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TARIFF PREFERENCES FOR THE DEVELOPING COUNTRIES

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I have been asked to address you on tariff preferences for the developing countries, i.e., the new tariff machinery that may in the future govern trade relations between the industrialized and the developing countries.

There has been a great deal of talk on the subject, which is worrying to certain circles, but the fact that discussions have dragged on for the last six years is a consolation to these same circles.

What is proposed is that all or the great majority of the industrialized countries should agree to a unilateral and non-reciprocal cut in customs tariffs on the manufactures and semi-manufactures of all the developing countries.

Two questions immediately come to mind:

Why, in international trade, should the principles of reciprocity and equality on which the liberal machinery and the international division of labour are based be repudiated?

How can a system be found which is acceptable to all when there are such wide variations in the degree of underdevelopment and, in the case of the industrial countries, not every sector is equally prosperous?

I should like here to try and reply to both these questions and, after fitting the system into its general economic and political context, to assess the conditions for its application.

In principle, the system should be automatic, but in practice it cannot be applied blindly.

I. THE SYSTEM FORMS PART OF AN OVERALL POLITICAL AND ECONOMIC CONTEXT

A. THE POLITICAL ASPECT

1. It is integrated in a plan of economic development which, while compatible with Western models, is also adapted to the needs of the developing countries.

a) The industrialized countries of the free world, in their own interests, cannot ignore the problems of the developing countries and must offer an economic model that should not be interpreted by the Third World as crystallizing the advantages acquired by, and perpetuating the advance of, the developed countries, but as a tool that can tackle the problems of underdevelopment by offering every country an equal opportunity to achieve economic growth and well-being.

b) For their part, the developing countries have tended since the war to reject liberalism as a pattern of development. On the one hand, it was linked with the memory of economic colonization in China and Latin America and of political colonization in Asia and Africa and, on the other, it appeared unsuitable because of the existing state of inequality; in the words of Lamennais: "between weak and strong, liberty oppresses". Profit consolidated the position of the existing oligarchies and free competition prevented the development of the newcomers. Hence the natural temptation to turn towards other economic models which the USSR and China had transformed from utopia into reality.

The rejection of economic liberalism by the newly independent nations, coupled with their understandable rejection of any rigid solution thrust on them from abroad, leads them to prefer the techniques of multilateral financial aid and to seek to expand the number of their trading partners in order to avoid trading exclusively with their former political or economic mother countries.

2. This accounts both for the birth of the idea of tariff preferences and for its international expansion.

This can be broken down into three stages: the support, in principle, first of the developing and then of the industrial countries; the adoption of guidelines for the system; the formulation of these principles.

a) The idea was first urged by some of the countries of the Third World, particularly by India, within the framework of the General Agreement on Tariffs and Trade. It took the form of a maximum claim, embodying the total exemption from customs tariffs of all manufactures from the developing countries, but received very little consideration, as several industrialized countries, including some of the most important, e.g., the USA, Switzerland, Sweden and Norway, had clearly expressed their opposition in principle to any formula deviating from the most-favoured-nation clause. Their view was that any generalized system of preferences would be of limited effectiveness and might endanger the machinery of GATT and the Kennedy Round negotiations.

Even those countries that had expressed themselves in favour of the principle of introducing new preferences were unable to accept the far-reaching scope of the proposed system. Great Britain advocated a generalized and non-discriminatory approach, i.e., extension of the system of Commonwealth preferences might ease the competitive pressure exerted on its home market by exports from India, Pakistan and Hong-Kong while, furthermore, the disappearance of imperial preferences would facilitate its joining the Common Market. The Member States of the Community, which had already agreed to apply the French system of preferences to the Common Market as a whole, were in favour of a system of preferences to benefit the developing countries, but differed as to the methods to be employed; while France, Italy and Belgium tended to support the idea of selective preferences proposed in the Brasseur Plan, Germany and the Netherlands were hostile to this graduated approach.

At the first session of the United Nations Conference on Trade and Development in 1964, sustained pressure from the developing countries led to the adoption of a recommendation for the emergency examination of all aspects of the problem.

Work in this direction then began in UNCTAD, which had become a permanent body, and in the OECD, which in 1965 set up a special group including representatives of the USA, Great Britain, Germany and France. In its conclusions, this group recommended the granting of generalized preferences and outlined a tentative method of application. In this way, an important step forward was taken, largely owing to the change in attitude of the United States, whose President had spoken in favour of tariff preferences in an official statement to the representatives of the countries of Latin America meeting at Punta del Este in 1967.

b) The second stage began in 1968 at the second session of the United Nations Conference on Trade and Development. The New Delhi meeting provided the opportunity for a wide exchange of views on the basis of this work and of the work of the Group of 77 and culminated in the adoption of a resolution recognizing that unanimous agreement had been reached on the application in the near future of a mutually acceptable and generalized system of preferences without reciprocity or discrimination, which would benefit the developing countries and should also assist the least developed.

However, no agreement could be reached on the inclusion of processed agricultural products in this system, on its date of application or on the idea that UNCTAD might be the centre of negotiation on the relevant procedures.

c) The third stage, consisting in the standardization of proposals, began at the OECD in the spring of 1969 and should lead to the submission of detailed documents to UNCTAD in November.

The developed countries will then have to decide on the details of the system and request GATT to accept a departure from the most-favoured-nation clause so that it can be applied.

From the political aspect, therefore, the concept of generalized preferences has reached a degree of international consensus and contributed to improving relations between the developing and the industrialized countries. For the former, it has confirmed the recognition of unity in the Third World and helped to undo the impression that international machinery was planned only in the interests of the rich, and for the latter, it has confirmed that the machinery which led to the progress of the industrialized countries in the nineteenth century may, as a result of certain sacrifices, assist the development of the newcomers. At Bandung, the have-not nations acted as a revolutionary party and, at Algiers, as a reformist pressure group.

B. FROM THE ECONOMIC ASPECT, THE SYSTEM OF GENERALIZED PREFERENCES CAN BE DEFINED AS A CONSTRUCTIVE CRITICISM OF LIBERALISM; IT CORRECTS THE INEQUALITIES OF THE SYSTEM AND WORKS TOWARDS LIBERALIZING WORLD TRADE.

1. The now standard definition of underdevelopment indicates that the handicap of the developing countries is aggravated by the *laissez-faire* system that governs international trade.

a) The situation of the developing countries, as regards international trade, is both marginal and dependent.

It is marginal, because their position in international trade is weak and continuing to weaken:

Between 1960 and 1967, the value of international exports rose from 127,000 to 214,000 million dollars, that of the developing countries from 28,000 to 42,500 million dollars. During these seven years, the exports of the industrialized countries increased by 81% and those of the developing countries by only 47%.

The developing countries' exports accounted for 19% of the world total, as compared with 22% seven years earlier.

Their trade was mainly with the industrialized countries: 73% of the developing countries' exports went to industrialized countries and only 20% towards other developing countries. Trade with the industrialized countries is therefore vital to the developing countries, while it is only of relatively minor importance to the former.

It is dependent, since the developing countries are affected by both the instability and their inadequacy of their export revenue:

Most of the developing countries obtain their foreign earnings from a limited number of products, the prices of which fluctuate fairly widely on the international market. Therefore these fluctuations influence the internal situation even more, since that part of the population whose living is governed by the market economy cannot find a compensatory outlet within the country and is thus more dependent on international conditions; consequently, incomes, private savings and investments fluctuate to a considerable degree. The same is true of public savings, especially since the taxation revenue of the developing countries is generally derived much less from income tax and more from indirect sources.

The range of variation complicates every attempt at medium-term development. Sociologists add that neither the savings habit nor the will for this instability of income encourages industrialization, but intensifies fatalism among the poorer classes and stimulates the taste for speculation among the rich.

In other words, while some industrialized countries try to stabilize their internal situation by regulating their foreign trade, fluctuations in the world markets tend to have an even greater effect in the developing countries.

Moreover, revenue from exports tends to expand less rapidly than expenditure on imports. A rough statistical examination shows that inequality in the balance of trade is a long-term phenomenon, as the terms of trade between the developing and industrialized countries are tending to deteriorate: the volume of the developing countries' exports is growing more rapidly than that of their imports, but the unit value of these exports is falling faster. This statistical approach can be accepted only if it is regarded merely as an observation and a forecast, and not as an explanation.

b) The instability and inadequacy of export revenue will continue as long as there is no change in the structure of the developing countries.

Admittedly, this situation has direct causes, e.g., the artificial conditions often prevailing on the international market, as in the case of agriculture, where surpluses are frequently offered at abnormally low prices; moreover, market conditions are often falsified because of the existence of monopolies.

However, the fundamental cause is bound up with the low degree of diversification in the economic structure of the developing countries, which produce and sell mainly commodities and, in addition, generally concentrate on the production of a small number of them. At the same time, except in the case of petroleum, the quantities that can be absorbed by the international market are increasing only gradually and there is a relative fall in prices. The causes of this are many and persistent, as they are essentially linked up with technical progress which facilitates savings in the use of commodities, the development of synthetic substitutes and an increase in agricultural output.

Between 1960 and 1967, exports of food products, commodities and fuels rose from 23,000 to 31,500 million dollars, i.e., 30% in seven years.

Excluding fuels, the monetary value of sales during that period increased by only 17%.

These products still make up 80% of exports from the developing countries, while they account for only 26% of the exports of the industrialized countries.

Except in the case of fuels, the developing countries do not dominate the world market for these commodities. Between 1960 and 1967, their food exports fell from 36 to 31% and their exports of commodities from 35 to 30%; on the other hand, their fuel sales on the world market increased from 60 to 64%.

The developing countries sell only a very limited quantity of manufactured products. Their exports amount to only 8,500 million dollars, i.e., 6% of world exports, but even so are expanding three times as quickly as their exports of commodities.

c) Market machinery, neutral in theory, in practice therefore has harmful effects on the growth policies of the developing countries.

The granting of generalized preferences for manufactured products may thus be one of the compensatory mechanisms which will balance the uneven effects of liberalism on countries at different stages of development.

The effect of the system is difficult to measure since it depends, on one hand on the scope of the preferences and the degree of competitiveness of the developing countries and, on the other, on unforeseeable economic factors: the amount of a preference can be used by the exporter to increase his income per unit produced, to lower his prices and expand his market, or it may be confiscated by the importer. The facilities offered to the developing countries should enable them, over the short term, to obtain increased and more stable export revenue and, in the long term, if the preferences are granted for a sufficient length of time, to promote their industrialization either because the additional revenue may encourage self-financing or because the increased prospects of profitability attract foreign investments.

The granting of generalized preferences is not the only way to restore the balance: the machinery for stabilizing commodities and agricultural products is designed to restrict market fluctuations, while the aim of financial aid is to offset partly the inadequate amounts of savings and foreign exchange available. The lack of progress in the field of



international agreements and the decline of aid render the efforts made towards a system of preferences all the more valuable. To use an English expression: "Trade, not aid".

The use of these three correcting mechanisms is not new. What is new is the idea of using them not merely on the national or regional levels but on a world-wide scale, and this more rational approach should in theory enable a better balance to be struck between advantages and costs. It remains to be seen whether this machinery will not be more fragile than that which existed in the preferential zones of the past and whether the intangible solidarity it creates will be as generous. It is this dual question which has led the six Common Market countries, at the same time as they are proposing a world system of generalized preferences, to renew their association with the EAMA.

2. In addition to correcting uneven effects of liberalism, a system of generalized preferences may also promote the liberalization of world trade and a return to normal market rules.

a) It is a factor in liberalizing international trade.

This is evident, although it may at the outset give rise to some doubt.

The fear has been expressed that these preferences, if they were constant in relation to the general system, might hinder any reciprocal cut in tariffs to which the industrialized countries might agree. That is why the latter have always asserted that preferences should not be negotiated but given unilaterally, and that they might decrease in the case of a multilateral cut in tariffs.

Preferences should have three effects on international trade:

- an increase in trade between the industrialized and developing countries; as the exports and foreign exchange earnings of the developing countries improved, they could increase their imports;
- an increased degree of multilateral exchanges, since such exchanges would be less influenced by the former north-south preferential zones;
- an encouragement to the developed countries to show greater respect for the international division of labour by going on to the second technological era and gradually abandoning the first to the developing countries.

b) It is also a factor which may encourage the developing countries wishing to benefit from the system to have greater recourse to a market economy. Experience has shown that the production of the developing countries, which, in their desire to protect their economic independence, have adopted a policy of excessive isolationism and rigid planning, has often been less competitive and expanded less rapidly than that of the countries which have restricted themselves to adjusting their market machinery.

There are many examples of this:

The ban on importing luxury products leads to the on-the-spot development of luxury industries; rates of interest are too low for the establishment of heavily capitalized industries; excessive protection of domestic markets hampers any export policy since the undertaking compelled to buy its supplies locally pays for them at a rate which renders the finished product quite uncompetitive.

Too many administrative controls lead to an increase in costs either because the undertaking has to transfer from the production process too large a proportion of its resources, or because it has to carry excessive stocks to guard against the delay in the issuing of import licences, or even because it makes useless investments to justify the granting of additional licences. Examples of this can be found in India, Argentina and Brazil, where the time required to obtain an import licence is over six months. As a result, plant is frequently used at very low capacity, e.g., 47% on average in Argentina and 28% for some sectors of the Indian economy, while in the United States it is in the neighbourhood of 84% and in Europe over 90%.

On the other hand, in countries like Taiwan, Pakistan and Hong Kong, which have carried out a far more liberal policy as regards imports, the utilization rates are comparable to those in Europe and such countries have succeeded in increasing their plant and exports at a very fast pace.

The concept of preferences thus leads to the convergence of several currents of political thought:

- economic liberalism with a more modern approach to underdevelopment;
- the political solidarity of the Third World, as claimed by the latter and acknowledged by the rich countries;

- a general acceptance of the fact that international problems are interdependent.

From the foregoing, the keywords of the system are derived, i.e., preference, generalized, automatic, non-discriminatory. It is based on an overall economic analysis of underdevelopment; this constitutes both the strength and the weakness of the system, which become apparent when an attempt is made to put these ideas into actual practice.

II. AUTOMATIC IN PRINCIPLE, THE SYSTEM OF PREFERENCES MUST NOT BE APPLIED BLINDLY; IT SHOULD BE ACCEPTABLE TO ALL AND SHOULD NOT CAUSE SERIOUS ECONOMIC UPSETS.

A. It should be acceptable both to the developing and to the developed countries, i.e., it should offer a satisfactory solution to the problem both of equal treatment for the developing countries and of equal burdens for industrialized countries.

1. A system based on free competition raises the problem for the developing countries of the unequal degree of development referred to in the survey of relations between them and the developed countries.

a) The relative degree of advancement of some countries should not cause them to suffer from the system if they are excluded, or to monopolize it if they benefit from it.

There are several degrees of underdevelopment:

- in some countries economic development has already begun, while in others this is not yet the case;
- some are still producers of commodities and in others the industrialization process has started;
- some possess only primary processing industries and others more advanced forms;
- there are some whose industry is not competitive and is concentrated on the domestic market and others whose industry is already competitive on the international market.

Their uneven development is reflected in the participation of the developing countries in world trade in manufactures and semi-manufactures. Half the imports of the OECD member countries from the developing countries come from five of them and two-thirds from ten of them. The same is true

for the Common Market, where eight countries alone account for 50% of the exports to the Community from the developing countries.

The developing countries themselves are aware of this situation. Both at the Algiers and the New Delhi conferences they stressed the need for special measures to help the least developed countries, but did not define what they should be.

Allowing the most advanced of the developing countries to benefit from the preferences system raises a problem for the least developed. The exclusion of some countries raises another. Thus, Spain, Portugal, Greece and Turkey have stated that they cannot be treated in a discriminatory way as compared with other countries at an intermediate stage of economic development and have requested that they be granted preferences also.

b) The system proposed to UNCTAD by the Community and the OECD is in principle one of self-election, linked with a corrective mechanism.

After considering the various criteria of underdevelopment, the OECD Special Group concluded that it was impossible to define a method of selection based on criteria which were both objective and politically acceptable.

As a result, there are only three possible solutions: the choice of beneficiaries can be made by the countries providing the aid, by the countries whose classification among the less developed is without any doubt, or on the principle of self-election.

The first solution would not have been welcomed by the developing countries.

The second would mean leaving the decision to the Group of 77. This club of developing countries embraces the countries of South and Central America, including Cuba, the non-Communist countries of Asia, excluding Hong Kong, the Middle Eastern countries, excluding Turkey and Israel, the countries of Africa, excluding South Africa, and Yugoslavia and possibly Rumania in Europe. The fear has been expressed that, for political considerations, the Group might tend to draw up as short a list as possible.

Only the third solution then remains, namely, the principle of self-election which, nevertheless, has built-in corrective machinery.

A political corrective: donor countries have agreed that, for imperative reasons that are not economic, they may exclude certain countries from

preferences, e.g., this makes it possible for the USA to refuse preferences to Cuba. However, in principle, a country cannot, by the terms of the New Delhi resolution, be excluded for reasons of competition; the strict application of this principle would tend to reduce the list of products to which preferences can be applied.

A dual economic corrective: in order to restrict the quotas of the more competitive developing countries and to reserve a substantial quota for the less competitive, the Community has proposed that preferential imports from any one country may not exceed 50% of the preferential ceiling fixed for each product. Further, countries already benefiting from regional preferences will continue to enjoy relative residual preferences in relation to the other developing countries.

For the moment, therefore, the problem has been dealt with by adopting a solution based on political rather than economic considerations.

2. A fair distribution of burdens is necessary for the industrialized countries.

a) It will be far easier for an industrialized country to agree to make a considerable effort at "tariff disarmament" if it is not the only one seeking an improved international organization. A government can only get the people of its country to accept a reduction of customs tariffs if it can explain the economic advantages obtained in exchange; this is the principle on which GATT negotiations are based. However, any justification of a non-reciprocal dismantling of customs duties can be based only on the argument that other countries are making a similar effort in an international context to help the developing countries to improve their export revenue and to promote their development.

If a similar effort is not made by the other prosperous countries,

- the sensitive sectors of the economy would find it hard to understand why they should be placed in a more difficult situation than their competitors in other rich countries;

- it would also be difficult to gain acceptance for the idea that foreign investors in the developing countries have easier access to national markets if domestic investors in developing countries did not receive a similar advantage in foreign countries;

- moreover, if any one sector is in difficulties, there would be a great temptation to revoke preference measures rather than increase protection against other industrialized countries, since such protection has to be compensated in GATT. These sectoral difficulties might in addition become more frequent since the impact of the competition from the developing countries would be concentrated on a single country and the differences in the economic situations of the industrialized countries would render it impossible to counter these external pressures.

For the developing countries themselves, the possibilities of additional exports are all the wider and the risk of disorganizing markets all the more reduced if there are more donor countries. Developing countries already receiving tariff preferences will find it all the more difficult to give them up if they do not receive in return easier access to the markets of other industrialized countries.

b) The granting of preferences by all the developing countries may certainly involve exceptions and marginal adjustments.

This is the problem of those OECD countries which, although they have a diversified economy, have not yet reached a level of development comparable to that of the major industrialized countries.

This problem faces the Eastern countries. Since customs duties have only a limited influence on their external trade, they must seek to increase their purchases from the developing countries by other means than that of tariff preferences.

B. The system should not cause economic upsets.

The desire of the developing countries for as favourable a system as possible confronts the industrialized countries with the problem of knowing whether, in certain sensitive sectors, the maintenance of some degree of protection with regard to the developing countries is not necessary; in other words, what products should the list include and what should be the amount of the tariff advantages granted?

1. List of products concerned

As agricultural and mineral commodities must be evaluated differently, two questions arise: Can processed agricultural products be included in the list? Must certain sensitive industrial products be excluded?

a) Broadly speaking, processed agricultural products are also manufactures or semi-manufactures. They make up 15% of the exports of processed goods from the developing countries; the agricultural and food sectors of even the most advanced of them account for a considerable proportion of their industry.

In spite of the persistence of the developing countries, the Western countries have taken the view that the granting of preferences can only be considered case by case since the protection of agriculture generally includes the food industry and it is difficult to distinguish one from the other.

Considering the matter on a case-by case basis, the Community was prompted to make a distinction between competitive products from temperate countries, in which case any possible relaxation of protection could only cover the processing industries, and tropical products, for which wider preferences could be contemplated on condition that they did not disturb the trade relations already established with developing countries enjoying the benefit of regional preference contracts. Therefore, the Community has made restricted offers: for very sensitive products, reduction of industrial protection by half (5% of products); for sensitive products, reduction by a quarter (30% of products).

b) For industrial products, the approach adopted is the converse of that decided on for agricultural products: in principle, all industrial products will benefit from the preferential system, although there may be exceptions in sectors in which the developing countries are already competitive.

These exceptions must not become too generalized and spread from sector to sector or country to country. Three principles should be observed:

- the maintenance of protective tariffs may be found to be superfluous if other protective machinery, quota restrictions or international arrangements exist;
- donor countries should cooperate in drawing up the list of exceptions, since the abolition of protection is more easily acceptable to all parties if each knows that the impact of competition will be distributed among them all;
- exceptions should apply only to cases in which the removal of protection will inevitably cause serious and immediate harm to the products

concerned; if there is merely a slight risk, a minor alleviation of protection and a safeguard clause are sufficient.

The Community has excluded no product from its preference system. All its calculations are based on the assumption that Hong Kong will not benefit from preferences under common law; it took the view that preferences might be extended to all sensitive products if they were subjected to a quota ceiling.

For certain particularly sensitive products on which international or bilateral agreements exist (textiles, cotton, jute, coir), preferences will apply only to signatories of these agreements with the dual limitation of a quota and a minimum price,

## 2. Amount of tariff reductions

Any liberalization measure agreed to cannot be total, unconditional and final, as its real effect on the additional volume of imports and on prices cannot be forecast.

The risk to the industrialized countries must not be overestimated. They have been able to withstand the effects of the tariff reductions agreed to in GATT or those resulting from the establishment of a customs union or a free trade area, and it would be unreasonable for them to be more concerned about competition from the developing countries than about that which they accept from other industrialized countries. This can be shown in theory and observed in practice.

A substantial increase in the imports of manufactures from the developing countries would have a negligible overall effect on the industrialized countries, since they account for only a small part of the latter's trade. The only effects to be considered would be those on certain regions or certain industries. An OECD report concludes that if exports from the developing countries to the OECD countries increased by 1,000 million dollars annually, i.e., at twice the existing rate, the fall in employment in the most sensitive sectors of Europe and the USA would be 0.7% per annum in the case of textiles and shoes, 1% in that of clothing and 2% in that of hides and skins. By way of comparison it should be remembered that every year, depending on the sectors, 8-25% of the workers in the US change jobs.



In practice, the Australian example of granting preferential quotas to the developing countries shows that these quotas were only used up to 13% at the outset and to 23% now.

Taking exaggerated precautions would ultimately lead to a consolidation of the de facto situation with legal provisions, whereby the developing countries would remain on the fringe of world trade. The danger exists that the desire for a general, multilateral system will, through inability to assess its scope, result in an ineluctable multiplication of safeguard measures.

Protection techniques are many and varied. At the moment, the industrialized countries have anti-dumping regulations, maintain quotas for some countries and, in the case of sectoral or regional upsets, can always take exceptional measures. Tariff preferences can also be accompanied by three types of restrictions:

The first is the degree to which the tariff is lowered, whether the article can be imported free of duty or whether a partial reduction is applied. Some countries have chosen the second formula to avoid the exclusion of certain products. For reasons of simplicity, the Community has opted for the free entry of industrial products and for a part-reduction in the case of processed agricultural products.

The second restriction, that of volume, may take the form of a safeguard clause or the fixing of tariff quotas beyond which the ordinary customs duties are applied.

The first formula has the merit of clarity and the disadvantage of fixing a limit. The safeguard clause places no restriction on exports unless difficulties arise. However, its application gives rise to complex problems:

- How can improper withdrawals, which would have a chain-reaction effect on other industrialized countries, be avoided?
- How can exports from one industrialized country to another be maintained if the former loses its market to a developing country?
- Would the withdrawal of advantages apply only to a country causing an upset or to all the developing countries?

The Community has chosen the first solution for processed agricultural products and a system of preferential tariff quotas for all industrial products. These quotas may be exceeded in the case of some products if

their importation does not harm the market. Calculated on the basis of imports from the developing countries, they would be increased annually by a fraction of the increase in the volume of total imports from the developed countries.

Thirdly, there is the time limit. A period of ten years has been decided upon, without prejudice to a subsequent review of the system. This time limit considerably restricts the scope of preferences. It allows for an increase in production through the fuller use of existing equipment, but it is too short to provide a sufficient stimulus for new investments. Ten years now seems too short a period for the head of an undertaking to plan, equip and pay off the cost of a new factory. It merely ensures an additional market for the immediate future and eventually has no effect at all. If the time limit allowed is intended to provide a stimulus, it would have to be longer or run from the time at which an industry is established. Even if these conditions were to be fulfilled, investors would be running a risk, since the relevant preferences could disappear if the industrialized countries decided multilaterally in GATT to lower their tariffs.

In conclusion, two questions must be answered: How is the system to be judged? When will it come into force?

A. How is the system to be judged?

Three conclusions can be reached:

1. In principle, the introduction into international trade of asymmetrical rules to assist the developing countries is a move along the road towards industrialization and helps to improve the international distribution of labour. Not only does it not contradict liberal doctrine but, rather, strengthens it:

- As a result, it has a considerable political influence on the developing countries.

- This is particularly important since the volume of aid is declining and commodity market organization is making very little progress.

2. The universal and automatic nature of the system complicates its application and restricts its scope:

- The effective scope of the system is of necessity limited and complicated by all the restrictions - quotas, safeguards, time limits - to which

it is subjected, so that any danger of upsetting the economy of the industrialized countries is avoided.

- The system will benefit mainly those countries in which industrialization and economic development have begun and will help existing industries, which will be enabled to work to full capacity. The importance of this effect is considerable in view of the foreseeable difficulties that may face the developing countries in maintaining their trade balances. However, in view of the proposed time limits, the system will make only a minor contribution to the industrialization of the developing countries.

3. The dissociation of the various aid techniques may weaken the effectiveness of each of these mechanisms.

It would have been possible to conceive a different method using these techniques in conjunction. Every time that an investment in a developing country benefits from bilateral or multilateral aid, the bordering countries and the countries giving aid undertake to grant, for a period of 10 years, a tariff quota totally exempt from duty representing a given fraction of the production capacity. Thus, during the preliminary years of exploring possibilities and of amortization, industry has an additional outlet to stimulate its early development. Such a system could operate without any safeguard clause, would promote the establishment of new industries suited to regional needs and could be used flexibly.

As matters now stand, it is extremely difficult to give up the principle of universality and non-discrimination. The developing countries will have to discover this and recognize that, in point of fact, a non-discriminatory system will benefit more particularly those countries in which economic development has already begun. If there is no direct selection, one is generally constrained to work backwards.

B. When will the system come into force?

The necessity for the developed countries to reach agreement among themselves explains why the progress made in drawing up the system is so slow.

The intention is not that every country should agree to lower its duties on the same products to the same extent or to apply the same safeguards. This would certainly make the system simpler, but it would unquestionably limit its scope and the fair distribution of costs would not be better

guaranteed in view of differences in economic situation. What is necessary is to reach agreement on a principle and a method.

With regard to principles, the attitude of the United States up to the immediate past has reflected some degree of hesitation.

After having stated its inability to respect the OECD time limits as a consequence of the review of its entire trade policy and after having limited itself to submitting illustrative lists together with long lists of products to be excepted, with exceptions for countries whose exports exceed 10% of the total USA imports, President Nixon last week reiterated his support for generalized preferences. The Community's decision to submit its offers to UNCTAD at all events on the promised date perhaps contributed to this decision.

Yesterday, the representative of the US Government submitted to OECD on behalf of his Government and subject to Congress approval a new plan: the fair distribution of burdens, duty-free entry for all manufactures with the exception of three sectors, including processed petroleum products, a safeguard clause and the application of the system to all countries deriving no benefit from preferential systems nor granting reciprocal preferences.

The range of clauses covered in the proposals put forward by various countries make the conclusion of a rapid agreement doubtful: equivalent effort clause (Great Britain, the Nordic countries, USA), the disappearance of existing preferential systems and the disappearance of reverse preferences (Switzerland, Nordic countries, USA).

For its part, the European Community, aware of its international responsibilities in relation to external trade and desirous of reaching concrete results, will do all in its power to contribute to the solution of this problem in a way that will alleviate the trade difficulties of the developing countries.