The Impact of Trade on Development: The United States and the Less-Developed Countries

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The emphasis on trade for development began with the organization of the United Nations Conference on Trade and Development (UNCTAD) in 1964. The demands of the Less-Developed Countries (LDCs) for greater export earnings through liberal trade policies resulted in the developed nations' adoption of Part IV of GATT and *Trade and Development* in 1966. Part IV is designed to give special priority to the increase in export earnings of the less-developed countries. By increasing the export earnings of the less-developed countries, the developed nations would contribute to the less-developed countries economic development programs on a greater scale than would ever be possible through foreign aid.

On the whole, the channels of trade run from the less-developed countries to the developed countries and back again. The less-developed countries don't, in general, trade extensively with one another as the developed countries do. This is because the sorts of things the less-developed countries export are consumed mainly in the developed countries and vice versa. And, indeed, the developed countries have themselves in the past blocked the growth of any forms of economic activity in the less-developed countries that would compete seriously with their own industries. It is only in fairly recent times that the less-developed countries began to launch new industries which are directly competitive with products from North America or Europe.[1]

Meanwhile, the overwhelming majority of these less-developed countries are still just as dependent upon the export of a relatively

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1 Emmanuel (1972, p. 47).

few primary products as they were a decade or two ago. The diversification of export trade appears to be one of the most difficult things for a less-developed country to achieve.

Thus the export trade of the less-developed countries is a typical case of putting all of one's eggs into one basket. Not only is each country dependent on the fortunes of a very narrow range of export products (so that a serious decline in market demand for any one product is likely to be a major disaster), but, in addition, the prosperity of most less-developed countries is very much bound up with that of the one or two principal developed countries to which they sell the bulk of their exports. Less-developed countries are thus doubly vulnerable because of the two-fold concentration of their exports — in terms of commodities and in terms of export markets.

But the problem is not simply the lopsidedness of the export trade of less-developed countries and the risks of extreme fluctuation to which this exposes them. Even more serious is the inability of these countries to earn the foreign exchange which they need to finance imports of development goods (capital equipment and the like) in the quantities required. This is partly a matter of the inherent properties of the primary products they export and partly a result of the policies followed by the industrially advanced countries in which these products are marketed.[2]

Any less-developed country is, therefore, apt to get into difficulties if it allows the rate of investment in new equipment (imports) to run ahead of the foreign exchange resources becoming available to it through its export earnings. What this means, in effect, is that to ensure external balance under free market conditions less-developed countries would have to allow their rate of economic growth to be determined by the rate of expansion of their export markets. This would be an intolerable restraint upon them, even if the industrially developed countries were following a liberal policy in importing agricultural and mineral products.

The basic economic issue between the developed and less-developed countries is TRADE, not AID. It involves the entire role of the less-developed countries in the world economy and not simply aid from the rich. It concerns the earned income that should belong to the less-developed countries by right and not the charity dispensed at the discretion of others and subject to their passing whims and political predilections.

UNCTAD considered foreign aid to be an inadequate policy for economic development.[3] First, the developed nations do not have

2 Elliot (1973, p. 63).

3 Gosovic (1972, p. 17).

the total resources necessary for the development of all the less-developed countries. Secondly, aid is often tied to the donor nation's stipulations which may restrict the choice of imports. Thirdly, aid does not set in motion the developmental linkages derived from foreign exchange earnings.

However, with increased export earnings through international trade, the less-developed countries economies would be stimulated by the multiplier effect of export earnings on increased domestic production for export, expansion of governmental and private services to administer trade transactions and on the direct and indirect effects on the income level which when increased would lead to an advantageous investment climate in the less-developed country.[4] Also, with the export earnings the less-developed country may purchase the necessary imports on the world market at the most competitive price. The balance of economic development then would reflect the import requirements relative to export earnings. The advantages of trade over aid thus expressed by UNCTAD have been the focus of trade policy liberalization for the last decade.

The UNCTAD policy introduced at the first UNCTAD Conference in 1964 and adopted at the second UNCTAD Conference in 1968 to generate capital through export earnings which would finance the imports required for economic development was the General Preference System (GPS) which would provide duty-free treatment by the developed nations to the developing nations' exports of semi-manufactured or manufactured products. In 1970 the Trade and Development Board of UNCTAD received a commitment from the United States, Japan, and the European Community to implement the General Preference System. Within the context of Part IV of GATT and GATT Contracting Parties approved the General Preference System waiver which waived the MFN obligations on the part of the developing nations for a period of 10 years on June 25, 1971.

The United States participation in the UNCTAD commitment and the GATT waiver is required by U.S. law to be subsequently approved by the U.S. Congress before the U.S. can implement the General Preference System. Thus the Nixon Administration proposed the *Trade Reform Act of 1973* to Congress on April 10, 1973, with the inclusion of the General Preference System. On December 20, 1974, the U.S. Congress passed the legislation which was signed into law by President Ford on January 3, 1975, entitled the *Trade Act of 1974*.[5] Title V – *Generalized System of Preferences* – of the *Trade Act of 1974* provides "duty-free treatment for any eligible article from any

4 Walters (1973, p. 527-554).

5 *Trade Reform* Act of 1974, Report of the Committee on Finance, p. 125.

beneficiary developing country."

Thus ten years after the UNCTAD introduction of the General Preference System the less-developed countries are now receiving preferential treatment. However, not all LDC semi-manufactured products are eligible for duty-free treatment as proposed by UNCTAD. The President of the U.S. reserves the right to determine which articles are eligible. All import-sensitive articles are excluded such as textile and apparel articles subject to textile agreements, watches, some footwear articles and import-sensitive electronic, steel and glass products.

Whereas not all less-developed country products are eligible for preferential treatment neither are all the less-developed countries. The President has the right to designate "beneficiary developing" nations. For example, the U.S. trade law is somewhat inequitable towards a few Latin American countries. Venezuela and Ecuador are excluded from any concessions because they are members of the Organization of Petroleum Exporting Countries, which the Congress apparently decided to punish for the Arab Oil Embargo a year ago. Also, a less-developed country would be excluded if it has "nationalized, expropriated, or otherwise seized ownership or control of property owned by a U.S. citizen or by a corporation which is 50% or more owned by U.S. citizens" [Title V, Sec. 502 (b) (4) (A)].

However, the extension of the General Preference System even with the product restrictions should increase the less-developed country's export earnings far above what is presently the level of less-developed country—U.S. trade. The following statistics for 1973 show the volume of Less-Developed Country—U.S. trade. The importance of the volume of trade in the commodity descriptions of "manufactured goods classified chiefly by material" and "miscellaneous manufactured articles" is the amount of that volume less the restricted products which will be eligible for the duty-free treatment.

The tables (1 & 2) show the interdependency of the U.S. on raw materials and the less-developed countries on industrialized products. The basic trend in the product exchange between the less-developed countries and the U.S. is that the U.S. exports more machinery and transport equipment and imports more crude materials and mineral fuels. For example, total U.S. imports of crude materials and mineral fuels from the less-developed countries were $2,616.2 million whereas total U.S. exports were $1,270.0 million. Total U.S. imports of machinery and transport equipment were $2,117.0 million whereas total U.S. exports were $7,908.1 million. However, the most notable factor in the above tables is the volume of imported "manufactured goods classified chiefly by material" and "miscellaneous manufactured articles" which will come within the range of eligible articles for duty-free treatment (although not all of the products will be eligible as previously explained). In 1973 the total volume of U.S. imports from

Table 1

U.S. Imports from Developing Nations (in millions of dollars) 1973

Commodity Description	Latin America	Near East	South Asia	Southeast Asia	Africa
Food and Live Animals	3,106.7	49.0	130.5	552.2	741.6
Beverages and Tobacco	69.9	11.9	—	18.6	10.9
Crude Materials except fuels	558.8	45.2	43.7	456.4	208.7
Mineral Fuels, lubricants and related material	1,534.0	728.8	1.8	231.5	900.1
Animal and Vegetable Oils	42.5	—	9.3	133.2	7.8
Chemicals	94.2	12.9	7.5	28.4	21.5
Manufactured goods classified chiefly by material	874.6	194.3	343.9	1,000.2	418.3
Machinery and Transport Equipment	665.7	18.4	1.9	1,426.6	4.4
Miscellaneous Manufactured Articles	463.6	60.6	36.1	2,345.2	8.8

Source: *Highlights of U.S. Export and Import Trade*, Washington, D.C.: Department of Commerce, December 1973, pp. 98-101.

Table 2

U.S. Exports to Developing Nations (in millions of dollars) 1973

Commodity Description	Latin America	Near East	South Asia	Southeast Asia	Africa
Food and Live Animals	1,203.5	353.2	510.7	1,154.1	435.0
Beverages and Tobacco	47.2	57.3	1.4	104.5	31.2
Crude Materials except fuels	448.8	112.5	24.4	287.7	87.4
Mineral Fuels, lubricants and related material	234.3	12.7	7.5	33.7	21.0
Animal and Vegetable Oils	121.5	28.4	47.0	41.2	94.7
Chemicals	1,164.5	119.2	105.7	469.5	172.2
Manufactured goods classified chiefly by material	1,082.1	188.5	60.0	584.2	233.0
Machinery and Transport Equipment	3,691.7	1,103.7	134.1	1,901.5	1,077.1
Minscellaneous Manufactures Articles	544.8	586.2	15.5	190.5	99.2

Source: *Highlights of U.S. Export and Import Trade*, Washington. D.C.: Department of Commerce, December 1973, pp. 54-59.

less-developed countries manufactured products was $5,745.6 million. Compared to the $2,616.2 million ot imports of crude materials and mineral fuels manufactured products are imported by the U.S. from less-developed countries in an amount over twice the amount of raw materials. Two trade policy implications are thus derived: (1) the General Preference System on manufactured articles will have a great impact in increasing the export earnings and (2) the raw materials which essential to the U.S. economy are not in sufficient volume compared to manufactured products to warrant particular tariff relief at this time. However, for future policy consideration the dependency of the U.S. on raw materials from the less-developed countries will necessitate new trade policies to insure the continued supply of those raw materials from the less-developed countries. This problem will be discussed later in this article.

The importance of U.S. trade policy with the less-developed countries is further emphasized by a study of the increased growth of trade between the U.S. and the less-developed countries. The Tables below show the increase in U.S.-Less-Developed Country trade relative to the total world from 1970 to 1973.

Table 3

U.S. Exports (in millions of dollars)

Year	Developing Nations	Total World
1970	12,993	43,224
1971	13,410	44,130
1972	14,576	49,778
1973	20,973	71,314

Source: *Overseas Business Reports,* OBR 74-06, Washington, D.C.: Department of Commerce, April 1974, pp. 19 and 22.

Table 4

U.S. Imports (in millions of dollars)

Year	Developing Nations	Total World
1970	10,442	39,952
1971	11,549	45,563
1972	14,632	55,583
1973	20,169	69,121

Source: *Overseas Business Reports,* OBR 74-06, Washington, D.C.: Department of Commerce, April 1974, pp. 19 and 22.

The tables indicate that U.S. exports to the less-developed countries increased from $12,993 million in 1970 to $20,973 million in 1973 for a 61% increase and the U.S. imports from the developing nations increased from $10,442 million in 1970 to $20.169 million in 1973 for a 93% increase. The percentage increase of U.S. exports and imports to the total world was 65% for exports which increased frim 43,224 million to 71,314 million and 73% for imports which increased from 39,952 million in 1970 to 69,121 million in 1973. The less-developed countries' increase in purchasing U.S. imports was 61% only 4% less than the total world purchase increase of U.S. imports of 65% which indicates that the less-developed countries are keeping pace with the rest of the world. However, substantial increases are noted in less-developed countries exports to the U.S. which increased by 93% which is 20% greater than the total world increase of exports to the U.S. of 73%. Thus the 20% lead reflects a growth of less-developed countries exports on the U.S. market and thus a greater dependency of the U.S. on the exports of the less-developed countries.

Another substantiation of the 20% lead is the following table which shows the percentage increase of exports to the U.S. relative to the total world.

Table 5

U.S. Imports (in millions of dollars)

Year	Developing Nations	Total World	% of Total
1970	10,442	39,952	26%
1973	20,169	69,121	29%

Source: *Overseas Business Reports*, OBR 74-06, Washington, D.C.: Department of Commerce, April 1974, pp. 19 and 22.

The increase from 26% to 29% of the total world exports to the U.S. is an increase of 3%, a significant rate of growth of the less-developed countries exports to the U.S.

A measurement of the balanced growth of less-developed countries exports to the U.S. and imports from the U.S. is the following table which shows the exports compared to the imports from 1970 to 1973. Although, only in 1972 did exports exceed imports, the significance of the table is that the volume of exports and imports are approximately at the same level. For example, in 1972, both increased from over $14 million to over $20 million. The balanced growth of exports and imports is the indicator of the balance of economic development in

Table 6

LDC Exports and Imports (in millions of dollars)

Year	Exports to the U.S.	Imports from the U.S.
1970	10,442	12,993
1971	11,549	13,410
1972	14,632	14,576
1973	20,169	20,973

Source: *Overseas Business Reports,* OBR 74-06, Washington, D.C.: Department of Commerce, April 1974, pp. 19 and 22.

import requirements relative to export earnings.

The statistics on the increased growth of U.S.–Less-Developed Countries trade indicate the projection of continued growth in trade and with the application of the General Preference System by the U.S. the projection for increased export earnings of the less-developed countries will involve millions of dollars. The resultant economic growth from the increased export earnings obtained through application of the General Preference System will create dependent developmental linkages. The amount of incrased export earnings that go into developmental projects directly related to the continuation of those increased export earnings will now more than ever before require market stability for the continuance of developmental projects. Often in the past when trade was disrupted, the developmental plan related to the export earnings from that trade was either temporarily discontinued or altogether abandoned. With the new influx of export ernings from the application of the General Preference System the magnitude of developmental linkage reversal will perhaps offset any benefits of the increased export earnings should the less-developed countries exports be disrupted in volume of sales or in the amount of profit on those sales.

Since economic growth depends on the countinued stability of the balance of imports and exports the main problem in trade policy is to formulate policies that will insure stability of the less developed countries' imports and exports. *Assuming that imports grow in proportion to the rate of growth of export earnings the main concern is to increase the rate of growth of export earnings.*[6] The General Preference System will increase the export earnings according to the volume of trade shown on the aforementioned tables. However, the problem of instability of export trade remains. Export fluctuations

6 Payer (1971, p. 37).

will continue to be a reality in the policy making of the less-developed countries. How will they handle the interrupted flow of exports due to market disruption in the U.S., for example? And how will the less-developed countries handle the problem of price instability due to supply and demand inelasticities? All the export earnings gained from the General Preference System will still be subject to restrictions by U.S. domestic market disruptions and price instability. Given the volume of trade and the essential product exchange between the U.S. and the less-developed countries the trade policies of the U.S. should reflect the needs of the less-developed countries as well as the needs of the U.S. domestic producers. U.S. trade policymakers must consider the problem of export fluctuations in order to insure the Genral Preference System benefits to the less-developed countries.

As previously mentioned there are two main causes of export fluctuations: (1) market disruption and (2) price instability. Market disruption in the U.S. is caused by the increased importation of products from the less-developed countries which causes injury to the U.S. domestic producers.[7] In the event of market disruption the U.S. applies the "escape clause" which restricts the volumn of the less-developed countries imports or reduces the amount of export earnings by imposing a duty penalty. The "escape clause" trade policy will be discussed in detail below with recommendations for changes in the application of the policy with special regard for the less-developed countries. The problem of export fluctuations caused by price instability related to supply and demand inelasticities is subsequently discussed with recommendations for an innovative U.S. trade policy where presently none exists.

Developmental Linkages

To fully understand the importance of trade policies for export stability the developmental linkage effect of export earnings must be discussed. *The impact of trade on development is the multiplier effect of export earnings in creating new economic production facilities and invisible services to transact trade.*[8] Given the foregoing statistics on Less-Developed Countries – U.S. trade indicating the potential increase in export earnings resulting from the application of the General Preference System, the developmental linkage effect is relative to the distribution of the total export earnings.

Basic developmental linkages mainly consist of an increase in national income, employment, increased wages and increased consumer buying, increased purchase of imports for development, increased taxes for governmental services, an improved investment cli-

7 Blake (1976, p. 49).
8 Johnson (1967).

mate, and an incentive for more profitable allocation of resources for greater export production efficiency. All of the above are reflected in the development of technical cooperation services, infrastructure developments and manpower developments. A blue-print of developmental linkages is explained below.

TECHNICAL COOPERATION SERVICES include all services necessary to transact international trade. Private institutions such as insurance companies, banks, marketing consultant firms, and international trade law firms are created to handle the invisible transactions. Branches of private U.S. institutions are eventually replaced by domestic ones as the volume of trade increases. Governmental services will proliferate as trade increases to process imports and exports through customs. Trade policy and trade enforcement bureaus will be necessary to coordinate governmental control of trade.

INFRASTRUCTURE DEVELOPMENTS necessary for trade are basically of two types: (1) inland infrastructure of roads, railways, trucks, airlines to transport the goods from the producer location to the final loading for international shipment and (2) an international transport system such as national merchant fleet and shipping port operations. With the development of production facilities the need to develop inland transportation will create linkages related to employment and the positive economic effects of employment. The development of an international transportation system will not only have linkage effects but will also increase the amount of export earnings as the less-developed countries become self-sufficient in international shipping and thus save the exorbitant freight rates charged by the developed nations' shipping lines.

MANPOWER DEVELOPMENT as a result of increased trade include training programs as well as employment opportunities. The activity of trade itself opens up new areas of training and employment in the field of all the technical cooperation services and infrastructure developments previously mentioned as well as in the business producing for export which develop departments in export cost analysis, quality control, standards and packaging for international shipping. Training and educational programs on trade develop such as the ones sponsored by international businesses, U.N. fellowships and regional training courses, GATT, IMF and World Bank training programs, and University programs in international business.

The importance of illustrating the above linkages is to show the impact of trade on development on the overall structure of the less-developed countries economy and socio-cultural composition. In other words, the cumulative effect of enhanced trade can be noticed in the rate of increase of the GNP or national income of the less-developed country. Thus U.S. trade policies on the stability of less-developed countries export earnings are instrumental in the linkage effect and therefore in turn affect the economic growth of the less-developed countries.

Market Disruption

The U.S. trade policy on market disruption is important since given the distribution of export earnings on the above mentioned linkages, it follows that any disruption in export volume and earnings thereon will have a reversal effect on development. The calculated increase of less-developed countries export earnings resulting from the application of the General Preference System must be conditioned by an appraisal of U.S. trade policies that may restrict the less-developed countries exports or reduce their export earnings. *How effective the General Preference System will be in increasing export earnings depends largely on how the U.S. domestic producers may react to increased less-developed countries imports resulting from the duty-free treatment.*

In the past, the U.S. has invoked the "escape clause" whenever U.S. domestic producers are injured by imports. The "escape clause" was first written into statutory law by the U.S. Congress in the Trade Agreements Extension Act of 1951. The "escape clause" allows the U.S. to withdraw or modify a trade concession whenever increased imports cause injury to a U.S. domestic producer. Title II of the *Trade Act of 1974* provides for detailed procedures on the application of the "escape clause" with reference to Title V on the General Preference System. Sec. 203(f) (2) provides that "the suspension of the designation of any article as an eligible article for purpose of Title V shall be treated as an increase in duty" when according to Sec. 203(f) (2) the International Trade Commission determines that the injury caused by imports to a domestic industry "results from the designation of the article as an eligible article for the purpose of Title V". Thus the calculated export earnings of the less-developed countries as a result of the General Preference System will be conditioned by U.S. domestic producers' complaints of injury due to such duty-free treatment. Should an eligible article be suspended due to a determination of injury by the International Trade Commission the projected develonmental linkages resulting from the projected export earnings by application of the General Preference System will be delayd if not reversed.

Under the "escape clause" the less-developed countries exports would also be subject to Sec. 203(a) provisions on "a modification of, or imposition of, any quantitative restriction" and Sec. 203(a) (4) provision for the President to "negotiate orderly marketing agreements with foreign countries limiting the export from foreign countries and the import into the U.S." Thus the volume of less-developed countries exports could be disrupted and the linkage effect would again be delayed or reversed.

Therefore the "escape clause" provisions of Title II in Sec. 203 on the application of the General Preference System must be carefully calculated in the less-developed countries developmental planning on projected export earnings resulting from the duty free treatment of certain less-developed countries exports.

Price Instability

Price instability related to supply and demand inelasticities causes export fluctuations. There is no U.S. law on controlling price instability of less-developed countries exports. The only mechanism for alleviating the plight of the less-developed countries is the IMF policy of compensatory financing for fluctuations in export earnings whereby a developing nation could borrow up to 25% of their IMF quota if export earnings fall below a recent moving average. The export fluctuations may be a result of volume of sales disrupiton or price instability.

An international policy and a U.S. policy on stabilizing prices is necessary to assure the less-developed countries of increased export earnings on products eligible for the General Preference System as well as for raw materials. The General Preference System will have relatively no benefit to the less-developed countries' income if prices are unstable. Should the prices of less-developed countries' exports fall below a recent moving average and they have to subject themselves to IMF compensatory financing they will be directing funds to repayments and interest schedules which funds should be directed to export production enterprises.[9]

Recommendations for U.S. Trade Policy Changes

Market Disruption

To maximize linkage effects of the export earnings gained from the General Preference System, the products eligible for duty-free treatment should be exempt from the "escape clause". The developmental benefits of increased export earnings should be considered by the U.S. trade policy-makers when an investigation is made on the injury of increased imports to a U.S. domestic industry. During the investigation by the International Trade Commission a study shoud be made of the total linkage effect of subjecting the less-developed countries products to the "escape clause". If serious developmental reversals in linkage effects are projected to be a result of the application of the "escape clause" the International Trade Commission should recommend that the less-developed countries exported product be

9 Yeager and Tuerck (1976, p. 68).

granted exemption from the "escape clause".

The rationale for such a policy is the evaluation of how many dollars of foreign aid the U.S. is giving to that less-developed country and comparison of the amount of the loss of export earings due to application of the "escape clause" to the amount of foreign aid. For example, if a less-developed country is receiving $2.5 million in foreign aid and the amount of loss in export earnings because of application of the "escape clause" is $3.0 million it would follow that the exemption from the "escape clause" would result in a $3.0 million benefit which is $5 million greater than the amount of foreign aid. Thus by allowing exemption from the "escape clause" the U.S. could reduce the amount of foreign aid. The transfer of U.S. revenue from the foreign aid program to the trade sector would allow the less-developed country greater freedom in developmental planning as well as continued growth in the linkages related to export earnings. The tax benefit to the U.S. would ease the foreign aid budget while providing greater export earnings for the less-developed country who may purchase additional U.S. products and thus the U.S. will ultimately benefit financially by saving tax dollars and selling more domestic products to the less-developed country which would be a source of more tax revenue. The question of injury to a U.S. domestic producer remains. How will the U.S. domestic producer be compensated for the loss of business due to import competition? In the case of a less-developed country dependent on U.S. foreign aid and dependent on linkage effects from the export earnings on Genreal Preference System eligible articles the International Trade Commission should recommend that only adjustment assistance be used to compensate the domestic producer. The overall national savings of revenue expenditure on foreign aid and revenue receipts from less-developed country purchases of U.S. products with export earnings gained from the exemption of the General Preference System articles from the "escape clause" should be the rationale for determining that a percentage of the revenue gained from that policy be used to compensate the domestic industry with adjustment assistance.

Price Instability

The problem of price instability which causes export earnings to fluctuate and thus reverse the linkage effect of export earnings involves an analyses of supply and demand inelasticities.[10] In an international market controlled by the price structures of the developed nations the less-developed countries find themselves subjected to high prices for developed nations' products and low prices for their products whose price levels also fluctuate according to the developed nations market conditions. A policy of price guarantees for the less-

10 OECD (1973, p. 181 and 189).

developed countries exports to the U.S. would insure stability of their export earnings. A policy is needed to grant price protection by setting a minimum price according to the prevailing market price within a given year which minimum price would be guaranteed to the less-developed country should the market price fall below the minimum price set. The U.S. could finance the minimum price by providing loan agreements through the Export-Import Bank stipulating that when the price rose above the minimum price the U.S. would be reimbursed. The amount of money given by the U.S. to the less-developed country when the price fell below the minimum would be in effect a temporary loan with future less-developed country sales at a price above the minimum set price as collateral. Thus the less-developed country would receive price stability guarantees which would maintain the level of export earnings and stabilize the linkage effect from those earnings. The rate of export growth of the less-developed country would enable it to purchase more U.S. products and the U.S. would also benefit from the increased purchasing power of the less-developed country.

An analogous illustration is the Rome Convention concluded on February 28, 1975, under which the European Common Market along with 46 other countries in Africa, Pacific anl Caribbean is participating in a price stability program (STABEX). The European Common Market has agreed to fund 4.07 billion for the next five years. When less-developed countries revenues from raw material exports to the European Common Market are reduced they would receive payments from the fund. When prices are favorable the less-developed countries would be expected to reimburse the fund.

The quintessence of the foregoing arguments is that the U.S should undertake policies that augment and expand trade with less-developed countries even though such actions may be temporarily costly. Such action will forestall any adverse reactionary measures on the part of the less-developed countries, particularly in the direction of the creation of cartels, which has been exemplified under the "Action Plan" which was elucidated by a conference of 104 developing nations in Dakar, Senegal. The "Action Plan" specifies that the less-developed countries would recover and control their natural resources in the same cartelization manner which has characterized OPEC's control of oil.

Impact of Proposals on LDC's and Policy Recommendations

One of the tragedies of our time is the inability of the rich countries to make effective contact with the problems of the less-developed ones. Year after year, statesmen pay lip service in national parliaments and international gatherings to the need to rescue the underdeveloped countries from their problems. Again and again, political scientists, economists and journalists issue the direct warnings about the stagnation of the economies of the less-developed countries yet the developed world stands as if hypnotized by the problem: skirting only its fringes, unable to appreciate its essence.

The mistakes of the past have begun to be perceived, but neither the developing nor the developed countries have moved significantly to deal with them effectively. U.S. beneficial trade policies for the less-developed countries are essential, beginning with the protection of benefits gained through the application of the General Preference System.

According to the Trade Act of 1974's provision on the "escape clause" applicability to the General Preference System, what is given with the right hand—the extension of the duty-free treatment—is taken away with the left hand—the subjection of the General Preference System eligible articles to the "escape clause". Thus the General Preference System eligible article should be exempt from the "escape clause".

In order to alleviate the second obstacle to the maximization of General Preference System benefits which is price instability, the U.S. should develop a price guarantee policy.

The strengthened demands of the less-developed countries in UNCTAD built on the cartel experience of OPEC in the recent oil crisis may cause a reactionary U.S. policy with protectionist interests that will serve to only setback U.S.—less-developed country's trade. Thus the U.S. should now take the leadership in foreseeing the eventual problems of the less-developed countries and formulate policies to grant greater trade benefits to the less-developed countries. Exemption of the General Preference System articles from the "escape clause" would be a step to greater cooperation with the less-developed countries. The policy of price guarantees could forestall an OPEC-type cartel action by the less-developed countries on all their products. Should the U.S. wait until forced to react to protest its trade interests with the less-developed countries there may be no alternative but to trade on less-developed country's terms which could leave the U.S. in a greater crisis than the oil embargo. The great stride forward in granting the General Preference System will have little benefit on U.S.—Less-Developed Countries trade unless market and price stability conditions reinforce the potential earnings on the products granted duty-free treatment.

The complexity of global economic relations has several important implications for policy prescription. In the first place, it argues strongly for a global, multilateral approach to the many critical issues of the global political economy. Even problems that used to be perceived as domestic, such as inflation, are now global; thus they must be resolved at the international level.

As it has been indicated with respect to trade, monetary, investment and developmental issues, unilateral measures by a single state generally have the effect of imposing costs and creating problems for other states. As a result, the affected economies often retaliate in a fashion that imposes new problems and costs on the initiating state. The basic point is that problems involving global interaction cannot be resolved by the actions of individual states; multilateral approaches are required.

However. there is difficulty in organizing and achieving satisfactory multilateral approaches. IMF and GATT as they currently exist are unable to confront effectively the full range of problems in their respective areas.[11] In addition, many problems rarely fit nearly into the jurisdiction of one international institution without having widespread effects on the others.

Probably an even greater hindrance to the development of global approaches to global problems is the fact that within each state, politically powerful domestic groups concerned about their immediate interests and problems exert great pressure on their governments to advance their particular values.[12] To such groups in advanced states and developing countries, counter arguments pointing out the aggregate or long-run benefits of a different policy will not be accepted. Thus, governmental officials are faced constantly by the dilemma of promoting national or global economic welfare in the long run at the expense of well organized special interests. On the other hand, they advance the demands of special interests at th risk of disrupting relations with other states. This basic conflict cannot be ignored nor is it easily resolvable.[13]

The problems confronting advanced states and developing countries are resolvable only by international action. This international strategy needs to be based upon courageous and creative leadership by national officials. It also demands a more conscious and comprehensive attempt to develop workable and broadly responsive international organizations.[14]

Actions at the international level must be combined with attitudes and programs in the area of domestic policies that are designed to ease the disruptions and dislocations caused by the increased interdependence of states. In sum, a national and international approach

11 Evans (1968, p. 92-93).

12 Caleo and Rowland (1973, p. 123-124).

13 Morgenthan (1967, p. 88).

14 Keohane (1971).

is necessary to evolve a global economic system. However, it must be noted that the political implications and obstacles to such an approach are enormous, nonetheless worth striving for.

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