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COMMERCIAL POLICIES OF DEVELOPED COUNTRIES

The assessment of market potentials concluding Chapter 4 may be too optimistic. How far the expansionary forces go depends heavily on the commercial policies of the developed countries with regard to imports of manufactures from less developed countries. It remains therefore to consider in this regard both the tariff structures of the developed countries and nontariff barriers which, in some cases, may have a far more restrictive effect.

Tariff Structures: Nominal Versus Effective Rates

Table 17 offers a summary analysis of trade in four main product groups, imports in each group being broken down according to stage of manufacture. The selection of products is limited to those in which the raw materials, as well as manufactures, lend themselves to international trade, thus omitting items such as pottery and structural clay products.[1] They are limited also to those in which, on the criteria developed in this study, the manufacturing process is relatively labor-intensive, leaving out petroleum, aluminum, and steel, for instance.[2] The product groups included in the table thus seem to offer a choice as

[1] Similarly, there would seem to be little point in comparing imports of seafood, fruit, and vegetables in fresh and in processed or canned form, given the rather different varieties involved at each stage.

[2] An analysis by the FAO of trade in vegetable oils and materials, to take another example, notes several factors favoring location of the crushing industries in the importing countries, including not only the very low value added (tentatively assumed to be only about 15 per cent) and the capital-intensive nature of the operation but also the advantages in blending materials from a variety of sources ("Trade in Processed Agricultural Commodities," *Proceedings of the United Nations Conference on Trade and Development,* Vol. IV, *Trade in Manufactures,* United Nations, 1964, p. 167).

TABLE 17

Imports by Developed Countries from Less Developed Countries in 1965: Selected Product Groups by Stage of Manufacture

($ million, f.o.b.)[a]

Product Group and Stage of Manufacture	United States	United Kingdom	Other EFTA[b]	West Germany	Other ECE[c]	Canada, Australia, and New Zealand	Japan
Textile Group, Excluding Coarse Fibers							
I. Cotton, wool, and other fibers	122.9	155.2	44.9	151.7	290.8	16.7	301.1
II. Yarn	5.9	8.4	6.9	8.0	1.5	5.1	—
IIIa. Fabrics, clothing, accessories	264.7	153.9	38.8	71.0	28.1	65.9	3.9
b. Carpets, other floor covering	15.7	20.0	22.6	52.5	10.4	4.5	1.0
Coarse-Fiber Group							
I. Fiber of jute, sisal, and manila	32.3	45.9	10.0	22.8	73.8	17.2	25.8
II. Yarn	1.2	1.8	.7	1.7	5.3	1.0	.4
III. Jute fabrics, cordage, sets, etc.	193.4	18.3	5.6	7.6	10.3	60.4	.1
Leather Group							
I. Hides and skins, undressed	39.2	13.1	3.9	15.0	60.6	1.0	6.6
II. Leather	20.4	31.4	3.2	10.3	19.0	.9	5.4
III. Shoes,[d] luggage, handbags, gloves, etc.	40.1	15.1	3.8	5.7	3.8	4.9	.4
Wood Group							
I. Sawlogs, veneer logs, etc., in the rough	9.3	19.1	25.2	78.3	128.5	3.6	235.4
II. Lumber, simply worked, sawn, etc.	25.3	45.7	11.4	17.3	23.2	18.5	4.3
III. Plywood, furniture, and other wood manufactures	97.3	17.0	1.7	4.2	5.6	8.5	.6
Total, All Groups							
I. Crude materials	203.7	233.3	84.0	267.8	553.7	38.5	568.9
II. Intermediate products	52.8	87.3	22.2	37.3	49.0	25.5	10.1
III. Finished manufactures	611.2	224.5	72.5	141.0	58.2	144.2	6.0

Notes to Table 17

Source: Compiled from statistical publications of the United Nations.

Note: I = crude materials, II = intermediate products, III = finished manufactures.

[a]Imports of countries reporting on a c.i.f. basis have been adjusted to an approximate f.o.b. basis by use of differentials given in Tariff Commission's release of February 7, 1967, "C.I.F. Value of U.S. Imports."

[b]Sweden, Norway, Denmark, Switzerland, and Austria.

[c]France, Italy, the Netherlands, and Belgium-Luxembourg.

[d]Includes also shoes of materials other than leather.

to where manufacturing occurs along with a presumption that comparative advantage is on the side of the less developed countries.

The distinction by stage of manufacture in Table 17 is made in light of the standing complaint of less developed countries that the import tariffs of the developed countries tend to be graduated according to stage of manufacture so as to bear lightly, if at all, on imports of raw materials for use in manufacture and to penalize imports of processed or finished goods. To the extent that these influences prevailed, many of the less developed countries would have to remain hewers of wood and drawers of water.

Theoretical and empirical support for the view that the "escalated tariff structures" of the advanced countries are "a potentially powerful inhibitor of economic growth in the underdeveloped countries" has been developed by Harry G. Johnson, Bela Balassa, Giorgio Basevi, W. M. Corden, and others.[3] Their analyses make the point that *nominal* tariffs may be quite different from *effective* tariffs, the latter being related to value added by manufacture after taking account of duties paid on material inputs. When the rates specified in the tariffs are graduated according to stage of manufacture, the effective rates are higher, and frequently much higher, than the nominal rates.

Suppose, for example, that an import consignment of cotton cloth worth $500 is subject to an import duty of $100. Suppose further that

[3] See Harry G. Johnson, "The Theory of Tariff Structure, with Special Reference to World Trade and Development," in Johnson and Peter B. Kenen, *Trade and Development,* Geneva, 1965, pp. 9–29 (quotation from page 23); Bela Balassa, "Tariff Protection in Industrial Countries: An Evaluation," *Journal of Political Economy,* December 1965, pp. 573–594; Giorgio Basevi, "The United States Tariff Structure: Estimates of Effective Rates of Protection of United States Industries and Industrial Labor," *Review of Economics and Statistics,* May 1966, pp. 147–160; W. M. Corden, "The Structure of a Tariff System and the Effective Protective Rate," *Journal of Political Economy,* June 1966.

the same amount and quality of cloth produced at home would require $240 of yarn which, if imported, would bear a duty of $30. In this case the value added by weaving is $260, protected by a duty of $70.[4] The effective rate of duty, computed in relation to value added, is therefore 26.9 per cent as contrasted with the nominal rate of 20 per cent.

Moreover, it may be more meaningful to relate the duty only to the wage part of value added on the assumption that capital costs are not likely to be lower, and may well be higher, in less developed than in developed countries. On this basis, and assuming that payroll makes up 60 per cent of value added in the example chosen, the effective rate of protection would be about 45 per cent. This would be the amount by which labor costs per unit of output in the importing country could exceed those in the exporting country. The difference will be greater still to the extent that capital costs, transportation charges, and other costs work in favor of the importing country. (And, of course, the difference in earnings *per worker* will be much greater still when the difference in productivity of labor is as large as it typically is between less developed and developed countries.)

Table 18, drawn from a current study by Balassa, presents nominal tariff rates and estimates of the effective rates, on both of the bases just described, for most of the intermediate products and finished manufactures covered by Table 17.[5] These estimates necessarily involve an element of approximation regarding input coefficients and can perhaps best be regarded as illustrative rather than as precise measurements. In most cases the effective rates are much higher than nominal tariffs. Some extreme examples are wool yarn and wool fabrics in the United States, products of coarse fibers in the Common Market, and plywood in both. Precisely because of the high protection of wool yarn and fabrics in the United States, however, the estimated effective rate in this country on imports of wool clothing becomes negative. The effective rates in Japan are in most instances higher than in the United States or the Common Market. In the United Kingdom, the structure of protec-

[4] It is relevant to the history of economic doctrine to note that this example is drawn from a study of tariff protection and free trade published more than sixty years ago by the Austrian economist and former undersecretary of state Richard Schüller (*Schutzzoll and Freihandel,* Vienna and Leipzig, 1905). Dr. Schüller's concise presentation on pages 149–150 of his study contains the fundamentals of what is now being developed into a theory of tariff structures.

[5] Table 18 does not show crude materials, most of which are admitted duty-free by the industrially developed countries (thus contributing to the graduation of duties by stage of manufacture). The United States, as a major producer as well as consumer of crude materials, is something of an exception, duties being imposed on imports of both raw wool and raw cotton, for example.

TABLE 18

Nominal Tariff Rates and Estimated Effective Rates on Imports of Selected Intermediate Products and Finished Manufactures by the United States, the European Economic Community, and Japan

(per cent)

SITC No.	Product	Nominal Tariff Rates			Estimated Effective Rates on Value Added			Estimated Effective Rates on Value Added by Labor[a]		
		U.S.	EEC	Japan	U.S.	EEC	Japan	U.S.	EEC	Japan
	Intermediate Products									
6513	Cotton yarn and thread	13.1	10.0	5.6	32.8	31.4	13.9	46.0	44.0	19.5
6512	Yarn of wool and animal hair	23.0	5.7	10.0	53.2	16.1	29.6	74.5	22.5	41.5
611	Leather	9.6	7.3	19.9	25.7	18.3	59.0	48.1	34.3	110.4
243	Wood, shaped or simply worked	0.7	3.2	5.9	1.1	4.5	13.3	1.9	7.5	22.5
	Finished Manufactures									
652	Cotton fabrics, woven	17.5	15.0	10.5	31.2	27.5	20.0	43.4	38.5	27.8
6532	Woolen fabrics, woven	50.1	16.0	20.0	119.1	36.9	43.1	165.6	51.3	60.0
841[b]	Cotton clothing	26.6	18.5	21.0	48.1	28.1	40.3	77.4	45.2	64.8
841[b]	Wool clothing	22.1	20.5	22.0	-5.4	32.4	30.8	-8.7	52.2	49.6
8414	Clothing and accessories, knitted	25.6	18.6	26.0	48.7	41.3	60.8	68.5	58.1	85.5
6534	Jute fabrics, woven	2.8	23.0	25.0	7.0	62.2	67.5	9.9	86.6	94.0
6561	Jute sacks and bags	7.5	19.4	25.0	16.6	19.2	34.5	25.0	29.0	52.0
6556	Cordage, ropes, nets, etc.	4.0	14.3	19.2	11.3	41.9	57.2	32.7	121.8	166.4
851	Shoes	16.6	19.9	29.5	25.3	33.0	45.1	47.6	62.0	84.8
612 } 831 }	Other leather goods	15.5	14.7	23.6	24.5	24.3	33.6	34.3	34.0	47.0
6312	Plywood	17.1	15.0	20.0	43.7	32.5	44.2	87.5	65.0	88.4
632 } 821 }	Other wood products including furniture	12.8	15.1	19.5	26.4	28.6	33.9	46.4	50.3	59.6

Notes to Table 18

Source: Bela Balassa, "The Structure of Protection in the Industrial Countries and Its Effect on the Exports of Processed Goods from Developing Nations," United Nations Conference on Trade and Development, May 25, 1967 (TD/B/C.2/36).

Note: Rates relate to structure prior to completion of Kennedy Round of GATT negotiations.

[a]The estimated effective rate on value added by labor is the lower of two sets of estimates given by Balassa (the higher estimates allowing for higher capital costs in developing countries).

[b]Data relate to selected components of SITC No. 841.

tion is not very different from that of other developed countries as far as tariff rates imposed on imports from outside the Commonwealth are concerned. These rates are, however, of less relevance than those of other countries (and are accordingly omitted from Table 18), since imports from the Commonwealth, including such major suppliers as Hong Kong and India, are generally free of duty (though not necessarily free of other restraints, as in cotton textiles and jute products).

It is noteworthy that, though the United States tariff appears in general to be no less graduated or escalated than those of other countries and is sometimes held to be more so, the effect on the structure of its imports as reflected in Table 17 seems to be much less marked than in some other developed countries, especially some of the members of the Common Market and Japan. One important reason is that the United States is itself a major producer and exporter of some of the crude materials included in the table, notably, cotton, cattle hides, and hardwoods. This alone would tend to cause a higher ratio of manufactured to unmanufactured imports than would be true of most other developed countries. The same influence may affect the composition of imports by Canada, Australia, and New Zealand.

Nevertheless, imports of finished manufactures from less developed countries by most countries of Western Continental Europe look very small, and those of Japan altogether trivial, compared both with their own imports of crude materials and intermediate products and with imports of finished goods by the United States from less developed countries. Part of the explanation may be that, even if effective tariff rates in the United States are the same as in Europe or Japan, they may be less effective, in fact, in restricting imports of labor-intensive goods, if wage costs per unit of output in manufacturing these goods are higher here than in other developed countries.

Nontariff Barriers to Imports

There are, however, other more specific though sometimes less visible hindrances to the growth of the trade than those presented by tariffs. The most obvious, at least so far as they are reported, are quantitative restrictions. After taking note of some further, but slow, progress in removing these restrictions, a mid-1966 report by UNCTAD observes that "the area of exports still affected is considerable and includes a number of products of major export interest to developing countries." The report then summarizes the position as follows: "Out of 63 Brussels Tariff Nomenclature items of export interest to developing countries, quantitative restrictions on the following among them are still maintained in the developed countries, namely: France 56, Japan 24, Federal Republic of Germany 21, Denmark 15, Norway 14, Austria 13, Italy 10, United Kingdom 7, Switzerland 6, Sweden 3, United States 3, Netherlands 2, Belgium-Luxembourg 2, Canada 1."[6]

It is hard to judge the significance of these restrictions, since they may be nominal in some cases and rigorously enforced in others. It is even more difficult to judge the incidence and effect of other more subtle hindrances, such as administrative red tape or collusion among private producers and distributors within the developed countries, but the absence of trade is sometimes difficult to explain otherwise. Though it is difficult to separate from other influences noted, perhaps something should be allowed for the view that competition is keener in the United States market than in other developed countries,[7] and that American entrepreneurs are more active in seeking out foreign sources of supply.[8]

[6] United Nations Conference on Trade and Development, "Review of International Trade and Development, 1966," Summary of Report by the Secretary-General, July 20, 1966 (TD/B/82), p. 15. A revised version of the material on nontariff barriers, "cleared with the governments of the developed countries concerned," was issued on May 29, 1967 (TD/B/C.2/26). The revised report covers a much longer list (147 Brussels Tariff Nomenclature items) of "manufactures and semimanufactures of export interest to developing countries," but does not attempt to summarize the results in the manner of the earlier document cited above.

[7] This is, of course, a view that would be difficult to test empirically. Joe S. Bain in his study, *International Differences in Industrial Structure* (New Haven, 1966), finds "distinct differences in absolute sizes of principal manufacturing plants" between the United States and all of the other seven countries studied (United Kingdom, Japan, France, Italy, Canada, India, and Sweden) along with "strong tentative indications that inferior plant sizes abroad seem to be associated with the production of significantly larger shares of industry outputs in plants of inefficiently small scale" (p. 143). As one of several "very tentative hypotheses," he suggests that in many of the foreign countries in question, "there

Restraints on Imports of Cotton Textiles

The history of cotton textiles in recent years illustrates how the very growth of trade can be its own undoing through provoking restrictive measures by the importing countries. Following the swift increase in imports of cotton textiles from India, Hong Kong, and other Commonwealth sources in the 1950's,[9] the United Kingdom made a series of

are found generally, and especially as nurtured in markets which are cartelized or not very competitive, some inertia, lack of vigorous enterprise, lack of technological information (ignorance), dampened profit-seeking motivation, and a social resistance to technological change" (p. 147).

[8] Richard L. Barovick reports in the *Journal of Commerce,* August 12, 1966, that the large retailers in the United States "have become a major underpinning for the high level of consumer goods imports," and that some of them "have combed the world for the best combination of price and quality." To illustrate, he points out that Macy's maintains a network of fifteen full-time offices in Europe and the Far East, and that the Hong Kong office alone employs a staff of thirty-five to forty persons, "all of them engaged in developmental work." See also the article by Bruce Hyatt, "Reaching the Department Store Market in the United States: Guidelines for Developing Nations," in *International Trade Forum,* December 1966, GATT, Geneva, pp. 10–13.

[9] The rise in these imports is explained as follows by A. M. Alfred, the chief economist for Courtaulds Ltd., in a paper read at the Manchester Statistical Society on November 10, 1965 ("U.K. Textiles—A Growth Industry"):

"On the import side, you will know well that the U.K. textile industry, particularly the cotton sector, has suffered from an unforeseen consequence of the Imperial Preference Treaty negotiated at Ottawa in 1932. Under that treaty, it was agreed that cotton and wool textiles and made-up goods could enter the U.K. duty free if coming from the Commonwealth. At that time there was no textile activity of relevance in India, Pakistan or Hong Kong. In fact India (then undivided) imported 550 mn. yds. of cloth from the U.K. In 1964 the U.K. imported 450 mn. sq. yds., of cloth and made-up goods from India, Pakistan and Hong Kong—a reversal of a billion yards. This large volume arose because of the channelling of these Commonwealth exports into the only country into which they could come duty free."

After noting that these imports, together with imports from other underdeveloped countries made up 35 per cent of British consumption, compared with his estimates of 8 per cent for the United States and 9 per cent for the European Common Market, Mr. Alfred went on to speak of "the ridiculous state of affairs whereby the U.K. cotton industry is the only industry in any developed country of the world to have zero protection against a major supplier."

While recognizing that the "market disruption" in the British textile industry has been far greater than in other developed countries, one cannot fail to detect in this account a double standard frequently characteristic of attitudes in developed countries toward trade with the less developed countries: Free trade in textiles within the Commonwealth seemed logical and desirable as long as the flow was from the United Kingdom outward, but ceased to be so when the flow reversed (though the initial impact of British factory-produced textiles on the Indian handicraft industry in the nineteenth century had been no less disruptive than that more recently experienced in the United Kingdom when the tide turned).

bilateral agreements aimed at limiting the further growth of the trade. The United States, after a rapid rise in imports from some of these countries and from Japan, took the lead in negotiating in 1961 a short-term and then, in 1962, a long-term international cotton textile "arrangement," under which it has made numerous bilateral agreements for "voluntary restraints" by the exporters. Continental European countries were happy to join in the arrangement, with the blessing it confers on avoidance of "market disruption," but for the greater part have continued to prove willing and able to apply their own import restraints.

These restraints are sometimes more than meet the eye. The director-general of GATT, in opening the "major review" called for in the arrangement at the end of the third year, noted that "all trade restrictions on cotton textiles are not fully notified by participating governments" and urged them to "help lift the haze which still rests over this subject." [10]

Despite these open and hidden restrictions, imports of cotton textiles by the developed countries from "Group II" countries (i.e., developing exporting countries") have increased relatively fast. Those of Western Continental European countries doubled from about $50 million in 1961 to something over $100 million in 1964. At that level, however, they still fell short of imports from "Group II" countries by the United Kingdom (around $170 million) and by the United States ($126 million), both of which had risen substantially as well.[11]

Apart from the United Kingdom, these increases have all been from extremely low levels compared with home consumption—so low in several of the Western Continental European countries that, according to Gardner Patterson, even their commitment to large percentage increases under the five-year arrangement was regarded by some of the exporting countries "as bordering on fraud." [12] In his remarks quoted above open-

[10] Press release GATT/946, December 8, 1965.

[11] These estimates (derived from *Study on Cotton Textiles*, GATT, Geneva, June 1966, Table VI) relate only to textiles, clothing, and other products of cotton and, in some cases, are adjusted to exclude textiles of other fibers. In addition, the figures for the United Kingdom and Western Continental European countries are adjusted to an approximate f.o.b. basis. "Group II" in the text includes Spain, Portugal, and Turkey in addition to various of the less developed countries as defined here. As noted earlier in this chapter, the United Kingdom tightened restraints in the latter part of 1964, resulting in a decline in its imports of cotton textiles from the less developed countries, but those of the United States and Western Continental Europe have continued to rise.

[12] Gardner Patterson, *Discrimination in International Trade: The Policy Issues, 1945–1965*, Princeton, 1966, p. 311. Patterson gives in Chapter VI an illuminating account of the background and working of the international cotton textile arrangement.

ing the "major review" of the arrangement, the director-general of GATT expressed the hope that it had brought "some semblance of order" into the trade through restraint actions, and that the parties to the arrangement could begin to give effect to its "long-term and positive aims," including in particular expanded access to markets for the less developed countries.

It remains to see how much emphasis will be given to these long-run objectives during the further three-year period, starting October 1, 1967, for which the cotton textile arrangement has been extended. At least as far as the United States is concerned, government officials reporting to business groups on the renewal of the arrangement have stressed rather the objective of avoiding "market disruption," the expectation that the rapid growth of U.S. imports of cotton textiles would be greatly slowed down, the intention of acting to regulate imports from new suppliers, and continued close cooperation with the industry through the Management-Labor Textile Advisory Committee.[13] In connection with the extension of the arrangement, stress has also been placed on the limited extent of the tariff cuts on textiles made by the United States and other developed countries in the Kennedy Round.[14]

Jute, Leather, and Wood Products

Among the other product groups covered by Table 17, the market prospects for products of jute and other coarse fibers appear none too favorable at best because of the inroads of synthetic fibers and new methods of materials handling and packaging. Similar influences may bear adversely on leather and leather products. Perhaps for these very reasons one might expect growth-minded governments in the developed countries to be willing to accord a larger place to manufactures of

[13] See especially the address by Stanley Nehmer, Deputy Assistant Secretary of Commerce for Resources, before the Underwear Institute in Atlantic City on May 9, 1967. The "close industry-government relationship" was sharply criticized as "a dangerously intimate industry role in the administration of this major international program" in the report of August 29, 1966, by Congressman Curtis already cited in Chapter 3. He raised the "troublesome question . . . whether it is the policy of the U.S. cotton textile industry that the U.S. government has for the last five years been implementing, rather than a policy representative of the national interest."

[14] "Because of the import sensitivity of textiles in general here and abroad, the cuts made by the U.S. and other major importing countries average less than 25 per cent and much less than that on the more sensitive product areas such as woolen and man-made textiles. Many textile products were excluded altogether" (Quoted from address by the then Acting Secretary of Commerce, Alexander B. Trowbridge, at the Alabama International Business Forum, Tuscaloosa, May 17, 1967).

these products by India and Pakistan, which are the main suppliers, giving them an opportunity to increase their export earnings over the amounts now received for the crude or semimanufactured materials. Lower prices for the finished products might also be expected to help strengthen the competitive position of these materials and to contribute in this way also toward improving the export earnings of the suppliers.

Wood and wood products are of interest for rather the opposite reasons. First, many of the less developed countries in Asia, Africa, and Latin America are large actual or potential exporters of tropical hardwoods, which are the type principally involved in the trade at present, and some of them are also capable of becoming mass producers of coniferous wood for pulp and paper and other uses. Second, Western Europe and Japan appear slated to become increasingly heavy importers of tropical hardwoods. A study by the FAO for UNCTAD in 1964 [15] placed their hardwood imports from less developed countries in 1959–61 at an annual average of about $250 million, f.o.b., consisting overwhelmingly of unprocessed timber. It projected an increase of approximately $1 billion, at 1959–61 prices, in these imports from the less developed countries by 1975, if all of Western Europe's additional takings and "a reasonable proportion" of Japan's were fully processed in the form of sawn wood, veneers, and plywood. But the increase would be less than half that amount if, as at present, the imports were predominantly in the form of logs. The study stressed that these hardwood imports would have to come from the less developed countries. It also foresaw that Western Europe and Japan would have a growing deficit in softwood, which could be met by the less developed countries to the extent of $100 million in 1975 and in increasing amounts thereafter.[16]

A companion analysis underlying these projections found that there were "good reasons to expect the production both of quality hardwood plywood and veneer, and of the mass produced paper and paperboard grades based essentially on long-fibre woodpulp, to become concentrated near their source of material." Among the reasons developed

[15] See "Prospects for Expanding Forest Products Exports from Developing Countries," in *Proceedings of the United Nations Conference on Trade and Development*, Vol. III, *Commodity Trade*, United Nations, 1964.

[16] In addition, the FAO study projected that imports of tropical sawn wood and plywood (SITC nos. 243 and 631) by the United States and Canada from the less developed countries would rise from $50 million annually in 1959–61 to $150 million in 1975 (a figure which now seems low by comparison with their actual imports of $114 million in 1965); and that Australia, New Zealand, and South Africa would import some $130 million, and the Soviet Union and Eastern Europe $40 million, of hardwood from the less developed countries in 1975.

for this view were the following: "The 'creaming' of the forests of West Africa to sustain an export trade in high-quality veneer logs of a limited range of species is a much more costly and inefficient way of drawing on these forests than to use them as a base for a balanced range of forest industries designed for integral utilization, located in that region. Quite apart from this, the shipping of wood products rather than logs reduces the incidence of freight. Also, the extra stages of drying, shipping and 're-slushing' of wood pulp can add 10 to 15 per cent to the final cost of papers with a high wood-fibre content." The study added, however, that "The earlier pattern of supply developed around a series of tariffs which generally encouraged the import of roundwood rather than wood products," and that "A freer flow of plywood and veneer and of paper and paperboard would require a change in tariff structures to remove this discrimination." [17] The infinitesimal amount of plywood and other wood manufactures imported by Western Continental Europe from less developed countries (Table 17) suggests, however, that nontariff barriers may also be important.

In brief, the developed countries would seem to have it within their power, by reducing the tariff and other barriers to imports of finished manufactures, to influence greatly the export earnings of the less developed countries and therewith their possibilities of economic growth.

The Problem of Increased Access to Markets

The Issue of Preferences

The first condition for a continued rapid growth of exports of manufactures by the less developed countries to the advanced countries would seem to be greater accessibility to these markets. Greater accessibility would mean the scaling down of the tariff rates of developed countries, particularly the "effective rates," on goods of which the less developed countries are actual or potential suppliers; the progressive loosening of quantitative restrictions, both those imposed by the importing countries and the "voluntary restraints" exercised by the exporting countries; and the identification and removal of other, less obvious impediments to imports. More broadly, greater accessibility would mean recognition that international specialization has a place for the products in which the less developed countries have a comparative advantage, and that this place will widen and deepen as the rise in produc-

[17] *European Timber Trends and Prospects: A New Appraisal, 1950–1975,* Food and Agriculture Organization of the United Nations, New York, 1964, p. 212.

tivity and wages in the developed countries produces divergent effects on unit wage costs in different industries.

The great debate in recent years on commercial policies affecting the less developed countries, reaching a crescendo at the U.N. Conference on Trade and Development in 1964 and still continuing, has turned increasingly on the issue of tariff preferences; that is, whether the enlargement of market opportunities for the less developed countries should be sought within the most-favored-nation framework embodied in the GATT, whereby the concessions made would be generalized and extended also to developed countries, or whether the less developed countries should be accorded preferential treatment in recognition of their difficulties in competing with the developed countries.[18] Rightly or wrongly, the less developed countries seem to have become convinced that only a system of preferences would meet their needs, though they differ among themselves, as well as with the developed countries, as to what the terms of the preferences should be. The United States, adhering to the principle of nondiscrimination, has been in the invidious position of leading the opposition to these demands, sometimes to the point of seeming to be the only voice in opposition.[19]

After the vast exceptions to the most-favored-nation principle constituted by the European Economic Community and the European Free Trade Area, the idea of tariff preferences to favor the less developed countries may appear to be a modest objective. It seems to accord ill, however, with the realities of the present trading situation in which, as the director-general of GATT has observed, "the tendency is, in the sectors where the less developed countries are already competitive, for the developed countries to discriminate against the export products of these countries." [20] Unless the developed countries are ready to forgo those features of their commercial policies which seem to fall with particular severity on exports of the less developed countries, what expectation can there be of shifting all the way over to discrimination in their favor?

The heart of the difficulty, as far as exports of labor-intensive manu-

[18] For a much fuller account of the history of this issue, see Patterson, *Discrimination in International Trade*, especially Chapter VII.

[19] Harry G. Johnson, though severely critical of the negative stance of the United States and of its failure to develop a more positive and imaginative policy, suggests that, to an important extent, the United States served as a scapegoat for other countries, especially the European Common Market countries, which avoided commitment by abstaining from voting while the United States carried the burden of resistance. (*Economic Policies Toward Less Developed Countries*, Washington, 1967, especially p. 39.)

[20] Address in Bad Godesberg, Germany, October 27, 1966.

factures by the less developed countries are concerned, is that these products tend to compete with those sectors in the developed countries which are frequently the least prosperous and the most successful in obtaining protection against imports. The problem is illustrated by one of the provisions of the U.S. Trade Expansion Act of 1962, namely, that authorizing the President to negotiate tariffs down to zero on groups of industrial products of which the United States and the European Common Market together accounted for 80 per cent or more of world exports. This formula reflected an erroneous expectation that the United Kingdom was about to become a member of the Common Market (without which the 80 per cent level would be realized only exceptionally). But it also had the important effect of excluding products, notably textiles, of which Japan and the less developed countries were significant exporters. In other words, the United States was prepared to consider reducing tariffs by as much as 100 per cent on products which, as President Kennedy said, "can be produced here or in Europe more efficiently than anywhere else in the world," [21] but only by half as much in principle (perhaps a good deal less in practice) on products in which Japan and the less developed countries were most competitive. This, however, is only a specific illustration of the general tendency of U.S. tariffs to bear more heavily on labor-intensive manufactures than on other goods.[22] It raises the question whether, even if the most-favored-nation rule is rigorously respected, unequal tariff treatment of different products may not be tantamount to unequal treatment of different countries.

The Prebisch Proposals

Awareness of these difficulties led Raúl Prebisch, in his advance message as secretary-general to UNCTAD in 1964, to envisage something less than a fully generalized system of preferences.[23] As he saw it, developed countries could not be expected to give preferential treatment to those industries in the less developed countries that were already fully competitive in world markets, and each country granting preferences might therefore establish a reserve list of such products to be excluded from preferences (but not, he stressed, from most-favored-na-

[21] See *Department of State Bulletin,* February 12, 1962, p. 236.

[22] See Beatrice N. Vaccara, *Employment and Output in Protected Manufacturing Industries,* Washington, 1960, pp. 55–66, and David Stafford Ball, "United States Effective Tariffs and Labor's Share," *Journal of Political Economy,* April 1967, pp. 183–187.

[23] *Proceedings of the United Nations Conference on Trade and Development,* Vol. II, *Policy Statements,* 1964, pp. 35–40.

tion treatment under GATT). Prebisch's case for preferences was, as he said, "a logical extension of the infant industry argument"[24] aimed at enabling the less developed countries to become competitive in manufactures that they could not now export. Both the duration of the preferences (a minimum of ten years was suggested) and the margin of preference should be great enough to provide adequate incentive for the establishment of new export industries.

Prebisch considered it desirable, but not indispensable, that all developed countries participate in granting preferences. He hoped that they would avoid the crippling complexities of a highly selective country-by-product approach, but recognized that they might insist on an over-all quota, and possibly quotas on particular categories, governing the amount of goods to be imported preferentially.

As to the preference-receiving countries, Prebisch recognized that it would not be easy to set any kind of cutoff point above which countries would not be eligible. Among those which were eligible, he felt it necessary to distinguish between the "more advanced" and the "less developed" among them, suggesting for the latter wider margins of preference. This might be reinforced by a special grant of quotas in their behalf and perhaps even by preferential tariff treatment on items which the developed countries had reserved from general preferences.

Australian Preference System

Despite vigorous efforts by the less developed countries at UNCTAD for a declaration of principle in favor of preferences, all that emerged in the final act of the 1964 conference was a decision to set up a committee to consider the best method of implementing such a system and to discuss differences of views on the question of principle.[25] The topic seems destined to figure even more prominently in the debates of

[24] Johnson (*Economic Policies Toward Less Developed Countries,* pp. 181–184) notes various differences between the infant-industry argument and the tariff-preference argument, among them being that the first envisages a social investment paid for by the consumers of the country in which the protected industry is located, whereas the second envisages that the cost is borne by consumers in developed countries for the benefit of less developed countries. Johnson further suggests (p. 198) that many of the objections to preferences growing out of adherence to foreign trade principles would disappear, if preferences were looked upon as "essentially additional foreign aid." The key word here is *additional,* and the argument loses force to the extent that, if the case for preferences were presented on this basis, cuts might be made in appropriations for aid in other forms.

[25] *Proceedings of the United Nations Conference on Trade and Development,* Vol. I, *Final Act and Report,* 1964, p. 13.

the second conference scheduled for 1968. Meanwhile, the only specific action by way of preferences favoring imports from the less developed countries is that taken by Australia under a waiver from the most-favored-nation rule approved by GATT in March 1966.[26] Though staunchly defended by Australia as a manifestation of its willingness to help overcome the trade problems of the less developed countries and as a lead to other developed countries wishing to apply similar methods, the Australian preferential system may also be taken as indicative of the limitations and problems in this approach. Its main features may be summed up as follows from materials made public at the time of requesting the waiver from GATT: [27]

1. Preferential duties, zero in some cases, were to be introduced in favor of the less developed countries, comprehensively defined, on some sixty items.
2. Each such concession was, however, subject to a quota limit, above which regular duties would apply to imports from less developed countries.
3. These quotas added up to a total of £A6,680,000, or about $15,000,000, representing in principle the amount of goods that might enter in a year's time on a preferential basis.
4. More than 40 per cent of this total was made up of items which, it would seem, were unlikely to provide the basis for any new export industries in less developed countries, at least in the near future. These included, in particular, newsprint, £A2,000,000; machine-made paper £A500,000; rubber thread, vulcanized, £A100,000; household washing machines, £A150,000; machine tools, £A150,000.
5. Other, generally more likely, items thus added up to £A3,780,000, or about $8,500,000 in terms of amounts eligible for preferential treatment, made up chiefly of consumer manufactures.[28]
6. More generally, it was indicated that the list was drawn up so as to omit "products in which less developed countries are already competitive in world markets," and that "the preferential rates should be subject to modification as producers in less developed countries become competitive."

[26] According to the GATT press release of March 30, 1966 (GATT/953), the contracting parties approved the request "by a substantial majority." Newspaper reports at the time indicated that the United States cast the only dissenting vote.

[27] From statement and accompanying exhibits submitted by the Rt. Hon. J. McEwen, Deputy Prime Minister and Minister for Trade and Industry, to the Australian House of Representatives on May 19, 1965.

[28] Actual imports of these goods from less developed countries in 1963–64 had amounted to £A1,300,000, or $2,900,000, some of which had entered under Commonwealth preferential duties, leaving the effective net amount of additional preferential imports presumably somewhat smaller than $8,500,000.

7. On the other hand, it was also indicated that the items specified constituted an "initial list" and that other products might be added from time to time.[29]

Unless the Australian list were to be significantly expanded, it could scarcely be said to open up major new export possibilities for the less developed countries or to provide a challenging example for other developed countries to follow. Indeed, the positive effect of Australia's action was at least partially offset by another step taken at the same time whereby it informed GATT that, in accepting the new Part IV on Trade and Development, it would not consider itself bound by the provisions under which the developed countries undertook "to accord high priority to the reduction and elimination of tariff and non-tariff barriers to products of actual or potential export interest to less developed countries" and "to refrain from increasing tariff and non-tariff barriers against such products."[30]

The "Brasseur Plan"

Except for the exclusion of Hong Kong from the benefits on certain items, the Australian preferences are available to all less developed countries, broadly defined. In this respect the Australian system appears to be more generous than the "Brasseur Plan," with which it has been compared, would be. This plan, named after the Belgian Minister of Foreign Trade and Technical Assistance who made the proposals to GATT in 1963, would entail negotiations with individual less developed countries to determine in each case the products to be covered, the margin and duration of preference, and the quantities eligible to benefit. If the plan were seriously looked upon as applying to most bilateral relationships between developed and less developed countries and to

[29] The list of goods specified in the annex accompanying the waiver voted by GATT on March 28, 1966, included two additional groups called "various" which were to be free of duty without quota limit. These appear to be mainly, if not entirely, handicraft items. See the Fourteenth Supplement to the *Basic Instruments and Selected Documents,* issued by the Contracting Parties to the General Agreement on Tariffs and Trade, Geneva, July 1966, pp. 23–31 and 162–177. On the other hand, one item on the original list was omitted from the final version, i.e., "matt-woven fabrics of jute, weighing more than 12 ozs. per sq. yd.," for which a duty-free quota of £A20,000 had been proposed, but with the notation that India and Pakistan (the principal exporters of jute manufactures) were to be excluded from the preference.

[30] From Mr. McEwen's statement of May 19, 1965. Mr. McEwen denounced these provisions as a "blank check" and said that their effect would be "to severely curtail our right to increase, or even to maintain, tariffs on any products that might be designated—now or in the future—as being of actual or potential export interest to the less developed countries."

most items of interest in the trade, the amount of negotiation and specification required would be astronomical. Patterson suggests, however, that "this approach had the great virtue to some members of the European Economic Community that it would facilitate their safeguarding the value of the existing preferences to each other and, more important, to the Associated States." [31] It is not clear how valuable these latter preferences are, in fact, to the Associated States—i.e., the former African dependencies of France and Belgium—in view of the extremely low level of their exports of manufactures to the former mother countries or other members of the European Economic Community.

Diverse Policies and Common Objectives

The effectiveness of tariff preferences in opening new markets for the less developed countries cannot be judged in the abstract, but depends on the terms of the preferences in each case. The measures adopted in Australia and those contemplated under the Brasseur Plan are not reassuring, however, if taken as a foretaste of the kind of preferential concessions to be expected. Rather, they give point to Prebisch's warning that "it would not be worth facing all the political and other difficulties entailed in a new departure from the most-favored-nation principle simply for the sake of token margins of preference on a few selected products for a very limited period, amounting to little more in toto than a gesture in the face of the immense problems of the trade gap." [32] He might have added that, the more selective preferences are by beneficiaries, the more fragmented is the bargaining power of the less developed countries and the greater their economic dependence becomes on particular developed countries.

It is equally true that the gains to be achieved by the less developed countries through the most-favored-nation approach cannot be judged in the abstract. In principle, their bargaining position for obtaining meaningful concessions from the developed countries is strengthened by three considerations. First, the developed countries have, as noted, pledged themselves in GATT as well as at UNCTAD to give "high priority" to the reduction of both tariff and nontariff barriers to the exports of the less developed countries. Second, the need of the less developed countries to increase exports to cover their growing import requirements is widely recognized. Third, the gains from trade between

[31] *Discrimination in International Trade,* p. 361.

[32] *Proceedings of the United Nations Conference on Trade and Development,* Vol. II, *Policy Statements,* p. 38.

countries with wide differences in factor endowments should be particularly large to both sides.

In fact, however, the Kennedy Round of GATT negotiations seems to have been regarded by the developed countries as primarily concerned with trade relations among themselves,[33] and it is by no means clear what will follow to give effect to their commitments to the less developed countries. As far as the United States is concerned, the tariff-cutting authority vested in the executive branch by the Trade Expansion Act of 1962 does not extend beyond mid-1967, and proposals for a new trade program remain to be formulated and approved. In the European Economic Community there seems to be an increasing tendency to look on the common external tariff as a condition for internal unification, while the United Kingdom appears to be mainly concerned with joining the EEC and perhaps more inclined to restrain than to stimulate its imports from less developed countries, to judge by the uneven incidence noted in Chapter 4 of the restrictions imposed in 1964 to bolster its balance of payments.

Under these conditions, it may be difficult to develop and carry out a common program of action by developed countries to remove barriers to imports of manufactures from less developed countries, whether by the preferential route or by the most-favored-nation approach. The United States and other countries wishing to provide enlarged trade opportunities to the less developed countries may therefore be faced with the difficult choice, noted by Harry Johnson,[34] between (1) unilaterally reducing tariffs on items of interest to these countries without insisting on reciprocal concessions by developed countries benefiting under the most-favored-nation principle, or (2) abandoning that principle and granting concessions to the less developed countries only, or to some of them, on a preferential basis compared with the tariff treatment accorded imports from developed countries. The United

[33] Gains for the less developed countries were particularly limited in textiles and clothing, as noted above, both as the result of the adamant insistence of the developed countries on renewal of the Long-Term Cotton Textile Arrangement, with its provision for "voluntary restraints" by the exporting countries, and as the result of a last-minute decision, demanded by the EEC, to cut sharply the extent of the tariff reductions made on textiles (a feature which could become more consequential when the long-term cotton arrangement expires). It is an open question, however, to what degree the less developed countries themselves were responsible for their failure to get more out of the Kennedy Round, possibly because of inadequate representation during the long and many-sided negotiations and possibly also because of a widespread tendency to think that only preferential duty reductions would meet their needs.

[34] *Economic Policies Toward Less Developed Countries*, pp. 41 and 239.

States would thus have to abandon one of two basic principles—either that of reciprocity or that of nondiscrimination.

Whatever the answer to this last question,[35] it seems likely that, viewed as a whole, the trade policies of the developed countries vis-à-vis the less developed countries will continue to be a mixed bag—equal treatment in some sectors and areas and unequal treatment in others, measures to expand trade along with restraints, declarations of good intentions followed by good, bad, and indifferent results. One of the weaknesses of the selective preferential approach in particular is that it lends itself to illusions, by both preference-giving and preference-receiving countries, as to how much has been accomplished. A great amount of paper work may yield very little trade.

In the face of this prospective diversity and uncertainty, the question arises whether it would be useful to try to make sure that the policies pursued by the developed countries, whatever their form in each case, were consistent with the results aimed at, which would involve quantifying these aims with regard to the levels and rates of increase contemplated for the trade. It may be recalled that Prebisch broached such an idea in his advance report to the United Nations Conference on Trade and Development in 1964, though it was only briefly considered, with little support, at that meeting[36]—that is, that targets be set for

[35] An indication that the United States was willing to consider some modification of its position against trade preferences was given in President Johnson's statement at Punta del Este in April 1967: "We are ready to explore with other industrialized countries—and with our own people—the possibility of temporary preferential tariff advantages for all developing countries in the markets of all the industrialized countries." (See *Department of State Bulletin,* May 8, 1967, p. 709.) The key word in this formulation is no doubt *all* as applied to both beneficiaries and givers of preferences.

The possibility of a more specific and immediate step, though a modest one, was indicated in the statement issued on May 15, 1967, by the director-general of GATT in summing up the results of the Kennedy Round. Noting that the tariff reductions agreed on in the negotiations would, in general, be phased over a period of years, he said that the participants had, however, "recognized that, for the developing countries, the immediate implementation of such tariff cuts would be of great value in maximizing the benefits to them of these negotiations." He further stated that efforts to achieve the advance application of the cuts to imports from the developing countries would continue, and that a decision on this point was expected to be reached by the time that the agreement embodying the results of the Kennedy Round was ready for signature. GATT press release, May 17, 1967 (GATT/990). No such decision was announced at the time, however, and subsequent Congressional testimony by U.S. officials has indicated that the issue was left for later consideration and that the United States had not taken a firm position (*The New York Times,* July 13, 1967, p. 51).

[36] For Prebisch's suggestions on this point, see pp. 38 and 60 of Vol. II of the conference proceedings. In the form considered at the conference, this idea (the first of thirteen "special principles" following fifteen "general principles")

developed countries, collectively and individually, with respect to their imports of manufactures from less developed countries.

Possible disadvantages of such a course are immediately obvious. If the targets were set too low in relation to the potentialities of the trade, they would be more of a hindrance than a help to its development. If they were set too high, achievement of the targets could present embarrassment to private-enterprise economies.

Such problems may, however, be more theoretical than real in the present instance. Reasons have been given in Chapter 4 for believing that the forces underlying the rapid growth of the trade from the early 1950's to the mid-1960's may become progressively stronger. If that view is correct, it would probably not be too much to suggest that, by 1975, the trade will again have grown fourfold or more to something like $10 billion (at present prices). Higher figures could be envisaged if the enlargement of market opportunities extended to all of the developed countries, including those that so far have lagged behind in imports of manufactures from less developed countries.

Fulfillment of targets by the developed countries in these conditions would not be a matter of creating artificial inducements but of removing artificial impediments to the trade. Some developed countries might elect to do so by reducing import barriers over the whole range of products of interest to less developed countries and to do so on a most-favored-nation basis. Some others might choose to proceed much more selectively with respect to both the products and the countries benefiting by the concessions. Whatever the method, a set of agreed targets should help to give a common purpose and meaningful content to their actions.

It would doubtless require a good deal of study and negotiation to obtain agreement on a global target for imports of manufactures from the less developed countries that would be both consistent with their growing foreign exchange needs and acceptable to the developed countries. Arriving at an agreed basis for distributing a global target among individual importing countries could well prove even more difficult.[37]

was that "Developed countries should cooperate with developing countries in setting targets for the expansion of trade of the latter and in periodically reviewing measures for their achievement." The United States and Canada voted against the proposal, and the United Kingdom, Germany, and seven other developed countries elected to abstain. Interestingly, France, Italy, and Belgium—all with relatively small imports from the less-developed countries—voted in favor of the proposal.

[37] Prebisch suggested that the total might be divided up (1) according to each importing country's consumption of manufactures or (2) according to its share in total imports of manufactures from all sources. The first criterion,

A more modest and perhaps more realistic alternative would be for each developed country simply to provide a quantitative analysis and projection, by main groups of manufactures, of the expected evolution of its imports from less developed countries, taking account of market trends and its own commercial policies. Such an undertaking should at least serve to direct thinking about commercial policies affecting less developed countries toward results as well as methods and to make it more difficult to generate schemes lacking in effective content.

It would no doubt be more difficult—but also more questionable—to divide up a global import target, or even a set of projections, among individual exporting countries. Too much depends on their own economic situations and policies in each case. The Prebisch proposal on preferences calling for gradation of preferential margins among the less developed countries implies that the ability to export manufactures is positively correlated with their stage of economic development. This must be true in some sense, if one thinks of potential exports. But the analysis offered here has also revealed that, typically, the "more advanced" of the less developed countries, including some that have had preferential access to certain developed countries' markets, have not done well as exporters of manufactures to developed countries. If, as this experience suggests, the basic difficulty lies in their own economic situations and policies, it would be of little advantage to them, and an unnecessary limitation on other less developed countries' possibilities, to reserve for them specified shares in a global import target. Even in such cases, however, a more receptive attitude by developed countries toward imports from less developed countries, along with quantitative assessments and projections of these imports, would help to clarify the issues and to encourage policies in the less developed countries conducive to the growth of their exports.

however, would tend to overstate, and the second to understate, import objectives for large countries with diversified economies and less dependent on imports than small countries with more specialized economies. Prebisch concluded that a combination of the two criteria might yield a formula acceptable to all developed countries (p. 38 of Vol. II of the conference proceedings).