

# **A *Criollo* Financial Conglomerate in the Caribbean**

## **Banco Popular de Puerto Rico**

Antonio Carmona Báez\*

### **ABSTRACT**

*Founded in 1894 by the Carrión family, Banco Popular de Puerto Rico is one of the very few institutions of criollo capitalism that survived the transition from Spanish colonialism to US neo-colonialism. With the presence of over 15 commercial and personal banks on an island of 4 million people, BPPR now reigns supreme and is the principal catalyst of neoliberal policies in Puerto Rico, especially during the large privatization episodes of the 1990s. Richard Carrión, CEO President until spring 2004, was mainly responsible for the modernization, diversification and expansion of this, the Caribbean's most powerful autochthonous economic institution, a financial holding corporation with more than US\$35.8 billion in assets with operations in Puerto Rico, the US and Latin America. Reaching a conglomerate position is, therefore, quite recent. But while following global trends of diversified banking and embarking upon sectors like real estate, auto sales and rentals, multiple insurances and investments, BPPR has defied the laws of traditional imperialism. With its expansion, not only among countries surrounding Puerto Rico, like the Dominican Republic, but also in the continental USA – serving the Puerto Rican diasporas and large Hispanic communities of New York, Philadelphia, Los Angeles and Chicago – this economic conglomerate of the world's oldest colony is actually absorbing local US banks facing trouble. Thinking towards the future, any foreign, more powerful bank willing and able to absorb this economic conglomerate will actually end up positioning itself as a hegemonic presence in the Caribbean's most productive region.*

**Keywords:** Banco Popular, conglomerates, globalization, neoliberalism, Puerto Rico

Strong arguments have already been made that throughout the past 15 years and via the process of neoliberal globalization, economic conglomerates and corporate giants have amassed a large amount of power over nation states and regional economies. This has been the case even more so through the cross-border phenomenon of corporate mergers and conglomerations (Galdon, 2002). Studies have also shown that there is a correlation between the amount of

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\* University of Puerto Rico, Puerto Rico.

capital earned by corporations and their influence on lobby groups, political parties and public policy, threatening the democratic capacity of people to determine their future (Corporate Europe Observatory, 2001, 2002). But let us become familiar with some facts concerning corporate power in Puerto Rico from a global point of view, starting with a brief historical background of the island.

After 400 years of Spanish colonial rule, Puerto Rico was handed over to the United States as war booty at the end of the Cuban, Spanish-American War of 1898. In 1917, Puerto Ricans were granted citizenship without voice and vote in the US Congress and not given the right to participate in US presidential elections, making the islanders second-class citizens. Since 1952, Puerto Rico's status is considered to be a 'Free Associated State' (*Estado Libre Asociado*) in Spanish and a US possession 'Commonwealth' territory in English, subordinated to the US federal government. The 4 million inhabitants of this island, the Caribbean's only fully industrialized country, continue to live under US colonialism while maintaining their own national identity: a Spanish speaking majority; Caribbean and Latin American culture; participation in international forums and events like the Olympics games; representation in the scientific community, a flag, national anthem, etc. All commercial trade relations with other countries, however, are regulated by US Federal laws.

Puerto Rico is considered to be a separate nation in US global income reports, whereby Puerto Rico is counted as the largest economy for US investment, symbolizing over 13 percent of all US company income from their investments outside of the 50 states. In the 1960s and 1970s, and in response to the Cuban Revolution of 1959, Puerto Rico's industrialization process was portrayed by the United States as a successful economic showcase for developing countries, a model that the Asian tigers and many countries in Africa and Latin America would follow. Currently, the general economy is highly dependent on pharmaceutical and petrochemical companies, whereas – in contrast to neighboring islands – tourism and agriculture play a relatively smaller role. The bulk of Federal money sent to the island annually is raised by the island's people. These sums include social security and disability benefits, retirement plans for federal employees, veterans' benefits, and Medicare. In this sense, Puerto Ricans have been non-dependent and responsible for their own welfare. The country's purchasing power, however, is due mostly to the lending-consumer habits fostered by Banco Popular de Puerto Rico. Today, after a phase of thorough neoliberal policies, Puerto Rico is a model mass-consumer society of indebted people (Grosfoguel, 2003; Odisheldzw, 2004; Shapiro et al., 2003).

According to the Action Group on Erosion, Technology and Concentration (Grupo ETC), out of the 100 largest economies in the world, 51 are corporations and not countries. In 2002, Wal-Mart, the world's largest retail corporation had earnings of US\$247 billion, representing an economy larger than Sweden, Norway or Austria, and it is the 19th largest economic entity in

the world. Puerto Rico with a GDP of US\$68 billion is number 66 out of the top 100 world markets, an economy larger than Chile, Hungary, or New Zealand, but it is still small in comparison to the annual earnings of IBM (US\$83 billion), General Electric (US\$132 billion), Toyota (US\$132 billion) and Exxon-Mobil (US\$182 billion). In 2003, Puerto Rico-based, Viagra producer Pfizer and Pharmacia, Inc. merged to create the world's largest pharmaceutical conglomerate with a year profit of US\$43 billion, representing 12 percent of the world's pharmaceutical production. In the near future, we will probably witness the merger of AstraZeneca, Novartis and Aventis (all of which have been present in Puerto Rico) to compete against Pfizer, or, perhaps on the contrary, all of these will merge to create a quasi-monopoly over the pharmaceutical industry (Ruiz Marrero, 2002).

Instead of looking into conglomerates with head offices based in North America or Europe this article focuses on an economic conglomerate that is of autochthonous origin, born and raised in the colonial context, which has become successful and is expanding not only in the surrounding areas of what world system theory calls the (semi-) periphery, but also to the core of the empire (the United States): the case of Banco Popular de Puerto Rico. This article analyzes the Caribbean's only home-grown financial conglomerate, Banco Popular de Puerto Rico (hereafter, Banco Popular) and its holding company Popular Inc., looking into its expansionist tendencies and identifying the bank's role in the liberalization of the local economy. The question that lies at hand is: what are the implications of the international success of an autochthonous corporate or financial institution for the regional economy? Here I will argue that Banco Popular's recent accomplishments should be celebrated with caution as the financial growth brought to Puerto Rico has only accelerated the process of neoliberal globalization on the island. In addition, the Bank's enlarged capacity with all its subsidiaries in the Caribbean and Latin America makes itself and the local markets vulnerable to be bought up or absorbed by larger banks or financial institutions, hereby strengthening US corporate hegemony over the region.

### **Banco Popular's Background**

Founded in 1893 by the Carrión family, Banco Popular de Puerto Rico is one of the very few institutions of *criollo* capitalism that survived the transition from Spanish colonialism to US neo-colonialism. Richard Carrión, President CEO of Banco Popular until spring 2004, was mainly responsible for the modernization, diversification and expansion of this bank, now a financial holding corporation with more than US\$36.4 billion in assets with operations in Puerto Rico, the United States and Latin America. Carrión was groomed from an early age to head Banco Popular. He was born in San Juan in 1952, a time when his grandfather Rafael Carrión Pacheco, was President of the bank, a title this predecessor had held since 1927. Four years after Richard's birth, in 1956, control of the

bank passed on to his father, Rafael Carrión Jr, who became President and Chairman (TPRH, 2000).

Richard Carrión received a typical US education in business. He graduated with a bachelor's degree from Wharton School at the University of Pennsylvania. Three years later, he received a master's degree in business management from Massachusetts Institute of Technology (MIT). MIT is also the alma mater of such Puerto Rican bourgeoisie as former Governor Luis Ferré and Admiral Horacio Rivero, the first Puerto Rican four-star officer in the US military (TPRH, 2000). Carrión joined the family company in 1976 as a local branch programmer and quickly jumped the ranks to President of Banco Popular in 1985. In 1991, his father stepped down from his position and Richard Carrión took on full control of Popular Inc. and its holdings. In early 2004, Richard Carrión stepped down as President CEO of the bank and became its Chairman. Under Richard Carrión, Popular Inc. has enjoyed an era of accelerated corporate expansion and technological innovation. By 2001, Banco Popular was the largest financial institution anywhere in the Caribbean, with US\$27.3 billion of assets. This total exceeds the combined deposits of the next largest institutions on the island: Banco Santander from Spain, First Bank, and Doral Financial Corporation. With the presence of over 50 personal, cooperative and even commercial banks from places like the United States, Spain, France and Canada on an island of 4 million people, Banco Popular now reigns supreme, controlling 50 percent of that sector. One of the factors contributing to the bank's success was the 1990 merger with what was then Puerto Rico's second largest bank, Banco de Ponce, which Carrion bought for US\$278 million. The merger led the bank to possess a total of US\$9 billion in assets that year, and it is now considered to be the 34th largest financial institution in the United States (Luxner, 2001).

Reaching a conglomerate position is thus quite recent. But while following global trends of diversified banking and embarking upon sectors like real estate, auto sales and rentals, multiple insurances and investments, Banco Popular has defied the laws of traditional colonial relations. The bank's overseas expansion began in 1961, when Banco Popular opened up a branch in the South Bronx, New York to serve the large Puerto Rican and Hispanic population. At that time no one could imagine the role that the Hispanic population would come to play in the US economy today. Further expansion took place during the 1980s. Banco Popular now has 96 offices on the US mainland, seven in the US Virgin Islands and one in the British Virgin Islands. The branches cluster in the ever-growing Hispanic populated areas of the United States: New York (32 branches), Chicago (21), California (17), New Jersey (11), Florida (nine) and Texas (five). The sum of these branches amounts to 25 percent of Banco Popular's revenues (Luxner, 2001). The most recent corporate action Banco Popular took on was the purchase of Whittier, California's Quaker City Bancorp, the holding company for Quaker City Bank, in 2004. Founded in 1920,

the bank operates more than 20 branches in the suburbs of Los Angeles and half of these are located in Wal-Mart stores. Banco Popular now provides retail services such as checking, savings, and personal accounts, and money marketing, in addition to selling mutual funds and annuity products (NASDAQ, 2004).

Even without its presence on the US mainland, Banco Popular stands at the forefront of banking technology. Banco Popular began installing electronic systems at branches and a large ATM network more than two decades ago. Even though the bank has more than 200 branches in Puerto Rico, it controls over 625 ATMs (in Spanish known as ATH, *A Toda Hora*). More interesting is the bank's installation of over 40,000 points of sale (POS) terminals for debit card use at retail stores, gas stations, hotels and other service spots covering the island. This resulted in a reorientation in terms of the population's relationship with money, transforming a largely cash-in-hand economy to one that is essentially electronic. In 2000, 185 million Banco Popular transactions were processed through ATMs and POS units. Furthermore, Banco Popular handles 2.5 million calls a month to its phone banking system, and more than 100,000 clients are active on their Internet banking system. Carrión once stated that the bank invests over US\$50 million a year in technology (Ramos, 2004). Moreover, the diversified banking business under Richard Carrión has led Banco Popular to become the island's number one automobile retailer (Popular Autos), car rental service (Popular Rentals), multiple insurance agency (Popular Securities), consumer lender and mortgage company for home purchasers.

### **Expansion to the Caribbean and Latin America**

During the 1990s, Banco Popular discovered its potential in neighboring Latin American and Caribbean countries. Its first venture outside of US territory was the establishment of ATH Dominicana in the Dominican Republic in 1996. In partnership with Banco Popular Dominicano and Codetel, the major telephone company of that country, ATH Dominicana is now the largest ATM network in the Dominican Republic working with ATMs, POS and new Internet facilities. Through its success in its ATM expansion, Banco Popular acquired Banco Gerencial y Fiducario Dominicano SA, which later merged with Banco Hipotecario Dominicano of which Popular Incorporated now owns 20 percent. Banco Popular's disadvantage in the Dominican Republic was that it was considered to be an American bank and had to conform to US regulation even outside its territory, whereas other foreign banks had fewer restrictions. This led Richard Carrión to become more cautious and invest only in electronic banking services throughout the rest of its ventures in Latin America (PRnewswire, 2004).

In 1999, Banco Popular created ATH Costa Rica, which started off with a US\$2.3 million investment and now connects 164 ATMs and over 5000 POS terminals. This subsidiary expanded within Costa Rica and in 2001 bought up Crest SA, a local credit card processor and POS acquirer. (Joint-) ventures in

Costa Rica generate US\$8 million annually for Popular Incorporated. The conglomerate is now preparing similar scenarios in El Salvador, Guatemala and Panama, but the growth does not stop here. Banco Popular is also the parent company of EVERTEC Inc., the largest provider of information systems and what is dubbed as integrated solutions and processing services in Puerto Rico, the entire Caribbean, Central and South America.

Is there reason to marvel Banco Popular's success in colonial Puerto Rico? The bank's achievements, its growth and expansion in Latin and North America, the role it has played in *criollo* capitalism and the fostering of a commercial Puerto Rican identity is perhaps applauded by pro-independence nationalists who would love to see a rich, competitive and sovereign Puerto Rico able to contribute and participate in today's global economy. Banco Popular certainly does not seem to bother the current Puerto Rican Independence Party, which advocates for Puerto Rico to take on the leading economic role in Latin America. And to the surprise of the more left-wing pro-independence militants, in April 2004, Puerto Rico's only nationalist weekly newspaper *Claridad* – formerly run by the Puerto Rican Socialist Party – advertised Banco Popular's new Novell-Visa credit card program available to all the bank's clients and beyond without annual fees. Some nationalists believe that through economic independence, perhaps, Puerto Rico can achieve more political autonomy as well (*Claridad*, 2004a). Now, the pro-independence forces are a minority on the island's political stage; so all this demonstrates the bank's ideological-hegemonic capacity to cover even the most left-wing and progressive sectors of the population. For the rest, Banco Popular is an everyday fact of life, present in: salsa festivals and other cultural activities, the Olympic and Pan-American games, community initiatives, ticketing at cinema centers, parks, museums, food and clothes shopping with debit and credit cards, home mortgages, car loans, etc. Banco Popular also has the capacity to whip up sentiments of Puerto Rican pride in its television commercials, showing footage of the industrialization process during the 1940s and 1950s, while sponsoring the internationally renowned Pablo Casals Festival or the national basketball team.

It is commonplace for large local corporations to pour capital back into its immediate surroundings, especially in culture and infrastructure; after all, this is how the *wealth of nations* is supposed to be acquired. One of the last vestiges of the welfare state, at least in the United States and Puerto Rico, are the community reinvestment acts, whereby all banks are obliged or strongly encouraged to dedicate a small percentage of their earnings to their immediate environment. The figures concerning Banco Popular and community reinvestment are impressive. And this is not limited to the island. In March 2000, the Consumer Services Division of the New York State Banking Department provided a public summary and performance evaluation of Banco Popular's compliance with that region's Community Reinvestment Act. The bank was more than successful in the evaluation, rating High Satisfactory especially in

Community Development Services and fundraising for community initiatives. Banco Popular is also highly rated because of its presence in the United States' low-income areas. In one instance, the report states that the bank invests in places like:

Health Care Centre of Morris Heights Section of the Bronx: This centre is located in one of the poorest congressional districts in the United States. The bank provided a US\$ 500 thousand line of credit to this health care provider. The Federal Government has designated this community a medically underserved area and a health manpower shortage area (HMSA) since 1981. (New York State Banking Department, 2000)

Yet another section of the same report mentions the offering of low interest loans to church groups for constructing their facilities. Of course, the bank only benefits from these actions; because most of these are loans while the amount of capital given to community initiatives are nugatory for a conglomerate like Banco Popular. Nevertheless communities – and in this case low-income communities – benefit from corporate presence and reinvestment.

Some could say that it is about time that an economic power comes out of Puerto Rico, play the game of corporate capitalism well and contribute to the economic and social development of the country, the Caribbean and Latin America, and even low-income areas in the United States. In this sense, the nationalist sentiments that Puerto Rico's financial conglomerate stir might merit some applause. But I gather that this does not hold when it comes to Banco Popular providing Puerto Rico a chance for sustainable development, stable economic growth and the betterment of democratic society, especially when considering its role in privatization schemes in Puerto Rico.

### **Banco Popular and Privatization**

As has been demonstrated time and again, one of the most important characteristics of neoliberal policy is the privatization of public services. Puerto Rico, a country where the colonial state historically fostered economic development and industrialization, has been no exception during the so-called era of globalization. It is important to emphasize here that neoliberal practice did not develop in a vacuum. The rendering of state-democratic power into private hands was promoted by popularly elected officials who promised their constituents that privatization would result in the betterment of public services and shake up incompetent monopolies. Power, as political economist Susan Strange (1996) mentions, was handed over to the corporations on a silver platter. And in Puerto Rico, the garnishing was arranged by Banco Popular or its holding company Popular Inc.

The story starts with the 1992 gubernatorial elections and the right-wing pro-annexation advocate Dr Pedro Roselló taking office. During an economic

dip, Roselló won on the promise to combat crime, solve the puzzle of Puerto Rico's political status through a referendum, and make government agencies more efficient. However, Roselló could not deliver on any of these. On the contrary, crime and street violence soared, the political status continues to be a question which US Congress is not interested in resolving, and government agencies were no more efficient at the end of his second term – they were actually plagued by corruption (*Claridad*, 2004b). This was accompanied by a large anti-labor campaign that had workers take to the streets on a number of occasions. Most notably were the strikes of 1997 and 1998 against the privatization of the county's telephone company and retirement plans for other public workers (Conferencia Sindical, 2001). During his second term, however, Roselló accomplished the goal he most likely set out to do from the beginning, and that was to privatize essential public services like Puerto Rico's telephone and water companies. Hard evidence concerning how much Roselló benefited from privatization schemes is very hard to find, which is why he is able to run in the 2004 elections, even though many of his cabinet members are in jail (*Claridad*, 2004b).

The numbers on the role of Banco Popular, however, are somewhat clearer. In 1997 the Government of Puerto Rico, under the administration of Pedro Roselló, approved the sale of more than 50 percent of the Puerto Rico Telephone Company's (hereafter PRT) operations. PRT generated an average of US\$100 million annually for the state. The buyer, in 1998, was North American telecommunications giant GTE, a conglomerate with its headquarters in Texas that served half of the United States and 23 countries (BREL, 1998). And here is where Banco Popular comes in as the corporate transactions were conducted by Banco Popular, by which it earned a 10 percent action fee and Carrión's Popular Inc. (the holding company) bought an option of 5 percent. The purpose of the sale was to relieve the state of financial burdens, to improve the quality of service for consumers and to shake up an incompetent monopoly. Richard Carrión has publicly favored the privatization of all public services, stating that it is much better for the economy and lowers the unemployment rate. However, while he benefits in transactions, merger after merger, the people of Puerto Rico are not enchanted with the privatization schemes under Roselló's administration. In the meantime, other conglomerates might take a monopolistic position on the island. One year after GTE placed its hands on PRT, this same economic giant merged with a more successful corporation, Verizon. As a result, the government of Puerto Rico owned only 28 percent of the PRT, while Verizon appropriated 52 percent of its earnings, and Popular Inc. increased its share to 12 percent of PRT ownership (Lama Bonilla, 2004).

During the course of 2003, the Independent Union of Telephone workers (UIET, in Spanish) led a militant fight against Verizon as figures related to those multinational earnings poured in from the United States. Throughout the media in Puerto Rico (largely controlled by the annexation party PNP)

Verizon boasted the average salary of its workers were higher than those offered by most private corporations on the island, plus its vacation days and the workers' rights to buy up stock options. These benefits were however unreliable for during the previous Christmas season (of 2002) Verizon dismissed 3000 workers in the New York and New Jersey area. All this happened when Ivan Seidenberg CEO of Verizon earned a paycheck to the tune of US\$14 million in 2002 and received compensation of US\$50 million for the previous five years (the highest CEOs of Verizon together earned US\$360 million throughout these five years). This obviously posed a moral problem as Richard Carrión announced to be in favor of stripping away health benefits from Verizon workers, whereas Carrión openly advocated his interest in seeing further privatization of public services, criticizing the limits and regulations that the government places (BREL, 2003; Roman, 2001).

Another case where Banco Popular has played a role is in the privatization scheme of Puerto Rico's water system. Again under Roselló's administration, the Puerto Rico Aqueducts and Sewers Authority (AAA in Spanish, hereafter PRASA), had its administration privatized in 1995 to the *Compañía de Aguas*, a subsidiary of the French-based Vivendi corporation. It remains unclear whether Banco Popular, the Government Bank of Puerto Rico, or both conducted the financial transactions. But what has been revealed is that Carrión sits on PRASA's planning board, and even if he has not benefited economically from this deal he has been a powerful promoter of foreign corporate presence. In 2001, the Puerto Rico Office of the Comptroller issued a report about PRASA's performance that pointed out regularities and 'glaring deficiencies'. For instance, the *Compañía de Aguas* was operating with losses of US\$695 million, and did not collect US\$165 million in corporate bills. The report also estimated that half of Puerto Rico's fresh water was wasted because of leaky aqueducts. Meanwhile PRASA has received astronomical fines from US federal government agencies due to its violations of environmental law (Ruiz Marrero, 2004).

This mess is only a preamble. In 2002, under the current administration of Governor Sila Calderón, other operation and management departments of Puerto Rico's water system were sold to Ondeo, a subsidiary of the French Suez Corporation. The action, a US\$4 billion deal for a 10 year period, was dubbed by Caribbean Business as the 'world's largest O&M water services contract ever'. The island's natural public service is now in disarray, as in December 2003 the private company took flight from the island amid corruption scandals, unfinished projects and worker conflicts, taking with it new technologies that it was supposed to introduce. Furthermore, Ondeo insisted that the Commonwealth of Puerto Rico provide the company with millions of dollars more, alleging that the government withheld information concerning the poor conditions under which the aqueducts were found upon the French company's arrival in the Puerto Rico. Unwillingly, PRASA was forced to resume its duties in providing full services to the general population; all this with a lack of knowledge in sustainable filtering.

Due to the sketchiness of Ondeo's short presence and the procedures under which it must continue to deal – together with the island's government – very little information is available in terms of hard numbers (Caribbean Net News, 2003), but there is little doubt that, once again, Banco Popular held, transferred and benefited from earnings in this failed neoliberal project.

A third and final scenario where Banco Popular has been directly related to the privatization of public services is in the electricity sector. The privatization and Private Public Partnership remedies for energy distribution have proven to be disastrous in many places all over the world, from Soweto in South Africa to California and Montana in the United States (TNI, 2002). Puerto Rico's governor, Sila Calderón, and Popular Inc. seem to be convinced that Puerto Rico is the world's exception to the rule. In August 2003, Calderón's government approved a project that will facilitate the gradual process of privatizing that sector through outsourcing. Banco Popular has already bought up client payment plans. Soon citizens will be forced to pay extra fees due to the bank's meddling in collections (UTIER, 2003). It is no longer an exaggeration to state that Banco Popular virtually controls every aspect of public life in Puerto Rico. And this could be the future for the rest of Latin America and the Caribbean.

## **Conclusions**

While Richard Carrión and his conglomerate Popular Inc. have been successful by any standards, this success has brought on two consequences that are yet to be measured. The first has already been dealt with: that is, the privatization of state-public enterprises which have not delivered any benefits to the people of Puerto Rico as services to the client have worsened, prices have not dropped, and monopolies continue to exist, or at least the pie has been divided among large corporate groups with Banco Popular operating as a parasite. The second, which is important for future consideration, is the possibility of Popular Inc.'s holdings (on the island and throughout the Americas) to be rendered, together with its entire technological-financial realm, to the bidder of the highest price. Bank mergers and sell-outs are commonplace. One day Carrión might just sell Popular Inc. to Citibank or any larger US banking corporation. Banco Popular, with its demonstrated capacity to reach Spanish America, can actually be conceived as a perfect set up for further US corporate penetration into local-domestic markets. With its major investment in finance and technology in Latin America, and its proven ability to operate among large Hispanic and low-income populations in the United States, this economic conglomerate might one day be seen as the dog that did the dirty work. On the other hand, and in turn, a US-based economic conglomerate that buys Banco Popular might close down bank and transaction operations in the Caribbean and Latin America – so much for *criollo* capitalism.

In any case, during this stage of neoliberal globalization, we continue to see developing countries being forced to privatize a wide array of their state-public services. This has not been the case of Puerto Rico in its current quasi-colonial status, as the island does not answer to the IMF or World Bank. It is up to Puerto Ricans to deal with their elected officials on this point. But it is a different story next door, where citizens of the Dominican Republic, Costa Rica and Ecuador are forced to welcome the privatization schemes fostered by economic conglomerates like Banco Popular de Puerto Rico. Yet the most important lesson learned is that any ‘development’ implemented by economic conglomerates, especially those coming from abroad, is not necessarily sustainable or desirable for a long period of time. North American corporations are richer and fiercer in playing the investment game; they will have no problem in selling out, merging as did GTE and Verizon, or – in the worse case scenario – pulling out completely, and leaving thousands unemployed, without public services and incapable of participating in a commodity market.

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**Antonio Carmona Báez** lectures at the College of General Studies of the University of Puerto Rico in Rio Piedras and teaches International Relations at the Faculty of Social Sciences of the same university. He is author of *State Resistance to Globalisation in Cuba* (Pluto, 2004) and conducts freelance research for the Amsterdam-based Transnational Institute, a think tank and global network of scholar activists.

Address: Universidad de Puerto Rico, Facultad de Estudios Generales, Departamento de Ciencias Sociales, PO Box 23323, San Juan, Puerto Rico 00931-3323.  
Email: [carmonabaez@universia.pr]