WASHINGTON -- It has been a frustrating start of the century for those promoting economic integration of the Americas. The hemisphere seems more ideologically divided than at any time since the Cold War, putting off any hopes of reviving the idea of a Free Trade Area of the Americas, snuffed out two and half years ago in Argentina when regional leaders spent more time emphasizing their differences than anything they had in common.

Those who see a free trade agreement as a way to promote growth, reduce disparity and increase competitiveness are asking themselves what to do next. More specifically, they wonder what can be achieved at the Summit of the Americas to be held in early 2009, when a new U.S. president is expected to attend.

It may be time to try Plan B. Nancy Lee, former deputy assistant secretary for the Western Hemisphere at the Treasury Department, contends that rather than striving for an all-encompassing trade agreement, the region should get more of its fundamentals in order and pursue a narrower goal. In a chapter for the forthcoming book "The White House and the World: A Global Development Agenda for the Next U.S. President," to be published by the Washington-based Center for Global Development, Lee proposes a regional agreement to improve the hemisphere's investment climate.

Such an agreement would establish standards for doing business in the Americas, a region where many countries are far behind the average global standard. It would aim, for instance, to reduce burdens on private entrepreneurs by simplifying processes to start up a business, pay taxes, clear customs and access credit.

A hemisphere-wide agreement, Lee argues, both would increase investment and boost growth. It would spread economic benefits to areas and populations so far neglected, especially by permitting "small businesses trapped in the informal sector (to) shift to the more productive formal sector."

To achieve sustained and consistent growth, the World Bank estimates that overall investment must be at least 25 percent of gross domestic product. China, for instance, has a level of foreign investment essentially the same as Latin America's -- an average 3.2 percent of GDP since 2000, compared to Latin
America's 3.1 percent -- but China eclipses Latin America in its overall investment with 39.5 percent of GDP as opposed to 19 percent.

Part of Latin America's problem, Boston University professor Kevin Gallagher said in an interview, is that unlike China, foreign investors have "crowded out" domestic investors and thereby depressed the overall amount of total investment. He argues that foreign direct investment must be shaped and complemented by significant public investment. (The World Bank suggests that about a third of total investment in a country should be public investment in infrastructure, education and training.)

Gallagher says that in addition to long-term investment in human capital, domestic industries need short-term access to credit and technology to help them, for instance, become reliable suppliers to foreign firms. Gallagher, who co-chaired a report released last week on investment and sustainable development in the Americas, warns that foreign direct investment "is not an end but a means to sustainable development" and thus must serve a comprehensive development strategy.

In Asia, governments continue to screen foreign investors for development goals and require joint ventures to ensure the use of domestic suppliers. Most Latin American countries began to eliminate similar practices in the 1990s, Gallagher's report noted, as part of the overall liberalization reform agenda. Whether unilaterally or through regional and bilateral trade and/or investment treaties, more recent reforms have even allowed investors to sue states directly in foreign investment disputes, without host government oversight.

This kind of investment liberalization, combined with the lack of a comprehensive development strategy, has led to some serious consequences in the region. Venezuela, Bolivia and Ecuador have reneged on bilateral investment treaties and renegotiated contracts with foreign companies, particularly in the energy sector, after realizing that much of the windfall from high energy prices provided little or no benefit to the host country.

Considering today's political environment, Lee's proposal has at least one point in its favor -- putting the United States more on a supportive role by asking the top investment reformers in the region such as Mexico, Peru and Colombia to take the lead. Promoting investment through better and uniform fundamentals could well define a way forward that is more realistic and less susceptible to ideological whims than the now contentious issue of free trade.