



# Organising the South American Space Regionalism in times of transnationalisation

Stefano Palestini Céspedes

Thesis submitted for assessment with a view to  
obtaining the degree of Doctor of Political and Social Sciences  
of the European University Institute

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European University Institute  
**Department of Political and Social Sciences**

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*To Amanda and Mario.*



## Abstract

What makes governments decide to engage in cooperation with their neighbours to deliver regional public goods? Under which conditions do they decide to keep this cooperation informal, and when do they instead prefer to formalise it through an international treaty? Why do government seem to be more capable to produce regional public goods in some policy-areas than in others? The present research addresses these questions by analysing the contemporary South American-wide regionalism from 2000 to 2014, the period in which the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) was created and later formalised into the Union of South American Nations (UNASUR). First, the analysis of the intergovernmental negotiations shows that an informal institution such as IIRSA better accommodated the preferences of governments that were searching for and experimenting with a collective response to an external challenge, whereas a formal institution such as UNASUR better accommodated the preferences of governments that wanted to avoid the emergence of competitive regional projects and the defection of some states. Second, the thesis examines the interactions between governments and transnational actors and shows that regional public goods are more likely to be produced in policy-areas in which governments were able to broker non-state transnational actors to implement basic intergovernmental consensus. In answering these questions, the thesis offers an empirically informed assessment of contemporary South American regionalism without following either the over-optimistic or over-pessimistic viewpoints that dominate the current academic debate.

**Keywords:** regionalism – South America – UNASUR – institutional design – regional development banks – regional policies and public goods





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## List of Acronyms

ALADI: Latin American Integration Association

ALBA: Bolivarian Alliance of the People of Our America

ASEAN: Association of Southeast Asian Nations

BNDES: Brazilian National Bank of Economic and Social Development

CACM: Central American Common Market

CAF: Andean Development Bank (Latin American Development Bank)

CAN: Andean Community

CAMEX: General Secretary of Integration and Economic Affairs (Ministry of Foreign Affairs of Brazil)

CARICOM: Caribbean Community and Common Market

CASA: Community of South American Nations

CCR: Reciprocal Credit and Payment Agreement.

CEB: Brazilian Companies Coalition

CELAC: Community of Latin American States

CEPAL/ECLAC: United Nations Economic Commission for Latin America and the Caribbean

CNI: National Confederation of Industries (Brazil)

COSIPLAN: Council of Planning and Infrastructure of UNASUR

EAI: Enterprise for the Americas Initiative

FTAA: Free Trade Area of the Americas

FONPLATA: Fund for the Development of the River Plate Basin

IDB: Inter-American Development Bank

ILADI: Latin American Integration Association

IIRSA: Initiative for the Integration of Regional Infrastructure in South America

INTAL: Institute for the Integration of Latin America and the Caribbean (Inter-American Development Bank)

ISI: Import-substitution industrialization

LAFTA: Latin American Free Trade Association

MERCOSUR: Common Market of the South

NAFTA: North American Free Trade Area

OAS: Organisation of American States

OLADE: Latin American Organisation of Energy

PDVSA: Petróleos de Venezuela (Venezuelan Oil Company)

PPP: Private-Public-Partnership

RDB: Regional Development Banks

RPG: Regional Public Goods

SADC: South African Development Community

SAFTA: South American Free Trade Area

TCP: People's Trade Agreement

UNASUR: Union of South American Nations

UNECA: United Nations Economic Commission for Africa

YPFB: Yacimientos Petrolíferos Fiscales Bolivianos (Bolivian Oil Company)



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## INTRODUCTION

During an international seminar organised by the UN Economic Commission for Latin America and the Caribbean (CEPAL) in Santiago de Chile in November 2013, a notable exchange between two leading figures of South American politics took place. The former President of Brazil, Inácio Lula da Silva was giving a speech about the challenges of South American integration. At the end of his talk, another former President, the Chilean Ricardo Lagos, intervened with some remarks that sharply contrasted with the rather optimistic vision Lula had described. Lagos voiced his concerns about what he considered to be the progressive fragmentation of South America into two blocks, which he suggestively grasped through the metaphor of a “New Tordesillas”, in an allusion to the treaty whereby the Castilian and Portuguese crowns divided South America in halves in 1494. According to the former Chilean President, the creation of the Pacific Alliance and what he considered to be the increasing “closure” of the MERCOSUR block have fragmented the region, for the second time in history, resulting in territorial strips that do not communicate with each other: South American integration was, in his view, in jeopardy.

The episode is notable for several reasons. First, after a long time, CEPAL – once the think-tank of Latin American integration – was hosting again a high-level seminar with foremost South American political leaders. The CEPAL auditorium crystallised, at least for a short moment, into a sort of public sphere where two opposing visions about the historical juncture of South American regionalism were openly exposed to an audience made up of policy-makers, politicians and some social scientists. Second, both political leaders had good arguments to claim exactly the opposite. Lula could ground his more optimistic vision about regionalism on the creation of new regional organizations, the enlargement of MERCOSUR membership and the successful regional interventions in various intra-regional and domestic tensions in Bolivia, Ecuador, Paraguay, Colombia and Venezuela. Lagos concerns, on his part, were substantiated by the increasing geographic and ideological distance between liberal market economies oriented towards the commercial integration with the Asia Pacific, and protectionist-market economies stubbornly striving to complete a custom union at the Atlantic side. Last but not least, these two opposite visions came from two leaders that can be equally situated at the center-left of the regional political spectrum.

But probably the most remarkable aspect of the episode lies in the reply given by Lula to Lagos’ comment. According to the Brazilian leader, the solution to the New Tordesillas juncture that Lagos was gloomily depicting was to strengthen the Union of South American Nations (UNASUR), the institutional arrangement that gathers together all twelve South American states, gathering around the same table the more liberal-oriented members of the Pacific Alliance together with the socialist-oriented members of the Bolivarian Alliance (ALBA).

Unfortunately, the time slot allocated for the discussion finished there without giving Lagos a chance to respond and without time to hear Lula's argument as to why UNASUR was to be considered the remedy to the New Tordesillas. The seminar at CEPAL and the exchange of visions between Lagos and Lula ended leaving several questions in the air, questions that have kept scholars of South and Latin American regionalism busy during the last ten years, and that also motivate the present research.

### **Research questions: Explaining institutional design and outcomes**

What is UNASUR? It is the last stage of an institutionalisation process that started in September 2000 when, for the first time in history, the twelve heads of state including the two small states of Guyana and Surinam were convened by the President Fernando Henrique Cardoso to meet in Brasilia. Cardoso's invitation took South American governments by surprise. Originally, the meeting was supposed to be the celebration of 500 year anniversary of Brazil's discovery by the Portuguese. However, it ended up being the first in a series of regular and extraordinary South American summits that have continued to date and constitute the intergovernmental pillar of the newly born South American-wide regionalism. During the Brasilia summit, the Uruguayan President Jorge Batlle protested that he had been invited to celebrate a "baptism" – the discovery of Brazil – that turned out to be a "wedding". In a similar mood, Ricardo Lagos, by then president of Chile, asked his colleague and friend Cardoso whether in the following years they were also going to celebrate the 501st, the 502nd and the 503rd Brazil's anniversaries. The mix of surprise and suspicion manifested by these presidents was due to the fact that for the first time the South American space was being cut off from the larger geography of Latin America, so far the main reference of integration projects<sup>1</sup>.

Despite the suspicions of some presidents, the Brasilia summit ended up with the blueprint of the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA), an institutional arrangement focused on a reduced number of policy areas aimed at bringing about regional infrastructure. This narrow and informal institution became part of the Community of South American Nations in 2004, and was eventually formalised and widened into UNASUR, a regional arrangement that, by now, covers twelve functional areas ranging from energy to defence and from health to drug-trafficking governance.

During the last decade, an intense academic debate has emerged about how to describe and assess both the limits and potential of UNASUR. Academics, however, have tended to replicate the polarised views of politicians, somewhat illustrated in the Lula-Lagos exchange, falling either into over-optimistic interpretations that transform a contingency – e.g. the election of left wing governments in the region, or the rise of heated anti-US rhetoric – into a property (see Motta-Veiga 2007; Ruggirozzi 2011; Ruggirozzi and Tussie 2012;

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<sup>1</sup> Personal communication with Ricardo Lagos, 16<sup>th</sup> December 2013.

Espinosa 2014; Strange 2014) or into over-pessimistic interpretation that take the lack of supranational institutions *alla European* as an indicator of failure and lack of achievements (see Malamud and Schmitter 2007; Malamud and Gardini 2012; Doctor 2011; Montecinos 1996).

But what these broad views overlook in their assessments is that UNASUR is, in fact, the last stage of a process in which both the **institutional design** and the **outcomes** produced in the various policy areas have undergone significant variation over time; and this variation remains unexplained. In terms of institutional design, IIRSA was created in 2000 as an informal institution. It consisted of a network of technical ministries of infrastructure, public works, energy and planning coordinated by three regional development banks. Lacking a constitutive agreement or protocol, IIRSA's principles, rules and procedures were encompassed in technical Work Plans elaborated by the development banks that were responsible to convene for the inter-ministerial meetings and set up the portfolio of projects to be implemented. IIRSA did not have a regional bureaucracy or a regional budget. Eight years later, UNASUR was formalised by a Constitutive Treaty that provided legal personality to the process. The Treaty codified UNASUR's structure and decision-making process with well-defined mandates for each of its four organs, including a General Secretariat that counts with a bureaucracy, a budget and an official address. IIRSA was subsumed under the UNASUR Council for Infrastructure and Planning (COSIPLAN) with its own internal regulation, and an Energy Council was created with the aim to elaborate a South American Energy Treaty. But why did national governments decide in 2008 that a formal regional organisation would better serve their interests than the informal and technical IIRSA?

The variation of outcomes across policy areas remains also overlooked by the dominant positions in the current academic debate on South American regionalism. The over-optimistic perspectives paint UNASUR as a post-neoliberal organisation pursuing political integration projects based on the principles of solidarity and redistribution. They pay little attention on the fact that UNASUR is indeed a multipurpose organisation comprising several functional areas with dramatically different track records in terms of outcomes. Similarly, over-pessimistic perspectives dismiss UNASUR outright, without looking at those policy areas in which regional public goods are being systematically delivered. In fact, while some UNASUR sectoral councils only exist on paper, others are implementing transport connectivity infrastructure programmes, regionally integrated health programmes, and defence cooperation programmes. But why are South American states more capable of producing regional public goods in some areas than in others?

The present thesis seeks to explain the change in institutional design and the variation in outcomes by answering the following two research questions:

**Q1:** Why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)?

**Q2:** Why have outcomes been higher in some policy areas (transport connectivity) than in others (energy)?

My assumption is that if we can explain why the institutional design of South American regionalism has changed over time and why its outcomes vary across policy areas, we might better understand not only why UNASUR came about but also its potential and limits as a regionalism project. In this way, these two research questions constitute a specific empirical window to address the more general dilemmas of Latin and South American regionalism that persistently push political actors and scholars alike to wonder about the capacity of developing societies to bring about an autonomous versus a dependent development and to keep the integration project resilient in spite of its constant crises (see Dabène 2009; Dabène 2012a; Sanahuja 2012; Rivera and Briceño-Ruiz 2013).

In answering the two research question this thesis directly contributes to the current debate on South American regionalism taking a third position between those considering contemporary regionalism as “declaratory” and those that see in organisations such as UNASUR indicators of a “post-hegemonic” or “post-neoliberal” era. According to the first group of scholars, South American regionalism (and UNASUR in particular) has not moved beyond a high-toned rhetoric that delivers no policy outcomes: UNASUR is portrayed as nothing more than a forum for inter-presidential dialogue. According to the second group, South American regionalism is going through a new historical phase leaving behind the open regionalism of the 1990s: UNASUR is the expression, at the regional level, of the action of leftist governments and social movements at the domestic level. The thesis enters this debate at the middle ground of these extremes. First, it argues that South American regionalism is not purely declaratory since it has demonstrated a capacity to deliver regional public goods in several, albeit not all policy-areas. Second, the institutional change in contemporary South American regionalism is explained by different cooperation problems at the intergovernmental level, rather than by the action of leftist-governments and social movements as the post-neoliberal argument suggests.

## Research Design

The thesis focuses on explaining the change in institutional design and the variation in outcomes as the dependent variables of the research. This methodological choice situates the research in the broader field of comparative regionalism focusing on specific aspects of regionalism that can be operationalized and compared (see Closa 2015). At the minimum, regionalism entails the capacity of nation-states to deal with transnational issues that go beyond the scope and resources of single countries that, at the maximum, can become embedded in transnational or supranational political and economic structures. While the emergence

of a supranational polity is a hitherto distinctive trait of Europe, attempts at governing transnational issues have emerged in most corners of the globe with various goals, means and achievements encouraging the consolidation of a set of theoretical approaches that seek to explain the emergence, institutional design and outcomes of regional governance (see Laursen 2003, 2010; Solingen 2008; Warleigh-Lack and Van Langenhove 2011; Bruszt and McDermott 2014; Börzel and Risse 2016).

I have traced the change of institutional design and the variation in outcomes in two policy areas – transport connectivity and energy – that were investigated as case studies during the period 2000-2014. As stated above, both policy areas were at the core of South American-wide regionalism from its inception in 2000 and, therefore, there is a period of fourteen years to trace the factors that explain change in the design and variation in outcomes in both areas. Other policy areas comprised in UNASUR are much more recent, such as, for instance, defence cooperation (2008) or drug-trafficking (2010) and, therefore, the timespan is not long enough to assess variation in outcomes or institutional design. Furthermore, transport connectivity and energy are not only the “oldest” policy areas but probably also the ones that present the more significant variation in outcomes: transport connectivity is taken as a “positive case” characterised by a higher provision of regional public goods, whereas energy is a “negative case” with considerably lower outcomes.

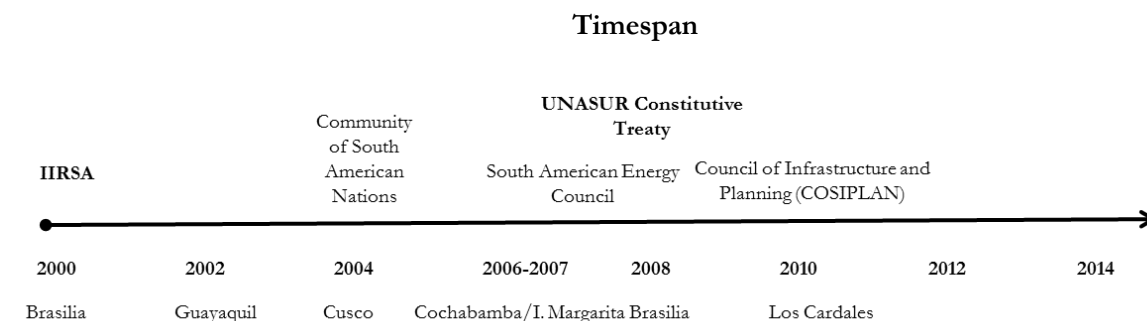
I analyse regional cooperation in both policy areas through an “intergovernmental-transnational approach”. In Latin and South America, regionalism has been predominantly considered a purely intergovernmental or even inter-presidential process, in which the national executives are the only relevant political actors. Collective presidentialism and presidential diplomacy have been seen as the factors behind the emergence, institutional design and production of outcomes throughout the history of South and Latin American regionalism (see Malamud 2003; Cason and Powell 2009; Dabène 2012a). This thesis starts from the assumption that the intergovernmental dynamics are certainly *necessary* but not *sufficient* to explain the variation in institutional design and outcomes in South America and particularly within the framework of UNASUR. Consequently, I also include in the analysis the role of transnational non-state actors in designing regional institutions and delivering outcomes (see Bruszt and McDermott 2014; Marks 2014).

The choice of an “intergovernmental-transnational approach” has theoretical implications for the field of comparative regionalism. This thesis shares with liberal and power-based approaches the analytical focus on governments – understood as reasonable and purposeful actors – and their preferences. However, it goes beyond these approaches by bringing to the analysis transnational actors such as regional development banks as important brokers of governments and private actors to implement regional public goods. The focus on transnational technocratic actors brings this thesis closer to the neofunctionalist arguments in European Integration Theory (see Haas 1958; Haas and Schmitter 1964; Fligstein and Stone-Sweet 2002). However, this

thesis does not share the neofunctionalist assumption that the delegation of sovereignty to supranational actors is the only engine and purpose of regionalism<sup>2</sup>. The thesis shows that South American governments did not delegate sovereignty to the development banks when IIRSA was created. Yet, they have still played a fundamental role in the transition from words (intergovernmental declarations) to deeds (regional public goods) contributing to the institutionalisation of regionalism, without supranationality.

At the intergovernmental level, I have analysed the Presidential Summits and their declarations as evidence of the convergence or divergence of the government’s preferences. At the transnational level, in turn, I have analysed the interaction between governments and transnational actors, particularly regional development banks and market actors such as firms and business associations. The data sources used for the analysis are both, primary and secondary and were collected through extensive fieldwork. I carried out 42 interviews with high representatives of national executives, bureaucrats from regional organisations, policy-makers, representatives of business associations, representatives of regional development banks, academics and journalists. The interviews were carried out in Brazil, Ecuador, Chile, and Argentina. In addition, I analysed 120 documents including policy-reports, official documents of the development banks and the General Secretariat of UNASUR and working papers. Official statements published in newspapers as well as memoirs written by relevant political actors also helped to better understand the intergovernmental dynamics and contextualise the summits: they shed light on the “backstage” of the intergovernmental negotiations.

The figure below shows the timespan of the research. The main South American Summits with effects on the institutionalisation of regionalism in the two policy areas under study are depicted below the timeline. The main points of institutionalisation of both policy areas are displayed above.



<sup>2</sup> According to the neofunctionalist definition, regional integration is “a process of how and why nations states voluntarily mingle, merge and mix with their neighbours so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflicts among themselves” (Haas 1971).



The interviews and documents that are directly quoted as evidence of the arguments throughout the thesis are identified by an “I” and a “D” respectively plus a number. Information taken from the press is identified by a “P” and a number. The complete list of Interviews, Documents and Press articles is provided in the Annexes.

## Plan of the Thesis

The thesis is composed of three Parts. Part I sets out in detail the research design of this investigation. In Chapter 1 I offer some background information that provides the common grounds for the argument of the thesis. I define basic concepts, such as region and regionalism and contextualise the period analysed in this research (2000-2014) within the broader *acquis* of Latin American regionalism (1960-2014). Chapter 2 introduces the research questions and operationalises the two dependent variables: institutional design and outcomes. Chapter 3 presents the different theoretical approaches of the field of comparative regionalism that explain variation in institutional design and outcomes. Drawing on these approaches, I sketch out the intergovernmental-transnational approach adopted in this research.

Part II addresses the first research question: why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)? I respond to this first question through an intergovernmental analysis looking at two junctures: 1998-2000 and 2006-2008. Chapter 4 looks at the 1998-2000 juncture in which the presence of an external challenge triggers the search for a regional collective response that is translated into an informal arrangement designed to bring about collective benefits within a flexible and loose framework that does not compel governments to invest in a regional bureaucracy and become locked in binding commitments. In a nutshell, an informal institution better accommodated the preferences of governments that were searching for and experimenting with a collective response to an external challenge. Chapter 5, in turn, looks at the 2006-2008 juncture, showing how the informal arrangement creates the room for competing collective projects that harm the basic consensus reached. At this new juncture, governments opt for formalising cooperation as a way to enhance the credibility of collective commitments and, at the same time, diminish the chances of competing projects to jeopardise the basic intergovernmental consensus reached. In a nutshell, a formal institution better accommodates the preferences of governments that want to stick to the intergovernmental consensus and avoid a scenario in which competitive regional projects emerge and some states defect.

Part III addresses the second research question: why have outcomes been higher in some policy areas (transport connectivity) than in others (energy)? I resolve this second question through a transnational analysis. Chapter 6 shows that in the area of transport connectivity the basic consensus reached at the intergovernmental level is translated into a viable policy-frame, mixing state planning with market implementation that permitted to broker transnational actors and implement regional public goods. Chapter 7 shows that in the policy area of energy, the minimum intergovernmental consensus is broken by initiatives

that exclude liberal-market economies in the region. Furthermore, energy cooperation is based on a policy-frame that excludes the participation of transnational actors failing to implement regional public goods and pushing the negotiation of a South American Energy Treaty into a deadlock. Chapter 8 closes the thesis with some final remarks that recapitulate the limits and potential of contemporary South American regionalism in the light of the findings of the research. In addition, the chapter sketches out future research questions that can extend the approach and results of this thesis through a cross-regional comparison.

## **PART I**

### **Explaining institutional design and outcomes in South American Regionalism**



# CHAPTER 1

## Regionalism in Latin and South America

### Introduction

As Louise Fawcett has rightly pointed out, a regional awareness and the desire by the nation-states to ‘make the best’ of their regions, has long predated the existence of formal regional organisations (Fawcett 1995: 11). When the awareness of sharing a similar geographical space is transformed into concrete policies, joint cooperation programmes and eventually institutions and regional public goods, we move from the notion of region to the phenomenon of “regionalism”. The salience of regionalism as a political phenomenon has increased hand in hand with the upturn of transnational issues that cannot be tackled by a single nation state and require some sort of cooperation with neighbouring countries and with transnational non-state actors. The ways in which governments respond to transnational challenges as well as the way in which governments and transnational actors interact to yield such responses, constitute the rich empirical object of the academic field of comparative regionalism.

In Latin and South American regions, regionalism has a modern history of nearly six decades in which governments and transnational actors have experimented with policy ideas and designed regional institutions to respond to challenges stemming from within the region as well as from the global political economy (Dabène 2012b and 2009; Rivarola and Briceño-Ruiz 2013; Palestini 2012). Many of these institutions have evolved over time changing their institutional features, mandates and memberships, yielding a complex and overlapping regional architecture (Nolte 2014; Malamud 2013). The purpose of this first chapter is to take stock of this *acquis* of Latin and South American regionalism providing a common ground and a contextualisation to the shorter timespan that constitute the object of study of the rest of the chapters of the thesis.

The chapter has two main sections. In the first one (1.1), I define the two broadest concepts of the thesis: region and regionalism. Following a consensual definition, I define regionalism as a state-led project of cooperation and policy coordination among governments and non-state actors located within a particular geographical region. The second section (1.2) turns to an historical overview of the phases of Latin American regionalism. Although it is possible to distinguish a “*developmentalist* regionalism” influenced by the ideas of a transnational actor - CEPAL - between 1960 and 1980, and an “open regionalism” that goes from the 1980s onwards, *developmentalist* and neoliberal features tend to overlap and mix. The chapter argues that this overlapping is evident in the contemporary phase of Latin and South American regionalism that makes

empirically imprecise to describe it as post-neoliberal: purely open-regionalist projects such as the Pacific Alliance coexist with mixed projects such as MERCOSUR and CAN and with more experimental types of regional governance such as ALBA and UNASUR.

### 1.1. Regions and regionalism

Academic fields emerge and develop around sets of core concepts and their maturity is reflected in the consensual use that the epistemic community of scholars make of any such concepts. In this regard, the academic field of comparative regionalism shows mixed traits (see Closa 2015). A long list of region-related concepts has emerged in the last decades alongside the better-established core concepts such as regional integration or regionalism: regionalisation, regioness, region-building, regional governance, regional complexes, regional regimes, etc. While some of those new concepts often lack clear definitions and sometimes have interchangeable meanings, others have become the flag of specific approaches or schools. For instance, neofunctionalism has somewhat appropriated the old concept of *integration*, and as a reaction the so-called New Regionalism Approach has invented the notion of *regioness* (see Hettne, Inotai and Sunkel 2001; Söderbaum 2012; Hettne 2005). This section will briefly define some basic concepts that constitute the common ground of the rest of the research.

It would be sensible to begin by defining the term **region**. The various definitions available can be grouped in two encompassing sets: the positivist and the constructivist definitions. Both groups have as a minimum common denominator the notion that region implies a geographic space shared by contiguous nation-states. Positivist definitions add, however, that regions consist also of some property that can be somewhat measured. Normally this property is represented as a sort of cultural, linguistic, political or economic “cohesiveness” (Russett 1967), or “interdependency”. In Joseph Nye’s classic definition, region is a limited number of states linked together by a geographical relationship and by a degree of mutual interdependence (Nye 1968). Constructivist definitions of region, in contrast, assume that regions are neither fixed by geography nor pre-defined by any objective property. They are socially *constructed* and politically *contested* (Hurrell 1995: 39; Hemmer and Katzenstein 2002). There is not an unambiguous property or set of properties that distinguish regions *a priori*; regions are, instead, the *emergent property* of the social interaction and the political struggle that compose social life. They are, therefore, as much geographic as arbitrary, and their borders are as much physical as susceptible to social interpretation and political change (Duina 2006; Kühnhardt 2010).

The distinction between positivistic and constructivist definitions of regions should not be exaggerated. Geographical accidents and interdependencies of various kinds certainly inform and condition what social and political actors make of a region in terms of, for example, regional boundaries or membership. South

America is a good example of the way in which the more positivistic and the more constructivist definitions play out. South America has rather well defined geographical contours when compared, for instance, with the more desegregated territory of Southeast Asia: it is a compact territory bordered by the Pacific Ocean, the Atlantic Ocean and the Caribbean Sea that extends from the Darien watershed on the north (Colombia-Panama border) until the Fire Land on the south.

Although geographically distinct, South America has been contested in the imaginary of South American elites. For Spanish speaking countries the primary identity reference has been the broader notion of Latin America, which comprises Mexico, Central America, some Caribbean Islands and South America. For the Brazilian political elite, however, Latin America has been and remains an uncomfortable regional reference. From the viewpoint of the Brazilian elite, “Latin America” is an ambiguous, misleading, and unscientific ethnic concept imposed by Europe (I1; I9; I2; see also Teixeira 2012)<sup>3</sup> and, in fact, in the 1990s the Brazilian diplomacy firmly endorsed the notion of South America as the main regional reference instead of Latin America. The accession of Mexico to NAFTA reinforced the idea – especially among Brazilian diplomats - that “the Americas” were divided in three sub-regions: North America, Central America and the Caribe, and South America and that only the last one was able to be filled with some sort of political meaning (Cardoza 2010; Spektor 2010; Teixeira 2012).

In this way, it is possible to say that NAFTA “created” the region of South America. A Brazilian president put it in these terms:

I never believed in the possibilities of a Latin American integration and even less a Caribbean integration. It is not possible. Therefore, in my view, our geographical and historical space is South America [...] the space that we [Brazilians] have to organize is here (Fernando Henrique Cardoso, quoted in Menezes 2013)

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<sup>3</sup> Behind the belief that Latin America is a “French invention” is usually the argument that the French used the idea of a “Latin race” to justify the French military intervention in Mexico against the US in the 1860s. The first academic work using the concept was *Situation de la latinité* by L.M. Tisserand (1861), but the concept of Latin America was already used by Spanish American writers, like the Colombian poet José María Torres de Caicedo. Latin America was synonymous with the Spanish American republics, excluding *de facto* Brazil – which was Portuguese-speaking and also a monarchy by the time (Teixeira 2012). I would interpret these statements as indicators of the extent to which Latin America is an *uncomfortable* concept for important parts of the Brazilian elite and intelligentsia. This might be surprising because a clause in the Brazilian constitution affirms that “The Federal Republic of Brazil shall search the economic, political, social and cultural integration of the people of Latin America, seeking the formation of a Community of Latin American Nations” (Constitution of the Federal Republic of Brazil, Title I, Art. 4).

When we emphasise the attempts of social actors to give political content to what would be otherwise purely geographic entities, we move from the notion of region to the concept of regionalism. **Regionalism** became part of the vocabulary of political science and international relations after the end of the Second World War, when political actors undertook more systematic attempts to shape the geography and the interdependencies of the regions where they were embedded. Following a consensual definition, I define regionalism as a state-led project of cooperation and policy coordination among governments and non-state actors located within a geographical region (Mansfield and Solingen 2010; Hettne and Söderbaum 2000; Gamble and Payne 1996; Breslin, et al. 2002; Börzel et al. 2012). In the concept of regionalism, the constructivist dimension necessarily stands out: regionalism involves an articulated idea of creating a region with specific goals in mind (Ba 2009: 348; Palestini and Agostinis 2014). Furthermore the state and non-state actors that engage in regionalist project do so on voluntary bases as opposed to a coercive regional project driven by a hegemon or an empire (Fawcett 2004; Destradi 2010).

Some authors have used the concept of “regionalisation” to refer to society or market-led processes of region-building as a criticism of a supposedly state-centrism of the concept of regionalism (Mansfield and Solingen 2010; Hettne 2005). In the definition used in this thesis, regionalism involves states and non-state actors and therefore, the distinction with regionalisation is not necessary. What is necessary, and shall be a central task of the next chapters, is to investigate the way and the extent to which governments and non-state actors do interact to produce regionalism outcomes.

Two other concepts deserve some clarification: regional cooperation and regional integration. The former refers to any type of joint action among states within a region and that normally translates into institution-building; it implies a mutual adjustment of actor’s expectations and preferences that might converge or diverge (Keohane 1984; Börzel and Risse 2016). Integration, in turn, has achieved different meanings depending on the discipline (Palestini 2012). In sociology integration refers to increasing cohesion between social groups, a definition that influenced early theories of regional integration such as Karl Deutsch’s approach. In economics, integration refers basically to the market-making process whereby trade barriers and later production factors barriers – goods, services and workers - are progressively dismantled, demanding further economic policy coordination (Balassa 1961). Finally, in political science Ernst Haas (1958) and his neofunctionalist colleagues have provided perhaps the most influential definition of integration, referring to the process of sovereignty and authority transference from the nation-states into regional supranational institution. There is a tendency, especially among European scholars, to suppose that integration is the final goal of any attempt of regionalism considering cooperation a second or default option: cooperation happens when integration (into supranational institutions) fails (see Schmitter 2007). The concept of regionalism used in this thesis is broader and does not entail any teleology towards a supranational polity. Integration into



supranational institutions is, therefore, one possible institutional pathway of regionalism, not the only one, and not even the most common.

## 1.2 Latin and South American Regionalism in an historic perspective

Although regionalist projects have developed since the onset of modernity, political sciences initiated the study of regionalism in the wake of the Second World War (WWII) that is usually considered as the beginning of modern regionalism (Fawcett 2004). Before WWII, several regional functional regimes mushroomed constituting the empirical source of early functional theorists, such as David Mitrany. However, the concept of regionalism only entered the vocabulary of political sciences with the end of WWII when the old European order broke down, spawning the emergence of a global political economy structured in regional blocks and around political projects governing and managing security and economic interdependencies under the influence of the new global powers: the US, Russia and later the European middle powers and Japan (Hoffman 1987).

The dynamics of the Cold War and the East-West conflict patterned the design and functioning of the post-WWII regional regimes such as the Inter-American System, the Commonwealth and the Arab League underpinned by the United Nations Charter of 1944. Within the Inter-American System, the Treaty of Reciprocal Assistance (Rio Treaty, 1947) and the Organisation of American States (OAS, 1948) provided the institutional architecture for hemispheric cooperation in security and political affairs. Some regional organisations created in the wake of the WWII, such as NATO, SEATO or the OAS itself, have been considered mainly as vehicles for the promotion of global powers' interests. Different actions undertaken by the US either through the OAS (the expulsion of Cuba in 1962) or bypassing it (the unilateral military interventions in Central America, and the support given to Britain in the Malvinas war against Argentina) fuelled the Latin American states' perception that the OAS was, for instance, an instrument of the US hegemonic foreign policy towards the region (Jenne 2013; Tussie 2009).

Nonetheless, the emergence of other regional organisations cannot be explained exclusively by Cold War geopolitics and great power's sponsorship, and are connected to more indigenous attempts to bring about national and regional developmental outcomes (see Bruszt and Palestini 2016; Palestini 2012; Fawcett 2004; Sloan 1977). Some examples are the Latin American Free Trade Association (LAFTA, 1960), the Andean Pact (1960), the Association of South East Asian Nations (ASEAN, 1967), the Caribbean Community (CARICOM, 1973), the Economic Community of Western African States (ECOWAS, 1975), the South African Development Cooperation Conference (SADCC, 1980), the Gulf Cooperation Council (GCC, 1981), or the South Asian Association for Regional Cooperation (SAARC, 1985) among others.

The history of modern Latin and South American regionalism started in 1960 with the creation of the Latin American Free Trade Association (LAFTA) through the Montevideo Treaty. Ever since, Latin American states have created several institutions some of them replacing previous ones, but with many others surviving successive phases or waves of regionalism (see Dabène 2009 and 2012b; Palestini 2012; Rivarola and Briceño Ruiz 2013; Bianculli 2016). Observed today, Latin and South American regionalism look like an overlapping architecture rather than the concentric architecture that characterize the European regionalism (Malamud 2013; Malamud and Gardini 2012; Schimmelfennig 2016). Other authors have shown, however, that the overlapping of membership (i.e. the same country belonging to two or more different regional organisations) not always goes hand in hand with overlapping of agendas and mandates (Dabène 2014; Nolte 2014; Bianculli 2016) and, therefore, rather than a redundant regional architecture, Latin American regionalism is to be characterised as functional differentiated organisations or, as Detlef Nolte (2014) has put it, a regional governance complex.

In the next sections, I will sketch out some broad phases in the history of Latin and South American regionalism. The current phase can be portrayed as an experimental mix of features and traits that we can find in the previous two phases.

### **1.2.1 *Developmentalist regionalism (1960-1980)***

The first Latin and South American regional organisations can be defined as *developmentalist* since they entail a political project oriented to contribute to the national economic development of their member states, upgrading their production structures from rather agrarian and non-diversified, to industrialised economies (see Bruszt and Palestini 2016; Larrain 1989; Sikkink 1991; Prebish 1963; Sloan 1971; Cardoso and Faletto 1979). The four more emblematic organisations of this period shared this political project: LAFTA, the Central American Common Market (CACM), the Caribbean Community (CARICOM) and the Andean Pact. They were triggered by the interplay between the threat of becoming economically isolated by a “fortress Europe”, and the policy-frame of the technocrats and intellectuals of the recently created UN Economic Commission for Latin American (CEPAL hereafter) (Montecinos 1996; Dabène 2012b). Together, the threat of the European integration process and CEPAL ideas incentivised Latin American political elites<sup>4</sup> to pursue a process of economic regionalism.

Following CEPAL ideas, regionalism and regional market-making would underpin the national development programmes of industrialisation: Latin American countries must understand that “only by means of their

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<sup>4</sup> Among the heads of state convinced of the relevance of developmentalist regionalism as a policy option, one can mention Arturo Frondizi (Argentina), Juscelino Kubitschek (Brazil), Romulo Betancourt (Venezuela), Alberto Lleras Camargo (Colombia) y Eduardo Frei (Chile).

increasing close integration – in the setting of a common market – they will be able to implement their own individual development programmes” (CEPAL 1959<sup>5</sup>). With the exception of Mexico, Brazil, and Argentina, the rest of Latin American economies were too small to sustain industrialisation within their own national borders. Regional integration of the national economies would generate economies of scale and optimise production structures (Arashiro, 2011: 55; Teixeira and Neto 2012). In the meantime, generations of Latin American economists attended the CEPAL courses yielding an epistemic community of experts (*técnicos*) with contacts in the bureaucracies of international organisations as well as US universities (Montecinos 1996; Haas and Schmitter 1964).

The Andean Pact was the most representative *developmentalist* regional organisation in South America. In 1969, Bolivia, Chile, Colombia, Ecuador and Peru signed the Cartagena Treaty with Venezuela joining in 1973. The Andean Pact was broader in scope and institutionally more sophisticated than LAFTA and CACM. It entailed the formation of a custom union, and the coordination of industrial and investment policies, regional funding mechanisms, and cooperation in labor, cultural and social policies. Together, its members expected to improve their position within the Latin American Common Market that should result from the LAFTA and CACM convergence. In terms of institutional design, the Andean Pact got closer to a supranational organisation with the member states delegating important levels of authority to the Commission. Two other important regional institutions were created in close relation with the Andean Pact: the Andean Development Bank (CAF) and the Latin American Reserve Fund (FLAR) created in 1978.

Those regional organisations created under the first wave of regionalism started to peter out due to external and domestic factors. At the international level, favourable commodity processes encouraged Latin American states to pursue export oriented strategies that were at odds with ISI models and developmentalist regionalism (Phillips 2004). CEPAL ideas were strongly criticised by both Marxists and liberals alike. The former argued that CEPAL ideas were functional to capitalist development fostering a sort of “dependent development” hindering a structural change. Neoliberals, in turn, criticised the excessive involvement of the state distorting market coordination and global insertion through comparative advantages (Cardoso and Faletto 1979; Arashiro 2011). The Oil crisis of 1973 flooded Latin American with cheap credit through petro-

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<sup>5</sup> [...] The Common Market is an expression of the effort to create a new pattern of an intra-regional trade capable of meeting two exacting demands: the requirements of industrialization and the need to lessen the external vulnerability of the Latin American economies. For long, these economies were principally directed towards supplying the large industrial centres with primary commodities, they had no major incentive for reciprocal trade [...] The progressive establishment of the common market would mean that it could undergo a gradual transformation, with the great ensuing benefits that might be derived from a more rationally organized system of production, under which the potentialities of the land would be more efficiently utilized, and industry, thirsting beyond the narrow bounds of each countries' individual market, would acquire more economic dimensions, and by virtue of improved productivity, would be able to increase its already considerable contribution to the standard of living in Latin America (ECLAC 1959)

dollars that further contribute to the shift towards an export oriented and open market strategy. At the domestic level, the arrival of nationalistic military regimes to most South American states set back the process of regional cooperation and integration as it became evident when Chile left the Andean Pact in 1976 under the dictatorship of General Pinochet. The monetarist oriented technocrats – known as Chicago boys – pressed for a policy of unilateral trade liberalisation and attraction of foreign investment that were at odds with the purpose of the Andean Pact and LAFTA. Bolivia, Colombia and Peru would follow a similar policy-turn towards trade liberalisation and export oriented economy in the following years.

### 1.2.2 Open regionalism (1980 onwards)

If the previous wave of region-building was the response to the trade-imbalances with the core countries and their own process of regional market-making (European Communities), the second phase of Latin American regionalism was a response to the external debt crisis that hit the region in the 1980s. The 1980s started off with a steep rise in interest rates that raised Latin American foreign debt to historical levels. Mexico declared default in 1982, and almost every Latin American country was affected by the reduced credit and uncontrolled rise in interest rates. The debt crisis of the 1980s functioned as a catalyst for economic reforms, making room for new economic and policy ideas. By 1990, most Latin American governments had converged around a paradigm of economic development that focused on export-led economic growth and trade liberalisation as central means for upgrading international competitiveness. Although the abandonment of developmentalist ideas was in part due to the poor performance of import-substitutions policies, it is mainly explained by external constraints. In fact, in the middle of the debt crisis the IMF changed its lending-policy, using economic conditionality to push debtors to adopt structural adjustment programmes considered necessary to bring creditors to the debt restructuring negotiation table. In this way, IMF economic conditionality diffused neoliberal policies all around the region (Arashiro, 2011: 58-59; Phillips 2000 and 2004).

For the IMF economists and for the neoliberal economists that came to manage most of the Latin American states, *developmentalism* was equated with protectionism and state interventionism, and thus blamed as the cause of the debt crisis. An inexact interpretation of the so-called “East Asian Miracle” became the model and recipe for neoliberal economists to dictate the path that developing economies must follow. According to this interpretation, the sustained high economic growth of East Asian economies was due to low government spending, high investment in infrastructure and human capital, and ‘getting prices right’ to encourage the tradable goods sector. This recipe became part of the new orthodoxy and formed the basis of the standard structural adjustment package implemented in country after country in Central and Latin America, in sub-

Saharan Africa and later in the post-socialist economies of Eastern Europe (Bruszt and Vukov 2014; Palestini 2012; Wade 1990; Bowles 2000)<sup>6</sup>.

Forced by the conditionality of international financial institutions and pressed by the increasing competitiveness of Japan-led East Asian production networks and the steps towards a Single European market, Latin American economies adopted the neoliberal paradigm of regionalism that came to be called by the oxymoron of open regionalism (Closa 2015; Arashiro 2011; Sáez and Valdés 1999). It is interesting to note, that the so-called Washington Consensus did not entail a theory of regionalism or regional integration. As far as trade was concerned, neoliberal economists were followers of Jacob Viner theory, considering economic regionalism as a potential trade-diversion mechanism. The neoliberal theory of regionalism was developed by some developmental economists, such as Bela Balassa, chief advisor of the World Bank, and notably Jagdish Bhagwati, policy advisor of the Director-General the GATT and later the WTO. Bhagwati advocated for an economic regionalism based on the creation of preferential regional trade agreements (RTAs), as a *second best* policy for less developed countries or catch-up countries, in stark contrast with Prebisch's conception of regionalism that constituted the preferred policy option to underpin national industrialisation (see Teixeira and Neto 2012).

Regional preferential trade agreements were justified by three reasons: first, RTAs increased the ability of catch-up countries to attract FDI, reducing transaction costs and bolstering economies of scale. Second, RTAs offered the possibility of adopting a step-by-step approach to multilateral liberalisation – according to neoliberals, the *best* option – reducing some of the adjustment costs associated to liberalisation. Finally, RTAs had a demonstration effect: they lock-in investor-friendly policies that guarantee to transnational corporations that the countries would stick with a liberal market economy path, since the costs of renegeing on it were significantly increased (see Mansfield and Milner 1997). Regionalism re-emerged, therefore, as a policy choice for developing countries because it proved useful in implementing neoliberal economic policies. Somehow ironically, the name of this neoliberal version of regionalism came again from the CEPAL, the former transnational epistemic community of *developmentalist* regionalism. The bottom-line of open regionalism was that states were committed to dismantling internal trade barriers with third countries and, simultaneously, opening their markets to foreign investment (CEPAL 1994; Closa 2015; Bowles 2000: 438; Nesadurai 2003).

Like the former wave of regionalism, open regionalism became embodied in new regional institutions. In 1989, the Andean Pact redesigned the bloc's orientation towards open regionalism. Its members began the liberalisation of services, committed to the formation of a free trade area by 1993, and to the adoption of a

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<sup>6</sup> As it now well documented, the East Asian success in the 1980s was actually the outcome of industrial policies and active economic governance by developmental states (see Wade 1990).

common external tariff by 1996, the year when the Andean Pact was re-named as the Community of Andean Nations (CAN). In Central America, the pacification of the region was also followed by a transition towards open regionalism with the creation of the Central America System of Integration (SICA) in 1991. Although aligned with the new policy ideas, both CAN and SICA kept important elements of the former developmentalism a proof of the layering that characterises the waves of regionalism in the region (Dabène 2012b; 2009).

Also in the Southern Cone regional institution-building took place. In 1986, the governments of Raúl Alfonsín (1983-1990) and José Sarney (1985-1990) signed the Argentina-Brazil Economic Integration and Cooperation Program (PICE). PICE was the institutional outcome of the process of democratization that Argentina and Brazil were undergoing. In this regard, PICE may be seen as relatively disconnected to the second wave of regionalism, and an attempt to bring about a security community in the Southern Cone that could lock-in democracy still under the threat of the military (see Dabène 2004). The mechanisms figured out by the Brazilian and Argentinean political elite were *developmentalist*, and in fact, PICE was mainly envisioned as an industrial cooperation and productive integration programme. However, the times were not favourable for such a type of regionalism project<sup>7</sup>. By 1991, democracy was considered consolidated in Argentina and Brazil, and the main challenge for the Southern Cone was to reduce debt, tame inflation and attract investment and credit. The PICE was phased out, and the neoliberal governments of Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción that formalised the MERCOSUR aligned with the open regionalism paradigm (see Chapter 3).

Some contemporary scholars have argued that the wave of open regionalism has come to an end and that a new wave of post-neoliberal or even post-capitalist regionalism is taking place (Motta Veiga and Rios 2007; Rigirozzi and Tussie 2012; Escobar 2010). This position is, however, not sustained by the facts. In 2011, a Peruvian initiative became institutionalised in the Pacific Alliance later formalised in 2014 and oriented to the harmonization of already existent PTA among Chile, Peru, Colombia and Mexico plus some rather narrow cooperation programmes in the area of skills formation. As such, the Pacific Alliance is a case in point of open regionalism. The economic interdependence of the Alliance's members is extremely low (4% of the total exports are intra-block) and, therefore, the goal of the initiative is not to engage in regional market-making, but to attract FDI from the Asia-Pacific economies providing a powerful signal that Chile, Colombia, Peru and Mexico are committed to liberal market economic policies. As Olivier Dabène (2012b) has rightly pointed out rather than a post-neoliberal regionalism, the contemporary phase is better characterised by the

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<sup>7</sup> In 2001, former Argentinean President Alfonsín complained about MERCOSUR: “other actors, with other ideas, re-launched the process of integration in the early 90s [our aim, with the Brazilian president Jorge Sarney] was to build a true community and not just an economic association (quoted in Malamud 2005: 424)

combination and competition of new-developmental with open-regionalism initiatives (see also Bruszt and Palestini 2016).

### 1.2.3 Contemporary South American Regionalism

Within the broader geographical context of Latin America, South America is precisely the region where the patchwork between open-regionalism and experiments of new-developmental regional initiatives is more evident. Besides the purely open-regionalist project of the Pacific Alliance, four other regional organisations share the South American territory.

MERCOSUR continues to be the main regional project of the Southern Cone countries, although the accession of Venezuela - formalised in 2012 - and Bolivia has enlarged the geographical scope of the custom union. Although brought into existence during neoliberalism, the contemporary MERCOSUR is a far cry from its open-regionalist origins (Doctor 2012; Gomez-Mera 2013; Malamud 2005). The trade-liberalisation agenda has not recovered the pace since the Brazilian devaluation of 1999 and the Argentinean crisis of 2001. Instead, new policy areas – education and migration governance – as well as developmental instruments such as the Fund of Structural Convergence (FOCEM) are characteristic of the current phase of MERCOSUR. Similarly, CAN has remained at a middle ground between open regionalism and developmental initiatives. More importantly, it is disputable whether CAN is still the main regional project of the Andean countries. In 2004, Venezuela withdrew from the Cartagena Treaty, Ecuador has reduced its participation in CAN to its minimal expression reorienting its foreign policy towards the Bolivarian Alliance, Bolivia has been accepted as full member of MERCOSUR, and Colombia and Peru have entered the Pacific Alliance, which seems to have taken over the open regionalist goals that characterised CAN in the 1990s.

**Table 1: The institutional architecture of contemporary South American Regionalism**

| Regional Organisation | Year of creation                        | Scope  | Members (year of accession)  |
|-----------------------|---|--|--|
| <b>MERCOSUR</b>       | 1991                                    | Trade; education; migration; health; culture; environment. | Argentina (1991)<br>Brazil (1991)<br>Paraguay (1991)<br>Uruguay (1991)<br>Venezuela (2012)<br>Bolivia (in accession) |
| <b>CAN</b>            | 1969 (Andean Pact)-1996                 | Multipurpose, with emphasis on trade.                      | Bolivia (1969)<br>Colombia (1969)<br>Ecuador (1969)<br>Peru (1969)   |
| <b>ALBA</b>           | 2004<br>2006 (People's Trade Agreement) | Social policy; energy cooperation; trade.                  | Venezuela (2001)<br>Bolivia (2006)<br>Ecuador (2009)<br><b>Non-South American members:</b> Antigua y                 |

|                         |   |  |     |   |   |
|-------------------------|---|--|-----|---|---|
|                         |   |  |     | Barbuda;<br>Dominica;<br>Nicaragua;<br>Christopher and<br>Saint Lucia;<br>Vincent<br>Grenadines.                                | Cuba;<br>Granada;<br>Saint<br>Nevis;<br>Saint<br>and<br>Grenadines. |
| <b>UNASUR</b>           | 2000 (IIRSA);<br>2004 (Community<br>of South<br>American<br>Nations);<br>2008<br>(UNASUR) | Multipurpose<br>policy areas with the<br>absence of trade) | (12 | Argentina<br>Bolivia<br>Brazil<br>Chile<br>Colombia<br>Ecuador<br>Guyana<br>Paraguay<br>Peru<br>Surinam<br>Uruguay<br>Venezuela |   |
| <b>Pacific Alliance</b> | 2011  | Trade; skills<br>formation.                                |     | Chile (2011)<br>Colombia (2011)<br>Peru (2011)<br><b>Non-South American<br/>member:</b><br>Mexico (2011)                        |   |

Own elaboration.

The Bolivarian Alliance for the People of Our America (ALBA) was created by the initiative of Venezuela and Cuba as an alternative to the US-led Free Trade of the Americas and, therefore, it stands out as the extreme opposite to open regionalism. It was formalised in 2006, after the Bolivian accession widening its institutional scope to cover energy cooperation programmes and a People’s Trade Agreement (TCP). ALBA challenges the minimum geographical definition of region given above and, in turn, takes the “constructivist axiom” very far: regions are what governments want to make out of it. In fact, ALBA’s members include three non-contiguous countries from South America (Bolivia, Ecuador and Venezuela), a number of Caribbean islands and a Central American country, Nicaragua. Its regional bonds are not grounded on regional proximity or some kind of interdependence, but on ideological affinities (the loosely defined “*Bolivarianism*”, see Chapter 5), on the one hand, and energy dependence from Venezuelan oil production, on the other (Pérez and Kfuri 2011; Gustafson and Elliot 2011). An indicator of the fragility of ALBA interdependence is the immediate termination of ALBA membership by the Honduras state after a change of the domestic ruling coalition. Similarly, Ecuadorian opposition leaders have pointed out that as soon as they assume government, they will resign from ALBA’s membership (132)<sup>8</sup>. Overlooking some of the most

<sup>8</sup> In the same interview, this leader of the Ecuadorian opposition stated that as part of the government his sector would resign from ALBA, but not from UNASUR, and they would apply to the Pacific Alliance.



evident of ALBA's shortcomings, some scholars have argued that it is a case in point of post-neoliberal regionalism emphasising the redistributive policies, the solidarity principle behind energy cooperation and the attempts at yielding regional welfare policies (Riggirozzi 2012; Strange 2014).

The map of contemporary South American regionalism is completed by UNASUR, which is the largest organisation in term of membership and scope, being composed by all twelve South American states including the northern-tier small countries of Guyana and Surinam, which were historically considered part of the Caribbean sub-region. UNASUR is a formal, multipurpose regional organisation oriented to deliver regional public goods in the social, political, cultural, and economic realms (Constitutive Treaty, Art. 2). Apart of the four organs that compose its decision-making structure, UNASUR comprises twelve sectoral councils functionally differentiated in policy-areas.

Two features have largely monopolised the attention of the public opinion and the current scholarly research on UNASUR. The first one is the role that it has played in its short institutional life as an instrument of political crisis resolution, intervening in a number of inter-state conflicts (Colombia-Ecuador-Venezuela in 2008) and intra-state political tensions (Bolivia 2008, Ecuador 2010, Paraguay 2012 and Venezuela 2013-2015). In 2010, South American states ratified the UNASUR Additional Protocol on Commitment to Democracy perceived as a political-coordination instrument (Sanahuja 2012; Carrion 2013; Comini 2013; Mosinger 2012) or a democratic protection mechanism (Closa 2013) that has somewhat displaced OAS Democratic Chart to a secondary place.

A second salient feature of UNASUR is the bold absence of trade in the pool of policy areas that integrates its regional agenda (Palestini and Agostinis 2014; Dabène 2013; Riggirozzi and Tussie 2012). UNASUR is, in fact, the first organisation in the history of Latin American regionalism that is multi-purpose and at the same time excludes trade from its regional agenda<sup>9</sup>. Historically, trade integration has been considered a focal point of all attempts at regionalism either *developmentalist* or open regionalism. Nevertheless, in South America trade has been a factor of division rather than integration. The colonial legacies and the specialisation in commodities production hinder the economic complementarity and interdependence of South American economies and, conversely, bolster mutual competition for inserting commodities in global markets and attracting foreign investment (see Kraphol and Fink 2013). The regionalist project embodied in UNASUR seems to have taken stock of this fact.

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<sup>9</sup> There are other multipurpose organizations but they pursue primarily trade integration, such as the Andean Group (later CAN), or CARICOM.

These two salient features – the role of UNASUR as a political mechanism and the absence of trade in its agenda – have bred highly polarised interpretations of UNASUR’s significance and achievements. A first over-optimistic interpretation has viewed the absence of trade integration in the agenda, as proof that UNASUR – and South American regionalism in general – is undergoing a new phase of “post-neoliberal regionalism” in which trade and economic integration is subordinated to the objectives of political and social integration (Veiga and Rios 2007; Espinosa 2013; Riggiozzi 2011; Strange 2014). Underlying this interpretation is the misleading assumption that trade integration and neoliberalism always go together. The political role played by UNASUR in recent political crises has also fuelled this interpretation. In interventions such as in the conflict between Colombia, Ecuador and Venezuela due to the bombing by Colombian forces of FARC’s camps in Ecuadorian territory, South American countries have showed the will and the capacity to manage thorny inter-state tensions without resorting to extra-regional mediators. UNASUR has been perceived, thus, as an instrument for attaining political autonomy vis-à-vis the US and the OAS paving the road to conclude that UNASUR is not only “post-neoliberal” but also “post-hegemonic” (Riggiozzi and Tussie 2012; Strange 2014; Riggiozzi and Tussie 2015).

This “post” narrative explains the emergence of UNASUR conflating the action of social movements, left-leaning governments and the failure of neoliberal models in the context of the retrenching of US hegemony (Riggiozzi and Tussie 2012; Vivares 2014). When explaining the emergence of UNASUR, a scholar has affirmed:

These post-neoliberal movements, propelled by the financial crisis of the late 1990s and the crisis of political representation, stitched together electoral agendas drawn, in many cases, from the multiplicity of single-issue social movements of the 1990s, such as those that had been oriented toward indigenous rights, land reform, the environment, or gender [...] The move away from neoliberalism carried over into regional integration. Indeed, regionalism has been a prominent shared value among the entire cohort of post-neoliberal governments, as they have understood the role of regional integration as either an alternative to or buffer from vis à vis globalization (Espinosa 2014: 42)

Similar interpretations arise in interviews with political actors directly involved in the institutionalisation of UNASUR, showing that the “post-neoliberal” and “post-hegemonic” narrative has become a sort of official or mainstream understanding of the process. In the words of the Director of the Center of Strategic Studies of UNASUR (South American Defense Council):

The emergence of UNASUR is explained by the epic fail of the neoliberal policies that has brought about new left-leaning political leadership. This produced an historic moment in which there is homogeneity of social democrat and socialists heads of state, the latter characterised for providing a new legal order to their societies (I29).

As in the movie “Rashomon” by Akira Kurosawa in which the same event has contradictory interpretations, the same two features of UNASUR have paved the way to a second and completely different, overly-pessimistic interpretation of UNASUR significance and achievements. The political role assumed by UNASUR and the absence of a trade-agenda is interpreted by this second group of scholars, not as a *new/post* phase of South American regionalism, but rather as its definitive exhaustion. As part of a “ceremonial” or “declaratory” regionalism, UNASUR is portrayed as nothing more than a forum of inter-presidential dialogue characterised by high-toned rhetoric and dismal policy outcomes (Malamud and Gardini 2012; Malamud 2013; see also Jenne 2013; Jenne and Schenoni 2015; Doctor 2012; Montecinos 1996). Its emergence is explained by the short-sighted political pay-offs that the incumbent governments can gain by making use of the “rhetoric” of regionalism and the “rhetoric” of anti-US hegemony. According to two prominent scholars of Latin American regionalism:

Latin American states continue to establish regional organisations because their leaders know that sovereignty is not relinquished by signing papers. Rather, regionalism is a foreign policy resource used to achieve other ends such as international visibility, regional stability and regime legitimacy, as well as to please domestic and foreign audiences and mobilise support for the incumbent administrations (Malamud and Gardini 2012: 130).

Surprisingly, what these two polarised interpretations that dominate the academic debate about South American regionalism have in common is the little attention that they pay to the internal variation that the process of UNASUR institutionalisation shows in terms of institutional design and outcomes. The institutional change from the informal IIRSA to the formalised UNASUR has been overlooked by the scholarship on South American regionalism. The “post-neoliberal/post hegemonic” narrative has reduced this change as part of the evolution from a still neoliberal IIRSA towards a post-neoliberal UNASUR (see Couto 2010; Couto and Padula 2012). The “declaratory regionalism” narrative has tended to despise the institutional design of newborn organisations considering them as empty shells with little significance vis-à-vis inter-presidential mechanisms.

Similarly, both groups of scholars have neglected the fact that UNASUR is a multipurpose organisation comprising twelve functional areas with dramatically different records in the production of outcomes. While the “post-neoliberal” and “declaratory” narratives are usually based on rather general overviews of contemporary regional organisations, recent case studies have provided more thorough accounts of intergovernmental cooperation and policy coordination in specific policy areas bringing up a picture of higher levels of institutionalisation and implementation of regional public goods in areas such as defense (Battaglino

2012), health cooperation (Riggirozzi 2015; Ventura 2011), education (Perrotta 2015; Verger and Hermo 2010) and migration (Margherits 2013). The present thesis seeks to contribute to those comparative attempts by looking at the policy areas of energy and transport connectivity.

Relying on theoretically guided cases studies, this thesis seeks to move the academic debate about contemporary South American regionalism beyond the polarised frame in which is inserted today and, more importantly, to put it in the broader context of comparative regionalism. Notwithstanding the specificities of South America, I believe that the intergovernmental and transnational relations behind the design of institutions and the production of outcomes are shaped by factors and tensions that take place in other regional context as well and, therefore, can teach us something about regionalism as a general political phenomenon.

### 1.3 Conclusions

This first chapter has provided the common ground for the argument developed in the following parts and chapters of the thesis. The general object of study of the research is regionalism that has been defined as a state-led project of cooperation and policy coordination among governments and non-state actors located within a particular geographical region (see Mansfeld and Solingen 2010). This is a very broad definition that entails, however, some important traits. First, regionalism is a project, meaning that the political actors involved engage in cooperation and policy coordination with certain purposes in mind. Second, even though regionalism is a state-led project, it entails the interaction between state and non-state actors. Finally, regionalism is not necessarily oriented to integrate nation-states into supranational structures: integration through sovereignty pooling is only one possible – and not the most common – institutional trajectory of regionalism.

The chapter has also contextualised the contemporary South American regionalism within the broader *acquis* of Latin American regionalism (see Dabène 2009; Rivarola and Briceño Ruiz 2013). Regionalism has been, in Latin America, the response to transnational challenges stemming from within the region as well as from the global political economy. The process of European market integration in 1960 triggered the first attempts of *developmentalist* regionalism, whereas the international debt crisis triggered in 1980 the open regionalism projects. Transnational actors and epistemic communities such as CEPAL were pivotal for providing the policy ideas that shaped regionalism in its *developmentalist* as well as its neoliberal versions. Contemporary South American regionalism, in turn, rather than being post-neoliberal as some scholars have argued, is better characterised by a patchwork of developmentalist and neoliberal policies carried out by regional organisations that overlap in scope and membership (Malamud 2013; Nolte 2014; Dabène 2012a).

This is the context of the narrative that the next chapters will unfold focusing on the institutional trajectory that goes from the creation of IIRSA to UNASUR, explaining the change in institutional design and the variation in outcomes in two policy areas that are at the core of this South American-wide regionalism: transport connectivity and energy.



## CHAPTER 2

# Institutional Design and Outcomes in South American Regionalism

### Introduction

This second chapter introduces the research questions and dependent variables of the research. The different conceptualisations in the field of comparative regionalism that were referred to in Chapter 1 have led to a similar wide array of *explananda* or dependent variables. Bluntly put, since the very first attempts at studying processes of regionalism on a comparative basis, researches have sought to explain different things: the level and scope of integration (e.g. Schmitter 1970), the degree of supranationalisation (e.g. Fligstein and Stone-Sweet 2002) the degree of regionalisation (e.g. Warleigh-Lack 2006), the variation in *regioness* (e.g. Hettne 2005) and so on.

The lack of a consensually agreed definition of the object of study and the dependent variables to be explained constitutes, certainly, a hindrance to the production and comparability of knowledge and, therefore, is an obstacle for the consolidation of comparative regionalism as a scientific field (Closa 2015). Nevertheless, researchers are increasingly orienting their studies to explain specific aspects of regionalism such as the emergence, the institutional design and the outcomes and effects of regionalism as an effort to overcome this obstacle and to enhance the capacity of generalisation and comparison, (see Mattli 1999a; Koremenos, Lipson and Snidal 2001; Acharya and Johnston 2006; Solingen 2008; Börzel et al. 2013; Bruszt and McDermott 2014; Closa 2013 and 2015; Börzel and Risse 2016). By focusing on explaining the emergence (why has regionalism emerged?), the institutional design (why does the design of regional institutions vary?) and the outcomes of regionalism (why do the outcomes and effects of regionalism vary?), these studies are contributing to building up a more coherent research programme around a limited set of research questions that allow the comparison not only across regions, but also across policy areas and functional sectors.

This thesis is part of this effort. It assesses contemporary South American regionalism explaining the change in institutional design and the variation in outcomes through the comparison of two policy areas: energy and transport connectivity. The chapter is structured in three sections. In the first one (2.1), I define and operationalize the two dependent variables: change in institutional design and variation in outcomes. In the second section (2.2) I describe the variation in the first dependent variable - institutional design – showing the transition from an informal institution (IIRSA) towards a formal one (UNASUR). Finally in the third section

(2.3), I describe the variation in the second dependent variable – outcomes – showing the variation in the provision of regional public goods (RPG) in transport-connectivity and the energy area. Transport connectivity shows a higher provision of RPG in comparison with the energy area.

The two dependent variables (change in institutional design and variation in outcomes) will be explained through the rest of the chapters of the thesis.

## 2.1. Operationalizing Institutional design and Outcomes

### 2.1.1 Institutional design

Institutions are the distinctive aspect of regionalism. Without institutions a region is not more than a geographical category (see Chapter 1). Therefore different projects of regionalism are identified and compared in terms of how their institutions look that is, how the institutions have been designed by state and non-state actors.

In this thesis institutions are defined as sets of principles, norms, rules and procedures that coordinate actors' expectations and, in this way, enable and constrain their actions in different realms of social activity (see Krasner 1982; Ruggie 1982; Koremenos, Lipson and Snidal 2001). This definition stresses the fact that institutions are designed with a purpose, namely to enable and orient social action to realise certain goals. Certainly, institutions also entail a symbolic dimension helping, for instance, with the construction of a collective identity or world-view (see Acharya and Johnston 2007; Duina 2006). However, this thesis assumes that institutions are *primarily* designed to serve some function and to carry out actors' purposes and, therefore, must be explained in relation to those purposes.

In the context of regionalism, state and non-state actors build regional institutions in order to solve cooperation problems, coordinate policies and pool resources to bring about different kinds of regional public goods. The design of international institutions in general and of regional institutions in particular, varies enormously across several dimensions opening an interesting research agenda (see Koremenos, Lipson and Snidal 2001; Acharya and Johnston 2007; Bruszt and McDermott 2014). The present thesis concentrates on explaining one of these dimensions: the **level of formalisation**.

Institutions are **formal** when norms, rules, and procedures are codified in a legal instrument that, in the case of regionalism, might be international treaties, agreements, or protocols<sup>10</sup>. Through formal institutions, actors

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<sup>10</sup> In the context of regionalism, formal institutions have binding effects over the contracting parties that are ruled by International Law (Vienna Convention on the Law of the Treaties 1969). As a general rule, international treaties have to be approved by the national parliaments to enter into force. In South America the Constitutions of Colombia, Venezuela



lock-in courses of action anticipating future consequences and making it hard to exit existing agreements in the future (Weber 2013 [1922], Pierson 2000). When these formal institutions are provided with a legal personality, a clear delimitation of members, a bureaucracy dedicated exclusively to the institution, a budget and an address, they become **organisations** (Börzel and Risse 2016).

Institutions are **informal** when norms, rules and procedures are not anchored to any legal instrument being underpinned exclusively by the agreement of the actors involved, by a collective declaration or by simple routine. Informal institutions do not contain binding rules and might be easily undermined when the original consensus is broken. In the context of regionalism typical informal institutions are memoranda of understanding which establish general guidelines for intergovernmental cooperation and negotiation with establishing any obligation, and declarations, which are instruments whereby governments manifest their agreements without establishing mutual obligations<sup>11</sup>.

### 2.1.2 Outcomes

Regionalism is a goal-oriented process. States do not engage in regional cooperation – a costly process that diverts resources from the domestic agendas – without expecting certain outcomes with positive effects on their societies, politics and economies and, certainly, electoral pay-offs. Most of the outcomes that can be delivered through regional cooperation and integration may be entailed in the category of **regional public goods** (RPG hereafter) (see Keohane and Ostrom 1995). A public good has two properties, first it is non-exclusive, meaning that all interested actors have access to the good, and second, there is no-rivalry in the provision, meaning that the consumption of the good by one actor does not affect the provision of the same good to other actors (Keohane and Ostrom 1995; Sandler 2004). Combining these two properties, scholars have identified different classes of collective goods ranging from purely public to partially public and to “club goods” (Sandler 2004; Rufin 2004; Jordana and Levi-Fur 2014).

The thesis uses the concept of RPG in a descriptive manner to refer to the tangible and measurable outputs of processes of regional cooperation that encompass a wide array of deliverables from material goods – e.g. regional infrastructure connectivity - to immaterial goods – e.g. common regulatory standards, a mechanism

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and Surinam are an exception to this rule. In these states the Constitution confer to the President the faculty to enter a Treaty into force before the approval of the National Parliament. In South America, National Constitutions have, also by general rule, supremacy over International Treaties. When Treaties are inserted into the national legal order, they acquire the same status of national law. In Argentina, however, the Constitution confers supremacy to the “integration treaties” over the national legal order. In the Venezuelan constitution, in turn, the norms adopted through an International Treaty are to be considered part of the national legal order and they have supremacy over national law.

<sup>11</sup> The memoranda of understanding may have binding effects only if they are approved by the national parliaments.

for protecting democracy, or a collective procedure to control a regional disease -. What all these goods have in common is that they are produced at the regional level and comprise benefits distributed across national borders (see Bruszt and Palestini 2016; Martínez 2004; Carciofi 2012).

The present thesis put the attention on RPG produced in two policy-areas: transport connectivity and energy, which may be either infrastructure or regulation.

- Transport connectivity

Infrastructure: international and cross-national roads, ports, airports and waterways.

Regulation: national taxes convergence, border rules, transshipment rules.

- Energy

Infrastructure: power plants, energy interconnections (e.g. gas pipelines, electric interconnection systems), oil refineries.

Regulation: harmonisation of prices and tariffs, quotas of energy distribution, convergence of the type of regulatory authority.

As has been mentioned RPG are the main outcome that actors engaging in regionalism expect to produce. Therefore, the incapacity to produce RPG severely undermines the legitimacy of regionalism because it frustrates the expectations of the state and non-state actors. The provision of RPG varies according to two main indicators: the number of projects implemented and the elaboration of monitoring mechanisms. These two indicators permit us to assess different levels of RPG provisions across policy areas.

The complete operationalization of the dependent variable is summarised in the Table 2.

**Table 2: Operationalization Dependent Variables**

| <b>Dependent Variable</b>   | <b>Dimensions</b>       | <b>Values</b>   | <b>Indicators</b>   |
|-----------------------------|-------------------------|-----------------|---|
| <b>Institutional design</b> | <b>Formalisation</b>    | Formal/Informal | Presence of codified norms, rules and procedures                                      |
| <b>Outcomes</b>             | <b>Provision of RPG</b> | High / Low      | Number of projects implemented and investment / elaboration of monitoring mechanisms. |

The next two sections show the variation of these two dependent variables (institutional design and outcomes) in the context of contemporary South American regionalism taking transport connectivity and energy as case studies.

## 2.2. Change in institutional design: from IIRSA to UNASUR

Regionalism in the areas of transport connectivity and energy has been an evolving process since its inception in 2000 up to now. During this period a major change in the institutional design took place: whereas in 2000, South American heads of state opted from an informal institution – IIRSA- in 2008 they seem to have changed their minds formalising cooperation into an organisation with legal personality: UNASUR. This puzzle constitutes the first research question this thesis seeks to answer:

**Q1:** Why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)?

In accordance with the guidelines of the Brasilia Declaration (2000), IIRSA was designed as an **informal institution**. The First South American Summit and its presidential declaration proved to be not only a public presidential statement about the willingness of South American nations to undertake a new regionalist project, but it was also the institutional blueprint of IIRSA, which was the institutional arrangement coordinating regional cooperation in the areas of transport connectivity, energy and telecommunications from 2000 to 2010. It consisted of a network of technical ministries of infrastructure, public works, energy and planning coordinated by three regional development banks. Lacking a constitutive agreement or protocol, IIRSA's principles, rules and procedures were encompassed in technical Work Plans elaborated by the development banks that were responsible to convene for the inter-ministerial meetings and set up the portfolio of projects to be implemented. IIRSA did not have a regional bureaucracy or a regional budget.

Through the Brasilia Declaration, the South American heads of state informally delegated the governance of the initiative to three regional development banks: the Inter-American Development Bank (IDB), the Andean Development Bank (CAF)<sup>12</sup> and the Fund for the Development of the River Plate Basin (FONPLATA).

The Presidents decided to instruct to their governors at the IDB and the representatives in the international financial institutions to propose [...] the adoption of all the measures needed to execute the annexed Action Plan in order to carry out studies, provide consultancy, and finance the implementation of initiatives for the development of the integration hubs of the future integrated economic space of South America. The Presidents stressed the singular importance of the future

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<sup>12</sup> The *Corporación Andina de Fomento* is, since 2000, officially called Latin American Development Bank.

coordination with the IDB and CAF, among other relevant international and regional organisations (Declaration of Brasilia, Paragraph 44).

The Action Plan mentioned by the declaration in the quotation above was approved by the ministries of infrastructure, planning and public works in Montevideo three months after the Brasilia summit and became, together with another policy document prepared by the IDB and CAF (*The New Push for Regional Infrastructure Development in South America*), the only two documents on which IIRSA institutional features were grounded. These two policy documents comprise indeed the principles, the rules and procedures of IIRSA governance structure (D66 and D106<sup>13</sup>).

According to the Montevideo Action Plan, IIRSA consisted of two bodies: one executive and one technical. The Executive Steering Committee was integrated by the national ministries of the policy areas under the scope of IIRSA. The Technical Coordination Committee, in turn, was composed of the three development banks. Despite being hierarchically inferior, the banks - and chiefly the IDB and CAF- were the main actors behind the elaboration of IIRSA's portfolio of projects, methodology, and objectives (I7, I8, I39).

The predominant role of the development banks in IIRSA governance became more evident after the second South American summit in 2002 (Guayaquil, Ecuador), when the Institute of Latin American Integration (INTAL), which belongs to IDB, became the Secretariat of the Technical Committee performing all the logistics and monitoring functions established in the IIRSA's action plan. Although neither its functions nor its mandates were ever formalised, the Director of INTAL took part in IIRSA meetings as an informal general secretary (D66; I39). Conversely, IIRSA's regular activities remained rather disentangled from the national foreign ministers as well as from other well established regional organisations that arguably had something to say regarding energy and transport infrastructure such as the Latin American Energy Organisation (OLADE) or CEPAL (I4 and I7).

One bureaucrat of the Ministry of Planning of Brazil and member of the Executive Technical Group of IIRSA, commented:

Due to its origin and because it was disentangled from other regional institutions, IIRSA was born as an *ad hoc* organisation that was not coordinated by the ministers of foreign affairs and, therefore, did not belong to the regional system of foreign relations. [...] IIRSA was controlled by the banks (I4).

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<sup>13</sup> The two documents that I am referring are the "New Push for Regional Infrastructure Development in South America", by the IDB with the collaboration of CAF and CEPAL and requested by President Cardoso in 1999 as preparation for the Brasilia Summit and "The Montevideo Action Plan" developed by the three regional banks at the request of the heads of state during the Brasilia Summit. The Action Plan was approved by the ministers of infrastructure in Montevideo on 4 December 2000 and presented by the regional development banks at the Guayaquil Summit and added as an Annex to the Declaration.

In May 2008, the Constitutive Treaty of the Union of South American Nations (UNASUR) was signed and ratified by all twelve South American countries. UNASUR was designed as a multipurpose regional organisation with mandates in the cultural, social, economic and political fields. Energy cooperation and transport infrastructure became specific objectives of UNASUR<sup>14</sup> replacing IIRSA with two functionally differentiated sectoral councils.

While IIRSA was explicitly conceived to be informal, UNASUR structure and decision-making process are **formalised** by its Constitutive Treaty. According to the Treaty, UNASUR is a multi-purpose organisation that pursues regional cooperation in an open list of policy domains, as its Article 2 states:

The objective of the Union of South American Nations is to set up, in a participatory, agreed manner, a space for integration and union among its peoples in the cultural, social, economic and political fields, prioritizing political dialogue, social policies, education, energy, infrastructure, financing and the environment, among others, with a view to eliminating socio-economic inequality, in order to achieve social inclusion and citizen participation, strengthen democracy and reduce asymmetries within the framework of bolstering the sovereignty and independence of the states (Constitutive Treaty, Article 2).

The Constitutive Treaty also formalises UNASUR's structure concentrating authority in the national executives through the creation of four organs that in hierarchical order are:

1. The Council of Heads of State and Government
2. The Council of Ministers of Foreign Affairs
3. The Council of Delegates
4. The General Secretariat

Differently from IIRSA, which did not have a regional bureaucracy, the Constitutive Treaty of UNASUR creates a General Secretariat that has a staff exclusively dedicated to UNASUR, a budget and an address providing UNASUR with the status of a regional organisation recognised by international law<sup>15</sup>. The staff of

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<sup>14</sup> The Treaty established as specific objectives: Energy Integration for the integrated, sustainable use of the region's resources, in a spirit of solidarity (Article 3, lit. d). The development of infrastructure for the interconnection of the region and among our people, based on sustainable criteria of social and economic development (Article 3, lit.e).

<sup>15</sup> The General Secretariat of UNASUR was located in Avenida 6 de Diciembre y Wilson, Quito, Ecuador from 2008-2014. Since 2015 its headquarters are based in the new Nestor Kirchner building in Autopista Manuel Córdova Galarza, San Antonio de Pichincha. Quito, Ecuador

the Secretariat is appointed by each Ministry of Foreign Affairs and accomplishes administrative functions as well as the monitoring of the twelve sectoral councils comprised in UNASUR. In 2013, the Secretariat started to enlarge its bureaucratic apparatus through the creation of Directorates to enhance the monitoring capacity to follow up the activities of the sectoral councils (I33).

The decision-making process is formalised by the Articles 6 to 10 of the Treaty allocating the main responsibilities regarding the input functions (i.e. making proposals to the higher bodies) as well as regarding the output functions (i.e. to implement the Decisions and Resolutions of the Councils) to the Council of Delegates that, thereby, becomes hierarchically superior than the General Secretariat. As a formal regional organisation, UNASUR counts with an official representative in international acts and forums. This function is appointed to the President-Pro Tempore position held successively by a head of state for a one year period and has the attribution to undertake commitments and sign declarations with third parties (Article 7).

### **2.3. Variation in outcomes: RPG in the areas of energy and transport connectivity**

Not only did institutional design change from the informal IIRSA to the formalised UNASUR and its sectoral councils, but also the provision of regional public goods across policy areas varies considerably. IIRSA was created in 2000 with the mandate to “enhance and modernize the transport, energy and telecom infrastructure of South America” in a timespan of ten years (Brasilia Declaration, Paragraph 39). Rapidly, IIRSA left aside the area of telecoms that was neither mentioned in the following presidential declarations nor part of the portfolio of projects<sup>16</sup>. Although IIRSA focused exclusively on transport infrastructure and energy, by 2014 the provision of regional public goods in these two areas shows a quite different picture with a considerably higher provision of RPG in transport infrastructure than in energy. The variation in outcomes constitutes the second question that this research seeks to address:

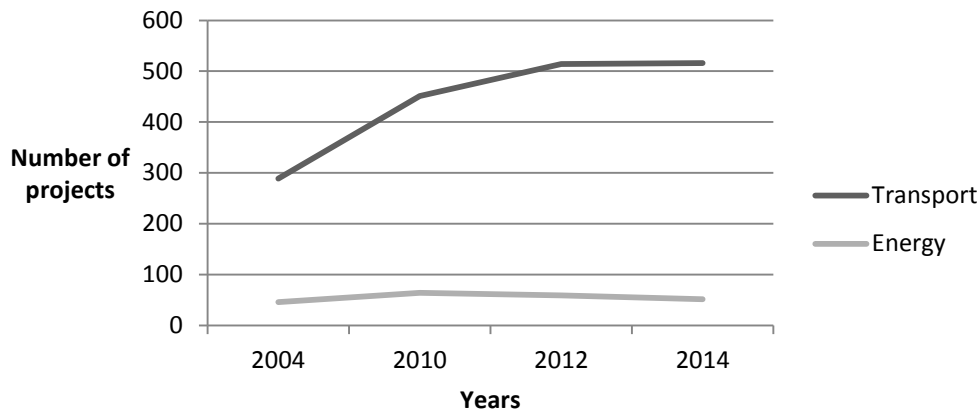
**Q2:** Why have outcomes been higher in some policy areas (transport connectivity) than in others (energy)?

This variation in provision of RPG is evident in two indicators: the number of projects and the investment associated, and the elaboration of monitoring mechanisms. In both indicators, regional cooperation in transport connectivity performs better than in energy.

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<sup>16</sup> With the creation of COSIPLAN, Telecommunications was again part of the portfolio of projects. By 2014, 9 telecom projects are included in the portfolio. Two interconnections of fiber-optic cables have been implemented between Brazil and Venezuela, and Brazil and Uruguay.

Figure 1: Evolution of the number of projects in Energy and Transport



Source: Own elaboration on IIRSA-COSIPLAN Information System and D109, D110, D111.

The total number of projects in the portfolio of the UNASUR Council of Planning and Infrastructure (COSIPLAN) shows a clear predominance of transport connectivity over energy projects. The higher presence of transport projects has been a constant since the IIRSA portfolio was first set up. However, as it possible to see in Figure 1 whereas the number of transport connectivity projects has steadily increased, the number of energy projects as been reduced since 2010. In 2014, seven energy infrastructure projects were removed from the portfolio because they had become paralyzed at the profile-stage since 2008 (D107:45). Likewise, the amount of estimated investments in the sector has stalled, showing a clear slowdown in South American energy cooperation. A case in point is the recent exclusion from the portfolio of the construction of a binational hydroelectric power station and electricity interconnection between Leticia (Colombia) and Tabatinga (Brazil), which has been stalled since 2003 (D114: COSIPLAN 2013: 40).

Table 3: Number of projects by policy areas and stage of implementation (2014)

| Stage         | Transport connectivity | Energy    |
|---------------|------------------------|-----------|
| Implemented   | 86                     | 21        |
| In execution  | 154                    | 12        |
| Pre-execution | 266                    | 21        |
| <b>Total</b>  | <b>516</b>             | <b>54</b> |

Source: Own elaboration on IIRSA-COSIPLAN Information System.

Table 3 shows the stage of implementation of infrastructure projects in transport connectivity and energy. In the case of transport connectivity, a total of 86 projects have been already executed since the beginning of regional cooperation in 2000 and 154 are in the process of execution and, thus, will be finalised in the next decade. The current COSIPLAN portfolio is organised in ten development hubs (*ejes de desarrollo*) that count of 31 modular projects (*proyectos estructurados*), which, in turn, are composed of 101 priority projects distributed across different subsectors: roads (29.7%), river navigability (25.7%), railroads (15.8%), border-crossings (14.9%), multi-modal transport (5.9%), maritime transport (4%), and air transport (1%).

In the case of energy, 21 projects have been implemented and 12 are in execution. More importantly, only 21 energy projects are in the pipeline to be implemented in comparison with 266 transport-connectivity projects. Furthermore, a number of emblematic energy interconnection projects have stalled or were shelved. That is the case of the Refinery General Abreu Lima, a joint-venture between the Brazilian company Petrobras and the Venezuelan PDVSA that is today under investigation by the Brazilian Tribunals for anomalies in the bi-national agreement. Similarly, the Big-Pipeline of the South (*Gran Gasoducto del Sur*) that was supposed to connect the gas production from Venezuela with the final markets in Brazil, Argentina and Uruguay was stalled and finally shelved in 2007.

The area of transport connectivity also performs better in terms of the elaboration of monitoring mechanisms. Since the creation of IIRSA, South American countries have designed and approved several methodological instruments to increase transport infrastructure efficiency and environmental and social-economic sustainability. Among the most important tools, which are worth mentioning, are the approval of the Strategic Action Plan (PAE 2012-2022)<sup>17</sup>, the Strategic Environmental and Social Evaluation Methodology, the Territorial Integration Programs, the South American Infrastructure Risk and Disaster Management Methodology, the Geographic Information System and Mapping, and Facilitation and Modernization of Border Crossings<sup>18</sup> (D114). Although some of these instruments might be applied to energy infrastructure projects, most of them are oriented to implement and monitor transport connectivity projects.

There is not a similar elaboration of monitoring mechanisms when looking at the Energy Council of UNASUR. The Energy Council has focused instead on the elaboration of a South American Energy Treaty oriented to harmonise energy regulation. As a matter of fact, regulatory harmonisation has been an objective of cooperation in the energy area since the Brasilia summit of 2000 and the creation of IIRSA. An Energy

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<sup>17</sup> It is an effort to rationalise and optimise the integration of IIRSA portfolio projects for the next decade in order to increase their developmental impact. See [http://www.iirsa.org/admin\\_iirsa\\_web/Uploads/Documents/rc\\_brasilia11\\_1\\_pae.pdf](http://www.iirsa.org/admin_iirsa_web/Uploads/Documents/rc_brasilia11_1_pae.pdf).

<sup>18</sup> Border crossing facilitation/modernisation has been inserted in the so-called *Sectoral Integration Processes*, which are designed to identify regulatory and institutional obstacles that hamper infrastructure integration in South America.



Charter was mentioned in 2002 in the Guayaquil Declaration, (Guayaquil Declaration, Paragraph 24). Nevertheless, IIRSA was not able to produce such a Charter, and regulatory aspects were basically tackled through bilateral agreements regarding every particular initiative of energy cooperation.

With the creation of the Energy Council of UNASUR, energy regulatory harmonization became its paramount objective. In 2010, the Council of Heads of State of UNASUR approved the table of content of the Energy Treaty, which consists of seven parts plus a preamble. In May 2012, an ad hoc legal working group (*Grupo Jurídico-Político*) was created during the Energy Council meeting, with the mandate to prepare the draft of the Energy Treaty. The interviews carried out with national representatives at the Energy Council reveal that since 2012 the Group has mainly discussed the chapters on regulatory harmonisation. By 2014, the Group had failed to agree on the contents of this part with the result of postponing the discussion of the rest of the Treaty. Once the draft of the Treaty is elaborated and approved by the Ministers of Energy, it will have to be approved by the three high executive organs of UNASUR: the Council of Delegates, the Council of Ministers of Foreign Affairs and, finally by the Council of Heads of State. In order to enter into force, it must be approved by 2/3 of the national parliaments of the member states, i.e. eight national parliaments (I8 and I30).

It is hard to foresee what will happen to South American energy cooperation in the near future. It is likely that South American state will relinquish the project of region-wide infrastructure and regulatory energy integration to focus on more viable national and bilateral energy projects. In this case, energy integration will continue to be dealt with bilaterally and/or on a case-by-case basis, driven by domestic interests rather than by a regional agenda. This will represent a setback with regard to energy security in South America, which is a highly asymmetrical region in terms of energy resources, and a very vulnerable one in terms of energy supply lines (Palestini and Agostinis 2015; Barrera-Hernández 2011).

## 2.4 Conclusions

The chapter has introduced the two research questions that orient the research. Each question deals with one dependent variable: change in institutional design and variation in outcomes. I have operationalized institutional design in levels of formalisation, looking at whether regional cooperation has been codified into a legal instrument (e.g. a treaty, international agreement or protocol) or has remained informal underpinned exclusively on collective declarations. I have operationalized outcomes as provision of regional public goods (RPG) measured in terms of the number of RPG implemented and the elaboration of monitoring methodologies.

Looking at the policy areas of transport connectivity and energy, it is evident that there is variation in both dependent variables. In terms of institutional design, IIRSA was created in 2000 as an informal institution

consisting of a network of technical ministries of infrastructure, public works, energy and planning coordinated by three regional development banks. Lacking a constitutive agreement or protocol, IIRSA's principles, rules and procedures were encompassed in technical Work Plans elaborated by the development banks which were responsible to convene for the inter-ministerial meetings and set up the portfolio of projects to be implemented. IIRSA did not have a regional bureaucracy or a regional budget. Eight years later UNASUR was formalised by a Constitutive Treaty that provided legal personality to the process. The Treaty codified UNASUR's structure and decision-making process with well-defined mandates for each of its four organs, including a General Secretariat with a bureaucracy, a budget and an official address. IIRSA was subsumed into the UNASUR Council for Infrastructure and Planning (COSIPLAN) with its own internal regulation, and an Energy Council was created with the aim to create a South American Energy Treaty.

In terms of outcomes, transport connectivity stands out as a policy area with a higher provision of RPG. Its portfolio of projects has steadily increased together with the rate of implementation. In addition, national ministries together with the regional development banks have elaborated a set of methodologies of monitoring to facilitate the implementation and enhance the positive externalities of transport-connectivity projects. Regional cooperation in the area of energy started off simultaneously together with cooperation in the area of transport connectivity as part of IIRSA. However, the portfolio of projects is lower and its implementation has been decreasing, especially since 2010. Emblematic and ambitious energy interconnection projects have stalled and the negotiation of the South American Energy Treaty has run into a deadlock.

The next chapter will provide the analytical tools to explain why regional cooperation shifted towards higher levels of formalisation and why outcomes are higher in transport connectivity than in the energy area.

## CHAPTER 3

### Explaining institutional design and outcomes: an intergovernmental-transnational approach

It is not, then, that the observational standpoint and the sensibility of the observer alone define the phenomenon. On my reading certain *objective* aspects of the phenomenon attract the attention of different observers.

(J.H.H. Weiler 1999: 272)

#### Introduction

Chapter 2 has introduced the double puzzle that the thesis seeks to answer: Why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)? Why have outcomes been higher in some policy areas (transport connectivity) than in others (energy)? The purpose of the present chapter is to provide an analytical framework to respond to both questions. This implies elaborating a single approach that can account for the changes in the institutional design (question 1) and, at the same time, for the variation of regionalism outcomes (question 2) within the particular historical and political setting of contemporary South America.

Since the first scholars interested in explaining European integration, the academic field of comparative regionalism has been built up around competitive theories grounded on broad traditions in social sciences such as functionalism, liberalism or realism (Rosamond 2000; Laursen 2003). These approaches not only focus their attention on different mechanisms and actors to explain the emergence, institutionalisation and outcomes of regionalism, but they also observe the complex phenomenon of regionalism from different perspectives or, as this chapter puts it, different levels of analysis. As the quotation at the beginning of the chapter notes, different aspects of regionalism attract the attention and the theoretical imagination of different observers. The task of the researcher is to decide which level of analysis, and therefore which actors and which mechanisms can best explain specific empirical puzzles. The task becomes even more challenging when we aim to adapt and *localise* general approaches into specific regional settings (Acharya 2004).

This conceptual chapter is based upon a twofold assumption. First, I follow the students of Latin America regionalism (see Malamud 2005; Malamud and Giardini 2012; Dabène 2012a; Gomez Mera 2013) in assuming that the intergovernmental level and, thus, the national executives are *necessary* to explain the emergence, institutional design and outcomes of contemporary South American regionalism. Second, although necessary the intergovernmental level is not *sufficient* to explain regionalism outcomes. In order to explain why South

American regionalism shows different outcomes across policy areas, it is necessary to look at the transnational level and the interplay between national governments and transnational non-state actors (Bruszt and McDermott 2009, 2012, 2014; Marks 2014; Djelic and Sahlin-Andersson 2006).

The chapter's next sections are dedicated to elaborating these two assumptions providing the basic analytical tools that will guide the empirical analysis in Part II and III. The chapter is structured as follows. The first section (3.1) elaborates the theoretical framework of the thesis. First (3.1.1), I map out the three more general explanatory approaches in the academic field of comparative regionalism – neofunctionalist, liberal and power-based approaches – highlighting the level of analysis, the actors and mechanisms each of them emphasises to explain the emergence, institutionalisation, and outcomes of regionalism. Second (3.1.2), I present the approach of this thesis based on observations both at the intergovernmental and at the transnational level, defining the actors and mechanisms at work in each level.

The second section (3.2) is devoted to the methodological framework describing the case selection, the methods of analysis based in process tracing, and the data collection.

## 3.1 Theoretical Framework

### 3.1.1 Competitive Approaches in Comparative Regionalism and their level of analysis

Political scientists have attempted to explain cooperation and integration since the first modern project of regionalism emerged after the post-WWII settlement. Even though the core of these theoretical approaches has unfolded in direct relation to the process of European integration and the development of the European Communities, significant cross-regional comparative efforts were also carried out as early as in the 1960s (see Haas and Schmitter 1964). Ever since the academic field of comparative regionalism has evolved throughout periods of more and less cross-fertilization among specialists from different regions and area studies (see Mattli 1999a; Laursen 2003, 2010; Van Langenhove 2011; Börzel and Risse 2016).

Nowadays, there are many off-the-shelf approaches ranging from middle range theories that aim to explain specific aspects of regionalism, to more ambitious attempts that seek to apply abstract concepts and models of international relations (IR) and international political economy (IPE) to the study of regionalism as a phenomenon. Table 4 displays the three perhaps more ambitious theoretical approaches in the field that rely on neofunctional, liberal and power-based explanations. They are ambitious because they all claim to provide **exclusive** explanations – i.e. they claim superiority over the other two - and **general** explanations – i.e. they claim to be applicable to different regional settings - of the emergence, institutional design and outcomes of regionalism.

**Table 4: Explanatory Approaches in Comparative Regionalism**

|                          | <b>Neofunctionalist</b>    | <b>Liberal</b>                             | <b>Power-based</b>                                     |
|--------------------------|----------------------------|--|--|
| <b>Level of analysis</b> | Supranational              | Domestic – Intergovernmental               | Intergovernmental                                      |
| <b>Mechanisms</b>        | Functional problem-solving | Market demand and inter-state negotiation. | Power balancing and bandwagoning (regional leadership) |
| <b>Actors</b>            | Supranational Technocrats  | Market actors and national governments     | National governments (especially from powerful states) |

Own elaboration

Aiming at correcting the classic functionalism represented by David Mitrany, **neofunctional approaches** became the theoretical model of the early years of the European integration process and the Community method of Jean Monnet. As such, neofunctionalism is normally considered as the base-line of European integration theory dividing the field among its defenders and contenders (Rosamond 2000). Yet, it is noteworthy that neofunctionalist ideas were also applied to explain the origins and outcomes of the first phase of *developmentalist* regionalism in Latin America (Schmitter 1970; Schmitter and Haas 1964; see Chapter 1), and many of their ideas still provide insights to contemporary students of South American regionalism (see Malamud and Schmitter 2007; Dabène 2012a; Palestini and Agostinis 2015).

As Table 4 shows, neofunctionalist approaches focus their analytical attention at the supranational level, which indeed was and still is the most salient aspect of European regionalism. From the neofunctionalist viewpoint, regional integration is a process driven by supranational technocratic actors through a mechanism of **technical problem solving**. National governments delegate competences to supranational technocrats spilling-over from one area into an increasing number of other policy areas in an almost automatic way, or as Ernst Haas aptly put it: without feeling as if they have been bullied (Haas 1964) into a process that should eventually lead to a political union<sup>19</sup>. Integration is thus carried out fundamentally by technical decisions rather than through the political stances at the *Grosspolitik*<sup>20</sup> (Haas 1964).

<sup>19</sup> According to neofunctionalism, “Political union implies any agreement under which existing nation-states cease to act as autonomous decision-making units with respect to an important range of policies. An under-politicized organization that takes exclusively the form of institutionalized forums among national representatives who do not delegate power to a central organ, cannot be considered a political union” (Haas, and Schmitter, 1964: 709-710).

<sup>20</sup> Haas shares with other great social thinkers of the first half of the century (among others Talcott Parsons, Gino Germani, Arnold Gehlen) the fascination with technical rationality, and the hope that technical reason will bring peace

Contemporary neofunctionalist scholars pay particular attention to the role of supranational technocracies, such as the bureaucrats of the European Commission, the economists of the European Central Bank and the judges of the European Court of Justice, who upgrade regional integration through dispute resolution and rule-making (Fligstein and Stone Sweet 2002). Supranational technocratic actors are not only agents mandated by principals – the governments - but real *trustees* that possess the authority to govern principals themselves, and its decisions are effectively insulated from reversal by the national governments (Sandholtz and Stone Sweet 1998).

**Power-based approaches**<sup>21</sup>, on the opposite side of Table 4, claim that is possible to explain regionalism exclusively based on observations at the intergovernmental level. Since the global political economy is assumed as anarchic – there is no higher authority to which states can resort - states and their executives remain the main actors (see Gilpin 2001). Therefore, it is possible to predict the emergence and the institutional design of regionalism by looking at the strategies of the more powerful states in a region (Pedersen 2002; Hurrell 2001). In fact, the approach predicts that regional powers engage in regionalism as a way to **balance** a threat normally stemming from pressures of an extra-regional power (Waltz 1979; Walt 1990; Muntzschick 2012). In some cases institutional change can also be explained because medium and small states decide instead of balancing a regional power to **bandwagon** it, as France and Italy did with Germany in the path from the European Monetary System towards the European Monetary Union (EMU) (Grieco 1995).

The parsimony of the power-based approach and its predictions based on the mechanisms of balance and bandwagoning seem to make it applicable to most cases of regionalism beyond Europe only looking at what national governments do: regionalism is explained purely through power asymmetries in an intergovernmental setting. Southern African governments, for instance, engaged in cooperation within SADC to balance South Africa. Arguably, the origin of ASEAN and its further institutional developments might be explained through the South East Asian countries' attempts to balance Vietnam in the 1970s, and nowadays China. The

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where politics brought war: “The advent of supranationality symbolizes the victory of economics over politics, over the familiar ethnocentric nationalism which used to subordinate butter to guns, reason to passion, statistical bargaining to excited demands” (Haas 1964: 71).

<sup>21</sup> Under this general label of power-based approaches I include all the different approaches in IR and IPE that are normally referred to as “realist”. By so doing, I try to avoid the cacophony of neorealist, defensive realism, offensive realism, neoclassical realism, etc. that compounds this branch of IR theory. In this regard I am following somewhat Robert Gilpin (2001: 15) when he points out that realism is a philosophical position, rather than a scientific theory. In an effort to systematize this position, William Wohlforth (2008) has argued that you are realist if you share four set of hard core assumptions: a) groupism: politics takes place within and between groups; b) egoism: when groups act politically, they are driven principally by narrow self-interest; c) anarchy: the absence of a global government dramatically shapes the nature of international politics; d) power: the intersection of groupism and egoism in an environment of anarchy, makes international relations largely a politics of power and security.

emergence of the Gulf Cooperation Council can also be seen as a mechanism to balance Iran (Hurrell 2001; Fawcett and Hurrell 1995). In the context of Latin American regionalism, the Contadora Group and its evolution into the Rio Group and later CELAC may be interpreted as balancing the US and its influence over OAS; in a similar fashion, it has been argued that the Andean Pact emerged as an attempt by the Andean countries to balance Brazilian expansionism (Teixeira 2012). *Prima facie*, the simplicity of the power-based approach explanation seems better suited for comparative studies than the neofunctionalist approach, which is too tied to the European integration experience.

I include under the general label of **liberal approaches** those approaches that conceive economic interests – instead of technical problem-solving or power - as the underlying rationale of regionalism. Like the power-based approach, liberals focus their explanation at the intergovernmental level in part reacting to the supranational focus of neofunctionalism. As a foremost liberal scholar has stated: while neofunctionalism became a *sui generis* theory for a *sui generis* institution –the European Community –, the liberal approach seeks to explain European Integration with reference to *general* theories of international relations that might also be applicable to any other international regime around the globe (Moravcsik 1993: 473-474; 1998).

However, liberals also depart from most power-based approaches because they connect the intergovernmental with the domestic level of analysis bringing to the front the role of market actors and their economic interests in shaping governments' preferences (Moravcsik 1993; Mattli 1999a and 1999b; Mansfield and Milner 1997). They argue that the **demand** for regionalism comes from the domestic level. Increasing economic interdependency among countries makes market actors – i.e. firms, business associations, interest groups – press national governments for, on the one hand, providing solutions to negative externalities that increase transaction costs, and, on the other, providing RPG to facilitate economic exchanges – e.g. regional infrastructure, regulatory harmonisation, dispute-settlement mechanisms, democratic protection mechanisms, etc. - . Through intergovernmental negotiations, national governments constitute the **supply** of regionalism and integration managing externalities and providing RPG (Moravcsik 1993; Mattli 1999a; Mansfield and Milner 1997; Genna and Hiroi 2015).

I would like to call attention to some fundamental implications behind the analysis made here and sketched out by Table 4. In fact, if the analysis is correct it means that these three approaches are neither as “exclusive” nor as “general” as they claim to be. In fact, as the initial quotation of J.W.W. Weiler points out, the scholars belonging to each approach are observers attracted by different aspects – analytical levels – of the phenomenon. Rather than grand theories that invalidate each other's observations, their approaches are middle-range theories that provide concrete tools and hypotheses to be tested in concrete regional settings

(about the non-exclusive and complementary character of regional integration theories see Solingen 2008; Dabène 2009; Risse 2016)<sup>22</sup>. Table 5 displays the hypotheses corresponding to each research question.

**Table 5: Hypotheses based on Approaches on Comparative Regionalism**

|                         | <b>Q1: Why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)?</b>  | <b>Q2: Why have outcomes been higher in some policy areas (transport connectivity) than in others (energy)?</b>   |
|-------------------------|--|---|
| <b>Neofunctionalist</b> | The shift from an informal to a formal institutional design is expected when technocratic actors want to insulate technical decisions from reversal by the national governments.   | Higher outcomes are expected in those functional areas where the technical problems are easier to solve (policy drives politics).   |
| <b>Liberal</b>          | The shift from an informal to a formal institutional design is expected when market actors want to lock-in their preferences through codified and preferably binding rules that provide legal-certainty that favour cross-national market exchange | Higher outcomes are expected in those areas in which market actors expect higher market gains and, therefore, exert stronger pressures on governments.                          |
| <b>Power-based</b>      | The shift from an informal to a formal institutional design is expected when governments of powerful states in the region want to prevent balancing from other powers and prevent defection of smaller states                                      | Higher outcomes are expected in those areas in which the governments of powerful states have higher interests and, therefore, develop the role of regional leader or paymaster. |

Underlying each hypothesis there is the explanatory logic of the different approaches. Neofunctionalism puts the emphasis on technocratic actors and technical problem-solving. It is noteworthy that in order to be applicable to South American regionalism, the neofunctionalist emphasis on *supranationality* must be nuanced. In fact, no sovereignty has been transferred to technocratic actors such as RDBs or general secretariats, which rather than supranational are better defined as *transnational* actors (see below). Regarding institutional design, neofunctionalism expects that RDBs press for formalising IIRSA in order to insulate technical problem-solving from political decisions by governments and, by so doing, preserve the sphere of competences that

<sup>22</sup> I use the notion of approach rather than theory to stress their middle-range scope and their non-exclusive character. I also prefer to talk about liberal and power-based approaches instead of specific strands (i.e. neofunctionalism, liberal intergovernmentalism, neoliberal institutionalism, or neorealism) because the emphasis on my discussion is put on the explanatory factors that these approaches rely on (problem-solving, interests, power) rather than in the particular schools within these traditions. Focusing on these three approaches does not mean that they are the only set of explanations used by scholars of regionalism. Yet, I think that they constitute the more general conceptual frameworks available.



they have reaped. Regarding outcomes, neofunctionalism explains higher outcomes in the transport connectivity areas because the technical problems are easier to solve.

The Liberal hypotheses put the emphasis on the pressures from the market place. Market actors interested in regional economic exchanges demand that governments supply regional institutions and RPG. It is important to bear in mind that the liberal explanation assumes the presence of high economic interdependencies among the national economies in a region. Regarding institutional design, the liberal approach expects that firms interested in transport connectivity and energy programmes will press South American governments to formalise IIRSA in order to lock-in their preferences and provide legal certainty to their economic operations. The higher provision of RPG in the transport connectivity area is explained, in turn, because higher economic gains are expected in that area compared with energy.

Finally, the power-based approach concentrates on the strategies of powerful states in the region. Powerful states will formalise regional institutions – and therefore constrain their own behaviour – *only* if by so doing they expand their influence in the region or they prevent balancing from other state. Similarly, powerful states will develop a role of leaders or paymasters only in those areas in which they have high interest from a geopolitical or security viewpoint. The power-based hypothesis is that Brazil formalised IIRSA into UNASUR to maximise or stabilise its power in South America, vis-à-vis Venezuela. The higher provision of RPG in the transport connectivity area than in energy is explained, in turn, because of the role assumed by Brazil as paymaster and regional leader in the former but not in the second area. Transport connectivity proved to be, following the power-based approach, a more suitable area than energy to influence the regional politics.

These hypotheses will be further discussed in the light of the empirical findings of the research, in Chapter 5 and Chapter 7. In the remainder of this Section, I will introduce the intergovernmental-transnational approach adopted in this research.

### **3.1.2 An intergovernmental-transnational approach**

To say that the previous approaches are complementary does not mean that they can be used randomly in an eclectic way. Still one important task remains: to decide which level of analysis and, therefore, which actors and mechanisms are the more adequate to account for the emergence, institutional design and outcomes of regionalism in specific regional settings and, in the case of this research, contemporary South American regionalism. This thesis addresses the research questions from an approach that combines the intergovernmental with the transnational level of analysis.

The more thorough attempts to explain contemporary Latin and South American regionalism have emphasised the intergovernmental level of analysis. Andrés Malamud (2003, 2005) for instance has persuasively argued that while in Europe integration has progressed through the institutionalisation of national economic interests, in South America – and in Malamud’s study in MERCOSUR – integration has progressed through **inter-presidentialism**, that is national executives that act and interact around national political interests. Inter-presidentialism is the main mechanism of South American integration, Malamud continues, due to the predominance of presidential instead of parliamentary regimes in all Latin American domestic political systems. Hence, domestic institutions confer to the presidents the legitimacy to take decisions that they implement through presidential diplomacy without having to delegate competences to supranational technocracies such as the general secretariat, commissions or regional courts: “inter-presidentialism” stands as a substitute of “supranationalism”.

Similarly, Olivier Dabène in his account of the evolution of Latin American regionalism has emphasized the intergovernmental level pointing out that **collective intergovernmental presidentialism** remains the chief mechanism of integration in Latin America in opposition to those accounts that emphasise the action of non-state actors (Dabène 2012a: 55). Like Malamud, Dabène argues that Latin American regionalism resembles the domestic presidential political institutions and that good personal relationship between presidents have been an important factor behind the leaps forward in the process of Latin American regionalism during the democratic period and, occasionally, under the military rule (Dabène 2009). In fact, presidential regimes assign constitutionally to the President the supreme responsibility for the foreign relations of the country, namely intergovernmental relations and diplomatic appointments and they hold the responsibility to sign international treaties, conventions and declarations of peace and war. The salient role of the heads of states in foreign policy making is thus at the expense of relatively weak roles played by political parties and the parliament (Amorim Neto 2012; Gardini 2011; Malamud 2008).

Certainly, no serious attempt to explain any aspect of South American and Latin American regionalism can overlook the intergovernmental level and the action of national executives. However, some aspects of regionalism seem to escape the control and agency of inter-presidential dynamics. In this thesis I assume that although the intergovernmental level and the national executives are *necessary* to explain contemporary South American regionalism, they are not *sufficient*. As the aforementioned scholars of Latin American regionalism have pointed out, national executives and intergovernmental mechanisms are crucial to explain the design of regional institutions. Heads of state and presidents –in the case of Latin American countries – interact, negotiate and eventually take decisions regarding, first, the policy areas in which regional cooperation will take place and, second, how to institutionalise cooperation in those areas. However, we must look beyond

intergovernmentalism to explain how these decisions translate into actual outcomes and why outcomes are more likely to be delivered in some policy areas than in others.

Therefore, some kind of “partnering” (see Biermann 2011) or, as I prefer, “brokering” with non-state actors is necessary in order to produce outcomes. Only when basic consensus reached at the intergovernmental level are aligned with the interests of transnational non-state actors is possible to expect implementation of regional policies and public goods. The **transnational level** is the space of interaction between governments and non-state actors oriented to create the rules to govern various policy areas in different regional settings (see Bruszt and McDermott 2009, 2012 and 2014; Djelic and Sahlin-Andersson 2006). At the transnational level we find actors that are different from governments but that they are also different from the supranational technocrats that neofunctionalism describes. As Gary Mark (2014) has rightly pointed out in most regional contexts states do not delegate authority to supranational institutions such a general secretariat or commission, but to other bodies that are partially or fully composed of non-governmental actors, such as transnational firms, transnational epistemic and expert communities, judges, or development banks. It is this type of actor that can be observed from a transnational perspective.

### 3.1.2.1 Intergovernmental level: explaining institutional design

The thesis explains variation in institutional design focusing at the intergovernmental level. The assumption is that different institutional designs respond to specific cooperation problems that governments face at certain junctures (see Koremenos, Lipson and Snidal 2001). I focus on **governments** as the main actors, and **preference convergence** as the main mechanism.

“Government” is a rather broad category that includes various sets of actors and agencies. In this research I limit the observations to the set of actors in charge of designing and carrying out the foreign policy of a government including not only the president, but also foreign ministers, political advisors and high-level diplomats whose declarations and public statements are also considered, in this research, as evidence of governments’ preferences<sup>23</sup>. In the literature on foreign policy this sub-set of actors is called “foreign policy executive” (Lobell, Ripsman, and Taliaferro 2009; Palestini and Agostinis 2014).

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<sup>23</sup> According to Amorim Neto, the capacity of the President to translate their preferences into policies depends much more on the control of the bureaucracies (mainly, but not only the Ministry of Foreign Affairs) than on the majorities in the parliament. The best way to control the bureaucracy is to nominate personnel close to the President himself (Amorim Neto 2012: 128). Although Amorim Neto’s argument refers to the case of Brazil and its powerful ministry of foreign affairs, the Itamaraty Palace, it might be generalisable to a certain extent to other presidential regimes in Latin America as well.

I define **preferences** as actors' material and normative positions regarding potential outcomes of cooperation in a given policy area<sup>24</sup> (Scharpf 1997). This thesis assumes actors are *reasonable* and *purposeful*. Reasonable because they act in accordance of what they judge as true or false, right or inappropriate, and genuine or insincere and because, they are susceptible to change those judgements if they are persuaded by other actors and their claims of truth, rightness, and truthfulness (see Habermas 1984). Actors are purposeful because they orient their actions and design their strategies according to goals. To assume they are reasonable and purposeful actors does not imply, however, that actors – politicians, policy-makers and businessmen alike – are utility maximisers who behave according to abstract preferences that the researcher can determine *ex ante* as assumed by neoclassic economics or public-choice political science. The thesis assumes that governments' preferences have to be studied *in the context* of specific cooperation problems.

**Cooperation problems** among governments in a region can emerge from two different sources: from asymmetrical interdependence among countries within the region (Keohane and Ostrom 1995; Mattli 1999; Moravcsik 2009; Bruszt and McDermott 2014; Börzel 2016), or triggered by an extra-regional shock or challenge (Palestini and Agostinis 2015; Fioramonti 2012; Rivarola and Briceño-Ruiz 2013; Capoccia and Kelemen 2007; Schmitter 1971). Asymmetrical interdependence means that, through their actions, states impose costs or confer benefits on others, and therefore they need to cooperate in order to coordinate their actions and manage potential negative externalities, such as the effects of the devaluation of a national currency on neighbouring countries, or the production of pollutants that affect other countries in the region. External shocks are sudden changes at the global political economy that produces synchronised effects on the countries in a region altering the payoffs of political decisions and compelling national executives to negotiate and find joint solutions. Examples are economic and financial crises, or changes in the flows of international trade. As it was shown in Chapter 1, the first and second phases of Latin American regionalism were triggered by these types of external challenges.

### 3.1.2.2 Transnational level: explaining outcomes

The thesis explains outcomes by focusing on the transnational level. The assumption is that in order to translate basic intergovernmental consensus into outcomes, governments need to broker transnational non-state actors. The relevant actors at this level are both **governments** and **transnational actors** and the main mechanism is **brokering**.

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<sup>24</sup> Material preferences are the result of a calculation of costs and benefits in terms of material interests related to a particular cooperation policy option, whereas normative preferences are shaped by actors' political and cultural identity, which influence actors' actions in a given social, cultural and geopolitical environment (Scharpf 1997).

There is a wide gamut of transnational non-state actors that can potentially participate in processes of regionalism. They all have in common two characteristics. First, they are not controlled by one particular national government and, second, they have not received delegation of sovereignty from the national governments. Because of this second property they are distinguishable from the “supranational actors” that neofunctionalism has focused on in the case of European regionalism. General secretariats and commissions of most regional organizations can be better defined as transnational actors since they might receive delegation of competences from states in certain policy areas without necessarily having jurisdiction over those areas, and without the capacity to issue decisions and resolutions with binding effects over states. Other examples of transnational actors are epistemic communities that might be organized as networks of experts and NGOs belonging to different national settings like the Inter-American Dialogue, or as formal organizations like the Latin American Faculty of Social Science (FLACSO) or the Latin American Organization of Energy (OLADE). For instance, the UN Economic Commissions, such as CEPAL in the case of Latin America and the Caribbean or the UNECA in Africa, are examples of transnational actors that are not supranational but cannot be reduced to particular national governments either, and that have played crucial roles in some phases of regionalism (see Chapter 1).

The type of non-state actors to focus on will ultimately depend on the policy areas considered. The present thesis focuses specifically on regional development banks (RDBs) and firms. RDBs are multilateral financial institutions that provide financial and technical assistance for development in low and middle-income countries within their regions (Ottenhoff 2011). Most RDBs were created during the 1960s and 1970s, in parallel with the setting up of the multilateral financial institutions of the post- WWII settlement with the function to allocate contributions from richer member states and extra-regional donors aimed at modernising and industrialising third-world societies. Many of them have undergone profound transformations in terms of their goals as well as in their mechanisms to leverage and allocate resources, becoming players at the financial system and providing financial assistance not only to governments but also to private actors through market-based mechanisms (Griffith-Jones, Griffith-Jones and Hertova 2012). Despite the fact that RDB have been relevant actors in most regionalism projects in Latin America, as well as in Asia and Africa, the literature on comparative regionalism has largely overlooked its role in regionalism that remains so far rather under-theorised. The thesis also focuses on transnational private actors in the sectors related to the two policy areas under study: energy and transport connectivity. This entails firms in the construction and in the energy sector.

There is not a single concept in the literature on regionalism to refer to the mechanism to coordinate governments and transnational actors. The concept of delegation, for instance, has been reserved to the interaction between governments and “supranational” actors and, hence, entails a transference of sovereignty or at least authority that, as it has been said, normally does not take place in the interaction between

governments and “transnational” actors (see Tallberg 2003). I call **brokering** the mechanism whereby governments align their preferences with transnational actors’ interests to carry out regionalism outcomes. Through brokering governments, regional and transnational organisations engage in information-sharing, technical-cooperation and policy coordination to produce some kind of RPGs (see Biermann 2008 and 2011). In this thesis I look at the way in which South American governments broker RDB and firms to implement transport connectivity and regional energy programmes.

### 3.2 Methodological Framework

The methodology of this research combines case studies with process tracing analysis. Case study is a research strategy based on the in-depth empirical investigation of one, or a small number, of phenomena in order to explore the configuration of each case, and to elucidate features of a larger class of (similar) phenomena, by developing and evaluating theoretical explanations (Ragin and Becker 1992). I selected the policy areas of transport connectivity and energy as cases of regional cooperation. The selection of these areas was made on the basis of the dependent variables. In the first place, transport connectivity and energy were the original policy areas chosen by the presidents in the First South American Summit (2000), thus they exist from the inception of South American-wide regionalism. Consequently, there is a period of fourteen years to trace back the factors that explain change in the design and variation in outcomes in both areas. Other policy areas comprised by UNASUR date from a much more recent period such as defence cooperation (2008) or drug-trafficking (2010) and, therefore, the timespan is not long enough to assess variation in institutional design or in outcomes.

In terms of the first dependent variable – institutional design – transport connectivity and energy underwent the institutional change from IIRSA to UNASUR. In terms of the second dependent variable – outcomes – both policy areas show a clear variation in the provision of RPG: transport connectivity corresponds to the “positive case” and energy corresponds to the “negative case” with a lower provision of RPG. The analysis of the cases of transport connectivity and energy was geared towards refining the hypotheses drawn from the approaches in comparative regionalism presented in the previous section, clarifying and contextualising their causal mechanisms. The case studies helped to generate inductively the intergovernmental-transnational approach used in this research. Pascal Venesson (2008) calls this method heuristic case study, to differentiate from purely descriptive, or theory-testing case studies<sup>25</sup>.

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<sup>25</sup> In descriptive case studies the aim is to systematically describe the phenomenon with no explicit theoretical intention. Theory-testing case studies are used, in turn, to assess whether existing theories account for the processes and outcomes of selected cases (Venesson 2008:228).

George and Bennet (2005: 176) define process tracing as a method for identifying steps in a causal process leading to the outcomes of a given dependent variable of a particular case in a particular historical context. I use process-tracing analysis to reconstruct the institutional development of regionalism in both policy areas and to single out the actors and mechanisms that explain change in institutional design and variation in outcomes during the period 2000-2014.

At the intergovernmental level, I traced back the summits to identify the processes of preference convergence. The analysis of the presidential declarations provided an objective although not conclusive evidence of convergence. Declarations are, in fact, public statements signed by the highest representatives of the national governments and therefore they are open to the scrutiny of the other national governments and also the general public. Furthermore, the content of the declarations is subject of intense negotiation in which foreign ministers, in a first instance, and presidents, in a second, engage in processes of persuasion and communicative action. Hence, the issues where there is a strong divergence of preferences among national governments that could not be reduced through negotiation are most likely to be left out of the final text. However, declarations do not constitute a conclusive evidence of preference convergence. Actors can break or ignore the commitments expressed in the declaration or they can even follow the majoritarian opinion and sign the declaration in spite of partial disagreement. For this reason, I triangulate the textual analysis of declarations through semi-structured interviews with political actors, high diplomats and policy-makers as well as through the analysis of the press especially during the period around the summits. The memoirs and public statements of relevant political figures also helped me to understand better the process of preference convergence and contextualise the texts of the declarations.

At the transnational level, I traced back the technical meetings within IIRSA and the sectoral councils of UNASUR through the analysis of policy-reports and working papers published by national ministries, regional development banks and the General Secretariat of UNASUR. Semi-structured interviews with representatives of business associations, technocrats from the RDBs and the General Secretariat helped to identify the interaction between intergovernmental consensus and implementation.

The literature mentions three main methodological challenges related to the use of process tracing analysis (see Falletti 2006; Bennet and Checkel 2015). The first one – shared with all type of socio-historical analysis - is to determine the timeframe of the analysis, in other words to determine which point of time is taken as a starting point to trace back the causal steps, and consequently, when the analysis stops. In the case of this research, this first challenge was easy to solve. I took the latest year of the ongoing cooperation process (2014) as the final point of time in which I can observe variation in the dependent variables. From 2014, I traced regional cooperation back until the year in which the process was set in motion: 2000. I included in the

analysis, however, the last years of the 1990s to trace the initial conditions of regionalism. Figure 2 shows the timespan of the research. Below the timeline the main intergovernmental meetings that have an impact on the institutionalisation of the policy areas under study are depicted. Above the timeline the critical points of this institutionalization are displayed: the creation of IIRSA, the launching of the Community of South American Nations, and the formalisation of that community into UNASUR with its sectoral councils.

**Figure 2: Timespan**



The second methodological challenge relates to the assumption that each case can be treated as autonomous and independent from each other. Cases are often deeply connected to one another, even embedded in one another, and the main task of the researcher is to account for both the distinctive and the common dimension of the cases. This methodological observation is particularly relevant in this research, since the two policy areas – energy and transport connectivity – were interconnected during parts of the period analysed. Actually, until 2006 they were comprised under the scope of the same informal institution (IIRSA) and only then started to be considered as functionally differentiated until being formally separated with the formalisation of UNASUR in 2008. In the analysis, I show this process of differentiation and how the intergovernmental and transnational dynamics were unfolding in a separate way in both policy areas.

Finally, the third methodological challenge is that process tracing needs extensive empirical data. The thesis tackles this challenge through extensive fieldwork based on interviews and the analysis of primary documents, as well as secondary sources such as policy reports, and specialised volumes on South and Latin American regionalism, both published within and outside the region. Most of the documents and interviews were collected and carried out in South American countries. The fieldwork was undertaken in two periods, between September and December 2012 in Brazil, and between October and January 2013-2014, in Brazil, Ecuador, Chile, and Argentina. Semi-structured interviews were carried out with high representatives of national executives, bureaucrats from regional organisations, policy-makers, representatives of business associations, representatives of regional development banks, academics, and journalists. In addition, online



interviews were carried out with actors located in other South American countries. A total of 42 semi-structured interviews were carried out and 120 documents analysed.

The complete list of the interviews and documents analysed are added in the Annexes of the thesis. The direct quotation of sources in the text is indicated with a letter I (for interviews), D (for documents) and P (for press) with a number that identifies the specific source.

### 3.3 Conclusions

This third chapter has presented the theoretical and methodological framework of the research. I have argued that rather than competitive and exclusive *grand theories*, the three main approaches in the field of comparative regionalism – neofunctionalist, liberal and power-based approaches – are middle range theories that look at specific levels of analysis of regionalism emphasising specific actors and mechanisms. These approaches offer useful heuristic tools and hypotheses to tackle empirical research questions about the emergence, institutional design and outcomes of regionalism.

In this thesis, I have adopted an intergovernmental-transnational approach under the assumption that intergovernmental dynamics are *necessary* but not *sufficient* to explain the variation in institutional design and cooperation outcomes of South American regionalism. Through process tracing I have analysed the intergovernmental negotiations and the interaction between governments and transnational actors in the areas of transport connectivity and energy to account for the variation in institutional design and in outcomes.

The next two parts of the thesis will present the analytical narratives produced by this analysis. Part II explains the variation in institutional design through an intergovernmental analysis looking at two junctures: 1998-2000 and 2006-2008. Part III, in turn, explains the variation in outcomes through a transnational analysis looking at how governments have brokered transnational actors to implement the basic consensus reached at the intergovernmental level.



## **PART II**

### **The Intergovernmental level: designing institutions**



## CHAPTER 4

### Explaining the institutional design of IIRSA

#### Introduction

Part II of the thesis focuses on the intergovernmental level of analysis to explain the change in institutional design addressing the first research questions: Why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)? The argument put forward through Chapter 4 and 5 is that the institutional design selected by the governments reflects two radically different cooperation problems at two junctures 1998-2000 and 2006-2008. At the first juncture, an informal institutional design better accommodated the preferences of South American governments that wanted to cooperate in policy areas that could yield mutual benefits but without become locked-in codified rules and without creating a new regional bureaucracy. The resultant institution was IIRSA a network of technical ministries in the areas of transport and energy, coordinated by three regional development banks (RDBs).

This chapter deals with this first juncture. Its structure consists of three sections. In the first (4.1) I introduce the cooperation problem that explains the emergence of South American-wide regionalism in 2000. The cooperation problem was triggered by an external challenge (the negotiations of the US-led Free Trade Area of the Americas or FTAA), and by the MERCOSUR political and commercial crises provoked by the Brazilian devaluation of 1999. The second section (4.2) describes the process of preference convergence. The Brazilian executive identified policy areas in which was possible to find a basic consensus that could help to improve its negotiation position vis-à-vis the US and help to contain the MERCOSUR backlash produced by the devaluation. The chapter concludes (4.3) by showing why IIRSA was the institutional option chosen to solve the cooperation problem.

#### **4.1 The cooperation problem: the FTAA and the MERCOSUR Crisis (1998-2000)**

IIRSA institutional design became definitively established during the two first Summits of South American Heads of State held in Brasilia (September 2000) and in Guayaquil (July 2002). Together these two presidential declarations constituted the first intergovernmental consensus about South American-wide regionalism and officially created IIRSA as an informal institutional arrangement focused on the areas of

energy and transport connectivity. However, the cooperation problem that explains IIRSA's emergence and institutional design has to be traced back to the last years of the 1990s: IIRSA was the solution found by South American states to respond to the external pressures of the FTAA negotiations that were worsened by the commercial and political crisis of MERCOSUR.

Following the framework presented in Chapter 3, the FTAA can be conceptualised as an external shock with synchronised effects on the preferences of South American governments regarding global insertion (Fioramonti 2012; Palestini and Agostinis 2015). The crisis of the MERCOSUR, in turn, can be read as a consequence of asymmetrical interdependence in which the devaluation carried out by the biggest partner – Brazil - produced dramatic negative effects on the economies of its commercial partners: Argentina, Paraguay and Uruguay (Keohane and Olstrom 1995; Moravcsik 1993).

The action in tandem of the FTAA negotiations and the MERCOSUR crisis led Brazil to propose a loose and flexible scheme of cooperation, without compelling governments to invest in a regional bureaucracy and get locked-in binding commitments, and was oriented to keep South American states together to face the external negotiations.

#### 4.1.1 The FTAA

We trace our origins, our shared history, to the time of Columbus' voyage and the courageous quest for the advancement of man. Today the bonds of our common heritage are strengthened by the love of freedom and a common commitment to democracy". President H.W Bush<sup>26</sup>

The Free Trade Area of the Americas (FTAA) was the third of a series of cooperative initiatives that the US government launched that were oriented to the countries to the south of the Rio Grande in the wake of the Cold War. Essentially, it consisted in enlarging the North American Free Trade Agreement (NAFTA) to the rest of the Americas, from Alaska to the Fire Land, and its rationale is to be found in the geopolitics rather than in the market. Differently from the NAFTA,<sup>27</sup> which entailed clear market gains for the US economy,

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<sup>26</sup> Source: Remarks Announcing the Enterprise for the Americas Initiative: <http://www.presidency.ucsb.edu/ws/?pid=18644>

<sup>27</sup> NAFTA was, indeed, conceived as an economic integration project aimed at constructing a free trade area between Canada, the US, and Mexico. By 1992, the three economies together accounted for \$6.5 trillion out of a total hemispheric GDP of approximately \$7.5 trillion, being, therefore, the most important economic arrangement ever made in the Americas (Arashiro 2011: 26).

the economic payoffs stemming from a hemispheric free trade area were far from obvious<sup>28</sup>. Following liberal scholars, it is fair to say that the demand side for the FTAA was quite weak (Mattli 1999).

Several factors explain the US interest in the FTAA. First, the US had started to feel threatened by the completion of the Single Market in Europe and the predominance of Japan in East Asia. There was a *declinist* mood in the US public opinion that had been unfolding since the 1970s about the apparent superiority of the Japanese and German models of capitalism (Phillips 2008). Second, the US was losing political influence in Latin America – its backyard – especially after the creation of the *Contadora* Support Group and its further institutionalization in the Rio Group (Burgess 2009). Third, and perhaps more importantly, the 1990s was an unprecedented historic moment that made the hegemonic project of the FTAA particularly opportune. In fact, for the first time in history most Latin American countries were aligned with the principles of liberal democracy and free markets under neoliberal development models. Faint glints of developmentalist models – as in the Argentina of President Alfonsín and the Brazil of President Sarney – quickly vanished creating room for neoliberal governments aligned with the US to promote liberal democracy accompanied by free markets policies. Not only were governments aligned with market driven reforms and liberal democracy, but also the intellectuals of Latin American regionalism such as the economists of CEPAL and IDB who advocated structural adjustment and free market reforms, privatized public services, macroeconomic stability and fiscal discipline were also pretty much aligned with US economic advisors (Castañeda 1994; Feinberg 1997; Edwards 1995; Briceno-Ruiz 2008; Vivares 2013).

The analysis of governments' preferences shows that the FTAA split South America into two groups: a majority of governments with intense preferences to conclude in a fast and positive way an agreement with the US and, on the other side Brazil, with its intense preference to delay the negotiations and simultaneously improve its bargaining position through a stronger MERCOSUR or even a larger South American Free Trade Area (SAFTA<sup>29</sup>) that would economically integrate MERCOSUR with the Andean Community (CAN) (Menezes, 2013; Amorim 2013).

Table 6 sketches out the intensity of the preferences of South American governments for a positive conclusion of the FTAA negotiations versus strengthening MERCOSUR for the countries that were already

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<sup>28</sup> Leaving the NAFTA members – Canada and Mexico – and the Brazil – the largest South American economy – aside, the market opportunities opened up by a trade agreement with the rest of Latin American economies were rather marginal. Furthermore, the market access to Latin American economies was already ensured by the unilateral liberalisation that those economies – although at a different pace – were undertaking as part of the structural adjustment reforms and as an expected result of the Uruguay Round (Arashiro, 2011; Teixeira 2011).

<sup>29</sup> President Itamar Franco (1992-1995) announced SAFTA in 1993 to the rest of South American Presidents in the Summit of the Group of Rio in Santiago of Chile, right after Mexico confirmed the accession to the NAFTA.

members, or establishing stronger commercial ties with MERCOSUR for those countries that were members of CAN.

**Table 6: Preferences before the Brazilian devaluation**

| <b>National Governments</b> | <b>Preferences for a quick FTAA agreement</b> | <b>Preference for MERCOSUR – SAFTA</b> |
|-----------------------------|---|--|
| <b>Argentina</b>            | Strong  | Strong                                 |
| <b>Bolivia</b>              | Strong  | Strong                                 |
| <b>Brazil</b>               | Low   | Strong                                 |
| <b>Chile</b>                | Strong  | Low                                    |
| <b>Colombia</b>             | Strong  | Low                                    |
| <b>Ecuador</b>              | Strong  | Low                                    |
| <b>Paraguay</b>             | Low   | Strong                                 |
| <b>Peru</b>                 | Strong  | Low                                    |
| <b>Uruguay</b>              | Low   | Strong                                 |
| <b>Venezuela</b>            | Medium  | Medium                                 |

Own Elaboration

As it is possible to see most of the national governments had strong preferences for a positive and quick conclusion of the FTAA. The Chilean government of Patricio Aylwin (1990-1994) had already showed significant interest in becoming part of the enlarged NAFTA, either through a hemispheric or a bilateral negotiation. Chile was not a MERCOSUR member and the possibilities to become a member of the Brazilian-led custom union were hindered not only by a certain reticence of the Chilean political and economic elite to anchor Chilean global insertion within the region (Ferro 2011), but also by the existence of the technical barrier of the external tariff. In fact, in the 1980s, the Chilean economy established a low, non-negotiable fixed tariff of 11 percent, far lower than the MERCOSUR Common External Tariff of 35% set by the Protocol of Ouro Preto. Thus, Chile, on its part, was not willing to shift its open regionalism strategy for a reorientation towards the uncertain Brazilian market through full membership, and the MERCOSUR partners, on their part, were not willing to admit a flexible and gradual insertion of Chile (I23; see Sáez and Valdés 1999).

With a constantly negative trade-balance with MERCOSUR, Andean countries were not convinced by the idea of MERCOSUR-CAN integration. Furthermore, the inter-block trade flow was low (2.5% of the total exports) and the asymmetries of competitiveness with Brazil were huge. Andean countries manifested, therefore, more intense preferences for an earlier conclusion of the FTAA (Feinberg 1997; Dabène 2013; P1).



Among the Andean countries, the Venezuela government of President Caldera showed relatively little interest in the FTAA that did not involve the energy industry and, instead, was more receptive to an approach to MERCOSUR and particularly Brazil (Serbin 2011).

Within MERCOSUR, Argentina – the main commercial partner of Brazil in the region - expressed increasing interest in becoming a NAFTA member. Despite being member of MERCOSUR, the Argentinean government led by President Carlos Menem (1989-1999) expressed an interest in a trade agreement with the US to be concluded as soon as possible and ideally before the FTAA deadline of 2005. By so doing the Menem administration ended the historically distant relationship between Argentina and the US. As early as 1991, during a meeting with the IDB, the Argentinean Foreign Ministry, Guido Di Tella, publicly stated that his government explicitly pursued a close and cooperative relationship with Washington<sup>30</sup> and later, in 1996, the Argentine deputy foreign minister Fernando Petrella, stated that Argentina's commitment to MERCOSUR did not exclude participation in other initiatives (Feinberg 1997).

Contrary to a swift conclusion of the FTAA were the other three MERCOSUR members: Paraguay, Uruguay and especially Brazil. By the time of the beginning of the FTAA negotiations Paraguay and Uruguay were already highly dependent on the Brazilian economy and its political and economic elite were interested in strengthening the custom union (Lambert 2011). The position of the Paraguayan and Uruguayan governments was to back up the Brazilian position to negotiate the FTAA through a collective agreement (single-undertaking) based on the existent sub-regional blocks in opposition to the original idea of the US and Canada to speed up the negotiations on a bilateral basis, advancing with those who are “willing to do it”<sup>31</sup> (P2).

For Brazil, in turn, the FTAA represented not only few market gains, but also a threat to important sectors of its economy and to the project of a deeper and stronger MERCOSUR (14). In fact, unlike Argentina, Chile and Colombia, Brazil did not entirely abandon the set of *developmentalist* policies even after the crisis of the ISI-model at the beginning of 1980, nor did it fully embrace the Washington consensus model of economic growth driven by FDI-attraction (Hochstetler and Montero 2013; Evans 1995; Kurtz and Brooks 2008). The “National Program for the Des-Statization” (*Programa Nacional de Desestatização*) carried out under the Fernando Collor's administration left in the state's control shares of Petrobras (oil company), Embraer

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<sup>30</sup> The famous statement of Di Tella that Argentina “was not looking for Platonic, but carnal relations with the US” was distinctive of Menem's foreign policy. The Argentinean intention to become part of the NAFTA was, nonetheless, curtailed by the high economic interdependence with Brazil that was institutionally locked-in through the formalisation of the Common External Tariff of MERCOSUR by the Protocol of Ouro Preto. However, the Argentinean government would keep the exit option as part of its bargaining tools in the bilateral relations with the Brazilian state.

<sup>31</sup> A strategy that the US negotiators called an “early harvest”.

(aeronautics) and golden shares in Vale do Rio Dôce (mining and engineering), Usiminas (mining) and CSN (steel), thereby hindering major changes in ownership, especially through foreign take-over (Carranza 2003; Evans 1995; Schneider, 2009). By the time the FTAA was announced, renewed developmental policies had redefined the purposes of many of the state banks, public firms, and technology institutes that played central roles in the ISI period (Hochstetler and Montero 2013). Moreover, the same sectors and firms that had been the targets of ISI-oriented policies in the 1950s, became the “national champions” of the industrial strategy during the presidencies of Itamar Franco (1992-1995), Fernando Henrique Cardoso (1995-2002) and later with the *Worker's Party* governments of Lula da Silva and Dilma Rousseff (2003 onwards).

Those “national champions” that benefited from the Brazilian industrial policies and the selective privatisation were, indeed, highly competitive within the South American market, and therefore, were the main potential losers of the FTAA. Big Brazilian companies profited from tariff protection in the sectors considered strategic - such as cement and hydroelectric power technology - and production was fostered by government procurement policies that favour domestic suppliers in sectors such as construction, energy and mining (Schneider 2004; Hochstetler and Montero 2012). In brief, Fernando Henrique Cardoso is probably sincere in his memoirs when he alleges to feel confused when his opponents “label” him as a neoliberal president (Cardoso 2006).

While Brazilian industrialists stood as the main losers of FTAA, the agricultural sector had the major comparative advantages vis-à-vis the US. However, the experience of US-Mexico negotiations under the NAFTA warned that the US was particularly protective regarding agricultural safeguards. The main domestic pressures for getting an agreement with the US came from the agribusiness, organised around the Brazilian Business Coalition (*Coalizao Empresarial Brasileira*), in 1996, and very active throughout the eight years of FTAA negotiations. In addition to the somewhat ambiguous gains of trade integration, the Brazilian national executive had to weigh up the aftereffects of several measures of regulatory integration envisioned in the FTAA. In fact, Brazilian autonomy to design the national development model – a cherished principle for Brazilian foreign policy tradition - would be radically limited by the rules entailed by a *NAFTA-like* agreement in the areas of industrial policy, foreign direct investment protection, intellectual property rights and services (Arashiro 2011; Botto and Bainculli, 2011; Evans 2009; D61).

The position of the Brazilian executive regarding the FTAA was, therefore, that a hemispheric trade agreement could be only beneficial if it takes into consideration the different economic structure and interest of MERCOSUR<sup>32</sup> (Carranza 2003; Teixeira 2011). And this should be made through strengthening and

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<sup>32</sup> This was clear for Brazilian state actors since the launching of the US-led hemispheric project. In fact, as soon as George Bush announced his Enterprise for the Americas Initiative, the Collor de Mello administration in Brazil

enlarging the regional block to other South American countries. As far back as in 1993, the President Itamar Franco (1992-1995) proposed in the Summit of the Group of Rio in Santiago of Chile the idea of a South American Free Trade Area (SAFTA) that would integrate the two sub-regional blocks: MERCOSUR and CAN. The main intellectual author of SAFTA was Franco's Foreign Minister, Celso Amorim, who gained the support of the rest of the Ministers of Foreign Affairs of MERCOSUR. In Amorim's memoirs it runs:

For Brazil, integration could not become limited to the Southern Cone. A policy oriented to the whole South American region was needed, and this policy started to get crafted with the creation of the SAFTA [...] The huge asymmetries in the tariff structures prevented the pure and simple extension of the MERCOSUR to the region. The solution that I found was to propose a free trade area encompassing the whole South America. [...] Although the SAFTA did not advance from the perspective of trade, this project – or **the idea upon which it was based** - gained political status with the First Summits of South American Presidents convened by President Fernando Henrique Cardoso in Brasilia in 2000 [...] **The South American integration could not be overtly opposed to the hemispheric project, the FTAA, which was desired by many, but it could become its counterpoint** (Amorim 2013: 125-126, bold added).

While for the Brazilian executive SAFTA was conceived as “the counterpoint of the FTAA”, for MERCOSUR partners, SAFTA was perceived as a *stepping-stone* to the hemispheric agreement with the US as it is evidenced in the ministerial declaration:

Ministers agree that [SAFTA] will facilitate the integration of the region into the hemispheric economy and the world (D74).

In 1996 the Brazilian proposal of SAFTA seemed to take its first steps when the governments of Bolivia and Chile, despite the strong interest to gain access to the NAFTA, became instead MERCOSUR associate members. Disappointed with the Clinton administration's inability to materialise Chile's accession to NAFTA, Chilean advocates of expanding ties with MERCOSUR, mostly located in the Ministry of Foreign Affairs, gained ground vis-à-vis NAFTA supporters located in the ministries of Economy and Finance. Sectors of the Chilean business, particularly the industry organised around the SOFOFA (Society of Industrial Promotion) that were more confident in their market opportunities in Argentina and Brazil than in Mexico and the US, pressed the government of Eduardo Frei (1994-2001) to take a favourable position towards MERCOSUR. Simultaneously with the accession of Chile and Bolivia as associated countries, a dialogue to

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responded that it would only negotiate a hemispheric agreement within the 4+1 framework, i.e. the four countries of the recently created Mercosur would take a joint position when negotiating with the United States (Teixeira 2011: 192).

implement a convergence between MERCOSUR and the Andean Community (CAN) was officially initiated (Arashiro 2011; Schneider 2001).

The apparent success of the Brazilian executive to make other states' preferences converge around an enlarged MERCOSUR was, however, rapidly called into question by a second critical event this time from within the block.

#### 4.1.2 The MERCOSUR Crisis

As it was described in Chapter 1, MERCOSUR started as a bilateral agreement to foster the economic relations between Argentina and Brazil. It was also an important underpinning of the democratisation process in both countries (Dabène 2004). With the integration of Paraguay and Uruguay and its formalisation by the Treaty of Asunción, MERCOSUR became the regional project of Brazil. As far back as 1994, Fernando Henrique Cardoso in the Ministry of Foreign Affairs office, stated:

The priority of Brazil is the consolidation of MERCOSUR which is not only the integration project viable in the short run, but also the platform from which we will reinforce our articulation with other centres of the international economy (Cardoso 1993)

The first seven years of the MERCOSUR, since the ratification of the Treaty of Asunción in 1991, appeared to be the “day in the sun” for the economic integration organisation leaving behind the lost decade as well as the effects of the external debt in the Southern Cone (Cason 2011). That relatively calm situation changed dramatically at the end of the decade, when a series of financial crises crudely showed, on the one hand, how vulnerable MERCOSUR countries were to external shocks and, on the other, how interdependent they were on the political decisions of each other (Keohane and Olstrom 1995; Chapter 3).

The first warning came precisely at the time when the final details of the Protocol of Ouro Preto were being negotiated. Indeed, in December 1994, Mexico went through a devaluation provoking financial shock waves around Central and South America (Carranza 2003). Even though the Mexican Peso crisis did not seriously hit MERCOSUR, it switched on the alarm bells that South American countries were highly vulnerable to external shocks<sup>33</sup>. In fact, three years later, in 1997, the Asian financial crisis unleashed in the ASEAN

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<sup>33</sup> Cason's thesis is that the Mexican Peso crisis indirectly strengthened the MERCOSUR. According to him, the crisis strongly discouraged the US Congress to pursue a NAFTA enlargement to South American countries that were willing to become “US four *amigo*”, such as Chile or Argentina. As a consequence, Brazil had more room to attempt the strengthening of MERCOSUR, and keep Argentina's propensity to free-ride under control (Cason 2011).

countries<sup>34</sup>, transmitted to Russia and eventually triggered the Brazilian devaluation, ending seven years of relative currency stability and provoking the most serious crisis hitherto within the MERCOSUR (Cason 2011).

The real effects on South American economies and particularly on Brazil came after the Russian devaluation in August 1998 that dramatically increased the drain of Brazil's foreign exchange reserves. Inside the Brazilian government, some voices raised the claim for a devaluation of the *real* as the only way to stop the capital flight. However, the economic team of Cardoso's first administration had been trying for months to contain the pressures on the devaluation in order to avoid the political consequences both at the domestic level, where Cardoso was running for the re-election campaign, and at the regional level with his MERCOSUR partners (Cardoso 2006; Bulmer-Thomas 2001; Teixeira 2011). Despite a massive IMF bailout<sup>35</sup>, the Brazilian government announced officially the devaluation of the *real* by nearly 40% on January 1999, abandoning the policy introduced by Cardoso himself in 1994 when he was minister of finance, the Plan Real, which tied the Brazilian currency to the dollar reserves, keeping a tight rein over the money supply<sup>36</sup>.

The decision to devalue the *real* was taken by the Brazilian government unilaterally without any consultation with the governments of MERCOSUR partners and it unleashed immediate trade unbalances within the Southern Cone block. Cardoso explained afterwards that the sudden devaluation was not part of a secret plot to seize market share for Brazil as it was perceived by its MERCOSUR partners, but an unwanted necessity thrust on him virtually overnight by the international markets (Burgess 2009). In any case, the second term elected President Cardoso was fully aware of the consequences that the devaluation would bring to the regional politics.

The day after the currency devaluation, President Cardoso made the following sombre notes, which later appeared in his memoirs:

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<sup>34</sup> The Asian financial crisis started in Thailand in July 1997, spreading to Indonesia, the whole of ASEAN, East Asia and from there to the rest of emerging economies in Eastern Europe and Latin America. Since many developing countries liberalised their capital accounts in the 1980s and 1990s as part of the structural adjustment programmes, more money flowed in and out these markets. The loss of confidence in Thailand's economy tended to be magnified and became self-reinforcing (Phillips 2004; Cason 2011).

<sup>35</sup> With Clinton's support and through a hard negotiation, the Brazilian government was assisted with an IMF programme that pledged US\$ 41.5 billion in October 1998 to prevent the "Asian flu" from spreading to the entire Latin America (Bulmer-Thomas 2001; Carranza 2003).

<sup>36</sup> The decision to devalue was mainly the consequence of a domestic struggle. In fact, the IMF bailout had restored the confidence of the investors in Brazil, showing that there was a possibility to stop the capital flights. However, the speculative pressures against the *real* were fuelled again by the announcement of the governor of the state of Minas Gerais that he would no longer pay his state's debt to the federal government. A domestic quarrel between the *mineiro* governor and the federal government offset the impact of the programme. (Cason 2011)<sup>36</sup>.

This morning I heard on TV that Menem is already anticipating the facts, discussing the dollarization and the monetary union of Argentina with the US. It would be the death blow of MERCOSUR, and in that situation either Brazil becomes isolated or it integrates to the FTAA in the worst conditions ever (Cardoso's notes, 22<sup>nd</sup> January, 1999. Quoted in Cardoso 2006: 418)

The Brazilian devaluation provoked three immediate consequences for MERCOSUR. First, it brought about an economic recession in its partners' economies while at the same time its own economy received a boost thanks to the devaluation<sup>37</sup>. Second, there was a rise of trade disputes, especially in key industrial sectors such as the automotive sector. Argentina and Brazil were eager to attract foreign investment in the automotive sector to get out of the recession. Brazil wanted free access to the Argentine market, while Argentina wanted to preserve its automobile industry, which had been hit hard by the Brazilian devaluation. Argentina's four hundred auto parts companies feared being wiped out by Brazilian competition, and demanded the inclusion in the final automotive regime of a higher percentage of Argentine parts for cars produced in Argentina (Gomez-Mera 2013). Third, the devaluation dramatically eroded the competitiveness of Brazilian partners. Argentine exports (particularly automobiles, steel, rice, and fruit) became less competitive on the Brazilian market, compelling Argentine producers to seek new markets elsewhere in Latin America<sup>38</sup>.

The effects on the small countries were also evident. Uruguayan exports of products, like textiles, wool and grains to Brazil became non-competitive provoking strikes in Montevideo where the headquarters of the MERCOSUR General Secretariat are located. The governments of Uruguay and Paraguay vocally claimed against an unfair integration process that was disproportionately benefiting Brazil while damaging their own national economies (Lambert 2004; P3).

The immediate actions taken by Brazil at the beginning of the crisis showed inconsistency with its strategy to strengthen MERCOSUR and backfired, worsening the conflict with its smaller partners and indicating turmoil within the Brazilian foreign policy executive. In April 1999, for instance, Brazil began bilateral negotiations with Peru - a member of CAN - undermining the intra-block negotiations between CAN and

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<sup>37</sup> While Brazil could overcome the recession thanks to the boost of its exports produced by the devaluation, Argentina continued to be stuck to its convertibility plan renouncing to an independent monetary policy and hence narrowing its room for manoeuvre (Kumar Saha 2004).

<sup>38</sup> The Brazilian devaluation produced a much feared "flood" of cheap Brazilian imports to Argentina, from chickens to footwear. In the first eight months of 1999, imports of Brazilian textiles increased by 37.6 %; imports of Brazilian footwear rose by 66.4% in the same period. The Menem administration faced fierce lobbying pressures from local industrial associations that constrained the government from imposing a variety of restrictions on trade with Brazil such as a surcharge to imports of Brazilian iron, quotas for Brazilian textile imports and prior licensing for imports of paper (Carranza 2003: 82; Cason 2011).

MERCOSUR. Some months later, the Brazilian government announced the suspension of negotiations with Argentina, threatening to dissolve MERCOSUR if the Argentinean government did not drop out of the non-automatic import-licensing and quotas that Buenos Aires was implementing. The Common Market Group failed to solve the controversy, and Brazil threatened to complain about Argentina's safeguards to the WTO and keep on imposing restrictions on four hundred Argentinean products (Carranza 2003). The MERCOSUR's "days in the sun" had passed away, and the idea of SAFTA was seriously put in jeopardy.

Throughout 1999, official documents circulated both in *Planalto* (Brazilian Presidency) as well as in Itamaraty emphasising the urgent need to expand MERCOSUR beyond the Southern Cone. According to Matias Spektor the purpose of the strategy that brought the SAFTA policy idea back again to the table, was to dilute the relative power of Argentina inside the block and increase the maneuvering space of Brazil (Spektor 2010). To be sure, MERCOSUR should not be abandoned, but it should be expanded through a more encompassing regional project. The project of a South American-wide regionalism had come up to the very top of the Brazilian foreign policy agenda.

## 4.2. Preferences converge

The FTAA negotiations and the MERCOSUR political and commercial crises constitute the cooperation problem from which South American-wide regionalism emerged. The first event showed how dramatically divergent the Brazilian preferences were from the preferences of Argentina, Chile and the CAN members regarding global insertion in general, and the trade relations with the US in particular. The MERCOSUR crisis, in turn, showed how vulnerable was this sub-regional project and how fragile were the political relationships among the members of the block. Moreover, the MERCOSUR crisis showed the unviability –in the short run – of a South American Free Trade Area as a counterpoint to the FTAA.

Acting in tandem, the FTAA negotiations and the MERCOSUR commercial and political crisis pushed South American states and particularly the main economy – Brazil - to search for and experiment with a regionalist project different from trade that could make South American governments' preferences converge around a basic intergovernmental consensus. In his public statements, F.H. Cardoso refers to this regional project as "organizing the South American space".

### 4.2.1 Where to cooperate?

Already being foreign minister, Cardoso came across a study written by Eliezer Batista, the founder and twice president of the biggest Brazilian company in the construction sector *Valle do Rio Dóce*. Batista was in charge of the Secretary of Strategic Affairs during the last years of the Fernando Collor de Melo administration (1990-1992) and from this position he conducted a study about the possibilities to integrate South American

countries by connecting the centres of commodities production with the global market through, what he called a “development hub” (*eixos de desenvolvimento*, in Portuguese), term borrowed from a newly born academic field: economic geography (I7; I11; I39). The study drew the attention of minister Cardoso who requested Batista to elaborate on the study, which was eventually published in 1996. Thus, *Infrastructure for Sustainable Development and Integration of South America* became a fundamental roadmap for planners in Brazil and a seminal book to understand the relation between geography, development and global insertion. Regarding the book, Cardoso would say in his memoirs:

[It provided] a renovated vision of regional development in which the integration of the domestic market and the external market is not seen as antagonistic but as complementary (Cardoso 2006: 579).

In fact, in the introduction to his book, Batista summarised its main message providing exactly the insight that the Brazilian executive needed to operationalize a South American-wide regionalism project:

The development of basic infrastructure connections between the South American countries could help as a point of departure of an engine of accelerated economic integration. Herein, it would drive towards a deeper level of political integration and towards the formation of a South American Free Trade Area and, eventually to a Hemispheric Free Trade Area (Batista, 1996: 15; my translation).

Batista’s ideas were empirically tested through the first and second Pluri-annual Plans (1996-1999) and (2000-2003) Cardoso’s two presidential administrations. Those plans detected “national development hubs” on the national territory according to which the Ministry of Planning coordinated and implemented two programmes of infrastructure connections: *Brasil em ação* (Brazil in Action) and later *Avança Brasil* (Brazil Advances) (I39; D86; Cardoso 2006: 580). The *Brasil em ação*, for the first time applied Batista’s concept of a “development and integration hub” and was made up by twenty-four infrastructure projects accompanied by sixteen social development projects. The success of *Brasil em ação* motivated the Brazilian executive to expand it into a more ambitious *Avança Brasil*. Cardoso requested the Bank of Economic and Social Development (BNDES) to elaborate on the project and to socialise it among business associations, organisations of the civil society and political actors through a series of workshops that took place during the first half of 1999 (Cardoso 2006; D86).

With an estimated total investment of around US\$ 300 billion, *Avança Brasil* became the template for the South American regionalism project that Cardoso would propose to the rest of South American presidents in Brasilia a year later. Furthermore, *Avança Brasil* gave a forceful signal to the rest of the South American states



that Brazil was serious and materially committed to carrying out a similar project but this time at the South American level.

Our approach is to open Brazil up and then this country wants to integrate with its neighbors in order to explore commercial possibilities...But commercial integration is volatile whereas infrastructure integration leads to regional distribution of the production chain, which is more sustainable: the roads are *deeper*. This means that, looking to the future, if we follow a path for integration based on development, not based only on commercial considerations, this is much more interesting, more sustainable, more fair (I41, italics are mine).

The Cardoso government had the chance to apply Batista's ideas in some emblematic projects of infrastructure interconnection with neighbouring countries. Although those projects were mainly targeting internal interconnection and the development of the Brazilian federal territory, some of them had a regional integration component, connecting Brazilian cities with neighbouring countries such as Uruguay, Argentina, Bolivia and Venezuela. According to the evidence collected through interviews as well as secondary sources, those projects had a double impact. On the one hand, they provided the opportunity to test the ideas developed by Batista and the Ministry of Planning about development and integration hubs. On the other, they had a demonstrative effect, showing the other states that Brazil was willing to bear the cost of regional interconnection projects and, thereby, provide regional public goods (RPG), such as international roads, electricity interconnections and gas pipelines.

In fact, through the construction of energy interconnections as well as through energy imports, Brazil was evening out the balance of payments with the countries with which Brazil had trade surpluses, which are very often sources of bilateral tension. Indeed, Cardoso justified that strategy as a way to solidify regional linkages. After the *real* devaluation as well as during the Argentinean crisis, Cardoso would instruct the Ministry of Energy and Mining to reinforce that policy by increasing the energy imports from this country, and by so doing using energy-purchases as a mechanism to equilibrate the commercial unbalances (Borges 2009). A similar interpretation can be made of the cases of two emblematic bi-national energy interconnections implemented under the Cardoso's administration: the Brazil-Venezuela transport and energy interconnection programme, and the GasBol pipeline between Bolivia and the industrialised southeast states of Brazil. Notwithstanding the domestic criticisms, both projects are generally interpreted by Brazilian political actors as essential instruments to solidify regional bond with two South American neighbours (Oxilia 2009; I31)

The Brazil-Venezuela transport and energy integration programme connected the northern Brazilian state of Roraima and Venezuela. The core of the project was the upgrading of the international highway (the BR-174), starting from the city of Manaus in the state of Amazonas, crossing the state of Roraima and ending in

Caracas, Venezuela. However, the road is a component of an “integration and development hub”, which includes 480 km of electricity connections between Roraima and the Venezuela’s Guri Dam that has been providing energy to the northern region of Brazil since 2001 (P4).

GasBol, in turn, is a pipeline between Bolivia’s gas fields and the state of São Paulo. The biggest pipeline in South America started to operate under the government of Cardoso and ever since has had positive effects in the macroeconomic stabilisation of Bolivia, allowing Brazil at the same time to diversify its national energy matrix and transforming Petrobras, the Brazilian oil company, into the biggest actor in the Bolivian market (D62). In 2001, the natural gas exports were valued at US\$ 175 million and accounted for 68.2% of the total of Bolivian exports to Brazil. Just a year later, at the end of Cardoso’s government, those figures jumped to US\$332 million and 83.8% respectively. The evidence of the positive results of Cardoso’s strategy is the accession of Bolivia, which was interested in a bilateral trade agreement with the US, to MERCOSUR as an associate member right after the pipeline conclusion (Burges 2009).

In his memoirs, Cardoso refers to those projects:

We interconnected Roraima with Venezuela and the South of Brazil with Uruguay and Argentina. To this must be added the pre-existent interconnection with Paraguay in Itaipú and the new pipeline with Bolivia. In this way, our country – as now the Europeans are doing - searched the suppliers in neighbouring countries and ensures physical links of economic integration, breaking the autarchic policy of our past (Cardoso 2006: 591).

**Table 7: Energy and transport infrastructure projects implemented under Cardoso’s administrations.**

| Project and period of implementation                       | Scope   | Total Investment                                    | Financing   |
|--|---|---|---|
| <b><i>Brasil em ação</i> (Pluri-annual-plan 1996-1999)</b> | 24 infrastructure projects plus 16 social development projects. Mainly national projects with regional ramifications. | US\$70 billion                                      | Public-Private Partnership<br>Public budget: 16%  |
| <b><i>Avança Brasil</i> (Pluri-annual plan 2000-2003)</b>  | 952 projects. Mainly national projects with regional ramifications.   | US\$300 billion                                     | Public-Private Partnership  |
| <b>Venezuela-Brazil Energy Integration Program</b>         | Installation of electric transmission lines between the Brazilian state of Roraima and Venezuela.                     | US\$185 million                                     | Public-Private Partnership  |
| <b>Gas-Bol (1995-2000)</b>                                 | Natural gas pipeline connecting Bolivia’s gas sources with the south-east regions of Brazil.                          | US\$ 1.526 billion (Brazilian side of the pipeline) | Brazilian resources US\$ 857 million (56.16%)<br>Regional Development Banks: US\$669 million (43.84%) |

Based on Cardoso 2006; D86; P4; Oxilia 2009

Cardoso became persuaded that the South American space could be organized through the physical integration of the countries with a focus on transport connectivity and energy integration. In such a developmental programme most South American governments would be willing to participate, including the Andean countries as well as the historically forgotten northern-tier countries: Surinam and Guyana. The model that Cardoso and his second foreign minister, Celso Lafer, had in mind was, actually, the origins of the European integration process right after WWII, when the destruction of markets and industries precluded a regionalism project based on market integration. Energy and transport in a fragmented South America should be the functional equivalent of the coal and steel integration at the time when Europe was in ruin (D62). Cardoso was well aware that the origins of the European Communities relied on the energy integration of the Ruhr Basin and for this reason he gave particular importance to energy interconnections with neighbouring countries such as Argentina, Bolivia, and Venezuela. But were South American governments by 2000 really willing to engage in regional cooperation in energy and transport connectivity?

In March 2000, six months before the first South American Summit, the Brazilian Ministry of Planning and the Ministry of Foreign Affairs (Itamaraty) carried out a survey through all the Brazilian embassies in South American countries to gauge the preferences of South American governments in terms of infrastructure interconnections with Brazil and which projects with an integrative potential were included in their national planning programme. The purpose of the survey was to gather information in order to prepare the blueprint for a regional developmental programme of energy and transport interconnections to be presented to the South American heads of state (I39). Table 8 below summarises the preference intensity regarding Transport connectivity and energy integration before the Brasilia Summit (2000).

MERCOSUR's original members – Argentina, Brazil, Paraguay and Uruguay – were interested in higher investment in transport connectivity that was perceived as an indirect way to foster trade precisely when the commercial agenda to consolidate the custom union were in a difficult juncture. The smallest countries were particularly keen on the idea of a portfolio of transport connectivity projects. By 2000 Paraguay, was not competitive on a regional basis due fundamentally to the low levels of its transport infrastructure. Furthermore, it has failed to use the energy generated to either promote industrial development or even connect the country. Despite the proceeds and resources from one of the world's most powerful hydroelectric dams, the national electricity company, ANDE, was by 2000 in deficit. By 2000, Uruguay was at 85% of its hydroelectric installed capacity and increasing energy interconnections and exchange became a country priority. The investment on transport and energy infrastructure through regional funds to balance

trade deficits and economic asymmetries became the main demand of Paraguay and Uruguay within the MERCOSUR (Lambert 2004; De Andrade 2010<sup>39</sup>).

Also Chile supported a cooperation programme in transport infrastructure. Since the restoration of democracy, Chilean political elites became a promoter of transport connectivity aligned with the self-perception of being a corridor-country and a gate to the Pacific. Together with Brazil, the Chilean government put forward the idea to design a bi-oceanic corridor; medium and small enterprises envisioned the commercial possibilities of such a project and begun purchasing Bolivian railroads in order to construct a path from Brazil to ports such as Iquique and Antofagasta. Although the project was hindered by the asymmetry of resources of both countries and their fiscal constraints, it delivered a study carried out by IDB that later became the Central Inter-Oceanic Hub of IIRSA. Local medium and small enterprises and local authorities were particularly interested in a bi-oceanic corridor that could transform small towns at the Andean border and the Pacific coast into transshipment points for Brazilian exports. The concept of “hub” became appealing for these local actors and part of their speeches (I28; P5 and P6).

Furthermore, like Argentina and Brazil, in 1998-1999 Chile faced energy-supply shortfalls that were connected on the one hand to severe droughts and, on the other, to shortcomings in the market structure of the Chilean energy sector. In fact, the weak regulatory framework was not able to prevent a series of disruptive practices by the firms, such as hiding market information from the regulator, firms that were selling energy above the production capacity, non-compliance of basic rules, and the general practice of transferring the costs to the consumers (Rozas 2009). In this context, the diversification of the energy matrix, increasing regional energy exchange and energy interconnections was an attractive policy option for the Chilean government.

For Andean countries in turn the preference for transport interconnection with Brazil was less related to reaching the far Atlantic coasts and rather oriented to developing transshipment industries. The Peruvian President Alberto Fujimori (1990-2000) was especially interested in fostering the development of such industries. Andean countries were reluctant about commercial integration with MERCOSUR, due to the competitiveness asymmetries with Brazil, however they were highly interested in opportunities to invest and improve the transport interconnection of their national territories. Andean states were also interested in having access to the Brazilian Bank of Economic and Social development (BNDES) as a possible source of development aid. The BNDES and its Exim programme created in 1997 were perceived by Peruvian, Ecuadorian and Bolivian states as a potential instrument to upgrade their national infrastructure networks. Last but not least, transport connectivity became for Peru and Ecuador a means of peace-building after the

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<sup>39</sup> Another important demand by Paraguay was the re-negotiation with Brazil of the Itaipú Treaty that eventually took place in 2005.

armed conflict in the Cenapa Valley in 1995. In this context, infrastructure projects emerged as appropriate tools to keep the peace in the region and reconstruct ties between the two Andean countries. The Brazilian executive explicitly claimed that peace was hinged on the strengthening of communication and transportation linkages between Peru and Ecuador, with a particular emphasis on the restoration of waterways on the Amazon hydrologic complex (see Lampreia 1999). The Brazilian government together with IDB financed a programme of border-zone-integration that created the expectation in the Andean states that Brazil and the IDB were committed to developing and upgrading their national infrastructure. This programme became part of the Andean Development Hub with the creation of IIRSA.<sup>40</sup>

Andean countries are important producers in the energy sector and therefore they were interested in expanding regional interconnections in order to increase exports. In fact, Venezuela, Ecuador, Bolivia and Colombia can be considered natural resources economies. Their fuel exports reach 93%, 59%, 49% and 38% respectively and therefore they were highly interested in diversifying their energy matrix through a regional programme of energy interconnections.

**Table 8: Preferences intensity regarding Transport connectivity and energy integration before the Brasilia Summit (2000)**

| National Government                               | Preferences Transport<br>Connectivity   | Preferences Energy  |
|---|---|---|
| <b>Brazil</b>                                     | High. To reinforce regional ties while the trade agenda was blocked.  | High. To reinforce regional ties while the trade agenda was blocked.                                      |
| <b>MERCOSUR (Argentina, Paraguay and Uruguay)</b> | High. To reduce asymmetries with Brazil especially regarding investment in infrastructure.                        | High. To find markets for energy surpluses (Paraguay); to improve energy security (Uruguay and Argentina) |
| <b>Chile</b>                                      | High. To reinforce transshipment industries at the Pacific coast.   | High. To improve energy security.   |
| <b>Peru</b>                                       | High. To reinforce transshipment industries at the Pacific coast; to increase transport connectivity with Brazil. | High. To find markets for energy surpluses  |
| <b>Bolivia</b>                                    | High. To improve infrastructure deficits and to gain access to Brazilian development aid.                         | High. To find markets for energy surpluses  |
| <b>Ecuador</b>                                    | High. To improve infrastructure deficits and to gain access to Brazilian development aid.                         | High. To diversify energy matrix.   |

<sup>40</sup> It is interesting to note that the Guayaquil Declaration explicitly emphasises the role of IIRSA in contributing to the creation of a security community in the region, integrating territories in which there were past disputes: [The Head of States] stand out “the agreements Bolivia-Chile and Guyana-Venezuela, which are the result of the IIRSA and confirm their interest on concrete projects of development that contribute to the regional integration within a framework of mutual understanding and cooperation (Paragraph 15, lit. a.)

|                                       |  |   |
|---------------------------------------|--|---|
| <b>Colombia</b>                       | High. To improve infrastructure deficits and to gain access to Brazilian development aid.                                      | High. To diversify energy matrix.   |
| <b>Venezuela</b>                      | High. To improve infrastructure deficits, to improve connectivity with Brazil.   | High. To find markets for energy surpluses and to improve capacity of heavy and super heavy oil exploitation. |
| <b>Northern-tier (Surinam-Guyana)</b> | High. To improve infrastructure deficits, to improve connectivity with Brazil and to gain access to Brazilian development aid. | High. To improve energy security.   |

Own elaboration

### 4.2.3 How to cooperate?

Although all South American governments were interested in a programme of transport connectivity and energy integration, the main obstacle that remained was how to carry out and implement such a programme. South American infrastructure in energy and transport was not only underdeveloped because of geographical barriers (such as the Amazon rain-forest, the Andean Mountains and a system of hydrographic basins), but especially due to the lack of regional policies and investment. After the debt and fiscal crises of the 1980s, the 1990s saw a reduction in capital investment as part of fiscal consolidation programmes that impacted severely on the provision of infrastructure in South America. (see Chapter 1).

As such, fiscal consolidation limited the levels of debt that states were able to assume, which together with low levels of taxation seriously limited financing capabilities: in 1980-85 public investment hovered around 4% of GDP, decreasing by the end of the 1990s. This decrease in public investment was not compensated for a proportional increase in private investment during the time of the market reforms in the 1990s. Although there was an increase in private-sector involvement through diverse schemes, this was not enough to compensate for the decline in public investment compared to economic growth (CEPAL and OECD 2012; D79: 2).

Under these conditions governments were neither able to directly finance regional infrastructure programmes nor capable of borrowing on the financial market. National capital markets, in turn, were too small to provide credit to private actors. Furthermore, governments were not eager to create a new regional bureaucracy to carry out a developmental programme. Preferences converged therefore into an arrangement based on existent regional bureaucracy that could count with the support of already existent regional financial institutions (I2; I39).

According to a civil servant of the ministry of public works of Chile:

By 2000 all South American countries were in crisis. Therefore, the Presidents themselves requested that the banks [RDBs] be responsible for this innovative scheme. The banks accepted and they led the initiative; and we have to be thankful: they led, they provided the resources to organise the meetings and studies, and they made the first attempts at of evaluations and analyses (I27).

Brokering RDBs in a development programme in transport connectivity and energy was perceived not only as a way to avoid the creation of a new regional bureaucracy or to overburden the already existent CAN and MERCOSUR, but also as a way to ensure the access to financial assistance to implement the programme. In the words of an official of the IDB:

[Governments were used to hearing about] the same border integration projects [in the context of CAN and MERCOSUR]. But the countries thought that because of the involvement of three multilateral institutions there would be financing opportunities. When there are financing opportunities, the officials begin to listen...The IIRSA began first as an initiative to solve a technical problem of how to carry out tangible physical integration with the tacit understanding that multilateral institutions were going to facilitate somehow the financing of identified projects (Rubio 2013: 3)

### 4.3 Conclusions

In the juncture of 1998-2000 the cooperation problem that triggered the creation of IIRSA was shaped by two critical events: the FTAA negotiations and the MERCOSUR political and commercial crisis triggered by the Brazilian devaluation. The launching of the FTAA negotiations showed how dramatically divergent the Brazilian preferences were from the preferences of the other South American governments regarding global insertion and particularly a trade agreement with the US. The Brazilian devaluation, in turn, showed how asymmetrically interdependent MERCOSUR countries were and how vulnerable the South American trade integration project was to financial shocks and domestic decisions. Furthermore, with the MERCOSUR crisis, the Brazilian negotiation position within the FTAA became further weakened.

The chapter has shown that in order to solve this cooperation problem, the Brazilian government proposed to start a process of regionalism in two policy areas that could provide mutual benefits: energy and transport connectivity. To make preferences converge, the Brazil government implemented a series of infrastructure interconnection projects within its national territory but with extension to neighbouring countries that demonstrated to the other governments the Brazilian commitment to push forward a developmental programme that could bring about RPG in both policy areas. Furthermore, the involvement of three RDBs – the IDB, CAF and FONPLATA - in the proposal fulfilled the expectation that these transnational actors would provide the institutional resources to implement such a programme without creating a new regional

bureaucracy and, more importantly, ensuring the financial mechanisms to implement the projects in the context of tight fiscal constraints and reduced access to capital markets.

IIRSA was designed as an informal arrangement, better defined as a network of technical ministries (transport, energy, public works and planning) coordinated by the RDB for an initial mandate of ten years. No new bureaucracy was created. Instead, the South American governments mandated the RDB to carry out the studies, provide the technical assistance, finance and implement the “development of integration hubs of the future integrated economic space of South America” (Brasilia Declaration Paragraph 44). IIRSA was created without a constitutive treaty or internal regulation. Instead, its operations should follow the Action Plans and Planning methodologies to be elaborated by the RDB that together constitute the set of principles, rules and procedures of the newborn flexible and lean initiative.

As shown in Chapter 2, the Presidential Declarations of Brasilia (2000) and Guayaquil (2002) constitute indicators that the preferences of all twelve South American governments converge around this proposal. Both intergovernmental declarations can be taken together as part of the same intergovernmental consensus as well as the blueprint of IIRSA’s institutional design. While in Brasilia the South American-wide regionalism project was presented by Cardoso to the rest of head of states, and IIRSA was officially launched, the Guayaquil Declaration – suggestively called the “Guayaquil Consensus on Integration, Security and Infrastructure for Development” - consolidated IIRSA design, paving the way for the implementation of RPG and reaffirming the intergovernmental consensus behind the initiative.



## CHAPTER 5

### Explaining the institutional design of UNASUR

#### Introduction

This chapter deals with the institutional change from IIRSA to UNASUR. More specifically the purpose is to explain why South American states decided to turn from an informal towards a formal design. The argument developed here is that this change is explained by a cooperation problem that is different in kind from the one analysed above in Chapter 4. By the time UNASUR was formalised, the FTAA – the external event that triggered the IIRSA proposal – was already shelved. South American states were engaged in a process of South American regionalism with regular intergovernmental meetings within the framework of a Community of South American Nations.

During the juncture 2006-2008, a new cooperation problem was created by the Venezuelan attempt to set up the regional agenda. The informal design of IIRSA opened the floor for competing initiatives of energy integration oriented by geopolitical principles and based on the exclusion of transnational actors, which jeopardised the basic intergovernmental consensus reached in Brasilia (2000) and Guayaquil (2002). This chapter puts forward the argument that the formalisation of regionalism into UNASUR was the solution found by Brazil and followed by the rest of the governments to enhance the credibility of collective commitments to regional cooperation and, at the same time, diminish the chances of the Venezuelan energy initiatives to harm the basic intergovernmental consensus reached.

The next sections of the chapter develop this argument. The structure is similar to that of Chapter 4. The first section (5.1) presents the cooperation problem faced by the governments in the region. The second section (5.2.) traces the mechanism of preference convergence in a juncture of acute inter-state tensions. Section three (5.3) shows how a “formalisation without delegation” was the solution to the potential defection of some South American states and to restrain the Venezuelan project of regionalism. The conclusions (5.4) recapitulate the arguments presented in both Chapter 4 and 5 that, together, respond to the first research question: Why have institutions dealing with transport connectivity and energy shifted from an informal institution (IIRSA) to a formal one (UNASUR)? This final section also discusses alternative explanations to this question. More specifically, I discuss hypotheses borrowed from the approaches in comparative regionalism discussed in Chapter 3: neofunctionalist, liberal and power-based approaches.

## 5.1 The Cooperation Problem: the rise of Venezuelan regionalism (2006-2008)

The cooperation problem that explained the formalisation of IIRSA as part of the newly created UNASUR is shaped by events of a different kind to those in 2000. After a pressing period of negotiations driven by the Republican administration in the US that radicalised the position of some South American governments, the FTAA was eventually shelved in the Mar del Plata Summit in November of 2005. Without the FTAA in the foreign policy agenda of South American governments, one of the initial triggers of regionalism vanished. Regionalism was not about gathering states together to better negotiate with the US but was a project in itself with space for new political content. As the Director of the Latin American Faculty of Social Sciences remarks:

The Mar del Plata Summit shows in an illustrative way the limits of the inter-American regime and it proves the limits of the US influence in the region. This opened room for new initiatives [...]. The Mar del Plata Summit is the symbol of the US lack of political capacity to lead a shared agenda (134).

The main promoter of these new initiatives was the Venezuelan government, which, as an oil-based economy, saw in the energy area the core of its foreign policy and regionalist project fuelled by a favourable period of international oil prices. This section will show that the Venezuelan-led energy initiatives and the erosion of the basic consensus embodied in IIRSA, constitute the cooperation problem that explain the formalisation of regionalism into UNASUR. Although the focus of this chapter is on the energy area, it is worth noting that Venezuela also promoted ambitious initiatives in other policy areas such as security – to create a South American Security Alliance – and financial integration – to promote a New Regional Financial Architecture – that also contributed to the erosion of the basic intergovernmental consensus reached at the beginning of the millennium.

### 5.1.1 Bolivarian “Energy Regionalism”

After taking office as elected President in February 1999, the government of President Hugo Chávez was mainly focused on creating the domestic conditions to put forward a new political agenda with the aim to restructure the oil industry and with an emphasis on social redistribution through the ratification of a new constitution and the reform of the parliament into a unicameral National Assembly. The period 1999-2002 constituted, therefore, a period of domestic transformations strongly resisted by the Chávez opposition that ended up in the frustrated coup d'état of 2002. In this political context there was very little room for foreign policy.

This situation changed with Chávez's categorical victory in the revocation referendum convened by the opposition, providing him with the necessary domestic legitimacy to carry out not only the domestic agenda centred on social redistribution, but also to initiate an unprecedented phase in the Venezuelan foreign policy with a strong emphasis on Latin and South American regionalism that sweep away with the preference for a free trade agenda subscribed by his predecessors Andrés Pérez and Rafael Caldera. It was only after the Coup and the general strike of the Venezuelan Oil Company (PDVSA) that Chávez himself engaged in a twofold process to, on the one hand, remove cadres non-aligned with the Bolivarian ideology from the ministry of foreign affairs and, on the other hand, to oppose active resistance to the advancement of the FTAA negotiations. From that moment onwards, foreign policy (*Bolivarianism*) and domestic development policy (Socialism of the XXI Century) became intimately interwoven (Nelson 2014; Kfuri and Pérez 2009; Serbin 2011<sup>41</sup>).

In less than ten years the Chávez government changed completely the main elements that characterised the Venezuelan approach to economic foreign policy in general and regionalism in particular. The emphasis on the Andean economic integration was abandoned completely with the withdrawal from the Cartagena Treaty and the consequent renouncing to be part of the CAN in 2004. The G-3 that Pérez and Caldera had contributed to build up together with Colombia and Mexico was dissolved. Instead, a new project of South American and Caribbean integration based on energy projects became the core of the Venezuelan foreign policy (Serbin 2011).

Bolivarian regionalism took some elements from the Latin American left tradition especially from the Forums of São Paulo, meetings of left wing parties and movements that took place on a regular basis since 1990<sup>42</sup>. Some of these elements are, for instance, the strong opposition between the North and the South, influenced by the classic theory of dependency and imperialism that underlay the discussions and declaration in the Forums (Serbin 2011; Regalado 2008; D42). A second element that might be traced back to the Forums was the notion of an “alternative integration”, a rather vague notion that might have multiple meanings. In the

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<sup>41</sup> The Venezuelan regionalism project started taking shape only in the wake of the failed coup of 2002. It was then that Chávez directly related the Coup to US foreign policy and, consequently, his vociferous anti-American rhetoric for which he became famous, rose up. As a matter of fact, before the Coup the approach of Chávez to the FTAA for instance was at best ambivalent. Similarly to his predecessor Rafael Caldera (1994-1999), Chávez did not see a special danger comprised in the FTAA since the oil industry was not part of the negotiations. The FTAA negotiations were followed with relative autonomy by the Institute of Foreign Trade, and only in 2001 did Chávez decide to centralise the process of negotiation creating a Presidential Commission on the FTAA, motivated by pressures from some of his cadres rather than from a strong conviction against the hemispheric project (see Nelson 2014).

<sup>42</sup> Chávez participated for the first time in the Forums in 1996 in El Salvador with a rather cold reception by the traditional left that viewed him with suspicion due to his military background (see Regalado 2008; Levitsky and Roberts 2011).

context of the Forum's discussions, alternative integration meant a regional project that is not exclusively based on trade, and that was less market-driven, and more based on solidarity and redistribution (D42: 217). A third element that somewhat homologates Bolivarian regionalism with the Forums is the geographical reference to Latin America rather than South America. As a matter of fact, South America was a novelty for the Venezuelan foreign policy that was historically oriented towards the Caribbean, considered as a "strategic area", and to the Andean region, main economic priority since the Cartagena Treaty in 1969. With Chávez, South America and particularly the Southern Cone emerged as a fundamental, although not final step of its regional and global insertion project. The final purpose of *Bolivarianism*, however, is the conformation of a Union or Community of Latin American Republics including the Caribbean and in opposition to the US hemispheric policy (D42: 530; Serbin 2011)<sup>43</sup>. Following the hero of the Cuban independence, José Martí, the preferred concept by Chávez and the Venezuelan diplomats was *Nuestramérica* (Our América). In the words of a high Venezuelan diplomat and negotiator in the MERCOSUR accession process:

In the XXI century and resuming the road of José Martí we talk about "*Nuestramérica*" [OurAmérica]. We seek to strengthen the concept of South America, including the Caribbean gulf and the Caribbean countries of the Continental America: Guyana and Surinam [...] For Venezuela, the recovery of the "South" comes hand in hand with the integration of the "bolvarianism" to the regional and international scene, as a light to illuminate the courses of action" (Constant Rosales 2012)

Other elements of the Bolivarian conception of regionalism are, however, strange to the Forums and are to be linked with Chávez's military trajectory and the Fifth Republic Movement<sup>44</sup>. Chávez's foreign policy in general and the regionalism project in particular were dominated by a geopolitical vision of the global political economy. As Andrés Serbin has argued, Chávez's approach to regionalism was characterised by the differentiation and confrontation that divides the region – and the world - in allies and enemies and that has been taken to the paroxysm in the post-Chávez regime after his death in March 2013 (Serbin 2011).

In November 2004, President Chávez convened a high level workshop with intellectuals, high level officials of the government and constituencies to present and discuss the Venezuelan foreign policy for the new phase

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<sup>43</sup> As it will be shown, the Bolivarian Alliance (ALBA), the UNASUR and finally the CELAC are seen by the Bolivarian foreign policy makers as steps of such a project

<sup>44</sup> The Fifth Republic Movement later called Bolivarian Movement 2000 was made up by military personnel from families of humble social backgrounds, impoverished by the economic crisis that affected Venezuela in the 1980s. Albeit with a strong sensibility to social inequalities, they were deeply nationalistic and considered Simón Bolívar as the charismatic leader, orienting their political praxis to recover patriotic values, to dignify the military profession and to fight against the corruption of the state. The Bolivarian movement was thus a far cry from the proletarian and partisan origins of the incumbent parties of the Latin American left (see López 2011).

after the victory in the revocation referendum. The “New Strategic Map” – as the document was called – is based on the concept of multipolarity (D118). President Chávez defines the concept in this way<sup>45</sup>:

We don't seek the hegemony of nothing and of anybody; the world that we need is multipolar, it is neither unipolar nor bipolar. North America! It will be always a power, who could deny it?, but the day shall come when it will not be the empire that it is today. The unified Europe another pole, Asia, Eurasia, Africa and we the Latin American, the Caribbean, this huge territory that goes from Mexico and from Cuba to the Patagonia; millions of people, creative people, diverse, huge social resources, the biggest oil reservoir in the world, now that Venezuela will be a member of MERCOSUR, and the priority shall be the people of MERCOSUR and the Caribbean [...] Sooner or later, Bolivia shall become member of MERCOSUR, Cuba has to become member of MERCOSUR, to become what Simón Bolívar called the *Liga of Repúblicas*. (Hugo Chávez, Conference at the University of Cordoba, Argentina. 21/07/2006, D73).

The constitution of a multipolar order passes not only by forging strategic relationships with powers in different poles – Russia, Iran, China – in a strategy that resembles the *Third Worldism* of the 1960s and 1970s, but especially on the construction of regional ties with Latin American governments. There are five objectives that drive the constitution of Latin America as one of the poles of the international system: a) the construction of the Bolivarian Alliance to the People of Our America (ALBA) as a socialist-based alternative to the FTAA (ALCA in Spanish); b) the Venezuelan participation in the construction of MERCOSUR but re-orienting it towards social and political integration, with the purpose to transform it in the economic space not only of the Southern Cone, but of the whole of South America; c) to develop energy alliances to foster regional ties and to transform Venezuela into an energy power; d) to develop new regional financial institutions as an alternative to the existing multilateral financial institutions (mainly the IMF, the WB and the IDB); and, e) to promote participative democracy and the salience of subaltern social classes, as a state-building model for the region (D118).

Energy became the policy area from which the Venezuelan government could set up the regional agenda and promote the ideas expressed in the New Strategic Map. Venezuela is an oil-based economy owning the second most important oil reserves in the western hemisphere after Canada equivalent to 87 billion barrels. Moreover, Venezuela has around 270 billion barrels of heavy and extra-heavy oil located at the Orinoco Belt, in central Venezuela, which are beyond the production and refinery capacities of the country at least in the

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<sup>45</sup> The notion of multipolarity was part of the reform of the Constitution proposed by the Chávez government, but rejected in the referendum of 2007. According to the Article 152 and 153 of this proposal, the Venezuelan foreign policy shall be reoriented: [...] towards the configuration of a multipolar world, free from the hegemony of whatever center of the imperialist, colonialist or neocolonialist power” [...] the promotion of the confederation and union of Latin American and the Caribbean [with the objective] to conform a block of political, economic and social power” (P29).

short to medium run (D105: 1). The country is also the third most important oil exporter to US in the western hemisphere, after Canada and Mexico (11.48% of the total US oil exports<sup>46</sup>). Therefore, Venezuelan governments have historically received a substantial although unstable amount of oil rents by taxing exporting companies and, therefore, attaining significant autonomy from pressures from the domestic taxpayers (López 2011).

For the Venezuelan government, IIRSA was not the appropriate instruments to promote its energy regionalism. IIRSA agenda was coordinated by the RDBs and energy was only part of a broader territorial planning programme based on development hubs to be implemented through public-private partnerships. On the contrary, the Venezuelan government was highly reluctant to include the private sector in its energy initiatives. The right instrument was, therefore, its public oil and gas company *Petróleos de Venezuela Sociedad Anónima* – PDVSA – which is the second most important player after the Brazilian Petrobras in the hydrocarbon sector in South America. The Venezuelan government started a process of organisational reform in PDVSA immediately after the new Constitution of 1999 fully entered into force. After the failed coup in April 2002 – triggered by the removal of seven high officials of PDVSA – the governments took over the control of the company that has hitherto not fully recovered the levels of investment and production (Phillip and Panizza 2011)<sup>47</sup>. Yet, through the full control of the company and taking advantage of the high international oil prices, PDVSA became during the 2004–2008 period the main instrument of the Venezuelan government to promote its energy regionalism.

By 2004 Venezuela stopped sending representatives to IIRSA meetings and, instead, launched a number of PETRO-initiatives directly disputing the IIRSA role in coordinating the regional energy projects (I39; I4). The first of these PETRO-initiatives was PETROCARIBE, launched in 2004, which set up favourable contracts of oil supply to Caribbean states<sup>48</sup>. One year later, the Venezuelan state launched a more encompassing

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<sup>46</sup> PDVSA owns Citgo, which operates three crude oil refineries and a network of some 14.000 retail gasoline stations in the US. Venezuela faces important obstacles to replace the US as a market for its oil. In particular, China is not an option because of the transport cost (due to the distance between both countries), and because China lacks the capacity to refine the heavy oil produced in Venezuela (see D105).

<sup>47</sup> In fact, 80% of the staff of the research arm of PDVSA (Intevep) was fired and prohibited from being employed in any company with contracts with the Venezuelan national company. In practice, this implied that most of the experienced researchers and technicians of PDVSA emigrated from Venezuela, and many of them went to the neighbor country of Colombia contributing to the development of its oil industry (P30).

<sup>48</sup> Already in 2000, the Venezuelan government promoted the “Energy Agreement of Caracas”, which complemented the Agreement of San José of 1980, whereby Venezuela and Mexico supplied 160 thousand barrels per day to the Great Caribbean region. The agreement established the supply by Venezuela of 80 thousand barrels per day with a payment deadline of 15 years with an interest rate of 2% per year. All the members of CARICOM signed the PETROCARIBE agreement in June 2005, with the exception of Trinidad y Tobago and Barbados, oil producers, who complained that PETROCARIBE could affect the previous agreements that these countries had with the rest of the CARICOM states.

initiative PETROAMERICA that comprised, in turn, two sub-programmes oriented to the Andean countries (PETROANDINA) and the Southern Cone (PETROSUR)<sup>49</sup>. The organisational aspects of these initiatives and their outcomes in terms of regional energy goods are discussed in Chapter 7.

What is relevant to highlight here is that the energy regionalism of Venezuela pushed South American governments into a new cooperation problem. Venezuelan was setting up regional energy programmes in parallel to IIRSA, the institutional arrangement agreed by the heads of state in Brasilia (2000) and Guayaquil (2002); these parallel initiatives were, furthermore, oriented by geopolitical goals absent in the Brasilia and Guayaquil summits and they excluded the RDBs and, boldly, the private sector. The Venezuelan energy initiatives broke the basic consensus reached in Brasilia and Guayaquil and split governments into those potential beneficiaries of the PETRO-initiatives and those that did not share the Bolivarian principles or did not have intense preferences for these initiatives.

According to the director of the Latin American Energy Organisation (OLADE):

The geopolitical vision is not shared by all the states of the region. It is a vision that is in construction, and the states are sovereign to apply their own policies; there is no way to change the things immediately. It will be the challenge of South American regionalism to conciliate world-visions that are different and consolidate a proposal that takes into account such diversity. This geopolitical vision is not shared by everyone and it is important to keep the South American group together and do not disintegrate it (I31).

This intergovernmental division is apparent in a number of tensions, all of which are related directly or indirectly to Venezuelan energy regionalism. The conflicts, no doubt, affected the South American state's preferences including the Brazilian government that began to question whether energy was still an area of common interest and of possible collective action at all. In the following sub-sections I will show how these inter-state tensions polarised governments' preferences and broke the basic intergovernmental consensus that made IIRSA possible.

### **5.1.2 The Bolivian Law of Hydrocarbons**

The first regional energy conflict was triggered by a domestic decision made by the Bolivian government. Since the 1960s, when the first internationally significant reserves were discovered, gas became the main

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Haiti was not included in the agreement since the Venezuelan state considered that the country was under the influence of the US (see Dabène 2009 and Serbin 2011).

<sup>49</sup> Surinam and Guyana are participants of PETROCARIBE.

commodity that underpins the Bolivian economy and Brazil became its main final market. During the 1990s and in parallel with the construction of GasBol, the Bolivian state adopted a policy of privatisation of the national oil company, *Yacimientos Petrolíferos Fiscales Bolivianos* (YPFB), in order to foster, through the participation of private investment, the exploration and production of gas and thus sustain the Brazilian demand. Through the Law of Hydrocarbons of 1996, the Sánchez de Lozada government (1993-1997) handed over the reserves of Bolivian gas to the control of transnational corporations including Shell, British Petroleum, Exxon, Repsol and the Brazilian Petrobras. While increasing the investment in the industry, the Bolivian state lost revenues to invest in public infrastructure and social policies (Phillip and Panizza 2011).

In this context, the nationalization of YPFB as an instrument of national development was made in response to the popular will of the vast majority of the Bolivians expressed at the referendum in 2004 that paved the way for the Law of Hydrocarbons in 2005, one of the pillars of Evo Morales's presidential programme (2005 onwards). The new Law of Hydrocarbons enabled President Morales to enact a decree whereby the state gave 180 days to foreign companies to sign new contracts imposing higher taxes that rose from an average of 50% prior to the law, to 82% (Arriagada 2006; Phillip and Panizza 2011).

Although the Brazilian executive had been informed by the Morales government about its intentions<sup>50</sup>, the decision and especially its implementation through military actions took the public by surprise and were considered by the media as “unilateral” and “humiliating” fuelling an outrageous reaction from the private sector and the domestic opposition to Lula's government. In fact, by that time, Petrobras controlled 46% of gas reserves and was responsible for the 75% of Bolivian exports, amounting to 24% of tax revenues and 18% of Bolivia's GDP. From 1994, when the construction of GasBol was resumed, until 2004 the Brazilian company represented 20% of the total FDI in Bolivia (Seifert 2011; Phillip and Panizza 2011; Manduca 2008).

Hence, asymmetric interdependence between Brazil and Bolivia brought about bilateral tensions that escalated into a regional conflict after the Venezuelan government got involved. In a public declaration President Morales revealed that the Venezuelan government had offered two billion dollars as well as technical expertise from PDVSA to carry out the nationalisation policy, further fuelling the pressures on

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<sup>50</sup> The Bolivian vice-president Álvaro García Linera had communicated Lula and his foreign policy executive of the reform that Morales was pursuing. In a meeting in Brasilia right after Morales came to office which was kept rather secret by the Brazilian authorities, García Linera explained to the Brazilian executive and to the head of Petrobras that the nationalisation of the hydrocarbon industry was a requirement to maintain the political and economic stability in the new government (see Burges 2009). After this early announcement, the Brazilians' expectation was a negotiated and gradual process of nationalisation that however did not occur and that was followed instead by the military occupation of Petrobras facilities in May 2006 (Arriagada 2006).



Lula's government (Cason and Power 2009; Burges 2009; Manduca 2012; Arriagada 2006<sup>51</sup>), as it is apparent in the statement of a former Brazilian minister:

[the decision of the Bolivian government] will have an extremely serious impact on Brazil, on the one hand on its energy balance and, on the other on the projects of energy integration in South America... This episode will affect the energy projects with Venezuela (P7)

The conflict further escalated when the Argentinean government publicly supported Morales's nationalisation policy (Cason and Powell 2009: 134). Right after the Bolivian nationalisation, President Kirchner announced the intention to construct a gas pipeline with Bolivia within the framework of Venezuelan-led PETROSUR, sparking Itamaraty's warning (Manduca 2012).

The diplomatic and political response of Brazil was mostly aimed at calming down the domestic tensions. Although several projects, such as the increase of the GasBol capacity and the investments in natural gas, were put on hold, the Bolivian and Brazilian economies were too highly interdependent in the gas sector to take any serious measure (Oliveira 2008; Burges 2009). In fact, Morales's government moderated the hydrocarbon nationalisation policy and re-negotiated bilateral cooperation with Brazil (P8; Oxilia 2009; Phillip and Panizza 2011). Nevertheless the alarm bells within the Brazilian foreign policy executive were already ringing.

### 5.1.3 The Brazil-US "Ethanol Pact"

Contemporary to the impasse with Bolivia another episode in the energy sector escalated into a regional conflict, this time involving Venezuela and Brazil directly. In August 2007, Brazil and the US, the two biggest world biofuels producers signed an agreement to promote the production of ethanol in Latin America, to create international regulations to trade ethanol as a commodity and to cooperate in the development of technology for the biofuels production in general<sup>52</sup> (Fulquet 2015; Manduca 2012). The Ethanol Pact, as it came to be known, represented a high point in the normalization of the post-FTAA relationship between US

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<sup>51</sup> In May 22<sup>nd</sup>, 22 days after Morales' announcement of the nationalisation of the Petrobras assets, President Chávez visited Bolivia and announced a \$1.5 billion energy investment programme, without specifying any projects or timeframe. According to Genaro Arriagada (2006: 15) although considerable, this amount was less than a half of the investments that Petrobras made in Bolivia.

<sup>52</sup> The Ethanol Pact entailed three dimensions 1) technology-sharing between the US and Brazil; 2) conducting feasibility studies and providing technical assistance to build domestic biofuels industries in third countries; and 3) working multilaterally to advance the global development of biofuels. Right after the agreement, the IDB was asked to finance eight feasibility studies under the US-Brazil biofuels partnership scheme (D105: 17).

and Brazil around the shared interest in expanding biofuels as a substitute of oil (Manduca 2012; Gustafson and Elliot 2011)<sup>53</sup>.

As in the case with the Bolivian gas nationalisation, a strictly domestic decision taken this time by Brazil to engage in a bilateral cooperation initiative became politicised at the regional level. President Chávez had been extremely critical of the ethanol production, which he considered an “irrational and anti-ethical” economic activity threatening agriculture and food security in the region (P9). Accordingly, the Ethanol Pact was overtly criticised by the Venezuelan government through statements supported by the Bolivian and Cuban governments. Leaving the merits of that criticism aside (see Seifert 2011), it should be highlighted here that the biofuels in general and ethanol in particular are price-competitive with fossil fuel and, as such, the Ethanol Pact was indeed an economic threat to the oil-based Venezuelan foreign policy<sup>54</sup>.

This time the Brazil’s reaction to Chávez’s criticisms was this time overt (P10). Marco Aurélio Garcia, the member of the Brazilian foreign policy executive with the closest ties to the Venezuelan government, published in the Venezuelan newspaper “*El Universal*” an article defending biofuels as a socially and environmentally sustainable energy resource that does not compete with oil (P35). Furthermore, in his intervention Garcia makes it clear that the economic and commercial options of Brazil, which in this case included an agreement with the US, do not affect its foreign policy and thus should not be commented on by third governments. Garcia’s declarations came just before the South American Energy Summit and are to be interpreted as an attempt to prevent a possible scenario of conflict between oil/gas and biofuel producers, i.e. between Venezuela and Brazil to be more exact.

It is understandable and legitimate that governments which are critical of Bush had used his visit to Brazil in order to underline the differences with Washington. However, the ongoing energy revolution does not oppose biofuel with fossil fuel and the options of Brazil are not a stage for political and ideological discussions [...]. The dialogue has to substitute the confrontation. The only passion that has room in this moment is around the South American union [...]. Hunger is not a

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<sup>53</sup>The US prefers energy initiatives that are hemisphere-wide, market based, and led by the private sector. When Senator Hillary Clinton was being vetted for the post of Secretary of State, she assured that the Senate Foreign Relations Committee that she would work to reduce US dependence on foreign oil and to form partnerships with other countries to overcome threats to the environment. Clinton said that in this regard Obama wants an energy partnership with Latin America, “looking to find ways through technology and other activities [that] we can work together to become more energy independent in this hemisphere” (quoted in Gustafson and Elliot 2011: 353).

<sup>54</sup> Equally important is the symbolic salience of the Ethanol Pact: it was the first time that a South American country – Brazil – had signed an international agreement with US on symmetrical and equal terms that undermined the consensus against asymmetrical negotiations shaped throughout the FTAA negotiations and that had gathered together Venezuela and Brazil (see Manduca 2012: 95; Sanahuja 2012).

consequence of the lack of food, but of the lack of employment and income that affects millions of men and women (Marco Aurélio Garcia, P35, My translation).

#### 5.1.4 The Bank of the South

The agenda for the South American Energy Summit, drawn up by the Venezuelan government, included among other items, the creation of two new regional institutions. One of them – the creation of a Gas-cartel of South America - was immediately rejected at the summit and disappeared definitively from the agenda. The idea proposed by President Chávez and supported by President Morales was aimed at defending the interests of the South American gas producers (P12). That proposal had first been suggested by Chávez in the context of the OPEC but was not supported, and hence it was brought up again in the new context of the South American regionalism. During the summit, President Lula and his Foreign Minister Amorim made it clear that the proposal was not on the agenda and that Brazil would never support that proposal:

There is no room to defend the “OPEC of Gas” in a meeting as this one. If we are involved in an effort of integration, we cannot divide consumers and producers of gas. On the contrary, we have to reconcile and harmonize those interests (Celso Amorim, P12).

However the second proposed institution – the Bank of the South – deserves to be analysed in detail. Although it was not an energy initiative in itself, the idea of a development bank of South America was launched by Chávez as a mechanism to finance PETROAMERICA in direct competition with the role that the RDBs – IDB, CAF and FONPLATA – had within the IIRSA institutional design. More importantly, the discussion of the Bank of the South divided South American governments’ preferences in a sharper way than the previous two tensions already described. The Venezuelan government launched the proposal with greater enthusiasm in 2007, taking advantage of the increasing accumulation in international reserves in many South American states due to the favourable prices of commodities (Sanahuja 2012).

The proposal was further elaborated by the elected president of Ecuador, Rafael Correa (2007-onwards) who, as a trained economist, saw in the Bank of the South an idea whereby he could provide his own contribution to South American regionalism (I11). Correa considered the Bank of the South as a piece of a broader initiative of financial integration (the New Financial Architecture) comprising also the creation of a regional

fund and a regional currency, the Unitary Regional System of Compensation and Payments (SUCRE, in Spanish) (Páez 2012<sup>55</sup>).

The financial independence is necessary to carry out our priorities, our own realities; with our resources we can create a bank of development [the Bank of the South] and our stabilization fund, the Fund of the South [...] together with the Bank of the South we need the Fund of the South that will permit to gather together the international reserves put abroad; the sum of our reserves will make possible to multiply our capacity to respond to financial crises and balance of payment shocks, as well as to use these currencies for financing the development of our peoples (Rafael Correa, Speech in the Ceremony of signing of the Act of the Bank of the South, October, 2007)

The proposals of the Bank of the South and the New Financial Architecture were based on the argument that so far the currency reserves of Latin American countries had been invested (at a loss) in US Treasury bonds, hence financing US fiscal deficit that paradoxically fuelled the depreciation of Latin American reserves in dollars, and financing US foreign military actions. Presidents Chávez and Correa claimed that the Bank of the South would be able to avoid the pressures from the IMF and the policies of the Washington Consensus. As José Antonio Sanahuja (2012) pointed out, given Latin America's history with the IMF, the World Bank and with the IDB, that argument was very welcome by Latin America's political left and, as a matter of fact, gained the support of the governments of Bolivia, of Néstor Kirchner in Argentina and of President Nicanor Duarte in Paraguay.

On the opposite side, the governments of Chile, Colombia and Peru overtly opposed to the initiative arguing that it could jeopardise the relationship with already established multilateral financial institutions, particularly the World Bank and the IDB (Carvalho et al. 2011). In the words of a Chilean representative of the Ministry of Foreign Affairs:

The position of Chile is against the Bank of the South. Chile gives money only because we don't want to be bothered. We have doubts about the utility of the Bank. We are against the creation of yet another Bank beside the already existent ones such as the World Bank, the IDB, the CAF, and the private banks. The creation of the Bank of the South has an ideological rationale: to create a friendly Bank (*un banco buena onda*) that provides finance to the countries of the region without imposing conditionality. In fact, Argentina has criticised the CAF and the IDB for having high conditionality; Chile does not want to end up transferring money to countries without resources (128).

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<sup>55</sup> According to Páez the SUCRE is “a sort of regional credit card between Central Banks. It consists in a gross settlement on real time of the foreign trade transactions through an electronic currency that accomplishes the function of unit of account and payment. Gradually new transactions, beside those of foreign trade, could be added in order to create a space of circulation for a regional currency in the future (Pérez 2012: 161). In this way, the SUCRE would reduce the use of the US Dollar in the regional transactions.

After a rather shy first reaction<sup>56</sup>, the Brazilian government undertook a clear opposition to the proposal and deployed diplomatic efforts to take the Bank of the South off of the already contentious South American Energy Summit that was scheduled for April 2007 (P13). A Brazilian policy-maker points out:

Nobody in Brazil wanted the Bank of the South. We participated because we could not be left out. The Brazilian participation in the Bank is not specified yet, and I have more doubts than certainties. It is a bank designed with political objectives and therefore it will be not triple A and if it is not triple A it will not be able to compete with the World Bank or the IDB. At which level is going to start? With A to end up in triple A? Which kind of project is it going to finance? The risk of being used for political goals by Venezuela is too high (I3).

The discussion of the Bank of the South shows more patently how political interdependent South American governments have become since virtually all South American states took a stance. In fact, it is possible to single out four positions:

1. The entrepreneurs of the New Financial Architecture idea represented by Venezuela and Ecuador.
2. The followers without a strong stance – Argentina, Bolivia, Paraguay and Uruguay – who decided to sign the Act as well as the Constitutive Agreement of the Bank, and thus backing the proposal.
3. An overt opposition to the project represented by Chile, Peru and Colombia. It is worth mentioning that they had not expressed any interest in signing the Constitutive Agreement by the time this thesis was being written.
4. Brazil that has acted as a hinge between the two extreme positions with the aim to postpone the creation of the Bank.

In fact, a Foundational Act of the Bank of the South was signed in October 2007 by Brazil, Bolivia, Argentina, Ecuador, Uruguay, Paraguay and Venezuela. The fact that Brazil eventually signed the Act, might be read as an attempt to have a voice in the negotiation and control the pace of the discussion. Indeed, by 2014 the national parliaments of Paraguay and Brazil had not ratified the Constitutive Agreement approved in 2009 (I39).

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<sup>56</sup> There was a preliminary favourable reception by the Brazilian Finance Ministry – Guido Mantega – who considered the Bank as a way to gain autonomy from the financial system and the multilateral banks to finance infrastructure projects, later that perception rapidly turned into concern.

From the interview with an official of the Ministry of Finance of Brazil (the state agency in charge of the Bank of the South negotiations), it is clear that Brazil's strategy consisted in delaying the negotiations and watering down Venezuela's and Ecuador's proposal, reducing it just to a regional bank that should complement and not compete with the BNDES, the IDB and CAF. Therefore, the bank should be restricted to financing transport infrastructure. Conversely, the Venezuelan government has repeatedly expressed that the Bank will not finance private companies and will be the financier of Energy integration projects (I39). Thus, it may be well concluded that financial cooperation in South America is at a standstill.

## 5.2 Preference convergence

The aforementioned inter-state conflicts were directly or indirectly related to the Venezuelan-led energy regionalism and came about between 2005 and 2007 right after the FTAA deadlock. In these two years a cooperation problem was evident: Brazil lost its control over the agenda of regionalism, as the intergovernmental declarations make evident and South American governments polarized between followers and opponents of Venezuelan proposals.

The formalisation of regionalism through the Constitutive Treaty of UNASUR was the solution found to this cooperation problem. In this section, the intergovernmental summits from 2004 to 2007 will be analysed as evidence that the formalisation of UNASUR came about as a way to enhance the predictability of regionalism and restrain Venezuela-led initiatives.

### 5.2.1 From Cusco to Isla Margarita

The agenda of the South American Summit of Cusco in 2004 continued to be aligned with basic intergovernmental consensus expressed through the Brasilia and Guayaquil declarations. In the Cusco Declaration, IIRSA is still a central initiative supported by the governments (Cusco Declaration, Chapter 2; see also the Declaration of Ayacucho, Paragraph 8). The main novelty of Cusco was the approval by all twelve presidents of the new name given by the Brazilian executive to South American regionalism: the Community of South American Nations (CASA). Therefore, it is possible to say that the agenda in Cusco was still set up by the Brazilian government<sup>57</sup>.

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<sup>57</sup> However, the capability to reach South American consensus in Cusco showed its limits. In the first place, the Argentinean President, Néstor Kirchner, did not attend blaming health problems related to the altitude of the city of Cusco, but also commenting to the press in Argentina about the summit's irrelevance (P14). The Argentinean government was conditioning its support to the Community only in case they could apply commercial safeguards to protect Argentinean production in the bilateral relations with Brazil. Whereas the Brazilian foreign policy executive agreed, the Ministry of Industry, Development and Foreign Trade opposed (P15). Therefore, Brazil could not count on the support of its main commercial partner in pushing forward the newly born Community.

The situation changed one year later. The Presidential Summit in Brasilia scheduled for September 2005 was preceded by a Summit of Energy Ministers convened by Venezuela in the city of Caracas in April. During the Caracas inter-ministerial summit, the Venezuelan government presented the PETROAMERICA initiative and the Venezuelan conception of what energy integration should look like (P16). Therefore, the Venezuelan government attended the Brasilia Summit supported by a declaration signed by all twelve ministers of energy. The Venezuelan Foreign Minister and former President of PDVSA, Alí Rodríguez stated some days before the Brasilia summit:

There are aspects in which we insist because they are evident: currently, the economic development is inconceivable without energy and this is the great advantage of this continent [...] Therefore, it is the most elemental logic that the countries of the region have to work on a project of energy integration policy [...] You just have to imagine for a moment this continent crossed from the north to the south and from east to west with long electric lines, gas pipelines, oil pipelines, highways and railways. That will produce a great impact and our countries will go with one unique voice to the international forums, because the weight of the Community of South American Nations will be much bigger than the current situation of marginality and fragmentation (Alí Rodríguez, *La Gazeta Mercantil* 27-09-2005).

In fact, the agenda of the upcoming presidential summit in Brasilia was set up by Venezuela and the PETROAMERICA initiative. This was somewhat ironic, since it was the second summit of the Community – a Brazilian creation – taking place in the Brazilian capital. Furthermore, the summit organisation was particularly troublesome with four Presidents not attending. The Brazilian executive had to mobilise diplomatic efforts to ensure the attendance of heads of state, notably the Argentinean President Néstor Kirchner. President Kirchner justified his attendance only by his interest in signing an agreement on energy cooperation and an agreement on public bond acquisition with Venezuela, side-lining President Lula. Furthermore, the other two MERCOSUR presidents – those from Uruguay and Paraguay - did not attend<sup>58</sup>. Colombian President Álvaro Uribe did not attend the summit either, giving preference to a meeting with coffee producers also held in Brazil. The absence of heads of state was an indicator of the difficulties that the Brazilian executive was facing to retain the governments' support for the Community of South American Nations' project (P17).

In Brasilia it was patent that two different projects were on the table: on the one hand, IIRSA and the trade convergence between CAN and MERCOSUR projects backed by Brazil, and, on the other, that of PETROAMERICA underpinned by Venezuela. In the Brasilia Declaration (2005), IIRSA is practically not

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<sup>58</sup> The President of Paraguay Nicanor Duarte attended just part of the summit with the excuse that he had to attend to a meeting with First Ladies in Asunción (P31).

mentioned, and energy and transport infrastructure integration are considered for the first time since Brasilia 2000 as separate policy areas (I39). Furthermore, energy is associated not with IIRSA but with PETROAMERICA, and its emblematic project, the Big Pipeline of the South, is given much prominence instead of the energy projects in the IIRSA portfolio (see below Chapter 7).

[The Presidents] reaffirm the importance of the energy integration of South America. They ratify the results of the First Meeting of Ministries of Energy of the Community of South American Nations in Caracas, the 26 September 2005, in which it was decided to continue taking concrete steps within the initiative PETROAMERICA on the base of the principles entailed in its Declaration [...] Furthermore, [the Presidents] urge the Ministries working on the network of the Pipeline of the South to progress, as fast as possible, in the development of such a project, attending to the institutional, legal, technical and economic aspects that shall allow its implementation (Brasilia Declaration 2005; paragraph 17).

Equally important, the declarations of Caracas and Brasilia are evidence of the Brazilian efforts to counterbalance Venezuelan initiatives. In the Caracas declaration, the Brazilian delegation made two observations that had to be included in the final text. The first observation stresses each state's autonomy regarding the management of natural and, in particular, energy resources. This principle inserted in the declaration may be interpreted as a safeguard against any attempt of a government to influence – through PETROAMERICA – the energy policy of another country.

CONVINCED that all countries have the right to make their peoples' sovereignty be respected in order to ensure the interests of their nations and their autonomy in the use and management of their energy resources (Caracas Declaration 2005: 2).

The second observation deals with energy integration that should be broader than “petroleum integration”, which was a direct reference to the PETRO initiatives promoted by the Venezuelan state. That would become the Brazilian state's persistent claim at the energy summits and energy initiatives, striving to include all energy resources, and particularly biofuels – an attempt that might be interpreted as a way to offset the oil-based material capacity of Venezuela as well as of the coalitions with other oil and gas producers such as Bolivia and Ecuador.

CONSIDERING that PETROAMERICA does not limit itself to the hydrocarbon sector but entails the entire energy sector (Caracas Declaration 2005: 2).



During the Brasília Summit there was another episode that shows even more patently the Brazilian executive's efforts to set limits to Venezuela. The episode is narrated by the Brazilian Foreign Minister Celso Amorim in his memoirs (Amorim 2013). Prior to the summit, the Venezuelans backed by the Uruguayan government presented a proposal to be discussed by the heads of state in the summit consisting of the creation of a general secretariat for the newly born Community of South American Nations (*Comisión del Sur*). Notwithstanding Venezuelan insistence, the draft for the Brasília declaration prepared by the twelve foreign ministers under the guidance of Amorim left the Venezuelan proposal aside. As a reaction, President Chávez stopped the summit on the last day threatening to not sign the declaration and accusing Amorim of having prepared a text that was “bureaucratic, without goals and defined deadlines” (P18). As in many other similar impasses, the Brazilian delegation opted for postponing the discussion. Amorim managed to convince Chávez to sign the Brasília Declaration arguing that it was only a “provisional text” and promising to establish the Community's structure and agenda in a forthcoming meeting (P19; Amorim 2013). This episode anticipated, somewhat, the one that occurred one year later where again the Brazilian executive had to convince Venezuelan and Ecuadorian presidents to sign the text of, this time, the Constitutive Treaty, as we will see below.

In December 2006 the next intergovernmental summit hosted by the Bolivian President Evo Morales took place in the city of Cochabamba. In the Cochabamba Declaration there is an evident predominance of the Venezuelan energy regionalism, a fact that may be associated with the alignment of the host country with Venezuelan initiatives. Scholars of South American regionalism have stressed the importance of the Cochabamba Declaration as a turning point of the regionalist agenda (see Dabène 2013; Couto 2010). In fact, the declaration is framed in *Bolivarian* terms under the title: “A new model of integration of the XXI Century”: The second paragraph of the declaration states that regional integration is an alternative to prevent globalization from intensifying the asymmetries as it contributes to the economic, social and political marginalization, and it is a way to take advantage of the opportunities to development (Cochabamba Declaration 2006: 1). Last but not least, the declaration entails as an explicit objective of the Community of South American Nations to become one of the poles of a multipolar world order, aligned with Chávez's geopolitical ideas and jargon (Cochabamba Declaration 2006, paragraph 5).

However, in my interpretation, the Cochabamba Declaration is a continuation of the tendency already seen in the summits the year before. In fact, there is a clear attempt by the Venezuelan government to dispute the Brazilian role of agenda-setter. In Cochabamba, the Venezuelan and the Bolivian heads of state explicitly questioned the core of the Brazilian project of regionalism: the MERCOSUR-CAN convergence and IIRSA. The first one is mentioned in an enigmatic way, giving the impression that the trade convergence between the

two blocks – the old SAFTA project – is no longer in the agenda. The declaration posits that the Community of South American Nations:

...includes all the achievements of the MERCOSUR and CAN processes, as well as the experience of Chile, Guyana and Surinam, *going beyond* their convergence” (Cochabamba Declaration 2006: 1-2; emphasis is added).

IIRSA, in turn, is not mentioned in the Cochabamba Declaration, although transport connectivity is maintained as an objective of the Community. Indeed, the discussion about IIRSA occupied an important part of the Summit. President Chávez put forward the argument that IIRSA was exclusively based on economic and financial criteria and read to the rest of Presidents a document in which environmental and indigenous movements harshly criticised IIRSA as an instrument of transnational corporations to export South American natural resources to developed nations (P32). President Morales – the host - backed the letter and condemned IIRSA as an “extractivist” initiative<sup>59</sup> and Rafael Correa, the elected President of Ecuador, who attended the summit as a guest of Morales, declared that most of IIRSA portfolio should be reviewed. The other Presidents however did not share the criticisms and they endorsed IIRSA, pressing for its further development. Table 9 summarises the preferences of the different national governments regarding PETROAMERICA and the Bank of the South initiative by the time of the Isla Margarita Summit.

**Table 9: Preferences regarding PETROAMERICA and the Bank of the South by Isla Margarita Summit (2007)**

| National Government                               | PETROAMERICA   | Bank of the South   |
|---|--|---|
| <b>Brazil</b>                                     | <b>Low.</b> It excludes biofuels. Joint ventures between Petrobras and PDVSA were seen as a way to maintain ties with Venezuela. | <b>Low.</b> It competes with already existent RDB and particularly BNDES.               |
| <b>MERCOSUR (Argentina, Paraguay and Uruguay)</b> | <b>Medium.</b> Possibilities of gas interconnections and oil exchanges at favourable prices through PETROSUR.                    | <b>Medium.</b> Opportunities of financial assistance. They signed the Constitutive Act. |
| <b>Chile</b>                                      | <b>Low.</b> Unclear benefits. Competing with IIRSA energy projects and the Energy Ring project.                                  | <b>Low.</b> Uncertainty regarding the bank governance and lending policy.               |
| <b>Peru</b>                                       | <b>Low.</b> Unclear benefits. Competing with IIRSA energy projects. Inter-presidential tensions with Venezuela.                  | <b>Low.</b> Uncertainty regarding the bank governance and lending policy.               |

<sup>59</sup> Bolivian criticism of IIRSA was somehow paradoxical since Bolivia’s minister of energy had publically manifested the country’s interest to participate in one of the most environmentally contested IIRSA energy projects: the construction of the Madeira River dam (P32)

|                                       |  |   |
|---------------------------------------|--|---|
| <b>Bolivia</b>                        | <b>High.</b> Possibilities of joint ventures with PDVSA and oil exchanges at favourable prices through PETROANDINA   | <b>High.</b> Opportunities of financial assistance at favourable lending conditions. It signed the Constitutive Act.  |
| <b>Ecuador</b>                        | <b>High.</b> Possibilities of joint ventures with PDVSA and oil exchanges at favourable prices through PETROANDINA.  | <b>High.</b> Opportunities of financial assistance at favourable lending conditions. Interest in complement the Bank with a Fund and a regional currency. It signed the Constitutive Act. |
| <b>Colombia</b>                       | <b>Low.</b> Unclear benefits. Inter-presidential tensions with Venezuela.  | <b>Low.</b> Uncertainty regarding the bank governance and lending policy.   |
| <b>Venezuela</b>                      | <b>High.</b> PETROAMERICA as a means to set the agenda of regionalism. PETROSUR in particular was seen as a way to benefit from partnerships with Petrobras. | <b>High.</b> The Bank as a new financial architecture in direct opposition to the IDB and the World Bank.   |
| <b>Northern-tier (Surinam-Guyana)</b> | <b>Medium.</b> Already part of PETROCARIBE   | N/D   |

Own elaboration.

The increasing polarization between the Brazilian and the Venezuelan agendas arrived at its critical point in the first South American Energy Summit that was held in April 2007 on Isla Margarita, Venezuela. The summit had two main outcomes: the creation or rather the re-baptism of the Community into the Union of South American Nations (UNASUR) following the preferences of Venezuela, and the creation of yet another organisation: the South American Energy Council.

These outcomes might be read as the reaffirmation of the Venezuela project, already seen in the previous two summits. In fact, since Cusco 2004, President Chávez had been pushing for naming the Community – the Brazilian preferred name – as a Union. Furthermore, Chávez wanted a formal organisation, namely with a powerful general secretariat and, according to the Isla Margarita Declaration, the UNASUR shall have a general secretariat headquartered in the city of Quito, Ecuador and not in Rio de Janeiro where Itamaraty wanted to have the offices of the extinct Community (CASA) <sup>60</sup>. Last but not least, the creation of an Energy Council that should replace IIRSA was also convergent *prima facie* with Venezuela’s energy integration project. For all these reasons, Isla Margarita represented the “perfect summit” from the Venezuelan perspective, as it was expressed by President Chávez at the end of the event (P20).

However, the analysis of the declaration and the events surrounding the summit show a radically different picture. As Table 8 shows, Isla Margarita was in fact the highest point of preference divergence among South

<sup>60</sup> It is noteworthy that a press release from Itamaraty months before the summit mentioned a ceremony of inauguration of the building of the Community of Nations in the city of Rio de Janeiro (see Couto 2010). This shows that the creation of UNASUR and its Secretariat in Quito was rather a last minute decision in Isla Margarita.

American executives since the inception of the South American regionalism in 2000. The three conflicts analysed in the previous section dominated the agenda. First, there was a clash between oil and biofuels. The Brazilian delegation made it clear that it was not going to accept any ideological discussions around the biofuel industry they were developing. Although the Venezuelan government toned down its criticisms and even declared its intention to undertake joint ventures with Brazil, the Bolivian President Morales insisted that the declaration should state that the biofuels could affect the production of food in South America. The Brazilian view prevailed and the final declaration states that:

[The Presidents] impulse the development of the renewable energies since they accomplish an important role in the diversification of the energy matrix, the energy security, the promotion of the universal access to energy, and the preservation of the environment (Isla Margarita Declaration 2007, Paragraph 9).

Second, the Bank of the South was excluded from the agenda of the meeting upon Brazil's request. The Brazilian executive had to mobilise important diplomatic resources to convince the presidents of Argentina and Ecuador to discuss the Bank outside the main sessions of the Summit. Third, Presidents Lula and Morales had bilateral meetings to solve the conflicts caused by the enactment of the hydrocarbons industry nationalisation, without reaching any agreement about the material compensations (P21; P22).

In addition, IIRSA and the Venezuelan-led PETROAMERICA seemed to have neutralised each other. In fact, the declaration does not mention IIRSA at all, but the references to PETROAMERICA are also minimal, being mentioned vaguely in one paragraph.

[The Presidents] Express their acknowledgement towards the initiatives undertaken by different countries in order to increase the cooperation and coordination of their actions in energy such as PETROSUR, PETROANDINA, PETROAMERICA, Petrolera del Cono Sur and other initiatives (Isla Margarita Declaration, Paragraph 13).

Furthermore, the Declaration does not specify any relation between PETROAMERICA and the incipient South American Energy Council. The objectives of the Council are briefly mentioned as follows: to propose a South American Energy Strategy, an Action Plan, and a South American Energy Treaty (Isla Margarita Declaration, Paragraph 18). Venezuela holds the presidency of the Council, proposing deadlines for elaborating the South American Energy Treaty, that were contested by Brazil who proposes an alternative schedule with later deadlines. According to the Brazilian proposal, the first draft was to be ready in 2011, and the second draft in 2012 without the date to be signed on by the heads of state. Brazil proposes to divide the Treaty into topics in accordance with the interest of each country (D13: 4).

As such, the Isla Margarita Declaration – brief and vague in its content – shows that a new consensus on South American regionalism and energy integration in particular was simply not there. Encapsulating the Venezuelan energy proposals into a ministerial Council was the way, as Brazil found out, to get energy integration constrained into a tight intergovernmental structure where decisions have to be taken by consensus by the twelve ministers of energy and then by the twelve heads of state.

From this perspective the change of name from “Community” (CASA) to “Union” (UNASUR) is almost anecdotic: it can be seen as a small satisfaction provided by the Brazilian government to President Chávez in exchange for locking the PETROAMERICA initiative into a strictly intergovernmental regime. Already in Cochabamba, the Venezuelan project had gone too far compelling the Brazilian government to impose a more unhurried pace to regionalism, delaying Venezuelan initiatives, especially the most ambitious ones. UNASUR was created at the end of the summit, with the absence of three heads of state – Michelle Bachelet from Chile, Alan García from Peru and Tabaré Vázquez from Uruguay – and, as we will see in the next section, devoid of any substantive power.

At the end of the summit, the new institutional design of South American regionalism was already decided.

### 5.3 Formalisation without delegation

The formalisation of UNASUR came about in the Extraordinary Summit of Brasilia, on May 23 of 2008. In this event, the Constitutive Treaty of UNASUR was signed by all twelve South American heads of state, being ratified by the twelve national parliaments within the following three years (see Palestini and Agostinis 2014; Sanahuja 2012).

The Treaty set the objectives of UNASUR grounded on the previous declarations, and particularly on the Cochabamba summit and its emphasis on a model of integration based on social and political objectives. Trade integration is just vaguely mentioned (Article 3, lit. l), there is no reference whatsoever to SAFTA or the convergence of MERCOSUR and CAN<sup>61</sup>. Energy and infrastructure integration remain as priority areas, although they are not part of one single policy area any longer as it used to be under IIRSA<sup>62</sup>. UNASUR was designed to be a multipurpose organization.

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<sup>61</sup> The vague formula already included in the Cochabamba Declaration is copied again in the Preamble of the Treaty (Paragraph 7): UNDERSTAND that South American integration should be achieved through an innovative process, which includes all the accomplishments and progress achieved so far by the MERCOSUR and CAN processes, as well as the experiences of Chile, Guyana and Surinam, going beyond the convergence among them.

<sup>62</sup> The Treaty established as specific objectives: Energy Integration for the integrated, sustainable use of the region’s resources, in a spirit of solidarity (Article 3, lit. d). The development of infrastructure for the interconnection of the region and among our people, based on sustainable criteria of social and economic development (Article 3, lit.e).

Certainly, the Constitutive Treaty represents a major step in the formalisation and institutionalisation of South American-wide regionalism. In fact, through the Treaty the objectives of regionalism – scattered so far in declarations – became the objectives of a regional organisation with a legal personality recognised by international law. Together with the Treaty, the General Regulations of UNASUR were approved, and thereby the structure of functional cooperation, particularly in the policy areas under study, became formalised and regulated. As a consequence, IIRSA<sup>63</sup> became absorbed into the new UNASUR and functionally differentiated in two councils: the Energy Council and the Planning and Infrastructure Council (COSIPLAN).

However, the Constitutive Treaty might be also interpreted from a different perspective. As the previous analysis has shown, in the course of the successive intergovernmental summits, the preference divergence among South American countries increased spreading negative effects on Brazil and limiting its capacity to set the agenda of regionalism. Consequently, the Brazilian government turned from being the main driver of regionalism during the years of FTAA negotiations, to mainly balance and set limits to an increasingly active Venezuelan government. From this perspective, the Constitutive Treaty can be read as a tool to put checks in order to prevent an escalation of Venezuela's regional proposals. Despite being named according to the Venezuelan president's preferences, UNASUR is in fact a Brazilian creation oriented to impose a slower pace on regionalism and, at the same time, to recover control over it (see Gratius and Saraiva 2013).

Several indicators in the Treaty support this interpretation. For instance, financial cooperation, which is a Venezuelan proposal, is part of the specific objectives of UNASUR together with the energy and infrastructure integration in accordance with the Declaration of Cochabamba. As I have shown, financial integration was envisioned by the Venezuelan government as an ambitious project to increase the financial autonomy of the region regarding multilateral financial institutions through institutions like the Bank of the South. Already in Cochabamba, that proposal was backed up by the governments of Argentina, Ecuador, Bolivia, Paraguay and Uruguay but perceived with scepticism by Colombia, Chile, Peru and notably Brazil. Hence, although the Treaty mentions financial integration as an objective, it also adds an important safeguard: to respect the national preferences regarding economic and fiscal policy, limiting its scope and mandate. In this way, the most ambitious proposals of monetary union and reserve funds made by Venezuela and Ecuador are definitely left aside of UNASUR mandates.

Financial integration through the adoption of mechanisms compatible with the economic and fiscal policies of Member states (Constitutive Treaty, Article 3, lit. f).

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<sup>63</sup> It is interesting to note that the Constitutive Treaty does not recognise the first Brasilia Summit where IIRSA was created as part of the origins of UNASUR (see Constitutive Treaty, Preamble, Paragraph 2).

Likewise, the area of security cooperation figures as a specific objective of UNASUR but with a rather shallow mandate:

The Exchange of information and experiences in matters of defence (Constitutive Treaty, Article 3, lit. s)

The mandate formalised by the Treaty is at odds with the Venezuela proposal to create a SATO, namely a South American Security Alliance in the fashion of NATO, brought up by President Chávez in several inter-presidential meetings. In fact, in January 2008, months before signing the UNASUR Treaty, the Government of Venezuela proposed to the members of ALBA to create a military alliance. Those proposals were actively downplayed by Brazil, to be followed this time by the governments of Chile and Argentina with a long and complex experience in the area of civil-military relations (I27). The preferences of these states would translate into the creation of the South American Defence Council of UNASUR in December of 2008 that although it institutionalised the area that Brazil was so far reluctant to put on the regionalism agenda, it also set important limits to the Venezuelan security project. The idea of a SATO was explicitly rejected and would disappear from the discussion, while the negotiators of the Defence Council simultaneously tailored a careful distinction between security and defence issues (I37; I27; I29; D25)<sup>64</sup>.

The Treaty defines UNASUR as a flexible regional regime. The fact that UNASUR is designed as a “variable geometry” (Nolte 2014; Carrión 2013; Sanahuja 2012) might also be interpreted as a way to impose a slower pace on regionalism and restrain Venezuela and any other state to look for areas of cooperation where regional consensus is possible to achieve. In fact, in a variable geometry design states might opt out if they consider that a specific initiative does not benefit or affect their national interests.

AWARE that the process of building South American integration and union is ambitious in its strategic objectives and must be flexible and gradual in its implementation, ensuring that each State makes commitments according to its own situation (Constitutive Treaty, Preamble, paragraph 8).

In the case of institutions, organisations or programmes which are created, any Member State may participate as an observer, or exempt itself from participating fully or partially for a set time or indefinitely (Article 13, paragraph 5).

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<sup>64</sup> The Defence Council is the UNASUR body for political dialogue and cooperation in defence matters, based on an integral concept of cooperative and democratic security. Therefore, the Council is neither a military alliance nor a defence organisation, as it does not contain a mutual defence clause. Like UNASUR, the Defence Council is based on respect for sovereignty and non-intervention and, therefore, cannot participate in UN peacekeeping missions (I 29; D25; see also Sanahuja 2012: 18-19).

However, it is in the Articles referring to the governance structure of UNASUR where the Brazilian preference backed by the governments of Chile and Colombia is more patent for designing a regional organisation with no delegation of authority, i.e. an organisation that cannot be used by any particular state as means of imposing their preferences with regard to regionalism.

In the Treaty, Article 4 defines the UNASUR structure as a hierarchy with four organs:

1. The Council of Heads of State and Government
2. The Council of Ministers of Foreign Affairs
3. The Council of Delegates
4. The General Secretariat

It is important to bear in mind that only the General Secretariat corresponds strictly speaking to a regional organisation, being, in the proper sense of the world an international (South American) bureaucracy, exclusively dedicated to UNASUR and provided with a budget and “an address” (see Chapter 2). The other three organs are intergovernmental *fora* integrated by national representatives. The hierarchical distance between the General Secretariat and the Council of Ministries and the Council of Heads of State is huge and is mediated by an intermediate executive organ, the Council of Delegates made up by third-order national bureaucrats accountable to their respective national ministers of foreign affairs. In other terms, the General Secretariat staff is subordinated to national bureaucracies.

Articles 6 to 10 of the Treaty describe the functions of the organs. It is noteworthy that the main responsibilities regarding the input functions (i.e. making proposals to the higher bodies) as well as regarding the output functions (i.e. to implement the Decisions and Resolutions of the Councils) rely on the Council of Delegates and not on the General Secretariat, further limiting the mandate of the latter<sup>65</sup>.

Compared to the duties of the Council of Delegates, the General Secretariat is rather an ancillary organ. According to the Treaty its first duty is:

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<sup>65</sup> For instance some of the duties of the Council of Delegates are: to implement the adoption of appropriate Provisions, the Decisions of the Council of Head of State and Government, and the Resolutions of the Council of Ministers of Foreign Affairs with the support of the Pro-Tempore Presidency and the General Secretariat (Article 9, lit. a). To prepare draft Decisions, Resolutions and Regulations for the consideration of the Council of Ministries of Foreign Affairs (Article 9, lit. c).



To support the Council of Head of States and Government, the Council of Ministers of Foreign Affairs, the Council of Delegates and the Pro-Tempore Presidency in the performance of their duties (Constitutive Treaty, Article 10, lit.a)

Although the Treaty states that it is also a duty of the Secretariat to propose initiatives (Article 10, lit.b), his proposals are subordinated to the Council of Delegates, which is the organ in charge of preparing the drafts for consideration by the Council of Ministers of Foreign Affairs (Article 9, lit.c). If a member state has a proposal, say the creation of a new sectoral council or a new policy programme, it must turn to the Council of Delegates instead of the General Secretariat (I26).

Proposals shall be submitted to the Council of Delegates. Once approved by agreement, they shall be forwarded to the Council of Ministers of Foreign Affairs and, subsequently, to the Council of Head of States and Government for approval by agreement. If a proposal is not agreed on, it may only be resubmitted to the Council of Delegates six months after its last inclusion in the agenda (Article 13, paragraph 3).

Furthermore, the general secretary, who is the legal representative of the General Secretariat, does not have the attribution to represent UNASUR, for instance at international or regional forums. This function is, instead, carried out by the President Pro-tempore, a position held successively by a head of state for a one-year period (Article 7). In a nutshell, the only attribution of relevance that the General Secretariat holds is to monitor the work of the sectoral councils, task that the Secretariat is not able to exercise properly for lack of organisational resources. In fact, only in 2013, the Secretariat started to enlarge its bureaucratic apparatus through the creation of Directorates to enhance the monitoring capacity to follow up the activities of the sectoral councils that hitherto was severely limited (I26; I33).

The lean governance structure of UNASUR with a powerless General Secretariat is a far cry from the project intended by the Venezuelan government in the Cochabamba and on Isla Margarita. It reflects instead the preferences of Brazil to create an intergovernmental regime tightly controlled by the heads of state and their ministries of foreign affairs.

The question that is bound to arise is why the presidents committed to the Venezuelan-led project of regionalism signed a Treaty that did not correspond to their preferences in terms of a powerful general secretariat pushing for PETROAMERICA and the Bank of the South, among other ambitious initiatives. The definitive answer to this question is to be found inside the room where the negotiation took place, and perhaps will be only revealed in the future in the memoirs of some of the negotiators. However, an interview with the former foreign minister of Ecuador provides a general picture. After the Isla Margarita Summit when UNASUR was created, Ecuador – aligned with Venezuelan initiatives – assumed an important role to present

a draft for the Constitutive Treaty. In fact, Quito was decided as the headquarter of the future General Secretariat and the former Ecuadorian President Rodrigo Borja was proposed by President Rafael Correa to the rest of the heads of state as the future and first general secretary (I36).

Borja drafted the general principles of the future Treaty in a document presented to President Correa that ensured an important role to the General Secretariat in the structure of UNASUR. According to the interviewee, Borja's document was dismissed by the foreign ministers of the South American states that, under the guidance of the Brazilian Foreign Minister, Celso Amorim, prepared the draft of the Treaty to be signed by the presidents.

[Rodrigo Borja] worked on the proposal to be sent to the Presidents. I assisted him. But it was not him who negotiated the draft; he was not part of the Ecuadorian delegation, because he was general secretary of something that still did not exist [...] the negotiators were representatives of the twelve foreign ministers and they proposed a different thing that did not correspond to Borja's document. They did not take anything from Borja's proposal, it was a parallel negotiation (I36).

According to the interviewee, when President Correa realised that the draft did not reflect the idea of a strong secretariat he refused to sign the treaty. Intense inter-presidential negotiations driven by President Lula were necessary to get the Treaty signed. However, Rodrigo Borja rejected the appointment as general secretary starting a difficult process of institutionalisation of the Secretariat. Former Argentinean President, Néstor Kirchner, was appointed as general secretary after being vetoed by the Uruguayan government because of bilateral tensions regarding the construction of pulp mills on the binational River Uruguay. Néstor Kirchner died before completing his mandate as first general secretary of UNASUR. A second impasse emerged when Venezuela and Colombia presented two candidates to succeed Kirchner, preventing an appointment by consensus as the Treaty provides. The impasse was solved by splitting the two-years periods between the former Colombian Foreign Minister Maria Emma Mejía (2011-2012) and the former Venezuelan Foreign Minister and President of PDVSA Alí Rodríguez (2012-2013).

As general secretary, Alí Rodríguez headed an attempt to strengthen the position and role of the general secretary within the UNASUR institutional design aligned with the preferences of the Venezuelan government. One of the elements of this proposal was to transform the Council of Delegates (made up of national bureaucracies responsive to their respective national ministries of foreign affairs) into a Council of Permanent Representatives. The idea was resisted by Chile, Brazil, Uruguay, Peru and Colombia arguing that the General Secretariat must be limited to execute the political positions adopted by the Heads of State (see D108; I26; I33) According to a national delegate in UNASUR:

The role of the General Secretariat has been topic of discussion in the meetings of the Council of Delegates, because the General Secretariat wants to assume a more proactive role and the Treaty does not mandate autonomy regarding the Councils; on the contrary, the Secretariat has to serve the Councils to execute the commitments that the Councils reach. This has to do with the fact that the general secretary is from Venezuela, which wants to assume a leading role in the decision-making process and in the elaboration of the UNASUR agenda through the strengthening of the Secretariat (I26).

The election of the successor of Alí Rodríguez ran into a new impasse when the Peruvian candidate was blocked by the presentation of a second candidate by Bolivia. Since the election of the general secretary must be on consensus the two candidates blocked each other. Venezuela and Ecuador proposed to elect a former President or vice-President to provide more visibility to the position, and informal conversation were sustained with former President Lula from Brazil, Lagos from Chile and Lugo from Paraguay. Peruvian President Ollanta Humala, in turn, proposed to follow the formula applied before and split the two-year period between the Bolivian and Peruvian candidates, but Argentina vetoed the proposal arguing that this measure would weaken the Secretariat. According to the Director of the Latin American Faculty of Social Sciences (FLACSO):

The region does not want that Venezuela imposes a general secretary from an ALBA country [Bolivia, Ecuador and Venezuela]; when there was a Venezuelan secretary the management was awful. Most of the countries in the region do not want to transform UNASUR in a counter-hegemonic mechanism, and they fear that if they elect an ALBA secretary this will happen. The general secretary is not necessary in the current structure of UNASUR; a Pro-Tempore President is enough to convene an intergovernmental meeting, thus the Secretariat is not indispensable (I34)

After two years without consensus, the former Colombian President Ernesto Samper assumed as the fourth general secretary of UNASUR in July 2014. During the inaugural ceremony of the new buildings of the UNASUR Secretariat in Quito, the Ecuadorian President Rafael Correa emphasised that in order to push regionalism forward it is necessary to review UNASUR institutional design:

Everything that is decided in UNASUR has to be approved by unanimity and this makes that all countries have veto capacity. In this way it is impossible to go ahead; we must review the institutional framework to be more efficient in the construction of the big fatherland (*patria grande*) (P23)

## 5.4 Conclusions and alternative explanations

Chapter 4 and Chapter 5 have provided an answer to the first research question of this thesis: Why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)? The answer can be put in a straightforward way: IIRSA and UNASUR were designed differently because they responded to different cooperation problems. Underlying this answer there is the assumption that institutions are less the expression of collective identities (for instance a new-leftist or post-neoliberal identity) and rather options taken by reasonable and purposeful actors to solve contextually determined cooperation problems. To describe these cooperation problems, Chapter 4 and Chapter 5 have observed the intergovernmental dynamics around two junctures: 1998-2002 and 2006-2008.

In 2000-2002 the cooperation problem was triggered by the FTAA negotiations (an external challenge) and worsened by the political and commercial crisis of MERCOSUR (a negative externality of increasing asymmetrical interdependence). These events demonstrated to the Brazilian executive that the only way to keep South American governments together and improve the negotiation position vis-à-vis the US, was to search for areas of mutual benefits, taking into consideration the fiscal constraints of the governments and, therefore, without incurring in creating a new regional bureaucracy or tying hands in binding commitments. The resulting institution was IIRSA designed as an informal network of technical ministries coordinated by three RDB that would ensure the financing and the guidelines to implement RPG in energy and transport connectivity.

In 2006-2008 the cooperation problem was triggered by the emergence of an alternative energy regionalism oriented by a not-shared geopolitical purpose and imposing political and diplomatic costs to other countries. The informal and loose IIRSA design opened room for the escalation of parallel energy initiatives that jeopardised the basic intergovernmental consensus reached in 2000 (Brasilia) and 2002 (Guayaquil). Formalisation was the option to enhance the credibility of commitments to regional cooperation, to restrain the Venezuelan-energy regionalism, and to avoid the potential defection of countries, especially liberal market economies, that felt jeopardised or excluded by Venezuelan initiatives. The resulting institution was UNASUR and its sectoral councils, a formal organisation that set checks to alternative initiatives (for instance in the area of a South American security alliance and a South American financial architecture), that formalised the possibility of opting-out, and that, more importantly, formalised an organisational structure and decision-making process with limited competences for the General Secretariat.

The option for “formalisation without delegation” was led by the Brazilian government and supported by South American governments uncomfortable with the escalation of Venezuelan-led regionalism embodied in initiatives such as PETROAMERICA and the Bank of the South. Evidence collected from interviews as well

as the successive impasses in the election of the general secretary, show that this formalisation has been resisted by governments interested in a more powerful UNASUR, particularly Venezuela and Ecuador. This makes UNASUR's institutional design an arena of dispute and it remains to be seen if a new intergovernmental consensus will emerge around an amendment of the Constitutive Treaty that provides higher competences to the Secretariat and transforms the Council of Delegates into a Council of Permanent Representatives. Following, the premises of this thesis such an intergovernmental consensus will arise as a response to a new cooperation problem shaped either by the deepening of internal tensions or by an external shock.

With the creation of UNASUR and its formalisation through the Constitutive Treaty, IIRSA was functionally differentiated in two sectoral councils, the Council for Planning and Infrastructure (COSIPLAN) and the Energy Council, both regulated by the Treaty and internal regulations. Whether this institutional change had consequences on the outcomes of regional sectoral cooperation is something that has to be analysed shifting from the intergovernmental to the transnational level of analysis and that will be the purpose of the Part III of the thesis (Chapter 6 and 7). Before that, though, it is important to review some alternative answers to the first research questions.

I will briefly discuss some alternative explanations to the first research question: Why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)? To do so I will draw on the approaches presented in Chapter 3. There are three hypotheses that can be drawn from the neofunctionalist, liberal and power-based approaches as it is shown in Tabæ 10.

**Table 10: Alternative Hypotheses to Q1: Why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)?**

| <b>The shift from an informal to a formal institutional design is expected when:</b> |   |
|--|---|
| <b>Neofunctionalist</b>  | Technocratic actors want to insulate technical decisions from reversal by the national governments.   |
| <b>Liberal</b>   | Market actors want to lock-in their preferences through codified and preferably binding rules that provide legal-certainty that favour cross-national market exchange |
| <b>Power-based</b>   | Governments of powerful states in the region want to prevent balancing from other powers and prevent defection of smaller states                                      |

The neofunctionalist approaches consider the change in institutional design as a consequence of the process of technical problem-solving. Hence, the attention is put on the technocratic actors and not on the governments as this chapter has done. Applied to the context of South American regionalism the

neofunctionalist hypothesis would be that a shift from an informal to a formal design is expected when technocratic actors – technocrats from the regional development banks – want to insulate technical decisions from reversal by the national governments. The logic of this explanation is that, with the creation of IIRSA, the RDBs – IDB, CAF and FONPLATA – obtained competences in the coordination of regional programmes that they want to preserve and enhance. Formalising IIRSA through the codification of rules and norms would be a way to prevent potential spill-backs by governments jealous of sovereignty and national authority (see Sandholtz and Stone Sweet 1998).

Although this explanation is plausible, it does not apply to the cases of this thesis. In fact, the UNASUR Constitutive Treaty does not increase the level of competences of the RDBs that, on the contrary, were relinquished. The Treaty does not delegate any special mandate to the RDBs in UNASUR. Furthermore, in the new structure of the Sectoral Councils the role of the RDBs is formally downgraded: the RDBs were coordinators of IIRSA through its Technical Coordination Committee, and with the formalisation of COSIPLAN they become the technical assistance of the national ministries. In the case of the Energy Council, the RDBs are not assigned any formal role. In fact, putting limits on Venezuelan-led initiatives implied also to enhance the role of the national governments and, thereby, the Constitutive Treaty further “intergovernmentalized” South American regionalism and as a consequence formally downgraded the RDBs.

Liberal approaches, in turn, explain variation in institutional design as a result of pressures from market actors. The liberal argument runs: market actors demand the formalisation of intergovernmental agreements in order to lock-in their preferences through codified and preferably binding rules that provide legal-certainty favouring cross-national market exchange. Applied to the South American context, the hypothesis is that the shift from an informal to a formal design is expected when market actors want to lock-in agreements that are favourable to cross-national market exchanges.

The liberal explanation has low plausibility in a regional context with low economic interdependence. In the context of MERCOSUR, for instance, where economic flows are relatively higher especially between the pole of Buenos Aires, Uruguay and the southeast states of Brazil, there is evidence that domestic and transnational firms were interested in the formalisation of the custom union and had a role in pressing the governments to negotiate the Ouro Preto Protocol (see Cason 2011; Gomez-Mera 2013). But in the context of the South American-wide UNASUR where intra-regional market exchange is still low, we do not find such evidence of strong market demand. As it will be shown in the next chapters, the role of the firms in the transport and energy sectors has been largely passive. Firms’ participation in implementing transport connectivity projects has been steered by the RDBs and by single governments – chiefly Brazil -, rather than the other way around. A strong market demand that triggers the supply of regional institutions and regional public goods as

expected by liberal scholars (see Mattli 1999a; Mansfeld and Milner 1997) is simply not yet there to explain South American-wide regionalism.

The last alternative explanation to examine here is the power-based approach. This approach explains the design of institutions as a consequence of power relations in a regional intergovernmental system. Regional powers will prefer a more formal institutional design – that constrains its own behaviour – “only” if it is useful to prevent balancing from other powers and preventing the defection of smaller states (see Pedersen 2002). The power-based hypothesis foresees the shift from an informal to a formal design when regional powerful states want to maximise or stabilise their influence in the region.

The argument made in this thesis gets closer to this last power-based hypothesis. Without sharing all the neorealist assumptions – for instance, that security and geopolitics are the chief determinants of intergovernmental relations – the argument developed in this chapter has made evident that the formalisation of regionalism into UNASUR responded to the escalation of an alternative project of regionalism. This can be read from a power-based perspective as an attempt of Brazil to stabilise, rather than maximise, its influence on the regional agenda. A power-based explanation becomes more plausible especially because the Venezuelan government seemed to follow power-based assumptions when crafting its project of energy regionalism (see Serbin 2011 and D118). The conception of regionalism spelled out by Chávez foreign policy executive in the *New Strategic Map*, was indeed oriented towards the geopolitical goal of bringing about a multipolar order, and constituted a clear attempt to displace IIRSA with PETROAMERICA. The Venezuelan government strategy and the Brazilian reaction to strike a balance between “formalisation and non-delegation” bring support to a power-based conception of intergovernmental politics. The formalisation of regionalism into UNASUR certainly did not maximise Brazilian influence on the region – as some Brazilian politicians and scholars seem to suggest – but it did stabilise its capacity to set the agenda of regionalism.

Can intergovernmental dynamics also explain the variation in the outcomes of regionalism? The next chapters will argue that to explain outcomes it is necessary to complement the intergovernmental perspective with the action of transnational actors. Thus they will look deeper at the policy areas that constituted IIRSA and that were later formalised into UNASUR: the transport connectivity and the energy area.





## **PART III**

### **The transnational level: delivering outcomes**



## CHAPTER 6

### Transport: Development and Integration Hubs

The physical integration of our space became one of the objectives of the planning proposals that we brought to the discussion with the presidents of South America [...] We adopted a new concept of planning, advocated by the businessman Eliezer Batista, experienced government adviser, that substituted the policy of creating “development poles” for the creation of “development hubs” aimed at decentralising the social and economic development of our region (Fernando Henrique Cardoso, memoirs; my translation)

#### Introduction

In Chapter 6 and 7 the thesis moves from the intergovernmental to the transnational level of analysis in order to explain variation in cooperation outcomes. This chapter deals with transport connectivity, the policy area that corresponds to the positive case. In fact, regional cooperation and policy coordination has developed since the initial intergovernmental consensus in 2000 delivering an important number of RPG such as international roads, water-ways, railways connectivity and ports together with innovative monitoring methodologies (see Chapter 2). As it will be argued, despite the positive outcomes regional transport connectivity is not a complete success story and, in fact, cooperation in this area faces a number of challenges that will also be discussed. Yet, this chapter argues that the comparatively higher provision of RPG in transport connectivity in relation with all the other functional areas of UNASUR and especially energy is due, first, to the achievement of a basic intergovernmental consensus that has been preserved up to the end of this research and, second, to the capacity of states to broker non-state actors in the implementation of public goods.

Two sets of non-state actors are relevant in this narrative. The first one corresponds to a set of agents that have been notably overlooked by the literature on comparative regionalism: regional development banks (RDBs). In this regard, the present thesis constitutes a first attempt to shed light on the role played by RDBs in translating basic intergovernmental consensus into actual implementation of RPG. The second group of non-state actors is the private sector. One of the unexpected findings of this thesis is that firms – domestic and transnational – are considerably less important for explaining the implementation of RPG than liberal scholars would predict (see *inter alia* Mattli 1999a and b; Mansfeld and Milner 1997). Although there is an incipient participation of private actors in financing regional projects through mechanisms that will be analysed in depth, business interests seem still de-aligned from intergovernmental preferences for regionalism.

The chapter is structured as follows. A first section is devoted to describing the basic intergovernmental consensus that provided legitimacy to the implementation of RPG in transport connectivity. It is argued that there was not a considerable change in this basic consensus throughout the first decade of the 2000s, in spite of the domestic changes in many governments and the formalisation of IIRSA into the UNASUR Council of Planning and Infrastructure (COSIPLAN). The second section deals with the main mechanism operating at the transnational level: brokering (see Chapter 3). It explains how the Brazilian executive managed to line up the support of RDBs such as CAF and IDB as important actors to coordinate IIRSAs and to provide a viable policy frame – based on the concept of “development and integration hub” – which gives continuity to regional cooperation up to now. It also shows the efforts by the Brazilian government to engage the Brazilian private sector in the financing of transport infrastructure in South America through its national development bank, BNDES. The chapter ends with conclusions in which I further discuss the potential, but also the limits of this attempt to broker non-state actors in the transport connectivity area.

## 6.1 Intergovernmental Consensus

As it was argued in Chapter 4 (see Table 7), all South American states had, by the end of the 1990s, intense preferences for a developmental programme on regional transport infrastructure but they were missing the capacity to coordinate and finance such a programme. That is why the proposal of the Brazilian executive was well received and translated into IIRSA through the Declarations of Brasilia (2000) and Guayaquil (2002). This basic consensus did not undergo important changes throughout the first fourteen years of the new millennium. According to a Brazilian economist:

The only issue that was convenient for all South American countries was infrastructure. The Brazilian government presented a project of physical integration whose intellectual authors at the Ministry of Planning had worked with the idea of integration and development hubs. The idea was similar to the “regional corridors” implemented by the Asian Development Bank during the 80s comprising projects with a strong emphasis on infrastructure: in the case of Asian ports and maritime transport. [...] It was an idea that comes from Marshall, Perrault and then Krugman. For the first time, South American countries had a project of regional infrastructure in front, with solid bases on the more advanced literature of economic geography (I12)

MERCOSUR governments, particularly those of the smallest member states, were interested in a programme of transport connectivity that could reduce competitive disadvantages and economic asymmetries. The Chilean government – together with some local authorities – was interested in making the idea of a bi-oceanic corridor a reality. It has also to be noted that the Chilean government was interested in participating in IIRSA and later COSIPLAN to have a voice in the process and directions of regionalism. A Chilean representative of the Ministry of Foreign Affairs puts this rather bluntly:

For Chile [the Chilean government] IIRSA is more interesting in a political than an economic way. Chile does not need IIRSA to gain access to the international financial system, like Ecuador or Bolivia. IIRSA is fundamental to influence in the process of regional integration and to be updated regarding the progress of regional infrastructure integration (I28).

Andean governments were also interested in developing transshipment industries and improving transport interconnections inside the country and with the Brazilian states at the other side of the frontier. In fact, President Toledo (2001-2006) became the main ally of the Brazilian executive to push IIRSA forward as it is narrated in Amorim's memoirs (Amorim 2013: 123-124). Of special attention was the implementation of a second bio-oceanic highway that could connect the port of São Paulo with the Peruvian ports on the Pacific coast (Ilo and Matarani), as it is possible to appreciate in the speech of Toledo's Foreign Minister during the Cusco Summit:

Beyond its economic dimension, the South American Community of Nations shall be, above all, a big decentralized development program of our countries, through the creation of decentralized regional economies in the area of influence of the integration and development hubs of South America (Speech Allan Wagner, 2004, paragraph 2).

Despite the critical stance that the Venezuelan and the Bolivian governments took towards IIRSA by the middle of the 2000s, this basic intergovernmental consensus about the benefits of a developmental programme on transport connectivity was not severely undermined after the Brasilia and Guayaquil Summits. Venezuela became a vocal critic of the role of the RDBs, especially the IDB because of the important participation of the US government on its board (I4)<sup>66</sup>. By 2004, Venezuela had stopped sending national representatives to the IIRSA meetings, questioning the legitimacy of the IDB, its methodologies of selecting and monitoring the projects and the financial criteria that oriented the construction of the IIRSA portfolio. A national representative at IIRSA remarks:

When I started as national coordinator of IIRSA in 2005, I never saw a Venezuelan representative in a meeting. I perceived that there was something systematic. Venezuela criticised IIRSA for being driven by the IDB. Its criticisms were directed at the IDB, not at CAF. Venezuela started participating gradually with the creation of COSIPLAN [...] During the last COSIPLAN meetings, Venezuela has shown the need to criticise without contributing much; [Venezuela] continues to polarise the debate (I2).

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<sup>66</sup> The US is the main shareholder of the IDB (30%) and a US Treasury Official holds a permanent vice-president of the Bank (see Bruszt and Palestini 2016).

In 2005 the government of Venezuela had to withdraw its candidate for the Presidency of the IDB due to the lack of support from the states of the region, which drove the Bolivarian state further away from the IDB (Kfuri and Pérez 2009). The position of Venezuela can be summarised in the statement of this civil servant of the Venezuelan Central Bank:

[Within IIRSA-COSIPLAN] Regional development banks, to the extent possible should participate as technical support, make a presentation, but they should not attend the discussions between countries, since those are sovereign matters (Venezuelan public official, Central Bank, in Rubio 2013: 8).

In addition, both the Venezuelan and Bolivian presidents questioned in intergovernmental summits IIRSA's transport projects for environmental reasons: IIRSA was allegedly a programme oriented to extract commodities from the inland to export them to international markets damaging the environment and threatening indigenous communities (see Chapter 4<sup>67</sup>).

However, these criticisms did not affect the functioning of IIRSA and did not alter the intergovernmental consensus around the relevance of regional transport connectivity as a core policy area of South American regionalism. Throughout the successive technical summits the representatives of Chile, Peru, Colombia and Argentina were defending IIRSA and the role of the RDBs in it. For these countries, the RDBs guaranteed the continuity of the process of cooperation and provided the technical capacity that the governments lacked (I4; I25; I28).

## 6.2 Brokering: Regional Development Banks and the private sector

The assumption of this thesis is that the intergovernmental consensus is necessary but not enough to produce outcomes. It is necessary because it provides the legitimacy – based on domestic presidential regimes – to carry out policy coordination and implementation of RPG (see Malamud 2003; Dabène 2012a). However, it is not enough because implementation is carried out by non-state actors whose engagement in regional programmes is the only way to make them resilient to changes in government's preferences. I have called the mechanisms whereby governments align their preferences with those of relevant transnational non-state actors **brokering** (see Chapter 3). The lock-in of these non-states' actors preferences is what enables regionalism to be sustained over time.

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<sup>67</sup> Some members of Lula's executive such as Samuel Pinheiro Guimarães were also critical of IIRSA as it was conceived by F.H.Cardoso (I1). However, their criticisms were counteracted by the wide support from the rest of South American governments. At the beginning of Lula's first government, Itamaraty carried out a survey in all Brazilian embassies in South American countries, and the results showed that IIRSA was considered one of the main elements of a regional agenda (I7).

## 6.2.1 Brokering RDBs

The first and most important set of non-state actors that was brokered into the regional transport connectivity programme was the RDBs. A key figure in this process was the Brazilian engineer and planner Elizer Batista described by Cardoso in his memoirs as a “multi-talented man and a Brazilian development thinker” (Cardoso 2006: 579). As it was mentioned in Chapter 4, he was the policy-maker that gave Cardoso the insight that organising the South American space through development hubs could be a way to advance regionalism and to keep South American governments together in times when trade integration was a source of intergovernmental quarrels. In 1992, when Batista was still in the Secretariat of Strategic Affairs, he met the newly appointed director of the Andean Development Corporation (CAF), Enrique Garcia, who was leading an intense reform of the bank to transform it from being a lender to Andean countries to becoming the Development Bank of Latin America, as it has officially been known since 2000. Batista’s beliefs about infrastructure as being a key pillar of South American integration were in line with the project that Garcia was carrying out to transform the CAF from a bank oriented to financing commercial exchanges into a bank focused on big infrastructure projects that required long-term investment. In August 1993, Batista arranged an appointment between Garcia and, by the time, Foreign Minister F.H. Cardoso.

In the meeting Cardoso was interested in exploring whether CAF had the capacity to finance international interconnections, such as the Venezuela-Brazil highway, which according to Garcia could not be done at the moment. But CAF was actually working hard along those lines. A year later, at a World Bank meeting, Garcia informed presidential candidate Cardoso that CAF had modified its constitutive agreement and that from that time on CAF could finance projects of non-Andean countries such as Brazil and the other MERCOSUR member states. After several discussions of the government with CAF’s officials under Garcia’s direction, Brazil eventually joined CAF as a “C” share member in 1995 (Rubio 2013). According to an official of CAF:

CAF already had an initiative focused on physical infrastructure and regional connectivity. CAF had staff that would go around countries examining possible projects that would connect in the future neighbouring countries, especially as it relates to highways, electric transmission lines and gas projects...When Cardoso invited CAF to a regional infrastructure project, it was music to our ears. We [CAF] thought it was wonderful and enthusiastically joined the initiative because it meant giving a big push to things we were already doing. We had already published some books about highways and rivers. (quoted in Rubio 2013).

In 1999, Cardoso lined up other crucial transnational actors to underpin his regional project. He requested Enrique Iglesias, President of the IDB (1990-2005), to elaborate on a study about the state of the regional infrastructure in South America. As in the case of CAF, Cardoso’s request was very welcome in the bank, because it matched well with the agenda that IDB was pursuing in the region as part of the celebration of its

40th anniversary. The IDB perceived Cardoso's project as an opportunity to improve its relationship with South American countries compromised by the involvement of the bank in the structural adjustment programmes (Babb 2009; Vivares 2013). Intergovernmental summits and declarations provided the necessary legitimacy that the IDB needed in order to go on with the open regionalism agenda that was trying to promote (I39). In fact, the report asked for Cardoso became the first Action Plan of IIRSA. The IDB had already designed a similar project of international infrastructure interconnections between Mexico and Central America that in 2001 would become the Plan Puebla-Panama and, therefore, Cardoso's ideas fitted nicely in their open/new regionalism agenda that the bank was putting forward.

In April 2000, during the XXVIII annual session of CEPAL in Mexico City, the Brazilian minister of planning communicated to Enrique Iglesias and to the Secretary of CEPAL, José Antonio Ocampo, Cardoso's intention to organise a South American Summit of presidents and to propose a concrete project of transport and energy infrastructure interconnection based on the domestic experience in Brazil (I3). Ocampo welcomed the idea with CEPAL's technical support commitment. According to an interview with a member of the Brazilian ministry of planning who attended the encounter, Ocampo expected CEPAL to define the design and undertake the coordination of the project, something that never happened (I3). Nevertheless, CEPAL did participate together with the IDB in the elaboration of the *A New Push for Regional Infrastructure Development in South America* (D66) report that became the IIRSA's blueprint. In this way, Cardoso managed not only to get on board three fundamental transnational actors –CAF, IDB and CEPAL – but also to persuade them to frame their own agendas within the geographical contours of South America.

Through the Brasilia (2000) and Guayaquil Declarations (2002) the South America heads of state delegated to the RDBs the coordination of IIRSA. The IDB, CAF and the small Fund for the Development of the River Plate Basin (FONPLATA) integrated the Technical Coordination Committee of IIRSA acting with high autonomy from the national governments (I7; I8; I39). The predominant role of the development banks in IIRSA governance became more evident after the Guayaquil Summit, when the Institute of Latin American Integration (INTAL) which is part of the IDB became the secretariat of the Technical Committee performing all the logistics functions and monitoring the advances in IIRSA's action plan. Although neither its functions nor its mandates were never formalised, the Director of INTAL took part in IIRSA meetings as an informal general or executive secretary (I39).

### 6.2.2 Hubs as “policy-frame”

The three RDBs were the main drivers of IIRSA during its first eight years. They provided the organisational and financial resources to make the technical meetings possible. Furthermore, the RDB set up the IIRSA's



portfolio of projects and designed, together with the national ministries, the methodologies of planning and monitoring.

However, the most important contribution of RDB to the implementation of IIRSA-COSIPLAN portfolio was the provision of a common policy-frame around the concept of **development hub** (*eixos de desenvolvimento*, in Portuguese) that became the conceptual tool in inter-presidential declarations as well as in policy papers written by IDB and CAF economists from 2000 up to now.<sup>68</sup> (D66, D106; I4; I39). A development hub is defined in IIRSA documents as “a transnational strip of territory comprising a certain endowment of natural resources, human communities, productive areas and logistic services. Hubs are articulated through the transport, energy and communication infrastructure that facilitates the flows of people, goods, services and information within the territory and from there to the rest of the globe” (D107: 17; D66).

The IDB was the main promoter of the hub concept within IIRSA and strove to operationalize it through the different planning methodologies that IIRSA produced during its first years of existence. In fact, two key Brazilian planners and followers of Eliezer Batista – José Paulo Silveira and Mauro Marcondes – entered the IDB to advise and coordinate IIRSA. Both planners were pivotal in the implementation of hubs in the Brazilian domestic programmes of *Brasil em ação* and *Avança Brasil* experience that was taken then to IIRSA. The collaboration between these Brazilian planners and IDB and CAF was productive. Both epistemic communities shared a vision on planning, and the new economic geography was a source of inspiration, as were the experiences of the Asian Development Bank in implementing its *Growth Triangles* in the sub-regions of South East Asia (Tavarés 2011; Bruszt and Palestini 2016)

The concept of integration and development hub seeks to embody a more modern and integral form of planning, in which infrastructure is not isolated, but forms part of a set of activities on the ground. This concept links physical investment to the social and environmental dimensions of development, and fosters synergy between the various kinds of infrastructure (D66: 29)<sup>69</sup>. The assumption behind the concept of hub is that “geographical interaction gives rise to flows that do not circulate freely within the area in general, but do so through infrastructure networks”, the role of the regional institutions such as IIRSA and COSIPLAN is,

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<sup>68</sup> In 2012 the policy-makers of COSIPLAN started to question the concept of hub and proposed new conceptual frames (I4).

<sup>69</sup> The Montevideo Action Plan, defines six criteria to design the hubs that will organise geographically the IIRSA’s portfolio: the geographical coverage of countries and regions; current trade flows; potential trade flows; the volume of investment in the hub’s areas of influence; the private sector’s interest; the degrees of environmental and social sustainability

therefore, to coordinate the efforts to follow up these processes and ensure the necessary investment. The objective is to transform these networks from a *corridor* type towards a *hub* type. While corridors are differentiated according to economic sectors and emerge rather spontaneously in the more active sectors that promote flows of goods, people, information, electricity, gas and oil, hubs are cross-sectoral, they need a geoeconomic planning and they promote the economic and social development of the entire geographic area (D66: 14; Desiderá Neto and Alves Teixeira 2012). From the perspective of these planners, IIRSA portfolio should not only be limited to cross-border or multinational projects. Also national projects could have an “integrative” potential if they were, for instance, able to connect inland territory to urban centres (I39). According to a high representative of the Federation of Industries of the State of São Paulo:

For us a good project of infrastructure integration is the one that help with the integration of the countries in a global context, and that has socio-economic effects in terms of territory integration. When we talk about infrastructure integration, we are dealing with the connection of isolated territories, permitting that those populations can be integrated to the country and to the region [...] A project that seeks to extract raw materials to external markets is not an integration project; an integration project has to produce wealth across the territories where the roadway is passing: this is the conception of hub. The populations across the railway have to benefit (I18).

Table 11 displays the ten hubs that organise the IIRSA portfolio. With the creation of COSIPLAN, the concept of hubs was maintained as a policy-frame and the Amazonas Hub was added to the already existent development hubs.

**Table 11: Integration and Development Hubs**

| Hub                | Countries involved                          | Transport-connectivity projects  |
|--------------------|---|--|
| <b>Amazonas</b>    | Brazil, Ecuador, Colombia, Peru             | Air-transport: 6<br>Roadways: 23<br>Railways: 10<br>Waterways: 18<br>Maritime: 9<br>Border-crossing: 2<br>Multimodal: 13 |
| <b>Andean</b>      | Bolivia, Colombia, Ecuador, Peru, Venezuela | Air-transport: 2<br>Roadways: 34<br>Railways: 1<br>Waterways: 1<br>Border-crossing: 13                                   |
| <b>Capricornio</b> | Argentina, Bolivia, Brazil, Chile, Paraguay | Air-transport: 1<br>Roadways: 40<br>Railways: 19<br>Waterways: 3<br>Maritime-transport: 33                               |

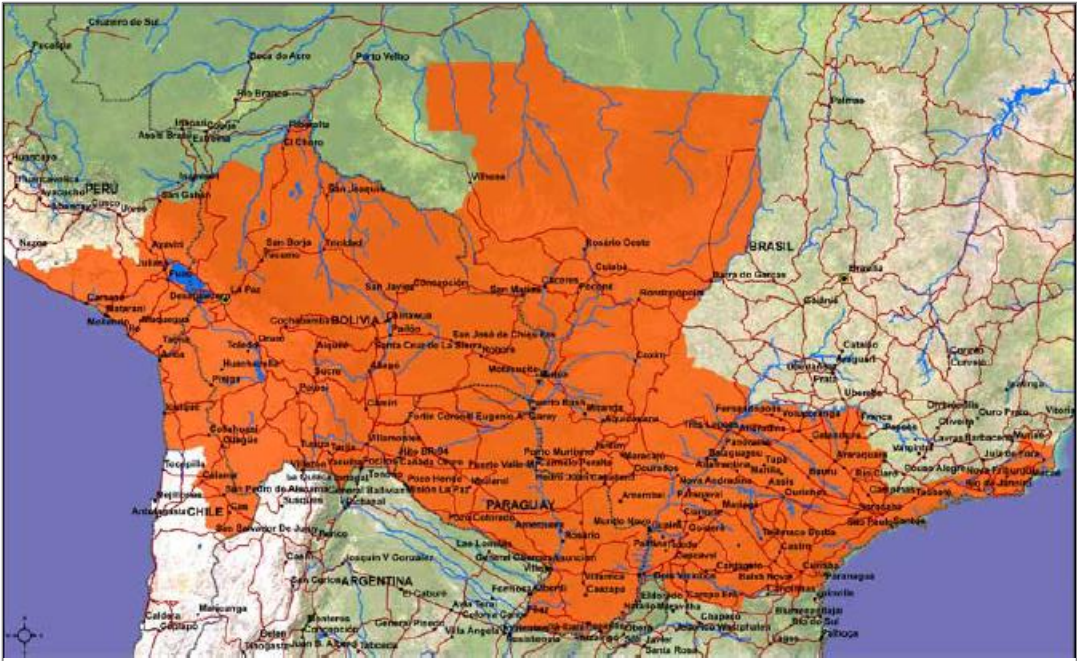
|                                     |  |  |  |  |
|-------------------------------------|--|--|--|--|
|                                     |  |  |  | Border-crossing: 48<br>Multimodal: 21  |
| <b>Waterway<br/>Paraguay-Parana</b> | Argentina, Bolivia, Brazil, Paraguay, Uruguay        |  |  | Air-transport: 1<br>Roadways: 23<br>Railways: 15<br>Waterways: 44<br>Multimodal: 2                                     |
| <b>Guianas Shield</b>               | Brazil, Guyana, Surinam, Venezuela                   |  |  | Roadways: 13<br>Railways: 1<br>Maritime: 3<br>Border-crossing: 1   |
| <b>Of the South</b>                 | Argentina, Chile                                     |  |  | Roadways: 12<br>Railways: 7<br>Maritime: 3<br>Border-crossing: 3   |
| <b>Central<br/>Oceanic</b>          | <b>Inter-</b> Bolivia, Brazil, Chile, Paraguay, Peru |  |  | Air-transport: 6<br>Roadways: 30<br>Railways: 6<br>Waterways: 1<br>Maritime: 5<br>Multimodal: 1<br>Border-crossing: 8  |
| <b>MERCOSUR-Chile</b>               | Argentina, Brazil, Chile, Paraguay, Uruguay          |  |  | Air-transport: 8<br>Roadways: 57<br>Railways: 9<br>Waterways: 7<br>Maritime: 9<br>Multimodal: 2<br>Border-crossing: 10 |
| <b>Peru-Brazil-Bolivia</b>          | Bolivia, Brazil, Peru                                |  |  | Air-transport: 3<br>Roadways: 10<br>Waterways: 4<br>Border-crossing: 3   |

Own elaboration. Source: IIRSA-COSIPLAN Information System. Year of reference 2014

The territorial planning of the hubs is composed of several elements that I will briefly sketch out using the “Central Inter-Oceanic Hub” (CIO-Hub) as an example (see Figure 3 and Table 12). The CIO-Hub includes five countries, Bolivia, Brazil, Chile, Paraguay and Peru and entails a total of 61 projects (85.2% are national and 14.8% binational) with a total investment of US\$ 8.907 million. Each hub is decomposed into “groups” of synergic projects that can maximise the benefits of a set of investments (D113; D107). Among these single projects, we find special categories such as “anchor projects”, “priority projects” and “hinge projects” (*proyectos rótula* in Spanish). Anchor projects are those that provide territorial coherence to the group favouring

synergies. Anchor projects are not necessarily the biggest or most expensive projects, but those that are the “bottle neck” in an infrastructure network whose implementation is a pre-condition for the optimum benefit of the group and hub (D113; D107). Priority projects are those projects – normally anchor – that have the highest impact for South American regional infrastructure and that are proposed by each state according to their preferences<sup>70</sup>. Finally, hinge projects are those that connect two different hubs. Hinge projects are normally international roads that cross two or more countries or bi-national bridges.

**Figure 3: the Central Inter-Oceanic Hub**



Source: D107

In the case of the CIO-Hub, there are five groups of projects with their respective anchor, priority projects and hinge projects.

<sup>70</sup> The priority projects of the different hubs compose a sub-set of the total COSIPLAN portfolio: the Portfolio of Priority Projects (API). In its creation, there is a tension between the API projects that normally follow national preferences with the larger COSIPLAN portfolio that follows a regional territorial plan.

**Table 12: Projects Central-Inter Oceanic Hub**

| <b>Groups</b>  | <b>Strategic Objectives</b>  | <b>Total Projects</b>   | <b>Anchor Projects</b>   | <b>Priority Projects</b>   |
|--|--|-------------------------|--|--|
| <b>The Chile, Bolivia, Paraguay, Brazil interconnection</b>                                      | <ul style="list-style-type: none"> <li>- Interconnection of regional productive zones.</li> <li>- Access of the hinterland to the Pacific, articulating isolated territories.</li> <li>- Increasing economic complementarity among countries</li> </ul>                                    | 16 (US\$ 13 million)    | <ul style="list-style-type: none"> <li>Road Carmelo Peralta-Loma Plata</li> <li>International bridge and cross-border “Carmelo Peralta/Porto Murtinho”</li> </ul>      | Border-crossing “Infante Rivarola-Cañada-Oruro” (Bolivia-Paraguay”   |
| <b>Optimization corridor Corumbá-São Paulo-Santos-Rio de Janeiro</b>                             | <ul style="list-style-type: none"> <li>- Reduction of transport-costs of Brazilian, Bolivian and Paraguayan cargos.</li> <li>- Increasing economic complementarity among countries.</li> <li>- Improving railways</li> <li>- Support to the tourism in the Pantanal sub-region.</li> </ul> | 8 (US\$ 4.789 million)  | Railway ring of São Paulo  | Highway ring “Campo Grande” (Brazil)   |
| <b>Santa Cruz-Puerto Suárez-Corumbá interconnection</b>  | <ul style="list-style-type: none"> <li>- To complete the motor and rail way connectivity .</li> <li>- Reduction of transport-costs of Brazilian, Bolivian and Paraguayan, Chilean and Peruvian cargos towards the Atlantic and the Pacific</li> </ul>                                      | 4 (US\$ 433 million)    | Highway “Pailón-San José-Puerto Suárez” (Bolivia)  | Highway “Pailón-San José-Puerto Suárez” (Bolivia)  |
| <b>Santa Cruz-Cuiabá interconnection</b>   | <ul style="list-style-type: none"> <li>- To connect east Bolivia with the Mato Grosso sub-region facilitating the access to the Atlantic and Pacific ports.</li> <li>- To support the development of the agriculture in central-eastern Bolivia.</li> </ul>                                | 5 (US\$ 135 million)    | <ul style="list-style-type: none"> <li>Highway “Concepción (Bolivia)-Brazilian border”.</li> <li>Hub International Airport “Viru Viru-Santa Cruz” (Bolivia)</li> </ul> | <ul style="list-style-type: none"> <li>Integrated-control área “Puerto Suárez-Corumbá” (Bolivia-Brazil)</li> <li>Hub International Airport “Viru Viru-Santa Cruz” (Bolivia)</li> </ul> |
| <b>Ilo/Matarani-Desaguadero-La Paz-Arica-Iquique-Oruro-Cochabamba-Santa Cruz interconnection</b> | <ul style="list-style-type: none"> <li>- To increase the commercial and touristic exchange and the productive integration of the towns.</li> <li>- Provide a physical connection with MERCOSUR</li> </ul>  | 28 (US\$ 2.249 million) | Rehabilitation road “El Sillar” (Bolivia)  | Railway Corridor Bioceanic (Bolivia).  |

Own elaboration. IIRSA-COSIPLAN Information System. Year of Reference 2014.

In order to better understand the concept of a hub and the transnational dynamics it entails, it is worth to zoom in on a couple of projects taken by this particular hub. For instance the “Hub International Airport Viru Viru” is both a priority and anchor project in the CIO-Hub. The fact that is a priority project means that the government of Bolivia explicitly asked the RDBs (through the Technical Coordination Committee of IIRSA) to give priority to the implementation of the Airport. In fact, the Airport, located in the city of Santa Cruz de la Sierra, the agro-industrial pole of Bolivia, constitutes an export platform for the Andean country. But the Airport has been considered by the RDBs and the national coordinators of IIRSA as an anchor project that fosters the synergies with the rest of transport connectivity projects being implemented in the hub. The city of Santa Cruz is not only located at the centre of Bolivia, but is also a geographic centre of South America. It aims to be an international airport with connections to other South American cities distributing passengers and cargo. Since it is practically at the sea-level the aircrafts can work at their potential capacity of cargo.

Other priority projects of the hub include the Central Bi-oceanic Railway Corridor. South America has nearly 90,000 kilometres of railways that, however, are mainly disconnected from each other within the national territories and between countries. In fact, the width of the rails differs within and between countries making impossible to integrate the railways in a network such as the European one. For this reason most of the development hubs that constitute IIRSA and COSIPLAN have as a strategic objective to integrate and rehabilitate railways. The Central Bi-oceanic Railway will connect Bolivia with Brazil and Peru providing access to both coasts, as Table 13 shows, the different width of railways poses a hurdle: among the three countries we can count five different widths of rails.

**Table 13: Number of kilometres by width of the railways in Bolivia Brazil and Peru**

| Width of Railways | 1.676 | 1.600 | 1.435 | 1.067 | 1.000  | 0.914 |
|-------------------|-------|-------|-------|-------|--------|-------|
| Bolivia           |       |       |       | 3,538 |        |       |
| Brazil            |       | 3,472 | 194   |       | 25,784 |       |
| Peru              |       |       | 1,782 |       |        | 345   |

Source: Jane’s World Railways, in Costa (2011)

The most challenging part of the project lies in Bolivia, where the two national railways (Andean and Oriental) are disconnected by the central part of the country that lacks infrastructure (D9). However, it is not only technical, but also political obstacles that make the Inter-Oceanic Railway a very challenging project. In

fact, the bilateral tensions between the Chilean and the Bolivian government can jeopardise the connection to the railways that connect with the Chilean port of Arica. The only access of the railways to the Pacific Ocean would be the Peruvian port of Ilo, the current infrastructure of which is insufficient to become the only Pacific gate of the inter-oceanic corridor. This project is a case in point to illustrate the challenges of implementing a hub.

**Table 14: Stages of Implementation of Priority Projects in the Central-Inter Oceanic Hub**

|  | Profile | Pre-execution |      | Environmental licence |      | Execution |      |
|--|---------|---------------|------|-----------------------|------|-----------|------|
|  |         | Start         | End  | Start                 | End  | Start     | End  |
| <b>Hub International Airport Viru Viru</b> | 2012    | 2013          | 2013 | 2013                  | 2013 | 2013      | 2017 |
| <b>Central Bi-oceanic Railway Corridor</b> | 2011    | 2012          | 2013 | 2013                  | 2013 | 2014      | 2018 |

Source: D9; D107

## Implementing Hubs

Around the concept of development hub, the RDBs developed a framework that comprised the participation of different sets of actors combining state-led planning with private implementation in order to bring about economic upgrading (D106: 21; I39). Development hubs required the interaction between public actors – technical ministries of planning, infrastructure, transport, and public works, depending on the national domestic bureaucratic structure – and transnational actors such as the RDB themselves and transnational firms in the sector of construction and infrastructure. It is important to bear in mind that by 2000 when IIRSA was created, the national ministries barely communicated to each other. National ministries of planning and infrastructure were fully ignorant of the territorial plans of the other governments and, moreover, the technical capacities of the national ministries were highly asymmetrical.

In order to prepare the first South American Summit in Brasilia, the Brazilian Foreign Ministry carried out a survey through all Brazilian embassies to collect information about the national programmes of infrastructure that could help to flesh out the IIRSA idea. The outcome of the survey, points out the Secretary of Planning of Brazil of that time, was the mutual lack of information and outright lack of complementarity among South American national plans (I39). For these reasons, the RDBs deployed important resources in coordinating national functional ministries of planning, transport and public works through technical meetings, workshops and lesson-drawing activities (I39). By so doing, the RDBs contributed not only to the policy coordination of

national territorial plans, but also to even out the asymmetrical technical competence of the national ministries (I39, I28).

In the RDBs vision, translated into the IIRSA working plans, although states are not supposed to play the role of central planners that they accomplished during the *developmentalist* programmes of the 1950s and 1960s, their role is still fundamental to leverage the necessary financial resources for regional infrastructure projects “whose long-term economic and social dividends are not sufficiently attractive to private investors” (D66: 31). The statistics provided by the IIRSA-COSIPLAN Information System show that the national governments finance directly through their national treasuries most of the portfolio of projects, as it is possible to see in Table 15.

**Table 15: Portfolio of Transport connectivity projects by type of financing (year of reference 2014)**

| Type of financing    | Number of Projects | Estimated Investment   |
|----------------------|--------------------|------------------------|
| Public               | 399                | 68,887,700,106         |
| Private              | 70                 | 28,883,750,990         |
| PPP (public-private) | 35                 | 10,669,209,788         |
| <b>Total</b>         | <b>504</b>         | <b>108,440,660,884</b> |

Own Elaboration on IIRSA-COSIPLAN Information System

However, the data of Table 15 has to be disaggregated in order to get a more accurate picture of the hubs’ implementation. For instance, behind the category “public” there are indeed two different mechanisms to finance transport-connectivity projects: either directly through the national treasuries, or by pooling financial assistance from the RDBs or other multilateral financial institutions. Table 16 shows that the IDB and CAF are financing 58 projects, taking 2014 as the year of reference.

FONPLATA and FOCEM – the Structural Fund of MERCOSUR – finance six and seven projects respectively. The Brazilian Development Bank (BNDES), in turn, appears to be financing only three projects: two roadways in Bolivia and the Acre Bridge between Brazil and Peru. However, BNDES finances South American infrastructure from outside the IIRSA-COSIPLAN institutional arrangement and therefore deserves a separate analysis in the next section.



**Table 16: Regional Financial Institutions providing financial assistance for IIRSA-COSIPLAN Projects**

| Source of Finance | Number of Projects | Estimated Investment (USD) |
|-------------------|--------------------|----------------------------|
| <b>IDB</b>        | 34                 | 8,631,697,490              |
| <b>CAF</b>        | 24                 | 3,768,649,972              |
| <b>FONPLATA</b>   | 6                  | 524,412,784                |
| <b>FOCEM</b>      | 7                  | 763,510,000                |
| <b>BNDES</b>      | 3                  | 418,600,000                |
| <b>Total</b>      | 73                 | 14,106,870,246             |

Own calculation, based on IIRSA-COSIPLAN Information System

The role of RDBs in financing IIRSA-COSIPLAN projects faces a serious challenge that so far they have not been able to tackle. In fact, South American governments have national borrowing-quotas with the RDBs. Therefore, the ministries of finance tend to prioritise domestic infrastructure projects (such as hospitals, schools or national transport systems) instead of the regional public goods contained in the IIRSA-COSIPLAN portfolio (I4; I39). Also the private sector has strong incentives to prioritise national domestic infrastructure over regional interconnections that in general represent risky investments with high logistic costs and low revenues (I12). As an official of the Industrial Federation of the State of São Paulo argues, the private sector is risk adverse and considers that many South American countries lack the necessary legal predictability to make a regional infrastructure project economically viable (I17).

For these reasons, the RDBs have fostered the participation of the private sector especially through public-private-partnerships (PPP). The RDBs introduced in the Montevideo Action Plan the concept of (PPP) as the preferred alternative for financing transport-connectivity projects:

It is the base for a constant dialogue between governments and business supporting the planning and orienting function of the former and facilitating the financing responsibility, execution and operation of the latter (D106: 22).

Emblematic projects as the “IIRSA-South Highway” were financed through PPP. The “IIRSA-South Highway” is, actually, a set of projects that are distributed through the Inter-Oceanic Hub and the Peru-Brazil-Paraguay Hub. The Acre River Bridge that connects the villages of Assis (Brazil) with Iñaparú (Peru) was the first part of the highway and, in fact, it was the first IIRSA project implemented in 2006 through funding from the BNDES (P24)<sup>71</sup>. The successive sections of the highway have been financed and

<sup>71</sup> The Acre Bridge became the favourite example of President Lula of the commitment of the Brazilian state to South American regionalism, as he would publicly state in his speech in the 15<sup>th</sup> Ibero-American Summit of 2005: “After 500 hundred years of history, we built the first bridge between Brazil and Bolivia, last year in the state of Acre. And we are

implemented through a PPP based on bids provided by the Peruvian government to the Brazilian construction company Odebrecht that has set up a modern system of monitoring and administration<sup>72</sup> (I39). Peru is currently implementing eleven projects from the IIRSA-COSIPLAN portfolio through PPP and bids modalities, accounting for almost USD 5 billion according to data from the IIRSA System of Information. Peru is the South American country that implements more regional public goods through PPP modalities. Also Colombia and Chile are countries with a proven experience using PPP and bids modalities to implement transport infrastructure. The Chilean delegate in COSIPLAN points out:

The private sector participates actively in all kinds of requests for bids that we do such as cross-border complexes, international roads, ports, etc. But they do not see these projects in a context of regional or geopolitical strategy: they see it from a business strategy. In the border-crossing complex *Los Libertadores* there is an expected investment of 43 million dollars. The private sector sees it as a business opportunity not as a strategic action in the bilateral relation between Chile and Argentina, or to foster the tourism between both countries [...] The projects in the COSIPLAN portfolio are mainly public investment; the bids are still reduced, but the intention is to increase the private participation. In Brazil, Colombia, Peru and Chile the bids are being used more often to implement international roads (I27)

The use of PPP is less common and even resisted in MERCOSUR countries and especially in state-led economies such as Bolivia, Ecuador, and Venezuela. A negative perception of the role of the private sector in these states precludes a wider use of PPP and bids modalities to implement transport-connectivity regional projects. As a counter measure, the RDBs have organised a series of workshops oriented to share the experiences in Chile, Colombia and Peru to encourage the use of PPP modalities.

With the formalisation of UNASUR and the Council for Planning and Infrastructure (COSIPLAN) in 2010, the RDBs must adapt to a more intergovernmental structure becoming the technical assistance of the national coordinators of COSIPLAN (I7). However, the concept of hub and the linked planning methodologies continued being the policy-frame of transport connectivity projects (D107: 17).

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building the first bridge between Brazil and Peru, in Assis-Brazil, also in the state of Acre that will become the first inter-oceanic highway [...]. This demonstrates that in this 500 years, despite all of what the important Brazilian intellectuals have written about integration, despite Bolivar and other revolutionaries of South America that have spent part of their lives talking about integration, despite everything that the politicians in electoral campaigns have said about integration, the honest and crude truth is that the physical integration –that one that concerns energy, communication, the highways, the railways, the waterways, the effective association between entrepreneurs- is consolidating in this moment” (D94).

<sup>72</sup>The administrator of the highway can be visited at: <http://www.iirsasur.com.pe/es/quienes-somos.html>

### 6.2.3 The Brazilian private sectors and the BNDES

The organisational structure of IIRSA with the RDBs driving the initiative from the Technical Coordination Committee and under the policy-frame of the development hub was kept with minor variations by the course of the decade and also later with the formalisation of UNASUR and the creation of COSIPLAN. In other words, IIRSA - a creation of F.H. Cardoso's executive - did not undergo important organisational variations under the Lula and Rousseff administrations, contrary to those scholars that contend a major change in the direction of regionalism since the election of President Lula (see among others Couto 2010; Soares de Lima and Hirst 2006; Soares de Lima 2010; Saraiva 2011; Bresser-Pereira and Ianoni 2014).

These authors argue that with the arrival of the *Worker's Party* in office, the Brazilian foreign policy became connected again with developmental policies, as in the early years of *developmentalism* in 1950-1960 (see Soares de Lima 2010). The most common example to illustrate this argument is the role that BNDES achieved as an instrument to engage Brazilian companies with regionalism. In the language adopted in this thesis, these authors affirm that BNDES became – with Lula and figures such as Samuel Pinheiro Guimarães and Carlos Lessa – a broker of Brazilian private actors to implement regional public goods. Supporting this argument, the Chairman of the BNDES, Guido Mantega, announced as far back as 2005 that BNDES had incorporated into its mission the strategic objective of acting as a funding body for the integration of South America (see Epsteyn, 2009). The present research has found this to be a largely overstated argument.

The belief that Lula's government has used the BNDES as an instrument to foster regionalism is based on some objective facts. Since the first year of the *Worker's Party* administration there has been a sustained increase in the use of the BNDES Exim Program to finance infrastructure projects in South American countries (see below). The same year that Lula came to office, the BNDES and CAF organised the first seminar about the co-financing of South American integration projects. Also in 2003 a new department was created in the bureaucracy of the Bank, called the Department of Regional Integration with the mandate of creating a cooperation mechanism between the BNDES and regional initiatives such as IIRSA and FOCEM in the framework of MERCOSUR (I11<sup>73</sup>). As Chairman and Vice-President of the bank, Lula appointed Carlos Lessa and Darc Costa well-known intellectuals in favour of both *developmentalist* policies and regionalism (I9; I11).

When F.H. Cardoso launches the idea of IIRSA in 2000, it was obvious that the BNDES could be an instrument for financing big infrastructure projects. However, the fiscal constraints faced by the Brazilian state were worsened by the *real* devaluation and severely limited the involvement of the BNDES in IIRSA.

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<sup>73</sup> The Department of Regional Integration was dismantled during the first administration of Dila Rousseff.

The situation changed when Luiz Inácio Lula da Silva came to office in 2002 and the Brazilian state benefited from more favourable macroeconomic conditions. Lula's executive saw in IIRSA and its transport connectivity project an excellent opportunity to broker the Brazilian "national champions" in financing regional public goods (I1; I2; P24).

In fact, transport infrastructure became the key sector for Lula both in terms of domestic development and regionalism. The two Growth-Stimulus Programs (PAC I and II) were basically massive infrastructure programmes equivalent to 2% of the GDP, a relatively high value for a developing country. It is possible to say that infrastructure was an ideal policy area for the Brazilian government in many senses. First, investing in infrastructure is a growth and competitiveness stimulus that may operate as an anti-cycle policy in moments of global recession as it was after 2008. Second, it is an area with electoral pay-offs either regarding the general public that might see the concrete outcomes, but especially for the business that reduces transactions costs, the so-called *custo Brasil*. More specifically, it fosters the "national champions" especially those in the industrial sectors related to infrastructure and that are threatened by the loss of competitiveness with Chinese companies. In this way, the BNDES's task was to facilitate the transformation of national champions into truly transnational firms with operations in South American countries (*multilatinas*) (Schneider 2004; Hochstetler and Montero 2012). Finally, at the intergovernmental level, it gives a signal that the commitment with regionalism is accompanied by concrete policies and investments (I2; P24; P25).

However, if we look more carefully at the role of the BNDES in financing South American infrastructure it becomes clear that being an instrument for the "regionalisation" of Brazilian big companies is not necessarily the same as being a paymaster of regional public goods. To show this, it is necessary to look at the mechanisms through which BNDES finances infrastructure in other South American countries.

### The BNDES Exim-CCR Mechanism

The process of regionalisation of the Brazilian companies is carried out by the **BNDES Exim** that was created in 1997<sup>74</sup>, but within certain limits due to the overvaluation of the *real* and the fiscal constraints of the Brazilian economy during the late 1990s (see Chapter 4). With Lula's arrival to the government, BNDES Exim was expanded to cover different types of services and mainly to finance the export of goods and services required by the projects of engineering and construction in South America (D83).

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<sup>74</sup> In fact, BNDES Exim was the expansion of a previous programme FINAMEX that was limited to capital goods. In 2011, BNDES created the BNDES Automatic Exim programme, which gave exporters the proceeds for their high value-added industrial sales in Latin America up front, while participating banks with international operations with credit lines from BNDES provided financing to the importers (Hochstetler and Montero 2013)

The mechanism of BNDES Exim is not that straightforward. That is why there is a widespread belief even among scholars that BNDES finances South American companies – something that the Brazilian Constitution does not allow. Most of BNDES' capital funds come from domestic payroll and corporate taxes and, therefore, are mandated to be spent exclusively on activities that contribute to the benefit of Brazilian workers and companies<sup>75</sup> (I13; Hochstetler and Montero 2013). This remains the main hindrance to formally including the BNDES in IIRSA and later in COSIPLAN organisational structure with the same status of the IDB and CAF, for instance.

To be sure, through BNDES Exim the bank provides credit with a low interest rate to South American governments to purchase (in the form of contracts) goods and services produced by Brazilian companies (D83: 83; I10). Strictly speaking, it does not finance, for instance, the project of constructing an international bridge – but it does finance all the services and supplies that the bridge construction requires and that are provided by Brazilian companies<sup>76</sup>. Under this scheme the bank finances directly the importer (in this case a South American public or private entity) through a contract that includes the exporter (a Brazilian company<sup>77</sup>). Hence, it is a pro-exports policy, which ensures that any private venture in a South American or a foreign country will report benefits to the Brazilian economy. As a high official of Itamaraty pointed out, the BNDES Exim benefits South American countries with tightly constrained access to international credit, but it also benefits Brazil by increasing its exports and supporting national champions (I2).

Still another institutional component enables BNDES to regionalise Brazilian companies. Infrastructure projects require long-term investment that makes them high-risk projects, especially in developing countries with volatile and shaky economic and political environments. The high risk is tamed by a regional institution called **Reciprocal Credit and Payment Agreement (CCR)** which is probably the most innovative financial institution created in the context of Latin America regionalism. The CCR was created in 1965 as part of LAFTA and was ratified in 1983 in the framework of the Latin American Association of Integration (ALADI). It works as a multilateral dollar credit line among central banks in the region whereby firms and governments from Latin American countries can carry out intra-regional commercial transactions postponing

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<sup>75</sup> BNDES also provides loans to foreign companies based in the Brazilian territory. An example is the company IPISA that although it has Argentinean property most of its operations are based in Brazil (I13).

<sup>76</sup> In the jargon of financial institutions this is called *buyer's credit* being a variant of the *post-shipment* system (D83: 81).

<sup>77</sup> BNDES defines as “Brazilian” those companies that: have headquarters and administration in Brazil, and are domestically controlled, including subsidiaries abroad or foreign companies whose shareholders with more significant voting capital and more influence on activities the companies carry out are either controlled by Brazilian private or by a Brazilian public agency (BNDES Website: [http://www.bndes.gov.br/SiteBNDES/bndes/bndes\\_en/Institucional/The\\_BNDES\\_Abroad/internationalization.html](http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/Institucional/The_BNDES_Abroad/internationalization.html))

the payments and guaranteeing debts through Central Bank credit lines eliminating the need to engage in currency exchange (I13).

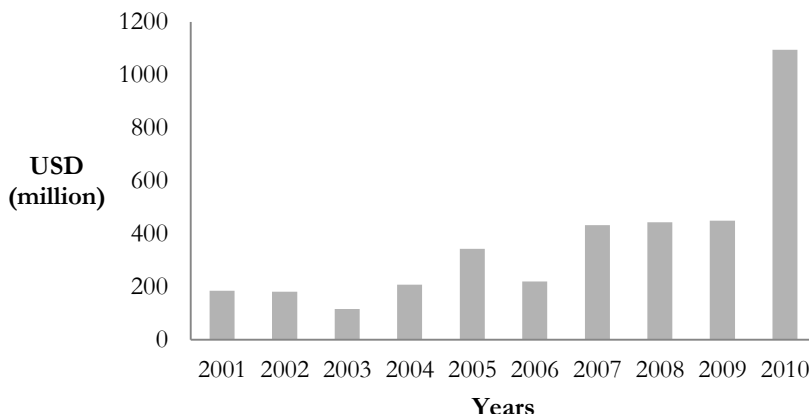
The system works in the following way. The national government – let's say Paraguay – being interested in constructing a bridge, contracts the services of a Brazilian construction company through the CCR agreement. In the CCR system, Paraguay's government secures a guarantee with a commercial bank. The Brazilian company, in turn, sells its secured claim against the Paraguayan government to the BNDES. Acquiring the payment claim against the Paraguayan government, the BNDES indirectly finances, through the Exim programme, the operation of the Brazilian company for constructing the bridge. So far, this is a normal transaction. Then by means of the CCR, BNDES can ask the Brazilian Central Bank to reimburse its guaranteed claim against the Paraguayan government, which the Brazilian Central Bank, in turn, debits to the Paraguayan Central Bank through the CCR agreement. The Paraguayan government will pay this back in local currency during the whole period of constructing the bridge. The balance of these payments is paid out in dollars only three times a year. In other words, every four months only the difference between credits and debt is compensated in dollars (I13).

CCR plays a fundamental role, because it reduces the commercial, exchange and political risks associated with capital-intensive projects such as infrastructure. In other words, through CCR the central banks absorb the risk that otherwise BNDES – or another bank used for the transactions – would have to take over<sup>78</sup> and, by doing so, it guarantees the BNDES financing to countries with weak financial situations (I13). It is possible to say that through the synergy between the BNDES Exim programme and the CCR, the Brazilian state has managed to regionalise the BNDES (Hochstetler and Montero 2013). During the period of 2001-2010, 71% of the total BNDES Exim financing was realised through the CCR agreement. The use of the CCR has steadily increased since Lula's administration.

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<sup>78</sup> The risk-reduction is based on the assumption that the Central Banks will likely honour the commitment in the context of a multilateral arrangement. In the case in which a central bank does not pay the guaranteed debt, this must be paid by all the other central banks involved in the CCR agreement, with severe damages to the credibility of the monetary authority of the debtor country (I13).

**Figure 4: BNDES Exim financial assistance for exports to South American countries (USD Million)**



Source: Niko (2011)

The evidence collected from the interviews with officials of Itamaraty and BNDES indicates that although the initiative, in theory, should come from the foreign government (Paraguay, in the example above), it is common practice that Brazilian companies seize the initiative and drive the transaction. In other words, Brazilian companies have the initiative; they approach South American governments and offer their services to carry out infrastructure projects that very often report high political revenues to the governments. Once a Brazilian company gets the guaranteed payment from the foreign government, it approaches the BNDES to initiate the mechanism (I2; I11; I13)<sup>79</sup>.

According to a high official of the Brazilian diplomacy:

The BNDES is stimulated by the [Brazilian] firms. This is good because it encourages the private involvement, but is also negative because the role of the state is weakened. There is no state-strategy: the projects taken by the firms are not necessarily the projects that the state is interested in. There is not enough planning (I2).

Table 17 shows that in the period between 2004 and 2010, BNDES financed the projects in all South American countries.

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<sup>79</sup> It is interesting to note that Brazilian companies employ workers from the country in which the infrastructure is being built (I2).

**Table 17: BNDES Financial Assistance to exports to South American countries (USD million) 2001 – 2010**

|                  | 2001  | 2002  | 2003  | 2004   | 2005   | 2006   | 2007   | 2008   | 2009   | 2010     |
|------------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|----------|
| <b>Argentina</b> | 56.22 | 14.72 | 0.39  | 1.16   | 216.32 | 5.44   | 310.11 | 276.01 | 385.62 | 541.47   |
| <b>Bolivia</b>   | 2.47  | 13.53 | 1.64  | 0.13   |        | 0.88   |        |        |        |          |
| <b>Chile</b>     | 2.24  | 2.56  | 26.11 | 23.57  | 30.37  | 66.76  | 31.73  | 120.27 | 11.99  | 102.41   |
| <b>Colombia</b>  | 19.56 | 5.99  | 0.56  |        |        |        |        |        |        |          |
| <b>Ecuador</b>   | 37.78 | 39.43 | 0.4   | 112.23 | 57.03  | 117.58 | 17.37  | 0.64   | 0.12   |          |
| <b>Paraguay</b>  | 14.37 | 17.59 | 26.14 | 17.22  | 8.01   |        |        |        | 1.27   |          |
| <b>Peru</b>      | 10.71 | 3.49  | 5.02  | 9      | 5.65   | 0.85   | 0.38   | 0.38   | 0.22   | 135.14   |
| <b>Uruguay</b>   | 23.96 | 3.32  |       | 0.31   |        | 2.63   | 3.2    | 2.35   | 2.05   |          |
| <b>Venezuela</b> | 17.09 | 81.17 | 55.62 | 44.08  | 26.13  | 25.33  | 70.32  | 43.21  | 48.07  | 315.2    |
| <b>Total</b>     | 184.4 | 181.1 | 115.6 | 207.5  | 343.5  | 219.5  | 433.1  | 442.9  | 449.3  | 1,094.20 |

Source: Nyko (2011)

However, is the BNDES Exim-CCR mechanism really brokering transnational firms to implement RPG? There are several important caveats that must be made.

First, as it has been underlined BNDES is a Brazilian bank constraint by the Brazilian Constitution to serve exclusively the Brazilian interests. This fact limits BNDES's capacity to be part of the structure of IIRSA or COSIPLAN. More importantly, the firms of other South American countries potentially interested in constructing transport infrastructure are excluded from the BNDES-CCR mechanism. Therefore, by excluding South American companies from their credit lines, BNDES is enhancing the competitive gap between Brazilian firms and the rest of South American economies as recognised by the Chamber of Commerce and Industries of South America (I9).

A Brazilian policy expert and former official of the Ministry of Planning put it in these terms:

There is the perception by the other South American states that [Brazil] is a huge country, with a federal system that is hard to understand, with confusing decision-making process and that, therefore, they need to have a foreign direct investment policy and a “Brazilian” direct investment policy [...] How can you convince, I don't say Evo Morales, but to the most liberal Bolivians of Santa Cruz – where 40% of the Soya production is produced by Brazilian companies – that if they open space for Brazilian firms they will hire Bolivian workers and will benefit Bolivia? Brazil failed in selling the image of nice and friendly to its neighbours [...] Brazil exports capital goods to Bolivia, and Bolivia buys final goods from China; this is not sustainable and it does not bring any benefit to Bolivia (I3)



Less consolidated Brazilian companies are able either to take part in the mechanism that has become almost an exclusive tool for Brazilian “national champions” such as Odebrecht and Camargo Córrea that participate in most of the infrastructure projects in South America gaining a better access to the BNDES Exim credits as they were already consolidated in the domestic market and had some potential of internationalisation (D76: 15). According to a high official of the Brazilian diplomacy, these national champions had undergone a process of cartelization exerting strong pressures over the BNDES and the government. According to this official, the association between the Brazilian state, the national champions and the BNDES has sustained the Brazilian development model during the last decade (I35). From a more critical perspective, a former director of Petrobras during the first Lula administration argues that these national champions have ended up “capturing” the government, using the BNDES and the semi-public companies – Petrobras, Electrobras, and Vale do Rio Dôce – to guarantee their investments and expand the scale of their operations (I16).

Second, and more importantly, the projects financed by the BNDES can hardly be considered regional public goods and are mostly national infrastructure projects (I10). The publicly available data do not allow to distinguish between the infrastructure projects that are exclusively domestic (e.g. a subway in a capital city) from those that are RPG or have some integrative potential (e.g. an international road or cross-border bridge). However, evidence collected from interviews suggests that most of the projects are in fact purely domestic infrastructure and national projects without regional or transnational externalities. Therefore, the infrastructure projects financed by the BNDES Exim do not have any match with the projects that compose the development hubs elaborated by IIRSA and COSIPLAN. In the interviews, high officials of BNDES confirmed that the bank do not provide any additional score or positive discrimination to “integration projects”: if an international road connecting Venezuela with Colombia has to compete with a subway in a Venezuelan city, there is no provision stipulated to make some special assessment of the former for being an integration project in terms of deadlines or interest rates. Since the subway in Caracas is financially more profitable and entails less financial risk than the international road, the Brazilian private company will definitely prioritise this project and most likely will get financial assistance from BNDES. In addition, BNDES does not discriminate by geographical region, either. A project technically and financially better scored in Southern Africa will be prioritised over a project in South America (I13). Between 2005 and 2010, BNDES financed 17 projects through the Exim programme. Six are located in Argentina, five in Venezuela, two in Peru and Uruguay, and each of the rest of South American countries have one project. All of them are domestic projects arguably without any regional externality. To put it in other words, BNDES has not financed any regional public good, no matter what the Brazilian authorities declare in interviews and public statements.

Last but not least, during the period of 2005-2010 the main importer of Brazilian goods and services through the BNDES Exim programme was Argentina, followed by Venezuela and Chile. Poorer countries in the region, such as Bolivia and Paraguay, rank as 7th and 8th as destination of the BNDES Exim credits. These are revealing data, because they show that the BNDES Exim programme does not work as a “developmental programme” oriented to reduce asymmetries, but follows instead the commercial flows of the Brazilian economy that effectively have Argentina, Venezuela and Chile as main commercial partners in the region (D83: 89)<sup>80</sup>. To be sure, BNDES Exim is a developmental tool for the Brazilian state since it stimulates a domestic development goal, namely the regionalisation of its “national champions”, but its role in furthering regionalism has to be nuanced (Hochstetler and Montero 2013; Palestini and Agostinis 2015).

In the words of a high executive of the BNDES:

The BNDES is 60 years old and its mission was to develop Brazil; in general the “regional mission” has not been assimilated by the Bank. The vision that prevails here – in my personal opinion – is that BNDES is a national development bank and that there is not a special regional perspective: for us, not only for the BNDES, but for the Brazilian government and its various bureaucracies “regional” is not different from “international”, we do not recognise this intermediate category: this recognition is something that has not been incorporated (I13).

### 6.3 Conclusions

The chapter has analysed the transnational dimension of regional cooperation in the transport connectivity area. It has been argued that it is at this level of analysis where we find the two main factors that explain the comparatively higher outcomes in terms of implementation of RPG. The first factor is the existence of a basic intergovernmental consensus about the mutual benefits of a programme of regional transport connectivity. This basic consensus reached in the Summits of Brasilia (2000) and Guayaquil (2002) was maintained by the course of the decade without being altered with the formalisation of UNASUR and COSIPLAN. The second factor, was the capacity of South American governments to broker transnational actors, particularly RDBs that have maintained the continuity of technical cooperation and have provided institutional and financial resources to implement the IIRSA and later the COSIPLAN portfolio of projects.

National governments, and particularly the Brazilian executive, were able to line up the support of RDBs at the end of 1990s. These RDBs not only provided the basic institutional resources to organise and coordinate the brand new IIRSA, but also fundamentally provided a viable policy frame around the concept of development hub. The concept of hub was viable because it opened up IIRSA to the participation of various

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<sup>80</sup> This makes BNDES an entirely different mechanism from, for example, FOCEM (De Andrade 2013).

types of actors: governments through their functional and political national ministries, financial institutions, and private actors through the modality of PPP. It also provided a conception of territorial planning that has been maintained in spite of the institutional change from IIRSA to COSIPLAN.

But the policy area of transport connectivity is not a completely successful story. The chapter has also shown the challenges that COSIPLAN faces – especially regarding the limits of brokering. In fact, the private sector remains a marginal actor in the in IIRSA-COSIPLAN framework. Market actors do not perceive enough gains in financing regional transport connectivity and, therefore, they are passive actors in the processes in spite of the RDBs incentives to foster private sector participation. The BNDES-CCR mechanism seems *prima facie* a more efficient instrument to incentivise private actors – in this case Brazilian firms – to finance transport infrastructure in other South American countries. However, the chapter has shown that contrary to a widespread belief, the projects financed by BNDES and executed by Brazilian “national champions” are not connected with IIRSA-COSIPLAN portfolio and, more importantly, have very few regional externalities and integrative features. In other words, most of the infrastructure projects financed by the BNDES in South America can hardly be considered regional public goods. On the contrary, the mechanism has worked mainly as an instrument to regionalise Brazilian companies enhancing their competitiveness in disconnection with regionalism.

These challenges can be tackled either through the expansion of PPP modalities, as seems to be the preferred option of IDB and CAF, or through the creation of new financial institutions exclusively focused on financing RPG in the line of the MERCOSUR Fund for Structural Convergence (FOCEM) or a development bank of South American infrastructure in which, differently from BNDES, all South American governments would have a seat on the board.



## CHAPTER 7

### Energy: Big-Nationals

#### Introduction

This chapter turns the attention to the policy area of energy that is the negative case in this research from the point of view of outcomes. Together with transport connectivity, energy was the first policy area in which South American states engaged in cooperation within the framework of IIRSA. Nevertheless, as it was shown in Chapter 2 outcomes in the energy area are significantly lower than in transport connectivity. South American state and transnational actors have been less successful in implementing regional public goods in this area.

There is a relatively straightforward answer to the research question: why have outcomes been lower in the area of energy? Functionalists and neofunctionalists would argue that technical problems are comparatively more difficult to solve in the area of energy and, therefore, it is less likely to expect outcomes because of the intrinsic functional complexity of the policy area. Notwithstanding the plausibility of this functional explanation, the present chapter argues that the causes of the low outcomes in energy are to be found not in the technical sphere but mainly in the political one. Two factors are particularly relevant: first the weakness of the intergovernmental consensus and, second, the incapacity of the governments and particularly Venezuela to broker non-state actors in its energy initiatives. In other words, the argument of this chapter is that energy cooperation run into a deadlock *before* the technical issues arose.

The basic consensus reached by the South American governments in Brasilia (2000) and Guayaquil (2002) was rapidly undermined by the Venezuelan-led energy initiatives that excluded those states characterised for a market-driven energy sector. Likewise, the policy-frame used by Venezuelan planners around the concept of Big-National (*Grannacionales* in Spanish) excluded the private sector and the RDBs focusing exclusively on joint-ventures of public energy companies. The lack of intergovernmental consensus and the incapacity to broker transnational actors explain why by 2014 South American energy cooperation had run into a deadlock - from where is unlikely to move.

The chapter has a similar structure to Chapter 6. In the first section (7.1), I describe the intergovernmental consensus around cooperation in energy and how it was eroded by Venezuelan energy regionalism. The second section (7.2) deals with the mechanism of brokering. I describe the concept of the Big-National that acted as the policy-frame of Venezuelan-led initiatives and that turned out to be unable to broker energy

companies and other transnational actors into the initiatives. The chapter concludes (7.3) by comparing the area of transport connectivity and energy in the light of the arguments presented in Chapter 6 and 7. This last section also reviews other alternative explanations based on the neofunctionalist, liberal and power-based approaches.

## 7.1 The Intergovernmental consensus

As in the case of transport connectivity, South American states had intense preferences for a developmental programme aimed at integrating energy infrastructure and regulation. This explains the support obtained by the Brazilian executive in 2000 when the IIRSA proposal was introduced and that is manifested in the Brasilia and Guayaquil Declarations. As a matter of fact, South America is a well-endowed region regarding energy resources. The region accounts for 11% of the global reserves of oil and 9% of the global reserves of gas. Its hydro potential is significant, exceeding 600 GW, concentrated in the Amazon basin and in the Plata basin. At the same time, South America is extremely asymmetrical in the allocation of these energy resources: some countries are mainly hydrocarbon producers where others concentrate hydroelectric potential. Furthermore, hydric cycles are differentiated, i.e. the dry seasons in some countries coincide with the rainy seasons in others. The mix between high endowment and asymmetrical distribution makes the region a fertile space to experiment mechanisms to exchange and integrate their energy sources (Barrera-Hernández 2012; OLADE 2013).

All South American countries with the exception of Chile and Uruguay are top-3 producers of at least one energy resource putting them – *ceteris paribus* – in a good position in terms of energy security<sup>81</sup> in the medium run (see Table 16). Venezuela, Ecuador, Bolivia and Colombia can be considered natural resource economies with 93%, 59%, 49% and 38% of their exports consisting of fuel exports (Gustafson and Elliot 2011). With its impressive oil reserves, Venezuela is the only country that can be defined as an energy power and as an oil-based economy, which explains the leading role that Venezuela undertook in the energy area at the middle of the 2000s taking advantage of a contingent high international oil price. That being said, Venezuela is not exempt from the challenges in the energy sector, being the main one to reduce the enormous gap between the potential production and the actual capacity especially regarding its reserves of heavy and super heavy oil and natural gas production.

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<sup>81</sup> Energy security is the condition in which a national and all, or most, of the citizens and businesses have access to sufficient energy resources at reasonable prices for the foreseeable future, free from serious risk of major disruption of service (Barrera-Hernández 2012: 62).

**Table 18: Main Producers by Energy Resource (year of reference, 2011)**

| Relative Position in SA | Oil       | Gas                           | Hydroelectricity | Coal     | Net-importers of energy |
|-------------------------|-----------|-------------------------------|------------------|----------|-------------------------|
| 1 <sup>st</sup>         | Venezuela | Argentina                     | Brazil           | Colombia | Uruguay                 |
| 2 <sup>nd</sup>         | Brazil    | Venezuela                     | Venezuela        |          | Chile                   |
| 3 <sup>rd</sup>         | Colombia  | Brazil                        | Colombia         |          |                         |
|                         |           | Bolivia (main export country) |                  |          |                         |

Own elaboration based on D110. *Note:* The ranking is based on production (Oil, Gas and Coal), and installed capacity (Hydroelectricity).

Brazil, in turn, has the most diversified energy matrix complementing an extraordinary hydroelectric potential with oil and gas production. This situation improved over the course of the decade with the impressive development of the biofuel production and with the discovery of new oilfields along the coasts of the state of Rio de Janeiro: the so called Pre-salt oilfields due to their geological characteristics.

By 2000, Chile and Uruguay faced a complicated energy security situation that has not significantly changed throughout the decade. The case of Chile is worth noting. In terms of hydropower, Chile has a potential capacity of 25.156 MW, double that Paraguay, which is paradoxically a net exporter of hydroelectricity and has its domestic demand completely fulfilled for the medium to the long term. This apparent paradox is explained by the installed capacity that in Chile reached, by the time of the first South American Summit in 2000, around 20% and in Paraguay around 70% thanks to the bi-national dam of Itaipú in the border with Brazil (D20). At the beginning of the decade Chile faced the serious challenge to reduce the gap between potential and installed capacity through new investment in hydroelectric power plants.

The case of Uruguay is more dramatic. In terms of hydropower, Uruguay has only 1.815 MW of potential capacity and by 2000 85% was already installed capacity, therefore the room for expansion was very limited. Since 2006, the Uruguayan government has initiated an ambitious programme to develop Eolic energy aiming at having the biggest installed capacity in South America (1000 MW). In this context, the diversification of the energy matrix through the increasing regional energy exchange and regional interconnections was an attractive policy option for Chile and a vital one for Uruguay. However, relying on one unique resource is also a risky strategy in the long run. Hence, well-endowed countries such as Ecuador (oil) or Colombia (coal) also have intense preferences for diversifying their energy matrix and, therefore, regional energy integration and cooperation also appears as an attractive policy option.

According to an official in the Ministry of Energy of Ecuador:

Regional energy integration is very important for the development and energy-efficiency of a small country like Ecuador. We do not have huge oil reserves like Venezuela or gas reserves

like Bolivia. Our public company PetroAmazonas reached its peak of production [...] Ecuador needs to diversify its energy matrix and regional interconnections are a way to do it [...] We have an increasing population that doubles the GDP growth and eventually this demand will not be satisfied by local resources (I30).

Bolivia, the main gas producer in the region, is also interested in expanding the regional energy integration. A crucial factor that explains the comparatively high macroeconomic and political stability of Evo Morales' government has been the sustained gas exports to South America and, more specifically, to Brazil through the GasBol pipeline that has provided a constant inflow of foreign currency to the Bolivian economy. Following the experience of the gas industry, the Bolivian government is interested in expanding the integration in the electric sector through the construction of a bi-national power plant (I14). Also the electric sector of Peru has a potential capacity (5000 MW) that doubles its current production. A way to take advantage of this surplus is through regional integration and exports mainly, but not only, to the Brazilian domestic market (I14).

The differences of endowments and energy matrix among South American countries provide ideal conditions for integrating energy chains that would increase both the energy security of the countries – especially those with less availability of resources or with a less diversified energy matrix - and the energy efficiency of its national economies (Rozas 2009). Furthermore, many South American economies at the beginning of the millennium were experiencing an increasing domestic demand of energy that was growing faster than the investment in energy production. As a consequence the existent stock of infrastructure was unable to handle the growing demand (Barrera-Hernández 2012). All these conditions made South American states favourable to a programme on regional energy interconnection. Net exporters had strong preference for increasing their supply to neighbour countries. Paraguay is a case in point. Its levels of hydroelectricity production – through the Itaipú power plant – supply the domestic as well as the Brazilian demand without problems and therefore the Paraguayan state was willing to revise the Itaipú Treaty and by so doing look for third markets in the region. Likewise, Bolivia was looking to create new gas pipelines to supply countries in the region but also to use the ports of Pacific countries – mainly Chile – to ship towards North American markets.

The Director of the Latin American Organisation of Energy (OLADE) sums up the preferences of South American governments regarding regional energy integration in this way:

The energy export and import countries are, of course, those most interested in the regional agenda. Paraguay, a net exporter needs infrastructure for its surpluses. Bolivia is interested, although its priority is industrialising and upgrading the production of natural gas. Colombia is interested in taking advantage of its surpluses and carrying out projects of electric interconnections. Ecuador and Peru will have in the near future surpluses that they also want to export to the region. Import countries, such as Chile, need interconnections. Chile has solar



energy in the North and hydroelectricity in the South but the transport to the consumption centres located in the centre is not easy (I31).

### 7.1.1 The exclusion of liberal market economies

These were the basis for the minimum intergovernmental consensus reached in Brasilia and Guayaquil that permitted to include the energy area in the IIRSA framework. However, this framework had to respect the diversified energy matrix of the region as well as the diversified market structure of the respective national energy sectors. These two basic principles were broken by the Venezuelan PETRO-initiatives. First, as it was shown in Chapter 5, through initiatives such as PETROAMERICA, PETROANDINA and PETROSUR, Venezuela was pursuing an energy integration programme based exclusively on hydrocarbons and more precisely oil and gas initiatives. President Chávez and President Morales, in particular, were critics of the Brazilian biofuel programme as well as of the construction of hydroelectric power plants (see Chapter 5).

But even more important, Venezuela-led initiatives excluded liberal market economies with market-driven energy sectors. In fact, despite the fact that all twelve national Constitutions attribute to the state the property of the natural resources<sup>82</sup> including energy resources, South American states vary a great deal in how they organise the control of the different activities of the energy value chains depending on how deep were the market reforms carried out in the 1990s. Furthermore, states such as Venezuela, Bolivia, Ecuador and Argentina reverted the market reforms by the course of the 2000s, allowing vertical integration, nationalising transnational assets and centralising the regulatory authorities (see Victor and Heller 2007; Bouille and Wamukonya 2003, Trillas and Montoya 2011; I8).

Table 19 shows the structure of national energy sectors (the electric and the hydrocarbon sectors) according to the state control over the value chains. High control means that the national legal order confers total control of the activity to the state. Medium control means that the national legal order confers control to the state allowing private participation. Finally, low control means that the national legal order reserve minimum control to the state, and major participation of the private sector. These different market structures translate into different modalities of contracts, royalties, taxes and regulation agencies (D110).

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<sup>82</sup> The Constitution of Argentina in its Art.124 confers the property of the natural resources to the Provinces.

**Table 19: State control over the value chain in the energy and hydrocarbon sectors**

|                       | <b>Electric Sector</b>                         | <b>Hydrocarbons</b>                                  |
|-----------------------|--|--|
| <b>High control</b>   | Venezuela, Surinam, Ecuador, Bolivia, Paraguay | Venezuela, Surinam, Ecuador, Bolivia                 |
| <b>Medium control</b> | Argentina, Brazil, Guyana, Uruguay             | Argentina, Brazil, Chile, Guyana, Paraguay, Uruguay. |
| <b>Low control</b>    | Chile, Colombia, Peru                          | Colombia, Guyana, Peru                               |

D110

Initiatives such as the harmonisation of national energy regulatory frameworks that Venezuela and Ecuador put in the agenda as early as in 2002, started to raise concerns especially among the countries with the most market-driven energy sectors, such as Chile, Colombia and Peru. Already in the Second South American summit in Guayaquil the host Ecuador (an oil producer) and Venezuela attempted to transform the intergovernmental summit in an Energy summit (P26). The Brazilian government had to mobilise diplomatic resources to keep the summit aligned to the original agenda and thus giving to the energy issue enough space without leaving the agenda to be controlled by the two oil-producer states. Although Brazilian diplomats were able to water down the initial draft proposed by the Ecuadorians, the Guayaquil Declaration stipulated the preparation of a South American Energy Charter aimed at integrating the energy regulation of South American states:

The Presidents instructed the national authorities responsible for the IIRSA steering and the regional and international organisations to coordinate the different technical bodies in the energy sector in order to contribute to a wide and progressive energy integration within a regional perspective, that could drive eventually to the basis for a South American Energy Charter (Declaration, Paragraph 24).

The idea of a South American Energy Charter or Treaty later became the chief objective of the UNASUR Energy Council. According to the Brazilian representative at the Energy Council, Brazil and liberal countries such as Chile, Peru and Colombia have defended in the meetings a rather minimalist position regarding the treaty seeking to limit it to the establishment of general principles, whereas Venezuela and Ecuador have adopted a maximalist position trying to widen the scope of the treaty. The Venezuelan representatives have acted as *de facto* coordinators of the Council recompiling the acts and suggestions of the other governments. During its Pro-Tempore Presidency, Surinam delegated to Venezuela the presidency of the Energy Council further enhancing the leading role of this government in the policy area (I8; I7; I26).

The position of liberal market economies regarding the South American Energy Treaty is well described by a Chilean representative of the Ministry of Foreign affairs:

Each country has their own interests and legislate according to those interests. That's why it does not make sense and it is not necessary to harmonise national norms. We must be realists: we can share experiences from our national contexts, but not harmonise (I28)

The perception that the South American Energy Treaty might be an over ambitious objective of UNASUR is somewhat backed by the vision of regional policy makers. According to the Director of the Latin American Energy Organisation (OLADE), manifesting his personal opinion:

The Treaty is a complex issue. In my personal opinion, not as OLADE, I think the overarching approach undertaken by the Treaty is not correct. Instead, the governments should undertake regulatory harmonisation by parts. I don't know if it is possible to make a Treaty that comprises all the issues. Perhaps, to start with the issues where there is more consensus, and work them out in depth without leaving the Treaty decontextualised. The parts that breed more consensus are those dealing with planning, policy coordination, and up to a certain extent "internal transit of energy". The last one does not have so much consensus, but is a priority [...] Big-Nationals are not a simple idea; it is very innovative... but there are legal issues to be solved. A Big-National should start from something simple such as planning without jeopardising the policies of each national company, the national energy policies, and seeking a gradual approach. (I31).

The concept of Big-National that the Director of OLADE makes references to, became in fact the policy frame of energy cooperation since 2005 when the Venezuelan government set the agenda of energy regionalism from outside the institutional arrangement of IIRSA. Later in 2007, when the Energy Council was created as part of UNASUR, Big-National continues to be the conceptual framework not only orienting energy cooperation, but also further dividing liberal market economies from state-led economies as we will see.

## 7.2 Brokering: National Energy Companies

The Venezuelan-led initiatives not only eroded the fragile intergovernmental consensus around regional cooperation in the energy area, but were also unable to broker non-state actors in the implementation of energy regional public goods (RPG). The thesis argues that this has to do with the policy-frame used by the Venezuelan government: the concept of **Big-Nationals**.

All the PETRO-initiatives including the Bolivarian Alliance (ALBA) are based on the concept of Big-National Companies (*Compañías Granacionales*) a linguistic game of Transnational Company. The concept of Big-

Nationals was first used in 2004 in the framework of ALBA<sup>83</sup>, later in PETROAMERICA and is still present in the Energy South American Treaty main objective of the Energy Council of UNASUR. The Venezuelan government has been successful in keeping the concept on the agenda in spite of the rather poor results that Big-Nationals have brought about.

Big-Nationals are defined as:

those public corporations productively integrated, in which production will be oriented to the intra-regional market and which operations will be carried out efficiently (ALBA 2008 quoted in Pérez and Kfuri 2011).

They consisted of joint-ventures between public companies from different South American states with the aim to organise states in cross-border undertakings, bypassing market mechanisms and harmonising regulatory requirements in building and operating energy networks (Barrera-Hernández 2012: 69). The Venezuelan government aimed at creating Big-Nationals in several industries such as coffee and food production. However, the energy sector, and more specifically the hydrocarbons sector was the main area where Big-Nationals were expected to emerge.

Genaro Arriagada (2007) has argued that the mechanism of regional joint-ventures in the hydrocarbon sector entailed a strategic goal for Venezuela. With a strong deficit of investment in the oil sector that prevents the refining of heavy and super-heavy oil and its commercial use, the joint venture with other oil companies in the region might be used as a tool to expand the production capacity. Through the Big-National arrangement, PDVSA looked for partnerships with state-owned companies from the Southern Cone to explore, develop and refine heavy crude oil. It is important to recall that only two South American public energy companies are competitive at the international level: Petrobras, from Brazil, and PDVSA, from Venezuela (I31). Hence, joint-ventures with Petrobras were at the core of the Venezuelan interest. Through such joint-ventures it would be possible to start off the production in the Orinoco Oil Belt – where the heavy and super heavy oilfields are located – and provide refining facilities at the destination markets throughout all the partner nations (Arriagada 2006: 19). For this strategic reason, Big-Nationals became the policy frame of PETROAMERICA, PETROANDINA and PETROSUR.

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<sup>83</sup> In the framework of the ALBA regime, there are four Grannacionales that by 2012 were in the process of constitution in the sectors of Fishing and Agriculture, between Ecuador and Venezuela; Manufactures, Science and Technology, between Bolivia and Venezuela; Coffee (Dominica and Venezuela) and Food Production (Bolivia and Venezuela). All these companies have the same legal structure composed by a bi-national authority with the function of supervision and management, and two bi-national societies that operate in each country respectively (D106)

However, the concept of Big-Nationals further contributed to the exclusion of states and non-state actors. In fact, the concept excluded the participation of private companies that in the energy sector are mainly transnational companies with European or US American capital. The exclusion of private firms ended up excluding the states that had highly privatised and transnationalised energy sectors or that were not interested in engaging in oil-exploitation joint-ventures. Also the RDBs were excluded from the initiative, and Venezuela was advocating for the creation and ratification of the Bank of the South as the source of finance of these public joint-ventures. An institutional arrangement made up of Big-Nationals – operating and executing energy integration projects – and the Bank of the South providing the financial assistance at preferential conditions, would make IIRSA completely redundant. However, with a radical division between private and public, Big-Nationals ended up being rather more restrictive than inclusive and, consequently, the PETRO-initiatives exclusively targeted states with strong public energy companies.

The deep cleavage between the state and the private actors was not only at the core of the Venezuelan regionalism, but also part of its domestic development model (Serbin 2011). The failed putsch against President Chávez in 2002 supported by important sectors of the Venezuelan business, contributed to increase the gap already existent between the private sector and the government. During the governments of Pérez and Caldera, there was an explicit attempt to build up ties between the state and the business associations including them in the negotiation of trade agreements. Under those governments the Venezuelan business oriented its corporate strategies towards the Andean regions in the framework of CAN. When the Venezuelan government of President Chávez withdrew from CAN in 2004, the private sector became further marginalised from regionalism. Initiatives such as ALBA and PETROAMERICA had little room for private companies. The private sector strongly criticised the decision of the Venezuelan state to join MERCOSUR. According to the presidents of the two main business associations of Venezuela (FEDECAMARAS and CONINDUSTRIA), regional integration was been carried out “at the back of the private sector” and “ignoring the limitations and potential of the productive sector” (Serbin 2011: 244)<sup>84</sup>.

By early 2006, President Chávez had forced the conversion of operating agreements with foreign oil companies into joint ventures in which the Venezuelan state retained the upper hand. Some companies voluntarily turned operating agreements over to PDVSA, but Chávez confiscated two operations when companies rejected his terms, and in 2007 also altered associations with foreign companies in the Orinoco River Basin. Three of the six companies involved were based in the US (ExxonMobil, ConocoPhillip and

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<sup>84</sup>This exclusion is extendible as well to other sectors of the civil society, like labour unions or social movements that likewise the business associations were not taken into account at the moment of design and implement Venezuelan new foreign policy strategy (Serbin 2011: 256).

Chevron). Of the original 32 operating agreements, 25 became joint ventures with PDVSA holding a majority share of between 60-80%. Five of the operating agreements were unilaterally turned over to PDVSA, and two operations run by Total (France) and ENI (Italy) were confiscated by the government after the companies rejected the terms proposed by the government (Gustafson and Elliot 2011: 354; D105).

In his memoirs, the Brazilian Foreign Minister Celso Amorim narrates how he spent most of a meeting with the Venezuelan Foreign Minister Alí Rodríguez, trying to explain that Brazil was indeed a capitalist market economy.

We not only cannot ignore the market laws – although we try to regulate them for the benefit of the society - but we also have to take into account the opinion of the business sector whose political clout is acknowledged by the Brazilian government. [Alí Rodríguez] seemed surprised. He did not understand that a country ruled by a *Worker's Party* and a former labour union leader like President Lula could be constrained for those deliberations (Amorim 2013: 132).

### 7.2.1 PETROANDINA and PETROSUR

The overarching PETROAMERICA the direct Venezuelan alternative to IIRSA was, indeed, made up of two sub-programmes in South America: PETROANDINA and PETROSUR. PETROANDINA was launched in July 2005 with the objective to create a Big-National between the state oil companies of the CAN members, all of them hydrocarbon producers. The implementation rate of PETROANDINA was very limited. There was a memorandum of understanding between Ecuador and Venezuela to send Ecuadorian crude oil to be refined in Venezuela and re-imported to Ecuador. However, according to the interviews, the importance of the agreement in the Ecuadorian energy grid is marginal (I30). PETROANDINA ended up reduced to only one bilateral agreement between PDVSA and the Bolivian YPF, according to which Venezuela was to supply about 8,300 barrels per day to the Andean country (P27; Gustafson and Elliot 2011; D14). However, PDVSA and the Bolivian YPF do not have the technical and financial capacity to undertake more ambitious ventures that might go beyond the mere exchange of crude oil.

In the case of PETROSUR, there were two important projects. The first one was the agreement between PDVSA and the Brazilian Petrobras, also within the frame of Big-Nationals, signed in 2005 in order to construct a refinery in the Brazilian state of Pernambuco (*General Abreu Lima*) with a potential to process 200 MBPD of heavy oil and a total investment of US\$2.5 billion. For Brazil, that project was important in two different ways. On the one hand, the refinery would contribute to providing oil to the northeast of the country and would become an important source of employment in the country's poor zones. On the other hand, and perhaps more importantly, the project of cooperation would reinforce the already broken relations

between Venezuela and Brazil in the area of energy integration (see Chapter 5; D95: 10). For Venezuela, in turn, this first approach between the two main important public oil companies – PDVSA and Petrobras – could be the first step towards more ambitious attempts to refine heavy and super heavy oil reservoirs. The financial structure of the Big-National was agreed as 60% of Petrobras and 40% of PDVSA. However, by 2014 the Venezuelan company had not made any financial contribution to the project. The ongoing investigations by the Brazilian Tribunals – the *Tribunal de Contas da União* - revealed that the agreement between the two oil companies was never formalised beyond a memorandum of understanding, and therefore Brazil is legally unarmed to sue and force its counterpart. The total investment of the refinery nowadays is nine times the original estimate (US\$18 billion). Besides, it was supposed to be put into operation in 2011, but up to now there has been no fixed date for the completion of the construction works (P28).

The second project associated with PETROSUR was probably the most ambitious energy integration project in South America and, therefore, its eventual deadlock affected significantly the credibility of the PETRO-initiatives. In 2005, the governments of Venezuela and Argentina announced the intention to construct a pipeline that would bring gas from the south of Venezuela to the Southern Cone solving the supply crisis that was affecting Argentina. The so-called Big Pipeline of the South (Gran Gasoducto del Sur) would have been the longest pipeline in the world and the most challenging engineering project ever made in South America and, needless to say, the pillar of Venezuelan energy regionalism (Palestini and Agostinis 2014). Differently from the other two emblematic pipelines in the region - GasBol or Gas Andes – that were basically bilateral projects, the Big-Pipeline was supposed to be a genuinely regional project. It would be 9,000 kilometres long, starting in Venezuela, going through the Brazilian Amazon down to Argentina with a potential connection to Chile with an estimated investment of USD\$ 23 billion and an estimated capacity of 150 million m<sup>3</sup> per day to Brazil, Argentina and Uruguay (D23)<sup>85</sup>.

The project was based on an assumption that proved to be wrong, or that was at best only partially right: that the huge gas reserves located in the south of Venezuela could supply the Southern Cone ensuring energy security for an undetermined period. The Venezuelan reserves of gas are indeed considerable, however only 10% corresponds to gas that can be commercialised and, therefore, used either for domestic consumption or for supplying the region through, for instance, the Big-Pipeline of the South. The other 90% is gas associated with oilfields, and is re-utilised for the extraction of crude oil. Although Chávez's government was interested in the expansion of the gas production since 1999, its production increase was meant to meet the unsatisfied

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<sup>85</sup> Just as a point of comparison the European pipeline has 1,700 kilometres starting from the Caspian Sea and ending at the Mediterranean and it took 10 years to construct.

domestic demand as part of the energy diversification strategy and therefore the possibilities for external supply are reduced (D23).

The construction of the Big-Pipeline of the South would have opened the Amazon forest to the energy industry, which is strongly resisted by the transnational environmentalist and social movements in South America. Moreover, the project was not viable financially since the demand in oil from the Southern Cone countries is relatively low in comparison with the capacity of the pipeline, which made the cost/revenues ratio extremely unfavourable for the investors (I7; I14 see also Arriagada 2007).

### 7.2.2 South American dispersion

The PETRO-initiatives and their insistence on Big-nationals turned out to be unable to translate energy projects from paper to implementation. Moreover they disperse rather than broker actors. Without the support of transnational financial institutions – such as the WB, IDB or CAF– or the private sector – banks and energy companies – the main stakeholders of the PETRO-initiatives started to withdraw from the initiatives. By 2006 Petrobras had suspended the initial viability studies of the Big-Pipeline of the South and one year later declared that the project was shelved. Brazil was no longer interested in the potential Venezuelan supply of huge amounts of gas.

Also in 2006, the Brazilian ministry of energy announced a radical turn in the national energy policy as well as in the place that regional energy cooperation and integration have in Brazilian energy policy. This radical shift is connected with the discovery of new considerable offshore reservoirs at 6,000 metres below sea level in the pre-salt zone of Santos bay (the Tupi oil and gas fields that, from 2010 onwards, were renamed the “Lula fields”). Pre-salt fields estimated reserves ranged from between 50 to 100 billion barrels and, according to Petrobras, the extraction of the oil covered by 5,000 metres of salt and rock, represents a major but not insurmountable technological challenge (Romano 2012; Seifert 2011)<sup>86</sup>.

An interview with an official of the Energy Research Company (EPE), the agency in charge of designing the energy policy in Brazil, reveals that the discovery of the Lula Oilfields made Petrobras not only shelve the Big-Pipeline of the South project, but also downgrade the priority of regional energy cooperation and integration in the overall national energy policy, precisely when the energy regionalism of Venezuela was

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<sup>86</sup> By means of the “Lula fields” exploitation, Brazil could become a major oil exporter since the planned upstream capacity in these fields would exceed the domestic demand significantly, transforming Brazil into a regional and global oil exporter in the medium term, an unforeseeable scenario at the beginning of the decade. During the eight years that followed the “Lula fields” discoveries, the Brazilian state has been rather cautious in order to keep the expectations under control and make sure that Petrobras and its joint ventures could make the exploitation technologically viable (ver Seifert 2011).



escalating and causing turmoil. In fact, since the beginning of Lula's first administration, Petrobras had been focusing its investment strategy on increasing its operations and assets in the South American oil market, acquiring refineries and engaging in joint ventures including Venezuelan Big-nationals. With the pre-salt fields' discovery, Petrobras investment reoriented to the exploration of the new oilfields, freezing most of the plans of regional and international expansion (I9; I14). The "Lula oilfields" discoveries and the biofuel production expansion empowered the Brazilian government with an exit option from the increasingly politicised and Venezuela-dominated project of South American energy integration.

Since 2006 onwards, Brazil came back to its previous approach to energy cooperation through bilateral instead of regional and multilateral agreements (I9 and I7). Brazil does not need oil from Venezuela, having turned again to its historic providers: Nigeria, South Arabia, Iraq and Angola (Seifert 2011). Certainly, it still depends on Paraguayan hydroelectricity (Itaipú) and Bolivian gas (Gas-Bol) two tricky interdependencies that Brazil can, however, easily manage bilaterally as it has historically done without passing through regional institutions or summitry (I7; I14)<sup>87</sup>. In the view of the Brazilian representative at the UNASUR Energy council, Brazil does not need its South American neighbours to ensure its national energy security and, consequently, it can manage its energy interconnections bilaterally (I9).

The director of the Latin American Organisation of Energy (OLADE) expresses the same idea:

Brazil has interconnections in Itaipú that are vital for its economy, for its electric system and for its industrial development; but it manages this interconnection bilaterally and will continue doing it. The same happens with GasBol. Brazil has historically managed its energy relations bilaterally, which has to do with the history of its ministry of foreign affairs and the fact that it is a multiple-border country. I don't see a clear Brazilian project of regional energy integration (I31).

Table 20 shows that especially since 2007, the Brazilian government has undertaken an evident bilateral energy policy abandoning the regional approach that had been undertaken under F.H. Cardoso and that was embodied in IIRSA in 2000. The year of 2007 is crucial not only because of the discovery of the Pre-salt

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<sup>87</sup> Since the beginning of the operations of Itaipú Dam during the 1980s and 1990s, the plant operated with rates below the cost of the service as part of the Brazilian industrial policy increasing the debt of the operator, the Brazilian Electrobras, and increasing the revenues of its creditors. Furthermore, according to the Treaty of Itaipú (Art. 13), the electricity produced cannot be sold to third countries - a decision that has been largely criticised by the Paraguayan state since it prevents the diversifications of buyers and the commercialization of surplus. It is important to bear in mind that only 10% of the electricity produced by Itaipú is consumed in Paraguay. Since 2005, the Brazilian state has opened room for amending the Treaty, which has occurred on three occasions (2005, 2007 and 2009). In 2009, both states signed a declaration regarding the value of the payment of the Paraguayan electricity' purchase, about the possibilities of selling surplus and about the construction of a new transmission line to Asunción (Oxilia 2008; D22: 31).

fields, but also because it was the highest point of Venezuelan-energy regionalism. In 2007, the Energy Council of UNASUR was created but Brazil was not going to be its agenda setter.

**Table 20: Bilateral agreements between Brazil and South American countries**

| Countries                | Agreement  | Date  |
|--------------------------|--|---|
| <b>Brazil- Argentina</b> | Treaty for the use of the Hydro resources of the Uruguay River, Pepiri-Guaçu.  | 2007 (additional protocol)  |
|                          | Agreement Electric Exchange  | 2009, and renovated in 2010   |
| <b>Brazil-Uruguay</b>    | Bilateral Treaty of Energy Integration   | In negotiation  |
|                          | Agreement on Eolic Energy cooperation  | 2015  |
| <b>Brazil-Paraguay</b>   | Itaipú Treaty  | 1972 (with amendments in 2005, 2007 and 2009)   |
|                          | Action plan for the development of biofuels in Paraguay  | 2007  |
| <b>Brazil-Bolivia</b>    | Gas-Supply Agreement   | 1996  |
| <b>Brazil-Chile</b>      | Mixed Permanent Commission on Energy and Mining  | 2006  |
|                          | Cooperation agreement between Petrobras and ENAP on biofuels, natural gas and the exploration of the Pacific Platform. | 2007  |
|                          | Agreement on cooperation on Biofuels   | 2007  |
| <b>Brazil-Ecuador</b>    | Memorandum of Understanding on Cooperation in the Energy Sector  | 2007  |
|                          | Basic Agreement of Cooperation on “Development of Agroproduction processes for Biofuels”                               | 2007  |
|                          | Protocol of intentions on Technical Cooperation in the area of Energy and Mining.                                      | 2007  |
| <b>Brazil-Peru</b>       | Memorandum of Understanding for a Mixed Commission on Energy and Mining.   | 2006  |
|                          | Convention on Energy Integration   | 2008  |
|                          | Agreement of Electric Supply and Surpluses Export  | 2010 (shelved by the Peruvian Parliament in 2012 for violating Constitutional principles) |

|                         |  |   |
|-------------------------|--|---|
|                         | Program of Development of Alternative Crops for Biofuels   | 2007  |
| <b>Brazil-Colombia</b>  | Complementary adjustments to “Basic Agreement of Energy Cooperation”                               | Rural energy plan (2005, renovated in 2009) |
|                         | Technical cooperation for the exploration of the Palm Oil and the “Mamona” as sources of biodiesel | 2009  |
|                         | Cooperation agreement on Biofuels  | 2010  |
| <b>Brazil-Surinam</b>   | Project “Support to the Development of Biofuel production”   | 2009  |
| <b>Brazil-Venezuela</b> | Cooperation programme in the Ethanol Industry  | 2005  |
|                         | Programme for electric interconnection   | 2008  |
|                         | Adjustments to the Basic Agreement on Electric Cooperation   | 2009  |

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Source: D13; P33; P34

In fact, the Brazilian participation in the Energy Council is reduced. The two big public companies Petrobras and Electrobras do not participate in the meetings of the Council. As it was said, Petrobras re-oriented its corporate strategy to the internal market and re-oriented its investment capacity to the Pre-salt Lula Oilfields (I3; I22). Electrobras, in turn, started its process of internationalisation and regionalisation much later than Petrobras. Only in 2008, the Lula government modified Electrobras’ constitutive regulation permitting the company to undertake investments in foreign countries. However, according to policy-makers, the Ministry of Energy dismissed the regional integration agenda and is reluctant to foster Electrobras regional investments. As a consequence, the participation of Electrobras in the regional market remains limited (I14). A third crucial Brazilian actor in the energy sector is the Energy Research Enterprise (EPE) in charge of planning and defining the national energy policy. According to a director of EPE, the organisation does not participate in the Energy Council of UNASUR and does not follow its agenda (I15).

Despite or perhaps *because* of the Brazilian lack of participation at the UNASUR Energy Council, the Venezuelan government was able to make the idea of Big-Nationals survive the extinction of PETROAMERICA, PETROANDINA and PETROSUR, putting it on the agenda of the Energy Council.

Nonetheless, in the two documents that establish the organisation and objectives of the Energy Council (Plan of Action and the Guidelines for a South American Energy Strategy), Big-Nationals are accompanied by clear checks and balances. Point 12 of the Guidelines that deals with the creation of Big Nationals is subordinated to the broader objective to promote “the association between the public and private sector”. Furthermore, two more observations are added:

Big-National Companies must be in accordance to the sovereignty and the legal framework of each country; and they will be oriented, as far as possible, (*en la medida de lo posible*) to the development of projects based on the solidarity and regional complementarity [...] Each state holds the right to define the shareholder structure of the Big-National Company (D28: 20).

The *Big-Nationals* are also part of the table of content of the South American Energy Treaty<sup>88</sup> in which they are further limited by a note introduced by the Brazilian delegation:

Due to the scope of this issue [big-nationals] that involves different interests and issue areas, this point has to be widely discussed and deepened throughout the development of the Treaty. In particular must be discussed the regulatory and legal conformation of this companies, its compatibility with the national regulatory frameworks and the volunteer adhesion of the states according to the concrete analysis of the projects (D28: 31).

According to national representatives at the Energy Council, the discussion about the Big-Nationals has been left aside in the agenda. However, no other policy-frame has come to occupy its place and the negotiations of the South American Energy Treaty seem to have run into a deadlock (I8 and I30).

### 7.3 Conclusions and alternative explanations

Why have outcomes been higher in some policy areas (transport connectivity) than in others (energy)? Chapters 6 and 7 have provided a twofold answer to this question. First, in the area of transport connectivity the minimum consensus reached at the intergovernmental level was translated into a viable policy-frame and second, this policy-frame permitted to broker non-state actors that allow policy coordination and implementation of RPG. Conversely, in the area of energy the minimum intergovernmental consensus was broken by initiatives that excluded some states and, furthermore, were based on a policy-frame that excluded the participation of transnational non-state actors. As a consequence, the provision of RPG was minimal.

In the case of transport connectivity, South American governments led by the Brazilian executive proposal opted for a combination of state coordination and planning with private-public implementation under the

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<sup>88</sup> Part II, Frameworks for the Energy Integration, Capítulo II, Regulatory Frameworks

policy-frame of **development hubs**. The concept of hub was designed by Brazilian planners, however it was further developed and implemented by the RDBs – IDB and CAF – to which the governments delegated IIRSA coordination. The diplomatic efforts deployed by Cardoso’s administration in his second mandate is a case in point of what I have called brokering. Cardoso, backed by his foreign ministers Lampreia and Lafer and the ministry of planning, managed to line up the support of the RDBs providing viability to the proposal presented to the South American states. The basic intergovernmental consensus reached in Brasilia 2000 evolved with minor changes up to now despite the institutional changes undergone by IIRSA.

In the case of energy, the initial intergovernmental consensus that inserted energy as part of IIRSA was broken by the Venezuelan-led initiatives of energy and fundamentally hydrocarbon-cooperation. While in the original IIRSA scheme energy and transport connectivity projects were supposed to be interrelated within development hubs, the PETRO-initiatives separated energy projects as a distinct area and framed them according to the concept of **big-nationals**. Differently from hubs, where state planning and public-private implementation were interlinked, big-nationals supposed a strict separation between public and private. Only public energy companies were allowed to take part in centrally designed national-ventures excluding not only private actors, but also those South American countries with market-driven energy sectors. Without the financial support of the RDBs and the financial and technological support of the private energy companies big-nationals were unable to take any of their ambitious projects to the implementation stage.

These two contrasting ways of organizing cooperation at the transnational level is what explains why the COSIPLAN portfolio of transport connectivity projects is in continuous expansion and it is probably the only policy area, together with the more recent areas of health and defence (both started in 2008), where UNASUR members can show tangible results. The few energy projects that are still in COSIPLAN portfolio since the time of IIRSA are also the only ones arriving to the implementation stage. On the contrary, the Energy Council of UNASUR is trapped in the discussion of a South American Treaty that does not count with the intergovernmental support.

Certainly there are other possible answers to the question of divergent outcomes that can be drawn from the approaches presented in Chapter 3 and that are displayed in Table 21.

**Table 21: Alternative Hypotheses to Q2: Why have outcomes been higher in some policy areas (transport connectivity) than in others (energy)?**

| Higher outcomes are expected in: |   |
|----------------------------------|---|
| <b>Neofunctionalist</b>          | Those functional areas where the technical problems are easier to solve (policy drives politics).   |
| <b>Liberal</b>                   | Those areas in which market actors expect higher market gains and, therefore, exert stronger pressures on governments.                          |
| <b>Power-based</b>               | Those areas in which the governments of powerful states have higher interests and, therefore, develop the role of regional leader or paymaster. |

Neofunctionalist approaches would keep close to the assumption that “policy drives politics”, arguing that the technical and functional problems of a policy area explain the capacity to deliver outcomes. South American states and non-state actors are less able to deliver RPGs in the area of energy just because energy is a technically more complex functional sector. There are a number of factors that support the idea that constructing a pipeline or harmonising energy regulation is a harder task than constructing an international railway and harmonising the cross-border taxes. As a national representative at the UNASUR Energy Council stated: energy is a complex commodity and a strategic natural resource and, as a consequence, the energy agenda advances slower than the transport infrastructure one (19).

Yet, as this chapter has shown, energy cooperation ran into a gridlock before the technical issues arose. None of the projects entailed in PETROAMERICA and its sub-regional programmes reached the stage of implementation, leaving aside the oil exchange agreements between Venezuela, Bolivia and Ecuador that can hardly be considered regional public goods. The South American Energy Treaty is blocked at the level of the discussion of the contents of the Treaty and, by 2014, the discussion about its implementation and ratification by the national parliaments looked unforeseeable.

The liberal approach, in turn, would draw on the demand/supply model to explain divergent outcomes. Liberals will suppose that higher outcomes are to be expected in areas with a more intense demand on the part of market actors. At the same time, more intense demand is explained because of the existence of higher market gains in specific areas. Applied to our cases, this would imply that firms expected more revenues from transport connectivity projects than from energy projects. The research carried out in South American countries showed that to the contrary of liberal expectations, firms were reluctant to invest on both areas. In the case of transport-connectivity, for instance, business associations perceived positively IIRSA and transport connectivity programmes. However, at the same time they consider investment in integration infrastructure to be too risky. From a strict cost-benefit calculation, domestic transport infrastructure entailed higher economic revenues than the regional projects contained in the IIRSA and later COSIPLAN portfolio.

With the exception of a few industrial poles (e.g. southeast of Brazil-Uruguay-northeast Argentina), most of the transport interconnections pass for rather isolated cross-border areas where the revenues of the investment made are expected only in the medium to long run. This is the main challenge that COSIPLAN faces with its policy-frame of development hubs and explains why the private sector has been so reluctant to engage in COSIPLAN initiatives so far. As Chapter 6 showed, only the Brazilian construction companies have demonstrated an interest in investing in South American infrastructure using the BNDES-CCR mechanism. However, this is a rather narrow set of big companies (national champions) that have the capacity to use BNDES-CCR to reduce the risk of the investments and that, furthermore, finance primarily domestic infrastructure without any regional externality.

Finally, there is the power-based explanation that will rely on power asymmetries to explain divergences in cooperation outcomes. The explanatory focus is put on the preferences of the regional power. Assuming that Brazil is the regional power in South America – as most scholars seem to assume, see Burges (2009), Teixeira (2011) – this would imply that Brazilian preferences were more intense in the area of transport connectivity than in energy. There is some plausibility to the power-based explanation. Effectively, the Brazilian interests in the energy regional cooperation were decreasing by the course of the 2000s because of, on the one hand, the increasing predominance of Venezuelan initiatives in the area, and, on the other, because of the turn towards an autarchic energy policy fostered by the discovery of the pre-salt Lula oilfields and the increasing importance of extra-regional exports of biofuels. Since 2006 onwards, the Brazilian government did very little to facilitate cooperation in the area of energy letting the UNASUR Energy Council run aground under the direction of the Venezuelan executive (Palestini and Agostinis 2015).

However, it is a matter of debate whether the role of Brazil has been as important as a power-based interpretation would argue, in explaining the relatively higher outcomes in the transport connectivity area. Chapter 4 showed the crucial role played by Cardoso's executive to make South American states' preferences converge around a basic consensus that made it possible to create IIRSA. Chapter 6, in turn, has shown how the idea of development hubs that has framed cooperation in the transport connectivity area up to now was elaborated by Brazilian planners working for the government. It is possible to say thus that the Brazilian government played a role of regional leader during the initial years of South American cooperation (see Palestini and Agostinis 2015). Yet, this regional leadership should not be overstated. As Chapter 6 showed the BNDES has been used as an instrument to regionalise Brazilian national champions rather than to implement IIRSA-COSIPLAN regional public goods. In short, Brazil has been a marginal paymaster of regional public goods both in transport connectivity and energy.





## CHAPTER 8

### Discussion and future research avenues

#### Introduction

This final chapter has the double mission of recapitulating the argument of the thesis and introducing further lines of research that have been opened up while carrying out this investigation. In a way, the chapter proceeds in the opposite direction of the Introduction to the thesis. I start by answering the research questions that were the empirical windows to assess contemporary South American regionalism. Responding to the question of why institutional design shifted from an informal to a formal institutional arrangement, and why outcomes have been more relevant in some policy areas than in others, this thesis has sought to provide an empirically informed assessment of the achievements and challenges of contemporary regionalism in South America.

Once answered these two research question, the chapter goes one step further presenting the main theoretical and empirical contributions of this thesis to the study of regionalism and, particularly, to the debate on South American regionalism. The main theoretical contribution has been, on the one hand, to show that the theoretical approaches in comparative regionalism are complementary heuristic approaches rather than exclusive and competitive theories. On the other hand, the thesis has shown the need to combine an intergovernmental and a transnational perspective in order to account for changes in institutional design and variation in outcomes.

The thesis has also contributed to the more specific South American debate taking a third position between those considering contemporary regionalism as “declaratory” and those that see in organisations such as UNASUR indicators of a “post-hegemonic” or “post-neoliberal” era. According to the first group of scholars, South American regionalism (and UNASUR in particular) has not gone beyond a high-toned rhetoric without delivering policy outcomes: UNASUR is portrayed as nothing more than a forum for inter-presidential dialogue. According to the second group, South American regionalism is going through a new historical phase leaving behind the open regionalism of the 1990s: UNASUR is the expression, at the regional level, of the action of leftist governments and social movements at the domestic level. The thesis enters this debate at the middle ground of these extremes. It puts forward first, that South American regionalism is not purely declaratory since it has proved to have the capacity to deliver regional public goods in several – albeit not all – policy areas. Second, the institutional change in contemporary South American regionalism is

explained by different cooperation problems at the intergovernmental level, rather than by the action of leftist-governments and social movements as the post-neoliberal argument suggests.

Finally the chapter takes a last step forward to illustrate how the findings and arguments of the thesis can be expanded in a cross-regional research agenda. The thesis has opened up questions about the way in which governments and transnational actors interact, the various forms in which the design of regional initiatives change over time and last but not least, about who are the beneficiaries of the “regional public goods” produced by those initiatives.

## 8.1 Responding to the research questions

The lack of a fine-tuned analytical focus has contributed to general visions on UNASUR that normally falls into either over-pessimistic or over-optimistic assessments, overlooking the internal variations in the process of institutionalisation that underlies UNASUR. I chose to focus on two specific aspects of regionalism to build up my assessment of contemporary South American-wide regionalism: change in institutional design and variation in outcomes. These two research questions constituted the window to the analysis carried out throughout the chapters:

**Q1:** Why have regional institutions shifted from an informal (IIRSA) to a formal design (UNASUR)?

**Q2:** Why have outcomes been higher in some policy areas (transport connectivity) than in others (energy)?

The first question is about change in institutional design and has been addressed by Chapter 4 and Chapter 5 looking at the intergovernmental level of analysis. The second question, in turn, relates to variation in outcomes across policy areas and was addressed by Chapter 6 and Chapter 7 looking at the transnational level. Here in this conclusive chapter it is possible to recapitulate and provide a comprehensive answer to both questions.

In a nutshell, the institutional design of South American-wide regionalism changed because the cooperation problems that motivated regionalism also changed. During the juncture 1998-2002 an informal institutional design better accommodated the preferences of South American governments that were searching for policy areas that could yield mutual benefits but without becoming locked-in codified rules and without creating a new regional bureaucracy. The resultant institution was IIRSA, a network of technical ministries in the areas of transport and energy, coordinated by three regional development banks (RDBs). Differently, in the juncture 2006-2008 a formal institutional design better accommodated the preferences of South American governments that wanted to enhance the credibility of commitments and set limits to competing projects. The resulting institution was UNASUR and its sectoral councils, a formal organisation that restrained Venezuelan initiatives (mainly in the area of energy, but also in the area of security and financial integration),

that formalised the possibility of opting-out, and that, more importantly, formalised an organisational structure and decision-making process delegating very limited competences to the General Secretariat, what I have called “formalisation without delegation”.

Regarding the second research question, outcomes have been higher in transport connectivity than in energy because, in a nutshell, in the first policy area the basic intergovernmental consensus was maintained over time and transnational actors – RDBs and private actors – were brokered. As a consequence, in the transport connectivity area there has been continuity in the implementation of the portfolio of infrastructure projects. The creation and formalisation of UNASUR did not represent a gap in the process of implementation, which has continued to be coordinated by the RDBs, framed by the concept of development hubs and combining inter-ministerial coordination and planning together with private-public implementation. In fact, there is continuity between IIRSA and COSIPLAN, the sectoral council of UNASUR specialised in infrastructure and planning. In the area of energy, instead Venezuelan initiatives broke the initial consensus that made IIRSA possible and the exclusive emphasis on joint ventures of public companies (Big-Nationals) precluded the possibility of engaging transnational actors necessary to implement regional public goods (RPG).

## 8.2 The theoretical contribution

The thesis makes two main theoretical contributions to the field of comparative regionalism. First, it shows that the theoretical approaches in the field of comparative regionalism are not able, on their own, to explain the emergence, institutionalisation and outcomes of South American regionalism. Rather than competitive theories, there are complementary approaches that focus on certain aspects (levels of analysis) of regionalism. Second, the combination of an intergovernmental with a transnational level of analysis is necessary to tackle empirical questions regarding the emergence, institutional design and outcomes of regionalism.

### Complementing and localising approaches

This thesis is not liberal, neofunctionalist or neorealist. However, it has relied on specific elements of these three approaches to tackle the research questions. Therefore, through the empirical chapters of this thesis, I have substantiated the claim presented in Chapter 3 that the theoretical approaches that constitute the academic field of comparative regionalism, observe the phenomenon of regionalism from different levels of analysis. Rather than exclusive and competitive theories – as they are normally presented by their followers – they are heuristic approaches that can shed light on certain aspects of regionalism and thus be helpful tools to tackle specific research questions.

The thesis has shown that none of the three approaches can, on its own, explain the change in institutional design and the variation in outcomes simultaneously. The liberal approach, which is the mainstream in most

contemporary attempts to explain regionalism (see Mattli 1999; Mansfeld and Milner 1997; Moravcsik 1993; Genna and Hiroi 2015), turned out to be particularly limited in this research. The emphasis placed by liberals on the “demand” of market actors as the factor that explain both the formalisation of regional institutions and the production of regional public goods, was not supported by the empirics of the policy areas analysed here. The liberal approach is restricted, therefore, to regional settings characterised by high economic interdependence in which the market gains stemming from intra-regional economic exchange (financial and trade flows) drives market actors to “demand” from governments the “supply” of regional institutions and public goods. The findings of the thesis posit that in the absence of this scope condition, the liberal “demand/supply” model has little to offer.

The power-based approach and its emphasis on power-relations at the intergovernmental level proved to be insightful for explaining the intergovernmental dynamics behind the formalisation of UNASUR. However, the power-based approach falls short when it comes to explaining the outcomes of South American regionalism. From a power-based perspective, the presence of a “regional leader” is the factor that explains the production of outcomes in certain policy areas (see Pedersen 2002; Burges 2009). The research has shown that the “Brazilian leadership” was important to steer an intergovernmental consensus as well as to broker transnational support when IIRSA was launched. However, its role as a paymaster of transport connectivity and energy RPG has been largely overstated. The use of BNDES is commonly cited as the mechanism that Brazil uses to be the paymaster of regional infrastructure (see Burgess 2009; Soares de Lima and Hirst 2006; Soares de Lima 2010), however the findings of this research indicate that the BNDES has contributed to regionalise national champions, but its role as a financier of RPG has so far been negligible.

To explain outcomes, thus, it is necessary to complement the power-based approaches with neofunctional insights. In fact, neofunctionalism turns the attention from governments to technocratic actors that, in the cases analysed in this thesis, are represented by the regional development banks (RDBs), which are largely overlooked by the literature on comparative regionalism. Nevertheless, neofunctionalism – especially in its contemporary versions (see Sandholtz and Stone-Sweet 1998; Fligstein and Stone-Sweet 2002) – gives excessive theoretical centrality to supranationalisation in its understanding of regionalism and regional integration. Neofunctionalism can provide great analytical insight to study regionalism beyond Europe, but to do so the emphasis on sovereignty pooling and supranationalisation must be nuanced.

This thesis has empirically shown that transnational technocratic actors, such as RDB, can do a great deal in providing regionalism outcomes even with the low levels of competence delegation that the Brasilia Declaration (2000) conferred to them. This leads to the second theoretical contribution of this research.

## Linking the intergovernmental with the transnational level

Answering the research questions was only possible through an intergovernmental-transnational approach. Regionalism is not only about governments, but it is not purely about non-state actors either, as the New Regionalism Approach has recently argued (see Hettne, Inotai and Sunkel 2001; Hettne 2005).

The intergovernmental level of analysis was necessary to answer the first research question. In the juncture 1998-2000 the presence of an external challenge triggers the search for a regional collective response that is translated into an informal arrangement designed to bring about collective benefits within a flexible and loose framework that does not compel governments to invest in a regional bureaucracy and get locked-in binding commitments. In a nutshell, an informal institution better accommodated the preferences of governments that were searching for and experimenting with a collective response to an external challenge.

In the juncture 2006-2008, the informal arrangement opens the room for competing collective projects that harm the basic consensus reached. At this new juncture, governments opt for formalising cooperation as a way to enhance the credibility of collective commitments and, at the same time, diminish the chances of competing projects to jeopardise the basic intergovernmental consensus reached. In a nutshell, a formal institution better accommodates the preferences of governments that wanted to stick to the intergovernmental consensus avoiding the emergence of competitive regional projects and the defection of some states.

For the second question regarding outcomes, the focus on intergovernmental dynamics needed to be complemented by a focus on transnational actors. The thesis highlighted the analytical relevance of the mechanism of “brokering” whereby governments align their interests with non-state actors’ interests and by so doing transit from a basic intergovernmental consensus towards actual implementation. Specifically, the third part of the thesis (Chapter 6 and 7) showed the importance of RDBs in coordinating a transnational developmental programme and implementing RPG. With limitations and shortcomings highlighted in this research, RDBs have linked private actors with governments to carry out regional infrastructure projects. Emphasising this transnational level of regionalism, the thesis has blurred the artificial distinction between regionalism – government-led projects of cooperation – with what is normally called in the field “regionalisation” – society or market-led integration - .

The main theoretical corollary of this thesis, therefore, is that the success of regionalism, minimally understood as the capacity to provide outcomes over a sustained period of time, depends on the capacity to broker governments and transnational actors. The IIRSA-COSIPLAN case shows an interesting although still

incipient and fragile brokering mechanism in which RDBs and private actors are being engaged to carry out a developmental programme considered, by the South American governments, to be mutually beneficial.

### 8.3 Empirical contribution: the “South American regionalism” debate

The thesis has also attempted to contribute to the current academic debate about how to conceptualise the contemporary regionalism in South America. The findings of this research go against the over pessimistic and over optimistic interpretations that tend to dominate the debate. In Chapter 1, I have portrayed these polarized positions as “declaratory regionalism” and “post-neoliberal or post-hegemonic regionalism”.

Against “declaratory regionalism”, this thesis has shown that South American regionalism is delivering measurable outcomes, specifically RPG in the area of transport connectivity. The evidence presented in this thesis can be put together with the evidence presented by other sectoral studies that are showing that South American governments are delivering RPG in policy areas such as health (Rigirozzi 2015; Ventura 2013); education (Perrotta 2014; Verger and Hermo 2013); migration governance (Margherits 2013) and defence (Battaglino 2012). The diagnosis that South American-wide regionalism is only about national executives achieving short-sighted goals such as international visibility, legitimacy, as well as to please domestic and foreign audiences (Malamud and Gardini 2012: 130) is, therefore, overstated. It is true that contemporary South American regionalism has not driven governments to pool sovereignty into supranational institutions. In its current institutional design UNASUR is, for instance, far from being a supranational organisation. However, this is an indicator of failure only if one assumes that supranationalisation is the only valid purpose of regionalism.

The findings of the thesis do not support the “post-hegemonic” or “post-neoliberal” position either. This interpretation affirms that contemporary regional institutions such as UNASUR represent the path from a US-led open regionalism based on trade integration, towards an alternative regionalism based on “social development, community action, and new forms of political organisation” underpinned by new leftist governments and social movements (Rigirozzi and Tussie 2012: 2; see also Espinosa 2014). On the contrary this thesis has shown, that the creation of IIRSA and later UNASUR responded to intergovernmental efforts to respond to clearly delimited cooperation problems. The common leftist identity and the social movements have played a marginal role if at all in solving those intergovernmental cooperation problems.

#### The challenges of South American Regionalism

[a]ll those international arrangements dignified by the label regime are only too easily upset when either the balance of bargaining power or the perception of national interest (or both together) change among those states who negotiate them (Susan Strange 1982: 487)

UNASUR, COSIPLAN and the rest of the sectoral councils that integrate the institutional architecture of the South American regionalism are certainly subject to the vulnerabilities that Susan Strange refers to in her famous criticism of the concept of “international regime”. As this thesis has shown, regional institutions rely on intergovernmental dynamics that are shaped by intra-regional tensions as well as extra-regional shocks. By the time this thesis was being written, the two main intergovernmental players, the Brazilian and the Venezuelan government were facing domestic turmoil that kept foreign policy, and regionalism in particular, far from a priority. The new economic conjuncture of global recession and slower economic growth has obliged Dilma Rousseff to prioritise during her two administrations a domestic agenda focused on fostering growth, taming social mobilization and controlling the succession of corruption episodes in public agencies including Petrobras.

Similarly, Venezuelan capacities to drive an ambitious foreign policy plummeted together with the international oil prices by 2009. Many projects advocated by President Chávez stalled, constraining the Venezuelan government to drastically reduce the expenditure overseas and look for financial support elsewhere – including China and the US (ver Gustafson and Elliot 2011). In March 2013, President Chávez died and his close collaborator and former Foreign Minister, Nicolás Maduro assumed the government after an election considered, by the opposition, as a fraud. At the time of writing, the post-Chávez regime is facing increasing difficulties in the social, political and economic domains. Ironically, since 2013 UNASUR and its democratic-protection mechanisms have played a pivotal role in keeping the dialogue between the government and the opposition and, indirectly, preventing Maduro’s overthrow.

The increasing polarisation among South American governments that this thesis illustrated through the analysis of the intergovernmental summits of Brasília (2005), Cochabamba (2006) and Isla Margarita (2007) reached an important critical point with the signature of the Pacific Alliance in 2011, later formalised in 2014. The Pacific-rim countries of South America – Chile, Peru and Colombia – signed an agreement with Mexico to harmonise and deepen already existent bilateral preferential trade agreements as well as exploring possibilities of sectoral cooperation in areas such as education and skills formation. Although the scope and achievements of the Alliance are hitherto limited, it breeds, no doubt, a symbolic division in the region that has a geographic character – Atlantic versus Pacific countries – as well as an ideological one –more protectionist, versus a liberal foreign economic policy – making former President Ricardo Lagos claim that South America lives under a new *Tordersillas* (see Introduction). According to a representative of the Federation of Industries of the São Paulo State:

All Pacific countries have an ideology in common that is the open regionalism: they integrate with the region, but seek international insertion. They realise that the Atlantic Ocean lost importance regarding the Pacific Ocean: they are preparing themselves for the moment in

which the Pacific will become the main commercial space. Chile has a wide array of investments; Peru is also attracting diversified investments; they opened their economies in a responsible way, looking at the external markets with the aim to attract technology and the knowhow to promote the domestic development. Colombia is undertaking a strong association with the US. The Asian trade will enter the region through those countries, and Brazil is trying to implement the bi-oceanic corridor but it has weak ties with its neighbours [...] In five or ten years, the Pacific Alliance will make Brazil regret the lack of care and pragmatism in its approach to South America (I17).

Different events can trigger regional interdependencies in various directions with effects on regionalism that are impossible to predict. The progression of the negotiations of the Trans Pacific Partnership (TPP) driven by the US can reinforce, for instance, the Pacific Alliance constraining Brazil to assume a more proactive role, as the FTAA did at the end of the 1990s<sup>89</sup>. The worsening of the Venezuelan political crisis can further establish the relevance of UNASUR as a democratic governance mechanism, but could also very well be perceived as an instrument manipulated by the incumbents and, therefore, increase the gap between those governments that support Maduro's regime and those that are preoccupied with the violation to political and civil rights in Venezuela. This thesis cannot foresee the scope of these developments. However, it can suggest in the light of its findings perhaps the only way to prevent regionalism from being "easily upset" by intergovernmental dynamics, as Susan Strange warned thirty years ago.

Regionalism can be reinforced by what in this thesis I have called "brokering", namely the process whereby national preferences, manifested in a declaration or agreement, are aligned with the interests of non-state actors. The thesis has substantiated this process in the area of transport-connectivity, but of course the different policy areas entail various sets of non-state actors that can be brokered as stakeholders of the process. When non-state actors perceive that their interests depend on the sustainability of the regional programme or initiatives, it means that they have locked-in their preferences within regionalism and there are good chances to expect that the process will be sustained over time.

Brokering is not an automatic process. Only in regional contexts of high economic interdependence one can expect – as liberals do – that non-state actors, mainly firms, will engage in cross-border operations and will press governments to facilitate exchange. But even in these contexts, economic interdependence can be reduced to only some economic sectors. Furthermore, firms can be risk-averse or can lack the capacities to engage in cross-border and regional activities. Brokering needs, therefore, the agency of specific actors. Normally, the General Secretariats or Commissions are expected to be the brokers of transnational actors. In

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<sup>89</sup> The TPP is a mega-regional trade negotiation launched in 2010 under the US leadership. It encompasses twelve countries of Latin America, North America, Asia and Oceania, excluding China.



this thesis we have shed light on the role of RDBs coordinating IIRSA that, in the absence of a regional secretariat, have brokered with partial success governments with private actors to implement transport connectivity projects.

IIRSA and now COSIPLAN are probably the most successful experience within UNASUR in the process of brokering. This explains the higher implementation rate that COSIPLAN can exhibit in comparison with other sectoral councils and it also raises positive expectations about its future (see Palestini and Agostinis 2015). Yet, COSIPLAN faces important challenges that have been highlighted in the thesis. The mechanisms that the RDBs have in order to foster the participation of private actors in the COSIPLAN portfolio implementation are reduced. Governments prefer to use their national quotas in implementing national infrastructure projects with more immediate returns in terms of domestic goals and electoral-payoffs. The thesis has shown that the BNDES-CRR mechanism that is commonly claimed to be an efficient mechanism to finance RPG is, indeed, an instrument to regionalise the operations of big Brazilian firms. The mechanism excludes firms that are not based in the Brazilian territory and, furthermore, it also finances also domestic national projects instead of those inserted in the IIRSA and now COSIPLAN portfolio.

In order to continue expanding the provision of RPG, COSIPLAN in particular and UNASUR, in general, will need to figure out new mechanisms to broker non-state actors and to lock-in their preferences into regionalism. The Bank of the South and FOCEM could play such a role if they become financial instruments exclusively oriented to finance RPG and, hence, complementing the RDB that by their constitutive agreement has a broader lending policy. However, the Bank of the South has been very much associated with Venezuelan-led initiatives, and neither Chile nor Colombia or Peru has shown interest in participating as contributors or borrowers. FOCEM, in turn, remains a small regional fund circumscribed to the MERCOSUR member states. The access of Venezuela to MERCOSUR opens up new perspective for FOCEM that, however, shall be only realised when Venezuela reaches a minimum of political and economic stability. In September 2014, COSIPLAN started official conversations with extra regional players, particularly the Chinese Development Bank and the BRICS Development Bank to figure out ways whereby these financial organisations could provide assistance to implement the COSIPLAN portfolio. If these partnerships can translate from paper, they will be, no doubt, an interesting new development that will beg further research. Both financial institutions have their own agenda and lending-strategies that are shaped a great deal by the Chinese investment strategy and, in the case of the BRICS, by the efforts of India and South Africa to have access to the Chinese financial assistance. Since the first official visit of the President Hu Jintao to Latin America in 2004, China has steadily increase its participation in South American imports and exports alongside an increasing involvement of Chinese financial assistance in the region. It has to be seen whether UNASUR and its sectoral councils will have the capacity to broker the Chinese Development Bank and the

BRICS Development Bank to implement its own agenda of RPG without being captured by the Chinese interests.

#### 8.4 Future research avenues

In this final section I would like to sketch out some lines of research in the field of comparative regionalism that have been opened while writing this thesis. In first place, is worth to note that similar initiatives and programmes to those examined in this thesis are taking place in other regional contexts as part of regionalism projects.

In Southeast Asia, for instance, several regional programmes aimed at producing regional infrastructure were initiated already in the 1990s such as the Greater Mekong Sub-Region (GMS), the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) and the East ASEAN Growth Area (BIMP-EAGA). All these programmes are in different degrees connected with ASEAN and its own processes of economic integration and cooperation. In the wake of the Asian Financial Crisis, the ASEAN Leaders launched the Initiative for ASEAN Integration (IAI) with the aim to coordinate and implement a portfolio of projects in the areas of physical connectivity, human resource development, information and communication technology and economic integration. After 2005, the initiative has enhanced its scope under the leading role of the Singaporean government (Palestini 2012).

In Africa most developmental programmes are entailed in the New Partnership for African Development (NEPAD) adopted by the African members of the Organisation of African Unity<sup>90</sup> in 2001 that coordinates development cooperation and pools financial resources coming from different sources. Energy integration occupies an important place in these developmental initiatives. In fact, African sub-regions have a huge energy potential, especially regarding hydropower that contrasts with a poor production capacity due to a lack of energy infrastructure and connectivity. Several initiatives have been created to leverage investment in energy and to harmonise energy regulation among the conflicting national and sub-regional markets. A noteworthy initiative is the African Energy Commission created in 2008 with the aim to map out energy development policies, strategies and plans based on sub-regional and regional developmental priorities. NEPAD in turn has specialised in developing the hydropower potential of African river basins and integrating transmission grids and gas pipelines to facilitate cross-border energy flows (Kararach 2014: 171).

There are fascinating parallels among those initiatives. Physical connectivity programmes, for instance, are found practically in every region (IIRSA/COSIPLAN in South America, GMS in South East Asia, the Trans European Network, etc.). Regional energy organisation such as OLADE in Latin American has similar

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<sup>90</sup> Since 2002, African Union (AU).

mandates to the African Energy Commission. Nearly all regional organisations are undertaking programmes of capacity-building and regulatory harmonisation. Last but not least, in most cases the regional secretariats/commissions and notably the RDBs are orchestrating these initiatives. Alongside these similarities, there is a significant diversity in terms of why these regional initiatives came about, of the institutional design and, of course, of the outcomes (see for an initial comparison Bruszt and Palestini 2016). The approach and findings of this thesis can, therefore, be expanded and refined through cross-sectoral and cross-regional comparisons with some of these initiatives.

Three lines of research are particularly interesting to address:

### **How do governments and transnational actors coordinate in different regional contexts?**

The thesis has shown that in South America in the absence of a strong supranational institution, RDBs have played the role of brokers of governments and firms in implementing transport connectivity projects. In Southeast Asia, the Asian Development Bank has also played a pivotal role in orchestrating infrastructure connectivity initiatives such as the Greater Mekong Economic Cooperation Program (GMS). Primary evidence shows that the ADB has been more successful than the IDB or CAF in South America to broker private actors and transform them into stakeholders of the GMS initiative. At the intergovernmental level, the GMS is coordinated by the inter-ministerial meetings coordinated by the ADB. At the transnational level, the ADB has forged ties and partnerships with market actors and local governments that participate actively in the design and financing of projects (McGillivray and Carpenter 2013).

When comparing the role of the IDB in the framework of IIRSA, with the role of the ADB in initiatives in Southeast Asia, a Brazilian economist commented:

Furthermore, the IDB was not able to develop the same role as the ADB in Asia. The ADB is an integration Bank, whereas the IDB is a bank that provides national loans. To become an export platform, China had to invest in the regional infrastructure of its minor neighbours. China could easily provide development aid through the ADB that was the Chinese financial instrument to bring about regional integration without being perceived as imperialist domination. The ADB is a bank where all have a voice, therefore the sovereignty is not violated (I12).

These observations indicate that there is cross-regional variation in the role of the RDBs as brokers. While the IDB and CAF continue to depend on the national governments to line-up transnational support, the ADB has targeted sub-national and cross-national geographic areas reducing the economic and political risks of the development initiatives and emphasising in the projects the regional focus over the national one. The study of the interaction between general secretariats, regional development banks, national governments and

private actors in a cross-regional perspective, can help to provide a better and sharper conceptualisation of the brokering mechanism understanding the specific ways in which state and transnational actors align their interests.

### **Why does the design of regional developmental initiatives vary across regions?**

In this thesis we have focused only on one dimension of the institutional design of regional institutions: formalisation. Nonetheless, regional developmental initiatives vary along various other dimensions such as the scope and the breath of the institutions (for an analytical framework of institutional design variation see Koremenos, Lipson and Snidal 2001; Acharya and Johnston 2006; Bruszt and McDermoth 2012 and 2014). The transition from IIRSA to UNASUR sectoral councils was not only a change in formality, but also in scope. IIRSA was focused in two policy areas while UNASUR comprises, by 2015, twelve different sectoral councils each specialised on a functional area. Following the approach taken in this thesis, the variation in scope and breath are connected to specific cooperation problems. When governments need to maximise their resources, as happened in 2000 in South America, they will probably opt for a narrow institution focused only on two policy areas. Conversely, when governments want to impose a slower pace to regionalism it is reasonable to widen the scope of cooperation to many areas. Wider initiative can also be the result of attempts to line up the support of different countries that might be interested in some areas more than in others. In this regard, widening the scope works as a “side-payment” normally undertaken by the leading states to ensure the support of smaller states (Moravcsick 1998; Pedersen 2002).

In Southeast Asia, the Initiative for the ASEAN Integration (IAI) transitioned from a rather shallow initiative focused exclusively on leveraging resources to improve regional infrastructure, to a deeper initiative emphasising the capacity-building of the government officials of the less-developed member states (Cambodia, Laos, Myanmar and Vietnam). Hypothetically, the deepening of ASEAN initiatives has to do with governments that realise that in order to maximise their benefits they need to invest in the capacities and skills of their less developed neighbours. In the IAI case the Singapore government deepened the initiative by investing in trainee programmes for more than 22,000 government officials from the less-developed CLMV countries that had participated in Singapore’s training courses in the areas of English, Trade and Finance, and Public Administration in Singapore financed training centres (Carpenter, Alavi and Zulkifli 2013).

Cross-regional comparisons can help to single out the mechanisms whereby particular types of cooperation problems lead to particular types of institutional design.

## How public and how good are the “regional public goods”?

Throughout this research, I have assumed that the main outcomes of regionalism are RPG. As defined in Chapter 2, this is a helpful concept because it encompasses various kinds of outcomes that provide collective benefits to more than one country. However, RPG remains a loose and “catch-all” concept. Specifically, the question of “who benefits from these RPG” has not been addressed by this research that has stopped the analysis at the point of the production of RPG. In other words, the production of RPG has been taken as an indicator of outcomes without addressing the political economy behind the distribution of those goods (for a discussion of this political economy of collective goods, see Mattli and Woods 2009; Bruszt and McDermott 2014; Bruszt and Palestini 2016).

So, who benefits from an inter-oceanic highway that goes through the hinterland crossing rainforests and mountains? There are different ways to respond this question. Regional infrastructure can be useful to expand exports connecting raw material enclaves situated in the hinterland of the region to the ports situated on the coast. This was the conception entailed by the concept of regional corridor. Corridors, however, can produce negative externalities such as de-forestation or fragmentation of social communities and bio-diversity reservoirs. The Brazilian planners and the RDBs in South America replaced the idea of a corridor with the concept of a development and integration hub in which the different economic sectors have to be integrated through regional infrastructure to bring about the economic development of the territory – including the social and environmental dimensions – where the hub is located.

As a high official of a Brazilian business association pointed out if the inhabitants of the towns along the highway are just going to see the trucks pass, this is not regional development (I18). The same question can be posed for every kind of RPG that regional organisations such as UNASUR, ASEAN or NEPAD in Africa are trying to bring about: energy interconnections, regulatory harmonization, defence cooperation, health management, migration governance programmes, and so forth.

Generally speaking, the emergence of regionalism projects in different parts of the globe has changed the way in which development goals are defined. Development is less about overseas aid, and more about regional developmental governance, namely solving development related problems *from within* the region (Bruszt and Palestini 2016). Although, extra-regional donors especially from OECD countries are still important in providing financing and capacity-building, the regional actors within the region are increasingly defining the objectives and targets of developmental policies inside the region. If we take the First Work Plan of the Initiative for ASEAN Integration (2002-2008) as an example, one finds that 60% of the funding came from insiders: ASEAN-6 states. Only 36.6% come from OECD donors, and the remaining 3.4% from development agencies (ILO, WB, UNIDO and Hanns Seidel Foundation), not to mention that the

coordination and allocation of resources is assumed by the ASEAN Secretariat and the Asian Development Bank (Carpenter, Alavi and Zulkifli 2013).

Yet, the question of who exactly defines regional developmental policies and benefits from the RPG produced has to be systematically analysed on a cross-regional basis. And it is a fundamental question that is both explicative and normative because the legitimacy of regionalism ultimately rests on the capacity to redistribute benefits, reduce development gaps within regional territories, and improve the life standards of the people that live in those territories.

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## Annexes

### List of Interviews (I)

| Number | Name                        | Institutional Affiliation   | Place of the Interview |
|--------|-----------------------------|---|------------------------|
| 1      | Samuel Pinheiro Guimarães   | Former General Secretary of Itamaraty.  | Brasilia               |
| 2      | Juan Carlos Pakinson        | Director of Economic Relations of South America, Itamaraty.   | Brasilia               |
| 3      | Renato Baumann              | Director of Studies on Economic and International Policy Relations, at the Institute of Applied Economic Research (IPEA). Former official Ministry of Planning, Brazil. | Brasilia               |
| 4      | Ernesto Carrara             | National Coordinator from Brazil at IIRSA and COSIPLAN. Official Ministry of Planning, Brazil.  | Brasilia               |
| 5      | Welber Barral               | Former Foreign Trade Secretary at Brazil's Ministry of Development, Industry and Foreign Trade, Brazil  | Brasilia               |
| 6      | Sergio Leo                  | Journalist of Valor Econômico, specialist in Brazilian foreign policy.  | Brasilia               |
| 7      | Leandro Couto               | Director Department of Management, Ministry of Planning, Brazil.  | Brasilia               |
| 8      | Helena de Almeida Cantizano | Assessor of Foreign Affairs Ministry of Mining and Energy, Brazil. Representative of Brazil at the South American Energy Council, UNASUR.                               | Brasilia               |
| 9      | Darc Costa                  | President of the Federation of the Chambers of Commerce and Industry of South America. Former Vice-President of the BNDES   | Rio de Janeiro         |
| 10     | Luiz Alfredo Salomão        | School of Public Policy,  | Rio de Janeiro         |

|    |   |  |                  |
|----|---|--|------------------|
|    |   | Federal University of Rio de Janeiro.  |                  |
| 11 | Raphael Padula                                  | Professor of Political Economy at the Federal University of Rio de Janeiro.                        | Rio de Janeiro   |
| 12 | José Tavarés                                    | Director Center of Studies in Integration and Development (CINDES)                                 | Rio de Janeiro   |
| 13 | Claudia Amarante /Leonardo Botelho              | Department of International Institutional Relations. BNDES   | Rio de Janeiro   |
| 14 | Nivalde de Castro                               | Coordinator Group of Studies on the Electric Sector, Federal University of Rio de Janeiro.         | Rio de Janeiro   |
| 15 | Ricardo Gorini                                  | Director of Economic and Energy Studies at the Energy Research Enterprise (EPE), Brazil            | Rio de Janeiro   |
| 16 | Ildo Sauer                                      | Former director of the Department of Gas and Energy of Petrobras.                                  | São Paulo        |
| 17 | José Luiz Pimienta                              | Coordinator International Negotiations, Industrial Federation of São Paulo (FIESP)                 | São Paulo        |
| 18 | Roberto Cavalcanti And Maria Celina de Azevedo. | Director Department of Infrastructure, Federation of Industries of the State of São Paulo (FIESP). | São Paulo        |
| 19 | Janina Onuki                                    | Institute of International Relations, University of São Paulo.                                     | São Paulo        |
| 20 | Terra Budini                                    | Secretary of International Relations, Worker's Party (PT)  | São Paulo        |
| 21 | Deyse Ventura                                   | Institute of International Relations, University of São Paulo                                      | São Paulo        |
| 22 | Giorgio Romano                                  | Professor of International Relations at the Federal University of ABC, Brazil.                     | São Paulo        |
| 23 | Ricardo Lagos                                   | Former President of the Republic, Chile  | Santiago, Chile  |
| 24 | Juan Gabriel Valdés                             | Former Minister of Foreign Affairs of Chile.   | Santiago, Chile  |
| 25 | Rigoberto García                                | Ministry of Public Works, Chile. National Coordinator at IIRSA/COSIPLAN.                           | Santiago, Chile. |



|    |                          |  |                         |
|----|--------------------------|--|-------------------------|
| 26 | Carolina Muñoz           | National Delegate in UNASUR. Department of Multilateral Affairs, Ministry of Foreign Affairs, Chile        | Santiago, Chile.        |
| 27 | Gonzalo García           | Representative of Chile in the negotiations of the South American Defense Council, of UNASUR               | Santiago, Chile         |
| 28 | Marcela Espinoza         | Department of Borders and Limits, Ministry of Foreign Affairs, Chile. Representative of Chile at COSIPLAN. | Santiago, Chile         |
| 29 | Alfredo Forti            | Director Center of Strategies Studies of the South American Defense Council, UNASUR                        | Buenos Aires, Argentina |
| 30 | Pablo Carvajal           | Ministry of Energy, Ecuador. Representative of Ecuador at the Energy Council.                              | Quito, Ecuador          |
| 31 | Vitorio Oxilia           | Director Latin American Organization of Energy (OLADE), Quito, Ecuador.                                    | Quito, Ecuador          |
| 32 | César Montufar           | Congressman, Ecuador.  | Quito, Ecuador          |
| 33 | Kintto Lucas             | Former Director of Communication, General Secretary of UNASUR  | Quito, Ecuador          |
| 34 | Adrián Bonilla           | Director of the Latin American Faculty of Social Science (FLACSO)  | Quito, Ecuador          |
| 35 | Fernando Simas Magalhães | Ambassador of Brazil in Ecuador  | Quito, Ecuador          |
| 36 | Francisco Carrión        | Former Chancellor of Ecuador   | Quito, Ecuador          |
| 37 | Fredy Rivera             | Representative of Ecuador in the negotiations of the South American Defense Council of UNASUR.             | Quito, Ecuador          |
| 38 | Humberto Molina          | Diplomatic Staff General Secretariat of UNASUR   | Quito, Ecuador          |
| 39 | Mauro Marcondes          | Inter-American Development Bank (IIRSA coordinator, 2003-2008)   | Online interview        |
| 40 | Ricardo Terrazas         | Director of Projects South American. Latin American Development Bank (CAF)                                 | Online interview        |
| 41 | Paulo Silveira           | Former Secretary of  | Online interview        |

|    |                |  |          |
|----|----------------|--|----------|
|    |                | Planning, Brazil.<br>Consultant Inter-American<br>Development Bank-IIRSA |          |
| 42 | Marden Barboza | Ministry of Finance.<br>Secretary of International<br>Affairs.           | Brasilia |

## List of Documents (D)

### 1. General

Document\_42: Atas Foro de São Paulo

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Document\_60: Carta de Rodrigo Borja. Texto confidencial, facilitado por Michel Levi.

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Document\_62: Resenha de Política Exterior do Brasil. N°87, 2000

Document\_73: Discursos de Hugo Chávez sobre regionalismo\_2014

Document\_74: Força –Tarefa: O Brasil na América do Sul. Relatório Final. CEBRIS/CINDES 2007.

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