GLOBALIZATION, HEGEMONY & POWER
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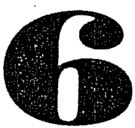

GLOBALIZATION: THE NEW MECHANISM OF DEPENDENCY

Kathleen C. Schwartzman

Globalization and Its Rules

The growing cross-national spread of culture, production, technology, labor, and capital has been characterized in the social science literature as "globalization." A shortcoming of this conceptual approach is that, because it signifies a multitude of processes, it simultaneously signifies everything new and nothing new. Still there is a general feeling that despite 500 years of global integration, the current wave is exceptional and differs from earlier phases in two important ways. First, it is an international system that operates as a single economy. Rather than linking many markets and facilitating flows among nations, as has been the case for 500 years, the new globalization functions as a single market, unbounded or constrained by regulations and rules of nation-states. Second, what is flowing are not just commodities or investment capital but capital that is more likely to take the form of speculative portfolio investment.

As globalism remakes itself, new institutional actors have risen to prominence. On the side of the core, private rating and investing houses, previously minor actors, now have a consequential voice in the evaluation of the economic and political organization trajectories of developing nations. On the side of developing nations, or as they are now called, emerging markets, municipalities, previously subordinate to the nation-state, now have a consequential role in receiving global flows. These new institutional pillars of global exchange offer both opportunities and problems.

Portfolio flows have shown tremendous gains in the 1990s, especially to some areas of the developing world. In the late 1980s, portfolio flows to Latin

America averaged only $3 billion annually; by 1993 they had increased to $56 billion (an increase of 1700 percent) (Griffith-Jones 1998, 28). Making the point slightly differently, Calvo writes that from 1990–1994 international capital flows were five times that of the previous five years, "when there was a debt crisis and many of these countries had little or no access to international capital markets" (1996, 123).[1] There seems to be agreement that Latin America has ended its decade long isolation from world private capital markets and has become a magnet for private capital (Larrain B. 2000, 1). Within regions, some countries are bigger recipients of funds than others. International bond placement in 1991, for example, went primarily to Argentina, Brazil, and Mexico. The main issuers were central governments and public sector companies. In April 1999, just three months after the devaluation of the Brazilian Real, seven of the region's governments were able to float bond issues on international financial markets [at a premium of 5.5 percent over U.S. Treasury Bonds]. International funds have been around for years, but many fund companies are creating new vehicles that allow investors to specialize in investment in the Third World (Laderman 1993).

Dates for the appearance of this new phase of globalization are relatively approximate for two reasons. First, Foreign Portfolio Equity Investment (FPEI) is highly volatile. That vertiginous rise by 1700 percent in 1993 was followed in 1994 by a drop (Griffith-Jones 1998, 28). Second, FPEI in no way totally replaced FDI (in the same way that foreign investment did not replace trade). Thus, the dating of this form of global flow describes when it joined, sometimes surpassed, but never totally eliminated FDI as a type of global transfer. There were years in the 1990s when FPEI gained over FDI and short-term capital, but FDI did not disappear (Carneiro 1998, 95). In fact, ECLA reports that in 1999, FDI was higher than the previous two years. Dates for the rise of FPEI range from the 1970s to the late 1980s. The earliest is offered by Burbach and Robinson, who suggest something like 1971, when Nixon took the United States off the gold standard. Also important in the mid-1970s was the creation of the Trilateral Commission which foreshadowed the hegemonic rise of the transnational fraction of bourgeoisie (1999, 35)—architects of this new phase of globalization. For others, for the increased liberalization of financial markets dates to the mid-1980s (Piccioto and Haines 1999, 355). A slightly later date is offered by Calvo (1996, 125), who says the heavy inflow was characteristic of the 1990s. As global cycles go, this twenty-year period does not represent a particularly wide span.

Is It Really a New Phase?

Perhaps this new phase is just a variety of the transnational phase so aptly described by Burbach and Robinson (1999). From the perspective of developing nations, this phase differs significantly from those that preceded it. Previous global streams involved trade and foreign direct investment and echoed the earliest global integration that went under the label of "'colonialism.'" In the earlier phases of FDI, full-assembly factories were located in countries for the purpose of capturing

consumer markets. FDI had a product identity—it was Goodyear, Singer, General Motors, and so on. Under recent global restructuring and aided by the technological revolution, capital can disperse its research, development, both highly skilled and semiskilled work, and administration components into many geographic sites. It benefits now, not only from consumer markets but also from lower priced labor markets. Then in the 1980s, developing nations became recipients of capital flows lent by supranational organizations of the developed world. Funding, such as that provided by the IMF, ameliorated the feast-and-famine aspects of commercial lending that was prevalent during the 1970s and early 1980s (Bird 1996, 486).

The current integration, and the way foreign capital is directed to the developing world, is different. In the 1950s and 1960s the link between foreign capital flows and investment was tighter because flows were tied to particular official projects or particular users, a link that was less true of commercial bank lending of the 1970s. This dedication of investment to particular projects is totally absent in the portfolio investment in the 1990s (French-Davis 1998, 10). It is this decoupling that has contributed to the volatility so often associated with FPEIs. Ironically, it has brought back the ebbs and flows that Bird says were more typical of the earlier commercial, pre-IMF lending.

Brazil followed the Latin American pattern. Capital flows took off in the 1990s and peaked in 1992, all in contrast to the 1980s, when the foreign debt problem was a great constraint on those foreign flows (Calvo 1996, 125; Garcia and Valpassos 2000, 143, 144). From the early 1990s to the mid-1990s, portfolio flows outweighed FDI flows.

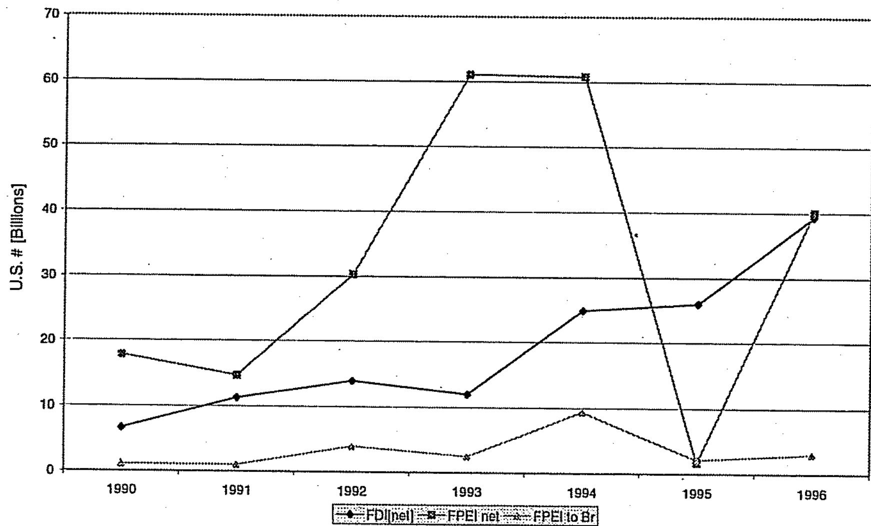

Figure 6-1. FDI and FPEI to Latin America and FPEI to Brazil

Why a New Phase of Globalization?

There are two driving forces that motivate these new capital flows, one external to the developing countries and one internal. While the exogenous factors appear more crucial, the new phase could not have succeeded without transformations within the developing states. The exogenous conditions are not truly global; they describe a drop in productive activities and the drop in interest rates that occurred in the core (developed) nations. Thus the developing nations became crucial to American investors—an aging population that lives more off of savings and investments. As the United States evolves toward a service economy, it produces less of the rate of returns previously found in production. Not only has production moved abroad, but so has investment capital. It moved to where the supply of capital was low and thus the investor's returns were high.[2] In 1993, Laderman writes, "the odds are that most investors did not spend their summer traveling abroad. But they made a lot of money if their dollars took the trip" (1993, 1).

Calvo argues that the heavy flow of portfolio capital to developing nations was driven by a sustained decline in world interest rates. "By late 1992 they were at their lowest level since the early 1960s . . . attract[ing] investors to the high-investment yields and the improving economic prospects of economies in Asia and Latin America" (1996, 126). This resulted in a trend toward an international diversification of investments in major financial centers and growing integration of world capital markets. And, he adds, "[f]or capital-rich developed countries, such investments appear a desirable way of diversifying risk and investing in productive assets that will, in a few decades, fund the retirement of the baby-boom generation" (127). The recession of the early 1990s in the United States, Japan, and Europe also made the profit opportunities in developing countries seem more attractive. Moreover, investment was affected by a contagion effect in which large shifts in capital flows to one or two large countries make other investors more willing to invest (Calvo 1996, 133, 127). With the tightening of monetary policy in the United States and the rise in interest rates in early 1994, investment moved out of Asia and Latin America just as quickly as it had moved in. All of these dynamics unfolding in the core had major consequences for developing nations, namely, it converted developing countries into emerging markets. Although some have offered an argument that confuses globalization with technology, it is neither a necessary nor a sufficient condition. Nevertheless, this epochal shift was aided by technology since financial flows can easily be altered with little more than the flick of a computer key.

From the side of the receiving countries, a number of transformations were of crucial importance in rendering these economies worthy recipients of the capital flows. Two noteworthy transformations are debt refinancing and privatization programs. In Brazil, for example, the spectacular growth in net foreign portfolio and direct investment was due in large part to the privatization programs (Garcia and Valpassos 2000, 151). Despite reforms to boost hospitality toward foreign capital, it was not the sound policies and stronger economic performance of a

handful of countries, but the above described changes in the structure of savings and investment in the core that led to this internationalization of financial markets (Picciotto and Haines 1999, 355).

What Are the Prerequisites for Capital Mobility into Emerging Markets?

Economic integration, in the form of capital flows, was not confined to Asia and Latin America. Portugal and Spain entered the ever-expanding EU, and Canada, the United States, and Mexico formed NAFTA. Despite their appellation as trade zones, they are, of course, principally investment corridors. Many restrictions and obstacles had to be overcome to allow residents and public and private entities to borrow from foreign capital markets. Two things were crucial: unlimited access to investment opportunities and information regarding those opportunities. While deregulation and liberalization facilitate the entry of outside investors, transparency gives investors knowledge about the potential security or risk of their investments. Liberalism without transparency is treacherous. Pressure was building in the investment community on these two dimensions: to liberalize markets and to make them transparent. Global capital mobility required, it seemed, a convergence—of many markets becoming one.

Pressure regarding liberalization took, and continues to take, the form of encouraging nations to put everything on the auction block. In 1994, for example, Ecuador's financial sector was the fastest growing nonpetroleum part of the economy. Although it was just beginning to revamp and open its capital markets, and the Securities Markets Law offered greater efficiency and transparency, the financial consultants advised that to maintain the same growth, the government had to offer investors more "options" (Colitt 1995). This was both a complaint against a stalled privatization program and a request for the sale of more public enterprises.

Pressure regarding the second took, and continues to take, the form of encouraging nations to adopt transparency. For the custodians of the Latin-American capital market (Bank of New York and State Street, Bank of Boston, Citibank, and Santander, to name a few), the markets seem extremely risky. The megaflows in financial transactions have made assessment of risk levels increasingly complex. For that reason there was a tremendous consensus that the move to a single market required transparency. The language of "transparency" acquired a dominant role in promoting this convergence.

Agents of Globalization and Dependency

In the contemporary globalization literature, phenomena such as the global convergence of regulatory models are described as diffusion or imitation, as though there were no power relationships or dynamics facilitating the convergence. Yet anything that flows through the world system, be it commodities or capital, requires institutional settings on both sides of the exchange.

During the early phase of the Portuguese empire, the Casa da India (in the core) paired with the Brazilian and Asian colonial empires (in the periphery), facilitated the flow of colonial resources. Through the Casa da India, the Portuguese crown imposed control on all trade. All merchandise had to be reported to the Casa, which would sell it at a fixed price. Lisbon was the compulsory harbor for all the overseas trade. Over the successive reconfiguration of globalization (and dependency), the institutional pillars that facilitate the global flows have also changed. In the mid-1970s, the IMF shifted its clientele from almost exclusively industrial countries to developing ones, and by the mid-1980s, Latin American governments became the main users of IMF financing (Bird 1996, 477–480). Where loans and debt repayment constituted part of the global flows, the core was represented by the IMF and the semiperiphery/periphery was represented by the federal governments of the indebted nations.

In the current phase, without institutions like the Casa da India or the World Bank, how would this financial market convergence be accomplished? Who could remove the obstacles to a single market? The answer came in the form of organizational and linguistic innovations. Private organizations that monitor corruption and transparency have become crucial players. One organization appears to have been the trendsetter in creating a concept that has since promoted and policed the changes necessary for converging financial markets. It is through these innovations described below that the financial system becomes re-regulated, in the words of Picciotto and Haines (1999) and that many markets become one. Global flows previously orchestrated by the Casa da India or the IMF are now maneuvered by the investment companies in the core. On the side of developing countries or emerging markets, municipal governments have come to partake of the institutional functions previously accorded only to national governments.

As global capitalism remade itself, the agents prominent in the loan and debt phase—representatives of the World Bank, AID, U.S. trade commissions, secretaries, and other high officials of core countries—embraced the agenda of market convergence. For example, at the 1996 summit of OAS, Ambassador Babbitt asserted that "transparency [is] vital to U.S. businesses seeking to expand markets" (1996). Gershman, an NED (National Endowment for Democracy) official, testifying to the House International Relations Committee in support of the Administration's $32 million FY2000 request, said that in Latin American the NED supports programs which are furthering the "adoption of reforms intended to encourage government transparency and efficiency" (Gershman 1999, 1,6). And internationally, the WTO praised Brazil for its deregulation of the economy, its privatization processes, and its shift to market-set exchange rates (*O Globo*, November 2, 2000).

Despite the focus of these traditional agents, the shift in global flows required new emissaries. Financial intermediaries, representatives of individual and institutional investors, have become the new Casa da India. These agents are primarily located in the private investment sector of capital-rich core nations where one also finds the majority of the investors.[3] The new emissaries include brokerage

houses, financial consulting organizations, and magazines, all representing mutual funds, pension funds, insurance companies, and private investors. Examples include the financial consultant Multiplica (commenting on Ecuador); Investor Relations magazine in association with Bloomberg (gave awards to Latin American companies in recognition of excellence in their investor relations) (*PR Newswire*, October 10, 2000); and S&P (assigning its first rating (mxBBB) to a Mexican state) (*Business Wire*, December 20, 1999). The public sector was not excluded. In 2002, CalPERS (the United States' largest public pension fund) completed its review of emerging markets announcing with whom it will allow investment of California's public equity. The pension fund considered a broad range of financial factors including transparency, political stability, and labor practices (*Business Wire*, February 20, 2002c). It is believed to be the first evaluation ever undertaken by a public pension fund.

In conclusion, the IMF and WB have embarked on the converging market agenda but rating agencies such as Fitch, Standard and Poor (S&P), Moody's, and Duff and Phelps Credit Rating (DCR) now actively gauge the investment risk of the stocks and bonds issued in emerging markets. They are an international network of professionals and fund managers attempting to orchestrate and coordinate the behavior of public and private entities in emerging markets to make them receptive to portfolio flows. Why should we consider this a new form of dependency? The commentaries of these agencies carry a prophetic edge that connects the external evaluations to developing nations' budget policies and governmental actions. Take, for example, the following: "Approval of an austere budget and reform measures, designed to reduce budget deficit, could lead to a rapid upgrading of the local currency rating . . ." (*PR Newswire*, August 23, 1999b). Such evaluations constitute the power behind those processes described simply as convergence, diffusion, or imitation. These agents do not ride horses or carry guns as did the representatives of the Casa da India. Nevertheless, they are a coercive force behind the current globalization. They are what Burbach and Robinson describe as an emergent transnational state that has not yet acquired any centralized institutional form (1999, 35).

Creating a New Language for Globalism

There was a time when the word "transparency" primarily described overheads or the nonopaque quality of mirrors and glass. While accountants had regularly referred to the transparency of prices, the word was reborn in the 1990s when it appeared in reference to national budgets of developing countries. It joined the set of buzzwords supplanting an earlier set that had been common in developing countries. Words like centralization, planning, and autarky were replaced with deregulation, liberalization, and transparency.

This new life began in 1993 when Peter Eigen, a formal senior official of the World Bank who was dismayed with the corruption he had observed in Latin America and Africa, founded a group called Transparency International (TI). TI works to persuade companies to stop paying kickbacks and bribes, and officials to stop receiving them (*Economist*, May 8, 1993). Since 1993, TI has formed numerous chapters around the world, disseminated a newsletter, and monitored corruption. From that point, the term "'transparency"' took on a life of its own. Figures 6-2 and 6-3 capture the spectacular trajectory of the use of the term.[4]

Both the language used and the monitoring undertaken by these new organizations pave the way for global portfolio capital flows. *GAAP2001*, a report

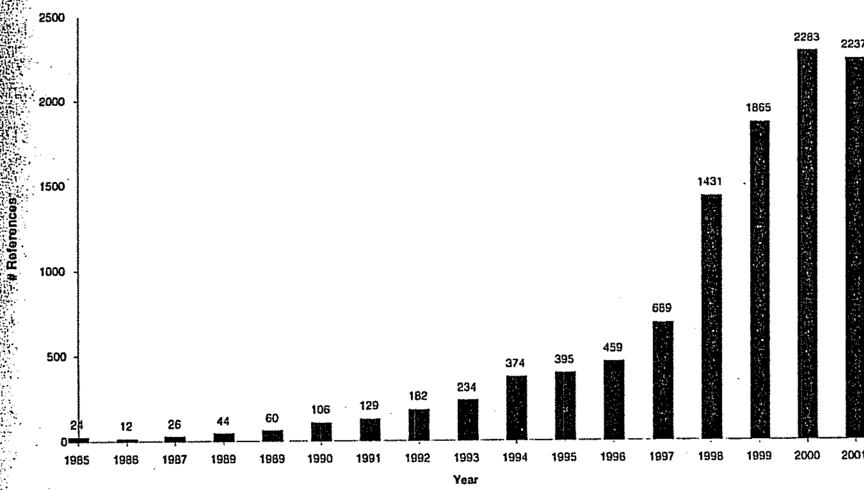

Figure 6-2. References to Transparency

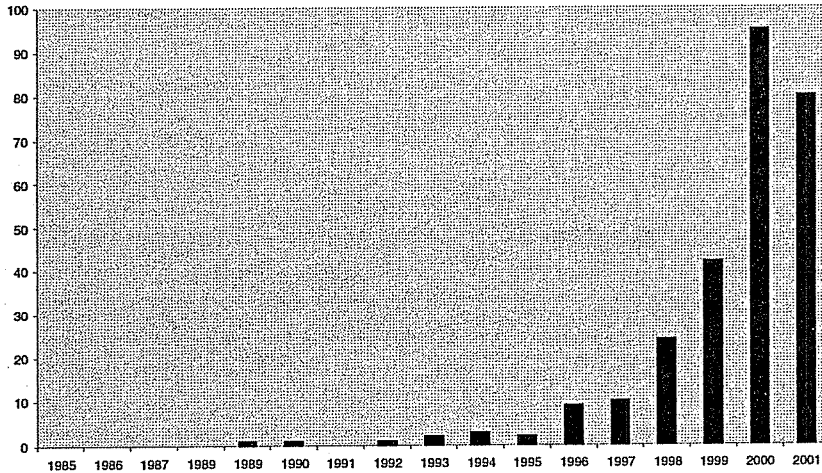

Figure 6-3. References to Transparency and Latin America

released by the world's seven largest accountancy firms, advocates a single worldwide framework for financial accounting and reporting based on high-quality International Accounting Standards (IAS) to help improve transparency and comparability of financial information. Regarding the convergence of national requirements with IAS, the report states: "Approximately one-third of the 62 countries surveyed are responding to the challenge of convergence with an active agenda and proposed changes to national requirements" (*PR Newswire*, December 11, 2001).

Scoring Emerging Markets

Armed with the agenda of "global convergence in financial market structures," these emissaries offer sermons filled with indices and scales. Several of them are noteworthy. In 1996, TI launched a Corruption Perception Index (CPI) and a Bribe Propensity Index (BPI). The CPI runs from '0' (corrupt and therefore not transparent) to '10' (transparent). Transparency International collects raw data and constructs and publishes scores. PricewaterhouseCoopers launched its O-Factor, the Opacity Index in 2001. The five-dimension scale is based on extensive interviews with global elite such as CFOs, bankers, equity analysts, and their own in-country consultants. The OI ranges from 0 (completely transparent) to 150 (completely opaque) (*Business Wire*, May 20, 2001). Based on the O-Factor, they also generate two additional scores (for each of thirty-five countries). Since opacity will raise the cost of doing business, the organization has estimated that value calling it a "Tax Equivalent"—the equivalent of an additional corporate income tax. Second, they generate an Opacity Risk Premium which indicates the increased cost of borrowing faced by countries due to their own opacity (100 basic points equals one percent point increase in interest). On average, countries with higher opacity tend to pay a higher interest rate on the debt they issue. A recent study by PricewaterhouseCoopers (Opacity in Latin American countries) conjectures that some opaque countries have foregone up to USD $40 billion in FDI (such as the case of Brazil). In this study, Chile scores the highest degree of transparency among Latin American countries. Their hope is that government regulators and policymakers in Latin America will use this tool to enhance transparency and thus stimulate their nations' economies. Table 6-1 offers several examples of these "indices of persuasion."

The Social Construction of Emerging Market Risk

The second set of scores is attached to specific bonds issued by governments. Each time an entity announces the intent to issue a bond, it acquires a rating. "Government issuers face many challenges when they enter the international capital arena, and a rating is the first step in establishing a relationship with international investors. . . . The credibility of that relationship must be maintained by good disclosure practices and ongoing discussion of the issuer's strengths and weaknesses"

Table 6-1. Sample Indices Evaluating Countries

	Brazil	Chile	Mexico	USA
Opacity Index[1](2001)	60.85	35.65	47.65	35.53
Tax Equivalent	25	5	15	5
Opacity Risk Premium	645	3	308	0
Corruption Perception Index[2](2001)	4.0	7.5	3.7	7.6
Corruption Perception Index (2000)	3.9	7.4	3.3	7.8
Corruption Perception Index (1999)	4.1	6.9	3.4	7.5
Corruption Perception Index (1997)	3.56	6.05	2.66	7.61

1. In the Opacity Index, zero represents the most transparent. High numbers (up to 150) indicate opacity, the lack of clear, accurate, formal, and widely accepted practices on five dimensions: corruption, legal, economic, accounting, regulation). Available at *www.opacityindex.com/ind_theindex.html.*

2. The CPI (Corruption Perception Index) runs between 10 (highly clean) and 0 (highly corrupt). It is constructed by Transparency International and based on interviews with businessmen, risk analysts, and the general public. Available at *www.transparency.org/cpi/index.html.*

(*PR Newswire*, September 9, 1997b). Ratings tell investors about a government's willingness and ability to service its debt obligations, the overall economy, pledged security, debt structure, financial condition, and statutory, constitutional, and legal factors. The creditworthiness is assessed with a standard methodology which is comparative (at least for each brokerage house or rating agency) across emerging markets. Essentially, raters are creating a score based on a risk model to help subscribers in their investment decisions. These scores are also used by governments as a reading of how their programs of privatization, deficit reduction, and the like are view by external investors.[5]

A number of firms feature prominently among the Latin-American sovereign raters. Fitch rates the foreign and local currency debt of sovereign governments. Fitch rates approximately fifty subnationals outside of the United States, mainly in Europe, but also in Canada, Australia, Latin America, and Central Asia. DCR (Duff & Phelps Credit Rating) began its network in Latin American in the 1990s with local credit rating affiliates in Chile, Mexico, Peru, Venezuela, Argentina, and Columbia. In 1996, it was the leading rating agency in Latin America, rating 87 percent of U.S. dollar structured financing originating from the region. SR was established as the first credit rating agency in Brazil in 1993 and its founding was lauded for good timing, opening soon after the "Real Plan" slashed inflation and Brazilians became more aware of market risks (*PR Newswire*, December 3, 1996). From 1996 to 2000, it participated in a partnership with DCR.

Brazil's marks have been both high and low: it is alternatively applauded and scolded. DCR applauded, for example, "we are very impressed with the Cardoso administration's success in controlling inflation." Continuing, McCormick, a DCR analyst who covers Brazil warned "[R]eassuring the markets, however, will require more fundamental reform particularly of the constitution, the civil service, and the pension system" (*PR Newswire*, November 14, 1997a). In another typical combination of applause and warning, DCR's McCormick later wrote: "The progress

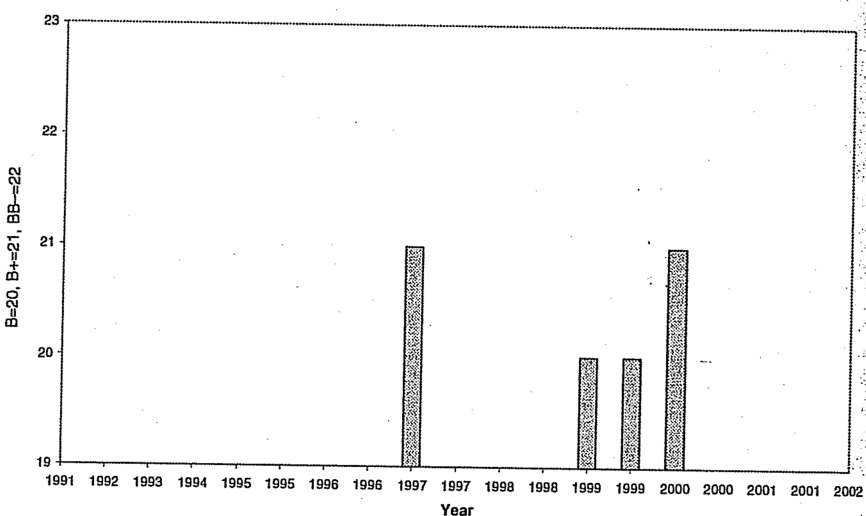

Figure 6-4. Fitch Long-Term Brazilian Currency Rating

that Brazil has made in adhering to the IMF-sponsored adjustment program, though it largely involved one of tax and privatization measures, represents a stride forward in fiscal consolidation . . . However, a local currency rating upgrade would hinge on adherence to the austere 2000 federal budget and on progress in tax and social security reform" (*PR Newswire*, November 2, 1999a). Figure 6-4 shows some recent Fitch ratings for Brazil. The reports basically dictate national policies and actions, and the scores allow both the investors and the recipients to see how they rate compared to others.

Dependency

The "Emerging Market" Responds

Latin American nations and firms have responded to the scolding and warnings. Due to their own capital needs, and the fact that vast amounts of liquid assets are now in private funds in developed nations, Latin Americans cannot afford to ignore them. "After a decade of struggle to amend past errors, the Argentine insurance sector had managed to improve its solvency and transparency." (*Business Wire* March 11, 2002b). Leaders have also realized that they are competing with other emerging markets for international capital and will only succeed on their compliance with the regulatory templates.

What must Latin American companies and governments do? In many cases they have substantially revised their constitutions and regulatory requirements. Brazil began its process of liberalization in late 1980s. After 1987, portfolio investment was fostered by the creation of specific channels that gave foreign investors exemption from domestic income tax on capital gains (Garcia and Valpassos 2000, 171). In 1992, additional income tax on profits and dividend remittance abroad was abolished. And, many state enterprises have gone on the auction block.

In the realm of transparency, Latin American countries have also responded to the sermons and the scores. The current trend is for them to shed their local identities and assume corporate personalities with an American hue. "There have been emulation and transplantation of regulatory models, as well as movement to establish common approaches and standards, and to ensure co-operation" (Picciotto and Haines 1999, 361). When Fitch upgraded its outlook of Banco Rural of Brazil from BBB- to BBB, for example, it was in part the result of Banco Rural's decision in 2001 to replace its regional audit firm with a large renowned international company (*Business Wire*, April 17, 2002a).

Some Latin American companies have gone to the extreme of buying up U.S. rivals and listing their stock in the United States. By April of 2001, there were twenty-seven Brazilian firms on the NYSE, a jump from only one four years earlier (Piper 2000). Listing brings tremendous benefits for the companies, not only in access to new capital, but also in granting some stamp of quality to the product. Nevertheless, the demands placed on the firms are substantial. To gain access to the NYSE, companies need to adopt an accounting system compatible with that of the United States. "It is necessary to effect a profound cultural change in the firm" (Baptista 2001).

But for all involved, not just those companies and countries on the NYSE, the mentality has had to change. The financial operations must be managed in a "trans-parent" fashion. Both companies and the federal government in Brazil show evidence of this change. On October 18, 1999, the finance director of the state owned oil company, (PETROBRAS), decided to change its accounting procedures to promote greater transparency for financial markets (*Global News Wire*, October 18, 1999). A survey of 55 Brazilian companies showed that between 1998 and 2000 they had increased the number of pages of their annual reports from an average of 8 to 14. In 1998 and 1999, none of the annual reports spoke of the corporate governance structure, but by 2000, 12.7 percent of the companies did so. The general trend is to provide more information to the potential investor (Azevedo 2001, C-5).

These transformations are not limited to firms. Governments at all levels have participated in this cultural shift. In 1998, President Frei of Chile outlined the twenty-five priorities he had set for his final year of administration. They included guaranteeing transparency in government and in stock exchange transactions. "If we want to get the money, we need good relations with international investors and with Wall Street firms" (*Global News Wire*, January 5, 1998). When Standard and Poor assigned its first rating to a Mexican state, it validated the efforts that Neuvo Leon had placed on transparency (*Business Wire*, December 20, 1999). And, in November 2001, Brazil's President Cardoso signed a new corporate law committed to developing the country's capital markets, increased transparency, and protection for minority investors.

This discussion of rating, and the word "*transparency*" is not to imply that evaluations were previously nonexistent. Before and through the debt crisis, investors and creditors made judgments about the risk of their investments and loans. The short- and long-term foreign debts were described with words such as "downgraded to substandard" and "value-impaired" (Fidler 1990). What was new in the decade of the 1990s was the frequency, quantifiability, and comparability of the scores.

Agents of Dependency Reach Out to Cities

The discourse of transparency that linked investors to firms and nations now links investors to municipalities. Faced with the limited availability of long-term capital on top of budget constraints at the national level, cities have been forced to acquire supplemental sources of revenue. Expenditures are driven by the growing need for infrastructural projects as well as "social pressures, including unemployment and health, housing and welfare needs" (*PR Newswire,* June 8, 1998). Mexico, for example, is pursuing policies to enhance the ability of its states and municipalities (not the federal government!) to finance infrastructure. In 1996, Rio de Janeiro accessed the international bond market—Euromoney—in part because the interest rates on domestic debt were so high. This was a first for Latin America in the decade following the debt crisis and expedited in part through international friendship networks stemming from university years.[6] Rio received a "B+" from S&P, "B1" from Moody, and "BB1" from Duff & Phelps. Since 1996, when Rio de Janeiro made the first trip to the international capital market, others have done the same. By 1997, DCR had provided ratings for Santa Fe de Bogota, Colombia, Rio de Janeiro, Brazil, and two Argentine provinces (*PR Newswire,* September 9, 1997b). In January 2000, Standard and Poor said it rated twenty-seven municipalities in emerging economies, with much activity in Latin America and Eastern Europe (Eddy 2000). And by 2001, DCR wrote that "Local governments in the international arena are no longer newcomers to the capital markets and will actively continue to issue debt due to the high demand for capital to fund infrastructure projects" (*PR Newswire,* September 9, 1997b).

Protest

New Globalization and Union Protest

This new phase of globalization has stifled two of the traditional channels of political protest: unions and political parties. In the new globalization, the locus of power has shifted away from nation-states as production processes become more globalized and structural adjustment programs are used to bring economies into and online with the global economy. Robinson has outlined some of the consequences leading to a shift in the balance of power among social classes. Relevant aspects of restructuring include contraction of the domestic market, dismantling of noncompetitive national industry, revised labor codes directed at making labor more flexible, and implementation of austerity programs. These neoliberal reforms in capital-labor relations have contributed to the increase in the Latin-American Gini coefficient from .45 in 1980 to .50 in 1989, a deterioration in social services such as health and education, and a general drop in public sector support (Robinson 1999, 49). This wave of globalization also washed over Brazil. Industry in Sao Paulo made the same moves away from Taylorism that have been noted around the world. Industry in Sao Paulo had been organized in the conventional manner: factories were dedicated to mass and homogenous production of durable and export goods. Workers were employed in large hierarchically run businesses. In 1970, the industrial sector held 20 percent of the jobs, and workers were organized in trade unions (Antunes 2001, 451). In the 1980s, Brazil began its industrial restructuring. It was compelled by international competition, TNC ownership, and successes of the new trade unionism [novo syndicalism] which was seeking to strengthen itself in the workplace. Restructuring began in the auto industry but moved to traditional industries such as shoes because of the competition with China. Brazil had difficulty holding back the wave because it functioned primarily as an assembler, without its own technology, without scientific capacity, and dependent upon outside resources (Antunes 2001, 452, 455). In the 1980s and 1990s, Brazilian workers experienced layoffs, replacement by microelectronic automation, subcontracting, third-party hiring, and use of temporary labor. The State of Sao Paulo, which had 70,000 industrial workers, had its number of industrial workers drop down to 34,000 in 2000.

The first trade union response was to promote nationwide strikes, such as that in 1989, that mobilized the participation of thirty-five million workers. Antunes believes that the restructuring animated a growth in the union movement which even extended to liberal professionals and self-employed workers. And it helped radicalize the MST (the rural movement of people without land). Several things, however, eclipsed the workers' movement. First, as happened in other parts of the world, neoliberal unions were formed that supported general trends, for example, privatization programs and the restriction of social and welfare rights of employees. Second, with the rise of unemployment (from 6.1 percent in 1995 to 9.6 percent in 1999) and the shift of workers into the newly restructured and often informal economy, worker mobilization became nearly impossible. Because of restructuring, then, the conditions that facilitated the rise of a strong union movement, especially in the industrial region around Sao Paulo (ABC region), have been transformed. Because of restructuring, unions no longer can function as transmission belts representing the interests of workers and addressing problems of poverty and inequality.

Globalization and Political Party Protest

The PT (Workers' Party), considered to be a party of the left, has traditionally represented workers and the disadvantaged. After capturing the 2000 mayoral race in Sao Paulo, Brazil's largest city with a population somewhere around ten

million, they advocated for those on the losing side of increasing income inequality. The PT program stressed solutions for the disadvantaged: they advocated a "participatory budget" allowing neighborhood assemblies to participate in designating city funds and they sought an injunction to suspend the Banespa (Bank of the State of Sao Paulo) privatization auction. In the Sao Paulo city council, the PT even passed legislation extending social services to the homeless. One would expect that these parties, having gained control of municipalities, would be particularly well situated to address the problems of poverty of their constituency in return for continued electoral support. Two events work to eclipse the unfolding of this scenario. First, left political parties that have captured mayoral offices now find the municipalities budgets strapped with more demands. Second, the municipalities now find themselves required to implement neoliberal reforms. The interaction of these trends works to eclipse the ability of the PT to represent the disadvantaged.

The first trend, demands on municipal budgets, resulted from a global shift. Having moved from the phase of monopoly capital, state regulation was thought to be less necessary. The campaign to reduce the size of the state began in the core, shifted to developing nations, and from there to municipalities. Brazil followed the trend in reducing the state and devolving services from the federal to the local levels. In the 1960s, Brazil had a centrally organized political system. By the 1980s, it had started a process of state reduction and decentralization (Arretche and Rodriguez 1998, 9). The 1988 Brazilian constitution promoted a fiscal decentralization. For example, Article 21 established that housing construction programs are the competence of any of the levels of government, even though they might follow directives of the federal level. From that time, there was a progressive absence of the federal government in the sector of housing policy and financing. In principle, the municipalities benefited from the fiscal decentralization of 1988, particularly the Municipality of Sao Paulo which increased its receipt of taxes transferences (Arretche and Rodriguez 1998, 24).

Nevertheless, the subnational governments were caught in a number of webs, not just devolution, that sent them down the path of loans and debts. In 1989, the State of Sao Paulo suffered loss in revenue collected and turned to credit operations, especially the issuance of bonds. The expenditures associated with payment of the debt represented 6 percent of the total administration expenditures from 1986–1990, 8.7 percent in 1991–1993, and 12 percent in 1992–1994 (Arretche and Rodriguez 1998, 17). Municipalities embarked on a similar path.

Cities borrow in the long-term bond market for capital projects. If a city's fiscal condition is stable and its economic base is healthy, capital spending does not create future fiscal problems. Nevertheless, it's a long-term drain on future revenue. Servicing of the past and present municipal debts of the municipality of Sao Paulo has risen as high as 23 percent (in 1998). These debt repayments constrain what municipal funds remain to be spent on social services and housing. In fact, from 1990 to 2000 for the Sao Paulo municipal budget, there is a slightly negative relationship between debt servicing payments and expenditures on housing and social services expenditures (see figure 6-5).

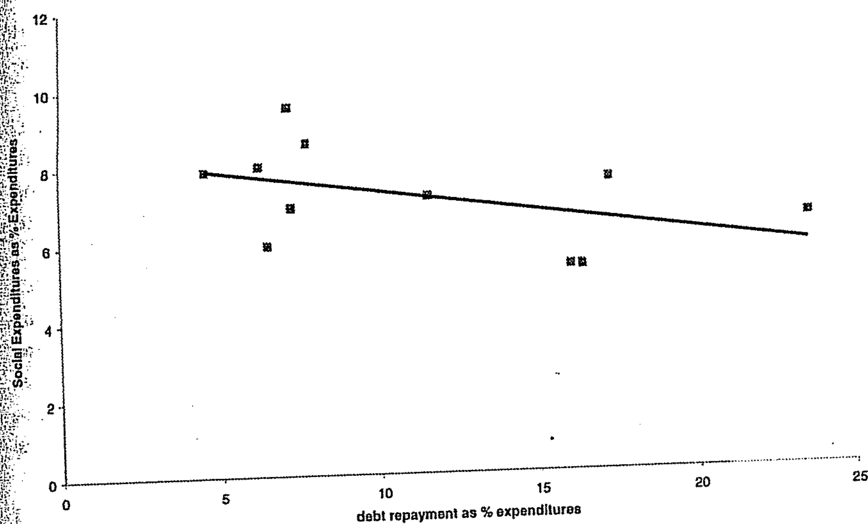

Figure 6-5. Debt Repayment by Housing and Social Services Expenditures: Sao Paulo 1990–2000

What cause is there for concern as Latin American municipalities join in on the long-standing and pervasive practice of supplementing municipal revenue with bonds and debt? While Latin American cities share much with their North American counterparts, they also differ in a number of significant ways that make more than "just another municipality" on its journey to the bond market.

Fiscal stress, ranging from budgetary headaches to default and bankruptcy, is shared by cities on both sides of the north-south divide.[7] All cities experienced the evolution of responsibility for increased numbers of functions and programs from the federal to the municipal level without corresponding funding. In the case of the United States, President Reagan launched the New Federalism. From 1978–1988, federal aid to localities dropped 51 percent (Fuchs 1992, 211). The New Federalism, however, did not relax the mandates for cities to provide services such as sewage treatment, waste management, or welfare—municipal budget busters.

Municipal situations worsened as many sources of revenue dropped and demands for expenditures rose. The process of devolution unfolded upon economically devastated cities. Beginning in 1970s, slightly before the devolution, cities experienced hardships as a result of the economic restructuring. Communities such as Boston and Philadelphia suffered plant closings and job losses as their manufacturing bases shrunk. Flight of population (predominately middle class) and tax base (both personal and corporate) followed. North American urban areas have been left with a disproportionate share of poor (Philadelphia recorded 35 percent of its population below the poverty line in 1990), and soaring costs of

treating the growing populations of AIDS, homelessness, and drug addicts. What appear to be "city troubles" are, in large measure, the outcome of these two national trends: new federalism and national economic restructuring.

To the extent that such fiscal stress takes municipalities to the bond market, all are equally subjected to its disciplining impact. Whether the north or the south, investors react to (what they consider) irresponsible fiscal behavior by increasing the cost of borrowing and reducing the availability of credit. It is the incentive to correct "irresponsible fiscal behavior" that leads cities to undertake solutions such as tax increases, sale of municipal assets, and reduction of discretionary services (aid to the homeless and street cleaning). One Philadelphia resident reacted: "It's terrible, the neighborhood is filthy, trash collection is always late, and cops are never around when you need them" (*USA Today* 1990). Fifteen years earlier, New York City's Mayor Beame employed a similar repertoire: He announced a 43 percent increase in bus and subway fares and a partial freeze on municipal salaries along with firing of some municipal employees. In short, even North American cities are subject to the disciplining guidelines of the loan market.

Yet there are significant differences between municipalities of the North and South. First, Sao Paulo is unlike most North American cities in its level of urban primacy. Established international cities like Tokyo, Paris, and New York have seen their levels of primacy decline since the 1970s.[8] During this same period, however, the primacy rate of Sao Paulo has risen. The primacy rate (see table 6-2) suggests that the population is rising disproportionately faster than the sum of the second, third, and fourth cities. The North American urban infrastructure was already in place when devolution got under way. This contrasts with Sao Paulo that is only now trying to construct infrastructure. Because of more recent rapid and urban growth, the city is facing serious problems. Inadequate sewage treatment in shantytowns has led to contamination of the city's water sources. Fast urban growth and an expansion by 50 percent of vehicles circulating in the last ten years has created hours and miles of daily traffic jams (the rich commute by helicopter).

Latin American cities also differ from North American ones in their level of debt servicing. In 1975, at the height of fiscal crises in New York and Chicago, the debt service constituted a smaller percentage of the municipal budgets (5.2 percent and 7.7 percent respectively) than Sao Paulo during the decade of the 1990s without a defined debt crisis.[9] What cause is there for the suspicion that this new form and level of indebtedness will undermine the viability of political parties that have been most dedicated to addressing the needs of less well-endowed citizens? The economic reforms necessary to achieve market convergence produce those above discussed "externalities" such as poverty, inequality, and homelessness. Municipal governments experience greater pressure for spending because it is easier for local groups to mobilize and present their demands. In Sao Paulo, the PT solicits neighborhood input. At the same time, municipal governments are driven to borrowing because of budget inadequacies. But, as was shown above, in the process of borrowing governments confront that repertoire of mandates that not

Table 6-2. Primacy Ratios of Major Cities

	1980	1990
LA	0.59	0.719
Paris	2.69	2.67
Sao Paulo	0.973	1.06
Tokyo	1.55	1.5
New York	0.69	0.627

only runs counter to the demands of the citizens, but actually worsens the economic conditions in question. Local politicians are caught in an untenable position: work for municipal fiscal stability to gain loans and risk losing electoral support or address social problems, risking fiscal instability, and in the end, lose electoral support.

The Workers' Party (PT) that represents the concerns of its electorate that put it in power in Sao Paulo in 2000 is now constrained by the fact that the municipality's budget must service present and past loans. Marta Suplicy, the PT Mayor of Sao Paulo has become simultaneously the institutional agent that manages the global flows, administrating and implementing the policies of structural adjustment and the symbolic leader of a municipal party committed to ameliorating the economic ills associated with global restructuring. Over time, this certainly will create a completely new fissure between political parties and their popular base.

Where Will Protest Go?

By undermining, weakening, and delegitimizing both unions and left-oriented political parties, globalization has blocked two traditional avenues of political protest. Who will organize those with grievances? Spontaneous outbursts have been triggered by austerity measures and are centered in shantytowns as well as rural areas. The MST (*Movimento sem terra*–those without land) has organized land invasions. There have also been urban building invasions, supermarket break-ins, and the like. Globalization has weakened multiple institutions typically thought of as national—from financial markets to unions and political parties. While the intent has been to create a global market, the result has also been to remove some of those institutions that functioned in a countercyclical fashion, to buffer citizens from the brutalities of the market. In the civil-society vacuum, it should not be surprising to see angry, noncivil actions.

Notes

1. There is an abundant literature that demonstrates the transformation that has occurred in international capital markets. Excellent summaries can be found in Garcia and Valpassos. 2000; Griffith-Jones, Stephany 1998; and Carneiro 1998.

2. Ecuador, after opening up its stock markets, became (according to a Reuters survey) among Latin America's most profitable stock markets rewarding investors with a 22 per cent return (in US Dollars) in 1994 (Colitt 1995).

3. In 1990s, the United States held close to 50 per cent of the assets managed by such funds (Giron and Correa 1991).

4. Figures 2 and 3 are based on a count of the word "transparency" when made in reference to budgets or accounting practices that were found in the Business news sections of online LEXIS-NEXIS. Figure 2 contains all references to either governments or companies. Figure 3 contains frequencies to the same in Latin America. These estimation are only suggestive because they are based on the population of journals and news services included in the LEXIS-NEXIS data base.

5. Fitch, Inc. 2001. www.dcrco.comcorpor 2/19/01.

6. Silvia Bastos of RJ convinced a former schoolmate and investment banker at Merrill Lynch, utilized the resources of Ernst & Young and D & T, and put its budgets out on the Internet (Griffith 1996).

7. "Historically, only when cities are locked out of the bond markets and cannot finance their debt and operating expenses are they considered to be in a state of fiscal crisis" (Fuchs 1992,17)

8. The primacy ratio measures the first city size over the sum of the second through fourth cities.

9. New York City did reach 16 percent in 1929.

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THE SWEATSHOP DYNAMIC: U.S. SHIPPER HEGEMONY IN THE GLOBAL LOGISTICS SECTOR OF LOS ANGELES

Edna Bonacich

Writers in the PEWS tradition tend to focus on national hegemony, and many are currently arguing that the United States is a declining hegemon. I tend to focus on class hegemony and the dominance of transnational capital over workers throughout the world. However, I start with the assumption that U.S.-based transnational corporations (TNCs) continue to play a dominant role in the world economy, so that both national and class hegemony are connected. Moreover, I would dispute the claim that the United States is declining as a world power, even though much of its manufacturing is moving offshore. Although not formally owned by U.S. companies in the form of foreign direct investment (FDI), a good deal of this offshore sourcing is under the control of U.S.-based TNCs.

This chapter focuses on what happens to the imports, especially containerized imports, when they are brought back into the United States by these TNCs. The system of transportation and distribution is referred to by the industry as the logistics system. My purpose is to examine capitalist efforts to control labor in the global logistics sector, as represented by the ports of Los Angeles and Long Beach, and briefly to consider the potential for challenging this domination.[1]

As a result of global production by U.S. TNCs, imports to the United States have grown hugely, especially in recent decades, and the trade deficit has become vast and expanding. In 1970, manufactured imports were valued at $27.3 billion. In 1980, this figure had risen to $133 billion, by 1990 it had reached $388.8 billion, and by 2000, $1.013 trillion. In 1970, manufactured goods accounted for