Strengthening Latin America's Financial Institutions, Confronting the IMF, Role of the Bank of the South

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The leaders of South America are in a point of divergence. The economies of the Latin American region regressed in 2015 and, according to diverse estimations will not grow in 2016. Nothing indicates that commodity prices will rally. The dilemma between adjustments, public spending and seeking loans from credit institutions subject to the US Treasury Department remains.

Nevertheless Ariel Noyola believes that the leaders of the region can strengthen the bases of South American financial architecture through the operation of the Bank of the South, a project that has been stagnated for eight years, and that in the face of the current economic situation, could prevent the deepening of the debacle.

In the face of the deepening of the world recession, it is urgent that the South American leaders concentrate their energies in the construction of their own credit institutions and the use of instruments of financial cooperation directed at debilitating the influence of the dollar in the region. Every time that the US Government seeks to impose its economic domination in the region through all possible means, for the South American countries it has become necessary to obtain political autonomy in the face of traditional credit institutions.

The *modus operandi* of the International Monetary Fund (IMF), the World Bank and the Inter-American Development Bank (IDB) is already well known: the utilization of the debt as a pressure mechanism against peoples sunk in insolvency; the imposition of *draconian* economic measures (lowering of social expenditures, wage cuts, privatization of strategic state enterprises, etc.); unlimited financial assistance to Governments formed by a coup d'état but supported by the White House (as happened in Chile in 1973); etc. For these and many other reasons it is necessary to strengthen the bases of the South American financial architecture.

In the first place, one needs a South American Monetary Unit (SMU). The SMU is not a "common currency" such as the euro, but a basket of reference made up of a collection of currencies (such as the Special Drawing Rights of the IMF). The SMU is a reference that enjoys greater stability than the dollar, both for the emission of bonds and the stability of prices in the region. In parallel, one must move to make commercial exchanges invoiced in national currencies.

From 2008 Argentina and Brazil established a System of Payments in National Currencies (SML). And in October of 2015, Paraguay and Uruguay implemented an analogous mechanism of payments. Thanks to this they have avoided using the dollar and the transaction costs have been reduced substantially between businesses on both sides. Now we have only to involve Bolivia and Venezuela in order to give incentive to the "de-dollarization" of all the countries that make up the Common Market of the South (MERCOSUR).

In second place, the countries of South America stand in need of a powerful fund for monetary stabilization, able to protect their balance of payments from the violent fluctuations of the dollar, more than ever since the Federal Reserve System (FED) of the United States raised the federal funds rate in December of last year[1]. Over 2002 to 2009 the increase of prices of commodities favoured the massive accumulation of international reserves, but nevertheless, South America continued to finance the industrialized countries.

A good part of the thousands of millions of dollars that the region saved during these years was invested in US Treasury bonds, in place of being dedicated to productive activities through a powerful Southern Fund. At the present time the only stabilization fund that exists in the region is the Latin American Fund (FLAR) originally launched by the Andean Community in 1978 under the name of the Andean Reserve Fund and at the present time made up with Bolivia, Colombia, Costa Rica, Ecuador, Paraguay, Peru, Uruguay and Venezuela.

Nevertheless, the resources at the disposition of FLAR are hardly sufficient to contain stampedes of capital in critical situations: their inscribed capital is hardly 3.609 billion US dollars, an amount that represents less than 15% of the reserves of the Central Bank of Bolivia. The world credit market has become overly volatile. In 2015 alone more than 98 billion US dollars of dollars of financial investment have fled from emerging countries, according to the estimates of the Institute of International Finance (IIF)[2].

Because of this, it is urgent to take charge of the work in the face of this dangerous vulnerability. The MERCOSUUR countries need a stabilization fund of their own, given the high degree of financial integration of Brazil with the rest of the world, they have at least 100 billion US dollars of capital inscribed, which is the volume of resources at which the Contingent Reserve Arrangement of BRICS (acronym of Brazil, Russia, India, China and South Africa).

In the third place, the South American countries should rescue the Bank of the South from the bureaucratic maze in which it is found in order that it makes its first loans[3]. The technical details are practically ready: the initial capital will be 7 billion US dollars and the authorized capital of 20 billion US dollars; the principal seat will be in Venezuela; Argentina and Bolivia will host two other branches. Nevertheless, its actual functioning has been cut off several times, so much that more than eight years after the signing of the act of foundation in Buenos Aires, the Bank of the South has yet to open its doors[4].

There are powerful economic interests that prevent a breaking with the *statu quo*, both inside and outside of the region. Although at the time it was thought that the Bank of the South would bring together all the countries of the Union of South American Nations (UNASUR), this looks to be impossible: Surinam and Guyana are not interested, while Chile, Colombia and Peru are tied into backing the projects of integration promoted by Washington, both the Pacific Alliance and the Trans-Pacific Partnership (TPP)

In consequence, the members of the Bank of the South have been reduced to the MERCOSUUR countries plus Ecuador. On the other hand, the resistances from within the block come above all from Itamaraty, the Ministry of Foreign Relations of Brazil. In South

America the influence of the Brazilian Development Bank (BNDES) is overwhelming, to the point that over several years it has been able to overcome the amounts of credit provided by the IMF, the World Bank and the IBD.

The BNDES has no interest in advancing Latin American integration. In reality their mission is to guarantee supplies of commodities to Brazilian enterprises[5]. The resources of BNDES are oriented to mega projects that reproduce the primary-exporting dependence of South American countries, such as the Initiative for the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA), a network of roads with continental dimensions that are of benefit only to a handful of corporations[6].

In contrast, the money of the Bank of the South will not be limited to works of infrastructure, but will also be oriented to a wide range of investment programs tied to education, health care, housing, etc. The Bank of the South will completely undo the criteria of the "Washington Consensus" that have brought so much misery to South America: it will provide loans at low interest rates, since its objective is to promote the integral economic development of peoples.

Undoubtedly, the Bank of the South constitutes a great hope in times of crisis. On the one hand it will serve as a strong mechanism of economic relief for the countries of South America that are victims of severe contractions. On the other, it will provide an important support to finance the more ambitious goals of South American integration: scientific and technological projects, a network of railways, of energy, etc.

In conclusion, the Latin American Governments need to take concrete measures to bring a halt to the conservative restoration that is now under way. On the contrary there is only a debacle. It is obvious that the Government of Brazil has a great responsibility to safeguard continental sovereignty. The high functionaries of Itamaraty will, in the last instance be responsible for breaking the Bank of the South paralysis.

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Notes:

[1] «Fed's rate rise could heighten problems in emerging markets», James Quinn, *The Telegraph*, December 18, 2015.

[2] «Emerging market portfolio flows at weakest level since global financial crisis», Jonathan Wheatley, *The Financial Times*, January 4, 2016.

[3] «Banco del Sur, crisis global y turbulencia en Latinoamérica», por Ariel Noyola Rodríguez, *Red Voltaire*, 22 de septiembre de 2014.

[4] «The Bank of the South: Bolivarian finance», *The Economist*, December 13, 2007.

[5] «Brasil vs. Banco del Sur», por Oscar Ugarteche, *Red Voltaire*, 28 de agosto de 2007.

[6] «Interconexión sin integración: 15 años de IIRSA», Raúl Zibechi, *Programa de las Américas*, 23 de septiembre de 2015.

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