



Opening Session

Sergio Bitar Ch.
Minister of Public Works, Chile

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Opening remarks and general presentation of the course given by Mr. Sergio Bitar Ch., Minister of Public Works of Chile.

In the majority of the countries in the region, the issue of infrastructure is increasingly of not just national interest, but also political, particularly in election periods. This issue may be approached from several angles. Firstly, the issue of infrastructure has political-strategic importance, especially if we consider the next 2010-2020 period. In other words, it is imperative to identify the characteristics of the infrastructure we need, depending on the global scenarios and national demands. Moreover, it is also important to consider the financing sources. In these respects, Latin American integration plays an important role.

Twenty years ago, our main concern was the debt, although it is true that we have always given an important role to trade. In recent years, social policies have gained more strength in the Latin American debates: although we grow, how do we distribute wealth and how do we reduce poverty? What public policies do we implement in education, housing, health, and justice? These are some of the questions that we have been trying to answer.

The IIRSA organization has placed the issue of infrastructure, in the area of transportation, as well as telecommunications and energy, in a different institutional and political situation. The issue of infrastructure in its various aspects had not had a significant presence in the general view of Latin American integration and economic development.

But for obvious reasons, infrastructure is an absolutely essential issue, not only from the standpoint of growth, but from a social point of view. In Chile, we have tried to place it politically as a “social” ministry. There cannot be a fight against poverty without an infrastructure of connectivity. If poverty is fringe status, connectivity rescues people from poverty; roads eradicate poverty, since, as examples, children can get to school faster, and if there is an emergency in the area of health, it can be more promptly tackled. The construction of a bridge can save 10 or 15 kilometers. Or the installation of a foot bridge allows children to go to school more safely. It is evident that there is a social dimension in the facilities for drinking water, rural sewerage, as well as overpasses, which should be prominent in the development of infrastructure.

Another key concept to which importance must be given is regional development because infrastructure is being swallowed up by big cities. In Chile's case, the concessions have been very important; however, a not insignificant part, perhaps the majority, has been concentrated in Santiago, or in the big cities. And if we wish to balance the national territory, infrastructure begins to play a key role in this matter.

Thus, it is of utmost importance to place infrastructure in a strategic position in the years to come, to redress imbalances from a regional point of view. This, together with the social point of view, constitutes major political demands in our countries to reduce inequalities and integrate our national territories.

The characteristics of the infrastructure are usually defined based on our needs when exporting raw materials. This is correct, but without the previous considerations, there is

a loss of capacity for social and political mobility due to the urgency for additional resources for infrastructure.

So, we must consider three major areas. One of these is the issue of productivity and competitiveness, which includes the integration between our countries; then, there is the issue of social benefits, and, finally, territorial benefits. The IIRSA has carried out very important work in identifying a range of subjects that help in the integration of our countries. But there is also the pending task of integration within each of our countries.

Social inclusion, as a major issue, must go hand in hand with infrastructure. If we consider this area, and we compare ourselves to other regions in the world, we see that we are quite behind. If we compare the percentages of what is allotted to infrastructure (including transportation, telecommunications, and energy), as a percentage of the GDP, we note that Asian and European countries allot the highest percentages, while Africa, Latin American, and the United States register the lowest.

In fact, recent studies carried out by the American Association of Civil Engineers point out that for the next 5 to 8 years, the nation needs an additional increase of the budget for infrastructure in the amount of 1.2 quintillion dollars. To address the shortfall after World War II, there was special emphasis placed on the development of infrastructure during the 50's and 60's, but it began to lag as the years passed.

Latin America is also lagging behind in the area of infrastructure, and regrettably, we see that emphasis is not placed on infrastructure as an essential means to support growth. What infrastructure is needed for the next decade? To answer this question we need to examine two processes currently underway: the global changes that inevitably affect us, and the national willingness needed to implement changes within each country.

On a global scale, we see some very profound changes, and at the same time, strong instabilities. Among the changes seen in terms of territory, and which determine infrastructure, we see a process of strong expansion, in spite of the recent turbulence in Asia, China, and India. What infrastructure do we need, then, for a possible communication between Latin America and Asia across the Pacific? Will it be urgent for such communication to go through the Atlantic, as well? What changes will be produced by the demographic growth and changes, from the standpoint of infrastructure, for transportation services and the kind of public spaces?

If we take into account the social dimension, what will be the implications on infrastructure of the development of clean products, water treatment for decontamination, for sanitation, the care of nature? If we are to tackle in the coming years the issue of climate change, we must determine what influence it will have on infrastructure. That is, what will be the effects on the construction of bridges, the protection of riverbanks, the coastal edges, technologies to be used. If we are immersed in the process of globalization, we need to incorporate modifications in the development of ports, airports, border crossings, corridors between borders, to provide our countries with a comparative advantage.

This international view is absolutely necessary to plan what we need to do in the next ten or twenty years. If we examine this dimension of global changes, it can be said that

in Latin America there have been important processes, but we still have two major imbalances, that we have already mentioned, on which infrastructure has to act: regional differences and inequalities in the distribution of income; in other words, we are dealing with social imbalances. And this is deeply connected to infrastructure.

Therefore, we must be able to place the issue of infrastructure in the national political debate so it may be considered as a higher priority. This is so because, although we may have the best projects, if they are not a priority at the political level, there won't be any resources available.

We clearly have the issue of low levels of investment. In the studies carried out by the IDB (BID, in Spanish), the World Bank and by the ECLAC (CEPAL, in Spanish), the lack of adequate infrastructure always stands out. Regional investment in infrastructure has fallen from levels that were 4% of the gross domestic product in the first half of the '80s, to the current 2%. The large Latin American countries maintain low rates of investment in infrastructure and, in its majority, it is used for the export of raw materials.

Currently, we do not invest more than 30 billion dollars annually in infrastructure. And some of the estimates indicate that we have a deficit of, at least, 4 or 5 times that amount. We must, therefore, raise this rate, increase investment, and reduce the deficit.

At this point, it is also important to note that in Chile, and also in most countries in the region, we have a system of tax expenditure outlay on infrastructure, a fact that is somewhat incoherent. For example, some municipalities permit, in the high social areas of Santiago, the construction of large towers, with a number of parking spaces that require a change throughout the surrounding infrastructure, which involves expenditure by the Treasury. In this regard, we have made the decision to not concentrate the Chilean people's money, which are the taxes being paid, in the more affluent neighborhoods. It is necessary for the State to have a mechanism to recover the "increase in added value" arising from the public works that are completed.

In Latin America, we all need to recognize and value the progress we have made. We have consolidated democracy, we have greater economic stability, and a better management of macroeconomic policy. In the field of regional integration, although trade increased, this rise has been relatively small. This is why we must make an extra effort in infrastructure and energy. We have had political and institutional developments such as those made in the framework of the Andean Community, the MERCOSUR, the Amazon Cooperation Treaty, the River Plate Basin Treaty and, recently, the South American Community of Nations and its new organization, the Union of South American Nations (UNASUR, in Spanish).

The South American countries of the arc of the Pacific just had a meeting in Santiago¹. At that meeting, the Chilean foreign minister stressed that "one of the work groups has already identified 72 projects of investment in infrastructure, primarily related to improvements in the quality of ports or air transportation, as well as some issues of integration of energy".

¹ Chile, Colombia, Costa Rica, Ecuador, El Salvador, Honduras, Guatemala, Nicaragua, Mexico, Panama, and Peru.

The assistance and cooperation of financial institutions like the IDB and the CAF, among others, in infrastructure development, specifically in the IIRSA project, are very important. But the challenge now is to define additional steps.

Ministries of Planning, Transportation and Public Works, among others, are involved in this course. The question that arises, then, is whether this issue is well situated within institutionality so as to acquire the necessary relevance. Probably, it is not. There is the issue of the institutional placement of this area, within the state apparatus, which we must analyze.

On the other hand, the technical teams we have in this field are scarce. We must strengthen them, selecting the most qualified people, preparing and updating them in the field of technological changes that are occurring in the design and development of infrastructure works, as well as in the new procedures that make them more durable in time, which detect faults in all structures, among others. To that end, it is necessary to heavily accelerate investment in public infrastructure and show its connection with national development, both economic and social.

There are two additional areas, both with a political presence, where infrastructure must be joined: sustainable development and ecology. Infrastructure is often seen as an invasive process. Panels of experts decide, in most cases, the layout of highways or roads, which affect the ecology and alter the landscape, but this is done with no communication with the citizenry. The logic with which they are built, many times, is “we have to arrive first”. But as they say in the well-known Mexican “corrido” or narrative song, “Coming in first is not important; what is important is to know how to get there.” Therefore, it is imperative to take into consideration the care of nature, which until now has not been a priority. And even more so, if Latin America is planning to participate in the field of tourism based on ecotourism. In terms of environment, quality standards are crucial.

There is another crucial aspect to consider in infrastructure development, which is that of citizen participation. There cannot be a serious and sustainable infrastructure development, if the people are not consulted, not only those who will be using it, but also those living in the vicinity. If we do not take this into consideration, the effects of infrastructure on the surrounding areas, instead of being seen as positive, could be viewed negatively. Therefore, the design of forms of citizen participation in the analysis of the environmental impacts of infrastructure, is a key issue to avoid rejection, generate more support and allow us to take, therefore, a leap into the future.

In that sense, intersectoral action is needed, as well as a multidisciplinary approach to infrastructure, the identification of a body that will collect the concerns of the citizenry so that they can be processed under civil service, so as to be able to respond with public policies. It is imperative to have a maximum of specific coordination, and then try to achieve a more comprehensive and more inclusive institutional framework.

With regard to the plan “Chile 2020”, at the beginning of the year, we began, at the Ministry of Public Works, working with an issue that would receive funding from the World Bank, which is linked to the reorganization and reform of the state. There was a process of redesigning of this ministry to make it more agile, and to know how to achieve a territorial planning to create a convergence between the different dimensions

of the infrastructure, so that the areas related to highways, railways, and waterworks could act coordinately and we could have an inclusive, territorial view.

Initially, there was resistance from our government officials, but ultimately, an understanding was reached that allowed their participation in the design of this new organization. But in the process of discussion, the question we asked ourselves was: who will be interested in the reform itself, if they do not know what the goal is? This means that the strategy must be defined in advance. Institutional change comes later. We can't achieve institutional change if we do not know in which direction we're headed. This way, no one is encouraged and the discussion becomes bureaucratic.

Therefore, it is essential to consider what infrastructure we need by 2020. This objective cannot be defined by a consulting firm, as we tried to do in the beginning in Chile. The clarification of where we are headed in 2020 and establishing priorities are first and foremost a political discussion. This insight led us to reverse the process that we had begun, and we formed an advisory council, whose members were not directly linked to the issue of infrastructure. The goal was to have a team to help define targets in the environmental, social, economic and cultural areas. Based on the definition of objectives in these areas, there have been interesting ideas for the design of infrastructure.

On the topic of globalization, firstly, Chile will remain an open economy with strong exports. We have signed international agreements with a large number of countries, through which tariffs are lowered, but if competitiveness is not increased, this advantage will be lost in a very short time. It is important to define how many people will enter the country, how many will leave, how many tons we are going to move, which ports will be needed in the next ten years. And ten years is a fairly short term. Because what we will be doing in 2020, is being decided today. In any of our countries, the discussion of design ideas, the first approach in the definition, talks with the community, basic engineering, as well as the engineering linked to the planning and gathering of financing, can easily take eight to ten years. Therefore, the discussion of what we will do in 2020 must be had today.

In this sense, and with regard to globalization, there arises the question of how interested Brazil, Argentina, Paraguay, and Uruguay will be in the Pacific ports, and also, how many shipments will be sent to countries in Asia Pacific (APEC, in English) and what Mexico, Panama, Ecuador, Colombia, Peru, and Chile will have to do in relation to their infrastructure to the Pacific. Some mention the changes that are occurring with regard to, for example, the expansion of the Panama Canal, which led to an important discussion regarding the route through which exports will be moved, especially raw materials, toward India and China.

Between Argentina and Chile, there are several bioceanic corridors, and significant investments are being made in this area. Recently, presidents Lula, Morales, and Bachelet signed an agreement to develop the corridor that runs through the North and goes from Santos to Arica and Iquique. Peru also is in the process of delimitation of bioceanic corridors.

In this regard, the issues of agribusiness and food industry are a determining factor in the design of these corridors. If some South American countries aim to be agribusiness

leaders, it is important to understand that, when we export apples from Santiago to New York, for example, we are not only exporting the product, but also the service of placement of a fresh apple. This requires logistics, structure, speed of movement. What infrastructure do we need to sustain this activity?

Another important aspect to consider is climate change. If, as most experts foresee, by 2030 or 2040 we will have an average temperature that is 3 or 4 degrees higher, then we must anticipate the consequences of this scenario. Chile is a very narrow country with a very sharp slope that runs from the Andes to the Pacific. We already had last year disruptions in the flow of rivers, with a force that toppled bridges and overflowed rivers. If the temperature is altered, the rains move further south, and we have shorter periods of a great inrush of water, and then drought. So, it is essential to have a policy of reservoirs. It is also important to have a policy of maintenance of aquifers, of salinization of sea water, of protection of glaciers, among others. These important aspects are not being monitored; we do not know for a fact the level of losses of fresh or solid water. Moreover, 97% of the planet's water is salt water and between 70% and 80% of the rest, which is fresh water, is in solid form. This is a crucial issue.

Tourism development also has an impact on the infrastructure. If we want to develop in the South of Chile, for example, an area of great interest for tourists with a care for nature, it is essential that the design of roads and the signals are harmonious with nature. They are minimal changes (using wood, for example, instead of metal) but they can be consistent with the landscape. These aspects have implications on the infrastructure.

In the national field, issues also arise that need to be defined in terms of, for example, if we aspire to have a country with a greater internal connection to tackle poverty and inequality. This requires a political decision that involves a series of investments that should be promoted. Likewise, it would be important to establish guidelines for copper producers (Chile, for example, is the world's leading producer of copper) to contribute in infrastructure investment.

A large deficiency, typical of Latin American countries, lies in the fact that our cities are built as a simple aggregation of housing construction. There is no structural concept of the kind of city we want to have in 20 or 30 years time. So, there prevails an increasing demand for cultural centers, civic centers, and public spaces in all cities of average size, whose realization could help achieve greater equality. All these aspects relate to infrastructure, the development of which must be determined by these aspirations, as well as the relevant institutional changes, and forms of participation.

On the subject of funding, the picture is quite complex, as we require the funding of long-term investments, to twenty or thirty years. If this is achieved via bond issue to be placed in the international system, they have to take a series of safeguards. This is why in this area, it is important to highlight the role of public-private partnerships. The Chilean experience in the field of concessions allowed us to make a change, almost a revolution in infrastructure, not of all, but a part of it. That is, there were times when we had more private than public investment in infrastructure, especially in 2002-03.

It is important to emphasize that in order to recover the investment, we need to have an integral planning capability of the public with the private sector. If the investments in

both sectors are not well articulated, problems may arise. Therefore, the first task is to have a planning capability of the territory.

The attraction of large enterprises to participate in concessions in one country does not happen overnight. There are countries that have more experience than others. In Chile, there are Spanish, Italian, Swedish, and German companies. But there are no more companies because other countries do not have this system. To attract this kind of investment it is essential, moreover, to have a system for resolving disputes between the state and private enterprises. If there is no security, no one invests. We need to have a stable, independent, secure, legal system that imposes clear rules because we are dealing with long-term investments.

It is also essential to have a sound financial system, with a low country risk and the ability to attract foreign investors so that they can observe we can manage economic policy or reserves, allowing them to believe that these flows will not be interrupted within a term of 20 years. In this respect, regulation is the key: the market does not work alone in almost any area, if it is not regulated. The regulation guarantees the State and the people that their interests will be adequately defended and, the private sector, that it will have certain rules which will be respected, when it comes to long-term operations.

On the other hand, we must make a greater effort to ensure that the pension funds of our countries, which are beginning to accumulate in several of them, are placed in investments in infrastructure. This means regulations in financial matters to authorize the agencies involved in national pension funds, and also foreign ones, to invest in infrastructure. It is necessary to ensure an adequate return on infrastructure projects over the long term so that they can sustain the pension funds and attract investment.

In any case, it is preferable that these funds be placed in this area, with stability, albeit with a smaller profit than the one derived from speculation in securities, which are not helpful to national development and can generate enormous risks, as we have seen recently.

Finally, what we will do in these aspects related to infrastructure will depend on each of our countries, but if we promote some projects and guidelines jointly from Latin America, we will have greater capacity for action and we will be able to encourage – ourselves and also investors- with important projects.

In the field of tourism, we can also develop activities with great potential. With Argentina, for example, we have yet to organize cruises in the South and other activities in the area of the Patagonia. People who want to visit the highlands, do not particularly visit Bolivia or Peru. Similarly, they will visit Brazil and Venezuela, but in broader regional contexts and, in this sense, projects like the Inca Trail (Camino del Inca), the cruises that are increasing throughout the surrounding area of South America, Patagonia and many other activities in the Amazon, are tasks that us Latin Americans can undertake together. For that purpose, we must understand that we are lagging behind in this area and, therefore, must take a political initiative.