

How Europe Too Underdevelops Latin America and the Caribbean

By Andy Higginbottom

Introduction

There is a widespread misconception that it is only the United States that acts as an imperial power towards Latin America and the Caribbean. The countries of the European Union (EU) are instead generally depicted as respectful partners in development. Yet the truth is that European multinational corporations (MNCs) make enormous profits from Latin America, and it is fundamentally their interests that shape EU policy towards the region.

Exploitation, Dependency and the Transfer of Wealth from South to North

Karl Marx showed how workers are exploited under capitalism: the workers are not paid the equivalent of the value that they really add in production, rather the workers' wages pay for the commodities purchased to bring them back to work the next day (and the next generation), which is a far lesser amount. The payment of a wage hides the exploitation. The *rate* of exploitation increases to the degree that the workers' efforts create more value than they are paid for.

If workers in the northern countries are exploited, what can be said of the workers in the global South? In the 1960s writers in the radical 'dependency' school in Latin America and elsewhere argued that the poor countries of the south are exploited by the rich countries of the north, that *there is a transfer of resources from the 'developing' south to the 'developed' north*. The South is poor precisely because it continues to be underdeveloped by exploitative relationships within the world system. According to the 'dependistas', the southern periphery nations are dependent, they do not control their destiny in a world division of labour that serves the rich metropolitan nations.

Both these insights run counter to conventional wisdom, as disseminated in the mainstream media and education, which propaganda repeatedly tells us that capitalists provide jobs for workers, and that the North is helping the South by teaching it how to modernise. Both dimensions come together with the situation of the exploited classes in the South, and in particular with the issue of foreign investment.

Again, while conventional wisdom welcomes foreign investment as the key to development, the exploited classes have learnt to be far more sceptical about its benefits. For they are not only exploited, they are *super*-exploited, in that their wages are significantly lower than socially accepted norms established by their sisters and brothers in the North, and they are paid proportionately less of the value that they produce. There is here the systemic combination of national oppression with class exploitation.

How do we move forward from these general assertions to a specific analysis of the relationship between Latin America and Europe? Do these *economic* arguments hold true in the post 9/11 world of international relations dominated by US *military* power?

US Multinationals and US Hegemony Worldwide

Mexican scholar Raúl Ornelas poses a key question, is there an economic basis for US hegemony today? By 'hegemony' is meant a combination of coercion and consensus by which the leading power succeeds in converting its concerns and projects to be those of the entire planet.¹

The defeat of the Soviet Union and the ending of the Cold War had by 1990 left the US in the position of world leadership - politically, culturally and militarily. But what about US economic leadership? The story of the 1990s is how the US used its powerful advantages in the other spheres to reconstruct its economic leadership as well.

Power politics are related to economic factors, in particular the dominating presence of multinational corporations in the world market. Ornelas argues that US post-9/11 project was not only a decision of George Bush, but reinforces a deep seated drive for expansion coming from US corporations. He analyses MNCs by country of origin and industrial sector, finding that US corporations now lead all the most dynamic and profitable sectors.

Table 1: Distribution of the most important industrial corporations in the world by sector (weighted average 1980-2000)

Sector	% of top corporations	Sales	Profits
Oil	11.4	17.8	20.3
Chemical-pharmaceutical	16.5	12.1	18.5
IT – electronics	13.0	17.0	16.3
Telecommunications	3.0	5.5	8.5
Sub-total	43.7	52.4	63.6
Food, drink, tobacco	13.2	10.2	12.7
Automobiles	8.6	16.2	7.7
Others	34.5	21.0	16.0
Totals %	100.0	100.0	100.0
Amount *	615.7	\$5,519bn	\$217bn

- annualised averages

[Profits column can be a cake, Cake 1]

Table 2: Distribution of the most important industrial corporations in the world by country (weighted average 1980-2000)

Country	% of top corporations	Sales	Profits
United States	37.5	38.6	48.4
Japan	21.5	20.5	9.3
Germany	5.9	8.3	4.5
Britain	8.9	8.7	13.1
France	5.1	5.7	4.1
Top 5 subtotal	78.9	81.8	79.4
Others	21.1	18.2	20.6
Totals %	100.0	100.0	100.0

Amount *	615.7	\$5,519bn	\$217bn
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[Can be a cake, Cake 2 that is exactly the same size and sits beside Cake 1 as total amounts are the same. Common title: Distribution of Profits of World's Biggest MNCs 1980-2000 then subtitle Cake 1 By Sector; subtitle Cake 2 By Country of Origin].

US corporations achieve higher profitability than their competitors, especially Japanese corporations. In 2000, US corporations held 39% of sales, but nearly 51% of worldwide profits. This is because US corporations are concentrated in the higher profit sectors, such as IT and electronics, which they dominate taking 61% of all profits; and oil, where US MNCs take 39% of all profits. (British MNCs are also well placed in the oil sector, where they draw 21.7% of all profits worldwide.) Ornelas concludes that US industrial corporations control key portions of the world economy, and this contributes an essential component to continuing US hegemony.

By contrast, European corporations lead taking over 60% of world profits in the banking sector. Between 1990 and 2000 US banks increased their share of worldwide profits dramatically (from 8% to 22%), while Japanese big banks share collapsed (from 36% to 2%). The profit share of EU banks showed an increase as well (from 41% to 52% for banks from the top six EU countries), but far more importantly it was a share of a banking profits cake that grew nearly three times bigger in just ten years. For example, the rise in Spanish banks profits from 3% to nearly 5% of the sector does not appear too dramatic, whereas in fact it was *four-fold increase* in profits from \$1bn in 1990 to \$4.2bn in 2000. Britain's leading banks were an even bigger beneficiary of the 1990s profits boom, their profits rose *six-fold*, reaching a massive \$12.3bn in 2000.

Table 3: Principal Banks Share of Profits, by Country

Country	1990 share of profits %	2000 Share of profits %
Germany	7.11	10.24
France	10.88	11.09
Britain	7.91	14.31
Italy	6.51	3.07
Netherlands	5.05	8.24
Spain	3.12	4.84
Top 6 EU subtotal	40.58	51.79
Switzerland	5.10	9.39
US	7.55	22.29
Canada	4.76	7.18
Japan	36.21	1.84
Others	5.79	7.50
%	99.9	99.9
Amount	\$31.8 bn	\$85.7 bn

[Could be two cakes? Cake 3 and Cake 4]

Ornelas argues that whereas President Clinton's policies were designed to rapidly strengthen US corporations in areas of the 'new economy' (Microsoft, Intel, AOL etc), Bush's presidency coincides with a new period in which raw US state power comes again to the fore. The post 9/11 'war on terror' is driven by the need to offset recession on the one hand, and on the other to prevent emerging economic rivals, especially China, from challenging the dominant position the US has acquired in Central Asia.

However we assess the dynamics of US policy, what does this scenario of US and European MNCs competing for world economic leadership mean for Latin America? And that in turn leads on to the really obvious yet unanswered question, the 'elephant in the room': where did the surge in industrial and banking profits come from?

Changing Patterns of Corporate Investment in Latin America

The temporal pattern is one of a foreign investment boom in the late 1990s, reaching a peak in 1999 when it plummeted, and from 2003 onwards has since increased again. There was a 44% upsurge in Foreign Direct Investment (FDI) to Latin America and the Caribbean (LAC) in 2004.²

During the 6 year period 1996-2001 was *triple* the FDI in the preceding 6 years, 1990-1995 (see Table 4).

**Table 4. FDI in Latin America by Country of Origin
Comparison of 1996-2001 with 1990-1995**

Country (Region) of Origin	1990 - 1995		1996-2001		FDI Increase: 1996-2001 compared to 1990-1995	
	FDI US \$ million	% of FDI in period	FDI US \$ million	% of FDI in period	FDI US \$ million	% of original FDI by country
Germany	3,936	5.5	8,946	3.6	5,010	127%
Spain	3,780	5.3	73,808	29.7	70,028	1,852%
France	906	1.3	19,820	8.0	18,914	2,088%
Italy	228	0.3	4,172	1.7	3,944	1,730%
Netherlands	3,630	5.0	13,439	5.4	9,859	272%
Portugal	48	0.0	10,899	4.4	10,851	22,606%
UK	4,338	6.0	12,169	4.9	7,831	181%
Sweden	138	0.2	2,364	0.9	2,226	1,613%
Other EU*	498	0.7	2,538	1.0	2,040	410%
EU subtotal	17,502	24.3	148,155	59.6	130,653	747%
Switzerland	966	1.3	4,605	1.9	3,639	377%
Japan	2,418	3.4	5,630	2.3	3,212	133%
US	51,048	71.0	90,338	36.3	39,290	77%
Total **	71,934	100.0	248,728	100.1	176,794	248%

Source: IDB 2004, p96

[This could be shown as two cakes, common title FDI in Latin America by Country of Origin, Cake 5 subtitle 1990-1995 and Cake 6 subtitle 1996-2001, the second one obviously much bigger than first]

* Austria, Belgium, Luxemburg, Denmark, Finland

** Europe + Japan + USA

Now we come to the vital twist in the relative position of Europe and the US. Corporations from both the US and Europe participated in late 1990s boom, but *their role as dominant source of investment reversed*. While the US was the source of 71% of all FDI to the LAC region between 1990-1995, its relative share fell to little more than 36% 1996-2001. Conversely, European capital (MNCs originating in EU countries plus Switzerland) investments catapulted from 25% to over 61% of all FDI in Latin America and the Caribbean.

In terms of FDI patterns there are two broad geographic sub-regions: US corporate investments still predominate in Mexico and the Caribbean, where they seek to gain profits from low-cost *maquiladora* production. European corporations have a presence, they have set up production inside Mexico so that they take advantage of NAFTA non-tariff agreement to gain access into the US market, a process that was accelerated by the signing of the EU-Mexico Free Trade Agreement in 2000. Another crucial factor in Mexico's dependency is the takeover of its finance sector by the giant Spanish bank BBVA.³

European corporations are relatively stronger in South America, with a drive to increase market share by buying out domestic corporations and snatching privatised services (in Brazil and Argentina especially), as well as the targeting of natural resources (in the Andean region especially) and natural resource based manufactures. Here too EU policy has sought to open up markets for its MNCs, and to reinforce the pressure from the US through the World Bank to entrench the neo-liberal competitive regime, to shift LAC countries towards export production, and to impose financial discipline no matter the social consequences. The EU is also heavily involved with the World Bank and other related institutions in a common long term strategy to restructure the very infrastructures of Latin America to be more efficient in their transfer of resources out of the region.

This indicates a good reason why the ever present commercial competition between European and US corporations has not *yet* led to sharper rivalries between them as contending imperial powers: they are still all enjoying an investment boom - and while the profits cake keeps expanding it is more important to get in there and grab a share of the bonanza than it is to turn and fight your competitors. The easing of tension between the capital exporting powers of the North is of course at the expense of the peoples of Latin America and the Caribbean, and will last only so long as the investments return high profit rates.

Concentration of European Investment

Within the EU, by the second half of the decade Spanish corporations accounted for nearly half of all investments in LA and the Caribbean. European investment is concentrated in certain sectors opened up by aggressive neo-liberal policies.

The enormous expansion of Spanish investment covered the finance, oil, telecommunications and electricity sectors, taking the opportunity of service privatizations especially. Similarly, Portuguese

companies emerged from providing almost no FDI to become major investors in privatised sectors of the Brazilian economy. Between 1991 and 2002 Brazilian governments sold off over \$100 bn state owned assets, the biggest sell off in history.

French water utility companies have been another major beneficiary of the privatization bonanza across Latin America, and French corporations are major investors in the automobile sector. German corporate investments centre on automobiles and other manufacturing sectors, Italian companies focus on telecommunications, cars and food processing. The UK's investment areas are diversified across services and general manufacturing, with a strong presence in hydrocarbons (oil and gas), and mining.⁴

The Corporate Takeover of Latin America

Whatever their national specialisms, the combined corporate takeover of Latin America is summarised by comparing a snapshot of ownership of the region's top 500 corporations in 1990, 1999 and in 2003 (the last year for which figures are available). Incoming investment flows accumulate as 'capital stock', ownership of the enterprises of a country which is reflected in the share of profits and sales.

ECLAC, the UN's Economic Commission for Latin America and the Caribbean, states that "in 1999, after several years of sustained expansion, TNCs [transnational corporations] accounted for 43% of the sales of the region's 500 leading firms", an increase from 26% in 1990.⁵ The share of foreign corporations in sales had by 2003 declined again to 34%, but with renewed investments this should be expected to recover the upward trend.

It is important to understand that the story is not just one of foreign takeover. Although increasingly a junior partner in its alliance with the MNCs, domestic private capital too takes advantage of the imposition of the neo-liberal regime. Thus domestic capital's profit rates may increase even while its share of sales diminishes.

Another factor is that, despite the wave of utility privatizations which reduced the participation of state owned corporations from 32% of sales in 1990 to 20% of sales in 1999, state corporations recovered their share to 25% by 2003. ECLAC explains this by the sharp rise in oil and gas prices that has benefited state corporations in Brazil and Venezuela, they comprise the principal area in the continent that is not appropriated by private capital.

The other significant area in which investment flows have accumulated in the banking sector, and here European and especially Spanish banks predominate, as shown in the following table.

Five Largest Foreign Banks in LAC, by Consolidated Assets June 2004

Bank	Country of origin	Assets US \$
Banco Santander Central Hispano (SCH)	Spain	73, 039
Banco Bilbao Vizcaya Argentaria (BBVA)	Spain	66, 260
Citibank	United States	55, 603

ABN Amro Bank	Netherlands	21, 560
HSBC Holdings	UK	14, 568

ECLAC *Investment Report LAC 2004*

Exploitation Continues

In 1999/2000 flows of FDI fell sharply from the record levels of the late 1990s, and increased again from 2004 onwards. The UN economic commission regards this as ‘a very positive sign’, but the worth of more investment for the people has to be challenged.

Foreign investment continues to suck enormous profits out of Latin America and the Caribbean. In 2003 the region received US \$13.3 bn in investment income, but it paid out the far greater sum of \$71.0bn to foreign investors (made up of \$21.2bn of returns on direct investment, \$13.7bn for portfolio investment, and \$36.1bn for ‘other’ investments, most notably repaid loans in which European private banks feature heavily). That is, in 2003 the LAC countries experienced a net profits outflow of \$57.5 bn, about *\$100 for every man woman and child in the region that year alone*.⁶

This figure corresponds to the detailed study carried out at the Autonomous University of Mexico that found that there was a net *outward* transfer of \$4,143 per capita between 1976 and 1997.⁷

Colombia presents a typical example: in 2003, Uribe’s first full year in office, the country’s net ‘investment income’ (i.e. profit) was an *outflow* of \$3.5 billion. The profits payments to the multinationals were covered in the short term by immediate new loans, but these will have to be repaid and as such are a claim on future profits. With results like these, no wonder Uribe is the darling of international investors!

The effect of declining terms of trade, a reduction in the relative price for exports against imports, is also to transfer wealth from the South to the North. ECLAC, the UN’s Economic Commission for Latin America and the Caribbean, estimates that in 2003 the region lost the equivalent \$10.3 bn to its balance of payments (at constant 1995 prices) due to declining terms of trade.⁸ The EU countries are a major trading partner, and hence a major beneficiary of unequal exchange.

There are many other economic aspects to the transfer of resources that have not been touched on here, e.g. internal pricing mechanisms, the extraction of rents from technological advantages and so on⁹, so if anything the sum of the above figures is an *underestimate*, which in any case does not address the many qualitative environmental and social consequences. It amounts to nearly \$70bn transferred yearly out of Latin American and the Caribbean. Certainly a substantial proportion of this comes directly to European corporations and contributes indirectly to the continent’s more benign social climate.

Conclusion

The above figures that are somewhat sketchy and already out of date, they provide no more than a starting point for serious investigation. It is a challenge to improve the figures and bring them up to date with an analysis from the perspective of social movements. Nonetheless, they are sufficient to indicate that there is a fundamentally exploitative relationship between the regions led by the profit interests of multinational corporations and banks, through which European imperialism as well as US imperialism participates in the continuing underdevelopment of Latin America and the Caribbean.

Neo-liberal globalisation as a phase of imperialism is a joint enterprise, at least for the time being. Bring on the opposition.

Andy Higginbottom

Glossary of Terms

Foreign Direct Investment (FDI)

Portfolio Investment

Terms of Trade

¹ Raúl Ornelas, 'Las empresas transnacionales y el liderazgo económico mundial. Balance y perspectivas' in *La Guerra Infinita: Hegemonía y Terror Mundial* by Ana Esther Ceceña y Emir Sader (Editors), 2002

² UNCTAD *World Investment Report 2005*

³ Alfonso Moro *Los intereses de las transnacionales europeas en América Latina*, forthcoming

⁴ BID, *Integración y comercio en América. III Cumbre América Latina y el Caribe – Unión*, 2004, pp 29-32).

⁵ ECLAC *Investment Report LAC 2004, 2005*, p39

⁶ ECLAC, *Statistical Yearbook for Latin America and the Caribbean, 2004, 2005*

⁷ John Saxe-Fernández et al *Globalización, Imperialismo y Clase Social*, 2001, p145

⁸ ECLAC, *Statistical Yearbook, 2005*

⁹ See James Petras in *Globalización, Imperialismo y Clase Social*

Andres Barrera