July 12, many complex issues of policy and administration remain to be worked out before the United States and other nations can reach agreement on an appropriate system of preferences.

If possible, however, a few common elements do seem desirable: (1) preferences should be given from all rich countries to all poor countries, with the definition of a poor country being left to the sole discretion of the applicant for preferential treatment (members of the Development Assistance Committee of OECD and hostile nations presumably excluded); (2) preferences should be temporary, preferably through the device of progressively lowering existing post-Kennedy Round tariffs down to the preferential level (this, in effect, is what the United Kingdom has been doing by its participation in the successive GATT rounds since 1947); (3) the system should have more than a token effect—it is one thing to exempt from preferential treatment those products for which poor countries are already competitive exporters, and quite another to exempt products for which preferences are likely to catalyze a potential competitiveness into an actual one.

It may well be asked whether preferences are not simply a particularly complicated way of offering to underdeveloped countries advantages that they might receive anyway from most-favored-nation reduction, as in the Kennedy Round. The answer, briefly, is no. First, on political grounds, the governments of underdeveloped countries believe that they are particularly disadvantaged in the international competition for the fast-growing world market for manufactured products. Most-favored-nation reductions clearly do little to mollify this view. Second, Kennedy Round tariff reductions appear to have been considerably larger for manufactured products of interest to rich countries than for those manufactured products that poor countries are presently or potentially capable of exporting. This fact simply reinforces poor countries' conviction that general trade liberalization is primarily a device for enriching the wealthy. Third, preferences can act as a stimulus to underdeveloped countries to look at the opportunities afforded by world trade, as a counterweight to their often costly and self-defeating preoccupation with the encouragement of import-substituting industry. The potential gains to both rich and poor countries are evident and potentially large.

Rich countries are often concerned with the balance-of-payments effects of their trade policies. It should be noted in this connection that the growth of LDC exports may well offer the United States certain potential balance-of-payments advantages under a general preferential system, particularly if that system is accompanied by other policy measures.

Expanding Trade and Investment Interests

This leads to the second major policy issue that I am raising today: Increasing the mutual interests of the United States and the underdeveloped countries in expanded trade and investment ties. In 1964 Mr. David Horowitz, governor of the Bank of Israel, proposed that rich countries guarantee the flotation of bonds in their capital markets, the proceeds to be used by an international agency, such as the World Bank, for relending to underdeveloped countries. He also sug-