

Ababa. In the first case, the Ambassador's residence which had been obtained on a three-year lease was abandoned because of economic and security reasons. The Auditor-General remarked: "The premature surrender of the lease in respect of the old residence resulted in Government having to pay redecoration expenses, legal fees and negotiated compensation totalling £971."<sup>33</sup> In the second case, an officer at the Embassy who had been recalled, failed to obtain a bill of lading for his personal effects. When it was eventually found it was sent to the Embassy where "due to insufficient knowledge concerning mercantile processes, it was filed away."<sup>34</sup> The officer's personal effects could not be cleared quickly and the resulting delay cost the Government £64 4s. 5d.

Two years later, the Auditor-General still found cases of this nature. For example, four officers received K2,030 from Government for the transport of their motor cars from Dar es Salaam to Zambia. The Auditor-General reported:

The payment comprised K800 apparently for repairs of the vehicles before the journey K230 subsistence allowance and K1,000 for the transportation. . . . I have been informed by the Controlling Officer that no documents in support of the payments are available, that more economic methods of transporting the cars were obviously feasible and that he did not consider the cost of repairs a proper charge to public funds.<sup>35</sup>

Such cases of irregularity are not unique to the Foreign Service—as the reports of the Auditor-General clearly show. But those pertaining to the Foreign Service assume a graver significance because MFA and the missions are charged with promoting and protecting the national interest abroad.

Cases of financial irresponsibility and general misconduct have not gone unpunished. Through the Public Service Commission the Government has tried to maintain discipline throughout the Civil Service, including MFA. Between 1965 and 1970 the Public Service Commission reprimanded four officers, dismissed one and had one retire on grounds of public interest.<sup>36</sup>

From the above analysis the Foreign Service emerges as an establishment which is still engaged in finding its own feet. It has encountered many problems some of which have yet to be solved. A hopeful sign is that their existence has been recognized and that various solutions have been tried. At the time of writing, it is difficult to assess the contribution of the Foreign Service Establishment to the formulation and implementation of Zambian Foreign Policy. The dynamics of this policy have to be explained largely in terms of other variables.

33 *First Report of the Auditor-General on the Public Accounts for the Financial Year ended 31st December 1967* (Lusaka: Government Printer, 1968), par. 58(a).

34 *Ibid.*, par. 58(c).

35 *Report of the Auditor-General, 1969*, par. 48.

36 See the reports of the Public Service Commission, 1965 to 1970.

## Generalized Schemes of Preferences in World Trade

D. WADADA NABUDERE\*

### INTRODUCTION

Generalized Schemes of Preferences (GSP) have been hailed as a significant "breakthrough" for UNCTAD in its ten-year's effort to get the advanced capitalist powers to accept them.<sup>1</sup> Seen from this formal standpoint such acceptance and part implementation of some of the schemes is indeed a point of departure because such acceptance amounts to an acknowledgement and admission by the monopoly capitalist groups that 'free trade' does not bring about development in the underdeveloped peripheries. It also amounts to an admission that the hitherto blind-faith in the so-called principles of comparative advantage, as propounded particularly by David Ricardo in the early nineteenth century, and as later brushed-up by his neo-classical followers, has no validity in the modern international trade scene. Further, it removes the veil over the official "most favoured-nation" principle which seeks to treat all trading nations as equals.<sup>2</sup> Of course this does not mean that the ideologists of the exploiters will find no theory on the matter. On the contrary, they will find a way of explaining this apparent contradiction in the form of a 'new' theory. But the point being made here is that the facts behind GSP have stood in challenge to the principle, in particular as it is spelt out in Article I of GATT. Some people will, therefore, be jubilant.

However, seen from the standpoint of the real world such jubiliations must be shortlived. The imperialist system in its trade practices exists precisely because it is inherently based on exploitation not only within its borders but more importantly in all its dealings in all parts of the world. This has been its record to date, and unless we would wish to delude ourselves in thinking at this rather late stage that imperialism has changed its nature and no longer relies on exploitation for survival, it is as well for us to regard the GSP as a new method of make-believe dished out by imperialism to the Third World in an effort to earn it more time to scheme out new tactics. As we will show, this is a necessity for imperialism to extend its life which is in crisis.

To be sure, schemes of preferences are not new to the Third World. These existed, albeit in different forms, as Commonwealth Imperial Preferences, the Benelux Union of Preferences, US Preferences with the Philippines,

\* Senior Lecturer, Faculty of Law, University of Dar es Salaam.

1 Sydney Dell, "An Appraisal of UNCTAD II," *World Development*, Volume I, No. 5, p. 11.

2 John Pincus, *Trade, Aid and Development* (NY: McGraw-Hill, 1967).

etc. They were used by the imperialist powers to spread their tentacles the world-over; so that when the Second World War ended and efforts were made to create a multilateral trade arrangement to replace the pre-war bilateral trade system, these preferences were seen as a stumbling block in the way of the new trading system. Whereas the US—the champion of the post-war efforts towards multilateralism—opposed these hitherto existing preferences, the former colonial powers were firm in their determination to retain them under the new system. What emerged was a statement of the “non-conditional” general most-favoured-nation principle (mfn) in paragraph I of Article I of the General Agreement on Tariffs and Trade (GATT), followed by a saving provision in paragraph 2 of the same Article retaining the pre-existing preferences, subject to diminishing preference-margins. Whereas the US was prepared to demand their abolition in its document,<sup>3</sup> it too finally insisted on retaining its preferences with the Philippines when its proposal was rejected by the UK and France! Some of these preferences under GATT still exist and are now being phased out with the implementation of the GSP.

Another form of preference, apart from the above which was saved under Article 1 of GATT, is that maintained by the European Economic Community under the guise of free trade areas. This is another of those phenomena that mark the chequered history of GATT. Whereas preferences were generally condemned, customs unions and free trade areas were accepted because they were supposed to promote trade.<sup>4</sup> The experience under GATT to date, however, has proved beyond doubt that what have turned out in practice to be free trade areas, claiming exemption from the mfn principle under Article XXIV of GATT, are in actual fact preferential arrangements. Thus, Association Agreements between the EEC and Turkey, Greece, Yaounde Group and Arusha Group, and the E.F.T.A. (Stockholm Convention) agreements, as well as the New Zealand/Australian arrangement, are all such preferences, which have been tacitly approved by GATT in spite of this organization's loud claims of unhindered “free trade”.

It must be realized that preferences which perpetuate the exploitation of the Third World by one or other of the imperialist monopoly groups, or which rationalize trade amongst the developed countries, are given a blind eye, whereas customs arrangements or free trade areas intended to establish horizontal contacts within the Third World have always been thwarted, unless such arrangements directly or indirectly serve the interests of the imperialist countries. Moreover, in the rather weak bargaining position in which the Third World Countries find themselves in international bodies, these countries normally give in to arrangements which clearly are disadvantageous to themselves. This is not surprising since the petty-bourgeoisie in the Third World cannot do otherwise. They are incapable of changing in any fundamental way the inequalities that

3 US, Department of State, Publication 2598, *Suggested Charter for an International Trade Organization of the United Nations*, Commercial Policy Series, 1946.

4. Clair Wilcox, *A Charter for World Trade* (NY: Macmillan, 1949), pp. 70-71.

imperialism set in motion. Seen in this perspective, the very ‘independence’ which imperialism was able to extend to the petty-bourgeoisie was part of the global scheme of multilateral imperialism, in which the petty-bourgeoisie, fulfilled a role. Thus the ‘equality’ that the Third World, under the leadership of the petty-bourgeoisie, has fought for in international gatherings can be seen as efforts at reform. International conferences then become for the petty-bourgeoisie great ‘equalizers’ for themselves, equality for *governmental* delegations rather than equality for nations.<sup>5</sup> A brief background to the GSP in their present form will reveal how inconsequential have been the ‘demands’ of the Third World petty-bourgeoisie in the GATT and other international conferences.

#### DISSATISFACTION WITH GATT

It has been said several times that when the General Agreement was concluded in 1947 the “interests” of the Third World were not taken care of under this arrangement. This is not surprising since most of the Third World was still under colonial rule. To the extent that their presence would have meant some attention in the Articles of the General Agreement to the problems attaching to their trade with the developed countries, (DCs) this was soon rectified in that by 1963 Part IV was added to the Articles dealing specifically with “Trade and Development”. But such specific attention did not mean a solution to the problems. On the contrary, as this analysis will show, such a solution was only marginally possible within the framework of multilateral imperialism.

Be that as it may, GATT's initial concern with the Third World was in regard to the “protection of infant industry”. This was the so-called “development clause” in Article XVIII. This provision should be underlined because it was so stringent that the only countries which tried to invoke it, and burnt their fingers in the process, were Ceylon and Cuba. Any protective measures proposed under the clause had to be reported and investigated by the contracting parties before implementation. It is not surprising that in these circumstances many Third World countries resorted to the quantitative restrictions in Article XII which was meant to apply to the developed countries for balance-of-payments problems and which was less stringent. Revision of Article XVIII in 1955 did not effectively alter the position and the development clause remained a dead letter for most of the period. This is because the revised Article envisaged the application of the Article for protective measures required for the establishment of a particular industry. It was also to apply in cases of balance-of-payments problems only to the extent that the situation required “equilibrium at a satisfactory reserve level”. This more or less brought Article XVIII in line with Article XII.

When the less developed countries (LDCs) wished to develop their infant industries the developed countries were initially concerned. But they quickly grasped the fact that the aid, loans, investment, etc., which the Third

5 Johan Galtung, *The European Community: A Superpower in the Making* (London: Allen and Unwin, 1973), p. 44.

World would require to engage in such import substitution was good business for the monopolies after all. Such aid, loans and investment would invariably be tied to the goods of the donor country. The global strategy of the multinational corporations was still in its infancy, being tried out in its new phase by the US in Europe. The opening up of markets to the products from these industries was, however, a different matter, at least at that stage. So the immediate problem that faced the new industries in Latin America and Asia in 1954 was lack of markets for their export products, a fact which should have been foreseen. It was at this stage that the "Trade Intelligence Division" of GATT in the Annual Report, *International Trade*, 1954, stumbled on a new discovery. In the report the Division noticed the:

relative growth of trade within and among industrial areas, almost entirely accounted for by the rapid growth of trade in Western Europe, and the relative decline in trade between the non-industrial and industrial areas, accounted for by the failure of the value of exports from the non-industrial areas to expand.<sup>6</sup>

This 'discovery' immediately led to great concern over the matter by the contracting parties, and in a study churned out for the purpose it was reported that: "if the gap between the need for developmental finance and available financial resources is to be reduced, a substantial expansion of the LDC's export earnings is essential".<sup>7</sup>

The above is quoted to illustrate the almost unbelievable obscurantism on the part of the GATT Secretariat. As early as 1949 a United Nations study of international trade had reported a deterioration in the terms of trade and drop in value of the exports of the LDCs.<sup>8</sup>

The above quotation from the GATT programme had, however, come out of a study of a Panel of Experts—the Harbeler Committee—which had examined "the failure of the trade of the LDCs to develop as rapidly as that of industrialised countries." The experts had come to the conclusion in 1958 that the prospects for exports of LDCs were very *sensitive to internal policies in the DCs*, and that in balance "their development will probably fall short of the increase in world trade as a whole".<sup>9</sup> The Committee recommended that, due to many technical changes in agriculture necessitating large requirements of capital and land, the

relatively poor countries with high populations like India and Hong Kong should export cheap labour intensive manufactures in order to import

<sup>6</sup> *International Trade* (Geneva 1955), p. 4.

<sup>7</sup> Gatt Programme for Expansion of International Trade, Trade of LDCs, Special Report of Committee III, Geneva, 1962, p. 5. Gerald Curzon, in reference to this, notes that: "It was clear that with the emphasis given to the monetary aspect (sic!) of development during the 1950's and the shortage of capital from private and public funds, export earnings were rightly to be given greater attention": *Multilateral Commercial Diplomacy* (London: Michael Joseph, 1965), p. 225.

<sup>8</sup> United Nations, *Relative Prices of Exports and Imports of Underdeveloped Countries*.

<sup>9</sup> *Trends in International Trade: A Report of a Panel of Experts* (GATT, Geneva, Oct. 1958), p. 54. The experts were Roberto de Oliveira Campos (Brazil), Gottfield Herbeler (USA), James Meade (UK) and Jan Tinbergen (Netherlands).

foodstuffs like wheat from the developed countries like Australia, Canada and the United States which are rich in land and capital.<sup>10</sup>

Here clearly the comparative advantages were being reversed to suit a new development. If these gentlemen had paused for a moment, they should have realized that India should be the last country to be recommended for the export of manufactures (cheap at that!) in order to pay for the importation of food! The contracting parties appointed a Special Committee III to "consider and report . . . measures for the expansion of trade with particular reference to the importance of the maintenance and expansion of export earnings of the LDCs to the development and diversification of their economies".<sup>11</sup> This was in 1959.

The immediate concern of this Committee was to find out what were the manufactured and/or primary products the LDCs had available for export and what were the obstacles to their exportation. The Committee sorted out eleven products which they examined in detail and, according to Curzon: "the examination brought out some interesting facts."<sup>12</sup> The eleven products examined were: vegetable oils, tobacco, cotton textiles, tea, coffee, cocoa, jute products, cotton, timber, copper and lead. The "interesting facts" found by the Committee were that for manufactured products like cotton and jute goods, the industrialized countries used *high* tariffs as one of the means of protection; while for lead, oilseeds, copper or cocoa, *low* tariff rates were offered for *untransformed* imports, while any transformation of these products was submitted to a very high protective tariff rate. It was observed that where a nominal tariff was imposed on, say, processed cocoa, the effective rate of protection was found to be much higher than could be judged on the surface. A duty-free rate on unprocessed cocoa compared to a 10 per cent duty on processed cocoa, where the value added by the transformation was 10 per cent, turned out to be 100% effective protection for the processors in the DCs. This protection had the tendency to thwart the efforts of the LDCs to improve the quality of their products so as to earn more, and ensured their role as perpetual suppliers of raw materials to the DCs. To quote Curzon again:

The effect of the collected knowledge of these trade obstacles on the underdeveloped countries was impressive. The studies showed them how pervasive and ubiquitous obstacles to trade expansion really were for them. For the first time in GATT history, they met as a distinct group and agreed on a note to be submitted to the Contracting Parties.<sup>13</sup>

What the LDCs already knew from actual concrete experience is made to appear a discovery by the GATT. What is of more interest to us, however, is that the note to the Contracting Parties drew the not unfamiliar dragging of the feet. The note had pointed out to the Contracting Parties that the goods of the LDCs met with other barriers than tariffs, that their exports

<sup>10</sup> *Ibid.*, p. 80.

<sup>11</sup> Terms of Reference Committee III, 2/939, 27/11/59.

<sup>12</sup> *Multilateral Commercial Diplomacy*, op. cit., p. 225.

<sup>13</sup> *Ibid.*, p. 231.

were few in number. Their capacity to negotiate on tariffs was limited, and they unilaterally demanded the removal of the non-tariff barriers since they had no concessions to offer. They needed to retain tariffs on imports in their countries for fiscal and developmental reasons. They felt that the problem of increased export earnings should be considered as "extremely urgent". Although some steps were taken in various countries, these had marginal effects. The UK and Japan, for instance, reduced the duty on jute control from 30% to 20% and Japan alone liberalized on imports of coffee beans from all sources. Although various other studies were made, there was no progress in the implementation of any of the proposals in any meaningful way. On the contrary, increased exports of products like textiles to those areas where there had been a relaxation of barriers resulted in a clamp-down there. The result of the influx of textiles was the Short Term Cotton Textile Agreement limiting their importation to the markets of DCs on the grounds that such increased imports created "market disruption" in the DCs, a fact which went down to put one more nail in the coffin of the "theory of comparative advantage"! As one author on GATT has aptly commented: "There was no suggestion that the exporting country was doing anything improper. Rather, the principle of comparative advantage was itself being called into question."<sup>14</sup> That cotton textiles were singled out for this treatment is more than ironic. The DCs themselves in the early stages of capitalist development, made their "take-offs" with this industry.

It is not surprising that in such circumstances countries like India should find it necessary in 1961 to carry along with them their Third Five-Year Development Plan in one hand and a bowl in the other to the Ministers' Meeting of the six-nation consortium, for a first instalment of \$2,225 million created by the "trade-gap".

But what is interesting is that the Committee, after three years' investigation, again came up with ten "specific recommendations". These ranged over the usual spectrum of prayers and requests, which later came to be referred to as the Action Programme, calling for the removal of quantitative restrictions on imports of LDCs and that DCs "should adopt a sympathetic

14 Kenneth W. Dam, *The GATT: Law and International Economic Organizations* (University of Chicago Press, 1970), p. 299. "Market disruption" was defined by the contracting parties as occurring when the following elements combined:

- "(i) a sharp and substantial increase of imports of particular products from particular sources;
- (ii) these products are offered at prices which are substantially below those prevailing for similar goods of comparable quality in the market of the importing country;
- (iii) there is serious damage to domestic producers or threat thereof;
- (iv) the price differential, intervention in the fixing or formation of prices, or from dumping practices."

This definition was not taken as exhaustive. [*Basic Instruments*, 8th Supplement (1960), p. 26]. Patterson, in *Discrimination in International Trade: The Policy Issues 1945-1965*, lists woollen textiles, leather and leather manufactures, cutlery, linoleum, rugs and carpets, footwear and various electrical appliances as likely "candidates" for such arrangements as the Long Term Textile Arrangement (pp. 321-2).

attitude to the question of reciprocity of tariff concessions to meet the special needs of the LDCs".

#### PRESSURES FROM OUTSIDE

At this rate there was bound to be concern from other quarters. This came from ECOSOC where for a long time the Soviet Union had been pressuring for a World Trade Organization, because, in its opinion, and justly so, the GATT was a capitalist businessman's club with its Ricardonian rules. The sympathetic response from the Third World, in spite of rejections from the Western capitalist States, put the matter outside GATT's hands, at least for a time. GATT, however, manoeuvred to forestall UNCTAD by drafting a three Article Part IV [xxxvi-xxxviii] to be added to the GATT dealing specifically with "Trade and Development" in November 1965. This was but one of the usual tactics of giving the impression that something was really being done. The addition turned out to be nothing more than a declaration of the facts already known, namely that GATT stood for the raising of standards of living of all countries; that the export earnings of the LDCs was vital for their development; that there existed a trade gap and that in the circumstances a "joint" effort was essential "to further develop the economies of the LDCs". The contracting parties added nothing of substance but notably conceded that "the DCs do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of LDCs."<sup>15</sup> In their "commitments", (which were to be given effect "to the fullest extent possible, that is, *except* when compelling reasons, which may include legal reasons, make it impossible"), the DCs resolved to "accord high priority to the reduction and elimination of barriers to products currently or potentially of export interest to LDCs, etc."<sup>16</sup> Dam has correctly called this "a great deal of verbiage and very few precise commitments."<sup>17</sup>

But to keep the tradition of structuring and restructuring, Committee III was replaced by a new Committee to be known as the Trade and Development Committee. Marx and Engels had observed that one thing which distinguishes the bourgeois epoch from all the other epochs is the capacity by the bourgeoisie to constantly and uninterruptedly disturb social conditions creating everlasting uncertainty and agitation: "All fixed, fast, frozen relations, are swept away, all new-formed ones become antiquated before they ossify."<sup>18</sup> In their struggle to survive and to continue the exploitation under different guises and covers, this becomes a necessity.

#### UNCTAD AND PREFERENCES

The emergence of UNCTAD on the international trade scene in 1964 was, therefore, a realization by the Third World that GATT was unsuited

15 Article XXXVI: 8. Many DCs have never ratified this Article.

16 Article XXXVII: 1.

17 Dam, *The GATT: Law and International Economic Organizations*, op. cit., p. 237.

18 Communist Manifesto, pp. 45-6.

to their developmental needs and that its rules were too stringent in favour of the stronger imperialist economies which emphasized "rational allocation of resources by free trade". It can readily be seen why they should feel compelled to press for access to markets of the DCs for both their agricultural products and rudimentary manufactures. We have already observed that after the era of open colonialism the imperialist powers, at the insistence of the US, found a collective interest in creating multilateral markets in the former colonies or semi-colonies. Although associate preferences continue to exist, these preferences nevertheless exist over and above the multilateral markets. Thus when the Third World embarked on import-substitution as a strategy to 'economic development', the imperialist monopolies saw no harm in financing them either by way of direct investment or official loans. Such investments and loans, needless to say, helped these monopolies to expand their markets further in the neo-colonies, and these channels were effectively used to extract ever increasing surplus from the labour and resources of the Third World. With the import-substitution factories on their feet, the problem of markets for the products became more pressing and hence the pressure for non-reciprocal concessions by DCs to the entry of these products on their markets.

Thus, one of the first steps taken by UNCTAD I in Geneva in 1964 was to lay down General and Special Principles on the question of preferences for the products of the LDCs. The Secretary-General, in his proposal to the Conference, pointed out that the objective of the Conference should be to adapt those existing preferences to the new system of "Special and General Preferences in such a way that there is no discrimination among LDCs whilst ensuring that existing beneficiaries receive *equivalent* preferences under the new system."<sup>19</sup> In a Resolution the Conference, in conformity with this proposal, resolved that:

Preferential arrangements between DCs and LDCs which involve discrimination against other LDCs, and which are essentially for the maintenance and growth of export earnings and for the development of the LDCs at present benefiting therefrom, should be abolished *pari passu* with the effective application of international measures providing at least equivalent advantages for the said countries...<sup>20</sup>

But this was to be within the "General Principle Eight" which was henceforth to guide trade relations between DCs and LDCs. This principle laid down that: "LCs should grant concessions to all LDCs... and should not, in granting these or other concessions, require any concessions in return from LDCs..."

These resolutions and principles were not wholly accepted by the DCs. The US particularly, objected to preferences. This view was shared by Canada, Switzerland, Japan and, to some extent, Sweden and Norway. Although France and Belgium advocated selective, as opposed to general, preferences based on the abortive Brasseur Plan put forward by Belgium

<sup>19</sup> Prebisch, "Towards a New Trade Policy for Development," pp. 118-119.

<sup>20</sup> UNCTAD I: Resolution Annex A. II.I.

in 1963 in GATT, this was seen as propaganda. The paper submitted by France based on this Plan was also rejected by the US.<sup>21</sup> However, between Geneva and New Delhi there emerged a certain consensus on the matter in the OECD block. Equally, although there were differences between the Latin American and African States, a certain unanimity prevailed amongst them. For the US, this turned out to be a strategic problem, which had to be resolved if the US was to maintain its leadership over its 'allies' and to put monopoly capital on a footing to meet this challenge. This the US was able to do, and at Punta del Este on 14 April 1967, the US President Johnson announced the strategy:

We are ready to explore with other industrialized countries—and with our own people—the possibility of temporary preferential tariff advantages for all developing countries in the markets of all industrialized countries.<sup>22</sup>

Thus US monopoly capitalists ("our own people") and the other monopoly groups ("other industrialized countries") quickly worked out a general approach, although not without difficulties and contradictions. But US agreement on this issue was at a price: it demanded abolition by the EEC of 'reverse preferences' granted by the African Associated States to the EEC. Branislav Gosovic, in his recent book, has tried to explore the reasons behind the US reversal of policy:

Why did the American decision-makers change their strategy against the traditional policy, and in spite of fear of "low-wage" products in the US market and the related opposition to such tariff liberalization. In its negative stance toward the GSP, the United States became increasingly isolated politically from the developing and developed countries, while its influence on the scheme was diminished. The tendency towards proliferation and solidification of the Yaounde Convention based EEC preferential arrangements on the African continent was viewed with alarm in Washington. At the same time, the Latin American countries were getting more restless. The GSP was not taking shape and the special preferences were becoming more extensive so, their clamour for vertical preferences in the US—as "defensive measures" against the "Afro-European block"—began to intensify. Of course, any such move would have a negative impact on US relations with the developing countries of Asia and Africa, and would have added to the trend which divided the developing world into tighter spheres of influence.

With the aid of a new strategy, the United States could alleviate some of the above mentioned challenges. For example Latin American countries could be mollified by showing that the US was, after all, doing something active to secure better access for them to the European market, and especially to the EEC. Also, Washington could state that it would extend preferential treatment to all developing countries, excepting those that discriminate against [US] products and give reverse preferences to some industrialised nations. In this manner, a wrench of sorts could be thrown to the EEC's, mainly French-promoted, policy of consolidating the preferential links with a substantial part of Africa. Furthermore the GSP could have a dampening

<sup>21</sup> "Memorandum concerning certain items on the Agenda of UNCTAD," submitted by France at the Geneva Conference, *Proceedings*, Vol. VI, pp. 23-25.

<sup>22</sup> US Department of State, *Bulletin*, Vol. 56, No. 1454 (8 May 1967), p. 709. See also J. Reston, "Punta del Este: Least-Favoured Nation Doctrine," *New York Times*, Int. Ed. (15-16 April 1967).

effect on the further proliferation of special arrangements, while the significance of the existing ones would be reduced. All of these elements called for a reassessment of the situation and played a role in convincing President Johnson of the need to change the policy stand of his country.<sup>23</sup>

This passage is quoted extensively because it shows more brazenly the back-room motivations of post-war imperialism based on multilateral neo-colonialism. Later, we shall refer to the mechanics or tactics of implementation of this policy which clearly underline the above strategy.<sup>24</sup>

Thus, the common positions arrived at by the LDCs in the Algiers Charter and the OECD group formed a basis for a compromise recorded at New Delhi in UNCTAD II in 1968. In a resolution, the Conference:

*Establish [ed.]*, to this end, a special Committee on Preferences, as a Subsidiary Organ of the Trade and Development Board, to enable all countries concerned to participate in necessary consultations. . . .

*Request [ed]* that the aim shall be to settle details of the arrangements in the course of 1969 with a view to seeking legislative authority and required waiver in GATT as soon as possible thereafter.

*Note [ed]* the hope expressed by countries that the arrangement should enter into effect in early 1970.<sup>25</sup>

But the main problem was to agree on the content of the schemes and to take positions on existing preferences and the abolition of reverse preferences. Although the Special Committee was scheduled to meet in November 1968 and early 1969 to draw up its final report, no progress was made by the DCs. It was only around July 1969 that each of the OECD members submitted their illustrative lists, each putting forward a negative list specifying products from Chapters 25-99 of the Brussels nomenclature (BTN) on which it was not prepared to grant preferential treatment. East list was accompanied by statements of assumptions, qualifications and conditions on which each country based its policy. By November 1969 the co-ordinated list was submitted to UNCTAD and to the LDCs. In all, eighteen developed countries agreed to participate in the GSPs. After lengthy consultations in 1969 and 1970 consensus was reached on mutually agreeable arrangements for a Generalized Scheme of Preferences to be introduced in 1971. The "rules of origin" were also agreed in December 1970. In the meantime steps were taken by the '18' to obtain waivers under Article XXV of the GATT to introduce the GSP. The ten-year waiver from Article I (mfn) obligations was granted in June 1971 on condition that the waiver would not be used to raise barriers to trade, the intention of the GSP being "to facilitate trade". The contracting parties of GATT were to review the waiver at the end of the period and to decide whether it was to be renewed.<sup>26</sup> The socialist countries—USSR, Poland, Hungary, Czechoslovakia and Bulgaria announced their intention to contribute to the aims of the GSP and undertook *inter alia*,

23 UNCTAD *Conflict and Compromise* (Leiden: A. W. Sijthoff, 1972), pp. 70-71. Gosovic acknowledges Denmark as first making this latter suggestion.

24 See the section on "Multinational Corporate Strategy and Preferences".

25 Resolution 21 (11), (New Delhi), *Proceedings*, Vol. I, p. 38.

26 See *Journal of World Trade Law*, Vol. 5 (1971), p. 712

to include their provisions in their respective plans to grant technical assistance for the construction of "industrial undertakings" in LDCs.

On 2 June 1971 the EEC Council of Ministers approved their scheme which was to come into force on 1 July 1971 for six months. In 1972 a number of countries submitted their schemes. It would be appropriate at this stage, to examine a number of them.<sup>27</sup>

#### THE "GENERALIZED SCHEMES OF PREFERENCES"

Between 1 July 1971 and 1 July 1972 a number of DCs and socialist countries had implemented their schemes. These included Austria, EEC (6), Ireland, Japan, New Zealand, the Nordic countries, Switzerland and the United Kingdom. The USA and Canada have not yet implemented their schemes because the USA still insists on the elimination of special preferences and the accompanying reverse preferences, or at least guarantees that the preferences will be phased out in two or three years, before it can get its Congress to endorse the scheme. Moreover, the Japanese scheme stipulates that countries maintaining discrimination against Japanese goods in trade or tariffs will cease to benefit under the scheme after three years from the date of the coming into force of the scheme (1 August 1971). The socialist countries which have introduced the schemes are Bulgaria, Czechoslovakia and Hungary. The USSR has been granting preferential treatment to the LDCs since 1965, and Poland, which does not have a customs tariff, has introduced special preferential arrangements to expand its imports from the Third World. Since it is not possible to go into each and every GSP we shall examine the schemes in general. All the schemes indicate (a) product coverage, (b) depth of tariff cuts, (c) safeguard measures and (d) rules of origin.

#### *Preferential Arrangements by the Capitalist Countries*

*Product Coverage.* The schemes in general cover only agricultural and fishery products in BTN chapters 1-24. These products account for a minor share of the imports of DCs from the beneficiaries. The precise product coverage varies from scheme to scheme. The important thing to note is that *agricultural products of current export interest to many LDCs are excluded from the schemes!* This is the crunch of the matter and is an indicator of the nature of the schemes.

Moreover, although the schemes cover manufactured and semi-manufactured goods in BTN Chapters 25-99, *the schemes exclude textiles, leather and petroleum products.* They also cover all primary commodities in these BTN chapters, except that the EEC(6) scheme excludes all primary commodities as well as base metals up to the stage of ingot. This exclusion by the EEC is intended to preserve this market for products from its Yaounde, and, to some degree, the Arusha hinterland to the extent that these areas can enjoy these preserved markets, since they too are subject

27 No effort is made here to deal with the 'pioneer' Australian Scheme of Preferences, introduced as early as 1965, which many observers have described as meant to win friends but with very little effect.

to quotas and other restrictions due to the EEC's common agricultural policy. New Zealand extends treatment only to selected primary products. The countries most affected by the exclusion of textiles and petroleum products include Egypt,<sup>28</sup> Pakistan, Kuwait, Iraq, Saudi Arabia and Bahrain. The EEC exclusion of the agricultural commodities extends of course to all the tropical products from LDCs, except those with special preferences, namely the Yaounde and Arusha groups.

Although the number of manufactured products in BTN Chapters 25-99 which are entitled to preferential treatment under the various schemes is small, the trade involved is substantial, averaging 62% of the 1970 preference-giving countries' imports of all dutiable products from the beneficiaries.<sup>29</sup> But, at the same time, they are products which are subject to high tariff and non-tariff barriers. For certain products considered 'sensitive' from the point of view of domestic production in the EEC, preferential imports are subject to predetermined Community tariff quotas whereby each member of the EEC is allocated a quota in value of quantity, viz: FGR 37.5%, France 27.1%, Italy 20.3%, BENELUX 15.1%.

*Depth of Tariff Cut.* The cuts differ from country to country and from product to product. As far as agricultural products in BTN Chapters 1-24 are concerned the only schemes that have granted 'duty free' treatment are those of Finland, Norway and Sweden. The UK accords similar treatment with the exception of a few items. The other schemes of Austria, Denmark, EEC (6), Japan, New Zealand and Switzerland, give various degrees of cuts, ranging from 1-4 points. The 'duty free' cut gives considerable advantage to the extent that these products are generally highly protected in these markets. The crucial point, however, is that the so-called duty free treatment is subject to "safeguard provisions" (see below).

With regard to products in BTN Chapters 25-99 covered by the various schemes, EEC (6), Denmark, Finland, Norway, Sweden and the UK apply 'duty-free' treatment—with Japan applying 50% reduction of the mfn rate on certain products of special interest to LDCs. Austria and Switzerland apply a linear cut of 30% of the mfn rates, and Ireland one-third reduction, and New Zealand applies various rates of reduction, depending on the product. These apparently generous cuts have to be viewed with caution because the margin of preference will diminish with the progressive increases in the mfn rate as the degree of processing of the products increases. This does not apply to 'duty free' products, where the margin of preference corresponds to the mfn rates of duty.

*Safeguard Measures.* All the schemes have safeguard measures which are intended to provide some degree of control by the preference-giving countries over the trade that might be generated by the tariff cuts. These can be classified into two broad categories: (i) *a priori limitations*, applied

28 Although Egypt is the main supplier of textiles to Denmark, it is excluded from the markets of Sweden, etc.

29 UNCTAD Secretariat, *Review of The GSP—General Report on Implementation of the GSP*, TD/B/C. 5/9 (9 March 1973), p. 4. Most of the data in this section is from this study.

by EEC (6) and Japan in BTN Chapters 25-99, and (ii) *escape clauses* which are applied by all the other preference-giving countries with respect to all the trade and, EEC (6) and Japan with respect to BTN Chapters 1-24.

(i) *A priori limitations.* The purpose of this formula is to regulate preferential imports on the basis of past trade performance of beneficiaries ("basic quota") plus a certain increment ("supplementary quota"). The effect of the formula is to limit imports at a ceiling which falls about short (in many cases) of the current level of imports and potential expansions. To be sure, the actual mechanics of the *a priori* limitation in the case of the EEC quota is to take the c.i.f. value of imports from the beneficiaries in 1968 (basic quota) and add to it 5% of the c.i.f. value of imports from other sources (supplementary quota), to be calculated on the latest information available. These quotas would be subject to the Community quotas (quotas-within-quotas) referred to above. In the case of Japan, the supplementary quota is 10% of imports from other sources, but many items of special interest to the beneficiaries, as pointed out, are subject to a 50% reduction of mfn rate only.<sup>30</sup> The reasons for these *a priori limitations* are obvious: they are in-built safeguards against "market disruption" which would be created by increased importation of products from the LDCs taking advantage of the cuts. As usual, the old game of imperialism is clear: give with one hand and take back with the other! Its only net effect is to transfer the tariff revenue to the beneficiary if the beneficiaries increase their prices to take advantage of the tariff cut, in which case it is aid and not trade that is generated. In whatever event the 'aid' is intended to finance the imports of the preference-giving country in the market of the 'beneficiary'; and the position is as it was before.

(ii) *Escape clauses.* The safeguard in this clause involves the withdrawal of the preference offered where the import of any product from the beneficiary country or countries is in such quantities or under such conditions, as "to cause, or threaten to cause, serious injury" to domestic producers of the like or directly competitive products in the preference giving country. This is a cruder and more straightforward form of denial of the preference. The Nordic countries (Denmark, Finland, Norway and Sweden) provide for invoking the clause if the preferential imports "cause or threaten to cause market disruption". Other reasons include the need to assist the establishment of any new industry, or development of an existing one (New Zealand), or the existence of "critical circumstances" (Sweden). The withdrawal normally is invoked on notice but some schemes provide for unilateral withdrawal (Ireland and New Zealand). Many countries have not spelt out the conditions attached to the clause. The UK, for instance, has invoked the clause against four Latin American countries against the importation of certain leather products for 1973. The duration is not normally specified but some schemes state that the withdrawal will remain in force "to the extent deemed necessary

30 See Brian Hindley, "The UNCTAD Agreement on Preferences," *Journal of World Trade Law*, Vol. 5, No. 6, p. 698.

to correct the adverse situation" (EEC, Switzerland, Sweden). None of the schemes has defined the criteria for application of the clause, and uncertainty surrounds it. Only Austria provides for certain statistical guidelines prior to invocation. The effect of the escape clause in practice is, in the final analysis, the same as the *a priori limitation*. Moreover, the product coverage is spelt out in such a way as to exclude those products in which trade could have been expanded where the Third World countries have 'comparative advantage' namely, textiles, footwear (leather products) and petroleum products.

*Rules of Origin.* To ensure further "tightening" of the trade openings the schemes provide for direct consignment and other origin criteria specified by each scheme.

(i) *Origin criteria.* A product will be considered originating from the preference-receiving country if the product has been produced *wholly* in the preference-receiving country, or when the product has undergone *substantial transformation* from materials and/or components imported and of undetermined origin. All schemes (except New Zealand's) base their origin requirement on the process criterion. The process criterion specifies a transformation that would lead to the exported product being classified under a BTN heading other than that under which the imported materials and/or components used in production were classified. The value-added criterion which New Zealand uses and which the USA and Canada are likely to adopt, specifies a value-added of as high as 50% of the ex-factory price of the exported product. The immediate result of these criteria is to exclude from the scheme traditional products of the beneficiaries of export interest to them. When you add together *the exclusion* of textiles, footwear, petroleum products (which are the products substantially transformed by most beneficiaries, with 'comparative advantage' in those products) from most schemes, and the *exclusion* of other products in which the value-added is *below* 50% of the ex-factory price, as well as the transformation process requirement, what remains for the majority of the 'beneficiaries' is very little. In such circumstances it is not surprising that the Tanzania Minister of Commerce and Industry, in his address to UNCTAD III at Santiago in 1972, should have found it necessary to state: "Certainly the generalised schemes of preferences are of no practical significance or relevance to so many poorly developed countries". To return to the process criterion, the following illustration given by the UNCTAD Secretariat reveals its intention:

Under most schemes garments must be manufactured not from imported woven fabrics but from imported yarn, in order to qualify for preferential treatment. Also plastic goods qualify only if they are manufactured from imported basic chemicals and not from plastic raw materials. Radio sets qualify only if the transistors used in production originate in the developing countries of exportation. It is estimated that during the first eight months of operation of the scheme of Japan, about one quarter of the preferential trade in that market [would have] failed to receive preferential treatment because of the substantial transformation requirement.<sup>31</sup>

31 *Review of the GSP*, op. cit., p. 8, quoting TD/B/C. 5/6, para. 92.

(ii) *Direct consignment.* The other major requirement for satisfying origin criteria is direct consignment. Products eligible for preferences must, in general, be consigned directly to the preference-giving country from the preference-receiving country. If transportation cannot be effected without passing through the territory of one or more countries with or without transshipment or temporary storage, goods must remain under customs transit control and not enter into trade or consumption there. The UK and Japanese schemes further provide that at the time the goods leave the beneficiary country it must be the intention of the exporter to ship them to the UK or Japan respectively, provided that in the case of a landlocked country goods may be consigned from a port in a neighbouring country. In any case this requirement and latter 'concession' to the land-locked countries are intended to preclude the possibility of the beneficiary country storing a product in a suitable port for a period necessary to obtain the most favourable terms for its resale in whole or in part. In the opinion of the Chambers of Commerce of North Sea Ports: "Such a rule is contrary to the most advantageous commercial practices with regard to storage and distribution of imports from developing countries".<sup>32</sup> The UNCTAD Secretariat concludes: "It seems, therefore, that the direct consignment rules as presently applied not only are disadvantageous to trading circles but also do not meet the interests of the developing countries."<sup>33</sup>

(iii) *Certificates of origin.* Some of the schemes specify that even after satisfying the above requirements, the products should be accompanied by a "certificate of origin". The preference-receiving countries must provide information on the relevant Government authorities empowered to endorse the certificates of origin, and in some cases they are required to furnish specimen impressions of stamps used by these authorities and the specimen signatures of the officers issuing the certificates. Those countries which have not complied have had exports excluded from preferential treatment.

#### PREFERENTIAL ARRANGEMENTS OF THE SOCIALIST COUNTRIES

##### *Product Coverage*

Bulgaria grants tariff preferences to all manufactured and agricultural products with the following exceptions: dead poultry, manufactured tobacco, essential oils, articles of furskin, knotted carpets, other carpets, footwear, wrought lead and wrought zinc. Primary commodities are admitted 'duty free'.

Czechoslovakia grants tariff preferences to all agricultural and industrial products including primary commodities, with the following exceptions: white sugar, cigarettes, poultry of all kinds not including feathered game, beer, meat sausages, carpets other than hand-made, hats, ready made articles of textiles.

Hungary grants tariff preference to 299 tariff headings or sub-headings in BTN Chapters 1-99.

32 In *Ibid.*, p. 9, direct communication to the UNCTAD Secretariat, 24 October 1972.

33 *Ibid.*, p. 9.

USSR grants tariff preferences to all products falling within BTN Chapters 1-99.

#### *Depth of Tariff Cut*

Bulgaria and Czechoslovakia grant a 30% and 50% reduction respectively in mfn rates. Hungary cuts range from 50% to 90% of mfn rates on most products, and 'duty-free' treatment on a large number of products, the average reduction being around 50% of the mfn rates. The USSR grants 'duty-free' treatment to all the products.

#### *Safeguard Measures*

The schemes of the socialist countries reserve rights to take protective measures in accordance with customs regulations in force in their countries in exceptional circumstances, and other schemes provide for reduction or increase of preferential rates for determined periods, or for suspension of their application. Czechoslovakia subscribes generally to the above. However, it accepts the GATT definition of the criteria for determining injury or threat of injury to domestic production. Czechoslovakia too is prepared to hold prior consultations on a bilateral or multilateral basis before escape action is taken. The USSR has made no provision for re-introduction of duties abolished or for adoption of any measures of a protective character.

#### *Rules of Origin*

The Bulgarian scheme insists on the criterion of goods wholly produced or mainly processed in the beneficiary country. A certificate must accompany the goods. Czechoslovakia applies the same criterion and alternatively requires that the goods should undergo a manufacturing process which increases the original value of the goods by 100%. The Government of Czechoslovakia, however, states that it has no experience in applying the process criterion, but that until it has gained experience from other countries applying this criterion it will rely on the judgement of its customs officers on whether the component percentage has been observed.

Hungary applies a 50% value-added criterion and like Czechoslovakia relies on the judgement of the customs officials. Documentary evidence is required for goods with customs value exceeding 50,000 forints. Where the value-added includes a Hungarian-made component the treatment accorded is 'duty-free'. The USSR scheme gives no details but merely requires that the goods must have originated in the beneficiary country.

#### SPECIAL PREFERENCES AND SPECIAL MEASURES FOR THE LEAST DEVELOPED OF THE DEVELOPING COUNTRIES (LLDC)

As pointed out earlier the introduction of GSP by many of the preference-giving countries was conditional on the elimination of special preferences. In this connection the UNCTAD Special Committee on preference stated that the developing countries which share their existing tariff advantages in some preference-giving countries as a result of the introduction of these

schemes will expect the new access in other preference-giving countries to provide export opportunities at least to compensate them. These are the two African groups (Yaounde and Arusha), the Association Agreements with Tunisia and Morocco and the LDCs which enjoyed Commonwealth preferences in the UK and New Zealand. Experience under the EEC scheme showed that as far as the African associated States are concerned their exports were unaffected by the scheme. Only 5% of the Yaounde exports and 6% of the Arusha exports and 21% of those of Tunisia and Morocco were affected by the EEC GSP. As far as the Commonwealth preference is concerned, the UK scheme safeguards its beneficiaries either through the negative list or through duty margins and quota allocations. The UNCTAD Secretariat worked out an estimate of the extent to which the special preference beneficiaries have shared their protected markets with other GSP beneficiaries. This showed that in 1970 the imports from the African States associated with EEC and those enjoying Commonwealth preferences of products included in the EEC and UK schemes altogether amounted to \$72 million, which these States have to share with the other GSP beneficiaries. As against this figure the African associated States' exports to other markets in 1970 amounted to \$43 million c.i.f. value which would offset any 'loss' by other beneficiaries gaining entry to the EEC through the GSP. However, it must be noted that special preference margins are greater than the GSP margins, and hence special preferences still play a role in spite of the GSP.

As regards industrial products special preferences offer duty-free treatment to the associates for all products in BTN 25-99 (subject to rules of origin). In 1970 these accounted for \$62 million of EEC imports from the associates as opposed to agricultural products which amounted to \$10 million in imports. The EEC GSP excludes industrial raw materials which EEC obtains cheaply from the associates in Africa.

The Commonwealth preference beneficiaries' exports in 1970 amounted to \$525 million to the UK and New Zealand, but they will have access under GSP from other DCs amounting to \$800 million which these DCs imported from them. With the EEC enlargement these Commonwealth schemes would have become irrelevant and the Commonwealth beneficiaries will be taken care to under Protocol No. 22 to the Accession Treaty under which the 'three' joined the 'six'.

As far as East Africa's exports to the UK were concerned these enjoyed Commonwealth preferences which averaged around 10%. Among these commodities were coffee (unroasted), cashewnuts and kernels, tobacco (unmanufactured), canned beef, meat extract, cloves, pineapples (fresh, tinned and juice), groundnuts, cotton seed cake, etc. All these items were imported into the UK duty-free except for tobacco (unmanufactured) which was imported at a preferential rate.

As regards the LLDCs, the UNCTAD Resolution 21(ii) called for special attention for exports and export earnings of the 25-hard core least developed countries, among which Uganda and Tanzania feature prominently.

A special committee was set up to "further investigate and consult" in regard to special measures in favour of these countries. The Special Committee emerged with a report showing the measures that might be taken with regard to improvements in the product coverage and depth of tariff cut as well as the application of the safeguards and rules of origin. Its conclusions which are drawn from the 1970 trade flows are pregnant with the ever increasing "new discoveries", for instance that:

- (i) imports by preference-giving market economy countries from the LLDCs "are at present very small and limited to a narrow range of mainly agricultural products and industrial raw materials";
- (ii) most imports of non-agricultural products (BTN Chapters 25-99) are already admitted duty-free under mfn treatment and thus fall outside the scope of the GSP, the remaining dutiable imports are largely covered by GSP;
- (iii) unless the product coverage under the GSP is extended to dutiable products currently imported from LLDCs and, as appropriate, deeper tariff cuts are provided for these products, "the LLDCs are not likely to derive much benefit from GSP in the short-run".

The UNCTAD Secretariat estimates that about *one fifth* of imports subject to duty under mfn treatment (8% of total imports) are covered by the various GSPs. The estimate also shows that the LLDCs would have enjoyed generalized preferences on imports worth \$51 million.

#### TRADE LIBERALIZATION AND THE GSP

In addition, the trade "liberalization" which has taken place with the enlargement of the EEC and the on-going trade negotiations under the GATT (the so-called "Nixon Round") are bound to have an impact on the GSPs.

#### *Enlarged EEC and Free Trade Areas*

In the first place the enlargement of the EEC on 1 January 1973 meant in effect the progressive removal of tariff and other barriers to trade which are to end by 1 July 1977 resulting in a fully-fledged customs union for the EEC (9). The effect of this will be that the preference-receiving countries will be less favourably treated in the enlarged Community than formerly since the new members' products will receive more favourable treatment. In the case of East African exports they will continue to gain duty-free access into the UK market as well as to the EEC, at least during 1974. There will be some reduction in East Africa's present margin of preference since the EEC CET tariff rates are somewhat lower than the UK tariff rates. Among the products that will be affected are cashewnuts and kernels (UK 10%, CET 2.5%), cordage, rope, sisal twine (UK 15%, CET 13%), cotton seed cake (UK, 10%, CET free), groundnuts, palm nuts and kernels, and sunflower seeds (UK 10%, CET free). But East Africa will gain some 'marginal advantage' in the UK market in the case of those products for which the EEC CET rates are higher than the current UK tariff rates.

Such products include pyrethrum flowers (CET 3%, UK free), pyrethrum extracts (CET 5%, UK free), fresh pineapples (CET 13%, UK free).

The main impact on East African agricultural exports to the UK will fall on those products which come under the Common Agricultural Policy of the EEC. Community preference for agricultural and farm products will be introduced the moment Britain comes under the CAP in 1977, and this will definitely affect a number of East African products such as dairy products, meat products, sugar and horticultural products. The "Six" have surpluses in the first three, while the UK is an importing country. Meat products are a growing source of foreign exchange for East Africa, and the bulk of its exports enter the UK market. Moreover, by January 1974, the new members (including UK) were required by the Accession Treaty to align their GSP with that of the EEC (6). As a result, the enlarged Community will have a new scheme to come into force by that date. A proposal by the Commission to the Council for the new GSP for 1974 replacing the 1973 scheme was put to the Council in late 1973 for products in BTN Chapters 1-24, without waiting for proposals for manufactured and semi-manufactured products. In the proposal the Commission suggested (a) an increase in the margin of preference granted for products which were listed in the regulations already in force, (b) an extension of the number of products covered.

Thus, processed agricultural products subject to a single duty, underwent, under the proposal, an overall increase from 20% to 40% except in the cases of certain "sensitive" products where the margin was widened from 10% to 20%; and in the case of products subject to a two-tier duty (fixed component and variable component) the reduction in the fixed component was increased to 50% whenever it had been less than previously. The product coverage was widened to include products with certain forms of pasta, China-wood oil, certain other oils (cocoa) for technical uses, fish meal, tea in packings of 3 kg. or less, certain cereals, certain vegetables, cigarettes, cigars and smoking and chewing tobacco. The improvements were supposed to add \$160 million to imports in these new preferences.<sup>34</sup> The significance of the 1974 scheme is not, however, known but it may be said that the benefits from 'open-ended' UK and Danish schemes would be lost under the enlarged EEC GSP.

Moreover, the free trade area agreements between the enlarged Community and a number of EFTA members like Austria, Iceland, Portugal, Sweden, Switzerland and Norway, will confer higher preferential treatment to the products of these countries than under the GSP. What is more, the EEC is seeking a "global solution" to its relations with the Mediterranean countries by July 1977. The recent coup in Portugal further opens up the possibility of a free trade area between the EEC and Portugal and possibly Spain. This "global solution" is clearly intended to re-allocate markets to products of Western capitalist countries among themselves first and whatever

<sup>34</sup> Commission of the European Community, Proposal from the Commission to the Council, Brussels, 13 July 1973.

remains to products of the Third World. This means, as the UNCTAD Secretariat has pointed out:

... the developing countries dependent on the GSP for access to preferential markets of the enlarged Community will enjoy preferential margins in those markets only over competing exports from third countries mainly in the USA, Japan, Canada, Australia, New Zealand, South Africa and socialist countries of Eastern Europe.

The same also holds for all the developing countries as regards access to the markets of other preference-giving developed market economy countries in Europe: Austria, Sweden and Switzerland and eventually Norway and Finland also... Only the schemes of Japan and New Zealand (as also the USA and Canada when implemented) offer preferential margins to beneficiary developing countries over all other countries.<sup>35</sup>

#### *Multilateral Trade Negotiations ("Nixon Round")*

The multilateral trade talks got off the ground with the Tokyo Declaration. Although the declaration set out with two basic objectives namely,

to achieve expansion and "ever-greater liberalization" of world trade... through the progressive dismantling of obstacles to trade... and; to secure additional benefits for the international trade of LDCs so as to achieve a substantial increase in their foreign exchange earnings, the diversification of their exports, through a substantial improvement in the conditions of access for the products of interest to the LDCs;

these broad aims are bound to contradict each other. This is because any multilateral reduction of the mfn rates will correspondingly reduce the margins of preference for the various GSP on the preferred products, the depth of tariff cuts and the period over which the preferences are to be realized. The achievement of zero liberalization of mfn rates on preferred products would in effect wipe out any preferential effect of the GSP! In this case 'free-trade' may mean 'no-trade' for the LDCs in most products, bearing in mind that manufactured products over which they have 'comparative advantage' like textiles, leather goods and petroleum products are excluded from GSP. Moreover, they would still be at a disadvantage under 'free-trade' since various non-tariff barriers exist which cannot be removed without causing 'market disruption'!

#### TRADE IMPLICATIONS OF THE GSP IN DEVELOPING COUNTRIES

The trade implications of the schemes already implemented are not immediately apparent because of the short period they have been in force. The UNCTAD Secretariat has made some estimations of the probable benefits to the beneficiaries by taking the 1970 trade flows which would have been covered by the different schemes, and for which computer data were available in sufficient detail. This investigation excluded Ireland because no such data was available for the country. The estimations show that \$15 million worth of trade, two-thirds of the imports valued at \$24 billion from the beneficiaries, would have been admitted duty-free under mfn tariff treat-

<sup>35</sup> *Review of the GSP*, op. cit., p. 35.

ment. This means that this flow was unaffected by the schemes but was subject to the usual non-tariff barriers. Of the remaining \$9 million imports, agricultural and fishery products accounted for 43% (\$3.9 billion). It will be recalled that these products are excluded from the schemes with various small exceptions amounting to \$200 million. This left \$5.1 billion or 21% of total imports of dutiable industrial products including raw materials which would have been eligible for preferential treatment under the existing schemes, with a number of exceptions. For instance, EEC excludes *all* industrial raw materials from the beneficiaries. The excluded items account for one third of the dutiable products in BTN Chapters 25-99 from the beneficiaries. Most other preference-giving countries (except Denmark), as pointed out already, exclude textiles, leather goods and petroleum products. As far as Japan, EEC and UK are concerned these latter exclusions accounted in 1970 for 78%, 38% and 11% respectively of their dutiable products (BTN Chapters 25-99) imported from beneficiaries.

The imports excluded from preferential treatment can be summarized as follows.

	<i>Imports from beneficiaries (\$ billion)</i>	<i>Share of (total %)</i>
All Products ... ..	24.00	100
less Duty-free under mfn ... ..	15.00	63
less Dutiable agricultural and fishery products not covered by the schemes	3.7	15
less Dutiable industrial products not covered by the schemes ... ..	3.2	13
equals Products covered by the schemes ...	2.1	9

Thus, in the final analysis only \$2.1 billion of imports by preference-giving countries, from the beneficiaries or only one fourth of their total dutiable imports, would have qualified for the GSP had they been in operation in 1970.<sup>36</sup>

It should also be borne in mind that this benefit would not have been available to all the beneficiaries. The more developed of the LDCs would have benefited more than the least developed. It is estimated that the major beneficiaries accounted in 1970 for \$829 million or 39% of the total trade which would have been covered by the schemes (i.e., of \$2.1 billion). But due to tariff-ceilings and tariff-quotas or maximum amount limitations in the EEC and in Japan only \$600 million of this amount would have entered under their GSP. Of the least developed, many of their products could have found no access to the markets of the preference givers.

The experience of the socialist countries cannot be assessed, but a number of countries (Hungary, Bulgaria) indicated that the response so far had been unsatisfactory. The reason given was that the export drive of the LDCs was directed mainly at countries with convertible currencies.

<sup>36</sup> *Ibid.*, p. 20.

It was also observed by these countries that the beneficiaries tended to raise their prices by an amount equal to the preferential margin. As a result, the tariff revenue foregone could not be passed to the consumer through lower prices, and sales, therefore, showed no tendency to increase. The USSR reported that "in practice no difficulties have been encountered in commercial transactions between the Soviet Union and the developing countries since the introduction of the preferential regime on 1st January, 1965."<sup>37</sup>

Apart from the above UNCTAD estimate, there have been other academic estimates. Grant L. Reuber, assuming the maintenance of mfn rates of zero, concluded that the total effects at 1961 trade levels would have been an increase in LDCs' exports of the order of \$600 million. He further estimated that if quantitative restrictions were removed from competing LDC goods, the additional exports would have come to about \$1.1 billion.

He concluded that these effects were negligible compared with the then current levels of trade and aid.<sup>38</sup> John Pincus' conclusions are "not significantly different". His method assumed that the preferences would be on product-to-product basis rather than generalized (as they turned out to be), and he made a further three assumptions of different rates, excluding all competing products of LDCs from the estimation. He concluded that total increase in imports at 1963 levels would have been \$2.5 billion based on a duty-free 5% tariff quota or under, and \$5.2 billion based on a duty-free 10% tariff quota. He stands firm on an estimation of \$1-2 billion, which in his opinion is negligible in terms of market access of the LDCs' products.<sup>39</sup>

#### MULTINATIONAL CORPORATE STRATEGY AND PREFERENCES

The analysis to date has revealed that the export increases of the GSP are negligible. Hindley has argued that the schemes *per se* will do very little if anything to attain the declared ends of the "Group of 77" to increase exports through improved access to the markets of the DCs. This is because, as he correctly points out, "the ability to restrict exports from developing countries remains securely with the advanced countries."<sup>40</sup> It is submitted here that the little 'gain' made by the LDCs under the GSP will also be to the benefit of the DCs. As far as the aid element in the GSP is concerned, it has been argued that this will ultimately end up in the DCs through increased exports to the LDCs. Hindley estimates the aid effect at \$4-5 million, which is miserable compared to the OECD aid of \$7 billion for 1967. Be that as it may, to the extent that the GSP will tend to strengthen import substitution strategy leading to increased manu-

<sup>37</sup> *Ibid.*, p. 28.

<sup>38</sup> Grant L. Reuber, *Canada's Interest in the Trade Problems of Less-Developed Countries* (Montreal: Private Planning Association of Canada, 1964), pp. 23-28.

<sup>39</sup> *Trade, Aid and Development*, op. cit., p. 229-230.

<sup>40</sup> Hindley, "The UNCTAD Agreement on Preferences," op. cit., p. 701.

facturing, this too is no longer, in certain circumstances, feared by the new Multinational Corporate Strategy of the monopolies. It is clear that the leading capitalist powers are scheming out a new international division of labour whereby, because of their lead (particularly the USA) in science and technology, they have a great advantage in that field. This will of course enable them to control management of joint ventures and to control sources of raw materials. In this way certain aspects of manufacturing can be pushed on to the Third World. *Le Monde* correctly summed up the situation when it pointed out that:

But why have they chosen preferences instead of an aid programme? The most obvious reason is that it will benefit foreign firms established in the poor countries, which are equipped to take advantage of the opening up of the markets of the rich countries.

The system of special preferences will thus enable the international companies to profit from both the cheap labour of the poor countries, as a factor of production, and the high salaries of the rich countries, in terms of purchasing power.

To this redistribution of activity within the international firms must be added a redistribution of the economic activities on a world scale. The rich countries tend to specialise in the most advanced capital-intensive technological sectors. By 'abandoning' the other sectors to the poor countries, this trend towards an ever-increasing specialisation will be intensified.<sup>41</sup>

Professor Johan Galtung, in his recent study of the European Community, comes to the same conclusion and adds three conditions under which the Community can implement its GSP:

- (a) That the processed goods do not compete with EC industry because they are no longer produced inside EC. Hence they are bound to be goods like textiles and "not-too-processed" iron goods and/or goods produced by highly polluting industries that EC would prefer produced outside.
- (b) That the processed goods are produced in the MNCs with headquarters in EC countries. This would give the MNCs sufficient room to manoeuvre financially. "Thus the MNC may fix prices so that profits show where taxes are lowest".
- (c) That the EC will still be free to export goods at a higher level of processing than what they import from Third World countries. This division of labour is maintained in all the fields of capital (from centre), labour (from periphery) and land (from periphery).<sup>42</sup>

#### CONCLUSION

This analysis has tried to show that imperialism cannot exist without the exploitation of the Third World, that whatever new structures are created are intended to obscure the exploitation inherent in the system. Neo-colonialism can, therefore, be seen as a stage in the evolution of imperialism. The

<sup>41</sup> *Le Monde Weekly*, 15-21 April 1971, p. 5.

<sup>42</sup> *The European Community*, op. cit., p. 76.

post war multilateral trade system was meant precisely to cater for this situation. The "problems of underdevelopment" that have attracted ever increasing numbers of petty-bourgeois ideologists—themselves contributing to the underdevelopment in the process—should not come to us as a surprise. The objective laws of capitalist development *do not* in the final analysis *obey* the juridical rules that may be constructed in their way. They operate quite independently of these rules and of the will of all those involved. Just as the workers and peasants have to produce for the system on penalty of death, so the system has to expand to its grave. But such death to the system does not come on its own but out of violent class struggles, which are the dialectical result of the evolution of the system. At a certain stage, these existing productive forces come into conflict with the production relations, resulting in a consciously organized social revolution, thus liberating the productive forces from the fetters of capital, and in turn creating conditions for man to liberate himself. There can be no short cut to this dialectical law, as history has shown.

Thus, the existing unequal relationships between the imperialist centres and the exploited Third World peripheries will only be finally resolved through such fundamental change in property relations, a task which the revolutionary petty-bourgeoisie, working closely in alliance with the forces of the workers and the peasantry can bring about. In the meantime the GSP and any new rabbits coming out of the old hats of imperialism must be seen for what they really are: camouflaged channels for the extraction of the surplus from the Third World.

## Assessing Local Administrative Capacity for Development Purposes: A Kenyan Case

W. OUMA OYUGI\*

The failure to implement development programmes at the local level once they are formulated can be attributed to a number of factors. Among them is the administrative incapacity of the implementing agencies, departments, or people, as the case may be. In this paper we shall be concerned with the analysis of some of the administrative factors that retard the local development process.

The data on which the paper is based were collected between March 1970 and June 1972, and covered the period between 1967 and 1971.<sup>1</sup> The study was conducted in Migori Division of South Nyanza District where A Special Integrated Rural Development Programme had just been initiated. The following departments were included in the survey: Agriculture, Provincial Administration, Community Development and Co-operatives. These departments were chosen for the very simple reason that they are usually the ones with organizational (or personnel) representation at the local level, and also because of the important roles they play in planned development. Data were collected through oral interviews, questionnaires and observation. The findings are discussed below.

The paper begins with an examination of the nature of departmental capacity in the area at the time the special integrated rural development programme was being introduced. This is important because an increase in work load without a corresponding increase in personnel usually leads to administrative incapacitation especially under conditions of full employment in the organization. Whether or not this is always true in rural Kenya is open to debate. For our purpose, however, what we are concerned with in this section is the assessment of whether or not the staffing situation in the selected departments was of the kind and magnitude capable of grappling with the problems introduced by the new programme, one which called for intensive integrated rural development on several fronts.

To begin with, the Department of Agriculture had two Assistant Agricultural Officers (AAOs) in the area (the area covered two administrative divisions) and forty-five extension agents—15 Agricultural Assistants and 30 Junior Agricultural Assistants. This area of about 1,920 sq. kilometres,

\* Lecturer, Department of Government, University of Nairobi.

<sup>1</sup> The data used here are from the 'reserve bank' developed when I was in the field collecting data for my Ph.D thesis. This is the first time they have been analysed. I am indebted to the Dean's Committee and to the Institute for Development Studies, University of Nairobi for the grants which enabled me to undertake the study.