

erally highest on consumer goods, and is significantly higher in Japan and the United Kingdom than elsewhere in the North.

Effective protection is not only greater than nominal; it is also particularly high on manufactured products of interest to developing countries.

The effects of free trade are not only static, as discussed above, but also dynamic, leading to changes in economic growth and structures. The dynamic consequences of free trade might include changes in the location of investment leading to development of new skills and of product lines that, with the assurance of export markets, can operate at low unit cost; and the association of this cost-reducing pattern with growth of supply and demand in the pattern of increasing returns. These consequences of free access to Northern markets are more important than static effects, particularly if reciprocal tariff concessions are not required from the South.

It is impossible to estimate the extent of these dynamic effects, except by historical examples; these are always open to the objection that they reflect special circumstances. In recent years Puerto Rico and Hong Kong, by selling manufactures largely into zero-tariff or low-tariff areas, have experienced a vast growth of industrial output which has fed upon itself, bringing rapid improvement in living standards, providing capital and skills for new investments, and improving the relative cost position of the economy. In essence these cases seem to validate the classical economists' case for free trade as an agent of growth.

But both territories benefited from special circumstances: preferential access to U.S. markets and tax advantages for foreign investors in the case of Puerto Rico; and Commonwealth preference, plentiful local capital, and a huge, low-cost, adaptable labor supply in Hong Kong. The dynamic gains from free trade are much less striking in other Southern countries that have benefited from preference—notably France's former colonies and British Commonwealth members. In the French case, industrial exports, except for metals, are nil. In the British Commonwealth, the textile exports of India, Pakistan, and Hong Kong have been the principal beneficiaries of preferences for manufactures. As a general proposition, each case is *sui generis*, so the conclusions must remain agnostic. Some beneficiaries of Commonwealth preference seem to have grown no faster than the South as a whole. Trade liberalization seems to be a necessary condition of industrialization only for small nations and is never a sufficient condition of itself.

The GATT aim of reducing tariffs on manufactured goods without requiring reciprocity from the South, nevertheless, remains a goal worth striving for, by the criterion of Southern self-interest. Any such reductions are overwhelmingly likely to benefit the South rather than hurt it; the only practical qualification arises from the operation of preferential systems, as discussed below. If tariffs are reduced on labor-intensive manufactures, LDC exports of such products are likely to rise dramatically.

But the race is generally to the swift, at least in the short run; and liberalization, to the extent that it does materialize, will obviously most favor countries that are initially prepared to export. This means above all the North; and next, Hong Kong, India, Israel, Mexico,