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Andrés Gaudán

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Peru Appears to Back Out of Continental Railway Project

by Andrés Gaudín

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Since August 2000, when the idea for the ambitious Initiative for the Integration of Regional Infrastructure in South America (IIRSA) was floated at a summit of South American presidents in Brasilia, regional diplomacy has included discussions of a multi-national railroad to link Atlantic ports with a maritime terminal on the Pacific. However, there has been controversy about the possible routes for the train, and in all the proposals, the only agreement has been that tracks should start in a Brazilian port—either Açu, in Rio de Janeiro state, or Santos, in San Paulo state (NotiSur, May 28, 2004, Jan. 14, 2005, Jan. 23, 2015).

The expectation that intra-regional trade would grow, and that shipping costs for goods from, or commodities to China, would drop, made the idea of the railroad attractive. While Brazil, Peru, Chile, Paraguay, and to a lesser degree, Argentina have expressed interest in the project, Bolivia has been one of the strongest backers and the only one to conduct feasibility studies. There is a good reason for that: President Evo Morales’ administration views the continental railroad as the right and possibly quickest way of breaking the isolation that Bolivia has suffered since the end of the 1879-1883 War of the Pacific, when it lost the Antofagasta region and its territory on the Pacific coast to Chile. As a result of the war, Bolivia’s ally, Peru, lost the province of Tarapacá.

“China is the only power in a position to finance a project that would cross jungles and go over the Andes mountains, and it is also the most interested, for economic and geo-strategic reasons,” the late Uruguayan diplomat Gerónimo Cardozo once said. “We should turn to that country in order to build this railroad.”

China offers financial support

Cardozo was not wrong. In all the related proposals for the railroad, the Chinese government and Chinese businessmen have appeared among the financial backers: The Asian giant needs South America’s minerals and grains. So in December, when construction began in Nicaragua on temporary access rails to carry the materials and machinery needed to carve a second canal that would link the Atlantic and Pacific oceans, many thought that the continental railroad project would be dropped. A new canal would allow Brazilian iron and soybeans to be shipped inexpensively without the need for a continental train. But China continues to maintain that it will finance the railway, even though the current cost estimates of US$60 billion are six times higher than the US $10 billion projected a decade ago, a difference that brings into question the seriousness of both estimates (NotiCen, Sept. 27, 2012, Aug. 15, 2013, July 16, 2015).

While there is widespread agreement that the railroad would begin in Brazil, there is none as to where the Pacific terminal would be. Everything had pointed to Peru, but the Peruvian government has changed its opinion about the project at least four times. At first, it showed little interest. Later, it said it would prefer a terminal in the north, thus eliminating Bolivia as one of the project’s beneficiaries. Then it expressed interest in the port of Ilo, to the south, for which it offered two proposals, one of which also blatantly left Bolivia out. But during the meeting of the Community of Latin American and Caribbean States (CELAC) in January, then-President Ollanta Humala
(2011-2016) told his Bolivian counterpart, Evo Morales, that he had decided on a route traversing Bolivia from east to west, an initiative also promoted by Bolivia. This project would create a 3,600-kilometer railway network that would connect the Brazilian port terminal of Santos with Matarani or Ilo in Southern Peru.

According to the feasibility study ordered by Bolivia and conducted with support from the Inter-American Development Bank (IDB), this would be the shortest route, and it would not cut through biodiversity reserves or areas inhabited by indigenous peoples, something that would avoid the need for a complex system of consultations as mandated by United Nations through the International Labor Organization (ILO). In addition, Morales has asserted, it would avoid many of the great engineering challenges and high construction costs of a rail system that would cross the Andes and descend sharply to the Pacific. Bolivia argues that this proposal would benefit six countries, “which will facilitate the integration of our countries and our cultures.” Direct effects would be felt in Brazil, Bolivia, and Peru, and indirectly in Argentina, Paraguay, and Uruguay via a connection with the Paraguay-Paraná waterway.

**Kuczynski has other plans**

However, the newly elected Peruvian president, Pedro Pablo Kuczynski, who visited China in early September, appears to have yet another idea. After the talks in China, his transportation minister, Martin Vizcarra, summed up what Peru had told the state-owned China Railway Group: In light of the estimated US$60 billion needed for the project, Peru has “other priorities,” the Spanish news agency EFE reported on Sept. 15. Vizcarra discounted any geopolitical reasons for the project and ignored the interests of Bolivia, for whom access to the sea is as vital as oxygen. Vizcarra asserted: “In reality, this project is of interest only to China and Brazil, so they can export their agricultural and mineral products with lower shipping costs, while Peru would be just a transit country.”

The Peruvian-Brazilian Chamber of Commerce and Integration (Cámara Binacional de Comercio e Integración Perú-Brasil, CAPEBRAS) sees it differently. “Peru would be able to sell products to Brazil that it can’t today, such as Bayóvar mine phosphates that are used in agriculture. In addition, cement and cattle salt are products traded by [Brazil and Peru], and we shouldn’t forget that Brazil has 210 million head of cattle,” the organization said in a statement published in the Lima daily El Comercio. Of course, that would refer to a railway option that does not benefit Bolivia, because the three Peruvian products mentioned come from the country’s north.

Kevin Gallagher, a China expert at Boston University, has said the world is entering a new era. “The Chinese economy is changing to one based on consumption, which is why commodity prices have dropped over the past year,” he told the Bloomberg news agency, which nevertheless pointed out that China remains Latin America’s principal trading partner. In another interview, Gallagher, who has written widely on the relations between China and Latin America, told BBC Mundo’s Spanish-language service that the continental railway project, on the whole, is a great promise, but if not done well, “could become a nightmare.” He added that the project would be a real test for Beijing’s relations with the region. “If China can build a high-speed train that functions and facilitates trade throughout Latin America without harming the environment,” he said, “then it will become the new good guy in the neighborhood and someone difficult to beat.”

If agreed upon, the continental railway project would be included in a list of what could be called the world of superlative numbers. It would cut shipping routes for South American exports to Asia by nearly 5,000 nautical miles. And if it were to be fully executed—many economic analysts are
doubtful, although they note that in their calculations they are setting aside China’s political reasons for the project—it would become one of the most expensive in the world in terms of transport infrastructure. The South American continental railroad would cost nearly twice as much as the US$33-billion high-speed train between Beijing and Shanghai, and four times as much as the Eurotunnel between England and France, a megaproject that, in its day, cost US$15.4 billion.

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