trading arrangements very difficult. Moreover, effective geographical discrimination is notoriously difficult to administer.

But the more powerful objection to piecemeal trade liberalization rests on political grounds, not economic ones. It would reintroduce into international politics a sharply divisive element—trading privileges. Adherenece to the most-favored-nation principle has served to a considerable extent to insulate international trade from other dimensions of international politics. Abandonment of MFN would open up the possibility—indeed the likelihood—of exchanging trade favors for other favors. In the end our economic objectives could be badly maimed in the process.

It is worth recalling that the economic gain from a system of bilateral and piecemeal preference arrangements is likely to be illusory. In an international trading community in which preferences are generally ruled out, one country may gain by negotiating preferred access to major markets. Individual cases for preferential arrangements can perhaps even be justified. But once all countries move in this direction, the gains are eroded and all countries may end up being worse off than without any preferences, for while each country finds itself in a preferred position in certain markets, it is discriminated against in others; what it gains in one area it may lose in another. In addition, the advanced countries limit unduly their sources of supply, to their own detriment but without any necessary or corresponding gain to the less developed countries.

To sum up, I have an undisguised preference for the first of the three alternative courses of action which I see before us, a repetition of the Kennedy Round type of negotiation. Generalized preferences would be preferable to piecemeal trade liberalization. But as I noted, generalized preferences are neither necessary nor sufficient for economic development, nor indeed even to induce a healthy growth in manufacturing output in the less-developed countries.

A general commitment to freer trade among developed countries would also benefit less developed countries, especially by improving tariff structures; and temporary preferences could be established by giving tariff cuts at once to the less developed countries. This would conform with the infant industry arguments used to justify protection in less-developed countries. Preferential access to markets would be given, but it would automatically fade out over a period of, say 10 to 15 years, while the general tariff cuts come into effect. During this time industries could be established. Even this arrangement, however, would benefit most the most developed of those qualifying for the preferences.

Before closing, I would like to touch on one further aspect of post-Kennedy Round trade liberalization. Extensive liberalization would have important consequences for the regulatory, tax, and balance-of-payments policies of governments. Tariff reductions are not the only factor having such consequences. Reductions in transportation costs such as have been occurring over the past two decades and reductions in nontariff barriers also contribute to a general "loosening" of trade, making production less dependent on proximity to market. These developments allow business firms to locate more freely according to their economic interests, without regard to tariffs and other trade