effect of inhibiting the location of industries at the site of raw materials.[1] Under conditions of free access it is to be expected that it would be profitable for a larger proportion of future investments in processing industries to be made in developing countries close to the source of raw materials with a view to exporting the goods concerned towards the developed countries.

6. The elimination of barriers to imports from developing countries would redound to the advantage, not only of developing countries, but also of developed countries. The increased earnings from industrial exports would enhance the import capacity of developing countries and thereby promote exports by developed countries. Equally important is the more rational allocation of resources that would ensue. At present, labour is kept in relatively less competitive industries through the edifice of protection. At the same time the high level of demand in a number of developed countries has created a condition of labour shortage limiting, in some cases, the growth potential of the economy. This has been aggravated in some countries by the depletion of the traditional reservoir of labour which the agricultural sector constituted for industry. Increased imports from developing countries would therefore mitigate the labour shortage, reduce the inflationary pressure and promote a better pattern of resource allocation. Labour would be utilized in a more rational manner in more advanced fields of manufacturing where the rise in wages could be better sustained by a corresponding growth of productivity. Instead of using imported labour to maintain or even expand the traditional less competitive industries, the developed countries would import goods.

C. THE CASE FOR PREFERENCES

7. Broadly speaking, the above advantages will be greater the lower the trade barriers facing developing countries. It is not to be excluded that at some time the aim of universally free trade will be achieved. Obviously, however, this is not something that could reasonably be counted upon in the near future. In the meantime the trade in manufactures and semi-manufactures will have to contend with barriers which, even after the conclusion of the Kennedy Round, remain, to developing countries in any event, considerable. At any rate it is uncertain whether the Kennedy Round would in the near future be followed by another of comparable coverage and intent. Furthermore, negotiations on a most-favored-nation basis are not likely to take sufficient account of the specific interests of developing countries. The fact that these are at best marginal suppliers in the vast majority of cases tends to impair seriously their bargaining position.

8. Yet, developing countries' trade problems are so urgent that in order to improve access for their industrial exports they should not have to depend on whether or not it will be possible to undertake a new round of negotiations on an m.f.n. basis. It may be argued that developing countries should not have to wait for agreement among developed countries before attention is paid to their trade problems, and difficulties that might exist for further expanding trade among developed countries should not impede progress for the developing countries. Therefore it may appear justified to consecrate the next step in world trade to the liberalization of the imports from developing countries.

9. The case for preferences rests on more than the limitations inherent in tariff reductions on an m.f.n. basis. Paradoxically, preferences would be a means for enabling the developing countries to come closer to real equality of treatment. The traditional m.f.n. principle is designed to establish equality of treatment among the various sellers to a particular market, but it does not ensure equality of treatment in several respects that are of considerable importance to developing countries. First, unless the m.f.n. tariff is zero, there is no equality of treatment with the domestic producers, nor with the producers inside the recently established regional groupings in the developed world. Secondly, the m.f.n. principle does not take account of the fact that there are in the world inequalities in economic structure and levels of development; to treat equally countries that are economically unequal constitutes equality of treatment only from a formal point of view but amounts actually to inequality of treatment. Third, partly as a result of negotiations conducted on the basis of reciprocity and of the m.f.n. clause, typical manufactured and semi-manufactured export products of developing countries are frequently subject to higher nominal and, in most cases still higher, effective duties than typical imports from developed countries. Preferential reduc-

[1] This subject has been treated in some detail in two papers prepared for the Committee on Manufactures (TD/B/C.2/25 and TD/B/C.2/36).