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1549 CLAIRMONT ROAD, SUITE 202 • DECATUR, GA 30033 USA  
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# Reducing Regional Disparities with Integrated Peripheral Zones: Northern Argentina and Zicosur

**Carola B. Ramon-Berjano**

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# Reducing Regional Disparities with Integrated Peripheral Zones: Northern Argentina and Zicosur

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USAL, UNTREF, CARI

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**G**lobalisation has produced different outcomes regarding the convergence of disparities between countries and regions within integrated areas. This paper tries to shed light on how to reverse the processes of economic agglomeration that resulted in present disparities, both between and within countries. The creation of Integrated Areas (IA) was regarded as a way of helping poorer regions catch up with richer ones, via the equalisation of marginal productivities. However, the evidence seems to indicate that disparities between countries decrease more than those between regions within countries and investment in infrastructure does not always have a positive impact on the poorest regions. This paper introduces an alternative to large IA – Integrated Peripheral Zones (IPZ) – with “peripheral” being defined as related to, located in, or constituting an outer boundary or periphery. IPZs are sub-regional integration schemes of neighbouring, and similar, regions that had it not been because of historical and political factors would have been closely linked not only economically but also geographically, culturally and historically. The integration of the peripheries is crucial for successfully reducing disparities within larger areas, as some of these regions can even belong to their own country’s ‘periphery’ as regional policies within smaller integrated areas are easier to manage than large IA.

This paper analyses two sub-regional integration schemes: Region Norte Grande, in Argentina and ZICOSUR (South America Midwest Integrated Zone, formed by Norte Grande and neighbouring regions) and tries to determine whether these can succeed in



reducing disparities within them, as well as acting as a building block in the wider process of integration. Both Norte Grande and ZICOSUR aim to develop infrastructure and prioritise the creation of a Pacific–Atlantic corridor, together with CODESUL (Economic Development Council for the South of Brazil). This initiative corresponds to one of the Integration and Development hubs within the Initiative for the Integration of Regional Infrastructure in South America (IIRSA) – the Capricorn Hub.

### **Integration in Practice: The Challenge of Peripheral Areas**

The successful creation of Integrated Peripheral Zones (IPZs) can act as a building block in order to consolidate larger Integrated Areas (IAs), in line with the World Bank Report (2009) recommendation “think big, start small”. In this way, the economic and infrastructural integration of the peripheries can not only increase incomes of lagging or peripheral regions but can also help to underpin larger IAs. The larger the size of the integrated areas, and the more diverse the income levels in its member countries and regions, the more complex the management of regional policies and the allocation of investment for infrastructural projects. By focusing on a smaller area with more uniform characteristics, the planning, management and resource allocation becomes easier.

In the case of the European Union (EU), when it was created in 1958 (then called EEC6), the six original member countries had similar development levels<sup>1</sup>. However, by the mid seventies, and with the first enlargements having taken place<sup>2</sup>, regional disparities became more of a concern and income levels did not show signs of automatic convergence. This became even more apparent in the late eighties<sup>3</sup> and in 1988 the structural funds were redefined. A two-speed Europe became evident<sup>4</sup> and when the EU was constituted by the Treaty of Maastricht in 1992, regional policy became one of the pillars of EU policy with higher percentages of the budget being allocated to it. One of the biggest challenges in the EU has, and still is, the formulation and management of policies for developing the lagging regions in an ever expanding IA<sup>5</sup>. At present, the EU has 27 member countries, a total size of 4 million square kilometres and 495 million people. It is the largest, oldest and most successful IA in the world. Its experience in

<sup>1</sup> The EEC6 was formed by the Netherlands, Belgium, Luxembourg, West Germany, France and Italy. Luxembourg, the richest country, was 40% above EEC6 average GDP while Italy, the poorest, was 18% below this average.

<sup>2</sup> The EEC6 became the EEC9 in 1973 with the incorporation of the United Kingdom, Denmark and Ireland. Income levels became more diverse with Ireland being three-fifths the average EEC9 GDP, and Luxembourg’s income more than doubling that of Ireland.

<sup>3</sup> By this time the EEC9 had become the EEC12 with the incorporation of Greece (1981), Spain and Portugal (1986).

<sup>4</sup> The incorporation of Greece, Spain and Portugal increased the EEC’s population by 22%, its surface by 48% but only added 15% to GDP. It also implied an increase in agricultural population of 50%.

<sup>5</sup> In 1990, and following German reunification, the Easter German *länder* were incorporated. In addition, by the end of the nineties, the EU faced the challenge of enlargement to the initial 11 Eastern European countries, which had a combined GDP 38% of EU average (while the poorest four EU members at that time had a combined GDP 74% of EU average).

terms of regional development policies is therefore relevant for all other integrated areas in the world.

Despite the introduction of regional policies as early as 1975; there is evidence that disparities between the member countries in the EU decreased more than between regions within countries. Further, in some cases, it was shown that under certain structural policies; disparities – far from converging – were accentuated (Ramon-Berjano [2005: 115-122], Lopes Porto [1997], European Parliament [1997], Seidel [1994]). Combes et al [2008:302] reproduce a quote from the European Spatial Development Perspective, European Commission [1999:14] that illustrates the lagging regions' problems. "Initial signs of liberalisation... indicate that competition and commercial use are steering investment towards areas with high demand, since they appear to be most promising. Most remote regions with little market potential are threatened by further decline."

Regarding infrastructure development, the evidence of a positive impact in the decrease of disparities in the EU is mixed. Some studies found infrastructure development helped to decrease disparities between the regions in the EU (Gil Canaleta et al. [2002], Del Bo et al. [2009]). Del Bo et al. [2009] considered the length of motorways as a proxy for transport infrastructure and the number of mobile phone subscriptions as an indicator of telecommunication infrastructure and found evidence for the period 1995 to 2006 of convergence among the regions. However, a complex pattern regarding the new member states can also be found and other studies found that the impact of infrastructure on growth for the EU regions depends on the regions where the investment takes place. Some studies even found evidence that investment in infrastructure will be more successful in those regions where the level of development is higher and the environment can exploit them better (Cappelen et al. [2003]). The World Development Report [2009] recognised that regional integration can lead to winners and losers across different countries, even if it is only a temporary or short-term phenomenon. When countries with different infrastructure integrate, those with better infrastructure will attract more industrial activities and this, in turn, can exacerbate differences in both incomes and employment.

In the case of Latin America, integration was often seen as a way of enlarging the market rather than developing the internal markets. In the sixties, integration went hand in hand with industrial development efforts as a way of creating economies of scale - enlarging the market while protecting the domestic market from foreign competition. Attempts such as the Latin American Free Trade Area (LAFTA) – 1960 – and the Latin American Integration Association (LAIA) – 1980 resulted in "paper agreements". These agreements lacked proper management and planning for covering such large areas. Further, they were dependent on political will. In the 1990s, and due to international trade conditions, integration was seen as a means for increasing exports and inserting Latin American economies into world markets. In this period, the



Common Market of the South (MERCOSUR) was created in 1991<sup>6</sup> and the initiative for the Free Trade Area of the Americas (FTAA) was launched in 1994<sup>7</sup>.

Despite MERCOSUR's potential and benefits in increasing trade among its member countries, it has fallen short of its expectations. The main hindrance was, again, the large size of the IA – MERCOSUR is the fourth largest trading bloc in the world<sup>8</sup>, comprising 70% of total land in South America and 270 million people. One of the main problems in MERCOSUR is that macro conditions, particularly those of Argentina and Brazil - the two largest countries - have often determined trade flows and the pace of negotiations, fostering doubts about the deepening of the integration effort. Moreover, there is a lack of coordination on macro-policy and supra-national institutions. The Treaty of Asunción concentrated the power of decision-making in the foreign affairs and finance ministries while the other sectors involved were only consulted and therefore the dynamism of the integration process has been significantly dependent on the political will to reach agreements. The creation in 2008 of the Union of South American Nations (UNASUR) which has replaced FTAA but only including the countries of MERCOSUR and the Andean Community has raised further questions about the future of MERCOSUR. Regional disparities among MERCOSUR member countries and particularly within them are also a major problem. A small but encouraging development was the creation in 2006 of the Fund for Structural Convergence in MERCOSUR (FOCEM). However, the efficient and successful allocation of funds is also a matter of debate (Blyde [2005]). As in the case of the EU, the advantages of infrastructure investment in poorer regions are not clear cut. Infrastructure has a significant role in the location of economic activity and trade performance and therefore certain infrastructure improvements could even exacerbate the historical patterns of agglomeration instead of fostering equality (Calfat et al. [2009]). Therefore, careful consideration is required in order to avoid implementing policies and developing projects that might work against reduction of disparities.

### **Starting small, thinking big**

#### *Starting small.*

As mentioned above, regional policies within large integrated areas are difficult to manage given their complex planning and management, as “the larger the number of participants, the more complex the coordination, with a higher risk of failure” (World

<sup>6</sup> MERCOSUR was formally constituted with the Asunción Treaty in March 1991, with Argentina, Brazil, Uruguay and Paraguay as full members. Associate members of MERCOSUR are Bolivia, Chile, Colombia, Ecuador and Peru; Mexico has an “observer” status. Venezuela applied for full membership in 2006 but still has to be ratified by Brazil and Paraguay.

<sup>7</sup> The North American Free Trade Area (NAFTA) between the USA, Canada and Mexico is from this period as well. Also, there was an increase in the signing of bilateral agreements and the revitalisation of old integration schemes such as the Central American Common Market (CACM) and the Andean Pact.

<sup>8</sup> After the EU, the North American Free Trade Agreement (NAFTA) and the Association of South East Asian Nations (ASEAN).

Development Report [2009]). Integrated Peripheral Zones (IPZs), on the other hand, are by definition sub-regional integration schemes of neighbouring, and similar, economies. Their common factor is their underdevelopment relative to a centre. This “peripheral” status can be relative to a national centre (in the case of an IPZ among provinces or states belonging to the same country); or relative to different centres (in the case of an IPZ between regions of neighbouring countries). The integration of the peripheries is crucial for successfully reducing disparities within larger areas, as they can act as a building block in the formation of larger integrated areas. IPZs can therefore be the key to successfully reducing regional disparities by integrating regions with similar levels of development. Once these IPZs reach a higher level of development they can, in turn, be incorporated to larger integrated areas, i.e.: starting small.

Two examples of potentially significant IPZs in Latin America are Region Norte Grande and ZICOSUR (Integrated Zone of the Centre West of South America). The former comprises the nine Argentine provinces that belong to the Northeast and Northwest regions of the country<sup>9</sup>; while ZICOSUR is a sub-region within MERCOSUR that was formed in 1997 by peripheral regions of Argentina, Brazil, Bolivia, Chile and Paraguay – thus, the Argentine part of ZICOSUR is Region Norte Grande<sup>10</sup> (**MAP 1**). It comprises a population of nearly 30 million people and a land area of 3.6 million square km. ZICOSUR is formed by provinces and departments that have lower development levels within their countries and they are all peripheral economies within the main centres of MERCOSUR, (except in the case of Paraguay where all of its departments belong to ZICOSUR).

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<sup>9</sup> The Northeast region comprises the provinces of Formosa, Chaco, Corrientes and Misiones and the Northwest the provinces of Salta, Jujuy, Tucumán, Catamarca and Santiago del Estero.

<sup>10</sup> ZICOSUR is composed by nine Argentine provinces - Salta, Jujuy, Tucumán, Catamarca, Santiago del Estero, Formosa, Chaco, Corrientes and Misiones; the four Bolivian departments of Chuquisaca, Cochabamba, Santa Cruz and Tarija; the Brazilian state of Mato Grosso do Sul; the Chilean regions of Tarapacá, Atacama and Antofagasta and all of the Paraguayan departments.



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MAP 1. ZICOSUR.



Source: <http://www.zicosur.com/www/php/mapas.php>

The Argentine provinces belonging to ZICOSUR are characterised by being the least developed in the country. The last National Census<sup>11</sup>, undertaken in 2001, provided an index of ‘Unsatisfied Basic Needs’ (UBN)<sup>12</sup>, which were grouped as less than 12% (corresponding to Buenos Aires, Santa Fe, Córdoba, La Pampa and the southern province of Tierra del Fuego), 12.1 to 15%, 15.1 to 20% and finally, higher than 20% (the latter corresponding to the northern provinces of Salta, Jujuy, Tucumán, Santiago del Estero, Chaco, Formosa, Corrientes and Misiones. When comparing the data for 2001 with the one from the two previous censuses (1991 and 1980), **Table 1** shows that over the last 20 years disparities between the provinces remained mostly unaltered, despite the index decreasing significantly in all provinces (except the city of Buenos Aires which keeps the lowest and almost unaltered index throughout). The six provinces with highest index of UBN remain the same over the period and correspond to the north of the country. Other indicators such as illiteracy and infant mortality rates follow the same trend, with Buenos Aires displaying the lowest index while the Northern provinces have the highest indexes, usually doubling the national average.

<sup>11</sup> The next National census is due to be carried out in October 2010.

<sup>12</sup> The index is calculated according to INDEC’s methodology whereby homes with UBN are those in which one of the following indicators appear. Living density (homes with more than 3 people living in one room), type of dwelling (precarious types of dwellings), sanitary conditions (no sewerage), schooling (homes with children not attending education), and subsistence ability (homes with 4 or more people for employed member and head of household with low educational level).

**TABLE 1. Unsatisfied Basic Needs, by provinces (1980-2001)**

National Census 2001		National Census 1991		National Census 1980	
Ciudad de Buenos Aires	7,40	Ciudad de Buenos Aires	7,00	Ciudad de Buenos Aires	7,10
La Pampa	18,80	La Pampa	12,00	La Pampa	9,20
Córdoba	19,40	Córdoba	12,80	Santa Cruz	10,10
Buenos Aires	19,90	Santa Fe	14,00	Córdoba	11,10
Santa Fe	20,00	Buenos Aires	14,70	Santa Fe	11,90
Mendoza	20,40	Santa Cruz	15,20	Buenos Aires	13,00
Santa Cruz	22,70	Mendoza	15,30	San Luis	13,00
Tierra del Fuego	25,60	Entre Ríos	17,20	Mendoza	13,10
San Juan	26,00	San Juan	17,20	Chubut	13,40
San Luis	27,70	San Luis	18,70	San Juan	14,30
Entre Ríos	27,90	Neuquén	19,10	Entre Ríos	14,70
Chubut	29,80	Chubut	19,40	Neuquén	15,50
La Rioja	31,60	Río Negro	20,70	Tierra del Fuego	15,50
Río Negro	32,80	La Rioja	23,60	Río Negro	16,10
Neuquén	33,90	Catamarca	24,60	La Rioja	17,40
Tucumán	36,60	Tucumán	24,60	Catamarca	18,40
Catamarca	37,60	Tierra del Fuego	25,50	Tucumán	20,50
Misiones	39,20	Corrientes	26,90	Misiones	23,50
Corrientes	40,60	Misiones	30,00	Corrientes	24,00
Salta	42,40	Chaco	33,20	Jujuy	26,10
Chaco	44,80	Jujuy	33,60	Santiago del Estero	26,20
Jujuy	45,10	Santiago del Estero	33,60	Salta	27,50
Santiago del Estero	45,80	Salta	33,90	Chaco	27,60
Formosa	46,80	Formosa	34,30	Formosa	28,00

Source: Indec, National Census (1980, 1991, 2001)

### Thinking big.

The main objective of both Norte Grande and ZICOSUR is to achieve integration with international markets by developing infrastructure and encouraging socio-economic development within the sub-region. As mentioned, amongst its projects there is an agreement with CODESUL in order to reinforce the Atlantic-Pacific corridor initiative, which would connect both oceans by strengthening inland infrastructure links through the administrative units of ZICOSUR (**MAP 3**). This would provide with a dual option of ports located on both the Pacific and the Atlantic coasts for trade operations. Thus Chile's harbour potential would be complemented by the production of raw materials and energy in the Northwest Argentine region, as well as in the south of Brazil. The economies of the Asia Pacific region provide encouraging prospects for this area. Economic and demographic growth in Asian countries, coupled with a shortage of arable land and natural resources leads us to predict strong pressures in order to meet the supply of various products. ZICOSUR, thus, could become a key natural supplier of



the Pacific Basin. The economic potential of ZICOSUR as a producer of raw materials and foodstuffs, teamed up with the industrial and technological capabilities achieved by the Asian countries, could result in an intercontinental integration process based on international trade with the Asia Pacific region.

### *Journey into the past*

In the 200<sup>th</sup> year of Argentine independence it is time to reflect on historical patterns of agglomeration and find a way of reversing them. Before independence, and especially in early colonial times, the provinces of the north of Argentina were the most developed, populated and wealthy as they traded with Potosi<sup>13</sup>. Several factors contributed to the decline of the economies of the north in favour of Buenos Aires and its surroundings. First, when the viceroyalty of the River Plate was created in 1776, its port was given the rights to trade directly with Spain. While the north ceased to be a trading route, the city of Buenos Aires began to grow. Secondly, following independence from Spain, trading links between the northern economies and neighbouring countries was severed as political power was centralised in Buenos Aires. Due to the disruption of the colonial trading system, the provinces of the north, with poor infrastructure and specializing in art craft economy, entered a period of decline as they were left at the end of an extremely expensive trading route. Scobie (1971) estimated that the cost of moving a ton of goods from the province of Salta to Buenos Aires was thirteen times more expensive than transporting it from Liverpool to Buenos Aires. Thirdly, the geographic location of Buenos Aires together with the productivity of the *pampas*<sup>14</sup> became a natural attraction both for foreign migrants as well as those from the interior, contributing to a concentration of population in and around Buenos Aires city. The port of Buenos Aires provided the only gateway and this pre-eminence became more evident after 1860 as the nodal point of the new railway system. Its fan-like shape with centre in Buenos Aires, and no feeder lines, contributed to a further isolation of the interior. The economic model followed at that time favoured the agricultural-exporting provinces to the detriment of the interior.

By 1880 Argentina was becoming a major world producer of temperate cereals, particularly wheat. The cultivated area in the central region of the *pampas* increased by fifteen times between 1872 and 1895. Foreign immigration was significant at this time and according to some estimates (Mulhall [1875]) one-eighth of the population was foreign-born. Population increase differed across the country and while in the provinces of Buenos Aires and Santa Fe this exceeded 200% between 1869 and 1895; population increases in Catamarca and Salta were 13 and 34% for the same period respectively

<sup>13</sup> Potosi was the centre of economic activity of the time as it was the capital of the Spanish viceroyalty of Upper Peru, nowadays Bolivia.

<sup>14</sup> The fertile grasslands in the Argentine provinces of Buenos Aires, La Pampa, Santa Fe, and Córdoba

(Rock [1986]; Vázquez Presedo [1971]). Up until 1930 Argentina remained a producer of raw materials and food, with grain and beef exports rising significantly. A high propensity to import manufactures decreased potential backward linkages in the economy and there was a failure to diversify significantly into manufacturing. After the 1930 crisis and the disruption in trade brought about by the Second World War there was a shift in policies favouring an import substitution industrialization strategy, instead of an agro export model. However, and this is the fourth factor contributing to cement the decline of the interior, imbalances not only persisted but worsened and deepened as this development model was followed in the second half of the 20<sup>th</sup> century. Migration flows, far from triggering the balancing mechanisms prescribed by classical economics, contributed to worsening the concentration in Buenos Aires and its surroundings where the industrialisation effort was mostly located. The end of the import substitution industrialisation model and the more liberal economic policies that followed, together with the lack of coherent and long-term public policies to develop other areas of the country and induce an efficient and long-lasting decentralisation process, determined a high concentration of both population and economic activity in and around Buenos Aires province. At present, the city and province of Buenos Aires comprise a 45.79% of the country's total population - 7.66% in the city of Buenos Aires and 38.13% in the province of Buenos Aires.<sup>15</sup>

### *Can these IPZs be successful?*

The creation of Norte Grande can definitely help reverse the concentration trend that has taken place since independence and allow the Northern Argentine provinces to develop in their own right. By re-establishing links with other peripheral and neighbouring zones belonging to ZICOSUR, those regions can boost their potential. Therefore, Norte Grande Region is vital in order to consolidate ZICOSUR and this, in turn, can enlarge the regional market and boost international competitiveness while positioning the area internationally as a coherent bloc. Lack of proper infrastructure and regional imbalances relative to their domestic countries' main producer and consumer centres are a shared feature of these regions and therefore productive infrastructure investment must be placed at the core of ZICOSUR's strategy. Regional infrastructure investment focusing on enhancing scale economies, factor mobility between the regions and trade between the areas is required. Logistics are the main bottlenecks of this sub-region, as present transport infrastructure lacks the capacity to satisfy the needs generated by an increase in external trade. Better road networks, modern ports and simplified bureaucracy can all contribute to raise export competitiveness. In addition, common policies for all member regions is a requirement, and agreements regarding fiscal and investment promotion policies as well as controversy resolution mechanisms should be devised. The coordination and cooperation between countries in infrastructure

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<sup>15</sup> The city of Buenos Aires has 7.66% of the country's total population and a 0.007% of total surface while the province of Buenos Aires comprises an 11% of the country's surface and is home to over 38% of the population.



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provision is vital in regional integration. However, it requires significant outside financial support. The Initiative for the Integration of Regional Infrastructure in South America (IIRSA) provides an excellent framework for the development of infrastructure in the Capricorn Hub.

Due to its privileged geostrategic position, the province of Salta would seem the strongest candidate to become the gateway to the Atlantic-Pacific Oceanic Corridor, given that it is located at the core of the Norte Grande Region in Argentina, in between the Northwest and Northeast regions (**MAP 2**).

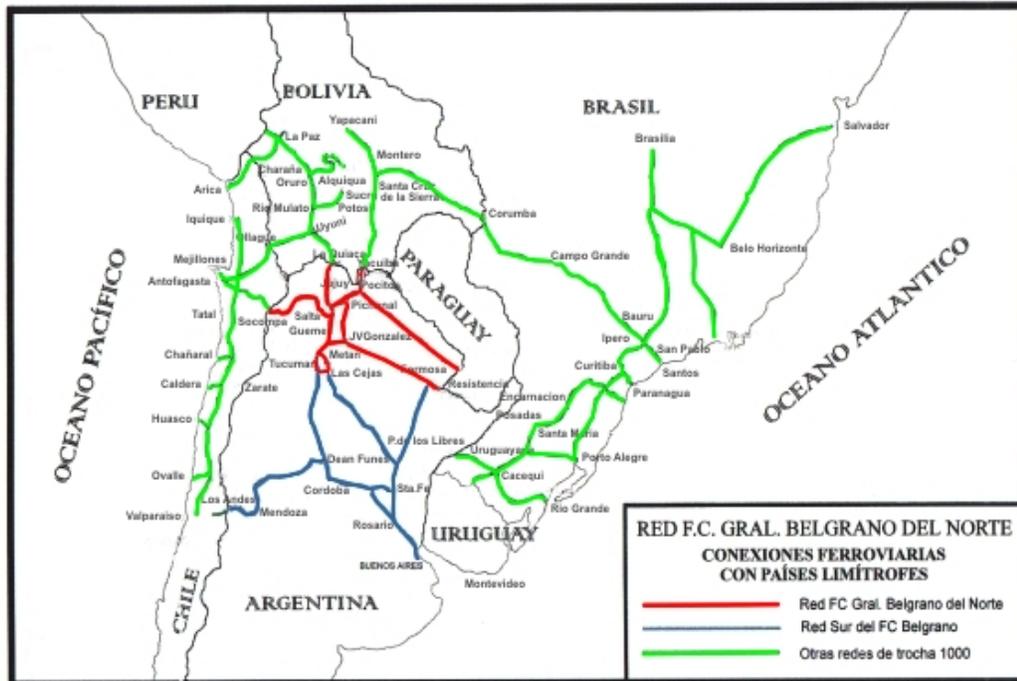
**MAP 2. Atlantic-Pacific Oceanic Corridor**



Source: Centro de Economía Internacional, "Crecimiento económico y nuevas oportunidades para la inversión". Ministerio de Relaciones Exteriores, Comercio y Culto. 2000.-

As seen on **MAPS 3 & 4**, there are significant network connections in the region, with Belgrano Railway being at the centre of the Capricorn Hub with a total of over 7,000 kilometres of tracks and connected to Chile and Bolivia. At the same time, it is connected to the Belgrano Sur network that reaches Buenos Aires. With rail connections in Argentina, Bolivia, Brazil and Chile, the Chilean ports of Antofagasta, Iquique and Arica on the Pacific can be connected to the Brazilian port of Santos and Rio Grande on the Atlantic.

MAP 3. Railway links in the Capricorn Hub

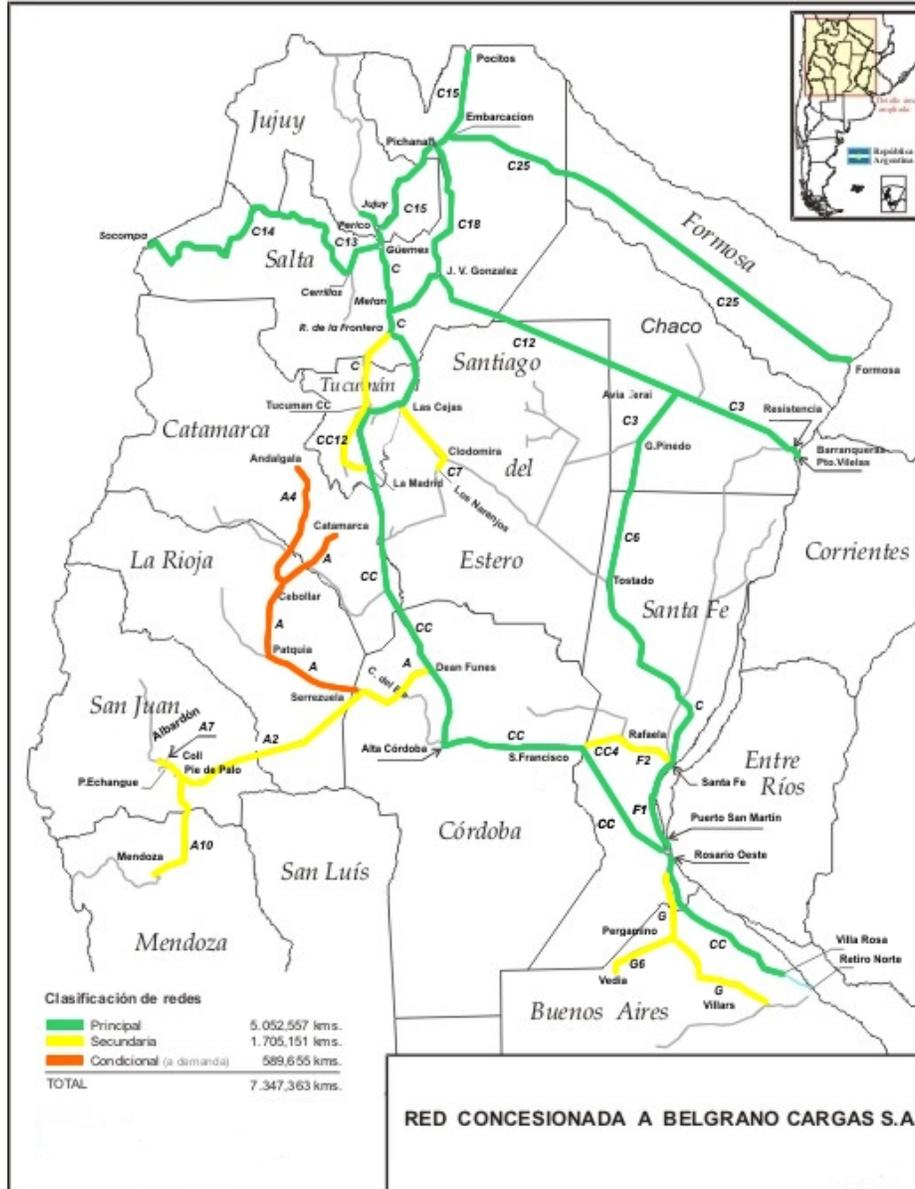


Source: ZICOSUR website, [www.zicosur.org](http://www.zicosur.org)



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**MAP 4. Belgrano Railway Network**

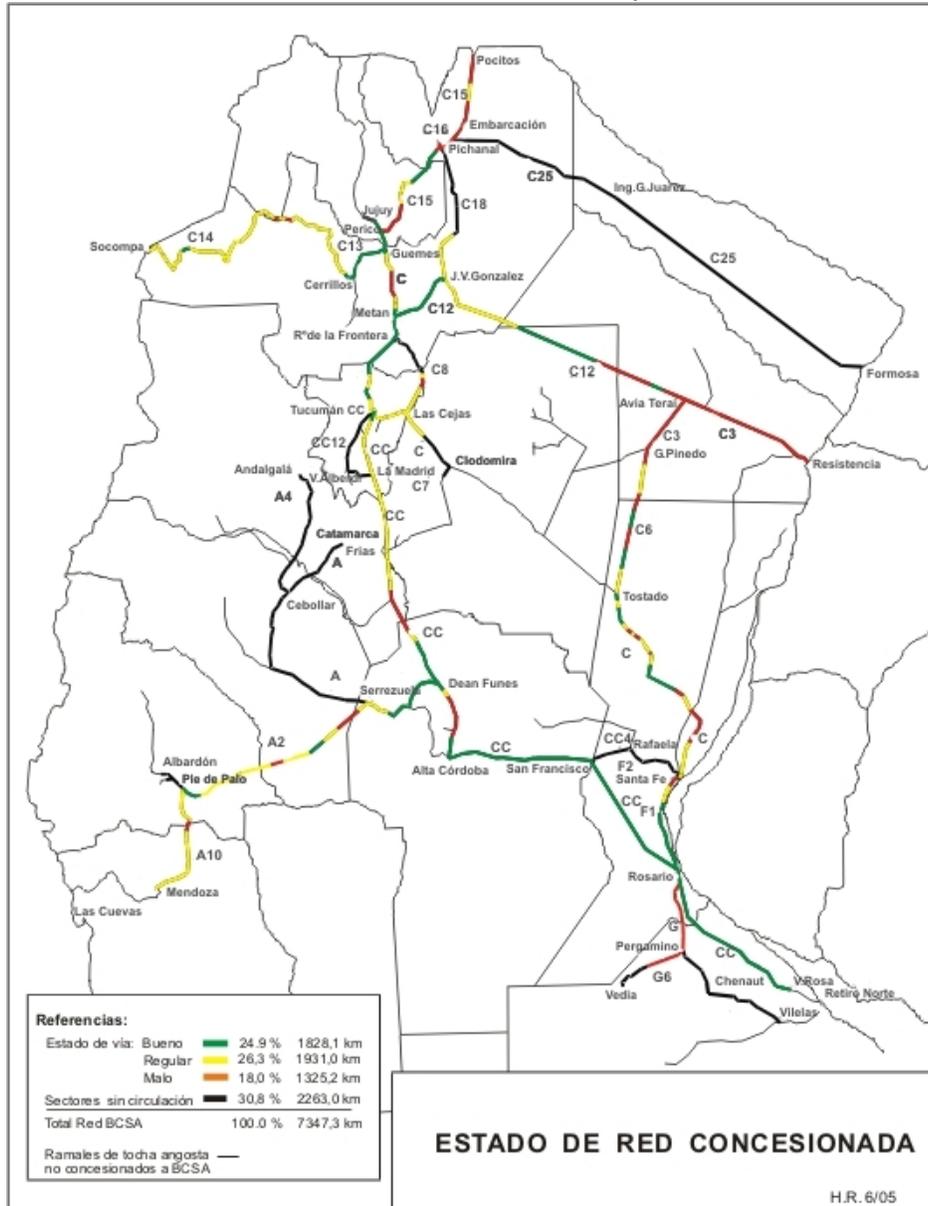


Source: ZICOSUR website, [www.zicosur.org.ar](http://www.zicosur.org.ar)

However, as **MAP 5** shows, only 24.9% of the tracks are in good condition, with 30.9% being out of operation and 18% in bad condition. Therefore, although the potential for

development exists, significant investment is required in order to repair and maintain the network in good working condition if a successful IPZ and, ultimately, Atlantic-Pacific corridor is to be achieved. However, the strategy of thinking big but starting small should not be forgotten if the mistakes of other areas are to be avoided.

**MAP 5. State of the railway network**



Source: ZICOSUR website, [www.zicosur.org.ar](http://www.zicosur.org.ar)



## Final Comments

As discussed in this paper Norte Grande and ZICOSUR have the potential of becoming significant IPZs by re-establishing trading links with peripheral regional economies and taking advantage of its complementarities in order to achieve international competitiveness. This integration among the peripheral areas is fundamental if the centralisation of economic activity is to be reversed. The development of infrastructure and transport is essential in order to make the most of the areas' potential, especially bearing in mind the recent agreements between ZICOSUR and CODESUL and the significance of an Atlantic-Pacific oceanic corridor. However, these IPZs must not forget that one of the most important factors to consider is the long term. In order to overcome structural problems, formulate policies and realise changes the uninterrupted and coherent application of development policies must be followed. Therefore, regional policy has to be supra-national and not influenced by political changes. Thus, independent and permanent institutions, good management from local governments, the existence of judicial guarantees, and the ability to obtain technological transfers while at the same time supporting the local small and medium sized industries are all essential for the successful development of these IPZs.

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