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THE WORLD BANK  
Washington, D.C.

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MARCH 1981

THE WOLFE BARK GROUP  
**Archives**



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R1991-086 Other #. 5

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Bela Balassa's chron files - March 1981

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B. BALASSA CHRON FILE MAR 1981

March 20, 1981.

Messrs. Yves Berthelot and Andre Barsony  
OECD Development Center  
94 rue Chardon-Lagache  
75016 Paris  
France

Dear Yves and Andre:

I enclose my paper on "Adjustment to External Shocks in Developing Countries" which examines the experience of twenty-four countries in the post 1973 period. I further enclose a copy of my paper "Industrial Prospects and Policies in Developed Countries."

I hope that you liked the revised version of Chapter 1. I have deleted many of the numbers as Yves suggested and I have also included information on the individual countries with a discussion of country groups.

I expect to send instructions to the Brazilian, Ivorienne and Portuguese contributors on the revision of their study for publication after my return from Tunisia at the beginning of April. In this connection, I would like to add that I have not yet received my contract.

Yours sincerely,

Enclosures

Bela Balassa

cc: Ms. Ann Richards-Loup

Enclosed: Adjustment to External Shocks in Developing Countries March 19, 1981  
Industrial Prospects and Policies in the Developed Countries, March 1981



Those listed

March 31, 1981

Bela Balassa, DRC

Seminar - April 6th at 11:30

This is to confirm that Mr. Bela Csikos-Nagy, the President of the Hungarian Materials and Price Bureau will present a small informal seminar on recent and prospective changes in the Hungarian economic reform. The seminar will be held on April 6th, Monday, at 11:30 in room E855. (Please note time change.)

cc: Messrs. Chenery, VPD; Duloy, DRC; Cassen, WDR; Karaosmanoglu, EMI;  
P. Hasan, AEMVP; Koch-Weser, AEA; Baneth, EPD (3);  
Dubey, EMI; Lim, AEA; Keesing, DED; M. Wolf, EPD; A Wood, AEA;  
Tallroth, Humphrey, Bery, EMI

BBalassa:nc



2134 Wyoming Avenue N.W.  
Washington, D.C. 20008  
March 30, 1981

Casio Service Centers  
Eastern Regional Service Center  
15 Gardner Road  
Fairfield, New Jersey 07006

Dear Sir:

The display on my calculator does not work correctly. May I ask you to have it repaired. I also have problems with the alarm, could you check this also.

Should you need to call me concerning this order, my telephone number is (202) 676-1991.

Yours truly,

Enclosure

Bela Balassa

March 27, 1981

Miss Anuradha T. Jayanti  
313 Tower Court East  
Wellesley College  
Wellesley, Massachusetts 02181

Dear Miss Jayanti:

Your letter and that of Professor Lizano reached me with considerable delay, due presumably to slow mail service. I sent copies of your application to several people in the Bank who work on problems of development finance. You will hear from them if they find a possibility for an internship.

Sincerely,

Bela Balassa

cc: Professor Lizano

cc (with enclosures) Messrs. Baneth, van der Tak, D.J. Wood



February 20, 1981

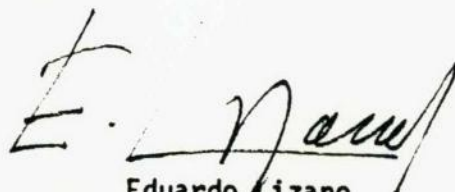
Prof. Bela Balassa  
World Bank  
1818H St. N.W.  
Washington D.C. 20433

Dear Prof. Balassa:

Miss A. Jayanti is studying Economics at Wellesley College and next summer she will be participating in the internship programme in Washington D.C. She would like to be at the World Bank during this period and has asked me to forward her application. Could you help her through the World Bank bureaucracy? She is an excellent student and I would highly appreciate any help you could give her.

I hope to see you in Costa Rica some time in the new future.

Yours truly,

  
Eduardo Lizano

EL/aah

# WELLESLEY COLLEGE

WELLESLEY, MASSACHUSETTS 02181

WASHINGTON INTERNSHIP PROGRAM

January 25, 1981

Dear Sir:

I have been chosen as one of sixteen juniors participating in the Wellesley Washington Internship program for the summer of 1981. This internship is, to my information the oldest of its kind in the country. The time span involved is from the first week in June to the first week in August.

I graduated from Collège du Léman in Switzerland, having taken five Advanced Placement examinations (subjects: English, Spanish, French, Mathematics and Chemistry) on which I received four scores of 5 and one score of 4. I was awarded a year of college credit at Wellesley upon admittance, on the basis of my scholastic record and was therefore placed in the sophomore class in Sept. 1979.

I enclose my résumé. My coursework at Wellesley College is designed to allow me to major in Economics with a strong background in Mathematics and Computer Science. As I want to prepare for a career in Development Financing I have worked during the last two summers at Lloyds Bank International Ltd., Geneva, Switzerland. I am now applying to the World Bank through you to utilize my internship period of ten weeks to get myself further equipped in the field of international project financing.

I speak and write English, Spanish, and French fluently and a fair amount of German.

I am presently a member of the student government at Wellesley College and represent the foreign student body with a strength of approximately 110 students out of the total enrollment of 2200 students and am treasurer to two campus organizations.

My address and private telephone number at Wellesley are the following:

313 Tower Court East  
Wellesley College  
Wellesley, Mass. 02181

tel.: (617) 237-1733

Wellesley College provides funds for students holding non-salaried positions during the internship. However, I would be delighted if it were possible to receive a salaried position.



I hope you would encourage me in this ambition of mine by helping to see my application accepted. Looking forward to hearing from you,

Sincerely yours,

*Anuradha T. Jayanti*

Anuradha T. Jayanti

Résumé

Name: Anuradha Teja Jayanti  
Place of Birth: London, England  
Nationality: British  
Marital status: Single  
Languages: Fluent English, Spanish & French  
Fair German  
Education: 1975-76 Convent of Our Lady, St. Leonards  
on-sea, Sussex, England.  
1976-77 Lincoln School, San José, Costa Rica  
(10th grade)  
1977-79 Collège du Léman Intl. School, Versoix  
Switzerland (American High School Diploma)  
1979-Present Wellesley College, Wellesley,  
Massachusetts. Major field: Economics.  
Work Experience: July-August 1979 Lloyds Bank Intl. Ltd.,  
Geneva, Switzerland. Worked as an assistant  
in the Documentary Credit department. Dealt  
with letters of credit and related business  
transactions and documents. Made telex and  
telephonic confirmations of letters of credit  
abroad. General secretarial skills used.  
Received a letter of recommendation which is  
not usually awarded to student employees.  
1979-80 Office for Resources, Wellesley  
College, Wellesley, Mass. Worked with the  
college biographical files, diverse mailing  
projects, secretarial jobs.  
June-July 1980 Lloyds Bank Intl. Ltd., Geneva,  
Switzerland. Assistant in the Fiduciary dept..  
Performed the daily transactions related to the  
opening and renewal of fiduciary, call & notice  
deposits. Assistant in charge of data input.  
Helped set up a system on the computer to deal  
with the Fiduciary department's daily transact-  
ions. Dealt with correspondence (in two langua-  
ges) to bank's clientele.  
1980-81 Financial Aid Office, Wellesley  
College, Wellesley, Mass. Assist in the reception  
and processing of financial aid forms, mailings  
and in keeping the graduate fellowships'  
applications in order.  
Other experience: I have traveled extensively, having resided in  
Costa Rica, the United States, England, France,  
Switzerland and India and am therefore acquainted  
with the social and economic mores of the peoples  
in these countries.  
Extracurricular activities: High school: Business editor of the yearbook  
U.S. delegate to Student United  
Nations held in Geneva, Switzerland.  
Wellesley : Treasurer to both the Political  
Economy club and the Intl. Student  
Asscn. Also Foreign Student Rep.  
to College Student Government.

Anuradha Teja Jayanti  
Jan. 1981



2134 Wyoming Avenue N.W.  
Washington, D.C. 20008  
March 27, 1981

International Food Policy  
Research Institute  
1776 Massachusetts Avenue N.W.  
Washington, D.C. 20036

Dear Ms. Martin:

Please send a copy of the report "Agricultural Protection in OECD Countries: Its Cost to Less-Developed Countries" by Alberto Valdes and Joachim Zietz to Mr. Bela Balassa at the above address.

Thank you,

Yours truly,

Norma Campbell  
Secretary to Mr. Balassa

2134 Wyoming Avenue N.W.  
Washington, D.C. 20008  
March 27, 1981

McGraw-Hill Book Company  
1221 Avenue of the Americas  
New York, New York

Dear Sir:

Please send a copy of "Industrial Policy as an International Issue"  
by William Diebold, Jr. in paperback \$6.95 to Mr. Bela Balassa at the above  
address, along with your bill.

Thank you,

Yours truly,

Norma Campbell  
Secretary to Mr. Balassa



2134 Wyoming Avenue N.W.  
Washington, D.C. 20008  
March 27, 1981

Sidney Kramer Books  
1722 H Street N.W.  
Washington, D.C. 20006

Dear Sir:

Please send a copy of "Farm & Food Policy Issues of the 1980's"  
by D. Paarlberg, University of Nebraska, \$16.50 to Mr. Bela Balassa at the above  
address, along with your bill.

Thank you.

Yours truly,

Norma Campbell  
Secretary to Mr. Balassa



March 24th  
sent to  
Mr. Thright

Working Paper Submission

Cover Sheet

1. Title: Industrial Prospects and Policies in the Developed Countries
2. Author: Bela Balassa
3. Derived from Research Project No. \_\_\_\_\_
4. Division Chief Concurrence \_\_\_\_\_
5. Department Concurrence \_\_\_\_\_
6. A seminar to discuss the paper (~~was~~) (was not) held.

Date: \_\_\_\_\_

Non-Departmental Participants: \_\_\_\_\_  
(Attach separate list, if necessary)

7. If no seminar was held, indicate which individuals outside the Department have reviewed and commented on the draft.

Messrs. I. Frank and M. Wolf

NOTE: This form should serve as a cover sheet when submitting a working paper (for review and approval) to DPS management.

The views and interpretations in this document are those of the author and should not be attributed to the World Bank, to its affiliated organizations or to any individual acting in their behalf.

WORLD BANK

Staff Working Paper No.

March 1981

INDUSTRIAL PROSPECTS AND POLICIES IN THE DEVELOPED COUNTRIES

This paper subjects two, conflicting, claims to scrutiny. For one thing, it has been alleged that increases in the import of manufactured goods from the developing countries have adversely affected the industrial sector in the developed countries and that the continuation of these trends bodes ill for the future of the sector. For another thing, it has been suggested that growing protectionism in the developed countries has compromised the prospects for an outward-oriented industrial strategy in the developing countries and makes it necessary for these countries to turn to domestic markets or to trade among themselves.

It is shown in the paper that trade in manufactured goods with the developing countries benefited the developed countries by increasing demand for their products at a time of low capacity utilization as well as through specialization according to comparative advantage. The developed countries will derive further gains from the future expansion of this trade, estimated by the author for the 1978-90 period on the assumption of the continuation of present trade policies. At the same time, under the assumptions made, the rapid growth of manufactured exports of the developing countries would continue.

It has also been alleged that obtaining long-term gains through international specialization in manufactures entails a considerable cost of adjustment in the developed countries. The paper provides evidence that these fears have been much exaggerated. For one thing, manufactured trade between developed and developing countries increasingly involves intra-industry specialization that has a low adjustment cost. For another thing, the transferability of skills in various occupational categories limit the cost of adjustment in inter-industry specialization and this cost can be further reduced through retraining and early retirement provisions.

On the basis of these considerations, the author suggests lowering rates of industrial protection in the developed countries. This would involve, among other things, transforming the Multifiber Arrangement from an instrument of protection to one of adjustment. The author further suggests instituting an international safeguard code to smooth the process of adjustment to freer trade in the developed countries.

Prepared by:  
Bela Balassa, The Johns Hopkins University  
and the World Bank

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The World Bank  
1818 H Street N.W.

INDUSTRIAL PROSPECTS AND POLICIES IN THE DEVELOPED COUNTRIES

Bela Balassa

March 1981

The author is Professor of Political Economy at the Johns Hopkins University and Consultant to the World Bank. He prepared the original version of the paper for the Symposium on "De-Industrialization," organized by the Austrian Institute of Economic Research and held on January 8 and 9, 1981 in Vienna, Austria. Helpful comments made by the participants of the Symposium and by Michael Finger, Isaiah Frank, and Martin Wolf are gratefully acknowledged.

The opinions expressed in the paper are the author's alone and should not be construed to represent the views of the World Bank.



Mrs. Ann Davis, ADM

March 24, 1981.

Norma Campbell, DRC, I6-158

Labels

Please have the attached Elliott Cards run off, as soon as possible,  
and return with labels to me.

Thank you

CABLE

MARCH 20, 1951  
61991

MS. HOON, PERGAPRESS

OXFORD, ENGLAND

PREPAID 22 WORD REPLY.

PLEASE INDICATE BY RETURN CABLE THE STATUS OF THE PORTUGUESE  
TRANSLATION OF MY POLICY REFORM IN DEVELOPING COUNTRIES.

REGARDS, BALASSA

Bela Balassa

Bela Balassa

DRC - Director's Office

BBalassa:nc



Recipients of WDR IV, Draft 0

March 20, 1981.

Bela Balassa, DRC

"Adjustment to External Shocks in Developing Countries"

I enclose a revised version of the above paper. Especially extensive revisions were made in Section IV containing the evaluation of the results.

Enclosure  
BBalassa:nc



March 20, 1981

Mr. Gerardo Bueno  
El Colegio de Mexico  
Camino Al Ajusco No. 20  
Mexico 20, D.F.  
MEXICO

Dear Gerardo,

Please excuse the delay in my writing to you following the very pleasant meeting we had. I wanted to wait, however, until I could send you the papers we talked about. I enclose the follows:

1. Preface and Introduction to my volume, The Newly Industrializing Countries in the World Economy.
2. "Industrial Prospects and Policies in the Developed Countries"
3. "The Policy Experience of the Twelve Less Developed Countries, 1973-1979"
4. "Policy Responses to External Shocks in Selected Latin American Countries"

I would like to explore the possibility of publishing my The Newly Industrializing Countries in the World Economy in Spanish. My earlier book Policy Reform in Developing Countries was published by CEMLA. I presume, however, that Fondo de Cultura Economica may also be interested in publication.

I also wonder if Trimerstre Economico may be interested in publishing my paper on policy responses in selected Latin American countries, which includes Mexico, but you may also have an alternative publication possibilities.

It was a pleasure seeing you and I hope to see you again before long. Carol joins me in sending our best regards to you and to Maria Marta.

Yours sincerely,

Enclosures

Bela Balassa

Enclosed: The Newly-Industrializing Countries in the World Economy  
Industrial Prospects and Policies in the Developed Countries - March 1981  
The Policy Experience of Twelve Less Developed Countries, 1973-1979  
March 19, 1981  
Policy Responses to External Shocks in Selected Latin American Countries  
October 3, 1980

CABLE

MARCH 20, 1981  
61991

MR. SUKTAI SUM, KDIPROJECT

SEOUL, KOREA

YOUR LETTER RECEIVED. PLEASE SEND AVAILABLE DATA FOR  
CALCULATING REAL EFFECTIVE EXCHANGE RATES BY RETURN  
TELEGRAM. REGARDS, BALASSA

Bela Balassa

Bela Balassa

DRC - Director's Office

BBalassa:nc



Sent to Print Shop  
3/23/81  
M.A.

Memo to Distribution List

March 20, 1981

Bela Balassa, DRC

Structural Adjustment Policies in Developing Countries

1. Mr. Stern suggested that I distribute my paper on the above subject for your information and reflection. Additional copies may be obtained from my secretary at x61992.
2. Needless to say, the paper expresses my personal views. Comments on contents and emphasis would be appreciated.

cc: Regional Department Directors, Division Chiefs,  
Chief Economists and Senior Economists  
DPS Directors, CPS Directors, DPS Division Chiefs

Enclosure  
BBalassa:nc



March 20, 1981

Dr. Bela Csikos-Nagy  
President  
Hungarian Economic Association  
1370 Budapest Pf. 544  
Hungary

Dear Bela,

Your letter of March 4th reached me with considerable delay, due presumably to the slow mail service. I am leaving today for Tunisia but I was able to establish contacts with interested parties in the Bank. Arrangements are being made for you to conduct a small seminar in the morning of April 6th, followed by a luncheon.

We would be happy to welcome you during your stay in Washington. Since we already have an engagement for the first part of the weekend, I would suggest that you come to spend the evening with us on Sunday April 5th and stay over night in my home. I am sending a copy of this letter to the Hungarian Ambassador to the United States.

Looking forward to seeing you, I remain,

Sincerely yours,

Bela Balassa

March 20, 1981

Mr. Walter Hoadley  
Chief Economist and Executive Vice President  
Bank of America  
P.O. Box 466  
Church Street Station  
New York, New York 10015

Dear Walter,

It was a pleasure meeting you and I very much enjoyed your presentation. My written comments are enclosed.

My paper, "Structural Adjustment Policies in Developing Countries," provides the intellectual underpinning for the recommendations made in the final paragraphs of my comments. I enclose two copies of the paper in the event that you may wish to show one to Mr. Clausen.

I will be sending you other papers of mine as they become available and look forward to future contacts.

Yours sincerely,

Enclosures

Bela Balassa



March 20, 1981

Ms. Jacqueline A. Keith  
Manager,  
Energy-Consumer Affairs  
United States Council of the  
International Chamber of Commerce Inc.  
1212 Avenue of the Americas  
New York, New York 10036

Dear Ms. Keith:

I enclose a copy of my comments on Mr. Hoadley's paper for your use in preparing the proceedings of the seminar. Let me add here, that I very much enjoyed the discussions at the seminar.

Yours sincerely

Enclosures

Bela Balassa



Mr. Ramgopal Agarwala, AEA

March 19, 1981

Bela Balassa, DRC

Korea: SAL; Industrial Incentives

1. The meeting on the above subject was held during my absence from the Bank, hence this memo. I will comment below on the statement of issues arising from industrial restructuring and on the discussion of incentives in the report.

Issues Arising from Industrial Restructuring

2. I find the report overly complaisant as regards changes in Korean industrial policy in recent years. There were not simply "teething troubles" in an otherwise desirable process of transformation, but serious errors were committed as regards both the direction and the modalities of this transformation.

3. References to "transformation from light manufacturing to heavy industry" (p. 2) tend to obscure the picture. Within the latter group, Korea has a comparative advantage in skill-intensive machinery industries but not in physical capital-intensive intermediates. This fact is well understood by most Koreans I have met over the years. Thus, the statement about "an unanimity of view that the ongoing transformation is indeed the long term route that a successful middle-income country like Korea will have to embark on sooner or later" (p. 4) is inaccurate. Nor should one speak about the irreversibility of the recent pattern of transformation; rather one should examine how to modify this pattern. Finally, low export demand was hardly a cause of unused capacity as world-wide sales of the products in question increased rapidly.

4. In this connection, a comparison of Korea and Taiwan is instructive. While in Korea the government practically mandated investments in highly capital-intensive intermediate products and in heavy machinery, Taiwan left decisions largely to private initiative. As a result, in the place of white elephants with unutilized capacity, a structure of efficient machinery producers emerged in Taiwan that have become successful exporters. At the same time, Taiwan continued to increase its traditional exports while Korea experienced losses in market share as these exports did not receive adequate incentives and credits.

5. I doubt that in Korea "a major element of SALs must be to initiate studies on incentives" (p. 6). Rather than studies, we need action and the Bank has enough information at its disposal to make recommendations for the measures to be taken.

The System of Incentives

6. The report makes a beginning for indicating desirable changes in the system of incentives in Korea. Several of these issues have been discussed in much detail in my own reports on Korea and do not need to be taken up here.



Thus, I will limit myself to a broad discussion of incentives to machinery industries and to investments in general.

7. Having stated that the effective protection of machinery and transport equipment is the highest in manufacturing, the report adds: "This result by itself is in no way surprising. It simply demonstrates that there are substantial costs to the economy in transforming these relatively new industries into efficient exporters" (p. 13). The comment fails to recognize the existence of excessive protection in several branches of these industries, in particular in automobile production, and the inefficient production structure that has emerged as a result that represents an obstacle to exports. Nor does it consider the fact that the high protection of machinery production raises costs for user industries, with adverse effects on their international competitiveness.

8. In order to avoid these adverse consequences, one should advocate the use of investment incentives in the place of import protection. This would require making recommendations for the rationalization of investment incentives that have developed over time in a piecemeal fashion. The process of rationalization should also encompass incentives to foreign investment which, incidentally, are much more important in attracting foreign investment than the report seems to indicate.

cc: Recipients of paper on the "Industrial Incentive System."

BBalassa:nc

## OFFICE MEMORANDUM

TO: Those listed

FROM: Bela Balassa, DRC

SUBJECT: Seminar on North-South Issues

DATE: March 19, 1981

1. I participated in a private capacity at the Seminar on "North-South: A Business Viewpoint," organized by the United States Council of the International Chamber of Commerce and held in New York on March 12, 1981. I enclose a short summary of the statements made at the Seminar, with particular reference to the Bank; a synopsis of the speech by Adrian Basora, Acting Deputy Assistant Secretary for International Finance and Development, U.S. Department of State; and my comments on a paper on development finance by Walter Hoadley, Chief Economist at the Bank of America.

2. I found heartening the support expressed by all business speakers for freer trade, and in particular for reducing U.S. trade barriers on imports from the developing countries. There was also praise for the Bank and support for the increase in capital subscription and the establishment of the energy facility.

cc: Messrs. Stern, VPO; Qureshi, SVPFI; Benjenk, VPE; Merriam, IPA; Vibert, VPO  
DPS Directors, DRC Senior Staff, Chief Economists  
Mrs. Boskey

Enclosures  
BBalassa:nc



A Short Summary of Statements made at the  
Seminar on North-South: A Business Viewpoint

(New York, March 12, 1981.)

On energy, Samuel Schwartz, Senior Vice President at CONOCO, pointed to the significant role the private sector may play in increasing energy production in the non-OPEC developing countries. In turn, Hans Landsberg of the Resources for the Future emphasized the need for the United States to contribute to the World Bank energy facility, which would help to ease the world energy shortage at a small cost to the U.S. budget. Finally, James Stromeyer, the U.S. coordinator at the UN Conference on New & Renewable Sources of Energy, noted that, beyond the usual rhetoric, the Conference was useful in stating the principal problems and issues in the energy area.

Hercules Pappas, Operations Manager at the Aluminum Co. of America, cited a study by R. F. Mikesell, according to which assuring the necessary supply of non-fuel raw materials for 2000 in the market economies would require an investment of \$350 billion dollars, of which \$150 billion would occur in the developing countries. He emphasized that improved cooperation between the North and the South would be necessary for these investments to be undertaken. Pappas also suggested that the World Bank may play an important role in this process and called for increasing the Bank's capitalization and liberalizing its reserve ratio. While Pappas took a position in favor of free trade in minerals, John Tilton of the Pennsylvania State University suggested that mining industries in the developed countries would need to be assured that they will not be adversely affected by imports from developing countries. Finally, G. R. Robson of the United Nations Secretariat called for safeguarding the interest of the developing countries in undertaking new investments in the production of raw materials.

On trade, William Walker, a former U.S. Representative to Trade Negotiations, noted the inhibiting effects of protection on the exports of the developing countries and suggested that business should encourage freer trade with these countries. John Grunwald, the outgoing Deputy Assistant Secretary for Import Administration at the Department of Commerce, and Guy Erb, the former Deputy Director of U.S. International Development Cooperation Agency, also stressed the need for business to support an open trade policy. As Erb noted, this is of especial importance, since reductions in adjustment assistance tend to increase pressures for protection and since the Reagan Administration has not yet established a position on trade policy.

On finance, Walter Hoadley, Chief Economist at the Bank of America, proposed providing larger financial resources to official international lending organizations, stressing in particular the need for the U.S. to fulfill its pledge to increase its capital subscription to the World Bank. He further suggested expanding World Bank co-financing with commercial banks and increasing private foreign investment. Similar recommendations were made by Peter Kenen of Princeton University, who also called for establishing the Bank's energy affiliate and providing the promised U.S. contribution to IDA. My own comments on Hoadley's paper are enclosed.

On development, Lawrence McQuade, Senior Vice President of Grace Co., pointed to the importance of education, agriculture, and foreign investment in technology in the development process. He further noted the stake the United States has in economic progress in the developing countries and urged the business community to increase its investment in developing countries. Melwyn Krauss of New York University and the Hoover Institution took a position against capital-intensive industrialization and warned about the dangers of a basic needs approach that may divert resources from productive uses. He also



expressed the view that the New International Economic Order is dead and criticized the Brandt Commission Report for the pessimistic view it has taken on world economic prospects in the absence of a massive aid program. Finally, in opposition to several speakers, John Mathieson of the Overseas Development Council emphasized the unity of the Third World and defended the basic needs approach in contrasting this with capital-intensive industrial development.

A Synopsis of a Speech by Adrian Basora,  
Acting Deputy Assistant Secretary for International Finance and Development,  
U. S. Department of State

(March 12, 1981)

1. Adrian Basora suggested the need for changes in U.S. international economic policy in general, and in relationships with developing countries in particular, as a counterpart to the changes being made in domestic economic policy. This would entail, he added, significant changes in philosophy and in emphasis without significant short-term institutional changes.
2. Changes in policy emphasis would involve, first of all, establishing a strategic focus in U.S. relationships with developing countries. This is to be understood in a broader sense, recognizing the importance of raw material supply in addition to purely military considerations.
3. A corollary of this approach is the emphasis on bilateral relationships, taking account of differences in the interests of individual developing countries and a de-emphasis on the Third World as such. Basora pointedly noted that the study group responsible for policy review is charged to re-appraise relationships with developing countries rather than the North-South dialogue.
4. Basora further suggested the need to de-emphasize "sterile debates" at the United Nations. The developing countries should rather participate in the "real, working international system" that includes GATT, the IMF, and the World Bank.
5. In foreign aid, too, bilateral relationships would play a greater role. While existing multilateral commitments would be kept, cutbacks are envisaged in areas where no such commitments have been made, such as the UN assistance program. However, Basora held out hope for the Bank's energy facility where the decision so far taken reflects only the first outcome of an interagency struggle. The final outcome will depend on ensuring additionality in energy exploration and development in lending. He added, however, that increases in capital subscription to the Bank (possibly without additional financial contributions by member governments) and increasing the gearing ratio may be considered as a substitute for the energy facility.
6. Greater reliance would be placed on the private sector and existing disincentives to foreign operations would be reduced. In support of private operations, it is envisaged to expand the activities of the U.S. Overseas Private Investment Corporation and the Trade and Development Program. Consideration will also be given to negotiating bilateral investment treaties with major developing countries. Finally, private firms would be given a role in AID operations.
7. On international trade, Basora made a rather weak statement, calling for the maintenance of a "reasonably liberal trading system." But, he took a strongly negative view on restricting automobile imports into the United States.

BBalassa:nc



Statement made by Bela Balassa, Professor of Political Economy  
at the Johns Hopkins University and Consultant to the World Bank  
at the Seminar on North-South: A Business Viewpoint, organized  
by the United States Council of the International Chamber of Commerce  
New York, March 12, 1981

Ladies and Gentlemen. It is an honor and a pleasure for me to offer some comments on financial issues pertaining to developing countries. I have no criticism to make of Walter Hoadley's excellent paper; I approve of his analysis and his conclusions. My remarks should, therefore, be considered as complementary to his presentation. I will concentrate on questions of lending by the World Bank and co-financing with commercial banks and other private interests. I would like to emphasize, however, that I speak in a private capacity and do not represent the views of the World Bank.

Walter Hoadley pointed to the importance of the United States fulfilling its pledge to increase its capital subscription to the World Bank. I would like to advance several additional arguments in support of this proposition. With the one-to-one gearing ratio of loans to capital in World Bank lending, U.S. exports to developing countries would rise by about twice as much as the increase in capital subscription. At the same time, it is only a small part of the capital subscription that involves an actual cash contribution. As Hans Landsberg noted, similar considerations apply to the proposed energy facility that would have the further benefit of easing the world energy shortage with beneficial effects on prices.

The proposed increase in the capital subscription to the World Bank will go part of the way to provide for the financial needs of developing countries that have increased to a considerable extent following the 150 percent increase in oil prices since 1978. Expressed differently, in the next several years, there will be need for the recycling of oil revenues on a substantial

scale.

The commercial banks and other private financial institutions did a superb job in recycling after the quadrupling oil prices in 1973-74, confounding the prophets of doom who predicted the collapse of the international financial system. Prophecies of doom make their periodic appearance these days also. I do not share these fears. At the same time, I share Mr. Hoadley's concerns about the difficulties commercial banks encounter in rapidly increasing their loans to the developing countries.

There is, first of all, the sheer size of the financial need associated with the recent rise of oil prices. As the starting base in 1978 was higher, the absolute increase associated with the 150 percent rise in prices was larger than in the case of the earlier quadrupling of oil prices, even if we adjust for general inflation. At the same time, institutional constraints, such as limitations on loans to a particular borrower as a proportion of capital and restrictions on the share of lending to developing countries in the total portfolio, limit lending by commercial banks. Finally, as Walter Hoadley has noted, private lenders are becoming more concerned about the degree of risks incurred in such lending.

Co-financing between the World Bank and commercial banks may alleviate some of these concerns. In the easy environment of liquid financial markets and low risk perception by commercial banks, co-financing offered limited benefits to lenders and to borrowers. Thus, while an important start was made as the financial contribution of private lenders to co-financing (excluding co-financing with official agencies and guaranteed export credits) increased from less than 100 million dollars in 1974 to \$1.8 billion in 1980, the amounts involved hardly exceed 5 percent of net lending to developing countries by commercial banks.



In order to exploit the potential of co-financing in lending to developing countries in the future, one would need to offer an array of financial investments, the terms and conditions of which are sufficiently attractive to private lenders as well as to borrowers. At the same time, these instruments should ensure additionality in lending by the World Bank.

Co-financing with the World Bank today largely takes the form of the participation of co-lenders in specific loans to developing countries. While the World Bank lends at fixed interest rates, the co-lender gets a variable rate, linked to LIBOR. Until a few years ago, the Bank also sold participations from its portfolio but this was discontinued in 1977.

Co-financed loans include an optional cross-default clause, under which each party may take action in the event of default regarding the other party's portion of the loan. It has been suggested that this clause be made mandatory in order to increase the attractiveness of co-financing for commercial banks. However, apart from objections from borrowers, the introduction of a mandatory cross-default clause would limit the freedom of action of the World Bank vis-a-vis developing countries.

While the introduction of a mandatory cross-default clause does not appear desirable, one may explore the possibility of strengthening the present clause so as to increase the attractiveness of co-financing to commercial banks in a way that is acceptable to borrowers, without affecting the freedom of action of the World Bank. At the same time, one may explore the creation of additional investments that could broaden the scope of co-financing, understood in a wide sense.

One may envisage, for example, creating a dual loan structure, with commercial banks purchasing participation in new loans through competitive bidding. This form of co-financing may be attractive in particular to smaller

banks which welcome the opportunity that the World Bank represents them in loan negotiations.

The World Bank may also resume selling participations from the existing loan portfolio, possibly offering these participations for a cross-section of loans. Such participations would presumably not count against the country-specific limits of commercial banks and would attract bank as well as non-bank lenders who have no familiarity with developing countries and do not have the financial resources to participate in the existing forms of co-financing.

Ladies and Gentlemen, the few remarks offered here only provide an indication of the possibilities and the complexities of co-financing. Our luncheon speaker made mention of a Task Force engaged in reviewing the possible ways and means of increasing co-financing. Also, as you may know, Mr. Clausen, the incoming President of the World Bank, expressed considerable interest in examining the possibilities co-financing may offer.

In conclusion, I would like to trespass on the territory of the next speaker, in stressing the need to complement increased lending to developing countries by the United States fulfilling its pledge to make a multi-annual contribution to the International Development Association at the terms that have earlier been negotiated. IDA serves the needs of the poorest countries that cannot obtain loans on commercial terms. At the same time, it would be desirable that IDA loans, and loans by the World Bank in general, be increasingly made subject to policy condition, so as to ensure that increments in financial resources are productively used.

An important step in this direction has been taken by the World Bank in providing structural adjustment loans to developing countries that have explicit policy conditions. This kind of lending, incidentally, also offers possibilities for co-financing as our luncheon speaker has noted.



The experience of the post-1973 period indicates the important role policies play in adjusting to external shocks, such as the quadrupling of oil prices and the world recession. From a study of twenty-four developing countries, I have concluded that countries pursuing outward-oriented development strategies made a much more successful adjustment than countries characterized by inward orientation, even though the former group of countries were more seriously affected by external shocks. With increases in exports and efficient import substitution, outward-oriented economies were able to regain rates of economic growth of the earlier period without incurring excessive foreign debts. By contrast, in inward-oriented economies, the proceeds of foreign loans were often unproductively used, leading to a decline in growth rates and increased external indebtedness.

Those listed

March 19, 1981

Bela Balassa, DRC

Seminar on North-South Issues

1. I participated in a private capacity at the Seminar on "North-South: A Business Viewpoint," organized by the United States Council of the International Chamber of Commerce and held in New York on March 12, 1981. I enclose a short summary of the statements made at the Seminar, with particular reference to the Bank; a synopsis of the speech by Adrian Basora, Acting Deputy Assistant Secretary for International Finance and Development, U.S. Department of State; and my comments on a paper on development finance by Walter Hoadley, Chief Economist at the Bank of America.

2. I found heartening the support expressed by all business speakers for freer trade, and in particular for reducing U.S. trade barriers on imports from the developing countries. There was also praise for the Bank and support for the increase in capital subscription and the establishment of the energy facility.

cc: Messrs. Stern, VPO; Qureshi, SVPFI; Benjenk, VPE; Merriam, IPA; Vibert, VPO  
DPS Directors, DRC Senior Staff, Chief Economists  
Mrs. Boskey

Enclosures  
BBalassa:nc



Mr. John H. Duloy, DRC

March 17, 1981

Bela Balassa, DRC

Expense Statement

I provide the following information on the items queried in my expense statements requesting your approval.

1. As noted in the expense statement, transportation in Paris included in-city transportation as well. Also, the cited figure of \$177.85 pertains to altogether three trips to Paris. With the cost of airport taxi between Charles de Gaulle Airport and the Left Bank being about 20-25 dollars, this amount is hardly excessive.
2. The cost of airport taxi between Casablanca and Rabat is 250 dirhams (\$58.68). With four trips (see point 4 below), the total of \$234.74 is obtained.
3. The cost of airport taxi in Athens was \$9.23 rather than \$92.30, the exchange rate being 45.50 drachma to the dollar. While due to a typing error, the exchange rate was shown as 4.55 in the expense statement, the correct exchange rate was used in calculating the dollar equivalent of expenditures in Athens.
4. The duration of my visit to Marrakesh was as shown on the itinerary (enclosed). At the same time, as noted in the expense statement, one day in Marrakesh was spent writing a report for the Moroccan government that was discussed at the January 5 meeting with Minister of Industry, which had to be scheduled at his convenience.

Enclosures  
BBalassa:nc

March 17, 1981.

Mr. Hubertus Müller-Groeling  
Institut für Weltwirtschaft an der  
Universität Kiel  
2300 Kiel 1, Postfach 4309  
23 Kiel  
GERMANY

Dear Mr. Müller-Groeling:

Please find enclosed two copies of Mr. Balassa's paper  
"Industrial Prospects and Policies in the Developed Countries."

Yours sincerely,

Norma Campbell  
Secretary to  
Mr. Bela Balassa



CABLE

MARCH 16, 1981  
61991

MR. MULLER-GROELING, WELTWIRTSCHAFT

KIEL, GERMANY

PROOFS OF NEWLY INDUSTRIALIZING COUNTRIES PAPER WERE SENT  
FRIDAY MARCH 13. PAPER ON INDUSTRIAL PROSPECTS AND POLICIES  
IN THE DEVELOPED COUNTRIES TO BE SENT TUESDAY MARCH 17.  
REGARDS, DALASSA

BELA DALASSA

BELA DALASSA

BBalassa:nc

DRC - Director's Office

## OFFICE MEMORANDUM

TO: Mr. Robert Cassen, WDR

FROM: Bela Balassa *B*

SUBJECT: WDR IV: Draft 0

DATE: March 16, 1981

1. My comments on Draft 0 will deal with general issues, where I find the analysis deficient. As you requested, I will concentrate on Chapters 1 and 5, with further comments offered on Chapters 2 and 3.

Chapter 1

2. I maintain my objections to using 1970 as the base year in the discussion of past changes. The data for the 1970s, taken as a whole, do not provide an adequate basis for appraising adjustments to the first oil shock, lead to incorrect comparisons of the international environment after the first and the second oil shocks, and suggest undue pessimism as to the prospects for the 1980s.

3. To begin with, while it is correct to say that "many of present-day economic ills pre-date the oil price increase which began in 1973" (p. 3) the report underestimates the economic effects of the oil price increase. Apart from "the contractionary effect of the increase, coming on top of measures of restraint imposed to curb the excessive expansion of 1972-73" (pp. 3-5), its adverse balance-of-payments consequences induced the industrial countries to apply much stronger deflationary measures than would have otherwise been the case. These measures re-established equilibrium in the current account balance of the industrial countries in 1975 at the cost of economic stagnation, with its adverse effects for the developing countries.

4. Furthermore, the transfer implicit in the oil price increase, amounting to 2-3 percent of GNP in Western Europe and Japan, unfavorably affected investment and hence future economic growth in the industrial countries as it reduced profits but not wage incomes. The importance of the transfer from oil-importing developing countries to OPEC should also be noted in the report.

5. In stressing the distinction between medium income and low income countries by the use of an ex-post classification scheme, the report neglects the fact that several of the medium-income countries were low income countries two decades ago. As shown in a table distributed with my comment on the Mini-WDR, not only did Korea surpass Ghana and Senegal during this period, but Thailand, the Philippines, Liberia and the Cameroon also got ahead of these countries.

6. As regards differences in export growth in medium-and low- income countries, note should be taken of the loss of export market shares in the latter group. As shown in the OECD Development Centre study, in the 1973-78 period these losses were especially large in the least developed countries, approaching one-fourth of hypothetical exports calculated on the assumption of unchanged market shares. Losses in market shares were experienced also by the next group of low-income countries as compared to gains in the higher-income developing countries.

7. The discussion of the environment for adjustment is unduly pessimistic



in the report. To begin with, GDP growth rates of 3-4 percent in the industrial countries in the 1980s offer more favorable prospects to the developing countries than the 2.4 percent average growth rate in the 1973-80 period. Also, in contradistinction with the post-1973 period, the industrial countries do not now pursue policies aimed at erasing their current account deficit; thus, OECD projects deficits of \$40 billion in 1981 and \$34 billion (at an annual rate) in the first half of 1982. Apart from benefiting from higher exports, then, the developing countries will not have to carry the full burden of adjustment as they did after the quadrupling of oil prices. Finally, this time around, the cost of the oil price increase is not borne entirely by profits in the industrial countries and investment is affected to a much lesser extent than in 1974-75.

## Chapter 2

8. While recent increases in oil prices represent a greater burden for the developing countries than in 1973-74, the statement that "at the time of the first oil shock the deterioration in these countries' external position was to a large extent the consequence of factors other than those directly attributable to the increase in their oil bill" (p. 7) is incorrect. Indeed, as shown in the OECD Development Centre study, the quadrupling of oil prices was a major factor contributing to the increased balance-of-payments deficit of the oil-importing developing countries.

9. References to the possibility that "the pattern of 1974-75 in which almost all of the deficit counterpart of OPEC's surplus was borne by the non-oil developing countries would probably be repeated" (p. 13) are without foundation, as noted above. The statement that "the possibility of sharp contraction of world trade and a deep and prolonged world recession cannot be ruled out" (p. 13) also reflects excessive pessimism.

10. My results for the semi-industrial (newly-industrializing) countries, reported in "Adjustment to External Shocks in Developing Countries" (March 11, 1981) show gains in export shares for the semi-industrial countries. These results have been obtained by summing the estimates for individual countries and are more reliable than the OECD figures.

11. In the same paper I have shown that, within both the semi-industrial and the less developed groups, countries pursuing outward-oriented development strategies suffered larger external shocks, but did much better in exporting and in import substitution than countries following inward-oriented policies. Successful internal adjustment, in turn, permitted the former group of countries to limit their foreign debt while the latter group became increasingly indebted abroad.

12. These findings indicate the importance of the policies followed in response to external shocks. The discussion of individual countries and country groups in Chapter 2 would benefit from giving more attention to the policies applied, in particular as far as foreign trade and domestic savings are concerned. The use of available estimates on the balance-of-payments effects of policy responses to external shocks would also give more substance to the discussion of the experience of individual countries that is rather diffuse and lacks analytical content.

Chapter 4

13. The low case of a 2.8 percent GDP growth rate for the industrial countries in the 1980s is far too low; a realistic forecast would be near to the so-called high case. The low case for the manufactured exports of the developing countries, 5.1 percent between 1980 and 1990, borders on the ridiculous. In fact, in both 1978 and 1979, the growth of these exports exceeded the high case of 12.2 percent projected for the 1980s. Nor can one take the assumed income elasticity of import demand of 0.4 for the oil-importing countries in the 1980-85 period seriously. At the same time, the projected magnitudes would not support a 3.8 percent GNP growth rate for the oil-importing developing countries in the 1980-85 period.

Chapter 5

14. The discussion of price and volume changes in exports in Section I is interesting, although the analysis suffers from taking 1970 rather than 1973 as the base year. The discussion of the "new protectionism" in Section II is generally good but it does not take sufficient account of favorable changes vis-a-vis imports from developing countries after 1977 and makes no reference to the Tokyo Round. Also, the table on "managed imports" overstates the importance of trade restrictions and of changes in restrictions over time. Sections III, IV, and V require further development and recommendations for policy changes. In this connection, I may refer to the recommendations made in my "Structural Change in Trade in Manufactured Goods between Industrial and Developing Countries," World Bank Staff Working Paper No. 396, June 1980 and "Industrial Prospects and Policies for the Develped Countries," December 1980.

cc: Recipients of Draft 0.

BBalassa:nc





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Mr. John H. Duloy, DRC

March 16, 1981.

Bela Balassa, DRC

Pergamon Press Book

As I indicated to you this morning Helen Hughes and I are concerned about the distribution of books to developing countries, which are published outside the Bank. These books will carry a high price tag that will make their purchase in developing countries difficult.

An immediate issue is the distribution of my forthcoming book "The Newly Industrializing Countries in the World Economy." Pergamon Press is publishing a hardback as well as a paperback edition. I wonder if it might be possible to purchase a 100 copies of the paperback edition from discretionary funds. The cost might be around \$1,000 and would be incurred in this fiscal year.

BBalassa:nc



Mr. John H. Duloy, DRC

March 16, 1981.

Bela Balassa, DRC

Visit by Mr. Bela Csikos-Nagy

Mr. Csikos-Nagy, perhaps the most important figure in the Hungarian reform, has offered to give a talk about the development and future prospects of the reform to a small Bank audience. Mr. Csikos-Nagy gave an excellent talk on this subject some three years ago and developments that have occurred since would warrant inviting him for a second time. I have discussed the matter with Messrs. Dubey and Lim, both of whom are enthusiastic about the possibility and would like to send several people to the seminar.

May I ask you to make the appropriate steps so that Mr. Csikos-Nagy's fee and travel from New York to Washington be paid for by the Personnel Department. ~~His curriculum vitae is enclosed.~~

~~Enclosure~~  
BBalassa:nc

## OFFICE MEMORANDUM

TO: Mr. Arvind Virmani, DED

DATE: March 13, 1981

FROM: Bela Balassa, DRC

SUBJECT: Review Panel Trade Among Developing Countries

1. A panel consisting of Messrs. Balassa (Chairman), Agarwala, Bery, and Westphal reviewed the research proposal on the above project; Mr. Meo was absent and could not comment in detail but expressed his support for the project. Those present welcomed the "slimming down" of the proposed research and the improvements made in the proposal itself. They found the subject matter of interest to the Bank and consider the Bank to be an appropriate place for performing the research. In supporting the proposal, the panel offered various suggestions on particular points.
2. One should recognize the fact that much of the proposed research would deal with the trade *of* developing countries, of which trade *among* developing countries is but one aspect. At the same time, it was suggested that more attention be given to preferential ties in the research methodology.
3. The panel asked the sponsors to indicate how various parts of the proposal fit together. In particular, it should be noted how different methods of analysis conform to particular research objectives and how the results obtained by these methods relate to each other.
4. While recognizing the usefulness of the calculations to be made in the framework of the proposed research project, the panel members noted that the value of these calculations would be much enhanced if arrangements were made to do them on a routine basis once the research project is completed. As regards the second part of the research project, only briefly referred to in the proposal, some panel members suggested that this should include in-depth studies of the trade of individual developing countries or country groups while others welcomed focusing on institutional barriers to trade among developing countries as presently proposed. It has been agreed, however, that it is too early to determine the subject matter of the second phase.

cc and cleared with: Messrs. Agarwala, AEA; Bery, EMI; Westphal, DED; and Meo, LC1

cc: Messrs. Acharya, VPD; Baneth, EPD; Colaco, EPD; Haq, PPR; Holsen, ASNVP;  
 Keesing, DED; Wolf, EPD; Havrylyshyn (George Washington University)  
 Mrs. Hughes, EPD

BBalassa:nc



# OFFICE MEMORANDUM

TO: Messrs. Jean Baneth, EPD and Frank Vibert, VPO      DATE: March 13, 1981  
FROM: Bela Balassa, DRC  
SUBJECT: Co-Financing and Related Issues

I made the enclosed statement at the Seminar on North-South: A Business View Point on March 12. I would appreciate your reviewing the part of the statement dealing with co-financing. I wish to add that in his luncheon presentation Mr. Basora indicated various alternatives under discussion.

Enclosures  
BBalassa:nc

Statement made by Bela Balassa, Professor of Political Economy at the Johns Hopkins University and Consultant to the World Bank at the Seminar on North-South: A Business View Point, organized by the United States Council of the International Chamber of Commerce

Ladies and Gentlemen. It is an honor and a pleasure for me to offer some comments on financial issues pertaining to developing countries. I have no criticism to make on Walter Hoadley's excellent paper; I approve of his analysis and his conclusions. My remarks should, therefore, be considered as complementary to his presentation. I will concentrate on questions of lending by the World Bank and co-financing with commercial banks and other private interests. I would like to emphasize, however, that I speak in a private capacity and do not represent the views of the World Bank.

Walter Hoadley pointed to the importance of the United States fulfilling its pledge to increase its capital subscription to the World Bank. I would like to advance several additional arguments in support of this proposition. With the one-to-one gearing ratio of loans to capital in World Bank lending, U.S. exports to developing countries would rise by about twice as much as the increased<sup>a</sup> in capital subscription. At the same time, it is only a small part of the capital subscription that involves an actual cash contribution. As Hans Landsberg noted, similar considerations apply to the proposed energy facility that would have the further benefit of easing the world energy shortage with beneficial effects on prices.

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Co-financing between the World Bank and commercial banks may alleviate some of these concerns. In the easy environment of liquid financial markets and low risk perception by commercial banks, co-financing offered limited benefits to lenders and to borrowers. Thus, while an important beginning was made as the financial contribution of private lenders to co-financing (excluding co-financing with official agencies and guaranteed export credits) increased from less than 100 million dollars in 1974 to \$1.8 billion in 1980, the amounts involved hardly exceed 5 percent of net lending to developing countries by commercial banks.

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Messrs. Jean Baneth, EPD and Frank Vibert, VPO

March 13, 1981

Bela Balassa, DRC

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Enclosures  
BBalassa:nc



Mr. Arvind Virmani, DED

March 13, 1981

Bela Balassa, DRC

Review Panel Trade Among Developing Countries

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cc and cleared with: Messrs. Agarwala, AEA; Bery, EMI; Westphal, DED; and Meo, LC]

cc: Messrs. Acharya, VPD; Baneth, EPD; Colaco, EPD; Haw, PPR; Holsen, ASNVP;  
Keesing, DED; Wolf, EPD; Havry Ryshyn (George Washington University)  
Mrs. Hughes, EPD

BBalassa:nc



Mr. H. Bourguinat  
Universite de Bordeaux 1  
Faculte des Sciences Economiques  
Avenue Léon Duguit  
33604 Pessac  
France

My dear friend,

Thank you for your letter of February 19th. I would suggest to present a paper at the Conference with the title "Changing Patterns of International Specialization in Manufactured Goods." The paper will examine recent trends in trade in manufactured goods between developed and developing countries and provide projections for the 1980s. It will further analyze policies of industrial protection in the developed countries and the results of the Tokyo Round negotiations. Finally, recommendations will be made for policies that may be followed by developed and developing countries. Please let me know if you consider these themes to be appropriate for the Conference.

I presume that my paper could be presented at the beginning of the first day. The paper could be sent to you in early May.

Yours sincerely,

Bela Balassa

11 mars 1981

M. H. Bourguinat  
Université de Bordeaux I  
Faculté des sciences économiques  
Avenue Léon Duguit  
33604 Pessac, France

Cher ami,

J'ai bien reçu votre lettre du 19 février et vous en remercie. Le papier que j'ai l'intention de présenter au cours du colloque traiterait du sujet suivant: "Modifications dans les tendances de la spécialisation internationale affectant les produits manufacturés". Dans cet exposé, j'examinerais les orientations récentes des échanges commerciaux des produits manufacturés entre les pays en développement et les pays industrialisés et je fournirais des estimations pour la décennie en cours. En outre, je procéderais à l'analyse des politiques de protectionisme adoptées par les pays industrialisés, ainsi qu'à celle des résultats des négociations intervenues lors du Tokyo Round. En conclusion, mon exposé contiendrait des recommandations en ce qui concerne les politiques à suivre par les pays en développement et les pays industrialisés.

Je vous saurais gré de me faire savoir si les thèmes que je me propose de développer s'insèrent bien dans le cadre du colloque. D'autre part, je suppose que mon intervention pourrait avoir lieu au début de la première session. Si cela vous convient, je serais en mesure de vous adresser mon texte au début du mois de mai.

Veillez croire, cher ami, à l'assurance de mes sentiments bien dévoués.

Bela Balassa

BB/NR:nr



Mr. Jean Florenzano  
SETEF  
Société d'études économiques et Financières  
21, rue Jean-Mermox  
Paris 75008  
FRANCE

Dear Mr. Florenzano:

Following the receipt of your letter I spoke to Mr. Christian  
Francois at the Fund. He / interviewed Mr. Pierre Bougerol and/very  
much impressed by his talents. Unfortunately, Mr. Francois does not  
have an opening in his Division at this time. As to other Divisions,  
Mr. Bougerol's <sup>chances</sup> ~~chances~~ are reduced by reason of the fact that the  
Fund gives preference to people <sup>who</sup> ~~to~~ have participated in its Young Professional  
Program. The same observation applies to the Bank where this is a fairly  
general practice.

Yours sincerely,

Bela Balassa

11 mars 1981

M. Jean Florenzano  
Société d'études économiques  
et financières "SETEF"  
21 rue Jean Mermoz  
Paris 75008, France

Cher Monsieur,

En suite à votre récente lettre, je me suis mis en rapport avec M. Christian François, du Fonds Monétaire. Celui-ci m'a dit avoir recueilli une impression très favorable de l'entrevue qu'il avait eue avec M. Pierre Bougerol.

Malheureusement, à l'heure actuelle, M. François ne possède aucun poste vacant dans sa division. En ce qui concerne les autres divisions, les chances de M. Bougerol ne sont pas très bonnes; en effet le Fonds Monétaire accorde une préférence aux candidats ayant participé au programme des "Young Professionals". Cette observation est également valable en ce qui concerne la Banque Mondiale, où les "young professionals" ont en général la préférence sur les autres candidats.

Veuillez croire, cher Monsieur, à l'assurance de mes sentiments les meilleurs.

Bela Balassa

BB::NR/nr



Recipients of WDR IV

March 11, 1981

Bela Balassa, DRC

Adjustment to External Shocks in Developing Countries

1. I enclose a rough draft of my paper on the above subject. The paper presents estimates on the balance-of-payments effects of external shocks and of policies followed in groups of 24 developing countries, classified according to the character of external shocks, the level of development and the policies applied.
2. Your comments would be appreciated.

BBalassa:nc

CABLE  
842-620628

March 9, 1981  
61991

MRS. LILIANA PONCHON, EUROPEAN OFFICE, WORLD BANK  
PARIS, FRANCE 75116

PLEASE CHANGE SCANDINAVIA RESERVATION RETURNING TO PARIS ON  
MARCH 27 RATHER THAN 28. ALSO MAKE RESTAURANT RESERVATION FOR  
TWO AND CONFIRM WITH PEOPLE AS FOLLOWS. 1. SATURDAY, MARCH 21  
13:00 CLODENIS 606.20.26, DANIELLE BOETSCH AGENCE FRANCE  
PRESSE 770.99.59 POSTE 364 2. SATURDAY 21 MARCH 20:30 LE  
RECAMIER 548.86.58 THIERRY DE MONTBRIAL 380.91.08, 3. SATUR-  
DAY 28 MARS 1300 CHEZ LES ANGES 705.89.86, PIERRE URI,  
ATLANTIC INSTITUTE, 727.24.36. REGARDS, BALASSA

BELA BALASSA

BELA BALASSA

DRC - DIRECTOR'S OFFICE

BBalassa:nc



Mr. Ken Taylor, AMEX

March 9, 1981

Bela Balassa, DRC

I will have to leave for Paris a day earlier than originally planned and will want to come back through New York. Correspondingly, it is requested that you make the following changes in my travel reservations.

March 20	Washington 1800	- Paris 845	TWA 810
March 29	Paris 1300	- New York 1355	AF077
" 29	New York 1600	- Washington 1705	PA218

BBalassa:nc

MR. Jean Baneth, EPD

March 9, 1981.

Bela Balassa, DRC

National Income Data

We have requested data breakdown on the aggregate expenditures for 24 developing countries for the years 1978 and 1979 in current as well as constant prices. The data are urgently needed for work I am doing for WDR. Please give top priority to this request and use overtime if necessary. My assistant Bob Therriault x61985 handles this work for me.

cc: Mr. A. Meeraus, DRC

BBalassa:nc



Mr. Anthony Churchill, URB

March 6, 1981.

Bela Balassa, DRC

Mission to Turkey

This is to confirm my discussions with Mr. David Davis concerning his participation in the mission on Industrialization and Trade Strategy I will lead to Turkey in May. We would like Mr. Davis to review the prospects for the tourism sector in Turkey and to make recommendations for a coordinated set of policies. He should join the mission on May 18th for a period of three weeks and complete a draft version of his report by mid July. Mr. Davis' report will be incorporated as a chapter in the report of the mission.

cc: Messrs. D. Davis, URB; James A. Simmons, URB; Davar, EM2; Dubey, EMNVP; Roy, EM2

BBalassa:nc

Mr. Davis to receive copy of back-to-office memo and supplement

Mr. George C. Maniatis, EMP

March 6, 1981

Bela Balassa, DRC

Turkey Mission

1. I enclose my back-to-office memo dated January 22nd. In the Supplement to the back-to-office memo it is noted that the government as well as TSKB would welcome including minerals and mineral based chemicals in the purview of the mission I will lead to Turkey in May. It would be appreciated if, in the course of your discussions with SPO and TSKB you would obtain additional information on these product groups. In particular, we would like to know which minerals offer good possibilities for exporting in raw or in processed form and would like to receive information on the studies TSKB has undertaken on these minerals. May I also ask you to obtain copies of any studies that have been completed.

2. As regards your own mission, I wish to urge you to give emphasis to the possibilities for, and the conditions of, exporting engineering products. I would also suggest that you consider including the automobile industry in the purview of your mission. This industry offers particular interest, in part because of high production costs under the present organization set-up and because of the possibilities for exporting parts and components to the European Common Market.

cc: Messrs. Davar, EM2; Dubey, EMNVP; Hume, EMP; Kohli, IPD, Zaidan, EMP

Enclosures  
BBalassa:nc



March 6, 1981.

Miss Kathy Ogawa  
1-12-14-207 Den-en Chofu  
Ota-Ku, Tokyo  
Japan

Dear Kathy,

On your last visit here, I mentioned to you that we plan to undertake a research project on the stages approach to comparative advantage. This has now been decided and we will be proceeding with it. In this connection, I would like to ask you to send me data on the input coefficients and unskilled wages used in your study on Japan. The data should be provided in a form that would permit us to use your coefficients in making estimates for other countries.

Yours sincerely,

Bela Balassa

March 6, 1981.

Professor Gustav Ranis  
Department of Economics  
Yale University  
37 Hillhouse Avenue  
New Haven, Connecticut 06520

Dear Gus,

I ~~en~~lose, in two copies, my contribution to <sup>the</sup> Reynolds volume, entitled "The Policy Experience of Twelve Less Developed Countries, 1973-1978." I hope that the paper will not be too long for your purposes. Should this be the case, I would suggest that you delete Appendix Tables 1 and 2.

Yours sincerely,

Enclosures

Bela Balassa



March 6, 1981.

Dr. Bela Csikos-Nagy  
President  
Hungarian Economic Association  
1370 Budapest Pf. 544  
Hungary

Dear Bela,

Thank you for your letter of February 19th and the preliminary program of the IEA Conference. In your letter you make no mention of your prospective visit to Washington. Please let me know, preferably by cable, if you plan to come so that I can make arrangements for a seminar. I, myself will be away from March 23 to 28, but will be back in Washington before your visit here.

Yours sincerely,

Bela Balassa

CABLE

MARCH 2, 1961  
61991

DR. MAXWELL FRY, UNIHAW  
HONOLULU, HAWAII 96822

PLEASE CALL ME COLLECT FRIDAY MARCH 6 OR MONDAY MARCH 9 TO  
DISCUSS YOUR POSSIBLE WRITTEN CONTRIBUTION TO TURKEY REPORT.

REGARDS, BALASSA

Bela Balassa

Bela Balassa

BBalassa:nc

DRC - Director's Office



CABLE

MARCH 5, 1981  
61991

MR. EDUARDO CONESA, DIRECTOR, INTAL  
1401 BUENOS AIRES, ARGENTINA

PLEASE SEND LETTER GIVING PERMISSION FOR INCLUDING IN THE  
WORLD BANK REPRINT SERIES ALL MY RECENT AND FUTURE PAPERS  
PUBLISHED IN INTEGRACION LATINOAMERICANA. REGARDS, BALASSA

Bela Balassa

Bela Balassa

DRC - Director's Office

BBalassa:nc

13/81

Mrs. Françoise Carrière  
Revue Economique  
54, boul. Raspail  
75006 Paris  
FRANCE

Dear Françoise,

I was happy to learn from your letter of January 16th that you will be able to publish my paper without any further changes. I enclose a summary in French and in English as you have requested.

Carol joins me in sending our best regards to you and Jean.

Yours sincerely,

Enclosure

Bela Balassa



This paper examines the pattern of structural change in trade in manufactured goods between the industrial and the developing countries. It reviews recent changes in this trade and analyses its commodity composition in the light of the comparative advantage of the two groups of countries. The paper further provides projections on the growth of manufactured trade between the industrial and the developing countries in the period 1978-90.

The results point to the increasing importance of the developing countries as markets for the manufactured exports of the industrial countries. It is further shown that, notwithstanding the protectionist measures applied by the industrial countries, the developing countries' exports of manufactured goods have grown rapidly and are expected to do so also in the future.

Le 3 mars 1981

Chère Françoise,

Je te remercie pour ta lettre du 16 janvier m'annonçant que mon article serait publié sans modifications. Tu trouveras ci-joint le résumé en français et en anglais demandé.

Carol se joint à moi pour t'adresser, ainsi qu'à Jean, nos amitiés sincères.

Bela Balassa

Pièce jointe

Madame F. Carrière  
Revue économique  
54, Boulevard Raspail  
75006 Paris (France)



Cet article examine l'évolution de la structure des échanges de biens manufacturés entre pays industriels et pays en développement. Il analyse les changements récents et étudie la composition de ces échanges par produit, à la lumière de l'avantage comparatif des deux groupes de pays. Il contient en outre des projections sur le développement des échanges de biens manufacturés entre pays industriels et pays en développement pour la période 1978-90.

Les résultats font ressortir l'importance croissante des pays en développement comme marchés d'exportation pour les biens manufacturés des pays industriels. On constate en outre qu'en dépit des mesures protectionnistes prises par les pays industriels, les exportations de biens manufacturés des pays en développement sont en expansion rapide et que cette tendance devrait se maintenir.

## ECONOMIQUE

54, Boul. Raspail  
75006 PARIS  
Tél. 544.39.79

Monsieur Bela BALASSA  
World Bank  
1818 H Street N W  
WASHINGTON D C 20433  
U.S.A.

Cher Bela

J'ai transmis ta dernière lettre aux membres du Secrétariat de Rédaction de la Revue Economique, et suis heureuse de te dire qu'ils ont finalement accepté de publier ton article sans modifications .

Contrairement à ce que je t'avais dit , dans ma dernière lettre, il ne sera probablement programmé que dans le numéro de Septembre 1981.

Je te rappelle que, en tout état de cause, tu dois m'adresser un résumé en français et en anglais de ton texte ( 10 lignes chacun ) .

En espérant toute ta famille en bonne forme, je te prie de croire, Cher Bela, à toutes mes amitiés .



Françoise



Mr. Gobind Nankani, VPD

March 2, 1981.

Bela Balassa, DRC

MOROCCO: Industrial Incentive Study - Project No. 671-85

In his memo on the above subject dated February 20, 1981, Mr. Carter made reference to a contribution from DRC in the amount of \$14,000. I have no knowledge of DRC ever promising a financial contribution to the research project. Our only contribution consists of the time I devote to the project.

cc: Messrs. Bart, EM2; Carter, EM2; Mrs. Nemitz, CTR

BBalassa:nc

March 2, 1981.

Mr. Mika Enckell  
Ministry of Finance  
Economic Department  
P.O. Box 295  
SF-00171 Helsinki 17  
Finland

Dear Mr. Enckell:

Thank you for your letter of December 29th and for sending the description of your research. Your proposal looks very interesting and I wish you the best for its completion.

I enclose a copy of "A 'Stages Approach' to Comparative Advantage" which contains the classification you have requested. Please note that the co-efficients relate to U.S. industry as comparable data for other countries are not available.

With best regards,

Yours sincerely,

Enclosure

Bela Balassa



Mr. E. Peter Wright, VPD

March 2, 1981.

Bela Balassa, DRC

Working Paper Submission

I enclose my paper "The Policy Experience of Twelve Less Developed Countries, 1973-1978" in an original and copy for your consideration for inclusion in the World Bank Staff Working Paper Series. I would like to add that there has been considerable discussion on the paper at the Bank and I have incorporated comments received on the discussion of individual countries.

cc: Messrs. Duloy/Bell, DRC

Enclosures  
BBalassa:nc

March 2, 1981.

Mr. José da Silva Lopes  
Caixa Geral de Depositos  
Largo de Santa Cataina  
Lisboa  
Portugal

Dear Mr. Silva Lopes:

This is to confirm the dates of our mission to Turkey. We plan to arrive in Ankara on May 18th for a stay of three weeks. It is further suggested that you come to Washington in mid July for about a week to discuss the draft version of your report.

A consultant contract will be sent to you by the Personnel Department of the Bank in a few weeks. I have asked the contract to cover a period of three months, including the time spent on the mission, and the time needed for the writing of the report.

It was a pleasure seeing you in Washington and I look forward to our working together in Turkey.

With best regards,

Yours sincerely,

Bela Balassa

P.S. I trust that you received my memos on Turkey before your departure from Washington.

cc: Messrs. Davar, EM2; Dubey, EMNVP











Mr. Gobind Nankani, VPD

March 2, 1981

Bela Balassa, DRC

MOROCCO: Industrial Incentive Study - Project No. 671-85

In his memo on the above subject dated February 20, 1981, Mr. Carter made reference to a contribution from DRC in the amount of \$14,000. As I have since clarified it with him, there has been no DRC financial commitment to the research project. Our only contribution consists of the time I devote to the project.

cc: Messrs. Bart, EM2; Carter, EM2; Mrs. Nemitz, CTR

BBalassa:nc

2134 Wyoming Avenue N.W.  
Washington, D.C. 20008  
March 2, 1981

Internal Revenue Service  
P.O. Box 25866  
Richmond, Virginia 23260

Dear Sir,

Please send me the following publications:

Your Income Tax  
547 Tax Information on Casualties, Disasters and Thefts  
584 Casualty and Disaster Workbook  
503 Child and Disabled Dependent Care  
502 Dental and Medical Expenses  
463 Entertainment, Travel and Gift Expenses  
587 Business Use of Your Home  
506 Income Averaging  
560 Tax Information on Self-Employed Retirement Plans

Please send me also Form SS-4.

Yours truly,

Bela Balassa





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<b>Withdrawn by</b> Chandra Kumar	<b>Date</b> May 30, 2014			

Messrs. Adi J. Davar, EM2; Vinod Dubey, EMNVP

March 2, 1981

Bela Balassa, DRC

Turkey Mission

1. Since our meeting I have made considerable progress in my discussions on the composition of the mission. In the enclosure I provide a preliminary list of the mission members, indicating their availability as well as the actions to be taken.

2. In view of the engagements various people have taken to participate on the mission it would be desirable to officially inform the Turkish government of the proposed dates and to ask for confirmation. You will recall that we plan to arrive in Ankara on May 18th for a stay of three weeks.

cc: Messrs. Hume, EMP; Zaman, EM2; Roy, EM2

Enclosure  
BBalassa:nc



<u>Name</u>	<u>Subject Area</u>	<u>Availability</u>	<u>Action to be Taken</u>
Bela Balassa (DRC)	Mission Chief	confirmed	none
Jayanta Roy, EM2	Deputy Mission Chief macro economics	confirmed	none
Seok Hyun Hong, EM2	medium term projections	confirmed	none
Jose da Silva Lopes (Consultant)	financial sector	confirmed	contract to be signed
Sheetal K. Chand, (IMF)	tax and expenditure policy	confirmed	official request to be sent to the IMF
Michael Noel, (YP)	incentives in private industry	confirmed	none
Martin Wolf (EPD)	incentives in public industry	confirmed	none
Pasquale L. Scandizzo (AGR)	agricultural exports	confirmed	official request to be made
G. Swamy (EPD)	exports of processed food	to be confirmed	await response
David Caplin (IPD)	mineral based chemical exports	to be confirmed	contact CPS
David Davis	tourism	to be confirmed	await response

March 2, 1981.

Prof. Dr. Friedrich Levcik  
Direktor  
The Vienna Institute for  
Comparative Economic Studies  
A-1103 Wien  
Postfach 87  
Austria

Dear Professor Levcik:

Thank you for your letter of February 18th. I am sorry to say that I will not be in Washington at the time you plan to come here. Your visit coincides with my spring vacation that I will spend in Tunisia as an adviser to the government.

Yours sincerely,

Bela Balassa



March 2, 1981.

Professor Dr. Juergen B. Donges  
Institut fur Weltwirtschaft  
Dusternbrooker Weg 120-122  
D-2300 Kiel 1  
West Germany

Dear Juergen,

In response to the comments you made at the January OECD meeting I drafted the following additions to Chapter 2. Please let me know if you have any comments on these additions.

It was good to see you again and I look forward to seeing you in August, if not before.

Yours sincerely,

Enclosure

Bela Balassa

Measuring export volume effects for individual developing countries may seem to conflict with the "small country" assumption, according to which the countries under study cannot affect the prices of their export products. This conflict is more apparent than real, inasmuch as shifts in world demand in the course of the business cycle may affect each country's export volume and price without individual countries being able to affect the price at which they sell.

The effects of the business cycle on trade are shown by annual data on the developed countries' ~~GNP~~ GNP and their imports from the developing countries. This is the case, in particular, for the imports of manufactured products that varied to a considerable extent between 1973 and 1978. Apart from the business cycle, manufactured imports were also affected by changes in protectionist measures.



Concluding Remarks

As noted above, the balance-of-payments effects of external shocks, of policy responses to these shocks, and of internal shocks, have been estimated by postulating a situation that would have occurred in the absence of external and internal shocks. This involves making assumptions about an "anti-mode"<sup>n</sup> that would have been established without such shocks.

The creation of an "anti-mode"<sup>n</sup> would ideally involve estimating a complete economic model. A complete model would also permit examining the impact of particular policy instruments such as the exchange rate and changes in the money supply, on the balance-of-payments, that necessarily becomes a matter of interpretation in using the present analytical framework.

Nevertheless, by reason of limitations of time and data, we had to forgo building complete economic models in the framework of the present investigation. The difficulties of model building were particularly forbidding in the case of the seven country groupings, for which estimates are presented in Chapter IV.

At the same time, its simplicity notwithstanding, the analytical framework used in the volume has proved to be useful in providing a consistent set of estimates of the balance-of-payments effects of external shocks and of domestic policies. It has thus permitted indicating the relative importance of external shocks through the deterioration of the terms of trade and the slowdown of world demand, of the various forms of policy responses to these shocks, and of internal shocks.