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Robert Schuman Centre for Advanced Studies
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Constructing regionalism in South America: the cases
of transport infrastructure and energy within UNASUR

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European University Institute
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EUI Working Paper **RSCAS** 2014/73

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ISSN 1028-3625

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Printed in Italy, June 2014

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I – 50014 San Domenico di Fiesole (FI)

Italy

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Abstract

This paper seeks to contribute to the study of contemporary South American regionalism focusing on the emergence and development of sectoral cooperation and policy coordination within the Union of South American Countries (UNASUR). To do so the paper analyzes two policy areas – transport infrastructure and energy integration – from the inception of cooperation in 2000 until 2014, addressing two questions: (i) why regional cooperation has emerged despite the absence of economic interdependence and market-driven demand for economic integration, and (ii) why policy outcomes are evident in some areas (i.e., transport infrastructure) while limited in others (i.e., energy). Bringing together insights from rationalist and constructivist approaches in IR and IPE, it is argued that the emergence of regional cooperation as well as the sharp variation in policy outcomes between areas can be largely explained by the articulation of a regional leadership and its effect on the convergence of state preferences. The paper shows how the Brazilian leadership, incentivized by the effects of the US-led FTAA negotiations and the financial crises that hit the region in the late 1990s, made state preferences converge towards a regionalist project encompassing all South American countries by making visible the mutual benefits of cooperation on transport infrastructure and energy. Furthermore, the paper illustrates how in spite of significant changes in South American states' cooperation preferences the Brazilian leadership was able to adapt the cooperation process in the transport infrastructure sector to the new circumstances of regional politics permitting not only the institutionalization of sectoral cooperation, but also the implementation of several infrastructure transnational projects. In the case of energy, instead, the emergence of a second regional leadership project –pursued by Chávez's Venezuela – and the deep divergence of state preferences led energy cooperation into a gridlock.

Keywords

Regionalism – regional leadership – infrastructure and energy integration – UNASUR – South America.

1. Introduction¹

Signed in May 2008, and entered into force in March 2011, the Constitutive Treaty of the Union of South American Nations (UNASUR) formalized a project of regional cooperation which was initiated at the beginning of the millennium under the regional leadership of Brazil. As a process of regional cooperation UNASUR presents some aspects that differ from previous *waves of regionalism* (Dabène 2012) in South and Latin America and that make it an interesting case study in the field of comparative regionalism.

In the first place, the South American cooperation process started in the absence of high economic interdependence among the member countries, as well as lacking an intense demand for integration coming from economic actors: factors that, according to the main liberal theories of regionalism, shall be the key drivers of inter-governmental cooperation and policy coordination (Moravcsik 1993, 1998; Mattli 1999). As a matter of fact, intra-regional trade among the UNASUR member countries accounts for 23% of the bloc's total exports, significantly below intra-regional trade within NAFTA (50%) or the EU (70%), making South American countries highly dependent on the US, the EU, and –increasingly– China as export markets and sources of direct investments (Rosales and Herreros 2013).

Secondly, and differently from most regional organizations created during the previous waves of Latin America regionalism, UNASUR does not entail trade integration as the key policy-issue in its agenda, focusing instead on non-trade policy areas such as energy, infrastructure, defense, and, more recently, health, education, and social development (Briceño-Ruiz 2008; Sanahuja 2012; Riggirozzi and Tussie 2012). Finally, despite its inter-governmental institutional design –a feature that UNASUR shares with most of the regional organizations created in Latin and South America since the early 1960s²– UNASUR has managed to move further a pure inter-presidential forum (Malamud 2003) delivering tangible cooperation outcomes which, nonetheless, differ greatly depending on the issue-area under analysis.

The literature dealing with UNASUR is still relatively scant and eminently descriptive rather than analytical. On the one hand, European theories of regional integration face obstacles to deal with a regional project that does not fit the analytical categories of economic integration. On the other hand, scholars of Latin American regionalism have focused mainly on the diplomatic aspects of UNASUR, emphasizing UNASUR's capacity to manage inter-state conflicts and domestic political crises through presidential diplomacy (Mosinger 2012; Carrión 2013). Less attention has been paid, however, to the role of UNASUR in fostering policy coordination and implementing transnational projects. We argue that the analysis of the cooperation patterns within UNASUR's sectoral councils is key to understand how South American states are constructing cooperation in the South American region. The purpose of this paper is to shed light on this neglected dimension of regionalism in South America offering analytical tools to account for the factors that trigger regional cooperation in a given sector, as well as for those that enable or block the delivering of regional policy outcomes.

In order to do so, the article addresses two questions. Firstly, we look at why regional cooperation has emerged in the absence of policy interdependencies and market-driven demand for integration. Secondly, we enquire into why cooperation outcomes are evident in some areas while limited in

¹ Earlier drafts of this paper benefited from the critical comments of Carlos Closa, László Bruszt, Olivier Dabène, Philippe Schmitter, Detlef Nolte, Andrés Malamud, Carlos Milani, Mariana Carpes, Jorge Garzón, as well as the participants of the Seminar on Comparative Regional Integration organized by the Global Governance Programme, on the 22nd of May, European University Institute, Florence. All errors and omissions are the sole responsibility of the authors.

² The supranational institutional structure adopted by the Andean countries through the Andean Pact in 1969, and then through the creation of the Andean Community (CAN) in 1996, is an exception to this trend.

others. We approach both questions emphasizing the interplay between two key variables: **state preferences** and **regional leadership**. We argue in favor of a cross-paradigmatic theoretical approach, which brings together rationalist and constructivist insights. On the one hand, we follow realist theories in IR and IPE in considering state actors as the most relevant agents of regional cooperation and attributing them the capacity to aggregate dominant domestic preferences in a centralized way.³ On the other hand, we challenge the atomistic and static conception of the state that characterizes rationalist theories in considering state preferences not as fixed and ordered objectives which are defined prior to inter-state bargaining, but as changing goals and orientations in a process of social interaction, therefore influenced by social communication and persuasive ideas (Hall 1989; Sikink 1991; Goldstein and Keohane 1993; Checkel 1997, 1999; Ruggie 1998; Wendt 1999; Blyth 2002).

The convergence of preferences for a course of action or policy option is a condition for the inception and progression of a regional cooperation process. But preference convergence is hardly possible without the action of a regional leader. In this regard we draw on the literature that has also stressed the role of regional leaders as drivers of cooperation (Young 1991; Kupchan 1998; Mattli 1999; Flesmes et al. 2010; Krapohl and Fink 2013); yet, in contrast with some of these authors (see Mattli 1999; Krapohl and Fink 2013), we argue that regional leadership does not necessarily emerge to accommodate economic demands for integration, but often acts as a catalyst for regional cooperation in response to a critical event (e.g., an exogenous financial shock, hegemonic pressure exercised by an external power, or a domestic political crisis with regional spill-over), as it has traditionally been the case in the history of Latin American regionalism (Schmitter, 1971; Dabène 2009, 2012). Furthermore we posit that regional leadership acts not only on a material/structural level (providing material incentives or easing the distributive consequences of cooperation), but also on an ideational level, persuading state actors to pursue particular policy options and, by doing so, making state preferences converge (Young 1991; Pedersen 2002; Flesmes et al. 2010). As we will see, the dual dimension of regional leadership is particularly relevant in the case of South America's cooperation process. The article analyzes the role of Brazil and Venezuela's foreign policy ideas and power projection capacity –under respectively Fernando Henrique Cardoso (1995-2002) and Lula (2003-2010), and Chávez (1998-2013)– in creating the consensus that triggered, steered or blocked the cooperation process in the fields of transport infrastructure and energy.

Our intention here is certainly not to argue that state preferences and regional leadership are the only two factors that play a role in a process of regional cooperation. However, we do believe that through the analysis of the interplay between these two variables is possible to explain why regional cooperation emerged in South America at the beginning of the past decade, and why it has progressed further in some areas than in others. We apply this analytical framework to two policy areas that lie at the heart of the South American regionalist initiatives since the very beginning: (i) *transport infrastructure integration*, where institution building and regional cooperation outcomes have been achieved, increasing both the South American countries' physical interconnectedness, as well as the ability to coordinate collective action at political and technical level; and (ii) *energy integration*, where such advancements have been modest.

The article consists of four sections. In the first we provide a brief description of UNASUR's origins and structure. In the second section we introduce the theoretical framework that we use to investigate what factors drive the cooperation process and explain divergent outcomes in the policy areas. In the third section the framework is applied to the empirical case studies. In the last section we discuss the article's main findings, answering the research questions and outlining its main contributions to the study of regionalism in South America and beyond.

³ The degree of state actors' policy-making autonomy from societal interests varies according to the domestic distributional implications of the issue.

1.1. UNASUR and sectoral cooperation in South America

Following a consensual definition supplied by international relations and comparative regional studies, by regionalism we understand a state-led cooperation project among countries located within a particular geographical region (Hettne and Söderbaum 2000; Gamble and Payne 1996; Breslin 2002; Fioramonti 2012; Borzel et al. 2012). The two main characteristics of regionalism(s) are thus the fact that they are *political projects*: “political” since state political actors are the drivers of cross-national cooperation; and “projects” because they “involve an articulated idea of creating a region with specific goals in mind” (Ba 2009: 348; Fawcett 2004).

As in other parts of the world, trade and security have long been the central drivers of regionalism in Latin and South America. Trade integration was central in the Latin America Free Trade Association (1960), the Latin American Association of Integration (1980), the South American Common Market, MERCOSUR, (1991), and the Andean Community, CAN (1996), while security was the main driver of the Organization of American States (1948) or the Rio Group (1986) (Dabène 2009, 2012; Phillips 2004; Palestini 2012; Texeira and Neto 2012). As such, the regional cooperation process started in 2000 and resulted in the creation of UNASUR marks a significant change in the regional scenario, inasmuch as it constitutes a case of multi-scope regionalism whereby functional cooperation is being pursued in multiple policy-areas and trade convergence is far from being the driver of the process.

The main purpose of UNASUR consists in providing an institutional platform for fostering cooperation between South American countries within the social, political, cultural, and economic realms, as specified in the bloc’s Constitutive Treaty (see article 2). Trade integration was initially part of the cooperation agenda, but got gradually phased out in response to the emergence of growing political tensions and ideological divides concerning South American countries’ political economy models and patterns of insertion in the world economy.

In this sense, UNASUR embodies a broader shift in the objectives and scope of regionalism in South America (Riggirozzi and Tussie 2012), which from 2000 onwards –with the notable exception of the Pacific Alliance, which follows closely the *open regionalism*⁴ paradigm– has gradually diversified its focus, shifting from trade liberalization (aimed at attracting FDI and increasing export competitiveness) to a renewed emphasis on political cooperation on non-trade issues⁵.

The origins of UNASUR, as a space of regional cooperation circumscribed to South America, can be traced back to the ill-fated 1993 initiative of the Brazilian President Itamar Franco to establish a South American Free Trade Area (SAFTA) in response to the negotiation of the NAFTA agreement between US, Canada, and Mexico, which threatened Brazil’s economic and geopolitical interests in South America. SAFTA ultimately failed to produce any consensus regarding the benefits of a free trade area among South American countries⁶, yet represented Brazil’s first attempt to articulate a geopolitical response, based on the idea of a South American bloc, to the US hemispheric hegemonic projection. The key event initiating the cooperation sequence that led to the creation of UNASUR was

⁴ *Open regionalism* was a trade-oriented strategy of regional economic integration –which was imported from APEC countries and became dominant in Latin America in the early 1990s– pivoted on the reduction of tariff barriers and the opening up of national markets to foreign trade and investments; the economic schemes conceived under the umbrella of “open regionalism” were designed to have an “open membership” not limited to the countries of a specific region. In this way the regional market was considered as a stepping-stone to the global market (see ECLAC 1994).

⁵ A clear example of this trend is the Bolivarian Alliance for the Americas (ALBA). Created in 2004 under the leadership of Chávez’s Venezuela, ALBA entails trade integration but rejects market mechanisms, replacing them with mechanisms aimed at pursuing reciprocity and redistribution in the economic relations between member countries (e.g., the so-called People Trade Agreement or *Tratado de Comercio de los Pueblos*), in the framework of a broader socialist political project for the region.

⁶ SAFTA did not work because neighbors (particularly Chile and Colombia) feared Brazil’s economic size, industrial competition, and high tariff protections incompatible with NAFTA standards.

the first Summit of South American Presidents convened by the Brazilian President Fernando Henrique Cardoso in 2000, formally in commemoration of 500th anniversary of the discovery of Brazil.

The cooperation process started in Brasilia resulted in a first round of institutionalization in 2004. During the third Summit of South American Presidents in Cuzco, Peru, the Community of South American Nations (CSAN) was created. On the one hand, CSAN institutionalized the objectives of the new South American cooperation agenda born out of the Brasilia summit: transport infrastructure and energy integration, collective security, and trade convergence between Mercosur and CAN. On the other, new emphases on South American common history and identity surfaced, together with a focus on territorial sovereignty and policy-making autonomy, which got institutionally embedded in the regional initiative. CSAN emerged as a space of cooperation which embodied the emergence of a broader concept of regional cooperation as a development tool, which explicitly intended to overcome the exclusive focus on trade to embrace other non-trade developmental and security issues. Overall, CSAN was envisioned as a coordination mechanism to promote the convergence of existing regional initiatives and increase the region's capacity to negotiate as a bloc at hemispheric and multilateral level.

Between 2005 and 2008 key domestic and external changes took place, which changed the regional scenario and triggered a new round of interpresidential negotiation that produced an institutional transition from CSAN to the formalization of the Union of South American Nations (UNASUR) in 2008, with its General Secretariat located in Quito, Ecuador.

The UNASUR Constitutive Treaty, signed in Brasilia in 2008 by all twelve South American states, set up the bloc's institutional architecture, which consists of four main organs: the Council of Presidents; the Council of Ministries of Foreign Affairs; the Council of Representatives; and the General Secretariat. In addition to these bodies, twelve sectoral councils have been created for promoting inter-ministerial policy cooperation in specific issue-areas in which cooperation is perceived as mutually beneficial. Four of these councils have undergone extensive institutional development: the Council of Infrastructure and Planning; the Council of Energy; the South American Defense Council and the South American Health Council. The first two will be analyzed in great detail in the third section. As far as the collective defense issue is concerned, UNASUR was launched in a period of domestic (Bolivia) and inter-state tensions (the diplomatic row between Colombia, Ecuador, and Venezuela) in South America, which turned the defence of democracy and the preservation of peace into key priorities of the regional agenda, resulting in the creation of the UNASUR Defence Council in 2008⁷.

The remainder of the paper copes with two questions: (i) why regional cooperation and policy coordination in the transport infrastructure and energy areas have emerged; and (ii) why policy outcomes are evident in the transport infrastructure area, whereas they are modest in the energy area. In the next section we will introduce the main variables that explain cooperation outcomes and discuss the way in which they interplay in the process of regional cooperation.

2. Constructing regional cooperation: state preferences and regional leadership

In this paper we claim that regional cooperation and policy coordination under UNASUR can be explained through the analysis of the interplay between two main variables: *state preferences* and *regional leadership*. We therefore adopt an actor-centred approach in which state actors are the main

⁷ Other eight sectoral councils have been set up, some of them very recently: the Social Development Council; the Education Council, the Council of Science, Technology and Innovation; the Council of Culture; the Council for the Global Problem of Drug Trafficking; the Council of Economy and Finance; the Electoral Council; and the Council for Citizens' Security, Justice and the Fight against Transnational Crime.

agents of regional cooperation whose outcomes are the result of actors' intentional actions (Scharpf 1997) within the intergovernmental institutional setting that characterizes regionalism in South America.

State actors

Who is a state actor in a regional cooperation process? This is a key epistemological question in the IR and IPE literature dealing with international cooperation. While realist approaches have normally assumed the state as a unitary actor, the approaches that focus on the domestic influences over state action have tried to open the "black box" of the state breaking it into different levels of agency and investigating how domestic actors, coalitions, and bureaucracies interact to shape state preferences. Our stance in this epistemological quarrel is a pragmatic one: we posit that researchers must delimit the levels of state-agency depending on the research questions they want to answer and the object they aim at investigating.

In this paper we focus on the **foreign policy executive** as the main level of state-agency. The foreign policy executive (FPE) is composed of the head of state (the President in the case of South American states), presidential advisors, high-level diplomats, and officials of the Ministry of Foreign Affairs (Lobell, Ripsman, and Taliaferro 2009).⁸ There are two main reasons to make this methodological decision. In the first place, as argued in the introduction, South American regionalism is a case of cooperation in absence of high interdependence: i.e., there is a weak demand for cooperation coming from domestic market actors (Mattli 1999; Moravcsik 1993) and/or domestic coalitions (Solingen 2008). Secondly, as Gomez-Mera (2013) recently pointed out, in South America foreign policy-making is often a highly centralized process⁹. Although the level of policy-making autonomy of FPEs from other state and non-state domestic actors can change depending on the cooperation issue, we assume that the persistent and deep-rooted intergovernmental (inter-presidential in particular) dynamic of South American regionalism allows FPEs to keep a tight control over the cooperation process.

State preferences

Preferences are defined as actors' material and normative positions regarding potential outcomes of cooperation in a given issue-area¹⁰ (Scharpf 1997). State actors' preferences can be relatively stable inasmuch as they reflect issue-specific material domestic interests, however they may also shift due to a domestic change of governmental coalition or to external events. Furthermore, we argue that state preferences –represented and promoted by the foreign policy executive– can be influenced and redefined during the process of cooperation. In fact, in inter-presidential and inter-ministerial meetings actors can learn about the preferences and beliefs of each other, as well as try to persuade the rest to follow a particular course of action by defining focal points of cooperation and making evident the mutual benefits of a cooperative action. As a consequence, differently from rationalist theories like liberal intergovernmentalism (Moravcsik 1993, 1998), we assume that state preferences for

⁸ According to neoclassical realism, the foreign policy executive (FPE) actors define and promote the national interest, playing a key role in determining a country's foreign policy preferences and acting as a strategic link between the domestic dimension and the international system. These actors are more sensitive to systemic incentives –and particularly to changes in the distribution of power at regional and multilateral level– than to domestic pressures, from which they are often insulated (see Lobell 2009).

⁹ This is certainly the case with the Brazilian and Venezuelan states, which have articulated the most important regionalist initiatives in South America in the past decade. As a matter of fact, in the case of Brazil many voices have recently spoken up for a democratization of foreign policy-making, which is still highly centralized in the hands of Itamaraty (see Pinheiro and Milani 2012; Burges, 2014).

¹⁰ 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).

cooperation in a given issue-area are not fixed and that their intensity can change throughout the cooperation process.

As a matter of fact, state preferences are not always clearly defined and there can be a degree of uncertainty among actors concerning the consequences of cooperation (see Young and Osherenko 1993). Preference formation can take place through a bargaining process in which actors are not characterized by fixed payoffs (i.e., they are not fully aware of what is their specific interest or strategy in a sectoral cooperation process) and can be persuaded to participate in the cooperative “production of expanded benefits” (Young 1994: 126 in Hasenclever, Mayer, and Rittberger 2004).

Our analysis of regional cooperation therefore focuses on how preferences can converge or diverge in the process of cooperative interactions, during which state actors might be required to adjust or adapt their preferences in order to achieve a political compromise that is perceived as mutually beneficial. It is here where regional leadership plays a key role in formulating ideas and policy proposals that can make state preferences convergence towards regional cooperation.

Regional leadership

Regional leadership is the key catalyst for cooperation in our framework. We define regional leadership as a complex combination of material and ideational resources that allows a state actor to exercise decisive political/diplomatic influence and orient the outcome of cooperative interactions among countries in a given region. Regional leadership goes therefore beyond material power capabilities (e.g., population, market-size, and military and financial capabilities), to include the ability and willingness to obtain neighboring countries’ followership by influencing and shaping their preferences through persuasive policy ideas (Ikenberry and Kupchan 1990). By ideas we mean concepts and beliefs held by foreign policy elites that play a central role in a cooperation process by providing policy paradigms and road maps that policy makers can use to interpret international politics and shape preferences (e.g., by increasing actors’ clarity about the potential benefits of cooperation), cooperation agendas, and outcomes (see Goldstein and Keohane 1993; Checkel 1997).

As Nabers put it, “leadership is effective and sustainable when foreign elites acknowledge the leaders’ vision of international order and internalize it as their own. It functions through the intersubjective internalization of ideas, norms, and identities” (Nabers 2010: 51). In absence of military and/or economic coercion (such as in the South American case) regional leadership can make state preferences converge by crafting an “intersubjective understanding” (Ruggie 1982) of the best way to tackle common challenges and pursue shared interests, which creates, in turn, a sense of common interest and social consensus on the values and objectives of the new cooperation endeavor. In other words, regional leadership rests on an actor’s ability to present his own particular ideas and objectives as compatible with the neighboring countries’ interests, influencing their preferences in favor of a specific cooperation pattern and getting them involved in inter-state negotiations in which it can act as an agenda setter. Drawing on Oran Young’s work on international leadership,¹¹ we can define regional leaders as “entrepreneurs”, or “brokers”, who use negotiation/diplomatic skills and the power of ideas to facilitate preference convergence towards a cooperative policy solutions (Young 1989, 1991).

We posit that a key mechanism through which regional leadership is exercised in South America is persuasion: “a social process of interaction that involves changing attitudes about cause and effect in the absence of overt coercion [...] a mechanism through which preference change may occur” (Checkel 2001: 562). Persuasion requires giving reasons for actions that appeal to interest, norms, and values that are shared by the participants in a strategic interaction process (in our case a regional cooperation

¹¹ In his study of international leadership Oran Young defined regional leaders’ ability to shape other countries’ preferences through ideas and capacity to gain support for innovative solutions to overcome political deadlocks as respectively *intellectual* and *entrepreneurial leadership* (Young 1991).

process). Persuasion works through ideas, which can structure situations of political choice, particularly in “unsettled” phases¹² in which, due to critical events that have an impact on state interests and power constellations, actors’ preferences are uncertain and there is more space for regional leaders’ ideas and proposals to make state preferences converge towards regional cooperation initiatives.

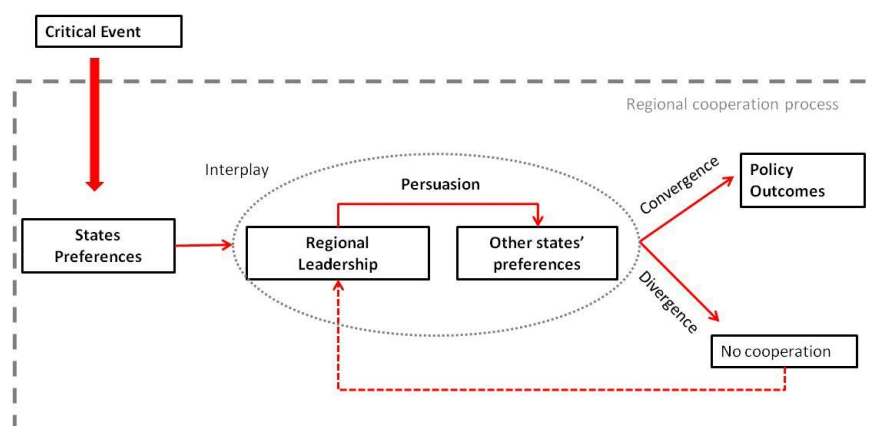
The causal mechanism

Our analysis is based on the causal mechanism described in Figure 1. The dependent variable of the model is the production of “policy outcomes” which is operationalized along two dimensions: a) the number of projects and the amount of investments; and b) the level technical cooperation (e.g., development of monitoring/assessment methodologies; the elaboration of participatory mechanisms for non-state actors).

We hypothesize that the production of policy outcomes is the result of the interplay between regional leadership and state preferences, whose outcome depends on the capacity of the regional leader to make preferences converge towards a specific course of action through persuasion. We expect that a change in actors’ state preferences in a given issue-area (*divergence* in Figure 1) will require, in order for cooperation to continue, a reformulation of the regional leadership project, which might result in a change of goals and strategies. If the regional leader eventually does not manage to make actors preferences converge towards a preferred course of action, we expect the regional cooperation process to cease or to get encapsulated (Schmitter, 1971) at the inter-presidential level without producing any policy outcome.

Although the core of our causal explanation of diverging policy outcomes in different policy areas is represented by the interplay between regional leadership and state preferences, we also assume that the emergence of a regional cooperation process is triggered by critical events understood as economic and/or political crises or sudden changes in the global political economy that bring about widespread and synchronized effects on the countries of a particular region (for a similar conceptualization of “crisis-induced cooperation cycles” see Schmitter, 1971; Dabène 1997 and 2009). Critical events and their regional effects on actors’ preferences incentivize the articulation of a regional leadership that will seek through persuasion to gain political support for elaborating a collective response to the shared challenges and opportunities posed by the event (Goldstein and Keohane 1993).

Figure 1: Causal Mechanism



¹² Goldstein and Keohane defined this type of situations as *policy windows* (Goldstein and Keohane 1993: 26).

3. Tracing cooperation in the infrastructure and energy sectors

In accordance with standard methodology in case studies, we focus on a “positive case” (transport infrastructure), where significant policy outcomes have been delivered, and a “negative” one (energy), where policy outcomes have been very limited. The selection of transport infrastructure and energy as case studies has also to do with the fact that both areas have been at the core of the South American regionalist agenda since its very beginning in 2000. Following *theory-guided process tracing* methodology (Falleti 2006), the empirical analysis is organized in “historical narratives” structured upon our theoretical framework, which seeks to shed light on the interaction between critical events, regional leadership, and state preferences.

Data collection on both policy areas was carried out from September to December 2012 in Brazil and from November 2013 to January 2014 in Brazil, Ecuador, Chile and Argentina, and includes the analysis of official documents as well as semi-structured interviews with Brazilian bureaucrats, policy makers, representatives of business associations, officials from international institutions, and journalists. In addition, online interviews were carried out with technocrats and policy-makers located in other South American countries. The list of interviews used in this paper is presented in the annexes at the end of the document, each interview indicated with an “I” and a number.

3.1. Critical events and state preferences

In this article we argue that South American regionalism under the umbrella of UNASUR is largely explained by the interplay of the regional leadership exercised by Brazil and the preferences of state actors in the region. How did this interplay come about though? Why did the Brazilian state articulate ideas and proposals about regional cooperation in the energy and transport infrastructure areas covering the whole South American region, going beyond its direct area of influence within MERCOSUR? We argue that two critical events played an important role in triggering the Brazilian ideas and diplomatic vision of a South American bloc. The first event was the advancement of the Free Trade Area of the Americas (FTAA) negotiations, which challenged Brazil’s economic interests and geopolitical position both inside the region and vis-à-vis the US. The second critical event was the cycle of financial and economic crises that hit South America, and particularly the MERCOSUR countries, affecting the core of Brazil’s interests and soft power influence.

The Free Trade Area of Americas (FTAA) was a US-led project launched in 1994 and aimed at creating a hemispheric free trade area that would have encompassed 34 countries across the Western Hemisphere, from Canada to the Southern Cone. The US trade penetration strategy polarized the South American regional scenario and threatened the unity of sub-regional integration schemes like MERCOSUR and CAN, as well as Brazil’s economic and geopolitical interests in the region. In a conference in Quebec in 1999, President Fernando Henrique Cardoso summarized the position of Brazil regarding the FTAA as follows:

“A free trade area of the Americas is welcome if its creation implies access to more dynamic markets; if, it drives towards common anti-dumping rules; reduction of non-tariff barriers; if it prevents the protectionist distortion of rigid sanitary rules; if, although protecting the intellectual rights, it also promotes capacity-building of our people in technology; if it transcends the Round of Uruguay, diminishing the inequalities that came out from these negotiations especially regarding agriculture. Otherwise, the Free Trade Area of Americas will be irrelevant or even worse, undesirable” (Ministry of Foreign Affairs of Brazil 2000).

The announcement of the FTAA had an immediate impact on the preferences of South American states that at the time were led by governments aligned with the principles of trade liberalization and foreign investment attraction. In fact, already in 1994, the Argentinean government of President Carlos Menem expressed a strong interest in a trade agreement with the US in spite of its commitment with MERCOSUR. In Chile, in turn, when the FTAA negotiations were launched the democratic coalition government of *La Concertación* (1990-2010) was facing the dilemma whether to stall the trade

liberalization process –by far the fastest and deepest in the region– started during the dictatorship of General Pinochet or to continue and expand the policy of trade opening. The announcement of the FTAA and the possibility to become the “fourth *amigo*” of the US within NAFTA was interpreted by the Chilean government as a strategic opportunity to lock-in free market policies and reinsert the country into the international arena as a democratic state (Arashiro 2011). Finally, also Uruguay under the presidency of Julio María Sanguinetti showed a strong interest in the FTAA, which was perceived as an opportunity to expand its trade with the US, attract investments, and balance the overwhelming power of Argentina and Brazil within MERCOSUR.

Facing the risk of regional fragmentation, the Cardoso administration understood that in order to protect and advancing Brazil’s economic interests in the FTAA negotiations it was necessary to get the support of the region, preventing the US from carrying out bilateral negotiations with each country and promoting instead inter-bloc negotiations¹³. The creation of a cohesive South American bloc would have strengthened not only South American countries’ negotiation power, but also Brazil’s strategic position vis-à-vis the US as the spokesman of the whole region (Soares de Lima 1999; Amorim 2011; Gomes Saraiva 2014).

In addition to the external hegemonic pressure exercised by the US through the FTAA negotiations, there was a second event that affected South American countries’ preferences for cooperation, fuelling regional fragmentation (especially within MERCOSUR) and further pressing Brazil’s regional leadership reaction: the 1997-2002 global financial crisis cycle, which started in East Asia but had an extremely negative impact on the economies of the region¹⁴. During the 1990s the majority of South American countries liberalized capital accounts, allowed free convertibility, and opened bond and equity markets to foreign purchasers for attracting FDI, making South American economies extremely vulnerable to exogenous financial shocks (Higgott and Phillips 2000: 364). When the international financial contagion reached South American economies¹⁵ and a cycle of deep financial and economic crises broke out. Currency devaluations, capital flight, growing public debt, and regional contagion effects hit the region’s main economies in a synchronic way. The repercussions in South America, particularly within the Mercosur bloc, were critical.

The devaluation of the Brazilian *real* in January 1999 created significant trade and political tensions within MERCOSUR, unleashing a war of non-trade barriers between Argentina and Brazil, which seriously threatened the stability of the sub-regional integration scheme, pushing Argentina and Uruguay to consider negotiating bilaterally with the US within the FTAA framework.

3.2. The articulation of the Brazilian leadership: the idea of South America

The unfolding of the FTAA negotiations and the growing economic and political instability within MERCOSUR pushed the Cardoso administration to articulate a new regional cooperation project, which was presented to the South American heads of state during the historical First Summit of South American Presidents, held in Brasilia in August 2000. Before the Brasilia Summit, transport infrastructure integration and energy integration had not been regional issues, being dealt with mostly at national or bilateral level, whereas trade integration monopolized the South American regional

¹³ The US were pushing for bilateral negotiations with South American countries in order to weaken their capacity to oppose key FTAA’s provisions in the sensitive fields of public procurement, FDI, agricultural subsidies, labor legislation and intellectual property rights, whereas Brazil was pushing for leading inter-bloc negotiations in order to increase South American countries’ negotiation power vis-à-vis the US (Soares de Lima 1999).

¹⁴ In the 1999-2002 period the region was shaken by financial volatility, economic recession, growing trade deficits, and balance-of-payments problems, which showed how economically vulnerable South American countries still were after one decade of structural reforms (Tussie 2009).

¹⁵ The 1997-99 East-Asian financial crises reverberated through the region and contributed to the devaluation of the Brazilian *real* and the Argentinean *peso*, which led to Argentina’s default in 2001.

agenda. The Brazil-led South American project intended to rebalance the content of regional cooperation, backing up trade integration with sectoral cooperation on the issues of transport and energy interconnections and collective security.

The Brazilian leadership under Cardoso was articulated in two main sets of ideas.

In the first place, *regionalism has to be developed in South America and not in Latin America*. As an influential Brazilian diplomat mentioned, for a long time Itamaraty (i.e., Brazil's Ministry of Foreign Affairs) remained highly skeptical about the notion of Latin America arguing that the concept was a French invention, and that the natural region where to pursue regional integration is South America (I4). Behind this historical observation, there is the fact that the Brazilian elite felt that in the broader geopolitical context of Latin America Brazil's regional leadership was partly offset by Mexico, the second biggest economy of the region. In 2000 President Cardoso thus made a great political and diplomatic effort to anchor regional cooperation to the geographical and cultural notion of South America, and to persuade the rest of states to accept South America as the new geopolitical reference of regionalism (Linz da Silva 2002). The task was not easy since Mexico has deep-rooted historical relations –especially in cultural terms– with Spanish speaking South American countries, many of which have often had closer affinities with Mexico than with Brazil itself.

Secondly, *South American regionalism has to be constructed through the physical integration of transport and energy infrastructure*. The Cardoso administration envisioned regionalism as a powerful economic development strategy that would provide a set of intergovernmental cooperation platforms to collectively tackle the exogenous and endogenous constraints on the region's growth and development, with a special emphasis on infrastructure and energy that acted as focal points of the cooperation process in the following years (I5; see also Burges 2005). Central to the Brazilian leadership project was the idea of the physical organization of a South American regional space through transport and energy integration, which would have been the engines of a broader regional cooperation agenda¹⁶. From the viewpoint of Cardoso, the improvement of regional transport infrastructure would have raised export sector competitiveness, increased intra-regional trade flows, and created the preconditions for the flourishing of transnational production chains. Likewise, energy integration would have improved energy efficiency (both in terms of supply-lines and prices), positively affecting South American countries' economic competitiveness.

Cardoso had in his mind the early steps of the European integration process, with its emphasis on the integration of the coal and steel industries and the fostering of infrastructure and energy interconnections, like in the case of the energy integration of the Rhine Basin. Already while serving as Foreign Minister (between October 1992 and May 1993), Cardoso pushed for the articulation of a regional energy matrix, encouraging the purchase of Argentinean and Venezuelan oil, as well as the construction of the Gasbol bi-national gas pipeline, which connects Bolivia's gas fields with the south-east regions of Brazil and is currently the longest (3150 km) natural gas pipeline in South America. Additionally, Brazil signed an agreement on gas imports with Argentina and one on electricity with Venezuela for providing electric power supply to the state of Roraima in the northern Brazilian Amazon basin. Finally, under his government the MERCOSUR electric systems became interconnected (Linz da Silva 2002: 314; Ministry of Foreign Affairs of Brazil 2000).

In Cardoso's view, energy and transport infrastructure had to be developed simultaneously, being areas with great potential for spill-over into a wider regional integration agenda, including more

¹⁶ Together with infrastructure and energy, Brazil's regional agenda included collective security and trade convergence between CAN and MERCOSUR. As such, in Brasilia trade issues were indeed on the table, yet they were no longer considered the indispensable engine of regionalism. Trade convergence gradually came to be perceived as a divisive issue, given the lack of convergent state interests in the field. From 2005 onwards, MERCOSUR-CAN trade convergence into a South American Free Trade Area was sidelined, mainly as a consequence of the failure to reach a regional consensus on the FTAA negotiation, which led the US to abandon the multilateral negotiation track in favour of bilateral negotiations (Dabène 2013).

contentious issues like trade integration and governing security externalities (Cardoso 2006). Consequently, in Brasilia Cardoso proposed not only to extend the energy interconnection project to the whole of South America, but to combine it with an ambitious project of transport infrastructure integration inspired by a national program that the Cardoso government had successfully implemented on the Brazilian territory, *Avança Brasil*, whose aim was to better integrate the 27 federal units (26 states plus the Brasilia Federal district) of Brazil's continental-wide territory. *Avança Brasil* was strongly influenced by the ideas of economic geographers about regional corridors and industrial clusters, actively diffused by the Inter-American Development Bank (IDB), which, in turn, had drawn from the experience of the Asian Development Bank in East Asia during the 1980s and 1990s (Tavarés 2012). The strategic vision of a South American infrastructure program was centered on the need to overcome geographic barriers and territorial disparities to unleash the region's huge economic potential through the synergic trans-border development of transport, energy, and telecommunication infrastructure. In order to achieve that, the Brazilian government realized that it needed to get on board two influential international institutions operating in the region: the UN Economic Commission for Latin American and the Caribbean (ECLAC) and IDB. An innovative and ambitious idea of infrastructure integration emerged from the interaction between the Cardoso administration and the technocrats of those international organizations:

“The idea presented in Brasilia was to construct ‘axes of development’, corridors of energy, transportation, and communications infrastructure connecting the different regions of South America. Critically, the elaboration of the axes was to be based on demand –not central planning or competing national political considerations– in an effort to foster the creation of regionally integrated production chains” (Director of *Avança Brasil*, 2001, cited in Burges 2009: 60)

3.3. Leadership that makes preferences converge: transport infrastructure and energy integration as focal points

As it had happened with the failure of SAFTA seven years before, in Brasilia several South American countries initially reacted with a mix of reticence and overt opposition to Brazil's proposal of a South American process of cooperation. Countries like Argentina, Chile, Colombia, and Peru were attracted by the possibility of joining NAFTA through the FTAA, and therefore looked with diffidence and preoccupation at the idea of engaging in a regional process that could have been interpreted negatively by the US government in such a critical stage of the FTAA negotiation. During the Brasilia Summit one of the presidents stated ironically: “President Cardoso, I was invited to celebrate a baptism –alluding to the 500 years of Brazil discovery, which was the official motive of the summit– while now I realize that we are celebrating a wedding” (I12).

However, despite the diversity of foreign policy preferences among the twelve countries represented in Brasilia, the areas of transport infrastructure and energy integration turned out to be persuasive focal points which obtained the support of all 12 South American heads of state, as proved by the issuing of the so-called Brasilia Declaration. The convergence of South American countries' preferences is evident in several paragraphs of the Declaration¹⁷, which worked as a road map for the regional cooperation process that started in Brasilia.

The Brasilia Declaration was composed of five issues: protection of democracy, trade integration (in the form of convergence between CAN and MERCOSUR), fight against illicit drugs, cooperation in technology, and physical integration of the region through energy and transport infrastructure integration. It is worth noting that while the first four issues were already being addressed in the agendas of pre-existing regional and sub-regional organizations like MERCOSUR and the Rio Group, the physical integration of energy and transport infrastructure was a new element for South American regionalism, which constituted the core of the Brazilian leadership project under Cardoso (Burges

¹⁷ http://www.iirsa.org/admin_iirsa_web/Uploads/Documents/comunicado_brasilia_esp.pdf

2009; Malamud 2005). Furthermore, transport infrastructure and energy were the only two issue-areas covered by the Declaration for which concrete actions were foreseen, including a detailed Action Plan added as an annex to the official communiqué and written by the technocrats of the IDB.

In paragraph 37, for instance, the heads of state jointly stated that the implementation of infrastructure interconnections was expected to generate positive spillover effects on socio-economic development, which could be further strengthened through the formulation of a regional investment policy that should have complemented the traditional national focus of investments policies. Paragraph 38 established the countries' commitment to financial cooperation aimed at attracting long-term investments for financing regional infrastructure projects, with the support of the private sector and multilateral financial institutions (e.g., Inter-American Development Bank and the World Bank). Paragraphs 40 and 42 defined energy integration as the adoption of regulatory regimes that could facilitate the interconnection and working of energy systems. Finally, in paragraph 44, the South American heads of state agreed to delegate to the Inter-American Development Bank (IDB) and the Andean Development Bank (CAF) the coordination of the policy initiatives aimed at developing the integration axes of the new South American economic space.

The Brasilia Declaration epitomized the success of the Brazilian diplomacy in formulating and exercising a regional leadership capable of persuading the other South American states to engage in regional cooperation on trans-national infrastructure and energy projects within a new regional organization¹⁸: the Initiative for the Integration of Regional Infrastructure in South America (IIRSA).

Although in Cardoso's conception energy and transport infrastructure were complementary areas of cooperation, already in Brasilia it was clear that state preferences and corporate interests regarding energy integration were less prone to converge. Two very different proposals surfaced during the Brasilia Summit about what kind of energy integration should be pursued in the region: the first entailed the interconnection of power plants and pipelines as part of a broader physical integration project; the second was more ambitious and politically contentious, involving the integration of energy market regulations, which implied a stronger commitment to harmonization and a more intensive coordination between countries, as foreseen by the Brasilia declaration. In spite of divergent state preferences about the scope and depth of energy integration, thanks to the Brazilian leadership energy was included in the IIRSA project.

3.4. Transport infrastructure and energy integration under the Brazilian leadership

First interplay: preference convergence and the creation of IIRSA

In less than one year the ideas and consensus forged in Brasilia under the leadership of Brazil crystallized into a new institutional architecture. IIRSA was designed as a flexible network of technical bodies headed by the Executive Steering Committee, a political body composed of national governments' representatives (mainly ministers) who were assigned the task of setting up the strategic guidelines for cooperation, as well as of evaluating and approving the proposals formulated by the Executive Technical Groups. The entire process was financially managed and technically monitored by the Committee of Technical Coordination, which was composed of representatives from IDB and CAF. Despite the formal participation of South American governments, the institution-building process was mainly administrated by IDB, which in turn influenced IIRSA's institutional design and strategic guidelines concerning the selection, administration, and implementation of integration projects (I7 and I8).

¹⁸ Sean Burges defined Brazil's regional diplomacy in the Cardoso-Lula years as a *consensual hegemony project* based on the construction of a geopolitical vision that engages neighbors in a process of dialogue and cooperation that produces convergence and consensus, which is usually embedded in an institutional cooperative structure that can be maintained without relying on coercion (Burges 2008).

In 2004 IIRSA delivered a large portfolio of 335 projects to be implemented in the following ten years, which had been distributed along ten geographical axes of integration (so-called Integration and Development Axes or “Hubs”¹⁹): most of the projects were in the transport infrastructure area, with few projects in the energy area. Among the few energy projects most consisted in interconnections with just one energy project on regulatory harmonization (UNASUR 2011: 23).

Along with the development axes, IIRSA’s institutional cooperation was structured around seven Sectoral Integration Processes aimed at promoting regulatory harmonization in areas affected by normative and institutional obstacles to infrastructure integration, such as Border Crossing, Energy Integration, Financial Instruments, Information and Communication Technologies, and Air, Maritime and Multimodal Transport. Overall, IIRSA’s main goal was the creation of a region-wide, economically integrated area, “with particular emphasis on the situation of countries facing geographic constraints regarding access by sea to international markets.” (IDB 2011: 15).

In its first five years IIRSA earmarked a total investment budget of US\$ 37.4 billion, selecting 31 interdependent priority projects to be part of the Integration Priority Project Agenda (API), and setting 2010 as a deadline for implementing them. The first transport infrastructure project to be finalized was the Peru-Brazil bi-national bridge over the Acre River, which was inaugurated in 2006. Yet, between 2004 and 2006, the initiative went through a difficult phase due to growing resistance from relevant political actors (particularly within the Venezuelan and the Brazilian governments), but also, on a local scale, from non-state actors such as environmental groups and indigenous movements.

Second interplay: preference divergence, Brazil’s leadership reaction, and the transition from IIRSA to COSIPLAN

The partial delegation of the institutional design and policy-making to the IDB and CAF technocrats, which initially responded to the preferences of the most influential South American governments gathered in Brasilia, started to create significant political tensions among the actors involved in the cooperation process. Starting from 2002, with the election of Lula in Brazil, many South America countries experienced a domestic left-turn,²⁰ which represented a clear reaction against the shortcomings of neoliberal market reforms and the impact of the financial crises of the 1997-2002 period. Inevitably the changes at the domestic level produced a reformulation of actors’ preferences regarding regional cooperation patterns and outcomes. Particularly relevant for explaining the political tensions that led to institutional change within IIRSA, and then to the transition from IIRSA to COSIPLAN, are the changes in foreign policy-making of Brazil under Lula and the emergence of Venezuela’s regional leadership project under Chávez.

Since 2004, taking advantage of soaring oil prices, the Venezuelan state started to articulate a regional leadership strategy that stood as a clear alternative to the US-backed FTAA and overtly opposed neoliberalism and free trade in favor of political cooperation based on solidarity, reciprocity, and complementarity, as well as on Latin American countries’ (in opposition to the Brazilian idea of South America) common cultural identity. The Venezuelan leadership project got embedded in the Bolivarian Alliance for the Peoples of Our America (ALBA), which promotes regional cooperation in the fields of health, education, and energy through the joint actions of state companies. ALBA’s initiatives have been almost exclusively financed by Venezuela, which “acted as ALBA’s paymaster, using a mix of soft power resources (political influence) and hard power mechanisms (subsidized oil and other kinds of economic aid)” (Gomes Saraiva 2014: 69). Starting from 2004, the Venezuelan state became a vocal critic of IIRSA. Initially Venezuela declined to participate in the IIRSA meetings, and then left the group in overt opposition to IIRSA’s methodology, which was based on the

¹⁹ IIRSA’s ten integration and development hubs are the Andean Axis, the Peru-Brazil-Bolivia Axis, the Paraguay-Parana Waterway Axis, the Capricorn Axis, the Southern Andean Axis, the Southern Axis, the Mercosur-Chile Axis, the Central Inter-Oceanic Axis, the Amazon Axis, and the Guyana Shield Axis (IDB 2011: 66).

²⁰ Between 2002 and 2006 left-wing governments won elections in Argentina, Bolivia, Brazil, Chile, Ecuador, Uruguay, and Venezuela.

idea of export-corridors, and IDB's governance, which was accused by the Venezuelan government of applying pure financial criteria in the selection of infrastructure projects (I7 and I1).

As far as Brazil's regional leadership project is concerned, the Lula administration shifted the focus of Brazil's regional diplomacy from liberal economic integration to the creation of a South American bloc based on a strong regional identity and the promotion of intergovernmental cooperation not only in fields like security and infrastructure, but also on education and health policies. Under Lula Brazil adopted a developmental regional vision pivoted upon policy-making autonomy and closer ties with countries governed by left-wing governments, which distanced itself (more than what Cardoso did) from the classic economic integration patterns, envisioning South America as a cooperation platform for promoting and structuring regional governance. As a result of the foreign policy shift brought about by the government of the *Partido dos Trabalhadores* (PT), Brazil's position towards IIRSA started to change. In order to align Brazil's regional diplomacy with the Venezuelan ideas, the Lula government started criticizing IIRSA's institutional architecture and governance, asserting the need to move from an integration process handled by bankers to one led by governments (I7, I8 and I1).

Fierce domestic opposition to IIRSA came also from social movements at local level, which vocally denounced IIRSA's lack of environmental regulation, the absence of participatory mechanisms for civil society groups, and the negative effects that some of IIRSA's emblematic projects (e.g., the Paraná-Paraguay waterway and the Madeira River dam) had on indigenous communities and protected natural environments (Comegna 2010). In an attempt to re-articulate its regional leadership project, the Lula foreign policy executive decided to undertake the institutional reform of IIRSA.

The diagnosis made by the Lula foreign policy executive was that the increasing divergence of preferences among South American states –especially among those located in the left-side of the political spectrum– regarding the IIRSA project had to do with the excessive role that the Cardoso administration had delegated to multilateral banks, and particularly to the IDB, in the Brasilia declaration. As a consequence, the Brazilian state and the other South American countries had lost control of the initiative. A first response crafted by the Brazilian foreign policy executive in 2004 was to create a new bureaucratic entity within IIRSA's institutional structure: the *national coordinators*, who were national bureaucrats mainly coming from the respective Ministries of Planning and directly nominated by the Minister him/herself (I7 and I2). Through the national coordinators, the governments achieved stronger political control over the design and implementation of IIRSA's portfolio of projects²¹.

However, the biggest and crucial institutional change took place in 2008 when, under the leadership of Brazil, IIRSA became part of the recently created UNASUR. This change was possible because South American states still considered transport infrastructure as a strategic priority for the promotion of both national development and South American cooperation. The Brazilian state saw in IIRSA the opportunity to get its powerful National Bank for Economic and Social Development (BNDES), as well as its biggest firms in the construction sector (e.g., Odebrecht), involved in the infrastructure projects of the IIRSA portfolio. To fully take advantage of this strategic opportunity to expand Brazil's interests regionally the Lula government increased the resources available in the infrastructure sector through the adoption of a Growth Acceleration Program (better known as PAC²²).

²¹ The changes in IIRSA were in line with the broader strategy adopted by Brazil's foreign policy executive under Lula to further centralize the foreign policy-making process in the hands of Itamaraty, reverting the partial de-centralization brought about by the second Cardoso administration. The priority given to the South America region under Lula translated into significant institutional changes within Itamaraty: new departments and secretariats specifically focused on South America were created, which led to the doubling of the number of diplomats dealing with South America (see Lima and Hirst 2006).

²² The *Programa de Aceleração do Crescimento* was launched in 2007 with a total budget of \$503.9 billion reais for the 2007-2010 period, targeting the development of energy resources, transportation infrastructure, and housing and

Smaller states like Ecuador and Bolivia started also to focus on national investment programs centered on transport infrastructure. In Bolivia, for instance, investments in the infrastructure sector rapidly increased up to 50% of total public investment, focusing on water projects, basic sanitation, and transportation and telecommunications infrastructure (Rubio 2013).

Under this regional scenario of convergent state preferences for infrastructure development, IIRSA was still considered a valid springboard for regional cooperation, providing technical knowledge about the complex geography of the region, as well as a portfolio of consensual projects already approved by the member states; yet it needed to be reformed in order to meet the preferences of the new governments involved in the cooperation process.

During the Third Summit of UNASUR (Quito, August 2009), the bloc's member countries agreed that governments, not banks, should be the coordinators of regional infrastructure projects, and created UNASUR's Infrastructure and Planning Council (COSIPLAN). Consequently, they decided to let the contract with IDB expire, and insert IIRSA into UNASUR's institutional framework. A preliminary updating of IIRSA's portfolio followed, whereby the Executive Technical Groups expanded the list of projects, launching the IIRSA 2010 Portfolio, which included 524 projects with a total budget of US\$ 96 billion. In 2010, after the inauguration of the continent's first transoceanic highway, the Peruvian President Alan Garcia publicly stated: "Thanks to integration efforts led by great Brazil –our brother with whom we walk hand in hand– we can create a road of social justice and well-being for all our South American people" (President Alan Garcia, quoted in Rudovsky 2012)

The interplay of convergent state preferences and the positive interaction between Brazil's and Venezuela's regional leaderships led to a renewed political consensus at the inter-presidential level that resulted in salient institutional change, which brought regional cooperation under the full control of national governments.

In June 2011 all the 12 Ministries of Planning, with Venezuela again on board, signed the COSIPLAN Regulation, which specified the institutional relationship and division of work between IIRSA and COSIPLAN. According to article 5b, IIRSA deals with the selection, planning, and implementation of infrastructure projects, with regular monitoring, as well as with elaboration of new methodologies and technical criteria for the selection of the projects. As a consequence, IIRSA's national coordinators' network became the technical body of COSIPLAN, which is governed by the Council of Ministries in the areas of transport, public works, and planning. IDB and the other multilateral development banks were downgraded to the level of technical assistance (I1, I2, I7).

In terms of institutional design, COSIPLAN is a more hierarchical and political institution than IIRSA: it is regulated by the 2008 UNASUR Constitutive Treaty, all decisions are taken by the Council of Ministries (advised by national teams of technocrats), and they have to be consensual. Each member country has a national representative, assisted by a political figure (often a member of the ministry of foreign affairs). This is a significant change compared to IIRSA's decision-making procedure, which was highly influenced by the IDB. Furthermore, with the creation of COSIPLAN, environmental and participatory issues have become part of the decision-making process, as demonstrated by the establishment of specific mechanisms to address environmental concerns and ensure the participation of social and private actors²³ (I2). In terms of project selection and implementation, the institutional change brought about by the merging of IIRSA with COSIPLAN resulted in a further expansion of the project portfolio (COSIPLAN 2013).

(Contd.) _____

sanitation. The Rousseff administration has decided to continue the program launching PAC-2, with a total budget of \$958.9 billion reais for the 2010-2014 period (see <http://www.pac.gov.br>).

²³ COSIPLAN has recently adopted the Strategically-based Environmental and Social Evaluation Methodology (EASE), which has been designed to identify complementary actions that might enhance –from a social, environmental, and cultural point of view– the positive effects of IIRSA's infrastructure projects and minimize their negative impact. The methodology includes the participation of experts in the area of environmental and social evaluation, as well as of civil society groups.

COSIPLAN is a very recent regional institution; it is therefore still too early to assess its performance and achievements. However, in its first three years COSIPLAN demonstrated a greater capacity than IIRSA to coordinate societal interests both at regional and sub-national scales. Firstly, COSIPLAN instituted consultation mechanisms with environmental organizations; second, political backing was ensured through the direct involvement of representatives from the ministries of foreign affairs of every South American country; third, consultation mechanisms with the private sector were created and partnerships forged with important business players, such as the Federation of Industries of the Sao Paulo State (FIESP) and BNDES.

3.5. Energy integration under the Venezuelan leadership

Third interplay: Venezuela's leadership initiative, preference divergence, and the transition from IIRSA to the UNASUR Energy Council

As mentioned earlier, already during the Brasilia summit state preferences regarding what kind of regional cooperation should be pursued in the area of energy turned out to be divergent. On the one hand, the creation of region-wide energy supply lines and greater diversification of energy sources were shared interests of South American governments, many of which were suffering from the inefficiency of power systems and transmission lines that caused frequent black outs and damaged economic activities. Functional cooperation was thus considered necessary in order to overcome the severe budget constraints exacerbated by the financial crises that shook the region in the early 2000s that were impeding government investments in the upgrading of energy infrastructure. On the other hand, efforts towards regulatory convergence clashed with diverse domestic market conditions (some organized around state-owned enterprises, others instead completely privatized), which were the result of “delicate” political arrangements between the state, private companies, and capital and labor organizations (I3). In other words, very different political economy models and national interests were at play, which made particularly difficult any extensive convergence of actors' preferences in the field of energy production and distribution. As a result, the initial inter-presidential consensus achieved in Brasilia through the regional leadership of Cardoso's presidency translated into a very weak institutional capacity to articulate proposals and implement projects. The divergence among state preferences regarding the objectives and modalities of energy cooperation was significant.

By 2005, the previous regional consensus institutionally crystallized into IIRSA was broken up and new ideas and proposals emerged about how to pursue South American energy cooperation. The initiative this time came from the Venezuelan leadership, which pushed forward a contentious idea of energy integration based on the PETROSUR²⁴ experience and its emblematic *Great Pipeline of the South* project, launched in 2005 by President Chávez and President Kirchner to connect the gas lines of Venezuela, Bolivia, Uruguay, Brazil, and Argentina. The Great Pipeline of the South was supposed to be managed by big national public companies (so-called *GranNacionales* in Spanish) in clear opposition to IIRSA's transnational private governance, and, if implemented, would have represented the pillar of Venezuela's regional hegemonic project based on its oil wealth.

However, the Venezuelan ideas on energy integration were unable to align divergent national interests in the field of energy production and distribution (I3 and I6). In addition to growing technical concerns about its economic and environmental sustainability, the Great Pipeline of the South also faced strong political resistance from several South American governments, and particularly from South America's powerhouse Brazil. On the top of that, bilateral tensions shook the energy sector, further complicating the regional cooperation process. In 2006 the Morales government nationalized

²⁴ PETROSUR is an energy cooperation initiative that Venezuela has addressed to all South American countries following the model of PETROCARIBE (Venezuela's flagship cooperation program with the Caribbean countries). The initiative is based on strategic cooperation among state oil companies aimed at increasing production efficiency, and it includes assistance for oil developments, investments in refining capacity, and preferential oil pricing among member countries.

Bolivia's gas industry with the technical and political support of Chávez's Venezuela, affecting the economic interests of Petrobras (the Brazilian oil giant) in the Andean country and provoking a strong public backlash in Brazil, as well as strained diplomatic relations which forced President Lula to intervene at inter-presidential level to settle the dispute directly with Evo Morales (Honty 2006; Sanahuja 2012). The support provided by Chávez's Venezuela to the nationalization of Bolivia's gas industry was interpreted by the Lula administration as a threat to Brazil's national interest, which further distanced Brazil from any effort to deepen regional energy integration in South America.

In spite of the political tensions and preference divergence, Venezuela continued to push for energy integration. In April 2007 Venezuela organized another emblematic summit: the first South American Energy Summit in Isla Margarita. The Isla Margarita Energy Summit was a highly politicized event, in which Venezuela explicitly tried to disentangle its own regional leadership from Brazil's, removing energy integration from the agenda of IIRSA to put it on a specific fast track controlled by the Venezuelan government and underpinned by an alleged political consensus among left-of-centre governments which simply was not there. On the contrary, the Energy Summit showed how dramatically different Brazil's and Venezuela's ideas were concerning South American energy integration and the composition of its energy matrix. In Isla Margarita President Chávez questioned the use of foodstuff for ethanol production, as well as the agreements on biofuels between Brazil and the US, denouncing their potentially negative impact on food prices, while defending the role Venezuela's oil industry as engine and paymaster of the integration process. After a tense negotiation, South American countries agreed on the creation of the South American Energy Council –which was given the task of working out an Action Plan for the negotiation of a South American Energy Treaty– in the attempt to provide an institutional coordination platform that could facilitate the convergence of state preferences in the next future.

Overall the Energy Summit had showed that the conditions for deepening regional cooperation were not there: state preferences were divergent and Venezuela's regional leadership not only did not succeed in making South American countries' preferences converge, but exacerbated divisions and alienated Brazil's support to the cooperation initiative. The interplay of divergent state preferences and contested regional leadership produced a stalemate in the cooperation process.

A few months later, in November of the same year, the Brazilian government announced the discovery of large oil and gas reserves in the Tupí deep-sea fields. The finding of deep-sea oil and gas fields (so-called pre-salt fields) made continental energy integration plans even less attractive to the Brazilian state. Not surprisingly, shortly after the discovery Brazil withdrew from the *Mariscal Sucre* joint gas project with Venezuela, which eventually caused the total abandonment of the Great Pipeline of the South project (I10; see also Sanahuja 2012).

The failure of the Venezuelan regional leadership in the energy area did not mean the complete abandonment of the energy cooperation agenda, which remained a key pillar, together with physical interconnection and collective security, of the broader regional agenda of UNASUR. The stalemate was broken in May 2010 with a new intergovernmental negotiation round that took place during the UNASUR Extraordinary Summit of Los Cardales (Argentina), which elected Argentina's former president Nestor Kirchner Secretary General of UNASUR. In Los Cardales the South American Energy Council (now transformed into one sectoral council of UNASUR) presented the strategic guidelines for the elaboration of a South American Energy Treaty, along with a detailed schedule of activities and objectives to be achieved by the end of 2013. UNASUR's member countries restated their general consensus on the idea that energy integration should be an integral part of the cooperation agenda, yet avoiding any emphasis on specific regulatory aspects or emblematic interconnection projects.

As far as the institutional design is concerned, the South American Energy Council is very similar to the other UNASUR sectoral councils: an inter-ministerial body with no links to other societal groups, whose main goal is negotiating an Energy Integration Treaty which should have been

concluded by the end of 2013, but that is still, as this article is being written, in the process of technical discussion. Persistent preference divergence and the lack of a regional leadership capable of making state preferences converge towards a consensual solution to the energy cooperation problem²⁵ have seriously weakened the Council's ability to achieve any tangible progress. The cleavage in state preferences inside the UNASUR Energy Council is currently expressed in two divergent positions: the *integration maximalists* and *integration minimalists*. The first group –composed by states like Venezuela and Ecuador– pushes for the full harmonization of energy markets and the creation of big public companies in charge of the management of regional energy resources. The second group is composed by countries like Brazil and Chile, which pursue a limited integration of energy resources and power plants, with restricted regulatory convergence (I3 and I10). Consequently, regional energy cooperation among South American countries finds itself in a new stalemate, and it is very unlikely that a comprehensive regional treaty on energy integration will be approved any time soon.

3.6. Comparing policy outcomes in the transport infrastructure and energy areas

As of today, the cooperation outcomes in the two policy areas differ significantly, as do their cooperation trajectories. As above mentioned, we operationalize the value of our dependent variable along two dimensions: i) number of projects and amount of investments; and ii) level of technical cooperation.

Transport infrastructure

As far as transport infrastructure integration is concerned, COSIPLAN currently counts on a project portfolio made up of **514 projects** (which account for 88.2% of the COSIPLAN total portfolio of 583 infrastructure projects), amounting to an estimated investment of **US\$ 106.8 billion** (which accounts for 67.7% of COSIPLAN total estimated investment of US\$ 157.7 billion)²⁶. If we breakdown the total number of transport projects into subsectors, we discover that the key areas of investment are *road projects*, which account for 45.7% of the transport sector projects and 54.8% of their total estimated investments, *rail projects*, which account for 13% of all projects but 27.5% of the total investment, *river projects*, which account for 15.4% of the projects yet only 3.6% of the total sectoral investment, and *border-crossing projects*, which account for 9.7% of the total number of projects but only 0.7% of the total investment in the sector (COSIPLAN 2013: 38).

By November 2013, out of the 514 transport projects, **157** projects are in the execution stage and **67** have been concluded, whereas the rest of the projects are either in the profiling or in the pre-execution stages. It is worth noting that between 2012 and 2013 COSIPLAN has registered a significant leap forward in terms of both number of projects and amount of investments in the transport sector: 40 new projects were launched and estimated investment increased by US\$ 26 billion (COSIPLAN 2013: 39).

Within the COSIPLAN portfolio there are 31 modular projects (so-called *proyectos estructurados*), which are composed of 101 individual projects that belong to the Agenda of Priority Projects (API). API projects are strategic transport and energy infrastructure projects that have been included in COSIPLAN's priority agenda for their high-impact on South America's physical integration and

²⁵ Brazil is privileging national and bilateral energy projects over regional energy cooperation, while Venezuela's hegemonic project has lost momentum due to the severe domestic economic and political problems of the post-Chávez phase.

²⁶ It is relevant to specify that 82.5% (481 projects) of COSIPLAN's total projects are *national*, 16.3% (95 projects) are *binational*, and only 0.9% (5 projects) and 0.3% (2 projects) are respectively *tri-national* and *multinational*. In terms of territorial scope by country, Argentina absorbs 178 projects (144 national and 35 binational), Brazil 110 (81 national, 27 binational, and 2 tri-national), and Peru 74 (50 national, 21 binational, 1 tri-national, and 2 multinational) (COSIPLAN 2013: 55).

development, totaling an estimated investment of US\$ 16.7 billion (10.6% of the COSIPLAN Project Portfolio's total investment). 97% of API projects are in the transport sector 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%). Differently from the other transport projects within COSIPLAN (mainly national), most of API projects involve two (54.8%) or more (22.6%) countries (COSIPLAN-API Report 2013: 26-28).

Many of the COSIPLAN transport infrastructure projects that have been implemented or are in the pre-execution phase have a genuine potential for increasing cross-border transactions and creating the necessary hardware infrastructure for the flourishing of productive synergies: the interoceanic highways and railway are cases in point. The bi-oceanic railway covers an area of 3.580 km, connecting the Brazilian port of Paranaguá with the port of Antofagasta in Chile, crossing Brazil, Paraguay, Argentina, and Chile. The Brazilian National Bank of Economic and Social Development (BNDES) financed the technical studies, which were concluded in 2011. The project is currently being implemented and shall be finalized in 2014 (FIESP 2012: 145). The interoceanic highway is a set of different projects geographically distributed across Brazil, Peru and Bolivia. Many of these projects are already concluded or close to being finalized, such as the Highways IIRSA North and IIRSA South, while others will be completed in the next few years. Along these interoceanic motorways and railways are located small and medium-sized industries that might benefit from better transport connections, paving the way for the emergence of regional value chains (IDB 2012; Gamarra 2013). Other potential benefits related to the expansion of transport infrastructures are the growth of the tourism industry and the reduction of transportation costs, which can bring about competitiveness gains.

A whole range of new projects are currently being considered, whose design is partly the result of thicker relations between governments, academia, and civil society organizations. Noteworthy among the new projects are the development of national and multinational fluvial corridors, such as the Amazon and the Magdalena rivers, and the renewed emphasis being placed on border crossing projects, which are envisioned to play a key role in facilitating physical, socio-economic, productive, and trade integration in the next future.

Regional cooperation on transport infrastructure has recently delivered significant advances also in the level of technical cooperation, such as project selection, monitoring, implementation, and assessment. Throughout 2012 and 2013 South American countries have designed and approved several methodological instruments to increase infrastructure cooperation efficiency and environmental and social-economic sustainability within COSIPLAN. Among the most important tools it is worth mentioning the approval of the Strategic Action Plan (PAE 2012-2022)²⁷, 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 Crossings²⁸ (for a discussion of the new methodologies see COSIPLAN 2013: 10-11).

In sum, from 2000 onwards, regional cooperation on transport infrastructure integration has increased at all levels: not only in terms of number of projects and amount of investments, but also at the level of technical cooperation among governments and, to a lesser extent, between governments and private social and economic non-state actors. Through the IIRSA and COSIPLAN cooperation platforms, South American governments have therefore achieved notable regional cooperation outcomes in a key sector for economic and social development such as transport infrastructure.

²⁷ It is an effort to rationalize and optimize 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.

²⁸ Border crossing facilitation/modernization 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.

Energy infrastructure

In the energy integration area, on the contrary, cooperation outcomes have been modest and increasing coordination among South American countries is not to be expected in the short and middle term. As far as the number of projects and the amount of investments are concerned, IIRSA and COSIPLAN have delivered only **59 projects** (10% of COSIPLAN total projects), which account for **US\$ 50.8 billion** (32.3% of COSIPLAN's total estimated investments) (COSIPLAN 2013: 38). As by November 2013, **13** energy projects are in the execution stage and **17** have been concluded. Moreover, energy infrastructure projects account for less than 3% of API priority projects, yet they make up 10.5% of API total estimated investments (COSIPLAN-API Report 2013: 28).

Overall, in contrast with the significant increase in projects and investments in transport infrastructure, energy infrastructure projects in the COSIPLAN Portfolio decreased between 2012 and 2013. 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 Brazil-led project for the construction of a binational hydroelectric power station and electricity interconnection between Leticia (Colombia) and Tabatinga (Brazil), which had been stalling since 2003 (COSIPLAN 2013: 40).

Sub-sector breakdown of the COSIPLAN energy projects shows that all the projects are in the fields of *energy generation* (45.8%) or *energy interconnection* (54.2%), with energy generation projects accounting for the greatest share of estimated investments (74.7%)²⁹. Starting from 2013, the few projects involving the *harmonization of energy regulations* –e.g., the Harmonization of Electricity, Gas and Oil Regulations project, which previously fell in COSIPLAN's Andean Hub– have been removed from the COSIPLAN Portfolio to be inserted in the framework of the South American Energy Council under the leadership of Venezuela. Furthermore, a sector-based breakdown of the energy projects by territorial scope reveals an extreme concentration of total investments in the Mercosur-Chile Hub (36.6%) and in the Peru-Brazil-Bolivia hub (49.7%) (COSIPLAN 2013: 56).

As far as the level of technical cooperation is concerned, the South American Energy Council of UNASUR has so far failed to reach an agreement over the Energy Integration Treaty, which is still blocked by multiple vetoes due to diverging state preferences and by the lack of a country (or group of countries) willing to exert the necessary regional leadership to make preferences converge and push the Energy Treaty through.

It is hard to foresee what will happen to South American energy cooperation in the next future, since UNASUR as a whole is on the verge of important changes (starting from the contentious election of the new secretary general). It is possible that a new cycle of political negotiations at regional level will begin fuelled by a new regional leadership capable of crafting a consensual solution to the energy cooperation problem, starting from the approval of the Energy Treaty that shall ideally provide the legal foundation for energy integration in South America. However, a more likely outcome seems to be that South American actors will relinquish the project of region-wide physical and regulatory energy integration to focus on more viable national and bilateral energy projects under the umbrella of COSIPLAN. In this case, energy integration will continue to be dealt with bilaterally and on a case-by-case basis, driven by domestic interests rather than by a regional agenda. This could 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 (Barrera-Hernández 2011).

²⁹ The construction or refitting of hydroelectric plants and microcentrals represents 60% of energy generation projects and 85.4% of estimated investments in the subsector, whereas energy interconnection projects are exclusively focused on building new power interconnections (COSIPLAN 2013: 62).

4. Conclusions

In this paper we have sought to contribute to the study of South American regionalism and more specifically to the study of sectoral cooperation in the fields of transport and energy infrastructure under the umbrella of UNASUR. Since others already described the overall political process that originated UNASUR (Briceño-Ruiz 2008; Sanahuja 2012; Riggirozzi and Tussie 2012; Carrión 2013; Mosinger 2012), we have decided to focus on a dimension that has been largely neglected so far: the emergence and development of sectoral cooperation and policy coordination among South American countries within UNASUR, which in some cases has led to the implementation of important national, binational, and transnational infrastructure projects. To do so we have analyzed the two policy areas addressing two questions: why regional cooperation has emerged in the absence of policy interdependencies and strong economic demand for integration; and why cooperation outcomes are evident in some areas (i.e. infrastructure) and rather modest in others (i.e. energy).

Our claim is that these two questions can be answered analyzing how regional leadership initiatives interplay with patterns of states preferences in specific policy areas. Regarding the first question, the paper shows how the Brazilian leadership, incentivized by the FTAA negotiations and the financial crises that affected MERCOSUR, made state preferences converge towards a regionalist project embracing the whole South American region by making visible the mutual benefits of regional cooperation on transport and energy infrastructure. Therefore, it is possible to say that the Brazilian regional leadership politically constructed the “demand” for regionalism through its persuasive ideas about cooperation in South America, which made state preferences converge towards cooperation initiatives in spite of low regional policy interdependencies and weak demand for economic integration. The first main finding of this paper is therefore that the emergence of South American regionalism, starting from 2000, is eminently a *supply-side* story.

As far as the second question is concerned, the article has shown that the divergence in policy outcomes between the transport infrastructure and the energy policy areas is due to changes in the patterns of leadership and state preferences throughout the decade. The ideational and material leadership resources that the Brazilian state put on regional cooperation in the early 2000s were not enough to produce a sustainable process of cooperation in the two policy areas. By the mid-2000s, IIRSA had become a contested regional initiative in both sectors mainly because of changes in state preferences due to the domestic left-turn in many South American countries (including Brazil). In the case of transport infrastructure, the Brazilian leadership managed to construct a new inter-presidential consensus and to translate it into institutional change, first through the reform of IIRSA and then with the creation of a new regional institution, COSIPLAN, which was incorporated in the broader institutional architecture of UNASUR.

In the case of energy integration, instead, South American countries’ preferences turned out to be impossible to accommodate. Already at the beginning of the decade the cleavage between states preferring shallow energy integration (i.e., interconnection of power plants) and those pursuing a more demanding regulatory convergence of national energy regimes seemed unbridgeable. The divide between these two positions (*minimalists* vs. *maximalists*) further sharpened throughout the decade with some countries heading for state-controlled energy markets and others deepening the liberalization process. The Brazilian regional leadership was not capable of making preferences converge because, on the one hand, Brazil’s state preferences regarding energy integration changed with the discovery of huge deep-sea oil and gas reserves in its own national territory; and, on the other, because the emergence of the Venezuelan leadership project advanced a conception of energy integration which clashed with Brazil’s geopolitical interests. As far as the Venezuelan regional leadership is concerned, despite possessing the material capabilities to push forward a project of energy integration based on regional oil pipelines, the Venezuelan state showed a scarce ideational and political capacity to persuade the rest of South American countries to follow its project. As a consequence, the elaboration of the South American Energy Treaty is currently in a gridlock.

We argue that the trajectories of energy and transport infrastructure cooperation among South American countries exemplify two different *patterns of regional cooperation*. Both start off in response to a set of critical events. Yet the **former** (Figure 2) is characterized by the ability of a regional leader to formulate (and reformulate) persuasive ideas and proposals about regional cooperation that lead to inter-presidential political consensus and regional institutional-building (i.e. preference convergence), which, in turn, allow cooperation interactions to produce policy outcomes. The **latter** (Figure 3), instead, shows how in the absence of a persuasive regional leadership capable of bridging preference divergence the cooperation sequence gets “encapsulated” (Schmitter 1971) in short loops which hamper the institutional capacity to deliver cooperation outcomes.

Figure 2: Regional cooperation in the area of transport infrastructure

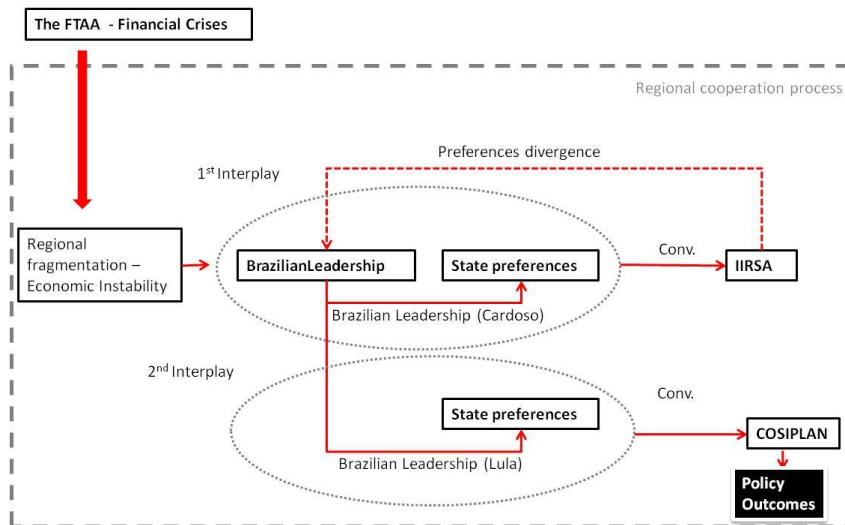
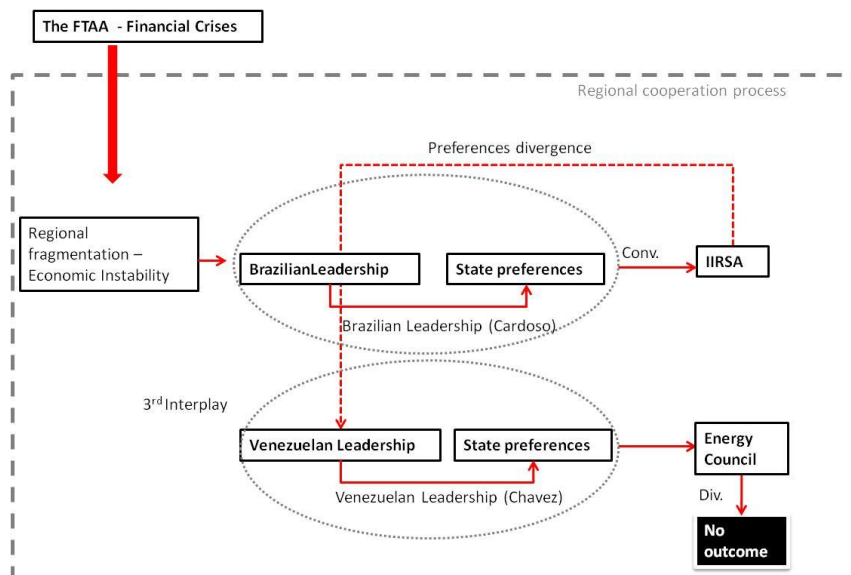


Figure 3: Regional cooperation in the area of energy



Finally, we believe that the emergence and development of sectoral cooperation among South American countries within UNASUR provides an interesting case to study how a specific form of regionalism (i.e., regional intergovernmental cooperation) can deliver policy outcomes in the absence of the classic demand-side conditions for regional integration elaborated by the liberal theories of

regionalism. Focusing on the role of regional leadership in making state preferences converge towards cooperation in two key policy areas for national development like transport and energy infrastructure we have tried to bring up some of the intriguing theoretical challenges that South American regionalism under UNASUR poses to the scholars of regionalism, in Europe and beyond, which certainly deserves further investigation both at regional level and cross-regionally.

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Appendix

Interviews used for this paper

I1: Brazil's representative at COSIPLAN

I2: Chile's representative at COSIPLAN

I3: Brazil's representative at the Energy Council of UNASUR

I4: Former Ministry of Strategic Affairs – Itamaraty

I5: Director of South American Economic Relations – Itamaraty

I6: Executive Secretary of the Latin American Energy Organization (OLADE)

I7: Analyst from the Brazilian Ministry of Planning

I8: Expert on infrastructure integration from the Federal University of Rio de Janeiro (UFRJ)

I9: Coordinator of International Negotiations, Industrial Federation of Sao Paulo (FIESP)

I10: Director of the Energy Institute at the University of Sao Paulo (USP)

I11: Director of the Infrastructure Department, Federation of Industries of Sao Paulo (FIESP)

I12: Former President of the Republic of Chile.

I13: Ecuador's representative at the Energy Council of UNASUR

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