

# Brazil's Objections Slow Chávez's Plan for Regional Bank

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CARACAS, [Venezuela](#), July 21 — President [Hugo Chávez](#)'s efforts to curb the influence of the United States in the developing world range from creating a leftist television network for Latin America to selling cheap oil to his allies, but few of his projects were begun as enthusiastically as the Bank of the South.

Now the fervor surrounding the Bank of the South, a project heralded here as a regional financing alternative to Washington-based institutions like the [World Bank](#) and Inter-American Development Bank, has cooled as [Brazil](#) seeks to diminish the new bank's clout.

Ahead of a meeting in Rio de Janeiro set for August, at which the bank's creation is expected to be formally announced, Venezuela and Brazil have diverged on its base of operations, size, startup capital and mission, according to people briefed on the negotiations.

The diverging views of the project point to contrasts between Brazil's president, [Luiz Inácio Lula da Silva](#), a longtime socialist who embraced market-friendly policies once in power in Latin America's largest country, and Mr. Chávez, who favors a more assertive role for Venezuela's government in guiding economic policy here and elsewhere in the region.

Some sectors in Brazil are chafing at Mr. Chávez's ambitions to lead integration efforts. At the same time, tension persists over a spat between Mr. Chávez and Brazil's Senate over Venezuela's pushing a critical television network off its public airwaves — a move many in Brasília saw as stifling dissent — and Mr. Chávez's recent criticism of the use of food crops to produce automotive fuels, a cornerstone of Brazil's economy.

“Brazil has demonstrated its conservatism in relation to Venezuela's thinking,” said Vince McElhinny, a Latin America analyst at the

Bank Information Center, a Washington group that tracks development banks. “A project that began with enthusiasm over egalitarian principles is dealing with Brazil’s decisiveness in trying to limit its scope.”

Venezuelan officials, who want the Bank of the South to be based in Caracas, have had to deal with Brazilian proposals to have it function from a smaller South American capital like Montevideo, Uruguay, or Asunción, Paraguay. Also, earlier Venezuelan ambitions for the bank to start operations with \$7 billion in capital have been countered by Brazil’s more modest suggestion of \$3 billion.

Discussions around forming the bank have also focused on how many technical employees each country can nominate, whether financing should come from each country’s foreign currency reserves and how transparent the bank’s lending policies should be.

In addition, Brazil would prefer to limit membership to South American countries, while Venezuela wants to include Central America and the Caribbean, which would allow staunch Chávez allies like Nicaragua and Cuba to become shareholders.

“We want the bank to be tied to Unasur,” Marco Aurélio Garcia, the international affairs adviser to Brazil’s president, said in a telephone interview, referring to a fledgling intergovernmental union whose structure has yet to be determined. “The negotiations involve the question of pace.”

Some governments, especially in pro-Chávez countries like Bolivia and Ecuador, see the Bank of the South as a way to dilute the influence of the World Bank and [International Monetary Fund](#). Those institutions, with close political and economic ties to the United States, tried over recent decades to force developing Latin American economies to adopt free-market capitalism and curtail social spending.

But while some economies stabilized, anger was widespread over what was broadly seen as outside interference that enriched foreign companies. That groundswell helped sweep left-leaning leaders like Mr. Chávez into power.

The new conflict between Brazil and Venezuela over the bank is just one level of its obstacles. There are also critics of Mr. Chávez who note that Latin America already has native development banks that are flourishing. One is the Corporación Andina de Fomento, based in Caracas and created here in the 1970s. It has grown beyond its original focus on Andean countries, adding as shareholders Brazil and Spain and more than a dozen private banks in the region. Another is BNDES, the Brazilian development bank, whose lending already dwarfs that of the Inter-American Development Bank.

“There’s the concern that this project will be a sham if its lending policies are driven by politics and personal loyalty, particularly when there are institutions indigenous to the region that are functioning well,” said Michael Shifter, vice president for policy at the Inter-American Dialogue in Washington, a research group focusing on Latin America.

Despite surging trade between Venezuela and Brazil, with some of Brazil’s largest construction companies winning lucrative infrastructure contracts here in recent years, there are also signs that Mr. Chávez may be growing impatient with his largest neighbor’s relatively conservative bent.

For instance, he skipped the meeting last month of [Mercosur](#), the regional trade alliance Venezuela has applied to join, instead visiting Belarus, Iran and Russia, countries where he was received warmly and with scant criticism of his policies toward the news media and political opponents.

Supporters of Mr. Chávez’s concept for the Bank of South, viewed as part of a project that includes plans for a regional stabilization fund to function as an alternative to the I.M.F., remain optimistic that the institution will materialize.

“The process of European integration took 50 years,” said Mark Weisbrot, co-director of the Center for Economic and Policy Research in Washington, who added that Mr. da Silva could still endorse the project in an effort to ease tension with Mr. Chávez, as he has done in past rows.

Pointing to Venezuela's recent role in providing an alternative source to countries like Argentina and Bolivia, thus loosening the I.M.F.'s influence in Latin America, Mr. Weisbrot said "permanent structural changes" in the region's economy were under way that would be deepened by the Bank of the South's formation.

That view, of course, contrasts with how some in Brazil see the project. "Having a pocketful of money, Chávez thought he could create an institution that could be a supplier of certain long-term projects," said Roberto Teixeira da Costa, who serves on the board of the private equity arm of Brazil's development bank. "Everyone knows that he is pushing this, and not everyone wants to help him."