

shift of labor-intensive industries toward the countries that are today least developed.

Each of these points can also be used to justify the demand for non-preferential reduction of Northern trade barriers, although the advantages to the South would be diluted. Let us start our discussion of policy choices by looking at these issues in terms of reductions of trade barriers and going from there to see how preferential systems might alter the results.

NONDISCRIMINATORY REDUCTIONS OF TARIFFS AND OTHER TRADE BARRIERS

Since the end of World War II, reduction of barriers to trade—tariffs, quantitative restrictions, exchange controls—has been a significant causal factor in the rapid growth of Northern trade. As yet, it has not shown the same catalytic effects on the South, despite the fact that under the GATT procedures the benefits of reductions have generally been available to all nations. The major reason is that the South exports commodities, raw or processed, for which effective trade liberalization has been much more modest. Another reason, of less immediate importance, is that the North has often failed to reduce its tariff on the labor-intensive manufactures for which the South presumably has a longrun comparative advantage.

In the domain of processed products and manufactured goods, Southern exports have grown more rapidly—at the rate of 5 percent annually from 1953 to 1963, and at nearly twice that rate in recent years (1958-64). It is not clear how much of this recent advance is attributable to cost reduction or to increases in demand induced by income growth and by tariff reduction abroad and how much to improved statistics; all statistics about underdeveloped countries are legitimate objects of suspicion. If Prebisch is correct in asserting that easy lines of import-substitution have been exhausted in many LDC's, then increases in export supply of these products may be a dominant reason. The argument for dominance of supply factors is reinforced by the fact that Northern incomes have not risen faster since 1958 than they did before, nor have tariff reductions proceeded faster.

The GATT negotiations for general tariff reductions that began in 1963 under the title of the Kennedy Round were aimed partly at counteracting the discrimination against outside suppliers created by the two European trade blocs, particularly EEC.

However, some Northern governments also claimed that the Kennedy Round, if it achieved its goal of a 50-percent reduction in Northern tariffs without requiring reciprocity from the South, would also greatly benefit Southern exports. Thus, in the words of the U.S. delegate to UNCTAD:

The industrial countries have done much in recent years to reduce these barriers. More can be achieved by deep, across-the-board tariff cuts in the "Kennedy Round"—and we are prepared to have these benefits accorded to the developing countries without asking reciprocity. Such tariff cuts can be of immediate help to the developing countries. But even more important they can provide an environment that will make it possible for them to build productive export industries. It is at this point that UNCTAD and the GATT Conference, which is to follow, so strongly complement each other.⁹

⁹ UNCTAD, Proceedings, vol. II, p. 396. Statement of George Ball, U.S. delegate.