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Folder Title: Bela Balassa's chron files - June 1982

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Series: Reading File of Bela Balassa

Sub-Fonds: Records of the Office of the Vice President, Development Economics and Chief Economist and later Senior Vice President, Development Economics and Chief Economist (DECVP)

Fonds: Records of the Office of the Chief Economist

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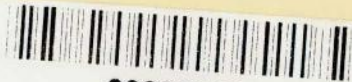


THE WORLD BANK
Washington, D.C.

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JUNE 1982

The Wright Bank Group
Archives



30225146

R1991-086 Other #: 5
Bela Balassa's chron files - June 1982

B. BALASSA CHRON FILE JUN 1982

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OFFICE MEMORANDUM

TO: Mr. Hollis B. Chenery, VPD; and E. Stoutjesdijk, DRD DATE: June 29, 1982.

FROM: Bela Balassa, DRD *h*

SUBJECT: Activities at the Bank, FY82

1. In FY82, there was a substantial increase in my policy advising and operational support activities, largely at the expense of my research. One-half of the time shown under the heading "LDC Governments" in the enclosed table relates to my heading a large Bank mission to Turkey; the other half pertains to advisory missions to China, Morocco, Portugal, and Tunisia.

2. The report of the mission I led to Turkey will appear shortly in red cover. Furthermore, my advisory report on China will be published in article form. These publications are listed in the enclosure, together with other papers written outside the framework of Research Committee - supported research. As regards the latter, the book derived from RPO 670-01 (Bela Balassa and Associates, *Development Strategies in Semi-Industrial Economies*, pp. x, 394) was published by Johns Hopkins Press for the Bank this Spring.

cc: Messrs. Wright, VPERS; Pyatt, DRD; Mrs. Krueger (o/r) VPERS.

Enclosure
BBalassa:nc

Non-RPO Studies by Bela Balassa, FY82

1. (et. al.) *Turkey: Industrialization and Trade Strategy*, Vol. I, pp. vi, 36; Vol. II, pp. 322; Vol. III, pp. 91.
2. "The Hungarian Economic Reform, 1968-81," World Bank Staff Working Paper No. 506, Washington, D.C. February 1982; to be published in the Proceedings of the U.S. - China Conference on Alternative Development Strategies.
3. "The Adjustment Experience of Developing Countries After 1973," to be published in the Proceedings of the Conference on IMF Conditionality.
4. "Disequilibrium Analysis in Developing Economies: An Overview" DRD Discussion Paper No. 32, Washington, D.C. June 1982; to be published in *World Development*.
5. "Reforming the New Economic Mechanism in Hungary," World Bank Staff Working Paper (to appear); to be published in *Journal of Comparative Economics*.
6. "Economic Reform in China," to be published in *Banca Nazionale del Lavoro, Quarterly Review*.

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
June 29, 1982.

Archaeology, Dept. P,
53 Park Place
New York, N.Y. 10001

Dear Sir:

I would like to order an Archaeology Guide. My check for \$2.50 is enclosed along with a stamped self-addressed envelope.

Yours truly,

Enclosure

Bela Balassa

Mr. Timothy King, DRDEI

June 29, 1982.

Bela Balassa, DRD

"Women and the Subsistence Sector: Economic Participation
and Household Decision-Making in Nepal"

1. I do agree that the above would make a good Bank Staff Working Paper. I would suggest, however, omitting Annex II from the working paper version. While this should be considered for publication in a book, and I think that the study would fit nicely into the Bank's monograph series, it would make the working paper rather long. (It would also reduce the chances for book publication.)
2. Please provide the abstract and summary requested in Winterbottom's May 14 memo and described in the material I send around last week. Also, we need the original, together with a copy, for the Printshop.

BBalassa:nc



Record Removal Notice

File Title Bela Balassa's chron files - June 1982	Barcode No. 30225146
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Document Date Jun 25, 1982	Document Type Letter
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Correspondents / Participants
To : Mr. John H. Duloy, VPERS
From : Bela Balassa, DRD

Subject / Title
RPO 671-35 Export Incentives in Developing Countries

Exception No(s).

1 2 3 4 5 6 7 8 9 10 A-C 10 D Prerogative to Restrict

Reason for Removal
Corporate Administrative Matters

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by Chandra Kumar	Date Jun 10, 2014
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Mr. P. Miovic, EPDIT

June 24, 1982.

Bela Balassa, DRD

Le Monde

1. I receive a copy of Le Monde, which is sent first to Mr. Benjenk and afterwards to you. I had considerable delays in receiving the issues and the situation has deteriorated in recent weeks. It was only a few days ago that the April 28 to May 11 issues reached me. Also, I am missing the issues between May 12 and 15, between May 20 and 30, and between June 1 and June 6.

2. Mr. Benjenk tells me that he sends on Le Monde to you without delay. I would appreciate it if you could ensure that the issues are forwarded to me promptly. Please also search for the missing issues.

BBalassa:nc

Planned Activities in FY83

Bela Balassa

<u>Research</u>	<u>50</u>
<u>RPO</u>	
RPO 670-87 Industrial Policies and Economic Integration in Western Africa	12
RPO 671-35 Export Incentives in Developing Countries	12
RPO 672-41 Changes in Comparative Advantage in Manufactured Goods	12
Non-RPO Research	14
<u>Policy Advising and Operational Support</u>	<u>35</u>
Leading Mission to Morocco	15
Country Advisory Missions	15
Support to Regional Offices	5
<u>Management</u>	<u>15</u>
Development Research Department	12
Research Committee	3

Total Number of Days Worked, FY1982

Bela Balassa

1981 July	22 days
August	4
September	20.5
October	20
November	13
December	21
1982 January	20
February	16.5
March	18.5
April	21
May	21
June	<u>16</u>
Total number of days	213.5
Number of days contracted	<u>180</u>
difference	33.5

1 1 XZ 61007

MR. JAYANTA ROY, BUYUK ANKARA HOTEL

ANKARA, TURKEY

REPEAT TELEGRAM DATED JUNE 21. WILL PARTICIPATE AT NEBAN CONFERENCE
AND REVIEW INCENTIVES PROJECT IN ISTANBUL ON AUGUST 6 AND 7.

PLEASE INQUIRE IF I COULD SEE AKTURK ON AUGUST 9 MONDAY MORNING TO
DISCUSS PROJECT AND CABLE YOUR ANSWER. 2. MR. SILVA LOPES WOULD
LIKE TO KNOW WHEN THE TURKEY FINANCIAL SECTOR MISSION WILL TAKE
PLACE. 3. YOUR URGENT REPLY REQUESTED. REGARDS, BALASSA

CABLE

6/24/82

Bela Balassa

Bela Balassa

DRD - Director's Office

BBalassa:nc

June 24, 1982.

Dr. Werner W. Pommerehne
Institut für Empirische Wirtschaftsforschung
der Universität Zürich
Forchstrasse 145
Zürich
Switzerland

Dear Dr. Pommerehne:

Many thanks for your letter of June 1st and for your interest in my "Primer in Culinary Economics." I am afraid that I have kept only one copy of the earlier editions and hence I am not able to send these to you. However, I would be very much interested in receiving your evaluation of the restaurants I have included in the last edition.

Yours sincerely,

Bela Balassa

June 24, 1982.

Mr. Jean Louis Masselin
Société d'Études Économiques et Financières
Société civile particulière
21, rue Jean-Mermoz
75008 Paris
France

Dear Mr. Masselin:

Thank you for your letter of May 11th which reached me after my return from a long trip to China. There has been no change in the status of the studies on Western Africa, thus, you can make use of the studies I earlier sent to you.

Yours sincerely,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
June 24, 1982.

KULTURA
Hungarian Foreign Trading Company
H-1389 Budapest
P.O.B. 149
Hungary

Dear Sir:

In March 1982 I ordered Heti Vilaggazdasag for one year. I have found that I have little interest in the publication and would like to cancel my order. Please credit me for the remaining part of my subscription for future payments on journals I am receiving from you.

Yours sincerely,

Bela Balassa



Record Removal Notice

File Title Bela Balassa's chron files - June 1982	Barcode No. 30225146
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Document Date Jun 24, 1982	Document Type Letter
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Correspondents / Participants
To : Ginns, Mr. Ronnie Silen
From : Bela Balassa,

Subject / Title
Asking for reimbursement

Exception No(s).

1 2 3 4 5 6 7 8 9 10 A-C 10 D Prerogative to Restrict

Reason for Removal
Personal Information

Additional Comments

The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.

Withdrawn by Chandra Kumar	Date Jun 10, 2014
--------------------------------------	-----------------------------

1 1 61007

MR. FRANCHET, CENTRE DES HAUTES ETUDES DE
L'ARMEMENT, 21, PLACE JOFFRE, 75700 PARIS, FRANCE

I HAVE INFORMED COLONEL FOUCHE ON JUNE 18 BY LETTER THAT I EXPECT
TO BE ABLE TO GIVE A LECTURE ON DECEMBER 6. REGAR IS, BALASSA

CABLE

6/24/82

BELA BALASSA

BELA BALASSA

BBalassa:nc

DRD - Director's Office

1 1 61007

DR. HIC, ISTANBUL UNIVERSITY FACULTY OF
ECONOMICS, INSTITUTE OF ECONOMIC DEVELOPMENT, ISTANBUL, TURKEY
YOUR EXPENSE ACCOUNT DATED MAY 15 WAS RECEIVED TODAY. I HAVE
TRANSMITTED IT TO MR. GASSNER. REGARDS, BALASSA

CABLE

6/24/82

BELA BALASSA

BELA BALASSA

BBalassa:nc

DRD - Director's Office

Mr. Henry P. Gassner, EM2

June 24, 1982.

Bela Balassa, DRD

Expense Report

I received today Professor Hic's expense reported dated May 15th which is enclosed.

Enclosure
BBalassa:nc

June 24, 1982.

Bureau of Economic and Business Research
College of Commerce and Business Administration
University of Illinois at Urbana-Champaign
Champaign, Illinois 61820

Dear Sir:

I sent you the enclosed letter of May 11th but have not yet received an answer. I would appreciate having your positive reply by return mail.

I would like to add that no journal has so far refused permission to have my papers reprinted. Rather, journals have welcomed the opportunity to give greater publicity to the papers and to the Journal itself.

Yours sincerely,

Enclosure

Bela Balassa

May 11, 1982.

Bureau of Economic and Business Research
College of Commerce and Business Administration
University of Illinois at Urbana-Champaign
Champaign, Illinois 61820

Dear Sir:

I am writing to you to ask for your permission to include in the World Bank Reprint Series my paper "Policy Responses to External Shocks in Selected Latin-American Countries" that appeared in the volume *Export Diversification and the New Protectionism: The Experiences of Latin America*. As shown in the enclosed Reprint appropriate reference is made to the place of publication.

Your early attention to this request would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

cc: Mr. Werner Baer

Mr. Alexander Meeraus, DRD

June 22, 1982

Bela Balassa, DRD

Research Assistant

1. I would like to ask you to advertise a position for a research assistant to work with me on non-RPO research and on analytical work related to operational and policy-oriented assignments. Mr. Kenneth Myers, who has done excellent work for me on a fixed-time contract, would be a prime candidate for this position.

2. In advertising this position, please include as requirements a strong background in economic theory, development economics, and econometrics, as well as basic computer skills.

BBalassa:nc

June 22, 1982

Professor Walter Galenson
Department of Economics
Cornell University
168 Ives Hall
Ithaca, N.Y. 14853

Dear Walter:

All the suggested dates, except for September 13-14, are fine with me but I could attend only on Mondays since I have a heavy teaching load at Johns Hopkins in Baltimore on Tuesdays.

I have practically completed the revision of my paper on Korea. Should I send this to you or do you expect that I would need further revision after the September meetings. In the latter case, I would prefer to wait until the meeting.

Yours sincerely,

Bela Balassa

Mr. J. de Melo, DRD

June 22, 1982

Bela Balassa, DRD

"Liberalization with Stabilization in the Southern Cone: A Research Proposal
-- draft circulated June 21

1. I agree with the general thrust of Larry Westphal's memo. My suggestion would be to start the discussion with firm level adjustment, indicating that the adjustment responded to (a) liberalization; (b) stabilization; and (c) distortions in capital and labor markets. You could, then, consider (a) to (c) separately, further indicating your intention to disentangle their relative importance to the firm.
2. The discussion of firm-level adjustment should be more detailed, with a paragraph or two on each form of adjustment. These should be carefully distinguished from factors conditioning the adjustment. For example, changes in quality is a form of adjustment while the availability of foreign exchange is an "environmental" factor (pp. 15-16).
3. The proposal should make it clear why the large firm survey would be needed. The reference on p. 20 is not adequate for this purpose.

cc: Mr. Westphal, DRDPR

BBalassa:nc

OFFICE MEMORANDUM

TO: Mr. Brendan Horton

FROM: Bela Balassa

SUBJECT: Etude des Industries Mécaniques

DATE: June 22, 1982

1. Cette étude représente une amélioration par rapport à l'étude du secteur textile et cuir, tant dans la méthodologie que dans la présentation des résultats empiriques. La synthèse des résultats obtenus pour les sous-secteurs est particulièrement utile. Il nous faudrait néanmoins une description générale des industries mécaniques au Maroc, qui précéderait l'analyse des sous-secteurs. Aussi, la dérivation des CPN pour les outputs n'est pas toujours claire, comme il est indiqué ci-dessous. Finalement, la catégorie du P.G.I. devrait être indiquée pour tous les produits.

Fonderies

2. Dans la description de cette branche, la robinetterie ne figure pas quoiqu'elle soit incluse dans le Tableau A2. En ce qui concerne la fonderie des métaux nonferreux, la phrase "ce CPN faible est surprenant" devrait être remplacée par "ce CPN faible est expliqué par les considérations suivantes" (p. 4). Aussi, il faudrait indiquer que le Tableau 2 se réfère à la protection tarifaire, ce qui ne correspond pas au coefficient de protection nominale dans le cas du plomb. En outre, les données pour le magnésium et les autres métaux communs n'ont apparemment pas été utilisées dans le calcul du CPN pour la firme.

3. Pourquoi a-t-on adopté des CPN de 1.24 et 1.35 pour les deux sociétés fabriquant des métaux ferreux, quand les comparaisons de prix indiquent un taux de protection beaucoup plus élevé (p. 6)? Aussi, la comparaison des prix pour la robinetterie devrait être ajustée pour la différence entre les prix relatifs en 1978 et 1982 (p. 8). Finalement, pourquoi dit-on que le CPN global pour les inputs de la robinetterie est présenté "pour mémoire seulement" (p. 13)?

4. J'ai trouvé le tableau sur le CPN des inputs très utile; il nous faudrait un tableau semblable pour les outputs. Il faudrait aussi faire une comparaison dans le texte entre les mesures d'incitations et celles de rentabilité économique (CPE vs. CER, RFC vs. REC) au niveau des firmes et des branches.

Transformation des Métaux à Usage Industriel

5. Il faudrait souligner que le CPN pour les produits importés (p. 18) n'a rien à voir avec le CPN retenu pour la firme. En même temps, je me demande pourquoi les prix payés par les grossistes ne correspondent pas aux données du tableau de la page 17.

6. Le choix du CPN pour les boîtes métalliques n'est pas clair. Si les acheteurs préfèrent les boîtes de fabrication nationale et ne veulent pas en importer, ça reste quand même un produit échangeable. Donc, il n'y a pas de raison de comparer le prix de vente au coût social marginal de production (p. 24).

7. L'explication du CPE négatif pour la première firme devrait être élucidée. S'agit-il d'un taux d'utilisation de capacité très faible, ce qui augmente le coût en devises des machines? On ne peut certainement pas parler d'une "guerre des prix" (p. 27).

8. A l'exception des tubes galvanisés, les firmes de cette branche ont eu un taux de rentabilité financière directe inférieur à 10 percent, et même négatif dans le cas des fils galvanisés. Ainsi, on ne peut pas dire que "sur le plan financier, certaines de ses activités ... paraît être très rentable en ce sens que la rémunération des capitaux propres, net d'impôt, est évidemment suffisamment élevée pour attirer des investisseurs" (p. 31). Il ne faut pas oublier que les capitalistes prennent leurs décisions en fonction du taux de rendement anticipé, qui pourrait être beaucoup plus élevé que le taux de rendement réalisé. Ou bien, est-ce que 1968 était une année particulièrement mauvaise pour cette branche?

Transformation des Métaux à Usage Domestique

9. Pourquoi avoir choisi un CPN de 1.45 pour les cuisinières? Un taux de 1.55 devrait être considéré comme un minimum; selon les informations disponibles, 1.70 serait peut-être un meilleur choix (p. 33). En ce qui concerne les réfrigérateurs, on devrait se demander pourquoi les écarts de prix sont plus élevés pour les petits que pour les grands (p. 34). Il y a sans doute une explication. Pour les lames de rasoir, si on réduit un prix de 1.30 de 30 pour cent, on obtient .91 au lieu de 1.00 (p. 35).

10. Une valeur ajoutée négative aux prix de référence reflète une perte de devises. Ainsi, on ne peut pas dire que, dans le cas des réfrigérateurs, "une interprétation plus sévère serait même qu'il résulte de cette activité une perte plutôt qu'une économie de devises" (p. 40). Aussi, il faudrait clairement indiquer si cette firme avait une participation étrangère importante (p. 42).

Matériel de Transport

11. Même si "les prix des véhicules marocains ne constituent pas un handicap à l'exportation" (p. 47), ces prix ne semblent pas couvrir le prix de revient de la firme. D'autre part, il est difficile de comprendre pourquoi l'admission temporaire ne pourrait pas être utilisée pour toutes les matières premières servant à la production exportée (p. 56). D'ailleurs, les CPN et CPE à l'exportation devraient être calculés.

Industries Electriques

12. La différence entre un CPN de 1.30 et les écarts de prix plus grands selon les comparaisons de prix les plus récentes devrait être élucidée (p. 58). On se souvient que, dans le cas de la robinetterie, on a utilisé les comparaisons de prix récentes. Sur quelle base est-ce que le CPN de 1.30 a été déterminé. Aussi pourquoi n'a-t-on pas inclus dans les calculs les téléviseurs en couleur?

13. On se demande pour quelle raison la valeur de "délestage" est beaucoup moins importante que le prix réel (p. 58). Ceci réduit les bénéfices des

exportateurs européens. Aussi, on devrait fournir des informations exactes au lieu de dire que "la partie du marché pouvant être satisfaite dans le cadre du Code des Investissements bénéficie d'une protection tarifaire qui est probablement inférieure au cumul des droits d'entrée sur les matières premières servant à la production des dits produits" (p. 64).

Industries Diverses

14. Quand les résultats pour cette branche seront-ils disponibles?

Synthèse

15. L'analyse de la protection nominale des outputs et des inputs montre les résultats les plus importants branche par branche sans faire une comparaison de ces résultats. Aussi, en ce qui concerne les CPE, l'accent est mis sur le rapport entre les CPN des outputs et des inputs.

16. Il serait préférable de commencer la discussion par une comparaison des CPE dans les différentes branches ainsi que dans les différentes catégories d'activités, classifiées selon le niveau de fabrication et, pour les produits finals, en faisant une distinction entre biens de consommation durables, biens non durables, machines, et biens de transport autres que les voitures de tourisme, les motocyclettes et les bicyclettes. Ceci fait, on devrait indiquer les différences dans les résultats par produit dans chaque catégorie d'activités. L'explication de la structure des CPE en fonction des CPN des outputs et des inputs devrait conclure la discussion des incitations.

17. En ce que concerne la rentabilité économique des activités, une comparaison des CER (et des REC) par branche, par catégorie d'activités, et par produit s'impose avant qu'on en vienne à une comparaison des RCF et des REC. D'ailleurs, les CPE et les CER, eux aussi, devraient être comparés.

18. Finalement, l'analyse des incitations et de la rentabilité économique devraient aboutir aux conclusions générales en ce qui concerne le système d'incitations et l'avantage comparé des branches, des catégories d'activités, et des produits dans les industries mécaniques du Maroc. Ceci permettrait de regrouper ce qui a été dit sur ce sujet d'une façon dispersée dans l'étude.

cc: Messrs. Carter, EM2; Bonnel, EM2; Mateus, EM2; Pursell, IDF; Silva-Lopes, CONS
Ms. Guérard, EM2

BBalassa:nc

CHINA, May 14-26

PEKING

THE IMPERIAL PALACE (GUGONG)

- III.1 Gate of Heavenly Peace (Tiananmen)
- III.2 Meridian Gate (Wumen)
- I.1 Gate of Supreme Harmony (Taihemen)
- I.2 " : Bronze Lion in Foreground
- I.3 " : Detail
- I.4 Hall of Supreme Harmony (Taihedian): Incense Burner
- I.5 "
- I.8 Hall of Perfect Harmony (Zhonghedian)
- I.10 Hall of Preserving Harmony (Baohedian): Han Charioters
- I.11 "
- I.15 "
- I.12 Palace of Heavenly Purity (Tianqinggong)
- I.13 " : Golden Lion in Foreground
- I.14 " : Dragon Screen
- I.16 Imperial Gardens: Elephant

BAMBOO GARDENS HOTEL (former villa of one of the Gang of Four)

- I.18 Entrance
- I.19 Courtyard
- I.24 Dining Room

SUMMER PALANCE (Yiheyuan)

- I.19 Bronze Lion
- I.20 Buildings
- I.21 View from Above
- I.22 Pond
- I.23 Artificial Lake

TEMPLE OF HEAVEN (TIANTAN)

- II.1 Hall of Prayer for Good Harvests (Qiniandian):
- II.2 "
- II.4 Imperial Vault of Heaven
- II.4 "
- II.6 Entrance, with Hall of Prayer in Background

GREAT WALL

- II.7 Fortification
- II.8 The Way Up
- II.9 People Walking Up
- II.10 A Distant View
- II.11 A Dilapidated Part of the Wall
- II.12 From Far Away

MING TOMBS (SHISANLING)

- II.14 The Sacred Way: The Great Tortoise
II.24 Avenue of Animals: A Mythical Animal
II.23 " : A Civilian Official

Tomb of Chang Ling

- II.19 Red Gate
II.20 Gate of Eminent Favors (Lingenmen)
II.21 Hall of Eminent Favors (Lingendian)
II.22 Screen

Tomb of Ding Ling

- II.18 Entrance
II.16 Red Gate
II.15 Descending to the Tomb
II.17 Dragon

CHENGDU

DU FU COTTAGE

- III.3 Entrance
III.4 Pathway
III.5 Statue of Du Fu (712-70): a Poet

ZHU GELIANG SHRINE

- III.6 The Shrine
III.7 Zhu Geliang or Wu Hou (181-234): a Military Strategist
III.8 A Small Building
III.11 A General
III.12 A Judge
III.13 Incense Burner, with People
III.9 Incense Burners, with Snakes

CITY SCAPE

- III.15 An Old House
III.17 Bookstore
III.16 Pharmacy
III.14 A Corner House

BACK HOME

- III.18 Mara in Chinese Pajamas

Bela Balassa

Publications

1. Enclosed are the new instructions for the World Bank Staff Working Paper series. While the guidelines have not yet been issued, I enclose my recent submission as an example, I further enclose a copy of the submission form that is presently out of stock.
2. Working Papers should be sent to me for submission in the original, with one copy. Submissions for the DRDI Discussion Paper series, containing more technical papers, should be done in the same way, except that we do not need all the paraphernalia that are now necessary for the Working Paper series.
3. Submissions for the Reprint Series should reach me by July 25th. We need 15 copies of the paper that may be submitted to the Series as soon as it has been accepted for publication.

Enclosures 3

Mr. Peter Hole, IMF

June 21, 1982

Bela Balassa

Turkey -- Real Effective Exchange Rate

Thank you for your memo of May 14th that reached me on my return from China. I am glad that the misunderstanding about the formula used by Michel Noel has been cleared up; Leif Hansen should have checked with us beforehand. However, I accept the need for modifying the exchange rate used for 1979. In this connection, I would appreciate your sending me the updated IMF calculations of real effective exchange rates.

cc: Mr. Hansen, (IMF)
Mr. el Serafy
Mr. Noel

2. Is the paper's title appropriate? Yes No
If not, please suggest a revision below.

Revised title: _____

3. Recommendation:

- Accept for publication in present form.
 Accept after author(s) have considered and incorporated suggestions.
 Encourage a revision but with reappraisal by reviewer.
 Reject.

Please amplify your views below.

4. Remarks to the editor (use additional pages if needed).

This is an interesting paper but it would require certain revisions before publication. For one thing, one should eliminate material that is rather obvious or adds little to the discussion. On the other hand, it would be desirable to review the results pertaining to prices and to present estimates of welfare gains and losses.

Omit Figures 1 and 2; the former can be found in any number of text books while the latter is not necessary for the main argument. Also, shorten the section, Economic Welfare Functions in the Context of EEC Agricultural Markets (pp. 4-9).

The section, Optimal Agricultural Price Policy within the EEC, is fine. However, the results presented in Table 1 need explanation. For one thing, the relationship between optimal prices for individual member countries and for the EEC as a whole should be noted. For another thing, the extreme values taken by some of the national optimal prices should be explained.

Estimates should also be presented on the welfare effects of alternative schemes, examining differences under national and EEC optimal prices as well as the effects of the CAP. In turn, one may omit the Extensions that add little to the substance of the paper. At any rate, the usefulness of income distributional weights may be queried. Also, the rather complicated formula on a generalized EEC economic welfare function has not been used to derive empirical estimates in the paper.

Date: _____

Signed: _____

Mr. Caio Koch-Weser

June 21, 1982

Bela Balassa

China Paper

I have been informed by the editor of the Banca Nazionale del Lavoro Quarterly Review that he would publish my "Economic Reform in China", in September if it was received by July 6. I understand from our discussions on June 9 that you have no objection to publication. At the same time, I would appreciate having your and Ed Lim's comments and suggestions for the revision of the paper. I have so far received comments from Adrian Wood, and William Byrd promised to give me his comments before the end of this month.

cc: Mr. Edwin Lim

DRD and CPD Senior Staff

June 21, 1982

Bela Balassa

Tamal Datta Chaudhuri

I enclose the personal history form of Tamal Datta Chaudhuri; who seeks employment in the Bank as a research assistant for a period of one year starting in September 1982. Datta Chaudhuri is the best student I have had at Hopkins in several years who has completed his dissertation in a little over a year. I should add, however, that Datta Chaudhuri is a theorist who does not have programming skills, although he has a good grounding in econometrics.

Bill

Mr. Peter Hole, IMF

June 21, 1982

Bela Balassa

Turkey -- Real Effective Exchange Rate

Thank you for your memo of May 14th that reached me on my return from China. I am glad that the misunderstanding about the formula used by Michel Noel has been cleared up; Leif Hansen should have checked with us beforehand. However, I accept the need for modifying the exchange rate used for 1979. In this connection, I would appreciate your sending me the updated IMF calculations of real effective exchange rates.

cc: Mr. Hansen, (IMF
Mr. el Serafy
Mr. Noel



Office Memorandum

TO: Mr. Hole

May 13, 1982

FROM: Leif Hansen *LH*

SUBJECT: Turkey - Differences Between the Fund's and the World Bank's
Computation of the Real Effective Exchange Rate

In my memo to you of April 20, 1982 on the above subject, I had pointed out a possible cause of the difference between the Fund's and the World Bank's computation of the effective exchange rate for Turkey--that the concept used by the World Bank did not measure the impact on the Turkish lira of movements in the exchange rate for the U.S. dollar against the currencies of Turkey's other competitors. This interpretation of the World Bank method was based on the footnote to Table I.4, p. 8, in the report "Turkey, Industrialization and Trade Strategy, Volume II." This footnote states that "the index of the real exchange rate has been calculated by adjusting an index of the nominal exchange rate /for the Turkish lira/U.S. dollar rate/ for changes in wholesale prices at home and abroad." In a memorandum from Mr. Michel Noël to Mr. Bela Balassa dated May 10, 1982, which was copied to you, it has been clarified that the measure of relative wholesale prices between Turkey and its competitors has been adjusted for exchange rate changes between the dollar and the currencies of the competitors. The point made in my previous memo is therefore not valid.

In principle, the World Bank method for calculating the effective exchange rate for Turkey is similar to the one used by the Fund. There are some minor technical differences such as different base years (1973 for the World Bank and 1975 for the Fund), the number of competitors included in the basket (8 for the World Bank and 27 for the Fund), the way the exchange rates are expressed (in local currency per U.S. dollar in the World Bank and U.S. dollars per local currency in the Fund), and the price indices used (wholesale prices in the World Bank and consumer prices in the Fund). In addition, the index used by the Fund has been based on export weights, while the World Bank index has been based on total trade weights. All these technical differences, however, have very little quantitative impact, and the main reason for the different interpretation between the World Bank and the Fund as to what happened to the real effective exchange rate in Turkey during 1979 is the different Turkish lira/U.S. dollar rate used in the computations for the second half of 1979.

Effective June 12, 1979, the official rate for the U.S. dollar was changed to LT 35.35. This rate applied, however, only to purchases of foreign exchange resulting from exports of certain agricultural products and to purchases or sales of foreign exchange in respect of exports, re-exports, and imports of crude petroleum, petroleum products, and chemical inputs for the production of fertilizer. All other purchases and sales of foreign exchange became subject to a premium or a levy of LT 12.10 per US\$1, which resulted in an effective rate of LT 47.45 per US\$1.

In the World Bank computations, the official rate of LT 35.35 per US\$1 has been applied for the second half of 1979 in the computation of the effective exchange rate for Turkey. This gives the result that the real effective rate for the Turkish lira appreciated by 8 1/2 per cent between the fourth quarter of 1978 and the fourth quarter of 1979 in Alternative A and 10 1/2 per cent in Alternative B (see Table I.4 in the mentioned report). If the rate of LT 47.45 per US\$1 had been applied, the results would have been a real effective depreciation in that period of 22 1/2 per cent in Alternative A and 20 per cent in Alternative B. It is not possible to quantify the parts of imports and exports that were affected at the two different exchange rates, but it is clear that an appropriate rate to use in the calculations would be some average of the two rates. To use the official rate, as is done in the World Bank computations, will underestimate the depreciation of the Turkish lira during 1979, and to use the depreciated rate of LT 47.45 per US\$1, as has been done in some earlier Fund papers, will overestimate the depreciation of the Turkish lira. In the absence of a "correct" exchange rate for the Turkish lira against the U.S. dollar for the period June 12, 1979 to January 25, 1980, the Fund has in recent calculations of the effective exchange rate used a simple average of the two rates, which, in particular when an export-weighted index is used, still probably represents an underestimation of the depreciation of the lira during 1979. However, using a rate of LT 41.40 per US\$1, the Fund computations show a real effective depreciation of the Turkish lira of about 4 per cent from the fourth quarter of 1978 to the fourth quarter of 1979. Applying the same rate in the World Bank model would show a real effective depreciation during this period of 7 per cent in Alternative A and 4 1/2 per cent in Alternative B.



Office Memorandum

JM/VNR / ZK / HS / PG

NO! not with the effect in view of other possibilities.
DATE: April 21, 1982
Jaguel - let's not now.
APR 25 1982

TO : Mr. Chaffey
FROM : Peter Hole
SUBJECT : Turkey

EA.

Do you think I should reply?

Differing views have emerged on what happened to the real effective exchange rate of the lira during 1979. We have always held--and still hold--that it depreciated; the Bank's Industrialization and Trade Strategy report maintains that it appreciated. Our dialogue to date has produced a number of reasons for the conflicting assessment, including:

- The use of different rates for the U.S. dollar in the two sets of calculations. We have taken a weighted average of the multiple rates in force after the changes made in June 1979 (about LT41 = US\$1); the ITS report uses a relatively appreciated rate (LT35 = US\$1).
- The use of different partner country baskets and price indices.

You may be interested in the attached note in which a third factor--and in my view an important one--has been identified.

Attachment

cc: Mr. Hansen

W 5/3
W 5/1
W 5/14



Office Memorandum

TO : Mr. Hole

DATE: April 20, 1982

FROM : Leif Hansen / *LH*

SUBJECT : Turkey - Differences between the Fund's and the World Bank's
Computation of the Real Effective Exchange Rate

Since the publication of the World Bank Report: "Turkey - Industrialization and Trade Strategy" which contained computations on the real effective exchange rate for Turkey (see for example, Volume II: Main Report, table 1.4, p.8) there has been some confusion regarding the development of the real effective exchange rate for Turkey, as these figures differed substantially from the Fund's computation. This was most clearly illustrated in the Auditing Report of the first SAL-loan to Turkey where it was stated (using the World Bank figures) that there had been a real effective appreciation of the Turkish lira in 1979. Fund computations showed that there had been a depreciation of the Turkish lira during 1979.

A closer look at the World Bank's computations shows, however, that what is called the real effective exchange rate for the Turkish lira is not a proper concept but merely the nominal rate for the Turkish lira deflated by an index of Turkish wholesale prices relative to an index for wholesale prices for Turkish competitors (Belgium, France, Germany, Italy, Netherlands, Switzerland, the United States and the United Kingdom) weighted together with the sum of Turkish imports and exports to these countries in 1973. A nominal effective exchange rate, constructed by weighting together the currencies of the eight countries mentioned above, and with the same weights as used in constructing the competitor index for wholesale prices, ought to be used to make a proper real effective exchange rate concept. The concept used by the World Bank has the flaw that it does not measure the impact on the Turkish lira of movements in the exchange rate for the U.S. dollar against the currencies of Turkey's other competitors. The World Bank concept will underestimate the real effective depreciation of the Turkish lira when the U.S. dollar depreciates against other currencies and overestimate the real effective depreciation when the U.S. dollar appreciates against other currencies.

This explains ^{part of} the difference in assessment between the World Bank and the Fund as to what happened to the real rate for the Turkish lira during 1979. During 1979 the U.S. dollar depreciated by 2.8 per cent against the French franc, 5.3 per cent against the deutsche mark, 3.1 per cent against the Italian lira, 3.2 per cent against the Dutch guilder, 2.5 per cent against the Swiss franc, and 8.5 per cent against pound sterling. The effect of this general depreciation of the U.S. dollar is taken into account in the Fund concept of the real effective exchange rate for Turkey, but not in the World Bank concept.

*vis-a-vis only
the US dollar*

Mr. Salah el Serafy CED

May 11, 1942

Bela Balassa, DED

Turkey - Differences between the Fund's and the World Bank's Computation of the Real Effective Exchange Rate

1. With Mr. Noel's return, I can now comment on the memorandum from Mr. Hansen to Mr. Hole on the above subject, which you were kind enough to send me. I enclose Mr. Noel's memorandum, which shows that the Bank estimates pertain to the real rather than to the nominal effective exchange rate as the calculations were adjusted for changes in the dollar exchange rate of Turkey's competitors.

2. I must confess my surprise at the allegation that the Bank estimates had been incorrectly done. It would have been a rather simple matter to check with Mr. Noel as to the formula utilized. At the same time, despite repeated requests we still do not have information on the Fund estimates or on the methods used in deriving them.

cc: Mr. Noel
Messrs. Hole and Hansen (IMF)
(with enclosure)

Enclosure
BBalassa:nc

FORM NO. 75
(9-78)

THE WORLD BANK

ROUTING SLIP		DATE: 6/17
NAME		ROOM NO.
✓ Mr. Balassa		
Mr. Noel		
APPROPRIATE DISPOSITION	NOTE AND RETURN	
APPROVAL	NOTE AND SEND ON	
CLEARANCE	PER OUR CONVERSATION	
COMMENT	PER YOUR REQUEST	
FOR ACTION	PREPARE REPLY	
INFORMATION	RECOMMENDATION	
INITIAL	SIGNATURE	
NOTE AND FILE	URGENT	
REMARKS:		
<p style="text-align: center;">This may be of interest to you. I only just saw it today.</p>		
FROM: R. GREGORY	ROOM NO.:	EXTENSION:

OFFICE MEMORANDUM

TO: Mr. Balassa, DRD

DATE: May 10, 1982

FROM: Michel Noël, WA2DA

SUBJECT: Differences between the Fund's and the World Bank's
Computation of the Real Effective Exchange Rate

1. In a memorandum dated April 20, 1982, Mr. Leif Hansen, commenting on the differences between the Fund's and the Bank's computation of the real effective exchange rate, states:

"The concept used by the World Bank has the flaw that it does not measure the impact on the Turkish Lira of movements in the exchange rate for the US dollar against the currencies of Turkey's other competitors."

2. The formula used by the Bank in the case of Turkey as well as in other country studies is the following:

$$PPPER_t^i = p_t^i \sum_{j=1}^n \phi_j \frac{R_t^j}{R_o^j} \frac{1}{p_t^j}$$

where

$PPPER_t^i$ = trade weighted purchasing power parity exchange rate index for country i at time t;

p_t^i = wholesale price index for country i at time t;

ϕ_j = weighted average share of partner country j in country i's exports and imports;

R_t^j = nominal exchange rate of partner country j at time t (in currency/dollar);

R_o^j = nominal exchange rate of partner country j in the base year o (in currency/dollar);

p_t^j = wholesale price index for partner country j at time t.

3. The index of the real exchange rate is then derived as follows:

$$RER_t^i = R_t^i \frac{1}{PPPER_t^i}$$

where

RER_t^i = index of the real exchange rate of country i
at time t;

R_t^i = index of the nominal exchange rate of
country i at time t;

$PPPER_t^i$ = trade weighted purchasing power parity exchange rate
index for country i at time t.

4. As can be seen from the above formula, the concept used by the Bank does measure the impact on the Turkish Lira of movements in the exchange rate for the US dollar against the currencies of Turkey's partner countries.

MNoël/qb

June 21, 1982

Professor S. R. Sen
International Food Policy
Research Institute
41 Poorvi Marg
Vasant Vihar
New Delhi, India 110057

Dear Professor Sen:

I am sorry to have missed you on your trip to Washington and hope that you can join me for lunch on your next visit here. I wanted to tell you that Pranab has performed extremely well and that his dissertation should serve as a basis for publications in professional journals.

Best regards to you and your entire family.

Sincerely,

Bela Balassa

BB/af

Mr. Robert Skillings, Division Chief, WA2DA

June 21, 1982

Bela Balassa, DRD

IVORY COAST: Study on the Evolution of the
System of Industrial Incentives

I enclose my comments on the study on "The Evolution of the System of Industrial Incentives in the Ivory Coast from 1970 to the Present."

Enclosure

cc: Messrs. de Azcarate, WANVP
Pouliquen, WAP
Westebbe, WA2DR
Hablutzel, WA2DR
Brown, WAP
Beguery, WAP
Ballard, WAP
Ledoux, WA2DA
Singh, WA2DA

BB:af

SAL

IVC

ERA

PN
SEN

Reason of Noel's

James Chaffey

June 21, 1982

Bela Balassa

Turkey - Real Effective Exchange Rate

Richard Gregory just sent me the enclosed. I had Hansen's April 20th memo earlier from el Serafy. Following my reply, Peter Hole admitted that the allegation concerning the use of an incorrect formula was without foundation. The relevant correspondence is enclosed.

cc: Mr. Gregory
Enclosure



Record Removal Notice

File Title Bela Balassa's chron files - June 1982		Barcode No. 30225146		
Document Date Jun 21, 1982	Document Type Letter			
Correspondents / Participants To : DRD and CPD Senior Staff From : Bela Balassa,				
Subject / Title Recommending a candidate				
Exception No(s). <input checked="" type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D <input type="checkbox"/> Prerogative to Restrict				
Reason for Removal Personal Information				
Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td>Withdrawn by Chandra Kumar</td> <td>Date Jun 10, 2014</td> </tr> </table>	Withdrawn by Chandra Kumar	Date Jun 10, 2014
Withdrawn by Chandra Kumar	Date Jun 10, 2014			

June 18, 1982

Professor Guy Tarny
Centre D-Etudes Superieures
Du Management Public
Centre de Recherches et D'Etudes Doctorales
67, avenue Lenine
94112 Arcueil Cedex France

Dear Professor Terny:

Thank you for your letter of May 28 which reached me on my return from a trip to China. I am happy to accept your invitation to present a paper at the Budapest Conference of the IIFP on the subject:

"Public Finance and Social Policy - Explanations of their trends and developmentss the case of less-developed countries."

With best regards,

Sincerely yours,

Bela Balassa

BB/af

CHARON

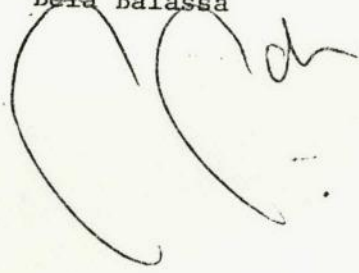
Le 18 juin 1982

Monsieur le Directeur,

Je vous remercie de votre lettre du 3 mai, que j'ai reçue à mon retour d'un voyage en Chine. La date du 6 décembre me conviendrait à première vue et je vous enverrai confirmation dès que j'aurai arrêté mes plans.

Je vous prie d'agréer, Monsieur le Directeur, l'expression de ma considération distinguée.

Bela Balassa



Monsieur Fouché
Contrôleur général des Armées
Directeur adjoint du C.H.E. Ar.
Ministère de la défense
Délégation générale pour l'armement
Centre des hautes études de l'armement
Ecole militaire
21, place Joffre
75700 Paris (France)

June 18, 1982

Mr. Mehmet Gun Calika
Meban Securities Brokerage
and Finance Corporation
Ovakule Is Merkezi Istiklal Caddesi
286 Beyoglu
Istanbul, Turkey

Dear Mr. Calika:

Thank you for your telegram of June 8 and for the reservations you have made for me. In the following, I provide some additional information on my plans.

1. Since the Conference is scheduled for August 6 and 7, I plan to come to Istanbul from Antalya on the early morning flight on August 6. My family would follow me a day later. Correspondingly, I would like to ask you to extend our hotel reservations in Antalya until August 7. Also, please let me know where the Conference will be held in Istanbul.

2. The changes in our plane reservations are being handled in Washington. However, I would like to ask you to make "back-up" reservations for us on the early morning flight from Istanbul to Antalya for August 1, Sunday. I am asking this since we have only 55 minutes connecting time in Istanbul on Saturday evening and I am afraid that we might miss the flight to Antalya. I also wonder if you might be able to send someone to the airport to help us move from the international to the domestic terminal on Saturday evening. I would fully understand, however, if this was not possible because of the weekend. We are arriving in Istanbul on SR 322 at 7:45 p.m. and are scheduled to leave for Antalya on TK 448 at 8:40 p.m.

3. Please send me any recent material that may be available in English on the Turkish economy, including reports by TUSIAD (I have the report they prepared last year). I would also like to have a copy of "The Role of Exchange Rate Policy in Achieving the Outward Orientation of the Economy - II," which contained the papers for last year's Conference. Do you plan to print these papers and, if so, when?

Thanking you in advance, I remain

Sincerely,

Bela Balassa

BB/af

June 18, 1982

Dr. Mükerrerem Hic
Professor of Economics
Istanbul University
Faculty of Economics
Institute of Economic Development
Istanbul, TURKEY

Dear Professor Hic:

Thank you for your report dated May 15, 1982 and for your letter of June 9. I was happy to hear of the progress made with the interviews and the price comparisons.

I plan to be in Istanbul on August 6-7 at the Meban Conference and would like to meet you in the late afternoon of August 6 if convenient.

Looking forward to seeing you, I remain

Sincerely yours,

Bela Balassa

BB/af

James Chaffey

June 18, 1982

Bela Balassa

Visit to Turkey

1. As I indicated to you on the phone, I plan to be in Istanbul on August 6-7, at which time I will meet with Messrs. Hic and Yagci to review the incentives study. I further plan to go to Ankara on August 9, to have discussion on the subject with Mr. Akturk.

2. My trip is undertaken in conjunction with a mission to Morroco. The additional travel cost of my going to Istanbul and Ankara is about one thousand dollars and subsistence of about two hundred dollars. Please inform Mr. Michael Carter that your Division will pay the additional cost of my travel to Turkey.

cc: Mr. Carter

June 17, 1982.

Professor Stanley Hoffmann
Harvard University
Department of Economics
Cambridge, Massachusetts

Dear Professor Hoffmann:

I enclose the preliminary version of my "Une année de l'expérience socialiste en France." Any comments you may have would be appreciated.

I plan to revise the paper around July 1st and have it translated by mid July for publication in Commentaire. It is to ease the task of the translator that I had some of the footnotes in French.

Yours sincerely,

Enclosure

Bela Balassa

June 17, 1982.

Mr. Jayanta Roy
Buyuk Ankara Hotel
Ankara
TURKEY

Dear Jayanta,

Enclosed is a copy of my comments on the CGE model as well as a copy of my telex with requests for data. While I presume that you collected all of these for your mission, it may still be useful to have a list.

Sincerely,

Enclosures

Bela Balassa

June 17, 1982.

Professor Jacques Lesourne
Secrétariat d'état aux universités
Conservatoire National des arts et métiers
Chaire d'économie et statistiques industrielles
292, rue Saint-Martin
75141 Paris CEDEX 03
France

Dear Professor Lesourne:

Thank you for your letter of May 25th. I will await a communication from Professor Fujii.

I read with interest "La France en mai 1981: forces et faiblesses," of which you are one of the authors. I enclose the preliminary version of my "Une année de l'expérience socialiste en France." Any comments you may have would be appreciated.

I plan to revise the paper around July 1st and have it translated by mid July for publication in Commentaire. It is to ease the task of the translator that I had some of the footnotes in French

Yours sincerely,

Enclosure

Bela Balassa

Mr. William Webster

June 17, 1982.

Bela Balassa

World Economic Trends and North-South Relations

1. Over the past two years, I have been preparing biannual reports on trends in the world economy, with special attention given to North-South relations. The reports are based on the latest information provided by international organizations; their content varied with the data published at the time.
2. The January report, entitled Recent and Prospective Changes in Trade, Aid, and the Current Account Balance, provides information on trends observed in preceding years and examines prospects over a two year period. It covers OECD trade with OPEC and the non-OPEC developing countries; foreign assistance; and the current account balance of OECD, OPEC, and the non-OPEC developing countries. It is based on GATT, International Trade, OECD, Economic Outlook (December) and OECD, Development Co-operation.
3. The August report, entitled Short-Term and Long-Term Changes in the World Economy, provides information on recent changes in the world economy as well as on prospective short-term and long-term developments. It gives emphasis to changes in output, trade, and the balance of payments; additional long-term issues may be covered, depending on the content of the World Development Report of the World Bank. The report further utilizes the OECD Economic Outlook (July) and the IMF World Economic Outlook. It is proposed that, in the future, use should also be made of the annual report prepared by the French Institute of International Relations, which considers short-term and long-term economic developments in a geopolitical context and will now be available in English.
4. I enclose the copies of the reports prepared in August 1981 and January 1982. The former would be extended somewhat by introducing material from the French report. Nevertheless, it would not take more than two days of my time; the writing of the January report takes one-and-a-half days as a maximum.

Enclosures
BBalassa:nc

June 17, 1982.

Mr. Richard P. Bernstein
Chief of Bureau
Time Magazine
Beijing Bureau
Qianmen Hotel, Room 663
Beijing
People's Republic of China

Dear Mr. Bernstein:

I have been somewhat delayed in sending you my culinary guide but I hope that it reaches you in time. It was a pleasure meeting you, and Françoise, and I much enjoyed the conversations we had. Please let me know your new address once you move, so that I can send you my paper on China.

With best regards,

Sincerely yours,

Enclosure

Bela Balassa

Mr. Roland Barker, AMEX

June 17, 1982.

Bela Balassa, DRD

Plane Reservations

Please change the reservations for my wife, Carol Balassa, and children Mara (11 years) and Gabor (9 years) on the flights marked by an asterisk.

July 30 Friday	Washington, D.C. (Dulles)	18:25	Paris	7:50	TW890
July 31 Saturday	Paris (CDG)	9:55	Zurich	11:05	SR701
July 31 Saturday	Zurich	12:10	Istanbul	15:55	SR326
July 31 Saturday	Istanbul	20:40	Antalya	21:45	TK448
* August 7 Saturday	Antalya	7:00	Istanbul	8:05	TK441
* August 9 Monday	Istanbul	16:55	Zurich	18:40	SR325
* August 9 Monday	Zurich	19:40	Lyon	20:50	AT1665
* August 27 Friday	Lyon	10:15	Paris (CDG)	11:15	IT5262
August 29 Sunday	Paris (CDG)	12:45	Washington	15:15	TW891

BBalassa:nc

2 2 61007

I WELCOME THE POSSIBILITY OF PUBLISHING MY PAPER ON CHINA IN YOUR REVIEW. PAPER WILL BE AVAILABLE ON JULY 2 IN A LENGTH NOT EXCEEDING TEN THOUSAND WORDS. WILL SEND COPIES TO ROME AND TO YOUR NEW YORK OFFICE. REGARDS, BALASSA

CABLES

6/17/82

Bela Balassa

Bela Balassa

BBalassa:nc

DRD Director's Office

1 2 61007

BOOK OF TWO DR. LUIGI CERIANI, BANCA NAZIONALE
DEL LAVORO, QUARTERLY REVIEW, VIA VITTORIO VENETO, 119, ROME, ITALY

BANCA NAZIONALE DEL LAVORO, NEW YORK, NEW YORK

CABLES LAVOROBNK NYK

6/17/82

Bela Balassa

Bela Balassa

DRD - Director's Office

BBalassa:nc

1 1 61007

DONG FUREN, CHINESE ACADEMY OF SOCIAL SCIENCE
5 JIANGUOMEN NEI DAJIEI, BEIJING, CHINA
YOUR EARLY COMMENTS ON MY QUOTE ECONOMIC REFORM IN CHINA UNQUOTE
WOULD BE APPRECIATED AS PUBLISHER IS ASKING FOR FINAL VERSION IN
EARLY JULY. SINGERELY, BALASSA

CABLE

6/17/82

Bela Balassa

Bela Balassa

DRD - Director's Office

BBalassa:nc

Mr. E. Bevan Waide, CPD

June 16, 1982

Bela Balassa, DRD

WDR V - Part I

Part I of WDR V is well written but certain modifications in the three chapters would be advisable. My suggestions are enclosed.

cc: Messrs. Baneth, EPD; Hicks, PPR; Turnham, WDR; Wright VPERS
Chenery (o/r)

Enclosure
BBalassa:nc

Comments on WDR V, Part I

Bela Balassa

Chapter 1. The World Economy in Transition

1.9 "Overall, the slowdown in growth in 1980-81 was less marked than in 1974-75, suggesting that previous adjustment actions had created more resilient economic structures." -- Overstatement. In the DCs, the recession is more prolonged and the total loss of output larger than in 1974-75; in the LDCs, too, the loss of output over three years (1980-82) is greater than in the earlier period.

1.19 "All told, world trade continues to be an engine of growth for many countries." -- The previous Para-5 deal with exports to DCs only; yet LDC (and DC) exports to both oil and non-oil LDCs grew more rapidly, thus raising the rate of growth of world trade. The discussion should extend to these exports.

1.20 "For countries dependent on commodity exports, however, the trade outlook is bleak." -- Confuses cyclical and long-term changes. From the present situation of low prices and export quantities, considerable improvements can be expected.

1.21 "Earnings from side activities [construction in the Middle East] are an important source for adjustment, although little further real growth is expected because absorptive [not absorbtive] capacity in the host countries appears to be reaching its limits. " -- As the example of Turkey indicates, LDCs can increase their share in Middle East construction.

1.25 "A substantial and growing proportion of commercial bank loans now consist of export credits tied to specific supplies, and financing tied to specific projects. The resulting liquidity difficulties are an underlying reason for the recent upsurge of debt prescheduling. " -- One should rather blame excessive borrowing and inappropriate policies on the part of certain developing countries, including Brazil and Mexico.

1.30 "Some countries took firm policy action to control price increases." -- This is much more true after 1979-80 than after 1973-74, with the U.S. being particularly successful in the later period.

1.30 "Indeed, the evidence suggests that inflation is more easily controlled in open economies." -- Highly doubtful statement; think of China and India.

1.30 "The relationship between inflation and development is a complex one, on which opinions are divided." -- Meaningless statement.

1.31 "Given the low absorptive capacity of many of them, the oil-exporting countries ran large payments surpluses after 1973-74 and again after 1979-80." -- The payment surpluses of these countries have disappeared more rapidly after 1979-80 than after 1973-74.

1.33 "The sharp appreciation of the U.S. dollar against other major currencies in 1981 and 1982 has brought exchange rate management issues to the fore in many developing countries." -- More important has been the rise in interest rates. This topic is referred to in the subheading but it is not discussed in the text.

1.34 "Even if these deteriorating trends [in regard to trade and aid] halted and reversed, more of a premium is placed on developing countries' own development efforts and policies." -- Statement not entirely clear; in relation to the pessimistic view on trade prospects, it could conceivably be interpreted as a call for inward-orientation.

Chapter 2. Long-Term Development Trends

2.19 "By contrast, most primary commodity exporters, including most of the low-income and many primary-producing middle income countries, did not have the production structure to allow them to participate in manufactured goods trade." -- Taiwan and Korea did not have such a structure in the early sixties either. Their production structure developed as a result of appropriate economic policies.

2.20 "Some primary producers, such as Colombia, Ivory Coast, Malawi and Malaysia were able to move into processing or expanding output relatively well." -- Processing of what? None of these countries have much increased the degree of processing of their primary exports.

2.20 "About a third of the exports from the newly industrializing countries next to other developing countries." -- Indicate relative importance of oil and non-oil LDCs as markets, noting further relative rates of growth.

2.22 "Although domestic savings are almost always the principal source of financing, foreign capital significantly augments countries' capacities to import machinery, materials and techniques needed for investment and production. Furthermore, foreign capital inflows typically play an important role in countries characterized by rising investment and accelerating growth, and also help to cushion balance-of-payments shocks." -- Foreign funds have also been used for increasing consumption in some countries and have been associated with reductions in domestic savings ratios (e.g. Tanzania).

2.24 "While there have been misjudgments by borrowers and lenders alike ... on the whole flows from private lenders have gone to those countries best able to use these additions to domestic savings." -- Overstatement. The two largest borrowers, Brazil and Mexico, went too far in relying on foreign funds, necessitating severe adjustment.

2.29 "By 1960, at very different levels of development, China, Romania, Yugoslavia, the other non-market economies of Eastern Europe, and the USSR had savings and investment rates much higher than those of most other countries at similar income levels." -- Note, however, the lower and declining efficiency of investment in these countries, leading to lower economic growth rates (on China, see my "Policy Reform in China"). More

generally, the efficiency of investment should be discussed, alongside with investment shares.

Chapter 3. Prospects for the 1980s

3.1 "It may be more difficult to repeat past achievements in export growth and in penetrating markets in industrial countries, especially if protection increases in these countries." -- This statement can only cause mischief, in particular the reference to increases in protection. I would not like to have it read back to me when advising LDCs to follow outward-oriented policies.

3.2 "The Polish debt difficulties have had a chilling effect on the world environment for capital flows, beginning to be felt by several countries including Romania." -- Hungary would be a better example as Romania brought on its own difficulties, when excessive borrowing and the misuse of borrowed funds was helped by the Bank's uncritical stand towards Romania.

Para. 3.9 "Even if industrial country growth rates improve later in the decade, protectionist measures, once introduced, would take some time to remove." -- Again, this is a potentially misleading statement. Apart from the MFA, which could be modified at the time of its next renewal, it is remarkable that the deep recession in the industrial countries has not led to protectionist measures against the LDCs.

Para. 3.9 "However, the relationship between import demand and income growth in the industrial countries seems to be changing, suggesting that the growth of developing country exports may be less stimulated by improvements in the economic performance in the industrial countries than in the 1960s and 1970s." -- I see no evidence that this would be the case.

Para. 3.11 "Overall, a real increase in the price of oil of some 2 percent annually from 1982 to 1985 seems most likely." -- I consider this very unlikely to happen.

Para. 3.18 But small low-income countries, with few human resources, have limited policy options, and global economic conditions are of utmost importance to them. The development of the poorest, most slowly growing countries in sub-Saharan Africa is very dependent on world trends." -- Incorrect statement. As noted in the Bank's Africa report, domestic policies are the principal determinants of the economic performance of these countries.

3.19 "The major exporters of manufactures will continue to grow rapidly, because they have acquired an ability to respond to the changing structure of world markets. The growth of other middle-income countries, which still depends highly on the exports of non-fuel products, would be markedly slower." -- Again, the expansion of manufactured exports is the result of policy actions, and countries such as Morocco, Peru, and Thailand could develop appropriate production structures if they follow the right policies.

3.20 "China's growth record has been exceptional for a low income country ..." -- Here, and elsewhere, China's economic performance is put into an overly favorable light.

3.20 "But the average per capita income of most other low-income countries, however, would probably show negligible growth ..." -- Emphasis should rather be given to the need for policy improvements that could lead to an acceleration of growth.

3.22 "For the developing countries, particularly the poorest of them, the implications extend beyond slow growth to a dramatic increase in poverty, unemployment and human misery." --This is an overly negative statement to end the chapter.

Box 3.1 "The unfavorable set of assumptions embodied in the low case would result in a very different world in 1990." -- It makes little sense to assume that lower economic growth rates in DCs (2.8 vs. 3.6 percent) would be accompanied by more rapid increases in oil prices (3.0 vs. 1.0 percent), unless the latter is considered the causal variable for slow growth. Judging from earlier statements, this is not the case. Lower growth in the DCs, then, should lead to slower increases in oil prices by limiting the growth of demand for oil.

Box 3.2 "A less sanguine view is that there has been no systematic analysis of world trade changes since the mid-1970s from which to conclude that protection has not increased significantly. Further, exports may well have been discouraged by threats of restrictions." -- This does not appear to have been the case as far as LDC exports are concerned and protectionist measures, and the threat thereof, have been principally directed against other DCs.

"Though inward-oriented policies are not warranted, since they would sacrifice the immense potential gains from trade, nevertheless there are valid reasons for fearing increased protection." -- This statement, and the following quotation, again relates more to imports from other DCs than from LDCs.

CABLE

JUNE 16, 1982
61007

DR. E. MALINVAUD, DIRECTOR GENERAL, INSEE, 18 BOULEVARD ADOLPHE
PINARDS, 9TH FLOOR, PARIS, FRANCE

TENDANCES DE LA CONJONCTURE, NOTE DE SYNTHESE, HAI 1982 RECEIVED
TODAY. MANY THANKS. REGARDS, BALASSA

BBalassa:nc

Bela Balassa

Bela Balassa

DRD - Director's Office

June 16, 1982.

Professor Michael Harrison
School for Advanced International Studies
1740 Massachusetts Avenue N.W.
Washington, D.C. 20036

Dear Professor Harrison:

I enclose the preliminary version of my "Une ann e de l'experience socialiste en France." Any comments you may have would be appreciated.

I plan to revise the paper around July 1st and have it translated by mid July for publication in Commentaire. It is to ease the task of the translator that I had some of the footnotes in French.

I have been trying to telephone you but without success..Could you please give me a call to discuss my presenting this paper at a SAIS seminar

Yours sincerely,

Enclosure

Bela Balassa

P.S. I enclose my culinary guide I promised you on the occasion of our last meeting.

OFFICE MEMORANDUM

Messrs. Sherman Robinson, DRD and Jayanta Roy, EM2

June 16, 1982

Bela Balassa, DRD

Turkey: Recent Economic Performance and Medium Term Prospects, 1978-1990

1. The five scenarios obtained in the framework of the CCE model usefully indicate the implications for the Turkish economy of alternative assumptions about the growth of exports and/or total factor productivity. In the following, comments will be made on the analysis of Turkish economic performance in the 1973-77 period; the validation of the model for 1978-81; and the alternative scenarios referred to above.

Turkish Economic Performance, 1973-77

2. The paper presents the experience of the 1973-77 period in an overly favorable light. Economic growth during this period was the result of Keynesian expansionary policies, with production responding to the rise in aggregate demand. The expansion was unsustainable as it required massive inflows of foreign capital (There is an internal contradiction in the paper as regards other sources of external financing as on p. 8 reference is made to "a dramatic surge in workers' remittances" while on p. 9 it is noted that "the current account balance also deteriorated because of reduced workers' remittances;" it is the latter statement that is correct).

3. One should further note the overestimation of the rate of growth of GNP, associated with the overvaluation of output in the rapidly growing manufacturing sector ^{1/} as well as the deterioration in the quality of economic growth after 1973. To begin with, incremental capital-output ratios rose from 2.6 in 1968-72 to 3.8 in 1973-77, reflecting a decline in the efficiency of investment. ^{2/} Also, there was a considerable accumulation of inventories, with a rate of increase of 37.7 percent a year, in large part representing unsaleable commodities. Finally, rather than "sluggish export growth" (p. 8) exports declined by 3.7 percent a year (Table 3-1).

4. One further needs to modify the statement that "naturally, the balance of trade situation worsened because of sluggish export demand abroad, the increased cost of imports due to higher oil prices, and higher import demand arising from sustained economic expansion" (p. 9). Thus, losses in export market shares and negative import substitution contributed to the

1/ It has been shown that, between 1967 and 1977, estimation made in world market instead of domestic prices would reduce the estimated growth rate of GNP by 0.5 percentage points (Bela Balassa, "Growth Policies and the Exchange Rate in Turkey" in The Role of Exchange Rate Policy in Achieving the Outward Orientation of the Turkey Economy, Istanbul, Meban Securities, 1981, Appendix World Bank Reprint Series: November 1981).

2/ Ibid. p. 21.

deterioration of Turkey's trade balance during the 1973-77 period. ^{1/} This is also borne out by the Dervis-Robinson results cited subsequently in the paper: "The analysis appears to refute the notion that the foreign exchange crisis was simply the result of unfavorable external shocks." (p. 11). It should be added that an important factor contributing to losses in export market shares and negative import substitution was the appreciation of the real exchange rate during this period.

5. Comparisons with other middle income countries are also marred by excessive reliance on the measured GNP growth rate as an indicator of economic performance. It should further be noted that, between 1973 and 1977, the share of the manufacturing sector in the gross domestic product increased less in Turkey (from 15.9 to 17.5 percent) than in the entire group of middle-income countries (from 22.8 to 26.1 percent) (Table 3-2). This result is presumably explained by the rapid growth of public administration in Turkey.

The Validation of the Model for 1978-81

6. One may welcome the validation of the model that is all too often neglected by model builders. At the same time, it should be emphasized that the assumed exogeneity of crucial variables, such as inflation rates, exchange rates, exports, import rationing rates, capital inflow, and total factor productivity growth rates, limit the validity of the exercise. Thus, statements such as "the model performs very well in tracking historical growth of nominal GDP" (p. 24) and "the conclusions that may be drawn from the current results are quite robust" (p. 26) are open to question.

7. Questions arise also concerning the assumptions made about the "quantity rationing of imports [that] was introduced into the model because the Turkish government used quotas extensively to allocate foreign exchange for imports during the period of foreign exchange shortage" (p. 27). The extent of import rationing is taken to be nearly 70 percent in 1978 and 1979 and it is assumed to have disappeared afterwards (Table 3.12). Yet, quantitative import restrictions continued to be used after 1979. In turn, the import premium rate could not have been maintained at 34 percent following the large devaluation of January 1980. Also, a zero import premium rate for 1978 conflicts with the overvaluation of the Turkish lira in that year. ^{2/}

8. As far as the actual data are concerned, the implications of changes in relative prices should be noted. While value added in manufacturing declined between 1978 and 1981 as against a rise in GDP (Table 3-3), the share of the manufacturing sector in nominal GDP increased from 19.5 to 22.9 percent (Table 3-4). In turn, the statement that "the contribution from export demand expansion and import substitution increased substantially" (p. 31) should be modified, indicating the existence of considerable negative import substitution that represents an offsetting factor to the expansionary effects

^{1/} Turkey: Industrialization and Trade Strategy, Volume II: The Main Report, Washington, D.C.; World Bank, 1982, Table 1.1.

^{2/} Cf. Turkey: Industrialization and Trade Strategy, Washington, D.C., World Bank, 1981, Table 1.4.

of export expansion. Finally, the claim that "the external debt situation remained bleak" (p. 17) is not warranted. In fact, the debt situation improved to a considerable extent in 1981, with further improvements in 1982.

Alternative Scenarios for 1981-90

9. It is correctly noted in the paper that "in projecting the consequences of alternative development strategies it is important to remember that all model results are conditioned on the specific policy packages and projection of exogenous variables that are being used" (p. 34). In particular, as it is apparent from the results reported in Table 4-3, the results depend to a considerable extent on the assumptions made in regard to the growth of exports and of total factor productivity.

10. Apart from its realism, linking total factor productivity growth to the growth of exports increases the extent of endogeneity of the model results. It would further be desirable to relate exports to the growth of world demand and to changes in Turkey's market share.

11. At the same time, as long as export growth is taken to be exogenous, one should introduce an alternative higher than the 10 percent export growth rate assumed in the basic run. In this connection, note that export growth rates of 18 and 21 percent were assumed for the 1981-85 period in the Industrialization and Trade Strategy report. ^{1/}

12. It would further be desirable to replace the assumed import rationing scheme under the low export growth alternative by the flexibility of the exchange rate in real terms. Since the January 1980 reform, the exchange rate has been used as a flexible instrument, involving a devaluation in real terms over time. It appears inconceivable that the policy makers would again return to strict import rationing, foregoing the use of the (real) exchange rate instrument.

13. Finally, doubts arise about the agricultural scenario. In the face of projected rapid increases in the domestic consumption of agricultural products, the 8.2 percent growth rate of agricultural exports and the 3.4 percent growth rate of agricultural production are clearly inconsistent, leading to a 37 percent rate of growth of agricultural imports and to a shift from a large surplus to a deficit in Turkey's balance of trade in agriculture. ^{2/} This unrealistic scenario should be replaced by the projections derived by Scandizzo in the framework of his agricultural model; ^{3/} the corresponding estimates in the macroeconomic projections are 3.3-3.7 percent for

^{1/} Annex 1 in the Green Cover version, Table A1.3.

^{2/} While the export/output ratio would rise from 4.5 to 6.7 percent, the import-domestic ratio would increase from 0.6 to 7.3 percent for agriculture in the Base Run (Tables 4-9 and 4-10).

^{3/} Turkey: Industrialization and Trade Strategy, Volume I, Chapter 7 and Volume III, Annex 1.

agricultural output, 14.4-15.8 percent for agricultural exports and 0.6 percent for agricultural imports for the 1981-85 period. ^{1/}

cc: Messrs. Dubey, Asfour, Chaffey, Lewis, Urata, Hong; Mrs. Walker

BBalassa:nc .

1/ Op. cit., Tables Al.2, Al.3, and Al.5.

JAYANTA ROY, WUYUK ANKARA HOTEL

ANKARA, HUNDEKEY

DATA REQUESTED FOR THE YEAR 1981, THE FIRST QUARTER OF 1982 AND, WHEN AVAILABLE, PROJECTIONS FOR THE YEAR 1982. MONETARY DATA SHOULD RELATE TO THE END OF THE PERIOD. TABLE NUMBERS REFER TO THE INDUSTRIALIZATION AND TRADE STRATEGY REPORT. TABLE 3.3 MULTIPLIER OF THE MONETARY BASE. TABLE 3.6 CURRENCY AND BANK DEPOSITS. TABLE 3.11 BONDS ISSUED. TABLE 3.12 DISTRIBUTION OF THE TOTAL DOMESTIC FINANCIAL ASSETS OF THE BANKING SECTOR. TABLE 3.13 THE FINANCING OF PUBLIC ADMINISTRATIONS BY THE BANKING SYSTEM. TABLE 4.8 FOREIGN INVESTMENT UNDER THE ENCOURAGEMENT SCHEME. TABLE 4.9 CHARACTERISTICS OF INVESTMENT LICENSES. TABLE 5.10 CAPACITY UTILIZATION. A TABLE 1.3 EMPLOYMENT IN MANUFACTURING INDUSTRY. A TABLE 1.5 EMPLOYMENT BY SEES. A TABLE 2.2 GROSS DOMESTIC PRODUCT AT 1968 PRICES. A TABLE 2.4 EXPENDITURE ON GROSS NATIONAL PRODUCT AT 1968 PRICES. A TABLE 2.6 SECTORAL FIXED INVESTMENT AT 1976 PRICES. A TABLE 3.1 BALANCE OF PAYMENTS. A TABLE 3.2 COMMODITY COMPOSITION OF EXPORTS. A TABLE 3.5 GEOGRAPHICAL DISTRIBUTION OF EXPORTS. A TABLE 5.1 CONSOLIDATED BUDGET SUMMARY. A TABLE 5.5 FINANCING OF INVESTMENT BY SEES. A TABLE 6.5 LENDING AND DEPOSIT INTEREST RATES. A TABLE 8.7 AGRICULTURAL SUPPORT PRICES. I WOULD ALSO LIKE TO HAVE THE LATEST DATA,

2 2 61007

AND PROJECTIONS, ON THE WHOLESALE AND CONSUMER PRICE INDICES, MANUFACTURING WAGES, INDUSTRIAL PRODUCTION, THE DOLLAR VALUE OF EXPORTS, AND IMPORTS, EXPORT AND IMPORT VOLUME INDICES, AND TIME DEPOSITS, INCLUSIVE OF CERTIFICATES OF DEPOSIT. SINCERELY, BALASSA

GRANTEL

JUNE 16/82

BELA BALASSA

BELA BALASSA

BBalassa:nc

DRD - Director's Office

OFFICE MEMORANDUM

Mr. Michel Noel, YP

June 16, 1982

Bela Balassa, DRD

Comments on your "The Evolution of the System of Industrial Incentives in the Ivory Coast from 1970 to the Present"

1. The study is well-organized and the outline of your story on changes in incentives in the Ivory Coast is clear. At the same time, you could cut down the numbers cited and expand the analysis.
2. Chapter I, The Exchange Rate Regime, is fine. It is not clear, however, why the 1960-74 average is taken as a basis for comparison. At any rate, this average is not shown in Table 1.
3. Chapter II.1, Import Protection Measures, Tariff and Tariff-type Measures, provides a good description of the development of the system of import protection in the Ivory Coast. But, there was tariff escalation already before 1973. Nor does the comparison of the 1971 and 1978 rates in Table 3 and in Para. 15-16 show much of a change in the structure of tariffs.
4. Much more important than changes in nonpreferential tariffs was the elimination of preferential tariffs on imports from the EEC that are not shown in Table 3. At the least, averages of these tariffs should be provided. Finally, do not use the expression "old EEC."
5. Chapter II.2, Quantitative Import Restrictions, is fine. However, averages of NTPs and NPCs (not INP) and their distribution should be compared, and changes over time indicated. At the same time, the meaning of the protection of instant coffee is not clear since this product is exported.
6. There is no need to show the total value of the subsidy element of temporary admissions in Table 9. Also, the relationship between these figures and those in Table 10 is not clear. In turn, the subsidy element implicit in preferential exports to the EEC and the CEAO should be indicated.
7. Chapter IV, The Investment Code, is rather unclear on the reasons for granting priority status. The differences between Priority Agreements and Establishment Conventions as to the extent of fiscal benefits would also need to be clarified. Finally, note the share in industrial value added of firms benefitting from Priority Agreements and the Establishment Conventions in 1978.
8. As regards the revision of the Investment Code, the reference to the reduction in duration from 25 to 10 years conflicts with the earlier statement, according to which Priority Agreements provide benefits for 10 years. Note also whether the tax credit for employment creation would be provided for more than one year.
9. Chapter V, Other Fiscal Measures, should not be maintained in its present form. Section 1. Export Taxes should be consolidated with export subsidies and taken into account in calculating the effective protection of processing. Section 2, Tax Incentives, belongs to Chapter IV.

10. In Chapter VI.2, The Combined System of Industrial Incentives, Sample Firms Characteristics, should be put in an Appendix, and only a few paragraphs retained in the text. There are also too many figures in the discussion on changes in nominal and effective protection. You should rather emphasize changes in the sectoral averages and the relationship between NPCs and EPCs. Nor do ESCs require detailed discussion; note simply differences from EPCs. Finally, the meaning of effective protection coefficients does not need to be explained.

11. In presenting the DRCs, note how shadow prices have been estimated. Also, indicate the relationship between EPCs and DRCs. In turn, the bias against exports should be analyzed in effective rather than in nominal protection terms and be integrated with the discussion of effective protection.

12. Finally, there are too many tables. Tables 1 and 2 should be combined; report variant A or B only. Table 3 should go into the Appendix. Tables 4 and 5 should be consolidated. Table 6 should go into the Appendix and figures in this table, as well as in Table 7, should be reported in millions of CFA decimals. Combine Tables 9, 10, and 11. Table 12 should go into the Appendix, eliminating "production exported." In Table 14 eliminate all absolute figures and report export shares; combine with Table 16. All incentive rates and DRCs should be shown with two decimals in the tables.

cc: Mr. Pursell, IDF

BBalassa:nc

OFFICE MEMORANDUM

Mr. Michel Noel, YP

June 16, 1982

Bela Balassa, DRD

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9. Chapter V, Other Fiscal Measures, should not be maintained in its present form. Section 1. Export Taxes should be consolidated with export subsidies and taken into account in calculating the effective protection of processing. Section 2, Tax Incentives, belongs to Chapter IV.

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cc: Mr. Pursell, IDF

BBalassa:nc

Mr. E. Stoutjesdijk, DRD

June 15, 1982.

Bela Balassa, DRD

I enclose copies of substantive correspondence in May. There were only a few since I was away from May 11th.

Enclosures
BBalassa:nc

CABLE

JUNE 14, 1982

71007

MR. JOAO SALGUEIRO, MINISTER OF STATE FOR FINANCE AND PLANNING,
RUA DA ALSANDEGA, LISBON, PORTUGAL

PLEASE ACKNOWLEDGE RECEIPT OF ADVISORY REPORT ON PORTUGAL MAILED TO
YOU ON MAY TENTH. REGARDS, BALASSA

Bela Balassa

Bela Balassa

DRD - Office of Director

BBalassa:nc

Mr. Moeen Qureshi, SVFFI

June 14, 1982.

Bela Balassa

China Visit

The enclosed advisory report "Economic Reform in China" may be of interest to you. My secretary will call your office to see if we could have lunch together to talk about China and other matters.

Enclosure
BBalassa:nc

Mr. Ernest Stern, SVPOP

June 14, 1982.

Bela Balassa, DRD

China Visit

The enclosed advisory report "Economic Reform in China" may be of interest to you. My secretary will call your office to see if we could have lunch together to talk about China and other matters.

cc: Mr. Stanley Please, SVPOP

Enclosure
BBalassa:nc

June 14, 1982.

Mr. Gérard de Margerie
French Embassy
2011 I Street N.W., Suite 800
Washington, D.C. 20006

Dear Gérard,

I enclose the preliminary version of my "Une année de l'expérience socialiste en France." Any comments you may have on the paper would be greatly appreciated. I will give you a call next week to see if we can have lunch together.

I wonder if I could also impose on you to ask for some information on monetary magnitudes. I would like to provide data on changes in M1 and M2 between April 30, 1981 and April 30, 1982 and to add information on the outstanding amounts of Bons de Trésor for the same period. It would be particularly interesting to have information including and excluding the "correspondants du Trésor," such as the Caisse des dépôts, which do not rely on the Banque de France for refinancing. Finally, I wonder if there is information on the monthly average interest rate on argent au jour le jour sur le marché monétaire for the months of April and May.

Yours sincerely,

Enclosure

Bela Balassa

June 14, 1982.

Professor Dr. Armin Gutowski
President des HWWA-Institut
für Wirtschaftsforschung-Hamburg
Neuer Jungfernstieg 21
2000 Hamburg 36
Germany

Dear Armin,

I read your papers with much interest on my way to China. In turn, I enclose my "Economic Reform in China" I wrote following my trip there. Your comments and suggestions would be greatly appreciated.

The trip to China was fascinating and frustrating: I think I don't have to tell you why. I was able, however, to learn a lot about the reforms. Do you plan to go there again this year?

With best regards,

Yours sincerely,

Enclosure

Bela Balassa

June 14, 1982.

Mrs. Irma Adelman
Department of Agricultural
and Resources Economics
University of California at Berkeley
Berkeley, California 94720

Dear Irma,

Thank you for your letters of May 6 and May 19. I have suggested January 2 and 3 as dates for the trade seminar but have not yet received an answer.

China was fascinating and frustrating: I think I don't have to tell you why. Nevertheless, I was able to learn a lot about the reforms; the enclosed paper is the result. I would be interested in having your comments and reactions.

In my absence I have been moved and cannot find the final version of my paper on Hungary. I hope to find it in a week or so and will immediately send it to you.

Yours sincerely,

Enclosure

Bela Balassa

June 11, 1982.

Dr. E. Malinvaud
Institut National de la Statistique
et des Etudes Economiques (INSEE)
18 Boulevard Adolphe Pinards
9th Floor
Paris
France

Dear friend,

I enclose a preliminary version of my "Une Année de l'expérience socialiste en France." Any comments you may have would be greatly appreciated.

In writing the paper, I have used with great profit Cahiers 1 (April 27) and 2 (May 19) of Tendances de la conjoncture, as well as the Note de synthèse, dated March 3, 1982. You have kindly offered to send me the next issue of the Note de Synthèse. I would appreciate it if this could be sent air mail, together with the latest issue of the bi-weekly publication reporting on les nouveaux chiffres parus. Many thanks in advance.

It was a pleasure seeing you in Paris and I hope that we will meet again in the not-too-distant future.

With best regards,

Sincerely yours,

Enclosure

Bela Balassa

P.S. I plan to revise the paper around July 1st and have it translated by mid-July for publication in Commentaire. It is to ease the task of the translation that I have some of the footnotes in French.

June 11, 1982.

Monsieur Jean-Claude Casanova
87, bd. St. Michel, 5e
Paris 75007
FRANCE

My dear friend,

I enclose a preliminary version of my "Une année de l'expérience socialiste en France." Additional copies are being sent to your office addresses. Your comments and suggestions for the final revision of the paper would be much appreciated.

In the paper, I have tried to document statements made on questions, such as protection. This explains the many footnotes; I could cut out some of them or put references to newspapers in parenthesis in the text. I could also delete the two introductory pages on "la lutte des classes" that may be out of place in an article on economic issues, written for a French audience.

While I will update some of the figures, I do not need any new material; in fact, I have found more than I could use. The only figures I have taken by M. Barre's excellent article relate to the number of days lost to strikes; I wonder what his source has been and if data for March are available. At the same time, I have given up my search for the cost of social charges for the enterprise and have limited myself to citing the conflicting estimates.

In order to ease the task of the translator, I have left all French material and some of the footnotes in French. I plan to do the revision around July 1st and will bring you the French translation on July 17th as agreed.

I much enjoyed seeing you in Paris and look forward to hearing from you.

Yours sincerely,

Enclosure

Bela Balassa

June 11, 1982.

Mr. Pierre-Henri Cassou
Ministere de l'economie
93 rue de Rivoli
75056 Paris
FRANCE

My dear friend,

It was good to see you and I very much enjoyed the conversations we had. You can see that some of your preoccupations reappear in the enclosed paper, although I have chosen not to go into detail in monetary matters.

Your comments on the paper would be greatly appreciated. I plan to revise it around the first of July, with a view to having the French translation ready by mid-July for publication in Commentaire.

I wonder if I could also impose on you to ask for some information on monetary magnitudes. I would like to provide data on changes in M1 and M2 between April 30, 1981 and April 30, 1982, and to add information on the outstanding amounts of Bons de Trésor for the same period. It would be particularly interesting to have information including and excluding the "correspondants du Trésor," such as the Caisse des dépôts, which do not rely on the Banque de France for refinancing. Finally, I wonder if there is information on the monthly average interest rate on argent au jour le jour sur le marché monétaire for the months of April and May.

I hope that you do not mind my turning to you with these requests but I do not know where these data originate. (For the earlier period, I have used INSEE).

Yours sincerely,

Enclosure

Bela Balassa

Sent also to 6 rue Guy de Maupassant
Paris 75016
France

June 11, 1982.

Mme. Nicole Solyom
Régie Renault
34 Quai du Point du Jour
92109 Boulogne Billancourt
France

Dear Nicole,

I enclose the preliminary version of my "Une Année de l'expérience socialiste en France." I would much appreciate having your comments on the paper, in particular the part on Renault. I plan to revise the paper towards the end of the month.

It was good to see you on my last visit to Paris and we all look forward to seeing you in August.

With best regards,

Sincerely yours,

Enclosure

Bela Balassa

June 11, 1982.

Mrs. Ina Wahl
15 av. de la Bourdonnais
Paris 75007
France

Dear Ina,

I enclose a preliminary version of my paper, "Une année de l'expérience socialiste en France." Your and Jacques' comments would be much appreciated.

I trust that you have received my paper on Portugal. In turn, I would appreciate having the revised projections on France. I would like to consult them in revising my paper towards the end of the month.

As I mentioned to you, I plan to be in Paris on July 17th. I look forward to taking you out for dinner on that day.

Yours sincerely,

Enclosure

Bela Balassa

CABLE

June 11, 1982
61007

DR. LUIGI CERIANI, BANCA NAZIONALE DEL LAVORO, QUARTERLY REVIEW,
UFFICIO STUDI, VIA VITTORIO VENETO, 119, ROME, ITALY

I WOULD LIKE TO EXPLORE YOUR INTEREST IN PUBLISHING MY PAPER QUOTE
ECONOMIC REFORM IN CHINA UNQUOTE. PLEASE LET ME KNOW IF YOU COULD
PUBLISH IT IN THE NEXT ISSUE OF THE QUARTERLY REVIEW AND BY WHAT
DATE SHOULD I SEND THE PAPER TO YOU. REGARDS, BALASSA

Sela Balassa

Sela Balassa

BBalassa:nc

DRD - Director's Office

June 9, 1982.

Professor Nicholas R. Lardy
Department of Economics
Yale University
New Haven, Connecticut

Dear Professor Lardy:

I enclose a copy of my paper "Economic Reform in China." Your comments would be greatly appreciated. As you can see, I have repeatedly cited your very interesting paper. Since I plan to publish mine, I would like to ask your agreement to my quoting it. Or, perhaps you have some work to be published I could quote.

Yours sincerely,

Enclosure

Bela Balassa

Enclosure: "Economic Reform in China" June 3, 1982.

MOROCCO: INDUSTRIAL INCENTIVES AND EXPORT PROMOTION

PART I

INCENTIVES AND COMPARATIVE ADVANTAGE

Chapter 1. The Structure of Incentives in Manufacturing Industries

1. The Structure of Nominal Protection (product protection)
2. The Structure of Effective Protection (joint effects of protective measures on inputs and outputs)
3. The Structure of Effective Subsidies (joint effects of protective, tax, and credit measures)
4. The Bias Against Exports
5. Comparison with Primary Activities

Chapter 2. Comparative Advantage in Manufacturing Industries

1. The Measurement of Comparative Advantage (domestic resource cost of foreign exchange and economic rates of return)
2. Comparison of Incentives and Comparative Advantage (effective rates and domestic resource cost measure, private and social profitability)
3. Relationships between Comparative Advantage, Capital Productivity and Labor Productivity
4. Comparisons with Primary Activities

PART II

INDUSTRIAL DEVELOPMENT AND POLICY RECOMMENDATIONS

Chapter 3. Industrial Development and Exports

1. The Place of Manufacturing in the National Economy (value added, employment, investment, exports, and imports)
2. The Structure and Development of Manufacturing Industries (sectoral composition, public and private industry, employment, investment, capital and labor productivity, capacity utilization)
3. The Structure and Development of Manufactured Exports (export growth and composition, relationship between exports and industrial production, the contribution of exports and imports to output growth)
4. Export Prospects

Chapter 4. The Development of the System of Production Incentives

1. The Exchange Rate Regime (nominal and real exchange rates)
2. The System of Import Protection
 - A. Tariffs and tariff-type measures
 - B. Quantitative import restrictions
 - C. Price Control
3. The Export Promotion Scheme
 - A. Foreign exchange regulations
 - B. Duty exemptions and rebates
 - C. Income tax benefits
 - D. Export Promotion Center
 - E. Standards and Quality Control

Chapter 5. Development of the System of Taxation and Investment Incentives

1. The System of Income Taxes (personal and corporate income taxes)
2. The Incidence of Indirect Taxes (sales vs. value added taxes)
3. The Industrial Investment Code (changes over time, effects on foreign investment, exports, the choice of techniques, location, and the development of the domestic capital goods industry)
4. Comparisons with Other Investment Codes

Chapter 6. The Development of Industrial Finance

1. The Role of Financial Intermediaries
 - A. Commercial banks
 - B. Investment banks
 - C. Securities market
2. The Role of Interest Rates
 - A. Interest rates to savers
 - B. Interest rates to borrowers
 - C. Cost of intermediation
3. Credit Rationing and Preferences
 - A. Quantitative controls on credit
 - B. System of selective credits
 - C. Export credit and export insurance

June 8, 1982

Mr. Dong Furen
Deputy Director
Institute of Economics
Chinese Academy of Social Sciences
5 Jianguomen Nei Dajie
Beijing
China

Dear Mr. Dong:

I would like to thank you for your hospitality during my visit to China. I much enjoyed my stay that permitted me to learn first-hand about the problems facing the Chinese economy.

As agreed, I enclose a preliminary draft of my paper "Economic Reform in China" which contains an appraisal of Chinese economic policies. I would appreciate receiving any comments you may have, whether they pertain to facts or to opinions expressed in the paper. Please let me know also if you find anything objectionable in the paper, with a view to its eventual publication.

I plan to revise the paper in early July. The final version will be sent to you in mid-July when I will leave for an extended trip abroad.

Yours sincerely,

Enclosure

Bela Balassa

P.S. Two additional copies of the paper are sent to you under separate cover.

CABLE

june 8, 1982
61007

IRENE DUPOUX-COUTURIER, CO-DIRECTEUR, CENTRE DE FORMATION AUX
REALITES INTERNATIONALES, 30, RUE CADANIS, 75014 PARIS, FRANCE

ACCEPT INVITATION TO DELIVER LECTURE AT INTERNATIONAL ISSUES
SEMINAR ON DECEMBER 3. PLEASE INFORM M. CARRIERE OF MY ACCEPTANCE.
IN THE PROGRAM OF THE SEMINAR, I SHOULD BE IDENTIFIED AS PROFESSOR
OF POLITICAL ECONOMY, JOHNS HOPKINS UNIVERSITY AND CONSULTANT,
WORLD BANK. SINCERELY, BALASSA

Bela Balassa

Bela Balassa

BBalassa:nc

DRD - Office of Director

CABLE

JUNE 8, 1982
61007

CARLOS MASSAD UNIVERSIDAD DE SANTIAGO DE CHILE, FAC. ADMINISTRACION
Y ECONOMIA, DEPARTAMENTO DE ECONOMIA, SANTIAGO DE CHILE, CHILE

REGRET INABILITY TO PARTICIPATE AT INTERNATIONAL SYMPOSIUM DUE TO
PREVIOUS OBLIGATIONS. SINCERELY, BALASSA

Bela Balassa

Bela Balassa

DRD - Office of Director

BBalassa:nc

le 7 juin 1982

Hotel Scandinavia
27 rue de Tournon
Paris 6
France

Chère Madame:

Je regrette qu'il ne me sera pas possible de venir à Paris le mois de juillet. Ainsi, je vous prie d'annuler ma réservation pour le 19 - 20 juillet. D'autre part, veuillez bien vouloir me retenir une chambre pour deux nuits, du 10 au 12 septembre.

En vous remerciant d'avance, je vous prie de croire, chère Madame, à mes meilleurs sentiments.

Bela Balassa

cc: Mrs. Ponchon

OFFICE MEMORANDUM

TO: Files

FROM: Bela Balassa, DRD

SUBJECT: Back-to-Office Report (China, May 16-28, 1982)

DATE: June 7, 1982

1. I visited Beijing and Chengtu at the invitation of the Chinese Academy of Social Sciences on May 16-28, 1982. In Beijing, I met with two of the Vice-Presidents of the Academy, Huang Xiang and Yu Dixin (the latter also Director of the Institute of Economics in Beijing); gave lectures on the Hungarian economic reform and on industrial development strategies; and had four half-days of discussions on economic reform in China. Apart from staff of the Institute of Economic Research, officials from other Institutes of the Chinese Academy of Social Sciences, and from the Economic Institutes of the Planning Commission and the State Economic Commission participated in the discussions.
2. In Chengtu, I lectured on the Hungarian reform and had discussions on the decentralization experiments in industry and in agriculture in Sechuan province. I further visited a commune and, in both Beijing and Chengtu, state-owned and collective industrial enterprises.
3. My host was Dong Furen, Deputy Director of the Institute of Economic Research of the Chinese Academy of Social Sciences who, incidentally, wrote an important article on China's economic development strategy in the People's Daily, the official party newspaper, on May 26, 1982; the synopsis of the paper published in the English-language China Daily is enclosed. I further enclose a preliminary version of my "Economic Reform in China" that was written in response to Dong Furen's request for comments and suggestions on China's economic reform policies.

cc: Messrs. S. Husain, AENVP; P. Hasan, AENVP; Jaycox, AEA; Kirmani, AEP;
Turnham, WDR; Koch-Weser, AEA; Lim, AEA; Wood, AEA; Tidrick, AEA;
Porter, AEA;

ERS Directors, DRD Senior Staff, CPD Senior Staff

Enclosures
BBalassa:nc

Opinion

Economists have many problems for further study

The nation's economists still face many problems, despite gains in the study of the strategy for China's economic development, according to an article in Renmin Ribao (People's Daily).

The article, contributed by Dong Furen, Deputy Director of the Research Institute of Economics under the Chinese Academy of Social Sciences, was entitled "Further Study the Strategy for China's Economic Development."

Dong said that the 10 principles for China's economic construction set forth by Premier Zhao Ziyang in his report to the Fourth Session of the Fifth National People's Congress last year marked a strategic transition for China's economic development.

According to him, this transition is manifested mainly in four ways from a strategy with speed as the main target to one concentrating on the satisfaction of the people's basic needs; from the strategy which laid stress on certain sectors to one of balanced development; from the strategy of closing the country to the outside world to a more open policy; the transition from a strategy with extensive development as the main avenue to one with an intensive development.

Dong said there were still many subjects worthy of further study in each of these four aspects.

The first aspect — moving to meet the people's basic needs — would give the people more tangible economic benefits. But how to determine which needs were basic and in what order these needs could be satisfied at different periods were problems to be solved.

Besides, people had immediate needs as well as long-term needs, neither of which should be considered to the neglect of the other. Under such circumstances, what should be the correct ratio between

consumption and accumulation from the national revenue still remained questionable. Therefore, new solutions were needed.

Key points

The strategy which made key points outstanding had advantages as well as disadvantages, and balanced development does not mean that all the economic sectors should develop at the same speed, without any key point; neither does it exclude the situation wherein, during a certain period of time, one economic sector or department may be emphasized in order to guide the development of the other sectors or departments.

In carrying out the strategy of balanced development, whether priority should still be given to the growth of the means of production is still not very clearly defined. While heavy industry was overemphasized in the past, which caused many side effects, its development has now been slowed during the current readjustment. But whether first place should still be given to heavy industry after it becomes proportionate with the other sectors of the national economy, and how to combine its development with the development of the other sectors so as to avoid a relapse into the former strategy, still merit our study.

For a long time the agricultural development, owing to natural conditions and the increase of population, has become a restrictive factor. The potential surplus of manpower in agriculture is even more difficult to deal with compared with that of unemployed youth in urban areas.

The balanced development of China's economy should be based on a gradual transfer of rural population to industry and other branches of the economy. How to accomplish such a transfer remains a serious problem.

There is also the problem of shifting from the strategy of developing grain production to an overall, balanced development inside agriculture itself. But it is a hard task with many problems.

In the third facet of this transition, that is, "opening to the outside world", whether China should gradually embark on the road of outward-looking development — as some countries are now doing — or still keep an inward-looking development as the foundation, or whether there is a strategy somewhere in between the two, are still problems worthy of study.

Export

In addition, the position of primary products in our exports — whether we should replace primary products with manufactured goods and whether labour-intensive products should for long remain the main export commodities or whether a changeover should be made towards capital-intensive, technology-intensive and research-intensive products as some countries do, should all be studied.

Finally, the transition from extensive development of the economy to intensive development will take a long time and there may be difficulties in such a transition.

One problem is employment. The fundamental way out lies in intensive development of production with accompanying increases in productivity.

However, in the near future, since the value of capital cost per worker is high, the employment of a larger labour force would actually be restricted. On the contrary, extensive development could provide more chances for employment. Therefore, the transition from extensive development to intensive development is a long process and how the two should be combined will always remain a problem at each period.

Mr. E. Stoutjesdijk, DRD

June 4, 1982.

Bela Balassa, DRD

I enclose copies of the memos I wrote in May. There were only a few since I was here only the first 10 days.

Enclosures
BBalassa:nc

Bela Balassa, DRD and Rene Bonnel, EMENA, CPIIB

MOROCCO: Industrial Incentives and Export Promotion
Issues Paper

Objective

1. An Industrial Incentives and Export Promotion mission is scheduled to visit Morocco in mid-July 1982 for a period of two to three weeks. This paper outlines the scope of the mission and the main issues to be covered. The principal objective of the mission is to make recommendations for reforming the system of industrial incentives and export promotion, so as to improve the efficiency of the industrialization process and to increase its contribution to the overall objectives of Morocco's industrialization strategy.
2. In carrying out its task, the mission will review the system of import protection, the export promotion scheme, the application of price control, the industrial investment code, the financing of industry, as well as the system of taxation, and it will make recommendations for their reform. The mission will also analyze prospective markets for Morocco's manufactured exports and the impact of the future adhesion of Portugal and Spain to the EEC.

Industrial Development Strategy and the System of Incentives in Morocco

3. The stated objectives of Morocco's industrial development strategy include (i) increasing productivity growth; (ii) earning foreign exchange through imports and ensuring efficient import-substitution; (iii) generating rapid growth in employment; and (iv) stimulating balanced regional development. To achieve these goals, Morocco relies on direct interventions through the public sector and indirect interventions through the system of incentives.
4. Among industrial incentives, import protection takes the form of customs duties, a special import tax, and quantitative import restrictions. Export promotion measures have been introduced to partially offset the negative impact of protection on manufacturing costs; they consist of preferential access to bank credit at reduced interest rates, duty and tax exemptions (rebates) on material inputs and machinery, tax exemptions on profits derived from exports, foreign exchange allocation, and institutional measures. Since protection often generates economic rents for industrial producers, the Government pursues a policy of fixing industrial prices on a cost-plus basis. In turn, industrial investment incentives include duty and tax exemptions on imported capital goods, a 2% interest rate rebate, income tax exemptions, and employment subsidies, the level of which varies regionally. For projects below DH 100 million (about \$17 million) the incentives are granted automatically; for larger projects they are subject to negotiations. Incentives to industry are further affected by the system of industrial finance and taxation. Overall, the incentive system is extremely complex and its net effects are not known with any confidence.

5. The Basic Economic Report (1979) and the ensuing policy dialogue with the Government have highlighted the fact that the objectives of industrial development strategy are met only partially. Despite rapid increases in investment in 1972-77, value-added and employment in industry have risen relatively slowly. At the same time, emphasis was put on large capital-intensive projects for import substitution, in particular cement, sugar and petroleum refining, leading to a rapid rise in the imports of capital goods and intermediate products. Furthermore, with the exception of traditional exports, such as textiles, carpets and leather goods, and phosphate-based products, industrial exports have not developed to an appreciable extent and the overall contribution of the industrial sector to Morocco's trade balance has been disappointing.

6. In recent years, the persistence of large budgetary and current account deficits have made it necessary for Morocco to implement a stabilization program, involving reductions in public investment, in imports, and in external borrowing. As a result, the principal factors behind the 1972-77 surge in economic activity have disappeared, and the rate of economic growth has declined to a considerable extent (from 6.5% a year in 1972-77 to 3.8% in 1977-80).

7. The Government is now faced with the problem of how to revive economic growth in a way consistent with a manageable current account deficit. Because of the shortage of public funds, its capacity to undertake large industrial investments has greatly declined and reliance on private investment -- domestic as well as foreign -- to sustain industrial growth has become crucial. For private investment to take place, and to generate the foreign exchange earnings necessary to finance the ambitious 1981-85 Development Plan, the Government realizes that its industrial development strategy would have to be modified.

Background and Scope of the Mission

8. The 1981-85 Development Plan aims at improving the situation by (i) increasing public investment in natural resource-based export-oriented sectors (mining, phosphates and phosphoric acid); (ii) raising the share of Government investment allocated to agriculture so as to increase production and exports and to provide processing industries with required inputs (fish, leather and food products); and (iii) reforming the system of incentives. The 1981-85 public sector investment program was reviewed by the Bank for the forthcoming Plan Review report. The proposed Industrial Incentives and Export Promotion mission will thus focus primarily on the reform of incentives, government policies and institutions, and their efficiency in meeting the objectives of Morocco's industrial development strategy.

9. Since 1979, the Government and the Bank have been involved in a joint research project designed to estimate (i) incentive indicators (nominal protection, effective protection and effective subsidy); and (ii) cost-benefit indicators (domestic resource costs and economic rates of return), utilizing a methodology developed at the Bank. The study is based on firm level data for four industrial sectors (textiles, engineering and mechanical industries, chemicals and agro-industries). As this project is expected to be completed by the end of June, the proposed mission will be able to draw on the considerable body of data and results already generated by the Bank consultant

(in Morocco) and the Moroccan team assigned to this project within the Ministry of Industry, Commerce, and Tourism.

10. The mission will utilize the findings of the research project to examine Morocco's comparative advantage in industry and to review the net effects of the various incentives granted to different sectors through protection, export subsidies, price control, and credit and tax measures. It will further provide recommendations for improving the industrial incentives system and its effectiveness in meeting the overall objectives of Morocco's industrialization development strategy. The recommendations will cover the system of import protection, the export promotion scheme, price control, the industrial investment code, the financing of industry, and the system of taxation. The mission will also review marketing prospects for Morocco's exports of manufactured products and the impact of the EEC (trade arrangements with Morocco, adhesion of Greece, and the future entry of Portugal and Spain).

Industrial Development and Protection -- The Issues

11. The development of the industrial sector has proceeded behind protection provided in the form of customs duties, the special import tax, and quantitative import restrictions. The present system of tariff protection was introduced to grant increasing rates of protection according to the degree of processing in replacement of the system in existence until 1957 that consisted of a uniform tariff rate (12.5%) on all commodities. In 1960, the Government introduced an industrial investment code, subsequently revised in 1973 and in 1982, under which duty exemptions have been provided on the importation of capital goods. Inputs used in export production also enjoy duty exemptions (rebates). In turn, a special import tax was introduced in 1973 and gradually raised from 5% in 1973 to 15% in 1979. Finally, increased use has been made of quantitative import restrictions.

12. The structure of import protection that has developed over time does not reflect a rational pattern and Morocco's industrial development strategy is faced with the usual contradictions implicit in import-substitution policies. As was highlighted by the 1975 industrial survey, the substitution process appears to have gone as far as it can in the consumer goods sector, while extension of import-substitution to intermediate or capital goods industries is not financially profitable for private entrepreneurs due to negative or low effective protection.

13. The main issues to be investigated in regard to import protection are

- (i) the desirable average rate of effective protection in the manufacturing sector;
- (ii) an appropriate structure of tariffs
- (iii) the procedures used in providing protection;
- (iv) the rationalization of quantitative import restrictions,
- (v) the possible impact of the reform of the protection system on industrial sub-sectors and on budgetary revenues;

- (vi) the promotion of "backward" integration in the manufacturing sector; and,
- (vii) the stimulation of the development of engineering industries.

13. These issues will be examined by the mission by drawing on the results of the research project on industrial incentives, which will provide a detailed analysis (at the firm level and by sub-sectors) of the level and structure of import protection in the manufacturing sector. Furthermore, comparisons of domestic resource costs (DRC's) and economic rates of return at sub-sectoral and sectoral levels will provide a first indication of the comparative advantages of Morocco's manufacturing sector. An attempt will further be made to indicate the relative importance of technical inefficiency, market size, and inappropriate factor intensity (capital-labor ratio) in explaining the pattern of domestic resource costs.

14. The following issues pertaining to comparative advantage in the manufacturing sector will be investigated:

- (i) the relationship between the level of incentives and Morocco's comparative advantages;
- (ii) the relationship between capital intensity, employment and the structure of incentives; and
- (iii) the relationship between private and economic profitability in manufacturing;
- (iv) possible measures that may be used to improve the efficiency of the industrialization process on a sectoral or sub-sectoral basis.

Export Promotion

15. Reliance on export expansion to generate the foreign exchange necessary for attaining a high rate of economic growth has been an important feature of every Development Plan since 1972. However, actual exports have fallen considerably short of the targets. In 1973-77, exports of goods and non-factor services grew by only 0.6% a year in real terms compared to a Plan target of 10%; in 1978-80, the actual growth rate was 2.6% compared to the Plan objective of 6.6%. Judging from past experience, the 1981-85 Development Plan's objective of a 7.5% annual growth rate for exports appears unlikely to be achieved unless substantial changes are made in the present system of incentives. At the same time, Bank reports have consistently stated that potential long-term growth prospects for Morocco's exports are quite favorable.

16. In 1981, the two largest sources of export earnings, exclusive of services, were agricultural products (31.1% of merchandise exports) and phosphate rock (31.2%). In the case of agricultural exports, growth has been quite slow in the past, in part because of the stagnation of production since 1971. The system of incentives in agriculture involves the complex intervention of the Government at the production level (in irrigated areas) and at the marketing level (through OCE which controls all exports of primary

and processed agricultural products). In the case of phosphate exports, the report prepared by IPD for the 1982 Plan Review Mission emphasized the importance of the investment and pricing strategy of OCP. The July mission will focus on the promotion of manufactured exports, including processed agricultural and phosphate-based products.

17. Between 1967 and 1980, Morocco's manufactured exports rose at an average annual rate of 9.3 percent, below the average rate of increase of 15 percent for all developing countries. At the same time, growth was largely limited to a few traditional industries processing mainly local natural resources (textiles, clothing, carpets, leather products), where Morocco enjoyed the advantages of low wages and preferential access to the Common Market, and phosphate-based products (phosphoric acid and fertilizers). With insufficient incentives due to low effective protection of exports and the overvaluation of the exchange rate, the contribution of non-traditional industries has remained small, although exports of transport equipment, electronics and electrical machinery, rubber and plastic manufactures have begun in recent years.

18. While the exports of phosphate rock and phosphate-based products could grow in the eighties at a rate close to that achieved in 1967-80 (5.3% a year in real terms), exports of agricultural products are likely to increase at a very slow rate, if at all. In 1979, the EEC accounted for 74% of Morocco's food exports, and according to current estimates, a substantial part of these exports would be replaced by products from Greece, Portugal, and Spain.

19. If total export earnings are to grow at a faster rate, Morocco will have to expand its exports of manufactured goods, including non-traditional products. In order to assist Morocco in this effort, the mission will make recommendations for improving the export promotion effort, and it will review (with the help of a consulting firm) market prospects for manufactured exports and the possibilities for introducing new exports.

20. The recommendations for improving the system of incentives to exports will draw on the results of the research project on industrial incentives. The mission will review and discuss with the Government the overall issue of the level of incentives granted to exports, including the effects of the present exchange rate. Policy recommendations will focus on specific incentives to exports and on the fiscal cost of possible alternatives. This will involve

- (i) examining the extent of the anti-export bias in the present system of incentives;
- (ii) making recommendations for reducing this bias; and
- (iii) analyzing the measures that may be used for this purpose.

21. At the institutional level, the mission will review progress made by the Government in improving administrative procedures for exporters, including

- (1) foreign exchange regulations affecting exports;

- (ii) the administration of duty exemptions and rebates;
- (iii) the administration of the export credit and export insurance schemes (see also the financing of industry);
- (iv) the role and functions of the Export Promotion Center; and
- (v) the creation of an agency responsible for establishing standards and promoting quality control.

Price Control

22. Price control has been used in Morocco to appropriate some of the profits generated by protection and to limit price increases. The mission will update earlier work on price control by the Bank, focusing on the following issues:

- (i) the scope of price control;
- (ii) the methods used in setting prices;
- (iii) the need for price liberalization; and
- (iv) the possible effects of the freeing of prices on individual sectors and on the rate of inflation.

The System of Investment Incentives

23. Morocco has relied on investment codes to promote investment in various branches of the economy. Although this policy may have led to increases in the rate of return to capital, the results obtained have not been up to expectations. According to the limited data available, the policy has probably been responsible for the rise in the capital-labor ratio, and the expected surge in foreign investment has not materialized. The Government has recently revised the industrial investment code and it is presently engaged in the revision of some of the other codes.

24. Specific issues addressed by the mission in regard to investment incentives will include

- (i) the administrative complexity of the investment codes;
- (ii) the harmonization of incentives provided by the various codes and their relationship with the overall reform of industrial incentives; and
- (iii) the probable effects of the new industrial investment code on foreign investment, exports, the choice of technique, location, and the domestic capital goods industry.

The Financing of Industry

25. Morocco has a diversified system of financial intermediaries, including fifteen commercial banks, five institutions specializing in medium

and long-term financing, two savings institutions, and the securities market. Nonetheless, financial intermediaries handle a relatively small volume of funds, and the regulations in force tend to compartmentalize the market and safeguard the profit margins of the financial institutions. The future development of financial markets, which would permit improving the effectiveness with which domestic resources are mobilized and used for productive investment, remains a fundamental problem for the years ahead. Major issues to be considered by the mission will include

- (i) the role of the securities market in mobilizing private savings in Morocco; and
- (ii) the contributions made by the institutions established to promote the securities market; and
- (iii) the regulatory framework.

26. The combination of quantitative controls on domestic credit, which have been the main instrument for controlling the money supply since 1976, and the large domestic borrowings of the Treasury have led to a fall in the share in total domestic credit of productive enterprises, in particular in the private sector. This raises the following questions the mission will need to address:

- (i) the implications of credit controls for the financing of investment, and
- (ii) the preference given to public enterprises over private firms in granting credit.

27. During the seventies, interest rates have played a minor role in allocating credit among borrowers as they were kept relatively low and the Government relied on other means to achieve financial objectives. Since 1977, interest rates have been regularly raised, so that their average levels approximately equals the rate of inflation. However, the structure of interest rates may not correspond to that which would emerge if existing controls were removed. The mission will examine

- (i) the relative role of interest rates and other criteria in rationing available credit among borrowers;
- (ii) the desirable overall level of interest rates;
- (iii) the desirable rate structure; and
- (iv) the implications of high interest rates in Europe-dollar markets for Morocco.

28. Traditionally, selectivity of credit in Morocco has been assured by the creation of lending institutions specialized by sector. In recent years, this policy has been generalized by creating special lending facilities that provide preferential access to credit at subsidized interest rates. At present, these facilities cover projects benefiting from investment codes, investment projects for exports, specific activities (tourism, shipping,

etc.), specific investors (small and medium scale firms, handicrafts), and specific types of credit (rediscountable medium-term credit).

29. In view of the increasing complexity of the system of credit, and the reduced competition between the financial institutions it implies, the efficiency of this highly selective approach to credit policy needs to be assessed. Also, one needs to examine the access to credit by firms which are not covered by preferential schemes. The relevant issues include

- (i) the extent of competition between banks;
- (ii) the cost of intermediation by the banks;
- (iii) the extent of subsidies to certain types of credit;
- (iv) the system of export credit, export insurance, and insurance against exchange rate fluctuations; and
- (v) the dependence on automatic rediscounting by the Central Bank for certain types of credit.

The System of Taxation

30. Since 1976, budget deficits have remained at a high level, and the Government has raised in successive stages the rate of the special import tax in order to increase revenues. While the recommendations of the mission will have budgetary implications, they should not lead to an increased deficit that would be contrary to the objectives of the current stand-by agreement between Morocco and the IMF. Thus, to the extent that the recommendations involve additional Government expenditures or loss of revenue, offsetting sources of tax revenue will need to be identified.

31. The Moroccan tax system was extensively studied by the IMF in 1978, and the IMF has recently reviewed proposals for tax reform. The mission will consider alternative ways to offset the budgetary impact of the proposed reform of industrial incentives and export promotion in the framework of the IMF recommendations and in close cooperation with the IMF. This raises the following issues:

- (i) the fiscal implications of additional incentives to exports;
- (ii) the impact of the proposed modifications in the structure of tariffs and quantitative import restrictions on government revenues; and
- (iii) alternative ways to offset the budgetary effects of the proposed incentive reforms.

Staffing and Timing

32. Formal Government approval for the Industrial Incentives and Export Promotion mission will be sought in June during a short visit to Rabat by the deputy chief of the mission (Mr. Bonnel). In view of the long involvement of the Ministry of Industry, Commerce and Tourism in the joint research project

on industrial incentives with the Bank, it is suggested that we propose to the Ministry that the Moroccan team involved in the research project joins the July mission. The role of this team, as well as details of the Bank mission, would be discussed with the Government in June.

33. The July mission would include a mission chief (Mr. Balassa), a deputy mission chief, a general economist, the Bank consultant assigned to the research project in Morocco, two consultants who will be responsible for the study of industrial finance and marketing prospects for manufactured exports and a Moroccan team (number and tasks to be determined in June). The timing of the mission will coincide with an IDF appraisal mission for engineering industries, which will make it possible for IDF to contribute to the Industrial Incentives and Export Promotion mission.

Mr. Goddard Winterbottom, PUB

June 2, 1982.

Bela Balassa, DRD

Reprints

We recommend the following papers for inclusion in the Reprint Series.

Avishay Braverman and Joseph E. Stiglitz, "Sharecropping and the Interlinking of Agrarian Markets," American Economic Review, forthcoming.

Arne Drud, "A Survey of Model Representations and Simulation Algorithms in Some Existing Modeling Systems," Journal of Economic Dynamics and Control, forthcoming.

Alexander Meeraus, "An Algebraic Approach to Modeling" Journal of Economic Dynamics and Control, forthcoming.

Pradeep K. Mitra, "A Theory of Interlinked Rural Transactions," Journal of Public Economics, forthcoming

I enclose memos from the authors indicating the relevance of the papers for the Bank and for developing countries.

I further ~~submit~~ submit a resubmission by Gershon Feder.

cc: Mr. Stoutjesdijk, DRD

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