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10 YEARS LATER: Achievements and Challenges

IIRSA. INITIATIVE FOR THE INTEGRATION OF REGIONAL INFRASTRUCTURE IN SOUTH AMERICA

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IIRSA. Initiative for the Integration of Regional Infrastructure in South America
TECHNICAL COORDINATION COMMITTEE (CCT)
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IIRSA 10 years later: Achievements and Challenges

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Buenos Aires, May 2011

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EXECUTIVE SUMMARY

The proposal to create IIRSA in 2000 encountered a strong South American consensus thanks to a series of decisions made by the governments concerned and some interwoven economic and political events that had taken place in the previous decades. Nevertheless, the Initiative faced the challenge of being put into effect and proving its sustainability in time, overcoming political and economic fluctuations inherent in a region as diverse and complex as South America. All this, in addition, happened within the framework of a global economy subject to deep structural transformations and dramatic interim upheavals. The purpose of this publication is to recount the history of IIRSA in order to show how the Initiative, with political, technical and financial support, started to reveal its presence with concrete results in line with the maturity of the integration project envisaged for South America. Some of the main ideas extensively developed throughout the book are summarized below.

The agreement leading to the launch of IIRSA in August 2000 was signed in a very special context. Indeed, such agreement was born in the First Summit Meeting of South American Presidents, held in Brasilia at the invitation of the Brazilian President within the framework of the 500th anniversary of the discovery of Brazil. All the presidents of the twelve independent nations of the South American continent participated in this historical and pioneering event at the regional level. Although the Brasilia Declaration referred not only to integration infrastructure issues but also to democracy, trade, illegal drugs and related crimes, and information, knowledge and technology concerns, infrastructure for integration purposes is the area in which the broadest, most immediate and concrete agreements have been reached. This has been partly due to the background work that led to the specific proposals included in an Action Plan, which was duly and heartily welcomed by the presidents. The plan comprised suggestions and proposals to extend and modernize the physical infrastructure of South America in the transportation, energy and communication areas.

- As far as its organization is concerned, a decision was made that IIRSA should not have a formal structure of its own, but rather that it should rely on existing national organizations to act as ad hoc bodies. The purpose of this decision was that the Initiative should be dynamic and less costly, avoiding the creation of new bureaucracy and facilitating decision-making processes based on consensus through the flexible interaction of governments and the multilateral financial agencies that make up the Technical Coordination Committee (IDB, CAF, FONPLATA).

- The key protagonists in this Initiative are, indeed, the twelve independent countries of South America that agreed to join efforts and resources to attain greater physical integration, which could in turn complement and catalyze the regional integration processes underway in South America at the time. This agreement was reached notwithstanding the heterogeneous nature of the twelve countries at various levels. In other words, a political will to seek a shared future, more closely integrated into the global economy and more regionally connected, prevailed over any difference among the member countries in the geographical, demographic or economic dimensions.

• IIRSA was born at an especially ambitious moment in terms of institutional innovation, as evinced by the characteristics with which it was launched, summarized in the Brasilia Declaration. First, because of the broad political consensus on which it was founded and the underlying visions set out to tap into the opportunities and face the threats posed by globalization. Second, because of its proposal to combine the modernization of an enlarged economic context with the recognition of a regional identity. Third, because of its conceptualization of regional integration, understood as a learning and cooperation framework and as a mechanism to gain scale as well as political and economic influence. Lastly, because of the conviction that physical integration may act as a catalyst for other regional integration dimensions.

• In addition, the Action Plan adopted at the Meeting of Ministers of Transport, Energy and Communications of the twelve countries concerned, held in Montevideo in December 2000, outlined the major guidelines that were to shape the Initiative for the following ten years. In this sense, it is worth pointing out, on the one hand, the complexity of its agenda due to its multisectoral, multinational and multidisciplinary character, and, on the other, the need to strengthen coordination among the governments and to implement collectively made decisions within each country's institutional organization. No doubt, this was a blossom moment of institutional innovation, perhaps representing a pinnacle in the 10-year history of the Initiative, though not at all the only one.

• Such peak moment of innovation was followed by a first management period lasting for IIRSA's first three years, during which its organizational scaffolding was mounted and set in motion. Management focused on proposing and exchanging ideas about the Integration and Development Hubs (EIDs – Ejes de Integración y Desarrollo) and the Sectoral Integration Processes (PSIs – Procesos Sectoriales de Integración), the two pillars of the Initiative, as well as on preparing the Business Vision for each Hub and preliminarily identifying the projects to be included.

• An EID is a multinational territorial space involving specific natural resources, human settlements, production areas and logistics services. Transportation, energy and communications infrastructure serve as its links, as they facilitate the flow of people, goods and services, and information within this territorial space and from/to the rest of the world. Therefore, the concept of EID surpasses other concepts previously used, such as "transport corridor" or "infrastructure network."

• In turn, a PSI aims at identifying the regulatory and institutional obstacles hindering the development and operation of basic infrastructure in the region, as well as at proposing actions to overcome such obstacles. Each PSI comprises services deemed key for integration purposes and that are, quite often, common to several EIDs. Some PSIs are specific to a certain type of infrastructure, but many of them are multisectoral; in this regard, they differ from their predecessors having similar goals, such as the "network management" concept. In every case, the PSIs demand coordinated action by the countries involved in order to remove any obstacles to development and promote the efficient use of infrastructure for physical integration.

• In 2003, IIRSA witnessed a second institutional innovation period -of less political bearing than the first one but more technically and operationally important-, which became known as the first phase

of the indicative territorial planning process. This second period of institutional innovation served as the framework for a second management period, which was concerned with the development and application of a territorial planning methodology that was basically of a qualitative nature and grounded in the views of experts very well acquainted with the reality of the projects, regions and countries involved. Moreover, this methodology helped the countries in building consensus on a common project portfolio and in establishing their priorities. This process was crowned with the adoption in 2004 of the Implementation Agenda based on Consensus 2005-2010 (AIC – Agenda de Implementación Consensuada) a subset of 31 projects selected from IIRSA Portfolio because of their priority to the physical integration of the region.

• IIRSA's third institutional innovation period took place at the end of 2005, as its first five-year mandate was coming to an end, when the strategic objectives for 2005-2010 were defined. With the approval of these objectives, IIRSA evolved into a new stage of reinforcing the achievements made to date, enhancing its environment for executive action and taking a qualitative leap forward in the indicative territorial planning process, which basically involved connecting infrastructure with other territorial development dimensions, such as production and logistics integration opportunities and the strategic environmental and social evaluation —intended to identify, characterize and assess the socio-environmental impact and risks of the projects as well as any sustainable development opportunity associated with the territory. Complementarily, the process of identifying, formulating and evaluating projects was sought to be enhanced through a georeferenced information system, a standardized database including all the projects within IIRSA Portfolio throughout their lifecycle, as part of several mechanisms developed to disseminate the Initiative, and the special treatment given to the financing of transnational infrastructure projects, among others.

• This new phase of institutional innovation served as a backdrop for the third management period, characterized primarily by the training of governmental technical staff members and an active agenda of meetings of the National Coordinators and Executive Technical Groups in order to move further on into the EIDs and a few PSIs. The most outstanding fact in this period is perhaps the progress attained in terms of project definition and implementation.

• The number of projects included in IIRSA Portfolio increased by more than 50% between 2003-2004 and 2010, whereas the estimated investment grew just over 150% in the same period. Furthermore, the progress made in terms of project implementation has also been substantive since 2005-2006. In so long as the public and private-public financial sources contribute the greatest share of IIRSA's project investments (83%), the fiscal surpluses of the decade that enabled the South American countries to stand again as infrastructure investors also account for the progress experienced in the physical integration of South America.

• The achievements of IIRSA can be divided into tangible and intangible. Among the former stand out, for certain, IIRSA Project Portfolio 2010, made up of 524 projects accounting for an estimated investment of US$96,119 million, distributed in 47 groups that belong to 9 Integration and Development Hubs, as well as the priorities set out from a regional perspective in the AIC. Among the intangible achievements,

the following can be mentioned: the knowledge as to the limitations of and opportunities for the region gained after numerous studies and diagnoses conducted within the framework of the EIDs and PSIs; the cooperation among the South American countries; the methodologies developed for territorial planning, including the training of governmental agents; the institutional capital built and mobilized at both governmental and regional agency levels; and the considerable mobilization of resources from regional technical cooperation mechanisms of the three CCT institutions.

• Since the First Summit Meeting of South American Presidents in Brasilia, when the initial step in the launch of IIRSA was taken, twelve summit meetings have been held, each one moving further on into the creation of the Union of South American Nations (UNASUR – Unión de Naciones Suramericanas), under whose aegis the last six of the twelve Summit Meetings were held. In addition, at the Third Summit Meeting of UNASUR (Quito, August 2009), the South American presidents decided to create, in such institutional context, the Infrastructure and Planning Council (COSIPLAN – Consejo de Infraestructura y Planeamiento), which in turn decided to include IIRSA as its infrastructure technical forum.

• Even though the Initiative is still young, the road to physical integration so far has been important, its results, at different levels, defining new initial conditions that are quite more favorable than the ones existing at the time the Initiative was launched.

• Today, IIRSA represents a valuable regional asset, but the approach and processes that gave birth to it and kept it alive can very well be improved if the governments decide to face the challenge to do so.

• Hence, this appears to be as a suitable opportunity to renew the commitment of the South American countries to regional integration and start a new period of institutional innovation that may help define the contextual conditions for the work of IIRSA in the years ahead.

INTRODUCTION

The proposal to create IIRSA in 2000 encountered a strong South American consensus thanks to a series of decisions made by the governments concerned and some interwoven economic and political events that had taken place in the previous decades. Nevertheless, the Initiative faced the challenge of being put into effect and proving its sustainability in time, overcoming political and economic fluctuations inherent in a region as diverse and complex as South America. All this, in addition, happened within the framework of a global economy subject to deep structural transformations and dramatic interim upheavals. The purpose of this publication is to recount the history of IIRSA weaving together descriptive and interpretative elements in order to show how the Initiative, with political, technical and financial support, started to reveal its presence with concrete results in line with the maturity of the integration project envisaged for South America. Some of the main ideas extensively developed throughout the book are summarized below. To make this process sustainable, it was necessary to prioritize consensus on shared elements rather than the national perspectives about integration, a decision that largely accounts for the success of IIRSA. A preliminary detail of the contents of this book is provided below.

Chapter 1 analyzes the economic and political circumstances that served as a backdrop for the launch of IIRSA at the first Summit Meeting of South American Presidents. After examining and confronting the dimensions of this region vis-à-vis others, attention is paid to the advances attained in the 1990s in terms of international integration, intraregional trade, territorial disparities, physical integration, and sustainable development. In the second part, a review is made of the political events leading to a regional atmosphere of peace and cooperation, defense of representative democracy, and concerted action in multilateral forums.

Chapter 2 deals with the institutional dimension of IIRSA, which has been crucial in implementing its complex agenda. The Initiative resigned to have a formal structure of its own and relied instead on existing national organizations to act as ad hoc entities through the political and technical bodies described and analyzed with some detail. The institutional organization adopted proved not only flexible but also efficient, since the interaction took place in clearly defined forums especially created for the exchange of visions, expertise and experiences as well as for adopting collective decisions and taking follow-up actions.

As a fundamental complement to these forums and interaction procedures, it was necessary to agree on the approaches, concepts and methodologies that would facilitate discussion as well as the reaching of understandings. These issues are discussed in Chapter 3, which starts by reviewing the two basic pillars of the proposal: the Integration and Development Hubs (EIDs – Ejes de Integración y Desarrollo) and the Sectoral Integration Processes (PSIs – Procesos Sectoriales de Integración). The second part examines the different phases undergone in the design and application of the concepts and methodologies that have ultimately contributed to changing the perspective —from a series of accumulated sectoral perspectives to a network vision with a territorial development approach.

Chapter 4 summarizes the outcomes of the Initiative, distinguishing between tangible and intangible results. Among the former, a review is made of IIRSA Project Portfolio, the regional priorities defined in the Implementation Agenda based on Consensus (AIC – Agenda de Implementación Consensuada) with its 31 regional integration

projects, and the actions oriented to facilitate the operation of the different Hubs and Processes. Among the intangible results, special mention is made of the lessons learned about the restrictions and opportunities of the region, the cooperation among the countries, the planning tools applied, the institutional capital built at government and regional organization levels, and the mobilization of regional technical cooperation funds.

An initiative as complex and far-reaching in scope as IIRSA will always have to face the challenge of changing circumstances. Chapter V analyzes the main events that took place in the economic and political context of the 2000s, confronting the strong interregional dynamics experienced in terms of trade and investments against the modest advances in the convergence of the formal integration schemes. The second part outlines the achievements and difficulties encountered to meet some of the expectations of the Initiative, differentiating the main institutional innovation time periods from others more centered on management.

Lastly, Chapter 6 proposes some topics for discussion, resulting from the analysis of IIRSA's experience in these ten years and bearing in mind its recent integration into UNASUR, which will be responsible for ensuring the continuity of the work and activities undertaken with a view to making headway in the integration agenda under a new institutional architecture. This appears, then, to be a suitable opportunity for renewing the commitment of the South American countries to the Initiative, although the timeliness, direction and concrete content of this new period of institutional innovation are, no doubt, a sovereign decision of the twelve South American governments.

CHAPTER 1
THE LAUNCH OF THE INITIATIVE

The agreement leading to the launch of IIRSA in August 2000 was signed in a very special context. Indeed, such agreement was born in the First Summit Meeting of South American Presidents, held in Brasilia at the invitation of the Brazilian President within the framework of the 500th anniversary of the discovery of Brazil. All the presidents of the twelve independent nations of the South American continent participated in this historical and pioneering event at the regional level [1]. The goal of the meeting was ambitious, as it was meant to promote the organization of coexistence within the shared South American territory and to foster the creation of a common environment of democracy, peace, mutual cooperation and integration, as well as shared economic and social development.

Although the Brasilia Declaration referred not only to integration infrastructure issues but also to democracy, trade, illegal drugs and related crimes, and information, knowledge and technology concerns, infrastructure for integration purposes is the area in which the broadest, most immediate and concrete agreements have been reached. This has been partly due to the background work that led to the specific proposals included in an Action Plan, which was duly and heartily welcomed by the presidents.[2] The plan comprised suggestions and proposals to extend and modernize the physical infrastructure of South America in the transportation, energy and communications areas. The main goal was to create several Integration and Development Hubs for the region's future expanded economic area, with particular emphasis on the situation of countries facing geographic constraints regarding access by sea to international markets. The political launch of the Initiative also included a schedule of specific actions, starting with the call for a meeting of ministers aimed at consolidating an integrated regional perspective on the necessary lines of action for the expansion and modernization of South American infrastructure on the basis of the aforesaid document.

Accordingly, the Ministers of Transport, Energy and Communications of the twelve countries met in Montevideo, Uruguay, early in December 2000. The fundamental guidelines regarding the different institutional bodies involved in the Initiative, the schedule for the start-up of approved actions within the Integration and Development Hubs and the Sectoral Integration Processes, and the frequency and specific dates of the subsequent institutional meetings —all of which will be discussed in detail in the following chapters— were laid down at this meeting. It is worth mentioning here some of the guiding principles, summed up in Box I.1, which have been instrumental in providing a framework for the actions of IIRSA and, more importantly, in relating the general goals of physical integration to other dimensions of regional integration processes.

1- The countries are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela. French Guiana, one of the four overseas departments of France, occupies the remaining territory of the South American continental area.

2- By request of the organizers, the Action Plan had been prepared by the IDB, with contributions from CAF, FONPLATA and other regional institutions and also from the governments of the countries within the region. Some studies made a particularly significant contribution, two of which were prepared and presented at the time of the Brasilia Summit: "*Vías para la integración*" ("Ways to Reach Integration") (CAF, 2000) and "A New Push for Regional Infrastructure Development in South America" (IDB, 2000). Others were prepared in Brazil: "Infrastructure for Sustainable Development and Integration of South America" (Eliezer Batista da Silva, 1996) and "*Eixos da América do Sul Impusionarão Desenvolvimento*" ("South American Hubs will Promote Development") (José Paulo Silveira, 2000).

BOX I.1
IIRSA: Guiding Principles

The vision of infrastructure as a key element of integration is based on the notion that the synergic development of transportation, energy and communications can generate a decisive driving force for overcoming geographical barriers, bringing markets together and promoting new economic opportunities, provided it takes place within a context of trade and investment openness, as well as regulatory harmonization and convergence. Besides, the improvement of infrastructure must be regarded as part of a larger process that leads to sustainable development and generates jobs and income for the people involved. The Guiding Principles for the development of the works within the Initiative were defined in line with these considerations.

- Open Regionalism
- Integration and Development Hubs
- Economic, Social, Environmental and Political-Institutional Sustainability
- Increased Value-Added for Production
- Information Technologies
- Regulatory Convergence
- Public-Private Coordination

Moreover, it should be noted that the implementation of the Initiative led to increased coordination and cooperation among the member countries regarding transportation, energy and communications issues, at both their political and technical levels, and with the regional financial organizations (IDB, CAF and FONPLATA) that had already been financing various infrastructure projects in countries within the region. This interaction with the financial organizations basically manifested at two levels: through the mandate given to the countries' representatives at the governing bodies of such organizations and, additionally, through joint work with their executive and technical areas [3].

3- See paragraph 44 of the Brasilia Communiqué signed by the South American presidents at http://www.iirsa.org/BancoMedios/Documentos%20PDF/comunicado_Bazilia_esp.pdf.

However, the key protagonists in this Initiative are, indeed, the twelve independent countries of South America that agreed to join efforts and resources to attain greater physical integration, which could in turn complement and catalyze the regional integration processes underway in South America at the time. This agreement was reached notwithstanding the heterogeneous nature of the twelve countries at various levels (see Figure I.1). In other words, a political will to seek a shared future, more closely integrated into the global economy and more regionally connected, prevailed over any difference among the member countries in the geographical, demographic or economic dimensions.

Figure I.1
South America: Area, Population and Gross Domestic Product

(Population in millions of inhabitants (2006); GDP in US$ billions (2007), and area in km^2)

Notas:

1. In thousands of inhabitants (2006 data)
2. GDP in US$ billions (2007 data)
3. Includes the Fernando de Noronha archipelago, the Rocas Atoll, the islands da Trindade e Martin Vaz, and São Pedro e São Paulo archipelago
4. Includes Easter Island and Sala y Gómez Island
5. Includes the island of Malpelo, Roncador Cay and Serrana Bank
6. Includes Galápagos Islands

Source: ECLAC, World Bank and CIA World Factbook

The differences regarding these three dimensions are indeed significant. Thus, for example, Brazil accounts for about half the total amount for South America in all three variables; in other words, Brazil amounts to the total sum of the remaining eleven countries that make up the subregion in terms of population, area and GDP. On the opposite end, Guyana and Suriname account for well under 1% both in terms of population and GDP and barely exceed that percentage in terms of area. The most densely populated countries in the region are Ecuador and Colombia, with over 40 inhabitants per km2, while the countries with the lowest population density, besides Guyana and Suriname, are Bolivia, Argentina and Paraguay.

1. SOME OUTSTANDING DIMENSIONS OF THE SOUTH AMERICAN REGION

Within the framework of a world economy that is simultaneously subject to both globalization and regionalization processes, South America continues to be relatively small when compared to the major world economic centers such as Asia, Europe and North America. This is so not only in connection with these areas' power in terms of production and market size, but also in terms of the degree of internal trade and production integration, which is particularly significant in the cases of Eastern Asia and Europe (see Table I.1).

Table I.1
South America and the Major World Economic Centers: GDP (2008) and Intraregional Trade
(in US$ million and percentages of total trade of each region))

REGION	ECONOMIC SIZE	INTRAREGIONAL TRADE					
		1980	1985	1990	1995	2000	2006
ASEAN+3+2 (15)	12,002	34.1	37.1	43.1	51.9	52.1	54.5
European Union (27)	18,326	61.3	59.8	67.0	67.4	66.8	65.8
NAFTA (3)	16,681	33.8	38.7	37.9	43.1	48.8	44.3
UNASUR (12)	2,913	…	9.0	11.9	23.8	23.9	23.6

a. The share of intraregional trade is the percentage of intraregional trade to total trade of the region concerned on the basis of 105 export data. It is calculated as follows: Xii/[(Xiw+Xwi)/2], where Xii are exports from region i to that same region, Xiw are i world exports, and Xwi are world exports to region i.
b. ASEAN+3+2 includes the 10 countries that make up ASEAN plus China, Japan, and the Republic of Korea, plus Hong Kong (SAR China) and the Chinese province of Taiwan.
Source: ECLAC and INTAL

In fact, the total GDP of the world's largest economic center (Europe) is over six times that of South America, while North America's is 5.7 times larger and Eastern Asia's, a little over 4 times larger. In turn, intraregional trade within Europe is traditionally very high (about two thirds of total trade). In the case of North America, intraregional trade increased significantly until 2000 —when it reached almost half of total trade—, but then decreased partly due to the fact that China superseded Mexico in the US market. As to Eastern Asia, the sustained growth of commercial exchanges within the region shows the increasing degree of production integration that has been taking place in the area. While smaller in size, internal trade within South America amounts to a significant portion of the area's total trade (around one quarter), but it is also true that it has not experienced significant changes since it reached this level in 1995. This means that there is still a considerable potential for growth of commercial exchange flows among the countries of the region, particularly if progress is made in connection with production integration.

As mentioned above, Brazil holds a preeminent position in South America. Nevertheless, the major

world economic centers show similar degrees of supremacy, as shown in Table I.2, at least as far as economic power is concerned. This means that in all of them one or two countries concentrate a high percentage of total regional trade.

Table I.2
Major World Economic Centers: Economic Supremacy

(in US$ million —2008— and percentages of total amount for each center)

ECONOMIC CENTER	GDP	Largest	Largest 2	Largest 3	Largest 4	Largest 5
ASEAN+3+2 (15)	12,002	40.9	77.0	84.7	89.0	91.3
European Union (27)	18,326	19.9	35.5	50.1	62.6	71.4
NAFTA (3)	16,681	84.5	93.5	100.0	…	…
UNASUR (12)	2,913	54.8	66.2	77.2	85.6	91.4

Source: United Nations, Statistics Division

Supremacy is considerably high in North America, where a single country (the United States) concentrates almost 85% of the regional GDP. Eastern Asia requires three countries (China, Japan and Korea) in order to reach a similar level, while the five largest European economies (Germany, France, United Kingdom, Italy and Spain) barely amount to 71%. In South America, Brazil concentrates almost 55% (the second highest level after the United States in North America), but is joined by other economies that add 10% each up to over 90% considering the major five. This means that the remaining economies in the region are relatively quite small, as happens in Eastern Asia and Europe.

Another aspect that has to be taken into consideration when establishing these comparisons is the relative size of the territory of the countries and their population density. In this regard, an interesting comparison can be established between South America and Asia. Surprisingly, Brazil's total area is slightly smaller than China's (8.6 and 9.6 million km^2, respectively) and Argentina's is slightly smaller than India's (2.7 and 2.9 million km^2, respectively). However, the two Asian countries are the most populated countries in the world (China, 1.3 billion inhabitants and India, 1.2 billion inhabitants). Consequently, the contrast in population density is overwhelming (Argentina, 15 inhabitants per km^2; Brazil, 24; China, 139; and India, 395).

Back to South America, it should be noted that the heterogeneous quality of the region's countries is translated into welfare inequalities, as can be seen in Table I.3, which shows the information on GDP per capita (at purchasing power parity), the Gini index of income inequality, the percentage of the population under the poverty line, and the UNDP Human Development Index.

Table I.3
South America: Inequalities among Countries

(in US$ at PPP; index numbers, and percentages)

Country	GDP per capita (ppp) (2009 estimation)	Gini coefficient (circa 2005/2008)	Population under (% circa 2005/2008)	Human Development Index (2007 calculation)
Argentina	13,800	51.9	21.0	0.866
Bolivia	4,600	56.5	54.0	0.729
Brazil	10,200	59.4	25.8	0.813
Chile	14,700	52.2	13.7	0.878
Colômbia	9,200	58.4	46.8	0.807
Equador	7,400	50.4	42.7	0.806
Guyana	3,800	…	…	0.729
Paraguay	4,100	52.7	58.2	0.761
Peru	8,600	47.6	36.2	0.806
Suriname	9,000	…	…	0.769
Uruguay	12,700	44.5	13.7	0.865
Venezuela	13,100	41.2	27.6	0.844

Notes:

1. The Gini index ranges from 0 to 100 (maximum inequality).

2. The Human Development Index is classified into levels: over 0.900, very high; 0.900-0.800, high; 0.800-0.500, medium; less than 0.500, low.

Sources: The Gini Index and extreme poverty, ECLAC, 2009a; Human Development Index, UNDP, and GDP per capita (PPP), CIA

The scale of these inequalities increases when considering distribution performance as compared to the rest of the world. Simple average Gini index values are as follows: South America (10 countries), 52.9; Africa (22), 42.7; Eastern Asia (12), 32.9; and OECD (24), 29.8 (see ECLAC, 2009a). Finally, as regards the Human Development Index, it should be noted that eight of the countries from the region rank within the high human development category (between 0.800 and 0.900) and that Chile, Argentina, Uruguay and Venezuela are quite close to the very high human development category. The remaining countries from the region rank well within the medium human development category (between 0.500 and 0.800). Overall, the situation described above fits South America's classification within the world's middle income countries, but it shows high income and wealth concentration.

2. THE ECONOMIC CONTEXT OF THE BRASILIA DECLARATION

Taken as a whole, the Brasilia Declaration is based on very special economic and political conditions that characterized the prevailing views at the beginning of the new millennium, especially those of the host country. This section analyzes the main characteristics of the economic context, while the following section discusses the political context.

a) Integration into the World

In the first place, the economic context reflects the unusual strength of the globalization process and the creation of large regional blocs. Indeed, the 1990s witnessed the consolidation of economic and financial characteristics rooted in enduring historical developments. This process gave way to the gradual creation of the conditions that transformed the world's economy from a mere aggregate of national economies connected by the flow of trade, investments and financing into global networks of markets that go beyond national borders. However, these processes -characterized by an unquestionable and growing drive- were not accompanied by an equivalent development of global institutions, whose agenda is incomplete and asymmetric (see Ocampo and Martin, 2003a).

During the 1990s, the world's economy grew at an annual average rate of only 2.6%, amounting to the lowest level of the post-war era for such a period. Nevertheless, within this framework of lower international growth, international trade grew at annual rates of about 6%, and foreign direct investment bordered on US$1.4 billion in 2000, i.e. seven times higher than at the beginning of the decade. In addition to the expansion of world trade and foreign direct investment, international financial flows increasingly grew to occupy a dominant position in the world economy (ECLAC, 2004).

But the centrifugal forces of economic globalization were matched by the centripetal forces of regionalization. Indeed, the aforesaid global trends were accompanied by an outburst of new regional integration initiatives. By the end of the 1990s, practically all members of the World Trade Organization (WTO) had entered into one or more regional agreements. Thus, while moving in apparently opposite directions, globalization and regionalism actually reflect complementary aspects of contemporary development.

South America is a good example of these twin forces. From the 1980s through the mid-1990s, the region unilaterally reduced its average tariff from more than 40% to 12%. Moreover, South American countries played an active role in the Uruguay Round and, by the end of the decade, practically all of them were members of the WTO. Parallel to this generalized opening, a wave of new free trade agreements were reached among countries from both inside and outside the region.

In order to describe these new regional initiatives, ECLAC came up with the notion of Open Regionalism, which combined the dynamics of regional integration schemes with unilateral opening and with the move toward integration within the hemisphere and with other regions and countries from around the world (ECLAC, 1994).

Besides, ECLAC incorporated this characterization of external expansion and regional cooperation approaches into its vision of equitable production transformation that had been launched in 1990 [4].

In the 1990s, Open Regionalism coincided with a sharp increase in international trade within the region (see Table I.4). The average annual increase in exports amounted to 12.3% in terms of volume, but only 8.0% in terms of value, due to the downturn in South America's terms of trade. Real growth rates were surpassed only by China and the most dynamic economies of Asia. However, imports into the region grew at similar rates as the volume of exports (12.6% against 12.3%), but at significantly higher rates in value (12.3% against 8.0%). Following international trends, the growth of foreign trade exceeded by far that of GDP, which grew at an annual rate of 2.7%, or less than a quarter of the growth of exports and imports.

Table I.4
South America: GDP, Foreign Trade and Foreign Direct Investment

(in current US$ million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP	824.6	828.5	871.0	968.2	1.151.4	1.386.7	1.479.9	1.574.9	1.544.0	1.244.4	1.319.3
Exports	103.5	100.4	109.5	116.3	136.1	156.8	166.4	176.8	165.7	162.5	192.5
Imports	77.9	89.2	107.7	124.1	145.9	177.6	186.2	212.7	210.4	174.8	194.5
FDI Inflows	4.7	7.0	9.1	8.0	15.8	19.1	33.1	49.8	55.6	69.7	57.1

Source: Prepared by the author based on available data from ECLAC

Due to this uneven evolution, the exports/GDP ratio increased to stand at 14.6% at the end of the decade, while the import/GDP coefficient reached 14.7%. The latter marks a sharp contrast with the figures for the 1980s, when it amounted to an average 10%. Consequently, the increased gap between the value of exports and imports generated larger trade deficits that, together with debt service payments and profit remittances, led to deterioration in the balance-of-payments current-account position, as pointed out by several studies (see, for example, Ocampo and Martin, 2003b). This deficit grew steadily from the end of the 1980s through the mid-1990s, when it stabilized at about 3% of the regional GDP. Besides turning into a major recipient of foreign direct investment (see again Table I.4), the region became a significant emerging client of the international financial markets.

4- The combination of unilateral opening, multilateral opening and regional integration has also been called "New Regionalism" (Ethier, 1998). However, in this case the emphasis is placed on its relation with the economic reforms that took place in the countries of the region since the mid-1980s. Accordingly, regional integration is seen as a sign of the persistent commitment with reform, emphasized by pressure from the regional partners. In other words, it is viewed as an effective instrument for furthering liberalization, reducing actual protection levels still further, and strengthening competition by means of mandatory rules (see Devlin and Estevadeordal, 2000).

Volatility and contagion have been two features inherent in rapid global financial development. Although the volatility of international financial markets is an old phenomenon, some of the characteristics of markets during the 1990s tended to intensify it. Among them, insufficient regulatory frameworks for both banking activities and institutional investors and brokers who operate in the derivatives market as well as the procyclical nature of the current legislation can be mentioned. Also, contagion problems generated by liquidity restraints are being faced by institutional investors in various markets, within the framework of incomplete information about emerging markets. Finally, it should be noted that several agents in the financial system use the same risk assessment system, generating a "domino" effect with their behavior when a country starts to experience difficulties (ECLAC, 2001).

In fact, South America suffered three severe crises, of different magnitudes according to the country, in less than a decade. The first crisis took place in Mexico in 1994-95 and affected some South American countries, notably Argentina, which later swept Uruguay in. In this case, the main contagion channel was financial. The second crisis originated in Asia during the second half of 1997 and had considerable effects by means of trade, but its impact rapidly spread out to emerging countries though the financial channel. Thus, the drop in the price of commodities was accompanied by financial crises in Ecuador and Brazil, not to mention the famous crisis in the Russian Federation. Although the third crisis broke out in 2001, difficulties could already be perceived a year earlier. From a financial point of view, this crisis had a deep impact on Argentina and contagion spread out to Brazil, Chile and Uruguay. Unlike the two previous crises, this one was also associated with a strong deceleration of the US economy, which generated severe reductions in the volume of exports from the region.

Consequently, the general feeling about the economic situation at the Brasilia Summit Meeting was that globalization constituted an irrepressible trend that moved at a faster pace year after year. No one questioned the fact that it offered good opportunities to the countries in region, some of which had started to be exploited during the 1990s, but it was also clear that it could have negative effects and, above all, that it posed many risks. Therefore, governments started to focus their attention on three complementary spheres of action: the international, the regional and the national arenas. National policies posed major challenges, some of which began to be addressed during the following decade.

Starting with certain basic political and institutional principles, national policies had to be developed along at least four fronts: macroeconomic policies aimed at reducing external and internal vulnerability and fostering investments in production; strategies aimed at developing systemic competitiveness and productivity; policies associated with the priorities of the environmental agenda; and highly active social policies focused on offering more opportunities to citizens, developing their capabilities and ensuring social protection. It must be said that there are no fixed models in these spheres, so there is a wide range of opportunities for institutional learning and, especially, for exercising democracy (Ocampo and Martin, 2003a).

Nevertheless, the purpose of the Brasilia Summit Meeting was obviously aimed at adopting common positions and generating progress regarding the other two spheres of action: the international and, particularly, the regional ones. Of course, any success in this endeavor would contribute to higher achievements in the

sphere of national policies. Reference to notions such as "common space, enlarged economic area and South American identity" and "regional coordination to face shared global challenges" that can be found throughout the Brasilia Declaration are irrefutable proof of the spirit of the meeting.

The Declaration also makes an explicit reference to the Open Regionalism strategy as the guiding principle for South American efforts in the international and regional spheres. The justification for this strategy is that unilateral liberalization does not guarantee the opening of the buying markets. Within an international environment still dominated by national regulations, governments have retained their right to define and negotiate the access of people, goods and services, capital and technology to their territory in a context of low tariffs but with new and severe restrictions of different kinds.

At the same time, the simultaneous development of globalization, on the one hand, and regionalization, on the other, may lead to a fragmented world characterized by free trade within the regional blocs and a more (explicitly or implicitly) regulated trade between such blocs and the rest of the countries. From this perspective, regional integration still makes sense, this time as a defense mechanism to compensate for some of the costs of an even greater isolation generated by an eventual hardening of protectionist measures by the large economic blocs of the world.

Consequently, regional integration is justified in both situations, although for different reasons. First, it is consistent with the active participation in an economic world order that shows increased openness and transparency, supplemented by unilateral actions, negotiations at the multilateral level and comprehensive agreements with other countries and regions of the world. Moreover, regional integration offers additional benefits in the geopolitical and cooperation areas. On the one hand, an international orientation increases the demand for a more active and coordinated participation of the countries of the region in hemispheric and world forums and, on the other, regional integration allows countries to enjoy better possibilities as a group of becoming more strategic and effective global players.

Second, regional integration represents a mechanism that allows the diversification of risks within an international economy that is filled with uncertainty. On the one hand, it promotes the building of consensus over regional opening, both among those with a free market orientation and those who favor protectionist measures. This is due to the fact that competition takes place within a well defined and familiar market in which it is often more symmetrical than the kind of competition experienced in the international arena. Besides, regional opening offers reciprocity, which is a compensatory element that contributes to a potentially more balanced outcome between short-term costs and benefits.

On the other hand, the development of regional markets generates interdependencies that increase, endogenously, the demand to further regional integration and cooperation in various areas: macroeconomic coordination, production and logistics integration, environmental management, infrastructure development and regulation, and trade facilitation, among others. The Brasilia Declaration explicitly refers to some of these issues and, particularly, it gives birth to IIRSA. The goal of the Initiative is to further the physical integration

of South America as an essential means to supplement the remaining aspects of regional integration and, especially, to serve as a catalyst for intraregional trade.

b) Intraregional Trade

The debt crisis and the resulting external sector troubles experienced by South American economies brought about a sharp drop in intraregional trade during the 1980s and an open crisis of the weakened formal integration agreements. However, to many observer's surprise, the situation started to revert itself at the end of the decade and consolidated during the 1990s (see Box I.2).

Box I.2
Milestones of South American Integration Through 2000

CAN

26 05 1969	Signature of the Cartagena Agreement by Bolivia, Chile, Colombia and Peru. Later adherence by Venezuela (1973) and withdrawal of Chile (1976).
18 12 1989	Galapagos Declaration: Andean commitment to peace, security and cooperation; and Strategic Design for the Orientation of the Andean Group. Galapagos, Ecuador.
23 05 1990	Creation of the Andean Presidential Council and of the Andean Integration System for the coordination of the institutions that make it up. Machu Picchu, Peru.
05 12 1991	VI Meeting of the Andean Presidential Council. Act of Barahona. A 4-level Common External Tariff is adopted. Cartagena de Indias, Colombia.
10 03 1996	Protocol of Trujillo, amending the Andean Subregional Integration Agreement (Cartagena Agreement). Trujillo, Peru.
01 08 1997	The General Secretariat of the Andean Community of Nations starts operating at its headquarters in Lima, Peru.
27 05 1999	Act of Cartagena. Increased integration and Common Market scheduled for 2005 at the most. Cartagena de Indias, Colombia.
10 06 2000	Act of Lima. Guidelines for the establishment of the Andean Common Market and Action Program 2000-2001. Lima, Peru.

MERCOSUR

26 03 1991	Treaty of Asunción. Treaty between Argentina, Brazil, Paraguay and Uruguay to establish a Common Market. Asunción, Paraguay.
17 12 1991	Brasilia Protocol. Adopted to complement the Treaty of Asunción. Protocol for the Settlement of Disputes within MERCOSUR.
17 12 1994	Protocol of Ouro Preto. Additional Protocol to the Treaty of Asunción on the Institutional Structure of MERCOSUR. Ouro Preto, Brazil.
25 06 1996	Presidential Declaration on Democratic Commitment. Protocol of Adherence by Bolivia and Chile. Economic Complementation Agreement between Chile and MERCOSUR.

16 04 1998	Framework Agreement for the Creation of a Free Trade Zone between CAN and MERCOSUR. Buenos Aires, Argentina.
29 06 2000	Approval of decisions for the re-launch of MERCOSUR towards the strengthening of the Customs Union on several issues.
01 09 2000	Decision to start negotiations to establish a free trade zone between CAN and MERCOSUR before January 2002. Brasilia, Brazil.

GUYANA AND SURINAME

04 07 1973	Treaty of Chaguaramas. Establishment of the Caribbean Community and Common Market (CARICOM) by Barbados, Guyana, Jamaica and Trinidad and Tobago. Chaguaramas, Trinidad and Tobago.
31 08 2000	First Summit Meeting of South American Presidents. Initiative for the Integration of Regional Infrastructure in South America. Brasilia, Brazil

In fact, intraregional trade (and the related investment) showed a strong dynamism: exports to the countries within the region grew faster than those to external markets. Consequently, the share of intraregional exports in total regional exports grew from 9% in 1985 to almost 24% by mid-1990. Such dynamism turned out to be paradoxical, as the most orthodox economic theories consider integration as a source of distortion of trade flows. What happened here indicates that, instead of diverting trade, integration is a source of new trade links. Thus, dynamic gains can be greater than static ones, as shown by the European integration (IDB, 2000).

This happened with the two South American integration processes that grew at a very rapid pace between 1990 and 1997. In the case of MERCOSUR, intraregional trade multiplied by five, and in the case of CAN, by over four. By the end of the decade, both suffered the blows generated by the Asian crisis that brought about a strong deceleration of economic activity in the region and severe crises in some cases. While the countries had to adopt defensive measures, there was no generalized breach of agreements, as had happened during the 1980s. Anyway, between 1997 and 2000, MERCOSUR suffered an accumulated shrinkage of 26% and CAN, of 30%.

Although commercial exchange grew considerably within each subregional bloc, trade relations between the blocs continued to be weak, at least, as far as could be expected from neighbors with relatively open economies and preferential trade agreements. Trade between the two subregions is relatively small: just between 4% and 5% of MERCOSUR's and CAN's exports are directed to one another; trade between the two subregions and their neighbors in Chile and CARICOM (Guyana and Suriname) is even smaller.

In addition to this difference between reality and potential, it should be pointed out that intraregional exchanges are of a better quality than those with the rest of the world. In fact, trade flows within South American integration blocs concentrated proportionally on industrial goods, especially those with high technological content, as can be seen in Table I.5. Thus, in the case of MERCOSUR, the percentage of exports

to the region of low-, medium- and high-technology manufactured goods not related to natural resources exceed the percentage of the same goods exported to the rest of the world in all cases. CAN, Chile, Guyana and Suriname show a similar pattern, with the addition of manufactured goods based on natural resources (Ocampo and Martin, 2004).

Table I.5
Intraregional Trade by Categories of Goods, 2000
(in percentages)

	PRG		NRM		LTM		MTM		HTM		NCP	
	IR	RoW	IR	RoW	IR	RoW	IR	RoW	IR	RoW	IR	RoW
Argentina	41.8	58.4	20.2	20.9	7.4	10.1	26.2	7.2	3.4	1.6	1.1	1.7
Bolivia	71.7	35.0	20.4	29.4	5.8	24.2	1.2	0.9	0.7	1.5	0.1	9.0
Brazil	8.5	30.9	18.3	27.6	16.3	10.9	44.8	18.5	11.7	9.0	0.4	3.1
Chile	24.2	47.7	45.7	45.5	9.5	1.5	15.6	3.2	2.6	0.2	2.4	1.9
Colombia	21,4	72.2	21.4	10.4	20.0	7.2	26.2	5.0	7.4	0.3	3.6	4.9
Ecuador	58.7	81.4	23.9	13.3	7.6	1.9	7.4	1.0	2.3	0.4	0.1	2.0
Guyana	46.4	31.1	44.0	36.4	5.5	3.1	2.5	2.1	1.5	0.3	0.2	27.0
Paraguay	56.0	64.2	11.7	20.6	7.1	12.6	0.8	0.6	0.7	0.7	23.6	1.4
Peru	25.3	36.5	45.3	38.6	16.3	16.8	9.2	0.8	2.0	0.1	1.9	7.1
Suriname	88.9	80.4	10.3	4.7	0.3	0.9	0.4	2.4	0.0	0.6	0.0	11.0
Uruguay	29.0	46.9	28.1	12.5	17.4	22.6	19.6	7.8	4.3	1.1	1.6	9.1
Venezuela	38.7	66.3	39.1	27.3	7.8	1.1	12.4	4.3	1.5	0.1	0.4	0.8

PRG: Primary goods; NRM: Natural resource-based manufactures
LTM: Low-technology manufactures; MTM: Medium-technology manufactures
HTM: High-technology manufactures; NCP: Non-classified products
IR: Percentage of intraregional exports
RoW: Percentage of exports to the rest of the world
Source: Prepared by the author on the basis of Table 3.10 in Ocampo and Martin (2004)

Taking into consideration Latin America and the Caribbean as a whole, there is another interesting fact from the 1990s that should be mentioned: the reversal of the historic notion that the intensity of intraregional trade is higher for smaller economies. In 1997, intraregional trade flows with the greatest relative size concentrated in MERCOSUR and CAN (excluding oil exports), as compared to the Central American Common Market (CACM) and CARICOM, which are made up of much smaller economies. Although this trend can revert itself, it shows South America's high potential for trade and investment, especially if such processes are complemented by greater physical, production and logistics integration.

Different sources point out other potential advantages of increased commercial integration. One of them is the possibility of tapping into the specialization economies for intra-industry trade among countries with similar development levels (IDB, 2000). Another is the increased participation of small and medium

enterprises in intraregional trade, especially with their neighbors, due to lower transaction costs. A third one would be the possibility of harmonizing a large set of regulations in order to reduce such costs, profiting from the geographical proximity and the similarities in cultural and institutional traditions.

In any case, the increased commercial interdependence revealed the need to speed up other aspects of regional integration. Traditionally, intraregional trade has been affected by macroeconomic instability, as it has shown high elasticity when faced with the sharp economic cycles experienced by several South American countries. Thus, macroeconomic cooperation became an essential element in the consolidation of commercial integration processes during the 1990s. In this regard, progress was made in connection with all the subregional agreements in force, and, also, more attention was paid to the development of regional financial institutions, taking advantage of the experience of the wide network of multilateral development banks.

Likewise, the expansion of trade generated a greater need for harmonization of the different regulatory systems: technical and phytosanitary regulations, customs codes and the provision of services, among others. Achievements in this area have been modest but significant. In turn, commercial relations regarding manufactured goods, as well as the contemporary trends in the creation of global value chains, favor the possibility of greater production and logistics integration both for the South American markets themselves and for foreign markets.

As for physical integration, in addition to the preparation of harmonized regulations on transportation, energy and communications, the significance of developing infrastructure networks and regulatory systems designed with regional integration in mind has been duly recognized. The application of this approach has also revealed the need to explore action fields that go beyond the national level. Gradual attempts at applying regional perspectives were made in connection with both integration infrastructure and the management of ecosystems shared by several countries.

c) Territorial Disparities

During the 1990s, the economic, social and political geography of the South American countries experienced significant changes. Indeed, new territories were occupied while others suffered stagnation or decline, and migrations significantly contributed to adjusting the patterns of human settlement within the region. At the same time, some economic activities thrived in certain urban and rural areas while others underwent crises of varying degrees of severity and length. The public decisions that had been traditionally centralized in the major national capital cities were progressively transferred in part to subnational political and administrative entities. Some innovations in transportation and their associated investments in infrastructure reduced the impact of distance on the movement of people, goods and information. In short, the human geography of the South American countries experienced major structural changes (ILPES, 2007).

Although several factors contributed to this process, the globalization of South American economies was probably the most significant. As the economies increasingly opened up to the world, the growing flow of capital, goods and services affected economic activities in varying degrees, generating an impact on the territories in which they were located. Thus, while some sectors managed to adapt and to establish

competitive advantages for their expansion into the global economy, others lost ground. The consolidation of large commercial and financial conglomerates in the main cities, as well as the many centers focused on agroindustrial, mining, forestry, fishing and tourism activities in coastal and rural areas, are clear examples of the former kinds of sectors. The latter are represented by the decline of manufacturing activities aimed at the domestic market, displaced primary activities, services for companies that did not manage to adjust themselves to the new rules of competition for a number of reasons, and many State-run utilities that were privatized, rationalized or decentralized. Therefore, a great number of agents were, at least for a relatively long time, excluded from the transition to production modernization. As they concentrated in certain areas and territories, these places suffered a similar fate (ECLAC, 2004).

The increase in trade among South American countries was a second major factor that affected the reorganization of the region's territory. As a consequence of the resurgence of the integration movement, transportation and communication infrastructure at several border areas was improved, steps were taken to share energy projects and services, and multinational tourist circuits were organized. The simultaneous resolution of certain border disputes also allowed the joint undertaking of some projects focused on production, as well as of environmental protection endeavors.

A third factor was the design and implementation of public policies aimed at addressing the strategic challenge of establishing and promoting an organization of the territory that is more supportive of economies that operate within the global market and with greater regional connections. In order to achieve this goal, public policies had to deal with the issues derived from the reorganization of the territory, especially those generated by the bleak future awaiting the territories on the losing end by aiming at either restructuring or abandoning them, and also those created by competing vested interests in the winning territories.

A significant endogenous force -the fourth factor affecting the reorganization of the territory- was the increasingly important role played by various public and private social agents from subnational spheres. This increased prominence is obviously linked to decentralization processes that were very strong in some countries from the region at the time. The leadership, cultural identity and innovation and negotiation capabilities of the local agents were decisive to maximize the benefits derived from the reorganization process in some cases and, in others, to reduce its negative consequences (Ocampo and Martin, 2003b).

During the 1990s, the growth of urban population in South America amounted to an average of approximately 3% per year, and was therefore slightly smaller than that of previous decades. Nevertheless, South America continued to be the most urbanized region of the developing world (73.4%), as large cities continued to offer the best incentives for the settlement of economic activities aimed at achieving international competitiveness.

In spite of this general trend, patterns vary from one country to another. Thus, in Argentina, Chile, Uruguay and Venezuela, urban population showed a lower growth rate, as their urbanization rate was already above 85%, while in Bolivia, Brazil, Colombia, Ecuador and Peru, urbanization rates ranged from 60% to 80%, as they maintained larger rural populations. The urbanization rate grew at a faster pace in the remaining countries of the region (Guyana, Paraguay and Suriname).

Due to these huge differences in the number of urban and rural inhabitants in the region, the growth of cities can be better explained by the difference between births and deaths than by migration from rural to urban areas. In the case of Brazil, for example, the growth of urban population due to migration from rural to urban areas during the 1980s amounted to 42%, while this source of urban population growth went down to 33% during the 1990s. Chile's case is even more extreme, as the contribution of rural-urban migration to urban growth amounted to just 10% from the mid-1980s to the mid-1990s (CELADE, 1999).

The consolidation of urban predominance introduced gradual but sustained changes into migration patterns. As rural-urban migration reduced its incidence throughout the region, migration from medium-size cities — typically, the capital cities of departments, states and provinces— to large cities (5 million inhabitants or more) became more significant, as did migration between metropolitan areas and from one country to another (Rodriguez and Villa, 1997).

The large metropolises, some of which can be regarded as global cities due to their size and economic significance, have shown two distinct tendencies. First, the population growth rate at their traditional centers has been low due to their advanced stage of demographic transition and a negative net migration. Second, they have shown a tendency to absorb minor urban centers located in their surroundings. This last phenomenon was not only due to the expansion of their territory and road networks in order to improve connectivity, but also to the relocation of many economic activities, which generated the emergence of sub-centers that link relatively independent business and residential dynamics.

In many cases, the expansion of metropolitan areas was also associated with a marked tendency toward socioeconomic segregation in residential areas. Indeed, restrictions on the access to housing generated the occupation for residential purposes in precarious conditions of areas that are vulnerable to natural disasters (flood management areas or potentially unstable hillsides), of abandoned industrial areas or of former waste disposal areas. Thus, urban segregation concentrates poverty in certain areas and isolates them from the more privileged sectors, deepening social inequality in relatively small territories.

In turn, rural population did not undergo major changes. The liberalization of trade benefited the modern export sector in particular and tended to exclude the poorly capitalized sectors or those located in marginal territories. As a result, the expectation that the increasing significance of agriculture and primary sectors would help to retain a larger rural population did not fulfill itself (Dirven, 1997). Consequently, large pockets of poverty with limited or non-existent possibilities of access to production gradually emerged both in several rural areas and in the periphery of major cities.

In any case, numerous empirical studies point out that there is a strong correlation between the concentration of population and that of economic activities (ILPES, 2007; World Bank, 2009). Therefore, in every country we can find scarcely populated areas with a low share of total production that coexist with areas concentrating one third of the total population where half of the goods and services of the country are produced. In some cases (Argentina, Chile and Uruguay), the latter can be found in a single jurisdiction, while in others it can be found along coastal areas that cover two or more jurisdictions (Brazil and Peru) or show a multi-center nature (Bolivia,

Colombia, Ecuador and Venezuela). This suggests that there are geographic or access factors that provide an explanation for the fate of territories in terms of their relative development. It is also true that given the same exogenous conditions, certain territories are more developed than others, which suggests the intervention of endogenous factors (human capital, agglomeration and specialization economies, and institutions).

In fact, the modern growth and new economic geography theories recognize that territorial disparities partially depend on primary characteristics, such as the relative abundance of natural resources and other fixed production factors, the soil and weather conditions and the proximity to means of connection to domestic or foreign locations. Nevertheless, these elements only account for part of the differences in economic activity among different localities. Other factors, related to economic interactions, can result in the uneven development of places that were similar in the beginning and, therefore, generate territorial disparities. These factors are generally endogenous and cumulative and are associated with economies of scale of different kinds and with the interaction of specialization, human capital and institutions (CAF, 2010).

It is relevant to analyze the impact of GDP per capita disparities in terms of the above mentioned territorial concentration on the generation of the country's GDP and the distribution of the population. Table I.6 shows the gap between the richest and poorest regions for some South American countries. Huge differences can be observed in all cases, with ratios ranging from more than two to six times as much.

Table I.6
South America: Territorial Disparities within Some Countries, circa 2005

(GDP per capita in US$ at PPP)

	Higher GDP per capita region		Lower GDP per capita region		Ratio
	Jurisdiction	Value (1)	Jurisdiction	Value (2)	% (2):(1)
Argentina	Province of Buenos Aires	10,059	Province of Santiago del Estero	2,500	24.8
Bolivia	Tarija Department	5,896	Potosí Department	1,617	27.4
Brazil	State of São Paulo	13,938	State of Piauí	2,960	21.2
Chile	Metropolitan Region	14,293	Araucanía Region	5,167	36.2
Colombia	Antioquia Department	9,926	Chocó Department	2,884	29.1
Ecuador	Province of Pichincha	6,840	Province of Morona Santiago	3,070	44.9
Guyana	…	…	…	…	…
Paraguay	…	…	…	…	…
Peru	Province of Lima	10,655	Apurímac Department	1,724	16.2
Suriname	…	…	…	…	…
Uruguay	…	…	…	…	…
Venezuela	Capital District	15,044	State of Amazonas	6,900	45.9

Data for the following years: Argentina, 2000; Bolivia, 2006; Brazil 2005; Chile, 2006; Colombia, 2000; Ecuador, 2004; Peru, 2005; and Venezuela, 2007

Source: Prepared by the author on the basis of Figure 1.1 of CAN (2010)

Broadly speaking, a strong association can be observed between territorial disparities in terms of GDP per capita and other indicators (illiteracy, infant mortality and life expectancy) that serve as a proxy indicator for access to basic health and education services in different territories (see Table I.7).

Table I.7
Correlation between GDP Per Capita Disparities and Social Indicators
(correlation ratios)

	Illiteracy	Infant Mortality	Life Expectancy
COUNTRY	GDP per capita	GDP per capita	GDP per capita
Argentina	- 0.55 *	- 0.45 *	0.18 *
Bolivia	- 0.70 *	- 0.62 *	0.64 *
Brazil	- 0.71 *	- 0.59 *	0.71 *
Chile	- 0.63 *	- 0.35 *	- 0.27 *
Colombia	- 0.72 *	- 0.18 *	0.23 *
Peru	- 0.56 *	- 0.61 *	0.64 *

* 95% significant correlation
Source: CAN (2010), Table 1.3

The correlation ratios calculated for each country on the basis of the observations from the related subnational units are significant in almost all cases, and their sign indicates that the areas that show the highest GDP per capita are also the ones that show the best welfare indicators. This means that the disparities in terms of GDP per capita tend to repeat themselves for basic social indicators. Therefore, the place of birth would be conditioning the future quality of life (CAF, 2010).

The role of history in determining the localization of economic activities and population is well documented, as is the strength of cumulative causation in creating territorial disparities and making them last. It is worth wondering, then, how territorial disparities in terms of GDP per capita and social indicators have evolved; in other words, whether a process of convergence took place or whether, on the contrary, the disparities have intensified. This evolution has been the subject of a large number of studies. Blyde (2005) shows that inequalities in GDP per capita have increased in countries from MERCOSUR, with the exception of Brazil; on the other hand, Pineda (2005) argues that such inequalities have slightly decreased among the Andean countries; and, as far as Chile is concerned, Anríquez and Fuentes (2001) and the OECD (2009) come to the conclusion that there has been a sound process of regional convergence. In turn, CAF found a solid convergence in illiteracy, infant mortality and life expectancy indicators. However, it warns that this might be the result of the spread of highly standardized technologies promoted and applied by national governments. This would not be the case with other indicators that demand higher intervention from local agents to improve the quality of services and provide access to them to the population in general (CAF, 2010).

In short, production-related activities and population are not evenly distributed throughout the territory. The creation of production agglomerations and associated urban concentrations is the result of certain dialectics among the incentives to concentrate or scatter. There are centripetal forces that foster concentration, such as production chains, access to larger and deeper job markets, and information externalities that favor the appearance and dissemination of new ideas. In turn, the centrifugal forces that encourage scattering are fixed factors (natural resources, installed fixed capital and, to a certain extent, labor) and diseconomies of scale manifested, for example, in the increase of income from the land, as well as in the congestion of infrastructure and in various forms of environmental pollution.

As far as public policy is concerned, it is worth pointing out that the processes that shaped the reorganization of the territories significantly reduced the effectiveness of traditional planning models from top to bottom. New forms of planning have emerged in their place with a more strategic and selective nature that offer better approaches and instruments to explore long-term options, reconcile public and private interests among themselves and with civil organizations and coordinate actions across government agencies (Martin, 2005). Within this framework, urban and regional planning during the 1990s was characterized by the search for convergence of public and private interests in order to increase the competitiveness of the different territories, reach higher levels of social equality and address crisis situations. To this end, the emphasis has been placed on those factors that can be modified by decisions born out of the communities themselves (endogenously accumulated) and that can have a decisive impact on long-term development: human capital, agglomeration and specialization economies and institutions, with high interaction among them (ILPES, 1998a).

d) The Regional Perspective of Physical Integration

The morphological analysis of the South American territory eradicates the illusion of a continuous space as, on the contrary, it reveals a territory that is difficult to bring together. A great number of massive barriers (mountain ranges, forests, swamps and fast-flowing rivers) generate several isolated enclaves or islands where production activities and human settlements have historically concentrated.

- The Caribbean platform, made up of the coastal territory of Caribbean Colombia and most of Venezuela, Guyana, Suriname and French Guiana
- The Andean strip that runs along the western slopes of the Andes from the isthmus of Panama through large swaths of territory in Colombia, Ecuador, Peru and Bolivia down to the south of Chile
- The Atlantic platform, stretching from northeastern Brazil to southern Argentina, covering Paraguay, Uruguay, some Bolivian departments and the Argentine pampas up to the Andes
- The central Amazon enclave, which includes the occupied area around the city of Manaus, with river connectivity toward the south along the Madeira river and to the east along the Amazon river

• The southern Amazon enclave, which occupies an area bounded by the Andes to the west and south, the Amazon rainforest to the north and the Pantanal conservation area to the east, covering several departments in Bolivia and Peru

South America boasts a long tradition of commercial exchange and physical connectivity within some of these spaces that started long before the arrival of the Spanish and Portuguese conquerors. The complex physical connection networks of the Andean region date back thousands of years. Exchange between the Pacific coast and the Andes sustained several civilizations whose achievements in art, agriculture and food technology were extraordinary. The development of these civilizations would not have been possible without the physical connectivity between the mountains and the coast (IDB, 2006). In turn, the road network built from north to south on the western slopes of the Andes enabled their expansion and the exchange among areas with different climates and complementing productions, as waterways did in other areas.

The nature of trade with the Spanish and Portuguese empires for over 300 years led to the occupation of coastal areas of the territory in several of these enclaves, but with scarce development of inland connectivity. On the contrary, the expansion of infrastructure has been instrumental to economic change since the 19th century: from the development of the railroad network in Argentina (and later, in Chile and Bolivia) to the design of road networks through the central areas of Brazil, which significantly modified the pattern of occupation of the territory and the country's production profile and export dynamics. Another example is Colombia's replacement of connectivity along the Magdalena river with a railroad system and a small road network that dramatically changed the patterns of occupation of the territory in a permanent way.

Recent progress toward a regional vision of physical integration fosters an increased presence in markets outside the region and, simultaneously, supports the expansion of intraregional trade and production integration, strengthening connectivity and reducing territorial friction costs. Gradually, people, goods, capital and knowledge start moving across increasingly open borders, provided other conditions allow it. Therefore, the strategic proposal is to focus regional efforts on building more (economically, socially and environmentally) effective connections for the physical integration of South America through the Integration and Development Hubs (see Chapter 3).

These are essential steps forward for South America, a region of moderate economic density within the global arena, located far away from the main global centers and with insufficiently integrated economies.[5] However, it is worth considering how the processes of trade opening and increase in intraregional trade have affected South America's access to the main external markets and among its twelve member countries. In other words, it is worth analyzing what economic benefits can be expected from integration and, also, how its proceeds are distributed among the participating countries.

One of the possible ways of exploring such questions is through the analysis of market potential, a simple indicator that makes it possible to measure the accessibility of a certain country to its possible markets. Moreover, as will be explained below, the variations in this indicator recorded for a certain period offer some

5- For an analysis of the global economy using these analytical categories with a focus on Africa, see World Bank (2009).

hints for estimating the impact of changes in policies or of various types of confrontations. Table I.8 shows the results of such analysis for South American countries in connection with other regional blocs: the countries of North America that make up the NAFTA, and the European Union (see Carciofi, 2008).

Table I.8
South America: Countries' Market Potential

(US$ million per km and percentages)

Country	In US$ million per km					In % of total potential market				
	Own	External			Total potential market	Own	External			
		Rest of South America	EU	NAFTA			Rest of South America	EU	NAFTA	
Argentina	3,573	1,129	1,088	1,603	7,394	48.3	15.3	14.7	21.7	
Bolivia	265	1,470	1,172	2,132	5,039	5.3	29.2	23.2	42.3	
Brazil	5,812	530	1,349	1,852	9,543	60.9	5.6	14.1	19.4	
Chile	2,401	998	1,028	1,711	6,137	39.1	16.3	16.7	27.9	
Colombia	3,496	779	1,331	3,312	8,917	39.2	8.7	14.9	37.1	
Ecuador	1,202	832	1,237	3,092	6,363	18.9	13.1	19.4	48.6	
Guyana	79	1,163	1,549	2,821	5,612	1.4	20.7	27.6	50.3	
Paraguay	489	2,172	1,170	1,777	5,607	8.7	38.7	20.9	31.7	
Peru	1,596	958	1,142	2,416	6,112	26.1	15.7	18.7	39.5	
Suriname	79	1,265	1,575	2,665	5,584	1.4	22.7	28.2	47.7	
Uruguay	877	1,392	1,098	1,581	4,948	17.7	28.1	22.2	32.0	
Venezuela	1,944	843	1,487	3,438	7,712	25.2	10.9	19.3	44.6	

Source: Table 1 in Carciofi (2008)

The table shows, in the first place, that for relatively smaller economies (Guyana and Suriname), as expected, external markets are decisive. On the other hand, in the cases of Argentina and Brazil, the main market is the domestic one, especially in the case of the latter (slightly over 60% of total potential market). Second, the contribution of the rest of South America to market potential is relatively larger in three countries (Bolivia, Paraguay and Uruguay). In the case of the first two, it is due to their mediterranean location and the fact that, together with Uruguay, they share borders with the two largest economies in the region. Finally, it is worth mentioning that the simple average of the contribution of South American markets to the total potential of all the countries from the region (19%) is lower than the contribution of external markets. This emphasizes the need to define strategies that combine expansion to external markets with regional integration and, in the case of the largest countries, with the capacity of taking advantage of their own markets.

Of course, the benefits derived from regional integration by the largest countries differ from those obtained by the remaining ones. The latter find in the regional market a means to overcome the restrictions of their own narrower domestic markets within a context that is relatively more convenient than the international one.[6] In the case of the largest countries, the regional market would seem less attractive, as it offers low potential contribution to that of their own market. Nevertheless, this complementation may have a strategic value as the largest countries are precisely the ones that dominate intraregional trade in medium- and high-technology manufactured goods, with higher value per unit (see Table I.9 and, also, Carciofi, 2008).

6- Thus, for example, in 2008, 64% of Bolivia's total exports went to MERCOSUR countries, while Paraguay's amounted to 68%.

Table I.9
South America: Unit Value of Trade between Countries

(in US$ per ton, year 2000)

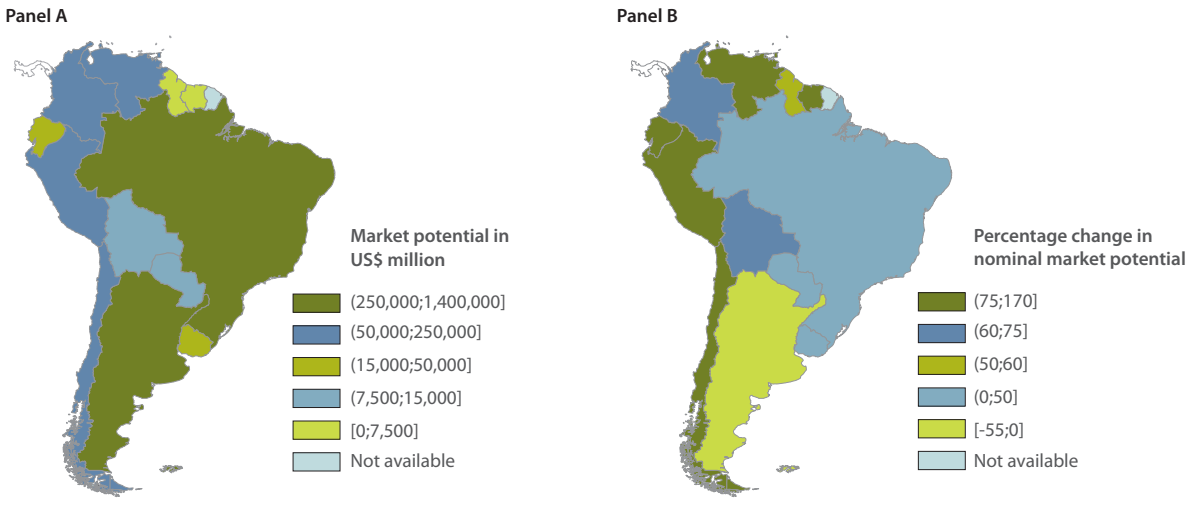
FROM \ TO	AR	BO	BR	CH	CO	EC	GY	PY	PE	SU	UY	VE
AR			364	212				452			682	
BO			56									
BR	643	662		1,334	1,138			712			828	726
CH	692		828						619			
CO			325			1,139			293			1,239
EC					418							
GY												
PY	229		220									
PE				251	855							641
SU												
UY	417		517									
VE			861		661				914			

Source: Technical Coordination Committee, "Herramienta de Trabajo para el Diseño de una Visión Estratégica"

It is also worth asking how the intensive trade liberalization that took place during the 1990s affected market potential, both in connection with the rest of the world and with the countries from the region. Ottaviano (2009) draws similar conclusions on the significance of the regional market according to the size of the countries, but he adds an interesting element when he examines how it varied after the reforms (see Figure I.2).

Figure I.2
South America: Market Potential of the Countries in 2007 and Rate of Change in Percentage Terms 1997-2007

(in US$ million per km and percentages)



Source: Ottaviano (2009)

Indeed, as can be seen in Panel A, market potential is much greater for Argentina and Brazil than in the case of the other South American countries, as was already mentioned. However, nominal market potential gains before and after trade reforms were much more beneficial for the medium- and small-size countries within the region, as shown in Panel B.

While the preceding analysis is revealing and the results do not contradict economic intuition, they rely on very rough approximations to trade relations among countries. Particularly, no reference is made to trade barriers and no distinction is drawn between administrative barriers (tariffs, quotas, standards and regulations, among others) and the cost of transport. Apart from the fact that there are still strong restrictions to free trade, especially in several developed countries, it cannot be denied that administrative barriers have been reduced. Consequently, the cost of transport has become relevant. In fact, it is estimated that the impact of the cost of transport on trade for developing countries is five times higher than the cost of tariffs (World Bank, 2001).

In the specific case of Latin America, emphasis is put on the fact that the cost of transport is significantly higher than tariffs as a result of trade liberalization. Major deficiencies in infrastructure, together with low competition in transportation services, are the main causes of this phenomenon. It is estimated that the reduction of the cost of transport might have a much higher impact than tariff liberalization, in terms of both trade volume and diversification of the countries of the region (Moreira et al, 2008).

It should be emphasized, on the other hand, that the value of physical integration is boosted by progress in the other dimensions of regional integration. This has been recognized from an early stage in the regionalization process. As has already been mentioned, a greater commercial and production integration would make it possible to take advantage of the economies of scale within the bloc as a means to obtain efficiency and competitiveness in foreign markets and, also, to develop complementing strategic capabilities in production and in the creation, adaptation and transmission of knowledge and of new technological capabilities.

e) Infrastructure and Sustainable Development

As is well known, a country's economic expansion and increased production are closely related to the behavior of investment in human capital, technology, and machinery and equipment. However, these are not the only kinds of investments that affect growth and productivity. The number and the quality of infrastructure services, as well the management of natural capital, have a significant impact on economic development and considerable social effects. Besides, in both cases the regional dimension is vital, as on some occasions it offers characteristics and effects that go beyond national borders (ECLAC, 2004).

While the development of infrastructure that took place during the 1990s partially made up for some of the delayed improvements that had accumulated in prior years, it seemed logical that there would be a considerable increase in the demand for infrastructure services in South American countries with the beginning of the new millennium, especially in connection with infrastructure for regional integration. The main reason is that existing infrastructure was insufficient and the quality of its services was very poor. Therefore, it was necessary to come up with policies and incentives designed to stimulate public and private investment in infrastructure in order to overcome the large number of bottlenecks that had been identified.

In turn, the region's wealth in terms of biodiversity and natural resources offered a wide range of renewable and non-renewable resources, whose management and exploitation continued to be at the heart of international expansion and regional integration strategies. Indeed, a quarter of the world's forests and almost half of its tropical forests can be found in the region. More than 40% of the land is devoted to agriculture, and the region holds one third of the world's water resources. Moreover, 40% of the planet's biodiversity is concentrated in it. Brazil, Colombia, Ecuador, Peru and Venezuela are regarded as megadiverse countries and are home to many plants with high economic value (ECLAC, 2004).

Although international environmental concerns had already mobilized governments during the 1970s, the notion of sustainable development inexorably changed the perception of environmental issues.[7] This concept was introduced in 1987 with the publication of Our Common Future (also known as the "Brundtland Report"), but it became widely known a few years later. In fact, it became popular with the United Nations Conference on Environment and Development (the Earth Summit, Rio de Janeiro, 1992). This Conference became a milestone in the process for the definition of a global agenda for sustainable development and gave way to political consensus at the highest level.[8] Therefore, the meeting was a turning point in the negotiation of multilateral agreements, with a broad view of development that recognized the significance of reconciling production and trade with the sustainable use of natural resources and the protection of the environment (Ocampo and Martin, 2003a).

As a result, environmental issues started to appear on the agenda of international negotiations —first, on their own merits and second, in connection with several issues related to trade negotiations within the framework of the WTO. Thus, new spaces for the joint treatment of these issues gradually developed (for example, environmental measures related to trade, market access, labeling for environmental purposes, and so on) (see Ewing and Tarasofsky, 1997). The interaction between environmental issues and negotiations on copyright related to human health and the animal and vegetable kingdoms was recognized some years later (Fourth WTO Ministerial Conference, Doha, 2001).

International awareness of the interdependence of countries in connection with global public goods made it possible for the Conference's legal documents to be adopted and ratified faster than in previous decades and for almost all countries to sign them. As a result, several of these initiatives became an inevitable point of reference for governments, private companies and civil organizations by the beginning of the new millennium.

In spite of the fact that the international community committed itself enthusiastically to the application of these agreements, the initial fervor gradually lost momentum. Almost a decade after the Rio Summit, there was a considerable delay in their actual implementation, with the probable exception of progress made in connection with the Clean Development Mechanism. Although the main principles of the Earth Summit were

7- In Only One Earth (United Nations Conference on the Human Environment, Stockholm, 1972) the emphasis had been placed on the technical aspects of pollution generated by accelerated industrialization, the growth of population and high urbanization rates. However, it was expected that technological advances would take care of contamination issues by themselves.

8- Three major initiatives were approved at the Conference: the UN Framework Convention on Climate Change, the Convention on Biological Diversity, and the UN Convention to Combat Desertification, which are collectively known as the Rio Conventions.

endorsed at several subsequent meetings, especially number 7 (common but differentiated responsibilities) and number 15 (precautionary approach), progress has been slow due to difficulties in reconciling opposing interests and in establishing goals and concrete measures accepted by all.

It must be pointed out that South America's singularity lies both in the richness and international relevance of the environmental services related to its natural resources and in the global risk posed by a possible process of accelerated environmental deterioration in the region. The economic assessment of these environmental services is essential in order to achieve a coherent regional effort to protect strategic ecosystems and to obtain support from all countries to this end. Nevertheless, as far as climate change is concerned, progress in connection with global agreements on amounts and financing mechanisms for mitigation and adaptation efforts in developing countries in general, and in South America in particular, have been slow and are still the subject of ongoing multilateral negotiations.[9]

Parallel to these global developments, South America witnessed the implementation of some cases of cooperation on sustainable development. To this end, some existing regional cooperation processes were expanded to include environmental issues, such as the Amazonian Cooperation Treaty (1978), which served as a framework for the Special Commission of the Amazon Region on the Environment (CEMAA, in Spanish), created in 1989. In other cases, an environmental dimension was added to the structure of institutions from existing subregional trade and integration agreements. Thus, MERCOSUR introduced basic guidelines and goals for the sustainable development policies and environmental legislation of its members in 1994 and, one year later, the ministers agreed to establish a work group on environmental issues with similar purposes. Likewise, CAN created the Andean Council of Environmental Authorities in 1998 to support its General Secretariat in the design of environmental policies.

Moreover, the search for more comprehensive regional mechanisms that allowed the adoption of the agreements reached at the Rio Summit led to the creation of the Forum of Ministers of the Environment of Latin America and the Caribbean, made up of more than 30 national authorities. Since its creation in Havana in 1995, the Forum has met every two years and has consolidated as an effective mechanism for the exchange of national experiences and the adoption of a shared regional position on issues related to the Summit.

As in other regions of the world, the establishment of environmental institutions by South American governments accelerated after the Rio Summit, although the approaches differ from one country to another. Most of the countries established specialized ministries that adopted the integrated management of contamination, natural resources and sustainable development (Argentina and Brazil, for example). Others chose to start by creating commissions or multisector councils and, today, also have specialized ministries (such as Chile, Colombia and Peru).

9- For a recent analysis of the state of international negotiations and their implications for Latin America and the Caribbean, see the magazine Integration & Trade, issue 30, on this subject (IDB-INTAL, 2010).

Gradually, progress was made in the regulatory sphere with the passing of environmental laws and the definition of a series of technical standards and regulations. These entail direct or indirect regulation. The former include standards on land use, regulations on environmental conservation and use of natural resources, environmental impact assessment and the granting of licenses. Indirect regulation instruments include property rights and tenure, tradable rights or quotas, as well as fiscal and financial incentives (or disincentives). Due to a variety of restrictions, experiences from several countries show that both kinds of instruments offer better results as complements than as substitutes for each other (ECLAC/UNDP, 1999).

Some headway was also made in the coordination of environmental policies with other areas of public policy that have a significant impact on the environment, such as exports and investments, urban development, agriculture and infrastructure. In these cases, however, actions have been mostly reactive and have evidenced a relatively poor power of negotiation by the environmental authorities (Ocampo and Martin, 2003).

Other institutional initiatives that complement these developments at the executive level of the federal or central government, according to the country, should also be mentioned. The first one is the creation of specialized commissions in almost all parliaments of the region to deal with environmental issues. However, it has been suggested that they should be supplemented with mechanisms that are typical of parliamentary activity (surveys, public hearings, evaluations and so on) in order to stimulate lawmakers to provide a better answer to the demands of their constituencies.

Moreover, it is worth mentioning the increasingly significant role of the courts of justice in the protection of "diffuse" or collective rights and in the design and implementation of procedures against offenses and crimes that result in environmental damage. In this respect, the role of public defendants and citizen advocates (ombudspersons) is also relevant in the promotion of justice regarding environmental rights and duties.

Finally, due to the decentralization policies adopted by many of these countries during this time, several environmental planning and management powers have been fully or partially transferred to local governments. On many occasions, these authorities lack the necessary functional structures, the human and financial resources and the incentives to fulfill these tasks, although many environmental issues have a strong effect at the local level. In spite of all this the progress made at the institutional level of South American governments, the follow-up, control and disciplinary capabilities in place are still insufficient. Therefore, social agents perceive that the goal of regulations is not always fulfilled.[10]

As mentioned above, one of the key elements of the discussions on sustainable development is the emergence of a number of stakeholders, besides governments, who can act in both a proactive or reactive manner. Thus, together with the institutional changes that took place in the public arena, large private

10- In a survey conducted in 1998, 87% of the interviewees in Argentina considered that environmental legislation and regulations were not fully enforced. The same opinion was expressed by 86% of those who were consulted in Colombia, 78% in Venezuela, 74% in Chile, 67% in Uruguay and 61% in Brazil (see Ocampo and Martin, 2003b).

companies and corporate organizations got increasingly involved in environmental issues. Global initiatives started at the beginning of the decade, but they were implemented later in the region. The Latin American Chapter of the World Business Council for Sustainable Development was created in 1997. This Chapter initially grouped more than 300 major companies and was intended to conduct research and studies to contribute to environmental education and training in the corporate world. Other actions were also implemented to improve corporate environmental performance, especially the certification of compliance with voluntary standards (ISO 14000). By the end of 1999, 146 Brazilian companies, 81 Argentine companies and a smaller number of companies from other South American countries had obtained certification, and this process has been growing steadily since then (Ocampo and Martin, 2003b).

Another highly relevant stakeholder has been civil society, for whose organizations environmental issues became their own cause, generating a strong popular response and large demonstrations in all geographical areas, with tight connections among them. At the same time, democratization processes expanded the room for participation in the search for solutions to the citizens' demands. The changes that have taken place imply that these demands are not only the expression of the need to recognize certain rights but also of the need for the joint undertaking by all agents (public, private and social) of actions aimed at finding solutions to problems, even when the motives behind each stakeholder may be different.

Of course, each country's political culture at the different levels of government is a determining factor in the establishment of these alliances. Many times, the underlying social pacts are only based on tacit agreements and, therefore, they are not capable of clearly assigning roles and responsibilities among the different stakeholders. When this happens, positions become polarized, conflict wins over cooperation, and suspicion becomes an insurmountable barrier among the various agents involved. Anyway, evidence shows that the issue of sustainable development became increasingly relevant in the agendas of South American countries.

All these events and perceptions helped shape and relate the different dimensions of the economic context in which the Brasilia Declaration and, especially, the launch of IIRSA took place. It is time to analyze now the political context that enabled the initiative of the Brazilian government to receive unanimous political support from the remaining South American governments.

3. THE POLITICAL CONTEXT OF THE BRASILIA DECLARATION

As a result of the processes that led to the recovery and enhancement of democracy in the region, and of the end of the disputes between some of its countries, South America saw the gradual emergence of an atmosphere of peace and cooperation, of defense of shared values and of coordinated action to pursue common interests at multilateral forums.

a) Regional Defense of Representative Democracy

The deep changes that took place around the world by the end of the 1980s led to the almost universal recognition of the advantages of representative democracy as a form of government. In South America, this

perception coincided with a move toward democracy that had began during the 1980s and consolidated in the following decade. Widespread representative democracy was an unprecedented occurrence in the region. Suffice it to say that the twelve South American governments had been democratically elected during the 1990s, but only five of them had had uninterrupted democratic elections since 1980 (See UNDP, 2004 and Table I.10)[11].

Table I.10
South America: Presidential and Congressional Elections, 1990-2000

COUNTRY	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Argentina		L	U	L		P,L,U		L		P,L,U	
Bolivia				P,L,U				P,L,U			
Brazil	L,U				P,L,U				P,L,U		
Chile				P,L,U				L,U		P	
Colombia	P,L,U	L,U			P,L,U				P,L,U		
Ecuador	S		P,S		S		P,S		P,S		
Guyana											
Paraguay				P,L,U					P,L,U		
Peru	P,L,U		S			P,S					P,S
Suriname											
Uruguay					P,L,U					P,L,U	
Venezuela				P,L,U					P,L,U		P,S

Notes:
P: Presidential election
L, U and S: Congressional election (B: lower house; A: upper house; y U: single house)
Source: UNDP (2004)

Table I.10 shows that both presidential and congressional elections followed a normal pattern during the 1990s. Although this process was promoted by global events, it was essentially the result of deeply entrenched national convictions derived from the tough lessons learned during the previous decades.

It is a well-known fact that democracy is more than a method for choosing a government; it is also a way of building, ensuring and expanding freedom, justice and progress, organizing tensions and conflicts. But South American democracy consolidated under very particular circumstances: first, within the framework of the so-called lost decade of the 1980s and, later, of the economic reforms of the 1990s, in the midst of high expectations and strong tensions. As a result, a triangle made up of representative democracy, poverty and inequality gradually came into being (UNDP, 2004). In this context, many men and women simultaneously consolidate their political rights and find it difficult to fully enjoy their civil and social status; therefore, significant gaps can be verified in all countries. Nevertheless, these deficiencies of the democratic system are

11- Guyana achieved independence from the United Kingdom in 1966 and was governed by a series of military groups until 1992, when a government was elected according to the Constitution, a process that has continued without interruption to this day. Suriname gained independence from the Netherlands in 1975 and was governed by military groups until 1987, when authorities were elected as provided by the country's Constitution; the military overthrew the civilian government in 1990 and remained in power until 1991, when a new government was elected. Elections have been held periodically since then (see CIA Fact Sheets).

not a sign of failure but of the fact that it faces many challenges. Of course, the South American presidents were fully aware of the need to address the challenges posed by democracy in the region (see the Brasilia Communiqué, paragraphs 24, 25 and 26).

Although the consolidation of representative democracy underwent certain difficulties during the period, such as those experienced by Brazil (1992), Ecuador (1998 and 2000) and Paraguay (1999), the region offered a strong response and proved its capacity to overcome these institutional crises with great support from the rest of the countries. Both the possibility of future threats to the democratic order and the effectiveness evidenced by the regional response led countries to look for collective strategies to defend democratic principles.

Thus, the MERCOSUR nations (Argentina, Brazil, Paraguay and Uruguay) started out by signing the Presidential Declaration on Democratic Commitment in 1996, followed by the Protocol of Adherence signed by Bolivia and Chile. In 1998, the six countries signed the Ushuaia Protocol on Democratic Commitment. In this document, the countries agree that the full effectiveness of democratic institutions is an essential condition for the existence and development of the integration processes. They also agree that any disruption of the democratic order represents an unacceptable obstacle to the continuity of the regional integration process, and establish the procedures that will be implemented by the member States in the event of the disruption of the democratic process in any of them.

In 1998, CAN signed the Declaration of the Andean Presidential Council, which establishes that the Andean Community is a community of democratic nations and that its main objectives include the development and consolidation of democracy and the rule of law, as well as the respect of human rights and fundamental freedoms. In addition, the Andean Presidents requested the preparation of an Additional Protocol to the Cartagena Agreement known as the Andean Community Commitment to Democracy, signed by the member countries between 1998 and 2000. This protocol emphasizes that the full effectiveness of democratic institutions and of the rule of law are an essential requirement for Andean cooperation and integration, and also establishes the procedures to be implemented in case of the disruption of the democratic order in any of the member countries.

Inspired by these two protocols, the South American presidents agreed that maintenance of the rule of law and strict respect for the democratic system in each of the twelve countries of the region are at once a goal and a shared commitment and are henceforth a condition for participation in future South American meetings. Having due regard for existing regional mechanisms, they agreed to conduct political consultations in the event of a threat of disruption to the democratic system in any of the member countries (Brasilia Communiqué, paragraph 23).

b) Promotion of an Environment of Peace, Security and Cooperation

During the 1990s, South America, a region with a very low conflict rate, made remarkable progress toward creating an environment of peace and generating an atmosphere of friendship and cooperation among governments. While this environment consolidated due to the end of some disputes between certain countries, nobody hoped that these differences had been finally eradicated from the region. Instead, the

prevailing view was that the countries agreed to resort to the pacific settlement of disputes principle as provided by international law, as opposed to the threat of or actual use of force against their neighbors.

This gradually led to the conviction that peace, security and cooperation within the region had to be based on the commitment to strengthen mutual trust, renew friendship and promote development and cooperation. Also in this respect, South American pronouncements were built on the foundation established by the two subregional blocs. CAN had referred to the subject in 1989 through the Galapagos Declaration: Andean commitment to peace, security and cooperation. Almost a decade later, the political declaration signed by the MERCOSUR members, Bolivia and Chile defined these countries as an area of peace (Ushuaia, 1998).

Although the Brasilia Declaration established the region as a peace zone (see paragraph 5), the initiative was implemented shortly after with the Declaration on a South American Zone of Peace (Guayaquil, 2002). This declaration bans the use of force and any action related to weapons of mass destruction (including nuclear weapons), and commits to the full eradication of antipersonnel mines from the region. Moreover, South American countries commit themselves to fostering trust, cooperation and ongoing consultations in the areas of security and defense, as well as to coordinating actions at the relevant international forums. Finally, the twelve countries agree to increase transparency in the purchase of arms and to impose gradual limitations on such purchases.

c) Regional Commitment to Multilateralism

The basic idea of the Brasilia Declaration is that South America can play a major role in the international scene with the capacity to impact on global reorganization if it acts with a single voice and in coordination with other groups of countries with shared interests. This unified vision must be aimed at developing a strong multilateral effort that responds to the world changes that have taken place in various dimensions and, particularly, must promote the creation of a world order that shows a higher balance between the rights and the commitments of developed and developing countries.

Although major obstacles stand in the way (lack of shared principles, unequal influence of the players, and instability of coalitions in the face of complex agendas), some of the culminating issues of the international agenda are mentioned. Thus, the main challenge for the region is to arrive at a common position regarding the new international financial architecture (paragraph 17), trade negotiations within the framework of the WTO (paragraphs 15 and 16), and issues related to sustainable development originating in the Rio Summit (paragraph 3).

In the first case, while it is recognized that the international financial development boom has given way to financing opportunities and risk hedging, it is also underlined that it has evidenced the serious troubles posed by the contrast between the dynamic forces of the market and the weakness of the institutional frameworks that regulate them. The coexistence of financial globalization and national macroeconomic policies generates strong tensions in developing countries, adding to the concerns of their financial systems mostly embodied in the notions of volatility and contagion.

Regarding the second challenge, it is recognized that the sustained growth of international trade and the development of stronger multilateral rules within the framework of the WTO promote a better integration of developing countries into the world economy. But these favorable processes face the incomplete opening of the developed economies (especially, but not exclusively, regarding agricultural issues) and the demand for developing countries to adapt to international regulations in several dimensions associated with trade.

Finally, it is argued that globalization values comparative environmental advantages, such as the sustainable use of natural capital (agriculture, forestry, fishing and tourism), the preservation of ecological capital (genetic information contained in biodiversity and the role of forests as a drain for carbon and other contaminants), and the protection of natural capital with historic, scientific and aesthetic value. While significant progress has been made on the basis of adequate principles, the degree of ratification and implementation of the agreements is still low.

The present situation of international negotiations in connection with all these issues imposes tough dilemmas on developing countries. On the one hand, it is often better to keep negotiating than to sign an unfavorable agreement and, on the other, lack of progress in multilateral negotiations fosters the signing of bilateral or regional free trade agreements that include many issues on which there is no consensus at the multilateral level.

4. FINAL REMARKS

The economic and political context that gave rise to IIRSA was special for a number of reasons. In the first place, it embodied a positive agenda amid the complex reality of globalization. It leaves behind the two other possible ways of approaching the issue: resisting it in a passive way or indulgently adopting it. The path taken relies on the fact that South America is seen as a relevant agent in the reorganization of the world order, and on the conviction that there is a wide range of modalities of development and integration into the global economy, as shown by different industrialized and developing countries.

Second, it is believed that the years to come will be trying for the region as, while globalization offers major opportunities for development, it also involves the risk of exclusion for those developing countries that are not adequately prepared to meet the demands of competition in the contemporary world. Another risk is an increase in the structural heterogeneity among companies, social sectors and regions within the countries that enter the world economy in a segmented way.

Third, the agenda tries to reconcile identity and modernization within the region. On one hand, it seeks to meet the challenges of contemporary development by modernizing the regional "expanded economic area" and, on the other, it insists on the idea of a "regional identity." In this respect, strong reference is made to the various dimensions of these processes; in fact, a much stronger and ambitious reference than the characterizations that are generally made in the statements of governments.

Fourth, the progress made in the various aspects of the regional integration process plays a major bidimensional role in the agenda: as a space for commercial, production, corporate and technological cooperation and

learning, and as a platform for international expansion. Complementarily, it represents a mechanism for gaining political and economic status and influence and, also, for diversifying risks within a global economy plagued by uncertainty in different areas.

Fifth, the integration of South American infrastructure is seen both as one of the many dimensions of regional integration and as a strategic decision. In this respect, it might be convenient to reinterpret some of Hirschman's (1970) ideas regarding development strategies, particularly his insistence on the need to identify efficient sequences instead of excluding options: "… isolated progress in an area is possible, but only for a limited period; if it is not to be choked off, it must be followed by progress elsewhere…" An efficient sequence is the one that organizes actions on the basis of their greater capacity to induce the one that comes after it.[12] Apparently, the South American presidents decided that such role could be played by regional infrastructure.

As will be seen below, many of the dimensions that helped define the initial conditions for the emergence of IIRSA have undergone change and evolution. Both will be analyzed after the presentation of the institutional organization, the conceptual approach and the main results of the Initiative in the next three chapters. These descriptions will also contribute evidence and facts that will be useful for a dynamic analysis of the process. In turn, this will allow the definition of the new initial conditions that are necessary in order to explore the future challenges of IIRSA.

12- See Hirschman (1970) pp. 78-79.

CHAPTER 2
INSTITUTIONAL ORGANIZATION

As already stated, the convergence of political processes and economic developments in the 1990s encouraged the South American countries to strengthen the integration process in the region. This process was grounded in the growing weight that intraregional trade was gaining and in expectations as to the sustainability of such dynamics. Among other issues, it was essential to overcome the bottlenecks derived from an increasing deficit in the supply, quality and interconnection of the infrastructure for regional integration purposes. Furthermore, infrastructure was considered to be in the critical path toward a closer integration —i.e. it was seen as having a high potential for catalyzing other dimensions of the process.

The creation of IIRSA responds to such considerations, and its foundations lie in three concurrences. First, there was a broad consensus in the region on the need to keep and increase the dynamics of intraregional market growth and become more competitive in the global market. Second, a growing deficit in infrastructure, in particular that associated with integration, as a result of the significant reduction in public investment of previous decades, was recognized. Lastly, there was a need to expand financial facilities and develop innovative mechanisms intended to increase the flow of public and private funds into projects of this kind.

In turn, IIRSA's intervention strategy incorporated two original features. On the one hand, the territory was its focus of attention. Therefore, infrastructure issues were addressed comprehensively, meaning that the transportation, energy and communications areas were brought together in order to tap into existing synergies with a view to improving production and trade logistics, thus increasing competitiveness. On the other hand, multilateral financial agencies had an active participation not only at the time of the creation of IIRSA but also thereafter, providing support to the Initiative.

Consequently, a decision was made to undertake huge territorial organization efforts to bring South America on to the global stage, encouraging a comprehensive infrastructure development, from the physical and institutional perspectives. A sustainable territorial development was simultaneously being promoted on the economic, social, environmental and political-institutional spheres. Indeed, such effort demanded concerted action from different sectoral organizations at the national and regional levels, national financing institutions and agencies concerned with integration, multilateral financial agencies, and private initiatives. To a certain extent, IIRSA was born with the initial challenge of addressing a complex agenda that demanded not only consensus among the governments but also implementing collectively made decisions within each country's institutions.

As far as its organization is concerned, a decision was made that IIRSA should not have a formal structure of its own, but rather that it should rely on existing national organizations to act as ad hoc bodies.[14] The purpose of this decision apparently was that the Initiative should be dynamic and less costly, avoiding the creation of new bureaucracy and facilitating decision-making processes based on consensus through the flexible interaction of

13- This trade integration consensus was underpinned by tangible achievements. The Andean region was in the process of dismantling a large part of the trade restrictions in force among its neighboring member countries. In turn, MERCOSUR had a successful performance since it was launched, and CAN-MERCOSUR convergence agreements were beginning to be worked out.

14- These decisions may have been influenced by a consolidated land transport experience through the Conference of South American Ministers of Transport, Communications and Public Works (1991-1999), the Permanent Secretariat of which was entrusted to the ALADI.

governments and the multilateral financial agencies.[15] Furthermore, it was put forward that this organization was to include all the South American countries and that decisions would be made by consensus.

At the Montevideo meeting, a mechanism for the implementation and follow-up of the Action Plan was proposed and adopted, which —save for a few changes discussed below— gave shape to the organizational structure of the following ten years (see Box II.1). This structure would have two major areas: the executive and the technical ones. At the executive level, the highest rank would be held by the Executive Steering Committee, made up of top-ranking governmental officials, serving as a forum to build political consensus and design mandates.

Box II.1
BASIC PRECEPTS FOR THE IMPLEMENTATION OF AND FOLLOW-UP ON THE ACTION PLAN

From the operational point of view, the Action Plan, as agreed in Montevideo, adopted a work mode intended to attain objectives agreed upon by consensus through common methods and task sharing. Furthermore, it highlighted the importance of conducting follow-up actions to monitor the implementation of the decisions and directions set out by the highest authorities in South America. To this end, it introduced mechanisms to clearly define work modes, goals, and schedules, as well as a clear allocation of responsibilities. Such mechanisms were designed on the basis of five basic precepts.

- Avoid creating new institutions, making the most of the human and financial resources from national, regional and multilateral institutions already in place, seeking forms of cooperation and the optimal deployment of efforts and resources among them.
- Strive to ensure that the follow-up mechanism reflects high-level political commitment, promotes a close and permanent involvement of regional institutions, interprets social needs, and contributes to the governments' support at the domestic level.
- Secure the full participation of all the South American governments as well as the necessary consensus to keep the commitment and uphold the decisions of all the parties involved in the different processes of the Initiative.
- Facilitate decision-making by means of a process of dynamic and flexible interaction among the South American governments and the regional entities and encourage the latter to give their specialized technical advice to IIRSA's endeavors.
- Prepare a work timetable to be periodically updated, which sets out sequential targets and defines specific tasks for the different components of the follow-up mechanism of the Initiative.

Source: Action Plan for the Integration of Regional Infrastructure in South America, 2000

15- Somehow, this concept of "light institutions" was not a novelty. MERCOSUR had also chosen a model of intense government interaction. Today, the roles and structure of the MERCOSUR Technical Secretariat are still smaller in scope than the model adopted by CAN.

In the technical area, two complementary bodies were created: the Technical Coordination Committee (CCT) and the Executive Technical Groups (GTEs). The CCT is made up of technical representatives of the Inter-American Development Bank (IDB), CAF, Development Bank of Latin America (CAF, Banco de Desarrollo de América Latina), and the Financial Fund for the Development of the River Plate Basin (FONPLATA – Fondo Financiero para el Desarrollo de la Cuenca del Plata). According to the original institutional design, these three agencies were to be in charge alternatively every six months of the CCT Technical Secretariat, permanently based at the Institute for the Integration of Latin America and the Caribbean (IDB-INTAL), in Buenos Aires.

In turn, each GTE is made up of technical experts and officials from the governmental entities more directly concerned with its relevant work agenda; originally, there was one GTE per Integration and Development Hub and Sectoral Integration Process (see Chapter 3), plus others dealing with specific issues.[16] At the operational level, each GTE would have a Manager and a Technical Assistant acting as the Group Secretariat, to be hired by the institutions that make up the CCT.

As stated, this original design underwent some changes as IIRSA evolved. No doubt, the most important one was the creation of a body that, though not originally foreseen, became the backbone of the organization, namely a National Coordination (CN) in each member country of the Initiative. The character of this body depended on the peculiarities of each country, and it was only at the Seventh Meeting of the CDE (December 2005, Asunción) that the purposes, roles and composition of the National Coordinations were defined.[17] No matter the nuances, the CNs were apparently created in response to the need for maintaining permanent liaison between the actions taken at IIRSA and the various national agencies involved in the attainment of its goals, i.e. for contributing decisively to dealing with IIRSA's complex agenda.

A second shift from the original design was the progressive disappearance of the roles of Manager and Technical Assistant in each GTE, as the actions provided for in the Action Plan made headway and the governments took the lead. The role of the Manager and the changes in its functions are duly recorded in the relevant documents of the Initiative, on which basis its evolution can be outlined. In the first place, the Montevideo Action Plan already envisaged the role of the Manager, who was entrusted with the task of organizing, coordinating and facilitating the work of each GTE, guiding it toward the attainment of concrete results through a series of activities.[18] The Manager's most important contribution was to be the

16- For instance, a GTE was created for the Exports through Postal Services for SMEs project and another one, for the South American Roaming Agreement project.

17- See Annex 10 of the minutes of the meeting. From then onwards, National Coordinations were formally institutionalized and IIRSA's institutional structure was changed into its present organization, as shown in Figure II.1.

18- These activities are detailed in the terms of reference that the multilateral financial institutions would use when hiring outsourced experts to act as managers in each GTE.

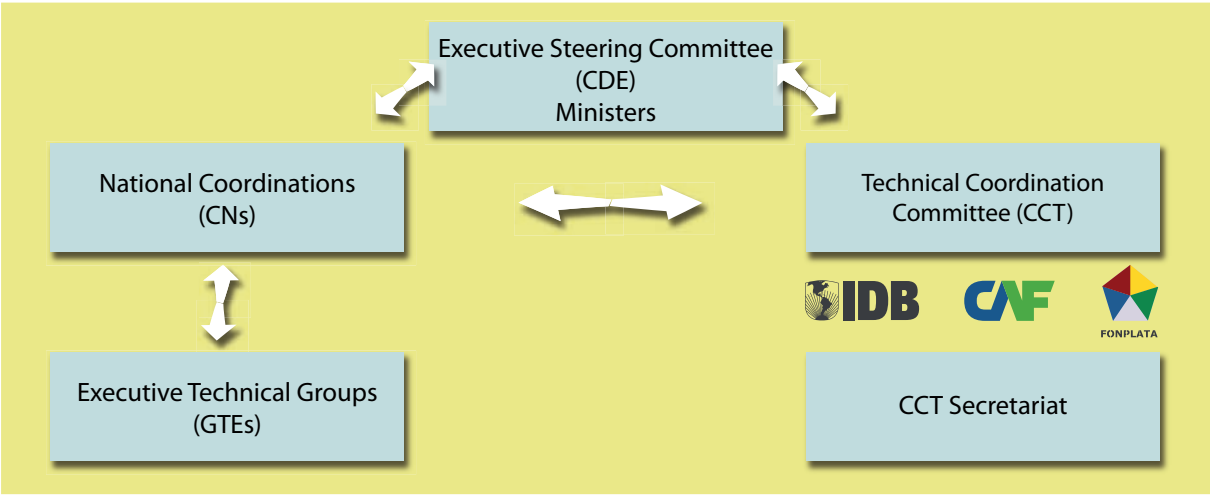
drafting of a Business Vision for each Integration and Development Hub that should help identify the project groups and analyze their viability within each GTE.

In the second place, once these tasks had been sufficiently developed, it became necessary to identify specific financing mechanisms to prepare and carry out structuring projects. For this reason, the CCT decided to become involved directly in each GTE through experts from the financial institutions that make it up, rather than resorting to consulting managers. Thus, the necessary experience and expertise would be more readily available to see to the specific requirements of project preparation with a view to their financing and to their possible inclusion in each financial institution's pipeline.[19]

Once that stage was completed, and as the Indicative Territorial Planning Methodology (see Chapter 3) was being applied, it became evident that the countries themselves were to become the true protagonists in carrying out the projects and all the activities. This is how the role of the National Coordinator emerged vigorously, its main functions being to form a solid technical and multisectoral delegation to represent his/her government in each GTE and to mobilize domestic institutional funds to implement the decisions adopted within each GTE.

The third organizational change introduced in 2003 to the original Action Plan drafted in Montevideo was the decision that the IDB-INTAL would permanently act as the CCT Secretariat, instead of the alternating system originally proposed.[20] With these changes, IIRSA's organizational chart adopted its present form, as shown in Figure II.1.

Figure II.1
IIRSA's Institutional Structure



19- See Management Scheme, p. 13. Fourth Meeting of the Executive Steering Committee, Annex 3: Report of the CCT to the CDE. Caracas, Venezuela, July 2003.

20- The decision stemmed from practical considerations: the location of INTAL in the region, its long tradition in the field of integration, including physical integration issues, as well as its operational flexibility.

The composition and functions of each body within the institutional structure of IIRSA are described in detail below.

1. **The Executive Steering Committee (CDE – Comité de Dirección Ejecutiva)** is the managing body of IIRSA, responsible for defining its strategic guidelines and approving its action plans, based on the proposals made at the meetings of National Coordinators, the Executive Technical Groups and the Technical Coordination Committee as well as put forth by the member countries. The CDE is made up of high-ranking representatives appointed by the South American governments and, in most cases, this body is composed of national ministers concerned with the infrastructure and planning areas. The CDE is organized into a Presidency Pro Tempore and two Vice-Presidencies Pro Tempore (these latter positions being held, respectively, by the country in charge of the immediate past Presidency and the country that will assume the immediate future Presidency). The CDE meets once a year for the main purposes of considering and evaluating the actions taken within the framework of the Initiative and defining the action plan to be adopted for the following year.

2. **The National Coordinations (CNs – Coordinaciones Nacionales)** are the focal points of IIRSA in each country. They have the twofold task of coordinating both the exchanges with the other national coordinations and catalyzing the participation of the different governmental agencies from their own countries. This inter-ministerial coordination task is both relevant and complex given IIRSA's multinational, multisectoral and multidisciplinary characteristics. The National Coordinations must have interaction not only with the sectoral ministries (transport, energy and communications), but also -when specific needs so warrant- with the foreign relations, planning and economy agencies, as well as with subnational governmental entities. Outside the governmental sphere, the National Coordinators facilitate the participation of other sectors of society, such as the private sector and civil organizations. The CNs report directly to the national representative at the CDE and, at the domestic level, adopt the organization that best suits their institutional characteristics. In all the cases, however, this role has been defined regardless of the organization adopted. The CNs lead the implementation of IIRSA action plan, and meet on a regular basis, generally twice a year, to analyze the progress made regarding the annual action plans approved by the CDE. In addition, they prepare, together with the CCT, the agenda and the documents necessary for the annual meeting of the CDE.

3. **The Executive Technical Groups (GTEs – Grupos Técnicos Ejecutivos)** are the technical work level of the Initiative. Each GTE is made up of experts and officials concerned with the countries' governmental agencies relevant to its work agenda. Each National Coordination leads its own delegation for a GTE and is responsible for appointing the delegates. The CN is also entrusted with the task of communicating its respective government how the work at the GTEs (agenda, results attained, and next steps) is evolving. It should be pointed out that the GTE meetings do not take place on a regular basis, but are rather held based on decisions made in relation to the annual work plan defined by the CDE. The CCT and its Secretariat facilitate the organization of these meetings and provide technical, logistic and financial support to contribute to the attainment of the objectives laid down for each meeting.

4. **The Technical Coordination Committee (CCT – Comité de Coordinación Técnica)** is made up of the Inter-American Development Bank (IDB), CAF, Development Bank of Latin America (CAF) and the Financial Fund for the Development of the River Plate Basin (FONPLATA). The CCT provides technical and financial support to countries in all IIRSA-related topics, and acts as a process facilitator, a coordinator of joint activities and the guardian of IIRSA's institutional reports. Its work is primarily concerned with the priority areas defined by the CDE and GTEs.

5. **The CCT Secretariat** is held by the Institute for the Integration of Latin America and the Caribbean (IDB-INTAL), with headquarters in Buenos Aires, Argentina. This Secretariat is in charge of coordinating activities with the institutions that form part of the CCT and serves as a liaison among the CCT, the Presidency Pro Tempore of the CDE and the National Coordinations. In addition, the Secretariat performs organization and logistics tasks associated with the annual work program scheduled for IIRSA, and is entrusted with the design and update of IIRSA's website. Furthermore, the Director of INTAL participates in the CCT work meetings.

In addition to describing these bodies included in the institutional structure of IIRSA, it is worth pointing out the intensity and quality of their interactions throughout these ten years to face preexisting coordination deficiencies in the field of infrastructure provision and regulation among all stakeholders. Their intense horizontal relationships as well as their consensus building mechanisms are particularly worthy of note.

Moreover, emphasis should be drawn to the innovation, flexibility and sound operational capacities of this institutional structure. The fact that preexisting institutional resources have been enhanced with a regional perspective for the sake of the Initiative is, no doubt, one of its most significant merits. In addition to its tangible and intangible achievements, deeply discussed in Chapter 4, it is important to describe how far-reaching the sound capacities of this organizational scheme have proved to be.

Since the First Summit Meeting of South American Presidents in Brasilia (August-September 2000), when the initial step in the launch of IIRSA was taken, twelve South American summit meetings have been held, each one moving further on into the creation of the Union of South American Nations (UNASUR), under whose aegis the last six of the twelve summit meetings were held, as listed in Box II.2.

Box II.2
SUMMIT MEETINGS OF SOUTH AMERICAN PRESIDENTS

First Summit Meeting of South American Presidents
August 31 and September 1, 2000; Brasilia, Brazil
Second Summit Meeting of South American Presidents
July 26 and 27, 2002; Guayaquil, Ecuador
Third Summit Meeting of South American Presidents
December 7 to 9, 2004; Cusco, Peru

First Summit Meeting of Heads of State of the South American Community of Nations
September 29 and 30, 2005; Brasilia, Brazil
Second Summit Meeting of Heads of State of the South American Community of Nations
December 8 and 9, 2006; Cochabamba, Bolivia
First South American Energy Summit Meeting
April 16 and 17, 2007; Margarita Island, Venezuela

First Meeting of the Council of Heads of State and Government of UNASUR
May 23, 2008; Brasilia, Brazil
Second Meeting of the Council of Heads of State and Government of UNASUR
September 15, 2008; Santiago de Chile, Chile
Extraordinary Meeting of Heads of State and Government of UNASUR
December 16, 2008; Costa do Sauípe, Brazil
Third Meeting of the Council of Heads of State and Government of UNASUR
August 10, 2009; Quito, Ecuador
Extraordinary Meeting of Heads of State and Government of UNASUR
August 28, 2009; Bariloche, Argentina
Extraordinary Meeting of Heads of State and Government of UNASUR
May 4, 2010; Los Cardales, Argentina

Attention should be drawn, then, to the fact that since the launch of IIRSA in 2000, the meetings of the South American presidents have been held on a regular basis, and the heads of State and government of the twelve South American countries have practically attended all of them. In line with this, the summit meetings of presidents increasingly gained formalization, culminating with the approval of the Constitutive Treaty of UNASUR (Brasilia, May 2008), still to be ratified by all member countries to become effective. In addition, at the Third Summit Meeting of UNASUR (Quito, August 2009), the South American presidents decided to create, in such institutional context, the Infrastructure and Planning Council (COSIPLAN – Consejo de Infraestructura y Planeamiento), which in turn decided to include IIRSA as its infrastructure technical forum.

The Executive Steering Committee of IIRSA has gathered uninterruptedly every year since the adoption of IIRSA's Action Plan at the Meeting of South American Transport, Telecommunications and Energy Ministers (Montevideo, December 2000) (see Box II.3).[21] Thus, it has accomplished its main mission, i.e. to analyze and evaluate the activities carried out within the framework of the Initiative and define the work plan to be implemented the following year.

Box II.3
MEETINGS OF IIRSA's EXECUTIVE STEERING COMMITTEE

Meeting of Transport, Telecommunications and Energy Ministers
December 4 and 5, 2000; Montevideo, Uruguay

First Meeting of the Executive Steering Committee
April 27, 2001; Santa Cruz de la Sierra, Bolivia

Second Meeting of the Executive Steering Committee
December 9 and 10, 2001; Buenos Aires, Argentina

Third Meeting of the Executive Steering Committee
May 27, 2002; Brasilia, Brazil

Fourth Meeting of the Executive Steering Committee
July 1 to 3, 2003; Caracas, Venezuela

Fifth Meeting of the Executive Steering Committee
December 4 and 5, 2003; Santiago, Chile

Sixth Meeting of the Executive Steering Committee
November 23 and 24, 2004; Lima, Peru

Seventh Meeting of the Executive Steering Committee
December 1 and 2, 2005; Asunción, Paraguay

Eighth Meeting of the Executive Steering Committee
December 13 and 14, 2006; Quito, Ecuador

Ninth Meeting of the Executive Steering Committee
December 4 and 5, 2007; Montevideo, Uruguay

Tenth Meeting of the Executive Steering Committee
December 4 and 5, 2008; Cartagena de Indias, Colombia

Eleventh Meeting of the Executive Steering Committee
December 3 and 4, 2009; Buenos Aires, Argentina

The Montevideo Action Plan 2000-2010 specifies the basic elements of IIRSA's intervention strategy, which will be discussed in Chapter 3. It may be anticipated, however, that on the basis of such document and of the minutes of the meetings of presidents and the Executive Steering Committee, two indicators can be built.

21- Initially, the CDE meetings were held every six months. Since the meeting in Santiago, they have been held on an annual basis.

The first one is how much attention was paid by the governments to the basic elements of IIRSA's strategy, an indicator that gives an approximate idea of the interest aroused by each of them; in other words, what topics have prevailed in the conversations held by the management bodies (see Table II.1). The second indicator is the degree of representation and the institutional range covered by the delegations of the countries participating in the meetings of the CDE. This may somehow account for the governments' political interest in and commitment to the development of the Initiative.

Table II.1
Number of Mentions of the Topics in the Minutes of the Meetings

IIRSA-SPECIFIC OBJECTIVES								
Consensus building in Integration and Development Hubs				Development of Sectoral Integration Processes			Financing Modes	
AREAS OF ACTION								
Strategic Vision VESA	Project Portfolio and AIC	Development and application of methodologies	Dissemination and participation	Energy markets	Border crossings	Information technology	Participation of the private sector	Instruments of integration projects
NUMBER OF MENTIONS OF EACH MANDATE								
10/23	12/23	10/23	11/23	6/23	4/23	7/23	9/23	13/23

Source: Minutes of the 23 Summit and CDE Meetings

At the 23 Summit and CDE meetings held, the governments paid different degree of attention to the specific objectives and related processes. When analyzing the number of references made to the different topics in the minutes of such meetings, the ones arousing the greatest attention were development of new financing instruments (13 of 23), Project Portfolio and Implementation Agenda Based on Consensus (12 of 23), initiatives intended for dissemination and participation purposes (11/23), and Strategic Vision (VESA) as much as methodologies for project evaluation (10/23). Instead, the Sectoral Integration Processes captured the lowest relative attention (4 to 7 references in 23 occasions).

The second indicator, shown in Table II.2, is based on the lists of participants to the eleven meetings of the Executive Steering Committee, held from 2001 to 2010. The table shows different interesting points. The Initiative has been relatively strong throughout these ten years with the active participation of high-ranking representatives of almost all the South American countries. However, some signs that may indicate less interest and commitment are looming up. When comparing the average of the first four years with that of the last four years, it is observed that the number of countries represented fell from 12 to 10; the number of participants decreased by more than 50% (from 77 to 34), just as the number of participants from the host country (from 23 to 11); the number of attending ministers fell from an average of 7 in the first four-year period to an average of 4 to 5 in the last four years. So far, it suffices to mention these facts. Chapter 5 will explore some hypotheses to account for them.

Table II.2
Governments' Institutional Representation at the CDE Meetings

CDE Meeting	I 2001 BO	II 2001 AR	III 2002 BR	IV 2003 VE	V 2003 CH	VI 2004 PE
No. of countries	12	12	12	12	11	12
No. of participants	67 (14)	75 (20)	87 (22)	79 (35)	63 (19)	75 (22)
No. of ministers	7	8	5	8	1	7
Sectors represented	P, T, PW, FA	P, T, PW FA	P, T, PW FA, other	P, T, PW FA, other	P, T, PW FA	PW, FA

CDE Meeting	VII 2005 PY	VII 2006 EC	IX 2007 UY	X 2008 CO	XI 2009 AR
No. of countries	11	10	11	11	9
No. of participants	37 (10)	40 (18)	38 (16)	30 (6)	28 (6)
No. of ministers	5	5	4	5	4
Sectors represented	T, PW, FA	T, FA	P, PW, FA	P, PW, T, FA	P, PW, FA

Notes:
The sectors to which the participants belong are: P: planning; T: transport; PW: public works; FA: foreign affairs and embassies.
Number of participants: The number of participants from the host country is indicated in brackets.
Source: Lists of participants to the Executive Steering Committee meetings

Participants in the CDE meetings belong primarily to the following sectors: public works and transport (in some countries, within the same ministry), planning (the related institutional organization differs considerably from country to country) and foreign affairs, including staff from embassies in the host country. It is to be noted that this trend may account for (or result from) the focus of IIRSA on transport and road infrastructure projects, a fact that will be analyzed further on.

Nevertheless, it may be anticipated that this fact may also reflect the developments that took place in infrastructure financing and provision in the 1990s and, particularly, in the last ten years. Indeed, it is well-known that the private sector -transnational companies in many cases- massively stepped on to the scene in the infrastructure sector by purchasing existing assets or making new investments. In some sectors and countries, this private participation entirely displaced the State from service provision.

The most significant fact, however, is that all this has not had the same impact on the different infrastructure sectors[22]. This evolution has had a more direct bearing on energy, but particularly on telecommunications, sectors where

22- There are strong economic reasons that may account for the bias observed. When we analyze the ratio between the investment amount required vis-à-vis the years needed for generating gross income equivalent to such amount, differences from one sector to another are striking: 1 to 3 in telephone companies; 1 to 3-4 in electricity companies; 1 to 7 in toll roads; and 1 to 10-12 in water supply networks. See World Bank (1994).

public services were privatized earlier and on a larger and more widespread scale. In most cases, the State turned to preserving competition in the use of common services and regulating service provision. As for road, transport and water sanitation services, instead, the public sector has retained a key role in the funding and provision of services, although it has also relied on contracts entered into with the private sector to expedite service provision or improve management (see ILPES, 1998b).

With reference to the performance of the National Coordinations, their work gained more and more weight as time went by. It should be stressed that since they were established in 2002, they have met on 17 occasions, an average of twice a year, except for a single meeting held in 2002. The number of governments represented and participants is shown in Table II.3.

Table II.3
Participation in Meetings of National Coordinators

CN Meetings	I 2002 BR	II 2003 AR	III 2003 AR	IV 2004 PE	V 2004 PE	VI 2005 AR	VII 2005 PY	VIII 2006 AR	IX 2006 EC
Number of countries	11	10	12	12	12	10	11	12	9
Number of participants	38 (16)	42 (16)	28 (4)	49 (21)	45 (12)	27 (4)	39 (15)	26 (2)	27 (13)

CN Meetings	X 2007 UY	XI 2007 UY	XII 2008 AR	XIII 2008 CO	XIV 2009 AR	XV 2009 AR	XVI 2010 AR	XVII 2010 PE
Number of Countries	8	11	10	8	9	10	9	10
Number of Participants	30 (9)	39 (8)	27 (3)	23 (7)	21 (6)	21 (3)	19 (2)	20 (3)

Note: Number of participants: the number of participants from the host country is indicated in brackets.
Source: List of participants in National Coordinators meetings

In this case, a strong commitment is also observed from the governments to IIRSA, since several meetings were attended by representatives of the twelve South American governments, a minimum of 8 countries were represented on two occasions, and there was an average attendance of 10. Furthermore, the number of government officials ranged from a maximum of 49 to a minimum of 19, with an average of 31. The host country usually contributes the highest number of participants.

With regard to the presence of governmental institutions at the meetings of National Coordinators, it is interesting to note that, in general, there has been a steady representation. This may imply that the governments have been refining their representation in IIRSA, involving specific public entities, such as the Planning, Public Works and Foreign Affairs Ministries, to name a few.

The technical officials assembled together in the Executive Technical Groups met much more often, holding a total of 68 meetings. If a content analysis is made of the topics discussed, it is observed that most GTE meetings were devoted to discussing technical issues related to the composition of the Integration and Development Hubs (see Chapter 3). Thus, 58 of the 68 meetings (85%) focused on the EIDs; two other meetings, on the Implementation Agenda based on Consensus; and another one, on the methodologies associated with value-added logistics and production chains. The other seven meetings dealt with topics related to the Sectoral Integration Processes: there were two GTE meetings on regional energy markets, one on financing instruments, one on information and communication technologies, and within the framework of this latter PSI, two additional GTE meetings on the South American Roaming Agreement project and one on the Exports through Postal Services for SMEs project.

Of course, the three agencies that make up the Technical Coordination Committee (IDB, CAF and FONPLATA), together with the Technical Secretariat (INTAL), have permanently provided technical and logistic support to the development of all this intergovernmental work. It is also worth mentioning that the website administered by the CCT Secretariat gathers, organizes and disseminates relevant information for the follow-up on and analysis of the numerous activities undertaken by IIRSA along this 10-year term.

In sum, the institutional organization adopted by IIRSA has been efficient in building political consensus and defining mandates, as well as in helping bridge coordination gaps among the South American governments in relation to physical integration issues and, in particular, to transport infrastructure projects. Even though IIRSA's main focus of attention -i.e. the physical integration of the subregion- did not rank first in the discussions held at the South American summit meetings, it should be noted that it has actively involved throughout these ten years all the political and technical bodies. Thus, a powerful institutional capital has been built up that has led to a mutual understanding, as well as to a capacity for working out agreements and a national commitment to their implementation. As in any other institutional process, this one certainly has deficiencies to overcome and limitations resulting from the context within which IIRSA operates, topics that will be discussed in Chapter 5. Nonetheless, the innovative nature, flexibility and sound operational capacity of the institutional dimension of IIRSA are out of the question when viewed from the perspective of South America as a whole.

In 2009, as UNASUR started to gain strength, a new institutional chapter opened -a key element is that the issue of regional physical integration now falls within a broader agenda, which will necessarily impose new interactions and contact with other fronts of the process, i.e. the social, economic and commercial spheres. UNASUR has entrusted such tasks and responsibilities to its Councils, among which COSIPLAN is the one to assume the responsibility for "implementing the regional infrastructure integration of the UNASUR member countries."

CHAPTER 3

CONCEPTUAL AND METHODOLOGICAL APPROACHES

The institutional structure adopted by IIRSA, which has just been described, made it possible to face one of the challenges posed by the launch of the Initiative. Indeed, the interactions among the representatives of the twelve South American countries, backed by the technical and logistic support of the regional agencies, helped to deal quite successfully with the coordination among the multiple actors involved in the process. Thanks to the institutional design, such interactions took place in forums relevant for the exchange of visions, knowledge and experience, as well as for the adoption of collective decisions and their follow-up.

In addition to these forums and interaction procedures, it was necessary to agree on the approaches, concepts and methodologies that would facilitate discussion as well as the reaching of understandings about a substantively complex agenda. This complexity stemmed from the multinational, multisectoral and multidisciplinary nature of the Initiative. The Montevideo Action Plan provided for the development of IIRSA through the application of the EIDs approach complemented by the PSIs as its two major pillars. In turn, this approach would be put into practice through a series of basic guidelines that, as a whole, show the initial suggestions included the Montevideo Action Plan (see Box III.1).

Box III.1
Basic Guidelines of the Montevideo Action Plan

- Design a comprehensive vision of infrastructure
- Frame projects within a regional strategic planning
- Streamline the national regulatory and institutional systems in each country
- Harmonize policies, plans and regulatory frameworks among the States
- Enhance the environmental and social dimension of projects
- Improve the opportunities and quality of life of local populations
- Incorporate participation and consultation mechanisms
- Implement the shared management and funding of projects
- Structure financial schemes adapted to the specific risks of each project

Thus, as in the case of its institutional organization, IIRSA's approach established its fundamental elements from the beginning, even though, on the one hand, they were subject to successive improvements as the Initiative made headway and, on the other, the conditions prevailing during their application led their components to advance at different paces and with varying degrees of success. This second issue will be analyzed below, but, in essence, it means important differences in the progress of the sectors involved (transportation, energy and communications) and, also, of the Integration and Development Hubs vis-à-vis the Sectoral Integration Processes.

With regard to the successive improvements in the vision of IIRSA, it is worth pointing out three well-defined stages. The first one lasted from late 2000 to late 2003, and focused on proposing and discussing the Hubs and the Sectoral Processes, as well as on preparing the Business Vision for each Hub and preliminarily identifying the projects to be included. This period was very special because it made it possible for all countries to recognize each other's national sensitivities. Between late 2003 and 2004, an indicative territorial planning effort, based

on a methodology that was fundamentally qualitative in nature and grounded on the views of experts very well acquainted with the reality of the projects, regions and countries involved, was implemented. This methodology helped attain the goal of building consensus among the countries over a common project portfolio and appropriate priorities. On the basis of the results and of the experience gained from the methodological developments and their application, a second phase, beginning in 2005, was defined with the purpose of taking a qualitative leap forward in the indicative territorial planning process. This second phase aimed at connecting infrastructure with other territorial development dimensions, such as production and logistics opportunities and the sustainable development and preservation of the natural heritage, including its social impacts. Furthermore, the process of formulating, preparing and evaluating projects was sought to be enhanced through a georeferenced information system, a standardized database including all the projects within IIRSA Portfolio throughout their lifecycle, and the special treatment required by the transnational infrastructure initiatives.

Irrespective of this methodological improvement, the pillars of the process have always been the concepts of "Integration and Development Hub" and "Sectoral Integration Process." Consequently, it is worth looking into both concepts in some detail since they have certain predecessors, although they differ significantly from them. An EID is a multinational territorial space involving specific natural resources, human settlements, production areas and logistics services. Transportation, energy and communications infrastructure serve as its links, as they facilitate the flow of people, goods and services, and information within this territorial space and from/to the rest of the world. Therefore, the concept of EID surpasses other concepts previously used, such as "transport corridor" or "infrastructure network." Insofar as infrastructure becomes regarded as a physical integration element that acts as a catalyst for the economic, social and environmental development of the areas in which it is located, the EID constitutes a leading tool for structuring the organization of the territory (IDB, 2000). This conceptual path that IIRSA chose to follow from the beginning is both innovative with respect to the previous experience in the field and original with respect to its approach. In fact, the previous physical integration efforts in South America had been mostly limited to the bilateral level and concentrated on infrastructure connectivity. When the EID concept was brought to the focus of attention, the emphasis of the analysis moved to the territory and its dynamics, beyond the narrower view of the infrastructure connections and network links. IIRSA has also been innovative from the conceptual viewpoint. Strictly speaking, the territorial planning exercise that gave rise to the EIDs may be analytically associated with notions developed by the New Economic Geography. In both cases, the factors that determine the location in the territory are directly related with the costs of moving in space, whether to transportation costs and the quality of infrastructure or to the different kinds of obstacles that hinder the movement of people and goods throughout the territory.

In turn, a PSI aims at identifying the regulatory and institutional obstacles hindering the development and operation of basic infrastructure in the region, as well as at proposing actions to overcome such obstacles. Each PSI comprises services deemed key for integration purposes and that, quite often, are common to several Integration and Development Hubs. Some PSIs are specific to a certain type of infrastructure, but many of them are multisectoral; in this regard, they differ from their predecessors having similar goals, such as the "network management" concept. In every case, the PSIs demand coordinated action by the countries involved in order to remove any obstacles to development and promote the efficient use of infrastructure for physical integration purposes.

1. THE INITIAL APPROACHES

The Montevideo Action Plan proposed 12 Integration and Development Hubs and 6 Sectoral Integration Processes, along with a schedule for the gradual creation of the Executive Technical Groups that should devote themselves to the analysis and improvement of such EIDs and PSIs in order to incorporate them into the Initiative. Additionally, the Action Plan suggested some criteria for selecting and prioritizing them.

- **Geographical coverage of countries and regions**

The idea was to group territories in such a way as to allow the participation of all twelve South American countries in the physical integration process as well as the inclusion of the most densely populated regions.

- **Recognition of existing flows**

A decision was made to group the territories that contained the main intraregional trade flows, following the historical trade patterns and taking into account the existing infrastructure networks.

- **Identification of potential flows**

The territories that should be included were those which, taking into consideration their resources, business and labor capacity, and strategic location in the regional space, showed production and logistics potential.

- **Investments in the areas of influence of the EIDs**

The attempt was to take into account the volume of the investments recently made, of those in execution and also of the funds planned to be invested in the short run within the area of influence of each EID.

- **Interest by the private sector and its possible participation**

Special attention should be paid to the territories that already stirred up the interest of the private sector, both in production and logistics projects and in the development of infrastructure.

- **Social and environmental sustainability**

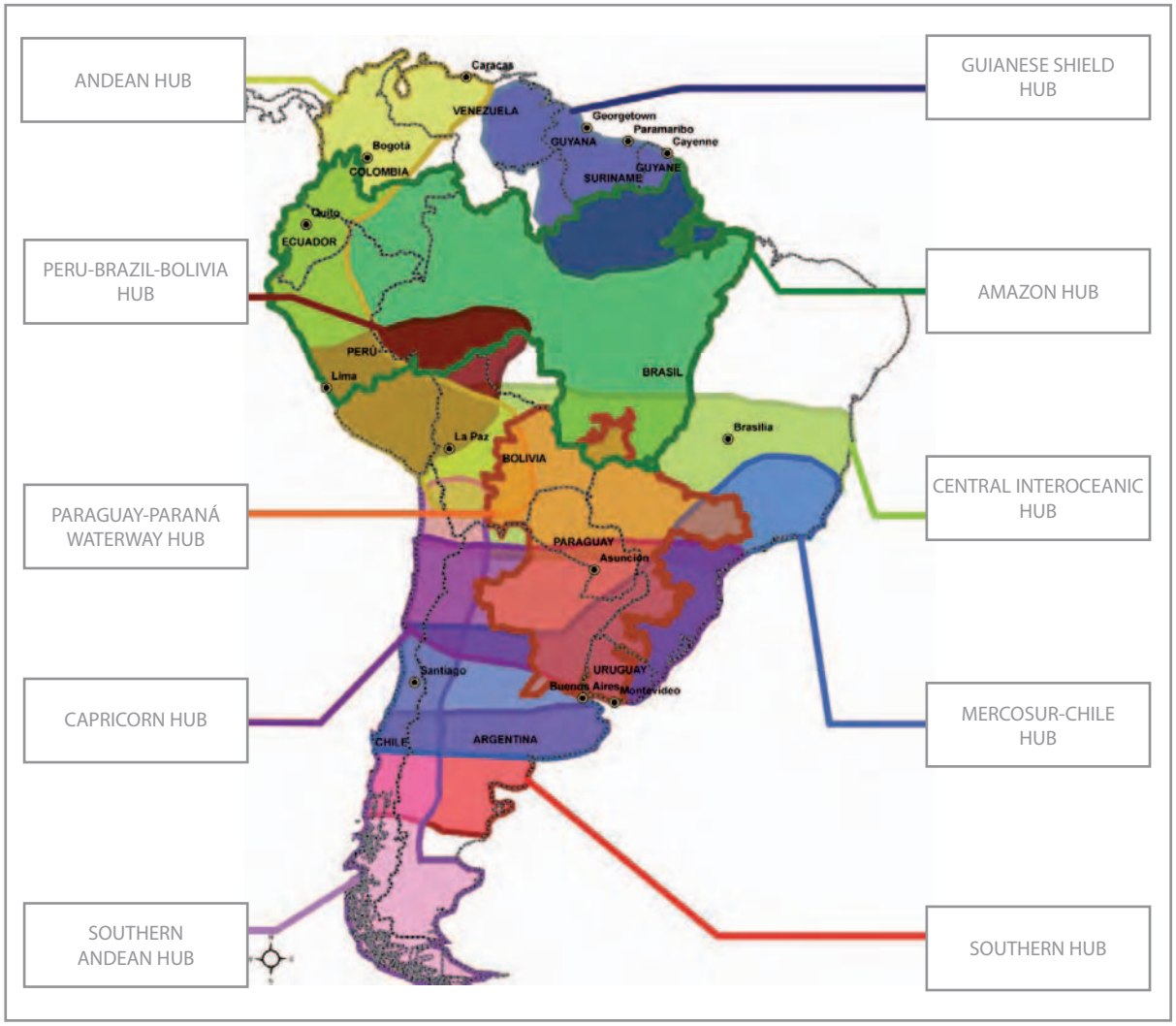
The goal was to appropriately address the region's megadiversity, respecting the protected areas, forest reserves, and highly fragile ecological areas, as well as the rights and opportunities of local populations.

The application of these criteria led to a preliminary establishment of 12 Integration and Development Hubs (Montevideo, December 2000). This was the starting point for validation through information generation, field visits, and multilateral technical meetings. All this work led to merging some of the Hubs proposed and to redefining others. As a result of the process, 10 Integration and Development Hubs were adopted at the

Fifth Meeting of the Executive Steering Committee (Santiago de Chile, December 2003), for each of which a Business Vision was outlined and the basic portfolio of regional physical integration projects was identified. [23]

Figure III.1 shows the 10 Integration and Development Hubs, immediately followed by a description of each of them.

Figure III.1
IIRSA: Integration and Development Hubs



23- In spite of some initial activities related to the Southern Andean Hub, as the definition of its Business Vision, the countries involved in it are awaiting the result of a study on the connectivity between Argentina and Chile to set their working agenda.

a) The Integration and Development Hubs

• Amazon Hub

The area of influence of this Hub runs along the multimodal transport system that interconnects certain ports on the Pacific (such as Buenaventura in Colombia, Esmeraldas in Ecuador, and Paita in Peru) with the Brazilian ports of Manaus, Belém and Macapá. The Hub represents a market of more than 61.5 million inhabitants in an area of influence covering about 5.7 million km2, with a GDP of approximately US$150,534.9 million[24] (67.9% of which is contributed by the Peruvian and Brazilian portions of the area of influence).

In addition to its large area, as can be appreciated, the Hub is characterized by its diverse topography and low population density, and is crossed by the Amazon river and its tributaries.

Exports from the area of influence of the Amazon Hub amounted to US$65,949.6 million in 2008, which, compared to the estimated annual figure in 2000 (US$15,532.4 million), represents a 324.6% growth in eight years.

In terms of value, 95.4% of the exports from the countries that make up the Amazon Hub were extraregional in 2008, while their exports to the countries of the Hub (i.e. intraregional) represented 4.6% (US$13,102.7 million). In turn, between 2000 and 2008, exports by volume from the countries of the Hub accounted for a 79.4% growth.

The most important export products are crude oil, iron ores, soybeans, copper ores, and oil derivatives. Taken together, these exports account for 34% of the total value of exports from the four countries. They were transported as follows: 95.5%, by sea; 0.1%, by rail; 1.4%, by road; 0.4%, by air; and the remaining 2.6%, by "other means."

As regards its territory, this Hub is the most sensitive of all the EIDs due to the possible expansion of the agricultural frontier, which entails deforestation and subsequent conflicts in terms of the use of the land and the integration of isolated communities.

In this context, the region needs to implement mid- and long-term strategies to ensure environmental sustainability as well as to leverage the potential for increased economic activity.

24- The GDP presented for this Hub as well as for the remaining ones has been established at constant 2000 market prices , based on the 2008 statistics calculated by ECLAC for each country.

• Andean Hub

This Hub includes the main articulation nodes of Bolivia, Colombia, Ecuador, Peru, and Venezuela and features the two large north-south road corridors that connect the main cities of the five countries. This EID represents a market of about 103.5 million inhabitants along its 2.6 million km^2, with a GDP of US$361,824.2 million (91.7% of which is contributed by Colombia, Peru, and Venezuela).

Institutionally speaking, it is important to mention that the Andean Hub is undergoing a 40-year long integration process (CAN) that has set up a clear pattern of gradual regulatory convergence and coordination of investments in transport, energy, and telecommunications interconnection infrastructure.

Exports from the area of influence of the Andean Hub amounted to US$169,746.7 million in 2008, which, compared to the annual figure in 2000 (US$47,202.6 million), represents a 259.1% growth in eight years.

In terms of value, 90.6% of the exports from the countries that make up the Andean Hub were extraregional in 2008, while their exports to the countries of the Hub (i.e. intraregional) represented 9.4% (US$18,271.7 million), whereas in 2000 intraregional exports were 9.1% of total exports (US$57,329.7 million).

The Hub is characterized by its horizontal production and trade networks, particularly of commodities based on the processing of natural resources. Crude oil, copper ores, petroleum derivatives, gold, and coal make up almost 80% of its exports, the total of which are transported as follows: 84.5%, by sea; 0.5%, by rail; 3.3%, by road; 0.7%, by air; and 11%, by "other means."

The Hub has a great production potential associated with its biodiversity (biotechnology, pharmaceutical and cosmetics industry, high-value forests) and great prospects for tourism (historical, ecological, and adventure tourism), in addition to its mineral wealth.

• Southern Andean Hub

To date, as already mentioned, the development of this EID has been considerably less than that in the other Hubs. Initially, it was conceived as a territorial strip covering some regions in Argentina and Chile. The border between these two countries —which are separated by the Andes— is one of the longest in the world, since it runs along more than 5,000 kilometers. However, there are very few paved roads connecting both countries. Therefore, the strategy for this EID would be directed at improving such connections with the purpose of strengthening the economic and trade links of the regions located on both sides of the border. This Hub is connected with the Andean Hub in the north, while horizontally some of its areas overlap with the Capricorn, Southern, Central Interoceanic, and MERCOSUR-Chile Hubs, all of which make up a bioceanic area.

As will be seen in Chapter 4, the results of the study on the connectivity between Argentina and Chile, along with the Business Vision defined for this Hub, will be the basis for setting the working agenda for the Southern Andean Hub.

• Capricorn Hub

The area of influence of this EID is located around the tropic of the same name, involves five countries (Argentina, Bolivia, Brazil, Chile and Paraguay), and has important port facilities at both ends, on the Pacific and the Atlantic oceans, which accounts for its bioceanic nature.

The Capricorn Hub represents a market of more than 49.9 million inhabitants along its 2.79 million km2, with a medium- to low-level population density and a GDP of about US$228,939.9 million (88.3% of which is contributed by Argentina and Brazil).

Institutionally speaking, this area is undergoing a 19-year long integration process (MERCOSUR) that has set up a clear pattern of gradual regulatory convergence and coordination of investments in transport, energy, and telecommunications interconnection infrastructure.
Exports from the area of influence of the Capricorn

Hub amounted to US$93,146.2 million in 2008, which, compared to the annual figure in 2000 (US$23,883.0 million), represents a 290% growth in eight years.

In terms of value, 83.3% of the exports from the countries that make up the Capricorn Hub were extraregional in 2008, while their exports to the countries of the Hub (i.e. intraregional) represented 16.4% (US$57,100.9 million), whereas in 2000 intraregional exports were 21.4% of total exports (US$21,784.4 million/US$101,984.8 million).

The main exports are refined copper, soybeans, crude oil, copper ores and iron ores and concentrates. These five export products account for 34% of the total exports from the five countries. In 2007, 87.4% of the exports were transported by sea; 3.2%, by rail; 3.8%, by road; 0.3%, by air; and 5.3%, by "other means."

The region abounds in mining resources (copper, iron, silver, and precious stones, among others), is largely suitable for agriculture, and also counts on large energy surpluses (hydroelectricity and natural gas).

• Guianese Shield Hub

The area of influence of this Hub connects the main nodes of Brazil, Guyana, Suriname, and Venezuela. It represents a market of more than 24.5 million inhabitants along its 4.00 million km^2, with an approximate GDP of US$199,904.2 million (99.1% of which is contributed by Brazil and Venezuela).

Exports from the area of influence of the Guianese Shield Hub amounted to US$114,833.7 million in 2008, which, compared to the annual figure in 2000 (US$35,228.4 million), represents a 226% growth in eight years.

In terms of value, 97.9% of the exports from the countries that make up the Guianese Shield Hub were extraregional in 2008, while their exports to the countries of the Hub (i.e. intraregional) represented 2.1% (US$6,241.6 million).

The major export products are crude oil, non-agglomerated iron ores and concentrates, soybeans, agglomerated iron ores and concentrates, and airplanes and other aircraft. All of these products account for 48% of the exports from this group of countries. As to their transportation means, 92.6% of them were carried by sea, and the remaining 7.4%, by river.

This EID includes regions with very low population density and significant indigenous populations. Due to this situation, infrastructure works and the use of the land may cause a bio-geophysical and socioeconomic impact on the area of influence. Moreover, the poor or non-existent physical infrastructure prevents the countries in the Hub from taking advantage of their proximity. Generally speaking, as shown by the export ratio among the countries in the Hub —with the exception of trade between Brazil and Venezuela—, the remaining commercial

opportunities are poorly exploited or not exploited at all. Finally, it is important to point out that, in addition to oil and mining resources, fishing and tourism are two sectors in the EID with a great potential for growth.

• Paraguay-Paraná Waterway Hub

This EID has been defined with an area of influence that incorporates territories from Argentina, Bolivia, Brazil, Paraguay and Uruguay that are directly associated with the Paraguay, Paraná, Tietê, and Uruguay rivers. Such area of influence is also transversally crossed by several (road and rail) corridors that connect this with other hubs, namely the Central Interoceanic, Capricorn, and MERCOSUR-Chile Hubs.

The Hub represents a market of more than 73.2 million inhabitants along its 3.8 million km2, with a GDP of about US$419,341.1 million (93.4% of which is contributed by the Argentine and Brazilian portions of the area of influence).

Institutionally speaking, this EID is undergoing a 19-year long integration process (MERCOSUR) and is governed as well by the Agreement on River Transport through the Paraguay-Paraná Waterway since 1992. Furthermore, the Intergovernmental Committee of the Waterway (CIH - Comité Intergubernamental de la Hidrovía) was created by the five countries involved with the aim of designing actions and identifying projects and works to improve navigability in order to facilitate transport through the waterway.

Exports from the area of influence of the Paraguay-Paraná Waterway Hub amounted to US$114,969.9 million in 2008, which, compared to the annual figure in 2000 (US$33,939.8 million), represents a 238.7% growth in eight years.

In terms of value, 83.5% of the exports from the countries that make up the Hub were extraregional in 2008, while their exports to the countries of the Hub (i.e. intraregional) represented 16.4% (US$46,998.5 million).

The leading export products are soybeans; crude oil; non-agglomerated iron ores; oilcake, flours and meals of oil seeds, and other vegetable oil residues; and agglomerated iron ores and concentrates. These products account for 28% of the total exports from the countries in the Hub. As to their transportation means, 85.5% are carried by sea; 3.7%, by rail; 5.4%, by road; 2.3%, by river; 0.2%, by air; and 2.9%, by "other means".

The region abounds in iron ores, particularly in the Urucúm and Mutún mines, located near the Pantanal

(wetland) between Brazil and Bolivia, and there are surpluses of hydroelectric energy (the most important hydroelectric power stations in South America are located in this Hub) and natural gas, as well as a great potential for agricultural, agro-industrial and industrial production.

• Central Interoceanic Hub

The area of influence of this Hub runs across South America, includes connections between the main ports on the Pacific and the Atlantic oceans in such area, and links various nodes in Bolivia, Brazil, Chile, Paraguay and Peru. This Hub represents a market of more than 92.6 million inhabitants along its 3.46 million km2, with a value added of about US$485,842.1 million (94.6% of which is contributed by Brazil).

Exports from the area of influence of the Central Interoceanic Hub amounted to approximately US$137,912.7 million in 2008. If the 2008 value of all the exports from the countries in the Hub is compared to the 2000 figure, a 275.1% growth is observed.

In terms of value, 92% of the exports from the five countries that make up the Central Interoceanic Hub were extraregional in 2008, while their exports to the countries of the Hub (i.e. intraregional) represented 8% (US$24,751.7 million).

The main export products are refined copper, copper ores and concentrates, crude oil, soybeans and iron ore concentrates. The sum of the exports of these products accounts for 37% of the total exports from the five countries. By 2007, 88.6% of these exports were transported by sea; 1.4%, by rail; 3.6%, by road; 2.2%, by river; 0.3%, by air; and 3.9%, by "other means".

The growth in the production of the main goods produced in the area of influence of the Hub shows that important technological developments have been achieved, leading to production increase and to the opening of new markets. As the cost of land in the least developed areas is still relatively low, there are competitive advantages for developing new investments in the agricultural sector, as well as in several mining activities.

• MERCOSUR-Chile Hub

The area of influence of this EID runs across South America and includes the connection of the main economic centers, cities and ports of the territory, which covers part of Argentina, Brazil, Chile, Paraguay and Uruguay. It represents a market of more than 137.3 million inhabitants along its 3.2 million km2, with a GDP of about US$852,404.2 million (88.3% of which is contributed by the Argentine and Brazilian portions of the area of influence). Institutionally speaking, this Hub is undergoing a 19-year long integration process (MERCOSUR).

Exports from the area of influence of the MERCOSUR-Chile Hub amounted to US$220,670.1 million in 2008, which, compared to the annual figure in 2000 (US$62,974.9 million), represents a 224.6% growth in eight years.

In terms of value, 83.6% of the exports from the countries that make up this Hub were extraregional in 2008, while their exports to the countries of the Hub (i.e. intraregional) represented 16.4% (US$57,183.4 million).

The leading export products are copper, soybeans, crude oil, iron ores, and oilcake, flours and meals of oil seeds and other vegetable oil residues. All of these exports account for 34% of total exports, which reveals a greater diversification of production in some of the economies of the Hub.

The transportation means used for exports were as follows: by sea, 88.7%; by rail, 3.2%; by road, 3.9%; by river, 2.5%; by air, 0.3%; and by "other means," 1.4%.

Looking ahead, the development scheme based on the combination of powerful agricultural production, agro-industry, processing industry, and provision of a wide range of services is expected to continue. The vigorous agricultural production activity will create new pressures on the existing infrastructure. Space-wise, intermediate cities are expected to grow, which will result in the generation of new, or a gradual increase in existing, transport flows as well as new integration needs.

• Peru-Brazil-Bolivia Hub

This EID has an area of influence that connects the main nodes located in the tri-border area of Bolivia, Brazil and Peru. The area of influence of the Peru-Brazil-Bolivia Hub represents a market of more than 10.2 million inhabitants along its 1.1 million km2, with a value added of about US$20,448.3 million (where the contribution made by the areas of influence of the countries concerned is the best balanced one of all nine Hubs: 51.9% by the seven Peruvian departments, 32.6% by the two Brazilian states, and 15.5% by the three Bolivian departments).

Exports from the area of influence of the Peru-Brazil-Bolivia Hub amounted to approximately US$6,845.7 million in 2008; this accounts for 2.9% of the annual figure of all the exports from the countries that make up the Hub (US$235,941.6 million).

In terms of value, 96.6% of the exports from the countries that make up the Hub were extraregional in 2008, while their exports to the countries of the Hub (i.e. intraregional) represented 3.4% (US$7,974.1 million), whereas in 2000 intraregional exports were 2% of total exports (US$1,262.3 million/US$63,424.9 million).

The main export products are crude oil, iron ores, soybean, copper ores, and gold. The sum of the exports of these products accounted for 29% of the total exports from the three countries, which were carried preferably by sea (90.7%), followed by road (2.5%), river (2.2%), rail and air (0.3% both), and "other means" (4%). The evolution seen in trade across the three countries' border areas is worth mentioning; this was the case, for example, at the Guajará-Mirim border crossing, between the state of Rondônia in Brazil and the department of Beni in Bolivia.

The technological improvements introduced in the agricultural, mining, and services sectors have led to a substantial increase in productivity, which, combined with the opening of new and large consumer markets, the incorporation of important —and critical— road connections, and the still low land costs, give the Hub a competitive advantage for new investments in the agricultural and forestry sectors, as well as in various mining activities.

• Southern Hub

The area of influence of this Hub, which involves Argentine and Chilean territories, has at its ends important port facilities on the Atlantic and Pacific oceans, which accounts for its bioceanic nature. The Hub represents a market of more than 5.8 million inhabitants along its 0.5 million km2, with a GDP of about US$34,541.3 million (almost equitably contributed by both countries: 52.3 and 47.7%, respectively).

Institutionally speaking, its area of influence is undergoing a 19-year long integration process (MERCOSUR) that has set up a pattern of gradual regulatory convergence and coordination of investments in transport, energy, and telecommunications interconnection infrastructure.

Exports from the area of influence of the Southern Hub amounted to US$15,585.3 million in 2008, which, compared to the annual figure in 2000 (US$5,940.9 million), represents a 145.5% growth in eight years.

In terms of value, 95.8% of the exports from the two countries that make up the Southern Hub were extraregional in 2008, while the exports between these countries (i.e. intraregional) represented 4.2% (US$5,840.9 million).

The main export products are refined copper, copper ores and concentrates, oilseed meals and flours, soy oil, and petroleum derivatives. These exports account for 46% of the total exports from both countries. Their transportation means were as follows: by sea, 82%; by rail, 0.2%; by road, 5.3%; by air, 0.5%; by pipelines, 2%; and by "other means," the remaining 10%.

In the area of influence of the Hub there are well-consolidated areas, regions with a very low population density and extended areas reserved for environmental preservation purposes (national parks and reserves). The area is also characterized by the presence of the agricultural and manufacturing industries, electricity generation businesses, oil and gas, agricultural production, forestry, fisheries, and the provision of services, especially tourism.

The geographical, population and GDP aspects related to the area of influence of each Integration and Development Hub are summarized in Table III.1. As can be seen, the situation varies greatly in all three dimensions. The area ranges from 0.5 million km2 in the case of the Southern Hub to the 5.7 million km2 of the Amazon Hub. The greatest population is found in the MERCOSUR-Chile and Andean Hubs (137.3 and 103.5 million inhabitants, respectively). As to the greatest economic strength, the leading hubs are the MERCOSUR-Chile Hub (US$852.4 billion) and the Central Interoceanic Hub (US$485.8 billion), followed by the Paraguay-Paraná Waterway Hub (US$419.3 billion) and the Andean Hub (US$361.8 billion).

Table III.1
Integration and Development Hubs: Some Basic Data

(area in million km^2, population in million inhabitants, and GDP in billion dollars at constant 2000 market prices, on the basis of 2008 figures and expressed as percentages [a/])

Integration and Development Hub	Area		Population		GDP	
	value	%	value	%	value	%
Amazon	5.7	50.5	61.5	22.2	150.5	13.7
Andean	2.6	54.4	103.5	82.8	361.8	86.4
Capricorn	2.8	20.6	49.9	19.0	228.9	16.7
Guianese Shield	4.0	40.8	24.5	11.2	199.9	19.6
Paraguay-Paraná Waterway	3.8	29.6	73.2	29.4	419.3	32.3
Central Interoceanic	3.5	28.7	92.6	36.8	485.8	45.7
MERCOSUR - Chile	3.2	25.5	137.3	53.7	852.4	61.3
Peru-Brazil-Bolivia	1.1	10.5	10.2	4.5	20.4	2.1
Southern	0.5	13.4	5.8	13.4	34.5	6.9
Sothern Andean	n/a	n/a	n/a	n/a	n/a	n/a

Notes:
a/ Value presented as a percentage of the sum of the total respective variable of the countries that make up the Hub.
n/d Not available information
Source: IIRSA, Project Portfolio 2010

Moreover, it is important to note that the Integration and development Hubs cover territories at different development stages —consolidated territories, territories with growth potential, and emerging territories. The first ones are characterized by their highly intense trade flows and their diversified production and consumption structures, while the second ones feature trade flows that are becoming consolidated along with good growth perspectives. Emerging territories show incipient commercial activities as they incorporate new production and consumption areas. With the recognition of their differences, these territories require different physical integration strategies. For instance, emerging territories demand more basic infrastructure and simultaneous investment in production activities, as well as gaining greater attention of public policies. In contrast, consolidated territories require logistics systems and greater institutional progress, but they are already capable of attracting public investments more easily. Below, more details are presented about the strategic orientation of the different Hubs, the project groups identified in each of them, and their characteristics from different perspectives (see Chapter 4).

b) The Sectoral Integration Processes

The definition of the Sectoral Integration Processes also underwent changes, in some cases related to the redesign of the Integration and Development Hubs, as IIRSA made headway. The Montevideo Action Plan established six of these processes. At the Third Meeting of the Executive Steering Committee (Brasilia,

May 2002), a decision was made to merge two of the Integration and Development Hubs proposed and transform this combination into a Sectoral Integration Process (Maritime Transport Operating Systems). On other occasions (Buenos Aires, June 2003 and Lima, November 2004), it was decided to change their names and focus, as was the case of the Information and Communications Technologies PSI and the Energy Integration PSI.

The Technical Coordination Committee prepared diagnostic studies for each PSI, which included work plans submitted to the consideration of the South American governments. At its Fourth Meeting (Caracas, July 2003), the Executive Steering Committee decided to create Executive Technical Groups to review the diagnostic studies and define the work plans. However, these groups were established for only four of the seven Sectoral Integration Processes. The goals of each PSI are described below.

- **Instruments for Funding Regional Physical Integration Processes**

The goal was to create alternatives intended to overcome adverse factors that hinder the funding of transnational infrastructure projects. The countries' fiscal restrictions in the early years of the Initiative were the main bottleneck that needed to be overcome (IDB, 2004).[25] Moreover, infrastructure project financing calls for innovative mechanisms that go beyond any traditional form of concession.[26] Thus, it is essential to attract private capital and encourage public-private partnerships, which entails, as a necessary condition, the design of adequate and efficient risk management systems with the support of the States and the multilateral organizations.

- **Energy Integration**

The purpose was to promote actions designed to create the necessary conditions for the development of efficient regional energy interconnections within a regulatory framework that promotes competition. There is a broad set of potential benefits associated with making progress in energy integration in South America. Among them, it is worth pointing out the enhanced use of the different resources, a reduction in long-term marginal production costs, the improvement in the quality and security of supply, the minimization of the impacts on the environment, and the enlargement of the size of the markets. The latter would very likely result in a greater attraction to the public sector.

- **Facilitation at Border Crossings**

The aim was to develop actions intended to transform borders into areas for greater and better integration, facilitating the movement of goods and people throughout the region.

25- IIRSA was the forum that made it possible to reach shared positions on the methodology to record infrastructure spending as part of the public debt goals (Letter of Lima, IDB, 2004). These positions led the IMF to revise its programs and, finally, gave greater financial room for increasing capital spending on infrastructure (see Carciofi, 2008).

26- Within the framework of this PSI, the CCT financial agencies developed funding facilities for pre-investment in projects.

The activities carried out have addressed this issue with a multidimensional approach that considers the economic, legal, logistics, and IT aspects of road transportation. In 2004, it was agreed that priority would be given to five border crossings for the purpose of undertaking pilot programs: the Desaguadero (Bolivia and Peru), the Cúcuta-San Antonio (Colombia and Venezuela), the Foz do Iguaçu-Ciudad del Este (Argentina, Brazil and Paraguay), the Fray Bentos-Puerto Unzué (Argentina and Uruguay), and the Sistema Cristo Redentor (Argentina and Chile) border crossings. Details about the progress made after 2004 regarding this Sectoral Process will be given in Chapter 4.

- **Information and Communications Technologies**

The objective was to promote greater access to and better use of the information and communications technologies in South America, taking into account the potential and challenges of such use in today's world. Indeed, these technologies have become crucial to gain competitiveness and, in addition, they create many externalities by improving connectivity. By means of this Sectoral Process, comprehensive solutions are sought to be proposed not only to bring about improvements in infrastructure but also to produce an increase in the contents available on the networks, the enhancement of service provision, and greater access to technologies by low-income populations.

For different reasons, the Executive Technical Groups for the following three Sectoral Integration Processes could not be created; hence, little progress has been made in the initial studies and proposals.

- **Air Transport Operating Systems**

The goal was to propose actions oriented towards the consolidation and integration of the sector at the regional level as essential conditions for the viability of the commercial exploitation of these systems, which have a growing impact on cargo transportation and play a decisive role in the transport of passengers traveling for tourism and business purposes. In essence, the purpose is to gain greater coverage and offer more frequencies as well as lower prices for cargo and passenger transportation.

- **Maritime Transport Operating Systems**

The intention is to promote actions aimed at reducing costs, increasing frequencies, and gaining greater reliability for this mode of transport of huge importance for regional trade and competitiveness. In a market in which private actors prevail, the rules and regulations adopted by the countries may contribute to these objectives, avoiding the separation of regional and international traffic that sometimes prevents the efficient use of the available equipment.

- **Multimodal Transport Operating Systems**

The aim is to propose actions to attain a greater and more adequate complementarity of the

different modes of transport so as to shape a multimodal network that contributes to the sustainable development and enhancement of the competitiveness of the region. Trade increasingly needs integrated operations that ensure a combination of transport modes and businesses. This calls for the availability of adequate infrastructure as well as the development of a regulatory framework and of regional operators.

In some PSIs, as will be seen further on (Chapter 4), significant headway has been made, while the progress attained in others does not meet the initial expectations.

2. THE FIRST PHASE OF THE INDICATIVE TERRITORIAL PLANNING METHODOLOGY

After its start-up phase, the Initiative entered the stage of structuring its Project Portfolio on the basis of an Indicative Territorial Planning Methodology that basically included the arrangement of each Hub into project groups, the comparative assessment of these groups and the selection of the projects that were a priority for the physical integration of the region. Furthermore, the aspects of the Sectoral Integration Processes that were more relevant to each project group in a Hub were identified.

The development of the Indicative Territorial Planning Methodology was inspired by the conviction that, within the framework of IIRSA, investments have a substantial impact on the economy and the environment of the region and contribute to increasing competitiveness and social development, while creating new opportunities for local populations. In point of fact, such vision involves the interrelation of three great dimensions and physical infrastructure. Firstly, physical infrastructure serves as a platform for the growth and competitiveness of the immediate area of influence and of the domestic markets and, consequently, broadens the competitive advantages for South American economies to become active players in the regional and global economy. Secondly, the primary physical infrastructure enhancement goal has significant social implications, since it is a crucially important tool to create new opportunities for the inhabitants of the poorest, most isolated areas, and to facilitate their integration into the regional economy and an equitable market access. Lastly, the Initiative places emphasis on ecological sustainability, as reflected in its structured project selection, execution, monitoring, and assessment process, and in its consideration of the combined effect of the whole portfolio and its territorial repercussions for South America.

The structuring of IIRSA Project Portfolio took place between 2003 and 2004 under a participatory work scheme involving the twelve countries organized into several Executive Technical Groups. Such structuring has pursued three main objectives:

- a better understanding of the contribution of each project group to sustainable development through physical integration;
- a more specific linkage between the physical integration strategy and the infrastructure projects in their pertinent territorial areas; and
- the identification of the impacts of the project groups and a better logistic functionality of all the investments.

Hence, consensus has been built as to the relative importance of the project groups, giving the process an economic geography vision with a shared approach. A successful outcome of the consensus attained is the direct linkage between infrastructure needs and the present and potential production, social, and environmental characteristics of the territories involved.

Later on, between 2005 and 2010, several meetings of the Hub's GTEs made it possible to update IIRSA Project Portfolio and to complete the project structuring effort. Regarding the Paraguay-Paraná Waterway Hub in particular, the first planning stage took place only in 2007.

It is important to mention the main components of the methodology, namely the grouping of the projects in each Hub, the analysis factors to trace the impact of the project groups on several dimensions, and the scheme used to make their comparative assessment. [27]

a) Grouping of Projects

A group is a set of interdependent projects in a given space of the economic geography having synergetic effects upon sustainable development. That is, the grouping process is based on the possibility of capitalizing on the benefits of a set of investments, which are greater than the aggregate effects of its individual component projects. The process is territory-based and takes into account the location of projects, their relationships with the prevailing or potential economic activities, and the related environmental and social aspects. Synergy is vertical when projects are grouped on the basis of input-output relations within a functional systemic chain (for example, port-road). It is horizontal when it refers to the use of common resources or ease of implementation or operation (hydroelectric power station-waterway). Consequently, the identification of synergies when setting up the project groups optimizes their benefits and favors the promotion of investments.

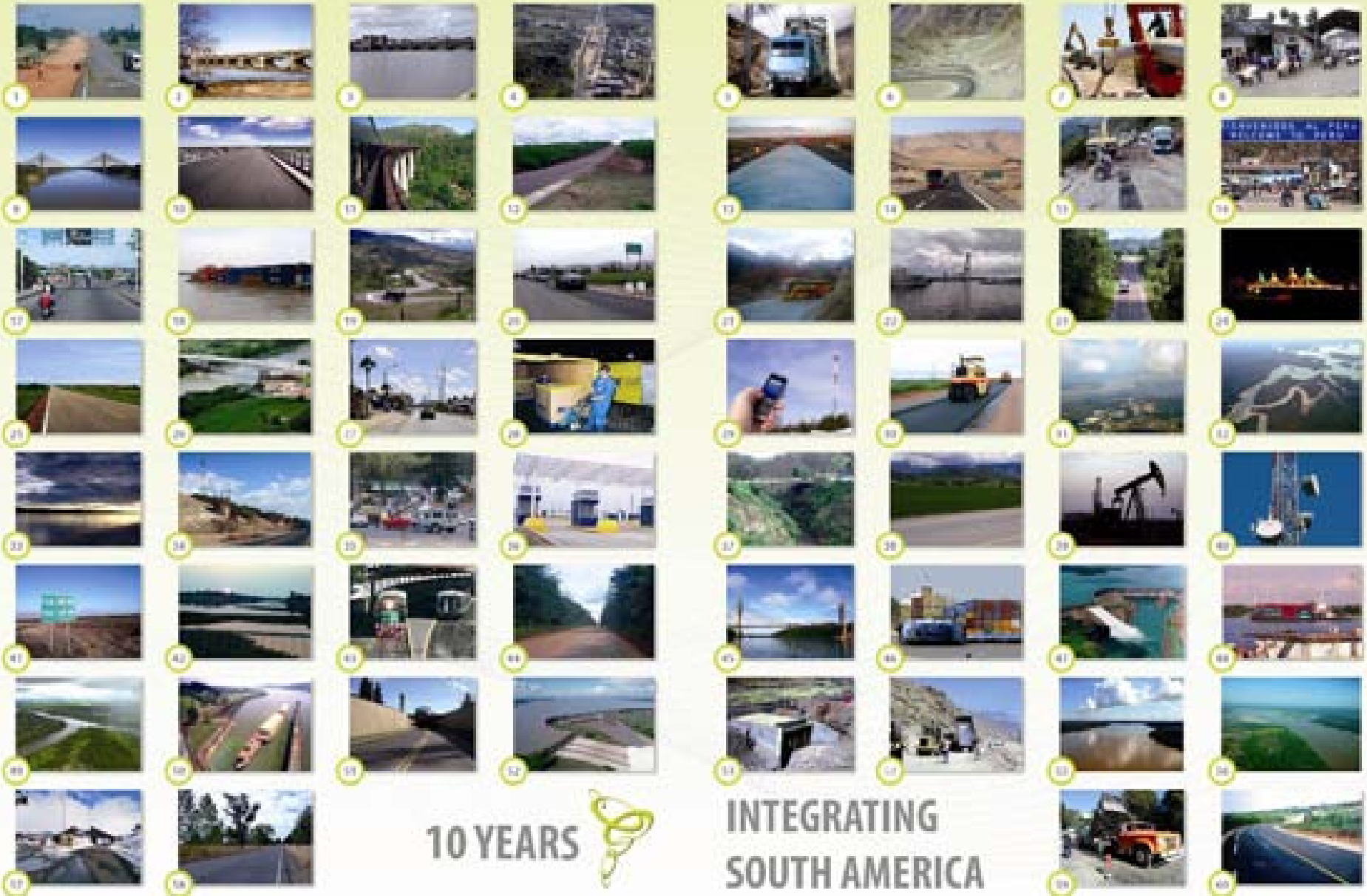
The effects of a project group are reflected in their strategic function, i.e. their common objective and main benefits for both the integration and the regional development of the territories involved. The strategic function has to do with the direct linkage of the project group to the specific territorial aspects of its area of influence and to the Business Vision of the pertinent Hub.

In each project group, a special project is identified, known as the "anchor project," which gives meaning to the grouping process and makes synergies viable. This project is no necessarily the largest-sized one, but the bottleneck or missing link in the infrastructure network that, as such, hinders the optimum use of the combined effects of the group for the sake of economic and social development. Thus, each group is set up around an anchor project, which may be new or already existing. Another type of project that performs special functions in the groups of each Hub is known as the "hinge project." As its names suggests, it joins two or more project groups belonging to the same or to different Integration and Development Hubs.

27- For a more detailed analysis of the Indicative Territorial Planning Methodology and its applications, see IIRSA Project Portfolio 2010 at http://www.iirsa.org//Documentos_ENG.asp?CodIdioma=ENG.

PROJECTS

1. Upgrade of Route14 to a Four-lane Road, between Paso de los Libres and Gualeguaychú (AR)
2. Upgrade Works of the Río Branco - Montevideo - Colonia - Nueva Palmira Road Corridor (UY)
3. Construction of the Jaguarão - Río Branco International Bridge (BR-UY)
4. Upgrade of the Palhoça - Osório Road Section to a Four-lane Road (Rodovia MERCOSUR) (BR)
5. Railway Project Los Andes - Mendoza (Central Trans-Andean Railway) (AR-CH)
6. International Route No. CH-60 (between Valparaíso and Los Andes) (CH)
7. Northeastern Argentina Gas Pipeline (AR)
8. Construction of the Salvador Mazza - Yacuiba Binational Bridge and Border Center (AR-BO)
9. New Presidente Franco - Porto Meira Bridge, with a Paraguay-Brazil Border Center (BR-PY) (scale model)
10. Construction of Pailón - San José - Puerto Suárez Road (BO)
11. São Paulo Railway Ring (Northern and Southern Sections) (BR)
12. Construction of the Cañada Oruro - Villamontes - Tarija - Estación Abaroa Road (BO)
13. Toledo - Pisiga Road (BO)
14. Paving and Improvement of the Iquique - Colchane Road (CH)
15. Rehabilitation of El Sillar Road Section (BO)
16. Desaguadero Binational Border Service Center (BO-PE)
17. Cúcuta-San Antonio del Táchira Border Crossing (CO-VE)
18. Improvement of Navigation Conditions on the Meta River (CO-VE)
19. Tumaco - Pasto - Mocoa - Puerto Asís Road Corridor (CO)
20. Paita - Tarapoto - Yurimaguas Road, Ports and Logistics Centers (PE)
21. Lima - Tingo María - Pucallpa Road, Ports and Logistics Centers (PE)
22. Francisco de Orellana Port (EC)
23. Paving of Iñapari - Puerto Maldonado - Inambari Road, and Inambari - Juliaca / Inambari - Cusco Roads (PE)
24. Bridge over the Acre River (BR-PE)
25. Boa Vista-Bonfim - Lethem - Georgetown Road (BR-GU)
26. Bridge over the Takutu River (BR-GY)
27. Improvement of Nieuw Nickerie - Paramaribo - Albina Road and International Crossing on the Marowijne River (GY-SU)
28. Exports through Postal Services for SMEs (Regional)
29. Implementation of the South American Roaming Agreement (Regional)
30. Cuiabá - Santarém Road (BR)
31. Improvement of Navigation Conditions in the Solimões - Amazon Rivers System (BR)



10 YEARS

INTEGRATING
SOUTH AMERICA

32 Environmental and Social Aspects of the High Basins of the Amazon Rivers (CO-EC-PE)

33 Morona Freight Transfer Port (EC)

34 Road Corridor Connecting Santa Marta - Paraguachón - Maracaibo - Barquisimeto - Acarigua (Existing) (CO-VE)

35 Implementation of the Binational Border Service Center (CEBAF) at the Tulcán - Ipiales (Rumichaca) Border Crossing (CO-EC)

36 Huaquillas - Aguas Verdes Binational Border Service Center (CEBAF) (EC-PE)

37 Binational Border Service Center (CEBAF) at San Miguel and its Access Roads (CO-EC)

38 Paving of Vilcabamba - Puente de Integración (Integration Bridge) - Jaén (EC-PE)

39 Harmonization of Electricity, Gas and Oil Regulations (BO-CO-EC-PE-VE)

40 Use of Existing Infrastructure and New Connections to Enhance Communications Infrastructure (BO-CO-EC-PE-VE)

41 Access Roads to Paso de Jama Border Crossing (National Route No. 52 - Intersection with National Route No. 9 - Border with Chile) (AR)

42 Optimization of the Ñeembucú - Bermejo Bridge Node (AR-PY)

43 Multimodal Transfer Center in Tucumán (AR)

44 Rehabilitation of the Caracas - Manaus Road (BR-VE)

45 Improvement of the Georgetown - Albina Road, and of the Section Ferreira Gomes - Oyapock of the Macapá - Oyapock Road (BR-GU-SU)

46 Improvement of Navigation Conditions on the Paraguay River (Asunción - Apa) (PY)

47 Itaipu Diversion Binational Project (BR-PY)

48 Binational Project for the Improvement of the Navigation Conditions on the Paraná and Paraguay Rivers, between Santa Fe and Asunción (AR-PY)

49 Binational Project for the Improvement of Navigation Conditions on the Alto Paraná River (AR-PY)

50 Binational Project for the Improvement of the Navigation Conditions on the Uruguay River (AR-UY)

51 Rehabilitation and Upgrade of National Route No. 168 to a Four-lane Road from Paraná (Underwater Road Tunnel) to Santa Fe (AR)

52 Itaipu System (Existing) (BR-PY)

53 Paving of National Route No. 145, from Intersection with National Route No. 40 South to the Access to Pehuenche Border Crossing (AR)

54 Paving of Puente Armerillo - Pehuenche Border Crossing Road Section (Route CH-115) (CH)

55 Guayaramerín - Guajará-Mirim Binational Bridge, over the Mamoré River (BO-BR)

56 Improvement of Navigation Conditions on the Madeira River, between Porto Velho and Guajará-Mirim (BR)

57 Implementation of Integrated Border Control in Pino Hachado Border Crossing (AR-CH)

58 Upgrade and Maintenance of the Interlagos Route in Chile (CH)

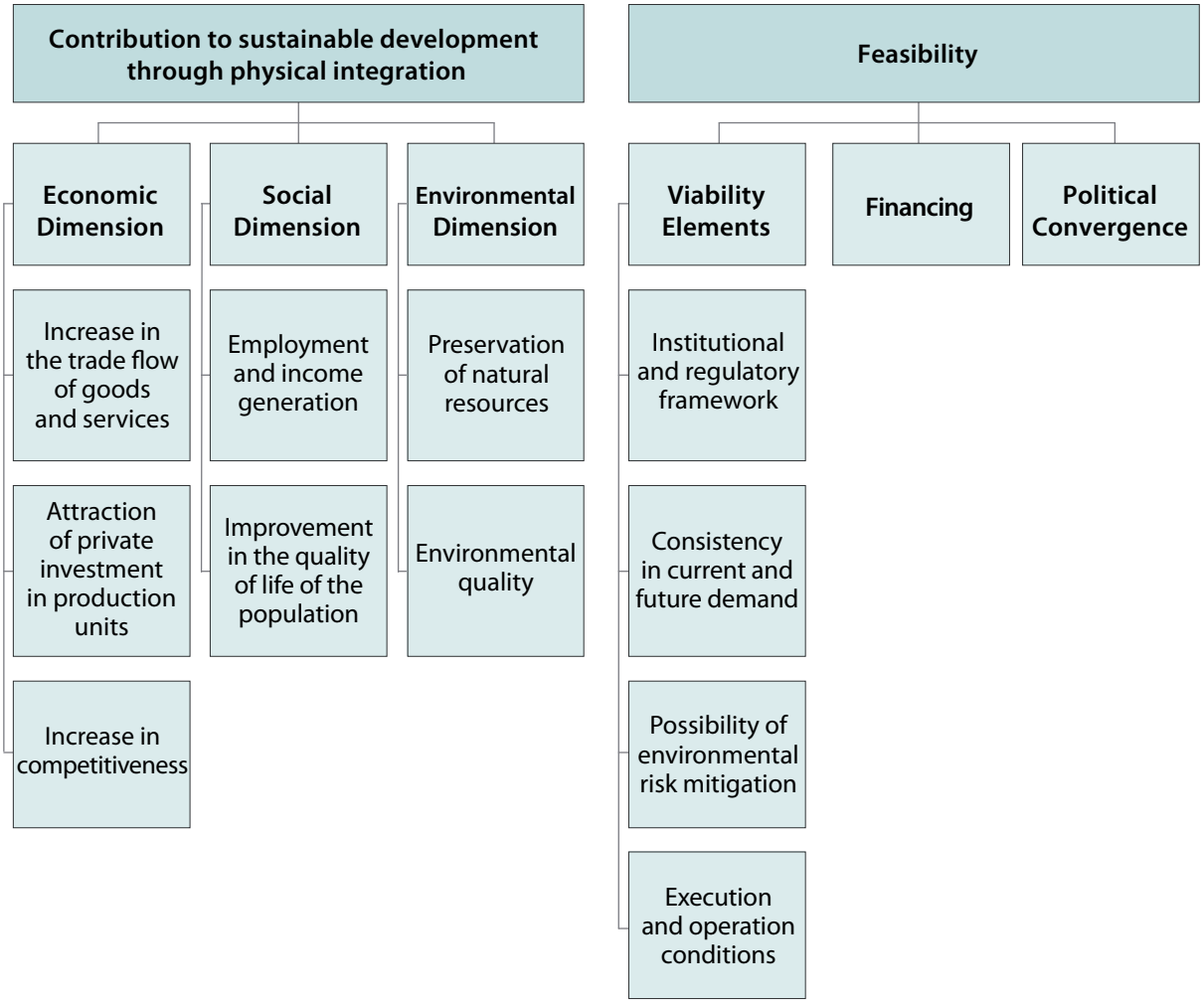
59 Upgrade and Maintenance of the Interlagos Route in Argentina (AR)

60 Concepción - Brazilian Border (San Matías) Road (BO)

b) Analysis Factors

To advance in the comparative assessment of the project groups, a structure of factors was defined so as to measure the impacts of each project group on regional integration and development and to grasp its implementation feasibility conditions (see Figure III.2).

Figure III.2
Analysis Factors Applied to the Project Groups



The first group of analysis factors aims at measuring the impacts of the project group on sustainable development in its economic, social and environmental dimensions. As to the economic dimension, the contribution of the project group to the removal of obstacles to the growth of trade in goods and services in the identified sectors as well as the capacity to integrate new areas into regional and international trade are analyzed first. Secondly, the analysis focuses on the contribution to attracting private investments in production units in the area of influence of the project group and, also, on the capability to foster the

development of local production systems (clusters) and the creation of opportunities for the location of production units in two or more countries within a Hub to stimulate the establishment of regional production chains or an increased efficiency of existing chains. Finally, the analysis concentrates on the capability to reduce transportation, energy or communication costs so as to increase the competitiveness of the goods and services produced in the area of influence and, complementarily, on the capability to fulfill the infrastructure requirements of present or future production, taking into account the value added of production, pursuant to the concepts set forth in the strategic vision.

As far as the social dimension is concerned, the factors examined are as follows: first, the contribution of the project group to the generation of employment and income for the individuals in the present or future production units served by the new infrastructure; second, the capability of the project group to promote human development among the lowest-income social segments, as well as its impact on the creation of opportunities for access to health care, education, knowledge and mobility for the inhabitants of the area of influence of the group.

Regarding the environmental dimension, an analysis of the contribution of the project group to a more rational use of natural resources and of its compatibility with the characteristics of the ecosystems in the area of influence is performed. The capability of the project group to improve (or maintain) the environmental quality of water resources, the soil and the air in its area of influence is also studied.

The purpose of the second group of analysis factors is to examine the feasibility of implementing the project group, which depends on its technical and environmental viability, on its capability to have access to funding from different sources, and on political convergence. As to the technical and environmental viability elements, the first thing is to determine whether there is an appropriate institutional and regulatory framework and, also, what are the associated risks for the sectors and countries where the project group is located. In the second place, it is necessary to estimate whether there is a current or future demand that justifies the project group, and to conduct an analysis of the sensitivity of such demand vis-à-vis different risk elements. Thirdly, the environmental impact risk levels must be established, as well as the possibility of mitigating them as compared to other alternatives to meet the same infrastructure demand. Furthermore, the intention is to examine the possibility of mitigating indirect impacts on the biological diversity, vegetation, water resources, pressure on aboriginal lands or traditional people, preserved areas or fragile ecosystems. All of these factors may entail risks regarding the approval of the projects by the environmental authorities. Lastly, an analysis must be carried out of the execution and operation conditions, particularly of the risks associated with technology, equipment, construction processes, and other conditions related to the implementation and operation of the project group.

With regard to financing, it is of interest to establish the capability to attract private and public investors as well as public-private partnerships to finance the infrastructure projects within the group, according to the expected return on investment and the associated risks.

Concerning political convergence, it is necessary to determine the degree of symmetry among the

countries involved in a group of projects of a transnational nature; to examine the relation of such group with public policies, projects banks, and national and subnational investment priorities; to assess the possibility of overcoming potential opposition to the projects for political, social or environmental reasons; and, lastly, to ascertain in a grounded and realistic manner the governments' commitment to and capability of sustaining the priorities over time.

All these factors associated with the contribution of the project group to sustainable development through physical integration, on the one hand, and with its feasibility, on the other, make up an integrated analytical structure. This structure has made it possible to sharpen the analysis of each project group and conduct an inter-group comparative assessment within each Integration and Development Hub. The factor structure was weighed, the relative importance of the factors having thus been determined by collaborative work with the participants of the Executive Technical Groups based on opinion convergence. Two conditions were established to facilitate the comparison of results, namely to use a single structure of analysis factors for all Hubs and project groups, and to apply the same relative weight of the components of each analysis factor to all project groups within one Hub.

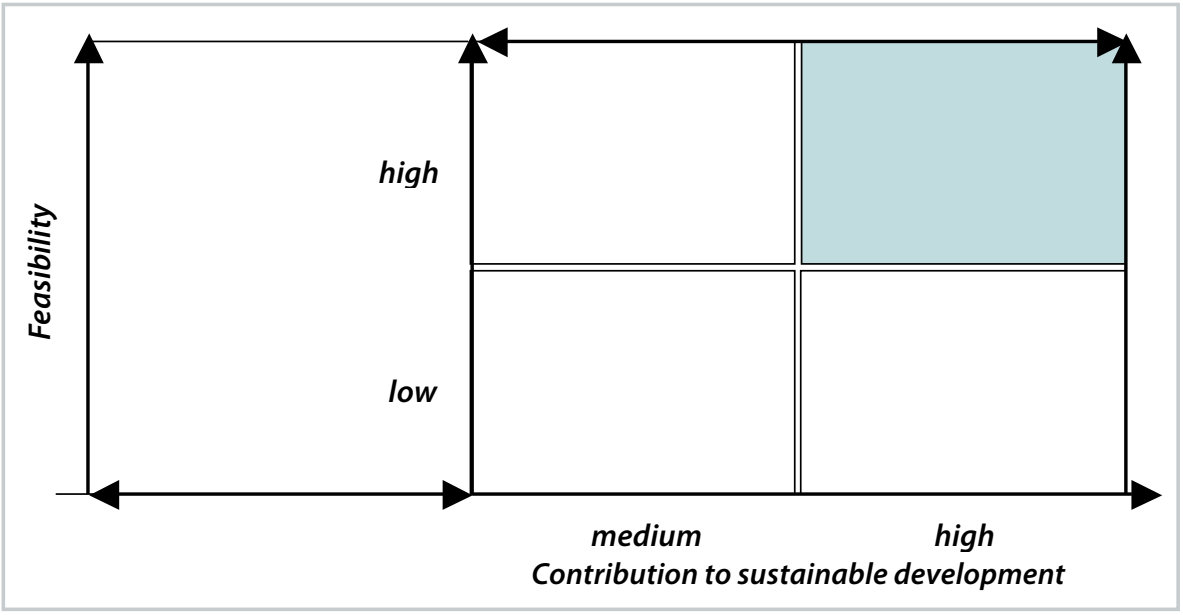
c) Comparative Assessment

The comparative assessment of the project groups has shown that its importance goes beyond the results themselves. In point of fact, the analysis process has been of great significance for the building of a regional physical integration vision shared by the South American countries. The adopted approach facilitates the performance of a qualitative assessment of the project groups that, on the basis of technical elements, bolsters the pursuit of consensus among the national representatives with a view to determining the expected impacts and differentiating certain project groups from others. Worth noting has been the close cooperation of the governments, represented in most cases by national multisectoral delegations. These representatives interacted actively during the assessment process, contributing information and technical elements on the basis of which a concerted comparative analysis was made of the different project groups in each Hub.[28]

The assessment process resulted in two main outputs: a weighted structure of analysis factors, on the one hand, and the classification of the project groups in each Integration and Development Hub according to their impact on sustainable development and their implementation feasibility conditions, on the other. To this end, a guide of questions was used for each component of both analysis factors. Participants were asked to answer such questions during the assessment of the project groups in each Hub on the basis of a qualitative rating scheme applied to such questions. The qualitative rating assigned by the experts to each project group represented an ordered pair that made it possible to graphically depict its expected implementation impact within a comparative framework, and to establish a relative order among the groups at the level of each component of the analysis factors (see Figure III.3).

28- The assessment of the groups was conducted with the permanent support of the Expert Choice software, which lent the process a logical, rational, and transparent base, enabling simultaneous monitoring, quick result processing, and the performance of sensitivity analyses to the participants' satisfaction.

Figure III.3
Strategic Dimensions Assessment Pair



The process of grouping and assessing the Project Portfolio has made it possible to arrange and prioritize infrastructure investment for the physical integration of South America. Moreover, the work dynamics used in the meetings of the Executive Technical Groups facilitated the creation of a technical discussion forum that is essential to attain a vision shared by all the experts from the countries. Based on such structuring process, the Initiative has been able to place more emphasis on the execution of the integration projects that became part of IIRSA Portfolio and, at the same time, to select from them a smaller subset of projects of strategic importance for integration in order to make up the Implementation Agenda based on Consensus 2005-2010. In this way, the regional governments and agencies have been capable of targeting their efforts to speed up the execution of such strategic projects (see Chapter 4).

3. THE SECOND PHASE OF THE INDICATIVE TERRITORIAL PLANNING

At the Seventh Meeting of the CDE (Asunción, December 2005), after the fifth anniversary of IIRSA, the South American countries approved strategic objectives for the Initiative for the 2006-2010 period. These guidelines were structured in four main lines of action: i) Implementation: ensure the implementation of the projects included in the Implementation Agenda based on Consensus and provide support to the preparation and financing of projects within IIRSA Portfolio (see Chapter 4); ii) Planning – Stage II: promote a qualitative leap forward in the territorial planning process and in the decision-making process related to investments in infrastructure for integration purposes (this topic will be addressed in detail immediately below); iii) Sectoral Integration Processes – A New Approach: focus on the actions and on the knowledge gained by the Initiative regarding the PSIs to support integration infrastructure-specific projects (see Chapter 4); and iv) Outreach Activities to Promote the Initiative: strengthen the dissemination process so as to improve the knowledge of the progress and actions made by IIRSA among the South American societies (see Chapter 4).

The approval of these objectives, one of which is the second planning stage, marked a new phase, the purposes of which were to broaden the strategic scope of the Project Portfolio and to create opportunities for sustainable development through physical integration, by means of new analytical and territorial planning tools for the project groups.

This decision was based on the conviction, which grew stronger as experience was gained, that regional physical integration must also consider the possibility of articulating infrastructure with other initiatives encompassed within the process of development, such as production and logistics projects, natural heritage sustainable use and conservation programs, and trade and investment facilitation policies, among others. These projects and programs, when correlated with the project groups, could reap greater benefits for the harmonious development of the territories where such investments were to be located.

For this qualitative leap forward to be taken, the use of planning mechanisms to contribute to improving the quality of the investment decisions within IIRSA was discussed, on the basis of an analysis of the experiences of several South American and European countries and on the limitations encountered during the first stage of the indicative territorial planning.[29]

Thus, for the purpose of promoting such qualitative step forward in the territorial planning process, the decision was made at the above-mentioned CDE Meeting held in Asunción to take specific actions in the fields of strategic environmental assessment, production integration and logistics chains, the evaluation of transnational infrastructure projects, the consolidation of the georeferenced information system, and the database including IIRSA projects throughout their lifecycle. These new analytical tools for territorial planning developed since then were made available to the countries and increased the knowledge and understanding that the Initiative has accrued regarding these fields. A brief description of each of them is presented below.

a) Strategic Environmental and Social Evaluation (EASE) Methodology

The IIRSA EASE methodology is an environmental assessment tool that enables the identification, characterization and evaluation of the environmental and social consequences as well as the sustainable development risks and opportunities associated with the territory, thus guiding the decision-making process in the context of IIRSA project groups planning. It consists of a methodological framework and practical guidelines that, by means of a fast and low-cost process, serve as a beacon for the agencies and institutions responsible for decision-making at the national and regional levels. This methodology is based on the principles of the Strategic Environmental Assessment (SEA) and can be applied at different scales and levels of analysis, basically using secondary information and experts' and key stakeholders' opinions.

The methodology involves a set of premises that serve as the conceptual framework within which it is developed: i) it must generate high-quality technical results in the short run aimed at improving the planning and implementation process of IIRSA Project Portfolio; ii) it requires the leadership of experts with proven

29- See the Workshop on Planning Experiences, held in Asunción, Paraguay, in November 2005, at http://www.iirsa.org.

experience in environmental and social assessment-related fields; iii) it uses secondary information, and is highly reliant on the contributions made by different key participants along its various application phases; and iv) it includes the full involvement and commitment of the national governments, which appoint counterparts to make up the work team.

The scope of the IIRSA EASE methodology is as follows: i) it is applied to project groups that respond to a regional integration infrastructure strategy within the context of IIRSA; ii) it serves to analyze the environmental and social effects on the territory in which a multisectoral project portfolio is planned to be executed; iii) the expected result of the evaluation is somewhere between the SEA and the EIA (Environmental Impact Assessment), as it identifies strategies and lines of action aimed at taking preventive action at the level of policies, plans and programs, and proposes recommendations to enhance the sustainability of the project group; iv) it is based on the identification of the main environmental and social strategic factors, which may turn out to be limitations, restrictions, risk factors, potentialities, or opportunities for attaining the sustainable development of the territory involved and the integration goals of IIRSA; v) it inquires what the options are to achieve more environmentally and socially sustainable territorial and sectoral interventions; vi) it is based on the identification and analysis of a specific current scenario and on the construction of a desired scenario by means of the interventions planned; vii) it is applied on a regional scale, taking into account strategic factors to validate or reconcile information from different countries and regions through integrated qualitative analyses; viii) it is implemented under the responsibility of experts in the fields concerned and with the participation and constructive dialogue of public, private and social "key stakeholders" from the local, national and regional levels, who are of strategic importance for the planning and decision-making stages; ix) it establishes, as a result of the assessment, a set of environmental and social strategies and lines of action intended to contribute to the comprehensive sustainable development of the territory, as well as to the sustainability of the project group; and x) it incorporates different methodological tools, approaches and views, as well as limited timeframes and a multiplicity of simultaneous analyses, which accounts for its multi-phased and iterative nature.

An important element of the IIRSA EASE methodology is that it seeks to create a constructive dialogue among the governments of the countries involved in its application as well as between these governments and the key stakeholders of the area of influence of the project group. For this reason, throughout the implementation of the methodology, an enabling meeting space for consultation and feedback is created, thus contributing to generating an atmosphere of mutual trust and cooperation that results in a very fruitful dialogue.

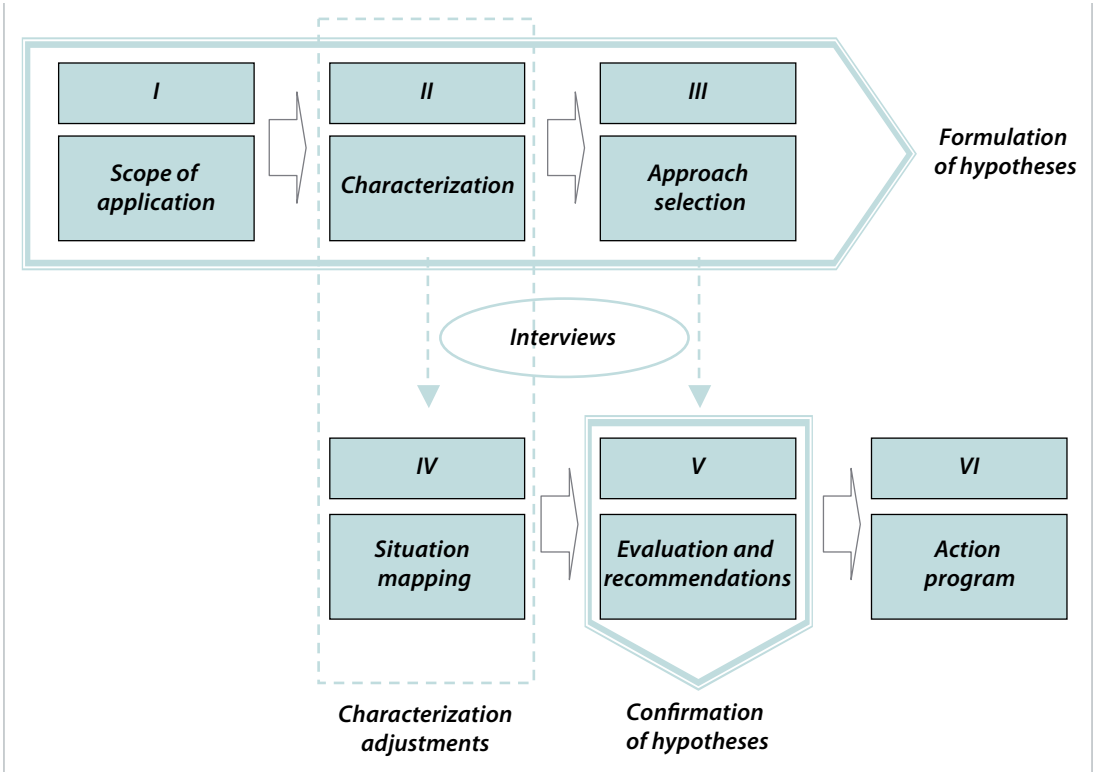
b) Production and Logistics Integration Methodology (IPrLg)

Regional production integration takes place through the creation and strengthening of backward and forward linkages in the value chains that have links located in two or more countries of the region. The implementation of infrastructure that increases or facilitates contact among countries may foster production integration since it brings economic spaces closer, reduces the physical barriers to trade, and increases the size of the markets. The value-added logistics services, in turn, add commercial value without altering the nature of the product, but they exceed transport and storage (they include, for instance, cargo consolidation, labeling, classification, quality control, and assembly). These services may form part of specialized logistics, which involves a dedicated treatment, few stakeholders and limited linkages with other chains (for example, for the transportation of raw

materials, semi-finished products and some very standardized finished products). In contrast, diversified logistics is characterized by its independence from production and by the interest it arouses in specialized operators, who may become involved in different value chains.

In 2007, on the basis of some initial experiences, a methodology for the evaluation of the potential for production integration and the development of value-added logistics services in the area of influence of the project groups within the Integration and Development Hubs was devised.[30] In 2009, a revised version of such methodology was published (Barceló Koser and Barcia Fonseca, 2009). It was based on three pillars that mark the stages in its implementation: first, the collection of secondary information on the basis of which hypotheses may be formulated about the potential of a project group for contributing to production integration and to the development of logistics services; second, the validation or adjustment of the hypotheses through consultations with the pertinent actors (such as public, private and public-private institutions, trade union associations and companies); and third, the analysis of the information collected and the coordination of infrastructure projects, the removal of obstacles and the realization of business opportunities, applying a methodology that consists of various steps (see Figure III.4)

Figure III.4
Steps of the IprLg Methodology



30- "Methodology for the Evaluation of the Production Integration Potential of IIRSA's Integration and Development Hubs" (Pacheco and López, 2006), and "Methodology for the Promotion of the Development of Value-Added Logistics Services in IIRSA's Hubs" (Advanced Logistics Group, 2006). The consolidated methodology was coordinated by Martínez Rivas (2007) and initially applied in the Capricorn and Central Interoceanic Hubs.

As a final result, the governments are provided with the means that enable them to improve the infrastructure territorial planning process through the use of new methodological tools, which incorporate the requirements of the logistics chains that use the infrastructure as well as those resulting from the effect of transportation, energy and communications projects on the production integration of the area of influence of the project groups.

Lastly, it is worth pointing out that, as opposed to the classical methodological applications, a procedure known as "application/training process" was chosen for both the IPrLg and the EASE methodologies. In this regard, a teaching/learning process has been followed, through which the team of experts from the countries (public officials specialized in the fields concerned) are first trained in the methodology and, subsequently, apply it jointly under the guidance of a team of consultants who serve as facilitators.

c) Methodology for the Evaluation of Transnational Infrastructure Projects

The ever greater integration of the countries at the financial, economic and physical levels has led to a growing demand of transnational infrastructure projects. On account of their size or because they are jointly undertaken by countries, these projects have an impact on more than one country, even on non-neighboring countries. Such effects are different for the countries involved —they may bring about benefits for some and problems for others; that is, these projects create externalities in different countries. Many of them cause network effects (what takes place in one node affects another or even the entire network, as is the case with electricity interconnection projects) and have an impact during long-term periods that may involve decades, therefore probably affecting more than one generation in different countries.

Taking this situation into account, it was considered appropriate to, first, analyze methodologies for the evaluation of transnational infrastructure projects that enable the breakdown and allocation of costs and benefits among the participating countries according to objectivity, transparency, replicability, and cost-effectiveness criteria; second, build a tool box applicable to the different statistical availability realities of countries; and third, reach objective conclusions to facilitate operational and financial negotiations among the countries participating in this type of project.

For these purposes, a methodological proposal was prepared to evaluate transnational infrastructure projects (see http://www.iirsa.org//Documentos_ENG.asp?CodIdioma=ENG). The specific aim has been to design a rapid appraisal of the cost-benefit analysis applied to these projects. This methodology makes it possible to gather significant data, at a relatively low cost, about the problem in question. Since this data is not always readily available, a feasible methodological application capable of obtaining reasonable results given such usual information restriction was put to test. Thus, what is questioned is not only the relevance of the project but how to allocate its costs and benefits.

The methodological proposal has been applied to analyze the effects of a transnational infrastructure project for passenger and freight transport, including their distribution in two countries.[31] The results obtained were

31- The methodology was applied to the Santa Cruz-Cuiabá corridor, more specifically to the Concepción-San Matías section.

found to be objective and consistent, the application has been rapid after the quality of certain basic data was assured, and it was possible to define the limits of a space for negotiation between the countries involved.

d) Geospatial Network of South America (GeoSUR)

One of the conclusions reached at the time of encouraging a qualitative leap forward in territorial planning was that IIRSA required the consolidation of a georeferenced information database. This requirement is based on the premise that integrated regional information (developed in accordance with shared standards, at different resolutions, and of consistent quality) facilitates decision-making. However, spatial information in South America is fraught with some flaws: there are significant information gaps, information is not always capable of being integrated at borders, regional standards are scarce and deficient, it is difficult to find and access information, and duplication of data generation efforts is common.

GeoSUR is a response to overcome these deficiencies, as its objective is to establish a decentralized network for the dissemination of geographic information in South America using the latest georeferenced information technologies available.[32] The Program provides officials and experts with national and multinational digital maps that support physical infrastructure planning and regional development. In addition, it facilitates and encourages cooperation among geographic information generators in the region to update, share, and handle georeferenced information in an integrated manner.

The national geographical institutes of the region participate in the Program, as well as many ministries, research institutes, non-governmental organizations, State-owned and private companies, and other institutions possessing geographical information deemed useful for decision-making. The Program fosters the development of different query mechanisms:

- Geographical servers that provide digital map services, operated by the participating institutions, i.e. they offer a gate to access the geographical information produced by each country
- A geographical portal of regional scope that provides access to the maps and data available in a multiplicity of servers belonging to national and regional institutions
- A regional geographical server that offers a South American region map service featuring information about IIRSA's projects as well as infrastructure data maps
- A map catalog that provides a library catalog-analogous service, since it makes it possible to locate and inquire about the basic features of any map or spatial image available in the Program network

32- The Program is assisted by the Pan American Institute of Geography and History (PAIGH), and it has more than 30 participating institutions producing geographical information in South America and Panama.

Worth mentioning is the development of the regional geographical service, which provides access to regional digital maps of South America focused on a variety of subjects, such as inhabited areas, infrastructure, road systems, terrain, ports, airports, and indigenous territories. The service further provides an automatic link to IIRSA Project Portfolio Database, which offers detailed information about each project. Through this application, users are able to view regional, national, or local maps; access its related databases; zoom closer into different areas of interest; conduct detailed searches; and consult map factsheets. At present it offers access to more than 50 regional maps and to 65 preprinted maps of IIRSA's projects.

e) IIRSA Project Portfolio Database

This database is an IT system available on IIRSA's website; it consolidates the data associated with the projects included in IIRSA Portfolio. This tool enables access to the record of each project, which contains general information about the project (objective, solution, current status, project stage, financing, etc.), as well as the generation of reports based on the search made. Each project record is kept updated by one responsible person per country or countries, depending on the geographical scope of the project.

The first version of the database was built in 2004 on the basis of the creation of IIRSA Portfolio with the purpose of consolidating in a single instrument all the basic information related to the projects. In 2007, after several rounds of meetings to review and update IIRSA Portfolio, the governments agreed to create a new tool in order to enable the countries to directly update project data online. In addition to this main purpose, the new version incorporated additional search engines, more information fields, and an intuitive, easy-to-use design. The creation of this new tool made it necessary to implement a user training process so as to ensure that the goal of having complete and updated information could be attained. This training process, which comprised the twelve South American countries, took place between 2007 and 2008.

In 2009, new and important operating improvements were introduced into the database. These included the system review and debugging for the benefit of both the administrator and the users of the database with the purpose of speeding up the search and administration processes. Furthermore, the search criteria were expanded, the integration of the system with other applications was improved, more online help information was included, and the presentation of the contents was enhanced.

Finally, between 2009 and 2010 the project records were reviewed for information consistency and their technical content was improved, a task that involved a valuable effort by the governments with the support of the CCT. As of 2010, the Project Database contained updated information as well as project records including complete and quality data, thus becoming a major tool at the regional level —available on IIRSA's website— to conduct queries and perform analyses related to physical integration infrastructure projects in South America.

4. FINAL REMARKS

Looking back to the overview presented in this chapter, it is worth emphasizing several conceptual and procedural aspects that deserve special attention. The first one is the transition from a general vision and general assumptions to the definition of concepts aimed at organizing the vision and the actions, a process that called for the development of specific tools to analyze the territory. Thus, what began as a sectoral approach with a network perspective evolved to become a network vision with a territorial development approach, which is more similar to the approach adopted in the European Union.

As to the procedural aspects, it is important to highlight the decision to gather the twelve countries together so that they can jointly cooperate and reach an agreement on the shared analysis factors based on a mechanism of dialogue that validated the technical developments. Another aspect that must be underscored is the learning accrued during both phases of the Indicative Territorial Planning Methodology through a process of learning-by-doing, which enabled the methodologies and tools used in this process to mature in a gradual manner.

The results of the application of this great baggage of new concepts and methodologies in order to handle a complex agenda and overcome the coordination failures among multiple actors, which are inherent in an initiative such as IIRSA, will be examined in the next chapter. What is important here is to stress the storehouse of methodological tools accumulated, their application to different regional realities, and the appropriation and command of them by governmental officials from the twelve countries that form part of IIRSA.

CHAPTER 4
RESULTS ACHIEVED

As discussed above, the institutional organization adopted for IIRSA proved effective in building consensus and defining mandates, as well as in enhancing coordination across the South American governments in physical integration-related matters. A decisive plus was having agreed on approaches, concepts and methodologies conducive to understandings and consensus about a complex multinational, multisectoral and multidisciplinary agenda. Although both dimensions are valuable in themselves, they become all the more significant when they are examined against the results achieved.

Overall, the results accomplished are tangible and intangible. Among the former stand out, for certain, the initiatives that make up IIRSA Project Portfolio 2010 and the priorities set out from a regional perspective in the Implementation Agenda based on Consensus, as well as the rest of the actions aimed at expediting the operation of each one of the EIDs and PSIs. Among the intangible achievements, the following are worth mentioning: knowledge gained as to the limitations of and opportunities for the region; cooperation among countries; methodological developments and training; the institutional capital built and mobilized at both governmental and regional agency levels; and the considerable mobilization of regional cooperation resources.

Before moving on to describe each one of these results, it is important to note that, throughout these years, several dissemination mechanisms have been developed precisely with the aim of expanding awareness among the South American community in relation to the headway made in the integration process within the framework of the above-mentioned activities carried out by IIRSA, on which this chapter will focus. In this regard, the website of the Initiative offers comprehensive and reliable information about the events and work conducted at IIRSA. In addition, the above-mentioned project database is another useful tool available at the Initiative's website, providing up-to-date country-specific information about the Portfolio projects. Also as part of the outreach efforts, and within the framework of the Tenth Meeting of the CDE (Cartagena de Indias, December 2008), Colombia, then in charge of the Presidency of the CDE, made a proposal for the creation, for the first time since IIRSA's inception, of a leadership forum intended to give the South American countries the opportunity to showcase the IIRSA Portfolio projects to South American and international investors and to engineering firms as well. On such occasion, seven countries submitted thirty projects covering the areas of roads, ports, airports and logistics services, electricity, and oil and gas. In addition, among other several international events, IIRSA was one of the exhibitors at the Feria Expodesarrollo (ExpoDevelopment Fair) 2009, held in Medellín, Colombia, on occasion of the 50th Annual IDB Meeting. Furthermore, several leaflets were designed to make the Initiative and its achievements known, and publications were prepared about the Portfolio as of 2004, 2009 and 2010. Finally, another valuable outreach effort in the Initiative was the shooting of ten documentary videos about IIRSA's projects highlighting the progress made and the economic and social gains derived from their execution.

1. TANGIBLE RESULTS

A significant outcome of IIRSA was the creation, in 2003-2004, of the first IIRSA Project Portfolio. Such Portfolio underwent subsequent changes, on which we will enlarge further on, ending up in the current Project Portfolio 2010. In addition, in 2004, the governments approved the Implementation Agenda based on Consensus 2005-

2010, which is intended to concentrate the efforts of all stakeholders on the execution of 31 projects deemed strategic from a regional perspective.

a) IIRSA Project Portfolio 2010

The Portfolio 2010 features 524 projects amounting to a total US$96,119.2 million. These projects are classified into 47 groups of projects belonging to the 9 Integration and Development Hubs where progress has been verified to date (see Table IV.I).[33]

Table IV.1
IIRSA Project Portfolio 2010, by EID
(in units and current US$ million)

Integration & Development Hub	Number of Groups	Number of Projects [a/]	Estimated Investment [b/]
Amazon Hub	7	58	5,400.9
Andean Hub	10	64	7,478.0
Capricorn Hub	5	72	9,421.4
Guianese Shield Hub	4	25	1,694.9
Paraguay-Paraná Waterway Hub	5	95	6,677.4
Central Interoceanic Hub	5	55	5,525.1
MERCOSUR-Chile Hub	6	107	35,836.2
Peru-Brazil-Bolivia Hub	3	23	21,402.3
Southern Hub	2	27	2,713.0
TOTAL	**47**	**524**	**96,119.2**

Notes:
[a/] The totals in the Number of Projects and Estimated Investment columns do not match the arithmetic sum of the totals by Hub due to the existence of two hinge projects: i) the Pircas Negras Border Crossing, belonging to the Capricorn and MERCOSUR-Chile Hubs; and (ii) the Construction of the Cascavel - Foz do Iguaçu Railway, belonging to the Capricorn and the Paraguay-Paraná Waterway Hubs (see definition of Hinge Project in Chapter 3.2.a).
[b/] Investment in two existing projects have not been included as they were mostly made before IIRSA was launched. These projects are the Road Corridor Connecting Santa Marta - Paraguachón - Maracaibo - Barquisimeto - Acarigua, in the Andean Hub, and the Itaipú System, in the MERCOSUR-Chile Hub.

Source: IIRSA, Project Portfolio 2010

In addition to the 524 projects listed in the table above, there are two PSI projects in the AIC 2005-2010, namely Exports through Postal Services for SMEs, and Implementation of the South American Roaming System, the investments of which are estimated to amount to US$6.3 million.

33- The Southern Andean Hub, one of the ten EIDs originally approved by the member governments, has had no activity so far. Notwithstanding some initial activities, such as the Business Vision for the Hub, the countries concerned with it are awaiting the results of the Argentina-Chile connectivity study to define their working agenda.

From the table above, it appears that the MERCOSUR-Chile Hub, one of the two consolidated EIDs (see Chapter 3), boasts the largest investment amount and the highest number of projects (37.3% and 20.3%, respectively). In turn, the Andean Hub —the other consolidated EID— contains the largest number of project groups. In any case, EIDs vary considerably: on average, each EID has 5 groups, with a maximum of 10 (Andean) and a minimum of 2 (Southern), and each EID contains, on average, 58 projects, ranging from a maximum of 107 (MERCOSUR-Chile) to a minimum of 23 (Peru-Brazil-Bolivia). The investment amounts per EID vary from US$1,695 million (Guianese Shield) to US$35,836 million (MERCOSUR-Chile), averaging US$10,680 million per EID.

The Project Portfolio Database, available on IIRSA's website (http://www.iirsa.org), can be used to analyze the Portfolio composition according to different criteria, some of which are presented below. Firstly, we will focus on the sector and subsector-based portfolio breakdown (see Table IV.2).

Table IV.2
Sector/Subsector-based Breakdown of IIRSA Portfolio
(number of projects, and investment in US$ million)

SECTOR AND SUBSECTOR	Transport		Energy		Communications	
	Number	Amount	Number	Amount	Number	Amount
Air	24	2,690.3				
Road	207	32,991.1				
Railway	61	12,746.9				
River	74	2,837.4				
Maritime	31	3,391.2				
Multimodal	15	439.7				
Border crossings	39	293.5				
Harmonization of energy regulations			1	380.4		
Energy generation			27	28,433.3		
Energy interconnection			36	11,870.7		
Communications interconnection					9	44.7
TOTAL	**451**	**55,390.1**	**64**	**40,684.4**	**9**	**44.7**

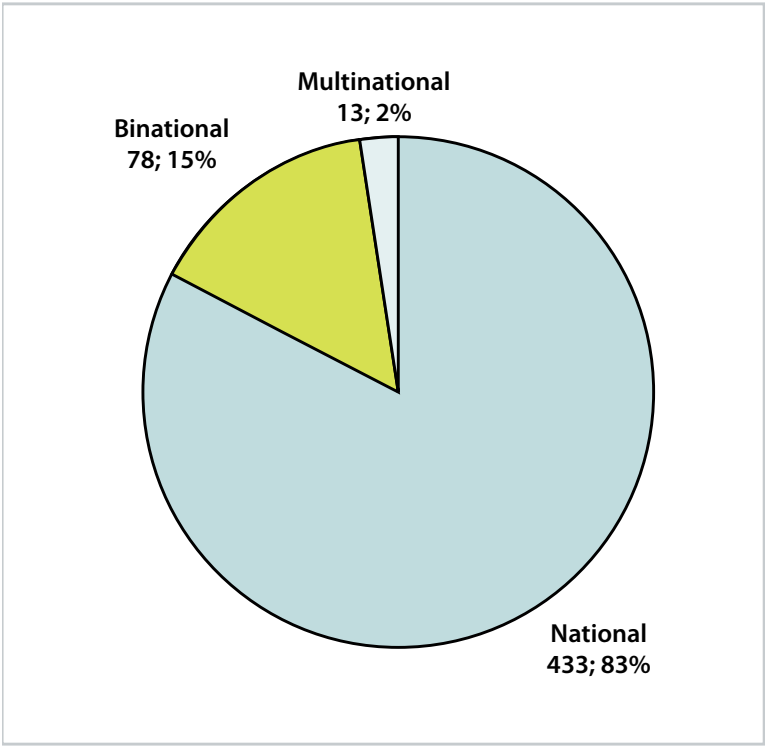
Source: IIRSA, Project Portfolio 2010

The table shows that a high number of projects is targeted at the transport sector, within which road projects prevail, accounting for 86% and 46% of the total number, respectively, this type of project predominating in all EIDs. As for energy projects, even though they represent 12% of IIRSA Portfolio in terms of their number, the type of works involved are costly and, hence, the required investment is high, in the order of 42% of IIRSA Portfolio. Within this sector, the energy generation subsector stands out, accounting for almost 30% of the total Portfolio investment; energy generation investments are concentrated in the MERCOSUR-Chile and Peru-

Brazil-Bolivia Hubs. For its part, the communications sector encompasses a reduced number of projects as well as low investment amounts, which are basically devoted to network interconnection.

Secondly, in IIRSA Portfolio there is a preponderance of national-scope projects over binational or multinational ones, as evidenced in Figure IV.1. It is worth noting that these national projects are mostly intended to complete, improve or recondition infrastructure with a view to ensuring country integration. Besides, it is interesting to mention that most project groups in the nine Integration and Development Hubs are, at least, binational.

Figure IV.1
IIRSA Portfolio by Scope
(in number of projects and percentages)



Source: IIRSA, Project Portfolio 2010

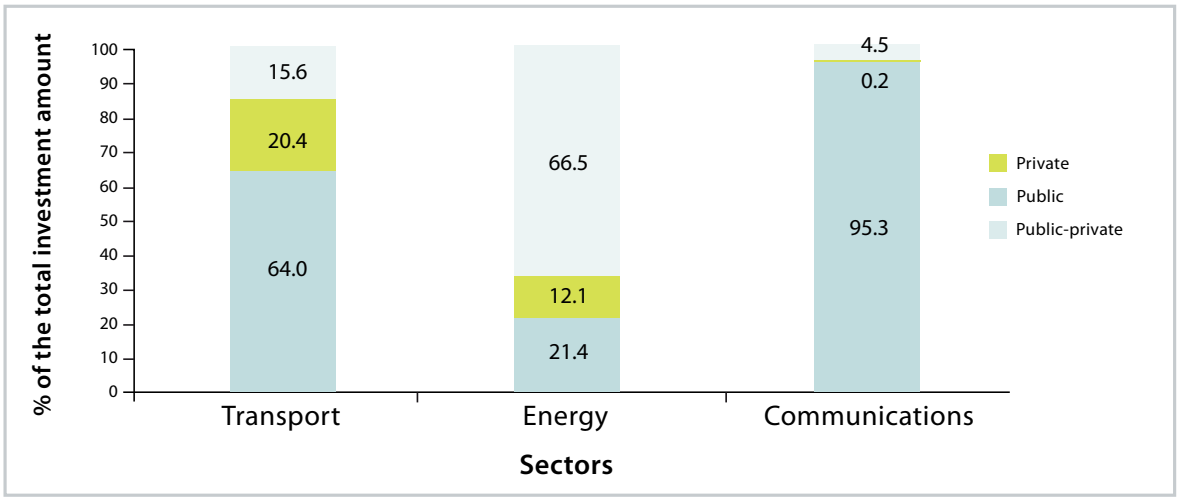
Thus, if we take into account the number of projects, 83% of the Portfolio falls within the national scope. The situation varies little if we take into consideration the estimated investment amounts, as national-scope projects account for 75%, binational projects, for 21%, and multinational projects, for 4% of the Portfolio. These differences among the three variables, however, are indicative of the fact that, on average, binational or multinational projects are larger or more costly than national projects.

Thirdly, when the focus is placed on the type of financing, it appears that, for the total investment, the countries' public sectors are the main financing source (46%), followed by public-private sources (37%), and, lastly, by the private sector (17%).

This distribution has, however, certain peculiarities according to the sectors: public sources finance almost the

totality of the reduced investments in the communications sector (95%), private sources contribute mostly to the transport sector (20%), and private-public sources fund the energy sector (67%) (see Figure IV.2).

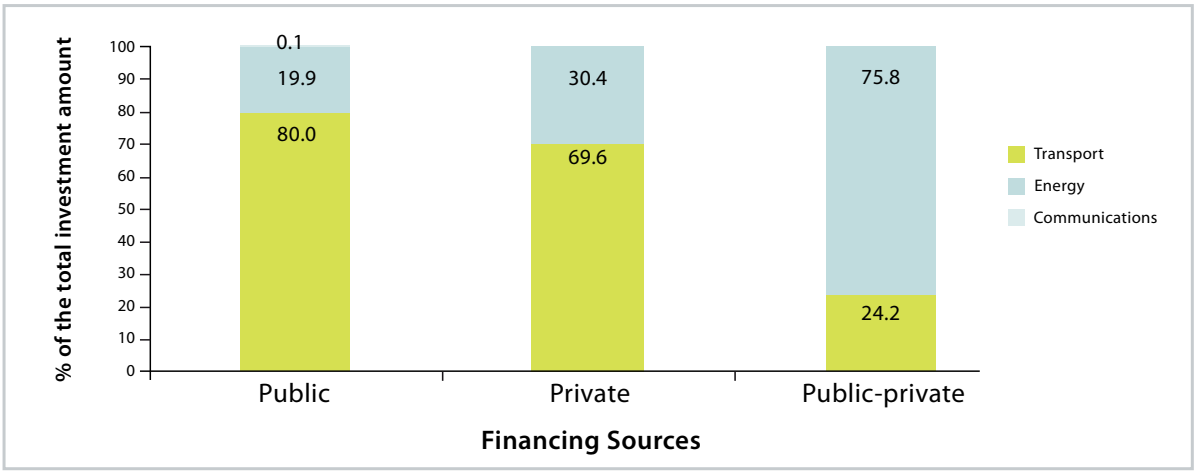
Figure IV.2
Characterization of IIRSA Portfolio by Financing Source
(in % of investment amount by sector)



Fuente: Base de datos de IIRSA al 18/06/2010

Another way of looking at the funding sources is to analyze their relative distribution in each one of the three sectors. Thus, public financing is mainly targeted at the transport sector (80%), while the private sector funds energy (30%) and transport (70%) projects. Public-private financing is mainly targeted at the energy sector (76%) and, to a lesser extent, at transport (24%) (see Figure IV.3).

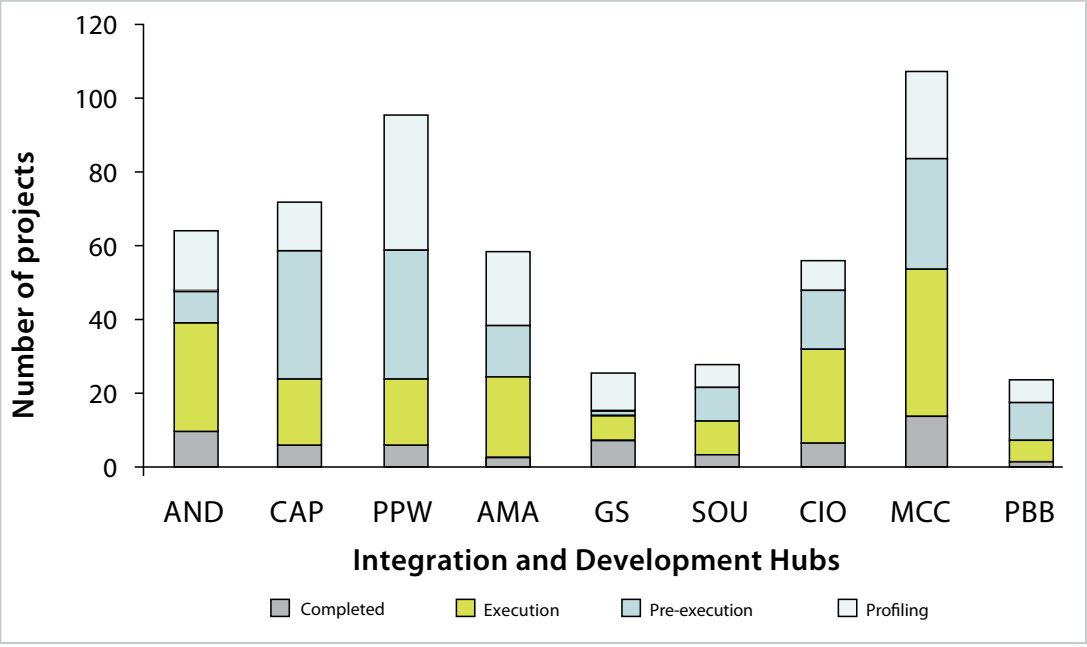
Figure IV.3
Characterization of IIRSA Portfolio by Financing Source
(in % of the investment amount by source of financing)



Source: IIRSA Database as of June 18, 2010

Fourthly, the classification of projects by lifecycle status also provides interesting information. The data shows that 43.5% of the projects are completed (53 projects), or at the execution stage (175 projects). In turn, the 158 projects that are at the pre-execution phase add another 30.2%, while projects at the profiling stage account for the remaining 26.3% (138 projects). Project distribution by Integration and Development Hub is presented in Figure IV.4.

Figure IV.4
Number of Projects by Status and EID
(in units)



Notes:
Projects at the profiling stage are those at a very preliminary or idea phase.
The pre-execution stage contains projects at the pre-feasibility, feasibility and investment phases.
Source: IIRSA Database as of June 18, 2010

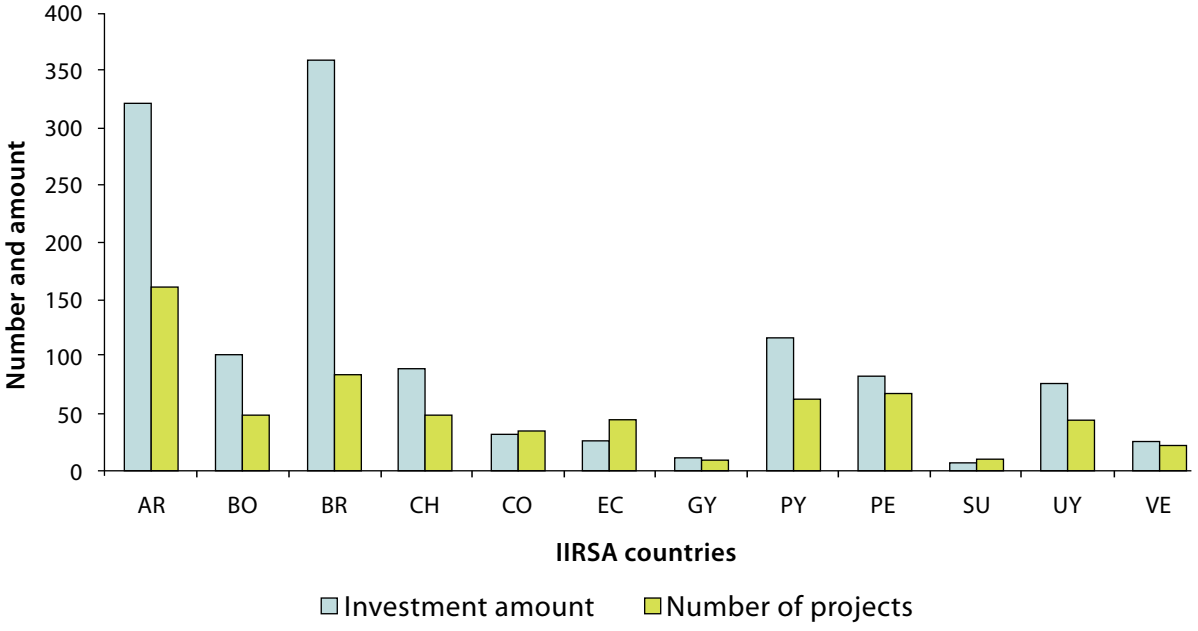
As it appears from Figure IV.4, four Integration and Development Hubs have one half or more than one half of their projects either completed or at the execution stage (Andean, 61%; Central Interoceanic and Guianese Shield, 56%; and MERCOSUR-Chile, 50%). In two EIDs, more than two fifths of the projects are completed or underway (Southern, 44%; Amazon, 41%), while in the other three EIDs, the percentage ranges from one third to one fourth (Capricorn, 33%; Peru-Brazil-Bolivia, 30%; and Paraguay-Paraná Waterway, 25%). The largest proportion of projects at the pre-execution and profiling stages are located in the Paraguay-Paraná Waterway Hub.

Finally, Figure IV.5 illustrates the distribution by country of the number of projects and investment amounts of IIRSA Portfolio.[34]

34- These figures should be interpreted with certain caution because, since binational or multinational projects are allocated entirely to each one of the countries involved, there are some cases in which they are taken into account twice or more times. The error, however, is bounded because, as mentioned above, the vast majority of IIRSA Portfolio projects are national in scope.

Figure IV.5
Number of Projects and Investment Amounts by Country

(number of projects and US$ hundred million)



Source: IIRSA Database as of June 18, 2010

Based on the different approaches taken to IIRSA Project Portfolio, it is possible to characterize the distribution of its projects by modality and the estimated investment amount. Indeed, a considerable number of projects falls within the transport sector, especially road transportation. In addition, these are national-scope, mainly publicly funded projects, most of them completed or at the execution stage, with a large share of them located south of the Tropic of Capricorn. This general characterization changes to a certain extent when the Portfolio is seen from the perspective of its estimated investment, rather than the number of projects.

Thus, even though the transport sector maintains its preeminence, the energy sector comes significantly closer; and while national-scope projects still predominate, private and public-private sources of finance see their share grow.

b) IIRSA Project Portfolio: Its Set-up Process

The above-described IIRSA Project Portfolio 2010 was gradually configured through a process starting in 2003-2004, and underwent several changes throughout the years, ending up in the current Portfolio (see Table IV.3).

Table IV.3
Evolution of IIRSA Project Portfolio

(in units and current US$ million per year)

IIRSA PORTFOLIO	INTEGRATION AND DEVELOPMENT HUB									TOTAL [a/b]
	AND	CAP	PPW	AMA	GS	SOU	CIO	MCC	PBB	
2003 - 2004										
No. of Groups	11	4		6	4	2	5	5	3	40
No. of Projects	74	34		44	32	21	44	68	18	335
Estimated Investment	4,975	2,031		2,011	366	1,072	3,306	12,076	11,588	37,425
2005 - 2006										
No. of Groups	11	4		7	4	2	5	5	3	41
No. of Projects	73	36		54	32	21	44	71	18	349
Estimated Investment	4,975	2,031		2,382	366	1,071	3,306	12,161	11,588	37,880
2007										
No. of Groups	10	5	5	7	4	2	5	6	3	47
No. of Projects	65	63	98	57	32	26	49	91	23	504
Estimated Investment	6,097	6,083	2,829	3,208.4	5,847	2,530	4,651	19,465	17,561	68,271
2008 - 2009										
No. of Groups	10	5	5	7	4	2	5	6	3	47
No. of Projects [a/]	65	69	88	57	25	26	54	105	23	510
Estimated Investment [a/b/]	7,050	7,945	3,974	5,281	927	2,533	4,576	29,399	12,888	74,542
2010										
No. of Groups	10	5	5	7	4	2	5	6	3	47
No. of Projects [a/b/]	64	72	95	58	25	27	55	107	23	524
Estimated Investment [a/b/]	7,478	9,421	6,677	5,401	1,695	2,713	5,525	35,836	21,402	96,119

Notes:

a/ The totals in the Number of Projects and Estimated Investment lines do not match the arithmetic sum of the totals by Hub due to the existence of two hinge projects: (i) Pircas Negras Border Crossing, belonging to the Capricorn and MERCOSUR-Chile Hubs, and (ii) Construction of the Cascavel - Foz do Iguaçu Railway, belonging to the Capricorn and Paraguay-Paraná Waterway Hubs.

b/ The Number of Projects and Estimated Investment shown do not include the Information and Communications Technologies PSI projects, which were incorporated by late 2004 into the AIC 2005-2010.

Sources: IIRSA, Project Portfolio 2004; Seventh Meeting of the CDE, Asunción, 2005; Executive Technical Groups 2007: Results and Project Portfolio; IIRSA, Project Portfolio 2009 and Project Portfolio 2010

Between 2003 and 2004, IIRSA set up a Portfolio consisting of 335 integration infrastructure projects, representing an estimated investment of US$37,425 million and concentrated, mainly, on the transport and energy sectors. This initial Portfolio did not include the communications projects within the process of indicative territorial planning, because it was impossible to identify their concrete territorial impacts.[35] As for

35- Exception being made of the specific optical fiber connection and broad band projects identified by the countries. In addition, actions in this sector were addressed in the pertinent PSI and the AIC (see Implementation Agenda based on Consensus and Sectoral Integration Processes further on in this chapter).

the number of projects, there was a preeminence of transport-related projects in this Portfolio: 289 out of a total 335 projects. In relation to the investment amount, energy projects amounted to a highest US$20,100 million, as compared to the US$17,400 devoted to transport projects. In addition, a contrast is noted between the relatively uniform distribution of transport-related investments across all EIDs and the concentration of energy investments in three of the eight Hubs assessed in that period: the Peru-Brazil-Bolivia (52%), MERCOSUR-Chile (33%), and Andean (12%) Hubs.[36]

This Portfolio structuring process undertaken by all twelve countries resulted in the identification of 40 projects that justified the grouping arrangements made and secured the viability of the sustainable economic development of their areas of influence through the so-called anchor projects, representing an estimated investment exceeding US$4,100 million. The projects thus identified were later used to define the priority projects from a regional perspective, on the basis of which the Implementation Agenda based on Consensus -examined below- was designed.

It is worth noting that the technical framing of the projects in this first Portfolio was heterogeneous; hence, a significant number of them had to have their technical, economic and financial, environmental and institutional studies completed for their execution stage to commence. This, of course, called for a joint effort by the countries and regional funding entities through the institutional mechanisms described in Chapter 2.

This initial Portfolio underwent a series of minor amendments in 2005 and 2006.[37] These changes were focused on the Amazon, MERCOSUR-Chile and Capricorn Hubs. In the Amazon Hub, a new 10-project group, with an estimated investment of US$371 million, and a new anchor project were agreed to be added, raising to 41 the total number of project groups. As for the MERCOSUR-Chile Hub, two new projects were included upon the request of Paraguay and Uruguay, and one of the anchor projects was adjusted. In the Capricorn Hub, the request of Paraguay to add two new projects to the existing groups was approved. Thus, this work phase concluded with a Portfolio agreed upon by consensus, made up of 349 infrastructure projects arranged into 41 project groups, for an estimated investment of US$37,880 million (see again Table IV.3).[38]

In addition, in 2005, the first Paraguay-Paraná Waterway GTE meeting was held. The member governments analyzed the Business Vision study for this EID, defined a preliminary project portfolio, and delimited its area of influence. Besides, they commissioned a series of complementary and review studies.

In 2007, a new round of meetings of the Executive Technical Groups of each Hub was held, within the framework of the activities designed to be conducted after the definition of the strategic objectives 2006-2010 referred to in the previous chapter. Worth highlighting is the commencement of the application of the

36- For further details about this first stage, see Indicative Territorial Planning: IIRSA Project Portfolio 2004, December 2004. In the Initiative, this document is known as the "IIRSA Book 2004."

37- The changes made in 2005 are outlined in the document "Progress Achieved during 2005," also known as the "2005 Addendum" (Seventh Meeting of the CDE, Asunción, 2005). The changes implemented in 2006 are reflected in the Minutes of the Eighth Meeting of the CDE, Quito, 2006.

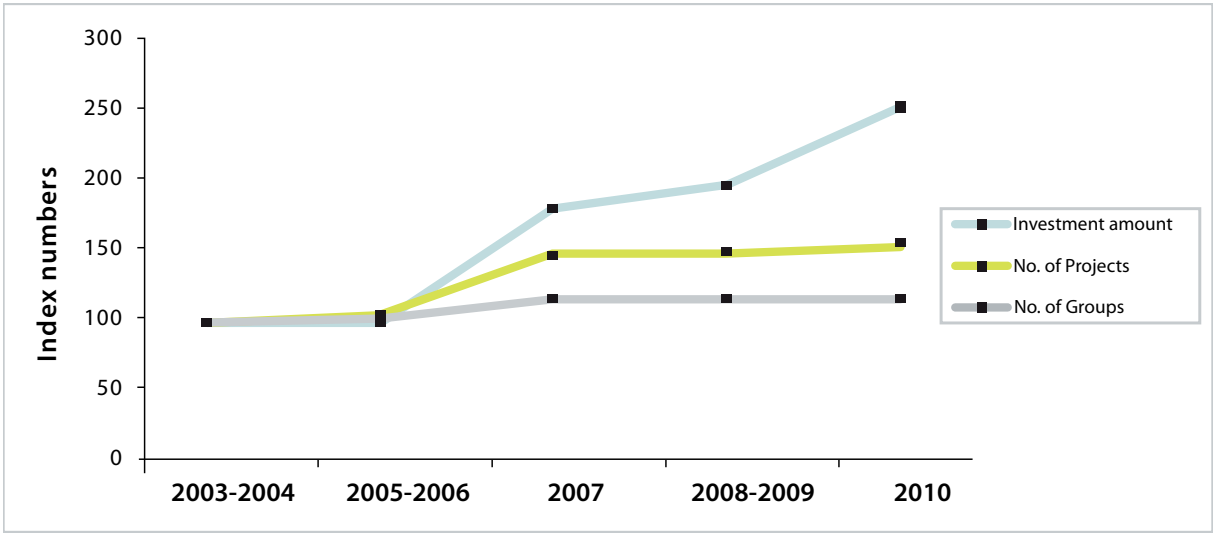
38- For further information, see Indicative Territorial Planning. Executive Technical Groups (GTEs). Results and Project Portfolio 2007.

planning methodology to the Paraguay-Paraná Waterway Hub, whereby the EID's project groups were defined, together with their respective strategic functions and anchor projects, and the project and aspects of the Sectoral Integration Processes relevant to each project group were identified.

To complete this round of meetings kicked off in 2007, activities to set up the Project Portfolio of the Paraguay-Paraná Waterway Hub continued the following year, and the Capricorn, MERCOSUR-Chile and Guianese Shield Hubs were updated.[39] In 2009, the Executive Technical Groups of 8 EIDs -the Guianese Shield Hub's GTE did not gather- met again to adjust their respective project portfolio based on the analysis of the changes produced since its creation, the country-specific development plans, and the shared South American integration and development goal. As a result of this process, IIRSA Project Portfolio as of December 2009 was made up of 510 projects, organized in 47 groups, with an estimated investment of US$74,542 million (see again Table IV.3).[40]

In 2010, marking the culmination of the first work stage of the Initiative 2000-2010, new meetings of the Executive Technical Groups of each Integration and Development Hub were held.[41] These meetings were meant to be an enabling space for the exchange of ideas and information among the countries about the status of the projects in each group and the potential inclusion of new projects in the Portfolio. Thus, as already mentioned, the Portfolio 2010 features 524 projects distributed in 47 groups, for an estimated investment of US$96,119 million (see again Table IV.3).[42] Figure IV.6 summarizes the evolution of IIRSA Project Portfolio throughout those years.

Figure IV.5
Evolution of IIRSA Project Portfolio
(index numbers 2003-2004=100)



Sources: IIRSA, Project Portfolio 2004; Minutes of the CDE Meeting 2005 and 2005 Addendum; Executive Technical Groups 2007: Results and Project Portfolio; IIRSA, Project Portfolio 2009 and Project Portfolio 2010

39- A summary of the changes made can be found in the document entitled "IIRSA Project Portfolio 2009."
40- The publication Indicative Territorial Planning: Project Portfolio 2009, known as the "IIRSA Book 2009," provides a detailed account of the work conducted during the course of such year, and updates the Portfolio.
41- Except for the Guianese Shield Hub.
42- The new Portfolio is described in the publication entitled Indicative Territorial Planning: Project Portfolio 2010.

The figure shows that the number of projects in the Portfolio grew by 56% between 2003-2004 and 2010, while the estimated investment had a nominal increase of 157% in the same period. In fact, there is a very significant leap between 2005-2006 and 2007 both in the number of projects and the estimated investment. This is mostly explained by the addition, in 2007, of 98 projects to the Paraguay-Paraná Waterway Hub, organized in 5 groups, with an estimated investment of almost US$3 billion.[43]

Another reason was the changes made in the MERCOSUR-Chile Hub (where projects increased by 28% approximately, and the estimated investment, by 60%) and in the Capricorn Hub (in which the number of projects grew by some 75% and the estimated investment, by 200%) in the same period.

Other EIDs underwent minor changes, with the number of projects slightly rising in some of them and diminishing in others. The estimated investment rose in nominal terms in all EIDs, with the exception of the Guianese Shield Hub, where it was cut down considerably (from US$5.8 billion in 2007 to US$1.7 billion in 2010) due to the removal of 7 projects from the EID. In addition, although from 2009 to 2010 the number of projects rose by a meager 2.7%, the estimated investment grew more than proportionately (29%). With respect to this, worth recognizing is the valuable IIRSA Project Database update effort undertaken by the countries in such period, thanks to which project data are more comprehensive and reliable, influencing the investment amounts and their comparison over time.

c) Implementation Agenda based on Consensus

The Implementation Agenda based on Consensus 2005-2010 is made up of 31 priority projects that, given their characteristics, have a high impact on the physical integration of South America (see Figure IV.7). These 31 projects were agreed upon by the countries at the Sixth Meeting of the Executive Steering Committee, held in Lima in November 2004. The Agenda and IIRSA's status report were submitted for discussion at the Third Summit Meeting of South American Presidents (Cusco, December 2004), where the progress with respect to the Initiative and, particularly, the AIC 2005-2010 were explicitly endorsed.

43- It is important to note that in 2007 there was no data available about the estimated investment of a considerable number of the Paraguay-Paraná Waterway Hub projects; hence, the value shown is not indicative of all 98 projects included in this EID by then.

Figure IV.7
Projects in the Implementation Agenda based on Consensus

With a view to leveraging the projects' execution potential, the basic idea was to focus the attention on a limited set of strategic projects, as this would enable the setting of priorities by the governments within a context of their fiscal restrictions, the limited public borrowing capacity, and the need to underpin private sector involvement.

The AIC was created when IIRSA was already four years old and had become a consolidated forum of regional dialogue and consensus building for the South American nations. This moment was deemed to be the right time to take a turn and mark a watershed between planning and implementation, thus allowing the Initiative to move on to an execution stage with an overall vision, building upon its institutional capital and the planning effort based on consensus that had been completed.

The principle that governed the selection of the AIC projects was the consistency with the advances made at the IIRSA Project Portfolio structuring stage, on the basis of the following guiding criteria:

- Portfolio projects having political support from the countries involved, including the commitment of the economic and financial areas of their respective governments
- Anchor projects, or projects associated with anchor projects, i.e. prioritization of high-impact, high-visibility projects

- Projects at an advanced preparation stage, and having good short-term finance and execution prospects
- Projects from the EID groups that have received the best ratings at the IIRSA Project Portfolio structuring meetings

To buttress the AIC 2005-2010, efforts were made to adopt a new intensive, results-oriented management paradigm, and a new monitoring tool was designed to this end: the Strategic Management Information System (SIGE – Sistema de Información para la Gestión Estratégica). This system was intended to generate, at the highest government levels, information, cooperation and monitoring mechanisms for each one of the projects. Table IV.4 outlines the AIC projects.

Table IV.4
AIC Projects 2005-2010

(in US$ million)

	No. Projects	Hub/Process	US$ million	Countries[1]
	1 Upgrade of Route 14 to a Four-lane Road, between Paso de los Libres and Gualeguaychú	*MERCOSUR-Chile*	780.0	AR (BR)
	2 Upgrade Works of the Río Branco-Montevideo-Colonia-Nueva Palmira Corridor	*MERCOSUR-Chile*	234.0	UY (AR-BR)
	3 Construction of the Jaguarão-Río Branco International Bridge	*MERCOSUR-Chile*	35.0	BR-UY
	4 Upgrade of the Palhoça-Osório Road Section to a Four-lane Road (Rodovia MERCOSUR)	*MERCOSUR-Chile*	700.0	BR (AR-UY)
	5 Railway Project Los Andes-Mendoza (Central Trans-Andean Railway)	*MERCOSUR-Chile*	5,100.0	AR-CH
	6 International Route No. CH-60 (between Valparaíso and Los Andes)	*MERCOSUR-Chile*	286.0	CH (AR)
	7 Northeastern Argentina Gas Pipeline	*MERCOSUR-Chile*	1,000.0	AR (BO)
	8 Construction of the Salvador Mazza-Yacuiba Binational Bridge and Border Center	*Capricorn*	23.0	AR (BO)
	9 New Presidente Franco-Porto Meira Bridge, with a Paraguay-Brazil Border Center	*Capricorn*	80.0	PY-BR
	10 Construction of Pailón-San José-Puerto Suárez Road	*Central Interoceanic*	477.0	BO (BR-CH-PE)
	11 São Paulo Ring Railway (Northern and Southern Sections)	*Central Interoceanic*	850.0	BR
	12 Infante Rivarola-Cañada Oruro Border Crossing	*Central Interoceanic*	2.0	BO-PY
	13 Construction of the Cañada Oruro-Villamontes-Tarija-Estación Abaroa Road (First Stage)	*Central Interoceanic*	49.0	BO (PY)

No.	Projects	Hub/Process	US$ million	Countries[1]
14	Toledo-Pisiga Road	*Central Interoceanic*	95.0	BO (CH)
15	Paving and Improvement of the Iquique-Colchane Road	*Central Interoceanic*	42.0	CH (BO)
16	Rehabilitation of El Sillar Road Section	*Central Interoceanic*	120.0	BO (CH-PE)
17	Desaguadero Binational Border Service Center	*Andean*	7.5	BO-PE
18	Cúcuta-San Antonio del Táchira Border Crossing	*Andean*	2.0	CO-VE
19	Improvement of Navigation Conditions on the Meta River	*Andean*	108.0	CO-VE
20	Tumaco-Pasto-Mocoa-Puerto Asís Road Corridor	*Amazon*	373.0	CO
21	Paita-Tarapoto-Yurimaguas Road, Ports and Logistics Centers	*Amazon*	681.2	PE (BR)
22	Lima-Tingo María-Pucallpa Road, Ports and Logistics Centers	*Amazon*	1,351.3	PE (BR)
23	Francisco de Orellana Port	*Amazon*	105.3	EC
24	Paving of Iñapari-Puerto Maldonado-Inambari Road, and Inambari-Juliaca/Inambari-Cusco Roads	*Peru-Brazil-Bolivia*	1,384.3	PE (BR)
25	Bridge over the Acre River	*Peru-Brazil-Bolivia*	12.0	BR-PE
26	Boa Vista-Bonfim-Lethem-Georgetown Road (First Stage: Studies)[2]	*Guianese Shield*	3.3	GY-BR
27	Bridge over the Takutu River	*Guianese Shield*	10.0	GY-BR
28	Venezuela (Ciudad Guayana)-Guyana (Georgetown)-Suriname (Paramaribo) Road (First Stage)	*Guianese Shield*	0.8	VE-GY-SU
29	Improvement of Nieuw Nickerie-Paramaribo-Albina Road and International Crossing over the Marowijne River	*Guianese Shield*	105.0	SU-GY
30	Exports Through Postal Services for SMEs	*ICTs*	5.0	Regional
31	Implementation of the South American Roaming Agreement	*ICTs*	1.3	Regional
	TOTAL		**14,023.0**	

Profiling Pre-execution Execution Completed

Notes:
This report was prepared taking into account the project stages as classified for IIRSA Portfolio in the Project Database.
(1) The neighboring country/countries impacted by the project appear(s) between brackets.
(2) As only the first stage of the project is included in the AIC, and it comprises studies that have already begun, the project is deemed to be at the execution phase.

Source: Sixth AIC Report, July 2010

As shown in Table IV.4, the 31 projects that make up the Agenda involve an estimated total investment of US$14,023 million in the sectors of transport, energy and communications. Fifteen of them require investments from more than one country. The other 16 are national projects with a strong "bridging effect" across national borders, typically raising the return of previous investments in the same or a neighboring country.

The status of the projects as of July 2010 may be summarized as follows:

- Two projects have been completed, representing an estimated investment of US$22 million.
- Nineteen projects are at the execution stage, representing an estimated investment of US$7,677.4 million.
- Eight projects are at the pre-execution phase, representing an estimated investment of US$6,320.8 million.
- Two projects are at the profiling stage, representing an estimated investment of US$2.8 million.

As for the execution times, and according to the estimation in the Sixth AIC Report, 2010, 77% of the projects in the Agenda are expected to be completed by 2014. This means that of all 31 projects, 14 are expected to be completed by late 2011, 19 by late 2012, 21 by late 2013, and 24 by late 2014.

In sum, if we take into consideration that 61% of the projects in the Agenda are being executed, as compared to 32% in 2005, and that 6.5% of them are completed, it is clear that the countries' implementation agenda is progressing, though at different paces depending on each case. Within this framework, the AIC has leveraged the progress achieved so far and given impetus to the overall IIRSA Portfolio. Its creation, in addition to establishing it as a symbolic and political framework of a new stage of the Initiative where the focus is on implementation, has secured faster concrete results in high-impact projects, which are turning the regional vision of the physical, economic, social and cultural integration of the South American subcontinent into a reality.[44]

2. INTANGIBLE RESULTS OF IIRSA

In principle, as mentioned above, these results may be broken down in at least five categories: increased knowledge of the opportunities for and obstacles to the integration of regional infrastructure; cooperation among South American countries; development of territorial planning and regulatory harmonization methodologies, including training of government officials; the institutional capital resulting from IIRSA-driven interaction; and mobilization of significant regional technical cooperation resources.

a) Enhanced Regional Knowledge

The numerous studies conducted in relation to each Integration and Development Hub, as well as each Sectoral Integration Process, have provided specific knowledge about the potential of certain infrastructure investments,

44- For further information about the AIC and its projects, see Implementation Agenda based on Consensus 2005-2010: Assessment Report, July 2010.

as well as the obstacles to be overcome for them to be successfully performed. In addition, constant diagnostic studies on the areas of influence reflected in the Business Visions for each EID have contributed information and criteria conducive to increased insight into the regional reality and its current and future potential. A third contribution has undoubtedly been the prospective activities designed to exchange ideas about not only the current situation but also the possible scenarios that the region may encounter in the future. All these efforts have involved the mobilization of human and financial resources to generate knowledge, and this has been possible thanks to the existence of the Initiative.

A brief comment about the progress of the PSIs is worth making here. As mentioned in Chapter 2, valuable studies and diagnostic surveys were conducted for each of them with the support of the CCT, as detailed below (see Table IV.5.).

Table IV.5
CCT-Supported Studies and Diagnostic Surveys related to the Sectoral Integration Processes

PSI	NAME OF STUDY
Instruments for Funding Regional Physical Integration Projects	Evaluation of Infrastructure Projects for Regional Integration Funding of Transnational Infrastructure Projects in South America Regional Clearance and Settlement Facility
Energy Integration	Energy Integration in the Extended MERCOSUR Energy Integration in the Andean Agreement Countries Energy Situation in Latin America
Facilitation at Border Crossings / Border Integration	Facilitation of Transport at South American Border Crossings Facilitation of Transport at South American Border Crossings - Pilot Program Study on the Operational Streamlining of the Cristo Redentor Border Crossing Chile-Argentina Connectivity Survey Colombia-Ecuador Border Crossings Bolivia Border Crossings Ecuador-Peru River Border Crossings Clorinda-Asunción Metropolitan Area Node Ñeembucú-Bermejo River Node Argentina-Chile Connectivity

(cont.) **Facilitation at Border Crossings / Border Integration**	Argentina-Bolivia Border Development Plan Napo River Navigability Binational Study (Peru-Ecuador) Comprehensive Diagnostic Study on Peruvian Border Crossings
Information and Communications Technologies	Information and Communications Technologies to Further South American Integration and Competitiveness Regional Study on the South American Roaming Market Exports through Postal Services for SMEs
Air Transport Operating Systems	South American Air Transport Integration
Maritime Transport Operating Systems	Assessment of the Main South American Ports Maritime and Port Protection in South America
Multimodal Transport Operating Systems	Multimodal Transport in South America: Towards Regional Regulatory Harmonization

Source: Prepared by the author on the basis of data from IIRSA website and the CCT institutions

In this realm, IIRSA has particularly made headway in those PSIs related to specific projects or needs, such as border crossings and border integration, as well as in the two ICTs PSI projects, which are included in the AIC: South American Roaming Agreement and Exports through Postal Services for SMEs. In the former project, and as it appears from the table above, progress has been made through several diagnostic studies and/or the identification of actions aimed at border crossing improvement and border integration development. As for the South American Roaming Agreement project, the regional intergovernmental coordination forum that IIRSA represents is being used to define actions designed to harmonize and stimulate the South American roaming service market and, thus, foster regional integration via mobile telecommunications and provide better services to users and greater business opportunities to the private sector. In this context, and thanks to IIRSA's drive, today this item is on the agenda of both regulators and the private sector. For its part, as will be discussed further below (see subsection b), the Exports through Postal Services for SMEs project has made significant progress since its inclusion in the AIC. At present, the project is at different evolution stages in ten of the twelve IIRSA member countries.

With the exception of the above-mentioned cases, and notwithstanding the work done —which has certainly contributed to the acquisition of more in-depth knowledge about this matter—, the results attained so far in connection with the different PSIs fall short of the initial expectations as stated in the Action Plan of the Initiative. The forum offered by IIRSA has not been sufficient to make progress in policy and regulatory

aspects conducive to integration improvement, particularly in the fields of energy as well as air, maritime and multimodal transport. This proves that this agenda will continue to call for more intense efforts by the South American countries to further the use of the integration infrastructure in order to attract the private sector's interest in the projects, reduce transport costs, and strengthen both markets and regional production.

In keeping with the analysis on which this subsection is focused, it is also important to underscore the increasing generation of shared knowledge about the regional situation and potential, as it is very much possible that, in the past, each country knew very little about the others, even about activities underway in the territories adjacent to each national border. The modalities adopted by IIRSA of learning-by-doing in plurinational contexts and, above all, of promoting the sharing of regional visions of problems and opportunities, contributed decisively to the configuration of this body of knowledge shared by the South American countries in relation to economic, social and environmental processes, particularly those that are taking shape in the territory.

In short, even in those cases where no significant headway was made, the IIRSA-related learning processes have certainly taught lessons about the barriers and restrictions that need to be surmounted, including the very approaches and methodologies used to deal with certain issues and realities. Thus, for instance, the difficulties experienced when trying to ensure a more active and effective participation of civil society may have been due to the absence of ad hoc interaction spaces. Likewise, the private sector's insufficient involvement might be the result of deficiencies in the way business opportunities were promoted. The different stakeholders are very much likely to have formed opinions about these issues in light of the knowledge and experience acquired in the process, and this is another undoubted contribution of the Initiative.

b) Cooperation among the Countries

The regional coordination forum created by IIRSA has encouraged, without a doubt, inter-country cooperation. One salient example of this is the AIC's Exports through Postal Services for SMEs project. This project is intended to facilitate international market access of small and medium enterprises through a simplified, lower-cost export mechanism using the postal service logistic platform, based on the successful experience of "Exporta Fácil," the name by which the System of Exports through Postal Remittances implemented by the Brazilian government through the Empresa Brasileira de Correios e Telégrafos (the Brazilian postal service) is known.

Since its launch in Brazil by late 1999, the export base has grown by 15% and some 25,000 firms have already used the export through postal services system, by means of which they have exported more than 800 types of products to more than 190 countries.

This trend and the possibility of replicating it at the regional level have captured the interest of the IIRSA member countries, which have chosen Exports through Postal Services for SMEs as one of the 31 priority projects of the Initiative.

The assistance and support of Brazilian, and later also Peruvian, experts in the transfer of knowledge and experience in order to tailor the model to fit the reality of each specific country have been a crucial input

to secure the results achieved. To date, the project is fully operational in its pioneering country, Brazil, as well as in Peru, Uruguay and Colombia, while in Ecuador the project is at the pilot phase. In other five of the IIRSA member countries, several activities have been conducted, or are to be conducted, to ensure its implementation. To this end, a regional work team and a network of qualified technicians from several countries have been established, and are now working to support these tasks.

The inclusion of this project in the AIC has had a significant impact on the region, enshrining it as a flagship project for the IIRSA member countries, because it has created a horizontal cooperation mechanism and, given its visibility and success, has far transcended the South American subcontinent.

Another example of the cooperation mechanism sparked by the Initiative is the program Support to the Creation of an IIRSA Regional Network for the Exchange of Successful Cases in the Provision of Infrastructure Services. In 2008, the Presidency of the CDE, held that year by Colombia, organized the Workshop on Successful Cases. One of the outcomes of this event was the approval by the IDB of the above-mentioned regional program, through which technical and financial support was provided to the cooperation among the countries, promoting the creation of this network for the exchange of experiences about best practices.

Within the framework of this program, there were 7 technical approach visits by 47 technical officials from interested countries to the countries where the successful model was in place. The cases that motivated these exchanges among countries were the Integrated System for Mass Transportation (Sistema Integrado de Transporte Masivo – SITM), implemented by Colombia in its main cities; the exports through postal services for small and medium enterprises (Exporta Fácil) discussed above; road safety and the International Road Assessment Program (iRAP) methodology, at its pilot stage in some countries of the Initiative; and the provision of multimodal logistics services at the Panama Canal port. The program has involved Brazil, Colombia, Paraguay, Peru and Uruguay, which are members of IIRSA, as well as Panama, a member of the Mesoamerica Project.

There is no doubt that IIRSA has proved to be a successful launch pad for cooperative venture and mutual learning among countries, involving a strong interest and commitment of the participating governments.

c) Methodological Developments and Training

As mentioned in Chapter 3, the outputs of both phases of the Initiative's methodological development have been multiple, ranging from general concepts to specific tools. A painstaking, on-the-job training effort was deployed in relation to these outputs through the learning-by-doing modality, as reflected in the numerous meetings of the Executive Technical Groups and training workshops held.

Here, however, we will highlight two initiatives that have not been mentioned so far and that emphasize the regional vision. The first one of them is the training in Integration and Development of South American Regional Infrastructure. This activity has been primarily aimed at strengthening the technical skills of the teams cooperating with IIRSA's National Coordinations. More precisely, its purposes have been to ensure that all officials involved share a consistent level of knowledge, to orient training towards a political

economy perspective of the problems stemming from the development of integration infrastructure. The activity provides conceptual frameworks, empirical information, evaluation techniques, and debates that enhance the participating officials' analytical assets. Two workshops, one in Chile in 2008 and another one in Argentina in 2009, were held with these aims in mind.[45]

The second initiative is known as the Strategic Vision of South American Physical Integration (Visión Estratégica de la Integración Física Suramericana – VESA) Workshops, which have been primarily designed to disseminate and develop the South American physical integration driving ideas. IIRSA's guiding principles (see Chapter 1) served as the groundwork for the document entitled "Working Tool for the Design of a South American Strategic Vision," which was discussed at the Fourth Meeting of the Executive Steering Committee (Caracas, July 2003).[46] This document included proposals for a series of innovations in connection to territorial planning and management techniques that preceded the indicative territorial planning process.

To secure the involvement of the different stakeholders (from government, private and social spheres) in the strategic management of South American infrastructure, the Executive Steering Committee decided at its Fifth Meeting (Santiago, December 2003) to provide opportunities for reflecting on the issues and driving ideas of physical integration based, among others, on the above-mentioned document. The Executive Steering Committee, in its Sixth Meeting (Lima, November 2004), conferred the mandate required for the organization of national discussion workshops, the purpose of which would be to disseminate and gather contributions about the strategic guidelines for South American physical integration.

The VESA workshops, attended by government officials and civil society stakeholders, were held throughout 2005 in all the IIRSA member countries. In November that same year, the Regional VESA Workshop took place in the city of Asunción, where a synthesis of all the contributions made and the positive assessment of the Guiding Principles of the Initiative was presented.[47] After the event, in view of its strategic implications, the countries submitted the conclusions to their Heads of State for their consideration.

It is worth making reference, once again, to the application of and training in the Strategic Environmental and Social Assessment (EASE) and Production and Logistics Integration (IPrLg) methodologies referred to in Chapter 3 and, particularly, to the contribution and outcomes of these processes.

As for the EASE methodology, it has been applied, as of 2010, to two project groups -one in the Andean Hub and the other in the Southern Hub- involving government officials from Colombia, Ecuador, Chile, and

45- For further information about the contents, see the publication "Notes on Infrastructure and Integration in South America" at http://www.iirsa.org/Documentos_ENG.asp?CodIdioma=ENG.

46- The document "Working Tool for the Design of a South American Strategic Vision," July 2003, may be downloaded from http://www.iirsa.org/Documentos_ENG.asp?CodIdioma=ENG.

47- For further information, see the document entitled "Toward a Conceptualization of Force-Ideas for the Physical Integration of South America: Recommendations from the National Workshops on VESA," Regional Workshop on the Strategic Vision for South American Physical Integration (VESA), Asunción, November 30, 2005.

Argentina. These applications have attained the following results: social and environmental characterization and description of the political and institutional system; consolidated and integrated information about the respective areas of influence focused on strategic factors; establishment of a governmental technical team duly trained in the application of the EASE methodology to other cases; a group of public and private players who have taken part in the EASE application process (key stakeholders) and make use of the results of the application; recommendations in relation to the projects, project group, countries and the CCT about actions through which the sustainability of the territories may be secured: Sustainability Strategy and Action Plan; an institutional strengthening proposal to implement these recommendations; and definition of indicators to follow up on territorial behavior and project group-related actions.

In addition, there were six regional EASE training workshops intended for qualified experts from the governmental agencies concerned with social and environmental matters from the member countries of the Initiative. These activities were held in five capital cities of the region and covered all twelve South American countries. The last of these regional workshops took place in the city of Lima, Peru, in December 2010. As of that date, a total 105 officials were trained in this methodology.

Moving now on to the IPrLg methodology, its application and adjustment began in 2008. The methodology has already been implemented in three project groups: one in the Capricorn Hub, one in the Central Interoceanic Hub, and a third one in the Andean Hub. Its application to the MERCOSUR-Chile Hub is in progress, involving the governments of Brazil, Paraguay, Bolivia, Chile, Peru, Colombia, Ecuador, Argentina and Uruguay. To date, 95 officials from 34 public institutions of these nine countries have been trained in the methodology, and a regional workshop has been held.

In each one of the project groups analyzed, certain production chains were selected and their integration potential was explored in depth via interviews by national teams with government and private sector stakeholders in each one of the countries. The prospects for the development of logistics services that are or may be of use for the circulation of goods in the area of influence of the project groups were also probed. The outcome for each project group was an Indicative Action Plan.

The applications of the methodology, completed or underway, provided valuable experience, particularly: i) the joint work of national teams, which achieved a remarkable level of cooperation and information exchange; ii) the methodology not only works as a research and analytical tool, but its application process was also conceived of as a training experience where public sector officials as well as private sector representatives from different countries interacted; and iii) the infrastructure-integration relation is not necessarily direct; it is potentially mediated and affected by other factors and circumstances interfering now or in the future with the processes of integration building and progress, either stimulating or blocking them. Thus, with more and/or better infrastructure interconnecting countries, a virtuous circle leading to enhanced production integration is expected to be fed. In sum, the development of regional infrastructure (portfolio projects) leads to increased trade, thus contributing to furthering production integration.

d) Making the Most of the Institutional Capital

Ventures such as IIRSA are deemed to be incomplete contracts, as it is impossible to foresee all the scenarios the Initiative is to meet, the risks involved, and the behaviors of the different agents. In this sense, the institutions, as well as the consensus-building forums that they provide, are key to ensure the sustainability of the process and the furthering of the results. IIRSA has, no doubt, made a very significant contribution in this respect. Its different bodies have interacted vigorously, both horizontally and vertically, and have been able to secure results, proving that they make up a dynamic organizational structure.

As discussed in Chapter 2, the Montevideo Action Plan established that the structure of IIRSA was to include two bodies: a political and a technical one. The political sphere was examined in some detail in such chapter. Now, some reference should be made to its technical component -the Executive Technical Groups. In all the Integration and Development Hubs, the activity of the Executive Technical Groups has been intense, as shown in Table IV.6.

Table IV.6
GTE Meetings by EID [a/]
(in units)

INTEGRATION & DEVELOPMENT HUB	YEARS		Number of Meetings
	From	To	
Andean	2001	2010	8
Capricorn	2003	2010	6
Paraguay-Paraná Waterway Hub	2005	2010	5
Amazon	2002	2010	7
Guianese Shield	2002	2010	4
Southern	2003	2010	5
Central Interoceanic	2001	2010	8
MERCOSUR-Chile	2001	2010	9
Peru-Brazil-Bolivia	2002	2010	6

Note: [a/] The meetings concerned with multiple EIDs have been computed for each EID.

In addition, there were two GTE meetings on the Implementation Agenda based on Consensus, one on Methodology for Value-Added Chains and Logistics Services and seven GTE meetings devoted to Sectoral Integration Processes, besides other technical events and workshops in relation to some PSIs and planning methodologies. All these technical meetings were results-oriented and proved to be effective, as evidenced by the progress made in connection with IIRSA Project Portfolio and the Implementation Agenda based on Consensus, as examined above. In other words, the accomplishment consisted in having made the most of IIRSA's action-oriented institutional capital.

e) Mobilization of Regional Cooperation Funds

Finally, the start-up of the Initiative brought about unprecedented cooperation among the institutions that make up the Technical Coordination Committee in support of the Initiative, resulting also in a fruitful institutional learning experience.

In this regard, throughout these ten years, the three CCT institutions have made a significant contribution featuring two major dimensions. On the one hand, they supported IIRSA's structuring process and work plan in administrative, financial and technical assistance terms (by providing their expert officials and human resources as well as non-refundable funds for the Initiative to carry out its operations and meet its logistics needs, conduct studies and develop work tools and methodological applications, as described above). On the other hand, they have funded major projects included in IIRSA Portfolio.

In addition, the IDB, CAF and FONPLATA have created project preparation funds, a very valuable support vehicle for the South American integration process via the granting of "soft" funds for carrying out studies. Such funds are being used for preparatory work in port, airport, road, waterway, railway, border crossing, and border integration projects, allowing progress to be made in challenging ventures such as integration projects (see Table IV.7).

Table IV.7
Pre-investment Support by Regional Institutions
(in US$ million)

INSTITUTION AND SPECIFIC FUND	APPROVED TECHNICAL COOPERATIONS [a/]		
	Number of Operations	Total Cost	Fund Amount
INTER-AMERICAN DEVELOPMENT BANK (FIRII)	15	17,243	12,618
CAF, DEVELOPMENT BANK OF LATIN AMERICA (PROINFRA -FAT)	15	11,515	4,572
FONPLATA (FONDEPRO) [b/]	5	4,031	3,327

Notes:

[a/] As of June 2010

[b/] FONDEPRO is not operational as a financial mechanism yet. Hence, the cost and amount shown in the table are those of the financing of IIRSA Project Portfolio studies by FONPLATA through reimbursable, contingent-recovery technical cooperations..

Source: IIRSA Project Portfolio 2010: Indicative Territorial Planning

3. FINAL REMARKS

In closing, it can be concluded that IIRSA has proved to be an effective vehicle for securing results, producing a Project Portfolio with a regional vision that has grown significantly and attained an acceptable execution level. The decision to set up an Implementation Agenda based on Consensus aimed at focusing the resources on 31 regional priority projects agreed upon by all twelve countries has been instrumental in successfully achieving such implementation level. The Initiative also produced a series of intangible results with high regional value.

It is worth wondering what would have happened if IIRSA had not been established, but there is no easy answer to this question. Perhaps, many of the tangible results would have been obtained anyway; yet, of course, without a regional vision of physical integration. Two things are for certain though: no major headway would have been made in terms of the shared knowledge of the region, and no technical cadres would have been established to work with a regional vision. Neither would have it been possible to make the most of a significant institutional capital, nor would have the coordination of the regional financing institutions been induced. These intangible results are undoubtedly a product of the Initiative - they would not have occurred if IIRSA had not been born.

CHAPTER 5
ADAPTATION TO THE EXTERNAL CONTEXT AND TO ITS OWN DEVELOPMENT PROCESS

An initiative as ambitious and complex as IIRSA is inexorably subject to fluctuating circumstances. Some of them result from changes in the political and economic context in which it is inscribed. Others respond to the logic inherent in its own development, with successes and frustrations that give rise to new challenges. This chapter will examine the changes in the economic and political context that have conditioned the dynamics of IIRSA. Then, a quick recapitulation will be provided, from an overall perspective, of its achievements as well as of the difficulties that prevented the attainment of some of its expected goals.

1. Changes in the South American Context in the 2000s

After a somewhat inauspicious new century beginning, the South American countries experienced a relative moment of splendor in 2003 lasting until the global financial and economic crisis of 2008.[48] However, the crisis was short-lived in the region, the gloomiest moment occurring in the last months of 2008 and the first half of 2009, after which there was a strong upswing that consolidated in 2010. Thus, the crisis came to interrupt the longest and most intense period of economic growth of South America in the last decades, which took place during a positive phase in the global development cycle (United Nations, 2007). In fact, from 2003 to 2008, South America underwent an expansive cycle of almost six years, with an annual average growth rate of GDP per capita of more than 3%. This six-year period was the greatest and longest expansion time since 1980 and the second one since 1950, with similar growth rates.[49]

This period of increasing economic activity was characterized not only by high and stable growth rates but also by sound macroeconomic management and higher quality growth due to several factors (see ECLAC, 2008): first, a sustained surplus in the current account of the balance of payments; second, the prevalence of a fiscal policy aimed at preserving the level of primary surplus, which contributed to substantially reduce the public debt to GDP ratio; third, a persistent decline in foreign exposure as a result of a markedly shrinking foreign debt and an increasing foreign currency reserve policy; fourth, policies oriented to keeping price stability and adopting a flexible exchange rate system;[50] fifth, an increase in labor participation and a fall of unemployment rates, with variations depending on year and country; sixth, an increase in national savings, which financed growing investment levels; and seventh, a strong international demand, which led to a sustained increment in the physical volume of exports of South American goods and services.

The global financial and economic crisis broke this period of growth, the effects of which were felt stronger in the last months of 2008 and the first half of 2009. As it is well known, the crisis began in the United States, quickly spreading to several developed countries and, later, to the rest of the world.[51] The first major global crisis after the Great Depression struck fear in the entire world by the end of 2008, and urged a massive economic policy response, which basically consisted in the adoption of expansive monetary and fiscal policies at the national level. There were also several efforts, though not always successful, to internationally coordinate

48- The 2000s were inaugurated with some countries having serious financial problems as well as with the US economy immersed in a recession that affected the trade dynamics of several countries in the region until 2003.

49- The other two periods of sustained expansion had been 1984-1987 and 1991-1998. For a comparison, see ECLAC (2007a).

50- Yet, this often meant a hard choice between the degree of currency independence that needs to be sacrificed and the degree of currency appreciation that can be accepted.

51- For an analysis of the origin and determinants of the global financial crisis, see Machinea (2010); for its effects on Latin America, see Kacef (2010).

these national initiatives. Despite these reactions, the crisis still breeds high uncertainty, since it has been and still is an unusually serious economic disturbance at the global level.[52]

The consequences for South America have been, until now, less dramatic than those of previous crises, even when compared to the impact felt from less outspread or serious crises. As stated before, this has been partly due to the sound economic performance and macroeconomic management of the previous six-year period, which managed to reduce traditional foreign exposure and fiscal risks and create excess reserves to counteract the effects of the crisis. Another decisive factor was a dynamic growth of international trade that took place since the beginning of 2009 as a consequence of the upsurge of the global economy, led by China, India and other Asian countries and followed soon by several emerging countries. Although GDP growth rates in 2009 were negative in some South American countries, or positive but low in others, preliminary figures for 2010 showed an average GDP growth rate of 6%. These figures reveal a strong economic rebirth in some cases and moderate growth rates in others, except for Venezuela, which is facing another downfall after the one in 2009 (see Table V.1). These positive developments were accompanied, however, by some issues of concern: on the one hand, a strong tendency to real exchange rate appreciation and, on the other, a "reprimarization" of the South American exports.

Table V.1
South America: GDP Growth Rates
(average annual rates)

	2001 - 2002	2003 - 2008	2009	2010
Argentina	-7.6	8.5	0.9	6.8
Bolivia	2.1	4.5	3.4	4.5
Brazil	2.0	4.2	-0.2	7.5
Chile	2.8	4.7	-1.5	4.3
Colombia	2.1	5.2	0.8	3.7
Ecuador	4.1	5.3	0.4	2.5
Guyana	1.3	2.2	3.3	n/a
Paraguay	1.1	4.6	-3.8	7.0
Peru	3.5	7.0	0.9	6.7
Suriname	4.2	4.6	2.2	n/a
Uruguay	-7.2	7.3	2.9	7.0
Venezuela	-2.7	7.3	-3.3	-3.0
South America	0.8	5.7	- 0.2	6.0

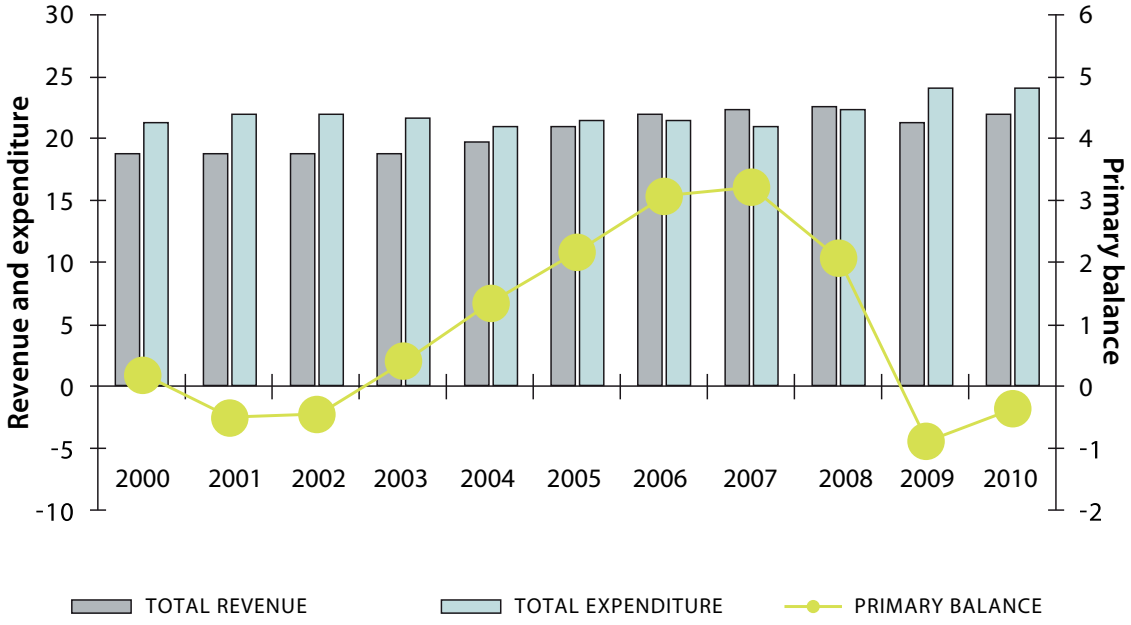
Source: Based on data from ECLAC (2009-2010a)

52- There are several sources of uncertainty: one, the difficulty to sustain growth and maintain fiscal stability in major economies; two, the weakness of final demand in developed countries and the potential financial and economic contagion across the euro zone; three, asymmetries in terms of monetary normalization between the emerging and developed economies, as well as pronounced differences in their economic growth and interest rates; and fourth, the potential consequences of economic, commercial and financial growth centers being displaced to Asian developing countries or other emerging countries.

a) Fiscal Situation

It has already been pointed out what key elements characterized the sound macroeconomic management observed in the peak period of the cycle (2003-2008) that contributed to taking public policy measures to weather the 2008-2009 crisis.[53] It is now appropriate to examine the evolution of the main fiscal aggregates, given their high impact on IIRSA investments. Such data are shown using a similar periodization in Figure V.I.

Figure V.1
South America: Main Fiscal Aggregates, 2000-2010



Source: Based on data from ECLAC (2009-2010a)

To briefly outline the evolution of fiscal aggregates throughout the period, the countries can be said to have gone from a tight fiscal constraint period in 2000-2002 to a fiscal bonanza period (2003-2008), crowned by the prudent use of fiscal surpluses (2009-2010) (see Jiménez and Tromben, 2006; Kacef and López-Monti, 2010). The most outstanding fact is the primary surplus achieved from 2003 to 2008, using a simple average of the ten central South American governments. Behind this achievement lies a significant increase in fiscal revenue (on average, almost 3.5% of the GDP) between 2003 and 2010, with some slight falls in the last two years.

53- For a breakdown by country of the actions taken in Latin America and the Caribbean to face the crisis, see ECLAC (2009b), "The Reactions of the Governments of the Americas to the International Crisis," ECLAC, Santiago, Chile.

The reasons that account for this revenue increase are predominantly the following: improved terms of trade, growth of physical export volumes, greater economic activity and, in few South American countries, remittances from migrants abroad. In some cases, tax laws and administration schemes were also modified or amended, leading to an increase in public revenues. However, there is no doubt that, in South America, any increase in public revenue is closely tied to tax revenues derived from the exploitation of natural resources: in Bolivia, Ecuador and Venezuela, they account for more than 30% of the total, while in Argentina, Chile, Colombia and Peru, they amount to almost 20%.

Regarding tax revenues from the exporting sector, a distinction should be drawn between the countries that exploit their natural resources through State-run enterprises and those in which their commodities are chiefly exploited by the private sector. The former case is typical of hydrocarbon and other mineral exporting countries, whereas the latter case comprises mineral-producing but mainly agricultural countries ("agricultural" is to be understood in its broadest sense, including agriculture, animal husbandry, forestry and fishing). Apart from the stark differences that this poses from the macroeconomic management perspective, attention should be paid to the various mechanisms operating in either case to capture a share of the rent from natural resources: transfers from public enterprises to the central government in the former case, and taxes and royalties paid by the private sector in the latter. Regardless of the model involved, all the South American governments have been actively committed during the decade to bringing the benefits of the bonanza to their respective national societies.

Since the beginning of the price increase cycle, one of the most controversial aspects has been how to make the most of price increases from the fiscal point of view. In essence, this involved an intertemporal decision regarding a balance between creating a fiscal environment that would reduce economic exposure in the event of unfavorable external circumstances and recovering public spending levels to resolve the social debt built up as well as delays in infrastructure investment. Almost all South American countries decided to reduce the foreign public debt, and their central banks increased their reserves and created different kinds of funds to which part of the surplus was allocated, both in the country and abroad. Furthermore, almost all of them worked to recover public spending levels, though trying to control the pro-cyclical mechanisms between public revenue and public expenditure. Both transfers and subsidies were the most common methods for addressing the effects of energy and food price increases on population consumption and, in several countries the coverage of conditional cash transfer programs was considerably expanded, reaching a peak in the decade.

Another source of rising expenditures was a stronger public investment, mainly in infrastructure. This policy remarkably suited the execution of IIRSA investment projects. As already stated in Chapter 4, the number of projects included in IIRSA Portfolio increased by more than 50% between 2003-2004 and 2010, whereas the estimated investment grew just over 150% in the same period. Furthermore, the progress made in terms of project implementation has also been substantive since 2005-2006. In so long as the public and private-public financial sources contribute the greatest share of IIRSA's project investments (83%), the fiscal surpluses of the decade that enabled the South American countries to stand again as infrastructure investors also account for the progress experienced in the physical integration of South America.

b) South American Trade

As mentioned before, the upsurge of global trade and, particularly, the evolution of prices have been a decisive factor in the rebirth of the South American economy. This rebirth was led by the developing countries, especially from Asia, whereas the developed countries underwent a slower reactivation, contributing less to the growth in world exports.[54]

The high rates of trade growth of Asian countries reflect dynamic domestic markets as well as a relative specialization in manufactured goods, which have experienced a partial revival in the international demand. In fact, China is at the core of many global value chains, particularly in terms of medium- and high-technology goods that have shown the greatest dynamism. Given the fact that a great number of the links in these global chains are also of Asian origin, the dynamism of the Chinese growth has pushed regional exports upward, including those from Japan.

Likewise, the dynamism of Asian commercial ties, especially of China, with South America has had a positive impact on the foreign trade of the region. Table V.2 shows the evolution of South American foreign trade throughout the 2000s, following the periodizing blocks used above. Between 2000 and 2002, exports grew slowly, especially in terms of value, whereas imports only increased in value, i.e. this was a period in which good years offset bad years. On the contrary, the 2003-2008 period showed a sustained and considerable growth of exports and imports, particularly in terms of value, as a result of high price increases in both foreign trade components. The widespread fall of 2009 was the natural consequence of the global crisis but, as mentioned, such fall was no longer present in 2010 thanks to the increase in the demand from Asian and other emerging economies.

Table V.2
South America: Foreign Trade in the 2000 Decade, by Periods
(weighted average, index 2000=100)

	2000 - 2002	2003 - 2008	2009	2010
Exports of goods and services				
Physical volume	2.6	8.3	-14.1	14.8
Value	6.2	22.5	-21.2	24.6
Imports of goods and services				
Physical volume	0.1	-0.8	-12.8	14.8
Value	15.9	24.3	-21.7	22.1

Source: Based on data from ECLAC (2009-2010a)

If a longer-term perspective is adopted, it is necessary to underscore the strong expansion of South American exports, of both goods and services, in the last decades. Indeed, the average rates of goods exports in the

54- This rapid recovery in world trade was facilitated by the financial conditions prevailing in the markets that offer credit for trade, due to unprecedented policies applied by national, regional and multilateral agencies (see ECLAC, 2009-2010b, Box 2.1).

1990s doubled those in the 1980s, and in the 2000s, they doubled again those of the preceding decade (see Table V.3). As previously pointed out (ECLAC, 2008), although regional exports have grown less than in other areas of the developing world, there is no doubt that the South American economies have made considerable efforts to adapt to the prevailing international market conditions.

Table V.3
South America: Growth of Exports of Goods and Services
(annual average rates of each period, based on current US$)

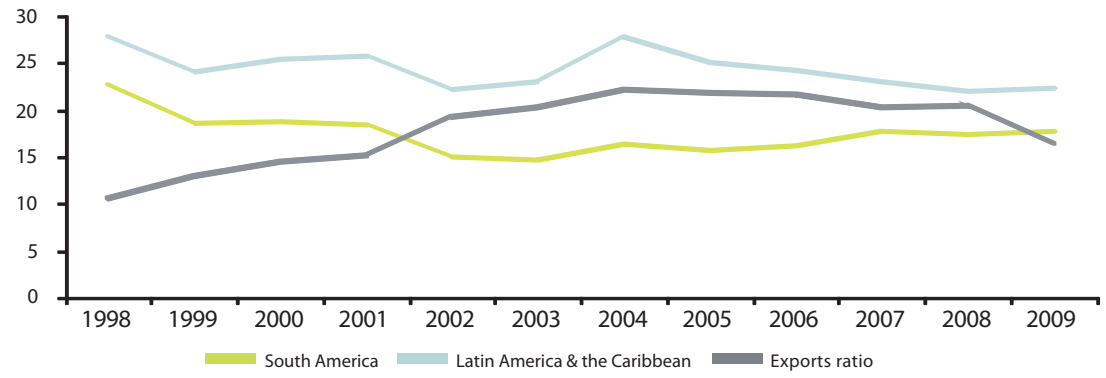
	1980 - 1989	1990 - 1999	2000 - 2009
Exports of goods	2.4	5.2	10.6
Exports of services	3.1	6.6	10.1

Source: Based on data from ECLAC (2009-2010a)

However, good performance of foreign trade, prudent macroeconomic management in the rising phase of the economic cycle, as mentioned above, and some active public policies adopted in recent years have not been sufficient for South American countries to significantly modify their traditional form of integration into the global economy. The South American export growth pattern, revealing a stark difference between commodities and manufactures, underpins the currently popular idea of a possible "reprimarization" of South American exports (see ECLAC, 2009-2010b).

In the 2000 decade, South American exports experienced major changes in product diversification and, above all, in destination markets (see ECLAC 2009-2010b). For the purposes of this book, the remarkable development of intraregional trade in this period is worthy of note. The weight of intraregional trade flows (measured by exports) in Latin America and the Caribbean in the last 12 years ranged from 22% to 28% of total trade. Furthermore, trade among South American countries remained between 15% and 23% of total trade; in the last years, it accompanied the evolution of the South American exports ratio, which virtually doubled in the period (see Figure V.2).

Figure V.2
South America: Total Exports and Intraregional Exports Ratio
(as a share of GDP and Total Exports)



Source: DATAINTAL database, IDB-INTAL

In this regard, emphasis should be placed on some peculiarities of the relative evolution of these three variables. First, a high share of exports among Latin American and Caribbean countries take place, in fact, within some subregions, among which the two South American integration blocs stand out. Indeed, in this period, exports among the South American countries themselves have accounted for two-thirds to three-fourths of the exports among Latin American and Caribbean countries. Second, although both shares of total trade have evolved similarly, trade fluctuations within South America have been less pronounced. Third, and perhaps most importantly, the share of trade among the South American countries has progressively increased, even in the context of a strong growth of total exports of the region as a share of its GDP. In fact, as shown in Table V.4, exports among the South American countries in the six-year period of 2003-2008 have grown above those to other Latin American and Caribbean countries as well as to the rest of the world; furthermore, at the time of the crisis, exports within the region fell less than exports to these other two destinations. Lastly, these events are the result of, and at the same time lead to, a closer physical integration of South America.

Table V.4
South America: Exports Growth Rate by Destination
(average annual rates based on current US$)

EXPORTAÇÕES	2000 - 2002	2003 - 2008	2009	2010
South America to South America	-0.9	24.9	-20.6	…
South America to LAC	1.1	16.9	-26.7	…
South America to the world	5.3	21.6	-21.9	24.6

Source: DATAINTAL database, IDB-INTAL

This greater relative expansion of exports among the South American countries is accompanied, as mentioned in Chapter 1, by a better quality trade. The first chapter explained that intraregional trade focused on goods with more value added and a higher technological content as compared to the goods exported to the rest of the world. Now, another significant dimension needs to be underscored, i.e. the relative significance of intrasectoral trade in bilateral commercial exchanges as an indicator of relations based on production integration. The importance of such intra-industrial links lies in the fact that they are "natural candidates" for creating regional or subregional value chains, and public policies should explore and develop such potential. One way of approaching this is through the Grubel-Lloyd Index (GLI), widely used for these purposes.[55] The index values for South American bilateral trade in 2008 are shown in Table V.5.

Argentina, Brazil and Colombia have the highest percentages of intra-industry trade, as indicated by the highest index values. The intra-industry trade relations in another four countries (Chile, Ecuador, Peru and Uruguay) are expanding, though they are not firm enough yet (index between 0.10 and 0.36). Finally,

55- The Grubel-Lloyd index measures the intensity of intra-industry trade between any two countries, that is, a situation where the two are trading similar goods. It is defined as the quotient between the absolute value of exports and imports divided by the sum of both. The value of such quotient is subtracted from the unit and, consequently, the index yields a coefficient of between 0 and 1. The closer the coefficient is to 1, the greater the level of reciprocal trade in similar industries (the exports and imports values are similar). See Carrera, Miguel (1997) and Trigo, Aurora (1997).

intersectoral trade still prevails (GLI below 0.10) in the three remaining countries (Bolivia, Paraguay and Venezuela). The most intense bilateral intra-industry relation involves Argentina and Brazil, since its index reaches a coefficient of 0.56 and was also the one that grew the most in the 2000s.[56] Other bilateral relations showing an important intrasectoral trade concern Colombia with Ecuador and with Peru, as well as Chile and Uruguay with other MERCOSUR and CAN member countries.

Table V.5
South America: Intra-Industry Trade, 2008
(Grubel-Lloyd index)

COUNTRIES \ PARTNERS	AR	BO	BR	CH	CO	EC	PY	PE	UY	VE
AR										
BO	0.05									
BR	0.56	0.01								
CH	0.19	0.06	0.09							
CO	0.09	0.01	0.14	0.18						
EC	0.03	0.02	0.05	0.07	0.36					
PY	0.10	0.06	0.12	0.03	0.04	0.01				
PE	0.08	0.13	0.03	0.20	0.29	0.08	0.14			
UY	0.25	0.03	0.23	0.19	0.20	0.01	0.02	0.14		
VE	0.02	0.00	0.01	0.02	0.10	0.08	0.05	0.00	0.05	

Note: Grubel-Lloyd Index (GLI) = 1 – absolute value (Xi-Mi)/(Xi+Mi)
GLI = 1, if Xi = Mi
GLI = 0, if Xi = 0, or Mi=0
Source: Based on data from ECLAC (2009-2010b)

In short, these favorable developments in terms of international trade and relations among the South American countries could scale up if higher innovation and production development levels were promoted both in the natural resource-based sectors and in the manufacturing and services sectors. The production and trade activities making the most intensive use of natural resources that are associated with comparative advantages are not necessarily an obstacle to an improved integration with the world, and may complement the development strategies of the countries in the region. In fact, the huge increase in worldwide demand and the stratification and differentiation of global markets, on the one hand, and the faster pace of technological developments in areas such as biological and cognitive sciences, on the other, offer a wide range of opportunities

56- For illustration purposes, it is worth mentioning that intra-industry relations between developed countries, as measured by the Grubel-Lloyd index, are around 0.65, indicating a close similarity in technology and relative factor endowment.

for raw materials exported by the region to become products no longer deemed to be commodities thanks to a greater differentiation and the incorporation of more value added and knowledge (see ECLAC, 2008).

This, in turn, requires developing a supply of specialized services intended to create and capture value along the different links of the chain (product design, advertising, improved management of inputs, logistics, transport, engineering and consultancy services, insurance and finance, among others). Backward and forward linkages can thus be reinforced, enhancing the relation of direct and indirect export sectors with the rest of the economy, particularly with small and medium enterprises producing goods and services, which are the main employment generation sources in the region. In sum, the goal is to boost a systemic competitiveness approach, where public policies play an irreplaceable role in increasing exports flows, creating production clusters, and developing regional and global value chains while attaining greater physical integration.

c) South American Investments

Trans-Latin companies have become an increasingly significant phenomenon since the 1990s, hand in hand with the process of globalization and regionalization of the world's economy, but they gained momentum especially in the second half of the 2000s as a result of aggressive internationalization policies.[57] Historically, the South American countries with the largest investments abroad were Argentina, Brazil and Colombia. Until the mid-1980s, most of these investments were made in neighboring countries, and concentrated on extracting and trading natural resources, on the engineering service and construction fields and on manufacturing plants set up to avoid commercial restrictions in the host countries. Business strategies were intended to both search for markets and make the most of their competitive advantages, such as product adaptation and design capabilities, and production and commercial management in less sophisticated markets.

In the 1990s, economic liberalization, deregulation and privatization policies challenged local businesses to compete in the local -until then captive- market, and to tap into opportunities to invest abroad. It is relevant to state here that most of these investments were intraregional, since few local actors were looking for a world stage at the time. Owing to the high volatility of such investments, largely because of the successive macroeconomic crises during this period, the most active South American countries, i.e. Argentina, Brazil and Chile, assumed the leadership alternatively until the year 2000. Despite a few successful cases (see ECLAC, 2005), there were more failures or downfalls than successes in these internationalization processes. In particular, the construction of regional networks turned into a very valuable asset for world transnational companies seeking to penetrate South American markets rapidly and on a wide scale. This was the case of many companies that expanded at the regional level to be later absorbed by transnational companies from Europe and the United States. From a

57- Trans-Latin corporations are emerging transnational Latin American companies that have made direct investments outside their countries of origin. In fact, their foreign direct investments make up an increasingly important share of the foreign direct investment that flows into Latin America. For further reading, see ECLAC, 2005.

58- In this regard, some landmark cases can be listed. In Argentina, YPF and Pérez Companc were bought by Repsol by the end-1090s. In Chile, the strong expansion of the electricity services of several South American countries encouraged Endesa (Spain) to buy the Chilean company; a similar situation took place in the pension and retirement fund business, where the Chilean undertakings in different countries were purchased by Spanish banks.

regional integration standpoint, these developments are still important, since they help maintaining regional networks made up of national companies from several countries.

Growth during the 2000s was sustained, albeit with strong annual variations, as shown in Table V.6. If the average figures for the first and last five-year periods of the decade are compared, the investments made by trans-Latin companies abroad more than tripled, with Colombia, Argentina and Brazil growing well above the South American average. Furthermore, Chile is a case in point, since its investments abroad show the most sustained and least volatile growth of all, as well as the greatest amount measured against its GDP. Peru is also worthy of note, as the country started to invest abroad only in the second half of the decade, whereas Venezuela showed a tendency toward stagnation.

Table V.6
South America: Foreign Direct Investment Net Outflows by Country
(in US$ million)

COUNTRY	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Argentina	1,730	901	161	-627	774	676	1,311	2,439	1,504	1,391	679
Bolivia	3	3	0	0	0	0	0	3	4	5	-4
Brazil	1,690	2,282	-2,258	2,482	249	9,807	2,517	28,202	7,067	20,457	-9,984
Chile	2,558	3,987	1,610	343	1,606	1,563	2,183	2,171	2,573	7,988	7,983
Colombia	116	325	16	857	938	142	4,662	1,098	913	2,254	3,025
Ecuador	…	…	0	0	0	2	0	0	2	-2	1
Paraguay	6	6	6	-2	6	6	6	4	8	8	…
Peru	…	…	…	…	…	…	…	…	66	736	396
Uruguay	-3	-1	6	14	15	18	36	-1	89	1	13
Venezuela	872	521	204	1,026	1,318	619	1,167	1,524	30	1,273	1,834
SOUTH AMERICA	**6,972**	**8,024**	**-255**	**4,093**	**4,906**	**12,833**	**11,882**	**35,440**	**12,256**	**34,111**	**3,943**

Source: Based on data from ECLAC (2009c)

Unlike preceding decades, in the 2000s there was a true internationalization process of South American companies, particularly of Brazilian origin. Thus, apart from connecting regional networks, two new objectives were now attained by companies, namely to further control of production in global value chains, and to penetrate markets in developed and emerging countries in other regions of the world, by establishing distribution and marketing networks of their own. These strategies differ substantially depending on the sector. Trans-Latin corporations of primary industries, i.e. companies producing inputs for the industrial sector that range from extracting activities (hydrocarbons and mining) to operations with various degrees of transformation (steel, cement, cellulose and paper), are usually competitive on a world scale, and have made investments in order to gain scale and larger markets for their products. Many of these industries are currently being intensely consolidated; therefore, internationalization can be said to have been a compulsory arena -rather than an opportunity- to fight for global markets.

In clear contrast to the situation of primary industries, trans-Latin corporations concerned with the food and beverage sector have been historically forced to build ties with world companies that control the sector. An

association of this kind has given rise to three basic relationship types. Some trans-Latin corporations have managed to compete with the world's transnational companies by specializing in regional areas and specific market niches. Others have become closely integrated into the networks of the world's transnationals, but holding the majority of the shares of the company's equity. Lastly, many trans-Latin corporations have become formally integrated into the world's transnational companies, playing clearly subordinate roles.

More recently, new opportunities have arisen as consumption expanded and diversified. In some markets, especially where specific consumer patterns have been observed, some trans-Latin corporations, such as several Argentine and Peruvian companies, have taken advantage of new niches. In others, trans-Latin companies have a competitive edge based on the natural resources of the region, on the production and management capacities developed throughout their history or on other assets. For example, in the meat industry, Brazilian business groups clearly aimed at attaining regional production integration and having a global outreach have been growing strong (see ECLAC, 2007b).

Trans-Latin corporations in the services sector can be classified into four large groups. The most traditional one comprises engineering and construction firms, especially from Brazil and Argentina, which have expanded regionally and, in some cases, internationally. Their major competitive advantages lie in a combination of technological skills, operational flexibility and low costs. Furthermore, their capacity to operate in complex regulatory, legal and economic environments has given them an advantage over their world competitors in some markets, especially in developing or transitional regions. The second group, the retail business, shows a very dynamic presence of Chilean trans-Latin companies operating in Argentina, Colombia and Peru and, more recently, in Brazil. These companies have developed robust competitive advantages grounded in a strongly client-oriented and powerfully financial business model based on the synergy resulting from related activities. This business model is supplemented with efforts targeted to be more in tune with the clients: incorporating local partners, forging long-term relations with vendors, and employing local people in each country to facilitate interpersonal relations. The third group comprises the air transport lines, in which Brazil and Chile stand out, with their leading companies (LAN and TAM) in the process of merging.

Their strategy has been to expand at the regional level through a network of companies based in several countries, providing domestic passenger and cargo flight services in addition to international flights. With the ongoing merging, LATAM will cover almost all South America. The last group, of recent expansion, is somewhat more heterogeneous and includes IT services, the entertainment industry and the media. These more technologically sophisticated companies have had to fight the world's transnational companies in their respective sectors. Although some have sought to become their partners and others have become a part of their organizational structures, a third strategy has been to specialize in some idiosyncratic niche. In the latter case, companies take advantage of some cultural identity in consumer habits in order to create regional markets or address Latin people living in other countries.

To illustrate this general outlook, Table V.7 shows the 20 largest trans-Latin companies of South American origin, including details on the sector, and the percentages of sales, investment and employment abroad. The uninterrupted internationalization process of the main South American companies is evident, with an

increasingly number of businesses embarking on production internationalization. The weight of the local natural resource-based companies has propelled their geographic expansion, gradually adding value to their product portfolio. Other companies have profited from the consumer market growth in the region and, based on the experience acquired in domestic and nearer foreign markets, have gained niches in new destination countries, both within and outside the region.

Table V.7
South America: The Largest 20 Companies with Sales, Investment and Employment Abroad, 2009
(in US$ million and percentages)

COMPANY	COUNTRY	SALES	PERCENTAGES ABROAD			SECTOR
			Sales	Investments	Employment	
Petrobas	Brazil	101,948	29	34	10	Oil and gas
PDVSA	Venezuela	68,000	94	5	8	Oil and gas
Itaú-Unibanco	Brazil	44,242	11	3	10	Banking
Vale	Brazil	27,852	35	47	20	Mining
Grupo JBS (FRIBOI)	Brazil	20,548	85	85	77	Agribusiness
Gerdau	Brazil	15,242	53	58	46	Iron and steel industry
Cencosud	Chile	10,518	56	50	44	Retail
Tenaris	Argentina	8,149	83	84	73	Iron and steel industry
Grupo Camargo - Correa	Brazil	6,950	22	47	28	Construction
Embraer	Brazil	6,812	86	45	13	Aerospace industry
Falabella	Chile	6,713	37	40	38	Retail
C.S.N	Brazil	6,305	23	13	6	Iron and steel industry
TAM	Brazil	5,780	31	5	6	Airlines
Sadia	Brazil	5,577	47	10	80	Food
Marfrig	Brazil	5,317	39	40	35	Agribusiness
Constructora Odebrecht	Brazil	4,800	69	56	49	Construction
Andrade - Gutiérrez	Brazil	4,500	15	10	5	Construction
LAN	Chile	3,656	73	70	41	Airlines
EmpresasCMPC	Chile	3,248	70	27	31	Cellulose and paper
Votorantim	Brazil	3,110	36	48	35	Cimento

Source: Based on data from ECLAC (2009c)

As can be observed, the Brazilian companies clearly immersed in the process of becoming internationalized and the Chilean companies following a regional expansion strategy stand out significantly. Given the current international context, the Brazilian companies have expanded more aggressively. Their Chilean counterparts' organic growth alternated with acquisitions, and the gradual nature of their growth has been key in gathering the experience required. For ones and the others, the permanent challenge is managing to remain firm in strongly competitive and consolidated environments. Table V.8 shows the investments made by Brazil and Chile by destination market and sector.

Table V.8
Brazil and Chile: Investments Abroad by Destination and Sector, 2007

(in US$ million and percentages)

Destination	Amount	Percentage	Sector	Amount	Percentage
BRAZIL (investments above US$1 million, excluding real estate)					
Financial centers	5,420	46.5	Financial services	5,108	43.9
United States	3,548	30.5	Metallurgy	1,660	14.3
Chile	689	5.9	Food and beverages	1,744	15.0
Argentina	528	4.5	Chemical products	853	7.3
Uruguay	229	2.0	Retail	644	5.5
Other LAC	389	3.3	Biofuels	276	2.4
Portugal	155	1.3	Hydrocarbons	239	2.1
Other EU	633	5.4	Construction	156	1.3
Other	54	0.5	Other	965	8.3
TOTAL	**11,645**	**100.0**	**TOTAL**	**11,645**	**100.0**
CHILE (investment made)					
Brazil	875	35.3	Retail	1,016	41.0
Argentina	471	19.0	Manufacturing industry	818	33.0
Peru	396	16.0	Energy	198	8.0
Colombia	341	13.8	Construction	198	8.0
United States	258	10.4	Other services	149	6.0
Other LAC	027	1.1	Hotels and restaurants	99	4.0
Other	112	4.5	Other	2	0.1
TOTAL	**2,480**	**100.0**	**TOTAL**	**2,480**	**100.0**

Fuente: sobre la base de datos de CEPAL, 2009c.

As for the investment destinations, both countries complement each other almost perfectly. Brazil makes a little over 15% of its investments in other South American countries or in the rest of Latin America and the Caribbean (3.3%), whereas 85% of Chilean investments go precisely to those destinations. In sectoral terms, the contrast between them is also well marked: Brazilian trans-Latin companies are concerned with financial services and several primary and manufacturing industries, whereas Chilean businesses specialize in the retail industry and in services, with the major exception of cellulose and wood pulp for paper.

Finally, it is worth mentioning that the recent progress in foreign investments and the internationalization of South American companies do not stem from specific public policies or integration agreement provisions. Although these initiatives have been encouraged by the regional environment of peace and

cooperation, the vitality of this process might be strengthened even further through integration initiatives undertaken within the framework of trade agreements and trade facilitation policies. In addition to reinforcing credibility in dispute settlement mechanisms, the former entail the search for convergence of the service sector regulatory frameworks and, possibly, a renewal of trade agreements. Trade facilitation policies involve investments in infrastructure and logistics, the progressive convergence of the regulatory frameworks and the gradual harmonization of tax and financial regulations and of agreements on the movement of people. Any serious integration effort should strengthen the links with the regional players of the internationalization process, thus enhancing the companies' growth and the relevance and efficiency of the integration process.

d) Evolution of Formal Integration Schemes

Unlike the already mentioned investment and trade dynamics, advances in South American trade convergence initiatives have been modest in the 2000s. This, of course, restricts progress towards a broader economically integrated area capable of promoting further development of intraregional trade and its related benefits, such as manufacturing links, the active participation of small and medium enterprises and a greater potential for production integration, among others. In particular, the region's most ambitious trade integration initiatives have been seriously affected by divergent views on the issue. This is reflected in the difficulties to create a free trade South American area that have emerged since 2005 within the framework of the South American Community of Nations, the organization then in force.

Despite these hindrances, important progress has been made in several regional integration areas, including the trade dimension in some cases. The most outstanding facts involving the MERCOSUR in the 2000s are listed in Box V.1. At the institutional level, in December 2009 a significant step was taken towards the accession of Venezuela to MERCOSUR when the Brazilian Congress approved the country's full membership, which now remains to be approved only by the Congress of Paraguay.

Box V.1
MERCOSUR MAJOR EVENTS DURING THE 2000s

18 02 2002	The Olivos Protocol for the settlement of disputes in MERCOSUR, Buenos Aires, Argentina.
04 07 2002	Approval of institutional strengthening decision and creation of the Ad Hoc Group on Border Integration. MERCOSUR-Mexico Agreement
06 12 2002	Agreements on Migrations in MERCOSUR and Economic Complementation Agreement CMC 11/03
16 12 2003	Signing of the Economic Complementation Agreement between CAN and MERCOSUR to create a Free Trade Zone
16 12 2004	Creation of the Structural Convergence Fund within MERCOSUR (FOCEM).

19 06 2005	Integration and operation of FOCEM and strengthening of the MERCOSUR institutional structure
08 12 2005	Constitutive Protocol of the MERCOSUR Parliament. FOCEM Rules of Procedure. Olivos Protocol Special Procedure
04 07 2006	Endorsement by the MERCOSUR and the Venezuelan Presidents of the admission of Venezuela as a member
18 01 2007	Creation of the Social Institute of the MERCOSUR. Approval of the first projects to be financed with FOCEM funds
15 12 2008	Creation of a Guarantee Fund for Micro, Small and Medium-Sized Enterprises and of a Family Farming Fund
30 06 2008	Approval of the MERCOSUR Production Integration Program for production complementariness
24 07 2009	Standardization of rules of origin. New precisions for the use of local currency in intra-MERCOSUR trade transactions

Some significant advances in several fields related to customs union consolidation are relevant. Such agreements refer to the gradual elimination of the double charging of the common external tariff from 2012, the adoption of a mechanism for distributing customs revenue and the adoption of a common customs code, which had been the subject of negotiations since 2004. It is opportune to mention the approval of the action plan to further the program for the liberalization of trade in services, which has a four-stage timeline to be completed in 2015, as well as the conclusion of the seventh round of negotiations on specific services-related commitments by late 2009. Another recent initiative is the local currency payment system in bilateral trade transactions, with the purpose of reducing transaction costs associated with exchange operations to dollars, thereby boosting the share of smaller-sized companies in trade among MERCOSUR countries. One significant pending challenge for MERCOSUR is to expedite progress towards the elimination of non-tariff barriers to intra-zone trade, especially non-automatic import licensing.

A second positive development was the creation of the Guarantee Fund for Micro, Small and Medium-sized Enterprises, which aims to guarantee the loans taken out by firms of this kind involved in production integration activities in MERCOSUR, with an initial contribution of US$100 million. This instrument adds to the coverage provided by FOCEM, which has been in operation since 2007 and as of June 30, 2009 had 25 projects approved for a total of almost US$200 million (IDB-INTAL, 2009). As in the case of FOCEM, this Fund provides benefits inversely proportional to the contributions made, which helps not only to promote the integration of production chains of the national economies but also to reduce gradually the marked asymmetries among them.

A program of considerable relevance for the future are the Meetings on Production Integration, aimed at discussing the economic integration strategy of MERCOSUR and the key role of the integration of production

chains to develop subregional industry competitiveness and to reduce asymmetries among member countries. At the beginning of 2010, Argentina and Brazil identified a series of strategic and sensitive sectors to promote production integration. Within the first group are the companies concerned with oil and gas, auto parts, advanced technology, civil airplanes, and agricultural equipment, whereas the sensitive sectors include wood, furniture, wines, dairies and white goods. Round tables on production integration are being organized at present, attended by governmental officials and corporate representatives of the private sector; meetings of businessmen are organized as well (see IDB-INTAL, 2010).

With regard to trade negotiations with extraregional partners, several significant developments have taken place in the last years. One was the resumption, announced in May 2010 and brought to fruition one month later, of talks for an association agreement with the European Union, which had been suspended since 2004. Another one involves the rapprochement between the two main economies of the region, Brazil and Mexico, since August 2009, with a view to negotiating a strategic agreement on economic integration, with potentially important consequences for Latin American integration. Finally, in the last years, agreements between MERCOSUR and Southern Africa, Egypt, India and Israel came totally or partially into force.

In turn, the period since 2006 has been a complex one for the Andean Community, marked by the withdrawal of Venezuela, frictions among member States over the negotiation of trade agreements with the United States and the European Union, and recent political tensions of different nature, which have sometimes spilled into the trade domain. Furthermore, during this decade, the different views of individual member States of CAN on the nature of integration and the role of trade in development have become clearer. Taking into account the added effects of the recent crisis, this has been a very inauspicious period to progress from the existing zone of free trade in goods and services towards a more advanced level of trade integration. In particular, since 2007, the Andean Community has been moving gradually away from the customs union format, due to the temporary exemption of member States from applying the common external tariff and to the individual negotiation, by some of them, of trade agreements with third countries. Despite this, the members of CAN have been extending their cooperation and integration in a range of areas, as shown in Box V.2.

Box V.2
ANDEAN COMMUNITY MAJOR EVENTS DURING THE 2000s

30 07 2001	Declaration of Machu Picchu on democracy, the rights of indigenous peoples and the fight against poverty
17 06 2002	Approval of the Andean Chart for Peace and Security by the Ministers of Foreign Relations and of Defense
11 03 2003	The World Trade Organization is notified that the Andean Community operates as a Customs Union
28 06 2003	Minutes of the Quirama Summit. A new strategic orientation to second-generation integration policies giving top priority to the social dimension

11 07 2004	Creation of several Andean Councils: Education and Culture, Social Development, Environment and Sustainable Development, and of Municipal Authorities
12 07 2004	Minutes of San Francisco de Quito on the Andean peace zone, fight against drug trafficking and presidential dialogue about the future of integration and its projection to South America
04 04 2005	Launch of the CAN-EU joint assessment of the Andean integration process, with a view to a future association between the two blocs, which would include a Free Trade Agreement
18 07 2005	Minutes of the Lima Summit Meeting on Democracy, Development and Social Cohesion and other issues (fight against drug trafficking, Telesur, Nicaragua, and reform of the United Nations)
22 04 2006	Venezuela denounces the Cartagena Agreement, hence the rights and obligations resulting from its capacity as member State cease to exist
09 08 2006	Approval of the Memorandum of Understanding between CAN and Venezuela concerning Venezuela's dissociation as an Andean Community member State
20 09 2006	The Republic of Chile is granted the status of the Andean Community associate member country (Decision 645)
14 07 2007	XVII Meeting of the Andean Presidential Council, during which the Declaration of Tarija was signed. Tarija, Bolivia

Specifically, progress has been made in incorporating the social, political, production and environmental elements into the integration process, in line with the concept of comprehensive integration. These efforts are evident in the twelve core areas of the strategic agenda adopted in February 2010 by the Ministers of Foreign Affairs and Trade of the Andean Community countries (see ECLAC 2009-2010b). Underpinning the agenda is the recognition of the member States' diverse approaches and views; on that basis, it seeks to preserve the achievements made over the four decades of the Community's existence and to advance pragmatically in new areas on which there is consensus, such as economic complementarity and trade integration.

In fact, although it is necessary to give more importance to social aspects, especially in a continent marked by inequalities, the economic or trade aspects of integration should not be postponed or minimized. On the contrary, synergies and complementarity among such three aspects should be reinforced. In this regard, efforts need to be redoubled to build regional value chains that promote exports to third markets, enlarging in them the share of small and medium enterprises and of businesses from relatively less developed countries. This would help reconcile growth, search for third markets and social cohesion, thus supplementing structural support to reduce asymmetries among member countries. Otherwise, if the social issue were conceived merely as a form of compensation rather than as an access to opportunities for development, integration would be hard pressed to solve domestic inequalities, where all countries have failed to do so.

e) Increased Political Plurality in South America

The remarkable progress made in the 1990s as to the preservation of representative democracy, regional peace and cooperation, and the peaceful settlement of disputes among South American countries has not only continued throughout the new decade but has even been strengthened in some cases. In fact, the developments leading to the creation of UNASUR, as described in Chapter 1, stand as a vivid example of the efforts toward political convergence in South America. On the other hand, UNASUR has become a decisive instrument in all these fronts, as shown by some recent events. Furthermore, the Union shows how it is possible to combine, on the basis of dialogue and persuasion, divergent political views about the contrasts among the countries of the region and about modes and styles of integration into the world.

Despite these important political achievements, the balance of South American economic integration still falls short in the global context of new opportunities and challenges. In fact, integration schemes already in force appear to be absent from major business decisions. The strengthening of regional economic integration has not been a priority item on the political agendas and has hardly gone beyond public announcements. Given this picture, it should not be surprising if an even wider diversity of options as to the best way to integrate into the world economy should emerge.

Probably, the most critical views on the benefits of trade liberalization for the region have come together in the project of the Alianza Bolivariana para los Pueblos de Nuestra América (Bolivarian Alliance for the Peoples of Our Americas - ALBA) and its associated initiative, the Tratado de Comercio de los Pueblos (the Peoples' Trade Agreement). Both were established in 2004 in direct opposition to the Free Trade Area of the Americas (FTAA), which was finally discontinued. Instead, several South American countries on the Pacific coast have individually opted for free trade agreements entered into with other countries and regions of the world.

There are, of course, known and marked structural differences among the South American countries, as well as some other more openly political discrepancies that underpin the plurality of opinions. Among the former, there are huge differences in terms of area, production and export structures, competitive advantages, destination markets, and degree of substitution or complementation in connection with the main agricultural products from developed economies that heavily subsidize their exports and/or strongly support their producers at the domestic level. In turn, the political differences relate to the role that the countries can and wish to play in the regional and world economies, the strength of their economy and institutions and, therefore, their bargaining power and structure of alliances prioritized, all of which is reflected in their trade policy and trade negotiations.

This is the reason why efforts have been made in recognizing and reconciling the divergent political views in order to uphold the goal of integration. However, it cannot be denied that there is some tension between the political and economic logics behind regional integration. The former presses to build integration based on the recognition of such diverse realities, whereas the latter stresses the need for converging towards new development schemes in order to render an expanded regional market more attractive.

Managing appropriately the tension between politics and economy is critical to reinforce complementariness between modes of integration into the world economy and regional integration schemes. This would contribute not only to strengthen access to major markets with natural resource-based and labor-intensive products but also to foster activities with a more intensive use of technology and know-how, including those that add value to natural resource-based products. But in order to gain presence in global value chains, in addition to competitiveness and innovation requirements, it is necessary to have large and unified markets, characterized by an efficient physical integration, harmonized standards, disciplines and regulations, and legal security underpinning long-term decisions and international alliances.

Furthermore, it might be possible to make further advances in more innovative areas. Firstly, preparing joint actions to approach other regions through plurinational business and ministerial missions with the aim of promoting infrastructure, energy, financing, tourism and logistics project portfolios. Secondly, encouraging the coordination of trans-Latin companies' strategies to create regional value chains, thus bringing integration to the fore in the internationalization decisions made by major economic players of the region. Thirdly, reinforcing the associative component of innovation and competitiveness in order to involve technological centers in joint research and business activities and to create synergies and critical mass with the few human resources that the region assigns to these areas, which are very important for the future. Finally, adopting trade facilitation measures (among them, the modernization of customs, ports, infrastructure, logistics, connectivity, and interoperability of information and communication technologies) in sectors involving several countries.

It should be stressed that the unilateral options regarding each of these matters will continue to be only second best choices after the countries fail to make the most of the opportunities for coordinated action, of the advantages of enlarged markets, and of common policies. Nevertheless, it is necessary to recognize the diverse structural and circumstantial situations of the South American countries, as well as their different political options and conditions. The big challenge continues to be how to progress toward convergence based on the recognition of such a rich diversity.

2. PECULIARITIES IN THE 10-YEAR DYNAMICS OF IIRSA

A process of the magnitude and features of IIRSA, which involves long-term planning horizons while having to show results that help reinforce political will and the commitment of many stakeholders, can be understood as a sequence in time with periods of two kinds. In the first place, periods of institutional innovation defining the contextual conditions in which the process will have to operate for some time and, in the second place, management periods to carry out actions within a given set of contextual conditions. None of these two kinds of time periods is unique but rather a succession in which they both alternate.

IIRSA was born at an especially ambitious moment in terms of institutional innovation, as evinced by the characteristics with which it was launched, summarized in the Brasilia Declaration. First, because of the broad political consensus on which it was founded and the underlying visions set out to tap into the opportunities and face the threats posed by globalization. Second, because of its proposal to combine the modernization of an

enlarged economic context with the recognition of a regional identity. Third, because of its conceptualization of regional integration, understood as a learning and cooperation framework and as a mechanism to gain scale as well as political and economic influence. Lastly, because of the conviction that physical integration may act as a catalyst for other regional integration dimensions.

In addition, the Action Plan adopted at the Meeting of Ministers of Transport, Energy and Communications of the twelve countries concerned, held in Montevideo in December 2000, outlined the major guidelines that were to shape the Initiative for the following ten years. In this sense, it is worth pointing out, on the one hand, the complexity of its agenda due to its multisectoral, multinational and multidisciplinary character, and, on the other, the need to strengthen coordination among the governments and to implement collectively made decisions within each country's institutional organization. No doubt, this was a blossom moment of institutional innovation, perhaps representing a pinnacle in the 10-year history of the Initiative, though not at all the only one, as will be discussed further on.

Such peak moment of innovation was followed by a first management period lasting for IIRSA's first three years. This period was enriching, as it enabled the gradual recognition of national sensitivities and facilitated the setting of the Initiative's organizational scaffolding in motion. Management focused on proposing and exchanging ideas about the Integration and Development Hubs and the Sectoral Integration Processes, the two pillars of the Initiative, as well as on preparing the Business Vision for each Hub and preliminarily identifying the projects to be included.

In 2003, IIRSA witnessed a second institutional innovation period -of less political bearing than the first one but more technically and operationally important-, which became known as the first phase of the indicative territorial planning process. This second period of institutional innovation served as the framework for a second management period, which was concerned with the development and application of a territorial planning methodology that was basically of a qualitative nature and grounded in the views of experts very well acquainted with the reality of the projects, regions and countries involved. Moreover, this methodology helped the countries in building consensus on a common project portfolio and in establishing their priorities. This process was crowned with the adoption in 2004 of the Implementation Agenda based on Consensus 2005-2010 -a subset of 31 projects selected from IIRSA Portfolio because of their priority to the physical integration of the region (see Chapter 4).

This was a very significant period, since it was necessary to implement a series of organizational arrangements, conceptual principles and methodological tools to effectively carry out the physical integration actions required. As stated in the preceding chapters, in this period all the South American countries gave their political support and remained remarkably committed to IIRSA by participating in its management bodies. Complementarily, its technical bodies and the CCT institutions managed to be up to the challenge, working dynamically, harmonizing concepts, developing and applying methodologies, implementing actions, mobilizing resources, overcoming obstacles, and identifying shortfalls. The fruitful interaction of these bodies gave rise to an institutional capital building process -the main components of which were described in Chapter 4- that was to be reinforced later in some particular dimensions.

During this period, an undertaking of a broader political scope was attempted, though it was not completely successful, largely because of the difficulties encountered in building the necessary consensus, as different political views started to become evident in the region. This initiative, known as VESA, was intended to make a preliminary contribution to the debate among the governments, the private sector and civil society as to how to build strong consensus on South American integration and development structuring concepts and proposals. However, as already pointed out in Chapter 4, after the Regional Workshop on VESA (Asunción, November 2005), the debate involved in such initiative was left to the presidents of the region.

IIRSA's third institutional innovation period took place at the end of 2005, as its first five-year mandate was coming to an end, when the strategic objectives for 2005-2010 were defined. With the approval of these objectives, IIRSA evolved into a new stage of reinforcing the achievements made to date, enhancing its environment for executive action and taking a qualitative leap forward in the indicative territorial planning process, which basically involved connecting infrastructure with other territorial development dimensions, such as production and logistics integration opportunities and the strategic environmental and social evaluation —intended to identify, characterize and assess the socio-environmental impact and risks of the projects as well as any sustainable development opportunity associated with the territory. Complementarily, the process of identifying, formulating and evaluating projects was sought to be enhanced through a georeferenced information system, a standardized database including all the projects within IIRSA Portfolio throughout their lifecycle, as part of several mechanisms developed to disseminate the Initiative, and the special treatment given to the financing of transnational infrastructure projects, among others.

This new phase of institutional innovation served as a backdrop for the third management period, characterized primarily by the training of governmental technical staff members and an active agenda of meetings of the National Coordinators and Executive Technical Groups in order to move further on into the EIDs and a few PSIs. However, the most outstanding fact in this period is perhaps the progress attained in terms of project definition and implementation. There were clearly many reasons for this, but it is worth mentioning the maturity of some initiatives related to the financing programs of the regional institutions and, above all, the already described fiscal improvements introduced in the countries, which consequently were able to contribute most of the funds for the execution of the projects in IIRSA Portfolio.

These important achievements enhanced remarkably IIRSA's institutional capital in its various dimensions, and led to results that reinforced political will and institutional commitment. However, some obstacles coming into light in the last years have weakened the Initiative. First, political support has been diminishing, as reflected in the fewer participants and government representatives that attend IIRSA's meetings. Second, involving the countries' institutional structures has proved difficult, despite the painstaking efforts made by the National Coordinators. In particular, this has affected the Sectoral Integration Processes, since sometimes it was impossible to form the respective work groups, thus undermining one of the two basic pillars of IIRSA. Third, the multisectoral character of the Initiative grew increasingly blurred as its Portfolio projects became transport-biased in terms of both composition and implementation. This is due to several reasons: to a certain extent, because the countries' representatives were mainly concerned with the public works and transport areas and, as already said, because of the difficulties encountered by the National Coordinators to penetrate

and involve the rest of their countries' institutional structures. But there are also other reasons: on the one hand, the fact that almost all the services in the telecommunications sector, especially the most dynamic ones, are in the hands of the private sector, which participates only too little in IIRSA; on the other hand, the energy sector, which had awakened high expectations in terms of South American integration, looked for alternative discussion forums to further advance the energy integration agenda, although not quite successfully yet. In short, important aspects that would have leveraged IIRSA even more were missed altogether.

After its first ten years of existence, it looks as if the time has come for IIRSA to start a new period of institutional innovation. Perhaps, the starting point is its recent incorporation into the UNASUR structure as the Technical Forum of the Infrastructure and Planning Council of the Union. However, this is nothing but a starting point and it will be necessary to outline an equivalent to the Montevideo Action Plan in order to identify its components and a strategy for their implementation. In the final chapter, some guidelines are offered to make headway on this path.

Table V.9
Summary of the Peculiarities in the 10-Year Dynamics of IIRSA

2000	First institutional innovation period	Launch of IIRSA Summit Meeting of South American Presidents (Brasilia, 2000) Design of IIRSA Action Plan (Multisectoral, multinational and multidisciplinary nature) Guiding principles
2000 - 2002	First management period	Implementation of IIRSA EIDs and PSIs: Proposal and discussion Preparation of the Business Vision for each EID and preliminary identification of projects
2003 - 2004	Second institutional innovation period	First Planning Stage. Indicative Territorial Planning Methodology
2003 - 2004	Second management period	Structuring of IIRSA Project Portfolio based on the Planning Methodology GTE meetings on each EID and several PSIs First IIRSA Project Portfolio. Publication of the book Indicative Territorial Planning: Project Portfolio 2004 Setting up of the AIC 2005-2010 Start of the dialogue on the VESA
2005	Third institutional innovation period	Definition of the Strategic Objectives 2006-2010: Implementation, Planning – Stage II, PSIs and Outreach Activities Reinforcement and qualitative leap forward in the territorial planning process, and new methodologies and tools
2005 - 2010	Third management period	Training of governmental technical staff members GTE meetings on each EID to update IIRSA Project Portfolio. Publication of the books Indicative Territorial Planning: Project Portfolio 2009 and Indicative Territorial Planning: Project Portfolio 2010 Creation of technical cooperation funds by the IDB, CAF and FONPLATA

CHAPTER 6

IIRSA: THE CHALLENGES AHEAD

Ten years after the First Summit Meeting of South American Presidents, IIRSA has become a valuable asset for the countries of the region; today, it is committed to envisioning its role within a new institutional framework. With the creation of the Union of South American Nations, a new institutional architecture that will be responsible for ensuring the sustainability of the South American physical integration process is indeed emerging.

Hence, as stated before, this appears to be as a suitable opportunity to renew the commitment of the South American countries to regional integration and start a new period of institutional innovation that may help define the contextual conditions for the work of IIRSA in the years ahead.

Of course, the timeliness, direction and concrete content of this new period of institutional innovation are a sovereign decision of the member States' governments. Therefore, the purpose of this chapter is simply to present some general thoughts based on the analysis of IIRSA's experience that may serve as a catalyst for the discussion.

1. **Physical integration is progressive and requires to be sustainable**. After a decade of fruitful work, the physical integration of South America shows significant developments while posing many challenges ahead. It cannot be otherwise if some basic data are taken into account: a difficult and complex geography; the challenges posed by the environmentally sustainable development of one of the richest regions in the world in terms of biodiversity and abundant natural resources; vulnerable domestic economies, despite their recent economic growth and their needs in terms of transformation and production coordination; and, above all, the great challenge of social cohesion in a territory where almost 40% of its inhabitants live in poverty, while many others are trapped in informal jobs and deprived of a decent social security system. Whatever the approach, it is clear, in view of these basic data, that this represents an enormous effort that cannot be conceived in other terms but as a progressively built action program that requires the active cooperation of many governmental, private and social actors.

2. **Physical integration forms part of regional integration.** The chances for South American physical integration to make real headway on ambitious and challenging goals certainly depend on whether a correct strategic direction is chosen and on the capacity to set feasible objectives vis-à-vis the technical, human, financial, and institutional resources available. The balance is ultimately the result of a series of political decisions and choices made in a cooperation process that will inevitably face changing conditions. Furthermore, without denying the specific scope of action that concerns physical integration, as well as regional infrastructure expansion and planning with a view to sustainable development with social cohesion, it would be incorrect to think that this field is independent of other regional integration process vectors such as the trade, economic, social and political ones. In other words, sometimes physical integration may develop at a different pace from that of other vectors. It may even serve as a catalyst for some of them but it will, ultimately, tend to stay tuned to all of them.

3. **South America as a privileged integration area.** One of the innovative principles of the Summit Meeting held in Brasilia was that the South American territory was suitable for developing and strengthening regional integration, on the basis of which it would be possible to be better integrated into the global economy. The history

of our distant past is not consistent with this idea, because usually fragmentation and opposing national interests prevailed. Significant advances have been made in our recent history: the creation of CAN was a landmark and, later, MERCOSUR added another milestone. Progress has been remarkable, but the challenge is still on. Hard work and much effort are required if these projects are expected to converge and if an integrated economy in the region as a whole is to be attained, as was proposed in the Brasilia meeting. The creation of UNASUR cannot be understood otherwise than as a claim to the validity of these strategic decisions. However, translating this dream into concrete action will require a series of consistent decisions to be maintained in time; indeed, inaugural visions suffice no longer. The risk is falling into inertia and, eventually, into a lack of political interest.

4. **Territorial planning with a regional physical integration vision.** One of IIRSA's greatest virtues has been its focus on the territory. Thus, integration infrastructure is inscribed within a broader perspective that exceeds the logics of sectoral analysis and investment projects. This territorial planning that merges geographical, economic, social and environmental aspects is an invitation to see and recognize the different angles of the same process in time and space. However, given its general character, efforts to approach the local phenomenon from the South American perspective are also required. It is necessary to connect both the local and the South American levels, in the understanding that the decisions and instruments demanded by one and the other vary substantially. Whereas local levels have institutions and instruments in place, the South American approach needs to rely on a rule-based cooperation as the only path for joint action involving the governments, the private sector and civil society. Integration without minimum institutional components and capacity for commitment generation may result in an open invitation to voluntarism, without much result.

5. **The management of a complex agenda.** IIRSA has been an innovative and successful experience within the South American integration process, which was reflected in the institutional arrangement under which the governments' discussions and work have been taking place and in the use of new planning and management tools. These elements, taken together, mobilized the interest of the governments in an agreed-upon work agenda focused on activities and results sustained throughout a decade. In the light of the history of the region, this is a unique experience in several regards, with tangible impacts and the potential to benefit from greater efforts on the near horizon. For this purpose, it is necessary to reaffirm the basic principles. First, the multinational nature of the Initiative, because some governments should renew their participation and commitment. Second, the multisectoral dimension, which demands a closer and more effective coordination between IIRSA and the countries' relevant institutions. Lastly, the multidisciplinary approach, preserving the space for dialogue in order to face the complexity of territorial planning within the framework of a South American vision.

6. **The challenge of environmentally sustainable development.** The environmental sustainability issue has gradually permeated institutions, public policies, and the perspective of local, national and global stakeholders. In general, two opposing views are observed: on the one hand, the idea that environmental sustainability is more a cost than an opportunity and, on the other, the principle that the inalterability of the environment is an absolute and inalienable value, upheld by several stakeholders from civil society. Beyond their polarized positions, neither of these approaches can be possibly admitted when designing a specific public policy, since

they do not take into account some basics of reality. In the first case, evidences abound as to the human factors that affect environmental sustainability. The environment forms part of our common heritage, and its preservation should be adequately incorporated into both private projects and public strategies. As to the opposite approach, it needs to be stated that preservation of the natural capital at all costs precludes addressing another equally important challenge in the region: development with social inclusion. Hence the need to reconcile the exploitation of natural resources with all its potential as another tool to fight poverty and marginality. Many infrastructure development undertakings are subject to a double pressure from these opposing approaches. Despite the complexity of this issue, including its impact on future generations, it is necessary to overcome such logic of confrontation and seek suitable ways of making the investments required for social and economic development, while protecting and, to the extent possible, increasing the natural capital of the region. It should always be borne in mind that decisions regarding most infrastructure projects mature in the long term; therefore, postponing them may force decision-makers to make urgent and not necessarily the best decisions. IIRSA has not been alien to this environmental progress, a proof of which is the development of the EASE methodology for strategic environmental and social assessment. As this methodology is systematically applied to the project groups, the new information flow will enhance planning and guide strategic decisions, thus contributing to sustainable development. In this regard, regional cooperation at the level of UNASUR/COSIPLAN/IIRSA offers the possibility of making progress with technical work and agreements concerning infrastructure services and works that embrace the concept of social and environmental sustainability comprehensively, from the beginning and at their own sites.

7. **The incorporation of the private sector and civil society**. One of the biggest future challenges of IIRSA is to attain a broader and more genuine participation of the private sector and civil society. Regarding the private sector, two dimensions stand out: one, the need to attract into IIRSA infrastructure segments whose ownership and/or management is in private hands in order to reinforce its multisectoral character and, second, the need to encourage the private sector to participate in investment efforts intended to develop regional infrastructure through an adequate public-private distribution of risks and incentives, especially in the case of transnational projects. Concerning the civil society, it is necessary to broaden and encourage the participation of representative organizations in different fields. The issue is not a new one, and it is well known how difficult it is to properly weigh opposing interests and different degrees of representation when making decisions that affect society as a whole. Several countries in the region are taking steps in this direction through different public consultation methods. These mechanisms can be expanded and improved, taking into account the decisive territorial impact of infrastructure projects. A timely dialogue is also an inclusion factor, and avoids adopting untimely reactive positions that can paralyze and work against the initial goal of providing more and better services.

8. **An agenda focused on results**. From the very beginning, IIRSA sought to work on the basis of two basic pillars: on the one hand, the Integration and Development Hubs and, on the other, the Sectoral Integration Processes. In practice, however, both proved to be unequal, since the activities related to the identification and implementation of investment projects filled the agenda of the Initiative to the detriment of the regulatory and legal issues. Although these issues are also essential for the physical integration of South America, much

less progress was made. Looking ahead, a qualitative leap forward can be taken if the agenda focuses more on results —i.e. if in the next stages of the physical integration process, infrastructure projects are harmoniously combined with regulatory and legal convergence in order to remove any obstacles to an efficient operation, and with the bodies concerned with production and logistics service integration adequately working to efficiently address the needs of the countries.

These reflections entail more questions than statements, but might be useful in examining the possibilities of IIRSA in the future within the new institutional framework of UNASUR. Even though the Initiative is still young, the road to physical integration so far has been important, its results, at different levels, defining new initial conditions that are quite more favorable than the ones existing at the time the Initiative was launched. Today, IIRSA represents a valuable regional asset, but the approach and processes that gave birth to it and kept it alive can very well be improved if the governments decide to face the challenge to do so.

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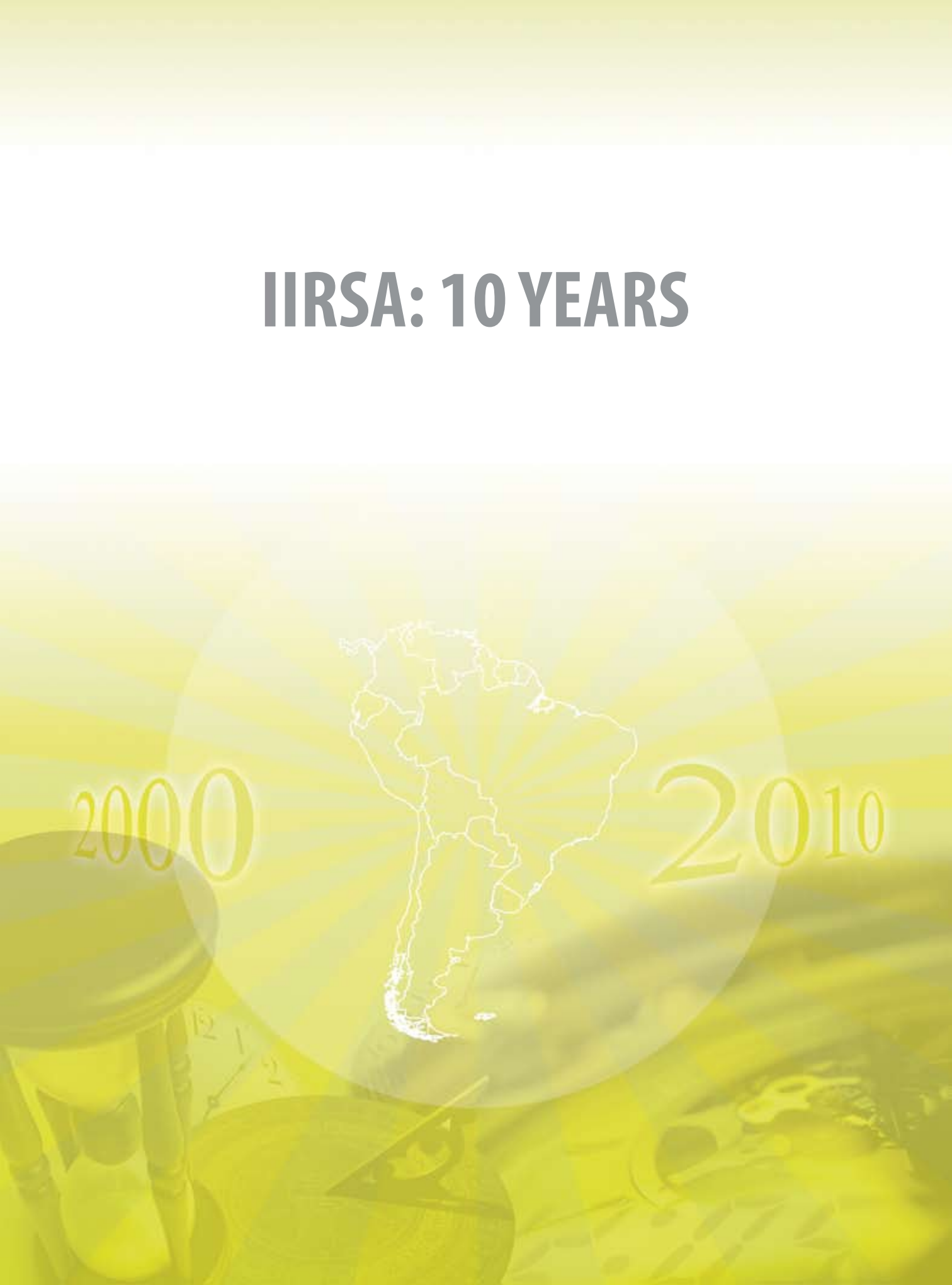
Initiative for the Integration of Regional Infrastructure in South America	http://www.iirsa.org
Institute for the Integration of Latin America and the Caribbean	http://www.iadb.org/intal
Inter-American Development Bank	http://www.iadb.org
Strategic Management Information System	http://www.sige.iirsa.org
Union of South American Nations	http://www.pptunasur.com
United Nations Statistics Division	http://unstats.un.org/unsd
World Bank	http://www.worldbank.org
World Trade Organization	http://www.wto.org

LIST OF ACRONYMS

AIC	Implementation Agenda Based on Consensus
ALADI	Latin American Integration Association
ALBA	Bolivarian Alliance for the Peoples of Our America (Alianza Bolivariana para los Pueblos de Nuestra América)
ASEAN	Association of Southeast Asian Nations
CACM	Central American Common Market
CAF	CAF, Development Bank of Latin America
CAN	Andean Community of Nations
CARICOM	Caribbean Community
CCT	Technical Coordination Committee
CDE	Executive Steering Committee
CELADE	Latin American and Caribbean Demographic Centre
CNs	National Coordinations
COSIPLAN	Infrastructure and Planning Council
EASE	Strategic Environmental and Social Evaluation
ECLAC	Economic Commission for Latin America and the Caribbean
EIA	Environmental Impact Assessment
EID	Integration and Development Hub
EU	European Union
FDI	Foreign direct investment
FIRII	Integration Infrastructure Fund
FOCEM	Structural Convergence Fund of MERCOSUR
FONDEPRO	Fund for the Development of Regional Integration Projects
FONPLATA	Financial Fund for the Development of the River Plate Basin
FTAA	Free Trade Area of the Americas
GDP	Gross Domestic Product
GeoSUR	Geo-spatial Information Network of South America
GLI	Grubel-Lloyd Index
GTEs	Executive Technical Groups
HTM	High-technology Manufactures
ICTs	Information and Communications Technologies
IDB	Inter-American Development Bank
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
ILPES	Latin American and Caribbean Institute for Economic and Social Planning
IMF	International Monetary Fund
INTAL	Institute for the Integration of Latin America and the Caribbean
IPr-Lg	Production Integration and Logistics
IR	Percentage of Intraregional Exports

iRAP	International Road Assessment Programme
ISO	International Organization for Standardization
ITPs	Infrastructure Transnational Projects
LTM	Low-technology Manufactures
MERCOSUR	Southern Common Market
MSMEs	Micro, Small and Medium-sized Enterprises
MTM	Medium-technology Manufactures
NAFTA	North American Free Trade Agreement
NCP	Non-classified Products
NRM	Natural Resource-based Manufactures
OECD	Organization for the Economic Cooperation and Development
PAIGH	Pan American Institute of Geography and History
PP	Primary products
PPP	Purchasing Power Parity
PSIs	Sectoral Integration Processes
RoW	Percentage of Exports to the Rest of the World
SEA	Strategic Environmental Assessment
SIGE	Strategic Management Information System
SITM	Sistema Integrado de Transporte Masivo (Integrated System for Mass Transportation)
SMEs	Small and Medium-sized Enterprises
UNASUR	Union of South American Nations
UNDP	United Nations Development Programme
USA	United States of America
US$	American Dollars
VESA	Strategic Vision for South America
WTO	World Trade Organization

IIRSA: 10 YEARS



2000

First Summit Meeting of South American Presidents (Brasilia)
Creation of IIRSA
Meeting of Transport, Telecommunications, and Energy Ministers (Montevideo)
IIRSA Action Plan: Integration and Development Hubs and Sectoral Integration Processes, its main fields of action

2001

Round of national meetings
Preparation of a Business Vision for each Integration and Development Hub
Launch of the first Integration and Development Hubs
Diagnostic studies and work plans for each Sectoral Integration Process
First and Second Meetings of the Executive Steering Committee (Santa Cruz de la Sierra and Buenos Aires)

2002

Preliminary Identification of the projects in each Integration and Development Hub
First Meeting of National Coordinators (Brasilia)
Third Meeting of the Executive Steering Committee (Brasilia)

2003

First Planning Stage: Indicative Territorial Planning Methodology and structuring of IIRSA Project Portfolio
GTE Meeting on the ICTs Sectoral Integration Process
Launch of IIRSA website
Second and Third Meetings of National Coordinators (Buenos Aires)
Fourth and Fifth Meetings of the Executive Steering Committee (Caracas and Santiago)

2004

First Portfolio of South American Integration Infrastructure Projects
Publication of the book entitled Indicative Territorial Planning: IIRSA Project Portfolio 2004
GTE Meetings on the Instruments for Funding Regional Physical Integration Projects and Facilitation at Border Crossings Sectoral Integration Processes
Approval of the Implementation Agenda based on Consensus 2005-2010 by the Executive Steering Committee and the Presidents of South America
Fourth and Fifth Meetings of National Coordinators (Lima)
Sixth Meeting of the Executive Steering Committee (Lima)

2005

Strategic Objectives for 2006-2010
Special technical cooperation funds of the CCT
Regional Workshop and National Workshops on the Strategic Vision of South America (VESA)
Sixth and Seventh Meetings of National Coordinators (Buenos Aires and Asunción)
Seventh Meeting of the Executive Steering Committee (Asunción)

2006

Second Planning Stage: Indicative Territorial Planning, Strategic Environmental and Social Evaluation (EASE) Methodology, Production Integration and Logistics (IPrLg) Methodology, Methodology for the Evaluation of Transnational Infrastructure Projects, GeoSUR Program, Project Database, and Training Workshops
Strategic Management Information System (SIGE) to monitor the projects in the Implementation Agenda based on Consensus
Eighth and Ninth Meetings of National Coordinators (Buenos Aires and Quito)
Eighth Meeting of the Executive Steering Committee (Quito)

2007

Continuation of the work undertaken for the Second Planning Stage
IIRSA Project Portfolio update as of 2007
Tenth and Eleventh Meetings of National Coordinators (Montevideo)
Ninth Meeting of the Executive Steering Committee (Montevideo)

2008

Continuation of the work undertaken for the Second Planning Stage
IIRSA Project Portfolio update as of 2008
Training Workshop (Santiago)
GTE Meeting on South American Roaming
Twelfth and Thirteenth Meetings of National Coordinators (Buenos Aires and Bogotá)
South American Integration Leadership Forum (Cartagena)
Tenth Meeting of the Executive Steering Committee (Cartagena)

2009

Continuation of the work undertaken for the Second Planning Stage
IIRSA Project Portfolio update as of 2009 and its publication
GTE Meeting on South American Roaming
GTE Meeting on the Exports through Postal Services for SMEs Project
Online publication of IIRSA Project Database
Training Workshop (Buenos Aires)
Strategic Reflection Forum (Buenos Aires)
Creation of COSIPLAN within the framework of UNASUR
Fourteenth and Fifteenth Meetings of National Coordinators (Buenos Aires)
Eleventh Meeting of the Executive Steering Committee (Buenos Aires)

2010

Continuation of the work undertaken for the Second Planning Stage
IIRSA Project Portfolio update as of 2010 and its publication
Publication of Implementation Agenda based on Consensus 2005-2010: Assessment Report
Progress in studies related to border crossings and border integration
Nine documentary videos about projects included in IIRSA Project Portfolio (from 2005 to 2010)
Institutional video about the Ten Years of IIRSA
Sixteenth and Seventeenth Meetings of National Coordinators (Buenos Aires and Lima)

TECHNICAL COORDINATION COMMITTEE

www.iirsa.org