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AUGUST 1982

B. BALASSA CHRON FILE AUG 1982

Turkey back-

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Distribution

DATE: August 27, 1982

FROM: Bela Belassa, PRD Roy for BB.

SUBJECT: TURKEY - Industrial Protection and Incentives Project

1. On my visit to Istanbul on August 6-7, I reviewed the progress of the Industrial Protection and Incentives research project. While the quality of the firm level data collection has improved, there are still problems with the consistency of the data. Also, the project has experienced further delays, owing in part to the difficulties of data collection from the firms and in part to the problems involved in obtaining international price data.

2. Mr. Hic prepared a new timetable that calls for the completion of the calculations by February 1983, with the subsequent writing of the evaluation of the results (Mr. Yagci) and the policy papers (Mr. Hic). The timetable, however, provides only for the completion of work in 160 firms; my detailed review of the firm sample shows that data for about 180 firms would be needed in order to ensure adequate coverage. While Mr. Hic expressed the view that the February deadline could still be kept, March or April may be considered more realistic.

3. Mr. Pursell's visit to Turkey proved to be very useful as it permitted finalizing the computer program for the firm-level calculations and establishing the program for the aggregation of the data on the industry level. My discussions further covered issues relative to the determination of shadow prices, the problem of product quality, and the adjustment to be made for the extent of capacity utilization. The latter is of particular importance in Turkey, where utilization levels in 1980-81 were low and manning levels excessive.

4. Messrs. Hic and Yagci will make written recommendations on the handling of these issues in preparation for the discussions I will have with Mr. Yagci on his visit to Washington in the first half of September. I will at the time also review the results for, hopefully, a large number of firms.

Distribution:

Messrs. Chaufournier, Picciotto, Dubey, Asfour, Chaffey, Roy, Pursell, and EM2A staff
ERS and CPD Directors
DRD Division Chiefs

BBalassa/JRoy:cw

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Maurice P. Bart, Director, EM2

DATE: August 26, 1982

FROM: Bela Balassa, PRD

DECLASSIFIED
JUN 10 2014
WBG ARCHIVES

SUBJECT: TURKEY - Back-to-Office Report

CONFIDENTIAL

1. Over the last year, in various fora (policy discussions with the government in July and in December 1981; Loan Committee meetings on Turkey; and SAL review meetings), I have pointed to the dangers of high interest rates and "crowding out", related to the excessive financial requirements of the public sector, for private industry in Turkey. It now appears that reality has exceeded my fears.

2. It is reported that, after the Kastelli affair, three banks and several industrial firms would have gone under without massive government intervention. The situation remains very fragile as a number of firms, including Koc, the largest conglomerate, continue to roll over their bank loans, fail to pay their suppliers, and even refuse to pay their taxes. These firms have had to bear the burden of high interest charges while being unable to discharge workers. Mr. Kafaoglu wishes to remedy the situation by consolidating and rescheduling the foreign debts of firms arising out of exchange rate differentials and restructuring the banking system.

3. Debt consolidation and rescheduling would be undertaken by a new institution on a case-by-case basis, taking the increase in the domestic currency value of foreign debts due to the depreciation of the Turkish lira as the point of departure. The application of this procedure would represent a return to the situation existing until 1978, when the Central Bank accepted payments for foreign loans in Turkish lira calculated at the exchange rate applying at the time the debt was contracted. This practice was subsequently discontinued as it imposed a considerable burden on the Central Bank while providing an implicit subsidy to firms in conjunction with the devaluations that were made necessary because of rapid inflation in Turkey. Mr. Ozal consistently refused to reinstate this practice over the years.

4. There is no justification for the consolidation of foreign debts on the basis of exchange rate differentials to the extent that such a differential corresponds to differences in inflation rates at home and abroad. Such will be the case, for example, for debts contracted in German marks in July 1980 as the devaluation of the Turkish lira vis-a-vis the mark has approximately offset the difference in Turkish and German inflation rates since that time. By contrast, the exchange rate differential has exceeded the inflation differential by 50 percent for debts contracted in U.S. dollars in February 1978.

5. While the available price indices reportedly underestimate the rate of inflation in Turkey, comparisons of changes in exchange rates and in relative prices may provide an objective criterion for the consolidation and rescheduling of the excess burden of foreign debts due to devaluations over and above relative price changes. At the same time, if objective criteria are established, the Central Bank and the commercial banks could handle the consolidation of the debts in question. By contrast, case-by-case decisions by an agency yet to be established would not only involve delays but introduce inequities, give rise to favoritism and, according to one newspaper editor, may engender corruption.

6. In a recent interview, Mr. Kafaoglu raised the spectre of several banks going under and proposed the restructuring of the banking system to avoid this eventuality. While he subsequently disclaimed any intention of forcing the merger of banks, his remarks have been interpreted as such. In the present situation, an appropriate measure may be to increase the equity of the banks through the purchase of non-voting shares by a government institution, such as the Central Bank or TCZB, so as to permit commercial banks to write off bad debts. However, decisions on writing off debts would have to be taken by the commercial banks rather than by a government institution.

7. Further questions arise about the desirability of transforming general purpose banks into specialized banks, with interest rates to be set for each, as proposed by Mr. Kafaoglu. The report on Industrialization and Trade Strategy recommended transforming specialized into general banks in Turkey, and a move in the opposite direction would only strengthen selective lending at a preferential interest rate we have criticized in the past. Finally, plans to suspend the operation of brokerage firms for a month or so would further reduce confidence in the financial system in Turkey.

8. At the same time, the measures to be taken must be circumscribed by the need to avoid the acceleration of inflation in Turkey. Thus, rather than stepping up the rate of money creation, use should be made of measures that increase the amount and reduce the cost of credit available to the private sector. As indicated in the report referred to above, this could be accomplished by reducing the financial requirements of the public sector, lowering charges on bank lending, and eliminating or reducing the withholding tax on savings interest.

9. Finally, questions have been raised about the continuation of the January 1980 reforms which, according to a recent statement made by Mr. Ozal, rest on the four pillars of realistic exchange rates, market interest rates, export promotion, and reduced government intervention. At the First Conference on The Role of the Exchange Rate in Achieving the Outward Orientation of the Turkish Economy, held in July 1979, Mr. Kafaoglu voiced opposition to the proposed reforms. Subsequently, at the Second Conference, held in July 1981, he privately expressed misgivings about the measures applied, in particular the liberalization of prices, exchange rates, and interest rates. He now appears to support the reforms but it is questionable that he would provide the leadership for taking measures in regard to SEE management and import liberalization, which are necessary for the full implementation of an outward-oriented development strategy.

10. The latter view was expressed by several participants at the Third Conference on The Role of Exchange Rate Policy in Achieving the Outward Orientation of the Turkish Economy, held on August 6-7, 1982. At the Conference fears were also expressed about backsliding in the implementation of the reforms, increased government intervention, and renewed inflationary pressures. But, a small minority voiced support for the re-establishment of some form of planning and for slowing down the rate of devaluation.

11. I was keynote speaker at the Conference where the first half day was devoted to my presentation; the paper I delivered in a private capacity is available from my office. In view of the delicate situation, I declined requests for interviews made by three Turkish newspapers. However, my presentation at the Conference was given detailed coverage in the press.

cc: Messrs. Chaufournier, Picciotto, Dubey, Asfour, Chaffey, Roy and EM2A staff,
ERS and CPD Directors, DRD Division Chiefs

BBalassa/JRoy:cw

August 1982

SHORT-TERM AND LONG-TERM CHANGES IN THE WORLD ECONOMY 1/

Introduction

This report reviews short-term and long-term developments in the world economy. The first section of the report examines recent changes in output, imports, exports, and the balance of payments in the OECD, OPEC, and the non-OPEC developing countries, with further reference made to projections for 1983. The second section considers possible future developments over a longer time horizon.

I. Short-Term Developments

Changes in Output Levels 2/

The recession following the 1979-80 oil price increase has lasted longer than expected, notwithstanding the fact that oil prices have declined by 3.5 percent in 1982 as against an increase of 5.0 percent forecast by the OECD Secretariat a year earlier. The growth of OECD output is now estimated at 0.5 percent for 1982; this compares with increases of 2.0 percent projected a year ago and 1.25 percent last January.

The restrictive monetary policies followed by the United States and by the major European countries other than France have been largely responsible

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1/ This report follows "Recent and Prospective Changes in Trade, Aid and the Current Account Balance," prepared in January 1982. It is based on the following documents: International Monetary Fund, World Economic Outlook, Occasional Paper No. 9, 1982; Organisation for Economic Co-operation and Development, OECD Economic Outlook, July 1982; Ramses: The State of the World Economy, Annual Report by the French Institute for International Relations, Cambridge, Mass., Ballinger Co. 1982 and World Bank, World Development Report 1982, August 1982.

2/ "Output" refers to the gross national product or the gross domestic product, depending on the country concerned. However, the abbreviation "GNP" will be used throughout the text.

for the continuation of the recession. At the same time, these policies have been successful in reducing the rate of inflation in the OECD countries from an average of 12.9 percent in 1980 to an annual rate of 6.8 percent in April 1982.

Although the recession has been longer than in the period following the quadrupling of oil prices in 1973-74, it has been less severe than in the previous case. This is indicated in the following table that shows annual rates of change of GNP in the two periods of recession as well as during the recovery that followed the previous recession: 1/

	North America	Western Europe	Japan
Recession	1973 Q1 - 1975 Q1 -1.3	1973 Q3 - 1975 Q3 -0.3	1973 Q1 - 1975 Q1 -0.3
Recovery	1975 Q1 - 1979 Q1 5.1	1975 Q3 - 1980 Q1 3.8	1975 Q1 - 1980 Q1 5.4
Recession	1979 Q1 - 1982 Q2 0	1980 Q1 - 1982 Q2 -0.3	1980 Q1 - 1982 Q2 2.2

In the period of the present recession only Western Europe experienced an absolute fall in output whereas GNP rose in Japan. In the latter case, the rise in exports importantly contributed to output growth, although its influence declined in the course of 1981, leading to an absolute decrease of output in the last quarter of the year. The growth of exports, and that of output, have picked up again in 1982 and Japan's GNP is expected to rise by 3 percent in the second half of the year, to be followed by a 4 percent growth

1/ The data for North America includes the United States and Canada but, given its size, they are dominated by the United States; they refer to the four major European countries, France, Germany, Italy, and the United Kingdom in Western Europe. Source: OECD Economic Outlook, July 1982.

rate in 1983.

The recovery is expected to be slower, with annual rates of GNP increases of 2.0 percent and 2.25 percent projected for the second half of 1982, and 2.25 percent and 2.5 percent for the year 1983, in the United States and in the four major European countries, respectively. 1/ In fact, with the delayed recovery in the United States and the deflationary measures being imposed in France, the estimates for the second half of 1982 may be on the high side.

International Trade

The effects of the recession in the OECD countries on OPEC have been aggravated by the impact of higher prices on energy consumption, the energy-saving measures applied, and the development of alternative sources of energy that have further reduced oil imports. And while higher oil prices led to a near-doubling of the dollar value of OPEC exports in 1980, declines have occurred in the following two years when oil prices have weakened. Correspondingly, the fall in OPEC GNP that began in 1980 has continued in the following two years (Table 1).

In turn, rapid increases in output continued in the non-OPEC developing countries in 1980, and the decline in the rate of GNP growth from 4.8 percent to 2.5 percent in 1981 has been followed by an acceleration of expansion in 1982, when the increase of output is estimated at 3.8 percent. The continued rise of exports has importantly contributed to economic growth in these countries with the OECD countries accounting for much of the expansion. After a slowdown in 1980, OECD imports from the non-OPEC developing countries have increased at a rate several times higher than their gross national product and

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1/ These projections of the OECD Secretariat closely correspond to those of the IMF. The French Institute for International Relations, however, discounts the possibility of a renewed expansion in the absence of policy changes.

are projected to rise by 8.5 percent in 1983. The main beneficiaries of this increase have been the newly-industrializing countries, followed by the net oil-exporters, such as Mexico, that are not members of OPEC.

The Current Account Balance

The growth in the volume of imports did not exceed that of exports in the non-OPEC developing countries, but their terms of trade has deteriorated to a considerable extent, reflecting largely the rise in oil prices in 1979-80 and the decline in the prices of non-oil primary products in 1981-82. With the deterioration of their terms of trade, the trade deficit of the non-OPEC developing countries has continued to increase, reaching $65 billion in 1982 compared to year-ago projections of $51 billion.

By contrast, the trade deficit of the OECD countries is estimated at $8 billion in 1982 while a year earlier it was projected to reach $40 billion. The observed improvement in the OECD trade balance attributed to the decline in the volume and in the price of oil imports estimated at 12 percent and 4 percent, respectively, in 1982.

Oil prices are expected to remain unchanged in 1983 and while imports of oil and of other commodities would rise with renewed economic expansion, the trade deficit of the OECD countries is projected to decline to $6 billion in 1983. A decrease in the trade deficit of the non-OPEC developing countries, from $65 billion in 1982 to $55 billion in 1983, is also foreseen as the exports of these countries are expected to rise more rapidly than their imports (Table 2).

Recent improvements in the balance of trade of the OECD countries have been largely matched by a deterioration in the trade balance of OPEC and of the centrally planned economies. The OPEC trade surplus has decreased from a peak of $167 billion in 1980 to an estimated $68 billion in 1982; the corresponding change has been from \$8 billion to \$4 billion in the centrally planned economies. The decline in the OPEC surplus reflects the fall in the volume and the price of oil exports while the centrally planned economies have lost market shares in the OECD countries.

Changes in trade balances projected by the OECD Secretariat for 1983 are not consistent, however, as an improvement is forecast for all three major country groups. Taking further account of the weaker than projected recovery in the OECD countries, it is unlikely that the OPEC trade surplus would increase from \$68 billion in 1982 to \$85 billion in 1983. With oil prices remaining unchanged, this would require a 15 percent increase in the volume of oil exports by OPEC -- nearly double the projected rate of growth of imports.

Current Account Balance

With continued increases in payments for services and private transfers, largely workers' remittances, the current account surplus of the OPEC countries has fallen from \$113 billion in 1980 to practically nil in 1982. In the same period, the estimated current balance deficit has declined from \$71 billion to \$15 billion in the OECD countries, while increasing from \$60 billion to \$77 billion in the non-OPEC developing countries and from \$1 billion to \$5 billion in the centrally planned economies. Projected current account deficits for 1983 are \$20 billion, \$65 billion, and \$7 billion in the three groups of countries, respectively, with a surplus of \$20 billion foreseen for OPEC. As in earlier years, the projections show a large statistical discrepancy that reflects unreported service receipts and private transfers as well as the underestimation of official transfers by the non-OPEC developing countries.

In the non-OPEC developing countries, increases in interest payments, resulting in part from the rise of their total debt and in part from higher interest rates, contributed to the growth of net service payments. The ratio of the external debt to the exports of goods and services (the debt ratio) has increased from 93 percent in 1980 to 109 percent in 1982 in the non-oil developing countries, defined by the IMF to include the non-OPEC developing countries as well as the countries of Southern Europe, Ecuador, and Gabon. In the same group of countries, the debt service ratio (the ratio of interest payments and amortization to the exports of goods and services) has risen from 16 percent to 22 percent during this period.

Within the group of non-oil developing countries, the IMF distinguishes between net oil exporters and net oil importers. The debt service ratio has increased from 24 percent in 1980 to 37 percent in the net oil exporters, with Mexico accounting for the lion's share, while increases have not exceeded 5 percentage points in the net oil-importing country groups that include the newly industrializing countries, middle income non-oil primary exporters, and the least developed countries.

II. Long-Term Developments

The Growing Indebtedness of the Non-Oil Developing Countries

The increased indebtedness of the non-oil developing countries raises questions concerning their creditworthiness for future foreign borrowing. While noting the strains on the external financial position of these countries, occasioned by their growing current account deficits, the IMF observes that in 1982 their estimated debt ratio would still be below the 1978 peak of 111 percent. It should be added, however, that increased borrowing on commercial terms and the rise in interest rates have raised the average debt service ratio in the non-oil developing countries to levels not experienced beforehand (the 1979 peak was 18 percent). At the same time, particular interest attaches to this ratio as it indicates the ability of the countries concerned to service their debts.

Under alternative assumptions made in regard to the policies applied by the industrial countries (the OECD countries less Southern Europe), the IMF projects some decline in the debt service ratio for both the net oil exporters and the net oil importers among the non-oil developing countries. In the first case, the ratio would be in the 29 to 36 percent range in 1986, compared to 37 percent in 1982; in the second case, the projected 1986 range is 14 to 18 percent, compared to 20 percent in 1982.

These projections presuppose a stepped-up effort at export promotion and import substitution in both groups of countries. Such an effort would permit some reductions on the debt ratio, from 129 percent in 1982 to 115-133 percent in 1986 for the net oil exporters and from 100 percent to 77-97 percent for the net oil importers.

At the same time, as the IMF report notes, overall improvement in the net oil exporter and net oil importer country groups should not be interpreted to mean that individual countries may not experience financing difficulties. In fact, experience indicates that countries which have not adjusted to higher oil prices and to less buoyant world market activity suffer a decline in creditworthiness, necessitating the application of deflationary policies to carry out the adjustment that would permit future borrowing. Examples are Turkey in 1980-81, Brazil in 1981-82, and Mexico today.

Perspectives for the World Economy

The IMF has considered three scenarios as far as the policies applied by the industrial countries are concerned. They all assume that real interest rates would gradually decline from their recent level of 6 percent to 2 percent by 1986; that oil prices would remain unchanged in real terms; that the trade policies of the industrial countries would not change; and that official development assistance would remain the same in real terms.

Under central Scenario A, it is further assumed that industrial countries would persist with policies of monetary restraint, reinforced by supportive fiscal policies. In turn, under pessimistic Scenario B, coherent policies would not be applied, leading to excessive monetary ease or to fiscal policies incompatible with monetary restraint. Finally, under optimistic Scenario C, the application of steady monetary and fiscal policies would be accompanied by major measures taken to ease rigidities in goods and labor markets, with economic agents responding to the incentives offered. The resulting GNP growth rates would be 3.2 percent under Scenario A, 2.2 percent under Scenario B, and 4.3 percent under Scenario C in the 1984-86 period.

The French Institute for International Relations takes a pessimistic view as it expects increased protectionism in the industrial countries and it maintains that "international economic management has broken down," with rigidities preventing adjustments to occur in prices and supplies. The Institute suggests the need for (undefined) new types of economic management, in order to simultaneously deal with the problems of inflation, unemployment and financial disequilibria.

The Institute does not provide numerical forecasts for either the industrial or for the developing countries. In turn, the IMF estimates that, through increased exports and reduced imports, the net oil exporters would be able to maintain a GNP growth rate of 7 percent in 1984-86, irrespective of the policies followed by the industrial countries. This assumption hardly appears realistic, however, as experience indicates the sensitivity of economic growth in the developing countries to the economic situation in the industrial countries. The GNP projections for the net oil importing countries, ranging from 4.3 percent under Alternative B to 5.2 percent under Alternative C, conform more closely to the observed pattern.

The interdependence of the industrial and the developing countries is recognized in the long-term projections of the World Bank. Distinction is made between a High and a Low case, maintaining last year's projections of 3.6 percent and 2.8 percent GNP growth rates for the industrial countries in the 1980-90 period, but suggesting that the likely outcome would be nearer to the latter figure. The corresponding growth rates are 5.4 percent and 4.1 percent for the net oil-importing developing countries and 6.5 percent and 5.4 percent for the oil exporters that are defined to include OPEC as well as the net oil exporters referred to earlier.

According to World Development Report 1982, the High case projection would illustrate successful economic adjustment by the industrial economies to current problems of low growth and high inflation. Rapid recovery from the current recession would be followed by sustained growth of over 4 percent a year for the remainder of the decade ... "Such an international environment would enable developing countries to sustain growth at least at their 1970-80 rates."

"The unfavorable set of assumptions embodied in the low case would result in a very different world in 1990. Lower growth in the industrial economies would depress demand for primary products and thus keep the prices and volume of developing-country exports of these products down. Trade barriers, especially against manufactured goods, would tend to grow ... As a result, adjustment problems would be exported to developing countries. This would restrict the growth of non-oil imports into these countries ..."

The High case of the World Bank approximately corresponds to the IMF's optimistic Scenario C. In turn, the Low case is practically equivalent to pessimistic Scenario B, although the former would also entail increased protectionism in the industrial countries as is assumed to occur by the French Institute for International Relations.

The High and the Low cases of the World Bank may be considered extreme scenarios, with the former erring on the optimistic and the latter on the pessimistic side. The central Scenario A of the IMF would appear to be more realistic unless substantial policy changes occur for the better or for the worse. However, this scenario would not permit either substantially reducing unemployment in the industrial countries or fulfilling the economic aspirations of the developing countries. These considerations, then, indicate the need for policy improvements in the major industrial countries.

Table 1

Annual Changes in Output and in Export and Import Values, Volume, and Unit Values
(percent change from previous year)

		1977	1978	1979	1980	1981	1982	1983
OECD								
Output		3.7	3.7	3.3	1.3	1.2	0.5	2.5
Exports:	value	13.8	20.0	22.7	17.6	-1.35	0.75	9.71
	volume	5.4	5.7	6.7	4.3	2.5	1.75	5.25
	unit value	8.2	13.5	15.0	12.75	-3.75	-1.0	4.25
Imports:	value	13.5	15.5	28.7	20.2	-5.2	-0.5	3.0
	volume	4.4	5.0	8.4	-1.5	-2.2	1.5	5.5
	unit value	8.75	10.0	18.7	22.0	-3.0	-2.0	3.25
	of which, oil	-	-	-	60.0	11.0	-3.5	0.0
Export volume to								
	Other OECD	-	-	-	2.5	-2.5	1.25	5.0
	OPEC	-	-	-	15.25	27.0	8.5	8.0
	Non-OPEC Developing	-	-	-	6.5	12.5	4.0	3.5
	Centrally Planned	-	-	-	3.0	0.0	-4.5	6.0
Import volume from								
	Other OECD	-	-	-	2.0	-0.25	2.75	5.0
	OPEC	-	-	-	-17.5	-15.0	-10.0	6.5
	Non-OPEC Developing	-	-	-	2.25	4.5	5.5	8.5
	Centrally Planned	-	-	-	-2.0	1.5	1.0	4.5
OPEC								
Output		5.9	1.8	2.9	-2.8	-4.5	-1.0	...
Exports:	value	10	0	45	42	-6	-14	15
	volume	2	-2	0	-14	-16	-12	15
	unit value	8	-2	45	65	12	-2	0
Imports:	value	23	23	2	28	20	8	11
	volume	14	4	-13	13	26	10	8
	unit value	8	19	16	13	-5	-2	3
Non-OPEC Developing Countries								
Output		5.5	6.4	5.0	4.8	2.5	3.8	4.5
Exports:	value	22	16	29	26	1	1	12
	volume	8	7	9	8	7	5	8
	unit value	13	8	18	17	-6	-4	4
Imports:	value	18	20	31	29	5	3	6
	volume	8	5	10	6	7	4	3
	unit value	9	14	19	22	-2	-1	3

Source: OECD, Economic Outlook, various issues, apart from the OECD countries, output data originate in IMF, World Economic Outlook and refer to slightly different groupings as defined in the text.

Table 2

Summary of Balance of Payments on Current Account of the OECD Area and Other Major Country Groupings
$ billion

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
OECD										
Trade balance	-26	5.5	-17.5	-23	6	-39	73	-24	-8	-6
Services and private transfers, net	10	7	12	13.5	22.5	29	28	20	19	16
Balance on goods, services and private transfers	-16.5	12	-5.5	-10	28	-10	-45	-4	11	10
Official transfers, net	-10.5	-12.5	-12.5	-14.5	-18	-22	-25	-24	-27	-30
Current balance	-26	-.5	-18	-24	10	-33	-71	-29	-15	-20
OPEC										
Trade balance	77	49	65	61	42	107	167	122	68	85
Services and private transfers, net	-15	-19	-26	-30	-37	-43	-51	-56	-62	-73
Balance on goods, services and private transfers	62	30	39	31	5	64	116	66	6	12
Official transfers, net	-3	-3	-2	-2	-1	-3	-3	-3	-3	-3
Current balance	59	27	36	29	4	62	113	63	3	10
Non-OPEC Developing Countries										
Trade balance	-23	-28	-15	-12	-21	-33	-48	-61	-65	-55
Services and private transfers, net	-8	-9	-9	-7	-9	-15	-23	-23	-22	-21
Balance on goods, services and private transfers	-31	-37	-24	-19	-30	-48	-71	-84	-87	-76
Official transfers, net	5	7	7	7	7	10	11	10	10	11
Current balance	-26	-30	-17	-12	-23	-38	-60	-74	-77	-65
Centrally Planned Economies										
Trade balance	-10	-18	-13	-8	-8	-1	8	4	4	2
Services and private transrers, net	1	0	0	0	-1	-4	-9	-9	-9	-9
Balance on goods, services and private transfers	-9	-18	-13	-8	-9	-5	-1	-5	-5	-7
Official transfers, net	0	0	0	0	0	0	0	0	0	0
Current balance	-9	-18	-13	-8	-9	-4	-1	-5	-5	-7

Source: OECD, Economic Outlook, July 1982, Table 51.

a/ Historical data for the OECD are aggregates of reported balance of payments data for each individual country. For non-OECD groupings, the data are estimated; in deriving the trade balances of these country groups, use is being made of trade statistics reported by OECD countries. Due to statistical errors and assymetries, the data for the four groupings do not add up to zero.

July 14, 1982

Professor Victor L. Urquidi
El Colegio de Mexico
Camino al Ajusco No. 20
Apartado Postal 20-671
Mexico 20, D.F.
MEXICO

Dear Victor,

Following our conversation in Athens last September, I wrote to you on January 7, 1982, expressing my interest to present a paper at the Madrid Congress of the IEA next year on the adjustment experience of developing countries to the external shocks of 1974-75 and 1979-80. Fearing that my letter was lost, I called you about this matter the other day.

In reference to our telephone conversation, I enclose a short abstract of my paper. Copies of the abstract and of this letter are also being sent to the Secretariat of IEA in Paris. I wish to add that my travel expenses would be paid by the World Bank.

With best regards,

Yours sincerely

Enclosure

Bela Balassa

cc: Secretariat of the International Economic Association
4 rue de Chevreuse
75006 Paris
France

cc: Dr. Bela Csikos-Nagy

Policy Responses to External Shocks in Developing Countries: A Comparison of the 1974-75 and 1979-80 Experiences

Abstract

Bela Balassa

The paper compares the experience of developing countries with external shocks, and their policy responses to these shocks, in the years 1974-75 and 1979-80. The external shocks in question comprise the deterioration of the terms of trade associated in large part with the quadrupling of oil prices in 1974-75 and the increase of these prices by one-and-a-half times in 1979-80, as well as the world recessions of the two periods. In turn, the policy responses may have included additional external financing, export promotion, import substitution, and deflationary measures.

The author earlier examined the experience of altogether twenty-eight newly industrializing and less developed countries following the external shocks of 1974-75 (see the papers listed in the enclosure). The sample has now been enlarged to encompass fifty countries. This will permit analyzing the experience of countries at varying levels of economic development and contrasting the case of developing countries specializing in different product groups, such as food and minerals during the two periods.

Papers Prepared on External Shocks, and Policy Responses to these Shocks in Developing Countries, 1973-78

Bela Balassa

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August 5, 1982.

Mr. Nejib Ben Miled
Centre de promotion des exportations
8 rue de Medine
1002 Tunis
Tunisia

Dear Mr. Ben Milad:

Your letter of July 26 arrived after Mr. Balassa's departure for a six weekttrip abroad. I sent a copy of your letter to Mrs. Saito with the expectation that she will answer you directly. However, I understand that she will be back from vacation only the end of the month.

Yours sincerely,

Norma Campbell
Secretary to Mr. Balassa

cc: Mrs. Saito

August 4, 1982.

Mr. William R. Cline
Senior Fellow
The Institute for International Economics
11 Dupont Circle, N.W.
Suite 805
Washington, D.C. 20036

Dear Bill,

Several weeks ago I sent my comments on "New Issues in Trade Policy in the 1980s" to you and to the authors. I have not received any comments, nor have I received the final version of any ones paper. Since I am leaving for a trip of six weeks, I am sending you now the revised version of my comments. Copies are going also to the authors.

Yours sincerely,

Enclosure

Bela Balassa

Copy of paper but not letter was sent to
Messrs. Deardorf, J. Diebold, W. Diebold, Hufbauer, Safarian, Ms. Stelson and Mr. Stern

Final

New Issues in Trade Policy in the 1980s

Bela Balassa*

Presented at the Conference on
Trade Policy in the Eighties, sponsored
by the Institute for International Economics
and held in Washington on June 23-25, 1982.

* The author is Professor of Political Economy at the Johns Hopkins University and Consultant at the World Bank. He wishes to thank Geza Feketekuty and Carol Balassa for helpful comments. The author alone is responsible, however, for the opinions expressed in the note that should not be interpreted to reflect the views of the World Bank.

New Issues in the 1980s in Trade Policy

Bela Balassa

The session on "New Issues in the 1980s" at the Conference on Trade Policy in the Eighties extended the traditional discourse beyond policies concerning merchandise trade. The four papers presented at the session cover a wide range of area. To establish some logic in the presentation, I will organize my comments by proceeding from merchandise trade to trade in services. Following time-honored custom, I will emphasize points of disagreement rather than agreement.

Alan Deardorff and Robert Stern have examined "The Economic Effects of Complete Elimination of Post-Tokyo-Round Tariffs on the Major Industrialized and Developing Countries" by the use of a model incorporating supply and demand functions for 22 tradable and 7 nontradable industries in 18 industrial and 16 developing countries. The model has much increased in sophistication since the earlier efforts made by the Deardorff-Stern team. However, greater sophistication also increases the difficulties of understanding how certain results have been obtained in the model.

In particular, questions arise about the authors' conclusions that nine of the 16 developing countries would experience welfare losses, in the event of the elimination of tariffs on industrial goods by the industrialized countries. These results conflict with estimates made by Baldwin and Murray (1977), Birnberg (1979), and Murray (1979), all of which showed that developing countries would gain from mfn-type tariff reductions undertaken by the industrialized countries. At the same time, the Deardorff-Stern results rest on questionable assumptions.

According to the authors, "with tariffs being reduced, there is a tendency for world prices to rise and consumer prices to fall. As a consequence, the pattern of world demand shifts somewhat away from the sectors with NTBs and towards those in which tariffs are eliminated. This fall in demand occurs in what may often be an important export sector in developing countries ..." (p. 13). According to the model results, such would be the case in particular for textiles, where employment in all developing countries would decline, and for clothing, where a fall in employment would occur in the large majority of the developing countries.

These results have been obtained by assuming that the developing countries would maintain their share in the reduced consumption of textiles and clothing, owing to the increase in the relative prices of these commodities, in the industrialized countries. Such an assumption does not appear realistic, however. As NTBs are defined in absolute terms, in the form of quotas, increases in the relative prices of textiles and clothing would not affect NTB-constrained imports from the developing countries but would rather lead to a decline in high-cost domestic production in the industrialized countries.

Furthermore, Deardorff and Stern assume low supply elasticities in the developing countries. This assumption again lacks realism. In the long run, which is the relevant period for the estimates, developing countries could greatly increase their exports of industrial goods in response to the elimination of tariffs in the industrialized countries by shifting resources from agriculture to industry. And, results obtained by Michael Finger (1976) on the effects of the Kennedy Round of tariff reductions show that supply elasticities tend to be high in the developing countries even in the short run. Thus, according to Finger's estimates, quantity and value elasticities of export supply in these countries were 10.6 and 14.8 to U.S., 3.5 and 3.9 to European, and 11.9 and 11.9 to Japanese markets, exceeding export supply elasticities in the industrialized countries by a considerable margin, the exception being exports to Western Europe.

An additional consideration is that the model does not incorporate two important advances made in the study of international trade in the mid-sixties that have modified the traditional theory of international specialization: the introduction of the concept of effective protection and the analysis of trade in differentiated products in the form of intra-industry specialization. Yet, integrating these innovations in the estimation procedure would considerably increase the favorable effects for the developing countries of the elimination of tariffs in the industrialized countries.

To begin with, owing to the escalation of tariffs from lower to higher levels of fabrication, effective rates of protection are considerably higher than nominal rates, thereby raising the estimated effects of the elimination of tariffs on total imports. Moreover, the extent of escalation is greater for products of interest to the developing countries than for products of interest to the industrialized countries, further increasing these effects for the former group of countries. Thus, nominal and effective rates of protection on industrial goods imported by the industrial countries from the developing countries averaged 11.8 and 22.6 percent, respectively, after the Kennedy Round, compared to protection rates of 6.5 and 11.1 percent on their overall industrial imports (Balassa, 1968). These relationships do not appear to have changed following the tariff reductions undertaken in the framework of the Tokyo Round.

Also, product differentiation that characterizes much of international trade in manufactured goods leads to gains through the exploitation of economies of scale, which are not captured in calculations of the effects of tariff reductions based on the traditional model of international trade

(Balassa, 1966). While a number of theoretical models have been developed in recent years to capture this phenomenon (Krugman, 1980; Lancaster, 1980; and Helpman, 1981), the only empirical study, by Richard Harris at the University of Vancouver, is in a draft stage. Harris' preliminary results indicate that the gains from trade in differentiated products following trade liberalization are rather large.

But how important is intra-industry trade between industrialized and developing countries? In "Trade Policy in the Eighties: An Overview of the Problem," presented at this Conference, Fred Bergsten and William Cline suggest: "close analysis would probably show that the trade of Japan and the NICs with the industrial countries tends to be inter-industry (exports in different product sectors from imports) rather than intra-industry ..." and provide some data to support this proposition (p. 26). However, the data used by Bergsten and Cline are rather aggregated; they refer only to the United States; and they do not show changes over time.

I have examined the sources of intra-industry trade through horizontal specialization (i.e. trade in different varieties of a particular product) and vertical specialization (i.e. trade in parts, components, and accessories in the framework of the international division of the production process) between the industrialized and the developing countries, and have provided estimates for four industrialized countries. The results obtained in a 91 industry classification scheme show that the extent of intra-industry trade in the four countries increased much more rapidly with the developing countries than with the other industrialized countries.

This is indicated by calculating the ratio of the 1979 index of intra-industry specialization to the corresponding 1969 index. For trade with the other industrialized countries, the newly-industrializing developing countries, and the less developed countries, respectively, these ratios are 1.12, 1.19, and 1.82 for the United States; 1.10, 1.81, and 2.45 for Germany; 1.43, 1.40, and 2.48 for the United Kingdom; and 1.04, 1.80, and 1.93 for Japan (In the British case, the large increase in intra-industry trade with the other industrialized countries reflects the effects of entry into the EEC). As a result of these changes, in 1979 the ratio of the index of intra-industry trade with the newly-industrialized developing countries to that with the other industrialized countries was in the 48-80 percent range in the four countries while the corresponding ratio for the less developed countries was between 22 and 54 percent.

It follows that Deardorff and Stern seriously underestimate the benefits developing countries may obtain through the elimination of tariffs by the industrialized countries. Thus, the statement made by Alan Deardorff in presenting the paper at the Conference that "we have gone as far as we can usefully go in tariff reduction, and may be we have gone too far" is not defensible. Indeed, if we further consider that the lack of progress in tariff reductions can easily lead to backsliding, multinational negotiations aimed at further tariff reductions would be highly desirable from the point-of-view of the developing countries.

Further benefits would be derived through the elimination of non-tariff barriers. According to Deardorff and Stern, "to the extent that sectors are protected both by tariffs and NTBs, the elimination of all trade barriers might not change the results appreciably" (p. 25). This statement appears to reflect a misinterpretation of the model results which adjust for the effects of the NTBs. Thus, "the model includes, for each industry and country, an endogenous tariff-equivalent variable that adjusts to reduce changes in imports to only a fraction of what they would be in the absence of NTBs. That fraction is taken to be the fraction of trade not covered by NTBs in 1976" (p. 9).

At the same time, given the observed large differences between the tariff equivalents of NTBs and the rate of tariffs (Baldwin, 1970), the developing countries could obtain considerable welfare gains if the industrialized countries abolished their NTBs. In fact, according to the estimates by Brown and Whalley the authors cite, the abolition of NTBs would provide a welfare gain more than ten times greater than that owing to the elimination of tariffs (p. 6). The resulting gains could be estimated in the framework of the model by assuming that the tariff equivalents of NTBs would be reduced to zero.

While Deardorff and Stern have examined the effects of tariff and nontariff barriers on international trade in "Trade-Related Investment Issues," A. E. Safarian considers trade distortions that result from rules imposed on the subsidiaries of foreign companies or are the consequence of fiscal incentives. Safarian's emphasis is understandably on Canada; in line with my comparative advantage, I will concentrate on questions relating to developing countries.

Trade-related performance requirements may take the form of minimum export targets or domestic content rules for production for home markets. Safarian suggests that "with resources fully employed in the countries concerned one could argue, with some exceptions, that what occurs is a decline in efficiency of resource use rather than direct employment effects as such. In a world of unemployed resources what is more likely to happen is international shifts" (p. 3).

In developing countries where performance requirements are by far the most important (p. 4), physical capital, labor skills, and managerial know-how are scarce, and hence resource allocative effects are of considerable importance. Additional effects relate to the transfer of incomes from domestic users to foreign companies. Finally, in the case of domestic content requirements, there is loss of economies of scale.

Minimum export requirements involve an economic cost, inasmuch as the implicit subsidies involved distort the allocation of scarce resources. At the same time, these subsidies are generally financed by domestic users who pay higher prices in the protected home market in order to permit exports to take place. To the extent that the profits of the foreign subsidiaries are increased as a result, their transfer abroad will add to the cost of inefficient resource allocation in the country concerned.

Export requirements are imposed in larger developing countries, such as Brazil, where the size of the domestic market limits the cost borne by the individual user. In the smaller developing countries, domestic content requirements predominate, with the automobile industry being a prime example. The imposition of these requirements leads to the loss of economies of scale as parts, components, and accessories are manufactured in small production runs, thereby foregoing the advantages of vertical specialization. It has been shown that the resulting excess cost may reach as much as 100 percent (Baranson, 1969).

While fiscal incentives may be granted to firms that meet certain performance requirements, in most developing countries they are provided independently from such requirements. Trade distortions will occur in the second case if investment incentives are provided on a selective rather than on an across-the-board basis or if the particular measures applied affect the choice of factor proportions. Both are prevalent in developing countries, which have often used investment incentives to favor certain sectors and have applied measures that reduce the cost of capital, thereby providing inducements for capital-intensive activities (Balassa, 1981).

At the same time, Safarian correctly emphasizes the need for increased transparency in regard to trade-related investment policies. He is also correct in noting that "in terms of existing accords, GATT offers the best means to tackle performance requirements and investment incentives which are directly related to trade" (p. 24) through the application of the Articles of Agreement. But, one may be less sanguine as regards the chances of introducing a new "section in GATT which explicitly applies to a defined set of trade-related investment policies" (p. 25), inasmuch as many developing countries -- but also Canada and France -- consider these issues to fall within the domain of their national sovereignty.

I come next to John Diebold's "The Information Industries as a Case Example of International Technology Issues in the 1980s" that straddles the areas of trade in goods and in services. My purpose is to extend the discussion to high-technology industries in general and to put into sharper focus the differences between the French and the Japanese approaches to these industries.

Unlike Japan, prestige projects have played an important role in high-technology industries in France. These projects aim at national-political objectives, with economic considerations taking second place. A prime example is the Concorde that has been a 'succès d'estime' but a failure commercially, with no foreign sales occurring and Air France being unable to cover its variable costs.

Furthermore, the French policy has generally been to select a single firm in each industry, as exemplified by the Plan Calcul that proved to be unsuccessful, eventually leading to the involvement of an American firm it had been designed to avoid. By contrast, several firms compete in the computer industry, just as in semi-conductors, in integrated circuits, and in high-technology industries in general, in Japan. Nor does the Japanese government interfere with technological and product choices by individual firms that has been the case in France in some industries.

A related issue is that support to high-technology industries tends to be firm-specific in France while it is industry-specific and is available to all firms that meet certain criteria in Japan. Such support takes the form of the financing of R&D, fiscal incentives through accelerated depreciation provisions and tax holidays, as well as low-interest loans.

Last but not least, whereas Japanese firms have to fend for themselves in domestic and in foreign markets and compete with each other in the process, French firms in high-technology industries often produce largely for sheltered markets. Government procurement for military and for civilian purposes, as well as subsidized exports to socialist and to developing countries in the framework of bilateral agreements, often play an important role in the industries in question. This fact, in turn, limits the role of commercial considerations and competitive pressures for technological advance.

According to a careful study of French electronics industries, "state support appears to have reduced the pressure on firms under its tutelage to adopt structures more suited to their technological and market problems" and "the technological goals of the state weakened the competitive position of these firms" (Zysman, 1973, pp. 88, 207). Such has been the case, in particular, for state-owned firms while private firms have had more room for manoeuvre and have achieved greater success in world markets.

In the mid-seventies a partial reversal of the policies occurred, with greater emphasis given to market processes. However, the socialist government of Francois Mitterand has nationalized large private firms in high-technology industries; it is reorganizing these industries by selecting firms to manufacture particular products in the framework of 'filières,' and it interferes with product decisions made by the remaining private firms.

Finally, William Diebold Jr. and Helena Stalson have reviewed "Negotiating Issues in International Service Transactions." In this connection, the first question concerns the character of service transactions. According to the authors, "there is at least a strong similarity between some service transactions and the activities of foreign investors" (p. 13), when the "analogy with investment emphasizes that to an important extent what is involved in the right of establishment and how it is provided" (p. 14). And, "in addition to the common complaint of U.S. service firms that they are denied the right of establishment abroad, the difficulties of doing business once established center on onerous licensing and certification requests, limitations on the range of services that may be offered to the public, restrictions on employee nationality and on foreign equity, discrimination in government contracts in favor of national firms" (pp. 10-11).

While these statements put emphasis on differences between merchandise and service transactions, closer inspection reveals considerable similarities between the two. Just like industries producing goods, service industries may undertake international transactions either by exporting or by establishing subsidiaries abroad. Sales by domestic resident firms to foreign residents are dominant in areas such as freight and other transportation, communication, insurance, and engineering. In turn, sales by subsidiaries of domestic firms located abroad to foreign residents are of particular importance in banking and advertising.

Sapir (1982) cites estimates, according to which foreign sales by subsidiaries abroad represent about 70 percent of the international transactions of U.S. services industries; the corresponding figure is about 75 percent for merchandise. There is thus little difference in this regard between merchandise and service transactions. It is further apparent that both are subject to similar barriers.

The difficulties involved in establishing abroad and in operating foreign subsidiaries apply equally to merchandise and to service activities. Also, non-tariff barriers have assumed increased importance in regard to merchandise trade in recent years, and the scope of these barriers is rather similar in the two cases. Thus, accounting, advertising and banking often encounter quantitative restrictions; maritime transport and insurance may be subject to import licensing; government procurement rules apply to transportation, construction, and engineering, data processing and motion pictures are subject to customs valuation procedures of a protective character; and, containers encounter technical barriers in the form of national norms and specifications.

A further question relates to the relevance of comparative advantage to trade in services. According to Diebold and Stalson, "when it comes to international comparisons, it is less clear how one might know in advance what comparative advantages one country had over another" (p. 23). This observation may apply more to trade in manufactured goods than to trade in services, however. In "Reciprocity and Conditional Market Access," presented at the Conference, Cline notes that "for a range of manufactured goods, comparative advantage is made, not given" (p. 20). In turn, research done at the World Bank indicates the importance of comparative advantages in service trade (Sapir-Lutz, 1981).

Thus, international differences in physical capital endowment and, to a lesser extent, country size, affect transportation services while the availability of human capital influences insurance transactions. It further appears that technical services, as well as the sales of know-how in the form of patents and copyrights are largely a function of research and development expenditures. And while, according to Diebold and Stalson, "it seems quite clear that many services are highly labor-intensive" (p. 24), this appears to be the case for domestic non-traded services rather than for traded services. Data processing and construction abroad are the only cases where the availability of cheap labor provides an advantage, but it is skilled rather than unskilled labor that is of importance.

Similarities in the character of international transactions in goods and services, the barriers they face, and their basic determinants suggest the need for similar actions in reducing barriers to trade in regard to both. This conclusion applies to all internationally traded services, including banking. While Diebold and Stalson suggest "treating separately from other services" largely because of "its close links with monetary policy and credit control" (p. 6), this should not be an obstacle to liberalization in regard to banking. Thus, foreign-owned banks, which dominate in a number of developing countries, apply central bank regulations in the same way as domestically-owned banks do. And, given the interdependence of the various banking services, it would hardly be feasible to limit negotiations to nontraditional banking services as Diebold and Stalson propose.

The question arises, however, as to why the issue of trade in services has assumed importance in international discussions most recently. On the basis of available data, it would appear that the explanation does not lie in the increased importance of service transactions, taken together. According to estimates made by the Office of the U.S. Trade Representative, the share of service transactions in the world exports of goods and services increased only from 16.8 percent in 1974 to 17.2 percent in 1980. And this ratio fell from 14.7 to 13.4 percent in the United States that has put forward proposals for liberalizing international trade in services.

Larger increases are shown for the category of other private services that includes accounting, advertising, banking, construction and engineering, data processing, non-merchandise insurance, motion pictures, royalties and fees, as well as workers' remittances. The share of this category in the world exports of goods and services increased from 5.5 percent in 1974 to 6.1 percent in 1980. Excluding service exports from developing countries, which consist largely of workers' remittances, the increase is from 6.1 percent to 6.7 percent. Growth was lower than the average in the United States, however, leading to a reduction in the share of the other private services category from 5.3 percent to 4.1 percent of U.S. exports of goods and services between 1974 and 1980.

The relative decline of U.S. exports of other private services may be related to increased restrictions on these exports abroad. In the absence of a breakdown of the data, changes in the composition of this category are not known, however. Also, it appears that the available data underestimate the increases that have occurred as they cover only partially some of the most rapidly growing private services, including data processing and information as well as professional services. Also some service activities, such as reinsurance and foreign contract operation are measured in a net rather than on a gross basis.

Apart from the development of a new range of services, the increased attention given to services may be explained by the internationalization of financial markets as well as by the growing interaction between goods and services trade. The internationalization of financial markets affects banking and insurance, as well as data processing. In turn, some of the rapidly growing services, such as data processing, engineering design, and construction abroad are often linked to transactions in goods, with one or the other being the primary transaction, or the two forming a package.

Thus, the export of computers tends to be accompanied by the sale of computer software; engineering design often brings with it the sale of machinery; while construction abroad and the sale of construction equipment frequently go hand-in-hand. It should be added that all high-technology areas, and in particular data processing and telecommunications, are expected to grow rapidly during the eighties.

Before international negotiations are undertaken on services, however, there is need for more information on the barriers they face. While in "Trade Policy, International Cooperation, and Economic Growth in the 1980s," presented at this Conference, J. M. Finger equates transparency with "lawyerly process" and suggests that "transparency brings impotence" (p. 22), transparency -- defined as the provision of information on "how things are done" -- is a precondition for meaningful negotiations.

As regards the content of the negotiations, there is need to ensure that countries apply a "due process," under which foreign entities can pursue their own interests. There is further need to establish a dispute settlement mechanism on issues related to services trade. These objectives may be served through the application of existing GATT rules and MTN codes, as well as through the negotiation of new codes that could also provide a framework for reductions in existing barriers to trade in services.

The question has been raised as to whether an across-the-board or a sectoral approach be followed in regard to negotiations on trade in services. The sectoral approach has the important disadvantage that it does not allow for the balancing of interests either among sectors in the individual countries or among countries. It would be more desirable, therefore, to pursue an across-the-board approach, with additional rules -- or codes -- established in cases when a particular service industry has special problems.

The balancing of interests among countries also favors a multilateral over a bilateral approach. As regards the latter, the question of reciprocity needs to be considered. According to Diebold and Stalson, "if foreign governments are not prepared to treat American companies the way the United States government treats foreign companies, then reciprocity will require the imposition of restrictions in the United States to match those abroad. Whether this is a sensible arrangement that will give either economic gains or true bargaining power to the United States is not something that can be settled in the abstract" (p. 15).

The imposition of restrictions to match restrictions abroad is called "aggressive reciprocity" by Cline who suggest that "if, after a serious effort at negotiations with ample time for revising policy on all sides, there is no success, it might then be time to reconsider the option of aggressive reciprocity (although even then the potential adverse consequences would have to be weighed) (op. cit., pp. 28-29). One may go further and recommend that aggressive reciprocity not be invoked under any circumstances, both because its use may jeopardize the chances for future negotiations and because of the danger of "spill-over" to merchandise trade. More generally, particular care should be exercised to avoid a situation when bilateral agreements become an obstacle to the pursuit of multilateral negotiations; the former should rather be regarded a stepping-stone to the latter.

A further consideration is that the use of aggressive reciprocity by the United States may easily backfire, although the United States stands to gain from service negotiations, given its comparative advantage in a number of modern services. A related question is the interest in service negotiations of the developing countries, which do not appear to possess comparative advantages in any of the major services at present.

Part of the answer is that the newly-industrializing countries, which represent an increasingly important factor in merchandise trade, are in the process of acquiring comparative advantage in certain services as they accumulate physical and human capital. This trend is apparent in the success of Korea and Turkey to provide construction services in the Middle East and in recent development in the provision of professional services (the Philippines), printing (India), and data processing (Singapore). At the same time, the importation of modern services adds to technological and organizational knowhow in the developing countries.

Still, references to the future interests may not suffice to induce the developing countries to participate in multilateral negotations on trade in services. Thus, the industrialized countries and, in particular, the United States may have to offer concessions on merchandise trade for the negotiations to proceed.

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Mr. John H. Duloy, VPERS

August 4, 1982.

Bela Balassa and Roger Bowden, DRD

RPO 672-41

According to Mr. Acharya's memo, dated June 26, 1981, "the sponsors would present to the review panel, in about a year, a clearer statement of the methodology and econometric specifications to be adopted in part two of the research project". In the event, due to delays in the work of the data consultant, part one of the project has not proceeded sufficiently to permit us to provide the specifications of the methodology to be applied in the second part. The data consultant only arrived in November last year and his other obligations did not permit spending more than several weeks on our project. Correspondingly, we will not be able to provide the specifications of part two until the end of the calendar year.

BBalassa:nc

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
August 4, 1982.

Mr. Edwon Gould
Findings and Forecasts
Anametrics, Inc.
30 Rockefeller Plaza
New York, New York 10112

Dear Mr. Gould:

In accordance with my request, my subscription to Findings and Forecasts was stopped months ago. However, I have not received a refund for the unused portion of the subscription. I would appreciate receiving this by return mail.

Very truly yours,

Bela Balassa

August 4, 1982.

Mr. Carlos A. Picado Horta
Director
Associacao Portuguesa de Economistas
Rua da Estrela, 8
1200 Lisbon
Portugal

Dear Mr. Picardo Horta:

Thank you for inviting me to participate at the First Portuguese Economists' Conference. I am sorry to say that due to previous engagements I will not be able to attend.

Yours sincerely,

Bela Balassa

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Bela Balassa, DRD

Christmas Travel

In confirming our travel plans for Christmas that I communicated to you last week, I would like to make a change in my own personal travel. While my family will return to Washington from Can Cun, I will have to fly from Can Cun to Mexico City on January 2nd, Sunday and return from Mexico City to Washington on January 4th. Please make the appropriate changes in my reservations leaving those for my family unchanged.

BBalassa:nc

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
August 4, 1982.

Mr. and Mrs. Louis Balla
4835 Sedgwick N.W.
Washington, D.C. 20016

Dear friends,

We very much regret not being able to go to the wedding of your daughter, Briditte, due to our absence from Washington at that time. Please transmit our very best wishes to her.

Sincerely,

Bela and Carol Balassa

August 4, 1982.

Dr. Foldi Tamas
Kozgazdasagi Informacios Szolgalat
Pf. 262
1502 Budapest
Hungary

Dear Dr. Foldi:

Thank you for your letter of July 23rd and for sending me a copy of the translation of my paper. The translation is excellently done and I have made only a very few changes. Please transmit my congratulations to the translator for the excellent job she has done.

Yours sincerely,

Bela Balassa

August 4, 1982.

Mr. William R. Cline
Senior Fellow
The Institute for International Economics
11 Dupont Circle, N.W.
Suite 805
Washington, D.C. 20036

Dear Bill,

Several weeks ago I sent my comments on "New Issues in Trade Policy in the 1980s" to you and to the authors. I have not received any comments, nor have I received the final version of any one's paper. Since I am leaving for a trip of six weeks, I am sending you now the revised version of my comments. Copies are going also to the authors.

Yours sincerely,

Enclosure

Bela Balassa

Copy of paper but not letter was sent to
Messrs. Deardorf, J. Diebold, W. Diebold, Hufbauer, Safarian, Ms. Stelson and Mr. Stern

August 4, 1982.

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

Dear Mr. Silva Lopes:

This is to confirm the arrangements in connection with our mission to Morocco. We will arrive there on August 29th, Sunday, and will have a short meeting in the evening of the same day at the Rabat Hilton where we are all staying. I expect that we will be able to complete our field work in Morocco by September 11th, Saturday.

Mr. Bonnell will send you a copy of the terms of reference and the outline of the mission report. He is also taking care of your contract and travel request. As agreed, the contract provides for altogether 40 days of consultant time. I have also asked Mr. Bonnel to ensure that reservations (plane and hotel) are made for you and ticket authorization and travel advance are sent to you in time so as to avoid the problems encountered in Turkey. Should you not have these by August 19th, please call him collect at 202-477-2831. Should you wish to reach me, I will be in Irigny (Rhône) at the address of M. Ayme Bernard, tel. 78.46.32.77 in France, from August 10th to the 29th, except for August 16-17.

I enclose a note on interest rate policy in Morocco. Looking forward to seeing you in Rabat, I remain,

Sincerely yours,

Bela Balassa

Enclosure

cc: Mr. Bonnel

P.S. Most international flights arrive in Casablanca. You will have to take a taxi from there to the Rabat Hilton. A (rather expensive) ride of over an hour. Please obtain a receipt from the driver.

P.P.S. I just learned that you will be in Washington during the week preceding the mission. You can thus pick up the ticket and travel advance here.

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
le 4 aout 1982

Mapotel
3 rue de la Ville Eveque
Paris 8e
France

Monsieur:

Je vous prie de bien vouloir m'envoyer votre dernier guide a l'addresse suivante:

c/o M. Aymé Bernards
Irigny (Rhone) 69540
France

Salutations distinguees

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
le 4 aout 1982

Tradition et Qualité
15 rue Lammenais
Paris 8e
France

Monsieur:

Je vous prie de bien vouloir m'envoyer votre dernier guide a l'addresse suivante:

c/o M. Aymé Bernards
Irigny (Rhone) 69540
France

Salutations distinguees

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
le 4 aout 1982

Relais et Chateaux
10 place de al Concorde
Paris 8e
France

Monsieur:

Je vous prie de bien vouloir m'envoyer votre dernier guide a l'addresse suivante:

c/o M. Aymé ~~Bernards~~ Bernard
Irigny (Rhone) 69540
France

Salutations distinguees

Bela Balassa

August 4, 1982.

Governor A. G. N. Kazi
State Bank of Pakistan
Karachi
Pakistan

Dear Governor Kazi:

It is indeed an honor to be invited to present a lecture in the memory of Mr. Zahid Husain, the first Governor of your Bank. I would be very happy to accept your invitation but could not do so for the time being. With my obligations at the World Bank and at my University, my schedule is already filled until next summer. I very much hope, however, that we can find a suitable time for the lecture in the not too distant future.

Thanking you again for your invitation, I remain,

Sincerely yours,

Bela Balassa

August 4, 1982.

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

Dear Mr. Kellogg:

Mr. John Williamson, the book editor of the Journal of International Economics, tells me that he has not received a review copy of my The Newly Industrializing Countries in the World Economy. In view of the importance of having a review in this widely read journal, I would like to ask you to dispatch a copy in replacement of the one that has apparently gotten lost. His address is:

Mr. John Williamson
c/o Carnegie Endowment for International Peace
11 Dupont Circle N.W.
Washington, D.C. 20036

Yours sincerely,

Bela Balassa

cc: Mr. Williamson

Mr. Roberto M. Fernandes, EM2 August 4, 1982.

Bela Balassa, DRD

Visit to Tunisia

In your absence from Washington, Mr. Ben Milad of the Ministry of National Economy visited me and renewed Minister Lasram's invitation that I come to Tunis. I indicated to Mr. Ben Milad my possible availability in December and we agreed that the week of December 6 would be a mutually convenient time for my visit. May I presume that your Division will bear the cost of my travel to Tunisia.

BBalassa:nc

Mr. Goddard Winterbottom, PUB August 4, 1982.

Bela Balassa, DRD

Development Strategies in Semi-Industrial Countries

As indicated in the letter by Mr. Augustine Tan, a copy of which is enclosed, he has not received a copy of the captioned book of which he is co-author. I would appreciate it if a copy of the book could be sent to him in replacement of the one that has apparently gotten lost. Mr. Tan also would like to order additional copies of the book. Perhaps his order could be transmitted to the Johns Hopkins University Press, if it cannot be dealt with directly at the Bank.

cc: Mr. Augustine Tan

Enclosure
BBalassa:nc

Augustine

NATIONAL UNIVERSITY OF SINGAPORE

Telephone : 7756666
Telegrams: UNIVSPORE
Telex : UNISPO RS33943

Kent Ridge
Singapore 0511

Ref:

17 July 1982

Professor Bela Balassa
The World Bank
1818 H Street, N.W.
Washington D.C. 20433
U.S.A.

Dear Bela

Re: Development Strategies In Semi-Industrial Countries

It was good to see you in April. I am back to teaching as the new academic year has started.

Ow Chin Hock informed me that he has received his copy of the above book but I have not received mine. Perhaps it was sent to the old university address.

I would appreciate it if you could send me my complimentary copy plus 4 for which I would pay.

Thank you.

Sincerely

August 6, 1982.

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

Dear Gerardo,

I have earlier sent you a list of the variables used in the printout for Jamaica. I am now enclosing a corrected version that also provides explanation of the growth rates used in the estimation. Should you have any questions please cable or call my assistant, Kenneth Myers, tel. 202-676-1420.

I further provide a list of my addresses and telephone numbers until my return to Washington in September:

August 10-29 c/o M. Ayme Bernard, Irigny, Rhône, France 69540
tel. 78.46.32.77
August 29-September 11 Rabat Hilton, Rabat, Morocco
tel. 721 51

Carol and I very much appreciate your kindness in offering us your apartment in Cancun for the week between Christmas and New Year. While the dates are not yet final, because of the difficulties involved in getting reservations, we plan to arrive in Cancun on December 25 and leave on January 3rd. Should these dates interfere with plans you have made, we could naturally spend a few days at a hotel.

Many thanks again. Best regards to the family.

Yours sincerely,

Enclosure

Bela Balassa

Descriptions

1. Imports (CIF)
2. Exports (FOB)
3. Nonfactor Services
4. Private Transfers
5. Interest Received
6. Interest Paid
7. Dividends
8. Other Factor Payments
9. Official Transfers
10. Direct Investment
11. Portfolio Capital
12. Errors and Ommissions
13. Changes in Reserves
14. Amortization
16. Value of Fuel Exports
17. Value of Manufactured Exports to the World
18. Value of Manufactured Exports to Developed Countries
19. Value of Manufactured Exports to Less Developing Countries
20. Fuel Exports, Unit Value Index
21. Nontraditional Exports, Unit Value Index
22. Manufactured Exports, Unit Value Index
23. Fuel Exports, Hypothetical Volume Index
24. Non-fuel Exports, Hypothetical Volume Index
25. Manufactured Exports to Developed Countries, Hypothetical Volume Index
26. Manufactured Exports to Developing Countries, Hypothetical Volume Index
27. Manufactured Exports to Central Planned Economies, Hypothetical Volume Index
28. Value of Fuel Imports
29. Fuel Imports, Unit Value Index
30. Fuel Imports, Hypothetical Volume Index
31. Non-fuel Imports, Hypothetical Volume Index
32. Total Imports, Unit Value Index
33. GNP, Current $
34. GNP, Constant $
35. Gross External Debt
36. Net Reserves
38. Developed Countries' Income Elasticity of Demand for Manufactured Imports
39. Developing Countries' Income Elasticity of Demand for Manufactured Imports
40. Centrally Planned Economies' Income Elasticity of Demand for Manufactured Imports

Traditional Primary Exports
(defined as export values greater than 1.5% of total export value)

41. SITC, Value of Exports of Good
42. SITC, Quantity of Exports of Good
43. SITC, Quantity of Exports of Good by the World as a Whole
44. SITC, Value of Exports of Good
45. SITC, Quantity of Exports of Good
46. SITC, Quantity of Exports of Good by the World as a Whole
47. SITC, Value at Exports of Good

48. SITC, Quantity of Exports of Good
49. SITC, Quantity of Exports of Good by the World as Whole

<u>1963-73 World Export Volume Trend Growth Rates:</u>

GNX = growth rate, volume of fuel exports
GNTPPX = growth rate, volume of non-traditional primary exports
GMXDC = growth rate, volume of manufactured exports to developed economies
GMDLDC = growth rate, volume of manufactured exports to less developed economies
GMXCPE = growth rate, volume of manufactured exports to centrally planned economies
WGMX = growth rate, volume world manufactured exports

August 4, 1982.

Professor Moses Abramovitz
Managing Editor
Journal of Economic Literature
Department of Economics
Stanford University
Stanford, California 94305

Dear Moe,

I am writing to you to inquire if you have received review copies of my recent books:

The Newly Industrializing Countries in the World Economy, New York, Pergamon Press, 1981.

Development Strategies in Semi-Industrial Economies, Baltimore, The Johns Hopkins University Press, 1982.

I am eager to have both books reviewed in the Journal of Economic Literature. The first of the two is a volume of essays containing comparative analysis as well as country essays. I consider it a culmination of work on the newly-industrializing countries I have done in recent years.

The second book is a large-scale study of six countries. Individual country studies were undertaken utilizing a common methodology and the results are evaluated in a comparative framework. I wish to add that while some of the countries are covered in the two books, they do not overlap as the time frame and the methods of investigation are different in the two cases.

Looking forward to hearing from you, I remain,

Sincerely yours,

Bela Balassa

The World Bank / 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 477-1234 • Cables: INTBAFRAD

August 4, 1982

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

Kedves Barátom:

Bár idén nyáron nem lesz alkalmam Pestre jonni, egy decemberi látogatást tervezek. Csikós-Nagy Béla hivott meg hogy a kulso megrázkodtatások és az ezt koveto gazdasag-politikai reakciók témájáról való munkám anyaga alapjan eloadást tartsak. Ezzel a témával foglalkozó egyik tanulmányom kulonben a Gazdaság kovetkezo számában fog megjelenni.

Victor Urquidi értesitett arról hogy a fenti témáról kapitalista-szocialista osszehasonlitásban a Te elnoklésed alatt a Nemzetkozi Kozgazdasági Társaság Madrid-i kongresszusának egyik ulése fog foglalkozni. Amennyiben erre lehetoség lenne, szivesen tartanék az ulés keretében egy eloadást. Bár az Europa-i szocialista országok kozott ilyen vonatkozásban eddig csak Jugoszláviaval foglakoztam, munkámat Magyarorszagra is kiterjeszthetném. Itt kuldom a Gazdaság-ban publikálandó tanulmányom angol szovegét és két másik irásomat errol a témáról.

Májusban az ottani Tarsadalomtudomanyi Akadémia meghivására Kinában jártam. Mellékelem ezzel kapcsolatos beszámolómat, tanácsadói jelentésemet is hamarosan el fogom Neked kuldeni.

Baráti udvozlettel

Bela Balassa

Enclosed: Hungarian China excerpt.
Reprint 190 The Newly Industrializing Developing Countries after the oil crisis
W.P. 464 Structural Adjustment Policies in Developing Economies
W.P. 472 Adjustment to External Shocks in Developing Economies

Mr. E. Stoutjesdijk, DRD

August 3, 1982.

Bela Balassa, DRD

July Memos

I enclose copies of my substantive memos in July. My Morocco Issues Paper was sent to you today.

Enclosures
BBalassa:nc

1 1 61007

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

THANK YOU FOR CONFIRMING MY RESERVATIONS AT THE SHERATON HOTEL. I WOULD VERY MUCH REGRET NOT TO BE ABLE TO PARTICIPATE IN THE PANEL ON SATURDAY AFTERNOON. PERHAPS YOU COULD SEBBDULE IT FOR TWO O'CLOCK. SINCE I HAVE ONLY HAND LUGGAGE IT WOULD BE SUFFICIENT FOR ME TO LEAVE FOR THE AIRPORT AFTER 3:30. REGARDS, BALASSA

CABLE 8/3/82

Bela Balassa

Bela Balassa

BBalassa:nc DRD - Director's Office

The World Bank / 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. • Telephone: (202) 477-1234 • Cables: INTBAFRAD

Le 3 août 1982

Chère Françoise,

Tu trouveras ci-joint deux exemplaires de mon article sur "l'ajustement aux chocs externes des économies des pays en voie de développement". Il me ferait grand plaisir si l'article était publié dans la Revue économique.

Je regrette de ne pas avoir pu venir à Paris en juillet et de ne pas vous avoir vus, Jean et toi. Je quitte Washington pour la Turquie demain.

Bien amicalement.

Bela Balassa

Pièces jointes

Madame Françoise Carrière
Revue économique
54, boulevard Raspail
75006 Paris (France)

Enclosed "L'Ajustement aux chocs externes des economies des pays en voie de developpement"
(2 copies)

OFFICE MEMORANDUM

TO: Files

DATE: August 3, 1982

FROM: Bela Balassa and Roger Bowden, DRD

SUBJECT: Research Tasks for Part I of RPO 672-41

The enclosed listing indicates the tasks to be performed in Part I of the research project. For the next six weeks, priority will be given to the following:

1. Adjustment of the factor intensity coefficient and the endowment variables,

2. Estimation of bilateral trade relationships for selected countries (United States, Japan, and Korea)

3. Estimation for 1979 using U.S. coefficients.

4. Estimation by the use of Japanese coefficients.

5. Data collection for additional factor intensity coefficients and the corresponding endowment variables.

Enclosures
BBalassa:nc