Distr.
RESTRICTED

LC/R.1738
10 July 1997

ORIGINAL: ENGLISH

E C L A C
Economic Commission for Latin America and the Caribbean

A REGIONAL INTEGRATION FUND OF THE FREE TRADE AREA OF THE AMERICAS

97-7-544

CONTENTS

Introduction

Among the numerous practical and conceptual issues raised by the creation of a Free Trade Area of the Americas (FTAA), one recurrent theme is the impact of reciprocal trade liberalization on the smaller and less developed economies. On the one hand, the neoclassical paradigm of trade holds that when a small country liberalizes its trade with a large one, the resulting gains flow disproportionately to the former, since it will experience relatively larger changes in its price structure with subsequently greater gains from the domestic reallocation of production and consumption that ensues from enhanced trade. On the other hand, there is also a considerable body of literature which stresses the asymmetrical nature of relations between smaller, less developed economies and larger, more developed economies due to their disparate production structures and institutional capacities.

Those who hold the view that small and less developed countries may be handicapped in taking advantage of the benefits which are usually ascribed to free trade, while they could at the same time face substantial costs, have argued that these countries require special consideration in order to overcome that handicap. It is in this spirit, for example, that the creation of a regional integration fund (RIF) has been proposed; the general thrust of such a fund would presumably be to improve the "readiness" (see below) of the smaller and less developed economies and to strengthen their competitiveness when joining the FTAA. A wide range of possibilities have been mentioned regarding the objective, the scope and the characteristics of such a fund. The purpose of this paper is to help in furthering the debate on the usefulness and the possible features of such an instrument.

The following discussion of the possibility of setting up a regional integration fund is organized in four sections which seek to raise the most relevant issues requiring clarification. The first reviews the arguments which put net benefits of small and less developed countries at risk when joining a free trade area and which justify external assistance in favour of these countries. The second section discusses the possible nature and activities of a RIF and contains a preliminary proposal on the main features of such a device. The third section looks at criteria which would define the beneficiaries of the fund. The last section comments on alternatives for financing a regional integration fund.

I. NET BENEFITS OF A FREE TRADE AREA FOR SMALL AND LESS DEVELOPED COUNTRIES

1. Static effects of foreign trade

The standard result of economic models with a given factor endowment and a given technology is that the static allocational effects of foreign trade can make a society "potentially" better off as compared to a no-trade situation.

In this model, a small economy stands to gain more than a large economy. This outcome derives from the larger change in the terms of trade which can take place in the small country and from the greater specialization in activities in which it enjoys a comparative advantage over a large economy. Thus, a substantial reallocation of resources from importable activities (exhibiting comparative disadvantages) towards exportable activities (enjoying comparative advantages) allows a small economy to attain a relatively larger change in real income than a large economy.

The production effects of opening an economy to foreign trade depend critically on domestic factor mobility and price flexibility. If in the above model it is assumed that factors of production are immobile and that real domestic prices are rigid (for instance, that real wages do not fall while the competitiveness of export activities depends on it), then exportable activities will not expand while importable activities will contract. Lack of adjustment capacity will leave the small economy worse off.

2. Growth effects of trade

The static effects of foreign trade can be overshadowed by its "growth effects". In a family of growth models, these effects can also be welfare-improving as compared to a no-trade situation. However, the growth effects of foreign trade also extend to variables for which general theoretical statements have proved difficult to establish, in particular the investment and technical-progress potential of the production structure that will emerge in the medium and longer-term.

Export and trade-related activities can have strong growth effects under export-led, outward-oriented economic policies. However, the effects of foreign trade on growth can also be weak, or these effects may be distributed unevenly between small or less developed and large or more developed countries. Primary sector export "enclaves" are perhaps the typical case where foreign trade can fail to spill over into growth effects. The gains from growth may also be diluted when expanding export activities are subject to persistent negative terms-of-trade effects.

The points where industry, trade and services concentrate within a country are usually determined by geographical advantages. But once concentration of economic activity in a particular centre has taken place, it provides an impulse for further concentration based on increasing returns and the larger market made possible by intraregional and international trade. Increasing returns have been taken up both as a trade factor and as a growth factor in the recent growth literature.

The tendency towards concentration of industry and trade which is visible within countries is also present in the increasing "division of labour" among industries in wider markets under international trade, and could disproportionately benefit already established industrial and trade centres.

3. Costs and benefits of a free trade area

Resource allocation models rank untrammeled international trade among all countries as the "first best" policy, admitting factor mobility and price flexibility within countries (as well as other assumptions such as the absence of externalities and competitive markets). A free trade area among a group of countries (where each country can keep differing tariff structures for third countries) is viewed as a "second best" arrangement. This situation precludes general statements concerning the static welfare effects of a free trade area. More definite conclusions can only be drawn taking into account the specific characteristics of the countries involved, such as size, tariff levels, production possibilities and demand conditions. So far, the theory of economic integration has also failed to account for integration-induced structural changes affecting the quantity or the quality of factor inputs such as labour, capital (including improvements in the rate of technological progress) and entrepreneurship.

These limitations notwithstanding, it can be presumed that insofar as countries which become part of a free trade area eliminate trade barriers among themselves while refraining from increasing trade barriers towards third countries, that a free trade area offers a potential welfare improvement to its members. However, as in the case of free trade, structural rigidities which limit the adjustment and the supply response of small and less developed economies to changing market conditions can put this potential improvement in jeopardy.

4. Eligibility and "readiness"

As a natural extension of the conceptual concerns discussed in previous paragraphs, in practical terms it is clear that some countries are more "ready" than others to join the Free Trade Area of the Americas (FTAA). There are two types of criteria in this regard. First, there are the eligibility criteria, or requirements which the countries in the hemisphere, including the smaller ones, must meet if they are going to begin negotiations for a free trade agreement. Secondly, there is "readiness", which determines a country's potential for benefiting from free trade and trends towards globalization. There may be a certain relationship between the two types of criteria, but they are not necessarily the same.

For example, the clearest and most recent list of eligibility criteria which, in the view of the United States Government, a Caribbean Basin country must meet before entering into negotiations for a reciprocal agreement with the United States is contained in H.R. 553, Section 202; this provision contains the following stipulations: a) the country must be a member of the World Trade Organization (WTO); b) it must offer equitable access to markets; c) it must conform to certain norms regarding export subsidies, fiscal discipline and the protection of intellectual property rights; d) it must be prepared to grant equal treatment to domestic and foreign investors; e) it must observe other WTO rules in areas such as trade liberalization, trade in services, etc.

Similarly, annex 4, entitled "Implementing Procedure for Future FTA", the United States Government memorandum on trade policy towards Latin America after NAFTA defines the eligibility criteria by stipulating that a country must:

- Provide "fair and equitable" access to its markets for United States exports, or have made significant strides towards liberalizing its markets, and be of economic interest to the United States, e.g., by providing potential market opportunities for United States enterprises and creating jobs.

- Have the institutional capacity to fulfil the serious, long-term commitments made and the economic policies required for the success of the free trade agreement, including a truly stable macroeconomic environment, market-oriented policies and openness to the multilateral trade system. The criteria for demonstrating such commitment include several years of reforms approved by the International Monetary Fund (IMF), full acceptance of the results of the Uruguay Round, sound investment policies and a high degree of protection of intellectual property rights.

- Agree that the integration agreement shall be based on reciprocity, with no expectation of "special and differentiated" treatment based on its less developed status.

- Have no outstanding claims or disputes relating to the United States Generalized System of Preferences (GSP) in such areas as workers' rights, expropriation or intellectual property rights. Furthermore, the applicant country must agree to apply specific criteria consistent with NAFTA in the employment and environmental areas.

"Readiness" to join a hemispheric free trade zone is somewhat more abstract. Various methodologies have been proposed for assessing the degree of readiness (Hufbauer and Schott, 1994; ECLAC, 1996). Hufbauer and Schott, for example, define an indicator for each of the macroeconomic and microeconomic variables which they deem most important for assessing the readiness of a country or group of countries to join a free trade zone or to initiate an economic integration process, along with parameters for assessing the behaviour of countries in terms of each of these indicators. These indicators include the following: a) price stability (the less stable, the lower the level of readiness); b) budget discipline (the higher the deficits, the lower the level of readiness); c) external debt (the higher the debt, the lower the level of readiness); d) exchange rate stability (the less stable, the lower the level of readiness); e) degree of market orientation of policies in each country (the greater the degree of State involvement and the less liberalized the markets, the lower the level of readiness); f) degree of dependence of government income on foreign trade taxes (the more dependent on trade taxes, the lower the level of readiness); g) functioning democracy (the more inadequate the democratic system and the greater the problems of governance, the lower the level of readiness).

Some of these indicators reflect structural and institutional aspects of the economies and are more specifically linked to the countries' relative degree of development. In addition, countries have differing structural capacities to benefit from free trade as a function of their endowment of natural and human resources, their organizational capabilities and their infrastructure. These factors must also be considered when assessing the degree to which countries can submit to the discipline and fulfil the obligations imposed by exacting treaties such as a future FTAA; they are also relevant when evaluating their ability to make the necessary legal and institutional changes, particularly if such trade agreements are reciprocal rather than concessional (as opposed to trade arrangements which involve developed and developing countries, such as the Caribbean Basin Initiative). Thus, there are requirements in terms of both policy frameworks and other structural factors which may be conceptualized as part of the definition of readiness.

5. External assistance to small and less developed countries

Indeed, small and less developed countries of the region are often characterized by institutional lags, deficient infrastructure, production sectors with backward technology, large differentials of productivity between and within economic activities, financial systems oriented towards short-term operations, fragmented domestic markets, over-protected industrial sectors, and macroeconomic imbalances. These factors diminish a country's "readiness" to join the FTAA and its capacity to benefit from new production and investment opportunities.

It is not entirely clear that "smallness", by itself, inhibits a country's capacity to compete in a wider, open trading system. Indeed, sometimes the contrary has been argued. However, it is widely recognized that the adjustment costs of joining a free trade area are likely to be relatively greater for smaller economies, considering the large impact of foreign trade on importables and on the production structure. At the same time, they may surrender policy autonomy, as the larger countries usually extend the coverage of their rules on property rights, on foreign investment and on other policy issues.

Exports and foreign trade tend to carry greater weight in the economic structure of small and less developed countries as compared to large and more developed countries. However, the latter may occupy a stronger position in trade negotiations. On this account, joining the FTAA requires strengthening the institutional capability of small and less developed countries with a view to "levelling the playing field" with larger and more developed countries.

Joining the FTAA is a major policy decision for any single small or less developed country of the region. External assistance which improves its "readiness" and competitiveness plays an important role in enhancing its potential net benefits and those of the FTAA at large. The provision of external assistance is therefore to the advantage of all concerned, since it works to the benefit not only of the small and less developed countries but also of the large and more developed ones of the region.

II. POSSIBLE SCOPE OF A REGIONAL INTEGRATION FUND: A TECHNICAL ASSISTANCE FACILITY

1. Nature and activities of a regional integration fund

The nature and activities of a regional integration fund are mainly determined by the following factors: the free trade area itself, the external assistance needs of small and less developed countries which join the free trade area, and the host of financial institutions which already operate in the region.

A free trade area maintains the political autonomy and a large degree of the economic policy independence of participating countries. There is no intent to create an economic union geared to community interests, nor is there necessarily close economic cooperation or political ties among the participating countries. A free trade area mainly seeks the efficiency gains which follow from enlarged markets. In other words, solidarity or equity arguments between countries do not tend to be part of a free trade arrangement. It is for this reason that income redistribution schemes between countries, aimed at addressing regional and social disparities or supporting certain economic sectors of less developed and small countries, do not seem to be the norm in hemispheric integration, as has been the case in more ambitious integration schemes, notably the European Union.

External assistance to small and less developed countries of the region which join the FTAA can take two main forms: technical assistance and financial assistance. Any proposal on the provision of such assistance should take full advantage of established institutions. Lending and financing activities require considerable expertise; entrusting these activities to a newly created independent regional fund would duplicate efforts and increase transaction costs. Furthermore, if additional financing were to be obtainable, the existing institutions are already well placed to access capital markets. For this reason, it would be difficult to argue in favour of a new lending facility, which would compete with existing institutions and thus, as stated, duplicate efforts. For this reason, it would appear that the RIF should not serve as a lender nor provide finance to FTAA investment projects.

Rather, a strong case can be made for channelling all financing linked to FTAA production and investment projects through established financial institutions. Longer-term lending for investment projects that have been singled out as standing to gain major benefits from the FTAA (infrastructure, telecommunications networks, export sector activities, retooling of production sectors and other projects) is already part, or can be made part, of financing arrangements with multilateral, regional, subregional and local financial institutions. The Inter-American Development Bank (IDB), at the regional level; the Central American Bank for Economic Integration (CABEI), the Caribbean Development Bank (CARIBANK) and the Andean Development Corporation (ADC), at the subregional level; and local financial institutions should be called upon to play a larger role in financing such projects, specially in the case of those FTAA participants that are not members of the IDB.

Governments might wish to call on the Inter-American Development Bank to expand its funding for FTAA-related activities (and possibly to open up lines of credit to subregional and local financial institutions) in international capital markets. Subregional financial institutions may also attract funds in these markets on their own by issuing bonds.

An expansion of lending by subregional financial institutions may require a strengthening of their capital bases and the establishment of financing links with the Inter-American Development Bank as well as of links on technical assistance issues with the regional integration fund (as argued below).

Domestic financial institutions of small and less developed countries of the region (as well as of larger and more developed countries) could also become more involved in the financing of FTAA-related projects. In order for this to be feasible, it may be necessary to strengthen their capital bases and their regulatory frameworks and to set up financial links with subregional financial institutions and with the Inter-American Development Bank.

According to current thinking as regards market-related financing, loans and credit which finance FTAA-related investment projects would carry normal rates of interest and payment conditions and would be subject to appropriate levels of local counterpart resources. This, however, would not preclude putting in place a special credit or funding facility at the Inter-American Development Bank for certain purposes; for instance, to support production activities in small and less developed countries which face heavy foreign competition following the dismantling of trade barriers and which are in need of retooling.

External technical assistance can be decisive for the achievement of net benefits by small and less developed countries of the region which join the FTAA. Technical assistance refers mainly to conditions which make for profitable production and investment decisions and to institution-building, both of which improve the "readiness" and competitiveness of these countries.

2. A regional integration fund devoted to technical assistance

If a strong case can be made for not creating a new financing facility in the form of a regional integration fund, an equally strong case can be made for creating such a facility to provide special support to smaller economies in the form of technical assistance and as a possible conduit for additional financial resources from existing institutions.

In this respect, it should be recalled that the terms of reference for the technical study on a regional integration fund put forward the following objectives: i) strengthening and diversifying the production base of the smaller economies of the Western Hemisphere through the promotion and facilitation of enterprise development and private-sector participation; ii) fostering infrastructure development in these economies; iii) encouraging human resource and technological development in the smaller economies; and, iv) facilitating the competitiveness of the goods and services produced by the smaller economies and their access to the market of the FTAA.

In order to foster these objectives, the following issues may rank as high priorities in terms of the demand for technical assistance by small and less developed countries of the region (ECLAC, 1996; OAS, 1996):

i) Trade-related issues which are at the core of the FTAA, such as tariff and non-tariff barriers, rules of origin, antidumping and countervailing measures, intellectual property rights, customs procedures, sanitary and phitosanitary standards, and industrial goods which are of particular interest to small and less developed countries;

ii) Appraisal of production effects stemming from comparative advantages and disadvantages, including the retooling and/or modernization of activities and enterprises;

iii) Updating of rules and norms on foreign investment;

iv) Institution-building, particularly in the legal and judicial system, with the view to securing property rights and allowing proper settlement of disputes;

v) Institutional development and strengthening of the domestic financial system so that it will be able to screen and to channel resources to profitable export and import-competing activities and projects and to offer modern financial services;

vi) Assistance for the smaller and relatively less developed countries, specially the micro-States among them, to help them to retool their production apparatus and to define and develop new areas of export activity;

vii) Setting up of risk capital funds and other financial institutions specially equipped to provide resources to new small-scale firms;

viii) Development of physical infrastructure, specially telecommunications;

ix) Training of public-sector officials on trade, foreign investment and other FTAA-related issues;

x) Development of human resources, particularly for export and import-competing activities;

xi) Macroeconomic policy, specially as regards the rate of foreign exchange and foreign capital flows.

The above issues point towards technical assistance on a large scale, particularly if most or all small and less developed countries of the region join the FTAA. The main purpose of the regional integration fund should be to channel this technical assistance to beneficiary countries.

The RIF should be a facility which would receive technical assistance requests made by Governments of small and less developed countries; it would filter these demands, establish their priority, and then provide appropriate technical assistance, preferably by outsourcing the required expertise to qualified institutions and professionals.

An important purpose of a regional integration facility devoted to technical assistance would be to facilitate access for private and public-sector agents of small and less developed countries to loans, credit lines and other funding alternatives offered by multilateral, regional, subregional and local financial institutions devoted to funding FTAA-related investment projects. For this purpose, the regional integration fund would coordinate its activities with these institutions and share available technical and economic knowledge on FTAA-related investment proposals.

In the literature on access of smaller-scale firms and agents to loans and credit from banks and other formal financial institutions, access can lift the financial restrictions which are faced by these agents and bring about "externalities". This situation justifies granting subsidies on the usually large transactions which are involved. A similar argument can be made as regards FTAA-related technical assistance to small and less developed countries of the region.

To complete this scheme, each country of the region which joins the FTAA should designate a government office to be in charge of receiving and filtering technical assistance requests made by qualified private-sector organizations and public-sector institutions. These requests would then be channeled to the regional integration fund.

In order to take advantage of available expertise on issues related to a hemisphere-wide free trade area, as well as of the close link between technical assistance and the financing of investment projects, the office of the regional integration fund would be located at the Inter-American Development Bank. For those FTAA participants that are not members of the IDB, the latter could designate the Caribank to carry out the appropriate functions.

III. POSSIBLE BENEFICIARIES OF A REGIONAL INTEGRATION FUND

1. Criteria defining small and less developed countries

The task of listing the countries of the region according to their level of development and size will yield differing results depending on the indicators which are adopted for these purposes. Smallness and the degree of economic development are also "relative" concepts in ranking the countries of the region. In what follows, the level of development will be measured by per capita gross national product, while size will be represented by gross national product (GNP), or, in some cases, physical size (in square miles).

Gross national product per capita has gained considerable acceptance as an aggregate, albeit imperfect, indicator of the level of economic development of a country, in spite of limitations as regards its social content. The level of GNP usually goes hand in hand with factor mobility, the elasticity of supply, the integration of domestic markets and other factors which condition the "readiness" and competitiveness of countries that join the FTAA.

"Small" is a characteristic of size, but the size of a country is ambiguous. It could be defined by its geographical area, its population, its market size, or other variables. Neither geographical area nor population measure economic activity, and they are thus weak indicators of the economic size of a nation.

Market size is important in defining the smallness of a nation. Technological factors may require a certain market size in order for industries to exploit economies of scale. Due to industry interdependence, and the differing market requirements of industries, the minimum technological size for an economy can be larger than any one of the industries which are considered. Economic factors linked to market structure require a sufficient market size to provide competitive conditions as regards entry and the number of firms which are necessary for the achievement of economic efficiency.

Foreign trade can make up for the insufficient size of the domestic markets of small and less developed countries, but this is much less the case for industries which rely on mass production. The latter require a market that is large, homogeneous and stable, and this may rule out excessive reliance on foreign markets.

Gross national product (GNP) can be taken as an approximation of market size. In its definition as consumption plus investment plus exports minus imports, "domestic absorption" of consumer and investment goods (both domestic and foreign) represents the size of the domestic market, while exports represent the size of the external market. GNP can also be envisaged as the outcome of the per capita value of this variable, with the latter serving as a measure of the level of development and of the size of the population.

Table 1 shows some selected indicators for most of the countries of the region, which include population, area, GNP, per capita GNP, and an estimate of per capita GNP adjusted for purchasing parity, i.e., using deflators for common pricing.

Based on this table, the countries of the Americas which would qualify as small —if the only criterion were to be a domestic market (GNP) of less than US$ 15,000 million in 1995— are the following: Bahamas, Barbados, Belize, Bolivia, Costa Rica, Dominica, Dominican Republic, Ecuador (borderline), El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.

The following countries would be considered as "lower level of development" if the criteria were to be GNP per capita of, say, less than US$ 2,000, or less than US$ 4,000, the latter adjusted for purchasing power parity: Bolivia, Dominican Republic, Ecuador (borderline), El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Paraguay, Suriname.

Finally, if special provisions were made for 'micro' States, defined as those with GNP of, say, less than US$ 1,000 million or with very small territories, the following economies would also qualify: Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

2. Beneficiaries of the regional integration fund

As noted, both small and less developed countries of the region could qualify as beneficiaries of the regional integration fund; the former due to their exposure to larger adjustment costs and risks stemming from a free trade area, and the latter due to their lack of "readiness" and competitiveness to take advantage of new production and investment opportunities. In the case of the micro-States, the structure of many of their societies is frail, and their capacity to pursue public policy is weak. This is particularly true with respect to the identification and formulation of development projects.

Countries which qualify at the same time as small and as less developed, as well as the micro-states, would qualify to request technical assistance free of charge, eventually up to a fixed amount which would have to be defined. Other small but more developed countries would be able to request technical assistance on the basis of cost-sharing (or a partial subsidy) up to a fixed amount, with the terms of such an arrangement yet to be defined, provided their "gnp's" do not exceed the figure which is adopted to classify the more developed countries of the region.

Specific factors may hinder some less small and more developed countries of the region from taking full advantage of the FTAA. These countries could also request technical assistance from the regional integration fund, to which they would pay a service fee to cover the costs involved.

Table 1

SELECTED ECONOMIC INDICATORS*

	Population (in thousands of inhabitants, 1995)	Area (in thousands of square kms)	GNP (in millions of US$, 1995)	GNP per capita (1995)	GNP per capita (ppp 1995**)
Antigua and Barbuda	64	.5	495	7700	...
Argentina	34,665	2766.9	278,431	8030	8310
Bahamas	276	13.9	3,297	11940	14710
Barbados	266	.4	1,745	6560	10620
Belize	216	1.5	568	2630	5400
Bolivia	7,414	1098.6	5,905	800	2540
Brazil	159,200	8512.0	579,787	3640	5400
Chile	14,225	756.9	59,151	4160	9520
Colombia	36,813	1138.9	70,263	1910	6130
Costa Rica	3,400	51.1	8,884	2610	5850
Dominica	73	.7	218	2990	...
Dominican Republic	7,822	48.7	11,390	1460	3870
Ecuador	11,477	283.6	15,997	1390	4220
El Salvador	5,623	21.0	9,057	1610	2610
Grenada	91	.3	271	2980	...
Guatemala	10,621	109.0	14,255	1340	3340
Guyana	835	21.5	493	590	2420
Haiti	7,168	27.8	1,777	250	910
Honduras	5,924	112.1	3,566	600	1900
Jamaica	2,522	11.4	3,803	1510	3540
Mexico	91,830	1958.2	304,596	3320	6400
Nicaragua	4,375	130.0	1,659	380	2000
Panama	2,630	77.1	7,235	2750	5980
Paraguay	4,828	406.8	8,158	1690	3650
Peru	23,820	1285.2	55,019	2310	3770
Saint Kitts and Nevis	41	.3	212	5170	9410
Saint Lucia	158	.6	532	3370	
Saint Vincent and the Grenadines	111	.4	253	2280	
Suriname	410	163.3	360	880	2250
Trinidad and Tobago	1,287	5.1	4,850	3770	8610
Uruguay	3,184	177.4	16,458	5170	6630
Venezuela	21,671	912.1	65,382	3020	7900

* Source: World Bank Atlas, 1997.
** Purchasing parity price.

IV. FINANCING OF THE REGIONAL INTEGRATION FUND

The proposed regional integration fund could rely on four generic sources to cover the cost of its technical assistance services. First, the Inter-American Development Bank could include FTAA-related technical assistance as part of its technical assistance activities and cover at least a part of the expenses out of the "spread" on its lending portfolio. This would be consistent with the broader objectives of the Bank in support of some of the less developed countries, which the Bank classifies as "group c" and "group d" countries.

Second, non-reimbursable contributions could be made by the larger and more developed countries of the region which are or will become members of the FTAA. These contributions could be on a voluntary basis, or perhaps, could also be set at a given percentage of or on the basis of the same variables which were used above to assess the level of development and the size of the countries of the region ("gnp per capita" and GNP).

Third, the fund could charge fees for technical assistance to larger and more developed countries, thus generating at least part of its own income. This source, however, should be considered as a complement, and not as a substitute, of the previously mentioned sources.

Finally, the most ambitious potential source could consist of a very small surcharge, for example, on intra-hemispheric trade, which could constitute an automatic financing mechanism for some FTAA-related activities that require public funding, including the regional integration fund. It should be recognized, however, that similar efforts have been attempted before in the Latin American and Caribbean context, revealing the practical difficulties that such a mechanism tends to entail.

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