Commonwealth Preferences in Retrospect: Some Lessons for the Developing Countries *

Economists and political leaders, in attempting to focus on the shape of the international economic order in the 1980's and beyond, have shown increasing concern with problems of commercial regionalism. Attention has been focused primarily on the enlarged European Community's preferential trading system encompassing the member and non-member industrial countries of Western Europe. Although perhaps of less immediate significance, concern for the longer term has also focused on the existing and emerging preferential commercial ties between the EC and the African Yaoundé II and Arusha groups, the Mediterranean states, and the "associable" developing countries of the British Commonwealth.[1]

Where does this leave the "non-associable" Commonwealth (CW) developing countries?[2] How should the developing Latin America and Asian nations accommodate themselves to the evolving trade-policy realities? The options most frequently mentioned

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1 A discussion of the Yaoundé and Arusha groups is contained in Institut d'Etudes Européennes, *L'Association à la Communauté Economique Européenne* (Brussels: IEE, 1970). For an analysis of the Mediterranean basin, see HARRY H. BELL "Trade Relations with the Third World: Emerging Patterns of Trade Preferences", in ROBERT G. HAWKINS and INGO WALTER (eds.) *The United States and International Markets* (Lexington: D.C. Heath, 1972). Aside from dependent British Territories associable under Art. IV of the Rome Treaty, independent Commonwealth developing countries eligible for EC trade preferences are: Barbados, Botswana, Fiji, Gambia, Ghana, Guyana, Jamaica, Kenya, Lesotho, Malawi, Mauritius, Nigeria, Sierra Leone, Swaziland, Tanzania, Trinidad and Tobago, Tonga, Uganda, Western Samoa, and Zambia.

2 These include Bangladesh, Burma, Sri Lanka, Cyprus, Gibraltar, Hong Kong, India, Malaysia, Malta, Pakistan, Rhodesia and Singapore.

include: (*a*) An American North-South free-trade zone and a Pacific Basin trade bloc centered on Japan; (*b*) Bilateral accommodation with the EC;[3] (*c*) The UNCTAD non-reciprocal, non-discriminatory Generalized System of Preferences (GSP) for developing countries;[4] and (*d*) Multilateral trade negotiations to reduce tariffs and non-tariff barriers on a global basis, thereby refusing the issue of geographic trade discrimination vis-à-vis the developing countries. Disinterested observers may wonder what all the excitement is about; whether differential market-access via preferential tariffs is really very important in determining developing countries' export patterns and growth. The present paper approaches this question by examining the impact of the Commonwealth Preference (CP) system on the relative performance of the beneficiary developing countries and territories in the U.K. market, and suggests some contemporary policy options for the developing nations.

I. Commonwealth Preference Margins

Preferential access to the U.K. market for exports of the developing CW area, of course, dates back to the British colonial commercial policy — wherein "reverse preferences" for exports of Great Britain played a cardinal role — and affected primarily tropical agricultural products subject to high revenue duties. The principle was continued during the inter-war period, and strengthened during the period 1947-58 by monetary arrangements involving the rationing of dollar-exchange allocations under the Sterling Area complex. As of 1970, U.K. dutiable imports from developing CW countries amounted to $1.2 billion, compared with $372 million from all other developing countries combined.

As with all preferential trading arrangements, assessments of the net impact of the CP system based on economic theory must rely heavily on the level of « most-favored nation" (mfn) rates of duty. It has been estimated that the widest CW margins of preference existed during the middle 1930's, when general tariff rates were extremely high and about 60 percent of U.K.

3 A useful discussion is contained in Ernest A. Preeg, *Tripolarization of the World Economy* (Washington, D.C.: National Planning Association, forthcoming).

4 See UNCTAD documents TD/B/AC.5/35 and TD/B/373 and Addenda.

imports from CW countries entered under preferential rates.[5] The weighted average margin of preference at that time was 19-20 percent, and declined to about 7 percent in 1948 — when present CW developing countries were embarking on independence. With the re-establishment of Sterling convertibility in 1958, the weighted average CW preference margin had fallen to about 5½ percent, but the increasing relative importance of trade in dutiable manufactures caused them to widen again to about 7 percent by 1965. The success of the Kennedy Round in reducing mfn rates of duty further narrowed the CW preference margin to 6.1 percent by 1972 for industrial products — a margin reduced further by new tariffs in 1972 on imports of cotton textiles from developing CW countries.

Table 1 presents the CP margins of preference in disaggregated form based on an UNCTAD stratified randomized sample of products. It is clear that the post-Kennedy Round margins of preference for developing CW countries are significantly lower than the pre-Kennedy Round margins for all groups of products. It is also clear that the margins of preference favoring developing CW suppliers have tended to be higher, the higher the degree of processing involved. For broad aggregates, there is little difference in the resulting preference margins whether they are weighted by U.K. or OECD imports from developing countries. However, there is a very major difference between the aggregates for the following product groups: Brussels Tariff Nomenclature (BTN) 25-99, industrial products *including* raw materials, and Standard International Trade Classification (SITC) 5-8, manufactured products *excluding* raw materials.

One might expect from these data that the CP system should have significantly assisted the CW developing countries in penetrating the U.K. market for manufactured products. It has in the past been difficult to establish whether or not preferences under the CP system actually aided the beneficiaries in gaining measurably-improved access to the industrial Commonwealth markets. A study of Canadian preferences found no statistically significant evidence to this effect.[6] A study of the potentially adverse

5 See Harry H. Bell, "Trade Relations with the Third World: Preferential Aspects of Protective Structures", in Robert G. Hawkins and Ingo Walter, *op. cit.*, Chapter 12.

6 James R. Melvin, "The Effects of Tariff Preferences on Canadian Imports: An Empirical Analysis", *Canadian Journal of Economics*, February 1972.

TABLE 1

ESTIMATED AVERAGE MARGINS OF TARIFF PREFERENCE ENJOYED BY COMMONWEALTH DEVELOPING COUNTRIES

(Pre- and Post-Kennedy Round in the U.K. Market).

Product Group	Average MFN Tariffs		Margins of Commonwealth Preference	
	Pre-Kennedy Round (1967)	Post-Kennedy Round (1972)	Pre K.R.	Post K.R.
Industrial Raw Materials	2.7	1.3	2.3	1.3
Fuels	0.2 (a)	0.1 (a)	0.2	0.1
Chemicals	13.4	9.3 (b)	13.4	9.3
Textiles	20.8	16.9 (c)	10.0	6.5
Iron & Steel	13.0	10.5	13.0	10.5
Nonferrous Metals	4.5	3.2	4.5	3.2
Other Semimanufactures	11.8	6.8	11.3	6.5
Machinery & Transport Equipment	16.6	10.1	14.3	8.7
Clothing	29.7	23.0	19.1	7.9
Other Finished Mftrs.	20.9	14.2	20.9	14.2
Averages Weighted by U.K. Imports from Developing Countries:				
BTN 25-99 (Industrial Products)	5.2	3.5	4.2	2.5
SITC 5-8 (Manufactured Products)	12.7	9.0	10.2	6.1
Averages Weighted by OECD Imports from Developing Countries:				
BTN 25-99 (Industrial Products)	4.9	3.3	4.0	2.4
SITC 5-8 (Manufactured Products)	13.9	9.9	11.1	6.7

(a) Excludes revenue duties.

(b) Takes account of non-implementation of Kennedy Round "ASP" Package.

(c) Takes account of re-imposition of duties on cotton textiles from Commonwealth sources, effective January 1, 1972.

Data: HARRY H. BELL, "Trade Relations with the Third World: Preferential Aspects of Protective Structures", in ROBERT G. HAWKINS and INGO WALTER (eds.), *The United States and International Markets: Commercial Policy Options in an Age of Controls* (Lexington: D.C. Heath, 1972), pp. 324-25.

impact of U.K. preferences under the CP scheme on the competitive position of excluded Latin American suppliers likewise found insufficient evidence to corroborate this thesis, and indeed found

TABLE 2

REGRESSIONS OF SHARE IN U.K. IMPORTS ON ESTIMATED CW PREFERENCE MARGINS, 1970

Regression	Area	Coverage	Intercept (t-value)	Regression Coefficient (t-value)	R^2	F	Mean Import Share	Mean CW Preference
R.1	Developed Commonwealth	BTN 1-24	0.37247 (5.78)	-0.00824 (-1.65)	0.09	2.73	0.26	8.18
R.2	Developing Commonwealth	BTN 1-24	0.28314 (4.39)	-0.01092 (-1.32)	0.06	1.75	0.19	8.18
S.1	Developed Commonwealth	BTN 25-99	0.19996 (11.03)	-0.00699 (-2.25)	0.04	5.04	0.13	9.36
S.2	Developing Commonwealth	BTN 25-99	0.00531 (0.26)	0.00982 (2.80)	0.06	7.84	0.10	9.36
T.1	Developed Commonwealth	BTN 1-99	0.24560 (13.06)	-0.00957 (-3.12)	0.06	9.72	0.16	9.14
T.2	Developing Commonwealth	BTN 1-99	0.07965 (3.87)	0.00389 (1.15)*	0.01	1.34	0.12	9.14

* Not significantly different from zero at 5 percent level.

that relative price data obtained from trade unit-values appeared completely unaffected by the preferences.[7]

To test this same hypothesis using 1970 tariff and trade data, the share of Commonwealth developed and developing countries in U.K. imports were, respectively, regressed on the estimated mean CP margin for 161 BTN product-categories (grouped by common first 3 digits). This was done for products in the BTN 1-24 agricultural products category, the BTN 25-99 industrial products category, and for total trade (BTN 1-99). The results are presented in Table 2. Four of the six regressions have the wrong sign, although the regression coefficients in all except R.2 and T.2 are significantly different from zero at the 5 percent level. One concludes from this cross-product analysis that there is basically *no* evidence of a

7 DAVID WALL, "The Commonwealth Preference System and its Effects on the United Kingdom's Imports from Latin America", University of Wisconsin-Milwaukee, (mimeo.), September 1969, cited in BELL, *op. cit.*

positive relationship between CP margins and shares in U.K. imports for individual product-groups obtained by CW suppliers. It is obvious that other factors, particularly inter-product variations in import elasticities and factors operating on the supply side, were far more important than the Commonwealth tariff preference margins in determining the relative share of U.K. imports held by beneficiaries under the CP system.

Another way of approaching this problem, undertaken by Harry Bell, is to compare the share of an individual Commonwealth developing country or group of countries in U.K. imports (MU) with its share in the imports of all 24 developed market-economy countries (MD) for a given year, and to hypothesize that this "relative penetration ratio" (RPR) should be equal to unity (RPR = MU/MR = 1).[8] They would differ from unity to the extent that "special factors" exist. The distance factor is disregarded on the grounds that the position of the U.K. is the approximate "center of gravity" of the 24 developed market-economy countries. If the RPR's significantly exceed unity, this must be due to historical trade ties between the CW suppliers and the U.K. *together with* the effects of the Commonwealth preferences. Bell argues that the commercial-policy factors affecting MU are substantially more important than those affecting MD, and that the essence of this difference is the CP margin of tariffs preference.

Using 1967 trade data, the RPR's were calculated for products in the aforementioned randomized UNCTAD tariff sample falling into the SITC 2-8 group of products ($\bar{Y}$) and regressed on pre-Kennedy Round CP margins averaged at the SITC 2-digit level ($\bar{X}$), resulting in the A-series regressions in Table 3.[9] A different set of data for products at the tariff-heading level were used to run regressions of RPR's on CP margins for Commonwealth developing countries and country-groups covering products in BTN 25-99, SITC 2-3 and SITC 5-8, respectively, the B-series regressions in Table 3.

8 Harry H. Bell, *op. cit.*

9 The full UNCTAD sample (F), and a subsample containing products of export interest to developing countries (P of I), were used. The F sample gave the best results for India as an illustrative CP beneficiary while the P of I subsample gave the best results for all developing CW countries, as indicated in regressions A.1 and A.2, respectively, in Table 3.

TABLE 3

REGRESSION OF "RELATIVE PENETRATION RATIOS" OF COMMONWEALTH COUNTRIES IN U.K. MARKET AGAINST MARGINS OF PREFERENCE IN U.K. - 1967

Regression	Area	Range of Products	Level of Aggregation	No. of Product Groups n	Intercept (s.e. in paren) a	Regression Coefficient (s.e. in paren) b	R^2	F	Mean "RPR" $\bar{Y}$	Mean Pref. $\bar{X}$	Implicit Price Elasticity e
A.1	Developing Commonwealth	SITC 2-8	2-digit (P of I sample)	31	1.12	0.116 (0.0307)**	.31	12.98	2.21	9.83	5.5
A.2	India	»	2-digit (F sample)	18	0.58	0.1367 (0.0511)*	.31	7.17	2.35	12.93	6.6
B.1	Developing Commonwealth	BTN 25-99	4-or 5-digit	103	1.21 (0.245)	0.1106 (0.0178)**	.28	38.53	2.52	10.93	4.9
B.1a	»	SITC 2-3	»	32	1.33 (0.148)ǂ	0.1445 (0.0336)**	.38	18.51	1.64	2.19	9.0
B.1b	»	SITC 5-8	»	71	1.18 (0.506)	0.1169 (0.0310)**	.17	14.25	2.92	14.87	4.6
B.2	South Asia	BTN 25-99	»	46	1.25 (0.292)	0.1331 (0.0230)**	.43	33.37	2.49	9.33	5.8
B.2a	»	SITC 2-3	»	21	1.44 (0.210)ǂ	0.1094 (0.0470)*	.22	5.40	1.68	2.24	6.7
B.2b	»	SITC 5-8	»	25	0.54 (0.822)	0.1719 (0.0492)**	.35	12.21	3.17	15.28	6.3
B.3	Hong Kong Singapore, Malaysia	BTN 25-99	»	70	0.94 (0.542)	0.1291 (0.0325)**	.19	15.75	2.89	15.17	5.1
B.3a	»	SITC 2-3	»	6	....	....	....	....	1.68	0.50	....
B.3b	»	SITC 5-8	»	64	0.29 (0.757)	0.1643 (0.0435)**	.19	14.29	3.01	16.55	6.4
B.4	Africa	BTN 25-99	»	25	....	....	....	....	4.33	4.44	....
B.5	Western Hemisphere and Other	»	»	9	....	....	....	....	1.57	3.00	....

ǂ Significantly different from 1.0 at 5 percent level.
* Significantly different from zero at 5 percent level. ** Significantly different from zero at 1 percent level.

Source: Harry H. Bell, "Preferential Aspects of Protective Structures", in Robert G. Hawkins and Ingo Walter (eds.), *The United States and International Markets: Commercial Policy Options in Age of Controls* (Boston: D.C. Heath, 1972), pp. 328-329.

All of the regression coefficients are significantly different from zero at the 5 percent level, and the indicated R^2s appear to explain roughly one-third of the variance in the relative penetration rates, suggesting a strong positive relationship. This contrasts markedly with the preceding cross-product analyses, and is probably attributable to the fact that supply variables are in this case held constant.[10] Bell attributes the fact that the statistically significant intercepts exceed unity to historical trade ties, and attributes those below unity to special trade relationships with the U.S., Japan, and other developed countries.[11]

In combination, the studies discussed here suggest the following: preferential tariff access to the U.K. market appears to be of some significance in determining the performance of imports from beneficiary developing countries under the Commonwealth preferences, relative to their performance in imports of developed market economy countries where they have no such preference. Even when supply factors are held constant about two-thirds of the variance remain unexplained, implying that this kind of analysis is sufficient only to indicate that some kind of positive effect seems to exist.

II. Relative Performance Trends in U.K. Imports

If indeed the Commonwealth preferences have meant more to the CW developing countries than the mere transfer of customs revenues, the effects should be two-fold: (*a*) the *static* impact of raising their exports to the U.K. to levels above those that would otherwise exist, as examined in the previous section, and (*b*) the *dynamic* impact of raising the *rate of growth* of exports to the U.K. In a purely static context, supply factors are likely to overwhelm any possible effect the preferences might have. But over time the advantages built into the preferences can presumably be exploited,

10 The last column of Table 3 given the implicit price elasticities calculated at the point of means, $e = b/_{\bar{Y}} (100 + \bar{X})$, which suggest that a 1 percent margin of preference could raise the CP developing countries' RPR by 4½-6½ percent, higher for price-elastic crude materials and probably substantially lower for highly differentiated capital goods.

11 Analysis of the residuals indicates that certain products, such as vegetable oils in A.1 and Hong Kong footwear in B.1b and B. 3b, seem to be more than proportionately sensitive to preferences, while others, such as Indian iron and steel in B.2, fall far below predicated values. (*Ibid.*, pp. 330-331).

TABLE 4

UNITED KINGDOM IMPORTS BY ORIGIN, 1962-1963 and 1969-1970
(thousands of U.S. $)

SITC	Product Group	AVERAGE 1962-63 IMPORTS FROM: World	Developing Countries	Commonwealth Developing Countries	Non-Commonwealth Developing Countries	AVERAGE 1969-70 IMPORTS FROM: World	Developing Countries	Commonwealth Developing Countries	Non-Commonwealth Developing Countries
51	Chemical elements and compounds	200,121	11,161	4,684	6,477	528,106	47,542	38,792	8,750
52	Mineral tar, crude chemicals	2,883	325	2	322	12,545	2,389	4	2,385
53	Dyeing, tanning coloring materials	28,724	1,055	431	624	73,448	909	348	560
54	Medicinal and Pharmaceuticals	16,363	564	286	278	71,012	5,806	668	5,138
55	Essential oils, perfumes	30,191	6,105	3,492	2,613	54,236	4,988	2,612	2,375
56	Manufactured fertilizers	53,474	463	124	339	56,789	426	0	426
57	Explosives, pyrotechnics	786	4	1	3	2,579	8	0	7
58	Plastics, etc.	105,237	145	31	114	244,308	687	318	369
59	Chemical materials n.e.s.	93,478	7,577	4,540	3,037	163,963	6,887	5,850	1,036
61	Leather and leather manufactures	72,102	30,682	29,406	1,276	83,883	35,386	33,324	2,061
62	Rubber manufactures n.e.s.	21,196	566	377	189	62,720	1,108	876	232
63	Wood and cork manufactures n.e.s.	144,657	10,797	7,154	3,643	238,365	24,960	18,444	6,516
64	Paper and Paperboard manuf. n.e.s.	306,538	225	75	149	521,737	296	226	70
65	Textile yarns, fabrics	391,751	130,694	116,022	14,671	594,076	136,274	121,669	14,606
66	Non-metallic mineral manufactures	62,137	1,174	802	372	923,062	82,354	54,408	27,945
67	Iron and steel	180,254	393	231	72	475,634	2,675	2,081	594
68	Non-ferrous metals	665,950	118,140	19,160	98,980	1,461,068	472,679	299,193	173,485
69	Manufactures of metal n.e.s.	86,521	2,993	2,594	399	207,447	11,367	10,611	756
71	Machinery, other than electric	698,135	29,087	12,997	16,090	1,844,181	36,275	19,075	17,201
72	Electrical machinery, etc.	241,749	16,211	12,417	3,794	730,287	30,623	21,827	8,795
73	Transport equipment	182,196	6,598	4,252	2,346	804,283	12,078	5,723	6,354
81	Sanitary, plumbing, heating etc.	13,897	1,901	1,898	3	21,148	1,804	1,740	65
82	Furniture	15,899	642	612	31	34,927	516	394	122
83	Travel goods, handbags, etc	9,066	1,345	1,265	80	13,243	3,268	2,842	426
84	Clothing	165,805	74,150	73,330	820	304,733	132,248	127,628	4,620
85	Footwear	51,988	12,165	12,147	18	91,290	26,674	25,725	948
86	Professional, scientific instr., etc.	138,075	5,962	4,340	1,622	308,145	9,214	6,683	2,531
89	Miscellaneous manufactures n.e.s.	235,451	29,668	26,980	2,688	531,425	67,969	61,896	6,073
	Total for group	4,214,617	500,705	339,653	161,052	9,217,794	1,145,331	875,036	294,450

Data: United Nations Statistical Office; Statistical Papers, Series D, *Commodity Trade Statistics* (New York: U.N., various issues).

TABLE 5

SHARES OF NON-COMMONWEALTH AND COMMONWEALTH DEVELOPING COUNTRIES IN UNITED KINGDOM IMPORTS OF SELECTED PRODUCT GROUPS, 1962-63 and 1969-70

SITC	1962-63			1969-70			Relative Growth		
	Developing	Of Which: Commonwealth Developing	Of Which: Non-Commonwealth Developing	Developing	Of Which: Commonwealth Developing	Of Which: Non-Commonwealth Developing	Commonwealth Developing	Non-Commonwealth Developing	World
51	0.06	0.42	0.58	0.10	0.82	0.18	7.28	0.35	1.64
52	0.11	0.01	0.99	0.19	0.00	0.99	0.58	6.40	3.35
53	0.04	0.41	0.59	0.01	0.38	0.62	−0.19	−0.10	1.56
54	0.03	0.51	0.49	0.08	0.12	0.88	1.34	17.46	3.34
55	0.20	0.57	0.43	0.09	0.52	0.48	−0.25	−0.09	0.80
56	0.07	0.27	0.73	0.01	0.00	1.00	−1.00	0.26	0.06
57	0.00	0.25	0.75	0.00	0.01	0.99	−0.88	1.75	2.28
58	0.00	0.21	0.79	0.00	0.46	0.54	9.38	2.24	1.32
59	0.08	0.60	0.40	0.04	0.85	0.15	0.29	−0.66	0.75
61	0.43	0.96	0.04	0.42	0.94	0.06	0.13	0.62	0.16
62	0.03	0.67	0.33	0.02	0.79	0.21	1.32	0.23	1.96
63	0.07	0.66	0.34	0.10	0.74	0.26	1.58	0.79	0.65
64	0.00	0.35	0.66	0.00	0.77	0.24	1.99	−0.53	0.70
65	0.33	0.89	0.11	0.23	0.89	0.11	0.05	−0.00	0.52
66	0.02	0.68	0.32	0.09	0.66	0.34	66.83	74.10	13.86
67	0.00	0.76	0.24	0.01	0.78	0.22	7.99	7.29	1.64
68	0.18	0.16	0.84	0.32	0.63	0.34	14.62	0.75	1.19
69	0.03	0.87	0.13	0.05	0.93	0.07	3.09	0.89	1.40
71	0.04	0.45	0.55	0.02	0.53	0.47	0.47	0.07	1.64
72	0.07	0.77	0.23	0.04	0.71	0.29	0.76	1.32	2.02
73	0.05	0.64	0.36	0.02	0.47	0.53	0.35	1.71	3.41
81	0.15	0.99	0.00	0.09	0.96	0.34	−0.08	21.52	0.52
82	0.04	0.95	0.05	0.01	0.76	0.24	−0.36	2.99	1.20
83	0.15	0.94	0.69	0.25	0.87	0.13	1,25	4.32	0.46
84	0.45	0.99	0.01	0.43	0.97	0.03	0.74	4.64	0.84
85	0.23	0.99	0.00	0.29	0.96	0.04	1.12	50.96	0.76
86	0.04	0.73	0.27	0.03	0.73	0.27	0.54	0.56	1.23
89	0.13	0.91	0.09	0.13	0.91	0.09	1.29	1.26	1.26
Group	0.11	0.68	0.32	0.12	0.76	0.24	1.58	0.83	1.19

Data: See Table 4.

and supply capabilities adjusted to meet the opportunities that have been created.

Table 4 presents U.K. average imports, total and from developing countries, during a base period 1962-63 and during 1969-70. Imports from developing countries are in turn divided into imports from CW and non CW developing countries, respectively. The data are grouped according to 2-digit divisions in the SITC 51-99 range of industrial products excluding raw materials and fuels. In 1962-63 average U.K. imports of all products under consideration were $4.2 billion, of which $500.7 million originated in the developing countries (11.9 percent). By 1969-70, U.K. imports of these products had grown to $9.2 billion, of which $1.1 billion (12.4 percent) originated in the developing countries. Over this period, U.K. imports from developing countries thus grew by 129 percent, as compared with a 119 percent growth in total U.K. imports of these products. So the *ensemble of developing countries* performed better than average in exporting industrial products into the U.K. market during the 1960's. If the foregoing hypothesis is correct, performance of the *CW developing countries* should have been significantly above the average for all developing countries, and non-CW developing countries should have performed below average.

Table 5 presents the shares of developing countries in U.K. imports of each of the product groups listed, and subdivides these into shares of CW developing and non-CW developing countries. The last three columns in Table 5 give the percentage expansion of both developing-country and world exports to the U.K. market during the 1962/63-1969/70 period. Whereas U.K. imports from developing countries of all products under consideration grew by 129 percent, imports from CW developing countries grew by 158 percent and imports from non-CW developing countries grew by 83 percent. The trade expansion by the CW group is thus 22 percent *above* that for all developing countries, while the trade expansion by the non-CW group is 36 percent *below* it, and the relative expansion of U.K. imports from the CW group is 90 percent greater than from the non-CW group during the course of this period.

The gap between CW and non-CW developing countries is particularly striking in the case of chemical elements and compounds, plastics, rubber manufactures, wood and cork products, paper and paperboard manufactures, non-ferrous metals and other metal

manufactures and non-electric machinery. At the same time, non-CW developing countries outperformed developing CW countries in such product groups as mineral tars and crude chemicals, medicinal and pharmaceutical products, explosives and pyrotechnical products, non-metallic mineral manufactures, and products in the consumer durables and nondurables categories. As a result, the CW developing countries' share of U.K. annual imports rose from 8.1 percent to 9.5 percent during the 1962/63-1969/70 period, while the non-CW developing countries' share declined from 3.8 percent to 3.2 percent.

How important the CW preferences were in shaping this difference in import-growth performance is difficult to determine. A simple regression of the differences in CW and non-CW performance in the U.K. market on average margins of preference for the 28 SITC product-groups under examination, for example, did not yield significant results — probably again due to the overriding importance of autonomous supply factors in determining market penetration for individual product-groups.

One may infer, therefore, that the CP system *and* historical trade ties between the U.K. and the CW developing countries together seem to have given the latter significant advantages in penetrating the U.K. market in the 1960's, relative to non-CW developing countries. There is no evidence, however, that the specific *margin* of preference itself had very much to do with the relative performance of CW and non-CW developing countries in respect of individual product-groups. While the favorable aggregate import-trends from the CW developing countries may be attributed to the multifaceted special relationship that exists between the U.K. and these countries, it is not unreasonable to take the wiew that trade preferences formed a significant part of this "special relationship", and that without these preferences its apparent effects would not have been nearly as powerful.

III. Conclusions

The U.K. tariff preferences in favor of developing areas under the CP system, representing the longest exercise of its type, may contain some useful lessons for the developing countries. First,

the impact of tariff preferences is critically dependent on the specific products covered, and hence the existing or projected export structure of individual developing countries will largely determine the potential improvement in market-access that can be expected. A second and related point is that supply constraints, encompassing both quantity and quality considerations, are far more important than tariff preferences in governing the penetration of industrial-country markets.

Third, even if export structures and supply conditions favor a positive trade-volume effect of received tariff preferences, this may be significantly reinforced or offset by pre-existing economic, political, social and cultural ties (a lack thereof). Hence improved market access to the European Community under special preferences or to other industrial countries under the GSP may trigger a much slower trade response than might otherwise be expected. Multinational enterprises, to the extent that they shift their logistical patterns in response to tariff preferences, may reduce lags in the trade response attributable to factors of this type.

Fourth, developing countries should be extremely cautious in granting "reverse preferences", because the kinds of elements just identified may produce an unfavorable benefit-cost balance deriving from the *quid pro quo* involved. If the gains on the export side are limited or are very slow to materialize, substitution of higher-cost for lower-cost supplies on the import side may severely compromise the realized net contribution of reciprocal preferences to economic development.

Fifth, while developing countries accorded special preferences — as in the case of the enlarged EC — would do well to dampen their expectations, it follows that countries *left out* of such arrangements need not — except in the case of very specific products — fear massive and damaging trade diversion. Hence the Latin American and Asian nations, including the non-associable CW developing countries, would do well to weigh their commercial policy options calmly, without rushing into special trading relationships with the Community or "defensive" preferential arrangements with non-member industrial countries. They can afford to wait, and to pursue multilateral or bilateral commercial policies promising a maximum contribution to their own development objectives.

Lastly, developing countries should avoid excessive optimism

regarding the potential benefits to be derived from the UNCTAD Generalized System of Preferences, both for the reasons cited here and because of the restrictive features incorporated in the Japanese and EC schemes — which absorb the relatively liberal U.K. GSP scheme on 1 January 1974. At the same time, they need not be excessively concerned with the erosion of special or generalized preference margins which may result from multilateral trade negotiations.

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