Philippines, Pakistan, Taiwan, Argentina, and Brazil, perhaps roughly in the order of their current exports. For most of the rest of the South, there is little or no short-run capacity to supply the world market for manufactured products. The advantages, for their trade and industrial development, of a nondiscriminatory system of one-way tariff cuts for manufacturers are long run, except where tariff reductions facilitate simple raw material processing.

PREFERENTIAL SYSTEMS

The South, in the name of economic justice, seeks preferential treatment, not free trade. The call for preferences is the clarion of UNCTAD's own Great Society and must be understood, as any such rallying cry, less for its content than for the aspirations it embodies. Prebisch's economic theories and policy proposals are the rationalizations for a profound sense of injustice. Therefore, the economics of preferences are only a minor aspect. Nonetheless, we will begin our discussion of the subject with a review of the economic issues.

There are two kinds of preferential systems for manufactured products in effect today: (1) customs unions and free trade areas, which, in principle, offer duty-free entry to members only on all products (EEC, EFTA) and (2) preferences for all or some products, offered by rich countries to poor ones on a reciprocal or nonreciprocal basis (EEC preferences to associated overseas states, U.S. free trade with Puerto Rico and preferences to the Philippines; Commonwealth preference offered by the United Kingdom). The two are similar in many respects. In this study, I will deal only with the second, particularly with its world wide application.

A preference system in its simplest form allows free entry to the exports of the preference-receiving countries in the markets of preference-granting countries, while the exports of countries not receiving preferences continue to be dutiable. The principle proposed, but not voted on, at UNCTAD in 1964 would have been such a one-way preference. The South would receive preferences in Northern markets, but not grant them to the North in return. An infinite number of variations of one-way discriminatory free trade is possible and we will discuss some of them, after examining the basic theme.

The arguments for a worldwide system of preferences from north to South are all based on the judgment that it is desirable or expedient for the North to promote the industrialization of the South; or, from other motives, at least to give the impression of promoting it. The economic case is based on the belief, reinforced by the effective tariff argument, that preferential treatment will hasten industrialization by offering the LDC's the near equivalent of a protected infant-industry market in the North, as well as the possibility of economies of scale in production, arising from the size of that market. Underlying that belief is the tacit assumption that income elasticities of demand virtually dictate industrialization as the route to prosperity and trade growth. Given these beliefs, the principal arguments favoring preferences are as follows: (1) the future gains accruing to the South from further trade liberalization are uncertain, both because of doubts surrounding the results for the South of the GATT negotiations concluded in June 1967 in light of exemption lists, which drop many