to meet their essential needs for capital goods, raw materials, fuel, debt and foreign investment service payments, and other goods and services. This is not merely a matter of these countries living beyond their means. Rather, it is a matter of their being unable to earn, through exports, sufficient foreign exchange to provide for a volume of imports consistent with a reasonable rate of economic growth. Recent studies of the longrun growth in demand for primary commodities indicate that developing countries as a group simply cannot earn sufficient foreign exchange to support an acceptable rate of economic growth without broadening their export base to include manufactures and semimanufactures. Thus far, developing countries have been seeking to industrialize almost entirely on the basis of supplying their limited domestic markets. This must change for two reasons. First, developing countries must broaden their export base if they are to earn the foreign exchange necessary for growth; and second, they must specialize, and hence export, as they move into higher stages of industrialization since their own domestic markets for many commodities are too limited for economical sized plants. To some extent this problem can be dealt with by the creation of customs unions and free trade areas, such as the Latin American free trade area, among the developing countries. But for many countries a customs union may, for one reason or the other, not be feasible and they must export to world markets in competition with the products of industrially advanced countries.

The General Agreement on Tariffs and Trade has not provided a suitable instrument for dealing with the trade problems of the less developed countries. The GATT establishes general rules against the use of quotas and export subsidies, but then provides for broad exceptions for the employment of quotas and export subsidies with respect to primary commodities. This has tended to work against the interests of the less developed countries. In fact, the main contribution of the GATT has been in reducing trade barriers on commodities exchanged by the industrially advanced countries, but the less developed countries have gained little advantage from these tariff reductions, many of which do not apply to the manufactures in which the less developed countries might be competitive. What is needed is a more positive approach involving a cooperative solution to trade problems affecting the national interests of a number of countries. It is not enough to have an agreement which states in effect that all interference with freely competitive forces is wrong in principle, but that because of extenuating circumstances, individual countries are free to violate the principle.

Recommendations

(*a*) The U.S. Government should take full account of the impact on developing countries in placing quotas or special restrictions on all primary commodities including agricultural, minerals, and petroleum. Where import restrictions are deemed essential for adjustments in domestic production or for national security reasons, restrictive actions should not be taken unilaterally, but rather as a part of an agreement reached with all exporting countries whose interests are concerned. This same principle should apply in all cases where the U.S. Government is subsidizing, directly or indirectly, exports of agricultural commodities in competition with the products of less developed