

**Decline and Expansion: The Contradictions  
of 21st Century US Imperialism  
in Latin America**

**By**

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**Abstract**

The global dynamics faced by the US imperialism are the following: 1.) Hegemonic crisis, 2.) Spatio-temporal fix, 3.) Peak oil, and 4.) New geopolitics. Neoliberalism destabilized US hegemony in Latin America. In response, the US has increasingly militarized Latin America's oil rich regions, particular the Western Amazon, the Gulf of Mexico, and a strategic corridor between them. This militarization and intervention poses a threat to independent, progressive development in Latin America. In addition, the US' militarized response to its hegemonic decline illustrates the continuing relevance of the concept of imperialism, at a time when post-modern and critical globalization scholars have claimed that the concept is "outdated."

April 27, 2011

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# Introduction

Recent events in the Middle East and North Africa (MENA), particularly the collapse of US-allied regimes in Tunisia and Egypt, have demonstrated the continuing erosion of US hegemony. In response to these events, in an op-ed in the *International Herald Tribune*, Geoffrey Wheatcroft concluded that “we are witnessing an historic eclipse of U.S. power” (Wheatcroft, 2011). This eclipse began in Latin America with the “turning of the tide” against neoliberalism and the collapse of several US-allied neoliberal governments in the 2000s (Hershberg & Rosen, 2006). The popular protests and subsequent collapse of MENA governments echo similar protests and regime changes in Latin America. The imposition of neoliberalism exposed the poor majority to the vagaries of the “self-regulating” market, while regime insiders accumulated masses of wealth through the privatization of state assets (Silver & Arrighi, 2003; Petras, 2011). According to Marta Harnecker, “Latin America was the first region in the world where neoliberal policies were introduced... But Latin America was also the first region in the world where these policies came to be rejected...” (Harnecker, 2010). While this rejection of neoliberalism has spread to the MENA and US power begins its eclipse in the region, the US has reacted to its crisis of hegemony in the MENA as it did in Latin America: establish strategic military power over the region’s oil resources. In the crisis in the MENA, the US has backed the political repression of dissent in the monarchies of Bahrain and Saudi Arabia, home to the US Navy’s Fifth Fleet and one of the world’s largest oil reserves, respectively, while the repression of dissent in Libya provided the pretext for an US intervention to secure control of Libya’s oil resources (Achcar, 2011). This dynamic

of hegemonic decline and military expansion exposes the contradictions of 21<sup>st</sup> Century US imperialism.

### **Summary of Argument**

The global dynamics faced by 21st Century US imperialism are the following: 1.

*Hegemonic crisis*: while the financialization of the US economy since the 1970s prolonged its leadership of the world economy, “historically it has always been a prelude to the terminal crisis of the dominant regime of capital accumulation, that is, collapse and supersession by a new regime” (Arrighi, 2010: 371). US hegemony is in a terminal crisis. 2. *Spatio-temporal fix*: surplus capital invested in long-term investment in China has spurred the rise of new dynamic centre of capital accumulation, or rising hegemon (Harvey, 2003a: 73). The industrialization of China and the financialization of the US signal the onset of the hegemonic transition. 3. *Peak oil*: the “age of easy oil” is over (Klare, 2010). Global production of conventional oil has peaked as the depletion rate of reserves exceeds their replacement (Hiro, 2007). Peak oil has increased the strategic value of control of the world’s largest remaining reserves (Hiro, 2007). 4. *New geopolitics*: the US establishes military domination over world’s largest remaining oil reserves (Klare, 2004a).

Through the military domination of the world’s last remaining oil reserves, 21<sup>st</sup> Century US imperialism will have a stranglehold over the industrial economy of China, the rising hegemon (Klare, 2009). In *Empire of Capital*, Ellen Meiksins Wood summarized the conjuncture of 21<sup>st</sup> Century US imperialism as follows: “today, US economic dominance is not so unchallenged. At the same time, its military supremacy

is so massive and forbidding... In that combination of circumstances, it is hardly surprising that the US is increasingly turning to military force to consolidate its hegemony and the economic advantages that come with it – for instance, through the control of oil” (2003: 162). In Latin America, US imperialism has established military domination over the oil rich regions of the Western Amazon and the Gulf of Mexico through Plan Colombia, Merida Initiative (a.k.a. Plan Mexico), and the creation of a militarized, strategic corridor between the anchors of Colombia and Mexico (Grandin, 2010). Thus, as its hegemony declines in Latin America, the US militarizes this strategic corridor and the oil rich regions of South America.

### **US Imperialism: Dead or Alive?**

While many scholars in the field of International Development Studies focus on designing local development projects and/or proposing national development policies, few address the issue of imperialism. Some scholars consider this concept archaic in the sense that it is usually associated with the period prior to World War II, when European powers, in particular, controlled vast formal empires (Callinicos, 2009: 3). From this perspective, when most of those empires disappeared in a wave of decolonization after World War II, the concept was no longer relevant.

For different reasons, but with the similar conclusions, many post-Marxist, post-modern scholars regard the term “outdated” as well (Robinson, 2010: 23). In 2001, Michael Hardt and Antonio Negri, published their widely-read treatise, *Empire*, in which they argued that imperialism disappeared as the power of nation-state declined under globalization; for instance, they claimed that “the United States does not, and indeed no nation-state can today, form the centre of an imperialist

project. Imperialism is over” (Hardt & Negri, 2001: xiii-xiv). Similarly, William I. Robinson, a leading theorist in the school of critical globalization studies argued that world capitalism has made an “epochal shift” to global capitalism, that is, from a “world economy (in which nation-states are linked to each other via trade and financial flows) to a global economy (in which the production process itself becomes globally integrated)” (Robinson, 2008: 25). Thus, the globalization of production and finance transformed capitalism from a nation-state to a transnational model of accumulation and from national to transnational class relations. As a result, “nation-state centric analyses” and theories of imperialism have lost their explanatory power (Robinson, 2007).

While these scholars performed the last rites to the concept of imperialism in the academy, in US politics, the neoconservatives campaigned to revive it. In 2002, Max Boot, a neoconservative at the Council on Foreign Relations, argued that “U.S. imperialism has been the greatest force for good in the world during the past century” and consequently, “the greatest danger is that we won't use all of our power for fear of the ‘I’ word — imperialism” (Boot, 2003). Like the end of the 19th Century when Rudyard Kipling in “The White Man’s Burden” praised the virtues of US imperialism, at the beginning of the 21st Century, the neoconservatives called again for the US to take up that “burden” (Foster & McChesney, 2003). Similarly, Niall Ferguson argued that “the United States has—whether it admits it or not— taken up some kind of global burden, just as Kipling urged. It considers itself responsible not just for waging a war against terrorism and rogue states, but also for spreading the benefits of capitalism and democracy overseas. And just like the British Empire before it, the American Empire unfailingly acts in the name of liberty, even when its own self-interest is manifestly uppermost” (cited in Foster & McChesney, 2003).



While the critical globalization school panned US imperialism, the neoconservatives tried to mobilize popular support for US imperialism by claiming that it was a progressive force.

### **Classical Marxist and Dependency School Theories of Imperialism**

Marxist scholarship has contributed the most to the development of the concept of imperialism (Brewer, 1990). Karl Marx's own views of imperialism are still debated. Some scholars claim that Marx viewed imperialism as a progressive force, making him sound like a 19<sup>th</sup> century neoconservative. For instance, James M. Cypher and James L. Dietz argued that "Karl Marx seemed to believe that the processes which European colonialism unleashed in the underdeveloped regions ultimately would be beneficial and were undoubtedly necessary if these regions were ever to make substantial progress" (2008: 77). But recent scholarship on Marx has shed a different light on Marx's views of imperialism. For instance, Joel Wainwright claimed that, in comparing *The Grundrisse* to *Capital*, Marx showed a "growing recognition during the 1850s of the interconnections between England's imperial brutality and the expansionary nature of capital," such as the colonial destruction of the Indian textile industry for the benefit of the rising British textile industry in that period (2008: 881). In *Marx at the Margins: On Nationalism, Ethnicity, and Non-Western Societies*, Kevin Anderson argued that Marx "began with a somewhat one-sided appreciation of capitalist modernity, of its progressiveness" his work showed a "growing hostility to capitalist modernity" (2010: 4), and that "any hint of respect for a civilizing role of colonialism was replaced by an implacable condemnation" (Healy, 2010). Thus,

Marx's view of imperialism evolved from seeing it as progressive force to an obstacle to progress.

Marx's condemnation of imperialism set the tone for the debate about imperialism within the Marxist school on the concept of imperialism in the early 20<sup>th</sup> century. According to Anthony Brewer, "between 1900 and 1920, the term *imperialism* was introduced into Marxist theory, and a systematic concept and theory of imperialism emerged" (Brewer, 1980: 79). This period saw the rise of monopoly capitalism, the expansion of European (and US) empires, and the outbreak of World War I. Given that context, it is not surprising that these scholars focused on the rise of inter-imperialist rivalry. Luxemburg argued that capitalism, not only depended on non-capitalist social relations to realize its production, but, due to the expansionary nature of capitalism, continuously incorporated these non-capitalist social relations into its sphere: "Capital... ransacks the whole world, as it procures its means of production from all corners of the earth, seizing them, if necessary by force, from all levels of civilization and from all forms of society" (cited Brewer, 1980: 70). Hilferding described the centralization and concentration of capital through the merger finance and industrial capital, which then uses the nation-state to conquer foreign markets (Brewer, 1980: 90). Bukharin and Lenin emphasized how that competition of military and political rivalry, that is, at the root of the inter-imperialist rivalry was the merger of monopoly capital and the nation-state (Brewer, 1990: 87).

Following these "classical Marxist theories of imperialism," the next wave of scholarship on imperialism occurred in the post-World War II era, during the wave of decolonization of the Third World (Brewer, 1980: 79). These scholars, many of them from the Third World, confronted the condition of "imperialism without colonies"

(Magdoff, 2003). The dependency school made the most significant contribution to this literature by directing focus toward the effects of imperialism on the periphery of capitalism (Kay, 1989). Dependency arose from an international division of labour created through imperialism, in which the periphery exported raw materials in an unequal exchange for the manufactured goods produced by the centre. These dependent economic structures transfer surplus from the periphery to the centre, regardless of whether a dependent country had been formally independent for a long time like most of Latin America, or more recently independent like most of the rest of the Third World (Marini, 1991). According to Ronald Chilcote, the dependency school argued that “the contradictions of capitalism led to the expropriation of economic surplus which generated development in the [centre] and underdevelopment in the [periphery]” (2000: 15). The dependency school essentially turned on its head the early Marx and the recent neoconservative position, which considered imperialism to be progressive force; instead, the integration into the world market through imperialism, not the lack thereof, caused the “development of underdevelopment” (Frank, 1969).

### **The “New Imperialism”**

For the purposes of this study, the term “imperialism” will refer to both its classical Marxist and dependency school meanings; that is, “imperialism” will refer to the merger of “monopoly-finance capital” with the nation-state (including its supranational instruments, such as the international financial institutions) to form an imperial state, whose domination of peripheral states facilitates the transfer of economic surplus to the monopoly-finance capital, based in the centre (Foster, 2010;

Petras & Veltmeyer, 2005). This definition has the advantage of focusing attention on both inter-imperialist rivalry and centre-periphery domination. For instance, the US invasion of Iraq could be analyzed from the perspective of inter-imperialist rivalry, in that the US imperial state seized control of Iraq's oil in order to have a "stranglehold" over the economies of its imperial rivals, particularly China (Klare, 2004a: 55). The invasion could also be viewed from the centre-periphery perspective in that US military intervention ceded control of Iraq's oil to monopoly finance capital based in the centre, in order to facilitate the transfer of the surplus from Iraq's immense oil rents (Paul, 2002). The interplay of inter-imperialist rivalry and centre-periphery domination is at the core of the "new imperialism."

The US military adventurism, manifest in the invasion of Iraq, sparked much scholarly debate about the "new geopolitics" (Klare, 2004a) and the "new imperialism" (Harvey, 2003). Michael Klare's theory of the new geopolitics represented a revival of the focus on inter-imperialist rivalry: "the war against Iraq was intended to provide the United States with a dominant position in the Persian Gulf... It was aimed as much, if not more, at China... Ten years from now, China is expected to be totally dependent" on Persian Gulf oil (Klare, 2004a: 55). While taking in these geopolitical motives, David Harvey's "new imperialism" included the drive to create outlets for surplus capital, under conditions of overaccumulation, through "accumulation by dispossession" (Harvey, 2003: 73). For the purposes of this study, imperialism will refer to both the "new geopolitics" and "new imperialism".

## **The Scramble for Oil**

The “new imperialism” of the 21<sup>st</sup> century arose from a similar geopolitical context of the late 19<sup>th</sup>/early 20<sup>th</sup> century imperialism, a period which is also known as the “new imperialism” (Wright, 1976). For most of the 19th Century, Great Britain (GB) was the world’s leading industrial power, but, late in the century, other countries industrialized, in particular, the United States and Germany, and began to challenge its industries in the world market. When GB dominated world markets, it promoted “free trade,” but with the rise of new industrial powers, it increasingly consolidated political control over colonies such as India and relied on military force to secure control of raw materials such as in the Boer War in South Africa (Gallagher & Robinson, 1953). According to Chilcote, the “new imperialism” of the 19<sup>th</sup> century resulted from the “push of Europe toward manufacturing which necessitated the extraction of raw materials from the periphery” (2000: 14). The competition between an old industrial power and rising industrial powers for the control of natural resources fueled the “new imperialism” of that period, captured by the phrase, the “Scramble for Africa.” The current geopolitical context of competition between old and rising industrial powers for control of the world’s last remaining oil reserves has resulted in a “Scramble for Oil”.

## **21<sup>st</sup> Century US Imperialism**

The reliance on military force to control the world’s oil reserves is a response to US hegemonic decline. First developed by Antonio Gramsci, the concept of hegemony has been elaborated by the neo-Gramscian school of international relations to include relations between states, not just classes (Cox, 1987). Hegemonic states

reproduce their domination through ideological leadership and material base (Robinson, 2008: 232). In *Latin America and Global Capitalism*, Robinson explained that, “Gramsci’s notion of hegemony posits distinct forms, or relations of domination, in brief: coercive domination or consensual domination” (2008: 233). The increasing coercive nature of US domination indicates the decline of US hegemony, not its resurgence. The reliance on military force indicates “domination without hegemony” (Arrighi, 2007: 151).

The increasing militarization and intervention of 21<sup>st</sup> century US imperialism represents a “global gamble” to restore US hegemony through military domination and control of the world’s last remaining oil reserves (Gowan, 1999). But this gamble is not only a losing bet for the US, but a risky one for the world. The militarization and intervention, or coercive domination, further erodes US hegemony by undermining its legitimacy. According to Robinson, the more the US “must rely on direct domination or coercion as opposed to consent in securing its rule, its hegemony will be increasingly problematic, if not impossible” (Robinson, 2008: 233). James Petras has called this the “boomerang effect,” arguing that the US “military offensive” and “roll-back strategy to recover imperial power is accelerating [its] decline” (Petras, 2009). The contradictions of 21<sup>st</sup> Century US Imperialism is that by attempting to restore US hegemony, the US imperial state has accelerated its decline. And like a gambler in the hole, the US imperial state has demonstrated a tendency to make increasingly riskier bets to recover its losses. According to Harvey, “an unstable U.S. hegemony, dependent on permanent militarization and military adventurism... is not an attractive prospect for the rest of the world” (2003a: 81). In particular, 21 Century Imperialism is not an attractive prospect for Latin America.

## **A Note on Methodology**

The focus of this study is on macro-social processes and, at that level of analysis, what is lacking sometimes is not original research but an original synthesis and critical evaluation of existing primary and secondary sources. While focusing on Latin America as a region, in particular its international relations and political economy, poses the risk of generalization, sometimes that risk is worth taking to gain an understanding the global dynamics. In addition, the approach will be interdisciplinary, relying on history, sociology, Marxist political economy, and international relations, particularly the neo-Gramscian school. Those dynamics will be highlighted through the case studies of US militarization of the Western Amazon through Plan Colombia, and the militarization of Mexico and Central America through the Merida Initiative.

## Chapter 2

# Neoliberalism and US Hegemonic Decline

In Marxist theory, the development of the “productive forces” determines the social relations of production (Shaw, 1978: 55). The “productive forces” refers to the application of technological innovation to the means of production (Shaw, 1978: 57). This application of innovation results in expanded reproduction, increasing productivity, and higher profits. Without the development of the productive forces, capitalism abandons its historic role, and becomes “redistributive, rather than generative” (Harvey, 2003a). Given the level of abstraction, the development of the productive forces is difficult to measure, but “multi-factor productivity growth” is a close approximation, since it measures the increase in output per unit of all outputs (Petras, 2008: 38). Using data from the economist Robert J. Gordon, James Petras concluded that “the rate of growth between 1950 and 1996 has been steadily declining: from 1950 to 1964 [Annual Multifactor Productivity Growth] grew approximately 1.8 percent; from 1964 to 1972 it grew 1.4 percent; from 1972 to 1979 it grew 1.1 percent; from 1979 to 1988 it grew 0.7 percent and from 1988 to 1996, 0.6 percent” (Petras, 2008: 38). The development of the productive forces, as measured by multifactor productivity growth, has stagnated in the US.

The causes of the stagnation of the productive forces have been attributed to the following: the end of a Kondratiev long wave (Bello, 2006), the stagnation tendency of monopoly capital (Foster & McChesney, 2009), the rise of inter-capitalist competition (as German and Japanese industries recovered from World War II)



(Brenner, 2002), the strength of organized labour and social movements (Arrighi, 2007), and the power of Third World nationalism and developmental states (Bello, 2006). The late 1960s saw the “end of profitable exploitation of the new technologies of the post-second world war era” (Bello, 2006: 1351). Without this “external stimuli” of “truly epoch-making innovation[s] with geographical as well as economic scale effects – equivalent to the steam engine and the railroad in the 19th century and the automobile in the 20<sup>th</sup>,” the productive forces have stagnated (Foster & McChesney, 2009). Petras argued that, “clearly the innovations in the early and middle twentieth century were far more significant sources of economy-wide productivity improvement than the electronic, computerized information systems of late” (Petras, 2008: 38). The innovations since the late 1960s have not been as transformative as innovations from post-war period, as many of them are secondary in nature (e.g. the television versus the VCR) (Gordon, 2000).

Beyond the inherent nature of these recent innovations, the innovations have had limited impact, since they were introduced in a period marked by a crisis of overproduction. According to Robert Brenner, this crisis of overproduction arose from the recovery of German and Japanese capital from the devastation of World War II, as they began to successfully compete with US capital in the world market (Brenner, 2002). In the post-war era, “German and Japanese manufacturers, in particular, were able to achieve extraordinary rates of export growth that drove their economies forward only by virtue of their ability to wrest ever greater fractions of world export markets from US and UK producers, as well as to penetrate the enormous US market itself” (Brenner, 2002: 14). While initially US capital could afford to lose market share without affecting profits, eventually the “irruption of lower-priced producers on the world market” resulted in “system-wide over-capacity and overproduction”

(Brenner, 2002: 14). The recent information and communication technology (ICT) revolution has occurred within the context of this crisis of overproduction. As a consequence, the ICT revolution has not been applied to the development of the productive forces, but rather capital has used the ICTs to restructure the capital-labour and centre-periphery relations through the creation of a “globally-integrated system of production and finance” (Robinson, 2008: 26).

This crisis of overproduction in the centre led to the accumulation of surplus capital as opportunities to invest profitably in production declined. As a result, capital adopted a strategy, called neoliberalism, to create profitable investment opportunities for this surplus capital through accumulation by dispossession (Harvey, 2003b). According to David Harvey, “the inability to accumulate through expanded reproduction on a sustained basis has been paralleled by a rise in attempts to accumulate by dispossession” (2003b: 64). Harvey uses the phrase “accumulation by dispossession,” to revise Marx’s concept of “primitive” or “original” accumulation, since those terms imply a process that occurred in the past. Moreover, Harvey expanded the definition of Marx’s primitive accumulation to include the privatization of public assets and collective rights (2003a). Unlike the primitive accumulation described by Marx, accumulation by dispossession describes not just the creation of a supply of cheap labour but also the “creation of a stock of devalued... assets... which can be put to profitable use by capital surpluses that lack opportunities elsewhere” (Harvey, 2003b: 150). Accumulation by dispossession under neoliberalism redistributed wealth from labour to capital and periphery to centre. The resubordination the Third World was central to both (Bello, 2005).

## **The Debt Crisis and the Resubordination of the Third World**

The initial response of the Nixon administration to the rising competition from German and Japanese capital was to end the convertibility of the dollar to gold, known as “closing the gold window” (Gowan, 1999). In effect, this policy shift devalued the dollar, which benefited US exporters at the expense of their German and Japanese competitors (Gowan, 1999). In addition, in effort to maintain the US dollar as the world reserve currency after devaluation, the Nixon administration made a secret deal with the Saudi monarchy and the Shah of Iran to raise the price of oil (Gowan, 1999). Since, at the time, US capital was much less dependent on Persian Gulf oil than its German and Japanese competitors, the price increase disproportionately hurt those industries, giving US capital a competitive advantage. Moreover, since imported oil would have to be paid for in dollars, central banks would hold dollars in reserve, which contributed to the maintenance of dollar hegemony.

After the closing of the gold window, dollar hegemony was achieved by the substitution of the “gold standard” with an “oil standard” (Perkins, 2008: 171). According to John Perkins in *The Secret History of the American Empire*, the US “corporatocracy” played an “active role in driving oil prices to these record highs. Although business and political leaders, including oil executives, feigned outrage, they were the puppet masters pulling the strings” (2008: 171). In return for the Nixon administration’s support for an oil price increase and military protection, these Persian Gulf countries, in particular Saudi Arabia, “committed to trading oil exclusively in US dollars,” (Perkins, 2008: 171-2). Moreover, according to Harvey, as part of this deal, “US banks were given the exclusive right to recycle the vast sums of petro-dollars

being accumulated in the Gulf region” (2003a: 70). This “money-laundering affair” essentially taxed workers and foreign capital through an oil price increase and funneled the revenue to US finance capital (Perkins, 2008: 171).

As the result of this recycling, US banks were flush with petrodollars, but, given the crisis of overproduction, they had few places to invest productively. Instead, these banks turned to Third World governments and pushed flexible (and initially negative) interest rate loans on them. According to Arthur MacEwan in *Debt and Disorder: International Economic Instability and US Imperial Decline*, stagnation in the capitalist centre meant that “in the advanced capitalist countries, the demand for credit did not keep pace with the burgeoning supply of funds. Faced with a rapid expansion of liquidity that could not be absorbed in the centre, the banks began to push funds out into the periphery of world capitalism” (1991: 61). Many Third World governments were vulnerable to these banks’ loan pushing schemes as they not only faced the rising costs of oil imports, but also demands from their popular bases for the expansion of state services, from their domestic industries for foreign exchange to import capital goods and technology, and from their elites to import luxury goods for a First World consumerist lifestyle. Moreover, rather than finance their imports through increasing revenue from either taxing the wealthy or expropriating the sources of their wealth, these governments took the path of least resistance to meet the demands for imports and received negative interest rate loans from US banks, which were pushing loans onto them, to continue their economic growth model. According to Gabriel Palma, the real rates of interests on these loans averaged -5.3 percent between 1972 and 1980 (Palma, 2003: 130). But these low interest rates did not last.

To understand the next step in the process that led to the Third World debt crisis, it is necessary to look at what was happening in the capitalist centre, particularly in the US, at the time. The US capitalist class not only faced increased competition from German and Japanese capital, but it also confronted labour militancy and social movements, which to slow the rate of profits for US capital. In *Adam Smith in Beijing: Lineages of the 21st Century*, Giovanni Arrighi argued that the “intensification of capital-labour conflicts and the most significant increases in real wages... preceded [the onset of the downturn]” (Arrighi, 2007: 126). Workers in the US launched wildcat strikes and participated in the mass social movements of the late 1960s. This labour militancy in the capitalist centre generated a “pay explosion” while labour productivity declined from the exhaustion of innovations from the war (Arrighi, 2007: 126). According to Leo Panitch and Sam Gindin, “under the near full employment conditions that had arrived by the early 1960s, the militancy of a new generation of workers drove up money wages and challenged managerial prerogatives, with negative implications for productivity. At the same time, new social justice political movements drove up the social wage” (2004: 56). While the Third World nationalism, developmental states, import-substituting industries, liberation struggles, social revolutions, and commodity cartels all challenged US capital in the periphery, labour militancy raised wages and social movements expanded the welfare state in the US, putting a “squeeze on profitability” (Arrighi, 2007: 127).

Given the power of labour and the social movements, a frontal attack on labour was not politically possible, so the US capitalist class opted for a stagflation strategy (Arrighi, 2007: 127). Under the conditions of an overproduction crisis, the petrodollars were not re-invested in expanded reproduction in the capitalist centre, but

instead recycled to Third World governments. The slower job growth and higher unemployment in the US put pressure on the unions. The higher oil prices also spurred inflation, which undermined union wages, since their contracts failed to keep pace with rising prices. According to Arrighi, “at the end of the long postwar boom, the leverage of labour in the core regions was sufficient to make any attempt to roll it back through a serious deflation far too risky in social and political terms...An inflationary strategy... promised to outflank workers’ power far more effectively. It was, indeed, the great stagnation-cum-inflation of the 1970s – ‘stagflation,’ as it was called at the time... that effectively wore down workers’ power in the core” (Arrighi, 130). Like an aerial bombing campaign, stagflation weakened labour’s defenses in preparation for a full-scale ground invasion, led by US Federal Reserve Chairman Paul Volcker.

Under pressure from the US finance capital to rein in inflation, strengthen the dollar, and break the power of labour, President Jimmy Carter installed the neoliberal Paul Volcker, as Chairman of the Federal Reserve Board in 1979. Over the next two years, Volcker doubled interest rates, which squeezed out inflation, but also provoked the worst recession since the Great Depression (at the time). While the high unemployment of the recession weakened the power of labour, the knockout punch came when President Ronald Reagan fired striking air traffic controllers, which signaled to US capital that labour rights would not be protected by the state. Volcker himself recognized that high interest rates alone were not enough to break the power of labour, and argued that, “the most single important action of the [Reagan] administration in helping the anti-inflation fight was defeating the air traffic controllers strike” (Taylor, 1995: 778). The combination of the high unemployment

and the busting of air traffic controllers union was a turning point that marked the decline of labour power and militancy after the spike in the 1960s.

The “Volcker shock” of high interest rates also hit Third World governments hard, since they had taken out flexible rate loans from US banks in the 1970s. Many of Third World governments experienced a scissors crisis: their export markets and commodities prices collapsed, due to the recession, while their debt service payments exploded, due to the skyrocketing interest rates. With many Third World governments on the verge of bankruptcy, the US-dominated International Monetary Fund (IMF) intervened to “bailout” these governments with loans to cover their debt service payments to their creditors. The IMF acted as a “creditors’ cartel” (Weisbrot, 2006). In order for Third World governments to receive new loans to service their foreign debts and to be considered credit-worthy by private creditors, they had to implement the IMF’s neoliberal structural adjustment programs (SAPs), and be in good standing with the IMF. Consequently, the IMF became the “vehicle through which the US government’s commitment to [neoliberalism]” was “transmitted globally” (Pollin, 2003: 175). The Third World debt crisis resubordinated the Third World to the demands of US capital.

The IMF loan conditions, or SAPs, included macroeconomic austerity, such as cuts in social spending and subsidies, as well as financial and trade liberalization, privatization, and deregulation. According to Robert Pollin, the IMF “deliberately impose[d] austerity conditions [on the Third World] – otherwise known as an economic depression” (2003: 175). The result was the dismantling of the domestic production apparatus and its re-orientation toward production for world markets, in order to earn dollars to pay their foreign debts. The ensuing “economic depression”

devalued the labour and natural resources upon which export production depends, and reduced domestic effective demand, making it more difficult for industries and farmers to realize their production in their domestic markets (Delgado & Marquéz, 2008). That is, as the SAP broke down the domestic capital cycle and the realization of production became even less dependent on domestic consumption and markets, producers shifted production for export markets (Delgado & Marquéz, 2008). The breakdown of the capital cycle and the re-orientation of the production apparatus toward export markets increased dependency and underdevelopment in the Third World.

This neoliberal restructuring of Third World economies was not only designed to resubordinate the Third World to the demands of accumulation in the capitalist centre, but to also prevent the rise of new centres of capital accumulation. In *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism*, Ha-Joon Chang argued that the SAPs directly contradicted the policies that developed countries had themselves used to develop: “rich countries have ‘kicked away the ladder’ by forcing free-market, free-trade policies on poor countries. Already established countries do not want more competitors emerging through nationalistic policies that they themselves successfully used in the past” (2008: 61). Thus, the debt crisis provided the mechanism to resubordinate the Third World, open up their economies to the domination of foreign capital, and prevent the potential rise of competing capitals.



## **The Absolute Surplus of Labour and Transnational Corporations**

While the debt crisis led to the resubordination of much of the Third World, capitalism also expanded geographically and incorporated the former Soviet Union, Eastern Europe, China and India. According to Petras and Henry Veltmeyer in *Globalization Unmasked*, “for the greater part of the 20th century, substantial regions of the world were organized in a non-capitalist system, a form of collectivism, which did not operate within the capitalist mode of production. In the last decade, these areas have been incorporated and subordinated to the logic of capital accumulation” (2001: 39). The geographic expansion of capitalism greatly accelerated primitive accumulation, “a process in which millions have been wrenched from the means of production, proletarianized, and thrown into a global labour market shaped by transnational capital” (Robinson, 2008: 25). According to Richard Freeman, the geographic expansion of capitalism doubled the global labour force from 1.46 billion workers in 1980 to 2.92 billion in 2006 as “workers from China, India and the former Soviet bloc entered the global labour pool” (2006: 1). The “Great Doubling” of the global labour force produced a global oversupply of labour and an absolute surplus of labour, “well beyond the conventional formulation of the reserve army of the unemployed” (Delgado & Marquéz, 2008: 1359). The “Great Doubling” led to the “Great Weakening” of the power of labour globally.

The imposition of neoliberalism through IMF’s SAPs in much of the Third World also helped generate this absolute surplus of labour. In the cities, the SAPs privatized state-owned industries, cut public sector employment, reduced tariffs on manufactured imports, and cut subsidies to domestic industries. In *Planet of Slums*, Mike Davis argued that neoliberalism “inverted [the] relative structural positions” of

formal and informal employment, “establishing informal survivalism as the new primary mode of livelihood in a majority of Third World cities” (2006: 178). The imposition of neoliberalism through the SAPs produced an explosive growth of the informal sector and urban slums in Third World cities.

In the countryside, the SAPs undermined small-scale peasant agriculture. Following the SAPs, Third World governments cut subsidies to peasant farmers, while lowering tariffs on food imports. That is, peasant agriculture lost state support at the same time that it was forced to compete with highly-subsidized, transnational agribusiness exports from the capitalist centre. This had the effect of reversing the historic role of the Third World as a supplier of cheap food for the industrial working class, and instead became a dumping ground for surpluses from industrial agriculture based in the capitalist centre. SAPs also privatized land tenure systems, so when the peasant farmers went bankrupt due to the transnational agribusiness dumping, their lands could be appropriated for large-scale, capital-intensive agro-export production. According to Utsa Patnaik, the SAPs brought “about an intensification of the international division of labor in agriculture, where tropical lands are increasingly required to produce the relatively exotic requirements of advanced country populations, keeping the supermarket shelves in the North well-stocked with everything from winter strawberries to edible oils and flowers. The resulting food grain deficits of developing countries... are supposed to be met by accessing the global market for grains, which is dominated by the United States, Canada, and the European Union...” (Patnaik, 2009). SAPs forced Third World countries to abandon food security and self-sufficiency in order to exploit their “comparative advantage” in agriculture. The result was that “in country after country in the developing world, there has been a diversion of land under the neoliberal paradigm of free trade, from

food grain production to export crops” (Patnaik, 2009). The large-scale, capital-intensive export production expanded through the dispossession of peasant agriculture. Thus, the SAPs simultaneously “de-industrialized” the cities and “de-peasantized” the countryside in the Third World (Araghi, 1995). In that way, the SAPs contributed to the generation of an absolute surplus of labour, and fueled the explosion of the urban slums, the informal sector, and transnational migration of the neoliberal era (Delgado & Marquéz, 2008: 1359).

These large pools of dispossessed, desperate labour in the periphery provided the ideal conditions for the creation of a globally-integrated production system and the rise of global commodity chains (Robinson, 2008: 26). The rise of this production system depended on the ICT revolution, an absolute surplus of labour, and the “synchronizing” of national policies under the IMF and neoliberalism (Robinson, 2008: 27). This globally-integrated system of production is dominated by Transnational Corporations (TNCs), which are largely based in the centre. For instance, TNCs based in the centre nation-states accounted for 95 percent of the Fortune 500 companies and 97 percent of the *Financial Times 500*, with more than half of these TNCs based in the US alone (Nolan, 2003: 315). Under conditions of an absolute surplus of labour, these TNCs exploit the dispossessed labour in export enclaves in the periphery, and transfer surplus value from the periphery to the centre (Gallagher & Zarsky, 2007). This TNC exploitation of labour in the periphery reflects an indirect export of labour, not the industrialization of the periphery (Delgado & Cypher, 2007).

As TNCs shifted industrial production to the periphery, they created a New International Division of Labour (NIDL), in which the periphery increasingly

exported manufactured goods, and imported food from the centre. Contrary to a principal tenet of the dependency school, this change in the structure of trade did not change the structure of power between centre and periphery (Marini, 1991). In fact, this change in the structure of trade had the opposite effect, it increased the domination of centre over periphery, as the periphery increasingly depended on TNCs for investment, technology, employment and, even, food. In “Monopoly-Finance Capital and the Paradox of Accumulation,” John Bellamy Foster and Robert McChesney argued that “although industrialization has expanded in the periphery, it has generally been along lines determined by global corporations centred in the advanced capitalist countries, and therefore has tended to be directed to the demands of the centre” (Foster & McChesney, 2009). These demands included the extraction of surplus value from labour in periphery to capital based largely in the centre, through the institution of the TNC.

As production has become more geographically dispersed, accumulation has become more centralized. The TNC centralizes the accumulation process by destroying domestic industries, purchasing privatized state-owned industries, repatriating profits, and manipulating prices in intra-firm trade. They also maintain a monopoly over research and development, technology transfer, and patents and copyrights. According to Saskia Sassen, “the spatial dispersal of economic activity made possible by the [ICT revolution] contributes to an expansion of territorially centralized functions, if this dispersal is to take place under the continuing concentration in corporate control, ownership, and profit appropriation that characterizes the current economic system” (Sassen, 2007: 108). The globalization of production has acted as a centrifugal force, while centralization of management and finance as a centripetal force. According to Robinson, “this worldwide

decentralization and fragmentation of the production process has taken place together with the centralization of command and control of the global economy” (2008: 26). This centralization of command and control also represents the centralization of accumulation as surplus is transferred from the periphery to the centre.

### **Transnational Migration and the Restructuring of the Capital-Labour Relation**

The focus on TNC exploitation of cheap labour in periphery is myopic, since the production of transnational migration under neoliberalism has been as significant as the globalization of production, if not more so. The migrant labour force in the capitalist centre exceeds the size of the labour force working in the export enclaves in the periphery, while the total amount of remittances sent from migrant workers in the capitalist centre exceeds the amount of foreign direct investment in the periphery (Delgado & Marquez, 2008). Thus, the imposition of neoliberalism resulted in the movement of workers through forced migration from the periphery to production sites in the centre more than it led to the movement of production sites to the periphery – that is, rather than “off-shoring” production, US capital “on-shored” workers through forced migration.

This migrant labour force played a critical role in the restructuring the capital-labour relations and the rise of flexible accumulation in the centre (Delgado & Marquéz, 2008). Migrant labour tends to be cheap, vulnerable and socially excluded (Delgado & Marquéz, 2008). These workers are often undocumented, or, even if they have even work visas, their legal status often depends on the discretion of their employer (Bacon, 2008). Given that migration geographically separates the site of production from the site of reproduction, the sending country subsidizes production in

the receiving country by bearing the social reproduction costs of labour (Delgado & Marquéz, 2008). According to Marxist theory, wages must pay for the costs of social reproduction of labour, or that labour will not exist. Given that the “labour reproduction costs” in the sending country are lower than the receiving country as the result of geographic, cultural, social and historical circumstances, US capital pays migrant labour lower wages as well as gives it more dangerous work, as its reproduction occurs in the lower cost structure sending country (Delgado & Marquéz, 2008). As a result, the exploitation of the migrant labour force puts downward pressure on the wages and working conditions for all workers, undermining the power of unions, and, thus, creating a flexible, precarious labour force (Delgado & Marquéz, 2008). With the onset of the stagnation of productive forces and the crisis of overproduction, capital shifted to a strategy of flexible, centralized accumulation under neoliberalism. This strategy depended on the creation of precarious labour force by restructuring the capital-labour relation through transnational migration.

### **The Ascendency of Finance and the Role of Financial Crises**

The strategy of restructuring the capital-labour relation rather than developing the productive forces resulted in the accumulation of surplus capital in the centre. Since it redistributed wealth from labour to capital and periphery to centre, it undermined effective demand and exacerbated the realization problem. With fewer and fewer opportunities for productive investment, capital increasingly invested this surplus into financial speculation, thus expanding the role and power of finance capital. Finance capital became the hegemonic fraction of capital (Robinson, 2008); finance came to dominate production as the profits of finance capital grew faster than for productive

capital (Phillips, 2008: 31). Productive capital followed suit and financialized rather than expanding production (Krippner, 2005). According to Walden Bello, “if there are three words that best describe the dynamics of global capitalism in the last twenty years, they are the ‘ascendency of finance’” (2005: 102). This period also saw the “‘financialization of the capitalist class’ in the sense of a shift in the primary sources of wealth accumulation at the very top of society from production to finance” (Foster & Holleman, 2010). Finance capital “ascended” to invest surplus capital in more liquid forms than production and generate speculative profits under conditions of the overproduction crisis.

Finance capital increasingly played a role in “solving” the realization problem through debt creation, opening up investment opportunities through speculation, and the devaluation of capital through financial crisis. In *The Great Financial Crisis: Causes and Consequences*, Foster and Fred Magdoff argued that the stagnation, beginning the late 1960s, “set the conditions for a major change in the role of the financial sector in US capitalism” (2009: 18). Rather than a “modest helper” in the accumulation process, speculative finance became a “secondary engine of growth, given the weakness in the primary engine, productive investment” (Foster & Magdoff, 2009: 18). Moreover, “the expansion of debt and speculation that characterized the US economy... since the late 1960s represented the main means by which the system managed to avoid sinking into a deep slump, while not allowing it to overcome the underlying stagnation tendency” (Foster & Magdoff, 2009: 19). The financialization of the capital cycle helped productive capital realize its production without raising wages. Workers increased their consumption not through higher wages but higher debt (Foster & Magdoff, 2009). Raghuram Rajan, former chief economist at the IMF, has called this strategy “let them eat credit” (2010). That is, capital “solved” the

realization problem of the overproduction crisis through the explosion of household debt, as real wages stagnated since the 1970s. As the US pioneered the financialization of the capital cycle, which depended on dollar hegemony, it became the “consumer of last resort” for globally-integrated production system.

The rise of finance capital not only reflected its role in completing the capital cycle, but its role as the “cutting edge” of accumulation by dispossession (Harvey, 2003b: 184). Financial crises create “vast fields for the absorption of surplus capitals” through the “release of low-cost assets” and provide a “means to visit the costs of the devaluation of surplus capitals on the weakest and most vulnerable territories and populations” (Harvey, 2003b: 185). The Third World debt crisis demonstrated the effectiveness of this strategy. The US was able to transfer the costs of the crisis of overproduction to the Third World governments by loan pushing negative interest rate loans and then, after raising interest rates and provoking a debt crisis, the US imposed neoliberal SAPs through the IMF rather than cancelling these odious debts. This strategy protected the interests of finance capital in the centre, while devaluing capital in the Third World and opening up “vast fields” for investment of surplus through imposition of SAPs, which privatized state-owned industries, liberalized trade and capital flows, among other policy changes (Harvey, 2003b). Thus, while the debt crisis was a disaster for the majority in the Third World, it created new investment opportunities for TNCs and finance capital.

The rise of “hyper-mobile” capital depended on the ICT revolution as well as the synchronization of national policies through the imposition of neoliberalism, which increased the structural power of finance capital over both the nation-state and workers (Sassen, 2007: 94). According to Sassen, “the digitization of financial



markets and instruments played a crucial role in raising the orders of magnitude of the global capital market, the extent of cross-border integration, and hence its raw power” (2007: 95). Finance capital used this “raw power” to create more opportunities for speculation through “financial innovation,” deregulation and capital mobility. That is, finance capital pushed for ever more financial liberalization, which, in turn, made the financial system ever more vulnerable to crisis. The result is that the neoliberal era has been marked by a series of financial crises. According to Ilene Grabel, “the principal cause of these financial crises is the decision to adopt financial liberalization [policies]... the most important of which is the loosening or removal of restrictions on domestic and international flows of capital” (Grabel, 2003: 325). The principal cause of these financial crises is precisely the financial liberalization policies pushed by finance capital. While some governments attempted to attract capital for investment through these policies, others were coerced through conditions in the IMF’s SAPs, bi-national/regional free trade agreements, and/or the World Trade Organization treaty. The widespread adoption of financial liberalization policies demonstrated the structural power of finance capital, regardless of their inherent tendency to produce financial crisis.

Under neoliberalism, the role of the state shifted from preventing financial crisis through regulation to protecting the interests of finance capital during financial crises through “bailouts.” According to Harvey, “one of the prime functions of state interventions and of international institutions is to orchestrate devaluations in ways that permit accumulation by dispossession to occur without sparking a general collapse. This is essence of what a [SAP] administered by the IMF is all about” (2003b: 151). The state no longer prevents crisis but now manages crisis to protect the financial system and the interests of finance capital. In “Myths of Neoliberal

Deregulation,” Leo Panitch and Martijn Konings argued that, “Washington’s highly pro-active role in containing domestic and international financial crises from the 1980s on was perhaps the most concrete demonstration that the alleged withdrawal of states from markets was an ideological illusion. Financialization enlarged the American state’s role both directly and multilaterally, even as it extended the strategic leeway available to capital” (2009: 72). Finance capital has used that “strategic leeway” for financial innovation, speculation, and the inflation of asset bubbles.

When these bubbles inevitably burst and financial crisis ensues, finance capital exercises its structural power to accumulate through the transfer of devalued assets, public resources, and collective rights. According to Harvey, during a financial crisis, devalued assets are “bought up at fire-sale prices and profitably recycled back into circulation” by surplus capital (Harvey, 2003b: 150). For example, according to Robert Wade and Frank Veneroso, in the 1997-8 Asian financial crisis, “the combination of massive devaluations, IMF-pushed financial liberalization, and IMF-facilitated recovery [precipitated] the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world.” (Wade & Veneroso, 1998: 19). Harvey concluded, “in some instances, whole economies were raided and their assets recovered by US finance capital” (2003a: 78). Accordingly, crises and devaluations “emerge as a primary means by which capitalism perpetually creates its own ‘other’ in order to feed upon it” (Harvey, 2003b: 151). Financial crises serve the interests of financial capital by devaluing capital and, therefore, creating opportunities to invest surplus capital.

Finance capital has shifted the costs of financial crises, not just onto other capitals through their devaluation, but also onto the state. This shift converts a

financial crisis into a fiscal crisis. Finance capital then threatens to devalue the state with higher bond interest rates, capital flight, and currency devaluations. These threats force the state to privatize public assets, cut public services, and reduce public sector employment – that is, to further the agenda of finance capital and the accumulation by dispossession. According to Panitch and Gindin, “though financial crises may be inevitable, in certain circumstances, they may... also be functional to neoliberalism’s reproduction and extension” (2004: 70). Consequently, financial speculation and crises are not the unintended consequences of financial liberalization, but are the means by which finance capital accumulates by dispossession.

These financial crises of the neoliberal era have grown in scale and moved from periphery to centre. Under the conditions of stagnating productive forces and continuing overproduction crisis, capital needs ever larger speculative “fixes” and, consequently, bailouts (Foster & Magdoff, 2009). Finance capital has increasingly exhausted opportunities to devalue assets in the periphery, while also provoking ever greater resistance to its agenda in a Polanyian double movement (Silver & Arrighi, 2003). This resistance also took the form of building up reserves and reducing foreign debts as cushion against speculative crises. For instance, in Latin America, the rise of anti-neoliberal social movements and the election of centre-left governments led to the governments to pay off their foreign debts as well as halting neoliberalism’s signature project, privatization, which, in some cases, has even been reversed through nationalization (Weisbrot, 2006). That is, finance capital has encountered diminishing returns on the devaluation of assets in periphery, not just because there are fewer and fewer assets to devalue, but also because it has faced greater and greater social resistance. The same could be said of the incorporation of the former Soviet bloc and China into the global capitalist system. For instance, in Russia, the momentum for

privatization stalled after 1998 financial crisis, and, with the rise of Putin (from within the nationalist intelligence services), privatization has been partially reversed. In China, the privatization process, while never as significant as in Russia, has stalled as well (So, 2010). Opportunities for accumulation by dispossession have been exhausted and/or resisted in much of the periphery.

The shift of financial crisis from periphery to centre not only reflected the diminishing returns and growing resistance, but also finance capital's growing need for ever larger speculative "fixes" (Foster & Magdoff, 2009). Like a junkie, finance capital needs ever larger asset bubbles and ever larger bailouts to keep up the momentum of its accumulation (Foster & Magdoff, 2009: 18). Only the centres of the global capital possess the assets, markets, and public resources large enough to provide the scale of bubbles and bailouts that finance capital now requires. As a result, by the late 1990s, the speculative bubbles and crises have shifted from the periphery, countries like Mexico and Thailand, to the centre of the capitalist system, the US and Wall Street. After the Asian financial crisis, much of the periphery accumulated dollar reserves and paid off their IMF loans, and the IMF was "reduced to a shadow of its former self" (Weisbrot, 2006: 5). At the same time, financial liberalization policies were implemented in the US with the repeal of Glass-Steagall in 1999 and the passage of the Commodities Futures Modernization Act in 2000. These regulatory changes combined with the diminishing returns in the periphery to create massive speculative bubbles and crises in the centre, such as the dotcom bubble and crisis in 2000-1, and the housing bubble and crisis in 2007 to present (Baker, 2009). In the past decade, financial crises have shifted in geography and scale.

As the speculative bubbles and crises have grown ever larger, so too have their bailouts. This also explains the shift from periphery to centre, since larger bailouts require larger public resources, which only centre nation-states possess. The bailouts have grown from the tens of billions of dollars provided by the IMF to countries in the periphery to the trillions provided by the US Federal Reserve and the European Central Bank in the centre. Finance capital has successfully converted the current financial crisis into a fiscal crisis, and is pushing for privatization, cuts in public services, and reductions in public sector employment – at the same they are successfully opposing any new regulations that would prevent the next financial crisis. In “Creating the Next Crisis,” Simon Johnson, a former chief economist at the IMF, wrote that, “the US financial sector received an unconditional bailout – and is not now facing any kind of meaningful re-regulation. We are setting ourselves up, without question, for another boom based on excessive and reckless risk-taking at the heart of the world’s financial system. This can end only one way: badly” (2010). So, while this cycle of speculative bubbles and financial crises may be a “rolling disaster” for most, they are the profit centre for finance capital (Bello, 2005: 101).

### **Latin America and the Decline of US Hegemony**

Neoliberalism redistributed wealth from labour to capital and from periphery to centre. And, rather than enlarging the pie through the development of productive forces, neoliberalism re-sliced the pie, so that capital in the centre received a bigger slice. As a result, according to Harvey, “neoliberalism has been a huge success from the standpoint of the upper classes. It has either restored the class position to ruling elites, as in the United States or Britain, or created conditions for capitalist class

formation, as in China, India, Russia and elsewhere” (2006: 34). Moreover, Latin America under neoliberalism generated wealth that “fueled the world capitalist economy even as the region stagnated. Latin America exported over the period from 1980 to 2006 an annual average of \$42 billion in profits and interests... Global capitalism has not represented in Latin America a major new round of expansion: it has represented a shift in wealth and class power” (Robinson, 2008: 256). This restoration of the class power of capital, particularly finance capital, and the transfer of wealth from Latin America to the US came at a price, the decline in US hegemony.

Neoliberalism undermined the material basis for US hegemony by making the social reproduction of subordinate states and classes problematic. US attempts to revive this hegemony through militarization and intervention have only further eroded its hegemony by delegitimizing it. Hegemony results in one class or state exercising leadership over subordinate classes or states by gaining their active consent (Robinson, 2008: 233). This consent involves the ideological domination, which results in the “internalization of the social logic of the system of domination itself” (Robinson, 2008: 233). Hegemony requires not only such ideological leadership, but also a material base – that is, the system of domination must allow for the social reproduction of subordinate classes and states (Robinson, 2008: 233).

The imposition of neoliberalism and the consequent accumulation by dispossession produced growing inequality and social polarization “within and between countries” (Robinson, 2008: 230). Thus, neoliberalism failed to achieve the “hegemonic incorporation of a sufficiently broad social base” (Robinson, 2008: 281). Consequently, in the late 1990s, neoliberalism in Latin America faced crises of “economic stagnation, legitimization problems, and rise of counter-hegemonic

movements” (Robinson, 2008: 281). In response to these crises, and to the broader crisis of US hegemony, the US increased its militarization and intervention in the region. Neoliberalism eroded both the material base and ideological leadership of US hegemony, resulting in the US reliance on a more coercive domination in the form of increased militarization and intervention.

In a Polanyian “double movement,” neoliberalism in Latin America unleashed “self-regulating” market forces and produced a social crisis (Polanyi, 1944).

Neoliberalism was imposed on Latin America through massive political repression and the Third World debt crisis, which shocked and disorganized popular movements (Klein, 2007). But as the social crisis provoked by neoliberalism intensified and its promises of growth unrealized, social movements organized and mobilized mass popular base against neoliberalism (Weisbrot, et. al., 2000). These movements overthrew several neoliberal governments in Latin America as well as provided the electoral base for the election victories of several centre-left governments throughout the region. In 2004, the United Nations Development Program warned that “the increasing frustration with the lack of opportunities, combined with high levels of inequality, poverty, and social exclusion, has resulted in instability, a loss of confidence in the political system, radical action and crises of governance” (UNDP, 2004: 25). This “crisis of governance” in Latin America arose from neoliberalism’s failure to incorporate a sufficiently large social base into a hegemonic bloc. Popular classes increasingly faced a crisis of social reproduction, which eroded the legitimacy of the neoliberal state, and its chief sponsor, US hegemony. Thus, neoliberalism restored profits and power to the US capital, but at the cost of US hegemony.

## Chapter 3

### The Hegemonic Transition and Peak Oil

Financialization not only prevented a slump in the US economy, but also a slump in US hegemony. Since the stagnation of the productive forces and the onset of the overproduction crisis, US hegemony could be considered a speculative bubble, which will inevitably burst. According to Arrighi, “if past tendencies are any guide to the present and the future, we could expect that the financial expansion would temporarily restore the fortunes of the leading capitalist agency of the epoch, the United States, but would eventually result in the change of leadership in the centre of capital accumulation on a world scale” (Arrighi, 2010: 371). In other words, “although financialization enables it promoters and organizers to prolong their leadership in the world economy, historically it has always been the prelude to the terminal crisis of the dominant regime of accumulation, that is, to its collapse and supersession by a new regime” (Arrighi, 2010: 371). Arrighi built upon the work of Fernand Braudel, who argued in his sweeping history of capitalism, *Civilization and Capitalism*, that financialization signaled the “autumn” of capitalist centre of accumulation (Braudel, 1992: 246). Accordingly, Arrighi claimed that, after the end of the “golden age” of US capitalism in the 1950s and 60s, “US capital has followed a similar trajectory” (2007: 230). If speculative bubbles masked an underlying stagnation, the financial expansion masked an underlying decline of US hegemony.

Arrighi explained the process of hegemonic decline by breaking down Marx’s capital cycle of M-C-M’ into epochs of material expansion (M-C) and financial



expansion (C-M') (2007: 231). "In phases of material expansion, money capital (M) sets in motion an increasing mass of commodities (C), ... and, in phases of financial expansion, an expanded mass of money capital (M') sets itself free from its commodity form and accumulation proceeds through financial deals (as in Marx's abridged formula M-M')" (Arrighi, 2007: 231). Since the 1970s, the US has certainly been in a financial expansion with exploding household debt, financial speculation, and asset bubbles – an explosion of "financial deals" rather than productive investment (Phillips, 2008). The shift of US capitalism from the development of the productive forces to debt and speculation marked the decline of the US as the dynamic centre of capital accumulation on a world scale.

China, a new centre of capital accumulation, has been anything but stagnant. In fact, China has probably produced the most dynamic material expansion in the history of the world, with per capita economic growth more than eight percent per year for the last 30 years (Hart-Landsberg, 2010b). If it is the autumn for US capitalism, then it is springtime for Chinese capitalism. The spectacular rise of China reflects the inherent tendency of capitalism to overcome stagnation through a "spatio-temporal fix" (Harvey, 2003a). As mature capitalist centres stagnate, a new dynamic centre of capital accumulation absorbs the surplus capital with long-term investments (Harvey, 2003a). The Chinese economy is certainly investment-driven and has absorbed enormous amounts of capital by investing in massive infrastructure projects, research and development, the expansion of higher education, and, even, new green technologies, such as wind and solar. Given China's investments into infrastructure, R&D and education, as well as the speed at which China has climbed the value-added ladder of production, the development of the productive forces have been re-ignited in China, not the US (Hart-Landsberg, 2010a).

China's rapid urbanization has created a massive labour force for industry. According to Davis, China "added more city-dwellers in the 1980s than did all of Europe (including Russia) in the entire nineteenth century!" (2006: 2). Arrighi has argued that historically each successive hegemon has encompassed a larger territory (2010: 385). But, in this case, the new hegemon will encompass a larger population rather than territory, and mark a hegemonic transition from a territorial to a demographic power. Given the scale of its long-term investments and the size of its industrial working class, the rise of China as new hegemon would not be surprising, given its material base, although it still lacks an ideological leadership.

### **The New Dependency and Social Liberalism in Latin America**

The rapid industrialization of China poses several challenges for development in Latin America. Chinese demand for food to feed its workers and raw materials to fuel its industries has quickly exceeded its domestic supplies, so China has increasingly turned to the world market to purchase these supplies. Over the last decade, Chinese demand sparked a commodities boom, which benefited Latin America's primary exporters. According to the *Financial Times*, Latin America has seen a "spectacular expansion of commodity-based trade" with China (Rathbone, 2011). Kevin P. Gallagher, co-author with Roberto Porzecanski, of *The Dragon in the Room: China and the Future of Latin American Industrialization*, argued that: "Latin American exports to China grew by 370 percent between 2000 and the dawn of the financial crisis in 2007, dwarfing overall Latin American export growth of 62 percent during the period. The vast majority of those exports were in primary products—oil, soybeans, copper, iron ore, and forest products. This in part fueled unprecedented

economic growth in the region. In per capita terms, Latin America grew by 4.2 percent each year during that period—faster than at any time in recent history” (Gallagher, 2010). In other words, the rapid industrialization and urbanization of China has increased the demand and, hence, the prices for primary exports from Latin America, turning the terms of trade in favor of the region’s primary exporters.

These favorable terms of trade and economic growth occurred simultaneous to the rise of the centre-left governments to power. Many of these centre-left governments used the revenues from the commodities boom to pay off their foreign debts and escape the debt peonage of the IMF, an institution dominated by the US. Given the timing of the commodities boom, many centre-left governments took the path of least resistance and attempted to transcend class conflict. That is, they used the increased revenues from the commodities boom to fund social programs to meet the demands of their mobilized social bases, instead of nationalizing the agro-mineral export sector (Petras & Veltmeyer, 2009). Rather than transform the structure of their economies, these governments opted to maintain those structures, and expand social programs for the poor with taxes generated from the increasing agro-mineral exports, in what Petras called “social liberalism,” in contrast to neoliberalism (Petras, 2009b). Many of these governments while protecting the agro-mineral elites from expropriation also demobilized the social movements through cooptation. The failure to expropriate combined with the demobilization of the social movements has laid the basis for the rise of a “resurgent right,” funded by the private profits of the agro-mineral elites during the commodities boom (Petras & Veltmeyer, 2009).

Latin America’s failure to transform the economic structures has resulted in the re-articulation of their economies from meeting the needs of US capital to those of

Chinese capital, reinforcing the structure of trade of primary exports in exchange for manufactured goods (Marini, 1991). According to Gallagher, “left economists in the hemisphere have long warned about the longer-run perils of primary-commodity-based exports in the region. China trade only accentuates these concerns” (2010). While the Chinese Industrial Revolution funded the independence of Latin America from US hegemony, it failed to launch independent national development and break the region’s dependent economic structures. Instead, Latin American dependency on the US has been replaced with a dependency on China, exemplified by the rise of the “Republic of Soy” in Brazil and Argentina (Gaudin, 2004).

The rapid industrialization of China has not only reinforced Latin America’s dependency, but also poses a challenge to Latin America’s own industrialization. Chinese industry, based on the exploitation of cheap labour and an undervalued currency, is flooding the world market with low-priced manufactured goods, competing directly with Latin American manufacturers. While Chinese exporters rapidly climb up the value-added ladder, Latin America is experiencing a “reprimarization” of its exports (Cypher, 2007). According to Gallagher, “while China serves as a great new market for Latin American commodities exports, the country’s manufactures exports are helping to hollow out Latin American industry by outcompeting the region’s firms both on their home turf and abroad” (Gallagher, 2010). Many TNCs have also shifted their production from Latin America to coastal China, to exploit the large pool of cheap labour there (Gallagher & Zarsky, 2007).

The incorporation of China into the global capitalist system has put the downward pressure on the global wage structure through a massive expansion of the global labour force, undermining global effective demand as well as exacerbating the

overproduction crisis by increasing global productive capacity (Bello, 2009). The Chinese Industrial Revolution not only intensified world market competition for manufacturers, but worsened world market conditions for the realization of production. The Chinese state re-invested the accumulating dollars from its gaping trade surplus with the US back into the US, especially US treasury bonds, which, in turn, fueled the explosion of household debt, financial speculation, and asset bubbles with cheap credit (Baker, 2009). Thus, the financialization of the capital cycle in the US has driven the rise of China. As the US financializes, China industrializes, signaling a hegemonic transition.

### **The Rise of China and Peak Oil**

This hegemonic transition is occurring at a time when global oil reserves are becoming depleted and global oil production has peaked, increasing the strategic value of the military domination of the regions containing the world's last remaining reserves. In the 1950s, M. King Hubbert, a Shell corporation geologist, developed the peak oil theory to predict levels of global oil production (Deffeyes, 2008). Since each oilfield followed a production bell-curve, Hubbert extrapolated that global oil production would follow the same pattern. That is, global production would grow until it reached a peak and then start an irreversible decline. None other than Richard B. Cheney in 1999, when he was CEO of Halliburton, the oilfield services company, best explained peak oil:

“From the standpoint of the oil industry... obviously for over a hundred years we as an industry have had to deal with the pesky problem that once you find oil and pump it out of the ground you've got to turn around and find more or

go out of business. Producing oil is obviously a self-depleting activity. Every year you've got to find and develop reserves equal to your output just to stand still, just to stay even. This is true for companies as well in the broader economic sense as it is for the world... For the world as a whole, oil companies are expected to keep finding and developing enough oil to offset our seventy one million plus barrel a day of oil depletion, but also to meet new demand... So where is the oil going to come from?" Cheney concluded that "the Middle East with two thirds of the world's oil and the lowest cost is still where the prize ultimately lies" (Cheney, 1999).

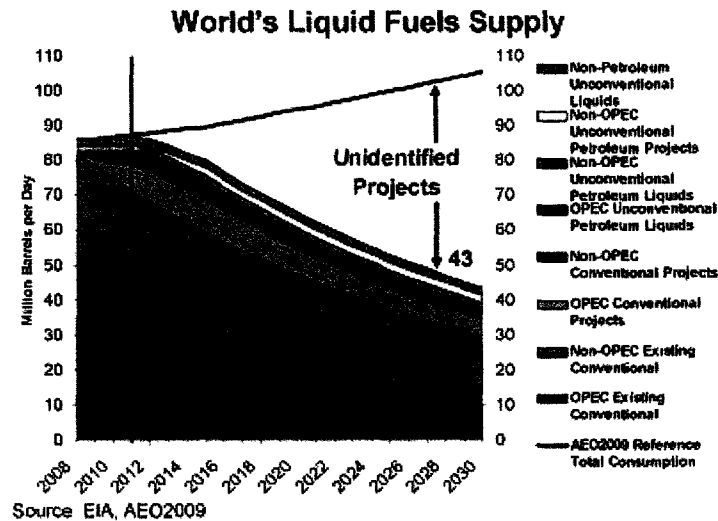
Once in office, Vice President Cheney convened an Energy Task Force, and, in a top secret memo, ordered the National Security Council "staff to cooperate fully with the Energy Task Force as it considered the 'melding' of two seemingly unrelated areas of policy: 'the review of operational policies towards rogue states,' such as Iraq, and 'actions regarding the capture of new and existing oil and gas fields'" (Mayer, 2004). This melding of US military operations with the capture of oilfields continues today (e.g. Libya). The projection of US military power over the world's oil reserves is the key US imperial strategy in the 21<sup>st</sup> century. By controlling the world's oil supply, the US imperial state will maintain strategic leverage over any potential hegemonic challengers, such as China.

While the focus of this strategy has been the Middle East, this US imperial strategy has been implemented in Latin America as well, given that the world's second largest "prize" lies in Latin America. Venezuela's Orinoco Belt holds the world's largest reserves of heavy oil; in 2010, the US Geological Survey issued a report that "estimated a mean volume of 513 billion barrels of technically recoverable

heavy oil in the Orinoco Oil Belt... [and] thus contains one of the world's largest recoverable oil accumulations" (USGS, 2010). In April 2002, the US supported a military coup in an attempt to overthrow Venezuelan President Hugo Chavez, after he increased taxes on foreign oil companies operating there (Palast, 2007; Golinger, 2006). US intervention and militarization have targeted control of Latin America's oil rich regions. While Venezuela currently develops the Orinoco, the largest "prize" of untapped reserves in Latin America perhaps lies underneath the jungles of the Western Amazon (Finer, et. al., 2008).

US oil production peaked in the 1970s, as the easy to find and develop supergiant fields entered their decline phase. As a result, oil companies have begun to explore the hard to access deep ocean for the next supergiant, contributing to BP's catastrophic "deep water horizon" oil spill in the Gulf of Mexico (Klare, 2010). According to Elizabeth Kolbert, "having consumed most of the world's readily accessible oil, we are now compelled to look for fuel in ever more remote places, and to extract it in ever riskier and more damaging ways" (2010). These remote places are principally indigenous territories, provoking to a "Global War on Tribes" oil exploration expands into their homelands (Grossman, 2010). The peak oil crisis has not sparked indigenous conflicts, but inter-imperialist rivalry.

Most energy experts believe that the global oil production has reached, or is near, its peak. The Director of the US Energy Information Administration, Glen Sweetnam, recently claimed that the peak will be reached next year in 2012 (Sweetnam, 2009).



8

(From a PowerPoint presentation made by US Energy Information Administration (EIA) Director Glen Sweetnam at the *EIA 2009 Energy Conference*, “Meeting the World’s Demand for Liquid Fuels A Roundtable Discussion: A New Climate For Energy” April 7, 2009, Washington, DC. Retrieved from <http://www.eia.doe.gov/conference/2009/session3/Sweetnam.pdf>)

Moreover, according to Michael Klare, author of *Rising Powers, Shrinking Planet: The New Geopolitics of Energy*, “most energy professionals now believe that global oil output will peak at far lower levels than only recently imagined—perhaps 90-95 million barrels per day, not the 115-125 million barrels once projected by the U.S. Department of Energy... What underlies these more pessimistic assumptions? To begin with, the depletion rate of existing fields is accelerating” (Klare, 2008). This increase in the depletion rate of global oil reserves has resulted from technological change and China’s industrialization. That is, rather than technology being the solution to the peak oil crisis, it has exacerbated it (Deffeyes, 2008). In addition, in *The Rise of China and the Demise of the Capitalist World Economy*, Minqi Li argued that, “China’s rapid growth in energy consumption has greatly accelerated global depletion of fossil fuels and other non-renewable resources, and has turned China into a leading contributor to global warming” (2008: 169). So, the Chinese Industrial



Revolution has accelerated the peak oil and ecological crises, which pose development challenges in Latin America. The increasing inter-capitalist competition for control of the region's oil reserves also poses a development challenge, especially as US militarization and intervention increases in the region.

### **Inter-Imperialist Rivalry and Latin America**

The “new” imperialism of today, like the “new” imperialism of late 19th century, is driven by a competition between old industrial powers and rising industrial powers for the control of the world's natural resources to fuel their industries (Harvey, 2003b; Klare, 2009). In that regard, the US invasion and occupation of Iraq is instructive.

By the late 1990s, three forces had converged to provoke the US invasion of Iraq: (1) Iraq had been disarmed, and international pressure was growing to lift the sanctions for humanitarian reasons (Ritter, 2005), (2). Iraq had signed agreements with US capitalist competitors to develop Iraqi oil, so that once the sanctions were lifted, the oil profits from the development of Iraq's massive reserves of easy-to-access, high-quality, light-sweet crude would go to Chinese, Russian and French capital, not US capital (Judicial Watch, 2003; Paul, 2002), and (3) Saudi Arabia's oil production had peaked as its largest fields entered their decline phase (Simmons, 2006), so if the sanctions were lifted and Iraq's oil production increased, an Iraq hostile to US interests would overtake Saudi Arabia as the world's swing producer, and control the world price of oil (RUPE, 2002). That is, as global oil reserves have been depleted, the strategic and economic value of control over Iraq' vast, untapped reserves grew significantly (Klare, 2009). Without the threat of provoking a great power war after the collapse of the Soviet Union, the US resorted to “regime change”

through direct military invasion and occupation of Iraq to secure control over those reserves and guarantee the transfer of the oil profits to US capital. By seizing control of the world's largest remaining high quality oil reserves and establishing massive military bases in Iraq to project power over the Persian Gulf, US monopoly finance capital, through its imperial state, has its hand on the world's "oil spigot" and a "stranglehold" on the rising Chinese economy (Klare, 2005).

China is attempting to break out of this stranglehold by diversifying its sources of oil supply to Africa and Latin America (Klare, 2009). In Latin America, Chinese state-owned oil companies have signed oil supply agreements with Venezuela, Brazil, and Ecuador, among others (Gallagher, 2010). The US response has been to project strategic military power over Latin America's oil reserves through the expansion of US military bases. According to Chalmers Johnson,

"Once upon a time, you could trace the spread of imperialism by counting up colonies. America's version of the colony is the military base. By following the changing politics of global basing, one can learn much about our ever larger imperial stance and the militarism that grows with it. Militarism and imperialism are Siamese twins joined at the hip. Each thrives off the other" (Johnson, 2004).

In an age of air power, the US imperial state projects strategic power over oil rich regions through military bases and aircraft carriers.

## Chapter 4

# Plan Colombia and the Militarization of the Western Amazon

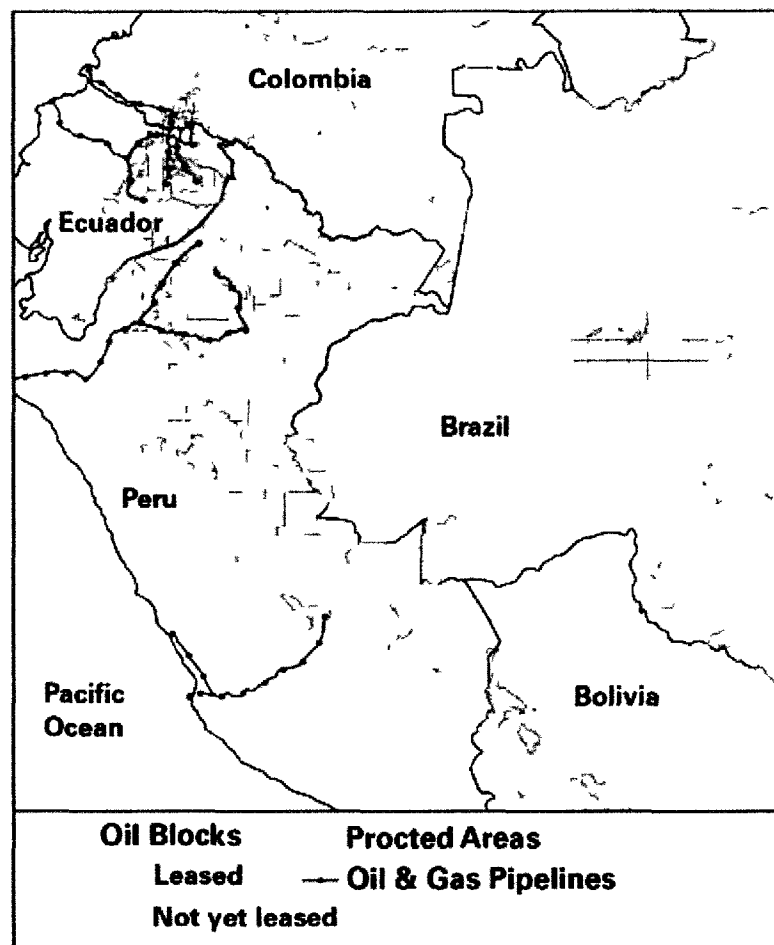


Figure 1 Hydrocarbon concessions in the Ecuadoran, Peruvian, and Bolivian Amazon

(From *NACLA Report on the Americas*, September/October 2009, p. 14)

The oil rich region of the Western Amazon has been a principal focus of US efforts to dominate the region's "prizes" (Finer, et. al., 2008). "Several large recent oil discoveries in the remote forests" of the Western Amazon has triggered an "exploration boom" (Finer, et. al., 2008,: 4). At least 35 multinational oil and gas companies now operate in this part of the Amazon (Finer, et. al., 2008). This exploration boom has pushed the "extractive frontier" into indigenous territories, provoking indigenous resistance and a "war on the tribes" (Finer, et. al., 2008: Grossman, 2010).

Many of the centre-left governments of the region are vocal supporters of alternatives to neoliberalism and the rights of mother earth. While these governments have increased state control of and tax revenues from the extractive industries, their economies and fiscal budgets continue to depend on extraction. According to the Ecuadoran economist, Alberto Acosta, "in Latin America, in countries with progressive governments... there is no move toward a structural transformation of our region's historical accumulation patterns. There is no substantial shift. It's not traditional neoliberalism anymore, but we remain within the extractivist logic" (Ruiz Marrero, 2011). The popularity and stability of those progressive governments is the result in large part of their ability to increase revenues from extractivism, which they used to pay off IMF loans and escape their neoliberal conditions as well as fund the social programs that have consolidated their electoral base and stabilized their governments. The irony, of course, is that, according to Anthony Bebbington, "on the question of extraction... [neoliberal and progressive governments] each approach the domestic political ecology of extraction in a remarkably similar way. Put simply: These resources belong to the nation, not to local or indigenous populations. They will be developed, consultation will be a managed process, and dissent will not be

brooked” (Bebbington, 2009). Thus, regardless of ideology, the governments of the region promote the expansion of the extractive frontier into the Western Amazon to either attract foreign investment or generate revenues for social programs, or both. This expansion has dire consequences for the environment and indigenous peoples of the region. Moreover, US military expansion has followed the expansion of the extractive frontier into the Western Amazon.

### **US-Peru Free Trade Agreement and Western Amazon Oil**

While high oil prices, Chinese demand, and peak oil have converged to push the extractive frontier of oil exploration into the Western Amazon, United States and Peru signed a Free Trade Agreement (FTA) to consolidate US control over the region’s oil. The US and Peru signed the FTA in 2007, and, in 2008, the Peruvian government issued a series of decrees to facilitate implementation of the agreement (Aiello, 2010). Those decrees targeted the Western Amazon in a Peruvian government plan “to formalize property rights, offer up large swaths of land for sale, and attract large-scale investment and modern technology” by foreign oil companies in order to develop the oil of the Peruvian Amazon (Bebbington, 2009: 12). These decrees opened up indigenous territories to oil exploration by auctioning off blocks of territory to oil companies. While such oil concessions covered only about 15 percent of the Peruvian Amazon in 2004, by 2009, oil concessions covered more than 75 percent of the region (Dudenhoefer, 2009). Indigenous peoples mobilized to resist the opening up their homelands by decree to oil exploration. In the spring of 2009, they blockaded the highways outside the oil operations center of Bagua, Peru, which “disrupted oil production and pipelines, blocked commerce on roads and waterways, and halted

flights at remote airports” (Romero, 2009). On June 5, the police attempted to violently remove the indigenous protestors from the highway, leaving at least 34 dead and several hundred injured, But this violent incidence did not stop Peruvian government’s plan to privatize indigenous lands, rather the government accelerated the process, “provoking at least 132 community conflicts with extractive industry projects throughout the country” (Aiello, 2010). The US Peru FTA expanded the extractive frontier into the Western Amazon and privatized the indigenous land by selling oil concessions to US companies to explore the region for oil.

Oil exploration can have devastating environmental impacts. For example, oil exploration requires the following:

“moving heavy equipment (mobile rigs for temporary drilling can weigh over 2 million pounds) into remote environments. Clearing land for roads and platforms can lead to deforestation and erosion. Drilling during both exploration and extraction phases uses significant quantities of water, which are contaminated through drilling and then discharged along with cuttings into the environment. These discharges result in chemical contamination of land and water from petroleum waste, drilling fluids, and by-products of drilling such as water, drill cuttings, and mud... Exploration and extraction... produce voluminous amounts of solid wastes known as drilling wastes and associated wastes” (O’Rourke & Connolly, 2003)

The road construction necessary for the oil exploration promotes deforestation. Resource enclosure and environmental destruction also create resource scarcity, which will impoverish the indigenous communities by undermining their local productive activities. Gil Inoach, an Awajun Indian and representative of the World

Wildlife Fund Peru, explained that "we indigenous people object to the way that the government is systematically taking our land away. Without their land, indigenous people will lose their culture because the identity of indigenous people is linked to the land" (Dudenhoefer, 2009). This land base provides a physical space "offstage... outside the intimidating gaze of power," and cohesive, cultural identity, which strengthens indigenous resistance to oil exploration (Scott, 1992: 4). Thus, the war on the tribes in the Peruvian Amazon is likely to intensify as US backs the continued expansion of the "extractive frontier" into these indigenous territories.

In Bolivia and Ecuador, a similar pattern to Peru is being played out, even though both governments are considered more progressive than government in Peru. Given the path dependent development of South American extractivism, its neoliberal and progressive variants are fundamentally the same, regardless of the different rhetorics and different rent distributions. President Evo Morales of Bolivia has initiated plans to expand the oil frontier into Amazon (Ruiz Marrero, 2011). Marc Gavalda, author of *The Stains of Bolivia's Oil*, claimed that Bolivia has "gamble[d] by giving away the country's richest and best conserved lands to petroleum [TNCs]... This new black offensive, adorned with the most oft-repeated arguments of economic progress for the country, hand[ed] out on a platter millions of hectares of Amazonian and Chaco protected areas, as well as the last uninvaded indigenous territories" to oil companies to explore for oil in formerly protected areas (Ruiz Marrero, 2011). Similarly, the progressive president of Ecuador, Rafael Correa, has "worked perhaps even harder than previous governments to crush the indigenous movement and anyone who stood in the way of the government's plan for privatization of natural resources, and the expansion of mining and oil industries" into the Western Amazon

(Dangl, 2010). Even though Bolivia and Ecuador have progressive governments, they both continue to push the extractive frontier into the Western Amazon.

### **Plan Colombia and US Power Projection over the Western Amazon**

In 2000, the US reacted to the growing strength of the Revolutionary Armed Forces of Colombia (in Spanish initials, FARC) in the 1990s, by supporting the Colombian military in its counterinsurgency campaign against the guerrillas with a multi-year, multi-billion dollar military aid package, known as Plan Colombia. In the early 1990s, the Colombian government shifted policies toward neoliberalism, which fueled the long-standing civil war (Murillo, 2004). “Free trade” theory argues that a country should specialize in the production and export of commodities that it has a comparative advantage; Colombia has a comparative advantage in cocaine production. When coffee prices collapsed after the coffee cartel dissolved in 1989, Colombia shifted toward neoliberalism, and implemented an IMF SAP in 1991 (Rettberg, 2010). As peasant farmers competed with subsidized US agricultural imports, the farmers exploited their comparative advantage in coca growing.

At the same, the rise of the Colombian narco-bourgeoisie intensified land conflicts, as they laundered their money by purchasing ranches, the symbol of prestige among the Colombian elite. As the narco-bourgeoisie expanded their cocaine production and cattle ranches, they created paramilitaries to force peasants off the land and repel any guerrilla resistance to it. Since the guerrillas were the principal enemy of these narco-paramilitaries, they became allies of the Colombian army. In the early 1990s, US counterinsurgency team visited Colombia and promoted integration of the narco-paramilitaries into the Colombian army counterinsurgency warfare



against the guerrillas, in order that they could terrorize the civilian social base of the guerrillas with plausible deniability (HRW, 1996). According to Frank Smyth, a researcher for Human Rights Watch,

“In the name of fighting drugs, the CIA financed new military intelligence networks [in Colombia] in 1991. But the new networks did little to stop drug traffickers. Instead, they incorporated illegal paramilitary groups into their ranks and fostered death squads. These death squads killed trade unionists, peasant leaders, human rights, journalists, and other suspected ‘subversives.’ The evidence, including secret Colombian military documents, suggests that the CIA may be more interested in fighting a leftist resistance movement than in combating drugs” (Smyth, 1998).

The leader of the largest paramilitary organization in the 1990s, Carlos Castaño was, according to the U.S. Drug Enforcement Agency at the time, “closely linked to the most powerful of the various independent trafficking groups” to emerge since the demise of the Cali cartel and a “major cocaine trafficker” in his own right (Martin, 2000). In an interview on Colombian television, Castaño admitted that 70 percent of his paramilitary’s operations are financed through drug trafficking (CNN, 2000). As for his methods, Castaño said that executing unarmed villagers suspected of clandestine rebel membership is a “despicable method,” but a necessary one (CNN, 2000). The fact that the US supported the incorporation of the paramilitaries into the counterinsurgency strategy demonstrated that the “War on Drugs” was political cover for US intervention in the Colombian civil war.

With the incorporation of the paramilitaries into the counterinsurgency, the number of extra-judicial executions and human rights violations directly attributed to

the Colombian military declined, while the numbers attributed to the paramilitaries skyrocketed, and accounted for the vast majority of the 3,000 deaths from political violence in Colombia each year, 80 percent the result of an assassination or a massacre (HRW, 1996). The National Security Archive recently released documents that illustrated not only the close working relationship between the Colombian military and their paramilitary allies, but also with US corporations operating in Colombia (Evans, 2011). A Chiquita document detailing payments made to the Colombian army for “security services” included a list of “donations” made to paramilitaries “at the request of the Army” (Evans, 2011). The CIA, the Colombian army, the paramilitaries, and US oil companies also colluded to expand the extractive frontier into the Western Amazon, the geographic focus of their counterinsurgency campaign.

The neoliberal shift to agro-export production, the expansion of narco-ranches, and the rise of the paramilitaries increased the number of displaced peasants, many of whom fled to the remote jungles controlled by the guerrillas, expanding their social base (Stokes, 2005). The growing strength of the guerrillas, therefore, derived not just from rising revenues from taxing the coca trade, but principally from the intensification of land conflicts and resulting internal displacement. Neoliberalism, paramilitarization, and narco-trafficking poured gasoline on the fire of the Colombian civil war, which had been burning since “La Violencia” of the 1950s.

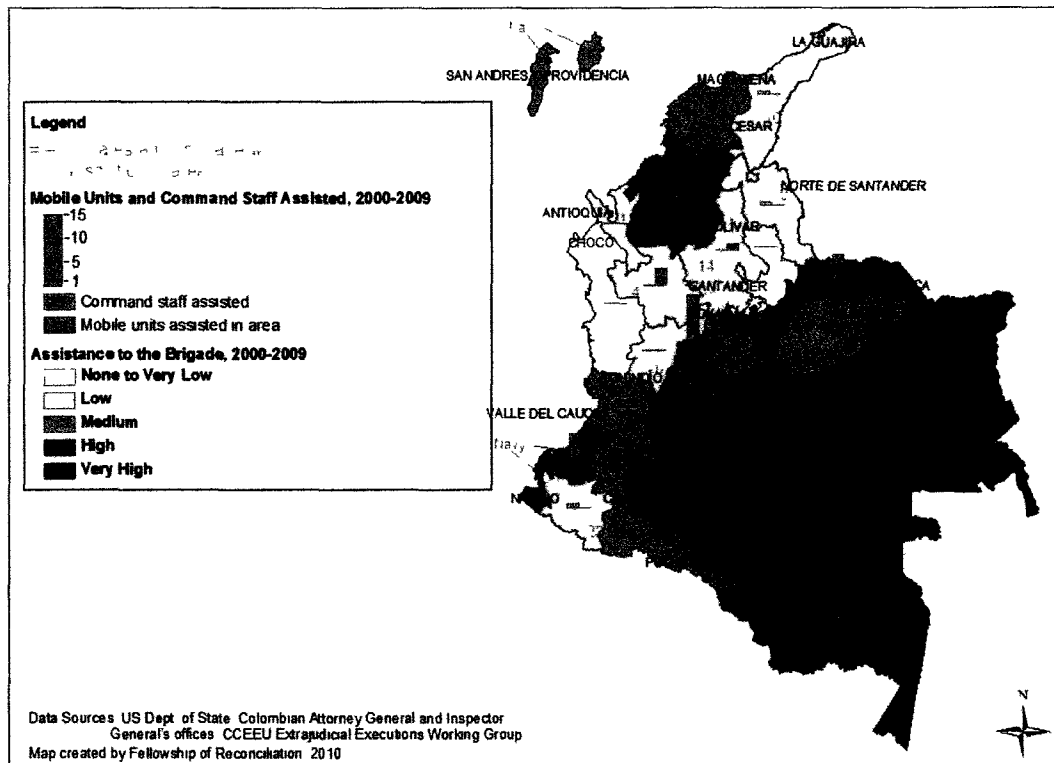
With increased numbers and improved combat skills, the FARC won a series of battles in the mid-90s, one of which brought them to the outskirts of Bogota in 1997 (Murillo, 2004). The Pentagon responded by taking a Colombian proposal for US support and converting it into a large-scale, multi-year military aid package to

arm, train and fund the Colombian army. Thus, Plan Colombia strengthened the Colombian armed forces, which, while reversing the guerrillas fortunes on the battlefield, did little to address the social roots of the civil war such as high land concentration, extreme social inequality, an oligarchic two-party political system, political repression of labour and social movements, and the world's largest internally displaced population (Martinez, 2011). Moreover, Plan Colombia failed to reduce Colombian cocaine production, cost and availability, its stated purpose (Isacson, 2010).

While Plan Colombia failed to stem the flows of illicit drugs, it succeeded in perhaps its unstated purpose: to open up remote areas in Colombia for oil exploration, strengthen the Colombian armed forces, and project US military power in the heart of the Western Amazon (Petras & Morley, 2003). This purpose is evident in the fact that US military assistance created a specially-trained Colombian army battalion whose sole purpose is to protect the Cano Limon pipeline (Stokes, 2004). In 2004, Juan Forero of *The New York Times* reported that Plan Colombia was designed “to make potentially oil-rich regions safe for exploration by private companies and the government-run oil company” (Forero, 2004). The US-backed Colombian military offensives targeted guerrilla strongholds in the remote jungles of southern Colombia, part of the Western Amazon, where the oil companies were most interested in exploring for oil. By 2009, Plan Colombia had achieved this goal and the Colombian government began offering contracts to US oil companies to explore these “frontier” zones, that is, “areas that were difficult to access in the past because of guerrilla presence” (Alsema, 2009). According to Reuters, the U.S.-backed counterinsurgency campaign “has greatly reduced violence in Colombia, encouraging an investment boom” in the energy sector (Reuters, 2011).

## U.S. Military Assistance to the Colombian Army

### Mobile Units and Brigade Command Staff Assisted (2000-2009)



Source: Fellowship of Reconciliation/US Office on Colombia, *Military Assistance and Human Rights Colombia, U.S. Accountability, and Global Implications*. July 2010.

In the map above, it is clear that US military assistance focused on southern and eastern Colombia, that is, the Western Amazon, instead of northern and western Colombia where Colombia's largest drug trafficking organizations are based. The geography of US military assistance belies claims that Plan Colombia was about the "war on drugs." The geographic distribution of military aid to southern and eastern Colombia indicate that the aid targeted strongholds of the guerrillas and the areas of most interest to oil companies for exploration. The opening up of the "frontier zones" for such exploration could not have been achieved by peace settlement that ceded autonomy to guerrilla strongholds, such as the demilitarized zones that former President Andres Pastrana recognized during peace negotiations prior to Plan

Colombia. Instead, like the chief of Colombia's armed forces, General Fernando Tapias, said at the launch of Plan Colombia, "What is clear: There will be peace, but first there will be war" (Martin, 2000). That is, Plan Colombia launched a war to open up Colombia's frontier zones of the Western Amazon for "peaceful" exploration of oil companies.

### **US Military Bases in Peru and Colombia**

The Pentagon lost access to bases in the Panama Canal Zone in 1999, and began its search for new sites to project power over the region. In 2000, the refusal of President Alberto Fujimori "to permit the US to use a secret base built near the Peruvian/Colombian border [built] by the US Army Corps of Engineers in 1998-1999 was perhaps the single most important factor in the US decision to stage the public scandals that eventually toppled Fujimori and forced him to run for cover in Japan" (Gorman, 2002). Once Fujimori was removed, the US signed an agreement with the interim government to operate from that base, known Joint Peruvian Riverine Training Centre in Iquitos, Peru, in the heart of the Western Amazon, where still today 1400 US troops are stationed for training purposes (Lindsay-Poland, 2011). The US also negotiated agreement to the "use the Comalapa airfield in El Salvador and facilities in Aruba and Curaçao in the Netherlands Antilles" (Haugaard, et. al. 2010). These bases in Peru, El Salvador, and the Dutch Antilles serve to project US military domination over the Western Amazon and the strategic corridor north.

In 2009, the Pentagon lost access to the Manta base in Ecuador, the "Pentagon's main South American outpost" after President Rafael Correa kept an election campaign promise to refuse to renew the 10 year agreement signed in 1999 (Grandin, 2010). Correa claimed at the time that, "We'll renew the lease, if the US lets

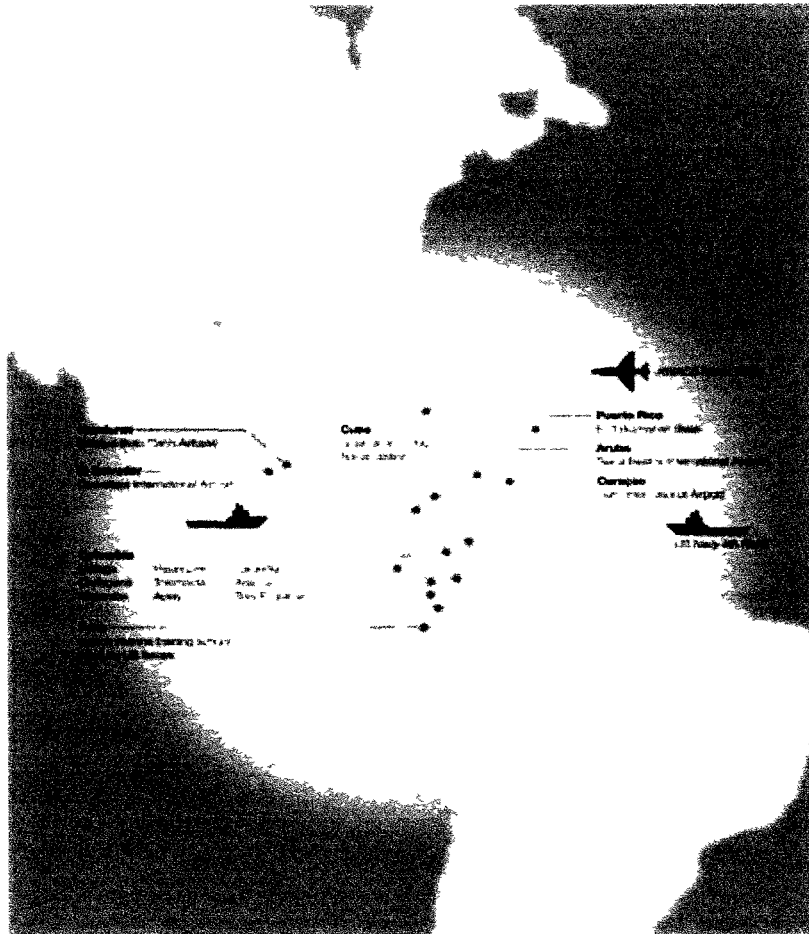
us set up a base in Miami" (Grandin, 2010). In 2009, with the loss of Manta, the Pentagon turned to its ally, Colombia, and signed an agreement to expand seven military bases there (Dangl, 2010). A leaked Air Force planning document described the reasoning behind the agreement. According to this USAF document, the Palanquero air base in Colombia "offers an opportunity to conduct full spectrum operations throughout South America ... and supports mobility missions by facilitating access to the whole continent" (USAF, 2009). These operations and missions are necessary because the "security and stability [of the region] is under constant threat from narcotics funded terrorist insurgencies, anti-U.S. governments, endemic poverty and recurring natural disasters," hinting to Venezuela as a target of the base expansion (USAF, 2009). Despite a decision by the Colombian Constitutional Court against the proposed expansion, the Pentagon continues to move forward with its plans. According to John Lindsay-Poland,

"Last August, Colombia's Constitutional Court struck down the agreement that would give the United States military use of seven bases in Colombia for ten years, because the agreement was never submitted for Congressional approval or judicial review. Yet, even after the agreement was declared 'non-existent' by Colombia's highest court, the Pentagon initiated unprecedented amounts of new construction on bases in Colombia. The contracts place in serious doubt the Pentagon's respect for Colombian sovereignty" (Lindsay-Poland, 2011)

Regardless of the decision of Colombia's Constitutional Court, the Pentagon is moving forward with its plan to convert Colombia into the "USS Colombia" in order to dominate militarily this oil rich region.

## Chapter 5

# The Merida Initiative and the Militarization of the Strategic Corridor



Source: Greg Grandin, "Muscling Latin America" *The Nation*, January 21, 2010. Retrieved from <http://www.thenation.com/article/muscling-latin-america>

In 2007, the US extended Plan Colombia to Mexico with another multi-year, multi-billion dollar military aid package with the stated objective of fighting the “War on Drugs.” Like Plan Colombia, Merida Initiative, a.k.a. Plan Mexico, one of the unstated objectives is to secure Mexican oil supplies for the US and “increase U.S. energy security by guaranteeing access to extensive deep water reserves in the Gulf of Mexico..., [and] open up the oil and gas production and market to foreign companies” (Carlsen, 2008). The same Mexican government that agreed to the Merida Initiative also supports the privatization of Pemex, Mexico’s state-owned oil company, a project of great interest to US oil companies (Pupovac, 2008).

Like Plan Colombia, Plan Mexico originated from fear in the US national security establishment that the US may lose Mexico to anti-neoliberal social movements as the deepening social crisis in Mexico provoked a growing resistance to the neoliberal project. While neoliberal project in Colombia expanded the social base of the guerrillas, In Mexico, it expanded the electoral base of the centre-left candidate, Andrés Manuel Lopez Obrador, in the 2006 Presidential elections. It is most likely that he won the elections, only to have them stolen through electoral fraud and the collusion of the PAN and PRI, his two opposing neoliberal parties (Giordano, 2006). Given the questionable legitimacy of his election, Felipe Calderon, the current president, assumed office only with the support of the Mexican military. Laura Carlsen of Mexico City-based Americas Program explained:

“Recall that Calderon took office after courts proclaimed he had won the elections by half a percentage point. The courts blocked a demand for a full recount, despite evidence of irregularities and the narrow margin. The election decision enraged an already divided populace and failed to resolve accusations



of fraud. The military enabled Calderon to take office by physically escorting him into a Congress occupied by protestors and placing the presidential banner over his shoulder. The country was in the throes of massive protests involving millions of people. Once in office, Calderon launched the war on drugs. This strategy allowed a weak president with little popular legitimacy to cement his power, a power based on building an alliance with the armed forces under a militarized counter-narcotics model” (Carlsen, 2011)

By launching a war on the drug cartels (or, more accurately, supported a war launched by the Sinaloa/Military cartel against the other cartels), Calderón expanded the role and power of the Mexican military (Hernandez, 2011; Conroy, 2008). According to John Ross, “Mexican presidents boost the fortunes of their [allies] by taking down their rivals and leaving the favored [cartels] alone. In an analysis of 50,000 drug war arrests since 2006, specialist Edgardo Buscalgia counts only 2000 low level Chapo operators [of the Sinaloa cartel] - the rest are all in the employ of Chapo's rivals, the Beltran Leyva gang in particular” (Ross, 2010). That is, based on review of official data, only four percent of arrests made under Calderon’s war on the cartels have targeted the Sinaloa cartel, Mexico’s largest and most powerful cartel.

Like Colombia, the Mexican military also relies on paramilitary death squad allies, the Zetas, to terrorize the civilian population (Conroy, 2011). A recently leaked US State Department cable from the US consulate in Juarez, dated January 2009, described this relationship as follows: “a real self-defense group comprised of eight former ‘Zetas’ hired by four Juárez business owners... paid a visit on local military commanders when they arrived in Juárez in September 2008, and purchased previously seized weapons from the army garrison... [then] the former ‘Zetas’

pledged not to target the army, and made themselves available to the army for extrajudicial operations” (Conroy, 2011). Like in Colombia, the Mexican military uses paramilitaries to conduct a “dirty war,” that targets civilians, while creating plausible deniability for the army. Moreover, the narco war serves as political cover for the repression of labor and social movements resisting the neoliberal project in Mexico, such as striking miners in Cananea or protesting teachers in Oaxaca. Currently, before the Mexican Congress is legislation that would reform the National Security Law to “grant sweeping military powers to the executive” and expand “surveillance powers of the army, marines and Cisen, the Center for National Security and Investigation” to “use any method of information collection” (Woodhouse, 2011). Moreover, the legislation “explicitly states that the executive can use military force against ‘movements or conflicts of political, electoral, labor, or social nature that are deemed to be a challenge or threat to interior security’” (Woodhouse, 2011). Regardless of whether the law passes, the legislation highlights the intent of the executive and the military to expand their powers as well as to repress any potential threats to that power.

The generalized fear caused by this dirty war has already concentrated significant power into the executive and the military. Joshua Kurlantzick and Shelby Leighton of the Council on Foreign Relations have called this strategy “Military Rule 2.0,” in which the Mexican “military has stepped in, and used its leverage to control an ever-widening sphere of the civilian political system,” leading them to provocatively ask, “why bother with a coup when there are better ways to take control?” (2010). The increased political power and position of the Mexican military serves the US interest in consolidating its military domination of Mexico by integrating the Mexican military into its operations, while expanding the role of the

Mexican military in domestic affairs. According to *The New York Times*, “before the outbreak of drug violence in Mexico,” such ties “would have been all but unthinkable” (Thompson & Mazzetti, 2011). In addition to using drones over Mexican airspace and integrating counter-narcotics operations through “fusion” centres with Mexican agencies, “the United States trains thousands of Mexican troops and police officers, collaborates with specially vetted Mexican security units, conducts eavesdropping in Mexico and upgrades Mexican security equipment and intelligence technology” (Thompson & Mazzetti, 2011). The integration of the Mexican military into the US national security state extends the Pentagon’s capabilities to project military power from the northern anchor of the strategic corridor, running from Mexico to Colombia. As result, Greg Grandin suggested that the Merida Initiative is “best thought of as an effort to enlarge the radius of Plan Colombia to create a unified, supra-national counterinsurgent infrastructure” (Grandin, 2010). The radius of this counterinsurgent infrastructure encompasses to the “oil rich” regions of Latin America.

The decline of US hegemony in Latin America has left the United States with a “rump” Monroe Doctrine, in which it militarily dominates and intervenes in a “security corridor running from Colombia through Central America to Mexico” (Grandin, 2010). The fact that this corridor not only corresponds to the flow of oil from Latin America, but also the flow of illicit drugs to the US reveals the “deep politics” that connect oil, illicit drugs, and US military and intelligence operations around the world (Scott, 2003).

## **The Militarized Corridor in Central America and the Caribbean Basin**

The initial 2007 Merida Initiative included military aid to the countries of Central America, but, in 2009, that aid was ramped up through the creation of the Central America Regional Security Initiative (CARSI), which split those countries off from the Merida Initiative and increased their funding (Planas, 2011; Ribando Seelke, 2010). In addition, the US launched the 2010 Caribbean Basin Security Initiative (CBSI) to expand military aid to Caribbean countries (Poe, 2010). According to Diana Villiers Negroponte, El Salvador serves as a base of U.S. operations in the region, in which US aircraft “fly narcotics enforcement reconnaissance missions” from the Comalpa airbase (2011). In 2008, the US established the Institute for Law Enforcement Administration (ILEA) near San Salvador, as a “regional training center for judges, prosecutors and law enforcement officers,” which integrates the region’s police forces into US national security establishment (Villiers, 2011). In 2008, the US also reinstated the Navy’s Fourth Fleet to patrol, in particular, the strategic corridor in Central America and the Caribbean (Haugaard, et. al., 2010). In 2010, the newly-elected right-wing president of Costa Rica signed an agreement with the US to allow 46 US warships and 7000 marines to operate there (Way, 2010a). Moreover, the militarized US response to the Haitian earthquake served as indication of the overall militarization of the region (Way, 2010b). CARSI, CBSI, ILEA, Fourth Fleet, the Costa Rican agreement, and humanitarian assistance to Haiti all add up to an expansion of US counterinsurgent infrastructure and military presence to this strategic corridor.

Beyond its military domination of this strategic corridor, the US has deepened its economic integration of the region through the Dominican Republic-Central

America FTA (DR-CAFTA), which included Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and the Dominican Republic in a FTA, signed in 2004, but not fully in effect until January 1, 2009. The economic integration of the region includes the Mesoamerica Project, “an agreement signed by the Central American countries, Colombia, and Mexico with the aim of creating joint infrastructure projects, schemes of regional integration and other ventures across a range of economically active areas” (Moye, 2010). While this Project has principally been focused on the integration of transportation and energy infrastructure in Central America and the FTA on promoting trade, Mesoamerica Project and DR-CAFTA have “an intimate complementarity” in supporting US domination of the region (Moye, 2010). According to Mariela Zunino, “this is no coincidence. The Mesoamerican region is of huge geo-strategic importance because of its geographical location, which permits communication and exchange of goods and services with the most important market centres in four directions (North America, South America, Asia and Europe) with the added advantage of two coastlines (Atlantic and Pacific)” (2010). Moreover, military construction spending doubled in the region has doubled since 2009 (Lindsay-Poland, 2011, see below). Thus, this strategic corridor is the focus of US militarization and economic integration, as the US expands military bases in Colombia and pushes for a FTA with that country.

# **US military construction sites in Latin America 2010-2011**

The amount of military construction in Latin America planned by the Pentagon for this year has doubled since 2009. This annotated map of current and planned U.S. military construction in Latin America is based on publicly available information on federal contracts (see [www.usaspending.gov](http://www.usaspending.gov)) and on U.S. Army Corps of Engineers activities. This map was created by the Fellowship of Reconciliation. <http://forusa.org>

- Lima, Peru**  
"Security Storage Warehouse Bldgs" \$1.8 million funded by "NMRCO" (Navy & Marine Corps Reserve Training Center?) scheduled for July-September 2011
- Quito, Ecuador**  
Counter-Narco-Terrorism "Barracks Facility" \$600,000 funded by SouthCom scheduled for July-September 2011
- Larandia, Colombia**  
In Casiquelá more than \$2 million in contracts signed in FY2010 for "infrastructure: towers, helicopter perimeter fence, perimeter lights, CCTV cameras" at Larandia to be completed between November 2010 and February 2011
- Tolima, Colombia**  
"SOC SOUTH AOB (Advanced Operations Base) Operations Center at Tolima" two contracts signed Sept 30, 2010 for \$587,000. Overall US military contracts signed in Sept 2010 greater than Tolima's contract.
- Manizales, Colombia**  
Counter-Narco-Terrorism "Stage Field" \$2 million funded by SouthCom scheduled for July-September 2011



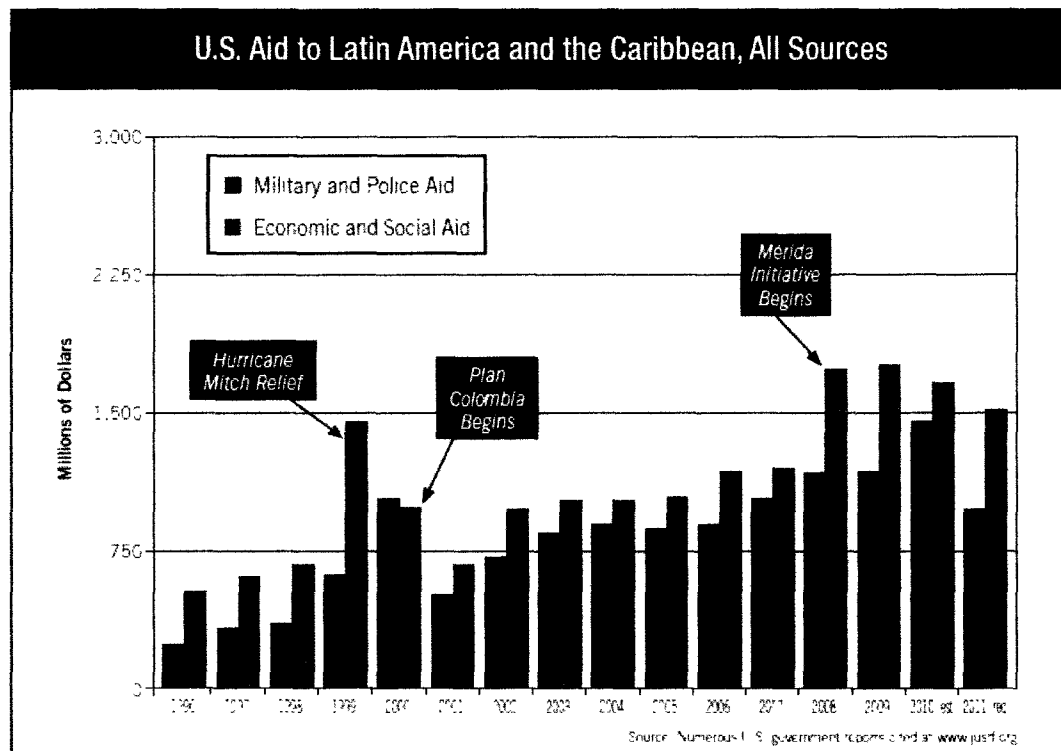
As part of this “rump Monroe Doctrine,” the Pentagon supported the June 2009 military coup in Honduras in order to protect its largest remaining air base in the corridor after the loss of Manta (Petras, 2009a). With the expulsion of the US military from the Manta base in Ecuador by the centre-left President Correa, the US air base in Honduras at Palmerola grew significantly in strategic value. The centre-left President of Honduras, Manuel Zelaya, planned “to convert the U.S.-built Palmerola airbase into a civilian airport” (EFE, 2010). Moreover, the fact that Zelaya supported the creation of constituent assembly that would write a new constitution for Honduras, institutionalizing popular power also presented a long term threat to US presence in Honduras, like in other countries in the region that have rewritten their constitutions.

On the morning of June 28, 2009, Honduran special forces, under the command of a US-trained general, arrested Zelaya and flew him to Costa Rica, after stopping at the US air base in Palmerola for refueling (Bricker, 2009). A year after the coup in an open letter, the deposed President Zelaya claimed that “everything indicates that the coup was planned at the air base [of Palmerola] by US Southern

Command, and clumsily executed by incompetent Hondurans" (EFE, 2010). Further suspicions have been raised by the recent Wikileaks' release of a cable sent to Washington immediately after the coup by the US ambassador to Honduras. In a cable titled "Open and Shut: The Case of the Honduran Coup," the ambassador claimed that "there is no doubt" that the events of June 28 "constituted an illegal and unconstitutional coup," but after receiving the cable the US State department continued to refuse to publicly declare the events in Honduras a military coup, since that would have triggered automatic sanctions against the Honduran military, the US ally (Naiman, 2010). US support for the Honduran military coup has paid off not only in securing its presence at the Palmerola base, but now new Honduran government has agreed to allow the expansion of US military presence there (Cerna, 2011). On a recent visit to Honduras, Douglas M. Fraser, Commander of the U.S. Southern Command, announced plans to expand US military bases in Honduras, including the construction of a new base on the Bay Islands, off the northern coast of Honduras (Cerna, 2011). Between increased military aid programs, naval and troop deployments, and the expansion of military bases, the militarization of the strategic corridor continues apace.

This contradiction between US hegemonic decline and US military expansion is also evident in the high levels of US military aid to the region. According to a joint report by the Centre for International Policy, Latin America Working Group, and Washington Office on Latin America, "even after adjusting for inflation, the 2008-2010 period saw the highest levels of U.S. aid to Latin America and the Caribbean since our aid monitoring program began... U.S. assistance for the region in 2010 will be more weighted toward military aid than in any other year except 2000, the year that

the first ‘Plan Colombia’ aid package was approved” (Haugaard, et. al., 2010: 10, see below).



These high levels of military aid indicate that the US is increasingly relies on coercive domination in Latin America, while the targeting of this aid toward the “oil-rich” regions of Latin America and the strategic corridor between them indicate that this militarization is designed to project strategic power over the region’s oil reserves. In other words, the cornerstone of 21<sup>st</sup> century US imperial strategy is the military domination of the world’s remaining oil reserves, transforming the US military and its clients into a “global oil protection service” (Klare, 2004c).



## Chapter 6

### Conclusion

US imperialism is alive, if not well. The US imperial state has reacted to its declining hegemony by expanding its military presence in Latin America. This shift to coercive domination will have a “boomerang effect,” destabilizing its hegemony further as it delegitimizes US domination (Petras, 2009a). This regional dynamic poses certain risks to countries in Latin America that pursue an independent, progressive development project, especially those geographically in the “rump” Monroe Doctrine, such as Mexico, Central America, the Caribbean Basin, Colombia, and Peru (Grandin, 2010). If these countries respond to neoliberalism’s social crisis by attempting to break free of US domination, then they could face US intervention, as the recent military coup in Honduras demonstrated.

As US hegemony declines in Latin America, the US military expands its domination of the Western Amazon, Central America and Mexico. This domination corresponds to the oil rich regions of Latin America, and reflects a broader imperial strategy to have a “stranglehold” over the industrial economies of any potential challengers, such as China, as inter-imperialist rivalry intensifies for control of the world’s last remaining oil reserves due to peak oil (Klare, 2004a). This intensified inter-imperialist rivalry and increased role of the nation-state in securing control of natural resources indicate that the concept of imperialism remains a powerful analytical tool. Rather than a “contradictory response” to the crisis of globalization,

the “new imperialism” represents a continuation of globalization by other means (to paraphrase Clausewitz) (Robinson, 2007: 21). The globalization project has always been an imperial one, even if “masked” by supranational institutions like the IMF. When these supranational institutions lose legitimacy and fail to serve the accumulation needs of US monopoly-finance capital, then the US imperial state turns to other forms of domination and to, in particular, the nation-state institutions of military domination. The IMF could not expel the FARC from the jungles of Colombia to open up the Western Amazon for oil exploration; in fact, its SAPs in Colombia only fueled the insurgency. It took the massive military aid package of Plan Colombia to open those resources up to US monopoly-finance domination. The globalization project in Mexico also destabilized US hegemony there, and the result was that only a massive electoral fraud prevented the victory of an anti-neoliberal candidate in the 2006 elections in Mexico. Now, the US imperial state has turned to the Mexican military to continue the neoliberal project by terrorizing the civilian population into submission, under the cover of a war on the cartels. The neocon call for more imperialism is an attempt to legitimize US military adventures and mobilize public support for this shift toward increased militarization and intervention, at a time, when US hegemony is in decline and globalization has “stalled” (Bello, 2006: 1346). For that reason, social movements and progressive governments in Latin America should ignore claims that the concept of imperialism is “outdated,” and instead, prepare themselves for the “permanent militarization and military adventurism” of 21<sup>st</sup> Century US Imperialism in Latin America (Harvey, 2003a: 81).

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