Chapter 1

Introduction: Globalization, Integration, and Economic Development in the Americas

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The 1990s and the early years of the twenty-first century witnessed important changes in patterns of regional integration, namely the emergence of formal “trade” agreements between developed and developing countries. These agreements typically liberalize trade in most goods and services, and they also coordinate measures on a broad range of economic policy areas that go beyond “trade” per se. The first and most prominent of these agreements, of course, is the North American Free Trade Agreement (NAFTA), which the United States, Canada, and Mexico signed in the early 1990s. In subsequent years, the United States has concluded agreements (or, at least, has either begun negotiations or undertaken preliminary discussions on such agreements) with more than half the countries of Latin America and the Caribbean. And, of course, since 1994 discussions have continued for the Free Trade Area of the Americas (FTAA), a hemispheric that would include all thirty-four countries in the region (except Cuba).

The new agreements that we are witnessing mark a considerable break with the types of integration schemes that have historically been prevalent. In the first regard, they stand out for their “North-South” dimensions. Although integration among developed countries and among developing countries has considerable precedent, these agreements transcend the previous divide and bind developed and developing countries in new ways. The second aspect of the new agreements that stands out is their breadth, in that they cover not just trade but also a broader set of regulatory issues, such as rules on managing investment and intellectual property (IP).
Of course, countries approach negotiation of these agreements with markedly different objectives. At the most general level, the primary objective for developing countries is to secure better market access to the developed world and increase inward flows of foreign investment. For developed countries, in contrast, a primary objective is to secure stable business environments that facilitate cross-border expansion of their firms’ activities. The ensuing approach to constructing regional and bilateral economic governance, thus, has been to increase market access while also expanding more developed countries’ economic rules and regulatory systems. Indeed, regional and bilateral trade agreements (RBTAs) between the United States and developing countries are based on a bargain of market access in exchange for regulatory harmonization (Shadlen 2005; 2006).

In this book we aim to systematically evaluate the economics and politics of the new pattern of North-South integration in the Americas. Two overarching issues orient our analysis. First, we consider the developmental implications of this new pattern of integration. Are RBTAs appropriate mechanisms to promote economic development? To be sure, such agreements provide Latin American and Caribbean (LAC) countries with significantly improved access to the U.S. market: both the breadth of sectoral coverage and the depth of import liberalization promised by the United States are greater under agreements of this type than that available under either the World Trade Organization (WTO) or the Generalized System of Preferences. Yet purchasing such preferential access via negotiation of RBTAs with the United States obliges countries to adopt U.S.-style practices in areas such as the management of inward foreign investment and IP. In assessing the complex trade-offs embodied in regional integration, many of the contributors in this volume conclude that the price of market access may be too high. The prevailing concern, quite simply, is that RBTAs, which dramatically restrict countries’ opportunities for policy innovation, may lock in strategies of economic development that have thus-far failed to spur economic development. The first half of the volume addresses these issues, focusing on the challenges derived from new patterns of foreign investment (Mortimore), the rise of China as an exporting power (Dussel Peters), the emergence of a new regime for investment protection (Van Harten), and the multiplicity of intrusive forms of economic governance embodied in regional and global trade regimes (Abugattas and Paus).

Why, then, are these agreements so popular? Explaining the pattern of formal integration in the region is the second overarching issue that orients our analysis. Here we focus on both the proliferation of RBTAs, and, critically, the limits to their spread. The authors consider the interests in integration and strategies for negotiating RBTAs from the perspective