The proposal which the United States delegation introduced some while ago for a possible amendment to the General Agreement to permit the exchange of preferences amongst less-developed countries under certain circumstances, is intended to be intimately linked to the process of co-ordinated economic development. In our view it seems most practical to begin this process with groups of countries which have common interests, and which may be able to co-operate, in greater detail over the full range of measures that are needed to obtain really co-ordinated development. This is why our proposal is directed primarily to what we call regional integration. We know there are existing examples of groups of less-developed countries who are co-ordinating their economic development within regions, and we think that we have found through experience that it is practicable to assist them in this process; that they are able to refine their ideas in some detail when they approach their problems in this manner; and that they are able to lay the foundations for increased investment and development within a region. Perhaps in a more ideal world it might be possible for all seventy odd, or eighty, developing countries to join together in such a detailed development programme, but our proposal is based on the hypothesis that at the moment at least that really would not be practicable. We therefore have sought a means to enable those countries, which find it impossible for one reason or another to co-operate in the form now provided for in the GATT (namely, free-trade areas and customs unions which meet the criteria of Article XXIV) nevertheless to co-operate together in a somewhat more limited manner, perhaps over a more limited range of products, or perhaps by taking a less drastic decision initially than is required if one wishes to form a customs union or a free-trade area. Therefore our proposed amendment to
the General Agreement, which has been advanced as a suggestion, was intended to enable those groups of less-developed countries who wish to associate together for the promotion of new industry, to do so by establishing sheltered markets - sheltered from the products of the developed countries by tariffs - which would be true markets sufficient to the establishment of new industry. By a true market I mean an area, be it a geographic area or economic area, within which the products of these new industries can circulate either on a duty-free basis or on a very low-duty basis. If such arrangements can be shown to be logically linked to the establishment and development of new industry, then we believe that the General Agreement could well provide for an exception to the provisions of Article I to enable the countries concerned to carry out the contemplated arrangements.

What we look to first of all is whether there is a logical basis in proposals originating among less-developed countries for granting them this facility of establishing enlarged markets, so that there may be an increase in the productivity of certain industries in those countries. We also feel that in any such arrangement where the market is sheltered from competition from outside - whether that competition comes from developed countries or from less-developed countries - that this sheltering process should not cause undue damage to the interests of third countries. We know, of course, that many of the products that less-developed countries might associate to produce on a regional basis are products suited to production in the less-developed world, and they may well be produced by other less-developed countries. It is only natural to expect that they might be. We think that there should be arrangements to safeguard these other countries from undue injury through the establishment of these new markets. Finally, in general, we believe that there should be adequate provision in granting these new facilities to ensure that the criteria that I have just mentioned are actually applied in specific cases - that is, to ensure that the new investment and the development in productivity is indeed associated with, logically, the facility to trade on a preferential basis, and that the interests of third countries, developed and under-developed, are taken into account.

Now let us look at the proposal which we put forth, embodied in Annex I to COM.TD/D/W/2, in the light of the several points for consideration to which you invited our attention. The first point for consideration is: is it feasible to envisage a system by which less-developed countries can maintain preferences on a regional and on a more general basis simultaneously? Well, as to that question, of course our proposal does not answer it. Our proposal suggests a basis on which preferences might be extended regionally, and it is silent on the question as to whether or not simultaneity could be attained. But there is a logical conflict,
or a possible conflict between the two, if a regional preferential arrangement were to be made with respect to a certain industry - let us call it for example the steel industry - whereby a group of less-developed countries agreed to trade their steel freely amongst each other, while maintaining tariffs to protect their steel industries from external competition, they may find it rather difficult to set up this sheltered market if there are already steel industries outside their market in the less-developed world, and if it is agreed amongst all the less-developed countries that steel shall circulate freely. In other words, if the less-developed countries were to agree upon free entry for a certain number of products I should think on the face of it those particular products which are to be traded freely in the less-developed world would hardly be the subject of, or could hardly be the subject of arrangements establishing protected markets for these products on a regional basis. So, in a nutshell, the answer to question 1 is that very likely there would be conflict in the long run between these two concepts.

Secondly, where preferences are extended on a regional basis, can it be assumed that they would be established as a step toward full economic industrial integration either on a sectoral or overall basis, and thus related to the requirements of Article XXIV? Well, our proposal was not intended to be a stepping stone towards a full customs union or free-trade area. In fact the proposal contains, in paragraph 4(e), a time-limit during which time it is envisioned the infant industries within the sheltered area will have grown up, and the agreement would contain provisions for its termination. Naturally, however, although we did not envision it as being a stepping stone to full free-trade areas or customs unions, the process could be so used. That is to say, having integrated a number of industries on a regional basis the countries concerned might decide not to terminate the arrangement, but instead to go the rest of the way and establish their full free-trade area. That is not excluded of course. In fact from the GATT point of view they have every right to form a free-trade area or a customs union at any time if they so decide.

The third question: should the preferences be limited to semi-manufactured or manufactured goods? Our proposal was intended to cover all sorts of goods wherever it could be shown that the establishment of this preferential treatment would add to the efficiency of production of the products concerned. We did not have in mind ruling out agriculture or industry, but would leave it up to the judgment, in the first instance, to those countries establishing the preferential arrangements, and in the second place to the CONTRACTING PARTIES. The latter as I said somewhat earlier, would view the arrangement in the light of its probable contribution to increased productivity within the region.
Would such preferences cover both tariffs as well as other import regulations such as quota restrictions? We had in mind tariff preferences, since of course as a general rule, forgetting the GATT exceptions for the moment, it is the tariff which is normally to be relied on under the GATT for protection, and if we are establishing sheltered markets we would suppose that they would be markets in which this shelter would take place through the tariff. We could examine further those cases provided for exceptionally in the General Agreement, where less-developed countries may use quotas as an alternative to tariffs for the purpose of protection. There are such alternatives and in such cases it would be logical to examine that type of quota to see whether or not there might be a case for allowing preferential treatment in the application of such quotas. Generally speaking, however, we would not assume that the preference should be granted by quota.

As to the positive rôle that these preferences are to play, or might play, on a regional basis or on a more general basis between less-developed countries not belonging to the same region, we have somewhat earlier I think tried to explain why we doubt whether this type of positive rôle could be, generally speaking, played on a more than regional basis. We lack historical experience of less-developed countries outside the same region having accomplished co-operative endeavours of the kind that we have in mind, while we can look about us and find several cases where developing countries, which are neighbours and do belong to the same region, co-operate. We feel that it demands a considerable degree of mutual concession, mutual planning and a high degree of co-ordination of an extraordinarily complex and difficult political order to link to the process of economic development the process of departure from our most-favoured-nation treatment. It is our feeling that this type of intimate co-operation is essential to co-ordinated development, and it is our feeling also that it is really not practicable to expect it to be found on more than a regional basis.

Would we agree that preferences among less-developed countries should be established only in respect of such products as are selected by less-developed countries for preferential treatment through negotiations? Well, in order to get such an intimate process of collaboration between less-developed countries, it is of course essential that the less-developed countries involved initiate the process themselves through negotiation and through coming to an agreement. Our amendment is intended merely to facilitate the carrying out of agreements reached by negotiation amongst less-developed countries and with respect to products selected by the less-developed countries.
The question as to how an economic region would be defined or understood for this purpose we have attempted to answer in the note to Annex 1 where we annotate our paragraph 4(a): "In considering whether the countries parties to an agreement belong to the same economic region the CONTRACTING PARTIES shall take into account the prospects of their integrated development under the Agreement." So that what we really mean by an economic region is a group of countries which to the rest of the world seem to be able to co-operate together for their integrated development. If they can present reasonable prospect of thus being able to co-operate then we would consider them to be parts of the same economic region. The term "economic region" is, I grant you, a rather difficult one to understand because it has geographical connotations. The history of this simply is that when the question was considered much earlier at the time the Havana Charter was drawn up it was immediately assumed that countries contiguous one to another might be thought to constitute a region, and when one wished to think of contiguity in the sense of a neighbourliness or ability to co-operate together, one simply took the word "region" and prefixed it with the word "economic".

The question now arises - question 9 - if these preferential arrangements once negotiated are not automatically extended, what is the basis on which other less-developed countries should qualify for participation? Well, I think that the less-developed countries which initiate the participation would define in their agreement the terms on which they would admit to participation in that agreement third countries - third less-developed countries. We believe that it would be well for all such agreements to have provision for terms and conditions of accession to the agreement, by other less-developed countries. We have specified this in sub-paragraph (d) of paragraph 4 of our proposed amendment to the General Agreement.

If preferences are not extended on a non-discriminatory basis, what safeguards are required to protect the interests of third less-developed countries? We have provided the general type of safeguard which is commonly provided in the GATT - provisions for consultation and compensation for injury - and these provisions appear in paragraph 6(b) of our suggested amendment. Also, I might say that the fact that these regional preferences if established on the basis which we had in mind would have a time-limit is also, of course, a type of protection to other less-developed countries. In time the arrangements would expire, and if upon the expiry of these agreements any source of possible injury to third parties would also disappear.

We do intend, in answer to question 12, that the agreement should be presented to the CONTRACTING PARTIES for their prior approval. This is another means for safeguarding the interests of third countries. It is also a means, we feel, for ensuring that the applicant countries have done everything possible
to link their newly anticipated preferential treatment to a background of co-operation, a nexus, if you might put it that way, to economic planning for development within the region. If we ask the developing countries who are associating for this purpose to bring their agreements to us we feel that this will be an additional incentive to them to work out their plans in full and put them down in the form of an agreement. This has advantages, not only for the countries planning their development, but for all of the countries and institutions which may wish to assist them in this process of development.

As to the legal machinery required, we have envisioned that legal machinery taking the form of an amendment to the General Agreement. It is not necessarily the only way in which this problem could be approached, but our thought here is that if we wish to point to a certain means of having developing countries organize for development, it would be a good idea to embody this guidance permanent form as one of the provisions of the General Agreement.

Finally, Mr. Chairman, our proposal is not related to the establishment of preferential treatment by developed to less-developed countries. In fact, as I think we all know here, the United States Government does not see that particular kind of preferential agreement as being one which we can in general support. We feel that the association of developing countries that we have in mind here can be accomplished, and should be accomplished, quite independently of what might be done in that other field.

The question is asked, should different rules of termination be provided for than where these preferences are designed to promote integrated industrial development from cases where preferences might be designed to expand sales and purchases among less-developed countries generally? We have provided a termination period in our proposal, because the proposal is based on the assumptions that on the basis of the larger markets efficient industries can be established and that as these industries gain in efficiency they will in time no longer need preferential treatment. When this time is reached, it is reasonable that the preferential assistance given to those particular industries should disappear. As to the termination of other kinds of preferences, our answer is that we do not envision other kinds of preferences being extended amongst less-developed countries. We do not think it would be beneficial to them to use their scarce resources of foreign exchange on purchases from uneconomical suppliers unless it can reasonably be expected that these suppliers will in due course become competitive and efficient.

Mr. Chairman, in summary, I would say merely that the details of the draft waiver which we have advanced are, of course, matters which could well be discussed and perhaps altered to advantage. The general philosophy on which we have based our proposal is really a philosophy of pragmatism. We feel that preferences, as
such, are something like fire - a mixed blessing. If used to a constructive purpose, we would be willing to see them used under controlled conditions. But we feel it important before starting to agree on the purpose of starting this fire and on what the result and energy is to be used for. That energy, we believe, should be used for the assistance of developing countries which can and will associate together, admittedly on a limited basis - limited as to the number of products and limited as to the number of countries. These limitations are not intended to be handicaps; on the contrary, they are intended to enhance the prospects that less-developed countries can co-operate in detail in a practical manner and can be supported by other developed and developing countries. We would advance development on the basis that we think it can be most rapidly advanced: through the close and intimate co-operation of less-developed countries on such a scale that the number of participants is sufficiently restrained that the efficiency of the operation can be counted upon.