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Bank. But this does not necessarily follow. The new organisation is primarily a multi-lateral aid agency. The prime purpose of the Development Finance Commission will be to provide "soft loans" for essential "first-stage" development, generally in the sphere of infra-structure and educational development. Its second function will be to keep a watchful eye on the debt servicing problems of the recipient countries. The World Bank, on the other hand, is a commercial lending institution: it raises loans in the capital markets of the world and lends its acquired resources on a purely commercial basis charging a realistic rate of interest and lending for medium term periods. This may well be defined as development finance but differs significantly from that envisaged for the United Nations Development Organisation.

An argument may be made for the inclusion of the IMF within the new organisation. The case will be even stronger if the Fund ever operates any form of international commodity price stabilisation scheme or if the SDR system develops for the benefit of emerging countries. The major

reason for exclusion of the IMF from the proposed organisation is the fact that the centrally planned economies do not belong to the Fund. If the USSR were to join the IMF there would then be no reason why the Fund should not cease to exist. It would, of course, be instantly replaced by an International Liquidity Commission within the new organisation.

#### Advantages of the Revised System

The anticipated advantages to be derived from the revised system can be briefly stated:

- ☐ the funds available for development will be increased;
- ☐ a greater proportion of available funds can be used for operational purposes;
- ☐ the potential for economic development within recipient countries will be increased.

The overall result should be the more efficient use of greater resources leading to more positive acceleration in the rate of growth of economic development within developing countries.

## Tariff Preferences for the Third World

by Benjamin I. Cohen, New Haven \*

**A**t the first United Nations Conference on Trade and Development (UNCTAD I) in 1964, Raúl Prebisch argued that the export earnings of the developing countries would not grow by 6 p.c. per year in the 1960's unless the rich countries adopted various new trade policies; if export earnings did not grow at this rate, the Gross National Product (GNP) of the developing countries would not, he argued, grow at the annual rate of 5 p.c. which was the minimum target set by the United Nations General Assembly for the 1960's (unless there were a large increase in the flow of foreign capital to offset the projected stagnation in exports). Despite studies by experts and speeches by world leaders, none of

Prebisch's major suggestions has been adopted, with the exception of the signing of the International Grains Agreement in 1967, the renewal of the International Coffee Agreement in 1968, and the signing of the International Sugar Agreement in 1969.

#### Cost Calculations

One of Prebisch's principal suggestions was that the rich nations grant temporary tariff preferences for the import of manufactures from all the developing nations. The Report of the Commission on International Development (Pearson Commission) recently recommended "that developed countries establish a generalised non-reciprocal scheme of preferences for manufactures and semi-manufactured products from developing countries, including processed goods, before the

\* I have had fruitful discussion on this subject with several colleagues at Yale, including Carlos F. Díaz Alejandro, Stephen Hymer, Gustav Ranis, Tibor Scitovsky, and Daniel Sisk. My research was partially financed by National Science Foundation Grant GS 2804. I am solely responsible for the contents of this article.

end of 1970."<sup>1</sup> The recent report to President Nixon of his Task Force on International Development (Peterson Report) supported "... extending temporary tariff preferences to developing countries on a non-discriminatory basis, with no quantitative limits and a minimum of exceptions."<sup>2</sup>

The costs of such tariff preferences are usually discussed in the context of injury to some firms and workers in the OECD nations. One study estimates that an additional \$744 mn of imports of manufactures from the developing countries by the US, UK, and EEC would reduce employment in specific industries in these rich countries much less than the "normal" labour turnover in these industries.<sup>3</sup>

There has been less discussion of the costs to the poor nations of accepting such preferences if they were to be offered; such discussion has focused on the detrimental effects of preferences for all poor nations on those countries already receiving preferences from the rich nations. One cost is that the developing nations will be induced to produce those manufactures which the governments of the rich countries feel their countries can import with least injury to their own producers rather than those goods in which the developing countries might be most efficient.

### Disadvantages for DC's

In the extreme case, an international firm may locate an assembly plant in a developing country to take advantage of its cheap labour and the tariff preferences for its exports. These plants may remain only an "enclave" within the poor nation and have little beneficial impact on the rest of the economy. The developing countries already have over a century of experience with such foreign-owned export enclaves. In the past these enclaves paid low wages, failed to introduce a technology that might be better suited to domestic conditions than the one used in North America or Europe, and did not initiate in the poor country the mysterious process by which continuous increases in productivity are achieved in the rich nations. While the present export enclaves—whether in manufacturing or in primary products—now tend to pay their workers more than they could earn elsewhere, it is not yet clear that the foreign firms are modifying their

production techniques—which presume scarce labour and abundant capital—or are teaching local workers and managers the tricks of continuous productivity growth. The government of a particular developing country is now stronger than it was prior to World War II, but the "multi-national" firms also have new strengths, especially as the location today of a factory is less dependent on proximity to raw material resources and climate than was the location of a mine or plantation a century ago. By playing off one poor country against another in deciding where to locate an assembly plant whose entire output will be exported to the rich nations, the large foreign firm might strike a bargain with a particular developing nation which would be as detrimental to its long-term development as those deals made prior to World War II.

Another cost of accepting tariff preferences is that the developing nations may find that the governments of the rich nations will be unable to resist manipulating trade preferences for the same sort of short-run foreign policy purposes to which foreign aid is now frequently put.

### Threat to East-West Trade

The granting of temporary tariff preferences to the developing countries by the OECD nations may also conflict with increasing trade in the 1970's between the OECD nations and Eastern Europe and the USSR. This conflict may be il-

**Table I**  
**Imports from Various Areas, 1967-68**

Importing Area	Total	Developing Nations	Eastern Europe and USSR	Other	(2)	(3)
					(1)	(1)
	Annual Average, \$ mn				Percentage	
US 1	(1)	(2)	(3)	(4)		
Clothing	748	335	2	411	45	0
Footwear	326	34	11	281	10	3
UK 2						
Clothing	241	111	14	116	46	6
Footwear	76	22	14	40	29	18
EEC 2						
Clothing	1,099	88	42	969	8	4
Footwear	293	11	19	263	4	6
USSR 1						
Clothing	603	31	390	182	5	65
Footwear	299	12	160	127	4	54
Japan 2						
Clothing	24	10	10	4	42	42
Footwear	3	0	0	3	0	0
Total above						
Clothing	2,715	575	458	1,682	21	17
Footwear	997	79	204	714	8	20

1 fob.

2 cif.

Sources: Commodity Trade Statistics (OECD). Vneshniala Torgovlia SSSR (The Foreign Trade of the USSR), Ministry of Foreign Trade of the USSR.

<sup>1</sup> Partners in Development, Report of the Commission on International Development, New York, Praeger, 1969, p. 90.

<sup>2</sup> Report to the President from the Task Force on International Development, Washington, US Government Printing Office, 1970, p. 19.

<sup>3</sup> Ian Little, Tibor Scitovsky, and Maurice Scott, Industry and Trade in Some Developing Countries—A Comparative Study, London, Oxford University Press, 1970, Chapter 8.

illustrated by examining trade in clothing and footwear, two groups of manufactures in which developing countries might have a comparative advantage in the 1970's as compared to the OECD nations. The data in Table I indicate that the USSR—which in the 1960's greatly increased its total imports from the developing nations—buys almost none of its clothing and footwear from developing nations and a great deal from Eastern Europe; the US, at the other extreme, buys almost none from Eastern Europe and the USSR and large amounts from the developing countries. These data suggest that if a détente occurs between the OECD nations and the Communist nations, then it will be increasingly difficult for the developing nations to sell manufactures in the OECD countries. A détente might, however, lead to a deceleration in military expenditures by the OECD nations and the Communist nations, part of which could finance the additional \$9.8 bn per year in foreign aid recommended by the Pearson Commission for the member nations of the Development Assistance Committee (DAC) by 1975.

One's assessment of these possible effects is influenced by a judgment on the impact of preferences on

- ☐ the rate at which total export earnings of the developing countries will grow in the 1970's and
- ☐ the rate at which the exports of manufactures by developing countries will grow in the 1970's.

#### Export Earnings in the Past

As many people know, the export earnings of the developing countries grew by about 2 p.c. per year in the 1950's; if the major petroleum exporting nations are excluded, the export earnings of the poor nations grew by less than 1 p.c. per year in the 1950's. As shown in Table II, in the 1950's export earnings actually declined for the

Asian developing countries<sup>4</sup> and (except for Venezuela, Netherlands Antilles and Trinidad) grew at less than 1 p.c. per year for Latin America<sup>5</sup>. The non-petroleum countries of the Middle East and Africa<sup>6</sup> had the most rapidly growing exports among the poor nations, but even their exports grew at only 3–4 p.c. per year in the 1950's. The export earnings of the major petroleum exporting developing countries rose by over 7 p.c. per year. This record was the background for the demands of the developing countries at UNCTAD I.

The export performance of the developing countries changed sharply in the 1960's. For the developing countries as a group, export earnings rose by about 6 p.c. per annum in the 1960's, and it appears that their real GNP grew at the minimum target—5p.c. per year—set by the United Nations.

As shown in Table II, export earnings of the non-petroleum nations grew by over 5 p.c. per annum in the 1960's. While Latin America exceeded only Asia in the 1950's, its export earnings grew more rapidly in the 1960's (5.9 p.c. per year) than Africa's (5.5 p.c. per year) or Asia's (4.4 p.c. per year). In the 1950's the exports of the poor nations of the Middle East and Africa expanded at the expense of the nations of Asia and Latin America, which may explain the strong Latin American interest in tariff preferences. In the 1960's the export earnings of each major region grew by more than 4 p.c. per annum and in each region export earnings rose more rapidly in the 1960's than in the 1950's.

The export earnings of the major oil producing developing countries grew at about the same annual rate in the 1960's as in the 1950's (7.3 p.c. vs. 7.2 p.c.). The major change was the rapid

<sup>4</sup> Asia excluding Mainland China and Japan.

<sup>5</sup> Excluding Cuba.

<sup>6</sup> Africa excluding the Union of South Africa.

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**Table II**  
**Export (fob)**

Developing Countries	1951-52 (1)	1959-60 (2)	1967-68 (3)	Annual Percentage Change	
	annual average, \$ mn			1950's (4)	1960's (5)
Latin America <sup>1</sup>	7,760	9,200	13,195	2.1	4.6
Oil producers <sup>2</sup>	2,248	3,360	3,928	5.1	1.9
Other <sup>1</sup>	5,512	5,840	9,267	.7	5.9
Africa	3,520	4,490	8,405	3.1	8.2
Oil producers <sup>3</sup>	13	12	1,527	-1.0	82.2
Other	3,507	4,478	6,878	3.1	5.5
Middle East	2,535	4,670	8,895	7.9	8.4
Oil producers <sup>4</sup>	1,429	3,127	6,061	10.3	8.6
Other	1,106	1,543	2,834	4.2	7.9
Asia	8,038	7,552	10,625	-.8	4.3
Oil producers <sup>5</sup>	93	95	86	.3	-1.2
Other	7,945	7,457	10,539	-.8	4.4
Total above	21,853	25,912	41,120	2.1	5.9
Oil producers	3,783	6,594	11,602	7.2	7.3
Other	18,070	19,318	29,518	.8	5.4
World <sup>6</sup>	74,713	107,186	201,750	4.6	8.2

<sup>1</sup> Excludes Cuba. <sup>2</sup> Venezuela, Netherlands Antilles, Trinidad. <sup>3</sup> Libya. <sup>4</sup> Iran, Iraq, Kuwait, Saudi Arabia. <sup>5</sup> Brunei. <sup>6</sup> Excludes Mainland China, Cuba, USSR, Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania.

Sources: Various issues of International Financial Statistics.

growth of Libya's exports and the deceleration of the growth of export earnings of Venezuela and of the Middle Eastern oil countries.

### Declining Share in World Trade

Those who are concerned with the "gap" between the rich nations and the poor nations will focus on the fact that the developing countries' share in world trade continued to decline in the 1960's, being 20 p.c. in 1967-68 as compared to 24 p.c. in 1959-60 and 29 p.c. in 1951-52. Some people will also wonder about changes in the prices of the developing countries' imports. Average import prices of the developing countries declined by 1 p.c. per year between 1951-52 and 1959-60, as compared to an annual increase of 4 p.c. between 1959-60 and 1967-68. Combining these changes in their import prices with the changes in their export earnings, the "purchasing power" of all developing countries' exports grew about 75 p.c. more rapidly in the 1960's than in the 1950's, and the "purchasing power" of the exports of the non-petroleum developing countries increased almost three times as rapidly in the 1960's as in the 1950's.

### Prediction for the 70's

It is beyond the scope of this paper to predict whether the rate of growth of export earnings of the developing nations in the 1970's will resemble the 1960's more than the 1950's. One element in making this prediction is to examine the principal markets of the developing nations

in the 1960's. Table III shows the trends in the exports of the developing countries to five major trading areas: United States, United Kingdom, USSR, Japan, and the EEC. By 1967-68 Japan surpassed the United Kingdom as a market for the developing countries. While the annual rate of growth of Soviet imports exceeded 8 p.c. in the 1960's the absolute amount of such imports is only \$ 1.3 bn. Imports by these five areas from developing countries rose by 5.4 p.c. per annum, while total exports of developing countries grew by 5.9 p.c. per year. This discrepancy probably reflects the rapid growth in trade among developing countries, but these five areas still accounted for about 73 p.c. of total sales by developing countries in 1967-68.

While discussion of tariff preferences continued through the 1960's as though manufactured exports of developing countries faced great obstacles, these exports in fact rose rapidly. Between 1960 and 1968 export earnings of manufactures from developing countries grew at an annual rate of about 13 p.c. and reached \$ 6.9 bn in 1968. These exports are growing more rapidly than world trade in manufactures, but their

**Table III**  
**Imports (fob) from Developing Countries**

Area	1959-60	1967-68	Annual Percentage Change
	Annual Average, \$ mn		
	(1)	(2)	(3)
United States	5,944	8,374	4.3
United Kingdom <sup>1</sup>	3,741	4,320	1.8
USSR	693	1,298	8.2
EEC <sup>1</sup>	7,638	11,308	5.1
Japan <sup>1</sup>	1,578	4,618	14.4

<sup>1</sup> Converted from cif by assuming fob value to be 94 p.c. of cif value, which is the world-wide ratio of fob value to cif value.

Sources: Japan: Annual Return of Foreign Trade. Statistics of Foreign Trade (OECD). Vneshniaia Torgovlia SSSR (The Foreign Trade of the USSR), Ministry of Foreign Trade of the USSR.

share of world trade in manufactures is still so small—5 p.c. in 1968<sup>7</sup>—that this rapid rate of growth could continue for many years if no restrictions were imposed by the rich nations. Rather than worry about tariff preferences to accelerate the growth of manufactured exports of developing countries in the 1970's, friends of the developing nations might try to obtain an agreement from the OECD nations that they will not impose any additional quantitative restrictions on imports of commodities of special interest to the developing nations; a more difficult task would be to get the rich nations to remove in the 1970's the existing import quotas on textiles.

<sup>7</sup> International Trade 1968, Geneva, GATT, 1969, pp. 234-35.