Part One

GENERAL CONSIDERATIONS

A. Introduction

1. At the first United Nations Conference on Trade and Development the need to expand and diversify exports of manufactures and semi-manufactures from developing countries was recognized without dissent (recommendation A.III.4). To fulfill this need, various forms of action were recommended to developed and developing countries. One form of action, however, i.e. the granting of preferences on a general and non-reciprocal basis, while supported by all developing countries, did not meet with the approval of all developed countries (recommendation A.III.5; see also General Principle Eight). It was, therefore, referred to the continuing machinery emerging from the Conference. Since then a number of proposals and studies have been made and discussed in various organs of UNCTAD. Studies have also been made by other interested bodies in response to the recommendations of the Conference. Presently, it would seem that there is growing support for the principle of granting preferences to developing countries. However, equal progress has not been achieved with respect to the specific content of the system to be established. The present paper is intended to study in somewhat greater detail than hitherto the various elements and technicalities of a preferenial system.

2. In defining the specific content of a scheme it is necessary, however, not to lose sight of the basic aims of a preferential system, nor to ignore the doubts that have been raised regarding the principle itself or certain of its features. In the first part of this paper, therefore, the arguments in support of a preferential system will be briefly recapitulated, as well as some of the doubts that have been expressed during previous discussions of the issue. In the second part, the concrete elements of a preferential system will be broadly outlined, and the main problems that arise with respect to each of them will be cited. The basic alternatives of general preferential systems will be sketched. The third part contains the detailed examination of the various elements, and ends with a summary of the conclusions regarding each.

B. The General Case for Better Access

3. It is important to distinguish at the outset between the case for improved access in general and that for preferences in particular. The arguments for improved access in general are largely accepted by all countries, including those which may be skeptical about preferential access. It is well recognized that the export earnings of developing countries are expanding at rates far below their development needs. The law elasticities of demand, the decreasing raw material content of industrial products resulting from technological progress, and growing production of both natural and synthetic materials in the developed countries, have severely limited the potentialities of expansion of many primary exports. Manufactured products, in contrast, are largely free from such limitations. Accordingly, the establishment of better conditions of access for manufactures and semi-manufactures should serve to alleviate one of the bottlenecks in the process of economic development. Apart from the slow growth of export earnings, the severe fluctuations in the prices of many primary commodities introduce an element of uncertain and instability as to export proceeds which militates against orderly planning. Therefore, an increase in the relative share of industrial products in the total exports of developing countries would help to provide a greater degree of stability in their external earnings.

4. Under the present conditions of access, developing countries tend to adopt inward-looking industrialization policies. In many cases, in particular at early stages of development, such policies may be difficult to avoid. However, beyond the stage of simple consumer goods which may be sustained by the home market, import-substitution policies tend to become progressively more costly. The removal of trade barriers facing developing countries would help to promote an export-oriented outlook of the industrialization efforts.

5. One of the basic characteristics of tariff regimes in the developed countries is the escalation of rates from the lower to the higher stages of processing. Thus, duties on crude materials may be nil, but they tend to rise on simply-processed forms, and become high on finished products. Such a pattern has the