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GLOBAL NETWORKS

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**Saskia Sassen**

ROUTLEDGE  
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## Contents

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## **Chapter 7**

### **SAO PAULO: ARTICULATING A CROSS-BORDER REGION**

**Sueli Ramos Schiffer**

This chapter examines Sao Paulo's national and international role in specific processes of economic globalization. Particular attention goes to the Mercosur regional bloc and its capacity to articulate the cross-border region with the global economy. The centrality of Sao Paulo in the articulation of the Mercosur cross-border region required heavy national investments in regional infrastructure to overcome surface flow obstacles and to build digital networks. A key issue in this regard is the deregulation process that Brazil began undergoing in the early 1990s, insofar as it illuminates how national institutional reshaping conditions greater participation of both the country and its major cities in the global economy and how the challenges of international competitiveness have been mediated internally. In a developing country like Brazil, the government has a crucial role in quickly channeling investments throughout different markets. Furthermore, unlike developed countries, competitiveness here occurs in the context of a society where social exclusion is deeply rooted and has never been seriously questioned.

The chapter concludes with a specific study aimed at determining if the trade relations and the number of networks between Brazil and Japan have increased in the last decade in the wake of Brazil's economic restructuring. Brazil is today home to the world's greatest number of Japanese immigrants and a very large number of Japanese firms.

#### **LATIN AMERICA AS A COMPETITOR FOR INVESTMENTS**

The growth of foreign direct investments (FDIs) since the 1990s in developing countries indicates that the structure of local patterns for attracting capital has changed. The question of what criteria today's corporate decision-making

processes are based on is raised when a foreign market is to be chosen for making new investments. Enhanced competition among firms imposes a rigorous search for competitive advantages, of which the most important site-related aspects are business opportunities, a country's institutional framework, infrastructure availability, existence of a consolidated or potential consumer market, and the necessary skilled labor force. These priorities underline the declining importance of former competitive advantages for developing countries, such as cheap, unskilled labor and local availability of raw materials.

Latin America recorded a strong decline in its share of FDI between 1986 and 1990 compared with 1981-1985 (Chudnovsky 1997: 129), and a relative increase since 1991, particularly after 1997, when Latin America obtained almost two-thirds of the increase in overall FDI received by developing countries. Although it has not yet reached the shares of the early 1980s, the absolute amount has increased due to the large expansion in total worldwide FDI. On the whole, current foreign investment has raised the concentration of capital and production in the largest transnational corporations located in developed countries. UNCTAD (1996,1998,2000) credits the relative increase in FDI in Latin America since the late 1990s to national efforts to attract foreign investments, and especially to the success of privatization programs, mainly in Argentina and Chile up until 1994, and in Brazil after 1995. Privatization was also the leading factor attracting FDI in 1998 and 1999 in these countries. UNCTAD (TAD/INF 2856: 4) found that "A majority of the 50 largest privatizations in the world during 1997-1999 occurred in developing countries. In 1999 Argentina was at the top, with a volume of US\$16 billion, whereas Brazil headed the list the previous year, with US\$20 billion." Latin American outward FDI flows have also increased, from U.S.\$2.3 billion in 1996 to U.S.\$27.3 billion in 1999.

In fact, the increase in foreign direct investments to major Latin American countries can be attributed not only to the privatization process, particularly of public utilities, but also to the spread of foreign capital acquisitions of former domestic manufacturers and banks. This process has been stronger in Argentina,<sup>1</sup> where economic restructuring resulted from the widespread lifting of foreign trade restrictions, and from Argentina's industry being more vulnerable than Brazil's in the wake of a long period of stagnation. Yet, despite the strength of its industrial structure, Brazilian manufacturing capital has been shrinking and playing a lesser role in the economic scenario. A press release (Nov. 10, 1998) based on UNCTAD's World Investment Report of 1998 stated, "Brazil emerges [in 1997] as the champion in attracting foreign direct investment" within Latin America. This performance is attributed to "a combination of effective macroeconomic policies, the opening up of the economy and privatization programs, which alone accounted for 27 percent of FDI inflows in

the last two years [1996-97]. Some 600 mergers and acquisitions have taken place in the last 6 years [1992-97], and 61 percent of these involved foreign buyers and 59 percent involved the manufacturing sector."

In 1998, foreign capital mergers and acquisitions in Brazil had reached the U.S.\$29.4 billion mark, almost three times the amount recorded in 1997, whereas the total amount in 1999 declined to U.S.\$9.4 billion. Argentina received an inflow of U.S.\$19.1 billion in 1999 from foreign capital mergers and acquisitions, almost double the amount obtained in 1998 (UNCTAD: WIR2000).

Since 1995, the financial sector has been rife with mergers and acquisitions, a wave that began in the banking industry. Argentina was in the forefront of this process. In a period of less than four years, three of the four largest domestic banks were sold to foreign banks.<sup>2</sup> In Brazil, from March 1997 to the end of 1998, eight banks were acquired with foreign capital, and, coincidentally, the new owners belong to foreign financial corporations also active in Argentina, such as HSBC (Great Britain), Santander, and Bilbao Viscaya (both Spain). Foreign investments in the financial sector in Brazil are also yielding more wide-ranging diversified products in the stock market, in securities and in assets management. Recently, establishments of the largest world investment operators set up offices,<sup>3</sup> almost all in Sao Paulo, reinforcing the role of Brazilian economic deregulation.

The automobile industry is also particularly attractive to foreign investments, spurred by the great increase in demand for cars, mainly in Argentina and Brazil.<sup>4</sup> The lifting of trade restrictions helped market expansion and, in the case of Brazil, the arrival of new car manufacturers. Additional car plants have also been built by the formerly installed manufacturers, vying for heavy investments by Japanese, French, and German newcomer corporations (*Financial Times* 1997).

Although major foreign investments to Mercosur come from developed countries, regional investments have also increased, aiming at producing counterparts. Brazil, for instance, doubled its investments in Mercosur countries from 1990 to 1995. The amount channeled to Argentina was almost 60 percent of the total, going mostly to the manufacturing industry. Half of Brazilian investments in the service industry in Argentina, in that period, went to banks (GM 1996b). (I will return to this subject later.)

To attract foreign capital, South American countries have had to reshape their economies to offer competitive advantages to foreign capital investments and to develop regional infrastructure to allow cross-border integration. The reverberations from the economic adjustments that have had to be made have been felt even more strongly in Brazil, since the greater regional power of its industrial and financial sectors and the size of its population have required

stronger government intervention to impose institutional and economic changes, in order to sustain its regional leadership .

### THE BRAZILIAN DEREGULATION OF THE 1990s: GLOBAL INTENTIONS AND LOCAL OUTCOMES

Major institutional restructuring in Brazil throughout the 1990s to ensure its inclusion in the post-1980 expanding global economy was aimed at eventual monetary stabilization, lifting foreign trade restrictions, and introducing special measures to attract foreign capital. The measures put into effect to attain these goals were based on strong governmental intervention, mostly through the implementation of a compulsory plan called "Plano Real" in mid-1994, and can be summarized as follows:

- i) Radical monetary reform was designed to stabilize the national currency (inflation rate declined from roughly 35 percent to 2 percent a. month). This adjustment was achieved by enhancing the foreign reserves that underpinned the dollar parity anchor. The main attraction for enhancing foreign reserves has been the high interest rate<sup>5</sup> applied on foreign financial investment profit. These policies are still in effect and have obviously favored speculative investments for both national and foreign capital, at the expense of productive investment opportunities.<sup>6</sup>
- ii) The abrupt opening of trade was effected by drastically reducing «uties on multiple goods. Since the measure was not preceded by a negotiated industrial policy, it led to disastrous consequences for certain branches of domestic manufacture: the great increase in imports<sup>7</sup> has led to an unpre tedented proliferation of mergers, acquisitions, and bankruptcies.<sup>8</sup>
- iii) Specific financial sectors were deregulated to allow the inflow of foreign capital under privileged taxation (particularly as compared with the high annual interest rate), especially involving stock market rules and financial investment opportunities.<sup>9</sup>
- iv) The constitutional concept of national corporations was broadened to allow the participation of major foreign investments in strategic "branches still restricted to national capital, like telecommunications, mining, and domestic navigation.
- v) A reorganization of the state was launched to enable these policy changes. This reorganization was set against an identification of the stite with authoritarianism and inefficiency, and the creation of an ideological basis supporting the privatization of major industries, such as the largest metallurgical industries and public infrastructure.

The abrupt introduction of most of these measures, particularly the opening up of the economy, has had important effects on the overall performance of manufacturing. Brazilian firms—including some subsidiaries of foreign firms—have responded to the growing competition of imported goods by shrinking their hired skilled and unskilled labor force, with no relevant technological improvement. Additionally, they have reduced their end prices thereby cutting into their net profits, and promoting the decapitalization of Brazilian firms. Often these are the same firms that had participated in or pushed for the increase in mergers and acquisitions involving foreign capital, mentioned previously.

Privatization and deregulation in Brazil started, as in many other countries, with the more competitive industries owned by the state. This was the case in the steel, petrochemical, and fertilizer industries, whose privatization processes absorbed most of the efforts and skills of the state from 1991 to 1996.<sup>10</sup> Whereas this first cycle involved relatively few changes in the institutional organization of the state in terms of its operational branches, the privatization and deregulation of public utilities involved major restructuring of the entire institutional order both nationally and subnationally. The infrastructure and public utilities industry in Brazil until the early 1990s evolved according to a model of immense networks, with growing territorial scope and functional complexity. With the prospect of privatization, territorial and functional unbundling has become a major strategy, preventing deep technological and managerial restructuring. Within the telecommunications industry, the great diversification of scope has enabled some makeshift arrangements to be made since the early 1990s to bypass the strict national regulations for public utilities. Through a flexible interpretation of constitutional rule that establishes the state monopoly of public-utility communications services, the Brazilian Congress passed a number of subconstitutional laws that classified "special services of telecommunications" as different from public services *stricto sensu*. Based on this interpretation, a number of concessions, bids, and joint ventures were opened specifically for services like cable TV, mobile telephone networks, and wireless communication in general, years before the private takeover of the whole system in 1998.

The technological and territorial expansion of the telecommunications networks that followed were crucial to the broader integration of Brazil, and Sao Paulo in the international economic circuit. The construction of cross-border telematic networks connecting South America to North America and Europe (see map 2), with Sao Paulo as a central node, has reinforced the regional primacy of this city.

### BRAZIL AND SAO PAULO IN THE ECONOMIC GEOGRAPHY OF MERCOSUR

Brazil is the richest and most populous country in Latin America, although its excluded population has one of the worst standards of living in the continent.

**TABLE 1**  
**MERCOSUR: POPULATION AND ECONOMIC INDICATORS.**

| Country   | Population<br>(1999)<br>Millions | GDP<br>(1990/99)<br>(%)* | GDP<br>(1999)<br>Billions<br>of Dollars | Industry<br>(1999)<br>% GDP <sup>b</sup> | Manufacturing<br>(1999)<br>% GDP <sup>b</sup> | Services<br>(1999)<br>% GDP <sup>b</sup> | GNP/c*<br>(1999)<br>Dollars |
|-----------|----------------------------------|--------------------------|---|--|---|--|-----------------------------|
| Argentina | 36.6                             | 4.9                      | 281.9                                   | 32                                       | 22  | 61                                       | 7,600                       |
| Brazil    | 168.1                            | 2.9                      | 760.3                                   | 29                                       | 23  | 62                                       | 4,420                       |
| Chile     | 15.0                             | 7.2                      | 71.1                                    | 33                                       | 16  | 59                                       | 4,740                       |
| Paraguay  | 5.4                              | 2.4                      | 8.1                                     | 22                                       | 16  | 52                                       | 1,580                       |
| Uruguay   | 3.3                              | 3.7                      | 20.2                                    | 29                                       | 19  | 62                                       | 5,900                       |

\* average annual growth rate/ <sup>b</sup> value added as % of GDP / \* GNP per capita.

Source: World Development Report 2000/2001.

Average indicators, in general, are not a good expression of the reality of a country with such sharp internal differences and concentration of wealth; these indicators tend to mask the true dimensions of both scarcity and abundance. However, some selected data on Mercosur countries and Chile," namely gross domestic product and gross national product per capita for 1999, as well as sector GDP shares (see in table 1), allow for rough comparisons among countries and express Brazil's economic leadership in the area.

#### ***The Regional Supremacy of Sao Paulo***

Brazilian leadership in Mercosur is held by the state of Sao Paulo, which represents more than 35 percent of Brazil's GNP. With GNP at about U.S.\$285 billion in 1998 (GM 1999:164), the state of Sao Paulo accounted for more than 50 percent of Brazilian manufacturing production, including a million cars produced each year (as such it should be considered the tenth largest automobile producer in the world). The state of Sao Paulo accounted for 28 percent of Argentina's foreign trade in 1997, surpassing the United States as the major country of origin of Argentinian imports (GMLA 1997c).

The Sao Paulo Metropolitan Area, with thirty-nine municipalities and more than 17 million inhabitants, accounted for about 20 percent of the national GNP in 2000 (EXAME Sao Paulo, 2000: 7). The city of Sao Paulo (a major metropolitan municipality and state capital) is the nation's economic center, concentrating not only the most advanced financial and service activities, but also its representative manufacturing industry, holding a roughly 35% share of the total for the state in 1998.

Among the three energy companies set up in this state, one—CESP—is

**TABLE 2**  
**MERCOSUR METROPOLITAN AREAS AND URBAN AGGLOMERATIONS 2000**

| Metropolitan Area and/or<br>Urban Agglomeration<br>(Country) | Population         |                              |                                    |
|--|--------------------|------------------------------|------------------------------------|
|  | 2000<br>(millions) | 1990 to<br>1995<br>(% p.a.)* | National<br>Population (%)<br>2000 |
| Asuncion (Paraguay)  | 1.2                | ...                          | 23.1                               |
| Buenos Aires (Argentina)                                     | 13.4               | 1.7                          | 37.1                               |
| Montevideo (Uruguay)   | 1.3                | 0.6                          | 39.4                               |
| Santiago (Chile)   | 5.6                | 2.0                          | 37.8                               |
| São Paulo (Brazil)   | 17.5               | 2.0                          | 10.1                               |

... no data.

\* annual growth rate from the United Nations—Department for Economic and Social Information and Policy Analysis, Population Division. Urban Agglomerations, 1994.

Sources : DEMOGRAPHIA (website, January, 2001) estimate by Wendell Cox Consulting;

the largest in Latin America, with an operating capacity of 10,800 megawatts. The state also has the largest Brazilian port—Santos—and forty-two airports, three of which handle international flights. With a population of more than 33 million in 2000, the GNP per capita was about US\$6,200 in the same year, roughly 50 percent more than the Brazilian average (EXAME Sao Paulo 2000:7).

The role of the city of Sao Paulo in Mercosur basically mirrors that of Brazilian leadership in the area. Data shown in table 2 indicate the total population and their respective national share for major Mercosur agglomerations, as rough indirect indicators of their relative leadership in their national scenarios.

The Sao Paulo Metropolitan Area has been the main economic center of the Brazilian economy ever since coffee production was introduced in the state in the last quarter of the nineteenth century. The world coffee glut in the first decades of this century channeled coffee production profits to the manufacturing industry. Sao Paulo's industrialization gained further momentum between 1955 and 1960 with foreign capital injections in the automobile industry, pushing Sao Paulo manufacturing output to a national share of more than 42 percent in 1970. After the mid-1970s, there was a rise in the Sao Paulo state GDP tertiary sector associated with the manufacturing decentralization process in the Sao Paulo Metropolitan Area. This process is more a consequence of transferring some manufacturing plants to certain cities than it is a deindustrialization process, since the headquarters of the largest corporations—particularly those

owned by foreign capital—have remained in the city of Sao Paulo (table 3). Even some corporations with administrative offices formerly in other cities,<sup>12</sup> have transferred their central offices to the city of Sao Paulo. In addition, manufacturing within the Sao Paulo Metropolitan Area has shifted from traditional manufacturing industries to the most technologically advanced industries. According to FSEADE: PAEP (1997/98) (*Sao Paulo Economic Activity Survey*), 78.7% of the most advanced technology manufacturers of Sao Paulo State are located in the Sao Paulo Metropolitan Area (EXAME Sao Paulo 2000: 19).

Similar to what has occurred in several global cities, the city of Sao Paulo has experienced an even higher increase in tertiary activities, from 58.7 percent in 1985 to 67.4 percent in 1995, and a rise in financial and specialized services, to such an extent (table 4) that it has strengthened the city's leadership within the country.<sup>13</sup> The Sao Paulo Stock Exchange—the largest in Latin America—currently transacts about 10 percent of Brazil's GNP annually; the Futures Commodities Stock Exchange ranks third in the world in terms of money negotiated (GMLA 1997c).

Of the twenty largest foreign-owned companies in Latin America in 1999, twelve were in Brazil, and six of these are regionally based in the city of Sao Paulo (GMLA 2000b). A survey of the largest companies<sup>14</sup> with headquarters in the Sao Paulo Metropolitan Area, developed for this text in 1998, resulted in a sample consisting of twenty-six responses,<sup>15</sup> twenty-one from foreign companies. Of all the companies surveyed, 73.1 percent also have factories elsewhere in Latin America, 61.5 percent have factories elsewhere in Mercosur countries and 38.5 percent have their regional office (responsible for controlling Mercosur factories and the Mercosur market) in this metropolis.

#### THE MERCOSUR CROSS-BORDER INFRASTRUCTURE

None of the Mercosur countries had a very comfortable position in terms of infrastructure provisions in the mid-1990s.<sup>16</sup> Table 5 shows some general figures for regional availability of infrastructure, and clearly indicates that the entire region needs to expand and modernize its infrastructure supply.

It is not clear whether privatization is necessarily going to solve this problem best. Argentina has delved deeper into the privatization process, particularly in regard to telecommunications, beginning in 1990, almost half a decade earlier than Brazil. Yet Brazil's pre-privatization model of sectoral government corporations in heavy industry and public infrastructure has proved very receptive to joint ventures with the private sector both upstream and downstream from their core businesses.

This Brazilian "model" has also lent itself to integration with neighboring countries. This is the case of the Itaipu hydropower plant, constructed in the mid-1970s, according to a bilateral agreement between Brazil and Paraguay.

**TABLE 3**  
**HEADQUARTERS OF PRIVATE COMPANIES ESTABLISHED IN THE CITY OF SÃO PAULO**

| Of the Largest         | 1980<br>% | 1985<br>% | 1990<br>% | 1992<br>% | 1994<br>% | 1996<br>% | 1997<br>% | 1999<br>% |
|------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| 100 Brazilian groups   | 45.0      | 45.0      | 42.0      | 36.0      | 36.0      | 40.0      | 47.0      | 39.0      |
| 40 foreign groups      | ...       | ...       | 72.5      | 62.5      | 75.0      | 70.0      | ...       | 67.5      |
| 100 foreign companies  | 51.0      | 54.0      | 47.0      | 45.0      | 47.5      | 68.0      | 65.0      | 63.0      |
| 50 Brazilian companies | 42.0      | 34.0      | 40.0      | 30.0      | 32.0      | 26.0      | 38.0      | 34.0      |

... no data

Source: *Gazeta Mercantil*—Balço Anual (Annual Balance Sheet, several years).

**TABLE 4**  
**HEADQUARTERS OF THE LARGEST COMPANIES IN THE FINANCIAL SECTOR ESTABLISHED IN THE CITY OF SÃO PAULO.**

|                                       | 1986<br>Units<br>in SP /<br>Largest | 1990<br>Units<br>in SP /<br>Largest | 1993<br>Units<br>in SP /<br>Largest | 1996<br>Units<br>in SP /<br>Largest | 1997<br>Units<br>in SP /<br>Largest | 1999<br>Units<br>in SP /<br>Largest |
|---------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Commercial private<br>Brazilian banks | 18/40                               | 29/40                               | 4/11                                | 31/40                               | ...                                 | 27/40                               |
| Commercial private<br>foreign banks   | 15/19                               | 14/16                               | 14/15                               | 23/24                               | ...                                 | 36/40                               |
| Insurance<br>companies                | 33/80                               | 36/80                               | 35/80                               | 36/80                               | 37/80                               | 40/80                               |
| Brokerage houses                      | 25/50                               | 25/50                               | 32/50                               | 34/46                               | 36/50                               | 29/43                               |

Note: The number of the largest companies varies according to different dates and sectors /

... no data

Source: *Gazeta Mercantil*—Balço Anual (Annual Balance Sheet, several years).

**TABLE 5**  
**MERCOSUR COUNTRIES. INFRASTRUCTURE SUPPLY DENSITY.**

| Country   | Electric power         | Telecomm             | Transportation           | Water             |                                 |
|-----------|------------------------|----------------------|--------------------------|-------------------|---------------------------------|
|           | Consumption per Capita | Telephone Main Lines | Paved Roads (% of total) | Air Carried       | Access to Passengers Safe Water |
|           | 1997 <sup>a</sup>      | 1998 <sup>b</sup>    | 1998                     | 1998 <sup>c</sup> | 1996 <sup>d</sup>               |
| Argentina | 1,634                  | 203                  | 29.5                     | 8,447             | 71.0                            |
| Brazil    | 1,743                  | 121                  | 9.3                      | 28,091            | 85.0 <sup>e</sup>               |
| Chile     | 2,011                  | 205                  | 13.8                     | 5,150             | ...                             |
| Paraguay  | 759                    | 55                   | 9.5                      | 222               | 70.0                            |
| Uruguay   | 1,710                  | 250                  | 90.0                     | 557               | 99.0                            |

<sup>a</sup> Kilowatt-hours / <sup>b</sup> per 1,000 people / <sup>c</sup> thousands / <sup>d</sup> % of a urban population / <sup>e</sup> refers to 1995 / ... no data

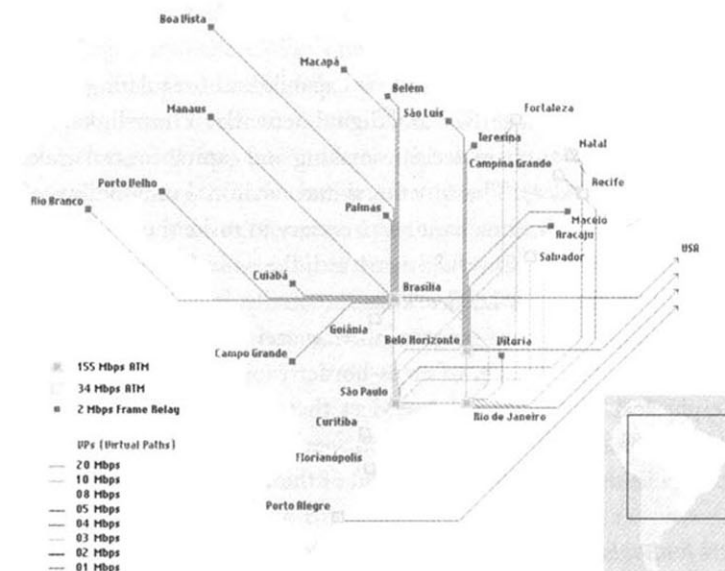
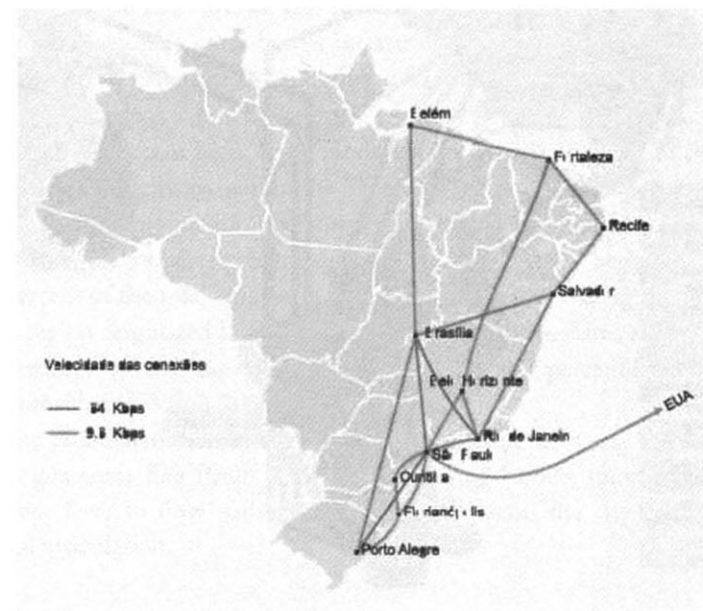
Source: World Development Report (2000/2001).

The plant has an installed capacity of 12,000 megawatts carried through thousands of kilometers of transmission lines crossing Brazil in the South, Southeast, and Midwest regions, as well as all of Paraguay. This is also the case of the Tiete-Parana waterway, a 2,400-kilometer system (1,040 kilometers already operating) of river navigation connecting southeastern Brazil to Paraguay, Argentina, and Uruguay. This project is still under construction, but its conception and initial implementation date to the late 1960s.

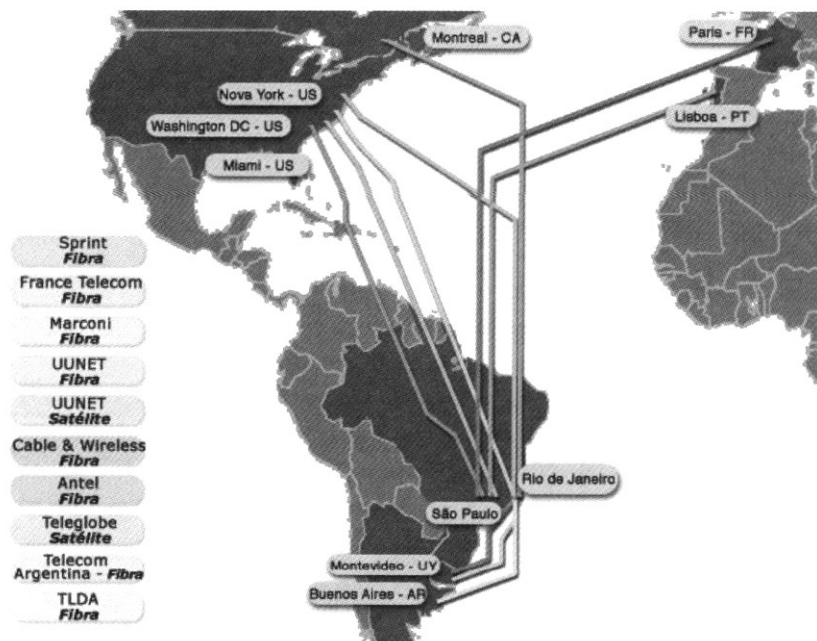
Nevertheless, shared projects in South America have always targeted very specific goals and have not been concerned with regional development per se. Aside from the examples of partially integrated projects, an array of mismatches can be mentioned that attest to the lack of a deeper regional concern: railway track gauges often differ from country to country, jeopardizing broader continental integration and entailing growing costs for the intermodal transportation of goods; no meaningful surface connections link Atlantic and Pacific harbors in the region; differences in electric frequency hamper the sharing of output generated at Brazil-Paraguay's Itaipu hydropower plant with Argentina; air traffic among countries of the continent has so far been regulated as long-distance international air transport, with no special concern given to secondary cross-border regional links.

In electronic communications, too, little regional response has been made to the complex demands of international trade and finance operations for territorial and functional integration. A wide gap emerges between the needs of this

**MAP 1**  
**BRAZIL (1999): EVOLUTION OF THE INTERNET BACKBONE (RNP PROGRAM: 1991 (ABOVE) AND 1999 (BELOW)).**



Source: Ministério da Ciência e Tecnologia (Brazil's Ministry of Science and Technology): RNP—Rede Nacional de Pesquisa (National Research Network) (website www.rnp.br, Feb. 2001).



Source: Bazil: Anatel (2000: website: www.anatel.gov.br)

new geography and the dispersed existing capabilities of regulating and operating extensive and complex surface and digital networks. Those linkages tend to be centered in the cities where decision making and capital control are concentrated (see maps 1 and 2). The functional and territorial unbundling of infrastructure networks, on the one hand, is necessary to make the private operation of public utilities feasible. On the other hand, the need for extensive territorial connectivity and for cross-border links, especially in transport, energy, and communications, make wide-range regulation and standardization indispensable. In this sense, the concept of cross-border projects should encompass not only the physical systems and the services that flow among countries but the creation of international joint ventures on specific projects whose scopes do not cross borders in the strictly physical sense of the word.

#### *Prospects for Regional and Cross-border Infrastructure Networks*

A number of possible initiatives are being discussed for enhancing and integrating infrastructure networks in the Mercosur countries. These may well

require new technological and regulatory paradigms, and they should also be evaluated for their likely effects on both market and social development. In this section I identify certain areas of concern and specific projects that seem to offer a promising approach for determining how Brazil might best improve international infrastructure networks. It is remarkable that, in fact, most of these projects aim at developing cross-border infrastructures with Sao Paulo at their core. Not only digital networks, but all other infrastructure networks as well—highways, railways, electric power, waterways—are crucial to the economic development of the Mercosur bloc. Trade hindrances often arise because of the lack of interconnected highways within the Mercosur region, for instance; just 25 percent of the total production flow circulating in this area is delivered by surface transport, while 58 percent is transported by ocean. At the beginning of 2001, 27.2 percent of the total volume of products transported among the main cities in this region originated in Sao Paulo City with Buenos Aires as final destiny; 12.4 percent from Buenos Aires to Valparaiso; and 11.7 percent from Sao Paulo to Montevideo (GMLA 2001b).

The implementation of all sorts of infrastructure networks are also necessary to guarantee Sao Paulo as the regional central node, since goods, capital and labor have to flow without hindrance to sustain the city control of the regional articulation.

#### *a) Surface Transport*

- A bridge over Rio de la Plata, connecting Buenos Aires (through Punta Lara—Argentina) and Colonia de Sacramento (Uruguay) will solve one of the main historical bottlenecks of road connections between Brazil and Argentina from North to South. The existing systems require either a modal change of transport to cross the water surface or a considerable detour across Argentina's northwestern provinces. The proposed bridge will be the world's largest open-sky bridge, with an extension of 42 kilometers. It is designed as a thirty-year concession to private operators who are expected to raise the money needed to finance its construction (GMLA 1996e). At this time, planning and financing are completed but construction has not yet started.
- The bridge connecting Santo Tome (Argentina) to Sao Borja (Brazil) is part of an axis that will link the Chilean ports of Iquique and Antofagasta on the Pacific Ocean to the Brazilian port of Rio Grande on the Atlantic Ocean. Construction started in 1997 and is to be managed by a consortium that has a twenty-five-year operating concession. The 80-kilometer Victoria-Rosario highway and bridge in Argentina (under construction in

2000) will complete the connection between the Pacific and Atlantic Oceans, also linking the central western region of Argentina to southern Brazil (GMLA 1997a).

- The Mercosur Highway (also called Highway Sao Paulo)—the modernization of the Brazilian highway that links Sao Paulo, Curitiba, Florianopolis, and Osorio (near the Uruguay border) is expected to be concluded in the early 2000s, and will represent an important distribution network for Sao Paulo production to Mercosur countries (GM 1998b).
- Waterways could be crucial to Mercosur trade. The Paraguay-Parana waterway is navigable from southern Brazil to the port of Nueva Palmira in Uruguay, but needs some heavy engineering to improve the transportation system in the countries involved: Argentina, Bolivia, Brazil, Paraguay, and Uruguay. This project, with the financial support of the Interamerican Development Bank, includes a flapper link-up with the Tiete-Parana system, one of the major contemporary Brazilian priorities in waterway network infrastructure. Although located within Brazil, some of these projects are of major importance to the entire Mercosur area. This is the case of the Madeira River waterway in Amazonas, which would open an international link to northern Brazil before reaching the main ports of the Southeast, lowering the total costs of international freight to Europe, including long-distance road transport inside Brazil (GM 1998a).
- The need for railway integration should not be overlooked. Despite the incompatibility of gauges, the main problem is that railways in South America suffer from a systematic decline that grew out of and concomitantly with the development of the road network and the automobile industry. The Brazilian Western Rail Network, privatized in March 1996, includes important branches connected to Bolivia and—potentially in conjunction with the Tiete-Parana waterway—to the Pacific harbor of Antofagasta in Chile.

#### b) Air Transport

Up to the Mercosur summit of December 1996, air carriers in the region were regulated by the same system that applies to intercontinental air transport. In practice, this means that most of the connections to or from secondary urban centers of neighboring countries had to be mediated by lines connecting major international airports. Only four out of forty-eight commercial airports operating in Brazil in 1999 operated as terminal points to regular international flights. According to studies carried out by the Brazilian Commission for International Air Transport, twenty-three other airports are ready to operate international

commercial flights immediately, with minor adaptations. The same is likely to occur in other Mercosur countries, where regional companies operating segments currently considered unprofitable by the large international carriers will probably proliferate.

#### c) Telecommunications

- The operation of the optic-fiber link joining Brazil, Uruguay, and Argentina—the Unisur—was made possible after a multilateral agreement among Embratel (Brazil), Telintar (Uruguay) and Antel (Argentina). The 1,720-kilometer cable was put into place at the end of 1996, and for optimum performance, a connection has been made within the Brazilian link, between the northeastern city of Fortaleza (terminal of the Americas I cable, departing from Miami) and the southern city of Florianopolis. This link was inaugurated by the Brazilian government in December 1996 and has a total extension of approximately 5,000 kilometers of land and underwater cables (GMLA 1996b).
- The *Brasihat B4* communications satellite, unlike its predecessor, the *Brasilsat B3*, covers all of Latin America, and some of its twenty-eight channels, on "C" band, are directed at Mercosur countries outside Brazil. This satellite, in orbit since mid-2000, and the B2, which covers just part of Argentina and Chile, and all of Paraguay and Uruguay, besides Brazil itself, are designed to serve more than 255 million telephone terminals, besides data transmission, Internet and television; all bands use digital technology (UOL/Infonews/082000).

Maps 1 and 2 show, respectively, how the Brazilian Internet backbone developed during the 1990s and the cross-border digital networks regarding the Mercosur countries in the year 2000.

#### d) Energy

- Natural gas pipelines connecting Santa Cruz de la Sierra (Bolivia) to Sao Paulo (Brazil) and the "Mercosur pipeline" connecting Salta (Argentina) to Sao Paulo (Brazil), will significantly improve the energy base of the state of Sao Paulo. Traditionally supplied by hydropower generation, this state is undergoing a change in its electricity standards in advance of the enhanced supply of natural gas from both pipelines. By the early 2000s, fourteen thermal generation units will have been built in western Sao Paulo state and neighboring states, with capacities varying from 60 to 560 megawatts. (GMLA 1997b).

- To make the cross-border exchange of electricity feasible, Brazil and Argentina have agreed to build a frequency conversion station in the vicinity of the Uruguay River that would make the operating standards of the two countries compatible: Brazil's is 60 hertz, whereas Argentina's is 50 hertz (GMLA 1996a).
- Argentina and Paraguay have three hydropower projects on the Parana River: a) the Yacyreta-Apipe complex (capacity of 3.2 megawatts) was operating seventeen of its twenty turbines at the end of 1998; b) the Corpus Christi Station (capacity of 4.6 megawatts), is under way; and c) the Itati-Itacora (capacity of 1.7 megawatts) is still under way (GMLA 1997a, e). The second and third projects are not yet completed.
- Argentina, Brazil, and Paraguay have a project of electric-power-generation interconnection among the hydropower plants of Itaipii (Brazil-Paraguay), Corpus Christi, and Yacyreta to enhance the safe supply of electricity in those countries (GMLA 1997a) .

Mercosur regional integration cannot be assessed merely by infrastructure networks, trade freedom, or institutional compatibility, however. Considering that Brazil was colonized by Portugal, and that the other Latin America countries were colonized by Spain, the Mercosur union also has to address multi-form cultural trends. This feature has even led to a cooperative project called the Mercocities Network (GMLA 1996c), with nineteen Mercosur cities (ten from Brazil) participating (Sao Paulo, however, is inexplicably absent). The project aims at connecting the main cities of this region, particularly by forming nine thematic workgroups, including science and technology, culture, and urban management. Later, aspects of this project are to become the basis for political and economic agreements within the bloc. But perhaps most important are the trade data shown in table 6 which also highlights the economic leadership of Brazil—the leading exporting and importing country to trade outside the bloc. Brazil and Argentina expanded their trade relations throughout the 1990s to such an extent that the intra-Mercosur trade between them in 1999 represented about 80 percent of total trade. Brazil was home to more than 33 percent of all foreign affiliate companies in Latin America and the Caribbean in 1999 (UNCTAD, WIR 2000: table 1.4). Of the 1,000 largest companies by stockholders' equity in 1999 in Latin America, 783 were in Mercosur countries and Chile, and 511 of those were in Brazil. These 511 companies have a net worth of about U.S.\$374 billion—more than three times the corresponding amount for the 209 Argentinian companies on the list (GMLA 1999: 32). Foreign investments in the financial sector in Brazil also reacted quickly to the macro-economic measures, and in December 1999 Brazil held eighty-four of the hun-

**TABLE 6**  
**MERCOSUR TRADE OPERATION (1999)**

| Country   | Total Exports | Exports to Mercosur | Total Imports | Imports from Mercosur |
|-----------|---------------|---------------------|---------------|-----------------------|
| Argentina | 23,318        | 7,043               | 25,537        | 6,293                 |
| Brazil    | 48,011        | 6,778               | 49,218        | 6,719                 |
| Chile     | ...           | ...                 | ...           | ...                   |
| Paraguay  | 741           | 545                 | 1,935         | 1,541                 |
| Uruguay   | 2,245         | 1,012               | 3,357         | 1,463                 |

(Unit: US\$ million / ... no data)

Source: CEI, website: Anexo 15, Jan. 2001.

dred largest financial funds (domestic and foreign) of Latin America and the Caribbean, which is especially impressive if compared with the three funds held by Argentina (GMLAa: 40-41).

Considering that the Mercosur expansion of cross-border transactions depends largely on the implementation of specific infrastructure projects, as well as on a coherent and effective regulatory framework, it stands to reason that environmental aspects, social rights, and fair trading should be addressed from a common regional standpoint.

### **THE RESTRUCTURING OF THE LABOR MARKET AND SOCIOECONOMIC IMPACTS**

Despite a decrease in Brazil's population growth rate since the early 1980s, demographic growth is still higher in Brazil than in developed countries. This fact, plus an uneven distribution of wealth and a very inefficient system of social security, makes the availability of jobs (more so than higher salaries) one of the core conditions to fostering social peace.

The gigantic inequality of income distribution in Brazil can be assessed by comparing the poorest 50 percent to the richest 10 percent of the Brazilian economically active population. The former held a 13.5 percent share of the national income in 1976, and 10.9 percent in 1989, and in the same period, the latter increased their national share of income from 50.4 percent to 52.2 percent (Cacciamali 1996: 221). For 1996, the World Bank Development Report (2000/2001) states the figure of 5.5 percent for the poorest 40 percent and 47.6 percent for the richest 10 percent, figures that represent one of the most highly concentrated income distributions among the capitalist countries listed in the report.

The rise in unemployment is one of the well-recognized and generalized upshots of the globalization of Brazil's economy during the 1980s and 1990s. In Brazil's case, this trend has favored a growth in informal jobs,<sup>17</sup> which, albeit a well-known structural historical process,<sup>18</sup> is nonetheless remarkable, especially in the larger cities. According to Baltar and Dedecca (1997), the drop in the number of workers in the formal labor market in Brazil was about 14 percent from 1990 to 1992, representing 4.7 million people living in open unemployment. This fact is partly attributed to the upshot of early economic restructuring. The period from 1992 to 1995 showed a certain recovery in the total employment rate, prompted mostly by the growth in informal jobs, especially those related to domestic services, autonomous work, and startups of small firms with fewer than five employees. Autonomous work represented the largest growth within the informal job sector, but personal income remained low: just 20 percent of autonomous workers over the age of thirty-five earned more than ten times the minimum wage a month, whereas 40 percent earned less than three times the minimum wage, and 10 percent earned less than the minimum wage (about U.SJ100 in 1998).

From the standpoint of the organized labor force, the challenge of maintaining jobs has not yet been effectively taken on. Squeezed by growing unemployment and a flimsy social security system with extremely low provisions for unemployed workers, and subject to an array of bureaucratic conditionings, trade unions have no choice but to accept a de facto informalization of labor relations. In practice, this means losing some basic guarantees and support: health assistance, thirteenth monthly wage bonus, paid holidays, retirement, and compensation at dismissal; these have been in effect since the 1940s for formal jobs and have always been argued to be necessary benefits to compensate poor wages.

The decline of the formal labor market has a clear-cut impact on major Brazilian urban agglomerations, worsening the quality of life, particularly in terms of violence engendered by open and hidden unemployment.<sup>19</sup> Although these factors are not exclusive to Brazil or Sao Paulo, they are leading to a trend that opposes sustainable policies geared to overcoming poverty. This fact is aggravated by the predatory interregional and interlocal competition for direct incentives, namely infrastructure, financing, and land, and the municipal tax exemption that followed the opening up of the Brazilian economy in 1994. In the context of growing unemployment and a globalized economy, this means that each single locality, in seeking out what job creation businesses they wish to shelter, will try to offer the best competitive advantages to those businesses on a global scale, and will not consider any national compensation system. This competition among states was directed basically at attracting new automobile plants,<sup>20</sup> and was so unbending that it has been called a "tax war."

A deeper assessment of the tax war process indicates that concessions to private companies are usually so far-reaching that city budgets are compromised for several years to come, with no real guarantee of economic or social returns (Piancastelli and Perobelli 1996). This can be disastrous particularly to midsize towns with small municipal budgets, since, in the prospect of enhanced integration in the globalized economy, the regions that offer the best competitive advantages—such as Brazil's Southeast, and particularly Sao Paulo—will be privileged in receiving new investments to modernize their infrastructure. Needless to say, this process entails the aggravation of an interregional distribution of wealth. This triggers a wide-scale trend toward social degradation, which the Brazilian federal government unwittingly encourages by channeling federal resources to those regions able to enhance the competitiveness of Brazilian firms and to attract new foreign direct investments.

Thus Brazil is faced with a dilemma: establishing international communications and a modernized manufacturing infrastructure are essential if the country is to compete successfully for new industrial investments; but meeting the costs of creating these competitive advantages means draining scarce regional and local resources that would otherwise be invested in direct social needs.

#### *Social Impacts*

Because of Sao Paulo's performance, the city reacts faster than others to shifts in today's world economy. In this sense, two distinct effects can be observed in its urban structure. On the one hand, it accumulates the benefits of greater investments, namely direct and infrastructure investments,<sup>21</sup> it shelters the skilled labor force, and it has an abundant supply of advanced technology and global-market-oriented urban activities, not to mention affiliates of sophisticated international shops. On the other hand, it is also the *locus* of social perversities that result from the side effects of greater globalization. The increase in unemployment and informal jobs, in violence and in urban squatter settlements become more visible on the streets of the city with each passing year.

An official survey in the Sao Paulo Metropolitan Area indicates that people working in informal jobs constituted almost 15 percent of the working-age population in 1996. The survey also found an overall deterioration in labor market conditions compared to earlier years: some 59 percent of new jobs in Sao Paulo are attributable to the informal job sector, 13 percent to outsourcing, and 14 percent to workers without any kind of benefits, which is unlawful. The results of the survey indicate that while the salary gap between formal and informal jobs is decreasing, there is a significant decline in both groups in job opportunities for less qualified workers (Montagner and Springer 1997).

The tertiary sector has not created the jobs needed to compensate for manufacturing job losses resulting from decentralization and restructuring

processes. As a consequence, the informal job sector has expanded and social problems have become aggravated by a sharp decrease in the supply of housing and infrastructure for low-income groups. The portion of the population living in squatter settlements went up from 476,621 people in 1980 to 1,344,250 in 1996, corresponding to an increase in the total number of squatter homes from 100,318 to 318,021 (FIBGE, Censo Demografico 1980 and Contagem da Populacao 1996).<sup>17</sup> This growth is even more telling if we consider that the total population growth rate has been decreasing to such an extent in the last decades that in 1980 this metropolis sheltered 15.1 percent of the domestic urban population (21.2 percent of squatters), and in 2000 (according to preliminary census data) about 13 percent of the domestic urban population.

Moreover, the geographical distribution of the population has followed a very exclusionary pattern, with negative rates in the more central and consolidated areas, where the upper-income population lives, and positive rates in the outskirts, where there is much less infrastructure, water sewage, transport, telephones, hospitals and a lower-income population. This urbanization pattern is spreading beyond the city limits, with the poorest population being pushed into the neighboring municipalities within the metropolitan area, having no choice but to invade the reservoir-protected areas to build new squatter settlements.

In addition to the socioeconomic impact on the population, all the economic changes aimed at aggrandizing Brazil's presence in the global economy have interfered in the physical urban structure of the city of Sao Paulo. The increasing gap between the areas concentrating advanced "global" activities and the peripheral areas demonstrates the dramatic physical impact of this process. The more evident effects show up in the imbalance of infrastructure in the two areas, such as the much higher concentration in the central city of telematics, fiber optics, cable TV, and mobile telephone central stations.

The implementation of these more sophisticated systems of infrastructure has focused either on existing consolidated business districts or on new business developments, creating new centers in the overall urban complex. This parallels the development in Buenos Aires (Ciccolella and Mignaqui, this volume) and Mexico City (Parnreiter, this volume). These centers can be measured by the extent to which they have attracted new commercial buildings, which represented 26.6 percent of the total new construction in the city from 1990 to 1995. The enhancement and shifting of central areas is a typical characteristic of the Sao Paulo Metropolitan Area that is not to be confused with the American pattern of suburbanization. There is no real autonomy and polycentric structure, but rather, an enhanced—and somewhat deconcentrated—unicentered urban structure. In architectural terms, these renovated districts reproduce an international design pattern very similar to the new central business districts of major cities like New York or Los Angeles.

The gentrification process occurring in most of the modernized districts is the result of urban renewal by private capital, but is based on heavy state and/or municipal investments, set aside not only for telematics and other direct core-business-related infrastructure, but for new access channels such as roads and tunnels, most of which cut the traditional urban fabric. The resulting renovated areas are not a consequence of previous official planning, nor has the population dwelling in these areas ever been consulted on the convenience of these changes. Therefore, the urban result in most cases is a miscellany of modern business land and old dwellings, creating confused transport flows and the connotation that the whole city organization is a makeshift arrangement, despite the high costs of the works involved.

Altogether, the concentration of the communications infrastructure and financial activities in Sao Paulo has definitely contributed to making it the preferred location for regional headquarters of corporations acting in the Mercosur area. Besides the necessary infrastructure and specialized services for business, Sao Paulo offers hotels, shopping, and leisure opportunities in line with the demands of a new international elite. Nevertheless, the city's large scale, its growing traffic problems, its environmental depletion, and its social violence have jeopardized the quality of life to such an extent that its functional attractiveness may be marred by its everyday problems. Sao Paulo's centrality in the Mercosur depends on the removal of infrastructure hindrances to regional integration, especially so with Argentina and Uruguay in the case of surface integration. The cross-border linkages, digital or physical, had to be built in order to assure not just regional integration but also to maximize the connectivity of the Mercosur bloc with all other markets.

## CONCLUSIONS

Greater internationalization of the economy, particularly since the early eighties, forced developing countries into institutional restructuring to allow their greater inclusion in global processes. In Brazil, these reforms focused mostly on deregulating specific sectors to encourage cross-border transactions and participation of foreign capital as a direct investor, either in manufacturing or finance. The internal reforms required strong state intervention. A compulsory economic plan was introduced in 1994 to effect monetary stabilization (it was essential to inspire confidence in foreign investment returns) by introducing monetary dollar parity and high annual interest rates. At the same time the economy was radically opened by lifting trade restrictions, which resulted in the reduction of almost all duties on imported goods. Legal and institutional changes designed to spur the privatization process of heavy industries and public services were also introduced. Concerning the latter, two distinct mechanisms were put into place: the first called for the privatization of electric power

and telecommunications companies, and the second, for partnerships with the private sector through the concession of services and some operations. Neither process was accompanied by a strict regulatory framework, leading to uncertainties related to quality and price output, and to a lack of concern about whether the lower-income population was being served suitably (Silva 1996).

The economic model established by Brazil in the 1990s abruptly exposed domestic manufacturers to international competition without a transition period that would have allowed them to regroup so as to compete effectively. As a result, unemployment and employment in informal jobs soared, especially for the less skilled labor force, which led to greater social exclusion and a widening of the income gap. The Sao Paulo Metropolitan Area, as the main Brazilian and Mercosur economic center, experienced the broader—national and regional— inclusion in international trade and business patterns in extreme ways. On the one hand, it developed the most advanced services and financial activities, the largest stock market and commodities exchange in Latin America, as well as sophisticated shopping and leisure activities. On the other hand, social side effects such as urban violence, marginality, and homelessness, have also been on the rise.

The centrality of Sao Paulo regarding the Mercosur region was reinforced by the construction of a complex digital telecommunications system linking this city (and Brazil) to the main economic world centers, including those in Latin American countries. At the same time highway, energy power, railway, and waterway networks had to be enhanced in order to integrate the Mercosur bloc and to expand its outward articulation with other parts of the world. In broad terms, trends such as the increase in the number of specialized services and finance institutions, and the supply of sophisticated infrastructure used both by business and by high-income groups in Sao Paulo indicate the sustained leadership of this city, both within Brazil and in South America. Nevertheless, the same conditions which have given Sao Paulo reasonable comfort and uncontested leadership domestically and regionally, have also led to the social instability inherent to economic change and the accentuation of inequality. This may threaten Sao Paulo's leadership in the long run. Investments need to address not only global-market-oriented activities, but also the everyday life of this large metropolis and its very exclusionary urban structure.

## APPENDIX

### JAPAN AND LATIN AMERICA: A CHANGELESS ECONOMIC ARTICULATION

The leading recipient of Japan's foreign direct investment was the United States, which received about 45 percent of the total amount in the 1980s and much of the 1990s. Although this share decreased in the late 1990s, with a

simultaneous increase in the European share, the United States continues to be the main destination of Japan's overseas investments (World Bank 1997).

The Latin American share of Japan's FDI began to rise after the 1997 financial crises in Asia. The cumulative share from 1951 to 1994 stood at 11.9 percent compared to 16.5 percent for Asia. This gap broadened to, respectively, 8.0 percent and 14.2 percent in 1991, and 7.6 percent and 22.4 percent in 1995 (table A). The 1999 figures show a sharp fall in the Asian share and a marked increase in the Latin American share, resulting in a similar level of about 11 percent.

A key factor explaining the difference in the earlier period from the 1970s to 1996 was the strong economic development of the Asian "Tigers," particularly South Korea, Taiwan, Hong Kong, and Singapore, in comparison with the economic stagnation of most Latin American countries. The East Asia economic crisis of 1997 and the expansion of investments in the Cayman Islands tax haven (JETRO White Paper 2000: 16) have contributed to rechanneling Japanese foreign direct investments to the developing countries. The Cayman Islands became the largest first recipient of Japan's FDI in Latin America in the 1990s, surpassing Panama's historical leadership.

Brazil has played a distinctive role in Japan's investments in Latin America. While Panama was a key node for shipping activities and the Caymans for financial investments, Brazil was important for agriculture, manufacturing, and new financial services.<sup>23</sup> Sao Paulo is the key node for these investments. The city also is home to the largest Japanese immigrant community.<sup>24</sup>

The establishment of new Japanese firms, or of joint ventures between Japanese and Brazilian companies in Brazil, has been a response to both the performance of the Brazilian economy and the guidelines laid down to accomplish the specific requirements of Japan's domestic industry. The decline in new start-ups during the 1980s reflects the Brazilian economic crisis. Few new Japanese-Brazilian companies were established in the early 1990s. Most of the ones that were established were small;<sup>25</sup> many were representative offices rather than production plants. This contests Suzuki's thesis<sup>26</sup> of an impressive increase in the late 1990s of Japanese investments in the Brazilian manufacturing sector because of Mercosur's market potential. The 1990s saw some hefty new investments in Japanese manufacturing companies already operating in Brazil. This was especially the case for investments in the Toyota and Honda automobile assembly lines. Although both corporations already had factories in Brazil, neither produced automobiles. Toyota, formerly engaged in producing automobile parts, is investing large amounts to build an automobile assembly line in a new manufacturing plant. Honda started operating a new automobile factory in Brazil in 1997, whereas, previously, its traditional business was motorcycles.<sup>27</sup>

In overall terms, Japan's major investment interests in Brazil have been

related to iron, steel, and nonferrous metals. Shareholders' equity in the two largest Japanese-Brazilian companies in 1999 (CST and USIMINAS), both in the steel industry, shows sharply higher investments compared with other firms on the list. Japanese imports from Brazil also reflect this primary interest in steel and iron products, considered essential to Japan's domestic industry. Taking the post-1999 data, iron ore as a raw material accounts for 20.8 percent of the total amount exported to Japan, whereas iron and steel, in their final form as semi-manufactured products, represent 0.4 percent. Semimanufactured non-ferrous metals, including aluminum, are Brazil's second most exported product, accounting for 13.7 percent of total Brazilian exports to Japan in 1999.

Brazilian imports from Japan in 1999 were dominated by equipment, which accounted for 75.4 percent of the total. There were significant changes in the major items in both imports and exports on the list during the period analyzed (1985 to 1999) (SEPIP, several years). However, some changes can be expected, particularly in view of the above-mentioned establishment of the two big Japanese automobile factories in Brazil.

Brazil and Latin America in general, although considered potential markets for Japanese products and investments, remain far behind Asia, despite the Asian economic and currency crisis of late 1997. Asia is still the strongest economic network among the developing nations for Japanese investments. Economic globalization, however, is triggering unexpected capital flows toward different regions and countries. From this perspective, Brazil may well represent an alternative for Japanese investments rather than a mere continuation of old patterns. Furthermore, the economic choices open to Brazil concerning the development of its own production forces will surely weigh decisively in determining whether ties based on new economic relations are to be fostered between these two countries.

## NOTES

1. See GMLA 1996f: 25 concerning the transfer of traditional Argentinean domestic manufacturing capital to foreign capital.

2. Banco Bilbao Vizcaya (Spain) acquired the Banco Frances del Rio de la Plata and the Banco de Credito Argentino; Banco Santander (Spain) bought the Banco Rio de la Plata; and the Hong Kong and Shanghai Bank (Great Britain) bought Banco Roberts (GMLA 1997d).

3. American Fidelity Investments, Prudential Securities and Alliance Capital Management, and the British Fleming Investment Management; J. P. Morgan Investment and Merrill Lynch, both already installed in Sao Paulo, Brazil, also stepped up their activities substantially (GM 1997).

4. Latin America vehicle sales, as a whole, increased from 1.2 million in 1990 to almost 3 million in 1999; more than half of these vehicles were produced in Brazil (GMLA, 2001a).

5. The first year it was implemented (1994), the annual interest rate was roughly 45 percent. It declined slowly, dropping to less than 30 percent in 1996, but after the Asian economic crisis in mid-1998, the rate rose to nearly 50 percent.

6. Brazilian foreign reserves were (in billions of U.S.): 8.7 (1990); 8.5 (1991); 19.1 (1992); 25.9 (1993); 36.7 (1994); 50.5 (1995); 67.5 (August 1998); 44.9 (September 1998); and 33.0 (December 2000). See (GMLA 1996a, 1998; and GM 2001b), as per Brazilian Central Bank data.

**TABLE A1**  
**JAPAN'S FOREIGN DIRECT INVESTMENT BY KEY COUNTRIES AND REGION**

| Selected Countries/Region | 1991   |       | 1993   |       | Cumulative Total 1991-1994 | 1995   |         | 1997   |        | 1999   |        |
|---------------------------|--------|-------|--------|-------|----------------------------|--------|---------|--------|--------|--------|--------|
|                           | amount | share | amount | share |                            | amount | share   | amount | share  | amount | share  |
| U.S.A.                    | 18,026 | 43.3  | 14,725 | 40.9  | 194,429                    | 41.9   | 22,193  | 43.8   | 20,769 | 22,296 | 33.4   |
| Canada                    | 797    | 1.9   | 562    | 1.6   | 8,261                      | 1.8    | 558     | 1.1    | 620    | 2,474  | 3.7    |
| North America Total       | 18,823 | 45.2  | 15,287 | 42.4  | 202,690                    | 43.7   | 22,761  | 44.9   | 21,389 | 24,770 | 37.1   |
| Panama                    | 1,157  | 3.7   | 1,390  | 3.9   | 21,784                     | 4.7    | 1,660   | 3.3    | 1,119  | ...    | ...    |
| Brazil                    | 171    | 0.4   | 419    | 1.2   | 8,849                      | 1.9    | 301     | 0.6    | 1,182  | 2.2    | ...    |
| Caymans                   | 158    | 0.4   | 841    | 2.5   | 9,249                      | 2.0    | 659     | 1.3    | 2,538  | 4.7    | ...    |
| Mexico                    | 193    | 0.5   | 53     | 0.1   | 2,973                      | 0.6    | 206     | 0.4    | 320    | ...    | ...    |
| Chile                     | 75     | 0.2   | 3      | 0.0   | 430                        | 0.1    | 137     | 0.3    | 23     | ...    | ...    |
| Argentina                 | 40     | 0.1   | 34     | 0.1   | 545                        | 0.1    | 117     | 0.2    | 57     | ...    | ...    |
| Latin America Total       | 3,337  | 8.0   | 3,370  | 9.4   | 155,148                    | 11.9   | 3,877   | 7.6    | 6,336  | 7,437  | 11.1   |
| Indonesia                 | 1,193  | 2.9   | 813    | 2.3   | 16,981                     | 3.7    | 1,596   | 3.1    | 2,514  | 4.7    | 918    |
| Hong Kong                 | 925    | 2.2   | 1,238  | 3.4   | 13,881                     | 3.0    | 1,125   | 2.2    | 655    | 1.3    | 917    |
| Singapore                 | 613    | 1.5   | 644    | 1.8   | 9,535                      | 2.1    | 1,152   | 2.3    | 1,824  | 3.4    | 962    |
| Korea, Rep. of            | 260    | 0.6   | 245    | 0.7   | 5,268                      | 1.1    | 445     | 0.9    | 442    | 0.8    | 980    |
| China, Rep. of            | 579    | 1.4   | 1,691  | 4.7   | 8,729                      | 1.9    | 4,473   | 8.8    | 1,987  | 3.7    | 751    |
| Asia Total                | 5,944  | 14.2  | 6,637  | 18.4  | 76,216                     | 16.4   | 12,264  | 24.2   | 22,181 | 22.6   | 7,162  |
| Middle East Total         | 90     | 0.2   | 217    | 0.6   | 4,737                      | 1.0    | 148     | 0.3    | 471    | 0.9    | 213    |
| United Kingdom            | 3,588  | 8.6   | 2,527  | 7.0   | 33,830                     | 7.3    | 3,445   | 6.8    | 4,118  | 7.6    | 11,718 |
| Netherlands               | 1,960  | 4.7   | 2,175  | 6.0   | 19,447                     | 4.2    | 1,509   | 3.0    | 3,295  | 6.1    | 10,361 |
| Germany                   | 1,115  | 2.7   | 760    | 2.1   | 8,061                      | 1.7    | 547     | 1.1    | 732    | 1.4    | 649    |
| Europe Total              | 9,372  | 22.3  | 7,940  | 22.0  | 89,867                     | 19.4   | 8,470   | 16.7   | 11,204 | 20.8   | 25,804 |
| Africa Total              | 748    | 1.8   | 539    | 1.5   | 7,698                      | 1.7    | 379     | 0.7    | 332    | 0.6    | 515    |
| Australia                 | 3      | 6.1   | 1,904  | 5.3   | 23,932                     | 5.2    | 2,635   | 5.2    | ...    | ...    | ...    |
| Oceania Total             | 3,278  | 7.8   | 2,035  | 5.6   | 27,250                     | 5.9    | 2,795   | 5.5    | 2,058  | 3.8    | 894    |
| Total                     | 41,185 | 100   | 36,025 | 100   | 463,606                    | 100    | 250,694 | 100    | 53,972 | 100    | 66,694 |

(Unit: amount = US\$million/share = %)

... No data

Source: Jetro White Paper on Foreign Direct Investments (after Japan's Ministry of Finance data), several years.

7. According to the Brazilian National Bank of Economic Development, the import rate for goods increased 2.5 fold from 1990 to 1995, to 15 percent of domestic consumption by November 1996 (GM 1996d).

8. An example is the automobile industry. The duty on cars was lowered at first from 100 percent to 30 percent, prompting feverish car imports. The negative impact on domestic production was such that the tax was increased to 70 percent after less than a year. However considering that "domestic" automobile companies are all controlled by foreign capital (American and German), another law was introduced that allowed automobile manufacturers established in Brazil to import at a reduced duty of 35 percent, protecting their prices against Asian and French car prices, for instance. The greatest impact however was on the manufacturers of automobile parts. These had to face foreign competition head-on because the duty on car parts was slashed to about 2 percent. Most of these manufacturers operated with national capital, and a large number have since opened themselves to foreign capital, including one of the most traditional and largest automobile parts manufacturers, called "Metal Leve," which has always been a national symbol of advanced technology and efficiency.

9. This law is called Anexo 4 and was introduced by the Brazilian Central Bank.

10. See Pasanezze 1993 for a further assessment of the first cycle of the Brazilian privatization process.

11. Chile has not yet joined the Mercosur bloc as a full member. Nevertheless it has a special free trade agreement with the bloc. Recently, Bolivia entered into a similar free trade agreement as a first step to future membership.

12. Especially some large corporations formerly located in Rio de Janeiro.

13. In 1993, the number of bank agencies in the city of Sao Paulo represented 32 percent of all agencies statewide, and concentrated 70.7 percent of total state deposits and 81.1 percent of credit operations (FSEADE 1995: 64-68).

14. According to the 1996 *Gazeta Mercantil* Annual Ranking (GM- Balanco Anual, 1996).

15. The number of responses was not considered adequate to draw any definite conclusions.

16. The author thanks Prof. Ricardo Toledo Silva for making data available for this item.

17. Informal jobs classification based on International Labor Organization information: independent workers (not including those who work for just one firm with more than five employees); workers in firms with fewer than five employees; workers with no benefits; owners of a family business with fewer than five employees; members of a family working for no wages in a family business.

18. The agricultural production system, based on large properties and seasonal hiring of labor, has never absorbed the available labor supply, and regional imbalances have promoted important migratory flows toward the more wealthy Southeast, which is now absorbing most of the structural unemployment associated with the globalization process.

19. According to IBGE methodology that considers those individuals who have not worked in the month preceding the survey unemployed, the official rate of unemployment in October 2000 for the Metropolitan Area of Sao Paulo was 8 percent while the average of the other five largest metropolitan areas was 7.5 percent (FIBGE: PME).

20. See ESP 1997 and the *Financial Times* 1997.

21. In 1993, all the department stores in the state operating with bar codes were based in the city of Sao Paulo. And 31.6 percent of the international telephone calls placed or received in Brazil were recorded in the city of Sao Paulo (FSEADE 1996: 64). The number of helicopters in the city in April 2001 was around five hundred for two hundred heliports (GMLA, 2001).

22. These numbers are largely underestimated, insofar as the FIBGE (state statistical agency) does not consider agglomerations of fewer than fifty-one homes as squatter settlements.

23. All data concerning Brazil and Japan trade relations were compiled from "Japan Annual Trade Reports," organized by the JETRO Office in Sao Paulo.

24. Massive Japanese immigration to Brazil occurred during the early part of this century, when coffee production in the state of Sao Paulo lacked a sufficient labor force. From 1908 to 1925, the

Sao Paulo state government subsidized this immigration. After 1925, the Japanese government subsidized the immigration to Brazil, but this time the Japanese came as small farmers, instead of as a waged labor force.

25. According to the number of employees reported by most, only one company, in the computer industry (Epson), had a substantial head count (100), whereas the other ten had no more than about 150 employees altogether.

26. Takanori Suzuki works for the Deloitte Touche Thomatsu consulting company and wrote the book "Brasil, o despertar de uma nacao" ("Brazil, the Waking Up of a Nation") (1997); see, G. M. 1997b.

27. *Financial Times* 1997.

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## Chapter 8

### BEIRUT: BUILDING REGIONAL CIRCUITS

Eric Huybrechts

After a long civil war Beirut today is being rebuilt as a metropolitan hub for the Near East, which is expected to reinsert Beirut in regional and global economic systems. The reconstruction of the city is taking place in an environment with little social cohesiveness. There are multiple causes for the often sharp social divisions in the city, ranging from past conflicts among religious and political groups to the rapid expansion of the city, and they all exert influence. Alongside common problems raised by economic development processes and the disproportionate concentration of activities in Beirut, more complex dynamics arise from the city's specific role in the prewar period, the real estate development options created by the massive physical destruction of the city's built environment, the role Beirut is expected to play in the global economy by some of its powerful elites, and the fact that all of this is occurring in a context where the social fabric of the city is torn by old and new divisions.

The development of Beirut as a metropole can be seen as representing the territorial form of globalization (Escalier 2000: 207-219). As an actual development it is strongly connected with the global exchange of flows of people, money, goods, and information. The reshaping of Beirut can be understood in terms of the relation between the city itself and the place it is trying to become.

Although this essay will address urban segregation as it has emerged in relation to metropolitanization and the civil war, the main focus is on the economic rebuilding of Beirut and on its role in the Near East and the Gulf. How is the development of Beirut connected with globalization? Is Beirut a relay, with an interface function between the Near East and the global economy? If development is linked with globalization, will this impose new urban forms and functions corresponding to changes within the international economic system?

TABLE Ai

## JAPAN'S FOREIGN DIRECT INVESTMENT BY KEY COUNTRIES AND REGION

| Selected Countries/Region  | 1991          |             | 1993          |             | Cumulative Total 1951-1994 |             | 1995           |             | 1997          |             | 1999          |             |
|----------------------------|---------------|-------------|---------------|-------------|----------------------------|-------------|----------------|-------------|---------------|-------------|---------------|-------------|
|                            | amount        | share       | amount        | share       | amount                     | share       | amount         | share       | amount        | share       | amount        | share       |
| U.S.A                      | 18.026        | 43.3        | 14725         | 40.9        | 194.429                    | 41.9        | 22.193         | 43.8        | 20.769        | 38.5        | 22.296        | 33.4        |
| Canada                     | 797           | 1.9         | 562           | 1.6         | 8.261                      | 1.8         | 558            | 1.1         | 620           | 1.1         | 2.474         | 3.7         |
| <i>North America Total</i> | <i>18.823</i> | <i>45.2</i> | <i>15.287</i> | <i>42.4</i> | <i>202.690</i>             | <i>43.7</i> | <i>22.761</i>  | <i>44.9</i> | <i>21.389</i> | <i>39.6</i> | <i>24.770</i> | <i>37.1</i> |
| Panama                     | 1.157         | 3.7         | 1.390         | 3.9         | 21.784                     | 4.7         | 1.660          | 3.3         | 1.119         | 2.1         |               |             |
| Brazil                     | 171           | 0.4         | 419           | 1.2         | 8.849                      | i-9         | 301            | 0.6         | 1.182         | 2.2         |               |             |
| Caymans                    | 158           | 0.4         | 841           | 2.5         | 9.249                      | 2.0         | 659            | 1.3         | 2.538         | 4.7         |               |             |
| Mexico                     | 193           | 0.5         | 53            | 0.1         | 2.973                      | 0.6         | 206            | 0.4         | 320           | 0.6         |               |             |
| Chile                      | 75            | 0.2         | 3             | 0.0         | 430                        | 0.1         | 137            | 0.3         | 23            | 0.0         |               |             |
| Argentina                  | 40            | 0.1         | 34            | 0.1         | 545                        | 0.1         | 117            | 0.2         | 57            | 0.1         |               |             |
| <i>Latin America Total</i> | <i>3.337</i>  | <i>8.0</i>  | <i>3.370</i>  | <i>9.4</i>  | <i>155.148</i>             | <i>11.9</i> | <i>3.877</i>   | <i>7.6</i>  | <i>6.336</i>  | <i>11.7</i> | <i>7.437</i>  | <i>11.1</i> |
| Indonesia                  | 1.193         | 2.9         | 813           | 2.3         | 16.981                     | 3.7         | 1.596          | 3.1         | 2.514         | 4.7         | 918           | 1.4         |
| Hong Kong                  | 925           | 2.2         | 1.238         | 3.4         | 13.881                     | 3.0         | <b>1.125</b>   | 2.2         | 695           | 1.3         | 917           | 1.5         |
| Singapore                  | 613           | 1.5         | 644           | 1.8         | 9.535                      | <b>2.1</b>  | <b>1.152</b>   | 2.3         | 1.824         | 3.4         | 962           | 1.4         |
| Korea, Rep. of             | 260           | 0.6         | 245           | 0.7         | 5.268                      | <b>1.1</b>  | 445            | 0.9         | 442           | 0.8         | 980           | 1.5         |
| China, Rep. of             | 579           | 1.4         | 1.691         | 4.7         | 8.729                      | <b>i-9</b>  | 4.473          | 8.8         | 1.987         | 3.7         | 751           | 1.1         |
| <i>Asia Total</i>          | <i>5.944</i>  | <i>14.2</i> | <i>6.637</i>  | <i>18.4</i> | <i>76.216</i>              | <i>16.4</i> | <i>12.264</i>  | <i>24.2</i> | <i>12.181</i> | <i>22.6</i> | <i>7.162</i>  | <i>10.7</i> |
| <i>Middle East Total</i>   |               | <i>0.2</i>  | <i>217</i>    | <i>0.6</i>  | <i>4.737</i>               | <i>1.0</i>  | <i>148</i>     | <i>0.3</i>  | <i>471</i>    | <i>0.9</i>  | <i>213</i>    | <i>0.2</i>  |
| United Kingdom             | 3.588         | 8.6         | 2.527         | 7.0         | 33-830                     | 7.3         | 3-445          | 6.8         | 4.118         | 7.6         | 11.718        | 17.6        |
| Netherlands                | 1.960         | 4.7         | 2.175         | 6.0         | 19-447                     | 4.2         | 1.509          | 3.0         | 3-295         | 6.1         | 10.361        | 15.5        |
| Germany                    | 1.115         | 2.7         | 760           | <b>2.1</b>  | 8.061                      | 1.7         | 547            | <b>1.1</b>  | 732           | 1.4         | 649           | <b>1.0</b>  |
| <i>Europe Total</i>        | <i>9.372</i>  | <i>22.3</i> | <i>7.94°</i>  | <b>22.0</b> | <i>89.867</i>              | <i>19.4</i> | <i>8.470</i>   | <i>16.7</i> | <i>11.204</i> | <i>20.8</i> | <i>25.804</i> | <i>38.7</i> |
| <i>Africa Total</i>        | <i>748</i>    | <i>1.8</i>  | <i>539</i>    | <i>1.5</i>  | <i>7.698</i>               | <i>1.7</i>  | <i>379</i>     | <i>0.7</i>  | <i>332</i>    | <i>0.6</i>  | <i>515</i>    | <i>0.8</i>  |
| Australia                  | 3             | 6.1         | 1.904         | 5.3         | 23.932                     | 5.2         | 2.635          | 5.2         |               |             |               |             |
| <i>Oceania Total</i>       | <i>3.278</i>  | <i>7.8</i>  | <i>2.035</i>  | <i>5.6</i>  | <i>27.250</i>              | <i>5.9</i>  | <i>2.795</i>   | <i>5.5</i>  | <i>2.058</i>  | <i>3.8</i>  | <i>894</i>    | <i>i-3</i>  |
| <b>Total</b>               | <b>41.185</b> | <b>100</b>  | <b>36.025</b> | <b>100</b>  | <b>463.606</b>             | <b>100</b>  | <b>250.694</b> | <b>100</b>  | <b>53.972</b> | <b>100</b>  | <b>66.694</b> | <b>100</b>  |

(Unit: amount = US\$million/share = %)

... No data

Source: Jetro White Paper on Foreign Direct Investments (after Japan's Ministry of Finance data), several years.