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Bank of the South, international context and alternatives

by Éric Toussaint

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1. Two important opposing trends are being played out at the international level

Today's overriding trend, in existence for 25 to 30 years, has been the pursuit of a neoliberal and imperialistic capitalist offensive. Over the last few years, this trend has been expressed by the more and more frequent recourse to imperialistic wars, the increase in arms by the super powers, the pursuit of reinforcing trade opening of the dominated countries, the generalization of privatization, a systematic attack against wages and collective solidarity mechanisms won by workers; all of which are a part of the Washington Consensus.

A counter trend has been developing since the end of 1990s. Its most advanced form is expressed (almost) uniquely in Latin America: the election of presidents advocating for a break with neoliberalism (this round began with the election of Hugo Chavez at the end of 1998) or at least a variation of same; Argentina suspending payment of its public external debt to private creditors from the end of December 2001 to March 2005; the onset of the state reclaiming control of large public corporations (PDVSA) |1| and of natural resources (natural gas in Bolivia); the failure of FTAA (Free Trade Area of the Americas); the diminished isolation of Cuba.

This counter trend would be inconceivable without the powerful social resistance that has been opposed to the neoliberal offensive since the 1980s (February 1989 in Caracas) in different parts of the world and that have since flared up periodically.

The resistance that imperialism encounters in Iraq, Palestine and Afghanistan also play a fundamental role.

2. The international economic context 2003—2006

The crisis which struck the US economy in 2000-2001 has been overcome by a voluntary anti-cyclical policy of the Federal Reserve Bank (the US Central Bank) which drastically lowered its official interest rate bringing it to almost zero. The objective was to avoid the bankruptcy of Enron and Worldcom extending to other large heavily indebted corporations in the private sector. The radical reduction in interest rates allowed corporations to refinance their debts in the least cost-effective manner. It was the same for North American households whose debt level was unprecedented (130% of annual income). The total sum of all debts in the US, both in the private and public sectors, is more than $37 trillion.

The US was able to overcome this crisis and re-established a level of growth supported by domestic consumption which has been fed and financed externally.

The economic recovery in the US took place while Europe and Japan experienced weak growth. The US has since then played the role of being the world's economic engine in 2002-2003. US consumption implies a strong recourse to imports, especially Chinese products. The US engine has swept China along in its wake. China has thus maintained a growth rate close to 10%. China's needs for combustibles and raw materials have boosted the world market prices of these products.

According to the Bank for International Settlements (BIS www.bis.org), in 2005, " *China accounted for more than 57% of the incremental demand for aluminium, 60% of that for copper and over 30% of that for oil* " (BIS Annual Report 2006, p 41).

Since 2003, we have witnessed a very sharp rise in the real price of oil, other raw materials and certain agricultural products. At the same time, the prices of manufactured products rose slightly.

This is why we are living in a world characterised by an improvement in the terms of trade in favour of developing countries exporting raw materials, combustibles and several agricultural products. This contrasts sharply with more than twenty years of degradation of the terms of trade |2| to the detriment of developing countries.

In the case of Latin America, since 2003, Brazil, Chile, Columbia, Peru and Venezuela have all benefited from a sharp rise in the prices of their exports (BIS 2006, p 40).

This upswing in the terms of trade produced an enormous increase in foreign exchange reserves of developing countries. In fact, more than 130 of them (out of 165) saw an increase in their reserves.

Between 2000 and April 2006, the foreign exchange reserves of developing countries (which include the countries of the former Soviet bloc) have almost tripled (from $973 billion up to $2,679 billion). The foreign exchange reserves of oil producing developing countries have quadrupled (from 110 to 443). China's have increased by more than five times (from 166 to 875). Latin America's foreign exchange reserves increased at a more modest rate, i.e. by 40% during the same period.

The world's total outstanding foreign exchange reserve, according to the BIS, reached $4.17 trillion in December 2005 (where ⅔ is in US Dollars, the remaining ⅓ comprising of Euros, Yens, Pound Sterling and Swiss Francs), of which only $1.292 trillion are in the possession of the most industrialised countries. Still, it must be noted that the US only possess the equivalent of $38 billion (in different currencies) and the Eurozone only $167 billion. As for Japan, it only holds $829 billion (BIS, 2006, p 83).

Developing counties have never known such a situation: they have a sum equivalent to more than double the foreign exchange reserves of the most industrialised countries at their disposal. The composition of the foreign exchange reserves of developing countries are as follows: 60% in US Dollars, 29% in Euros and the rest in Yens, Pound Sterling and Swiss Francs.

The IMF, which, since its inception in 1944, has been officially in charge of assisting countries who face balance of payment problems, only has the equivalent of approximately $9 billion that are directly in circulation at its disposal. Total contributions represent $300 billion but it must be noted that the 184 members of the IMF do not necessarily make these sums available to the Fund. Its lending portfolio is no more than $35 billion. It is looked on as a dwarf with respect to some twenty developing countries. Its situation is moreover aggravated by the fact that its lending portfolio is diminishing (and consequently its revenues) due to advance repayments by several Asian countries, Brazil and Argentina, soon followed by Mexico and Uruguay.

Developing countries are, literally as well as figuratively, net lenders to the most industrialised countries.

It is so true that they lend money to the US Treasury and to Western European countries by buying their Treasury bonds. Developing countries hold US Treasury bonds exceeding several hundred billion dollars.

NB: The World Bank itself recognizes that developing countries are net lenders to the most industrialised countries. In its 2003 Annual Report entitled *Global Development Finance* , the World Bank states that “ *Developing countries, as a whole, are net lenders to developed countries* ”. In the 2005 publication of *Global Development Finance* , the World Bank writes: “ *Developing countries are now net exporters of capital to the rest of the world* ” (World Bank, *GDF 2005* , p 56). In *Global Development Finance 2006* , the World Bank states again that “ *Developing countries export capital to the rest of the world, particularly to the United States* ” (World Bank, *GDF 2006* , p 139).

There is nothing that demonstrates the futility of the prevailing theory more than in the area of development. In fact, according to the prevailing thought, one of the principal obstacles to development of the South |3|, is the lack of capital. Therefore, for development purposes, developing countries must look elsewhere for the capital they lack. They must be at the same time indebted and attract foreign capital.

The present policy with respect to foreign exchange reserves is, from all perspectives, absurd because it conforms to the orthodoxy of international financial institutions.

Instead of using a large part of their foreign exchange reserves for investment and current spending (for example, on education and health), the governments of developing countries use it for repaying their debts or for lending purposes to the Treasury of the United States or to the treasuries of Western Europe.

But it does not end there. The governments of developing countries use their foreign exchange reserves as a guarantee on future payment and contract new debts with private foreign banks or financial markets. It is absurd from the point of view of general interest.

Another absurd policy from the point of view of the Nation, the public treasury of developing countries, in order to prevent an inflationary effect linked to the high level of foreign exchange reserves, incur debt with local banks in order to withdraw surplus money from circulation.

Let us take another look at the different actions mentioned above.

2.a Advance payments to the IMF

From the end of 2005 until the beginning of 2006, Argentina made advance repayments to the IMF by using part of its foreign exchange reserves. Argentina, however, would have been perfectly entitled to challenge the amounts due to the IMF since the Fund is responsible for a series of actions which have inflicted harm on Argentines as well as on the economy of the country. The IMF actively supported the Argentine dictatorship during the years 1976 to 1983, a regime that systematically committed crimes against humanity as well as putting the country heavily into debt by implementing an economic model prejudicial to the interests of the Nation. The IMF then demanded that the democratic government, which succeeded the dictatorship, repay the odious debt contracted by the military junta.

Afterwards, it continued, and still to this day, to dictate an economic policy prejudicial to the interests of the Nation. Argentina was perfectly within its right to refuse to continue repaying its debt to the IMF.

The same could be said about Brazil and its advance repayments on its debt.

By using their reserves to repay the IMF, Argentina and Brazil have wasted a part of their resources that could have been utilised for more useful and worthy ends.

One of the main reasons given by the Argentine and Brazilian governments for advance repayment of their IMF debt was the desire to regain their freedom of movement.

It must be clearly stated that after repayment, these governments maintained an economic policy supported by the IMF. For example, they did not re-establish controls on the movements of capital or on foreign exchange.

2.b Loans to the US Government by purchasing Treasury Bonds

Most developing countries purchase US Treasury bonds. The exact amounts are unknown, but this amounts to several hundreds billion dollars being lent to the US government. The argument most commonly advanced is that US Treasury bonds are highly convertible assets, ie, they can be resold very quickly and easily. Besides, it is generally assumed that they are risk free since it is inconceivable to imagine the US treasury being in default in the short or medium term. Simply put, developing countries are thus contributing to the maintenance of US imperial power. Developing countries are giving the master the baton with which to beat them up and rape them. In actual fact, the US has a vital need for outside funding to finance its enormous deficits and maintain its military, trade and financial might. If it were to be deprived of a significant portion of the loans from developing countries, the US would find its position weakened.

Additionally, those who advocate purchasing US Treasury bonds generally omit to mention the fact that the dollar is falling. The yield of those bonds is in devaluated dollars.

Let us immediately agree that the purchase of West European treasury bonds is in no way a viable alternative, although it may be a lesser evil.

It would be far better to use surplus reserves productively or make them available to a "bank of the South".

2.c The pursuit of public debt

Investing reserves in US Treasury bonds (or any other Treasury bonds) generally means in return new borrowings. This may seem surprising, but in reality, this is how things work. On the one hand, a part of foreign currency reserves is invested in US (or other) Treasury bonds; on the other hand, all levels of government borrow from domestic or international markets in order to repay the national debt. In any case, the interest earned from investing in foreign Treasury bonds is less than the interest paid to borrow. This amounts to a loss for the Treasury of the country concerned.

Leaving a significant amount of reserves in the hands of the Central Bank frequently leads to it being in debt!

To explain. The massive influx of foreign capital in the form of foreign exchange ends up in the hands of local agents who will exchange it at their own banks for local currency. This results in an increased accumulation of the domestic currency, a potential source of inflation. In order to avoid this, the central bank performs transactions designed to "freeze" these reserves so as to prevent the influx of foreign exchange from being transformed into the local currency. There are two main possibilities:

- The central bank can decide to increase the rates for reserve assets of the banking system. This leads to additional costs for banks, which will certainly be reflected in the interest rates on the loans they offer. This will make credit more expensive and should thus slow down the generation of money (since every time credit is given, money is generated, just as there is monetary "destruction" every time credit is repaid).
- The central bank carries out *open-market* transactions, ie, it issues securities, designed to take local currency out of circulation, thereby limiting the risk of inflation.

The problem with this strategy is that the central bank has, on the one hand, foreign exchange reserves that it invests in international capital markets (which earn a T1 interest) while on the other hand, the earnings from the securities that it issues is at T2, which is greater than T1, since the risk premium has more significance within the domestic markets of developing countries than in international markets.

It is for this reason that, in order to control inflation as well as the rates of exchange (this also depends on the exchange modes, whether flexible or of the fixed *currency board* type), both the central bank and the state are forced to incur debt simply to finance the discrepancy between the rates.

This is the combined result of a monetary policy whose principal objective is the fight against inflation (according to familiar liberal perspectives) and a general economic policy that limits the active intervention of the state into productive activity and considers social expenditure to be non-productive (and a source of inflation).

A crushing majority of governments give precedence to this policy, giving rise to an increase in the national debt as a counterweight to the high level of foreign exchange reserves [4]. This is true for China as well as for Latin America.

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governments of developing countries would do better to:
- adopt measures to control capital and currency movement (a far more effective way of protecting oneself from speculators and fighting capital flight);
- use a significant part of their reserves for productive investment in industry, agriculture (agrarian reform and sovereign control over food resources), infrastructures, environmental protection, urban development (urban improvement, construction/renovation of homes...), health care and education services, culture, research, social security...;
- use part of their reserves for the creation of a pool of common financial institutions (Bank of the South, Monetary Fund of the South...);
- create a front of indebted countries for non-payment;
- establish and strengthen cartels of countries producing essential goods;
- negotiate barter agreements such as those between Venezuela and Cuba, recently extended to include Bolivia.

These will be developed in the following two sections.

3. Potential Alternatives

Let us return to the favorable economic situation in developing countries in 2006. As discussed above, the situation is favorable for developing countries for several reasons:
- a significant number of them have an unprecedented level of international reserves at their disposal, while the reserves of the US and Western Europe are at a historic low level,
- the terms of trade are favorable to them,
- most developing countries have a positive balance of current accounts,
- the IMF is presently weak.

One could add that in 2005 the average growth rate in developing countries was twice that of the most industrialized nations, and international interest rates, even though they are rising, are relatively low. The premium on high-risk countries that the developing countries have to cover has also reached a historically low level.

On the political level, in several countries the left has achieved successes in 2005-2006: the election of Evo Morales in 2005 as President of Bolivia; and important progress made by the left in the elections in India and Mexico.

On the military level, Washington and its allies have become bogged down in Iraq and Afghanistan, which will make it difficult for them to intervene directly in another country.

With respect to the multilateral agreements favorable to the big powers, the Free Trade Area of the Americas was abandoned in 2005 and WTO negotiations on the Doha Agenda have come to a standstill (for the time being, in any case).

Within this context, it is potentially possible to implement an alternative strategy. If the governments of developing countries wanted to challenge repayment on their public debt, they would be in a good position to do so because they have what is needed to stand up to the threats of retaliation by multilateral, bilateral and private creditors. The level of their reserves gives them enormous room in which to manoeuvre.

If Argentina was able to stand up to the private creditors on its own from the end of 2001 to the beginning of 2005 (they demanded it resume repayment of a debt amounting to about $100 billion) and to gain significant concessions, one can easily imagine the strength that a united front of several countries would have.

Now is the time to set to work on an audit of the debt.

A united front of countries for non-payment would also be able to further the matter of restitution of the historical and ecological debt contracted by the most industrialized nations.

Public opinion and social movements would largely support the governments of the South in taking this legitimate position.
- The governments of the developing countries could take the initiative in creating a Bank of the South and an international Monetary Fund of the South (see further on). They could withdraw from the World

Bank and the IMF, bodies that are totally controlled by a few of the biggest and most industrialized countries.
- They could work on developing a strategy to stabilise the prices of raw materials and agricultural products by forming cartels between producing nations and by strengthening OPEC's position.
- They could create and/or strengthen regional Southern associations and, why not, endow themselves with a common currency.
- They could reintroduce controls over the movement of capital and foreign exchange.
- They could take back control of their countries' natural resources.
- They could pursue audacious public policies in the areas of education, culture and research (particularly in health care) with sufficient financial means.
- They could be inspired by the trade agreements among the Bolivarian Republic of Venezuela, Cuba and Bolivia and advocate new forms of trade using barter (for example, oil in exchange for health care and education services).
- Such a strategy would presuppose giving priority to a radical redistribution of wealth within the developing countries as well as between the South and the North of this planet. The social content of an alternative strategy is fundamental. It is necessary to provide it with a socialist content to avoid the possible risk of it becoming an alternative "caricature". The socialist content has nothing to do with a simple policy for reducing poverty, developing social welfare measures and a vague humanization of capitalism. The socialist content implies major structural reforms, beginning with the question of ownership of the means of production, natural resources and all common goods. To paraphrase Che |5|: it is either a socialist alternative or a caricature thereof.
- Any alternative must also essentially include the emancipation of women by establishing a true equality between the sexes.

4. The Bank of the South and the Monetary Fund of the South

A first choice would be to create one or two institutions.

If two were to be created, there would be a bank to finance development and a monetary fund whose primary function would be to protect countries from speculative attacks and assist them in resolving foreign exchange dilemmas where liquidity is a problem. There is also the possibility of creating only one institution which would be responsible for these important functions.

In particular, the Bank of the South proposes to try breaking the dependence of developing countries on international financial markets, channel their own capacity for saving, stop the capital flight, channel central resources to priorities for independent social and economic development, change investment priorities, etc.

It is about a public bank as an alternative to the Inter American Development Bank and the World Bank.

The Bank of the South can grant credits with or without interest, as it can procure non-reimbursable aid under the form of donations.

The Bank will be principally financed by contributions from member countries in the form of contributions and donations. Tax revenues through regional/international taxes can also be considered.

Those receiving priority credits and donations must be public entities (state, province, municipality, public corporations in the areas of production and services). Additionally, it is essential to clearly define private agents who can receive credits and donations from the Bank so as to exclude the strengthening of big business interests from its activity. History from the last two centuries is replete with examples of public and popular banks which essentially served to strengthen capitalistic accumulation without any actual benefit going to the people.

The Bank of the South cannot be disassociated from the debt situation. It is essential that the Bank avoid managing public debt for the benefit of financial capital.

Another important aspect is that of the necessity of popular and democratic control in tandem with auditing initiatives of the debt. The active participation of parliaments in supervising the Bank's function must also be encouraged.

The foregoing only constitutes a few avenues which require collective and rigorous planning.

5. Future perspectives for the economy

For economic as well as political reasons, improving the terms of trade for exporters of basic commodities does not appeal to most industrialised countries. This is because it stimulates initiatives in countries in the South. Similarly, the current level of reserves held by countries in the South are causing concern in the capitals of the most industrialised countries as well as in the boardrooms of the big multinationals.

The decisions taken by the governments of the most industrialised countries are aimed at changing the situation in their favour. Meanwhile, the economic cycle follows its own logic (see further down). The lack of will on the part of the governments of the Periphery could well see those governments miss out on an historic opportunity.

The Central Banks of the three economic powerhouses of the most industrialised countries are increasing their official market rate with respect to interest rates. Since 2004 this has been the case with the Federal Reserve of the United States and the European Central Bank. The same can be said about the Bank of Japan since the beginning of 2006.

An important part of speculative capital which moved towards the countries of the South between 2002 and 2006 in the pursuit of greater returns to those offered by the countries of the North is coming back to the North. The fall of the stock markets in emerging countries in May 2006 is probably a harbinger of what is about to happen.

For the Federal Reserve of United States it is vital to attract as much capital as possible so as to pay off the enormous trade deficit. A permanent flow of capital towards the USA is a first rank necessity. Because of this, it is necessary to increase the interest rates in order to offer foreign investors a sufficient return. This is even more important since the value of the dollar dropped particularly with respect to the Euro and the Yen, and that the interest rates increase equally in the Euro Zone, in the United Kingdom and in Japan.

It is possible that the current increase in interest rates will level off. The US monetary authorities know that if they raise interest rates too much, they risk provoking an explosion in the speculative real-estate bubble and a dramatic reduction in household consumption because US householders are in a lot of debt (US household debt is 11,500 billion dollars). Too much of an increase in interest rates also risks causing problems for big businesses in the US, starting with the automotive and aviation sectors. Nevertheless, even if Northern interest rates no longer rise sharply in the last quarter of 2006, they have already reached a sufficiently high level to attract a good part of the capital which had previously been diverted tot the South in recent years.

The price trend for basic commodities has been very obviously influenced by the level of economic activity. It is necessary to be cautious with the forecasts of growth for 2007-2008. Having said this, a reduction of growth in the United States cannot be excluded. If it happens then it will be interesting to see the impact on growth in Western European and Japan. If it also slows down in these two regions, then there is likely to be a decrease in the sale of raw materials as well as in prices, unless the China's activity is maintained during over an extended period of time, which would be surprising.

Evidently, China is going through a stage of over-investment. The rate of return is generally quite low. Its activity is largely dependent upon its exports. The consumption of Chinese households is growing but only a small minority is benefiting from this domestic consumption. In short, the domestic market is unlikely to replace the external market as the outlet for Chinese production unless the Chinese authorities make a radical turnaround in their model of development (increase in salaries, a radical strengthening of the domestic market, looking for real constructive cooperation with other countries from the South), which, unfortunately, appears to be very unlikely. The struggles in which the Chinese workers are engaged, an improvement in salaries, better working conditions and a right to collective organisation, point objectively in the direction of a radical change in the model of development but it is difficult to see how they could obtain satisfaction in the short term.

There is a risk that the evolution of the Chinese economy will lead in the opposite direction. Let me explain. If a reduction in economic activity in the United States is not counterbalanced with sufficiently strong growth in Europe and Japan, the economic activity in China will certainly slow down. Given that the rate of return is low and the corporate debt level is quite high, it is probable that a reduction in activity will provoke significant reductions in personnel and business failure. Such a situation would not create conditions favourable to the cause of Chinese workers.

What I have just described is largely hypothetical and the time factor has not been specified: this evolution might play out over several years. Numerous variables are in play.

For example, what is going to happen to the price of oil and gas? What will OPEC do? My impression is that the price is going to remain high, which is a good thing. But nothing is guaranteed.

What is going to happen to other essential products? The price of certain products is such that we are witnessing a classic phenomenon in the evolution of capitalist economies, mines which were no longer profitable are being exploited again. Some have quite elevated investment costs. There is over-investment. This will produce a rise in supply, which will exceed demand, which will in turn result in price depreciation and corporate bankruptcy.

What can stop this? Either an acceleration in the world economic growth, which is very unlikely; or the creation of cartel made up of producing countries to plan production and limit growth in order to stabilize elevated price levels. This brings us to the need for an alternative. If governments of the South do not rise to the challenge, the situation will evolve unfavourably. One can only fear what might happen.

What has just been described may also happen with the price of oil and gas. If there is a sharp decrease in the price of gas and oil, that would be disastrous for many countries of the South.

Let us return to the variable "debt repayment".

Since 2003-2004 most indebted countries with middle incomes no longer find it difficult to service their debt. This is the consequence of several economic factors: growing estimated returns thanks to the elevated price of raw materials which they export, the arrival of speculative capital in search of short-term profits notably in the stock exchanges of emerging countries, relatively low interest rates and extremely low risk premiums in 2004-2005-2006.

All this can change within a year or a few years.

The cash revenue and reserve levels can diminish, the interest rates at their height in the North can increase the servicing of the debt on the loans contracted at a variable rate, the cost of the new loans to refinance old debts is going to grow because it will be applied to a more elevated interested rate, the risk premiums can rise again.

A significant number of indebted countries risk finding themselves in the situation of the cicada in the fable of La Fontaine. At the end of the summer, when the economic environment deteriorates, they risk finding themselves in payment difficulties and their exchange reserves risk melting like snow in the sun.

It is a further argument for putting an alternative policy with respect to establishing a common front of indebted countries for the non-payment of the debt (see points 3 and 4) into practice.

Before arriving at conclusions, I would like to leave you some impressions and additional information.

- For the last twenty years, the United States has succeeded in overcoming their crisis by applying a very interventionist policy and in making other countries pay a part of the cost for extricating itself out of the crisis. Let us not forget that the working classes of the USA have gone to great expense in extricating themselves out of the crisis (for example, through massive layoffs in 2001-2002, a very strong growth in the casualisation of labour, and a growth in the number of the working poor, a reduction in real salaries and their share in the national revenue). Nevertheless, the US economy has not been cleaned up from the capitalist point of view (it has a relatively weak growth rate, a relatively low profit rate). It will certainly have to go through a deeper purge, which implies a devaluation/destruction of capital (a significant number of bankruptcies). When will this purge happen? No-one can reasonably predict a date but the purge is unlikely to be avoidable from the point of view of the capitalist logic itself. I want to make it clear that a purge is not synonymous with a collapse. On the contrary, it is arguably the best mechanism that capitalism has at its disposal to regain a durable elevated rate of profit and strong growth.
- The domestic debt of developing countries has grown sharply during the last three years in absolute figures. The soar of the national debt is particularly high and disquieting in a large number of middle incomes countries. According to the World Bank, the national debt of indebted countries went from \$1.3 trillion in 1997 to \$3.5 trillion in September 2005 |6|.
- The private banks of the North, after ceasing to give bank loans to the indebted countries in 2001-

2002, have resumed issuing loans as of 2003. In 2005, the number of issued loans increased from 74% in relation to 2004. 1261 loan contracts have been signed, principally in the areas of oil and gas.

- In 2005, approximately 40 developing countries issued new bonds on the international financial markets. The bonds issued by ten of those countries (Brazil, China, Hungary, India, Indonesia, Mexico, Poland, Russia, Turkey and Venezuela) represent 69% of the total issued by the 40 countries. Let us look at bonds issued in Euros and how sharply they have grown at the global level during recent years. In 2000 the securities issued in Euros represented 29.8% of all bonds issued. In 2005 they represented 45.4%. bonds issued in dollars, which represented 51.9% in 2000, represented nothing more than 38.3% in 2005 |7|.
- In 2005, a large part of foreign direct investment was linked to privatisations/acquisitions/mergers which created no additional employment. In certain cases value and employment were destroyed.
- A new type of derivative has been launched in the market in recent years. It is known as *Credit Default Swaps.* The buyer of the bonds issued by companies or states pays an insurance against the risk of non-payment. This market which has literally exploded over recent years on the global scale represents a notional (virtual) value of $7.3 trillion, of which less than 5% involves developing countries. According to the World Bank and the financial press, it is difficult to measure the strength of this type of derivative. Where there is a general difficulty with the repayment of debt, it will be difficult for the insurers to keep their commitment without risking bankruptcy |8|.
- The institutional investors, namely, the pension funds of the most industrialised countries, have invested a total of $46 trillion (ie an amount largely greater than the sum total of the entire world's GDP), of which $20.7 trillion is controlled by US companies |9|. It would be enough that they dedicate a tiny fraction of these investments to buying shares in the stock markets of the emerging countries or to buying currency, to increase their value (which is what happened in 2005). It would be enough for this same tiny fraction to be withdrawn to provoke a drop in the stock market in Sao Paulo or in Mumbai (which is what happened in May 2006), or even a reduction in the value of the currency of Thailand or Argentina. If governments do not take measures to control the movement of capital as well as foreign exchange, they are at the mercy of speculative attacks of the amplitude of those in the second half of the 1990s.
- The capitalists of the South increased capital flight in 2005. Even though the flight represented $172 billion in 2004, they rose to $318 billion in 2005 |10|.
- Over the last few years, the South-South flow was developed principally under the management of capitalist firms of the South. For example, the flow in foreign direct investments between countries of the South went from $14 billion in 1995 to $47 billion in 2003. In 2003, these flows in South-South investment represented 36.6% of the total foreign investment flows going to the South. Bank loans from the private banks of the South to other countries and businesses of the South went from $0.7 billion in 1985 to $6.2 billion in 2005. For the first time in its history, the World Bank dedicated an entire chapter in its annual report *Global Development Finance* to the flow of South-South capital |11|. That deserves a specific contribution on the subject. The South-South flow (with some exceptions linked to Venezuelan initiatives) completely follows the logic of capitalist globalisation. Chinese firms invest largely in Africa and in Latin America to ensure control of the source of raw materials. Petrobras is doing exactly the same thing in Bolivia, Nigeria and Angola. It is the same for the Russian firms. Elsewhere, the World Bank is proposing to the governments of the South to recycle a part of its enormous foreign exchange reserves in lending them to private local investors. In short, the World Bank is itself on the offensive on the theme of the Bank of the South by providing it with content in accordance with strengthening capitalism at the global level. Rather than proposing to the governments of the South that they equip themselves with South-South public instruments for financing their needs (and those, as a priority, of their people), the World Bank proposes to entrust the reserves to private capital of the South. That goes without saying but that brings us to the contents of the proposed the Bank of the South as discussed in Section 4 of this text.

6. Conclusion

A new historical opportunity is being presented to people and governments in so-called developing countries to adopt a liberating initiative with international scope. The economic situation favouring strong initiatives will not be extended. Inaction or strategic errors will lead to an unfavourable reversal.

If the opportunity is not seized (and it is very probable that it will not be seized), history will follow its course and people will be struggling under even more severe conditions than now. The battle will continue and faced with the cynical policies of their governments, citizens will become radical and claw their way to the top of freedom without God or Supreme Saviour. This is called revolution.

notes articles:

|1| Petróleos de Venezuela, S.A., Venezuela's state-owned petroleum company.

|2| There has been a downswing in the terms of trade for developing countries during the 1950s and the 1960s. This was followed by an upswing during the 1970s. Since the 1981 energy oil crisis until 2003, we have witnessed another downswing in the terms of trade.

|3| For a critique, see Éric Toussaint, « Les idées de la Banque mondiale en matière de développement » Chapter 10, Banque mondiale, le Coup d'État permanent, CADTM-Syllepse-Cetim, Liège-Paris-Genève, 2006.

|4| World Bank, Global Development Finance 2006, p. 154

|5| Socialist revolution or caricature of revolution.

|6| World Bank, Global Development Finance 2006, p. 44

|7| World Bank, Global Development Finance 2006, p. 59

|8| World Bank, Global Development Finance 2006, p. 62

|9| World Bank, Global Development Finance 2006, p. 53

|10| World Bank, Global Development Finance 2006, p. 151

|11| World Bank, Global Development Finance 2006, chapter 4, p. 107-136

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