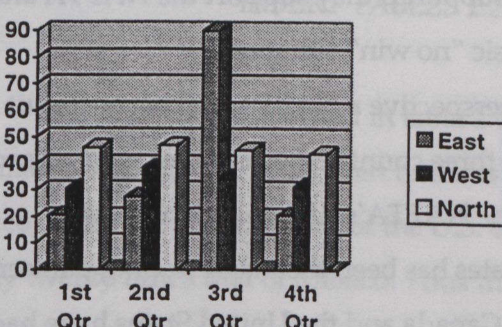
they are natural trading partners. Thus, the three countries, already highly integrated economically,[5] would benefit from removing barriers to international trade and investment by forcing a more rational geographical redistribution of economic activity throughout the three countries, allowing for a better realization of potential economies of scale and more efficient allocation of resources.

Of course, economists acknowledge that there will be both winners and losers as international trade and investment expands. But, they argue, the gains from trade (i.e., lower production costs and lower prices to consumers) outweigh the losses that workers and firms in certain sectors of the economy are likely to sustain.

One question that bothered some economists is how to deal with the enormous disparities in economic development between Canada and the United States, on the one hand, and Mexico, on the other. In the case of the European Union, which recently (1992) brought together twelve countries into a "single market" after almost four decades of conscious integration efforts, the disparities between the most advanced countries (Germany and France) and the least developed (Spain and Portugal) were not as great as those between the countries of North America. However, in the European case a "social fund" was established to transfer resources from rich to poor countries in order to reduce the disparities between them and the instabilities that could result from those disparities. Yet, so sure were mainstream North American economists that a NAFTA based mainly on



[5] The degree of integration is usually calculated as the total value of intraregional trade (exports among members) as a percentage of total exports of all the member countries. In the late 1980s, before implementation of either of the two free trade agreements, this was approximately 43 percent for North America, compared to around 59 percent for the twelve-country European Economic Community which had been involved in economic integration agreements since the late 1950s.