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Economy

“The alternative would be a Bank of the South, not the BRICS Bank”

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Éric Toussaint knows what is at stake in development finance inside out. Founder of the Committee for the Abolition of Third World Debt (CADTM) in 1990, the Belgian political scientist was directly involved in launching the Bank of the South at the behest of the Ecuadorian government. Even though this entity is presently at a standstill, Mr. Toussaint still believes in this project initiated in 2007 by seven South American countries as a progressive alternative to the World Bank. On the contrary, he has doubts about the investment bank announced by the five major emerging economies. [*Le Courrier de Genève*]

Q: The emergent countries known as BRICS announced that they want to create an alternative to the World Bank (WB). Is this good news for development?

Éric Toussaint: Any alternative to the WB would be great news indeed, but I do not at all believe that this is the case here. The five BRICS countries are emerging capitalist economies trying to preserve their interests, just as the big traditional powers do with their control of the International Monetary Fund (IMF) and the WB. By promising not to set conditionalities such as Structural Adjustment Plans, the New Development Bank (NDB) stands apart with its loans and its democratic principle: one country, one vote (but to what extent will it be followed?). As an alternative, it's not enough. It would just be a lesser evil.

Q: To summarize, we are going to swap a WB subservient to Washington with a NDB serving Chinese imperialism?

Éric Toussaint: We can speak about sub-imperialism taking our cue from the Brazilian economist Rui Mauro Marini, in the sense that these countries, Brazil and China in particular, are investing heavily in developing countries for pushing their political or economic self-interest, not for the development of the recipients of the funds. What differentiates them from real imperialists, such as the United States, is that they have not yet resorted to military means, with the exception of Russia.

Q: In your opinion, what would be a real alternative to the WB?

Éric Toussaint: The announcement of the creation of the Bank of the South (BoS) in 2007 was a hopeful sign. When it was created, I participated in the drafting of Ecuador's stand and subsequently in the committee formed with ministers from the seven founding countries, at the request of President Rafael Correa. Ecuador and Venezuela had a clear vision of an establishment which would boost employment and facilitate continental integration as well as involve very concrete projects, such as a pharmaceutical industry for generic products, or the reconnection of South American countries by railways, with local production of rolling stock, which would have meant less pollution along with industrial and technological breakthroughs. The Sucre was to be a common and alternative currency. It further involved the idea that countries with maximum foreign reserves should transfer resources to others. It was an integration project, which considered people's interests and could easily have expanded to Central America and the Caribbean, especially as it aimed at transparency - Public Accounts, external audits - and democracy. As an alternative to the WB, this should have set an example, and therefore, had to be ambitious. For example, judicial immunity was out of the question for the BoS officials, unlike their WB counterparts.

Unfortunately, the Bank of the South has not taken off. Seven years down the line since it was established, the bank has not yet granted any loan! The Venezuelan government has announced that it would be operational before the end of 2014. Let us keep a close watch.

Q: Will the BRICS Bank have better luck?

Éric Toussaint: Will they manage to agree on joint projects? One may wonder if these five countries do not join forces merely to show the traditional powers that they can do it. In fact, in my opinion, these five countries have very few common interests.

Q: Do they have the financial basis to sustain such a bank?

Éric Toussaint: Obviously yes! China alone has more than \$ 3,000 billion in foreign exchange reserves and it does not know what to do with it. It's an enormous amount, almost twice the total external public debt of developing countries. A good chunk of that money has been invested in the United States Treasury bills. China is the largest creditor to the United States. Similarly, Brazil and Russia also have very large foreign exchange reserves. Only South Africa will find it difficult to put the \$ 10 billion as capital for starting the establishment (which is in addition to the \$ 5 billion required for the reserve fund. editor's note)

Q: As for Brazil's investment in the NDB, isn't it the last nail in the coffin of the BoS?

Éric Toussaint: The BoS is already in a bad state... but, with or without Brazil, South America still has the financial assets to start this project. I think that Brazil is mainly responsible for the current impasse. This country has its own development bank, BNDES (the National Bank of Economic and Social Development) with huge investments abroad. In South America, its stature is equivalent to that of the Inter-American Development Bank and WB loans for the region! Brazil prioritizes the BNDES and only participates in the BoS in order to stall a potential rival.

Q: Don't this failure and the present financial difficulties of Argentina and Venezuela indicate that the dream of Latin American independence is out of reach?

Éric Toussaint: When Hugo Chávez proposed the BoS, the project sounded absolutely reasonable! May be it was wrong to assume that Brazil had to be counted in the deal at any cost. Nevertheless, most of the countries on the continent have proven that they can steer clear of neoliberal consensus. New structures, such as the ALBA (Bolivarian Alliance for the Peoples of Our America), are now functional. Ecuador, Bolivia and Venezuela have decided to withdraw from the WB group's International Centre for Settlement of Investment Disputes (ICSID). Also, major foreign companies, exploiting natural resources in these countries, have to pay more taxes now. This is still insufficient when it comes to the actual potential of these countries and the challenges ahead, but we still have time. There should be a strong reaction in the next two years. Some government officials are driving in this direction.

If not, I am afraid South America will face serious financial difficulties. A situation similar to that of the 1982 debt crisis is looming large.

Q: Are there early warning signs?

Éric Toussaint: Yes, the United States is going to raise interest rates which were lowered drastically during the crisis of 2007-2008. This will make debt refinancing costlier, just when a declining global demand for raw materials is threatening the revenue of South American states. I am afraid these countries will only realize within the next two or three years what a terrific opportunity they missed during the past decade-an opportunity to develop alternative financial instruments against the decisions of Northern countries.