

## **The Landscape of Financial Arrangements and Cooperation in South America: CAF and IIRSA as Case Studies**

Institutions and ongoing arrangements in financial cooperation in South America are part and parcel of a changing international political economy. Academic attention to the financing mechanisms available in South America has historically focused on the roles played by three international financial institutions (IFIs): the Inter-American Development Bank (IADB) the World Bank (WB) and the International Monetary Fund (IMF). Meanwhile, countries in South America are increasingly turning to a variety of sub-regional financial arrangements for crisis management support as well as longer-term development financing. This paper examines ongoing theoretical accounts in the international political economy (IPE) literature in regard to the dynamics and rationale for financial cooperation. The goal of this paper is to discuss potential explanations that may serve to better explain key changes and continuities in ongoing mechanisms for cooperation in this sub-region. The puzzles that interest me can be summarized as follows. First, what have been the main political economy (PE) factors encouraging multilateral financial cooperation for long-term development lending in South America since the 1970s? Second, to what extent have these factors changed or not in the last decade? This paper aims to contribute to broader theoretical debates on IPE in the intertwined areas of financial cooperation and regional area studies. To do so, it focuses on an institution (the Andean Development Corporation, CAF) and on an intergovernmental initiative (the Initiative for the Integration of the Regional Infrastructure of South America, IIRSA) that have continued to show advancements on their agenda despite drawbacks on the broader political plans on regional integration and despite the economic difficulties experienced at the regional and international level during the early 2000s and, more recently, during the global downturn.

This paper argues that while IPE scholarship and institutional studies have invested much of their energy on advocating for strengthening regional financial agreements, far less attention has been devoted to explaining the ways certain mechanisms and actions have been crucial for ensuring the continuity of certain types of long-term cooperation, especially on regional infrastructure endeavours. These mechanisms and actions necessitate comprehensive analysis for at least three reasons. First, financing tools originating in South America help to critically examine the paradigm that the international financial institutions are the more appropriate venues for carrying out development financing. Second, in the ongoing global economic turmoil, sub-regional mechanisms may continue to play an even more active role in the governance and provision of financing mechanisms (Riggirozzi 2009; Ocampo and Titelman 2009). Third, a more in-depth study of the opportunities and tensions that shape sub-regional cooperation could provide IPE scholarship more theoretical and empirical tools required for assessing how we are heading towards a more decentred international financial order where non-global financial arrangements play a more prominent role (Chin 2010; Volz and Caliarì 2010).

This paper is organized as follows. The first section explores the ways the study of financial cooperation in South America has been traditionally approached in the IPE literature, while justifying the case selection of the Andean Development Corporation (CAF) and the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA). The second section briefly describes the characteristics and scope of the case studies. The third

section analyzes the academic debates that are relevant to the main puzzles of this paper, while advancing tentative explanations of recent regional financial cooperation in South America.

### **I. The study of financial cooperation in South America: prospects and limitations**

A noteworthy element when analyzing financial cooperation in South America is the large number and the heterogeneity of the monetary and financial cooperation institutions existing across the region. These institutions serve a variety of purposes including those that fundamentally play a role as development banks, others that function as emergency funds to address liquidity and balance of payments problems and those that provide clearance. In addition, some recent academic analyses have focused on the renewed impetus conferred on more ambitious and more radical projects such as the Regional Clearance Unity System (SUCRE) and the Bank of the South (BOS) (see Rosero and Erten 2010; Trucco 2012). Although these projects continue to coexist with other financial arrangements in South America and to introduce themselves as non-market and non-hegemonic alternatives, their impact so far has been limited. The BOS continues to confront serious implementation problems and the high political profile of the SUCRE stands in striking contrast with its microscopic economic importance. Until 2011, only three operations with negligible significance had occurred under SUCRE (Trucco 2012). As such, understanding the continuity and political economy elements of CAF and IIRSA may also help highlight the reasons behind the limited success of more alternative projects.

Although the selected case studies – IIRSA and CAF – share important features such as their emergence as crucial responses to mobilize finance and to support development at the regional level, their selection represents an effort to take into account different periods of integration in South America. Until the early 2000s, the process of finance cooperation in South America had historically been closely linked with the countries' commercial integration. The early cooperation strategies in the 1960-1970s were part of deeper regional integration projects and were conceived as key components of the prevailing development strategy in the region (import substitution industrialization) and as a fundamental ingredient of a new paradigm of integration into the world economy (Bouzas and Knaack 2009). CAF was formed during this era. Yet, the international crisis of the mid-1970s and the debt crisis of the 1980s rendered impossible efforts to undertake more comprehensive regional projects. The next cycle of integration in South America began in the early 1990s. It coincided with the phase of “open regionalism,” a regional rapprochement that, in line with the Washington Consensus, focused on trade liberalization and deeper integration of the South American countries into the world economy.

During the mid 2000s, influenced by the more general changes in political issues and ideology, a new cycle of sub-regional integration processes gained further momentum and seemingly incorporated new content and demands, although it is still plagued with limitations and contradictions (Biancareli 2011). From the public-sector perspective, the national fiscal accounts began to improve significantly due to, among other factors, economic growth during 2003-2008, increased consumption and increased tax collection. Improvements in the terms of trade in South America resulted from the surge in demand for commodities (especially from China and India) and from the exceptional performance of commodity prices in global markets. These factors have contributed then to launch a process of reasserting new rules for sub-regional engagement and cooperation in South America based on the reconfiguration of alliances,

institutions and political motivations. As a result, regional governance is defined by overlapping and sometimes competing regionalist projects, such as UNASUR and ALBA (Ruggirozzi 2011).

Various ongoing initiatives for financial cooperation are being justified then not only as ways to protect South America before the current fragile international system, but also as a demand for other dimensions of regional integration that could prompt development in the sub-region. In the specific case of South America, Biancareli (2011) highlights that this issue is even more sensitive since external financial vulnerability and lack of adequate long-term financing have historically been key obstacles to development. This suggests that countries are now trying to refocus the cooperation agenda on the opportunities for discussing “tangible” issues such as roads, bridges, fluvial navigation and energy and communications connectivity (Merke 2010). It is then in this more “developmental” notion of regionalism and cooperation that financial efforts and initiatives have gained relevance. IIRSA is one of the initiatives that emerged from the efforts in the region to divert the discussions away from trade, while trying to reassert control over infrastructure and remapping the sub-regional political economy around natural resources.

Recent state-led alternatives are thus evolving together with a new developmental space that has partly been engineered through conscious attempts to reduce dependence on external finance and partly by a new conceptualization of regional cooperation and networking (Ruggirozzi 2010; Chaves 2011). IIRSA is key for grasping new consensuses and agendas for the provision of infrastructure that may shape a region, and that may redefine the regional space as an arena for harmonization of public policies (Tussie and Ruggirozzi 2012). Meanwhile, initiatives like IIRSA coexist with well-established institutions and arrangements like CAF, which has itself gone through relevant political economy changes in the last decade. For example, CAF has expanded its country membership, while forging new alliances with institutions such as the BNDES and taking part in establishing the foundations of IIRSA. Moreover, CAF was created during a period where there were no clear hegemonic power in the region, while in IIRSA Brazil’s engagement has been regarded as key for its establishment (Tussie and Heidrich 2009; Burges 2009). As such, the study of CAF and its relationship to IIRSA remain fundamental for understanding both the changes and continuities in financial cooperation in the sub-region.

However, the IPE literature concerning states’ actions, institutional processes and ongoing mechanisms that have contributed to changes and continuities vis-à-vis long-term financial cooperation in South America is fairly limited. In contrast to South American experiences, underlying dynamics and political economy explanations that account for financial cooperation at the regional level have been widely discussed in regard to European and East Asian experiences (see Mattli 1999; deBroewen and Wang 2004; Grimes 2009, Cai 2010; Lombardi 2010). In addition, existing literature concerning South American experiences has been produced to a great extent under the auspices of United Nations (UN) agencies such as the UN Economic Commission for Latin America and the Caribbean (ECLAC) and the UN Conference on Trade and Development (UNCTAD) (see Vasco 2001; Ocampo 2006; Griffith-Jones et al. 2008). Despite its informative value and extensive details on the macroeconomic context that has prompted cooperation, this literature has less to say about the theories and justifications in the realm of political economy that may serve to explain this process.

At the same time, IPE literature that analyzes regional processes of integration in South America has generally dealt with studying the drivers of *trade-economic cooperation*. As such, the financial dimension of regional dynamics is certainly a less studied and debated subject when compared to the trade dimension, which has been widely discussed by scholars, especially by centering these debates on Mercosur (see Malamud and Castro 2007; Gomez-Mera 2009; Cardim de Carvahlo 2009). Although trade concerns remain important factors for sub-regional cooperation and integration, until now, the study of resilient and emerging forms of regionalism and financial cooperation in South America – such as those found in CAF and IIRSA – is still neither consolidated at the theoretical level nor as a field of empirical research. Meanwhile, it is important to define (and differentiate from other terminology) the concept of “financial cooperation.” I approach the discussion of financial cooperation as it relates to the mechanisms by which countries and existing institutions in the region can provide financial support to each other. These objectives might include not only prevention (or mitigation) of financial crises, but also promotion of broader goals of a political regional agenda, such as fostering development, through existing or novel arrangements.

## **II. The political economy of CAF and IIRSA**

### *The Andean Development Corporation (CAF)*

CAF began operations in 1970 with clients from both the public and private sectors. It provides multiple financial services in the form of loans, guarantees, collateral financial advisory services, investment banking, treasury services, shareholdings, and technical cooperation, among others (CAF 2012). CAF plays a key role in receiving and directing capital flows coming from large developed-country banks. At present, CAF is composed of 18 countries in Latin America, the Caribbean and Europe and 14 private banks in the Andean region. As of year-end 2010, the five original shareholders collectively owned 73.8% of CAF’s paid-in capital, down from 77.2% in 2009. Venezuela, Peru and Colombia each owned 20.7%, Ecuador owned 5.9%, and Bolivia owned 5.8%. The next largest shareholders included Argentina (7.9%), Brazil (7.1%) and Spain (3.2%). The 14 financial institutions together owned 0.1% (Standard & Poor’s 2011).

The first initiatives financed by CAF were mainly aimed at giving support to small private sector enterprises for development and expansion projects that would lead to increased productivity. With the exception of projects in Bolivia and Ecuador (countries considered to be less developed economically), CAF financed projects that were essentially integrationist (CAF 2010a). In 1975, CAF entered a new stage of administrative and institutional consolidation in which it focused on obtaining financial and technical resources and on promoting new projects. Meanwhile, the decade of the 1980s witnessed new efforts to increase Latin American integration, such as the creation of the Latin American Integration Association (ALADI). In the early 1980s, CAF’s Board approved a new operational policy, which enabled the institution to expand its field of action and consolidate its position as the financial arm of Andean integration (CAF 2010a). This policy led CAF to finance its first energy development projects and also how CAF took its first steps in the social arena by signing cooperation agreements with international organisms. During CAF’s first two decades of operations, the funds it made available to its shareholder countries came almost exclusively from its capital. Yet, the economic crisis of the 1980s led to the stagnation of the integration process. As such, towards the late 1980s, CAF

began to look for new sources of funds.

Three major developments marked the 1990-2000s: (i) CAF's decision to double its authorized capital and invite other members in the region to become partners; (ii) CAF's efforts to raise funds in international capital markets and (iii) its formal recognition of infrastructure as a basic element in the progress towards development and integration in Latin America. During this decade, CAF was able to gain access to global markets, which has ultimately increased its financial strength and its capacity to promote financial cooperation (as opposed to other Andean less popular institutions such as FLAR). In 1993, CAF obtained an investment grade risk rating for the first time. Every year since then, it has achieved the highest credit ratings of all Latin American frequent issuers (CAF 2010a). CAF's activities in the global capital markets helped diversify CAF's traditional funding base. At present, the primary source of its funding comes from bond issues offered in European, Japanese and US markets (O'Keefe 2009).

According to CAF (2010a), during this decade the institution commissioned several studies on infrastructure matters to direct its efforts at those sectors that could potentially support the integration process and increase the region's competitiveness, including projects in the fields of roads, energy and telecommunications. In 1995, CAF also created the Fund for Human Development (FONDESHU), designed to promote sustainable human capital development among the poorest Andean members. Another important element of this period – that highlights the increased participation of private actors while portraying the dominant economic ideology of the decade –relates to how CAF helped member governments to sell off state-owned enterprises by partaking in specialized investment funds that stimulated for example, the development of new private energy companies (O'Keefe 2009). From 1990-99, CAF approvals to its five Andean members (US \$18.7 billion) exceeded those of the IADB (\$14.4 billion) and the WB (\$10.2 billion) (Culpeper 2006).

In the last ten years, CAF has deepened its commitment to infrastructure matters, through its participation in IIRSA, and also by linking its broader infrastructure agenda to its agenda on economic growth and international insertion. By 2010, CAF's infrastructure portfolio comprised approximately fifty percent of its total loan portfolio (CAF 2010a). Another key event in the realm of political economy is the way CAF incorporated new full members by amending its Establishing Agreement. This has not only strengthened CAF's financial position, but it also invites reflection on three related developments that influence mechanisms and outcomes of cooperation: (i) the ways that the institution has ensured its continuity by expanding full membership; (ii) the possible impact of new full members in decision making procedures and loan approvals in the near future and; (iii) the extent to which the adherence of new members and its preference for CAF may explain why other projects such as the BOS have not advanced.

By 2010, it is worth noting that US\$ 4,020 million (38% of the year's total) of CAF's loan approvals was in favour of recent members: Argentina, Brazil, Panama, and Uruguay (CAF 2010b). Moreover, although Venezuela has virtually ended borrowing from other IFIs, it has been a "silent" but an active CAF borrower. As such, the study of CAF is relevant since it helps portray how the discussion on financial cooperation often takes place in two arenas: the political/public arena where more radical projects like BOS are discussed and the more

technical/less public arena where CAF's strengthening of cooperation agreements usually takes place. For example, according to its latest annual reports, CAF has recently concluded a series of cooperative agreements with organizations such as the BNDES, the China Development Bank, the Import Export Bank of India and the French Development Agency. However, official CAF documents do not provide details of the nature and extent of these agreements. At the end of 2010 CAF's disbursements reached US\$ 7,694 million. Brazil, Colombia, and Peru concentrated almost 91% of disbursements during the year (CAF 2010). In regard to CAF's portfolio, at the end of 2010 it reached US\$ 13,878 million, a 17.9% increase with respect to the amount registered in 2009 (CAF 2010b). From the perspective of portfolio distribution by country, Ecuador showed the largest exposure with 17.7% of the total, followed by Venezuela, with 16.2%; Peru, with 15.8%; Colombia, and 14.3%; Argentina. The new full members, together with those in the process of becoming full members, represented 25% of the loan portfolio at the end of 2010 (CAF 2010). In 2010, CAF also placed over US\$ 2 billion in 10 bond issues, registering the most intense activity in capital markets in its history (CAF 2010b).

Finally, in 2011, CAF officials released a report in which six lines of action are suggested for advancing infrastructure development in a systematic way. These lines of action include: increasing the level of investment in infrastructure; framing policies and projects in a paradigm of sustainable development and territorial vision; strengthening institutions while supporting the efforts of initiatives like IIRSA; and optimizing the use of multiple financing sources such as specialized institutions, natural resource operators and sovereign funds, amongst others. Yet, according to the Bank Information Centre (BIC) (2012), CAF has functioned largely outside of public scrutiny and under the radar of many civil society and public interest groups despite its significant reach and growing influence. In a report for the BIC, Hamerschlag (2008) argues that a review of loan summaries for CAF projects with significant environmental and social impacts revealed weak (or lack of) implementation of CAF's policies. The "ability" to remain under the radar of public scrutiny and to inspire a "sense of ownership" amongst shareholders may have contributed then to prevent major disruptions in cooperation related activities.

#### *The Initiative for the Integration of the Regional Infrastructure of South America (IIRSA)*

IIRSA is an intergovernmental initiative for financial cooperation that focuses on coordinating investments in infrastructure in order to link South American countries through the development of transport, energy and telecom networks and projects. Supported by the IADB, CAF and the Financial Fund for the Development of the River Plate Basin (FONPLATA), this initiative is based on a hub strategy and its action plan calls for: (i) strengthening national investment planning and coordination among countries, (ii) standardizing and harmonizing regulatory and institutional aspects and (iii) developing a portfolio of projects that encourages private sector participation and innovative financing schemes. In 2004, IIRSA member states adopted the 2005-2010 Priority Implementation Agenda— a subset of 31 projects selected from the IIRSA Portfolio because of their priority to the physical integration of the region. The number of projects included in IIRSA's total portfolio increased by more than 50% between 2004 and 2010. Until September 2011, from the 531 projects in the agenda, 63 projects are completed (9% of the total investment portfolio for US\$10,4 billion) and 159 projects are at the execution stage (45%, US\$52 billion) (COSIPLAN 2011). Regarding its sectorial composition, the order of importance is transportation with 461 projects (an investment of US\$ 65 billion and

so far 47 concluded projects), energy with 61 projects (an investment of US\$ 51 billion and 15 concluded projects) and communications with 9 projects (an investment of US\$ 44,7 million and 1 concluded project) (COSIPLAN 2011).

The institutionalization of IIRSA has gradually moved forward throughout the years. Initially, IIRSA operated through an intergovernmental cooperation scheme informally linked to the South American Community of Nations. In 2010, IIRSA was formally incorporated into the structure of the Union of South American Nations (UNASUR), within the framework of the South American Infrastructure and Planning Council (COSIPLAN). COSIPLAN was set up in August 2009 and replaced the IIRSA Executive Committee with a Ministerial-level Council composed of member states' delegates and supported by the creation of specific working groups. With this measure, member states aimed at assigning greater political support to the activities carried out in the infrastructure sector, so as to secure the necessary investments to execute priority projects. Recently, the ECLAC Infrastructure Services Unit (ISU) conducted some technical assistance and cooperation workshops for IIRSA in order to frame strategic guidelines for the 2012-2022 Agenda. On November 2011, COSIPLAN authorities approved the 2012 Work Plan and Strategic Action Plan (SAP).. COSIPLAN plans now to carry out a study regarding the status of infrastructure integration in South America requested and financed by the Federation of Industries of Sao Paulo (FIESP) (COSIPLAN/UNASUR 2011).

Since its launch, then, IIRSA has achieved a series of concrete results, while arousing controversy, especially in regard to its environmental impacts and the lack of integrationist outcomes. So far the environmental dimension of IIRSA's projects has been underplayed and only a small number of strategic environmental assessments (SEAs) have been conducted (van Dijck 2010). As such, several social movements (especially indigenous movements), non-profit organizations and various academics have been very vocal in their opposition to IIRSA (see Kileen 2007; Briceno Ruiz 2010; Hochstetler 2010). The development purpose within IIRSA is then pursued in ways that make environmental concerns secondary and late (Hochstetler 2010). Moreover, despite IIRSA being launched as part of a broader integration strategy, an assessment by the IADB's Office of Evaluation and Oversight (OVE) (2008) states that no criteria are built within IIRSA to rank projects by reference to their integration-impact risks and benefits. The result has been a high ratio of individual country infrastructure projects in the portfolio, which has kept IIRSA from its original mandated regional integration focus (OVE 2008).

Further, determining with exactitude the financing sources behind IIRSA's projects and whether alternatives for long-term financing are being reconstituted in South America remain intricate analytical issues. For example, although IIRSA's website provides a detailed database where types and sources of financing are described, it remains difficult to grasp how "direct" and "indirect" financing takes place when taking into account other documents from international institutions, academic analyses and NGO reports. Besides, access to detailed information and financial contribution percentages is not widely disseminated and available data are not necessarily consistent amongst several internal and external reports (except for the amounts regarding technical pre-investment cooperation funds from the IADB, CAF and Fonplata). According to IIRSA's 2009 documents, about 24% of the funding (US\$10,6 billion) of the projects (concluded or in the stage of implementation at that point) come from the IDB/CAF/ Fonplata trio. The rest of the funding is mainly derived from the treasury of member states,

which indicates that the IADB/CAF/Fonplata trio are acting more as facilitators of pre-investment and technical studies than as IIRSA “financiers.”

Regarding other institutions that participate in IIRSA such as BNDES, it remains somewhat difficult to track down its financial contribution to diverse projects. For example, Burges (2009) discusses how BNDES would finance substantial parts of IIRSA but the project’s website shows BNDES funding only two paving projects in Bolivia for a total of US\$ 216.7 million. However, when it comes to “indirect” financing, BNDES is involved in supporting Brazilian enterprises that ultimately participate in the construction of IIRSA projects. Various contracts for IIRSA projects have been awarded to consortia headed by Brazilian construction companies (Fernandez 2011; BIC 2012). Brazilian enterprises have by now also attended some IIRSA meetings. However, BNDES does not report on individual projects because of confidentiality clauses (Hochstetler 2011). In short, it is not easy to track down ongoing financial-institutional cooperation mechanisms in IIRSA, which, in part, reflects the complexity of defining the intertwined mechanisms and institutions through which IIRSA currently operates.

### **III. Why do states cooperate financially on a sub-regional basis?**

Two broad sets of academic debates are relevant to this paper: (i) existing institutional and academic analyses on sub-regional practices that go beyond trade incentives and enter the realm of financial cooperation, and (ii) relevant IPE and International Relations (IR) theoretical interventions within and beyond Latin America that may serve to account for the main motivations in regard to financial cooperation. I initially explore and identify the prospects and limitations of the first set of literature. Then, by incorporating the second set, I put forward possible explanations of recent regional financial cooperation in South America.

#### *Financial cooperation literature*

Most of the existing examinations on this area derive from analyses supported by UN agencies, while journal publications remain scarce. Ocampo (2006) introduces a volume providing a comparative evaluation of the experiences around the globe with regional financial cooperation. Some contributors in this volume explore the ways in which cooperation in South America could promote the interests of these countries, but there is less attention paid to material, ideational and structural power dynamics that shape existing initiatives. Further, authors such as Desai and Vreeland (2011) and Griffith et al. (2008) suggest that regional institutions such as CAF may be more effective at helping intransigent countries maintain higher credit ratings, by being able to rely on informal pressure rather than conditionality, thereby encouraging countries, even in hard times, to continue servicing debts. Desai and Vreeland (2011) suggest that regional governance mechanisms are often better placed to coordinate economic actions given the greater stakes that nations may have.

Culpeper (2006) suggests that CAF’s experience proves that it is possible for a sub-regional financial institution to operate very successfully, without recourse to concessional funding. For him, factors explaining the comparative success of CAF include judicious management and the sectorial composition of the borrowing portfolio, with its heavy emphasis on public sector infrastructure. Focusing on the experiences of CAF and the Latin American



Reserve Fund (FLAR), Ocampo and Titelman (2009) suggest that both institutions have succeeded in providing services to member countries in a timely way, with countercyclical effects and on a large scale relative to other forms of multilateral financing. Although Ocampo and Titelman (2009) discuss certain ideational elements that influence mechanisms for cooperation, such as the strong sense of ownership that states attach to these institutions, they do not situate the developments and advancements of these organisms within the broader context of ongoing regional dynamics and theoretical perspectives on drivers for enhancing cooperation.

Further, available literature that seeks to explain the main motivations for cooperation within IIRSA is very limited and generally confined to “IIRSA insiders.” Carciofi (2008, 2012) – past Director of the Institute for the Integration of IADB-INTAL and also current Secretary of the IIRSA Technical Coordination Committee (CCT) – posits that key to understanding IIRSA’s continuity and cooperation process is, on the one hand, the appropriate identification of topics, which has prompted consensus among the participating countries, and, on the other hand, the fact that the work agenda has materialized in the form of concrete results that have proven useful to the participants. Although these insights are useful for further exploring financial motivations, especially in regard to perceived usefulness and technical consensus within existing initiatives, Carciofi’s analyses are devoted to the economic dimension of IIRSA and do not really explore the ways the development of regional infrastructure is intertwined with geopolitics. Couto Freitas (2010), another “IIRSA insider” who served as General Coordinator of Planning, suggests that IIRSA is an attempt to rescue the current investments in the region. He believes that three points stand out in IIRSA for ensuring cooperation among states: (i) political consensus around the defined project portfolio, such as that projects remain on the agenda even with the change of governments; (ii) support of institutions recognized by the market such as the IADB and CAF and; (iii) the gradual importance that IIRSA National Coordinators are acquiring (as opposed to ministers) and the related opportunities for regulatory harmonization.

In addition to the previous literature, there are some examinations (in the context of analyzing Brazilian foreign policy or regional integration) highlighting Brazil’s own national development goals and strategies as key in the consolidation (and later advancement) of IIRSA (Carvahlo 2006, 2010; Burges 2009; Tussie and Heidrich 2009; Fernandez 2011). These authors remark that although IIRSA was presented as a response to revive the regional movement in South America, it represented in a way a pragmatic alternative to expanding the *Avança Brasil* program (a large national infrastructure program) to the sub-region. Yet, Brazil stepped quite cautiously in promoting IIRSA, without openly adopting a leadership position that would grate in a region that associates foreign policy leadership with coercion and domination (Burges 2009).

### *Tentative Explanations*

Most categories that IPE authors have employed to analyze regionalism and motivations for financial and economic cooperation are often intertwined. In traditional approaches, efforts towards economic and financial regionalism have been analyzed as a reflection of political factors (realist tradition), a problem of managing interdependence (neoliberal institutionalism) and/or as a reflection of belief systems (constructivism) (JooHung 2005; Grimes 2009). Radical approaches (World Order Approaches (WOA) and “new regionalism” theories) often focus on how social relations that shape institutional configurations are intrinsically class-based (Cox

1996; Gamble and Payne 1996) and/or on how regionalism serves as a mechanism for spreading the logic of global capitalism while consolidating the hegemony of neoliberal ideology (Hettne 2005; Phillips 2004). As these diverse theories have come to inform one another, it is possible to posit tentative explanations by combining and further developing existing theoretical accounts. This section is part of a larger research project that it is currently trying to determine the extent of the applicability of key theoretical approaches in regard to the selected case studies.

*1. Neorealist approaches: old and new hegemons, their particular characteristics and the extent to which hegemony has shaped financial cooperation in South America*

Realist analyses of international finance look at various aspects of the relationship between power and capital, including the role of hegemony and the tools of financial statecraft. Neo-realism provides a number of illuminating hypotheses regarding the sources of regionalism. First, regional integration blocs may be formed as a response to external threats or challenges. From this perspective, regional cooperation is aimed at improving states' leverage and at balancing against a specific external threat or extra-regional hegemon (Hurrell 1995). Efforts to promote regionalism in South America have at times been interpreted as a defensive attempt by states to balance US power and influence in the region (see Tussie 2009, Merke 2010). In this regard, cooperation within CAF (especially in the early decades) was motivated by efforts to counteract US influence in the IFIs. In the case of IIRSA, the initiative is now sustained by several governments seeing IIRSA as a response to traditional IFIs approaches for long-term development. In addition, not only the impact of US hegemony in historical perspective is important for examining financial cooperation, but also the ways China has increasingly strengthened its participation in financing development projects in South America in the last decade. As such, further research requires examining whether Chinese involvement in CAF and IIRSA projects is redefining (or not) notions and applications of "open regionalism" in the sub-region and the extent to which China's participation has constituted a relevant driver to secure financing and the advancement of long-term projects within the case studies.

In addition, when trying to understand drivers of financial cooperation in South America, it is imperative to further study the major change in South American political relations, as it relates to realists concerns: the rise of Brazil as a regional hegemon. Have prevalent mechanisms to ensure financial cooperation changed (or not) due to the rise of Brazil, as a regional economic and political power? Realist literature suggests that a hegemon acts to promote regional cooperation because it serves as a focal point in the coordination of rules, regulations and policies (Grimes 2009). The realist literature on financial cooperation in South America is limited, yet some studies (mainly about Mercosur) suggest that regional hegemony has had a more ambiguous impact on regional cooperation than hegemonic stability theories would predict (Gomez-Mera 2008, Malamud 2010, Cason 2011). Despite regional status, it seems that Brazil's prominence has not been translated into effective, responsible leadership (Gomez-Mera 2009, Flandes 2010, Malamud 2012) of the type that neorealists see as contributing to the stability of cooperation. In many ways, the political economic history of Brazil has been driven by a tension between the search for power and the search for development (Tussie and Riggiozzi 2012).

Other interpretations of hegemony that focus on sub-regional cooperation emphasize cooperative (Pedersen 2002) or consensual (Burgess 2008, 2009) elements. Burgess (2008, 2009),

by drawing on Gramscian notions of hegemony, advances the concept of *consensual hegemony* to describe Brazil's foreign policy during the Cardoso's era. Consensual hegemony sees the hegemonic project ultimately transcending the interests of a particular actor, evolving into a structure amenable to the core interests of other participating actors (Burgess 2008). As such, potential explanations such as Brazil's interests in gaining access to international markets through the realization of IIRSA projects, and also by expanding BNDES operations throughout the region may be key for the ongoing functioning of CAF and IIRSA. Such arguments have to be further explored in tandem with initial explanations that suggest that Brazil's own national development goals have been crucial in promoting IIRSA.

## *2. Liberal approaches: "localized" roles of sub-regional entities and transgovernmentalism*

From a neoliberal institutionalist point of view, the regional cooperation mechanisms are seen as functional responses to the demands created by increased regional interdependence. Regional regimes contain valuable functions – they provide information, reduce uncertainty, monitor behaviour, permit issue-linkage and enhance the importance of reputation – which work to contain these externalities and to facilitate further intra-regional linkages (Keohane 1984). Although mainly discussed by those who have worked themselves in regional agencies, institutional perspectives have been the most commonly advanced explanations for multilateral financial cooperation in South America. One of propositions that requires further examination is the extent to which CAF and IIRSA's ability to play "localized" roles and to specialize in certain types of operations— such as large and costly infrastructure projects —have been relevant reasons why South American countries resort to CAF and IIRSA to foster issue-linkage and specific agendas for development financing.

For example, in regard to CAF, Sagasti and Prada (2006) highlight that CAF has played specific roles, which are not always covered adequately by international institutions. Institutional "localized" features that have been highlighted so far in literature about CAF include: loans are approved within three to four months; there is no formal conditionality as the international financial institutions pose; CAF loans represent an easier alternative for countries with poor credit ratings; and its shareholder structure that prompts an active participation by Andean countries in defining the institution's objectives and ensuring greater harmonization between CAF activities and their countries' requirements (Ocampo 2006; Griffith-Jones et al. 2008; Mieres 2009). In regard to IIRSA, it is relevant to explore the ways it has served as a "localized" forum for agreeing on a specific regional portfolio for infrastructure, while bringing the state back to coordinate, fund and finance investments in infrastructure.

Another liberal approach, transgovernmentalism, emphasizes the preference for cooperation in technical areas. Recent literature, most notably Slaughter (2005), claims that transgovernmental networks are expanding rapidly, especially in regulatory cooperation, as a response to the governance "control gaps" created by globalization. These networks are "transgovernmental" because they involve technocratic cooperation among different national government agencies and epistemic communities, often with little supervision by foreign ministries. For Slaughter (2005), the role of the executive has become complex and differentiated since many civil servants act as regulators, exercising a new kind of diplomacy by "disaggregating" the functions of the state. The IPE literature, with exceptions like Martinez and

Woods (2009), has paid little attention to the role of developing and emerging economies in the construction and maintenance of government networks. Thus, I posit that a “more developmental” notion of regionalism has increasingly permeated the world of officials working in networks that are nested within IIRSA and CAF, while increasingly contributing to ongoing cooperation in what are perceived as “technical” areas.

### *3. Constructivist and cognitive approaches: ideas and identities*

To understand the promotion and maintenance of financial cooperation, and in particular how notions such as a “sense of ownership” (Ocampo 2006) are established, it is key to undertake an examination of the projection of identity and ideas within the selected case studies. Ideas, ideologies, and identities are essential in understanding state behaviours because these ideational variables help, or sometimes compel, policy-makers to define the intents of other states, understand the basic causes of events, and rank their policy preferences (Wendt 1992). So far, I have identified that the role of CAF’s Director, Enrique Garcia, merits further exploration. Garcia has been in his role since 1991, and he has contributed extensively in discussing the role of regional development financial institutions (see his discussion in Vasco 2001) and more recently on the nexus between infrastructure and integration in Latin America (Garcia 2009). According to CAF’s website: “the re-election of Enrique Garcia to head CAF reflects the shareholder countries’ recognition of his work ... and reaffirms their backing for him to continue leading the permanent transformation from an Andean institution to a Latin American development bank.” In the case of IIRSA, based on recent institutional changes and preliminary evidence (Cuoto Freitas 2010; COSIPLAN 2011; IIRSA 2011), the rise of National Coordinators within IIRSA (in contrast to the decreasing involvement of more senior officials such as finance ministers) is gradually impacting the discussions and results of the initiative.

Further, epistemic communities built within ECLAC have been crucial in determining several guidelines of cooperation in South America and its influence has not been yet determined in regard to IIRSA and CAF. In the mid 1990s, ECLAC was the agency that came up with the notion of “open regionalism” and its officials have continued to be a source of heterodox thinking from a Latin American perspective since the mid 1980s, as shown by a number of seminal publications (see ECLAC 1994; Ocampo and Martin 2004). For ECLAC (2010), the areas of cooperation of the greatest interest are infrastructure, energy, connectivity, logistics, aid for trade and trade facilitation. More recently, ECLAC has conducted a series of technical assistance and cooperation for IIRSA. ECLAC seems then as one of the agents that promotes normative convergence, which is perceived as required for advancing long-term projects by urging dialogue between countries’ regulatory and planning authorities to ensure compatibility.

### *4. Norm entrepreneurship, “framing” processes and how they may work together with transgovernmental frameworks to account for outcomes in financial cooperation*

This paper advances the notion that a more comprehensive explanation of cooperative dynamics in South America can be obtained by complementing the transgovernmental network theory with insights from constructivist approaches and, more specifically, with explanations of how officials transfer and embed their knowledge in the daily activities of IIRSA and CAF. As Finnemore and Sikkink (1998:888) explain: “rationality cannot be separated from any politically

significant episode of normative influence or normative change, just as normative context conditions any episode of rational choice.” Therefore, there is an organic link between the epistemic dimension of regional cooperation and its instrumental dimension, which refers to the benefits of intergovernmental functional cooperation and of market integration (Girvan 2005). The outcomes derived from financial cooperation may be perceived as a product of the preferences of transnational actors who are able to frame past and current discussions and set agendas in specific ways, while employing “technical” knowledge and authority.

Therefore, a tentative explanation is that strengthening financial cooperation within CAF and IIRSA has been possible at least in part due to the ability of their officials to frame the benefits of cooperation as less ideational and more tangible (such as roads, ports and dams) and immediate in promoting growth and consequently, development. I posit that officials have succeeded in often framing the advancement of infrastructure as “apolitical.” Although the infrastructure hubs identified in IIRSA for example are both political and technical, the projects are justified by a series of functionalist speeches from involved national governments, multinationals and multilateral financial institutions (Martins 2010). Further, dealing with contentious issues such as the environmental impacts of the projects is not part of the prevalent agenda, since it is not framed as a technocratic matter.

#### *5. Private actors and how their interests may have captured the state, while influencing frameworks for cooperation*

A more comprehensive understanding of the main drivers of financial cooperation in South America may require reflecting on how to combine insights from traditional and more radical perspectives on cooperation. In this way, we should be able to better outline the role of state and private actors in mediating both global and regional economic forces and power-strategic considerations. For example, although the assumption of path dependency underlies several liberal and radical approaches, in the latter, class rather than historical institutions is considered the source of path dependency. It is needed, when studying South American financial cooperation, to try establishing whether certain classes have captured the state, in particular, the Brazilian state and if so, the ways this has shaped patterns of financial cooperation within IIRSA and CAF for example. As Christensen and Xing (2010) suggest, it appears that there is a symbiosis between the initiatives of the Brazilian government and the initiatives of the Brazilian private sector towards South America. I posit that these private interests have become fundamental in moving forward CAF and IIRSA projects during the last decade. For Burges (2008), the Brazilian business expansion towards neighbouring countries is the main sign in terms of the transnationalization process of Brazilian capital and it is closely related to the conception and implementation of IIRSA’s strategy. Further, according to INTAL (2008), the 2007 Brazilian Confederation of Industry showed that the segments that most sharply marked out South America as a priority in any business internationalization strategy were infrastructure services, followed by financial and information technology services.

#### *6. Other sources of possible convergence or tension amongst theoretical approaches*

Besides the key links amongst existing approaches that have already been described above, I have tentatively identified other sources of likely complementarity or contradiction.

First, the formation and daily activities of transnational networks within CAF and IIRSA may have been permeated and even at times dominated by Brazilian officials pursuing national interests, but their influence is not necessarily advanced through coercive means. For example, in their study of diverse developing and emerging states' networks, Martinez and Woods (2009) conclude that although the largest contributors of resources use the influence they derive from their contributions to "capture" the network and steer its activities towards their own interests, they make considerable efforts to avoid dominating (or appearing to dominate) the network. This is similar to Burges' (2008, 2009) previously mentioned notion of consensual hegemony. Another link relates to the relationship between transgovernmentalism, hegemony and private interests. To understand the extent and relevance (or not) of this relation, it may be necessary to investigate whether processes of "framing" certain development goals have not only resonated with private actors, but also whether they have become involved directly in the process. If the Brazilian state has been identified in prevalent literature as a hegemon, it is crucial to explore how its interests and preferences are constructed and reflected in the "state" agenda. For example, the Federation of Industries of Sao Paulo (FIESP) has recently requested IIRSA (and offered to finance) a study about the status of infrastructure integration in South America (COSIPLAN 2011).

Finally, more radical approaches serve to question the extent to which previous dominant frameworks, such as "open regionalism" are really being contested or reconfigured by transnational networks. Infrastructure services are now seen as fundamental to South America in a context where economic incentives in the region are greatly based on sustained demand and rising commodity prices in world markets. As such, it is necessary to pay attention to the emerging environmental and socio-political tensions (and how they are managed by the pertinent authorities) of how cooperation on finance is perceived on one hand, as a way to foster integration by enabling retention and distribution of the benefits of infrastructure and trade within the region but in the other hand, cooperation may be advancing on mere grounds of facilitating resource extraction. For Fuser (2008), with the rise of progressive governments in South America, IIRSA supporters have substituted the rhetoric of "open regionalism" with a discourse about development. Fuser (2008) also suggests that the replacement of neoliberal authorities for others, more identified with the forces of the left, has only contributed to dilute resistance to the prevalent agenda of sub-regional institutions and initiatives, despite the existence of social movements and NGOs that directly oppose this agenda.

#### **IV. Final Remarks**

The post-2007 global financial crisis, the recent events in the Eurozone and the ongoing efforts towards cooperation at the sub-regional level in South America bring new theoretical and empirical challenges to the study of the political economy of financial cooperation. In the case of South America, as this paper suggests, it is important to try understanding the resilience of some organizations such as CAF, and the motives behind the advancement of newer initiatives such as IIRSA. Even though financial cooperation has often been approached as a technical and economic matter, its exercise is political and as such, a variety of complementary IPE and IR theories are required for grasping the drivers of financial cooperation in South America. IIRSA appears as a timely initiative: its focus on infrastructure comes at the right moment, when several states are willing to cooperate under the COSIPLAN framework in order to achieve concrete

results, while enhancing their knowledge about planning and financing large projects. Moreover, CAF continues to operate largely under the academic and public radar despite its considerable influence in shaping the debates on cooperation in the region since the early 1970s. However, as Grabel (2012) remarks, given the scarcity of long-term finance in developing countries, CAF's role as a source of stable long-term finance should not be overlooked.

Criticisms towards both IIRSA and CAF are often directed to three areas: the lack of a clear and explicit statement of the development model that these organisms pursue, the environmental risk that are not taken into account or sufficiently studied in past and present projects and the lack of openness that CAF and IIRSA have shown towards a variety of civil society groups. Taken together these criticisms suggest that environmental concerns are an integral part of the political economy of financial cooperation and that more IPE scholars need to pay attention to this area. Environmental problems spill across the political boundaries. Nevertheless, since several environmental problems tend to develop over a long period of time—which contrasts greatly with the short term and results-oriented political platforms of the governments in power—they have not been at the center of the CAF and IIRSA agendas. Yet, as pressure and visibility from civil society groups increases, environmental concerns will increasingly define the viability to proceed with large infrastructure projects in South America.

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