



# The Interoceânica Highway between corporate strategies and infrastructural integration

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SCIENCES-PO/CERI

# Outline

- I- The Political Economy of Road Networks in South America: physical integration and contextual elements
- II-The Interoceanic Highway: from an intergovernmental to a transnational capitalist endeavor
- III- A new mode of infrastructural development in South America: regulation vs integration?



# The Political Economy of Road Networks in South America: physical integration and contextual elements

# Preliminary remarks

## Development and infrastructure linkages

- Territorial control, mastery of the land
- Endogenous development programs and economic interests
- The role of logistics
- Connectivity, regional integration and new regionalism

## Institutional constraints to road infrastructure development

- The role of the state: promoter, enabler?
- Center-Periphery relations
- The presence/lack of specific political instruments: Promotion Agencies, SEZ, etc.
- State designs vs Market realities: the risks of “white elephants”

## “Framing infrastructure” or the rise of the regulatory State

- Regulatory frameworks: from global to local trends.
- Independent regulators and impact on emergent markets capitalist pathways (Dubash & Morgan 2012)

# Infrastructure Planning and Free Markets in South America

## An endemic infrastructural deficit: historical elements

- Infrastructure projects subordinated to the economic cycle
- Lack of available sources for financing
- Endogenous development models restricted encompassing infrastructural development formats
- Weak supply chain production limitations at a continental scale (no flying geese development dynamic in the region)

## From a developmental towards a regulatory state

- Competing competences between ministries (Infrastructure design and provision severed from transport and management promotion)
- Poor national regulatory frameworks cap infrastructural development and investments other than public or GLC driven (Gomez-Ibanez; Gomez)
- A major role for the State

# Infrastructure Planning and Free Markets in South America (cntd)

The novelty of a set of political instruments:

- PPPs
- Environmental Impact Assessment
- Social Impact Assessment
- Infrastructure plans

A sharp thrust forward for investments infrastructural projects nonetheless

- The Brazilian PAC I, PAC II, PNLT as a founding matrix for other rapidly emerging countries in the region
- The IIRSA scheme under UNASUR patronage: The Initiative for the Integration of the Regional Infrastructure of South America (IIRSA) project to link South America's economies through new transportation, energy, and telecommunications projects. (IDB, CAF and FONPLATA)

# Ejes de Integración de IIRSA



# Infrastructure Planning and Free Markets in South America (end)

## Regional Integration and infrastructural development

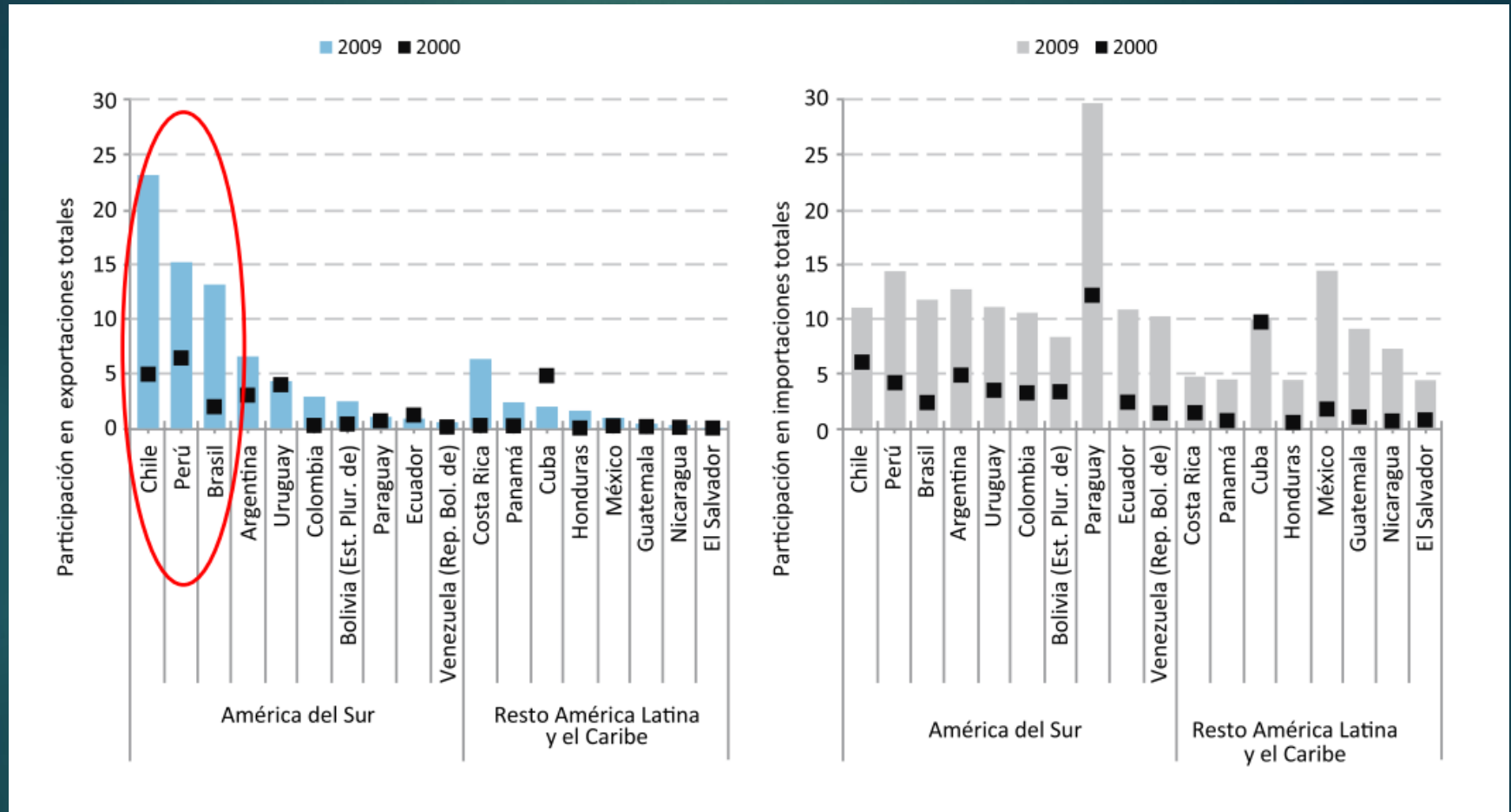
- A limited room for commonalities and joint infrastructural development
- The "Brazil factor": economic and institutional variables for a common design of infrastructural development
- Ad hoc regionalization schemes: the very flexible IIRSA

## Trade and the Chinese Factor

- A change in the axis of gravity of the South American continent? The pull to the Pacific
- Ad hoc regionalization schemes: UNASUR vs. Pacific Alliance



# The Rise of Pacific Trade: the example of China



Source: United nations commodity trade statistics database

# Infrastructure in South America: public vs. private investment.

Cuadro 1  
**AMÉRICA DEL SUR: INVERSIÓN EN INFRAESTRUCTURA**  
*(En porcentajes del PIB)*

<b>Países seleccionados</b>	<b>1980-1985</b>	<b>1996-2001</b>	<b>2002-2006</b>	<b>2007-2008</b>
Sector público	3,1	0,9	0,4	0,8
Sector privado	0,9	1,5	1,0	1,5
Total	4,0	2,4	1,4	2,3

Cuadro 2  
**AMÉRICA DEL SUR: INVERSIÓN EN INFRAESTRUCTURA, POR SECTORES**  
*(En porcentajes del PIB)*

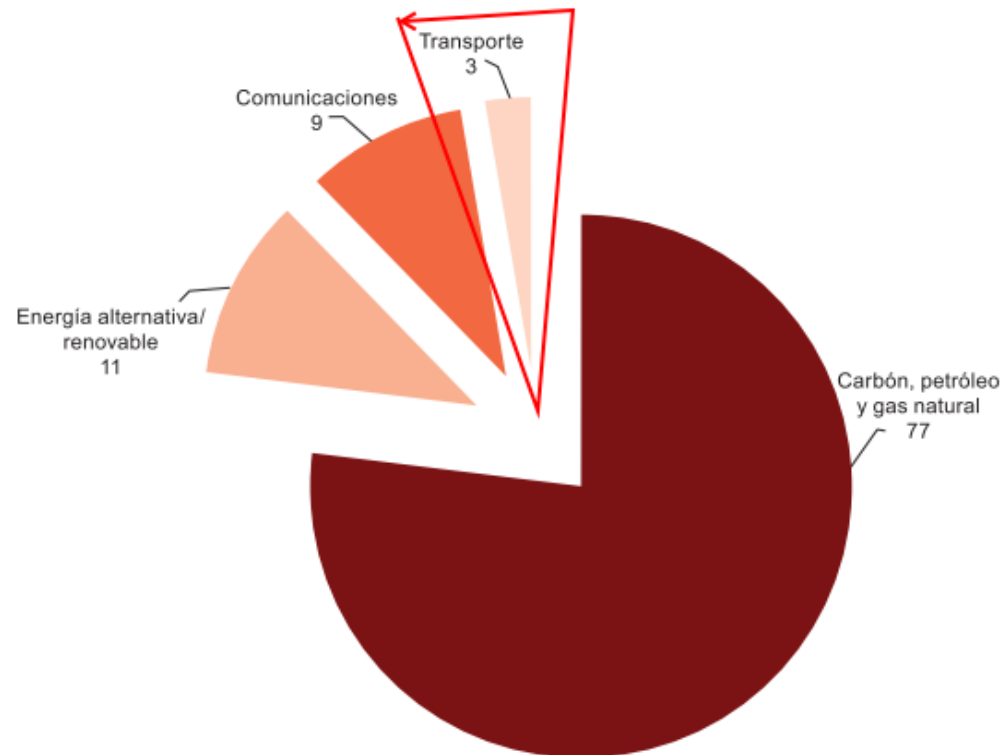
<b>Sector</b>	<b>1980-1985</b>	<b>1996-2001</b>	<b>2002-2006</b>	<b>2007-2008</b>
Telecomunicaciones	0,5	1,0	0,5	0,6
Energía	2,6	1,0	0,4	0,6
Transporte	0,8	0,4	0,5	1,1
Total	4,0	2,4	1,4	2,3

Sources: Perrotti & Sanchez 2011

# Modest FDIs in the Transport Sector

## AMERICA DEL SUR: INVERSIONES EN AMÉRICA DEL SUR POR SECTORES DE INFRAESTRUCTURA ECONÓMICA, 2003-2011

(En porcentajes)





The Interoceanic Highway: from an  
intergovernmental to a transnational  
capitalist endeavor

# Road infrastructure development in South America and IIRSA initial assessment

Policy making processes in transport and freight sectors remains complex and not very efficient. Main bottlenecks:

**Lack of planning and prioritization:** public works without environmental, social impact assessment, poor financial design and arbitrary decisions over territories crossed by road transport and freight.

**Information access,** connected to the evaluation of infrastructural development programs, both at a national and continental level. Lack of precise indicators pertaining to the execution of existing works, and poor account of previously existing road extension and condition which leads to additional completion costs.

**Coordination problems** (encroaching of ministerial competences) : weak institutional framework that leads to quality of policy making and encompassing programs: multimodal transport is not encouraged due to segmented sectors (waterway transport is independent of the Ministry of Transport for ex.), blurry distribution of resources aimed at road and freight transport at the different levels of government (national, departments, municipal)

# Converging & Diverging development narratives



## The Brazilian matrix for road network development in SA

- A **strong public ascendant**: PNDI,II Avança Brazil, PNLT
- **Pluriannual planning** as a key component and growth acceleration designs
- Firepower at will: **the overwhelming capacity of the BNDES**

## The weight of Brazilian Economic Interests in the Region

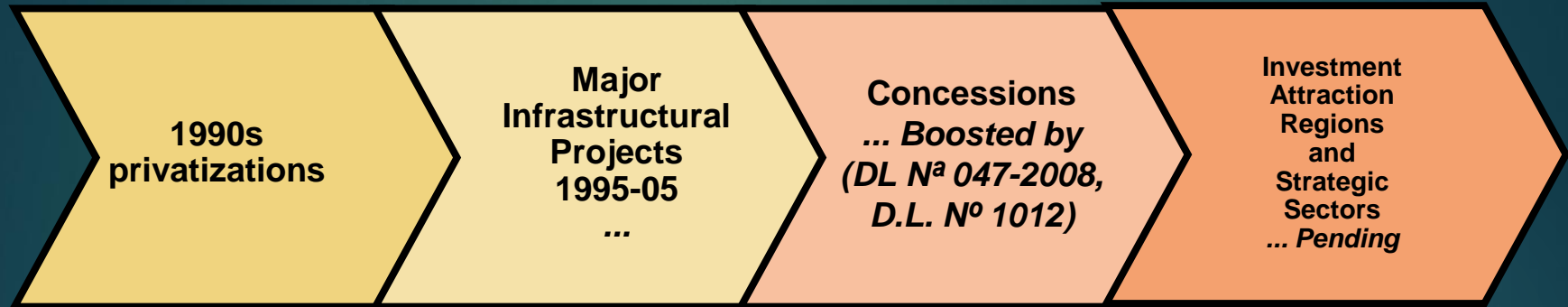
- The rise of Brazilian Empreiteiras through Acceleration Plans
- A preferential turf for GLCs and the BNDES.
- A regional playground

# Converging & Diverging development narratives

## A Peruvian road tale: seclusion and major infrastructural deficits

- **Infrastructural gap crossing through all sectors** (transport, sanitation, electricity, telecommunications) analysts consider is around U.S. \$ 18 billion, which is more concentrated in the provinces (71.3 percent according to 2011 estimates by the Instituto Peruano de Economía) . Recent estimates US\$87,975 millions to match the infrastructure of a developed nation. 'Plan Nacional de Infraestructura 2012-2021', Asociación para el Fomento de la Infraestructura Nacional (AFIN).
- As for the **road network**, according to World Bank estimates (2000) were required U.S. \$ 2,5 billions to operate under an optimal national grid (without altering the existing road surface). This amount would reach the U.S. \$ 5,2 billion if the road network were to be expanded
- The **infrastructure gap** has limited the competitiveness of Peru and limited the economic growth of the country for more than 2 decades.

# Investment Promotion and Infrastructure in Peru: the consolidation of Proinversion



## PROINVERSION

Responsible for the promotion and concessions of priority Infrastructure Projects and Public Services that bear a potential high impact for the development of the country, either by:

MINISTERIES RG, LG

Private Initiative



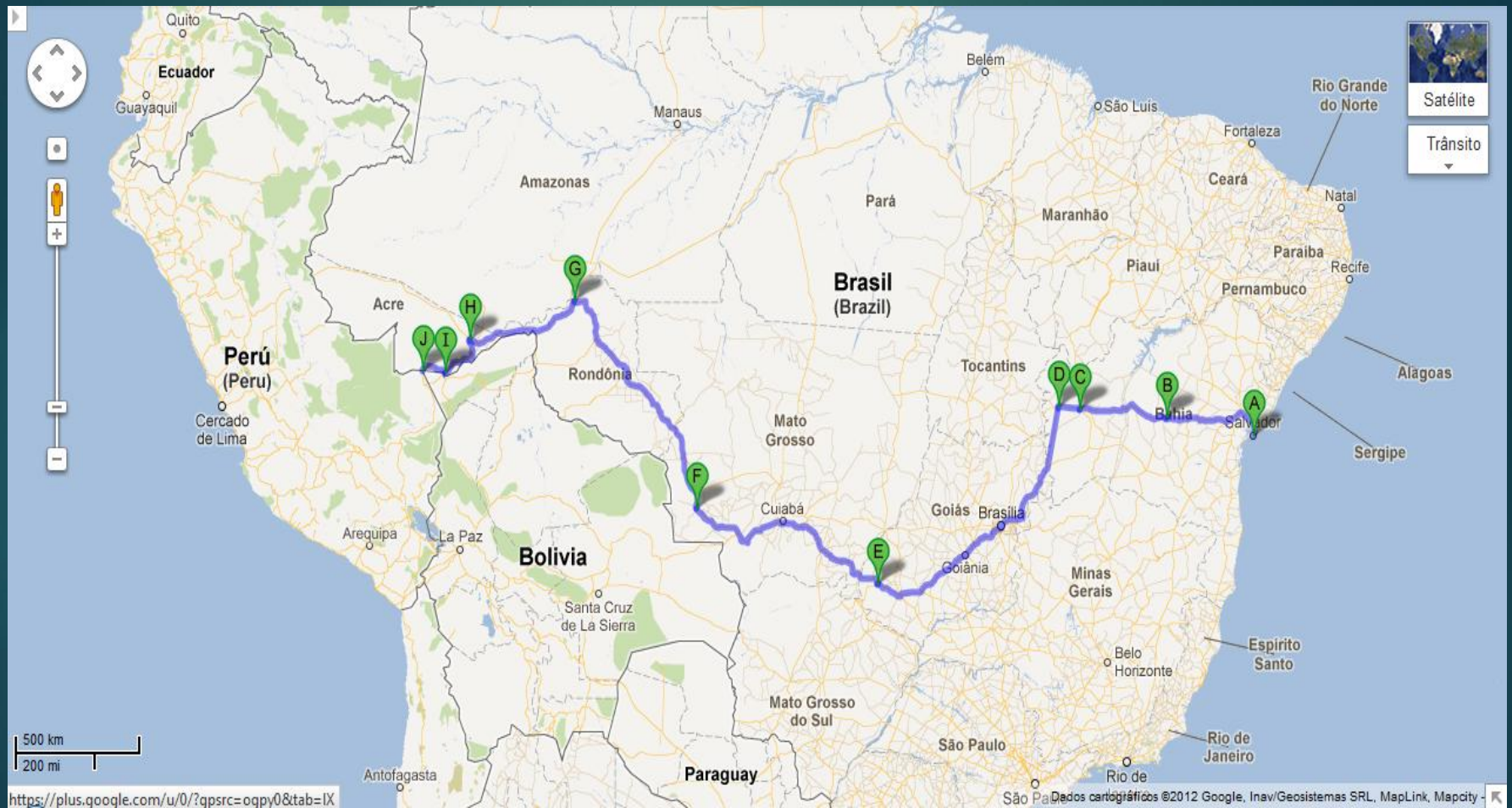
# The Interoceânica: Basic Facts and Expected results

- One of the most ambitious road projects in Peruvian history :2,600 kilometers of paved road crossing through nine Peruvian departments. **Major impact on the Macro Region Sur** economic development (32% of Peru's territory and 18% of its population).
- Financed by **PROEX (BR)** (major partner), CAF and the Government of Peru
- Brazil, the final destination of this route is a market of two hundred million people and is a gateway to Europe. Peru is expected through the IIRSA Norte and Sur projects, to become the exit and **entry gate of China in South America.**
- **First step towards this mega work undertaken by Brazil in the mid-eighties.** The construction of the BR-364 highway, which, together with the BR-317, conformed 1,700 kilometers of paved road in Brazilian territory. The BR-364 joined the ports of the Atlantic coast in the states of Sao Paulo and Parana, with the states of Mato Grosso, Rondonia and Acre, which are close to the border with Peru.

# Expected results

- **Transport infrastructure critical to the development of the regions.**
  - The expected benefits of this infrastructure justify the required investment and operating costs and maintenance.
  - An advantage of these axes is that they require lesser movements of freight consolidation / deconsolidation in comparison to alternative routes. If you add an improved time and cost transport, the path would be optimal.
  - The realization of development projects could generate a commercial traffic of products output, which should be offset by the entry of products to avoid the "false freight".
  - Logistics and investment policies are required in the main intermodal points. It also requires investment in the maintenance of the navigability of waterways.
- ○ Customs procedures and navigation practices in the Amazon River must improve
- **Future experience should serve to plan intermodality projects.**
- **Greater state involvement and coordination** of the various levels of government to promote sustainable development regions. Linkages Firms Universities

# A project originating in Brazil...



... but whose main implications are in Peru



# CARRETERA INTEROCEANICA DEL SUR



**LEYENDA**

**Tramos:**

- San Juan de Marcona - Urcos
- Urcos - Inambari
- Inambari - Iñapari
- Inambari - Azángaro
- Matarani - Azángaro
- Ilo - Juliaca

**Pueblos:**

- Capital Departamental
- Capital Provincial
- Capital Distrital
- Pueblo
- Puente
- Puerto

**Superficie de Rodadura:**

- Asfaltado
- Afirmado
- Sin Afirmar
- Trocha
- En Proyecto



# Interoceanic Highway Timeline

- 2000 – **First meeting of South American presidents** to launch the IIRSA initiative Goal: to develop the transport, energy and communications infrastructure.
- 2000-2004 – Paving of Brazilian roads until the border with Peru and Bolivia (city of Cobija) Peru **struggles to gather the necessary financial resources**
- 2001-2006 Under the presidency of Alejandro Toledo (Ley N° 28214 29.04.04), the Interoceanic Highway becomes a "obra de necesidad publica" or a **priority public work**, accelerating and unbundling the project. During this same period, structural defects are revealed by parliamentary commissions and the press, as well as "gray areas" on environmental and social impact reports.
- 2006 – **Construction work begins, after negotiations with the representatives of the MacroRegion Sur over the final tracing**, From Puente Inambari, the highway forks into two arms one going to the San Juan de Marcona Port, the other to the ports of Ilo and Matarani
- 2008 – Total cost increases by 50% to reach (that is from 820 million to 1,2 billion). Political controversy over the inflation in costs between the then president Alan Garcia and his predecessor Alejandro Toledo. Contentious role of ODEBRECHT and CAF will finally extend a 200 million dollar line to bring this project to completion.
- 2010- Inauguration by president Alan Garcia (2006-2011) of the Madre de Dios bridge, Puerto Maldonado.
- 2011- The Interoceanic Highway reaches its 5,404 km mark with a total final cost of 2.800 U\$ millions.

# Some figures

**U\$S820**

Millions was the initial estimated cost for all the sections of the Interoceanic Highway

**U\$S1,600**

Millions final cost for all the sections of the Interoceanic Highway

**U\$S 1,376**

Millions of dollars is the Amount of annual Peru exports to Brazil (2011)

**88%**

Increase in exports to Brazil in 2010

Sharp reduction of trade deficit with Brazil in 2013

# Future projects in development

## Planning of Investment Projects Proinversion

SECTOR	Investments Estimates(US\$ MM)
Fossile Fuels	1,300
	1,550
Ports	365
	300
Telecommunications	620
Road transportation	170
Airports	237
	145
Tourism	11
Rail	11

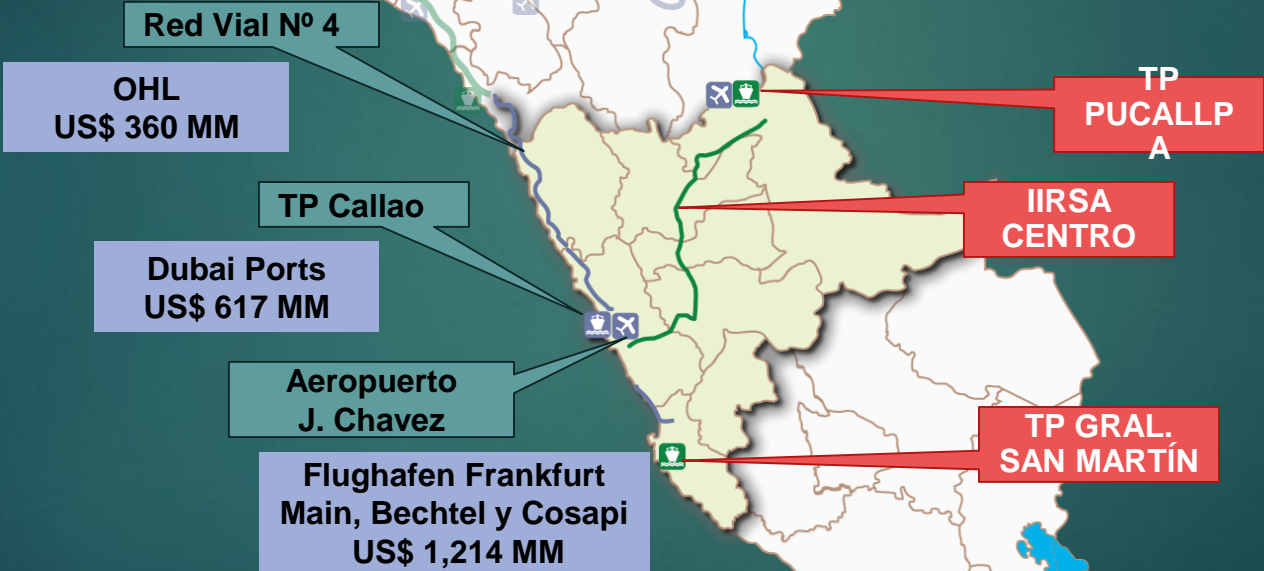


\* Source 2009-2010 Estimates Proinversion



# 12 priority projects: connectivity and productive thrust in the Central and South Region

## CENTRO



- Proyecto concesionado
- Proyecto por concesionar

# Economic Corridors Macroregion South





A new mode of infrastructural  
development in South America:  
regulation vs integration?

# Interoceanic problems

-**A controversial design**: One of the 3 forks of the Interoceanica Sur, namely the section 4 demanded an initial investment of U\$S 809 millions, has been criticized as a result of its high initial costs and its low commercial traffic. Hence:

- **Impact on Peruvian public finances**, important credit lines contracted by Peru to multilateral and national credit agencies
- **Important operating costs for the Peruvian State** because of the specific format of concessions (limited toll costs, but obligation by the State to compensate investors in case of limited

-In spite of impressive growth of trade between Brazil and Peru, **trade flows remain highly asymmetrical**, consequences for freight and viability of the Interoceanic Highway in the long run (Peruvian and Brazilian Ports competition post Programa de Investimento em Logistica launched in 2012 by president Dilma Rousseff)

-**Contracting firms under scrutiny**: The Concesionario Interoceanico - Odebrecht (Brazil) and Graña JJC e Ingenieros Civiles (Peru), who will be operating for 25 years the section, has been contested as it has unresolved dealings with the Peruvian justice regarding the execution of

# Interoceanic problems

**-The social and territorial constraint:** important mobilizations in Peru against infrastructural developments, indian communities halted for periods of 2+ months construction. Other events have affected infrastructure in connexion with the mining industry (Conga in 2012).

**-The highway design and the constraints on economic activity:** uneven undulating territory, which limited the road width, hence restricting the use of larger truck models (50 tons and more), like the ones currently used by the Brazilian Agribusiness to reach the Atlantic ports of Santos and Paranaguá. Problem: gains that might be obtained in relation to maritime freight do not compensate for the 2000 km that separate producing regions from the Peruvian ports in the Pacific. Circumspection by actors concerned (Associação Brasileira de Agribusiness) that stress the global reach of Brazilian exports and importance of the Northern Atlantic and Middle-Eastern markets.

# Os projetos parados no Peru

Conflitos sociais emperram investimentos



	<b>Minas Conga</b>	<b>Galeno</b>	<b>Rio Blanco</b>
Região	Cajamarca	Cajamarca	Piura
Investidor	Newmont (EUA) e Buenaventura (Peru)	Minmetals e Jiangxi Copper (China)	Zijin Mining Group (China)
Mineral	Cobre e ouro	Cobre	Cobre
Investimentos	<b>US\$ 4,8 bilhões</b>	<b>US\$ 2,5 bilhões</b>	<b>US\$ 1,5 bilhão</b>
	<b>Tia María</b>	<b>Michiquillay</b>	<b>Corani</b>
Região	Arequipa	Cajamarca	Puno
Investidor	Grupo México (México)	Anglo American (Reino Unido)	Bear Creek Mining (EUA)
Mineral	Cobre	Cobre	Prata
Investimentos	<b>US\$ 1 bilhão</b>	<b>US\$ 700 milhões</b>	<b>US\$ 574 milhões</b>

Fontes: Ministério de Mineração e Energia; Minería del Perú

# The integration of economic interests: the rise of Multilatinas

- The rise of Brazilian contractor firms: Odebrecht, Queiroz Galvao, as the main operators of IIRSA projects
- The expansion of commodity producing sectors in Peru and Brazil: from Brazilian acquisitions to integrated productive chains.
- Policy-making and interest promotion: building hegemony in the South Pacific
- A new form of capitalist development in the making?  
Business interests and the limits of influence

Companies responsible for construction of the Growth Acceleration Program (PAC) deemed unlawful by the Audit Court (TCU) donated R\$ 240.5 million to political campaigns during the first round of elections this year. The party most benefited by the contributions of these contractors was the PT, whose campaigns received R\$ 70.5 million.





# Exemplos de investimentos públicos

## VENEZUELA



.Hidrelétrica Tocoma	(perspectiva)	US\$ 415 milhões
.Hidrelétrica Vueltosa	(contratada)	US\$ 121 milhões
.Linha 4 metrô Caracas	(contratada)	US\$ 107,5 milhões
.Linha 3 metrô Caracas	(contratada)	US\$ 78 milhões
.Terceira ponte do Rio Orenoco	(perspectiva)	US\$ 188 milhões
<b>.TOTAL</b>		<b>US\$ 909,5 milhões</b>



.(Investimentos de 2002 a 2005) US\$ 1,44 bilhão



.Escritório de negócios Caracas

## COLÔMBIA



.Complexo Hidroviário Rio Meta (perspectiva)  
US\$ 102 milhões

## EQUADOR



.Aeroporto de Tena (em aprovação)  
US\$ 50,4 milhões  
.Hidrelétrica San Francisco (contratada)  
US\$ 242,9 milhões  
.Estrada Quito-Guayaquil (enquadrada)  
US\$ 360 milhões  
**.TOTAL**  
US\$ 653,3 milhões



.(Investimentos em 2005)  
US\$ 80 milhões

## PERU



.Carretera Paíta-Yurimaguas (perspectiva)  
US\$ 158,6 milhões  
.Carretera Pucallpa-Huancayo (perspectiva)  
US\$ 62 milhões  
**.TOTAL**  
US\$ 220,6 milhões



.(Investimentos de 2002 a 2005)  
US\$ 101 milhões



.Escritório de negócios Lima

## PARAGUAI



.Ruta 10 (contratada) US\$77 milhões  
.Segunda ponte do Rio Paraná (perspectiva) US\$62 milhões  
**.TOTAL**  
US\$ 132 milhões



Agências em Cidade do Leste e Assunção

## CHILE



.Ampliação do Metrô de Santiago (contratada) US\$153,2 milhões



.Agências em Santiago

## FINANCIAMENTOS PELO PROEX

(jan/04 a abr/05)

TOTAL: US\$ 69,2 milhões

## ALGUNS EXEMPLOS DE INVESTIMENTOS PRIVADOS

.Odebrecht (Equador)  
.Mister Sheik (Argentina)  
.AmBev (Guatemala)  
.AmBev (Peru)  
.Marítima (Colômbia)  
.Rima Industrial (Uruguai)  
TOTAL: US\$710 milhões

## URUGUAI



.Termelétrica San José (enquadrada) US\$ 67 milhões

## ARGENTINA



.Gasoduto San Martín (aprovado) US\$ 200 milhões  
.Gasoduto Norte (aprovado) US\$ 37 milhões  
.Ferrovia Transandino Central (perspectiva) US\$ 193,5 milhões  
.Hidrovia Paraguai/Paraná (perspectiva) US\$ 80 milhões  
.Gasoduto Noroeste (perspectiva) US\$ 270 milhões  
**.TOTAL**  
US\$ 780,5 milhões



.Investimentos de 2002 a 2005 US\$ 934 milhões



.Agências em Buenos Aires

# The Brazilian ascendancy and a new capitalist model for South America?

- The IIRSA would replicate the operational principles of the Brazilian Growth Acceleration Program(PAC), thus expanding it at a continental dimension.
- The BNDES, while it becomes the main support of the PAC, fulfills a comparable role with respect to the IIRSA corridors, overshadowing traditional institutions such as the IDB.
- Major infrastructure projects (among which energy, road and freight transport) benefit from a regulatory convergence because of the IIRSA scheme BUT risk of private oligopolies consolidation in the region (asymmetric influence, corruption, loosening of regulatory standards in the long run)
- At a regional scale: the existing in establishing a form of territorial connectivity that may subordinate lesser economies but also the region irreversibly. IIRSA axis and projects are geared for external competitiveness of conglomerates located in the region, leading to a form

# Brazilian investments galore



# Political responses: Beyond infrastructure boost plans, the missing link?

- From the establishment of legal frameworks to an encompassing regulation of infrastructural development in South America
- Intermodal transport designs and ports in the Pacific: integration or competition (Arica, Iquique, Ilo, Matarani, etc)
- The gate to the Pacific: *a chinese tale?*
- The role of public finance and IDE in infrastructure promotion

# Political responses: Beyond infrastructure boost plans, the missing link?

- Entre las medidas, Humala anunció la creación de un equipo de gente capacitada y ejecutiva que haga seguimiento a las principales inversiones. También mencionó la promulgada Ley de Expropiaciones, que agiliza el acceso a los terrenos para poder desarrollar obras de infraestructura, porque separa el acto de expropiación del pago del justiprecio.
- Además, remarcó la norma que establece plazos perentorios para que el Ministerio de Cultura otorgue el Certificado de Inexistencia de Restos Arqueológicos (CIRA), y la aplicación del Silencio Administrativo Positivo si el plazo no se cumple.
- Asimismo, anunció el proyecto de Ley de Reforma del Mercado de Capitales que amplía las fuentes de financiamiento para las pequeñas y medianas empresas, y el proyecto de Ley de Reposiciones de Capital que otorga mayor valor a los bonos porque estos podrán ser utilizados como medio de préstamo o vendidos.
- Otra medida es la presentación de un decreto supremo que establecerá una hoja de ruta clara para que el inversionista pueda obtener los Estudios de Impacto Ambiental (EIA) mediante un solo acto administrativo y bajo plazos establecidos.
- Finalmente, mencionó que en el primer paquete de promoción de las inversiones se afinan los criterios de calificación para que los gobiernos locales y regionales puedan acceder al Fondo de Promoción a la Inversión Pública Regional y Local (Foniprel)

Obrigado pela visita  
Thanks for the visit  
Gracias por la visita

ACRE-BRASIL

ESTRADA DO PACÍFICO

Cuzco 740 Km

Lima 1.871 Km

Puerto de Ilo 1.470 Km

CARRETERA DEL PACÍFICO



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