



# BULLETIN

FACILITATION OF TRADE AND TRANSPORT IN LATIN AMERICA AND THE CARIBBEAN



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## PHYSICAL INTEGRATION OF SOUTH AMERICA: RECENT PROGRESS

Processes of open regionalism and globalization should pay greater attention to physical integration, the limits of which today restrict their effectiveness, placing South America at a disadvantage compared to other regions around the world.

This edition of the FAL Bulletin provides information on the resolutions approved by the Second Meeting of Presidents of South America, Guayaquil, 26 to 27 July 2002, along with some of the papers presented at the technical meeting held 5 August 2002 and the conclusions reached at this meeting.

For more information, please visit the ECLAC Transport Unit's web site at: <http://www.eclac.cl/transporte/> or the CRIAS website at: <http://www.rotasintegracao.org.br/>

### CONCLUSIONS AND RESOLUTIONS APPROVED BY THE SECOND MEETING OF PRESIDENTS OF SOUTH AMERICA, GUAYAQUIL, ECUADOR, 26-27 JULY 2002

#### A. On the physical integration of South American space

- To work together to build an integrated space by strengthening the physical connections and harmonizing institutional, statutory and regulatory frameworks for achieving development, mitigating poverty and ensuring individuals receive the benefits of modern society.

- The interrelationship between infrastructure and development must be explored with a strategic, South American vision, based on the principle of an open regionalism and conditional on the results of an analysis using five underlying principles: geo-economic perspective, social sustainability, economic efficiency, environmental sustainability, and institutional development.
- The physical integration of South America will optimize the region's huge economic potential and its ability to compete, by adding value to its natural resources, favouring synergy and specialization in strategic sectors, and making it possible to improve income levels and the welfare of the region's populations.
- To do so, the presidents agreed to strengthen and improve integration, distribution of wealth and the reduction of poverty in South America, by applying active policies to speed sustainable economic growth, reduce external vulnerability, improve the distribution of wealth, and reduce poverty.

### **B. On the Initiative for Regional Infrastructure Integration in South America (IIRSA)**

- The heads of state reaffirmed the progress achieved within the framework of the Initiative for Regional Infrastructure Integration in South America (IIRSA), at the First Meeting of South American Presidents in Brasilia, September 2000, which identified 162 transportation, energy and telecommunications projects.
- They also underlined the priority of the so-called pillars of integration and development.
- They reaffirmed IIRSA's strategic importance and relevance, and its transcendence as a viable instrument for the region's multi-sectoral integration, at the same time as they ratified the broadest support for its implementation, to:
  1. Promote and facilitate South America's economic and social development and growth.
  2. Improve the region's international competitiveness, increase its participation in the world economy and be better prepared to face the challenges imposed by globalization; and,

3. Strengthen regional integration and cooperation by expanding markets, promoting the convergence of public policies, and achieving the social and cultural rapprochement of South America.

### **JOINT ECLAC-CRIAS MEETING ABOUT PHYSICAL INTEGRATION**

On 5 August 2002, a joint technical meeting organized by the South America Integration Routes Committee (CRIAS) and the Economic Commission for Latin America and the Caribbean (ECLAC) was held. Its purpose was to analyze recent progress toward South America's physical integration, especially with regard to the transportation sector, and relate this to the corresponding needs, taking into consideration the development of intra-regional trade and current financial conditions. The meeting brought together governmental and political authorities, representatives of transport operators' organizations, consultants, and private sector, academic and other representatives. A summary of some of the presentations follows:

**INFRASTRUCTURE: A DECISIVE FACTOR IN COMPETITIVENESS, LEGACY OF THE 1990S**, presented by José Antonio Ocampo, ECLAC executive secretary:

**Deficient supply of paved roads.** Mr. Ocampo underlined the serious deficiencies in the supply of paved roads in the region, compared to the Organisation for Economic Co-operation and Development (OECD), where there are about 10 km of paved roads for every 1000 inhabitants. In Latin America, this figure ranges from 0.5 to 2 km /1000 inhabitants (for example, Argentina and Uruguay, 2 km/1000 inhabitants; Brazil and Chile, 1 km/1000 inhabitants; Central America, Colombia, Peru, Bolivia, 0.5 km/1000 inhabitants.)

**The three elements critical to regional integration:** 1) Development of the physical infrastructure and joint regulation of infrastructure services; 2) convergence of the regional integration processes predating the Free Trade Area of the Americas (FTAA), that is, the Andean Community and the Southern Common Market (Mercosur); 3) the tendency for macroeconomic instability (volatile bilateral exchange rates: Brazil-Argentina, Colombia-Venezuela).

**The sectoral development-transportation agenda:** Cost reductions by improving transportation infrastructure are far greater than any that could be achieved through trade regulations; progress in maritime transportation in South America; highway transport, which is lagging behind, and suffers from enormous disparities.

The private sector's ability to contribute to cost cutting depends on the quality of routes; poor quality limits private sector investment; the public sector is the only player able to break the vicious circle: lack of routes - less freight - less investment in routes and services. Transportation services were conceived of in terms of domestic markets and shipping to ports. Routes sought to optimize domestic exchange. It is necessary to plan transportation routes as a function of trade between countries, harmonizing regulations among countries and streamlining border procedures.

**Energy:** The gas pipeline sector has made the most progress; regional trade in gas rose by 224% in the past five years and has centred on four countries: Brazil and Chile as importers and Argentina and Bolivia as exporters. The rise in trade in electric power within the region occurred in the late 1980s, with a 537% increase between 1985 and 1990, compared to just 38.4% between 1995 and 2000. By 2000, most of the region's countries exchanged electric power with their neighbours. The main exporter was Paraguay, while the main importer was Brazil.

Trade in electricity occurs primarily among the Southern Common Market (Mercosur) countries, and electric power interconnection offers attractive opportunities throughout South America. This reflects five factors: 1) the range of times at which peak demand occurs; 2) the complementary nature of hydrological regimes; 3) the geographic proximity of transmission systems; 4) the possibility of displacing investment; and 5) the greater safety of electric power systems. Electric power coverage, however, suffers from a deficit in rural and marginal urban areas. In this sense, international cooperation and integration can point the way toward greater rural electrification, but it is necessary to have a more coherent regulatory framework among countries.

**Physical integration: The challenges to come**, according to Brazil's Transportation Minister, João Henrique de Almeida Sousa:

- To establish priorities and detail projects, in the spheres covered by the technical group for each IIRSA axis.
- To establish priorities and detail sectoral projects, in the spheres covered by the technical group for each sectoral process.
- To expand the institutional capital for supporting this process.
- To expand the IIRSA initiative to include private business.
- To make financing and joint public-private ventures viable.
- These last two points represent the greatest challenge and the greatest source of opportunities. He called on ECLAC and the Integration Routes Committee to unite all South American governments behind this promising new approach.

**The Bolivia-Chile commission for ongoing integration.** Chile's public works undersecretary, Juan Carlos Latorre, indicated that: "Bolivia and Chile have managed to create an ongoing commission for physical integration, an initiative that remained an idea for many years and that at the last IIRSA meeting in Brasilia finally received formal approval from both countries, in the presence and with the support of all of South America's public works and transportation ministers. I emphasize this because it is a concrete initiative that will allow us to deal with the issues involved in integration with Bolivia within a much broader framework than could be applied to a specific initiative. And that will contribute to the consolidation of two routes for integration with Brazil (Mato Grosso, Mato Grosso do Sul), the Inter-ocean integration route, which goes through Corumbá or Cuiabá, Santa Cruz, Bolivia, and finally heads into Peru and/or Chile. This initiative looks more and more likely to become a reality thanks to bilateral or multilateral efforts that we have been able to develop within the IIRSA framework in recent years."

**Multiple connections via Ecuador:** Ecuador's vice-minister of public works, Gustavo García, pointed out that: "Ecuador has four Pacific ports and the possibility of three points in the Amazon, connecting far more securely with Manaus, Brazil, and the Atlantic. It has a 5600-kilometer network of roads that connects the country from north to south, east to west. In reality, any alternative is available because it's also basically built, but the country hasn't taken a conservation approach. Ecuador's master road plan (*Plan Maestro Vial*) centres on a good standard of conservation for the whole network, so transportation circulates freely and without any problems from the Pacific to the Amazon and from Colombia to Peru, along any of the routes that seems the most suitable and the cheapest."

### **THE HARMONIC DEVELOPMENT EQUATION**, presented by the CRIAS:

"Latin America needs an instrument for transforming competitiveness and potential energy into kinetic energy. This instrument involves providing the region with physical infrastructure." CRIAS

$$DA = (DT + DS + DE).k$$

**(DT) TECHNICAL DEVELOPMENT** = PHYSICAL INFRASTRUCTURE + ENERGY + COMMUNICATIONS + LOGISTICS

**(DS) SOCIAL DEVELOPMENT** = EDUCATION + HEALTH CARE + ENVIRONMENT + INTEGRATED POLICIES

**(DE) ECONOMIC DEVELOPMENT = TECHNICAL DEVELOPMENT + PRODUCTIVITY**

**(DA) HARMONIC DEVELOPMENT = SOCIAL DEVELOPMENT + ECONOMIC DEVELOPMENT**

The variable "k" will be a function of the COMPETITIVENESS of each country or group of countries.

### **ECLAC CONCLUSIONS REGARDING THE JOINT MEETING**

- The Second Meeting of Presidents has reaffirmed the mandate initially expressed in the first meeting (September 2000) to carry on with the physical integration of South America as an essential factor in promoting the region's economic, social and cultural development.
- The work carried out within the framework of the IIRSA, in favour of identifying major routes and their implementation through project development, has made noteworthy progress in the past two years, particularly with regard to the three priority routes, analyses of others, management and methodological framework development, etc., and this major initiative has enjoyed broad support from the region's governments.
- Transport infrastructure development plans in countries such as Brazil, Chile and Ecuador are developed taking into account the essential need for improving their integration with neighbouring countries.
- It is tremendously important to seek project financing mechanisms that relieve the restrictions imposed by different countries' borrowing from international banking institutions.
- Private sector participation in financing and implementing physical integration projects should be promoted. Similarly, mechanisms should be sought in which project beneficiaries contribute equally to the costs of carrying out works.
- The high costs of transportation negatively influence the competitiveness of South American countries' products in international markets. Similarly, delays and bureaucracy at border crossings make intra-South American trade unnecessarily expensive and often could be reduced through institutional changes that would be relatively simple to implement.
- By de-regulating maritime cabotage, it would be possible to reduce the transportation costs of intra-subregional trade, using the European Union's experience in this sense as a model.
- The railway plays a major role in the transportation of South American exports, but is

virtually insignificant when it comes to South American integration. Its role in the latter could be reinforced by the use of more multimodal options, technical standardization and greater cooperation among private players, now responsible for operations for almost every railway in the region.

- The processes inherent to open regionalism and globalization should also pay more attention to physical integration, which is currently limited and therefore has hampered the effectiveness of these processes, placing South America at a disadvantage compared to other regions in the world.
- In the energy sector, the gas subsector has made the most progress as far as physical integration is concerned. In general, to get the most out of the potential benefits of greater integration, more attention should be paid to regulations, for example, to contain the power of companies that dominate the market. It would be interesting to consider the creation of supranational regulatory bodies, similar to those that exist in Europe.

***Fourth International Congress on South America Integration Routes***, 12-13 November 2002, at the main office of the national manufacturing confederation, Brasilia, DF, Brazil.

For more information, please see:  
<http://rotasintegracao.org.br/ivseminario/index.htm>