

THE DIVERSE FACETS OF NORTH AMERICAN INTEGRATION

AS DIFERENTES FACETAS DA INTEGRAÇÃO NORTE-AMERICANA

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RESUMO

Sustenta-se que o conceito 'integração norte-americana' deve ser revisitado e estendido além da tradicional teoria do comércio. Após observar sua arquitetura, apresentamos uma perspectiva articulada em torno dos interesses conflitantes de negócios, governo e sociedade civil. Concluímos com a sugestão de um plano para acadêmicos e praticantes.

ABSTRACT

The authors argue concept North American integration should be revisited and extended beyond traditional trade theory. After taking a look at its architecture, we present a perspective articulated around the conflicting interests of businesses, government and civil society. We conclude by suggesting an agenda for academics and practitioners.

PALAVRAS-CHAVE

America do Norte; Integração; NAFTA; Comércio.

KEYWORDS

North America; Integration; NAFTA; Trade.

1. NEW PERSPECTIVE

In recent years, considerable research has been devoted to the study of the effects of trade

on consumers and nations (Dickson, 2000). In the geographical context of North America, prior to, and following, the Canada-U.S. Free Trade Agree-

ement (FTA) and the North American Free Trade Agreement (NAFTA) regrouping Canada, the U.S. and Mexico, empirical and conceptual work was carried out in order to explain the process of what is now more and more commonly termed "North American Integration". Empirical research shows that the FTA and NAFTA have had a positive effect on trade amongst member countries (Brown, Deardorff & Stern, 1992; Courchene, 2003) thereby making the case for countries to join preferential trade agreements even if it may be detrimental to some extent to the welfare of non-member countries (Soloaga & Alan Winters, 2001).

However, research has also revealed the existence of different forms of integration, beyond trade. In fact, there is a growing demand for "deeper" forms of integration (see Braga, 1996) as regional integration arrangements have burgeoned in the past few years; North America did not prove itself to be an exception. Furthermore, North America was already very integrated before NAFTA. But is there a broader perspective for North American integration than trade? And how can we move onto a construct which encompass the different visions of the North American integration?

1.1- The Concept of North American Integration

The concept of North American integration is not readily defined in the literature. More often than not, researchers use a particular aspect to define it: e.g. one will find it easier to talk about economic integration (Johnson & Soenen, 2003), monetary integration (Courchene & Harris, 2000; Truman, 2003) or even political and cultural integration (Hoberg, 2000). For the general public, North American integration is very much confounded with NAFTA. Then, its degree of integration and its consequences, mostly on employment and wages, are almost exclusively associated with trade (Sachs, Shatz, Deardorff, & Hall, 1994).

This may be reinforced by the fact that it is now commonly known that trade has increased since NAFTA (Blank & Coiteux, 2003; Hillberry &

McDaniel, 2002). However, trade itself does not fully reflect the level of integration between member countries. In fact, it is a somewhat myopic approach since it fails to let us appreciate the diverse forms of integration, such as the shift from a national value chain to an international one (Porter, 1985). It can be said that NAFTA was a factor in increasing trade between countries but NAFTA is not the only aspect of North American integration.

2. DRIVERS, INHIBITORS AND ARCHITECTURE

In order to better understand the phenomena of North American integration, it is necessary to identify the forces and actors behind it. We need to look at changes occurring across the spectrum to fully appreciate the extent of their implications.

2.1- Redefining roles, redrawing the board

It is now recognized that there are political processes that drive economic integration (Dodge, 2003). Even though they do not explain all of it, they show that governments have a role to play alongside the business community and civil society. Two issues at the opposite ends of the integration spectrum help shedding light on the changing paradigm: A new concern for borders and the growing influence of globalization.

The new rise of borders. Borders have always had an effect on trade and economic activity. Within NAFTA, border effects still exist (Rogers & Smith, 2001). Also, national economies, even those of countries that possess few barriers to trade, are still more closely knit than regional ones (Helliwell, 1996). Furthermore, concern related to borders have been of renewed importance, especially since the event of September 11th 2001 (Andreas, 2003). As the United States tightened its borders following these tragic events, entire industries were brought to a substantial slowdown. Borders management issues are central when discussing integration, however they are more and more pressured by an increasing globalization of

world markets and by the changing perception of its *modus operandi*.

The changing winds of globalization. In recent years, globalization has been a driving force behind many economies. However, globalization has a felt impact in at least three areas (Rodrik, 1997): 1) it provides a lot of opportunities for skilled workers while discriminating against unskilled workers in higher wage countries making them more “substitutable”; 2) it highlights differences between national and foreign norms and social institutions; 3) it puts pressures that tend to limit the possible scope of state’s interventions. A direct consequence has been that the foundations for liberalisation are put into question as the empirical literature on the subject often presents conflicting evidence (Deraniyagala & Fine, 2001). Also, there are many challenges to freer trade (Bhagwati, 1994), usually concerns with free trade are justified through market imperfections with regards to factors and products. Despite such concerns, the payoffs from globalization are so great that it has become unstoppable.

Therefore, tensions between the comforts of protectionism (the recent growing importance of borders) and the increasing tempo of globalization (even though it is questioned by some), are opposing to push us toward a fragmented world. Such fragmentation is articulated through a rise in regionalism that tends to be oriented along different views and implementations of capitalist models as shows the comparison between North American and European capitalism (Cimon, 2002). Whereas the European model is more consensual, negotiations are carried out simultaneously on an “all around” mode through a political top down process; North America’s approach tends to be more confrontational, sectoral through a bottom up process. Nevertheless, European and North American perspectives on regional integration remain similar on their propensity to deal with supra-national issues by drawing up original and adapted cooperation frameworks (Scott, 1999). In any case, trade is rising

within these regional blocs but trade alone cannot explain the above phenomenon.

2.2- A shift of perspective?

Keeping in mind the need for a new framework since trade is an imperfect way of gauging integration; one could be tempted to put forward the arguments related to foreign direct investment (FDI). But, if trade increases, does FDI follow? Evidence in the literature tends to suggest that trade stimulated FDI less in North America than in the European Union following regional integration arrangements (Blomström, Kokko, & Globerman, 1998). Furthermore, FDI and trade issues represent only limited aspects of North American integration. They do not account well for the deeper transformations in the national and international value chain. In fact, what we are witnessing across the board is an increasing integration of trade while simultaneously being confronted to a disintegration of production (Feenstra, 1998). Therefore, the differences in country size, in firms market power and locational advantages within certain industries and countries give governments an incentive to align their policies (Schulstad, 1994), and that, in turn, poses a whole set of challenges to labour. We clearly do not have a framework allowing us to grasp the complexity of such a rich phenomenon. From that flows the necessity to propose a model of North America that takes the interests of three major actors into account: businesses, government, and civil society if only because they have a great influence in shaping integration and its effects.

3. A TENTATIVE CONCEPTUALISATION

As we move to conceptualize North American integration, and being aware that this process is very much “bottom up” in this case, it makes sense to generate a view from the standpoint of the actors that shape North America. We thus present an actor based view articulated around businesses, governments and civil society.

3.1- The Actor-Based View

Businesses. The main concern of any company is to create wealth for its own survival, for its shareholders and, as it is more and more the case, for its stakeholders. Economists will posit that the objective of the firm is to make a profit while financiers will affirm that it is to maximize its market value. However, venturing outside national markets and free trade areas, one finds that: 1) multinational firms keep a degree of national responsiveness, as illustrated in the case of environmental issues (Rugman, 1998); and 2) their strategic responses are different whether they are outsiders (in trade areas) or not (Buckley, Clegg, Forsans, & Reilly, 2003).

Part of what drives these forms of responsiveness is, on one hand, a great concern for managing costs and companies, especially multinationals, often organize to minimize them (Agliati, 2002). As they are constantly looking for cheaper supplies, companies become important drivers of integration since their value chains become more and more scattered throughout the world. Furthermore, their interests are not restricted to a specific region but to the world, as the growing importance of manufacturing in China vs. Mexico is taking for firms acting within NAFTA.

For larger businesses, NAFTA may be seen as a means to raise smaller rival's costs if only because of their more limited ability to manage regulatory concerns (Depken & Ford, 1999), but it is only a temporary advantage, which can be easily beaten once smaller firms have learnt to "play the game" or when the regulatory conditions change. The example of high technology Canadian manufacturing firms shows that smaller players were indeed seeking improvements in innovation and productivity in order to keep competing in the changing business landscape (Britton, 2002). Such a situation leads to increased contracting and outsourcing. Related fears that as tariffs decrease, delocalisation of production increases have proven false in the case of large Canadian firms (Feinberg, Keane, & Bognanno, 1998). However,

it is interesting to note that technology has been a major driver of cross border integration for firms (Kobrin, 1991). At the same time, a geocentric mindset is positively associated with a firm's geographical scope (Kobrin, 1994); keeping in mind that firms which undertake culture-related diversification efforts do not seem to witness an impact on their performance (Gomez-Mejia & Palich, 1997). Rather, internationalization positively affects performance when firms are able to access specific markets (Majocchi & Zucchella, 2003). This appears, in part, confirmed by evidence from the auto industry (Shimokawa, 1999). However, businesses don't do it alone, governments and civil society also have their word to say.

Governments. A great part of the State's function is the redistribution of wealth and it does so through the budgetary policy. Cynics will contend that the only objective of a government is to be re-elected, however this could not be done if they could not act in the general interest. But the state also bears the Keynesian legacy of intervening in its economy, either to protect some industries, to stimulate others or to do both. In any case, the legislative tasks of governments impact the freedom of action of its economic agents. This is also the case for questions related to integration. Examining the possibility of dollarization as a case in point, which is decided by governments with good intentions, we have learnt that such a move may induce economic stagnation (Begg, 2002) as it recently happened in the case of Argentina.

Regarding integration, some see it as an alternative to trade deliberations (Sekwat & Lynch, 1995). Integration would be a way to circumvent some international institutions scope of action, while keeping in check the negative effects of protection (Francois, 1994). But governments are far from being as powerful as they would wish and they sometimes have a very limited impact as exemplified by Canada's Foreign Investment Regulatory Agency's limited ability to screen FDI (Globerman & Shapiro, 1999).

Governments benefit from the rent deriving from the political process that drives integration (Maggi & Rodriguez-Clare, 1998), this rent comes in the form of more distance with some domestic lobbies. This seems to be a double edged sword since governments experience many difficulties in getting support for FTAs (P. I. Levy, 1997). This may be explained by their limited ability to respond to the changing needs and concerns of civil society.

Civil Society. Contrary to businesses and governments, the interests of civil society are very hard to assess since they are very diffuse and complex. In the North American region there are enormous regional, national and local differences that make it impossible to think in terms of one "civil society". Basically, we take the view that it crystallizes around labour unions, NGOs and other similar types of interest groups. For example, in the case of labour unions, these organisations feel threatened by the furtherance of integration, whether North American or not (Boswell & Stevis, 1997). This is explained by the erosion of their bargaining power and their mostly national playgrounds.

Public opinion seems to misunderstand the nature of globalization and integration and not as much their existence. For example, in Canada, this ambiguity was reflected in a general support for NAFTA while being critical of globalization as a whole (Mendelsohn, Wolfe, & Parkin, 2002). These concerns are related to employment, culture and similar issues. Regarding the latter, there are obviously many cultural aspects linked with North American integration, but culture could be as much a driver as an inhibitor of integration (Duenas, 2000).

Contrary to popular belief, some evidence shows that wages in unprotected export oriented industries tend to be higher than their protected counterparts in competing imports industries (Gaston & Trefler, 1994). This is interesting since unions fail to address or appreciate such situations that are beneficial to their members, but not to them as institutions.

Since globalization leads to an increase in inequalities between and within countries (Murphy, 2001), it is a natural concern for civil society. This inequality reflects in migratory patterns from poorer to richer countries (Lopez & Schiff, 1998) and in deteriorating conditions for unskilled workers in rich (Wood, 1995) and poorer economies.

All of these issues have many social repercussions, all of which are hard to conceptualise within civil society since its interests are so divergent. It is interesting to notice the changing perceptions about globalization in the critical discourse. The best example is the francophone *antimondialistes* (literally against globalization) that now term themselves as being *altermondialistes* (for a different globalization). In sum, it is now possible to observe that civil society's perception of integration is changing from a radical no-to-integration to a let's-shape-integration approach.

3.2 The challenge of complexity: diverse interests and motivations

The various, often conflicting, interests and motivations of actors arise when they are required to solve issues where integration is self-evident. The impact of cross border regulatory or pollution management issues on the strategy of the firms reflects well the complexity of the integration phenomena (Jansen, 2001; Reinert, Rodrigo, & Roland-Holst, 2002; Rugman & Verbeke, 1998). Firms might be tempted to adjust the configuration of their international operation to align their costs of operation with the permissive aspects of some countries environmental regulations when compared to their country of origin. This puts ambivalent pressures on governments to regulate or for *laissez-faire* depending on their predispositions. *Laissez-faire* may act as an attractive policy for many firms, however, it may cause damages in the long run that will draw civil society to force governments to regulate. Other cases such as agriculture or defence industries (Parkhe, 1992) face different challenges for which answers are shaped through the

continuous interaction of governments, businesses and civil society's needs and interests.

Finally, maybe the answer could lie in the creation of mutually agreed upon international bodies such as the NAFTA tribunal (Jones, 2000). It is an imperfect way of optimizing the response to the interests of all parties, but it has the merit of being a framework that does provide tangible and measurable results.

4. CONCLUSION AND DIRECTION FOR FUTURE RESEARCH

While it is not possible to put an end to the debate about integration, its foundations and the actions of the various actors that are involved; we have provided a framework that shows that North American integration, in the larger context of globalization, is much more than just about trade. The roles of various actors and their playing field need to be revisited. Furthermore, if we look at the complexity of integration through the rich eyes of three sets of actors (businesses, governments, and civil society), we see a different picture consisting of a mosaic of interests that collide or converge depending on the situation. It does not mean that trade is not relevant to gauge integration, it just means that we need to go beyond it and tap into the richer perspectives of the actors involved in this integration that is defined dynamically. This bears many implications for academia and practitioners that go beyond the usual (but nevertheless useful) calls for further research or calls for a different implementation.

4.1- Implications for Academia

In order to increase the relevance of its contributions, researchers in the field need to move toward more complex models (Burbidge, DePater, Myers, & Sengupta, 1997). Such models should be more toward an all-encompassing view and should not necessarily be driven by the relative availability of data.

Second, academia is still searching for a North American vision: North American integration cannot be done without a common vision. As it was the case for Europe, regional issues should be analyzed from a more general perspective that does not exist yet, and few articles discuss the development of such a vision. Obviously, a common vision is not equivalent to a homogenized and uniform vision. What is important is "to raise" the discussion framework from a local or national perspective to a regional one. We should benefit greatly from a current focus on regionalism in the literature (Wilfred J. Ethier, 1998; Wilfred J. Ethier, 2001).

Third, we are in great need for cross-fertilization (Pasquero, 2000) between economics, political science and international business as a discipline. This would allow an increasingly relevant questioning of the impact of globalization (Rodrik, 1997). But beyond academia's agenda, practitioners need to have their own and contribute more to the debate.

4.2- Implications for practitioners

On one hand, practitioners from government and civil society need to put more efforts realizing the FTAA (Free Trade Agreement of the Americas), that could become some type of super-NAFTA, should promote strong agendas on democracy and regional security (Balze, 2001). Also, they should be aware that a United States driven enlargement of NAFTA (Balze, 2001) and/or parallel accords (Gouvea, 2002) remains a possibility that would prove to be sub-optimal for other parties involved and could resuscitate fears for a "hub and spoke" effect. Furthermore, a careful examination of other integrating regions (B. Levy, 1995), mainly Europe and Asia, could be rich in lessons for the future of North America's integration.

On the other hand, practitioners from the business world cannot operate by themselves anymore. They need to adapt their global strategies to reflect the growing "regionalisation" of the world, and of North America (Rugman, 2001). Also, they

have to strive for greater and tighter integration of their supply chains (Stank & Lackey, 1997; Taylor & Closs, 1993) while taking into account the probable punctual resurgence of some border issues. Finally, they have to continue looking at the source of their competitive advantage (Tybout, 1993) and start realizing that the deep integration of North America is a great opportunity. The discourse about North America should extend beyond trade and encompass the complexity and richness of what is probably the most integrated market in the world. ➔

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