

Massa Critica

PACS
Instituto Políticas Alternativas para o Cone Sul

March 2008
n° 32

Occasional report offering a political and economic analysis of current national and international affairs.

South Bank: 90 days of silence

Gabriel Strautman[*]

At the launching event for the South Bank, held in Buenos Aires on December 9, 2007, the presidents of the Bank member countries set a 60-day deadline to define the structure and guidelines for the new South American multilateral financial institution. In practice, the idea was to set a deadline to eliminate the existing divergences among members on the Bank's role. However, the deadline expired on February 9, with no progress having been made. It has been more than 90 days since the Bank was founded. There has been no comment from governments in this respect, while the conservative media – whose coverage of the subject has always been slanted to present it as directly linked with expansion of the Bolivarian project throughout South America – have given it no consideration, even to call it into question. In such a context, it is as well to pay close attention all the information conveyed by silence: a boycott on debate actually consolidates some positions in this conflict.

This initiative to set up a South American international financial institution was associated, from the outset, with the idea of building a new regional financial architecture and seeking alternatives to the international financial institutions (IFIs), such as the International Monetary Fund and the Inter-American Development Bank, which are controlled by countries of the North. This debate has only been possible thanks to major hoarding of international reserves by economies in the region, which has spurred discussion on how to prevent the outflow of funds and to inject them into production in the region's economies. The

idea was to create a South American development bank, capable of centralizing these countries' savings, and thus turning them towards productive investment and reducing the region's vulnerability to international economic cycles. This would lay the foundations for a truly autonomous financial system, which could contribute to reducing power asymmetries between countries in the region, and curb their dependence on international capital flows.

However, the South Bank member countries have never reached consensus on the new institution's role. Debate has been marked by disputes between those who advocate breaking with the international financial system and those who prefer to follow the rules imposed by the dictatorship of globalized finance and who, therefore, consider the regional multilateral institution as just a new source of finance for old projects. Following months of negotiation, the presidents of Argentina, Bolivia, Brazil, Ecuador, Paraguay, Uruguay and Venezuela signed the founding charter of the South Bank – the last official act by Néstor Kirchner as president of Argentina. In the document, besides the 60-day deadline to draw up the Bank's Articles of Agreement, the presidents agreed that the new bank will be a development bank, designed to finance strategic sectors in the region's economy, scientific and technological development, and poverty reduction projects. The document also provides for the creation of a disaster relief fund.

Meanwhile, this apparent convergence has faded with the 90-day silence since the charter was signed. The same silence hangs like a cloud of uncertainty over the South Bank's future. The conflict focuses on the new institution's capital composition and decision-making system, which will be crucial to deciding the Bank's financial goals – which may go a

long way to explaining the lack of agreement among the partners.

As regards capital composition, the main points of conflict are the origin of funds and whether each country's contribution is to be the same or proportional to the size of its economy. On the first point, the partners are debating whether or not to restrict the composition of the bank's funds, that is, whether its funds will comprise only public resources from each member country or if funds can also be raised on the capital market. Public funding – for example, by transferring international reserve funds or taxing capital flows – would give the South Bank greater autonomy from the impositions of the financial market. On the other hand, raising funds on the market would force the institution to follow the strict economic efficiency criteria and conditionalities imposed by IFIs. The Bank's charter already contemplates the possibility of raising funds on the market by stating that the institution shall perform its functions "making use of intra- and extra-regional savings". Advocates of these supposedly technical and non-political guidelines include Brazil and Argentina, making clear their disdain for the notion that purportedly technical economic liberalism is in fact imbued with ideology and that the IFIs have always defended the political and economic interest of Northern countries.

The issue of how much each country is to contribute to the South Bank correlates with one of its main reasons for its very existence: to finance integration among countries in the region and reduce the asymmetries among them. In that light, the larger economies could be expected to make larger capital contributions, without thereby claiming greater power over the bank's decision-making. In order to encourage a process aimed at reducing power asymmetries, and therefore economic asymmetries, the South Bank's decision-making system should be based on "one country, one vote" and never "one dollar, one vote". This distinction sets countries with larger economies against countries with smaller economies, giving the second focal point of dispute. Here, proposals have been made for all countries to make identical contributions, which obviously fails to represent equivalent effort by each country in proportion to its means and does nothing to reduce asymmetries.

These two issues – whether the South Bank's capital is to be sourced from public funds in each country or from the capital market and whether its decision-making system is to be based on "one country, one vote" or "one dollar, one vote" – are decisive to determining the bank's finance goal. The charter provides for "financing of strategic sectors", so the correlation of forces within the new institution will be fundamental to answering the following question: strategic for whom?

Are we going to have a South Bank guided solely by economic efficiency criteria, with a decision-making system that reproduces current power relations? If that is the case, will the new bank finance large infrastructure projects with huge socio-environmental impacts and meet the expansion needs of the main contending economic groups in the region, or will it favor funding projects in solidarity aimed at reducing asymmetries in living conditions in and among South American countries, by constructing an egalitarian, transparent decision-making body, that would contemplate the existence of participation mechanisms within social movements?

Boycotting debate over the creation of the South Bank benefits those who have "more to lose" from the launching of the new institution. In this regard, Brazil would be among those most interested in the failure of the initiative and most likely to benefit from the silence over negotiations. At first, the Brazilian government stated it would not form part of the South Bank, with the excuse that the idea had not been sufficiently debated and that, on the other hand, it would increase its participation in the Andean Development Corporation (CAF, in Spanish). In fact, at that time, the Brazilian authorities believed the idea, originally promoted by Argentina and Venezuela, would make no headway. In any case, Brazil already had the resources of its own National Economic and Social Development Bank (BNDES), which in 2005 alone disbursed some US\$ 30 billion, even to Brazilian companies operating overseas. Nevertheless, as negotiations made progress, the Brazilian government was forced to participate in the project on condition that the Bank followed technical non-political guidelines.

Internationally, the silence and stagnation favor those who argue that the project is just an idea of Venezuela's President Hugo Chávez, without much consensus or feasibility. That standpoint frames the positions of Chile, Peru and even Colombia, although at some point the latter did also express the intention of joining the scheme. As regards extra-regional players, the delay in the bank's implementation finally favors the position of the traditional financial institutions.

Moves designed to frame the South Bank within the paradigm of a traditional bank (like the IFIs) should be resisted, because whatever eludes technical-scientific controls responds to the logic of ongoing resistance processes in our region. In this regard, and given the important role to be played by the Bank in promoting integration in solidarity among South American countries and reducing asymmetries in conditions of life in and among countries, citizens should pressure governments of the region to adopt transparent positions that can contribute to social oversight of negotiations.

[*] Economist at PACS Institute and member of the Brazil Network on Multilateral Financial Institutions and the Jubilee South Network. The author thanks María José Romero – of the Third World Institute in Uruguay – for her comments



Instituto Políticas Alternativas para o Cone Sul

Address: Av. Rio Branco, 277 - sala 1609 -
Centro - Rio de Janeiro/RJ
CEP.: 20040-009 - Telefax: 55 21 2210-2124
Website: www.pacs.org.br
E-mail: pacs@pacs.org.br

Associada à ABONG – Associação Brasileira de Organizações Não Governamentais - desde 1991
Utilidade Pública Federal – Portaria nº 2.476, de 17 de dezembro de 2003 – Diário Oficial da União de 18/12/2003.
Utilidade Pública Estadual – Diário Oficial de 02/06/2003 – Lei nº 4.108.
Utilidade Pública Municipal – Diário da Câmara Municipal do Rio de Janeiro de 13/09/2004 – Lei nº 3832 de 09/09/2004
Inscrição nº 620 no Conselho Municipal de Assistência Social – CMAS, processo nº 08/015202/03, publicado no Diário Oficial do Município de 28/10/2003.

Who we are

Set up in 1986, provides eco-social advisory services, socio-economic research and educational action in collaboration with social movements, cooperatives and self-managed associations, churches, municipal governments, ecumenical movement and others.

Goal

Our goal is to contribute to human self-development and to the construction of a critical and creative public opinion. It includes the promotion of transformative, participatory, technically competent public policies at local, national and global levels.

Methodology

Taking the Praxis Methodology as a foundation we work with people and organizations, for their individual and collective empowerment to become the subjects of their own history and development. Our actions unfold on three levels: the local, immediate, the meso – networking and medium-term – and the national-global and long-term.

Activities

Research, studies and critical thinking in the form of publications, radio and audio-visual programmes; alternative proposals, policies and development plans; advisory services and educational activities with social and ecumenical movements, city governments, and others; participation in regional and international networks.

Partners

CHRISTIAN AID (Reino Unido)
TRÓCAIRE (Irlanda)
Fundação Léopold Meyer para o Progresso Humano - FPH (França e Suíça)
Ação Quaresmal (Lucerna, Suíça)
DKA (Áustria)
Pão para o Mundo (Alemanha)
Appleton Foundation (EUA)
Fundación para la NoViolencia (EUA)
SCIAF - Scottish Catholic International Aid Fund (Escocia)