into the less developed countries in two ways: It confines the aid-wanting countries to high-cost sources of aid-goods, and it permits suppliers in the aid-giving countries to charge excessive prices for the goods, since there is no foreign competition. The transfer of real resources from developed to less developed countries could be substantially increased by supplying the existing level of aid in the form of untied grants.[16]

(2) Another, less obvious but tried and tested, way of assisting developing countries is through a form of aid known as "compensatory financing." This amounts to providing financial resources to compensate underdeveloped countries for fluctuations in foreign exchange receipts from the export of primary commodities. In 1963 the International Monetary Fund liberalized its system of loans ("drawings") to compensate for such shortfalls in export earnings. In 1966 the Fund expanded this compensatory financing facility and liberalized its conditions still further.

In addition, in 1965 the World Bank presented a staff study to the United Nations recommending additional measures of compensatory financing; these recommendations are still being considered by UNCTAD, which has shown more deliberation than speed in this matter. Here, clearly, is an area where aid to developing countries can be provided in practical form, without interfering with normal market forces or the principle of non-discrimination, with a minimum of rhetoric and a maximum of effect.

(3) Still another form of promoting economic development lies in regional integration. Such regional arrangements as the Latin American Free Trade Area (LAFTA), the Central American Common Market, and the Latin American Common Market proposed at the recent Punta del Este summit conference, are designed to create a wider internal market, promote greater investments, and thus accelerate industrialization. Provided such regional integration is outward-looking rather than autarkic in intent, and provided it avoids the danger of creating new domestic monopolies or serves as an easy substitute for badly needed domestic reforms, it can be an effective measure for the promotion of industrial development in the less developed countries.

(4) A more controversial form of assistance to developing countries lies in commodity agreements designed to stabilize—or even to augment—the prices of primary commodities, especially of tropical commodities like coffee, tea, cocoa, sugar, tin and rubber, of special interest to less developed countries. The controversy arises not merely from the fact that such agreements interfere with natural market forces, but that—especially when designed to increase rather than stabilize prices—they are in fact cartel arrangements intended to secure monopolistic prices for the producers at the expense of the consumers. In addition they may be often self-defeating because they tend to promote the use of substitutes, e.g. synthetic instead of natural rubber. Since commodity agreements already exist in the case of coffee and tin, this leaves in effect only cocoa,[17] where UNCTAD has been unsuccessfully trying to promote a commodity agreement since 1963.

THE CASE FOR NON-DISCRIMINATION

The basic GATT approach to world trade—non-discrimination, elimination of quotas on imports, and gradual but continuous reduction of tariffs through bargaining for mutual concessions—simply stands for the proposition that the best way to accomplish the most effective allocation of the world's resources is through free trade.[18] Even advocates of tariff preferences agree that the "best solution to the problem of providing additional external resources for the acceleration of development would be free trade, plus the provision of aid . . ."[19] They also admit that preferences are an "inefficient means" of securing "more net aid from the developed countries, or improved access to developed-country markets."[20]

The central conception of the postwar trading world, envisaged during World War II and carried through in the General Agreement on Tariffs and Trade in 1947, was non-discrimination in trade, i.e. unconditional most-favored-nation treatment. This international agreement was the capstone of an arch long under

[16] Stanley Metzger, *op. cit.*, pp. 43–44.

[17] Tea, where a commodity agreement existed only from 1950 to 1955, is not an important factor in the market. Sugar, which is produced in developed as well as underdeveloped countries, presents a different problem: the main problem here arises from import barriers in the advanced countries. See Frank, *op. cit.*, pp. 526–527, and Metzger, *op. cit.*, pp. 19–32.

[18] Harry Johnson, *op. cit.*, p. 114.

[19] Ibid.

[20] Stanley Metzger, *op. cit.*, pp. 41–42.