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PAN-AMERICAN INTEGRATION – STRATEGIC DIRECTION OF THE U.S. POST-CRISIS DEVELOPMENT

Анотація. В статті розглядаються рушійні сили, векторна спрямованість та механізм реалізації панамериканської інтеграційної стратегії США у посткризовий період. Проаналізовано співробітництво США з країнами Латинської Америки у сферах міжнародної торгівлі, прямого іноземного інвестування та міграції робочої сили. Визначено, що найбільш дієвим механізмом реалізації США панамериканської інтеграційної стратегії є поступове включення до регіональних інтеграційних стратегій південноамериканських країн, що стимулюватиме інші країни латиноамериканського регіону до кооперації та інтеграційної взаємодії з США.

Ключові слова. Глобальна економічна криза, регіональна економічна інтеграція, регіональний інтеграційний блок, панамериканська інтеграційна стратегія, латиноамериканський регіон.

Annotation. The paper deals with driving forces, vector orientation and mechanisms of realization by the U.S. a Pan-American integration strategy in the post-crisis period. U.S.-Latin America cooperation in such areas as international trade, foreign direct investment, and labor migration was analyzed. Gradual creation of free trade areas with South American countries, which will prompt non-member countries to seek cooperation and integration with the U.S. was determined as the main mechanism of the U.S. Pan-American integration strategy.

Key words. Global economic crisis, regional economic integration, regional integration block, Pan-American integration strategy, Latin American region.

Introduction. The world economic crisis of 2007-2010 marked the transition of the current phase of global economic development to a new level which is characterized by the U.S. global dominance decline, and shaping of a multipolar world order through the formation of new regional economic centers (the BRIC countries, newly industrialized countries). Comprehensive effects of the contemporary crisis on all the subsystems of the world economy exposed the "bottlenecks" in macroeconomic policies of developed countries (particularly, in the formation of loans, and non-optimal ratios of capital accumulation and consumption). The leading trend of the post-crisis period is enhanced competition between developed countries and NICs for the redistribution of key segments of the global market and participation of developing economies in regional integration. Thus, 59 agreements concerning liberalization of trade and capital flows were negotiated throughout 2007-2010 [10]. It shows that nowadays trade liberalization at the global and regional levels is considered by developed economies to be an important means to restore business activity and prompt recovery. Given the active involvement of developing countries into regional integration processes, in the post-crisis period integration strategies may be

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subjected to transformation, namely, to spatial coverage enlargement, and deepening of integration between existing and new member countries. Therefore, for the U.S. a Pan-American integration strategy is considered to be the most favorable due to the interdependence between national economies of the region, their resource capacity and significant role in the global economy.

Problem statement. The works of such economists as S.G. Lora, R. Devlin, J. K. Jackson, A. Jessen, C. Vignoles, L. Yager, D. Lederman, J. A. McKinney W. F. Maloney, L. Servén made a substantial contribution to the studies of Western Hemisphere integration. At the same time, extensive literature on U.S. integration strategies in the Western Hemisphere concentrates on studying purposes, elements, possible effects and reasons of why FTAA got failed. However, the studying of potential U.S. strategies aiming at creation of a Pan-American integration bloc is of high importance due to enhanced competition on regional and global markets in the post-crisis period. Thus, the research objective of this article is to determine driving forces, vector orientation and mechanisms of realization by the U.S. a Pan-American integration strategy in the post-crisis period.

Statement of the basic material. Pan-American ideas are not a product of the last decade, but have their roots in the XIX century. In 1889-1890 the first Pan-American Congress in order to establish closer trade and other ties between the U.S. and Latin American countries was held [15, p. 261]. Since then, the U.S. strategy in the Western Hemisphere has transformed from the Monroe Doctrine, which declared Latin America as the U.S. sphere of influence to the Enterprise for the Americas Initiative (EAI) in 1990s. The goal of the EAI was to establish "...a free-trade zone stretching from "Anchorage to Tierra del Fuego", expand investment and provide a measure of debt relief for countries in Latin America and the Caribbean" [12, p. 1]. The modern U.S. strategy in the Pan-American region differs substantially from its strategy in the XIX century owing to free trade and democratic principles, and refusal from coercive power use.

Since the early 1990s the U.S. strategic priorities in the Latin American region has been opening markets, strengthening democracy, and stemming the flow of illegal drugs. Task Force of the Council on Foreign Relations, however, identifies four priorities of the U.S. policy towards Latin America "...1) poverty and inequality; 2) citizen security; 3) migration; and 4) energy security and integration" [1, p. 7-10]. Therefore, the cooperation between the U.S. and Latin America goes beyond economic areas, and involves migration, political and security aspects. It demonstrates the high importance of this region for the U.S. in terms of possible economic benefits, as well as maintenance and improvement of relations between countries in all areas of social life.

Based on strategic importance of the Pan-American region, and given the comprehensive impact of the global economic crisis on the U.S. economy, we selected two groups of driving forces for the U.S. to deepen economic integration ties with Latin America in the post-crisis period: 1) exogenous; and 2) endogenous (Table 1).

Table 1

Driving forces for the U.S. to deepen economic integration ties with Latin America in the post-crisis period

| Endogenous | Exogenous |
|-------------------------------|---|
| Massive unemployment | Reduced U.S. dominance in regional integration within the Pan-American region |
| Dangerously high federal debt | Use of cheap domestic labor and low U.S. import tariffs by Latin American countries |
| Negative trade balance | High dependence on energy imports from Africa and the Middle East |

Trends in the regional economic integration of Latin American countries with all the countries in the world indicate that the U.S. dominance in the integration processes within the region reduces. As of 2010, the EU had free trade agreements with 24 countries of the Pan-American region, India - with 15 countries, South Korea - with 15 countries, Brazil - with 14 countries, whereas the U.S. with only 12 countries [7]. Deepening of Latin America's integration strategies with other than U.S. countries may cause diversion of U.S.-Latin America trade and the restraint in access of American capital to these countries' specific sectors. Therefore, implementation of integration strategies with Latin American countries by the U.S. will contribute to the strengthening of its geo-economic position, and will provide the country with a competitive advantage through reduction of trade and non-trade barriers.

The next exogenous driving force of the U.S. to deepen integration with Latin American countries is the use of Latin American manufacturers the advantages of cheap labor and low U.S. import tariffs. Thus, amongst 25 leading importers on the U.S. market in 2009 there were four Latin American countries (Mexico, Venezuela, Brazil, Colombia) with a total 14.5% share of U.S. imports. In these countries, income per capita (calculated by purchasing power parity) ranges from 8,600 U.S. dollars. in Colombia to 14,100 U.S. dollars. in Mexico, which is much lower than the one in the U.S. (45,640 U.S. dollars) [5]. Low incomes indicate that Latin American manufacturers have a competitive advantage, which results in low wages. Furthermore, an average U.S. import tariff in 2009 was 3.5% (4.7% for agricultural products and 3.3% for non-agricultural products). Both low U.S. import tariffs and the use of low-paid labor force by Latin American countries provide them with comparative advantage in manufacturing labor-intensive goods. The realization of integration strategies in Latin America by the U.S. will ease its manufacturers' access to Latin American markets through balancing competitive advantages that are the source of low U.S. import tariffs and Latin American cheap labor.

The third exogenous factor for the U.S. to deepen economic integration with Latin American countries is its high dependence on energy imports from Africa and the Middle East. Given that these regions are characterized by permanent social and economic instability, it threatens U.S. energy security. Energy supplies from these regions account for more than one third of total U.S. energy imports (33% in 2009). Among the countries of Africa and the Middle East the largest exporters of crude oil to the U.S. market were Saudi Arabia, Nigeria, Iraq, Angola, Algeria, and Kuwait in 2010. In comparison with Africa and the Middle East, Latin America is marked to have better socio-economic conditions, and geographic proximity to the U.S. Therefore, in the post-crisis period a strategic priority for the U.S. should be the deepening of integration with those Pan-American countries, which are the biggest energy suppliers on the U.S. market (Canada, Mexico, Venezuela, Brazil, Colombia, Ecuador, Argentina etc.).

The driving forces for the U.S. to deepen regional integration with Latin American countries should also include a group of endogenous factors, since global financial crisis has led to the exacerbation of a number of domestic problems whose solution is of immediate importance for the country in the post-crisis period.

Major domestic problem that the U.S. economy has faced since the start of the global financial crisis is high levels of unemployment (unemployment rate in 2006 was 4.6%, and by the end of 2010 reached 9.6%). The increase in unemployment was caused by companies' and financial institutions' liquidity crises which slowed down their business activities, decreased demand for products and services. Thus, in the post-crisis period, the priority of the U.S. economic development should be to create jobs through increased competitiveness and promotion of U.S. exports.

Another U.S. driving force for deepening integration ties with Latin American countries is a negative trade balance. Though for the period of 2007-2009 the U.S. trade deficit has been re-

duced by 38%, its rate still was high in 2009 (-506,944 million.U.S. dollars). It is necessary to mention that the reduction was caused by growing exports, and shrinking imports as a result of household income and consumption (including imports) decline. For instance, for 2007-2009 U.S. exports of goods have fallen by 8% (-91,867 million U.S. dollars), while imports – by 21% (-408,115 million U.S. dollars). Thus, the U.S. should stimulate the adjustment of trade balance so that the exports growth would prevail over the growth of imports consumption, which has to balance foreign trade in the long-run period. Key measures to that should be the increase of U.S. manufacturers competitiveness through innovation, the use of energy resources (oil, natural gas) at a lower cost, and alternative energy sources.

The third endogenous driving force for the U.S. to deepen integration ties with Latin American countries is an outstanding level of federal debt. By the end of 2010, the rate of Total Public Debt Outstanding to GDP was 96.3%, which is 31.9% more than in 2007 (64.4%). The rapid growth of federal debt was boosted by budget deficits, negative trade balance and the reduction of financial accounts surplus. Thus, the U.S. should seek to encourage domestic savings, level balance of payments, and federal budget. Put differently, the U.S. should stimulate active operations (exports, foreign direct investments, etc.) of national economic agents. Given geographic proximity, market capacity, and current relatively high trade barriers, Latin America potentially is the most favorable regional partner for the U.S. in achieving this goal.

Quite evident is the fact that the use of monetary policy by Federal Reserve System and fiscal policy by U.S. government in order to restore economic growth after the global financial crisis is limited due to low U.S. interest rate, which is almost zero (0.25% since December 2008), and dangerously high level of federal debt (96.3% in 2010). In this case, the Japanese economy experience in coming out of a decade-long slump in the 1990s may be useful for the U.S. At that time the Japan's recovery was perpetuated by export expansion. Therefore, export promotion and increase in competitiveness of national manufacturers on world markets should facilitate creating jobs, speed up economic growth, reduce trade deficit and federal debt as a result of stabilizing the balance of payments. Nowadays, free trade agreements play a decisive role in trade policies aiming at export expansion. Involvement of U.S. satellites in Latin America to regional integration arrangements, and the formation of a large-scale Pan-American integration bloc in the long-run period will help U.S. to meet domestic and external challenges in the post-crisis period.

Based on the above-mentioned driving forces, the vector direction of the U.S. Pan-American integration strategy should be aimed at deepening cooperation and integration ties in international trade, capital flows (primarily, foreign direct investments), and labor migration.

Table 2
Macroeconomic indicators of the U.S. and Latin America [2, 4, 8, 11, 13]

| Indicator | Country/Region | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------------------|----------------|---------|---------|---------|---------|--------|
| GDP per capita, U.S. dollars | U.S. | 44,805 | 46,558 | 47,138 | 45,918 | 47,274 |
| | Latin America | 3,808.5 | 6,047.2 | 7,038.8 | 8,090.5 | - |
| Real GDP growth, % | U.S. | 2-Лип | 1-Вер | 0.0 | -2.6 | 2-Вер |
| | Latin America | 5-Чер | 5-Сеп | 4-Бер | -1.8 | - |
| Consumer Price Index (CPI), % | U.S. | 3-Лют | 2-Сеп | 3-Сеп | - 0.4 | 1-Чер |
| Inflation rate, % | Latin America | 5-Бер | 5-Кві | 7-Вер | 6.0 | - |

| Indicator | Country/Region | 2006 | 2007 | 2008 | 2009 | 2010 |
|-------------------------------|---|---------------------------|---------------------------|---------------------------|---------------------------|-------|
| Unemployment rate, % | U.S. | 4-Чеп | 4-Чеп | 5-Сеп | 9-Беп | 9-Чеп |
| | Latin America, highest and lowest rates | 16.2 (Dominican Republic) | 15.6 (Dominican Republic) | 14.1 (Dominican Republic) | 14.9 (Dominican Republic) | - |
| | | 4-Чеп | 4.0 | 4-Січ | 5-Січ | - |
| | | (Mexico) | (Honduras) | (Honduras) | (Trinidad and Tobago) | |
| Federal debt to GDP ratio, % | U.S. | 63.9 | 64.4 | 69.2 | 83.4 | 96.3 |
| External debt to GDP ratio, % | Latin America | 23-Сеп | 22-Чеп | 20.0 | 23-Беп | - |

As shown in Table 2, a number of Latin America's macroeconomic indicators continues to lag behind the U.S. ones, including GDP per capita (45,918 U.S. dollars in the U.S. versus 8,090.5 U.S. dollars in Latin America in 2009), inflation rate (-0.4% CPI in the U.S. versus 6.0% in Latin America in 2009), unemployment rate (9.6% in the U.S. versus 14.9% in Trinidad and Tobago in 2009). At the same time, Latin America has better such indicators as real GDP growth (4.3% versus 0.0% in the U.S. in 2008, and -1.8% versus -2.6% in the U.S. in 2009), and rate of public debt to GDP (23.3% versus 83.4 in the U.S. in 2009). The most striking feature of the Latin American region is a significant disparity in incomes both within the countries and between them. For instance, the Gini coefficient varies among countries, but stays at a high level, which can be explained by uneven distribution of income and underdeveloped middle class. In 2008 Brazil and Dominican Republic had the highest rates of Gini coefficient (59.4 and 55.3 respectively), and Venezuela and Uruguay (41.2 and 44.5 respectively) had the lowest ones. Despite the high average growth rate of gross regional product (GRP), during 2006-2008 per capita in the Latin American region accounted for only 8,090.5 U.S. dollars in 2009, which is 6 times less than in the U.S.

Thus, Latin American countries are characterized by typical features of developing economies such as dynamic economic growth, export orientation, low wages, large disparities in income distribution, high unemployment rates, low balance of payments and external debt (external debt to GDP ratio was 23.3% in 2009).

The U.S.-Latin America foreign trade correlates with household incomes in both trading partners. Latin America's GDP per capita growth causes the reduction of U.S. negative bilateral trade balance (Table 2 and 3). For instance, during 2006-2009 Latin America experienced growth of GRP per capita by 112% (4,282 U.S. dollars), meanwhile the U.S. balance of trade with Latin American countries decreased by 57.4% (61,577 million U.S. dollars).

Table 3
U.S. balance of trade with Latin American countries (LAC), mln. U.S. dollars

| # | Indicator | 2005 | 2006 | 2007 | 2008 | 2009 |
|----|--------------------------------------|---------|----------|---------|---------|---------|
| 1. | Total U.S. exports to LAC | 190,972 | 221,843 | 242,686 | 287,711 | 237,317 |
| 2. | Total U.S. imports from LAC | 290,575 | 329,117 | 340,927 | 374,373 | 283,014 |
| 3. | Total U.S. balance of trade with LAC | -99,603 | -107,274 | -98,241 | -86,662 | -45,697 |

| # | Indicator | 2005 | 2006 | 2007 | 2008 | 2009 |
|------|---------------------------------|---------|---------|---------|---------|---------|
| | U.S. – LAC trade balance of: | | | | | |
| 3.1. | manufactured goods | -17,564 | -15,944 | -12,271 | 12,218 | 165,352 |
| 3.2. | capital and consumer goods | -30,534 | -30,272 | -32,343 | -13,604 | -9,287 |
| 3.3. | textiles, apparel, and footwear | -20,489 | -9,449 | -8,631 | -7,346 | -6,226 |
| 3.4. | primary products | -76,163 | -85,053 | -81,79 | -94,811 | -56,772 |
| 3.5. | agricultural products | -22,886 | -7,506 | -5,094 | 740 | -5,189 |
| 3.6. | oil and petroleum products | -60,412 | -69,286 | -67,828 | -86,053 | -47,643 |

For the period of 2005-2009 the U.S. balance of trade with Latin American countries was negative, however, tended to contract. Thus, for 2005-2009 the U.S. negative trade balance with Latin America shrank by 53,906 million U.S. dollars. It can be explained by following: 1) growth in purchasing power of Latin America spurred consumption and consequently demand for imports; 2) inflation pace in some Latin American countries was faster than in the U.S. what gave American goods a cost advantage; 3) reduced demand of U.S. consumers for Latin American imports as a result of escalating economic crisis and deterioration of consumers' solvency in 2007-2009.

The commodity structure of the U.S. trade balance with Latin America shows both trading partners specialize on different exports, respectively manufactured goods and oil and petroleum products. Thus, for the period of 2005-2009 the U.S. balance of bilateral trade in manufactured goods transformed from negative (-17,564 million U.S. dollars) to positive (165,352 million U.S. dollars). At the same time, the U.S. balance of bilateral trade in oil and petroleum products was negative. To some extent, it reflects the model of trade between countries on the basis of comparative advantage: endowed with energy resources and labor Latin American countries export oil and petroleum products, and on the contrary, the U.S. having advantages in technologies and access to cheap labor and natural resources exports manufactured, capital and consumer goods. At the same time intra-industry trade based on economies of scale (when the U.S. and Latin America trade almost the same goods) occurs in all the areas of bilateral trade. It demonstrates the complexity and diversity of trade cooperation between the U.S. and the Latin American region.

As shown in Table 4 the share of U.S. trade with Latin American countries in total U.S. trade was growing during 2006-2009. For the period of 2006-2009 the share increased from 0.1871 (18.71%) to 0.1955 (19.55%). Meanwhile, the dependence of the Latin American region on trade with the U.S. declined: the share of Latin American countries' trade with the U.S. in total Latin America trade dropped from 0.4093 (or 40.93%) in 2006 to 0.3475 (or 34.75%) in 2009. The share of intraregional trade also decreased in North America, Latin America (excluding Mexico), and the whole Western Hemisphere. It shows the diversification of Latin America trade relations and reduction of region's dependence on U.S. markets and imports. However, the drawback of the share of intraregional trade is that it does not show how volumes of intra-regional trade are changing in comparison with these countries' trade with the rest or the whole world. Because of that we estimated the following indices of intra-regional trade intensity in the Pan-American region: 1) Intra-regional trade intensity index (Brown, Kojima), 2) Intensity coefficient of intra-regional trade (Anderson, Norhaym, Drysdell, Garneau).

Table 4
The intensity of intraregional trade in the Pan-American region*

| # | <i>Index</i> | 2006 | 2007 | 2008 | 2009 |
|------|---|--------------|--------------|--------------|--------------|
| 1. | <i>Intra-regional trade share (Si)</i> | | | | |
| 1.1. | Share of U.S. trade with Latin American countries in total U.S. trade | 0.18714 | 0.18419 | 0.19153 | 0.19552 |
| 1.2. | Share of Latin American countries' trade with U.S. in total Latin America trade | 0.40927 | 0.38327 | 0.35877 | 0.34746 |
| 1.3. | Intra-regional trade share in North America | 0.41974 | 0.41039 | 0.39984 | 39296 |
| 1.4. | Intra-regional trade share in Latin America (excluding Mexico) | 0.30220 | 0.29351 | 0.29468 | 0.30082 |
| 1.5. | Intra-regional trade share in the Western Hemisphere | 0.49779 | 0.49135 | 0.48834 | 0.47905 |
| 2. | <i>Intra-regional trade intensity index (Ii)</i> | | | | |
| 2.1. | U.S.-Latin America intra-regional trade intensity index | 1.93784 | 1.95172 | 2.00000 | 2.00429 |
| 2.2. | North America intra-regional trade intensity index | 2.45025 | 2.55686 | 2.63997 | 2.61752 |
| 2.3. | Latin America (excluding Mexico) intra-regional trade intensity index | 9.27485 | 8.69527 | 8.02341 | 8.39673 |
| 2.4. | The Western Hemisphere intra-regional trade intensity index | 2.44152 | 2.52934 | 2.59505 | 2.57622 |
| 3. | <i>Intensity coefficient of intra-regional trade</i> | | | | |
| 3.1. | Intensity coefficient of U.S.-Latin America intra-regional trade | 2.75182 | 2.73695 | 2.80472 | 2.81132 |
| 3.2. | Intensity coefficient of North America intra-regional trade | 4.22267 | 4.33655 | 4.39876 | 4.31195 |
| 3.3. | Intensity coefficient of Latin America (excluding Mexico) intra-regional trade | 13.2915 0 | 12.3076 9 | 11.3754 9 | 12.0093 5 |
| 3.4. | Intensity coefficient of the Western Hemisphere intra-regional trade | 4.86159 | 4.97267 | 5.07184 | 4.94527 |

* Notes. 1) *Intra-regional trade share (Si)* calculated as t_{ii} / t_i , where t_{ii} - region i 's intra-regional trade; t_i - region i 's total trade; 2) *Intra-regional trade intensity index (Ii)* calculated as $(t_{ii}/t_i)/(t_i/T)$, where t_{ii} - region i 's intra-regional trade; t_i - region i 's total trade; T - world trade; 3) *Intensity coefficient (Ii)* calculated as $(t_{ii}/t_i)/((t_i-t_{ii})/T)$, where t_{ii} - region i 's intra-regional trade; t_i - region i 's total trade.

Intra-regional trade intensity index is the highest for Latin America (excluding Mexico), but tends to decline (Table 4): from 2006 to 2009 the index shrank by 0.87812. In contrast to intra-regional trade in Latin America (excluding Mexico), U.S.-Latin America intra-regional trade intensity index is the lowest and ranges from 1.93784 to 2.00429. However, the dynamics of this index indicates that volumes of the U.S.-Latin America trade are growing comparing to these countries' volumes of trade with all the countries in the world. The intra-regional trade intensity index also grew in North America and the whole Western Hemisphere during 2006-2009.

It is notable that in 2009 the Western Hemisphere intra-regional trade intensity index (2.57622) was lagging a little behind the index in North America (2.61752), where North American Free Trade Agreement (NAFTA) has been functioning since 1994.

The calculated intensity coefficient of intra-regional trade correlates with the rates of the previous index (intra-regional trade intensity index). In contrast to intra-regional trade intensity index, this index compares the share of intraregional trade with the share of the rest of the world's trade. This index is the largest for intraregional trade within Latin America (excluding Mexico), and the lowest for the U.S. bilateral trade with Latin American countries. Thus, intensity coefficient of the Western Hemisphere intra-regional trade (4.94527) is higher than within North America (4.31195). This shows high interdependence and interconnectedness between countries of the Pan-American region and the intensity of intraregional trade. If we considered the intra-regional trade by sub-regions, it would be noticeable that intra-regional trade within Latin America (excluding Mexico) is decreasing, while the intensity of the U.S. trade with Latin American trade is rising. Put differently, Latin American countries diversify their trade policies through expanding trade and deepening cooperation with the U.S. The attractiveness of the Latin American region for U.S. TNCs and TNB's is determined by such factors as:

- 1) High rates of economic growth in the region (an average annual GRP growth was 4.3-5.8% during 2006-2008);
- 2) Region's endowment with energy resources (Venezuela, Brazil, Mexico are among top 20 countries endowed with the largest reserves of crude oil, furthermore Venezuela is also among top 20 countries endowed with natural gas reserves) [6];
- 3) Region's endowment with low-cost labor force;
- 4) Deep regional cooperative ties between Latin American economic entities (the share of intra-regional trade amounts to 30% of the region's total trade);
- 5) Latin American countries' geographical proximity to the U.S., which allows U.S. companies to minimize transportation costs;
- 6) Historical and cultural commonality of Latin American countries (language, culture, traditions, and shared history).

Table 5
U.S. direct investment position in Latin American countries [13, 14]

| # | Region / country | Indicator | 2005 | 2006 | 2007 | 2008 | 2009 |
|------|---------------------------------|--|--------|--------|-----------|-----------|-----------|
| 1. | Latin America and the Caribbean | U.S. direct investment position in LAC, million U.S. dollars | 296,37 | 330,28 | 449,653 | 461,365 | 536,636 |
| | | LAC FDI inward stock, million U.S. dollars | 937,42 | 908,58 | 1,140,007 | 1,181,615 | 1,472,744 |
| | | Share of U.S. direct investment position in LAC, % | 31.61 | 36.35 | 39.44 | 39.05 | 36.44 |
| 1.1. | South America | U.S. direct investment position in LAC, million U.S. dollars | 72,844 | 80,004 | 104,116 | 99,786 | 125,171 |
| | | South America FDI inward stock, million U.S. dollars | 451,89 | 499,49 | 648,944 | 633,517 | 788,121 |
| | | Share of U.S. direct investment position in South America, % | 41259 | 40955 | 41015 | 15.75 | 15.88 |

| # | Region / country | Indicator | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------|---|--|--------|--------|---------|---------|---------|
| 1.1.1. | Argentina | U.S. direct investment position in Argentina, million U.S. | 10,103 | 13,174 | 13,692 | 12,518 | 14,108 |
| | | Argentina's FDI inward stock, million U.S. dollars | 55,245 | 58,604 | 66,015 | 76,091 | 80,996 |
| | | Share of U.S. direct investment position in Argentina, % | 18.29 | 22.48 | 20.74 | 16.45 | 17.42 |
| 1.1.2. | Brazil | U.S. direct investment position in Brazil, million U.S. dollars | 30,882 | 33,504 | 48,807 | 44,532 | 56,692 |
| | | Brazil's FDI inward stock, million U.S. dollars | 201,18 | 221,91 | 328,455 | 287,697 | 400,808 |
| | | Share of U.S. direct investment position in Brazil, % | 15.35 | 41197 | 14.86 | 15.48 | 14.14 |
| 1.1.3. | Venezuela | U.S. direct investment position in Venezuela, million U.S. dollars | 8,934 | 10,922 | 12,871 | 13,473 | 14,506 |
| | | Venezuela's FDI inward stock, million U.S. dollars | 46,237 | 45,398 | 43,957 | 41,375 | 41,214 |
| | | Share of U.S. direct investment position in Venezuela, % | 19.32 | 41084 | 29.28 | 32.56 | 35.20 |
| 1.1.4. | Chile | U.S. direct investment position in Chile, million U.S. dollars | 11,127 | 10,927 | 16,337 | 16,412 | 22,608 |
| | | Chile's FDI inward stock, million U.S. dollars | 73,62 | 80,732 | 105,558 | 100,989 | 121,64 |
| | | Share of U.S. direct investment position in Chile, % | 41228 | 13.53 | 15.48 | 16.25 | 18.59 |
| 1.2. | Central America and the Caribbean (CAC) | U.S. direct investment position in CAC, million U.S. dollars | 223,52 | 250,28 | 345,537 | 280,93 | 411,465 |
| | | CAC FDI inward stock, million U.S. dollars | 485,53 | 409,09 | 491,064 | 548,098 | 684,623 |
| | | Share of U.S. direct investment position in CAC, % | 46.04 | 61.18 | 70.36 | 51.26 | 60.10 |
| 1.2.1. | Mexico | U.S. direct investment position in Mexico, million U.S. dollars | 73,687 | 82,965 | 91,046 | 89,61 | 97,897 |
| | | Mexico's FDI inward stock, million U.S. dollars | 209,56 | 228,6 | 265,736 | 294,68 | 309,523 |
| | | Share of U.S. direct investment position in Mexico, % | 35.16 | 36.29 | 34.26 | 30.41 | 31.63 |
| 1.2.2. | Panama | U.S. direct investment position in Panama, million U.S. dollars | 4,826 | 4,636 | 6,171 | 6,236 | 7,845 |
| | | Panama's FDI inward stock, million U.S. dollars | 9,873 | 12,821 | 14,611 | 16,974 | 18,675 |
| | | Share of U.S. direct investment position in Panama, % | 48.88 | 36.16 | 42.24 | 36.74 | 42.01 |

During 2005-2009 the share of U.S. FDI stock in Latin America accounted for more than a third of all Latin American countries' FDI inward stock. The global economy downturn in 2008 caused the decrease of this indicator. Despite this, during 2008-2009 Latin American countries continued to accumulate FDI, what demonstrates the high potential of this region, which rema-

ins to be attractive to investors even in a crisis. The U.S. invests mainly in such countries as Argentina (17.42% of total country's FDI inward stock), Venezuela (35.2% of total country's FDI inward stock), Chile (18.59% of total country's FDI inward stock), Mexico (31.63% of total country's FDI inward stock) and Panama (42.01% of total country's FDI inward stock). For the U.S. cooperation and integration with Brazil is of high importance since this country is considered to be a South American economic leader. However, the share of U.S. direct investment position in Brazil was only 14.14% in 2009.

It should be noted that the share of U.S. direct investment position in Central America and the Caribbean (60.1% in 2009) is much higher than the analogous index in South America (15.88% in 2009). The reason for that could be that the U.S. negotiated free trade agreements with only one South American country which is Chile, while in Central America a free trade area (DR-CAFTA) among the U.S. and 6 countries of the region has been functioning since 2006. Above all, all the U.S. free trade agreements have investment provisions, thus boosting the flows of FDI between member countries.

In order to analyze the U.S. foreign direct investment to Latin America, we estimated the accumulated FDI intensity index (Table 5). This indicator relates the actual U.S. FDI to Latin America to their expected value according to each country's world investment position.

Table 5
U.S.-Latin America FDI intensity index [3, 14]*

| # | Region/ country | 2005 | 2006 | 2007 | 2008 | 2009 |
|--------|---|-------|-------|-------|-------|-------|
| 1. | U.S. FDI to LAC | 23377 | 32874 | 43862 | 2.00 | 22282 |
| 1.1. | U.S. FDI to South America | 0.84 | 0.84 | 0.90 | 0.81 | 0.70 |
| 1.1.1. | Argentina | 0.95 | 43101 | 42370 | 0.84 | 0.77 |
| 1.1.2. | Brazil | 0.80 | 0.79 | 0.83 | 0.79 | 0.62 |
| 1.1.3. | Venezuela | 40909 | 46023 | 23377 | 24473 | 20090 |
| 1.1.4. | Chile | 0.79 | 0.71 | 0.87 | 0.83 | 0.82 |
| 1.2. | U.S. FDI to Central America and the Caribbean | 14642 | 43891 | 34029 | 23043 | 23774 |
| 1.2.1. | Mexico | 30317 | 32874 | 33604 | 20455 | 14611 |
| 1.2.2. | Panama | 19756 | 32509 | 13181 | 32143 | 31048 |

*Notes. FDI intensity ratio was calculated as $FDI_{ij} / ExpFDI_{ij}$, where, FDI_{ij} – Actual amount of FDI stock from country i to country j ; $ExpFDI_{ij}$ – Expected value of FDI stock from country i to country j ; $ExpFDI_{ij} = FDI_{wj} / FDI_{ww} * FDI_{iw} / FDI_{ww} * FDI_{ww}$, where, FDI_{wj} – Total inward stock in the j country; FDI_{ww} – Worldwide inward or outward FDI stock; FDI_{iw} – Total outward FDI stock of i country in the world.

During 2005-2007 the U.S –Latin America FDI intensity index tended to rise, however, the global economic slump in 2008 made the index decline to 1.61, which was lower than in 2005. The high intensity of U.S. FDI to Central America and the Caribbean, and low intensity to the South American countries can be noted. Such disparity might be explained by the fact that 1) Central American and the Caribbean economies are much more open than South American owing to investment provisions under DR-CAFTA; 2) the U.S. has a free trade agreement with only one country in South America – Chile; 3) Mercosur member countries (Argentina, Brazil, Paraguay and Uruguay) position themselves as a sub-regional economic center in contrast to the U.S. dominance in the Pan-American region.

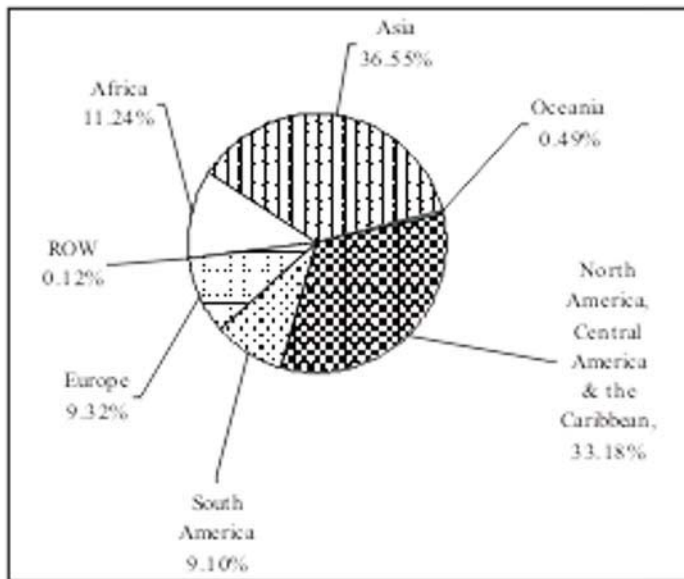


Figure 1. Legal permanent residents (Green card recipients) in the U.S. by country of birth, 2009 [9, p. 12-15]

Given deep economic and social ties, common borders and history among the Western Hemisphere countries, the cooperation in labor migration appears to be urgent for the U.S. and Latin America. As seen from Figure 1, among immigrants who have "green card" in the U.S. descendants of the Western Hemisphere prevail (42.28% in 2009). However, Mexican persons occupy the largest share of the Western Hemisphere immigrants in the U.S. (14.58%), while migrants from all the South American countries account for only 9.1%. Analysis of migration between the U.S. and Latin America through data of permanent legal residents does not fully reflect the importance

and urgency of cooperation between countries. In 2009 among the total number of deportees from the U.S. (580,107 persons) there were 85% of North American descendants (490,581 persons), and only 0.6% immigrants from South America (3,499 persons). In 2009 80% (465,205 persons) of all deported migrants were deported to Mexico. Among the aliens removed by criminal status (128,345 persons) Central American descendants account for 16% (20,459 persons), South America – for 2% (3018 persons), and Mexico – for 76% (96,965 persons). This indicates disparity of migration flows between Latin America and the U.S., and predominance of migrants from Mexico.

Thus, the analysis demonstrates that trade, investment flows and labor migration between the U.S. and Latin America are enhancing. Indices of intra-regional trade and FDI intensity indicate increasing importance of bilateral relations between the U.S and Latin American countries.

The experience of Free Trade Area of the Americas (FTAA) negotiations in 1994-2005 shows that formation of the Western Hemisphere integration bloc in the short-run period can not be achievable because of several reasons:

1) Deep contradiction between the U.S. and Brazil. Both countries distinguish themselves as leading economic forces in North and South America, and seek to strengthen their positions in the Pan-American region: Brazil through Mercosur and potential cration of the South American Union, and the U.S. through NAFTA, DR-CAFTA and free trade agreements with Latin American countries (Chile, Peru, Panama, Colombia).

2) Economic crises in a number of Latin American countries (Mexico, Brazil, Argentina) during the 1990s and early 2000s which were widely explained by unsuccessful implementation of neoliberal reforms set in "Washington Consensus".

All this factors led to the negative perception of any U.S. integration initiatives by Latin American countries.

Broadly speaking one can distinguish three mechanisms of the U.S. Pan-American integration strategy:

1) Negotiation a free trade agreement among all 34 democratic countries in the region on the basis of consensus and common interests between the major players - Brazil and the U.S.;

2) Deepening of NAFTA to the level of customs union, common market or economic union (the North American Union), what will increase the U.S. bargaining power in negotiations with South American countries;

3) Gradual negotiation of free trade agreements with South American countries, which will cause non-members to seek ways of deepening cooperation and integration with the U.S.

Formation of a Pan-American free trade area through simultaneous negotiation between all the countries of the Western Hemisphere and creation of the North American Union appear to be two extreme strategies. It is obvious that existing gap in levels of economic development between the U.S. and Mexico will be preventing NAFTA from advancing to deep integration forms. For the U.S., the North American Union would be detrimental because of potential increase in flow of migrants from Mexico, which only would exacerbate unemployment and criminogenic situation in the U.S. (especially in such southwestern states as Arizona, Texas, New Mexico etc.). For Mexico the transformation of NAFTA into the North American Union would threaten national economic sovereignty through possible access of U.S. TNCs to pumping oil wells.

Since 2003, when a free trade agreement with Chile was negotiated, the U.S. embarked on the third mechanism of the U.S. Pan-American integration strategy. Since the mid 2000s the U.S. has been trying to expand the geographical coverage of free trade agreements. For instance a free trade agreement was created with Central American countries (DR-CAFTA) and Panama; as of 2011 FTAs with Colombia and Peru (members of the Andean Community) are already negotiated but not ratified by U.S. Congress. It is likely that the functioning of U.S.-Colombia and U.S.-Peru FTAs will encourage other members of the Andean Community (Ecuador, Bolivia) to initiate trade liberalization with the U.S. due to the threat of trade diversion. Above all, the elements of free trade agreements between the U.S. and the Western Hemisphere countries are almost identical, which shows the probability of their unification in order to create a Pan-American integration bloc.

Conclusions. The analysis of dynamics and structure of U.S. cooperation with Latin America in such areas as international trade, foreign direct investment, and labor migration in order to create a Pan-American integration bloc leads us to the following conclusions.

Firstly, recovery from the global financial crisis of 2007-2010 is characterized by "bottle-necks" in macroeconomic policies of developed economies (particularly, in the formation of loans, and non-optimal ratios of capital accumulation and consumption). It forces U.S. government to use more effective means to address the crisis and prompt post-crisis development, which is export expansion in order to create jobs, reduce negative trade balance, and solve federal debt problem in the long-run period.

Secondly, the U.S. export expansion in the Pan-American region through the creation of preferential and free trade areas would solve three major domestic problems: massive unemployment, negative trade balance and dangerously high federal debt. At the same time, implementation of regional integration strategies in Latin America will help the U.S. meet such exogenous challenges as reduced U.S. dominance in regional integration within the Pan-American region; use of cheap domestic labor and low U.S. import tariffs by Latin American countries; high dependence on energy imports from Africa and the Middle East.

Thirdly, the economic development of Latin America is characterized by large income disparities and lower level of economic development than the U.S. For instance, the U.S. prevail over Latin America in terms of GDP per capita, unemployment and inflation rates. However, Latin American countries have higher real GRP growth rate, and less level of external debt to GDP rate. This indicates that Latin American countries have typical characteristics of developing countries. This is the fact that should be carefully considered by the U.S. during implementation of free trade agreements (raise requirements concerning working conditions and wages

in less developed countries, implement flexible mechanisms for tariff and non-tariff barriers' removals in trade of agricultural, textiles, apparel, footwear, oil, and petroleum products).

Fourthly, taking into account endogenous and exogenous challenges of the U.S. economy exacerbated by the global financial crisis, the most favorable areas of U.S. – Latin America cooperation and integration are international trade in goods, foreign direct investment, and labor migration. U.S. bilateral trade with Latin America is characterized by increasing of its intensity and shrinking the U.S. negative trade balance through boosting manufactured and capital exports. Meanwhile, Latin America specializes on exporting oil and petroleum products, textiles, apparel, and footwear reflecting the trade based on comparative advantage. However, there are several areas where the trading partners export and import similar products, indicating the trade based on economy on scale. The Pan-American region is characterized by the asymmetry of inward FDI from the U.S.. For instance, in 2009 the share of U.S. direct investment position in Central America and the Caribbean accounted for about 60%, while all the South American countries attracted only 15.88% of total U.S. FDI. In the area of labor migration there is predominance of inflows of workers from Central America and the Caribbean to the U.S., and a much less share of South American descendants. The main U.S. problem concerning labor migration remains the flow of illegal migrants from Mexico.

Fifthly, the main mechanism of the U.S. Pan-American integration strategy should be the gradual creation of free trade areas with South American countries, which will prompt non-member countries to seek cooperation and integration with the U.S.

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