Mr. COOPER. Finally, the United States has given preferential access to Philippine goods since the 1920's. The preferences were mutual in the interwar period, so Philippine manufacturing was subject to stiff U.S. competition in manufactured goods. Since the war, however, the Philippines has imposed duties on American goods. Manufacturing in that country has grown apace, but it has been import-substituting manufacturing, protected by Philippine tariffs, not manufacturing for export. Apparently preferential access to the large U.S. market was not enough; other factors such as supply limitations, inadequate quality control, and marketing difficulties have been more important. It is true, however, that the Philippines engages in some important processing industries notably the production of coconut oil and other coconut products.

The structure of tariffs in the developed countries undoubtedly does impede industrialization in the less-developed countries. Preferential tariff arrangements would help correct this, as the U.S. arrangement does for the Philippines. But preferences are not necessary to do so. Multilateral, nondiscriminatory tariff reductions would also correct this, and could even be geared to reducing the tariffs on highly fabricated products somewhat more than tariffs on semi-fabricated products or raw materials.

I might add, parenthetically, that it is possible that the influence of tariff structures on industrial location, which I do think is an important point, is becoming overemphasized, since the effects on location of the tariff structure in advanced countries are in some instances offset by the commercial policies of the less-developed countries, which often levy export taxes on raw materials. Calculation of the net effect of all commercial policies in developed and less-developed countries alike still awaits careful research.

To sum up, preferential access to developed markets, while possibly helpful in some cases, is neither necessary nor sufficient for economic development. And it would have some positively harmful effects.

The third possible direction I mentioned is piecemeal trade liberalization. That would be far less systematic than generalized preferences. As an economist, I do not like this approach, because industrially and geographically limited preference arrangements are likely to appear here and there, helter-skelter, and the overall economic effect of these arrangements will be unclear. There will be too much tendency to focus on the narrow, "obvious" benefits from any such arrangement and to neglect the overall consequences, including indirect effects. In some cases there would be real benefit, and in others there would be real harm, and it would be difficult to sort them out clearly.

I can perhaps give a hypothetical example to illustrate this. Take the case of free trade in automobile parts between the United States and Canada. Suppose the United States has a tariff on certain key raw materials that go into automobile parts, whereas Canada does not. The free trade arrangement between the United States and Canada, limited to auto parts, may result in Canada producing the parts and exporting them to the United States even though the United States is really the lower cost source of supply at free trade prices.

This kind of outcome, I think, is much more likely than is usually allowed for, and it makes analysis of the total effects of any limited