The treatment of asymmetries NAFTA (FTAA) and the European Union

A comparative analysis and lessons for the smaller economies of the Caribbean

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Abstract

Regional inequalities and disparities are inescapable facts of any economic integration scheme. Disparities exist in terms of size, economic structure, performance and development. It is a question of the initial endowments of a country or region. A country that specializes in goods that are intensive in capital will have greater levels of productivity relative to a country whose output of goods is highly labor intensive.

There are two approaches to deal with the disparities. The first is to let market forces work their way through free trade and movement of capital and narrow the disparities. Within this setting capital flows should flow to the country which is relatively undercapitalized and which also in general the less developed region, responding to the expectation of higher returns. Greater levels of investment would translate into higher levels of productivity, income and development. This would eventually lead to a process of income and growth convergence.

This is the approach envisaged in NAFTA and the Free Trade Area of the Americas agreement. In the latter case due to the agreement of countries of taking into account in the negotiations the different levels of size and development of the countries. This involves mainly the provision of a flexible, transparent, simple and easily applicable framework that takes into account the heterogeneity, the differing needs, the characteristics that are specific to each member, and the differences in market access among the member countries.

The second approach recognizes that a regional agreement among unequal members is bound to aggravate their existing disparities. As a result regional agreements must have a mechanism and more precisely a regional policy to level the playing field among different member countries or regions. This is the approach adopted by the European

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Union. Europe's regional policy is one of economic and social cohesion. It is a question of social articulation rather than one focused on economic growth. The policy of social articulation is carried out through structural actions. These comprise structural and cohesion funds. The former and latter represent 90% and 10% of the total funds allocated to structural actions. The largest programme is the European Regional Development Fund (ERDF) which absorbs 58% of structural funds. Structural actions represent one-third of the European Union budget and for 2000-2006 are estimated at 3% of the European Union's GDP for 1999.

The paper will: analyse the foundations of these two competing approaches to regional integration, NAFTA (a free market based approach to regional integration) and Europe (an interventionist approach to regional integration); assess their performance and highlight their weaknesses and strengths. The paper will then seek to derive the lessons that can be drawn for regional integration schemes (such as that of the CARICOM Single Market and Economy) involving smaller economies.