

I. Economics

Can the BRICS Bank Help Argentina Escape IMF Asphyxiation?

by Cynthia Rush

May 31—On May 29, Argentine Finance Minister Sergio Massa, accompanied by a large delegation, landed in Shanghai on the first leg of a six-day trip to China, the last two days to be spent in Beijing. This is no ordinary diplomatic or trade mission, but rather the result of aggressive diplomacy initiated in recent weeks by Brazilian President Lula da Silva, who has personally intervened on Argentina's behalf with Chinese President Xi Jinping and with Dilma Rousseff, the former Brazilian President who is the new president of the BRICS New Development Bank (NDB). Lula has intervened to discuss ways to offer relief to the Argentine government of President Alberto Fernández, which is suffering from a grave financial crisis caused by years of International Monetary Fund (IMF) predatory lending and brutal austerity.

Lula's formulation has been straightforward: "The IMF is destroying Argentina."

Top-level meetings had been set up for Massa during this trip: with Dilma Rousseff; with China's Finance Minister Liu Kun, who is also vice chairman of the NDB Board of Governors; with the president of the People's Bank of China (PBoC), Yi Gang; with the president of the National Reform and Development Commission, Zheng Shanjie; and with Foreign Minister Qin Gang, among others. On the visit's first day, May 29, Massa met with the top executives of Chinese companies already present in Argentina—Gezhouba Group Corporation, State Grid,

Power China, among others—and secured commitments from them to increase their investments in Argentina in energy, mining and transportation projects to the tune of \$1 billion.

Massa's own delegation includes Central Bank Governor Miguel Pesce, the Agriculture, Transportation and Energy Secretaries, the head of the state-sector



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Brazilian President Lula da Silva is mobilized to help Argentina escape an IMF vice, expand trade and industrial investment and revive its economy. Here, Lula meets with business leaders in Shanghai in search of partnerships and innovation.

ENARSA energy company, Secretary of International Economic and Financial Affairs Marco Lavagna, other high-level government officials, and a group of federal legislators, including the president of the Chamber of Deputies Cecilia Moreau and federal deputy Maximo Kirchner, son of Vice President Cristina Fernández de Kirchner. Argentina's activist ambassador in Beijing, Sabino Vaca Narvaja, who helped organize the trip, will

join the delegation as well.

Aside from high-level meetings in both Shanghai and Beijing, the Argentine Finance Minister also received a personal invitation from Rousseff and Liu Kun to attend the May 30–31 Eighth Annual Meeting of the NDB Board Governors, hosted by China, whose theme is “Shaping a New Era for Global Development.” Finance Ministers and Central Bank governors of the BRICS member countries—Brazil, Russia, India, China and South Africa—also attended the meeting, and Lula and Massa were hopeful that the NDB would address specific proposals on how it might help Argentina, which is not a member of either the BRICS (although it has applied for membership) or the NDB.

Take the Knife from Argentina’s Throat!

Lula has stated that resolving the Argentine crisis is not only necessary for that country but for the stability of the entire South American region. Nor has he minced words in denouncing the IMF’s role in Argentina. On April 13, in remarks to officials of the NDB in Shanghai following Rousseff’s investiture as the NDB’s new president, he warned:

No bank should be asphyxiating countries’ economies the way the IMF is doing now with Argentina, or the way they did with Brazil for a long time, and every third world country. No leader can work with a knife to their throat because [their country] owes money.

More recently, at the G7 Leaders’ summit in Hiroshima, May 19–21, Lula, an invited guest, told other attendees that the IMF “is destroying Argentina,” a message he also personally conveyed to IMF Managing Director Kristalina Georgieva during their private meeting.

That being said, what are Argentina’s options? Like Brazil and the majority of countries of the Global South, Argentina wants a seat in the lifeboat that will remove it from the sinking Titanic of the trans-Atlantic financial system and the dollar-dominated unipolar world—

although the pressures on it from Washington and London not to do so, are fierce. It has applied for full membership in the BRICS and hopes to get some clarity on this when the group holds its annual summit in Durban, South Africa Aug. 22–24.

On Feb. 4, 2022 during his state visit with Xi Jinping, President Fernández signed a memorandum of understanding to join the Belt and Road Initiative (BRI), and Sergio Massa, representing the Argentine state, will be signing an additional Cooperation Plan on the Belt and Road when he meets with the president of China’s National Development and Reform Commission, Zheng Shanjie, in Beijing.

Argentina has tried to protect its dwindling foreign



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In 2018, then IMF Managing Director, now President of the European Central Bank, Christine Lagarde saddled Argentina with the largest loan in Fund history, \$57 billion, at the request of her friend the “conservative” then-President Mauricio Macri. Much of it wound up as flight capital in foreign accounts. Now Argentina has a crushing IMF debt.

exchange reserves by using its Central Bank’s existing \$18 billion currency swap with the People’s Bank of China. When Massa meets with PBoC president Yi Gang in Beijing, he’ll propose the swap be increased to \$38 billion, with a doubling of the \$5 billion portion to which Argentina currently has free access. On April 26, Massa announced that, as per agreement with the PBoC, Argentina would start paying for imported intermediate goods from China in yuan rather than dollars. This immediately allowed for a volume of imports in yuan worth \$1 billion in April, followed in subsequent months for an amount worth \$790 million, sparing the government from having to use its dollar reserves to pay for imports.

On June 2, Massa will make another move toward financial independence in Beijing, when he announces

a new foreign trade system by which companies may invest in Argentina in yuan, bypassing the dollar system. He will address an audience of 40 of the most important Chinese companies that invest in Argentina. These may set up yuan accounts in the Central Bank, and spot and futures markets in yuan have already been established in the country. China will become Argentina's number one trading partner, displacing Brazil.

The IMF Stranglehold

Yet the IMF has a stranglehold on Argentina, thanks to the obscene \$57 billion standby loan gifted in September 2018 by the IMF's then Managing Director Christine Lagarde to her close friend, thug President Mauricio Macri, in a failed attempt to ensure his re-election. This was the largest loan granted in the IMF's entire history. When President Alberto Fernández took office in December of 2019, he had to contend with the economic and social wreckage caused by the neoliberal Macri government's imposition of the Fund's brutal austerity conditionalities, and the impossible task of repaying the \$45 billion in debt with which his government had been saddled. (Fernández refused to accept the final \$12 billion tranche of the \$57 billion as soon as he became President, reducing the total loan amount to \$45 billion.)

Although Fernández renegotiated the terms of that loan, the accelerating trans-Atlantic financial crisis, soaring international interest rates, the rise in food and fuel prices because of the Ukraine war, and the worst drought in 50 years have driven the country into a deeper hole. Relentless financial warfare from London and Wall Street, including repeated credit downgrades, speculative attacks on the peso and fierce devaluation pressures, has forced the Central Bank to use scarce dollar reserves to intervene in the currency markets to prevent the peso's collapse.

Damage to soy, corn and wheat crops this past season was so severe that Argentina has lost an estimated \$20 billion in export revenue, contributing to the already serious dollar shortage. Inflation is currently running at 109% with an estimated annual rate of 123%. The poverty rate hovers around 45%. Massa has been forced to raise interest rates to a whopping 98% to try to prevent further capital flight. But he often appears to be



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In his meeting with Argentina's President Alberto Fernández (right), Brazilian President Lula da Silva announced he would spare no effort to help Argentina. Alvorada, the presidential palace in Brasilia, May 2, 2023.

plugging holes, trying to deal with each new crisis that arises, but unable to enact any comprehensive solution. The fear is that the situation might blow up prior to the October 2023 presidential elections.

Lula Jumps In

On May 2, when the Brazilian President met with President Fernández and his economics team in Brasilia, Lula announced he would spare no effort to help Argentina. During a four-hour meeting, Sergio Massa and his Brazilian counterpart Fernando Haddad tried, but failed, to work out an arrangement by which the Central Bank of Brazil would extend credit lines to domestic exporters to finance their exports to Argentina, allowing them to receive payment in pesos that would later be converted to Brazilian reals. Problems on the Argentine side, due to financial warfare that had savaged the peso and drained dollar reserves, plus the Brazilian Central Bank's reluctance, scuttled this non-dollar arrangement.

In their post-meeting joint press conference, Lula reported:

I've already spoken with the BRICS and we're going to continue talking to see how we can help.

He also suggested the NDB might get involved by providing guarantees for pre-financing Brazilian exporters which the Brazilian Central Bank is unwilling

to do. “We don’t want them to lend money to Argentina,” he said. “We want them to give us guarantees which would greatly facilitate Brazil’s relations with Argentina,” *O Globo* reported him saying.

Lula also said he had spoken with Rousseff right after meeting with Fernández. The press release put out by the Brazilian Presidency also quoted Lula reporting on discussions he had when he visited China in mid-April, during which he spoke with Rousseff, and with Chinese President Xi Jinping about helping Argentina. In their phone call, Rousseff told Lula she had discussed Argentina’s case with China’s Foreign Minister Qin Gang, who traveled to Shanghai for the sole purpose of discussing this with her and said he was looking at various options by which the NDB might play a role.

Can the NDB Play a Role?

The complication in Lula’s plan to have the NDB provide pre-financing guarantees for Brazilian exporters, is that Argentina is not a member of the Bank, and it would require modifying Article 7 of the NDB’s statutes to allow it to proceed. That was also the case on the issue of whether Argentina might access NDB contingency funds set up to help members that are dealing with currency crises.

On May 25, before leaving Argentina, Massa and Rousseff had spoken for 90 minutes via Zoom to discuss the difficulties in securing the Bank’s approval for modification of the statutes and explore what other options might be available. The May 30 meeting failed to approve any change to Article 7, and while this was a technical issue, it was also clearly used by those who oppose such policy, including from within the Bank, to make sure it didn’t go through. Lula remarked from Brasilia the same day that “it wasn’t possible” to do what he proposed due to internal Bank opposition, but neither he nor Rousseff have given up on assisting Argentina.

On May 31, Argentine Central Bank Governor Miguel Pesce met with Rousseff and Massa and scheduled another meeting with her June 1. At that meeting, Rousseff told him that at Brazil’s initiative, the NDB’s Board of Governors had agreed to vote at its next meeting in early August, in South Africa, on whether to accept Argentina as a new member of the Bank.

The broader question on the table is whether, or how, the NDB can play an active role in shaping the new international financial system required to replace

the collapsing global casino economy, of which Argentina, Brazil, Pakistan, and most other developing sector nations have long been victims. Implicit in that question is the urgency of getting the International Monetary Fund off its victims’ backs, recruiting more countries to join the Belt and Road Initiative—to which 21 Ibero-American and Caribbean nations already belong—and addressing the need for a real Hamiltonian credit system that can respond to these countries’ development needs.

Since its founding in 2014, a drawback of the NDB is that it has been dependent on dollar-financing and constrained by largely limiting itself to issuing dollar-denominated loans to member nations, borrowing dollars on the international markets to do so. For example, since sanctions have been imposed on Russia, NDB funding for any new projects in that country have been frozen. While the phenomenon of trade in national currencies has been occurring at an accelerating rate among nations of the Global South, trade in national currencies by itself doesn’t mean that credit for development will be issued in those currencies, or in a new non-speculative international currency, an essential element in the success of a new monetary system.

In her May 30 keynote address to the opening session of the NDB’s annual Board of Governors meeting, Dilma Rousseff underscored that the Bank will seek to fund a greater share of its projects in local currencies. Toward that end, she announced that for the 2022–2026 strategic cycle, the Bank will denominate 30% of its project volume financing in the national currencies of member states, up from 22%. This, she said, will help strengthen member countries’ domestic markets and “protect our borrowers from the risks of currency fluctuations.”

This is a small but significant step toward de-dollarization. Lending in BRICS national or other “local” currencies means that additional paid-in capital should come into the Bank from participating nations, which will expand its credit issuing capacity as well. On May 29, the Bank announced that it had issued 8.5 billion yuan (\$1.2 billion) worth of “panda bonds” on mainland China’s interbank bond market. (A panda bond is a renminbi-denominated bond from a foreign (non-Chinese) issuer sold in mainland China, as opposed to “dim sum” bonds, which trade in Hong Kong.) This will increase the funds that the Bank can lend to its member nations for projects.