to be a politically oriented gesture or if it's going to be a real regional development bank."

Others call it a bold stroke for Latin America's financial independence. "What you had in the past decade was the collapse of a very powerful creditors' cartel headed by the IMF," said Mark Weisbrot of the Washington-based Center for Economic and Policy Research (CEPR). "This is the first step in creating an alternative." Finance ministers of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay, and Venezuela will sit on the bank's board.

Officials say the new institution will dispense loans for projects from road-building to anti-poverty programs and for regional-integration plans. Venezuelan officials say the bank's loans will be issued at interest rates similar to those of other international lenders. Rodolfo Sanz, a Venezuelan central bank official, said initial capitalization is expected to be between US$5 billion and US$7 billion, depending on final pledges.

The institution will be headquartered in Caracas, Venezuela, with other offices in La Paz, Bolivia, and Buenos Aires, Argentina. Nations were expected to immediately provide about 10% of the initial total pledges to the bank. "It's a very interesting initiative, which I think expresses the desire to find stronger cooperation between Latin American governments," the World Bank's chief economist for Latin America, Augusto de la Torre, said in an interview. "As far as the World Bank is concerned, this new initiative is not perceived as a competitor."
IMF-watcher Paul Blustein at Washington's Brookings Institution said the project highlights Latin America's yearning for greater autonomy after decades of financial crises and imposed austerity measures. "It's really emblematic of how Latin America has become disillusioned with the model that the IMF and the World Bank and the US Treasury promote the so-called Washington consensus," he said.

But Blustein noted the IMF and World Bank have decades of know-how. "I'm not so sure this institution is going to be any more successful," he said. Finance ministers of the seven countries were to have two months to translate the banks' ideals into practice. The bank "should generate more financing for countries that have difficulty getting it. Brazil has a lot of credit today, but we want all countries to have more. That way we'll be pushing the development of other countries and stronger commercial relations," Brazilian Finance Minister Guido Mantega told reporters on arriving in Buenos Aires for the signing ceremony.

Brazil, the economic powerhouse that may provide close to half the bank's capital, was hesitant to be involved but apparently agreed to come onboard if the institution works as a development lender similar to the World Bank rather than as a provider of loans for countries in economic crisis like the IMF.

'Historic moment'
The presidents in attendance praised the institution, even if its current operating capital is far below the holdings of larger development banks. Morales said, "The Banco del Sur comes into being in a historic moment in South America, when liberating democracies are following the destinies of the people and not of the empire. Now we will not depend on the multilateral institutions that always condition their loans demanding, for example, privatizations and [structural] adjustments."

Structural-adjustment programs often slashed public spending and, say critics like Morales, led to social collapse. Ecuadoran President Correa said the bank "will begin to put an end to financial dependence, to the burdens inherited from the sad night of neoliberalism." Paraguay's Duarte said the new institution "is an alarm for the credit institutions that have always subordinated countries." Chavez claimed the bank "was unthinkable a decade ago," and said it is "a political fact that forms part of a social and economic war." "It's odd that we in developing countries lend our money to the United States at interest rates of 1% or 2%. They turn around and lend us our own money at a rate of 8% to 10%. That's for idiots," Chavez said during an address in a Buenos Aires hotel.

Citing a book by Nobel Prize-winning economist Joseph Stiglitz, Chavez said that poor countries "borrow US$2 billion per day," and "they have no way to repay it," since "in the last three years the dollar has lost 40% of its value." He added, "That's what gave us the idea to set up our own financial structure. In a few years we will have a powerful Banco del Sur and a financial fund of the south to which we can contribute reserves from the region to carry out our own projects."

Chile uncertain whether to join
The bank does not have all of South America's big players, with Chile standing on the sidelines and Colombia having pulled out of joining the bank. Chilean Sen. Alejandro Navarro, of the ruling Concertacion coalition, criticized his country's stance, saying, "The photo of the [six] presidents, who
represent the majority of the continent, celebrating the formal creation of the Banco del Sur without Chile is a very strong image, which turns out to be very sad and inexplicable for many of us."

The Partido Socialista (PS) senator said Chile's absence is because "apparently our will toward Latin American integration is kidnapped in the highest tower of the castles of the minister of foreign relations," Alejandro Foxley, who opposed joining the bank.

But Sen. Sergio Romero said Chile's decision to maintain observer status was the correct route. "It seems positive to me that Chile's priority is to back the Banco Andino de Fomento, since the Banco del Sur is a recently created entity," said Romero. Chile is an associate member of the Comunidad Andina de Naciones (CAN) and the Southern Cone Common Market (MERCOSUR). Tensions between the governments of Chavez and Colombian President Alvaro Uribe (see NotiSur, 2007-12-07) make it unlikely that Colombia will join any major Chavez-led projects in the near-future.

-- End --