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THE GRANTING OF TARIFF PREFERENCES FOR DEVELOPING COUNTRIES

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Foreword

This paper is part of the research that I am doing on tariff preferences for the LDCs' manufactures and semi-manufactures and their impact on economic growth.This research should result in a study of trade theory and policy which I hope to complete by next spring.My main purpose has been to justify preferences as a policy tool derived from an extension of a dynamic theory of international trade;in order to do this I will carry Staffan B. Linder's theory of trade and growth one step further.Up until now preferences have been considered a "third best" solution(1);I will treat it as the "best" solution,that is to say as the most appropriate commercial policy instrument for fostering the LDCs' growth by increasing their exports of manufactures and semi-manufactures.

Many theoretical problems,such as the infant-industry argument,the "asymmetric growth schemes",the concept of "trade-diversion",etc.,need to be reappraised before we can establish a new and more appropriate theoretical basis for tariff preferences.I will only review these problems very briefly because I think that during this Round Table it would be more useful to concentrate our attention on the current policy issue.Therefore,although my research is essentially theoretical,this paper will describe the present discussions,putting the emphasis on the positions the most important group of industrial countries - the members of the so-called Atlantic Community.

1. Introduction

Among the new economic policies for the Western countries that Alfred C. Neal suggested in January, 1961 was "one-way free trade" with the developing countries (2). During the succeeding months, the members of GATT examined the ten specific recommendations made by Committee III, a declaration made by the U.S. Government on "promoting trade with the less developed countries" and a proposal made by the Nigerian Government and backed by the United Kingdom (3).

In May, 1963, the "8-point action program", which was sponsored by 21 less developed countries and which was supported by the GATT Secretariat, ran into difficulty because of the opposition of the Common Market countries and because of the reservations of many other developed countries (4). Between March and June of 1964, the advanced countries were unable to come to an agreement in Committee II of UNCTAD; thus all the developed countries either abstained or voted against the recommendation asking for tariff preferences for manufactures and semi-manufactures of export interest to the developing countries (5).

In December, 1967, a few months before the second UNCTAD conference, the OECD countries began to reach an agreement on some common guide lines and they adopted the basic points of the so-called "four wise men's report" (6). At the end of the New Delhi Conference, Committee II "agreed that a generalized, non-reciprocal and non-discriminatory system of preferences favoring the developing countries, designed to assist them in increasing their export earnings and thereby accelerating their rates of economic growth, should be implemented as soon as possible". It also "decided that two questions should be discussed in some detail: namely, the main elements of such a system and the timetable for future action leading to the early implementation of the scheme of preferences" (7).

These are the main historical features of the tariff preferences issue with which the developed countries must cope. Although the proposal made at the first UNCTAD conference to abandon the m.f.n. clause was not particularly new (8), the reactions that it produced were so divergent and controversial that the Atlantic countries only began to reach an agreement three years later.

In this paper we will briefly discuss these reactions in order to examine the possibilities of a future compromise. Before analyzing these reactions, we will take a brief look at the requests made by the developing countries in the light of effective tariff theory (9), even if preferences were called for mostly on the basis of the infant-industry arguement (10) and on the grounds of the restrictiveness of the so-called graduated tariffs (11) both in the Prebish report and in the policy statements of the developing countries.

2. Trade theory and tariff preferences

The rationale for tariff preferences can be based on an evaluation of the effective protection established by the advanced countries with regard to manufactures and semi-manufactures of export interest to the developing countries. The effective pro tective rate in an economic activity is the percentage increase in value per unit made possible by the tariff structure and re lative to the same situation with no tariff but with the same ex change rate. It depends not only on the tariff imposed on the commodity produced, but also on the input coefficients and on the tariffs on the inputs. A tariff itself is not a demonstration of its restrictivenes: as a matter of fact, ordinary nominal ta- riffs apply to commodities but resources move between economic activities. Therefore, in order to discover the resource-alloca tion effects of a tariff structure, one must calculate the prote ctive rate for each activity, that is, the effective protective rate. "This is the main message of the new tariff structures the ory" (12).

Thanks to the effective tariff theory, new important insights have been provided for granting preferences to the developing countries. These insights are primarily theoretical; only a few empirical studies have been made so far and, moreover, they are not above criticism because they adopted too restrictive assum ptions in order to resolve the terrific accounting problems po sed by the calculation of the effective rates (13).

We can see from the definition of effective tariff - as it appears in its most simplified mathematical formula (14) - that the graduated nominal tariffs on finished and semi-finished ex ports of the developing countries is the reason why effective protection shows a higher increase that nominal protection. Two distinct implications follow from the application of the effec tive tariff theory to an escalated tariff structure. First of all, except for basic materials, which have no other tradeable pro ducts as an input, the effective rate is always higher than the nominal rate. Secondly, the escalated structure of the advanced countries encourages the underdeveloped countries to export raw materials rather than to export processed products. Another im portant application of the effective tariff concept concerns no minal tariff reduction for intermediate goods; usually it appears as a concession that will reduce protection and increase trade. But the extra imports and the lower domestic production of inter mediate goods which may result from this reduction must be wei ghed against the higher effective rate for the user industry.

These theoretical considerations generally apply to the ta riff structures of the advanced countries and to the necessity of modifying them. However, they might also be modified on an m.f.n. basis. As one can see from my summary of the basic prin ciples, preferences will bring about a more efficient use of the world's resources if these preferences effect a shift in the production of given goods from higher-cost to lower-cost sources or shift consuption from higher-cost to lower-cost goods which satisfy the same need (15). Therefore, the infant-industry argu- ment can be extended beyond the realm of the developing countri es' tariff policy (16) in order to justify preferential tariffs granted by the developed countries. The industries of the developing countries are often high-cost producers,not necessarily because they are uneconomic producers,but because they are beginning a long slide down the declining cost function,or "learning", curve. Another reason might be that,due to inadequate accounting of external economies generated by these industries or to distortions in the price-wage structure of the "dual economy",their pecuniary costs overstate the real social costs.

Furthermore,preferences do not necessarily conflict with trade liberalization and multilateralism;the removal of the existing barriers to trade on the part of the developed countries would be the first step toward increasing the developing countries' exports and expanding international trade.

Introducing a new preferential regime would not necessarily imply a net increase in discrimination. Multilateralism would be promoted rather than retarded and the degree of discrimination in the international trade system as a whole would be diminished to the extent to which the new regime consolidated or generalized the existing fragmented preferential regimes (17).

These considerations,which I have briefly summarized,are some of the "trade arguments" for preferences. In my opinion,they would be most valid when accompanied by a careful selection of products to be granted preferential access. Nevertheless,we must also take the "aid arguments"for preferences into account. From the point of view of aid,tariff preferences may be more convenient than massive transfers of financial resources through budget appropriations. First of all,once the system is accepted it does not have to be revised every year;secondly,it is flexible enough to permit any necessary or desirable changes;lastly,at least part of the real costs of preferences is passed on to other developed countries.

However,the trade arguments for preferences which have been developed so far fall mainly within the classical - i.e. Hecksher-Olhin - approach which is,by definition, a static approach. Even Harry Gordon Johnson,whose dynamic model of trade theory is well known,basically refers to a static world when he deals with the preferences issue (18). But preferences can be most validly justified especially when they are treated dynamically, that is when they are treated within a theoretical model which takes time and growth into account.

The limits imposed by this paper do not permit me to go into a complete discussion of this topic;I can only offer a brief outline of what this discussion should be like.

Linder's approach (19) seems to be the most successful attempt to "dynamize" international trade theory with special reference to the LDC's. It also seems to offer the most appropriate framework for their request for tariff preferences. Linder's reasoning uses the Hecksher-Olhin model as its starting point,but the factor endowments approach is only utilized to explain trade in primary products. Trade in manufactures does not take pla ce because of differences in factor endowments and it does not necessarily lead to factor price equalization. Linder explains trade in manufactures by the similarity of demand patterns in the trading countries as expressed in the "theory of representative demand" (20). The existence of an "export maximum" caused by domestic supply conditions prevents the LDC's from producing and exporting some products despite the comparative advantage they have in these very products.

But Linder's policy conclusions mainly support an import substitution policy and the setting up of highly protected customs unions among the LDC's. I do not believe that these policy conclusions are entirely correct since they do not completely fit Linder's theory. In order to "enlarge the export maximum", that is to say in order to eliminate the restrictions which prevent the LDC's from producing some goods for which they are highly competitive, a preferences policy should be offered and the infant-industry argument should be reappraised. Protection should be assured in the markets where a "representative demand" already exists(and may be under excessive pressure because of over-employment)in order to help spread this "representative demand" to the markets where it does not exist(or is too weak)because of under-employment, but is likely to exist if time and growth are taken into account. "Beneficial trade diversions" can be defined as the trade diversions necessary to foster better utilization of resources which, after a period where higher-cost sources were used instead of lower-cost ones, would provide a better allocation of factor proportions since costs will decrease in the higher-cost sources when they go from over-employment and under-employment to full employment. Beneficial trade diversions are ignored by Viner-Meade's static analysis (21); but they are needed to set the process working. At the beginning of this process the world will probably lose something in terms of welfare. But at the end of this process, that is when the double reallocation of resources has dynamically taken place and the change from over-employment and under-employment to full employment has taken place, the world is likely to have gained in terms of development.

Tariff preferences are the most appropriate tool for protecting infant industries effectively by modifying foreign demand patterns because they bring about equal treatment for the producers in the LDC's and the producers in the advanced countries and at the same time they cause a discrimination in the market of any advanced country between the producers of this country and of any other.

However, to play their role effectively, preferences should not only provoke trade creating effects as the conventional theory would admit. Their basic purpose is to provoke "beneficial" trade diverting effects in order to have, when time and growth have been taken into account, representative demand and efficient industries.

Another point should be mentioned with special reference to the effective tariff theory to which I have already referred.

Basically,this theory leads to a new definition of "true protection":a tariff is effective if it increases the value added of the protected activity (22). Consequently,if tariff preferences are effective in terms of reverse protection,they will increase the value added of the r versely protected activities. The additional value added which will result from protection can be employed by the developing country to solve its factor proportion problems. However,in terms of protection and trade flow,this process will differ from the process which derives from an import substitution policy. It is generally known that effective duties on sophisticated goods are roughly lower than duties on processed raw materials;this is at least one of the consequences of the GATT negotiation among the industrial countries (23). Therefore, when a country begins to export more sophisticated goods,because of the factor proportion reallocation obtained through the use of the additional value added,it is likely enjoy an inferior preferential margin. As a result,the effective global protection will be lower that it was before.

These theoretical considerations which I have outlined very briefly lead to the conclusion that preferences can really be the "best solution" - a "best solution" developed through reverse protection with a free trade outlook and free trade aims.

3. The 1964 UNCTAD debates: the position of the Atlantic countries

Both the trade and aid arguments were used to support the request for tariff preferences in the studies presented before Commission II of UNCTAD (24). The less developed countries asked that preferential tariffs be accorded - on a general basis - by all developed countries to all developing countries. Even the African countries associated with the Common Market gave their consent to this solution and did not insist excessively on compensations for the loss of their present advantages (25).

Briefly,the preferential system foreseen by the LDC's can be presented by summarizing the recommendation unanimously approved by the "75" in Commission II (26). The essential elements of this recommendation are as follows: a)the preferential system should cover all the manufactures and semi-manufactures from the LDC's; b)it should last for a ten year period; c)the immedate 50% reduction should be enforced and the remaining duties should be abolished within five years; d)immediate abolition of tariffs on some particular products; e)the AASM and the Commonwealth countries should be granted financial compensation; f)quantitative restrictions and domestic taxes should be abolished immediately; g)financial assistance should be provided for marketing those products whose exportation would not be aided by preferences.

None of the advanced countries,either socialist or with a free-market economy,voted in favor of these measures. The Atlantic Community countries were unable to counter with different proposals. We can summarize the situation in the following terms.

The EEC countries at least partially favored the so-called

Brasseur Plan which was presented to GATT in 1963 by the Belgian Minister of Foreign Trade and which received the approval of the Commission's representative (27). The Brasseur Plan provided for temporary,selective preferences but was not unanimously supported by the Six. The German and Dutch delegations joined the United Kingdom in favoring a generalized approach,although they asked for exceptions and were against the recommendation requesting specified percentage cuts. The Italian delegation took into account the opposition to the Brasseur Plan of the LDC's themselves (28) and tried to bring about an agreement between the Six by limiting the implications of the "selective" approach (29). Italy's attempt to achieve a compromise was completely unsuccessful because of the political and economic advantages France thought to obtain from selective preferences.

The main reasons for the selective approach lie,as those who proposed the Plan admitted several times,in both the necessity and the desire to maintain the special preferential ties with some developing countries,especially the former French and Belgian colonies now associated with the Common Market (30).

Therefore the Brasseur Plan satisfied neither the LDC's nor the advanced countries. It was clear that it would have meant the introduction of a new form of discrimination which would have disrupted world trade. Furthermore,the administrative and diplomatic awkwardness of this plan and the inherent risks of political and economic dependence between less developed and more developed countries appelled the vast majority of the delegates at the Conference.

Neverthless,the Brasseur Plan was at least a partial response to the LDC's requests. America's attitude was characterized by total opposition to the very concept of tariff preferences (31). This opposition arose from the orthodox doctrinaire approval of the m.f.n. and from the fear that if Congress were asked to modify existing legislation in order to authorize the granting of preferences,this might encourage a veritable avalanche of special treatment legislation designed to protect the domestic industries which were not competitive with foreign ones. Moreover, the U.S. Government was afraid that the eventual granting of preferences would have interfered with the major objective of its foreign trade policy:the Kennedy Round (32).

Canada,Switzerland,Sweden and some other small countries joined the United States in its opposition.

Within UNCTAD,the efforts of the Secretary General and the Chairman of the Conference made a compromise possible. But this compromise was entirely meaningless:it was only reached so that the developed countries would not abstain or vote against the recommendation approved by the General Assembly. A special group was set up in order to pursue further studies and further attempts to establish a preferential system (33).

After the first UNCTAD Conference,the harmonization process in the Atlantic countries got under way at two different levels.

The EEC countries began to study the ways and means of arriving at a common position in the Common Market's policy toward the LDC's. At the same time, a special Committee - composed of high ranking officials from the United States, the United Kingdom, France and Germany - was set up within the OECD to foster the harmonization of the Atlantic countries' positions before the second UNCTAD Conference.

4. Changing attitudes toward the New Delhi Conference

The United States began to change its position in 1965, just after the conference. Two major events weakened orthodox support for m.f.n.: the association agreement made by Greece and Turkey, which the American delegation to GATT defended mainly - if not exclusively - for political reasons; and the signing of the U.S.-Canada automobile agreement (34). The former was clearly "an old-fashioned preferential arrangement" (35), despite the fact that it was presented as an agreement for the progressive formation of a customs union. The special working committee set up by GATT found that the latter of the two reasons violated the m.f.n.(36). After a clear violation of the m.f.n. and the official request for a waiver from GATT, the United States could no longer base its opposition to the granting of preferences on doctrinaire arguments. The Congressional obstacle has not yet been overcome. Neverthless, after the "traumatic experience"(37) of complete isolation during the Conference and after continual requests for preferences from the developing countries, the United States realized that a more flexible attitude was necessary (38). Furthermore, if a preferential agreement were made it would have provided safeguard clauses drawn up in a way that would convince Congress to modify the existing legislation. Moreover, the idea that there was "a fairly simple way of providing some preferences, limited in time, without departing too radically from the existing framework of domestic legislation and international negotiations" (39) was gaining ground. At least it was a demonstration of good will.

The position of the United States' UNCTAD delegation was not just changing; the United States also accepted more "progressive" principles than the other Atlantic countries, especially the Six. (40). In particular, the United States accepted a generalized approach, asked for tariff position reductions, 100% cuts and the inclusion of agricultural processed goods in the list of products to be granted preferential treatment. From its 1964 position of total opposition, the United States was moving toward guide lines which, under certain aspects, were very similar to those of the LDC's. The main difference between the positions of the United States and the LDC's lies in the safeguards issue. Safeguards based on the principle of "market disruption", which is the United States' position, remind the LDC's of the bad time they had under the Long-Term arrangement for cotton textiles(41).

Regarding the Common Market, the change in attitude of the EEC Commission, followed by the less rigid position taken by France and Belgium, must be stressed. Whereas in 1964 Jean Rey merely supported the Brasseur Plan and even praised the French memorandum for the Conference, in November, 1966, the Commission sent the member countries a communication substantialy different from the Franco-Belgian position (42). In its document the Commission stressed the need for reaching a general agreement among the advanced countries, and suggested that mixed techniques be used to implement the preferences. These mixed techniques should combine the advantages of both the tariff quota system and the linear reduction system (43). The preferences should last for at least ten years and the cuts should be deep enough to favour the exportation of products which are not yet competitive. Regarding the AASM, the EEC Commission stated that "any decision should take into account the interests of the associated countries" and proposed that "the Community should not substantially modify its policy unless the regional system was substituted by effective preferences on a world scale". In the final part of the communication, the EEC Commission pointed out that the Community should give official approval to the granting of preferences without searching for an automatic system; it should search for appropriate solutions on a product-by-product basis (44).

This is the Community's new "philosophy" on tariff preferences. Some elements of the Brasseur Plan still remain, but the new approach is much closer to a free-trade one than the position the Community supported at the first UNCTAD Conference. First of all, the need for coordinating the different policies of the Six is felt very strongly as is the need for a compromise among the most divergent positions: the Franco-Belgian and the Dutch-German. Secondly, the preoccupation about survival of the African association has decreased considerably. In 1963, this preoccupation caused the Six to refuse the GATT Action Program. But, in 1967, the Commission's representative to special group which had the task of co-ordinating the positions of the member countries only stressed that "under the Yaoundé Convention, consultations with the AASM should take place before any final decision". He also suggested "an eventual coexistence of two preferential systems: one on a world basis, and one on a regional basis"(45).

There are several reasons for the Common Market's new position. The EEC was the object of criticism from the developing countries within and outside UNCTAD. Several times it was accused of having a protectionist policy for the very products exported by the LDC's. The Commission and the Five realized that a common commercial policy toward the less developed countries cannot be based exclusively on the French position as it has so far been done (46). Finally, the associated countries are now more interested in establishing a stabilization fund for their commodities at the level of the association than in preserving the present preferential margin for all their finished products(47). Actually, only five of them are beginning to develop some industries (48) and the U.N. included almost all of them among the 79 developing countries which contributed only 6% of the total exports of manufactures from the LDC's to the advanced countries (49). Even if they "do not seem ready to abandon the preferences they enjoy on the Community market"(50),as a new memorandum of the EEC Commission points out,they will be able to make some important concessions especially if a stabilization fund is set up.

The interesting aspect of the papers on the Commission document presented by the representative of the Six is that France and Germany gradually arrived at a joint position(51). In spite of the differences which divergencies still exist,the Common Market's approach seems very similar to the proposal for a compromise sponsored by the Italian delegation in 1964.

The main lines of this approach will be even clearer if we consult the "four wise men's report".

5. The "four wise men's report"

The present positions of the Atlantic countries,their points of agreement and disagreement,are basically those contained in the so-called "four wise men's report" which was presented at the OECD ministerial meeting of November 30th and December 1st,1967.

The report is diveded into two sections. The first section includes all the points on which all the members were in agreement. It also states a number of principles and directives on which a possible statement by the industrial countries in New Delhi could be based. The second section takes up the same themes as the first section and gives an account of the questions on which there are differences of opinion within the group.

The member countries of the OECD were invited to make a declaration at New Delhi on the following items (52) : a)granting a generalized system of preferences will help the developing countries increase their export revenue and their rate of economic growth; b)the gains from such a system will increase in proportion to the number of donors; c)the arrangements should aim to give more o less equal opportunities in all industrialized countries to all developing countries; d) the arrangement should be designed to distribute the import opportunities of the market fairly among the donor countries; e)the arrangements must take into account the point of view of the developing countries; f)the granting of temporary tariff advantages should not be constrictive and should not delay the reduction of customs duties on the basis of the m.f.n.,following either a unilateral decision,or multilateral negotiations.

Three main conclusions can be drawn from these recommendations: 1)the principle of granting temporary and gradually reduced preferences was unanimously accepted (53); 2) the charges resulting from preferences should be divided fairly among the donor countries; 3)the new possibilities open to the LDC's should not preclude the eventuality of diminishing or eliminating these preferences through GATT negotiations (54).

The question of which countries will benefit from these preferences has been settled. Since it is impossible to define com mon criteria, and very hard to decide what institution will be responsible for their application (55), the "four wise men" agre ed upon "self-selection": namely, it would be up to each country to ask to be considered a developing country for the granting of preferences. This criterion could be a possible starting point. Obviously, further study has strengthened the conclusion that there should be no obligation to grant preferential treat ment to all the countries asking for it. But too much freedom of action on the part of the donor countries in this field co- uld jeropardize the principle of fair division of charges, espe cially since it has been agreed that the industrialized countr ies should be able to refuse to apply preferential treatment to certain countries for special non-economic reasons (56).

Even if these very general principles have been agreed upon, many major questions are still unresolved.

First of all, the question concerning the method of granting preferences and providing for safeguards has not been settled. As we have already remarked, the EEC would prefer a method ba- sed on tariff quotas, even if for some products linear reduc- tions, backed by "market disruption" type safeguards, are reco- gnized as more useful than preferential quantitative restric- tions. The United States, on the contrary, does not like the in troduction of new quantitative restrictions. The United States knows that a preferential quota does not imply a quantitative restriction on imports: it only limits the quantitaty elegible for favorable treatment and provides safeguards for national industries. A preferential system based on tariff quotas, how- ever, involves both high administrative costs and the possible introduction of new discriminations. The very experience of the EEC-Turkey agreement, which provided for four preferential quotas, should show the Common Market countries that the system they are sugesting is inappropriate (57). Neverthless, it seems to me that linear reductions for tariff positions backed by a general "market disruption clause" may diminish the meaning of the preferential system, if the way in which the "market disrup tion clause" is applied prevents an effective rise in imports from the new sources.

Another point of disagreement concerns the products covera ge. The "four wise men" think that Chapters 25-99 of the Brus- sels Nomenclature should be taken into consideration. The Ame- rican delegation wanted to include the items of the preceding chapters of the Brussels Nomenclature in order to provide for the preferential access of processed agricultural products and to abolish duties on raw materials. Keeping in mind that duties on raw materials are very low (58) and that many items included in Chapters 25-99 of export interest to the LDC's enjoyed sub- stantial cuts during the Kennedy Round (59), the preferential system seems to be particularly interesting for processed food Actually, processed agricultural goods face both non-tariff bar riers and very high ef ective and nominal rates (60). This is a general caracteristic of the advanced countries tariff struc tures;for finished and semi-finished industrial goods a selective approach would be preferable. As a matter of fact,not all the goods included in Chapters 25-99 of the Brussels Nomenclature are of export interest to the LDC's. The same is true of the long list presented by the LDC's in Committee III of GATT (61). A careful selection of items should be made in order to find out which goods would derive a real advantage from reductions derogating the m.f.n.,especially after the Kennedy Round. Protection of value added in the industrial countries and potential competitiveness in the LDC's might be the best criteria for making this selection. Hopefully,the GATT Secretariat will undertake the difficult task of calculating the effective rates of protection for all the manufactures and semi-manufactures of export interest to the LDC's. If this study is completed in the near future (62),important new information will be available to help us make a proper selection of goods to be granted preferential treatment. Regarding potential competitiveness,the need for further theoretical and empirical research is felt very strongly since we must determine what factors account for the LDC's, especially those countries which have already begon their industrialization process,inability to export in competitition with the developed countries in spite of their comparative advantages in availability of raw materials and low-wage labor. We must also determine how significant these factors are empirically(63).

The third major issue on which the Atlantic countries have contrasting attitudes relates to the depth of cuts. The U.S. Government was willing to accept a graduated reduction of tariff rates to a 100% preference. The Common Market countries are trying to establish a form of "coexistence" between the generalized system and their "special" association with the African countries. In case of 100% preferences,the discriminatory basis of the association would completely collapse,at least as far as finished and semi-finished industrial goods are concerned (64). The "four wise men" studied a general formula whereby admittance with exemption from duty would be granted when the m.f.n. rate is equal to 10% ad valorem or less. In other case,the special tariff duty would have been either 10 points less than the m.f.n. rate or half this rate. At present this formula is merely hypothetical: a feasible solution might be a product-by-product approach which would allow the EEC to maintain at least partially its preferential arrangement with the African countries. The second essential problem arising in this context is in what way preferences would be abolished after they had been applied for a certain time,if they were not abolished through multilateral negotiations within GATT. The question as to whether the m.f.n. duty would be at the same level as the preferential tariff* would be increased to the level of the duty applied to the m.f.n.has not yet been settled. It does not seem to me that this problem is partucularly relevant at the current stage of international discussions:if ten-year preferences are going to be granted, they will be probably greatly reduced by new tariff Conferences before they are abolished. At that time(and not before),the general principles can be decided on after a careful review of

* or whether the preferential tariff

the preferential rates and of the m.f.n. duties has been made. At any rate, it would be preferable(whenever possible)to lower duties rather than bring them up to the m.f.n. rates because this would undoubtably foster multilateralism and the expansion of international trade.

The forth major area of disagreement is closely related to the "depth of cuts" problem. It concerns the tariff arrangements in force among the developed countries and the developing ones and the future of the British Commonwealth and the AASM in particular. The former does not pose many problems because, after numerous devaluations, the specific duties lost much of their importance and imperial preferences are not as important as they used to be. Besides, the Commonwealth LDC's and the United Kingdom never stated that they would have to preserve their special ties if generalized preferences were granted (65). But even the juridical basis of the association and its compatibility with the General Agreement have been always questioned and the U.S. Government put a great deal of pressure on the African countries and the Common Market during the negotiations for the Yaoundé Treaty (66). The United States still makes the elimination of the association a condition sine qua non for its participation in a general system of preferences; this position is strongly opposed by the Common Market (67). But we must not forget that the EEC is trying to establish a form of "coexistence" between the two regimes and that the Yaoundé Convention expires in 1969 and that at the moment it is impossible to say what provisions will be made when the agreement is renewed.

It was not very likely that the developed countries would make a settlement in all these four major areas of disagreement before the New Delhi Conference. But I would like to stress the fact that the major contrasts I have outlined regard essentially broad and very general issues. But the experts in international trade problems know that a direction for concrete action can often be found even if the general principles are still unsolved.

6. The New Delhi debates

The OECD Report and the Algiers Charter (68) were the basic documents for the coming discussion. The former which I have already summarized, expressed the positions of the Western industrialized countries and their major areas of disagreement. The latter presented the developing countries' hopes and expectations. Its basic points were not wery different from those presented at the first UNCTAD Conference; a generalized system of preferences covering all manufactures and semi-manufactures was requested. But the Algers Charter was not as vague as the "77" declaration in 1964 (69). Some technical devices for bringing the system into effect were carefully outlined, special measures for the least developed countries were proposed, the exclusion of some "sensible" products was conceded and moreover the adoption of safeguards and adjustment mechanisms was fully accepted It is important to note that very few areas of contrast appeared during the Algiers Conference:the LDC's,even those enjoyng reverse preferences and those producing mainly primary and agricultural goods,were able to solve their internal problems much better than the advanced countries and succeeded in presenting their theses as a group.

At New Delhi,thc,the còntroversies were still essentially confined to the advanced countries. They were unable to find a joint response to the LDC's requests and the proposal put forward by the third world and by the UNCTAD Secretariat. But some progress was made,especially regard.ng the Common Market countries.

As matter of fact,in the Assembly the French delegation,headed by Mr. Debré,again sponsored a new version of the Brasseur Plan. This provoked a new wave of criticism directed against the selective approach. However,the French position was less dogmatic than it was in 1964 and the spokesman of the EEC Commission,Mr. Martino,did not completely support it as Mr. Rey had done at Geneva four years before (69). In an over-all document on the Conference,the EEC Commission had re-stated the guide-lines of the "four wise men's report"(70),and had pointed out the need for a generalized scheme. There were two major areas of disagreement between the Common Market Executive and the developed and developing countries:product coverage and measures for the least developed countries.

However,a solution for the first issue was proposed:while import levies would not be changed,the granting of preferences for processed foods not competing with European goods was admitted,and the discriminatory reduction of tariffs on processed foods competing with European goods was planned."The abolition of the fixed element is the maximum that can be granted since preferences should not obstruct the common agricultural policy" (71):this was,and still is,the essence of the Common Market doctrine.

Special treatment was strongly requested for the least developed countries. This was practically a means of justifying the maintenance of the Common Market's special relations with AASM even after the implementation of a generalized scheme.It is generally recognized,as the first Prebish report pointed out,that devices,other than tariff preferences should be worked out for the least developed countries:devices such as agreements* compensatory financing,etc. Asking for "special treatment" for countries whose exports could really be favored by preferences for manufactures and semi-manufactures means reducing the importance of preferences without creating truly effective tools for these countries.

Neither at Geneva nor at New Delhi did the Common Market countries strongly support the Commission. While the French position was closer to the old Brasseur Plan than to the EEC Executive guide lines,the German and the Dutch delegations were closer to the new U.S. doctrine than to the one expounded by the Common Market spokesman. Moreover,the Italian Govern-

* commodity

ment stated that "Italy might adhere to the U.S. request since she enjoys only very slight benefits from the EEC-AASM association".

To sum up, only very little progress was made at New Delhi. The developing countries presented a draft resolution on the "Basic principles and procedures covering an agreement on the general system of preferences"(72), at times during the Conference there was some hope of reaching a broad agreement. Neverthless, on the issues of product coverage, depth of cuts, safeguards and reverse preferences, it was impossible to reach a consensus. While the Conference demonstrated that many positions were closer than before, it was clear that they were not yet close enough to work out a general system. As a result, at the End of the Conference, a Special Commission was set up to solve those issues which were as yet unsolved and to work out a system to be implemented in 1970.

However, it is doubtful that that the Special Commission will be able to achieve its aims. In spite of the stated consensus on the need for the granting of preferences, the disappointing outcome of the steps so far taken leads us to ask whether the present method is the most appropriate. Is this confrontation of policies and positions on a general scheme really necessary? Would it not be better to adopt a different method and to try to implement what can be implemented?

Some useful indications are offered by the Australian preferential scheme accepted by GATT. This scheme is a significant step towards bringing different approaches into agreement and is an interesting axample of a practical policy.

7. The Australian preferential scheme

The Australian scheme is so far the only case in which generalized tariff preferences were granted to all the developing countries. The Australian Government applied to GATT for a waiver just after the first world conference (73) and it was granted in March, 1966. The commodities concerned are some sixty manufactured and semi-manufactured products. Neverthless, the quantitative importance of the scheme is very limited: total imports of the selected items from all sources in Australia accounted for only 6% of imports of all food and manufactures in 1963-1964. Many items, including those largely imported from developing countries which enjoy Commonwealth preferences, are excluded from the preferential list. Moreover, imports of the selected items from the developing countries amounted to less than 3 million dollars and constituted a small fraction(2%) of total imports of the same items from all sources (74).

Most of the unsettled problems involving the Atlantic countries, problems about which they are arguing on the basis of general principles, have been very pregmatically resolved. The scheme is based on preferential quotas, but the preferential margin is not uniform since it varies with products, averaging

74% as compared with the m.f.n. rate, and about 36% as compared with the Commonwealth preferential tariff. The total value of preferential quotas, except for artisan products which can be imported at the preferential rate without any limit, amounts to 30 million dollars, about ten times the value of imports of these items into Australia from the developing countries. Therefore, the preferential quotas are large enough to foster an increase of imports of the selected items from the developing countries.

With regard to the selection of these items, it should be noted that some processed food items have been included, while many manufactures and semi-manufactures of export interest to the developing countries have been excluded.

The approach indicated by the Australian scheme and the solutions it offers to many issues [illegible] which the Atlantic countries are still discussing demonstrate that a future compromise is both possible and feasible.

This example(75) may show how the other developed countries can introduce similar, although not necessarily identical, schemes.

Many difficult problems, such as the issues referring to products coverage, extent or duration of preferences, depth of cuts and safeguards to be adopted, can be solved without universal agreement if the principle of granting preferences is accepted and if a pragmatic approach is chosen. As the Australian case demonstrates, the different schemes can be reconciled. It is very hard to foresee a theoretical reconciliation of the different approaches in order to define the "best" scheme for the Atlantic countries to adopt. On the contrary, any Atlantic country can define its "optimal" approach to tariff preferences and act accordingly.

This would not be a retreat an the part of the developing countries: they have already understood that some important products(e. y. cotton textiles) will be excluded by any scheme and they realize that Australian example, in spite of its limitations, is "the beginning of a new stage in the evolution of GATT's action in favor of the less developed countries"(76). They should have a flexible attitude and try to accept what any advanced country is able to give.

This does not mean that concerted efforts are necessary. As Dr. N.T. Wang points out, "confrontation, coordination and harmonization should follow rather than precede the major movement for adoption of a scheme"(77). As a result of confrontation, coordination and harmonization, an Atlantic scheme could be a combination of different techniques and approaches. The first aim of this ex-post coordination should be "to divide the burden" of preferences among the Atlantic countries. In order to share the cost of the new arrangements, however, it seems necessary for all the countries to adopt a similar scheme. On the contrary, an ex-post evaluation of the costs involved should be made and the Atlantic countries should attempt to share the burden on the basis of such an evaluation.

This is the only way to pass from the realm of general discussion to that of concrete policy.

8. Conclusions

Undoubtedly, it is as difficult to make an ex-post evaluation of the different preferential schemes now in effect as it is hard to coordinate the divergent policies already implemented. First of all, the costs of an effective preferential system cannot be measured easily since it involves reallocating resources and modifying output and trade patterns. Secondly, even if comparable data can be gathered in order to make a broad evaluation of the different burdens, the efforts toward harmonization will have to cope with some problems the Atlantic countries are now facing regarding financial aid: the situation could become even more confused if entirely contrasting approaches were put into effect.

I am aware of these criticisms of ex-post coordination. It seems to me, however, that the different approaches are more similar now than before, an that, in the case of unilateral and not previously harmonized granting of pr ferences, the similarities will be even greater. For example, if the Common Market countries adopt a system based on the "coexistence" of association and generalized preferences, the discriminatory impact of their agreement with the AASM will diminish and it is probable that special preferences will be completely eliminated in the long run. The same is true for the safeguards issues: a mixed system of preferential quotas and of "market disruption" clauses is foreseeable if two different systems are in force. Regarding the commodity coverage problem, it should be stressed that a general approach is impossible since there are different effective rates and different market conditions in any advanced country for each commodity. Therefore, a product-by-product approach would seem to be the most rational approach, although the different approaches should aim to open equally the markets of the advanced countries to the manufactures and semi-manufactures of the developing countries.

The international community is facing an important choice in trade policies. The moment for passing from the discussion stage to the negotiation stage has arrived. The latter can settle the doctrinaire problems the former has left unsolved.

N O T E S

(1) - According to H.G. Johnson, Economic policies toward less developed countries(Brookings Institutions, Washington D.C., 1967; p. 184):"the recommendation of tariff preferences appears to be a third best policy". J. Pincus(Trade,aid and development, McGraw Hill, New York, 1967; p. 204)writes:"preferences may be the best choice in practice".

(2) - A.C. Neal, New economic policies for the West, in "Foreign Affairs",January 1961.

(3) - G. Curzon, Multilateral commercial diplomacy, Praeger, 1965;pp. 231-234.

(4) - G. Pennisi, L'Europa e il Sud del mondo, Il Mulino,1967; pp. 233-251.

(5) - E/Conf.46/L 21.

(6) - "Le Monde", December,1967.

(7) - UNCTAD,II Report,doc. TD/L 37/ add. 4, 15 May,1968; pp. 3-4.

(8) - E.g., a preferential system was proposed at the 1932 Stresa Conference for the Danubian agrarian regions(M. Todorovic, Agrarian preferential customs before the League of Nations, in "Ekonomist",n.1,1933.

(9) - On the effective tariff theory and its development:J.E. Meade, Trade and Welfare, Oxford University Press,1955;pp.1162-163; W.P. Travis, The theory of trade and protection, Harvard University Press,1964;pp. 187-225; W.M. Corden, The structure of a tariff system and the effective protective rate, in "The Journal of political economy",June,1966; H.G. Johnson, The theory of tariff structure with special preference to world trade and development,in "Trade and Development",Institute des Hautes Etudes Internationales,January,1965; C.L. Barber, Canadian tariff policy, in "Canadian Journal of Economics and Political Science",November,1965.

(10) - R. Prebish, Toward a new trade policy for development, in "Trade and Development Proceedings of the U.N. Conference on Trade and Development", p. 35.

(11) - Ibidem, p. 15.

(12) - W.M. Corden, op. cit.;p. 222

(13) - The most important empirical investigations are: B.Balassa, Tariff protection in industrial countries;an evaluation, in "The Journal of Political Economy", December, 1965 and G. Basevi, The U.S. tariff structure:estimates of effective rates of protection of U.S. industries and industrial labor, in "Review of Economics and Statistics",May,1966. The effective rates calculated by H.G. Johnson in "Economic Policies",pp.174-179,are based on Balassa's calculations. For a criticism of Balassa's and Basevi's assumptions: G. Pennisi,

Tariff preferences for the developing countries - Search for a new approach(unpublished paper).

(14) - $T_i = \frac{t_i - a_{ij} t_j}{v_i}$ where t_j represents the tariff rates of the tariff schedule, v_i is the value added in the process per unit value of output and a_{ij} is the cost per unit value of output of i, of the input of commodity j into process i, all value being reckoned at world market prices.

(15) - For a detailed approach: H.G. Johnson, Economic policies..., op. cit.; pp. 181-195.

(16) - For a survey of the arguments of a protectionist policy to be adopted by the LDC's: G. Meyer, International trade and development, Harper & Row, 1964; pp. 117-150.

(17) - Particularly, the British Commonwealth and the Association of the African countries with the EEC(G. Pennisi, L'associazione CEE-SAMA: un esame critico, Istituto Italiano per l'Africa, 1967, chapter III).

(18) - H.G. Johnson, Economic policies..., op. cit.; pp. 181-195.

(19) - S.B. Linder, An essay on trade and trasformation, John Wiley, New York, 1961 and Trade and trade policy for development, Preager, New York, 1967.

(20) - S.B. Linder, An essay on trade and trasformation, op. cit.; pp. 82-109.

(21) - J. Viner, The customs union issue, Carnegie Endowment for International Peace, New York, 1960; pp. 41-52; J.E. Meade, The theory of customs unions, North Holland Publishing Co., Amsterdam, 1955; R.G. Lipsey, The theory of customs unions: a general survey, in "The Economic Journal", September, 1956.

(22) - W.M. Corden, op. cit.

(23) - G. Pennisi, L'Europa e il Sud del mondo, op. cit.; pp. 233-240.

(24) - Trade in manufactures and semi-manufactures, in "Trade and Development", op. cit., vol. IV; pp. 26-35.

(25) - Preferences - Review of discussions - Report by the Secretary General at the Conference", doc. TD/CI/I.

(26) - E/Conf. 46/C 2/L.40 et Add. 1-5 and E/Conf. 46/C 2/Rec.6.

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(32) - G. Patterson, Would tariff preferences help economic development?, in "Lloyd's Bank Review", April,1965.

(33) - E/Conf.46/L.21.

(34) - The EEC-Turkey agreement was signed in 1963 and examined by the Contracting Parties to GATT in March,1965. The U.S.-Canada automobile agreement was signed in February 1965.

(35) - G. Patterson, Discrimination in international trade - The policy issue, Princeton University Press,1965; p. 356.

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(38) - It is important to stress the impact of the continuous requests of the Latin American countries,where two different schools of thought can be found - Oliveira Campos for a regional agreement with the U.S. and Prebish for generalized preferences.

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(46) - G. Pennisi, L'Europa..., op. cit.; pp. 323-327.

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(57) - The costs of the management of the four preferential quotas has been roughly calculated as five times the advantages the Turkish exporters receive from them(personal interview with EEC officiers).

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