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Washington, D.C.

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1981

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Bela Balassa's chron files - July 1981

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B. BALASSA CHRON FILE JUL 1981

Bela Balassa, DRC

Turkey Engineering Industries

1. Mr. Bell's revised report, Turkey: Engineering Industries, represents an improvement over the earlier version, but further changes will need to be made before the report can be distributed within the Bank. As far as I can judge, the parts of the report dealing with technical issues are fine. However, the treatment of economic issues, including productivity levels, comparative advantage, and the policy recommendations, leave much to be desired. I will focus on these questions in the following. I have also made copious marginal notes on the enclosed copy of the report. Please return it with the new version.

Productivity Levels

2. The main problem with the measurement of asset productivity and capital intensity is the use of historical values in valuing assets. In a country where inflation has been rapid, historical values will much understate asset values, thereby leading to an overestimation of asset productivity and an underestimation of capital intensity. This fact should be taken into account in evaluating the estimates, considering further that the degree of underestimation of asset values increases with the age of the plant.

3. While the ratio of value added to wages offers an interest, labor productivity figures should also be presented as the ratio of value added to the number of workers. This will permit checking the consistency of the figures since labor productivity equals asset productivity times capital intensity. The data underlying the calculations should be provided in an annex on a plant-by-plant basis, with averages calculated for product groups to be included in the report itself. Product group averages of asset productivity and capital intensity should also be compared with data for other countries. The productivity comparisons made in the report are difficult to interpret, since one does not know what kind of plants have been included for South Africa and the United Kingdom within the engineering sector.

4. Finally, the data on asset productivity and labor productivity should be utilized to examine total factor productivity in Turkey and abroad. This can be done by adding the imputed value of capital to wages and comparing the total thereby obtained to value added.

Comparative Advantage

5. The calculation referred to in Para. 4 represents a possible way to evaluate comparative advantage in processing by excluding data on input costs. At the same time, note should be taken of the fact that greater capacity use would increase asset productivity as well as labor productivity. The latter conclusion follows because of the fixity of certain labor costs; in fact, to the extent that labor cannot be discharged, much of wages may be considered a fixed cost.

6. The cost calculations presented in the report provide another way to evaluate comparative advantage. At the same time, an effort should be made to apportion excess costs among various cost items. Particular attention needs to be given to the cost of local materials, where the principal source of excess costs appears to lie, taking account of the fact that this cost also depends on the degree of vertical integration. At the same time, in evaluating interest charges, it should be noted that in 1980 real interest rates were negative. In turn, for reasons noted above, depreciation was underestimated. Finally, it should be remembered that increased capacity utilization will reduce both labor and capital costs.

7. Cost calculations involve a considerable margin of error. In evaluating Turkey's comparative advantage, attention needs therefore be given to labor intensity. Given the problems associated with asset valuation in Turkey, this should be done by utilizing data for other countries. One can then examine Turkey's comparative advantage in labor-intensive products vis-a-vis European countries -- an issue that is largely neglected in the report.

8. The exploitation of economies of scale is a further consideration. It is not clear if the data provided for automobiles refer to assembly or to integrated operations. Also, the figures on efficient scale for other automotive products are suspiciously low. At the same time, in discussing the general outlook for the Turkish automotive sub-sector, the prospects for the various automotive products should be separately considered. Similar considerations apply to the other industries covered in the report.

Policy Recommendations

9. The policy discussion in the report reflects an almost naive faith that the government can solve the basic problems. As far as automobiles are concerned, it is not clear whether, and to what extent, the cost of local components is 'controllable' and how the reorganization of the industry may be effected. The proposal contained in our aide memoire is to reduce protection over time according to a pre-announced schedule. This would provide inducement for Renault and Ford to rationalize their operations and would make it clear to the Koc group that their car production could not survive.

10. As far as tractors are concerned, the recommendation should be to stop investment in TUMOSAN. In turn, it is not at all clear what the government could and should do in regard to foundries. The profitability of the small foundries provides evidence of their competitive power.

11. Existing export subsidies should be reduced rather than increased. At the same time, export targets are pretty hopeless. The government cannot dictate to private firms what they should export; they would have to do so on the basis of profitability considerations. Nor should incentives be linked to the fulfilment of export targets.

12. On the whole, the government should provide equal incentives across the board, so as to permit private industry to expand the production of low-cost items. And while industrial and non-electrical machinery may be granted

additional incentives on infant industry grounds, these should not be specific as to particular items that are proposed in Para. 6.01.

cc: Messrs. Bell, Noel and Roy, EM2

Enclosure
BBalassa:nc

Mr. James C. Riedel, CON

July 22, 1981.

Bela Balassa, DRC

U.S. Competitiveness

In view of your recent work on the subject, you might be interested in seeing the enclosed paper. Comments are welcome.

Enclosure
BBalassa:nc

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
July 24, 1981.

The Washington Post
Box P300
Washington, D.C. 20071

Dear Sir:

Please stop delivery of the Washington Post to my home,
2134 Wyoming Avenue N.W., Washington, D.C. 20008, Route # 1104-004,
Acct. # 0970623, as of ~~August~~ 1st. Delivery should start again on
September 11th. Please adjust my bill accordingly; it is returned
with this letter.

Yours truly,

Enclosure

Bela Balassa

Author: Hollis B. Chenery
Title: Restructuring the World Economy: Round II
Journal: Foreign Affairs, Summer 1981, pp. 1102-20

This is a sequel to the article, "Restructuring the World Economy," Foreign Affairs, January 1975, in which the author examined possible patterns of adjustment in the world economy after the quadrupling of oil prices in 1973-74. The present article reviews the changes that have occurred since and analyzes the contribution the oil-exporting countries (OPEC), the industrial countries (OECD) and the non-oil developing countries (LDCs) may make to the process of global adjustment during the eighties and the nineties.

Changes in Energy Supply and Demand, 1973-1980

The author notes that following some fluctuations, OPEC oil production in 1980 returned to approximately the 1973 level. By contrast, the production of non-OPEC oil and the supply of non-oil energy have been growing relatively rapidly. As a result, the world supply of energy increased by 2.5 percent a year between 1973 and 1980, with the share of OPEC oil in the total declining from 26 percent to 19 percent. The rise in energy supply exceeded the 2.3 percent average annual increase in world demand for energy, thereby creating a slight oversupply at the end of the period.

The 2.3 percent average annual rate of growth of demand for energy between 1973 and 1980 represents a considerable decline from the 5.1 percent growth rate observed in the 1960-73 period. The author observes that if prior trends in energy demand had continued to 1980, the demand for energy would have been higher by some 30 million barrels per day of oil equivalent than the actual consumption of 135 million barrels per day.

Nearly 90 percent of the reduction in energy use occurred in the OECD countries, which accounted for 60 percent of total energy consumption in

1973. The principal factor contributing to this decline was the fall in the rate of economic growth in the OECD area from 4.7 percent a year in the 1960s to 2.5 percent since 1973. During the same period, energy use per unit of GNP declined by 12 percent in response to higher energy prices. Further declines are expected in the future as existing equipment is replaced and consumption habits change.

Trade and financial adjustments also occurred during the 1973-80 period. For one thing, OPEC countries increased their imports at a much higher rate than expected, thereby reducing their balance-of-payments surpluses. For another thing, notwithstanding the dire predictions made immediately following the quadrupling of oil prices, OPEC surpluses were recycled through international financial markets.

Future Patterns of Adjustment

According to the author, the oil price will remain at least as high in real terms as the present average of \$34 per barrel, with some further increase occurring over time. He next examines possible actions on the part of OPEC, OECD, and the non-oil LDCs to smooth the adjustment in the world economy during the next two decades.

The satisfaction of the development needs of the OPEC countries is considered to be an important part of the adjustment process. At the same time, in the author's view, the OPEC countries stand to gain from more stable oil prices as major energy alternatives have become more competitive. Finally, the author recommends that OPEC should increase its aid to the poorest oil-importing countries in order to help them to pay the higher oil prices.

In turn, the OECD countries should be able to maintain higher rates of economic growth in the coming decades if they make the necessary adjustment in

the demand for, and the supply of, energy. While the demand response to rising prices seems to be well under way, in the author's view the most urgent contribution required of the OECD countries -- and particularly of the United States -- is to accelerate the production of substitutes to oil. Attaining this objective would require some reallocation of investment and government priorities.

The OECD attaining growth rates higher than those observed between 1973 and 1980 is said to be of particular importance. In this way, one could avoid the cost to the world economy low growth rates have entailed. Also, demand would be created for the exports of the non-oil LDCs.

In a buoyant world economy, the middle income non-oil LDCs could continue with past policies of foreign borrowing, increased exports, and reduced imports to effect the adjustment to higher oil prices. Adjustment is more difficult in the low-income LDCs, which are unable to borrow on commercial terms and will need increased amounts of concessional lending from OPEC and OECD countries. According to the author, financial assistance to lower income LDCs should be part of an agreement among the major countries. Such an agreement should also provide for the continuity of energy supplies and the development needs of the oil exporters.

Conclusions

The author presents an optimistic view of the prospects for the world economy. He suggests that it will be both easier and less costly to complete the required shift away from oil under conditions of more vigorous international growth than under the depressed conditions of the 1970s. In order to attain this objective, he recommends that the OECD countries aim at rapid growth while encouraging energy savings and the development of alternative sources of energy. The author also sees the common interest of

all participants in an orderly process of adjustment that would require appropriate actions at the national as well as the international level.

July 31, 1981.

Professor Jagdish N. Bhagwati
Columbia University
Department of Economics
New York, N.Y.

Dear Jagdish,

Hsieh's paper is worth publishing as a note after the revisions suggested in the enclosure are made.

Sincerely,

Enclosure

Bela Balassa

The Determination of the Real Exchange Rate:

The Productivity Approach

by David Hsieh

- The paper is basically fine but it will need considerable cutting and the elimination of certain inaccuracies along the lines suggested below.
- p. 1 Balassa did not test the differential productivity growth model (not productivity differential model) in his 1973 paper. However, he successfully tested the model in his 1964 ~~article~~ *Officer* (1976b) inappropriately excludes the United States, Canada, Japan, and Sweden from Balassa's sample, thereby reducing the number of observations to such an extent that statistically significant results could not be obtained. At the same time, he fails to apply Balassa's equation to his own *data*.
- pp. 3-4 This discussion is superfluous. The basic analysis is contained in Balassa (1964) and Samuelson (1964) and it is well-known by now.
- pp. 5-7 Combine with the section on data.
- p. 9 It is not clear if the implicit GNP deflator has been used to represent changes in the prices of nontraded goods. It is preferable to use a price deflator for nontraded goods for this purpose.
- p. 12 It is not clear why would the exclusion of raw materials and agricultural goods bias downwards the estimated value of c_3 .
- p. 12 Again, Balassa (1964) provided a confirmation of the differential productivity growth model.
- p. 15 Separate conclusion is not necessary.



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July 31, 1981.

Professor Paul Marer
Associate Professor
International Business
Indiana University
School of Business
Bloomington/Indianapolis
10th and Fee Lane
Bloomington, Indiana 47405

Dear Paul,

I enclose my paper on development of the New Economic Mechanism. The paper is designed for a general audience who are not familiar with the reform. Comments would be appreciated.

With best regards,

Sincerely yours,

Enclosure

Bela Balassa



Record Removal Notice

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July 31, 1981.

Professor Paul Streeten
Boston University
Department of Economics
Boston, Massachusetts 02215

Dear Paul,

Thank you for your letter informing of the acceptance of my paper "Structural Adjustment Policies in Developing Countries" for publication in World Development. I understand that Anne Drabeck will inform me of the date of publication.

My book, "The Newly Industrializing Countries in the World Economy" has recently appeared. Pergamon Press has done an extremely good job and I wish to thank you for suggesting that I publish it with them.

I trust that you have received a copy of ~~the~~ book from Pergamon Press. Should this not be the case, please let me know so that I can send you a copy.

Yours sincerely,

July 31, 1981.

Dr. Evangelos A. Voloudakis
Research Director
Bank of Greece
Athens
Greece

Dear Dr. Voloudakis:

I am leaving today for France. Please send your paper to one of the addresses indicated. I am sorry to say that my family will not be going to Greece after all.

Looking forward to seeing you in Athens, I remain,

Sincerely yours,

Enclosure

Bela Balassa

July 31, 1981.

Mr. Ali Kocman
Chairman
Turk sanayicileri ve
is adamlari dernegi
Cumhuriyet Caddesi
Dortler Apt. 18/2 Elmadağ
Istanbul
Turkey

Dear Mr. Kocman:

I take pleasure in enclosing a copy of the revised version of the paper I gave in Istanbul earlier this month. I hope that you will find it of interest.

Yours sincerely,

Enclosure

Bela Balassa

Enclosed: The Policy Experience of Newly Industrializing Economies
After 1973 and the Case of Turkey

July 31, 1981.

Mr. Kemal Kurdas
Meban Securities Broker and Finance Corporation
Odakule Is Merkezi Istiklal Caddesi
286 Beyoglu
Istanbul
Turkey

Dear Mr. Kurdas:

I take pleasure in enclosing a copy of the revised version of the paper I gave in Istanbul earlier this month. I hope that you will find it of interest.

It was a pleasure seeing you again and to listen to your very interesting remarks. I hope that we will have a chance to meet again on my next visit to Turkey, probably in December.

Yours sincerely,

Enclosure

Bela Balassa

Enclosed: The Policy Experience of Newly Industrializing Economies
After 1973 and the Case of Turkey

July 31, 1981.

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

Dear Gerardo,

I recently sent you a copy of my new book "The Newly Industrializing Countries in the World Economy." As we discussed on your last visit, I would like to explore the possibility of having a Spanish translation of the book published in Fondo de Cultura.

Yours sincerely,

Bela Balassa

Those listed

July 31, 1981.

Bela Balassa, DRC

Paper on Trade Projections

I enclose a paper by Andras Nagy on "Structural and Intensity Changes in International Trade." Should you have any comments on the paper, please send them to Mr. Nagy at the address indicated on the paper.

cc: Messrs. Shilling, EPD; Miovic, EPD; Hicks, PPR; Wen, EPD.

Enclosure
BBalassa:nc

Comments on Chapter IV of Ivory Coast Study

Bela Balassa

Where is Part I?

Part II Empirical Results

Prima facie, the large effects of excess profits by foreign firms appear surprising. Give some indication, using an example, how this can be so.

- Delete discussion of aggregate excluding EOPP, textiles, and beer and soft drink
- Give results also for exporting and import-substituting firms separately.
- It is not clear why the foreign owners would capture more than the entire benefit from increased capacity utilization.
- It is not at all clear that the government could change the treatment of foreign capital in the event of full capacity utilization. Delete statement in presenting "A" indicators which have more general applicability.
- More should be said about the need to market the increment in output.
- Why would one expect the short run indicators to be more favorable under foreign ownership?
- Do we need the incremental indicators? They give rather silly results.
- Results for preferential exports at full foreign exchange value should not be presented here.
- In discussing sectoral results, limit discussion to DRCE and DRCA.
- Why is the ranking procedures different for ERPs and for DRCs.
- The use of the ERCA formula to discuss the effects of alternative shadow prices unnecessarily complicates the discussion. Delete.
- Combine Tables IV.5 and IV.6 while simplifying the latter.
- Do not use the adjective "disturbing" in discussing the results.
- Textile sector has been discussed several times. At any rate, the summary of the sectoral results should come in a separate chapter.
- Do not speak of "popular misconceptions."

- The relevance of climate to the processing of raw materials is far from clear. In turn, economies of scale should be mentioned as a possibly adverse cost factor.
- Re textiles: could they be economically efficient but having X-inefficiencies or overly small scale?

General Comments

Section II of Chapter IV is overly long and it is often difficult to read. It reflects a tendency to jam too much material in too little space. Please make the following changes.

1. Eliminate the long subsection of full capacity utilization. For various reasons, featuring of this indicator is not desirable. To begin with, its definition is subject to considerable uncertainty. Also, measuring the changes in the particular cost items, such as overtime, involves errors. Finally, the question arises when would markets be found for the increase in output. In this connection, it should be remembered that less-than-full capacity utilization is a fact of life as firms prepare for peak output levels and build ahead of demand.
2. Eliminate the ERC indicator. This adds no additional information while burdening the text and tables. You may refer to the principal ERC results in a footnote, if you wish, noting that the results are available from the author.

July 31, 1981.

Mr. Janos Kornai
Institute of Economics
Hungarian Academy of Sciences
1502 Budapest Postafiók 262
Budapest XI., Budaosi út 43/45
Hungary

Dear Janos,

I enclose my paper on Development of the New Economic Mechanism. The paper is designed for a general audience who are not familiar with the reform. Comments would be appreciated.

I look forward to seeing you in Athens. We can then also discuss the very interesting paper you have prepared for the Conference.

Yours sincerely,

Enclosure

Bela Balassa

July 31, 1981.

Mr. Andras Nagy
Institute of Economics
Hungarian Academy of Sciences
1502 Budapest Postafio 262
Budapest XI., Budaosi ut 43/45
Hungary

Dear Andras,

I tried again to get the material you requested but have been unable to obtain it. However, you may wish to write to Jean Waelbroeck who prepared alternative estimates and should be able to provide them to you. Finally, I am asking that the new World Development report be sent to you as soon as it appears.

I just received a copy of your paper "Structural and Intensity Changes in International Trade." I will have it xeroxed and sent to several people for comments. I myself found the detailed tables to be of greatest interest since they separate fuels from primary goods. This is of particular importance given the recent increase in the price of fuels and the declining growth of demand for it. I enclose a short note on a paper by Hollis Chenery that deals with recent trends.

I trust that you will enjoy your stay in Bellagio, that is one of the most beautiful spots on earth. It was last year that I was asked for a recommendation and I am glad that you have received the invitation.

I enclose my paper on "Development of the New Economic Mechanism." The paper is designed for a general audience who are not familiar with the reform. Comments would be appreciated. I am particularly interested in having your and Agi's comments on the "second economy."

Yours sincerely,

Enclosures

Bela Balassa

July 31, 1981.

Prof. Dr. Jozsef Bognar
Institute for World Economics of the
Hungarian Academy of Sciences
H-1531 Budapest P.O. Box 36
Hungary

My dear friend,

I would like to thank you for having intervened on my behalf with IBUSZ. My entire family, in particular my children, much appreciate being able to spend a few days at the Balaton.

I am enclosing a copy of my paper on the development of the Hungarian reform. Further copies are being sent in a separate envelope for your collaborators at the Institute. May I ask you to have one of the copies sent to Bartha Ferenc whose address I do not seem to have. Incidentally, from your Institute it was Szira rather than Inotai who spoke to me.

I have also written to Fekete; A copy of the letter is enclosed. While I presume that several of the people I would like to see will be on vacation, I have also allocated September 1, Tuesday morning, for meetings.

Many thanks again and best regards,

Yours sincerely,

Enclosures

Bela Balassa

July 31, 1981.

Mr. Janos Fekete
Deputy-President
National Bank of Hungary
Budapest
Hungary

Dear Mr. Fekete:

I enclose my paper on development of the New Economic Mechanism. The paper is designed for a general audience who are not familiar with the reform. Comments would be appreciated. I would be especially interested in speaking with you on questions relating to exchange rates.

I will be in Budapest in early September. I wonder if we could meet on September 1, Tuesday, in the morning. Please let Professor Bognar's secretary know if this would be possible.

Yours sincerely,

Enclosure

Bela Balassa

cc: Professor Bognar

July 31, 1981.

Mr. Otto Gado
Tarnok u. 13
Budapest 1014
Hungary

My dear friend,

I enclose my paper on development of the New Economic Mechanism. The paper is designed for a general audience who are not familiar with the reform. Comments would be appreciated.

I will be at the Balaton with my family in the last days of August and will call you from there. I will spend the first three days of September in Budapest.

With best regards,

Sincerely yours,

Enclosure

Bela Balassa

July 31, 1981.

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

My dear friend,

I enclose my paper on development of the New Economic Mechanism. The paper is designed for a general audience who are not familiar with the reform. Comments would be appreciated.

I look forward to seeing you in Athens. We can also talk there about the very interesting paper you prepared for the Conference.

Yours sincerely,

Enclosure

Bela Balassa

July 31, 1981.

Professor Ivan T. Berend
K. Marx University of Economics
1093 Budapest
Dimitrov tér 8
Hungary

My dear friend,

I hope that you received my letter of June 24th in which I replied to your letter of May 21st. I am mailing today my new book and I hope it will reach you soon.

I enclose my paper on development of the New Economic Mechanism. The paper is designed for a general audience who are not familiar with the reform. Comments would be appreciated.

Please let me know at my address in France if you will be in Budapest during the first days of September when I will be there. The address is,

c/o M. Aymé Bernard
Irigny
Rhône
France

Yours sincerely,

Enclosure

Bela Balassa

July 30, 1981.

Professor Teng Weizao
Vice President
Nankai University
Tienjin
China

Dear Professor Weizao:

It was a pleasure meeting you last year and I very much appreciated the card you sent me for the holidays. I have delayed replying until I could send you my paper on the Hungarian economic reform which is enclosed. I am also sending you, in a few days, my recent book "The Newly Industrializing Countries in the World Economy."

I hope that I will have the opportunity to visit China in the not too distant future and I can see you then.

Yours sincerely,

Enclosure

Bela Balassa

July 30, 1981.

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

Dear Mr. Furen:

I have just completed a paper on developments in the Hungarian economic reform which is enclosed. In a few days, I will send you my new book "The Newly Industrializing Countries in the World Economy." I hope you will find them of interest.

Mr. Edwin Lim mentioned to me that you would like me to visit China. I would be happy to do so. On his next trip, Mr. Lim will discuss with you possible arrangements and timing.

It was a pleasure meeting you last November and I very much enjoyed our discussions. I look forward to meeting you again,

With best regards,

Yours sincerely,

Enclosure

Bela Balassa

July 30, 1981.

Mr. Liu Suinian
Deputy Director
Institute of Economics
State Planning Commission
Beijing
China

Dear Mr. Suinian:

I have just completed a paper on developments in the Hungarian economic reform which is enclosed. In a few days, I will send you my new book "The Newly Industrializing Countries in the World Economy." I hope you will find them of interest.

It was a pleasure meeting you last November and I very much enjoyed our discussions. (I hope that I will have the opportunity of meeting you in China in the not too distant future.

Yours sincerely,

Enclosure

Bela Balassa

July 30, 1981.

Professor Zeng Qixian
Vice Chairman
Department of Economics
Wuhan University
Wuhan
China

Dear Professor Qixian:

I have just completed a paper on developments in the Hungarian economic reform which is enclosed. In a few days, I will send you my new book "The Newly Industrializing Countries in the World Economy." I hope you will find them of interest.

I enjoyed meeting you last November and I hope to have the opportunity of meeting with you again in China in the not too distant future.

Yours sincerely,

Enclosure

Bela Balassa

July 30, 1981.

Professor Liao Jianxiang
Director
Guangdong Provincial Institute
of Philosophy and Social Sciences
Guangzhon
China

Dear Professor Jianxiang:

I have just completed a paper on developments in the Hungarian economic reform which is enclosed. In a few days, I will send you my new book "The Newly Industrializing Countries in the World Economy." I hope you will find them of interest.

I enjoyed meeting you last November and I hope to have the opportunity of meeting with you again in China in the not too distant future.

Yours sincerely,

Enclosure

Bela Balassa

July 30, 1981.

Ms. Kazuko Ogawa
Information Officer
Tokyo Office, World Bank
Room 916, Kokusai Building
3-1-1, Marunouchi, Chiyoda-ku
Tokyo, Japan

Dear Kathy,

I trust that you have received my letter in which I commented on your work. I am now leaving for a period of six weeks and, would therefore, like to ask you to copy your reply to Mr. Roger Bowden who is collaborating with me in the new research project.

With best regards,

Sincerely yours,

Bela Balassa

cc: Mr. Roger Bowden

July 30, 1981.

Dr. Mukerrem Hiç
Professor of Economics
Istanbul University
Faculty of Economics
Institute of Economic Development
Istanbul
Turkey

Dear Dr. Hiç:

Thank you for your letter of July 21st which has crossed with my latest letter. I am glad to see that progress is being made in the project and I trust that Mr. Roy has been able to make the arrangements in accordance with our recent correspondence.

With best regards,

Sincerely yours,

Bela Balassa

cc: Mr. Roy

July 30, 1981.

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

Dear Mr. Calika:

Thank you for your letter of July 22nd. I sent you a copy of the final version of my paper a few days ago. Further copies were sent to Mr. Ozal, to several government officials, as well as to the members who participated at the Conference.

I wish to thank you again for inviting me to the Conference. I very much enjoyed it and I hope that it will have an effect on Turkish economic policy. Finally, many thanks for the data on the parallel market exchange rates.

Yours sincerely,

Bela Balassa

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

Dr. Wesley Oler's Office
3301 New Mexico Avenue N.W.
Washington, D.C. 20016

Dear Madam:

I enclose a form necessary to receive partial reimbursement for my recent physical examination. Please return the form signed by Dr. Oler

Yours truly,

Enclosure

Bela Balassa

July 30, 1981.

Dr. Il SaKong
Research Director
Korea Development Institute
P.O. Box 113, Cheongryang
Seoul
Korea

Dear Dr. SaKong:

Following my letter of June 18th, I have sent a copy of my new book "The Newly Industrializing Countries in the World Economy" which contains papers number 3 and 4 on my list. Paper number 5 will, however, be ready only in October or November. Please let me know if you can still include it in the volume at the time.

Yours sincerely,

Bela Balassa

July 30, 1981.

Mr. David Kellogg
Pergamon Press Ltd.
Fairview Park
Elmsford, New York

Dear Mr. Kellogg:

Professor Pavlevski, the Senior Editor of *Economica*, expressed a serious interest in publishing a French translation of my book "The Newly Industrializing Countries in the World Economy." *Economica* is a rapidly growing and by now probably the largest French publishing house of books on economics.

May I ask you to air mail a copy of the book to Professor Pavlevski. This would permit him to get opinions on the book before he comes to the United States in September.

Yours sincerely,

Enclosure

Bela Balassa

Enclosed: Copy of letter to Professor Pavlevski dated July 29, 1981
P.S. It would also be worthwhile to send a copy of the book to CEMLA, in Mexico, that published the Spanish translation of my previous book.

Mrs. Aulognon, thru Mr. Mentre de Loye's office

July 30, 1981.

Bela Balassa

Paris Seminar

In accordance with discussions I had today with Mrs. Mollet, I enclose the relevant document indicating that I had to pay a personal charge of \$186.00 on my World Bank ticket because I will be stopping twice in Paris. As the second stop is due to my participation at the September seminar, Mrs. Mollet agreed that this amount will be paid to me. She asked that I send the document through you together with my paper.

I enclose five copies of the English version of my paper "The United States in the World Economy." Please keep one copy for yourself and send one copy to Mr. Robert Solomon and three copies to Mrs. Mollet. Miss Trielma Candela will send you shortly four copies of the French version of the paper, of which, three are to be sent to Paris.

Enclosures
BBalassa:nc

July 30, 1981.

Mr. Jorge Cauas
Banco de Santiago
Moneda 1096
Santiago
Chile

Dear Jorge,

Thank you for your letter of July 16th and the enclosure. I have, in the meantime, sent you, and several people on your list, my recent book, "The Newly Industrializing Countries in the World Economy." Marcelo Selowsky tells me that you have written a paper on adjustment policies. While I read Spanish with some difficulty, I would appreciate receiving a copy.

Looking forward to seeing Rosario and yourself next March, I remain,

Sincerely yours,

Bela Balassa

July 30, 1981.

Professor Juan Ignacio Varas
Director Instituto de Economía
Pontificia Universidad Católica de Chile
Santiago
Chile

Dear Professor Varas:

Thank you for your letter of July 21st inviting me to your university. I will indeed be happy to give a seminar there. I plan to arrive in Chile on March 22nd and perhaps we could schedule a seminar for the 23rd of March.

Yours sincerely,

Bela Balassa

cc: Mr. Cauas

July 30, 1981.

Dr. Felix Butschek
Osterreichisches
Institut fur Wirtschaftsforschung
Postfach 91
A1103 Wien
Austria

Dear Dr. Butschek:

Thank you for your letter of June 30th and for sending me a copy of the book on my symposium as well as reprints of my own lecture. I congratulate you on the production of the book as well as on the symposium that I very much enjoyed.

With best regards,

Sincerely yours,

Bela Balassa

July 30, 1981.

Mr. Richard P. Hoppe
Specialist, Customer Relations
Amtrak
National Railroad Passenger Corporation
Post Office Box 2709
Washington, D.C. 20013

Dear Mr. Hoppe:

Thank you for your letter of July 20th. I am still at a loss to understand what the benefits of the new policy are. Apart from the revenue loss to Amtrak, there is a substantial loss of time involved for passengers who would like to go to Washington rapidly. While I am doing less travelling during the summer, on a recent occasion I had to wait over an hour at the station because of delay of the regular train, while the Metroliner was whizzing by.

I believe that the changes you have made in the schedule are in conflict with the policies of the new administration that aim at increasing output. The schedule changes represent a loss of output to Amtrak as well as to passengers who encounter long delays.

Yours sincerely,

Bela Balassa

cc: U.S. Department of Transportation

July 29, 1981.

Professor Jean Pavlevski
Senior Editor
Economica
49 rue Hericart
75015 Paris
France

Dear Professor Pavlevski:

It was a pleasure meeting you in Bordeaux and I very much enjoyed our discussions. I appreciated your interest in exploring the possibility of publishing a French translation of my book "The Newly Industrializing Countries in the World Economy." I am asking Pergamon Press today to send you a copy.

I am afraid that I may not have a chance to see you on your visit to Washington in early September. Since our meeting in Bordeaux, I have been invited to advise the Moroccan government and will be back in Washington only on September 14th, following the seminar on the U.S. economy that will be held in Paris between September 9 - 11. But, should your plans change, I would be very happy to meet with you at a later time.

Yours sincerely,

Bela Balassa

cc: Mr. David Kellogg

July 29, 1981.

Mr. Anders Richter
Editorial Director
The Johns Hopkins University Press
Baltimore, Maryland 21218

Dear Mr. Richter:

I enclose the preliminary version of my paper, "The Hungarian Economic Reform 1968-1981." The paper will be put in final form immediately following my return from Hungary in September. As I mentioned to you on the phone, I will use my visit to Budapest to get comments as well as additional material on the subject of the paper.

Yours sincerely,

Enclosure

Bela Balassa

cc: Mrs. Adelman

Mrs. Jane Carroll, IPA

July 29, 1981.

Bela Balassa, DRC

Development Strategies Volume

I return herewith the galley proofs of the first four chapters of my book. The only major change I have made is the addition of a sentence in the first paragraph of the introduction. A longer version of the sentence had been deleted in the course of editing, but it is necessary for providing an appropriate indication of the contents of the volume.

I am leaving on July 31st for a period of six weeks. There is no need for me to see the remaining galley proofs. However, if you have an important query, you could send the relevant page to my address in France where I am staying until August 23rd. The address is,

c/o M. Aymé Bernard
Irigny
Rhône
France Tel: (7) 846 3277

Larry Westphal asked that the galley proofs of his chapter be sent to Mrs. Kutcher for checking. Mrs. Kutcher will return the proofs directly to you.

Please let me know if you have any questions on the Preface, a corrected version of which was returned to you last week. Also, give me a call before Friday noon if you have any questions.

Enclosure
BBalassa:nc

July 29, 1981

Bela Balassa, DRC

MOROCCO - Draft Industrial Investment Code

1. The following comments provide my first reactions after a rather hasty reading of the proposed investment code. They deal with (a) several proposed changes that may be rightly applauded; (b) questions of minimum limits and automaticity of the code; and (c) some continuing and new provisions that invite critical comments.
2. There are several welcome changes in the proposed investment code that conform to the recommendations I made last January. They include granting the same incentives to replacement as to extension investments; providing identical treatment to Moroccan and to foreign-owned firms; introducing appropriate procedures for settling contentious issues with foreign investors; and giving additional incentives to export investment.
3. One may also welcome the proposed maintenance of the lower limit of eligibility for investment incentives, notwithstanding inflation since 1973, thereby reducing the limit in real terms. It is also noteworthy that, for firms which exceed this limit, investment incentives will continue to be provided automatically. (Recommendations were made in Morocco to introduce discretionary decision-making last year.)
4. The proposed replacement of the requirement for the duty free entry of machinery that the domestic price should not exceed the import price by more than 20 percent by a "negative list" may serve administrative convenience. But, domestic machinery production may be given excessive incentives if tariffs exceed 20 percent. At the same time, the proposed measure would encourage investments in activities where the duty free importation of foreign machinery is allowed.
5. The duty free importation of equipment also tends to favor capital-intensive industries and production methods. The same comment applies to the provision of a 2 percent interest rebate. At any rate, the 10 percent nonpreferential interest rate represents zero real rates.
6. The use of accelerated depreciation in the case of replacement and extension investments would also tend to encourage capital-intensive activities. It would be more appropriate to provide instead reductions in corporate income taxes, which have neutral effects on capital intensity.
7. One may welcome the elimination of accelerated depreciation provisions in the Casablanca area. At the same time, it may be desirable to provide some reductions in corporate income taxes for replacement and investments in this area also, in order to give inducement for improving existing facilities. This comment applies, in particular, to export-oriented investments.

8. More generally, one may consider providing additional incentives to export-oriented investments. This could be done through reductions in corporate income taxes derived from export activities. Alternatively, duty exemptions on machinery may be limited to export-oriented investments.

cc: Messrs. Asfour (o/r) EM2; Carter (o/r) EM2; Ettori, EMP; Pursell, DRG; Zaidan, EMP; Ms. Guerard, EM2.

BBalassa:nc

July 28, 1981.

Dr. Montek S. Ahluwalia
A-1/47 Panchsheel Enclave
New Delhi 110017
India

Dear Montek,

It was nice to hear from you again, and we envy you being in the Himalayan foothills at the time of a heat wave in Washington. But, I think that the climate in Delhi is not very different from the one here.

I am glad that you liked the Le Petit Zinc.

The Fifth edition of my culinary guide will be sent to you in August with various reprints. I am also sending you a copy of my recent book on the newly industrializing countries in the world economy in the next few days.

Yours sincerely,

Bela Balassa

July 28, 1981.

Professor Michelle Riboud
119 rue de Montreuil
Paris 75011
France

Dear Professor Riboud:

Thank you for your letter of July 19th. I am sorry to say that the study on the Ivory Coast is not yet complete. It should be ready by the early fall, at which time I could have a copy sent to you. I have asked Mr. Garry Pursell, the principal author of the study, to do so.

Yours sincerely,

Bela Balassa

cc: Mr. Pursell

July 28, 1981.

Mr. R. L. Goel
Managing Editor
The Asian Journal of Economics
Department of Economics
Meerut University
Meerut 250001
India

Dear Mr. Goel:

Thank you for your letter of June 27th. I am sorry to say that I have many commitments for the coming months which do not permit me to write a paper for your Journal.

Yours sincerely,

Bela Balassa

Mr. John A. Holsen, ASNVP

July 28, 1981.

Bela Balassa, DRC

Effects of "Loan Indexation" v.s. "Interest Rate Correction" on the Effective Maturity of Credit

I am in full agreement with your results and conclusions; so is Governor Silva Lopes, the author of the chapter on financial markets in the Turkey report. However, we both feel that, in the present circumstances, the introduction of indexing would not be politically feasible in Turkey. In turn, in response to our recommendations, interest rate flexibility had been introduced on bonds effective July 1, 1981. I expect that the same will be done with certificates of deposit.

cc: Messrs. Gary Hyde, IDF; David Williams, ASPID

BBalassa:nc



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July 27, 1981.

Ms. Elisabeth Majid
Assistant
International Economic Association
4 rue de Chevreuse
75006 Paris
France

Dear Ms. Majid:

I must confess that I do not understand your letter of July 15th. You already sent me a copy of the mailing list with your letter of July 3rd and we mailed copies of my paper to everyone on the list. I doubt that you would now want for the same people to receive the French version. Should you wish to do so, you can make copies yourself and send them out.

I am leaving Washington on July 31st and can be reached at the enclosed addresses, if necessary. Let me add here that, with my many travels, I will not be able to bring ten copies of my paper to the Conference.

Yours sincerely,

Enclosure

Bela Balassa

July 24, 1981.

Ms. Marie Meisel
Editorial Assistant
Pergamon Press, Inc.
Maxwell House
Fairview Park
Elmsford, New York 10523

Dear Ms. Meisel:

Thank you for your letter of July 22nd and the flyer on my book. Two items are missing on the flyer as noted.

I would like to raise a question concerning its mailing. Since the flyer is rather complimentary, I find it awkward to mail it out myself. I wonder if I could provide you with mailing labels for about 150 people to send it to. Please let me know at the earliest since both my secretary and I are leaving on vacation on July 31st.

I return under separate cover a book in which the last 32 pages are missing. Please replace it with another copy.

Yours sincerely,

Enclosures

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
June 24, 1981

Mr. John Brewer
Casitas Press
1000 Connecticut Avenue N.W.
Washington, D.C. 20036

Dear Mr. Brewer:

I enclose my new culinary guide for reproduction in 500 copies. It should be done in the same format and on the same paper as the earlier guide. Please give me a call if you have any questions before starting work on it.

I understand that the cost of reproduction is \$518.50. You have indicated to me that a few extra pages over the length of the earlier guide would not affect the cost. There are, in fact, additional pages in the new guide.

Yours sincerely,

Enclosure

Bela Balassa

Ms. Christine Wallich, VPD

July 24, 1981.

Bela Balassa, DRC

Research Project #072-41

I enclose the description of the Changes in the Pattern of Comparative Advantage in Manufactured Goods Research Project for inclusion in the Abstracts.

Enclosure
BBalassa:nc

The factors determining international trade in manufactured goods and the future prospects for this trade are of considerable interest to country economists, Bank management, and policy-makers in developing countries. The proposed research project will address itself to these questions by analyzing the pattern of and changes in, comparative advantage in manufactured goods and prospective changes in trade flows.

The first part of the research project represents a major extension and amplification of earlier work by one of the investigators on the "stages approach" to comparative advantage. The second part will focus on international specialization in a multilateral context. Both these parts will involve integrate theoretical propositions and empirical testing.

The paper on "A 'Stages Approach' to Comparative Advantage" by one of the researchers will serve as the point of departure for the first part of the research project. In the course of the research, it is proposed to apply the model to data for a number of years; to utilize time-series data for individual countries; to combine time-series and cross-section data; to examine bilateral trade relationships; to introduce alternative capital-labor coefficients; to include additional factor-intensity and factor-endowment variables; to utilize data on imports as well as on net exports and export-import ratios; to introduce alternative formulations of variables representing international specialization; to combine the two stages of the empirical investigation into a single stage; to introduce policy variables in the analysis; and to make projections for the future.

The second part of the research project will analyze the determinants of international specialization in a multilateral framework by the use of econometric and simulation methods. The econometric approach to the problem will combine interactions among factor endowments and factor intensities with gravitational elements and demand factors. The employment effects of this trade will further be estimated and trade flows and employment will be projected by the use of a simulation model.

Responsibility: Development Research Center - Bela Balassa and Roger Bowden.

Completion date: June 1983.

July 24, 1981.

Professor Mikerrem Hic
Istanbul University
Faculty of Economics
Institute of Economic Development
Istanbul
Turkey

Dear Professor Hic:

Thank you for your letter dated July 12th which I will reply to in the following.

I ~~was~~ glad to learn that Dr. Yagci would take part in the research. I presume that the financial arrangement you suggest can be done through the Bank, but, as you know, I do not deal with financial matters. It will have to be handled by Mr. Roy. The same applies to any change in the budget of the research project.

As regards Dr. Yagci's proposed work programme, there is no need for him to write a new computer programme. I have told him already that the Bank has two good computer programmes, of which a choice can be made. The computer programme can then be transferred to Istanbul and we should be able to send someone from here to ensure that the transfer is correctly done.

Dr. Yagci's time would be much better utilized if he took a leading role in the survey. This is not a job for a statistician but for an economist since choices need to be made continuously as to how to handle the data. We have much experience with this in other countries and the difficulties encountered in the Turkish engineering survey also showed the need for day-to-day supervision by an economist.

I am glad to hear that you will begin interviewing in the first week of August. I trust that the matter of the check will have been settled by that time and, at the latest, Michel Noel can handcarry the new check to you. Mr. Roy should be able to tell you where this matter stands. I regret the confusion due to the inappropriate wording of the contract.

On his visit to Ankara and Istanbul, Mr. Noel can speak with the people you mention. In cases where you cannot be present, you should be informed of all such discussions, since as project director you have overall responsibility for

for the research. Nor should I be directly contacted by any participant in the project. I enclose a copy of a letter I wrote to Dr. Yagci.

With best regards,

Sincerely yours,

Enclosure

Bela Balassa

P.S. I was sorry to hear of your father's death and I offer my heartfelt condolences.

cc: Messrs. Roy and Noel, EM2

July 24, 1981.

Dr. Fahrettin Yagci
Bogazici Universitesi
Ekonomi Bolumu
Yeniyol Sokak
Apt. 3/4 Bebek
Istanbul
Turkey

Dear Dr. Yagci:

I was glad to learn that you have decided to participate in the research project on incentives and protection in Turkey. I enclose a copy of the methodology of the Western Africa project. Mr. Noel can tell you about the modifications that have since been made in the methodology.

Yours sincerely,

Enclosure

Bela Balassa

cc: Professor Hic

Enclosed: Methodology of the Western Africa Research Project - February 27, 1977

cc: Mr. Noel

July 24, 1981.

Ms. Ellen V. Seiler
Editor
Princeton University
International Finance Section
P.O. Box 644
Princeton, New Jersey 08540

Dear Ms. Seiler:

In reference to our earlier conversation, I enclose a list of people to whom I would like to send my Graham Lecture. I would appreciate it, if you could have marked on the list, the names of those who are subscribers to the Essays.

Yours sincerely,

Enclosure

Bela Balassa

Names and Affiliations of Americans

Mrs. Irma Adelman
Dept. of Agric. and Res. Econ.
University of California at Berkeley

Pierre Colmant
Conseiller Commercial
French Embassy

Mr. Robert E. Asher

Mr. Richard N. Cooper
Dept. of Economics
Harvard University

Prof. Robert E. Baldwin
Univ. of Wisconsin

Mr. Antonio Maria Costa
United Nations
Center for Development Planning
Projections and Policies

Prof. Francis Bator
Harvard University
Dept. of Economics

Mr. John S. deBeers
Inter-American Development Bank

Mr. C. Fred Bergsten
Brookings Institution

Ambassador Francois de Laboulaye
French Embassy

Mr. Trent Bertrand

Mr. Sidney Dell
Director N.Y. Office of UNCTAD
United Nations

Prof. Jagdish N. Bhagwati
Columbia University
Dept. of Economics

Mr. Richard Demuth

Dr. James H. Blackman
Program Director of Economics
National Science Foundation

Mr. William Diamond

Mr. Bernard Boyer
French Embassy

Prof. Carlos Diaz-Alejandro
Yale University
Economic Growth Center

Prof. William Branson
Princeton University
Dept. of Economics

Mr. Willaim Diebold, Jr.
The Council on Foreign Relations

Prof. Richard E. Caves
Dept. of Economics
Harvard University

Prof. Rudiger Dornbusch
Massachusetts Institute of Technology
Department of Economics

Prof. Carl Christ
Dept. of Economics
The Johns Hopkins University

Mr. Jean-Claude L. Eude
Inter-American Development Bank

Mr. William Cline
Brookings Institution

Mr. Geza Feketeaky
Special Representative for
Trade Negotiations

Mr. William Fellner
American Enterprise Institute

Prof. R. Findlay
Columbia University
Dept. Of Economics

Prof. Albert Fishlow
Yale University
Concilium on international and
Area Studies, Economic Dept.

Mr. Charles R. Frank

Prof. Jacob A. Frenkel
Editor, Journal of Political Econ.

Mr. Edward Fried
Brookings Institution

Prof. Maxwell J. Fry
University of Hawaii at Manoa
Dept. of Economics

Mr. Theodore Geiger
Chief, International Studies
National Planning Association

Mr. Delio Gianturco
President
First Washington Associates

Mr. David Gordon

Prof. Leslie E. Grayson
Colgate Darden, Graduate School
of Bus. Admin.
University of Virginia

Mr. Joseph Grunwald
The Brookings Institution

Prof. Stephen Guisinger
Inter. Mgmt. Studies
Univ. of Texas, Dallas

Prof. Gottfried Haberler
American Enterprise Institute

Prof. B. Hansen
Univ. of California at Berkeley
Department of Economics

Prof. Arnold Harberger
Dept. of Economics
University of Chicago

Prof. Tatsuo Hatta
The Johns Hopkins University
Dept. of Political Economy

Mr. Rober Heller
Bank of America National Trust
and Savings Association

Prof. Albert O. Hirschman
The Institute for Advanced Study
School of Social Science

Mr. Walter Hoadley
Bank of America

Mr. Robert Hormatz
Assistant Secretary for Economic
Affairs
U.S. Dept. of State

Prof. Hendrik Houthakker
Dept. of Economics
Harvard University

Mr. Gary Hufbauer

Mr. George Jaszi
Dept. of Commerce

Dr. Helen Junz
First National Bank of Chicago

Prof. Anne O. Krueger
Univ. of Minnesota

Mr. Julius Kaplan
Kirkwood, Kaplan, Russin
and Vecchi

Prof. Stephen Lewis
Williams College
Dept. of Economics

Prof. Hiro Kawai
The Johns Hopkins University
Dept. of Political Economy

Sir William Arthur Lewis
Woodrow Wilson School
Princeton University

Prof. Peter B. Kenen
Princeton University
International Finance Section

Mr. Robert Livingston
The German Marshall Fund of the
United States

Prof. Charles P. Kindleberger
Massachusetts Institute of Technology
Dept. of Economics

Prof. Fritz Machlup
Dept. of Economics
New York University

Prof. Lawrence R. Klein
University of Pennsylvania
Dept. of Economics

Mr. Harold Malmgren
Malmgren, Inc.

Prof. Tjalling C. Koopmans
Yale University
Dept. of Economics

Mr. Pierre Malve
European Comm. United Nations

Mr. Lawrence Krause
The Brookings Institution

Prof. Alan Manne
Stanford University
Dept. of Economics

Prof. Irving B. Kravis
University of Pennsylvania
Dept. of Economics
Wharton School of Finance and Comm.

Prof. E.S. Mason
HIID,
Harvard University

Prof. Mordechai Kreinin
Michigan State University
Dept. of Economics

Prof. Rachel McCulloch
Univ of Wisconsin
Dept. of Economics

Prof. Ronald I. McKinnon
Stanford University
Dept. of Economics

Prof. Gerald M. Meier
Graduate School of Business
International Economics
Stanford University

Mr. John Mellor
Int. Food Policy Research Inst.

Mr. Constantino Michalopoulos
AID
Department of State

Prof. Raymond R. Mikesell
Dept. of Economics
Univ. of Oregon

Prof. Edwin Mills
Princeton Univ.
Dept. of Economics

Prof. Michael Montias
Yale University
Dept. of Economics

Mr. Cecilio J. Morales
Banco Interamericano de
Desarollo

Prof. Robert Mundell
Columbia University
Dept. of Economics

Prof. Michael Mussa
Graduate School of Business
Univ. of Chicago

Prof. Peter Newman
Dept. of Economics
The Johns Hopkins University

Prof. Roger Norton
Dept. of Economics
Univ. of New Mexico

Mr. Gardner Patterson

Mr. Corrado Pirzio-Biroli
E.E.C. Delegation

Francois Plaisant
Ministre Conseiller
French Embassy

Dr. John H. Power
Univ. of Hawaii
Dept. of Economics

Mr. Raul Prebisch
United Nations - ECLA

Prof. Gustav Ranis
Dept. of Economics
Yale University

Mr. Myer Rashish
Under-Secretary for Economic Affairs
U.S. Dept. of State

Prof. Stephen Resnick
Univ. of Massachusetts
Dept. of Economics

Prof. Lloyd G. Reynolds
Dept. of Economics
Yale University

Prof. Hugh Rose
The Johns Hopkins University

Mr. R. Rothstein

Mr. Peter Ruof
The Ford Foundation

Mr. Walter S. Salant
The Brookings Institution

Prof. T.W. Schultz
Univ. of Chicago

Mr. Hugh Schwartz
Inter-American Development Bank
Ind. Econ. & Infrastructure Sec.

Mr. Edwin M. Truman
Federal Reserve System

Prof. D. Schydrowsky
Boston University
Centre Latin Am. Develop. Studies

Prof. William G. Tyler
Univ. of Florida
Dept. of Economics

Prof. Tibor Scitovsky
Dept. of Economics
Stanford University

Prof. Jaroslav Vanek
Cornell University
Economics Department

Mr. John W. Sewell
Overseas Development Council

Prof. Raymond Vernon
Graduate School of Business Admin.
Harvard University

Mr. Robert Solomon
The Brookings Institution

Mr. Jean-Francois Vincensini
French Embassy

Prof. T.N. Srinivasan
Economic Growth Center
Yale University

Governor Henry C. Wallich
Board of Governors
Federal Reserve System

Prof. Robert M. Stern
Dept. of Economics
The Univ. of Michigan

Mr. Thomas Willett
Claremont Men's College
Dept. of Economics

Prof. Wolfgang Stolper
Univ. of Michigan
Center for Res. on Econ. Develop.

Ms. Marina von Neumann Whitman
Vice President
General Motors

Prof. Paul Streeten
Boston Univ.
Dept. of Economics

Prof. Lance Taylor
Massachusetts Institute of
Technology
Dept. of Economics

Mr. James D. Theberge
Institute for Conflict and
Policy Studies

Prof. Erik Thorbecke
Dept. of Economics
Cornell Univ.

Dr. Peter Ady
England

Mr. Bernard Cazes
France

Mr. Sudhir Anand
England

Mr. M. Cherniavsky
France

Mr. Jacques Attali
France

Monsieur Marc Chervel
France

Mr. Andre Barsony
France

Mr. Emil Claasen
France

Mrs. H. Bazin
France

Prof. Alain Cotta
France

Mr. Jean Benard
France

Mr. Jose da Silva Lopes
Portugal

Prof. Ragnar H. Bentzel
Sweden

Prof. Angus Deaton
England

Mr. Yves Berthelot
France

Mr. Guillermo de la Dehesa
Spain

Mr. Raymond Bertrand
France

Mr. Thierry de Montbrial
France

Mr. Henri Bourguinat
France

Mr. Mohamed T. Diawara
France

Mr. F. Boyer de la Giroday
Belgium

Prof. Dr. Juergen B. Donges
West Germany

Mr. Philip Carre
Austria

Mr. Paul Fabra
France

Mr. Jean Carriere
France

Mr. Gerhard Fels
West Germany

Mr. Pierre-Henri Cassou
France

Mr. Jean Florenzano
France

Mr. Franz Froschmaier
Belgium

Mr. J. Lanner
Switzerland

Dr. Herbert Giersch
West Germany

Mr. Karsten Laursen
Denmark

Mr. F. Boyer de la Giroday
Belgium

Mrs. M. Lehalle
France

Prof. Herbert Glejser
Belgium

Mr. Jean-Pierre Leng
France

Mr. Patrick Guillaumont
France

Mr. Jacques Lesourne
France

Mr. Francois Le Guay
Switzerland

Mr. Assar Lindbeck
Sweden

Prof. Dr. Armin Gutowski
Germany

Mr. Ian Little
France

Mr. Nurul Islam
Italy

Prof. Erik Lundberg
Sweden

Mr. Philippe Jurgensen
France

Sir Donald MacDougall
England.

Prof. Nicholas Kaldor
England

Mr. Giovanni Magnifico
Italy

Mr. Arthur Karasz
France

Dr. E. Malinvaud
France

Dr. Etienne S. Kirschen
Belgium

Madame Andre Marchal
France

Mr. Norbert Kloten
Federal Republic of Germany

Mr. Robert Marjolin
France

Mr. Alexandre Lamfalussy
Switzerland

Mr. Stephen Marris
France

Prof. Dermot McAleese
Ireland

Mr. Louis Sabourin
France

Mr. Jean Claude Morel
Belgium

M. Pascal Salin
France

Mr. Herman Muegge
Austria

Mr. Andre Sapir
Belgium

Prof. Hla Myint
England

Prof. Christopher T. Saunders
England

Prof. Franz Nemschak
Austria

Mr. Maurice Scott
England

Prof. Jurg Niehans
Switzerland

Mr. Dudley Seers
England

Mr. Manuel Jacinto Nunes
Portugal

Mr. Claudio Segre
France

Mr. Goran Ohlin
Sweden

Mr. Rainer B. Steckhan
France

Mr. Conrad Oort
The Netherlands

Monsieur Christian Stoffaes
France

Prof. Francois Perroux
France

Mr. Lionel Stoleru
France

Mr. Nicholas Plessz
France

Dr. Alexander K. Swoboda
Switzerland

Miss M. Reynaud
France

Mr. Niels Thygesen
Denmark

Mrs. A. Rinaldi
France

Mr. Wouter Tims
Holland

Mrs. M. Roche-Rainhorn
France

Prof. Jan Tinbergen
The Netherlands

Prof. Robert Triffin
Belgium

Mr. Jan Tumlir
Switzerland

Mr. Pierre Uri
France

Mr. Jacques Van Ypersele
Belgium

Mr. Alain Vernay
France

Dr. Evangelos Voloudakis
Greece

Mr. Jean L. Waelbrock
Belgium

Mr. Jacques Henri Wahl
France

Dr. Manfred Wegner
Belgium

Prof. Jean Weiller
France

Mr. Christopher Wilkinson
Belgium

July 24, 1981.

Ms. Lisa Potashkin
411 West 116 Street, Room 414
New York, N.Y. 10027

Dear Ms. Potashkin:

I have collected data on the physical and human capital intensity and goods using U.S. co-efficients. The data are included in the enclosed paper "A "Stages Approach" to Comparative Advantage." I do not have information, however, on co-efficients for the developed countries themselves. GATT from time to time collects information on tariffs. This should be included in GATT documents that are available at your university, I believe.

Yours sincerely,

Enclosure

Bela Balassa

July 22, 1981.

Prof. Dr. Jozsef Bognar
Institute for World Economics of the
Hungarian Academy of Sciences
H-1531 Budapest P.O. Box 36
Hungary

Kedves Baratom:

Augusztus vegeen csaladdal hazatogatunk. Ezt az alkalmat fel szeretnem hasznalni arra hogy az uj gazdasagi mechanizmus idoszeru kerdeseirol megbeszelesekert folytassak. Ezzel kapcsolatban azt szeretnem kerni hogy Titkarsagod reszemre egy programot allitson ossze. Tekintve hogy csalodom szeptember 2-en szerdan reggel elutazik es en magan esteig maradok, a megbeszelesekert ezen a napon szeretnem lefolytatni. De amennyiben valakinek a keddi nap inkabb megfelelne, ez is megoldhato lenne.

Az Intezeten belul Rajtad kivul Simaival, Kadarral, es Kemenessel szeretnek talakozni. Emellett Inotai akarna velem beszeln. A Tervhivatalban Faluvegit, Horvathot, es Pulayt ismeren es orulnek havatunk talalkozni tudnak veluk. Hetenyi Istvan penzugyminisztert is szeretnem lotni es amikor legutobb Pesten voltam Bartha Ferenc kerte hogy legkcezelebbi utazasom alkalmaval keressem fel.

Middezekneknek el fogom kuldeni egy tanulmanyomat amely a mechanizmus fejlodeset attekinti. A tanulmany celja az hogy a mechanizmust altalanos kozgazdaszokkal megismertesse. De beszelgeteseim folyamen a legutobbi valtozasokra szeretnek koncentralni mert felkertek arra hogy az American Economic Association decemberi ulesen errol eloadast tartsak.

Julius 31-en utazon Franciaorszagba es arra kerlek hogy ottani cimemre irj. Onnan majd telefonon is tudunk beszeln.

A kozeli viszontlatasig,

barati advozzlettel.

Bela Balassa

22 juillet 1981

Monsieur Henri Bourguinat
Universite de Bordeaux I
Faculte des Sciences Economiques
Avenue Léon Duguit
33604 Pessac
France

Cher Ami,

Je vous remercie vivement du chaleureux accueil que vous avez bien voulu me réserver lors de ma récente visite à Bordeaux. Je vous suis très reconnaissant de m'avoir fait visiter l'ancien Bordeaux que j'ai trouvé très intéressant. J'ai d'autre part beaucoup apprécié le "tastevin" auquel vous avez eu la gentillesse de me convier et vous prierais de bien vouloir transmettre également à votre femme mes remerciements.

J'ai trouvé le colloque très intéressant et ai beaucoup regretté qu'il ne m'ait pas été possible de participer à la deuxième journée. J'ai toutefois fait part à M. Godlay des critiques sur son papier.

En ce qui concerne la publication de mon étude, je me demande s'il est nécessaire d'y apporter des révisions en vue de sa publication. A cet égard, je vous suggère de publier mon texte en français; en effect, il paraîtra ultérieurement dans un ouvrage collectif en langue anglaise. Nous allons procéder à la réédition de la version actuelle afin de nous conformer à vos instructions de style.

Je vous prie de croire, cher Ami, à l'expression de mes meilleurs sentiments.

Bela Balassa

P.S. Merci de m'avoir renvoyé l'article sur les restaurants de Bordeaux.

July 22, 1981.

Ms. Ruth Cogen
Sheridan School
4400 Thirty-sixth Street N.W.
Washington, D.C. 20008

Dear Ms. Cogen:

I enclose the proposed text of the fund raising letter. Please let me know if you have any questions. You may also have to correct the amount of the new Annual Giving goal which I do not remember exactly.

I will be abroad from August 1st to September 14th. Please let me know if you will have the letters typed before my departure, or after my return. My telephone number is, 676-1991.

Yours sincerely,

Enclosure

Bela Balassa

Dear Friends:

As you may have read in the latest issue of the SHERIDAN SEMESTER, the past year at Sheridan was one of continued success. This success was in no small part the result of hard work on the part of dedicated teachers, supported by the financial efforts made by parents, grandparents, parents of alumni, and friends of the School.

We have reached last year's Annual Giving goal of \$65,000 that has permitted us to balance the budget of the school. With the costs of education continuing to rise, we have had to raise this goal for the 1981-82 school year to \$70,000. This will permit us to cover our operating deficit that is left after deducting tuition and other fees from budgeted expenditures.

Reaching this goal will require the help of every friend of the school. Give as generously as you can. Your support will enable Sheridan to continue providing the high-quality education we are all very proud of.

Yours sincerely,

Bela Balassa
Chairman
Parents of Alumni Giving



Record Removal Notice

File Title Bela Balassa's chron files - July 1981	Barcode No. 30225105
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Document Date Jul 22, 1981	Document Type Letter
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Correspondents / Participants
To : Credit Lyonnais
From : Bela Balassa,

Subject / Title
Payment of Credit

Exception No(s).

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Withdrawn by Chandra Kumar	Date Jun 10, 2014
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Mr. R. Barker, Personal Travel

July 22, 1981.

Bela Balassa, DRC

Hotel Reservation

I wonder if it would be possible for you to make a hotel reservation for me and my family in Hungary. It is impossible to make reservations locally because the places are kept for foreign tourists.

I would need two rooms with twin beds in Balatonfured; arriving on August 27 and departing on August 31. I would prefer to have rooms in the Annabella or if this is not available in the Marina hotel. The reservation would need to be made through IBUSZ, the Hungarian Travel Agency.

Please let me know, urgently, if you can make the reservation.

BBalassa:nc

CABLE

JULY 22, 1981
61991

MARTIN WASSELL, INCOMERC-PARIS

PARIS 75008, FRANCE

PAPER SHOULD BE DISTRIBUTED IN ITS PRESENT FORM. IT WILL BE PUT IN
FINAL FORM FOLLOWING COMMENTS RECEIVED AT THE MANILA CONGRESS.

REGARDS, BALASSA

Bela Balassa

Bela Balassa

BBalassa:nc

DRC - Director's Office

Mrs. S. F. de la Renaudiere, IMF

July 21, 1981.

Bela Balassa, DRC

Translation

I have made a few revisions in the text of the paper; they are indicated on the enclosed copy. I further enclose a reference list and the tables. The former should stay as is; only the title of the list would need to be translated. As regards the tables, please translate the headings only. I enclose a copy of a recent paper indicating how the translation was done. I also enclose a copy of a memo to Marie Higginson.

Enclosures
BBalassa:nc

Miss Marie Higginson, ADM

July 21, 1981

Bela Balassa, DRC

Translation

I have had to make a number of revisions in the text of the paper Mrs. de la Renaudiere is translating. May I ask you to allow additional time for her to make the necessary changes. She will send you a copy of the paper in which the changes are indicated.

cc: Mrs. de la Renaudiere, IMF

BBalassa:nc

July 21, 1981.

Mr. C. Michael Aho
U.S. Department of Labor
Bureau of International Labor Affairs
Washington, D.C. 20210

Dear Mike,

Thank you for sending me various papers on U.S. competitiveness that I have perused with interest. In turn, I enclose my draft paper on the subject. The conclusions do not always agree with yours. Your comments would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

Mr. Joseph Michael Finger, EPD

July 21, 1981.

Bela Balassa, DRC

U.S. Competitiveness

I would appreciate getting your comments on the enclosed paper. As you can see, I take a position that is rather different from the orthodox.

Enclosure
BBalassa:nc

July 21, 1981.

Mr. C. Michael Aho
U.S. Department of Labor
Bureau of International Labor Affairs
Washington, D.C. 20210

Dear Mike,

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Enclosure

Bela Balassa

Mr. Joseph Michael Finger, EPD

July 21, 1981.

Bela Balassa, DRC

U.S. Competitiveness

I would appreciate getting your comments on the enclosed paper.
As you can see, I take a position that is rather different from the
orthodox.

Enclosure
BBalassa:nc

July 21, 1981.

Governor Henry C. Wallich
Board of Governors of the Federal Reserve System
Constitution Avenue & 20th Street N.W.
Washington, D.C. 20551

Dear Henry,

In the past you expressed an interest in my work on U.S. competitiveness. The enclosed paper, prepared for the September Conference in Paris, deals with this question. Your comments would be appreciated.

With best regards,

Yours sincerely,

Enclosure

Bela Balassa

July 21, 1981.

Mme. la Directrice
Hotel Scandinavia
27 rue de Tournon
Paris 6
FRANCE

Chère Madame,

Je confirme les réservations faites per Mme. Ponchon de la
Banque Mondiale:

Septembre 2 (une nuit), Mme. Balassa et enfants
Septembre 5-6 (deux nuits) M. Balassa

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

Bela Balassa

CABLE

JULY 20, 1981
61991

MR. MEHMET GUN CALIKA, MEBAN SECURITIES, ODAKULE IS MERKEZI
ISTIKLAL CADDESI, 286 BEYOGLU, ISTANBUL TURKEY

WOULD APPRECIATE RECEIVING DATA ON THE PARALLEL MARKET RATE
FOR THE US DOLLAR FOR THE MIDDLE OF EACH MONTH BETWEEN JANUARY
1979 AND JUNE 1981. REGARDS, BALASSA

BELA BALASSA

Bela Balassa

DRC - Director's Office

BBalassa:nc

July 20, 1981.

Mr. José da Silva Lopes
Caixa Geral de Depositos
Largo de Santa Catarina
Lisbon
Portugal

Dear Mr. Silva Lopes:

It was a pleasure seeing you and I wish to congratulate you on the excellent report you have done. Please send a copy of the revised version, together with my marked-up copy, to my summer address where I will be from August 1 to August 24. Another copy of your report should be sent to Mr. Michel Noel in Washington who will distribute it among the mission members.

It would be fine if you could mail your copies to me in France on August 7th. The address is:

c/o M. Aymé Bernard
Irigny
Rhône
France

Yours sincerely,

Bela Balassa

cc: Mr. M. Noel, YP

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
July 15, 1981.

Harper & Row
10 E. 53rd Street
New York 10022
New York

Dear Sir:

Please send me a copy of Small Is Possible by George McRobie,
foreword by Verena Schumacher, in paperback CN 694, \$5.95, please bill
me at time of delivery.

Yours truly,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
July 14, 1981.

Explorer Fund
P.O. Box 1100
Valley Forge, Pennsylvania 19482

Dear Sir:

I would like to purchase shares in the Explorer Fund. Please
send me your prospectus and latest report.

Yours truly,

Bela Balassa

Mr. Goddard Winterbottom, IPA

July 14, 1981

John H. Duloy, DRC

Submission to Reprint Series

I would like to submit the following papers for inclusion in the reprint series.

1. Bela Balassa, "Industrial Prospects and Policies in the Developed Countries" to be published in a volume in honor of Herbert Giersch; German translation in the Proceedings of a Conference on "De-industrialization;" French translation in the Proceedings of a Conference on "Internationalization et autonomie de decision."
2. Gershon Feder, "Adoption of Inter-related Agricultural Innovations: Complementarity and the Impacts of Risk, Scale and Credit," to be published in the American Journal of Agricultural Economics and Gershon Feder-Gerald O'Mara, "On Information and Innovation Diffusion: A Bayesian Approach," to be published in the American Journal of Agricultural Economics.
3. Christopher Heady-Pradeep Mitra, "Restricted Redistributive Taxation, Shadow Prices and Trade Policy," to be published in the Journal of Public Economics.
4. Balassa's paper summarizes some of his earlier research on trends and prospects for trade in manufactured goods between developed and developing countries and on protection in developed countries. It presents new research results on the important problem of intra-industry specialization in trade between developed and developing countries, indicating the implications of this trade for adjustment in the developed countries to imports of manufactured goods from the developing countries.
5. Feder's paper on farm decisions on interrelated innovations has much relevance for agricultural modernization in the developing countries. It is well-complemented by the paper by Feder and O'Mara on the diffusion process of innovation. Both of these papers consider decision-making on new technology under uncertainty and we propose to have them reprinted together.
6. While the paper by Heady and Mitra was prepared before Mitra joined the World Bank, reprinting is recommended given its contribution to literature. The authors examine the interaction between policy objectives and the choice of policy instruments in the case of redistributive taxation.

cc: Messrs. Pyatt and Balassa

BBalassa:nc

Mr. R. Barker, Personal Travel

July 14, 1981.

Bela Balassa, DRC

Family Tickets

Thank you for the tickets which are all in order. I would like to inquire if my wife could take a second trip, Lyon - Paris - Lyon at the low rate, and if so, would it be necessary to set the dates in advance.

BBalassa:nc

Messrs. G. Pursell, DRC; M. Noel, YP

July 14, 1981.

Bela Balassa, DRC

Turkish Questionnaire

I would appreciate your reviewing the enclosed questionnaire, in the next week or so. Please send your comments to me in two copies and send another copy to each other.

Enclosure
BBalassa:nc

Turkey Mission Members

July 13, 1981

Bela Balassa, DRC

Revision of Reports

1. I have now commented on all reports in first draft. The purpose of this memo is to indicate how the reports fit together and to ensure uniformity in style.
2. The individual reports will form chapters and appendices of the full report. Each of them should begin with a short introduction and end with a summary and conclusions that will briefly recapitulate the major conclusions and recommendations contained in each of the sections.
3. I enclose the outline of the volume; please check with me if you wish to make changes in the headings. Chapters and appendices will be denoted by arabic numbers, sections within each by capital letters. Tables will be numbered consecutively within each chapter and appendix. For example, ~~thethetabl~~ will be numbered as 8.1, 8.2 and so on; in turn, in Appendix 1, the table numbers will be A 1.1, A 1.2, etc. Also, paragraphs will be numbered consecutively within each chapter and appendix (e.g., 8.1, 8.2, etc. and A 1.1, A 1.2 etc.)
4. For purposes of the editig, all reports should be typed double-spaced. I should receive two copies of each report, together with the copy of the previous version which I have annotated. Mr. Roy should receive the original of the chapter for duplication and distribution. He will send copies to mission members.
5. Please keep the Bank style instructions in the revision. Also, give emphasis to the policy measures that have been taken since January 1980. Finally, estimate the fiscal cost of your recommendations whenever possible.

cc: Messrs. Davar, EM2; Dubey, EMNVP (o/r); Zaman, EM2

Enclosures
BBalassa:nc

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
July 13, 1981.

American Express Company
Card Division
P.O. Box 1270
Newark, New Jersey 07101

Dear Sir:

I enclose payment for your last bill. I note that the bill contained a \$35.00 charge for my card for the period July 1, 1981 to June 30, 1982. Since I have in the meantime acquired a gold card, I will not make use of the green card, however. Accordingly, I would like to ask you to credit me for the \$35.00.

Yours sincerely,

Enclosures

Bela Balassa

OFFICE MEMORANDUM

TO: Turkey Mission Members

FROM: Bela Balassa, DRC

SUBJECT: Revision of Reports

DATE: July 13, 1981

1. I have now commented on all reports in first draft. The purpose of this memo is to indicate how the reports fit together and to ensure uniformity in style.
2. The individual reports will form chapters and appendices of the full report. Each of them should begin with a short introduction and end with a summary and conclusions that will briefly recapitulate the major conclusions and recommendations contained in each of the sections.
3. I enclose the outline of the volume; please check with me if you wish to make changes in the headings. Chapters and appendices will be denoted by arabic numbers, sections within each by capital letters. Tables will be numbered consecutively within each chapter and appendix. In Chapter 8, the tables will be numbered as 8.1, 8.2 and so on; in turn, in Appendix 1, the table numbers will be A 1.1, A 1.2, etc. Also, paragraphs will be numbered consecutively within each chapter and appendix (e.g., 8.1, 8.2, etc. and A 1.1, A 1.2 etc.)
4. For purposes of the editing, all reports should be typed double-spaced. I should receive two copies of each report, together with the copy of the previous version which I have annotated. Mr. Roy should receive the original of the reports for duplication and distribution. He will send copies to mission members.
5. Please keep the Bank style instructions in the revision. Also, give emphasis to the policy measures that have been taken since January 1980. Finally, estimate the fiscal cost of your recommendations whenever possible.

cc: Messrs. Davar, EM2; Dubey, EMNVP (o/r); Zaman, EM2

Enclosures
BBalassa:nc

INDUSTRIALIZATION AND TRADE STRATEGY IN TURKEY

Outline of Report

CHAPTER 1 RECENT DEVELOPMENTS AND POLICY CHOICES

- A. Policy Responses to External Shocks after 1973
- B. The January 1970 Policy Reforms and Subsequent Policy Changes
- C. The Economic Effects of the Reform Measures
- D. Medium- and Long-Term Policy Choices in Industry and Trade

Part I. THE SYSTEM OF INCENTIVES

CHAPTER 2 PRODUCTION INCENTIVES

- A. The Exchange Rate Regime
- B. Export Incentives
- C. Measures of Import Protection
- D. General Structure of Production Incentives

CHAPTER 3 THE FINANCING OF ECONOMIC ACTIVITY

- A. The Resources of the Financial Sector
- B. The Structure of the Financial System
- C. The Utilization of Financial Resources

CHAPTER 4 THE SYSTEM OF TAXATION AND INVESTMENT INCENTIVES

A. The Tax System

Overview

Income Taxes

Social Security Taxes

Indirect Taxes

The Revenue Effects of Alternative Tax Schemes

B. Investment Incentives

Domestic Investment

Foreign Investment

Policy Recommendations

PART II. SECTORAL ISSUES

CHAPTER 5 INDUSTRIAL DEVELOPMENT AND EXPORTS

- A. The Structure and Development of Manufacturing Industries
- B. Factors Affecting Productivity
- C. Comparative Advantage
- D. Markets and Institutions

CHAPTER 6

STATE ECONOMIC ENTERPRISES IN MANUFACTURING

- A. Role and Performance of State Economic Enterprises
- B. Underlying Causes of Poor Economic and Financial Performance of the SEEs
- C. Change in the Environment since January 1980 and the Effects on the SEEs
- D. An Agenda for Reform

CHAPTER 7

AGRICULTURAL DEVELOPMENT AND EXPORTS

- A. Structure and Development of Agriculture
- B. Market Intervention Policies
- C. Incentives and Export Performance
- D. Comparative Advantage and Export Prospects

CHAPTER 8

TOURISM

- A. Recent Trends
- B. Policies for Further Development
- C. Prospects for 1985

APPENDICES

APPENDIX 1

MEDIUM-TERM MACRO ECONOMIC PROJECTIONS

- A. Base Case Projection
- B. Alternative Projections
- C. Comparisons with SPO Projections

APPENDIX 2

ENGINEERING INDUSTRIES

- A. Structure and Development of Engineering Industries
- B. Selected Branches of Engineering
- C. Factors Affecting Productivity
- D. Comparative Advantage
- E. Markets and Marketing

APPENDIX 3

MINERAL BASED CHEMICALS

- A. Structure and Development of Mineral-based Chemical Industries
- B. Comparative Advantage
- C. Constraints to Expansion
- D. Marketing

APPENDIX 4

COMPARATIVE ADVANTAGE AND COMPETITIVE EQUILIBRIUM: A SECTOR MODEL OF TURKEY'S AGRICULTURE

- A. The Model
- B. Base Year Solution and Validation of the Model
- C. Comparative Advantage and Effective Protection
- D. Gains and Losses from Protection and Free Trade Scenarios

APPENDIX 5 INCENTIVES POLICY AND COMPARATIVE ADVANTAGE IN SELECTED
AGRICULTURAL SECTORS

- A. Wheat
- B. Fruit and Vegetables
- C. Fruit and Vegetable Processing

Mr. David Davis, URB

July 10, 1981.

Bela Balassa, DRC

Tourism Chapter

This has the makings of a very good chapter. As I mentioned to you on the phone, the data would need to be reviewed in order to ensure consistency. Also, the Turkish government would appreciate if if you made more extensive international comparisons drawing on the wealth of your experience.

Enclosures
BBalassa:nc

Notes on Tourism Chapter

1. This will be chapter 9. Sections of the chapter should be numbered consecutively as 9.1, 9.2, etc.; and tables should also be numbered 9.1, 9.2.
2. Please move the summary to the end of the chapter. Also, expand the introduction by two or three paragraphs, indicating Turkey's tourism assets in greater detail and noting the attraction of particular areas. Note further that this potential has not been utilized and provide data on the ratio of tourist expenditures to exports and to GNP, making comparisons with countries such as Spain, Greece, Morocco, and Tunisia. Finally, note the topics that will be covered in the chapter.

Traffic

3. Are Western Europeans the big spenders? I thought visitors from the Middle East were, while many Germans camp. At any rate, rather than fluctuating since 1974, the number of visitors from the Middle East went straight up, reducing the share of arrivals from Western Europe. I also wonder if all arrivals by sea are cruise ship passengers. Finally, can one judge the 1981 results from data for a few months when the tourist season is not yet here?
4. In the discussion, no reference is made to the fact that a number of foreign visitors are coming for business and family visits rather than tourism. In fact, several of the hotels in the sample (e.g. the Buyuk Ankara) are not primarily tourist hotels. The surprisingly little seasonal variation in hotel occupancy rates shown in Table 9 supports this conclusion. At the same time, one can separate tourist hotels from the others to test the validity of this hypothesis. Occupancy rates and profitability will be affected thereby, since non-tourist hotels can use their capacity all year around. They may also have more domestic visitors.

Accommodations

5. There is a large discrepancy in the estimated number of days spent by foreign visitors in 1980, depending on whether the calculation is made on the basis of the number of arrivals or the number of beds. In the first case, 865 thousand arrivals in 1980 (excluding those coming by sea), with an average stay of 8.1 days, gives 7000 thousand tourist days. In turn, 56044 beds at an average occupancy rate of 43.5 percent and with foreign visitors accounting for 30 percent of the total, gives only 2670 thousand tourist days. Camping may account for only part of the difference, but perhaps foreign tourists use private rooms as well. At any rate, this is an important matter for evaluating the present status and the future prospects of tourism in Turkey.

6. The second sentence in Para. 17 is a non-sequitur. Also, from the remainder of the paragraph it appears that, rather than being modest, financial returns were nil in Turkish hotels. This calculation, incidentally, should be supported by evidence from Table 13, which shows the amount of capital charges. And how about taxes?

7. As noted in Para. 18, the poor financial results reached, notwithstanding relatively high occupancy rates, find explanation in the failure to raise prices in the face of rapidly rising labor costs. At the same time, this statement would need to be documented by reference to 1979 data. Data availabilities permitting, this would involve comparing hotel profitability in 1979 and 1980.

8. Future increases in prices to catch up with wage increases will raise profitability. The one-to-one ratio between capital investment and earnings -- as against the two-to-one ratio elsewhere -- is also a factor of profitability as well as an indicator of competitiveness, although the ratio needs to be adjusted upward as noted in Para. 13 below. I presume that the

differences in the ratio can be explained by reference to construction costs, on which data should be available to make international comparisons. Finally, higher occupancy rates will increase profitability.

Competitiveness

9. One needs to have a more extended discussion of the cost of tourism in Turkey and elsewhere, indicating in particular the meaning of the ranges. Note further the places in Turkey the figures refer to and estimate the savings that may be made if charters rather than regular flights are used. With charters, your conclusions on Turkey being competitive with other destinations may well hold.

10. Please estimate further the possible rate of expansion of tourism in Turkey under alternative assumptions as to the increase in its market share in Mediterranean tourism by 1990. In the discussion, note some of the success stories in other countries, indicating the rates of expansion they have attained in the past.

11. Next, indicate the implications of the projections for the need for hotel accommodations in Turkey. I presume that for this purpose one would need a 'profile' of tourist hotels, which is different from that of the Buyuk Ankara. Also, assumptions need to be made about camping, the use of private homes etc. in the light of the calculation made in Para. 5 of this memo.

Foreign Exchange Receipts

12. Changes in foreign exchange receipts over time were affected by the rate of inflation in Turkey as well as by the rate of devaluation. Michel could provide you with data on both. Also, comparisons should be made with average daily expenditures, in absolute terms as well as changes over time, for other destinations.

13. The total figure of tourist expenditures includes visitors by ship

who spend little time and money in Turkey. Now, if -- as I presume -- the number of days per tourist is based on data excluding sea arrivals, we get a higher spending per day. This has important implications for future changes in tourist receipts and requires making adjustment in the calculations. One would need to allow for spending by sea arrivals and then derive daily spending for all other arrivals.

Domestic Resource Costs of Earning Foreign Exchange

14. These adjustments also have implications for the calculation of the DRC ratio that has been estimated on the assumption that all tourists stay at hotels. Yet, one-third of the tourists are sea arrivals and, from Para. 5 above, it would appear that non-hotel accommodations are of considerable importance for the remainder. Correspondingly, receipts of foreign exchange by tourists staying in hotels will be substantially lower than shown in Table 13. This will give a less favorable DRC ratio as well as a higher capital investment/receipt ratio that may be more realistic than the one-to-one ratio implied in your calculations. In this connection, let me add that dividing the total cost of TL 20,063 million by 2620 thousand foreign tourist nights spent in hotels gives TL7514 per day, equivalent to about \$100 per day. This is much out of line with daily spending of \$35 shown in Table 7.

15. Correspondingly, the DRC calculations would need to be adjusted in order to ensure consistency. As agreed, the detailed results should be presented in an Annex, with a summary provided in the chapter itself. In the chapter, indicate also the advantages Turkey has in terms of labor costs and the cost of construction where labor is again an important element.

Policies for the Future

16. This section should begin with a statement on the need for a medium-term plan, further indicating the components of such a plan. In this

connection, reference should be made to the experience of other countries, both in planning tourism activity and in the measures utilized. This could be followed by the statement made in Para 37 on the need to expand accommodation capacity in Turkey. The subsection dealing with the latter should begin with Para. 37. In Para. 40 note the extent to which the recommendations differ from what is being done.

17. As regards the Tourism Bank, note should be taken of past shortcomings and recommendations made for future improvements. Preferential lending through commercial banks may not be a more appropriate vehicle than the expansion of lending by the bureaucratic Tourism Bank that has neglected the private sector in the past and put emphasis on its own hotel operations. The latter, incidentally, should be discussed before getting to lending operations, and you should note the changing importance of the two in the past.

Prospects for 1985

18. The last section on future prospects should come earlier (see Para. 10 above) since it logically precedes the policies to be applied. In particular, the need for increases in accommodations should be estimated on the basis of future growth in tourism. At the same time, Turkey should increase its market share more rapidly than implied in the 7 percent projection. Also, domestic tourism should be taken into account in estimating future occupancy rates.

19. The prospective growth of domestic tourism will also affect the need for hotel construction. At the same time, in view of the long lags involved, estimates on tourism and accommodation needs should be made for 1990. Such estimates could serve as a starting point for a medium-term plan for tourism.

WORLD BANK RESEARCH PROGRAM

COMPLETION REPORT

Date of Submission

July 1981

I. PROJECT IDENTIFICATION AND APPROVAL OF REPORT

1. Title: Development Strategies in Semi-Industrial Countries

2. Project No. 670-01

3. Department: Development Research Center


4. Division: -

5. Staff Participation
a. Principal Supervisor: Bela Balassa
b. Others Responsible: -

6. Date Approved by Research Committee: June 1971

7. Departmental Approval:

Division Chief (signature)


Department Director (signature)

II. IMPLEMENTATION

1. Date of First Contract:
July 1971

2. Date of Final Disbursement:
December 1977

3. Date Final Report Completed:
June 1978

4. Reports

a. Final Report Book entitled Development Strategies in Semi-Industrial Economies; in press

b. Other Publications/Reports

see enclosed list

NOTES: Item II, 3: Date when final report available for dissemination.
II, 4: Journal articles, Staff Working Papers, Departmental reports, technical memoranda, and other reports prepared under the project. List authors and dates of completion or publication.

Reports

Balassa, Bela, "Exports and Economic Growth: Further Evidence," World Bank Reprint Series No. 68 (June 1978).

_____, "Export Incentives and Export Performance in Developing Countries: A Comparative Analysis," Weltwirtschaftliches Archiv, March 1978, Republished in Políticas de Promoción de Exportaciones. Proceedings of a Seminar on Policies of Export Promotion sponsored by the Economic Commission for Latin America (ECLA), IBRD (World Bank), and the United Nations Development Programme (UNDP), Santiago, Chile, November 1976, Santiago: United Nations Economic Commission for Latin America, 1978, World Bank Reprint Series No. 59.

_____, "Reforming the System of Incentives in Developing Countries," World Development 3 (June 1975): 365-382. Spanish translation in Cuadernos de Economía (December 1974); 33-46. World Bank Reprint Series No. 22.

_____, "Trade, Protection, and Domestic Production: A Comment." In International Trade and Finance: Frontiers for Research, edited by Peter B. Kenen, Cambridge: Cambridge University Press, 1975: 154-163.

Balassa Bela, and Schydrowsky, D. M., "Indicators of Protection and of Other Incentive Measures." In The Role of the Computer in Economic and Social Research in Latin America, edited by Nancy D. Ruggles. Proceedings of a Conference on The Role of the Computer in Latin America, Cuernavaca, Mexico, September 1971. New York: National Bureau for Economic Research, 1974: 331-346.

Balassa, Bela, and Sharpston, Michael, "Export Subsidies by Developing Countries: Issues of Policy." Commercial Policy Issues 2 (November 1977): 13-50. Also World Bank Reprint Series No. 51.

Kim, Kwan Suk, and Westphal, Larry E. Industrial Policy and Development in Korea. World Bank Staff Working Paper No. 263. August 1977.

Westphal, Larry E. "Republic of Korea's Experience with Export-Led Industrial Development." World Development 6 (March 1978): 347-382.

III. SUMMARY OF RESOURCES

1. Expenses through FY75: \$121.6	2. Research Committee Authorizations as from FY76: \$19.7	3. Total Research Committee Financing: \$141.3	
4. Expenses as from FY76:	5. Other Financing:	b. Outside Sources	
FY <u>76</u> : 12.7	FY ___:	FY ___:	
FY <u>77</u> : 0.7	FY ___:	FY ___:	
FY <u>78</u> : 5.4	FY ___:	FY ___:	
FY <u>79</u> : 0.9	FY ___:	FY ___:	
Total: 19.7	Total -	Total -	
6. Staff Time (weeks):	Professional	Assistant	Total
FY <u>72/77</u>	21	22	43
FY <u>78</u> :	4	18	22
FY <u>79</u> :	2	-	2
FY <u>80</u> :	4	-	4
Total	31	40	71

NOTES: Item III, 1: The sum of actual expenses, if any, from Research Committee authorizations in FY75 and earlier years.

III, 2: The "total authorization" of the project, i.e., the authorization for FY76 (if any) and all subsequent years.

III, 3: Equals III, 1 + III, 2.

III, 4: Actual expenditures of funds authorized by the Research Committee, FY76 through FY of final disbursement.

III,5a: Departmental discretionary funds spent primarily or exclusively on project (if any).

III,5b: Breakdown of contributions by donor. Include estimates, to extent possible, of local contributions.

Narratives in the following sections summarize the results of the project in relation to its objectives and describe the design, organization, and dissemination strategy adopted. The categories and topics are intended to correspond closely to those of the "Guidelines for Evaluation of Completed Research Projects." Using additional space as necessary, the principal supervisor should give particular attention to the points listed.

IV. OBJECTIVES AND STRATEGY

- objectives of the research, as originally formulated and with later modifications
- intended beneficiaries (Bank staff; planning authorities and decision makers in developing countries; other researchers)
- contribution to research or other analytical capacity in the countries under study
- efforts to coordinate work with other research in the Bank and outside

See enclosure

V. DESIGN AND ORGANIZATION

- methodology or analytical framework employed; difficulties encountered in application of methodology; how these difficulties were or were not overcome
- sequencing of research tasks
- reliability of data
- performance of consultants or consulting firms
- extent of Bank staff involvement in design, implementation, supervision
- extent of awareness, support, or participation among Bank operating departments, local research institutes, government agencies
- main reasons for overruns or savings in cost and time

See enclosure

VI. RESULTS

- nature of project findings; correspondence with what was originally intended; reasons for differences between intended and actual objectives
- suggestions for follow-up, including other research topics

See enclosure

VII. DISSEMINATION

- presentation of results to facilitate access to intended audiences
- methods (published reports, seminars, conferences, etc.) for dissemination of findings to these audiences

See enclosure

Development Strategies in Semi-Industrial Countries

The objectives of the research project, the methodology to be used, and the results to be expected were stated in a memorandum written by the principal investigator in the Spring of 1970 (Annex A). The research project was carried out as foreseen but it took much longer to complete than expected. The reasons for the delay were stated in a memorandum written by the chief investigator and enclosed with the January 1977 status report on the project (Annex B).

The memorandum also indicates the effects the work had on policy making in the individual countries covered in the research project. Its impact on the Bank is discussed in the World Bank Research Program, February 9, 1981 that considers this project together with the project on Industrial Policies and Economic Integration in Western Africa (670-87), which has the same principal investigator (Annex C). The latter project is an outgrowth of the research under review. It was foreshadowed in the Spring 1970 memorandum, in which it was noted that "at a later date, other research projects may be undertaken to deal with countries at earlier stages of development."

Note may further be taken of the impact the research had on the development community at large. This was the case, in particular, as regards the evidence provided on economic effects of alternative development strategies in "Export Incentives and Export Performance in Developing Countries," on the relationship between exports and economic growth in "Exports and Economic Growth," and on the policy requirements of an outward-oriented development strategy in "Reforming the System of Incentives in Developing Countries," which are listed in Part I.

Following the completion of the project, delays in publication occurred as shown by the following chronology:

June-August, 1978	Internal DRC Review
August 1978 -June 1979	Editorial Committee Review
June 1979-January 1980	Revision of Volume
January 1980 - September 1980	Editing of Volume in DPS and Final Revision
September 1980 - March 1981	Volume in Editor's Office
March 1981 - June 1981	Copy-editing

Development Strategies in Semi-Industrial Countries

Bela Balassa

The objective of the research project is to appraise the development strategies of several semi-industrial countries, particularly in regard to industrialization, with a view to suggesting improvements in the policies applied and indicating the applicability of the findings to other countries in a similar situation or at earlier stages of development. The project will encompass several country studies carried out by using a common methodology, and will provide a comparative evaluation of the results.

Choice of Countries

The principal criterion of choice of the countries to be included in the project has been the share of manufacturing output in commodity production (GDP less services). Somewhat arbitrarily, we have defined semi-industrial countries as those where this share is around 40-50 percent. It has been judged inappropriate to include countries at a lower level of development since they face different problems and the results would not be easily comparable. At a later date, however, other research projects may be undertaken to deal with countries at earlier stages of development.

Within the semi-industrial group, we have selected countries for which the data necessary for the investigation are available or can be obtained without undue effort. A further criterion of choice has been a reasonable uniformity of incentives to firms in any given industry, since the system of incentives could not be appropriately evaluated if decisions were made on a case-by-case basis. It has also been considered desirable to select countries with a variety of characteristics in regard to market size, resource endowment, or export composition, and with differing attitudes towards in-

dustrialization, trade, and foreign investment. Finally, we have endeavored to maintain a geographical balance in the choice of countries while excluding those, such as Finland, where the Bank's future operations are likely to be minimal.

These conclusions have led to the choice of Argentina and Chile in Latin America, and of Korea, Singapore and Taiwan in Asia. It is further proposed that Israel be included in the project. It appears that this group of countries offers enough diversity to permit useful comparisons to be made, while the project is still of manageable size.

Effects of Government Policies on Economic Activities

The research project will examine the economic policies of the individual countries and their effects on growth and the sectoral allocation of resources. This will require describing the development of the system of incentives, quantifying to the extent possible the various policy measures, and devising indicators that express the net incentives provided to particular activities. Furthermore, the effects of the incentive system on trade and investment in individual industries and in the economy as a whole will need to be explored.

While the focus of the research project is on manufacturing industries, it will necessarily have to encompass agriculture and mining, since the system of incentives needs to be evaluated in relative terms. Thus, we will appraise the differential effects of the incentive system for manufacturing as against primary activities. Also, we will consider the differential incentives provided to individual industries within the manufacturing and the primary sectors.

Apart from classifying industries according to the nature of their economic activities, we will separate export and import-competing industries, so as to indicate the extent of discrimination between export and import-competing activities. Within each industry, too, we will examine the differential effects of the incentive system for import substitution and exports. Finally, we will analyze the incentives to foreign as compared to domestic investments, and the pattern of relationship between incentives for foreign investment, on the one hand, and the trade orientation of individual industries (exportation or import-substitution), on the other.

The System of Incentives

In the earlier research project, "The Structure of Protection in Developing Countries", we have limited the investigation to measures of protection and considered the effects of these measures on resource allocation. In the present project, we will enlarge our scope to include all governmental measures that importantly influence economic growth and the allocation of resources. A common characteristic of these measures is that they affect profitability -- in individual industries, in exports and in import substitution, and/or in domestic and foreign investment. And while their direct effects may be principally on trade or on investments, trade measures will necessarily influence investment decisions and vice versa.

Import tariffs are the most commonly used measures of protection but many developing countries employ quantitative restrictions or licensing in lieu of, or together with, tariffs. On the export side, taxes or subsidies may be applied. Export subsidies may take a variety of forms such as direct subsidies, exemptions from duties and indirect taxes, reductions in direct taxes, lending at preferential interest rates, or an export-import link sys-

tem. Furthermore, multiple exchange rates can be regarded as a form of export subsidies (taxes) or tariffs. Finally, in some countries, general export promotion schemes are in effect which entail information gathering by state organizations, trade fairs, or other forms of publicizing a country's exports.

Trade measures will affect the profitability of export and import-competing industries as well as the relative profitability of import substitution and exports in a particular industry. By so doing, they will also influence the growth of the economy and allocation of investment funds. There are further measures that bear on investment activity without being tied to export activities or import substitution. They encompass credit, tax and expenditure measures that will affect net profits through preferential tax treatment or reducing (increasing) the cost of inputs.

Tax holidays are customarily used to promote investment in various branches of industry while accelerated depreciation rules or the provision of low-cost credit through a government institution will reduce the cost of capital to the firm. In turn, social security arrangements, government-sponsored labor training, and tax incentives to training by the firm itself will affect the cost of labor. Finally, the establishment of industrial estates, the provision of factory space, land, or various services at subsidized rates, and customs exemptions on imported machinery and materials may be used to reduce other input costs.

Institutional arrangements, too, may encourage or discourage investment and affect its allocation among sectors. In this connection, mention can be made of the efficiency of government administration, the prevalence of corruption, the role of state enterprise in industry, and government planning. Last,

but not least, political and social conditions will affect what can be called, for lack of a better word, the investment climate.

Quantification of the Measures Applied

In the first part of the country studies, the contributors will provide an historical account of the development of the system of incentives in the postwar period or since the time industrialization efforts have been pursued in earnest: (the years following the Korean war for Korea and the late fifties for Singapore). The period under consideration will also be divided into sub-periods, corresponding to changes in the policies followed. To the extent possible, the description of changes in the system of incentives should be accompanied by data on the various measures, such as tariffs, the amount of interest differential on preferential lending, or the amount of tax concessions.

Ideally, one would like to quantify all the measures applied in each sub-period so as to indicate their relative importance and their combined effects on particular activities. But the information requirements of such calculations are formidable and hence we will attempt a quantification of the measures utilized in the individual countries only for a recent year. The calculations will be carried out for the most recent year for which an input-output table is available that will serve as a framework for the calculations. This will be done in the second part of the country studies.

The use of the input-output table will permit us to express all quantifiable measures on an industry-by-industry basis and to relate them to value added as well as to profits. A variety of measures, such as export taxes and subsidies, customs exemptions, and tax concessions can be easily quantified if the relevant information is available. By contrast, the general measures described earlier cannot be given quantitative expression and problems arise also

in dividing among industries government expenditures on e.g. export promotion or on labor training.

Considerable difficulties are encountered in measuring the effects of protective measures, too. The quantification of the effects of quotas and licensing requires calculating the ratio of domestic to import prices and price comparisons need also be made whenever the smallness of competing imports points to tariff redundancy (i.e. due to domestic competition, domestic prices are less than the sum of the import price and the tariff). In the latter case, a comparison of tariffs and price ratios gives us an indication of potential and utilized protection.

Net Incentives for Particular Activities

The quantification of the individual measures is a first step towards devising indicators that express the net incentives these measures provide for individual industries, export and import activities, and foreign vs. domestic investment. Such indicators include the effective rate of subsidy, the domestic cost of foreign exchange, the bias against exports (or import substitution), and the bias against, or for, foreign investment.

The effective rate of subsidy refers to the ratio of the combined value of the various measures to value added in processing, and thus indicates the relative contribution of the incentive system to the combined remuneration of the factors of production. (This indicator corresponds to the effective rate of protection if only protective measures are utilized). We will also relate the combined value of the incentives to profits under the assumption that wages are not affected by the incentive system.

The domestic cost of foreign exchange relates direct and indirect do-

domestic value added to the saving or earning of foreign exchange through import substitution or exporting, when the latter equals the difference between the dollar price of the commodity in question and the dollar value of direct and indirect imported inputs. Accordingly, this measure shows the amount of domestic resources necessary for saving (earning) one dollar in an industry that engages in import substitution (exportation).

In industries which receive different prices depending on whether their output is sold domestically or exported, the cost of foreign exchange will be calculated separately for both. Moreover, we will estimate the bias against exporting (import substitution) by comparing the value added (profits) obtainable in exporting to that obtainable in production for domestic use. Finally, estimates will be made on the relative incentives provided to domestic and foreign investment.

Evaluation of Country Experience

The quantification of the incentive system gives us an indication of the net incentives governmental measures provide to economic activities. We further need to evaluate the effects of the incentive system on these activities. This will be done in the third part of the country studies which will deal with effects on economic growth and on the allocation of resources.

We will seek answer to the question whether and to what extent the system of incentives has affected the growth performance of the economy through encouraging exports (import substitution) or promoting investment. In attempting to establish these relationships, the contributors will also make use of econometric techniques, such as fitting production functions for industries and groups of industries and estimating the relationship between the expansion of exports and that of national income.

Needless to say, growth performance is intimately related to the sectoral allocation of resources. We will analyze therefore the impact of the system of incentives on the allocation of new investment among industries. Furthermore, we will examine the effects of incentives to exports and import substitution on the trade pattern of the individual countries. Finally, cost-benefit calculations will be made concerning export promotion measures and incentives to foreign investment.

To evaluate the performance of the manufacturing sector of the individual countries, it will further be necessary to collect data pertaining to this sector, to individual industries, as well as to particular products. For the manufacturing sector and for individual industries, there is need for information on employment, productivity, wages, profit rates, export and import shares and, for selected products, on price and major inputs, both in quantity and value terms. Whenever possible, an attempt will be made to link up firm data with the input-output table.

Comparative Evaluation of the Results

The findings of the individual contributors will be used for a comparative evaluation of the experience of the countries studied. Especial attention will be given to the economic effects of alternative policies with regard to international specialization ("inward" or "outward" looking), the extent of government intervention in the economy, the role of public enterprise, and the treatment of foreign investment. Comparisons will also be made of the instruments utilized to carry out these policies and we will explore the implications for policy choices of the characteristics of individual countries, such as market size, resource endowment, prospects for traditional exports, and the availability of skilled labor and entrepreneurship.

Utilizing the data referred to above, comparisons will also be made of the structure and efficiency of individual industries in the countries in question, with a view to indicating their comparative advantage. Finally, while the contributors will suggest policy improvements for the particular countries, in the comparative chapters we will examine the implications of the findings for the policies of semi-industrial countries and countries at lower stages of development in general, and for the Bank policy advisory activities towards these countries in particular.

ANNEX B

Development Strategies in Semi-Industrial Countries

A Status Report

This research project started with great expectations as we were able to ensure the participation of outstanding experts in the six countries covered in the project (Argentina, Colombia, Israel, Korea, Singapore and Taiwan). The expectations have been realized as far as the quality of work is concerned, but disappointed as regards timing. Only the Korea study was completed in time; the delays experienced with the other five studies have led to the postponement of the completion of the research project until FY77.

In the case of the Israel, Singapore and Taiwan studies, the delays have been due to the recognition given to our collaborators in their own countries by appointing them to positions with greatly increased responsibilities. Sussman was appointed Research Director of the Bank of Israel; Tan was named Chairman of the Productivity Board and Economic Adviser to the Prime Minister of Singapore; while Lee and Liang, respectively, were appointed Minister without Portfolio and Deputy Governor of the Central Bank of China. These appointments had the beneficial effect, however, that the findings of the studies have influenced policy making in the countries concerned.

In turn, over my protest, the co-author of the Argentine and Colombia studies, Schydrowsky became chief investigator of another World Bank project (Industrial Capacity Utilization in Selected Latin American Countries). Having further taken on other commitments outside the Bank, he has fallen behind in completing both Bank studies.

The other author of the Argentine study, Berlinski, lost his job and the support of the Planning Agency in conjunction with political changes that took place two years ago. However, with the more recent changes, Berlinski has become an influential adviser to his government and the findings

of the study are given considerable attention. Also, Berlinski has been commissioned by the government, with partial financing by the Bank's Regional Office, to up date the study.

The other author of the Colombia study, Hutcheson has joined the Bank. At the same time, in the absence of a native collaborator in Colombia and political changes there, the study has not had much influence on policy making.

One of the authors of the Korea study, Westphal has joined the Bank while Kim has become Director of Research at the Korean Development Institute. The study has been published in Korean and has had considerable impact in Korea.

The extent of completion of the research project is indicated in the enclosed table. It is expected that the volume will be submitted to the Editorial Committee in April 1977.

ANNEX C

WORLD BANK RESEARCH PROGRAM

February 9, 1981

V. Impact of Bank Research

Incentive Policies and Comparative Advantage

5.12 Research and Dissemination. Formal Bank research on LDC incentive policies began in 1967 with the research project "The Structure of Protection in Developing Countries," the findings of which were published as a book in 1971. ^{1/} This project described the adverse consequences of inward looking industrialization policies followed by developing countries after the Second World War. The countries studied were Brazil, Chile, Malaysia, Mexico, Norway, and Pakistan, and the allocative effects of the protective structure were analyzed through the use of effective rate of protection calculations.

5.13 Subsequent work has been undertaken mainly in the context of two concurrent projects. The project on Development Strategies in Semi-industrial Countries (Ref. No. 670-01) examines the consequences of inward and outward looking policies in Argentina, Colombia, Israel, Korea, Singapore, and Taiwan. The scope of the investigation covers credit and tax incentives and to estimate effective rates of subsidy, which incorporate these incentive measures. The project also analyzes the export or import bias of the incentive structure.

^{1/} Bela Balassa and Associates, The Structure of Protection in Developing Countries. The Johns Hopkins University Press.

5.14 The project on Industrial Policies and Economic Integration in Western Africa (Ref. No. 670-87) established quantitative measures of the incentive structure and assessed sectoral comparative advantage on the basis of domestic resource cost calculations. Estimates of domestic resource costs were made for both agricultural commodities and industrial products, while incentive calculations were restricted to the industrial sector. Both sets of calculations for industry used firm-level data. Countries studied are Ghana, the Ivory Coast, Mali, and Senegal.

5.15 Considerable efforts have been made to disseminate the results and policy implications of this research. Personal contacts between researchers and operating staff, discussion of results and presentation of seminars have been extensive, and appear to have been important in spreading awareness of the policy implications of the analysis. Dissemination of results outside the Bank, particularly to the governments of the countries studied, was also given high priority. This process may well have been aided by the fact that the authors of several country studies in the research projects have risen to influential positions in their governments.

5.16 Effects on Country Economic Analysis. There has been a considerable change in the discussion of industrial strategy in Bank country economic and industrial sector analysis since the late 1960s. Most of the reports of the sixties and the early seventies were complacent about import substitution policies. By contrast, more recent reports tend to be vigorous in their advocacy of outward looking strategies, especially for smaller developing countries, and critical of the maldistribution of resources thought to result from unbalanced and excessive protection.

5.17 Complementing this strategic reorientation, there has been a trend toward a more sophisticated discussion of resource allocation issues. Recent reports are more prone to base their investment recommendations for particular industries on comparative advantage criteria, to discuss the role of exchange rate policy in the domestic allocation of resources, and to relate the pattern of economic activity to the structure of incentives. According to staff in the Bank's Regional Offices, the use of formal methodology and the presentation of specific and detailed results have become increasingly important for the Bank's policy advice to governments to carry weight.

5.18 The burgeoning demand from Regional Offices for detailed incentive studies has been met through diverse means, and some demand has gone unsatisfied for lack of resources. In some cases (such as Ivory Coast and the Republic of Korea) the detailed analysis initially undertaken in a research context has

been absorbed into country economic reports and entered into the Bank's policy discussions with member countries in that way. In other cases (such as the Philippines and Sudan) the Regional Offices have mounted studies of the incentive framework from their own resources. Part of the demand for incentive studies has been accommodated through Research Committee financing of country-specific projects sponsored by Regional Offices. Examples are a study of trade and incentive policies in Bangladesh (Ref. No. 671-75), and research on the efficiency of the Indonesian manufacturing sector (Ref. No. 672-12).

5.19 Impact on Country Policies. In some cases the effects of the research on policy making have been direct and appreciable. An example is Argentina, where a reform of the system of incentives was influenced by the Bank's research findings; the authorities have since commissioned a second study to obtain more recent information on which to base a change in tariff policies. Policies in Israel, the Republic of Korea and Singapore may have been influenced by the fact that several of the researchers are now in policy-making positions in their governments. The Western Africa research project has led to a tariff and tax reform in Senegal. To the extent analyses of industrial incentives and comparative advantage have become regularly incorporated into Bank country and sector reports, their influence has been felt through those vehicles. In addition, Bank research staff have advised several developing country governments on incentive system reforms and trade liberalization strategies. In the Philippines a major study of the industrial incentive system was financed from a Bank loan to the country in the early 1970s. The findings of this study were central to the Bank's industrial sector work and the ensuing discussion of policy reforms accompanying a recent structural adjustment loan to the Philippines.

5.20 Finally, research in this area has served to underpin some of the positions taken in the widely read World Development Reports, and may have influenced development policies through that channel.

Mr. Edwin R. Lim, AEA

July 10, 1981.

Bela Balassa, DRC

Reprints

I would like to send some of my publications to Chinese economists who expressed an interest in my work at the U.S.-China Conference last November. I marked their names on the enclosed list and would like to ask you if you would suggest further names. I would also appreciate it if you could provide me with the addresses of the people involved.

Enclosure
BBalassa:nc

July 10, 1981.

Mr. Jorge Cauas
Banco de Santiago
Moneda 1096
Casilla No. 14437
Santiago
CHILE

Dear Jorge:

I was glad to hear from Paul Meo that you continue to have an interest in my visiting Santiago. I am now writing to you about possible dates for my visit. As you know, I can travel only during my academic vacations. Since January is vacation time in Chile, I would like to suggest that I would come during my spring vacation in the last week of March.

My principal interest is to have discussions on the long term implications of the policies introduced in recent years. This would include prospective trends in industry and exports as well as developments in financial markets.

I sent you, some months ago, a paper on the "Newly-Industrializing Countries after the Oil Crisis," which shows Chile's excellent performance as compared to most other NICs. I would like to send this paper, and some others, to people I would meet in Santiago. Since there have been many changes in the government in recent years, I would appreciate it if you could send me a list.

I hope that the above is fine with you. I am sorry that my visit has been delayed for so long, but I have had a number of urgent missions to carry out. Let me add here that I would be coming to Santiago in a private, rather than in an official, capacity.

Carol joins me in sending our best regards to Rosario and yourself.

Yours sincerely,

Bela Balassa

cc: Messrs. Lari, LC1; Meo, LC1; Pfeffermann, LCNVP

Development Strategies in Semi-Industrial Countries

The objectives of the research project, the methodology to be used, and the results to be expected were stated in a memorandum written by the principal investigator in the Spring of 1970 (Annex A). The research project was carried out as foreseen but it took much longer to complete than expected. The reasons for the delay were stated in a memorandum written by the chief investigator and enclosed with the January 1977 status report on the project (Annex B).

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Note may further be taken of the impact the research had on the development community at large. This was the case, in particular, as regards the evidence provided on economic effects of alternative development strategies in "Export Incentives and Export Performance in Developing Countries," on the relationship between exports and economic growth in "Exports and Economic Growth," and on the policy requirements of an outward-oriented development strategy in "Reforming the System of Incentives in Developing Countries," which are listed in Part I.

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June 1979-January 1980	Revision of Volume
January 1980 - September 1980	Editing of Volume in DPS and Final Revision
September 1980 - March 1981	Volume in Editor's Office
March 1981 - June 1981	Copy-editing

July 9, 1981.

Mr. Abel Mateus
Research Department
Banco de Portugal
Av. de Republica 57-60
1094 Lisboa Codex
Portugal

Dear Mr. Mateus:

I have received your acknowledgment concerning the completion of your study by July 31st. I earlier asked that a copy of the paper should be sent to my summer address,

c/o M. Aymé Bernard
Irigny
Rhône
France

and another copy to Mrs. Ann Richards-Loup in Paris. I would like to ask that you send a third copy to my World Bank address. The paper should be typed double space so as to permit me to do the editing.

With best regards,

Yours sincerely,

Bela Balassa

Ms. Virginia Deh Hitchcock, IPA

July 9, 1981.

Bela Balassa, DRC

Reprint Series

In reference to my memo of April 23 and in reply to your memo of March 26, I enclose in two copies my "Newly-Industrializing Developing Countries after the Oil Crisis" for inclusion in the Reprint Series.

Enclosures
BBalassa:nc

July 9, 1981.

Messrs. Antonio C. Lemgruber and, Roberto Fendt Jr.,
Director-Chefe Director
Centro de Estudos Monetarios Fundacao Centro de Estudos do Comercio Exterior
e de Economia Internacional Av. Rio Branco 120, gr 707
Fundacao Getulio Vargas Rio de Janeiro
Praia de Botafogo, 190 - 9º Brazil
CEP. 22250
Rio de Janeiro, RJ
Brazil

Dear Messrs. Lemgruber and Fendt:

I hope you received my letter of June 26th and that you can keep the deadline of August 15th. To be on the safe side, another copy of the letter is enclosed.

Please type the paper double spaced so as to permit me to do the editing. Also send a copy of the paper to the Bank's Paris office,

World Bank
66 Avenue d'Iena
75116 Paris, France

marked "Hold for Arrival."

Yours sincerely,

Enclosure

Bela Balassa

P.S. The copy to be sent to the Bank's Paris office is additional to the copies that are to be sent to Ann Richards-Loup and to the Washington address of the World Bank.

July 9, 1981.

Dr. Rameshwar Tandon
Institute for Social and Economic Change
Economics Unit
Bangalore 450 040
India

Dear Dr. Tandon:

I am not sure now if we sent you the paper you requested in your letter of February 18th. To be on the safe side, I am mailing you copies today.

Yours sincerely,

Bela Balassa

July 9, 1981.

Dr. Tamas Szira
Institute for World Economics of the
Hungarian Academy of Sciences
H-1531 Budapest
P.O. Box 36
HUNGARY

Dear Dr. Szira:

Please excuse the delayed answer to your letter of May 15th but I wanted to be able to write to you more definitely about my travel plans. It now appears that I will be in Budapest on September 1 and 2 and I would like to meet with you at that time. I will be writing to Professor Boguar in the next few weeks and will ask his secretary to arrange a schedule.

Yours sincerely,

Bela Balassa

Notes on Tourism Chapter

1. This will be chapter 9. Sections of the chapter should be numbered consecutively as 9.1, 9.2, etc.; and tables should also be numbered 9.1, 9.2.
2. Please move the summary to the end of the chapter. Also, expand the introduction by two or three paragraphs, indicating Turkey's tourism assets in greater detail and noting the attraction of particular areas. Note further that this potential has not been utilized and provide data on the ratio of tourist expenditures to exports and to GNP, making comparisons with countries such as Spain, Greece, Morocco, and Tunisia. Finally, note the topics that will be covered in the chapter.

Traffic

3. Are Western Europeans the big spenders? I thought visitors from the Middle East were, while many Germans camp. At any rate, rather than fluctuating since 1974, the number of visitors from the Middle East went straight up, reducing the share of arrivals from Western Europe. I also wonder if all arrivals by sea are cruise ship passengers. Finally, can one judge the 1981 results from data for a few months when the tourist season is not yet here?
4. In the discussion, no reference is made to the fact that a number of foreign visitors are coming for business and family visits rather than tourism. In fact, several of the hotels in the sample (e.g. the Buyuk Ankara) are not primarily tourist hotels. The surprisingly little seasonal variation in hotel occupancy rates shown in Table 9 supports this conclusion. At the same time, one can separate tourist hotels from the others to test the validity of this hypothesis. Occupancy rates and profitability will be affected thereby, since non-tourist hotels can use their capacity all year around. They may also have more domestic visitors.

Accommodations

5. There is a large discrepancy in the estimated number of days spent by foreign visitors in 1980, depending on whether the calculation is made on the basis of the number of arrivals or the number of beds. In the first case, 865 thousand arrivals in 1980 (excluding those coming by sea), with an average stay of 8.1 days, gives 7000 thousand tourist days. In turn, 56044 beds at an average occupancy rate of 43.5 percent and with foreign visitors accounting for 30 percent of the total, gives only 2670 thousand tourist days. Camping may account for only part of the difference, but perhaps foreign tourists use private rooms as well. At any rate, this is an important matter for evaluating the present status and the future prospects of tourism in Turkey.

6. The second sentence in Para. 17 is a non-sequitur. Also, from the remainder of the paragraph it appears that, rather than being modest, financial returns were nil in Turkish hotels. This calculation, incidentally, should be supported by evidence from Table 13, which shows the amount of capital charges. And how about taxes?

7. As noted in Para. 18, the poor financial results reached, notwithstanding relatively high occupancy rates, find explanation in the failure to raise prices in the face of rapidly rising labor costs. At the same time, this statement would need to be documented by reference to 1979 data. Data availabilities permitting, this would involve comparing hotel profitability in 1979 and 1980.

8. Future increases in prices to catch up with wage increases will raise profitability. The one-to-one ratio between capital investment and earnings -- as against the two-to-one ratio elsewhere -- is also a factor of profitability as well as an indicator of competitiveness, although the ratio needs to be adjusted upward as noted in Para. 13 below. I presume that the

differences in the ratio can be explained by reference to construction costs, on which data should be available to make international comparisons. Finally, higher occupancy rates will increase profitability.

Competitiveness

9. One needs to have a more extended discussion of the cost of tourism in Turkey and elsewhere, indicating in particular the meaning of the ranges. Note further the places in Turkey the figures refer to and estimate the savings that may be made if charters rather than regular flights are used. With charters, your conclusions on Turkey being competitive with other destinations may well hold.

10. Please estimate further the possible rate of expansion of tourism in Turkey under alternative assumptions as to the increase in its market share in Mediterranean tourism by 1990. In the discussion, note some of the success stories in other countries, indicating the rates of expansion they have attained in the past.

11. Next, indicate the implications of the projections for the need for hotel accommodations in Turkey. I presume that for this purpose one would need a 'profile' of tourist hotels, which is different from that of the Buyuk Ankara. Also, assumptions need to be made about camping, the use of private homes etc. in the light of the calculation made in Para. 5 of this memo.

Foreign Exchange Receipts

12. Changes in foreign exchange receipts over time were affected by the rate of inflation in Turkey as well as by the rate of devaluation. Michel could provide you with data on both. Also, comparisons should be made with average daily expenditures, in absolute terms as well as changes over time, for other destinations.

13. The total figure of tourist expenditures includes visitors by ship

who spend little time and money in Turkey. Now, if -- as I presume -- the number of days per tourist is based on data excluding sea arrivals, we get a higher spending per day. This has important implications for future changes in tourist receipts and requires making adjustment in the calculations. One would need to allow for spending by sea arrivals and then derive daily spending for all other arrivals.

Domestic Resource Costs of Earning Foreign Exchange

14. These adjustments also have implications for the calculation of the DRC ratio that has been estimated on the assumption that all tourists stay at hotels. Yet, one-third of the tourists are sea arrivals and, from Para. 5 above, it would appear that non-hotel accommodations are of considerable importance for the remainder. Correspondingly, receipts of foreign exchange by tourists staying in hotels will be substantially lower than shown in Table 13. This will give a less favorable DRC ratio as well as a higher capital investment/receipt ratio that may be more realistic than the one-to-one ratio implied in your calculations. In this connection, let me add that dividing the total cost of TL 20,063 million by 2620 thousand foreign tourist nights spent in hotels gives TL7514 per day, equivalent to about \$100 per day. This is much out of line with daily spending of \$35 shown in Table 7.

15. Correspondingly, the DRC calculations would need to be adjusted in order to ensure consistency. As agreed, the detailed results should be presented in an Annex, with a summary provided in the chapter itself. In the chapter, indicate also the advantages Turkey has in terms of labor costs and the cost of construction where labor is again an important element.

Policies for the Future

16. This section should begin with a statement on the need for a medium-term plan, further indicating the components of such a plan. In this

connection, reference should be made to the experience of other countries, both in planning tourism activity and in the measures utilized. This could be followed by the statement made in Para 37 on the need to expand accommodation capacity in Turkey. The subsection dealing with the latter should begin with Para. 37. In Para. 40 note the extent to which the recommendations differ from what is being done.

17. As regards the Tourism Bank, note should be taken of past shortcomings and recommendations made for future improvements. Preferential lending through commercial banks may not be a more appropriate vehicle than the expansion of lending by the bureaucratic Tourism Bank that has neglected the private sector in the past and put emphasis on its own hotel operations. The latter, incidentally, should be discussed before getting to lending operations, and you should note the changing importance of the two in the past.

Prospects for 1985

18. The last section on future prospects should come earlier (see Para. 10 above) since it logically precedes the policies to be applied. In particular, the need for increases in accommodations should be estimated on the basis of future growth in tourism. At the same time, Turkey should increase its market share more rapidly than implied in the 7 percent projection. Also, domestic tourism should be taken into account in estimating future occupancy rates.

19. The prospective growth of domestic tourism will also affect the need for hotel construction. At the same time, in view of the long lags involved, estimates on tourism and accommodation needs should be made for 1990. Such estimates could serve as a starting point for a medium-term plan for tourism.

Personnel

July 8, 1981.

Bela Balassa, DRC

Mrs. Helen Chin

Mrs. Chin was the administrative assistant and secretary to the mission I led to Turkey from May 17th to June 5th. She performed both of these jobs to perfection.

Mrs. Chin did an excellent job in administering a large mission of fourteen people and helped me in organizing the work of the mission members. She also performed superbly in typing and retyping with rapidity and care the voluminous papers and memoranda prepared by the mission members and myself.

BBalassa:nc

OFFICE MEMORANDUM

TO: Messrs. Hollis B. Chenery, VPD; John H. Duloy, DRC DATE: July 7, 1981.

FROM: Bela Balassa, DRC

SUBJECT: Activities at the Bank, FY81

1. As shown in the enclosed table, the trend towards an increased share of research in my activities continued in FY81. With delays on the part of Bank and non-Bank contributors to RPO 670-87 "Industrial Policy and Integration in Western Africa" and RPO 671-35 "Export Incentive in Developing Countries," two-thirds of my research time was devoted to non-RPO projects. Three of the resultant studies listed in the enclosure were also background papers for WDRIV.

2. The time reported under support to Bank management largely pertained to WDRIV. In turn, policy advising for LDC governments took the form of my leading a large mission to Turkey and shorter missions to Jamaica, Korea, Morocco, and Tunisia. The other items in the table show little change and do not require comment.

cc: Messrs. Waide, VPD; Pyatt, DRC

Enclosures
BBalassa:nc

Research Papers Prepared by Bela Balassa, FY 81

1. "The Newly-Industrializing Countries and the Oil Crisis," World Bank Staff Working Paper No. 431, October 1980; published in Weltwirtschaftliches Archiv, Band, 117, Heft 1, 1981, in Integracion Latinoamericana (in Spanish), and in Pesquisa e Planejamento Economico, March 1981 (in Portuguese).
2. "The Process of Industrial Development and Alternative Development Strategies," The Frank D. Graham Memorial Lecture presented at Princeton University. World Bank Staff Working Paper No. 438, October 1980; published as No. 141 in Essays in International Finance, International Finance Section, Department of Economics, Princeton University, December 1980. To appear in the Proceedings of the U.S.-China Conference on Alternative Strategies for Economic Development held in Racine, Wisconsin, in November 1980.
3. "The Policy Experience of Twelve Less Developed Countries, 1973-1979," World Bank Staff Working Paper No. 449, March 1981; to be published in a Festschrift in Honor of Lloyd G. Reynolds.
4. "Industrial Policies and Prospects in Developed Countries," World Bank Staff Working Paper No. 453, March 1981; to be published in a Festschrift in Honor of Herbert Giersch, in the Proceedings of a Conference on De-industrialization, held in Vienna in January 1981 (in German) and in the Proceedings of a Conference on Internationalisation et autonomie de decision held in Bordeaux in June 1981 (in French).
5. "Adjustment to External Shocks in Developing Countries," accepted for the World Bank Staff Working Paper Series; to be presented at the Conference of the International Economic Association on The Problems of Changes in Relative Prices to be held in Athens in September 1981.
6. "Structural Adjustment Policies in Developing Countries," accepted for the World Bank Staff Working Paper Series; to be published in World Development.

Papers No. 1 and 2 are also included in my collection of essays entitled The Newly-Industrializing Countries in the World Economy (Pergamon Press, 1981).

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
July 7, 1981

National Capital YMCA
17th and Rhode Island Avenue N.W.
Washington, D.C. 20036

Dear Sir:

I renewed my community membership in late May. Correspondingly,
I return your recent bill.

Yours truly,

Enclosure

Bela Balassa

July 7, 1981.

Dr. L. Alan Winters
Secretary, I.E.S.G.
University of Bristol
Department of Economics
Alfred Marshall Building
40 Berkeley Square
Bristol BS8 1HY
England

Dear Dr. Winters:

Thank you for your letter of June 12th inviting me to the sixth annual conference of the International Economics Study Group to be held in September 1981. I would be very interested in participating; however, due to other obligations I will not be able to do so.

With best regards,

Yours sincerely,

Bela Balassa

July 7, 1981.

Mr. Nicolas Plessz
OECD
2, rue André-Pascal
75775 Paris Cedex 16
FRANCE

Dear Nicolas,

Thank you for sending me the second OECD publication I asked for while I was in Paris. In return I am mailing you today several of my recent publications.

Yours sincerely,

Bela Balassa

July 7, 1981.

Dr. Felvinczi Tamas
Institute for World Economics
of the Hungarian Academy of Sciences
H1531 Budapest
P.O. Box 36
Hungary

Dear Dr. Tamas Felvinczi:

Please excuse my late answering of your letter of April 28th and for writing you in English. I am doing so, in order to avoid any further delays.

I will be happy to put your organization on the mailing list for my publications. I will also send you a number of my recent reprints.

Yours sincerely,

Bela Balassa

July 7, 1981.

Dr. Harmen Lehment
Institut für Weltwirtschaft
an der Universität Kiel
Dusternbrooker Weg 120-122
23 Kiel
West Germany

Dear Dr. Lehment:

Thank you for your letter of June 15th which reached me after returning from a trip abroad. The flights you suggest are fine with me. Please send my ticket to,

c/o M. Aymé Bernard
Irigny
Rhône
France

I will be at this address from August 1.

Yours sincerely,

Bela Balassa

July 7, 1981.

Mr. Yves Charette
Grants Officer
Research Grants Division
Social Sciences and Humanities
Research Council of Canada
255 Albert Street
Box 1610
Ottawa K1P 6G4
Canada

Dear Sir:

I am afraid that, due to other obligations, I am unable to review the research proposal you have sent me. You may wish to try Professor Mordechai Kreinin of Michigan State University, or Oli Havrylyshyn of the George Washington University.

Sincerely,

Enclosure

Bela Balassa

Messrs. Hollis B. Chenery, VPD; John H. Duloy, DRC

July 7, 1981.

Bela Balassa, DRC

Activities at the Bank, FY81

1. As shown in the enclosed table, the trend towards an increased share of research in my activities continued in FY81. With delays on the part of Bank and non-Bank contributors to RPO 670-87 "Industrial Policy and Integration in Western Africa" and RPO 671-35 "Export Incentive in Developing Countries," two-thirds of my research time was devoted to non-RPO projects. Three of the resultant studies listed in the enclosure were also background papers for WDRIV.

2. The time reported under support to Bank management largely pertained to WDRIV. In turn, policy advising for LDC governments took the form of my leading a large mission to Turkey and shorter missions to Jamaica, Korea, Morocco, and Tunisia. The other items in the table show little change and do not require comment.

cc: Messrs. Waide, VPD; Pyatt, DRC

Enclosures
BBalassa:nc

Research Papers Prepared by Bela Balassa, FY 81

1. "The Newly-Industrializing Countries and the Oil Crisis," World Bank Staff Working Paper No. 431, October 1980; published in Weltwirtschaftliches Archiv, Band, 117, Heft 1, 1981, in Integracion Latinoamericana (in Spanish), and in Pesquisa e Planejamento Economico, March 1981 (in Portuguese).
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Papers No. 1 and 2 are also included in my collection of essays entitled The Newly-Industrializing Countries in the World Economy (Pergamon Press, 1981).

July 6, 1981

Messrs. David Kellogg and Glen Cutler
Pergamon Press Ltd.
Fairview Park
Elmsford, New York

Dear Messrs. Kellogg and Cutler:

I received the copies of my book you sent to my Bank address just before departing for Europe last Friday; another copy reached my home during my absence.

I would like to express my sincere thanks for the excellent job you have done on the book. Everyone I showed it to, including my wife who is a severe critic, agrees with me that it has been beautifully done. The cover also came out extremely well. I only hope that the sales will match the quality of the product.

I look forward to receiving my 60 free copies and the 100 copies I ordered. I would appreciate if I could receive some more hard back copies as part of my free set of books.

Please confirm if copies have been sent for review to the seven professors I listed on paragraph 13 of the Author's Questionnaire. Furthermore, I would like to know if the review copies have been sent to the journals listed on the enclosure to the Author's Questionnaire. I would expect to get an early review in Finance & Development, the address of which is, International Monetary Fund Building, Washington, D.C. 20431,

I understand that I will receive 150 copies of the flyer that is being prepared on the book. I wonder if I could have this by the end of the month so that I could mail it out with reprints I am sending to various people (I wouldn't mind getting 200 copies, if possible). If the text of the flyer has not yet been prepared I would appreciate seeing it.

With many thanks and best regards,

Yours sincerely,

Bela Balassa

Files

July 6, 1981.

Bela Balassa, DRC

Back-to-Office Report, June 29-July 3, 1981,

1. I was keynote speaker at the Conference on "Internationalisation et Autonomie des Economies Nationales: Les Choix Francais," held in Bordeaux on June 29-30, and at the 2nd Conference on "The Role of Exchange Rate Policy in Achieving the Outward Orientation of the Economy," held in Istanbul on July 1-2. I also had discussions in Ankara on the aide-memoire that contained the preliminary conclusions of the mission on industrialization and trade strategy I led to Turkey in May-June 1981.

3. Of considerable interest to the Bank is the position the French socialist government may take as regards imports from developing countries. The Bordeaux Conference has not succeeded in clarifying this issue. This is explained by the fact that the signals emanating from the government have been conflicting. While Foreign Minister Cheysson has called for the more favorable treatment of imports from developing countries, Foreign Trade Minister Pisani suggested the need for 'planning' this trade, and Finance Minister Delors also called for 'organized' trade. At the same time, among EEC countries, the French continue to take the most protectionist position in Brussels as regards the renegotiation of the Multifiber Arrangement with developing countries.

4. The 2nd Istanbul Conference showed that changes in policies towards outward orientation were accompanied by changes in attitudes in Turkey. There is a far better understanding of the need to rely on market forces today than was the case at the 1st Conference two years ago. In fact, most participants exhorted the government to speed up the process of liberalization. And while the government representatives pleaded for more time (incidentally, there were no emissaries of the Ecevit government two years ago), there was no disagreement on the basic policy objectives.

5. My aide-memoire has been well received by the Turkish government. There is agreement on the need for a medium-term policy framework and on overall policy directions. Among the recommendations made in the aide-memoire, the elimination of the ceiling on bond interest rates and the establishment of floating rates will be implemented as of today. However, in view of the continuing controversy within the government, the reform of the SEEs has not yet been implemented.

cc: Messrs. Chauffournier, EMNVP; Karaosmanoglu, EM1; Picciotto, EMP;
Dubey, EMNVP; Hume, EMP; Zaman, EM2; Davar, EM2; Sadove, EGY;
Benjenk, VFE; Merriam, IPA; (Mrs.) Boskey, IRD; Chatenay, IRD;
DPS Directors, DRC Senior Staff, Turkey Mission Members.

BBalassa:nc

July 6, 1981.

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

Dear Armin,

Thank you for your invitation to participate at the round table conference on "Financing Problems of Developing Countries" you are organizing in Buenos Aires, October 1981, for the International Economic Association. The invitation reached me following my return from a trip to Europe.

I am afraid that, due to other engagements I will not be able to participate at the Conference. I hope, however, that you will keep me in mind for other meetings of a similar nature in the future.

Yours sincerely,

Bela Balassa

July 6, 1981.

Dr. Hubertus Muller-Groeling
Institut fur Weltwirtschaft
an der Universitat Kiel
2300 Kiel 1, Postfach 4309
Germany

Dear Dr. Muller-Groeling:

Your letter of June 22nd just reached me after returning from a trip abroad.

I was glad to hear that my paper "The Newly Industrializing Developing Countries" has been published and that progress has been made on the Giersch volume. At the same time, I am concerned with the proposed title of the volume. I called Professor Machlup on this and he tells me that he has already communicated to you his objections to the title. I understand that Professor Machlup would prefer to call the volume simply "Essays in Honor of Herbert Giersch" or, if this is not possible, to include a reference to the changing structure of the world economy in the title.

I fully support Professor Machlup's views as I find the proposed title inappropriate.

With best regards,

Yours sincerely,

Bela Balassa

cc: Professor Machlup

Total Number of Days Worked, FY1980

Bela Balassa

1979 July	22 days
August	7
September	19
October	19.5
November	16
December	20
1980 January	20.5
February	16
March	19.5
April	17
May	20.5
June	<u>15</u>
Total number of days	212
Number of days contracted	<u>180</u>
difference	32

OFFICE MEMORANDUM

TO: Files

FROM: Bela Balassa, DRC

SUBJECT: Back-to-Office Report, June 29-July 3, 1981,

DATE: July 6, 1981.

1. I was keynote speaker at the Conference on "Internationalisation et Autonomie des Economies Nationales: Les Choix Francais," held in Bordeaux on June 29-30, and at the 2nd Conference on "The Role of Exchange Rate Policy in Achieving the Outward Orientation of the Economy," held in Istanbul on July 1-2. I also had discussions in Ankara on the aide-memoire that contained the preliminary conclusions of the mission on industrialization and trade strategy I led to Turkey in May-June 1981.

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Dubey, EMNVP; Hume, EMP; Zaman, EM2; Davar, EM2; Sadove, EGY;
Benjenk, VPE; Merriam, IPA; (Mrs.) Boskey, IRD; Chatenay, IRD;
DPS Directors, DRC Senior Staff, Turkey Mission Members.

BBalassa:nc

July 6, 1981.

Mr. Luc Fauvel
Secretary General
International Economic Association
4 rue de Chevreuse
75006 Paris
FRANCE

Dear Mr. Fauvel:

In reference to my letter of June 18th, I enclose the French translation of my paper prepared for the September Conference. In order to avoid retyping the tables, a French glossary of the original English language tables has been provided.

With best regards,

Yours sincerely,

Enclosures

Bela Balassa

L'Adjustement aux chocs externes des economies des pays en voie de developpement
1er juin 1981

July 1, 1981

Mr. Antonio Maria Costa
United Nations
Center for Development Planning
Projections and Policies
New York, New York 10017

Dear Mr. Costa:

Baysan's paper represents an interesting application of linear programming techniques examining the effects of free trade on the Turkish economy. While I consider non-linear general equilibrium Johansen-type models superior for this purpose, I recommend accepting the paper for publication provided that certain revision are made. These are indicated in the enclosure

Yours sincerely,

Enclosure

Bela Balassa

Dictated but not read.

Tercan Baysan, "Resource Reallocation Under an Alternative Trade Regime for Turkey: A General Equilibrium Approach"

The paper is overly long in its present form. The Introduction covers well-trodden ground and should be limited to three paragraphs. Section 2 should also be drastically reduced, perhaps to two paragraphs; and it could well be combined with the Introduction. Section 4 should be limited in length and moved to an Appendix. Finally, some of the footnotes are excessively long.

There is some misunderstanding as to what the model really measures. While the author repeatedly claims of having estimated the effects of entry into the EEC, in fact, he makes comparisons between a free trade and a protection situation. Thus, in deflating by the tariff rates, Baysan obtains world market prices, rather than the prices "which would have prevailed in Turkey if Turkey had traded freely with the EEC" (p. 14).

Correspondingly, there is no trade diversion in the model and the statements made on pp. 3 and 23 are inappropriate. Furthermore, the relevant comparison is not with the UK but with other developing countries that had protection levels similar to Turkey. As shown in Balassa, The Structure of Protection in Developing Countries (1971), the welfare cost of protection in these countries was also similar to that obtained for Turkey. Comparisons should further be made with de Melo's results for Colombia.