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Bela Balassa's chron files - December 1982

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B. BALASSA CHRON FILE DEC 1982

OFFICE MEMORANDUM

DATE December 16, 1982

TO Mr. Maurice Bart (EM2) F718

FROM Bela Balassa (DRD) 18119 *M*

EXTENSION 61007

SUBJECT Back-to-Office Report--Turkey, December 7-11, 1982

1. On my visit to Ankara (December 7-9), I met with the Ministers of Finance and of State, the Governor of the Central Bank, the Undersecretary for Planning, and the Deputy Undersecretary for Commerce. In Istanbul (December 9-10), I reviewed the progress of the protection and incentives study, which is dealt with in a separate memo, and had meetings with the Presidents of TSKB, the Istanbul Chamber of Commerce and Industry, and TUSIAD as well as with industrialists, bankers, and professors.
2. The deadline for the preparation of the decree on the reform of the State Economic Enterprises remains June 1, 1983. However, there is reportedly dissension within the Cabinet on the need for a new decree; according to some ministers overseeing SEEs, the reforms could be carried out in the framework of existing Law 440. In my discussions, I expressed the view that a reinterpretation of Law 440 would not provide a sufficient basis for the changes that have been proposed, and that the failure to issue the decree would represent a serious setback to the reform effort.
3. The Ministry of Commerce proposes to transfer 10-15 items from Liberalization List II to Liberalization List I in the framework of the 1983 import program. The State Planning Organization suggests adding to the lists some items whose importation is prohibited (The recent memo on SAL reflects a misunderstanding on this point. The importation of all items excluded from Liberalization Lists II and I are effectively prohibited, and the catch-all "others" category on the former list is not used for their importation). I urged both the Minister of Finance and the Undersecretary for Planning, who had publicly expressed support for import liberalization, to increase the scope of liberalization in reviewing the 1983 import program proposal. At the same time, in response to references made to recent protectionist actions in Western Europe, I pointed to Turkey's self-interest in reducing the protection of the domestic market that encourages high-cost production and, with increased domestic demand due to the good harvest of 1982, may also discourage exports.
4. Increased domestic demand may have contributed to the lack of fulfillment of export targets; instead of the \$6.1 billion cited only last month in an OECD report, 1982 exports are likely to be in the \$5.7-5.8 billion range, with much of the shortfall concentrated in the last several months. Foreign protectionist measures do not seem to have importantly affected the results; rather, the slowdown in the devaluation of the Turkish Lira and the absolute decline in export

credits appear to have been the principal influences.

5. It may be recalled that in my aide-memoire of June 1981, I recommended a speed-up in the depreciation of the Lira in order to offset the appreciation in real terms (i.e. adjusted for price changes at home and abroad) that had occurred in the preceding months. This was accomplished in the second half of 1981, and the Lira was devalued in line with changes in relative prices in the first half of 1982. A slowdown in the depreciation of the Lira occurred, however, in the second half of 1982. While in the first half of the year the Lira depreciated by 24 percent vis-a-vis the U.S. dollar, the extent of the depreciation was only 12 percent in the second half (until December 10). A slowdown in the depreciation is shown even vis-a-vis the German Mark that lost value in terms of U.S. dollars in the first half of the year. At the same time, while the official price indices show some improvement on the inflation front, rates of inflation declined in the United States and Germany as well, and the rise of petroleum prices by 20-30 percent in Turkey in late November has led to price increases on a wide range of industrial products that have benefited from increased domestic demand.

6. The appreciation of the Turkish Lira in real terms has been felt by exporters, in particular of textiles, who report a deterioration in their competitive position abroad. Another influence has been the approximately 20 percent decline in export credits provided by the Central Bank between December 1981 and December 1982. With the TL value of exports rising by about one-half, the credit coverage of exports declined greatly. This has caused considerable difficulties for exporters, in particular in the purchase of imported inputs, and it is expected to give rise to increasing difficulties next year.

7. The volume of export credits has been reduced, notwithstanding the fact that Turkey has exceeded its credit targets. This is explained by the Central Bank providing help to commercial banks in difficulties, by the large increase in the financing of SEEs that stock foodstuffs whose production rose to a considerable extent, by the increased credit demands of other SEEs, and by the larger than expected budget deficit.

8. In order to ensure the continued rapid expansion of exports, it would be necessary to re-establish earlier levels of availability of export credits. This would require, in turn, reducing credit for carrying agricultural stocks that has not been conducive to sales from these stocks; increasing financial discipline in the SEEs; and limiting the growth of budgetary expenditures.

9. In order to promote exports, one may further encourage reliance on short-term foreign credits. This would require giving exporters the privilege to retain the proceeds of these loans in foreign exchange accounts that are today available for constructors and workers abroad. At the same time, the June 1982 real exchange rate of the Turkish Lira would have to be re-established.

10. Increased credit facilities for exporters would need to be accompanied by increases in preferential credit for export-oriented investments. Requests for investment licenses, necessary to obtain preferential credit and tax treatment, decreased to a considerable extent in 1982. There have been practically no demands for investments oriented to domestic markets that pay an interest rate, adjusted for compensating balances, of over 70 percent. There has also been a decline in demands for investment licenses in export-oriented activities that pay an interest rate of 26 percent of fixed capital investment but 70 percent on circulating capital, again adjusted for compensating balances.

11. Enlarged credit facilities for exports and investment would reduce the excess demand for credit on the part of the private sector that has contributed to real interest rates in excess of 30 percent. As the experience of the countries of the Southern cone of Latin America indicates, such high real interest rates cannot be maintained without endangering the health of the economy. In fact, banks often add interest rates to loan value, without expectation of repayment, in Turkey.

12. In order to lower interest rates, the government plans to reduce the withholding tax on interest earnings from 25 to 20 percent, and to limit interest rates paid by large banks to 45 percent, representing a reduction in after-tax rates from 37.5 to 36 percent. It also plans to reduce the financial transactions tax from 15 to 8 percent on inter-bank transactions; it earlier planned eliminating taxes on such transactions. These measures appear timid compared to recommendations made by Bank missions. In evoking these recommendations, I suggested reducing the tax on financial transactions other than those carried out among banks. In his reply, the Minister of Finance indicated that he would consider lowering this tax from 15 to 12 percent; in my aide-memoire of June 1981, its complete elimination was recommended.

13. Needless to say, under the system of free interest rates, the full effects of tax reductions will be felt only if measures are taken to reduce the credit demands of the public sector as suggested above. At the same time, there would be need for the long-promised reform on the banking system. Such a reform could include a review of the loan portfolio of banks by the Ministry of Finance and the Central Bank, with a view to establishing reserves for bad debts; strenghtening banks through consolidation; and making a start in reducing ties between banks and industrial groupings. In turn, the banks could give help to enterprises that are in financial difficulties but are basically sound.

14. Such measures would need to be taken both to ease the difficulties of the financial system and to improve the general atmosphere that has deteriorated since my last visit to Turkey in August. The uncertainty of expectations as regards governmental policies has also affected the price of gold and the parallel exchange rate that now exceeds the official rate by 23 percent compared to earlier differences of 2 to 5 percent.

15. A final point. I have received repeated requests in Turkey for copies of the Industrialization and Trade Strategy Report; even in the government few people have copies of the report. In view of the relevance of its recommendations to the present situation, it is to be regretted that the red cover version of the report has not yet appeared; the delay has been longer than the seven months it took to write the report itself.

cc: Messrs. Chaufournier, Picciotto, Chaffey, Dubey, Asfour, Roy,
ERS Directors, DRD Senior Staff, CPD Senior Staff

BBalassa:nr

Affidavit re Lost Ticket

I hereby certify to have lost my airplane ticket on my trip,
Washington-Paris-Beijing-Washington last May.

Bela Balassa

Copies to: World Bank Travel Office
Expense Division (Susan Hamilton, I4-138)
(James Clagett, I4-162)

Classification
Name

Description

Observation

Status

Minimum Needed

Code	Classification	Description	Observation	Status				Minimum Needed			
				V	O	X	W	P	E		
<u>1. Food, Beverages, and Tobacco</u>											
3111		Slaughter, Processing, Preparing Meat and	Meat Products	2				1	1	1	2
3112		Milk & Dairy Products		3					1	2	3
3113		Processing of Fruits & Vegetables	drop	1	2	1		3	+	+	+
3114		Canning, Preserving Fish & Shellfish	dropped					3	-	-	-
3115		Manufacture of Vegetable Oils & Fats	AI	3					-	3	3
3116		Grains, Grain-Mill Products	AI	2					-	2	2
3117		Bakery Products	AI	2				1	-	2	2
3118		Sugar	AI	2					+	-	+
3119		Manufacture of Cocoa, Chocolate, Sugar Con.	AI	1	1				-	+	+
3121		Tea Processing, Processing of Shelled Fruit		2					1	1	2
3122		Manufacture of Refined Alcohol	drop	2					+	+	+
3131, 313		Beverages	drop		1						
3140		Tobacco Processing & Products	drop	1	1				+	-	+
<u>2. Textiles & Clothing</u>											
3211.1		Woolen Yarn		2				2	-	2	2
3211.3		Woolen Yarn		1	1		3		-	2	2
3211.4		Woolen Textiles		2			4	1	+	1	+
3211.5		Cotton Textiles		3			3	4	2	2	+
3211.6		Silk Yarn & Textiles	AI	1			2	1	+	+	+
3211.6, 7		Synthetic Yarn & Textiles		3			1	1	+	2	2
3211.8		Linens, Lisle Yarn & Fabrics	dropped								
3212		Textile Goods, except Wearing Apparel	AI		1		5	1	-	+	+
3213		Knitting Mills			1	1	1	2	-	+	+
3214		Rugs & Carpets		1		1	1	1	-	+	+
3221		Wearing Apparel Made of Fur or Leather		1			2	1	-	1	1
3221.1		Wearing Apparel			1	2	2	3	-	2	2
3222.1		Underwear		2	1		2		-	2	2
31		Food, Beverages, & Tobacco		19	5	1	-	8	+	13	21
32		Textiles, Clothing		16	5	5	26	17	3	18	21

Classified Number	Description	Observation	Stamps	Minimum Needed
			V D O . + KIT S. E	
323, 324 323, 324	Leather & Leather Products			
3231	Tanned & Leather Finishing		1 1 1	- 1 1
3232, 3233	Leather Products except Footwear	dropped		1 - -
3240	Footwear	plastic shoes	2 4	1 1 1
			3 1	1 1 1 2 3
33	Forest Products			
3321.1	Sawmills, Planing, & other Woodmills		4	1 2 1 2
3320	Manufacture of Wooden Furniture	A1	1	7 - 1 1
3321			5	1 9 1 2 3
34 x 3421	Paper & Paper Products			
3411	Manufacture of Pulp, Paper, & Plywood		1 1	1 1 1 2
3412-9	Manufacture of Containers & Boxes		3	1 1 - 2 2
			4 1	2 2 1 3 4
3421	Printing	dropped	1	1 - - -
35	Chemicals			
3511	Basic Chemicals		5	1 1 1 1 2 3
3512.1	Pesticides, Insecticides	A1	4	- 1 1
3512.2	Chemical Fertilizers		3	1 2 3
3513	Synthetic Resins, Plastics, Synthetic Fibers, & other Plastics	dropped	1	1 - - -
3521	Paints, Varnishes, Lacquers		1	1 2 - 1 1
3522	Pharmaceuticals		5	- 2 2
3523	Explosives, Ammunition, Pyrotechnics, & other		2	2 - 2 2
3524	Other Chemical Products		1 1	+ + 1 1
	other		4	1 2 3
			20 1	8 1 6 3 12 15

Classification
Number

Description

Observation

Notes

Minimum
Used

353, 356	Petroleum Product		V & O	0	x	KIT	Pr	8
3530	Petroleum Refinery	drop		?		-	-	-
3541-44	Petroleum Product		1	1		-	1	1
	Petroleum Product		1			1	-	1
			2	1		1	1	2
	Rubber & Plastic / Rubber Lines		2			-	2	2
3551	Rubber Tires & Tubes		3			-	3	3
3553	Rubber Products other than Tires & Tubes	A 1		2	2	-	2	2
3560	Plastic Products except Footwear		5	1		-	2	2
			10	1	2	2	-	7
361, 361	Footwear & Casual Products, Canvas				2	-	-	1
3610	Canvas				1	2	-	1
3691	Footwear		1	1	2	-	-	1
3692	Casual, Line & Knitwear	A 3	4	1	1	2	3	4
3699	Casual Products	drop				3	-	-
			5	-	2	1	7	3
3620	Plan		3	-	-	-	-	2
3710	Iron & Steel							
3716	Iron & Steel: Basic Metals		6	1		2	2	4
3716	Castings	A 1	6	1			-	2
			12	2		2	2	4
3720	Non-ferrous Metals							
	Aluminum		2				1	1
	Copper		2	1			1	1
	Other		1				+	+
			5	1			3	2

Classification

Number	Description	Observation	Value	Min	Max
3810	Metal Product		✓ 8 0 . X		
3811	Alloys, Hard Metals, & Special Metals	A1	2		- 2 2
3812	Metal Finishes & Treatments		1		- 1 1
3815	Machined Metal Product		2		- 2 2
3818	Other Metal Product		1	1	2 - 1 1
382	Machinery		6	1	2 - 4 4
3821	Engines		3		1 - 1 1
3822-5	Metal & Workholding, Special ^{Ballballs}	C	6 2		2 1 5 8
3828	Machinery, N.E.C. Serv. Mach.		1 5 1	5	- 1 1
3829.7	Refrigeration, Water Pumps, Vehicle Engines	C	2	1	1 - 2 2
			12 7 2	9	1 5 16
382	Agricultural Machinery & Equipment				
3822.1	Tractors		1	1 2	- 1 1
3822.2	Agricultural Machinery	Other		2 1 2	- 1 1
			2 - 3 3 2		- 2 2
3831.1	Electrical Machinery				
3831.1	Electrical Motors		4		1 - 3 3
3831.2-5	Machinery & Equipment		1	1 1	- 1 1
3833	Appliances & Home		2		- 2 2
3833	Other		1	2	2 - 1 1
			8	3 1 3	- 6 6
3832	Electronics				
3832.1	Electronic Control Panels		1 1		2 - 2 2
3832.2	Electronic Keyboards		1	1	- 1 1
			2 1 1	2	- 3 3

384	Tropical Export							
3841	Highbuild	day?	2	2	-	-	-	
3842	Road Vehicle		1		-	-	4	6
3843	Lab. Acc	← check shop? in lab?	8	5	7	-	8	7
3842.1	Passenger Car		2			-	2	2
3843.2	Truck, bus	← bus truck C	5	2		-	4	4
3844	Motorcycle, bike		1	1		-	1	1
			15	7	7	1	9	- 10 10
3845	Student Export		1	2		-	-	-

OFFICE MEMORANDUM

TO: Mr. Antonio Schwartz, EM2
FROM: Bela Balassa, DRD
SUBJECT: TUNISIA: Export Promotion

DATE: December 29, 1982

1. As I mentioned to you on the telephone, I was not aware of an export promotion study being commissioned under the Bank's technical assistance loan to Tunisia. I hope that undertaking such a study would not lead to postponing the implementation of export promotion measures recommended in my two aide mémoires.

2. I find it rather excessive to survey 300 firms in order to arrive at conclusions on existing constraints to exports. A much smaller sample would suffice and emphasis should rather be given to analysing the modalities of promotional measures, with a view to formulating concrete recommendations. Most of these measures are independent from CEPEX, and hence I do not find it appropriate "to define a policy of export promotion centered around CEPEX."

3. More generally, the experience of a number of developing countries shows that export incentives have been far more important than the operations of an export centre in promoting exports. I am concerned, therefore, with the rather extensive orientation of the proposed study towards CEPEX. In particular, I would not find it desirable for CEPEX to concern itself with "the orientation of imports towards markets that are likely to increase their purchases in Tunisia."

cc: Messrs. Asfour, EM2; Coudol, EMP; Fernandes, EM2; Reichelt, EM2.

BBalassa:nc

December 29, 1982.

Mr. Truus W. Koopmans
Journal of Comparative Economics
Box 16A, Yale Station
New Haven, Connecticut 06520

Dear Mr. Koopmans:

The enclosed three pages were left out, by mistake, from
Mr. Balassa's letter to you last week.

Yours sincerely,

Enclosure

Norma Campbell
Secretary to
Bela Balassa

sent to P/B

domestic prices of raw materials and basic intermediates were free to vary with the changes in prices paid in convertible currencies and in the exchange rate, while energy prices were fixed centrally and modified intermittently in response to changes in world-market prices.

Industrial exporters received the price obtained in convertible currencies, times the exchange rate, plus a rebate for imputed indirect taxes that is set at 10% of export value (except for light industrial products, originally 16% but subsequently reduced to 13%, and for iron and steel, originally nil, but subsequently set at 5%). Exceptions were made, however, in cases when the domestic cost of earning foreign exchange exceeded the sum of the exchange rate and the tax rebate. In such instances, compensation continued to be provided for a period of five years on a decreasing scale. Also, production taxes for individual firms were abolished and while firms may continue to receive budget support, this ^{was} done on a temporary basis. ^{4/}

✓

As of January 1, 1980, firms that exported more than 5% of their output in convertible-currency trade were required to set the prices of their domestic products by calculating with a profit margin based on the domestic cost of earning foreign exchange in exports. Where this ratio equaled the exchange rate adjusted by the 10% tax rebate, firms could apply a profit margin of 6% on the sum of their fixed capital and the wage bill; the allowed profit margin rose to 12% for firms that had a domestic cost ratio one-fourth lower than the exchange rate; and it declined to nil in the case of firms that earned foreign exchange through exports at a cost one-third higher than the exchange rate. ^{5/}

5 ✓

Firms were allowed to subsequently raise their average domestic prices to an extent greater than the increase in their average export prices; they were obligated to reduce domestic prices if export prices declined, with changes in

that are known to have a downward bias. Finally, the low elasticity of import demand in the past may reflect the large profits made in transforming imported inputs into goods sold domestically, in ruble trade, and in convertible-
 currency trade as the prices of these inputs were kept artificially low 15/, as well as the fact that the operation of the profit motive was hampered by the pervasiveness of taxes and subsidies in the second half of the seventies. In fact, there is evidence that firms have attempted to reduce their demand for imported raw materials in response to the rise of their prices and the increased importance of the profit motive after January 1, 1980, and that consumers have economized ^{on} with the use of energy as increases in world-market prices have been partially transmitted to the consumption sphere (Medgyessy, 1981, p. 40).

In a simultaneous-equation analysis of Hungarian exports to West Germany, its largest trading partner among capitalist countries, statistically significant results with the correct sign have been obtained for the supply of exports in regard to about one third of the products, with the elasticities clustering around two (Wolf, 1981). 16/ This has been the case in particular for products where a priori considerations indicate that profit-maximizing behavior predominated. After 1980-81, such behavior is expected to be the general rule, and the positive correlation between export expansion and the profitability of exports, noted above, points to the responsiveness of export supply.

At the same time, the system of incentives introduced in January 1980 puts a premium on setting a realistic exchange rate in Hungary. Failing this, the firms will be discouraged from undertaking exports that are produced at a domestic cost that exceeds the actual exchange rate but falls short of the equilibrium rate. The latter is defined as the rate that would keep the

the manufacture of gearshifts, and the making of automobile windshields (Török, 1980).

It would also be desirable to modify existing regulations that allow the same profit margin for firms in the noncompeting sphere as for firms that export at the existing exchange rate adjusted for the tax rebate. The absence of exports in convertible currency trade can be taken as prima facie evidence of the lack of competitiveness of firms in the noncompeting sphere. An additional consideration is that these firms can raise their profits above the allowed margin more easily than firms that are subject to the discipline of the world market. This has in fact been the case following the January 1980 price reform, when noncompeting firms raised their profits substantially more than firms that competed abroad (Medgyessy, 1980).

The decline in the average export exchange rate would have an anti-inflationary effect. The price of products subject to import protection would also decline following the liberalization of imports. And while these changes would be more than offset by increases in the domestic prices of imported materials that are subject to low tariffs, the resulting average increase should be manageable within the limits of the 4-5% annual rate of inflation foreseen for the period of the sixth five-year plan as long as continued adjustments are made in the exchange rate to offset higher inflation abroad.

In 1968, the commercial exchange rate exceeded the tourist exchange rate by 100%. This difference was reduced over time, contributing to improvements in resource allocation. The unification of the two rates in mid-1981, however, has involved an economic cost. This is because tourism is effectively subsidized in Hungary through artificially low consumer prices, thereby raising the domestic cost of earning foreign exchange in this activity.

Doc. 1982

CONCLUSIONS ET RECOMMANDATIONS

INTRODUCTION

Grace a la croissance rapide de la demande intérieure et la mise en oeuvre des mesures protectionnistes, il s'est produit au Maroc un essor rapide de la production industrielle apres l'indépendance. Malgré des investissements importants apres la révision du code des investissements industriels en 1973, le rythme du développement industriel s'est ralenti pendant la période de 1973-79 ou il était inférieur a celui du revenu national. La tendance vers la baisse a continué depuis et pendant les deux dernieres années la production industrielle a stagné.

Plusieurs facteurs ont contribué a ces résultats. D'abord, dans le marché exigu du Maroc les possibilités de remplacement des importations se sont trouvées de plus en plus épuisées. Ceci s'est produit malgré le fait que les utilisations plus fréquentes des restrictions quantitatives ainsi que les augmentations successives de la taxe spéciale, qui a été portée a 15 pour cent (16.5 pour cent le timbre douanier inclus), ont accru le niveau de protection. L'augmentation de la protection industrielle a rendu plus sévère la discrimination du systeme des incitations a l'égard des exportations industrielles. En particulier, la taxe spéciale, qui représente une dévaluation implicite de 16.5 pour cent pour les importations, n'a pas de contrepartie pour les exportations.

Si les exportations industrielles ont néanmoins augmenté ces dernieres années, ceci a été du en grande partie a l'exploitation des possibilités offertes dans quelques activités utilisant la main d'oeuvre et les inputs importés (vêtements, électroniques) et aux effets defavorables de la conjoncture économique nationale sur l'utilisation des capacités

industrielles. Ainsi, plusieurs années de médiocres ou de mauvaises récoltes ont atténué la demande intérieure pour les produits industriels, poussant les firmes vers les marchés extérieurs.

De bonnes récoltes entraîneraient une augmentation de la demande intérieure pour les produits industriels, mais les exportations industrielles pourraient en souffrir, étant donné les avantages financiers que présentent les marchés intérieurs hautement protégés. En même temps, un essor rapide des exportations industrielles est nécessaire pour assurer un sain développement industriel basé sur les avantages comparatifs du Maroc, l'exploitation des économies d'échelle, ainsi qu'une amélioration de la balance de paiements.

L'écart en ressources (la différence entre les importations et les exportations des biens et des services, excluant la compensation des facteurs de production) a atteint un record de 16.5 pour cent du PIB au Maroc en 1977. Il a baissé pendant les années suivantes jusqu'à un niveau de 8.0 pour cent du PIB en 1980. Il a augmenté depuis à 12.6 pour cent du PIB en 1981 et, selon les dernières estimations, il est de 12.6 pour cent du PIB en 1982.

Ce rapport propose des changements dans la politique industrielle marocaine pour promouvoir les exportations et améliorer l'efficacité de l'industrie. Par le biais de l'augmentation des exportations ces mesures auraient des effets favorables sur la balance de paiements. En même temps, leurs conséquences fiscales pourraient être neutralisées sans augmentation du poids des impôts sur l'économie.

Suivant une description de la structure et du développement de l'industrie marocaine (chapitre 1), le rapport passe en revue le système d'incitations à la production (chapitre 2), le système d'impôts et de la promotion des investissements (chapitre 3), et la financement industriel

(chapitre 3). Les principales conclusions et recommandations du rapport sont reproduits ci-apres.

Incitations a l'Exportation et au Remplacement des Importations

Comme il a été indiqué ci-dessus les augmentations successives de la taxe spéciale sur les importations ont aggravé le biais du systeme d'incitations contre les exportations au Maroc. Ainsi, une premiere mesure pour promouvoir les exportations serait de supprimer la taxe spéciale.

L'élimination de la taxe spéciale entrainerait une augmentation des importations. Pour atteindre le but d'améliorer la balance de paiements, cette mesure devrait être accompagné par une dévaluation du dirham. Sous l'hypothese que le taux de la dévaluation serait égal a celui de la taxe spéciale actuelle, il en résulterait une subvention implicite a la valeur ajoutée des exportations de 16.5 pour cent sans aucun changement des prix a l'importation.

Selon les calculs de la mission, apres une année d'ajustement, une dévaluation compensée de 16.5 pour cent donnerait lieu a une augmentation des exportations marocaines de 12 pour cent et une amélioration de la balance courante de 344 millions de dollars. En meme temps, le déficit budgétaire augmenterait de 1.5 milliard de dirhams sous l'hypothese d'une hausse du prix des produits compensés, dans la mesure ou cela est rendu nécessaire par la hausse du cout en dirhams des importations de ces produits de premiere nécessité.

Ce déficit supplémentaire pourrait etre financé par une augmentation de 2.5 points de la taxe sur les produits et les services (TPS). Il est souligné que le fardeau fiscal sur les ressortissants marocains serait réduit, étant donné la réduction importante des recettes provenantes de la taxe

spéciale. On pourrait envisager, en outre, la suppression de l'exonération de l'impôt sur les bénéfices professionnels (IBP) dont bénéficient les exportations.

Une autre alternative serait d'accorder une subvention directe et explicite en fonction de la valeur ajoutée des exportations. Cette alternative risque de rencontrer des problèmes d'ordre administratif et politique ainsi qu'une tendance à restreindre son champ d'application. En même temps, une subvention limitée aux exportations des produits industriels aurait des effets beaucoup moins importants sur la balance de paiements que la suppression de la taxe spéciale accompagnée d'une dévaluation de même ordre, quoique ses répercussions sur le budget et l'endettement extérieur des entreprises seraient plus favorables.

Dans les deux cas, l'amélioration de la balance de paiement serait principalement le résultat de l'expansion des exportations, ce qui entraînerait des effets multiplicateurs dans l'économie. Une telle politique d'ajustement est préférable à une politique déflationniste qui aurait des effets défavorables sur l'activité économique au Maroc. Elle contribuerait en outre à un sain développement industriel basé sur les avantages comparatifs du Maroc, à l'augmentation du taux d'utilisation des capacités, à l'exploitation des économies d'échelle, ainsi qu'au progrès technique.

L'application immédiate des mesures proposées n'est pas envisagée. Elles pourraient plutôt être détalées sur deux ans avec un changement des taux semestriels, pour éviter des secousses sur l'économie nationale. Néanmoins, les modifications des taux devraient être annoncées à l'avance pour encourager les exportations. Ceci engendrerait aussi des nouveaux investissements dans l'exportation, ce qui amènerait une augmentation des exportations au-delà des

previsions chiffrées qui sont basées sur une utilisation accrue des capacités existantes.

Les mesures proposees reduiraient la discrimination contre les exportations, mais il resterait neanmoins une discrimination importante due a l'existence de droits de douane et de restrictions quantitatives a l'importation. Cette discrimination favorise les activites industrielles protégées qui ont un cout economique de devises épargnees par le remplacement des importations plus élevées que le cout économique des devises gagnées par les exportations. Ceci représente une perte pour l'economie marocaine qui devrait etre réduite par des incitations supplémentaires aux exportations et par la réduction de la protection industrielle.

Pour réduire davantage la discrimination du systeme des incitations contre les exportations, et pour améliorer l'efficacité, de l'industrie marocaine, le rapport propose un effort de promotion accru pour les exportations ainsi qu'une libéralisation. La plupart des mesures de promotion pourraient etre appliquées sans delai. D'autre part, la libéralisation des importations pourrait etre étalée sur cinq ans afin d'assurer un ajustement.

OFFICE MEMORANDUM

TO: Mr. R. Agarwala, AEA

DATE: December 29, 1982

FROM: Bela Balassa, DRD

SUBJECT: WDR VI. Ch. 6. Macro-management

1. The expression "macro-management" conjures up short-term macroeconomic policies, which are not covered in the chapter. Yet, for the understanding of adjustment policies, some attention would need to be paid to them. The discussion of policy-imposed distortions in the first part of the chapter is very interesting, but questions arise concerning the emphasis given to planning and to the collection of statistical information in the rest of the chapter. Some general comments follow; I also made marginal comments on the chapter that is returned herewith.

Policy-Induced Distortions

2. The chapter makes a contribution to the discussion of policy-imposed distortions, but it neglects previous work on the subject (Para. 6.3). The import substitution-export promotion debate goes back to Prebisch and Haberler; it has been vigorously pursued by Little, Scitovsky, Scott, Bhagwati, Krueger, and myself over the past fifteen years. In "Reforming the System of Incentives in Developing Countries," World Development, 1975, I stated the need to remedy distortions in factor markets; this issue has received considerable attention in the writings of Fry, Krueger, and others in recent years. Cf. also my "Disequilibrium Analysis in Developing Economies: An Overview," July 1982.

3. The statement made in regard to African countries pertains to a relatively small subgroup of interventionist countries in sub-Saharan Africa (Cf. my "Adjustment Policies and Development Strategies in Sub-Saharan Africa, 1973-78," November 1982). These countries are characterized by the overvaluation of the exchange rate (Para 6.5), bias against exports (Para. 6.6), and unrealistic energy prices (Para. 6.9), which is not the case for market oriented sub-Saharan African countries. Also, in discussing policy-imposed distortions, note should be taken of price control and of the excessive margins of parastatal trading companies.

4. These sources of distortions require particular attention in considering the interdependence of incentive measures. Price controls are often used to moderate (usually unsuccessfully) the price-raising effects of high protection while the trade monopoly of parastatals is a manifestation of the distrust of the price mechanism. Note further that high wages can be offset by a devaluation as the relevant consideration is the cost of labor in terms of foreign currency.

5. Figure 6.1 represents an interesting attempt to indicate the extent of various forms of distortions in developing countries. At the same time, it should be recognized that the protection of agriculture and that of

manufacturing are symmetrical. It is surprising, therefore, to find high distortions in agriculture to be associated with low distortions in manufacturing in Cameroon, Korea, Yugoslavia, and Argentina. In general, the protection of manufacture appears to be underestimated; thus, Argentina, Mexico, and Yugoslavia should not come into the low protection category. There are finally considerable labor market distortions, especially in Latin America, which are not shown in Figure 6.1.

6. In the discussion of economic liberalization in the Southern Cone, it would be necessary to separate the pre-1979 and the post-1979 periods. While the first period was characterized by reductions in distortions, with favorable effects on exports and on economic growth, in the second period the appreciation of the exchange rate introduced new distortions, resulting in adverse changes in exports and in GNP. The "adverse side effects" in these countries have in fact been due in large part to the increasing overvaluation of the exchange rate. The lack of an adequate devaluation, representing a mistaken application of the monetary approach to the balance of payments, would need discussion in the text as it has given rise to much controversy. Note finally that dislocations in 1974-75 in Chile were followed by a GNP growth rate higher than that of Uruguay.

7. Table 6.2 is confusing in its present form. The table should include only countries where structural adjustment has occurred. Also, GNP growth rates should be provided in the periods immediately preceding and following the adjustment (e.g. 1973-76 and 1976-79 for Chile and Uruguay).

8. The discussion of the practical application of adjustment programs errs on the side of caution. Korea and Taiwan provide examples of successful liberalization within a very short period in the early sixties; in some respects, this applies also to Turkey in the early eighties. In Brazil, too, far-reaching reforms were undertaken in the mid-sixties, representing a turn towards outward orientation, that was partly undone after 1973. The insert on Brazil should describe these policy changes; they are discussed in my "Incentive Policies in Brazil," World Development, November-December, 1979. In the paper, I also take a less sanguine view of Brazilian development than does the chapter.

Planning in Developing Countries

9. It is not clear what is meant by "planning" in the discussion of institutional reforms. But, whatever the definition used, one cannot say that most non-socialist states "took to planning seriously and these efforts drew heavily on the macro-model and input-output techniques developed in the post-war period as well as the experience of the Marshall Plan in Europe and the French indicative planning" (Para. 6.23). While such techniques have been used in India, this has hardly been the case in Turkey and the Philippines; the Marshall Plan cannot be considered planning; and French indicative planning has had little influence on developing countries. At any rate, indicative planning in France did not survive entry into the Common Market (cf. my "Whither French Planning?" Quarterly Journal of Economics, November

1965). And, the present socialist government of France appears to make little practical use of planning.

10. The chapter also overstates the role of planning in Korea and in Japan. In Korea, it is the Blue House rather than the Economic Planning Board that makes the final decisions, often against the advice of the EPB. Also, Korea's success in exporting is explained by incentives rather than by planning. MITI's role in Japan has also been overstated. In new industries, MITI provides general support but, rather than selecting natural champions, it expects firms to compete in domestic as well as in foreign markets.

11. As regards the future, I like the idea of "policy planning" but doubt that this can be efficiently done by the existing planning agencies of many countries. A case in point is Morocco, where the planning agency continues to churn out plans that have little resemblance to reality while actual policy making is done elsewhere. Given existing differences in institutional arrangements, the Bank should not advocate a coordinating role for planning agencies; nor did these agencies have a "directing role" in the past as suggested in the chapter (Para 6.28).

12. At the same time, attention would need to be given to project evaluation in the public sector as well as to investment incentives in the private sector. Few developing countries have effective project evaluation units, whether in planning agencies or in investment banks, although these are necessary for the efficient choice of public investment projects. Also, a reform of investment incentives would be desirable as existing schemes often favor capital-intensive and import-intensive projects while export-oriented investments generally receive few incentives.

Statistics

13. A detailed discussion of statistical information systems is out of place in the WDR, I believe. Also, while one would agree on the need for good data on external debt and debt service payments, these are available in an increasing number of developing countries where national accounts and balance of payments data may receive priority. I also wonder about the desirability of making a pitch for the use of micro computers in the report.

cc: Messrs. Wright, VPERS and Landell-Mills, CPD.

BBalassa:nc

1 1 61007

DR. JORGE CAUAS, BANK OF SANTIAGO, CASILLA
14437, SANTIAGO, CHILE

I SUGGEST MONDAY JANUARY TENTH FOR LUNCH. ROBERTO TOSO WILL DISCUSS
ARRANGEMENTS WITH YOU. REGARDS, BALASSA

CABLE

1/28/82

Bela Balassa

Bela Balassa

BBalassa:nc

DRD - Director's Office

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FM BANCO DE SANTIAGO - SANTIAGO - CHILE.

DECEMBER 23, 1982.

TO WORLD BANK - WASHINGTON D.C. - U.S.A.

ATTN.: PROF. BELA BALASSA.

UNFORTUNATELY, I HAVE THE MEETING OF THE BOARD OF THE BANK ON TUESDAY
JANUARY 11. I SUGGEST EITHER MONDAY 10, WEDNESDAY 12 OR THURSDAY 13
AT 1:30 P.M.

PLEASE CONFIRM.

REGARDS

JORGE CAUAS

+++

NCB

248423 WORLDBANK

441096 BASAN CZ

))))

1 1 61007

AMBASSADOR JAMES THEBERGE, AMERICAN EMBASSY
CHILE, MIAMI APOPO. 34033, FLORIDA
JANUARY 14 FOR DRINKS AT 6 P.M. IS FINE. REGARDS, BALASSA

CABLE

12/28/82

Bela Balassa

Bela Balassa

BBalassa:nc

DRD - Direcotrs Office

1 1 61007

ROBERTO TOSO, CENTRAL BANK OF CHILE,

SANTIAGO, CHILE

PRIMO VITTORIO CORBO ARRANGED MEETINGS FOR ME FOR ALL OF TUESDAY
JANUARY 11 INCLUDING LUNCH. PLEASE MAKE ARRANGEMENTS ACCORDINGLY.
SECUNDO TWO PAPERS ARE BEING SENT TO YOU TODAY. REGARDS, BALASSA

CABLE

12/28/82

Bela Balassa

Bela Balassa

DRD Director's Office

BBalassa:nc

December 28, 1982.

Mr. S. Bhagwan Dahiya
Incharge, Planning Forum
Department of Economics
M.D. University
Rohtak - 124001
India

Dear Mr. Dahiya:

Please excuse the delayed answer to your letter of October 29th. I enclose a copy of my paper "Structural Adjustment Policies in Developing Economies" which you may wish to use under heading 1. I will be happy to send you additional copies of the paper if desired.

Yours sincerely,

Enclosure

Bela Balassa

1 1 61007

CARLOS MASSAD, UN ECONOMIC COMMISSION FOR
LATIN AMERICA, AVENIDA DAG HANMARSKJOLD, CASILLA 1790, SANTIAGO, CHILE
WILL CALL YOU ON ARRIVAL ON JANUARY FOURTEEN TO DISCUSS MEETINGS.
REGARDS, BALASSA

CABLE

12/28/82

Bela Balassa

Bela Balassa

DRD Director's Office

BBalassa:nc

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WORLD BANK

INTBAFRAD WASHINGTON DC

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SG528-12 BELA BALASSA. YOUR TELEX DECEMBER 22. RAMOS WILL
BE OUT OF TOWN IN JANUARY. BIANCHI IS RETURNING ON JANUARY 13.
SUGGEST MEETING WITH HIM JANUARY 14 AT LUNCH IN MY HOUSE. I WOULD
BE GLAD TO SEE YOU ANY OTHER TIME CONVENIENT TO YOU, INCLUDING
JANUARY 10 AFTERNOON AT ECLA. ENRIQUE IGLESIAS WOULD ALSO LIKE TO
SEE YOU ANY TIME FROM JANUARY 12 ON. COULD YOU CONSIDER GIVING A
TALK AT ECLA ON SUBJECT OF YOUR CHOICE? HAPPY HOLIDAYS.
(CARLOS MASSAD)

COL SG528-12 22 13 14 12

✻

WORLD BNK 440098

340295 UNSTGO CKGGG

December 28, 1982.

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

Dear Professor Hic:

I enclose a copy of my letter to Professor Ongut. I further enclose two copies of the table we prepared on individual sectors and subsectors. Please give one copy to Mr. Yagci. May I also ask you to tell Yagci that I have discussed the questionable computer results with Mr. Pursell who will be available for further discussions at the time of Yagci's visit to Washington.

Yours sincerely,

Enclosures

Bela Balassa

Enclosed copy of letter to Professor Ongut and 2 copies of tables.

December 28, 1982.

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

Dear Professor Bognar:

It was a pleasure seeing you and I much enjoyed the discussions we have had. Please give my sincere thanks to your wife for the excellent "goûter."

As a follow-up to our discussion, I would like to suggest "Policy Responses to External Shocks in Socialist Countries: Hungary and Yugoslavia" as the title of my paper. The paper will analyse the experience of the 1974-75 and the 1979-80 periods and make comparisons with capitalist countries at a similar level of development.

I would like to ask your agreement of having Ms. Laura Tyson co-author the paper. Ms. Tyson is a foremost expert on Yugoslavia and she has recently made calculations on policy response to external shocks in Hungary. May I ask that you write a letter of invitation that will permit her to obtain financing of travel to Madrid from her university. The address is Department of Economics, University of California, Berkeley, California 94720.

With best wishes for the New Year, I remain,

Sincerely yours,

Bela Balassa

cc: Professor Laura Tyson
Department of Economics
University of California
Berkeley, California 94720



Record Removal Notice

File Title Bela Balassa's chron files - December 1982	Barcode No. 30225155
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Document Date Dec 28, 1982	Document Type Letter
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Correspondents / Participants
To : Mr. Henry P. Gassner, EM2
From : Bela Balassa, DRD

Subject / Title
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Reason for Removal
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Additional Comments

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

Withdrawn by Chandra Kumar	Date Jun 10, 2014
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December 28, 1982.

Mr. Ibrahim Ongut
Turkiye Sinai Kalkinma Bankasi
Meclisi Mebusan Caddesi 137
Tindikli
Istanbul
Turkey

Dear Mr. Ongut:

It was good to see you again, and as always, I very much enjoyed the meeting we had.

I would like to specify in more detail our needs regarding price comparison. It would be appreciated if your files on textiles would be made available to Professor Hic in order to permit him to improve on his comparisons of domestic and world market prices. Also, I wonder if your engineers would be able to help him to make adjustment for quality difference between foreign and Turkish products in various industries.

Thanking you in advance, I remain,

Yours sincerely,

Bela Balassa

cc: Professor Mukerrem Hic
Istanbul University
Faculty of Economics
Institute of Economic Development
Istanbul
Turkey

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

December 28, 1982.

Mr. Ibrahim Ongut
Turkiye Sinai Kalkinma Bankasi
Meclisi Mebusan Caddesi 137
Tindikli
Istanbul
Turkey

Dear Mr. Ongut:

It was good to see you again, and as always, I very much enjoyed the meeting we had.

I would like to specify in more detail our needs regarding price comparison. It would be appreciated if your files on textiles would be made available to Professor Hic in order to permit him to improve on his comparisons of domestic and world market prices. Also, I wonder if your engineers would be able to help him to make adjustment for quality difference between foreign and Turkish products in various industries.

Thanking you in advance, I remain,

Yours sincerely,



Bela Balassa

cc: Professor Mukerrem Hic
Istanbul University
Faculty of Economics
Institute of Economic Development
Istanbul
Turkey



Record Removal Notice

File Title Bela Balassa's chron files - December 1982	Barcode No. 30225155
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 From : Bela Balassa, DRD

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

Reason for Removal
 Personal Information

Additional Comments

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

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

December 23, 1982.

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

My dear friend,

It was a pleasure seeing you again and I much appreciated your organizing a dinner for me. On my way back on the plane, I found an article dealing with the French stock market purchase scheme. I hope that you find it useful.

Yours sincerely,

Enclosure

Bela Balassa

December 23, 1982.

Miss Anna F. Moon
Subsidiary Rights Manager
Pergamon Press Ltd.
Headington Hill Hall
Oxford OX3 0BW
England

Dear Miss Moon:

I am in receipt of a copy of a letter from Fondo de Cultura Economica concerning the publication of my book "The Newly Industrializing Countries in the World Economy" in Spanish. I would appreciate your prompt reaction to this letter with a copy fo me.

I would also like to receive information of the status of the Portuguese publication of the book. I understand that you have been approached on this by a Brazilian publisher.

Finally, I received a letter from a Hungarian publisher indicating that they have contacted Pergamon Press for the rights of publication in Hungarian several months ago but I have not received an answer. I would appreciate your contacting them and letting me know the results.

I very much hope that you can move rapidly on this matter of translation. The interest of the publisher in foreign translation is necessarily dependent on the ability to publish the book soon.

Yours sincerely,

Bela Balassa

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

PEOPLE CONCERNED WITH TRADE POLICY

Korea

Mr. Kim Kihwan
President, Korea Development Institute
Economic Adviser to the Government

Mr. Kim Mahn Je
Professor, Department of Economics
Sogang University
1-1 Shinsoo-dong, Mapo-ku
Seoul, Korea

former President, Korea Development Institute and
government adviser

Singapore

Mr. Augustine Tan
Professor, University of Singapore
Member of Parliament

former Economic Adviser to the Prime Minister

Thailand

Mr. Snoh Unakul
President, National Economic Planning Board
Bangkok
Thailand

December 22, 1982.

Mr. Truus W. Koopmans
Journal of Comparative Economics
Box 16A, Yale Station
New Haven, Connecticut 06520

Dear Truus:

I return herewith pages 3, 11, and 13 of my paper, together with suggested changes in wording on pp. 3 and 11. There is no need for a change on p. 13 as the expression "competitiveness" covers lack of comparative advantage as well as firm-level inefficiencies.

We have agreed with Hewett to follow your recommendations on the form of the references.

Sincerely,

Enclosures

Bela Balassa

- p. 3 As of January 1, 1980, firms that exported more than 5% of their output in convertible currency trade were required to set the prices of their domestic sales by adding to the cost of production an allowed profit margin established on the basis of the domestic cost of earning foreign exchange in exports. Where the domestic cost ratio ...
- p. 11 Finally, the low elasticity of import demand in the past may have reflected the large profits made in transforming imported inputs into goods sold domestically and abroad as the prices of these imports were kept artificially low, as well as the fact that profit incentives were blunted by ...

December 22, 1982.

Mr. E. Stoutjesdijk, DRD

Bela Balassa, DRD

61007

Papers and Memoranda in November 1982

I enclose copies of the revised version of my "Policy Responses to External Shocks in Sub-Saharan African Countries, 1973-78" and my "Trade Policy in Mexico." The revision of my "Adjustment Policies and Development Strategies in Sub-Saharan Africa, 1973-78" was sent to you earlier.

You received copies of the report RPO 672-42 Changes in Comparative Advantage in Manufactured Goods, as well as a copy of my comments on the economic report on Hungary. I now enclose some other substantive memos written in the month of November.

Enclosures
BBalassa:nc

December 22, 1982.

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

Dear Mr. Costa:

I enclose in two copies my paper "Policy Responses to External Shocks in Sub-Saharan African Countries, 1973-78" for your consideration for publication in the Journal of Policy Modeling.

Yours sincerely,

Enclosures

Bela Balassa

P.S. Some of the tables, in particular the appendix tables, could be eliminated from the published version.

Enclosed: Policy Responses to External Shocks in Sub-Saharan African Countries, 1973-78.

December 21, 1982

Ms. Virginia Hitchcock, PUB

Bela Balassa, DRD

61007

Economic Reform in China

I enclose two copies of the above paper that has earlier been accepted for the Reprint Series.

Enclosures
BBalassa:nc

December 21, 1982.

Mr. Halit Narin
Istanbul Chamber of Commerce
Istanbul
Turkey

Dear Mr. Narin:

It was a pleasure meeting you and I hope to see you again on my next visit to Washington. You may be interested in seeing the enclosed paper I presented at a Conference in Istanbul last September.

Sincerely,

Enclosure

Bela Balassa

Enclosed: Outward Orientation and Exchange Rate Policy in Developing Countries:
The Turkish Experience

December 21, 1982.

Mr. Rolf Geberth
Chairman
Turkish Consortium
OECD
2 rue Andre Pascal
75775 Paris Cedex 16
France

Dear Mr. Geberth:

It was a pleasure seeing you again. As promised, I enclose a copy of my back-to-office memo on a confidential basis. I was sorry to find that things do not look very well in Turkey.

With best wishes for the coming holidays, I remain,

Yours sincerely,

Enclosure

Bela Balassa

1 1 61007

AMBASSADOR JAMES THEBERGE, AMERICAN EMBASSY
CHILE, MIAMI APO#34033 FLORIDA
WILL ARRIVE IN SANTIAGO ON JANUARY 10 FOR A STAY OF 4 DAYS. WOULD
LIKE TO MEET WITH YOU AT YOUR CONVENIENCE. REGARDS, BBLASSA

CABLE

12/21/82

BELA BALASSA

BELA BALASSA

BBalassa:nc

Development Research Department

1 1 61007

DR. JORGE CAUAS, BANK OF SANTIAGO, CASILLA
14437, SANTIAGO, CHILE

THANK YOU FOR INVITATION FOR LUNCH. I WOULD SUGGEST JANUARY 11
TUESDAY AS A POSSIBLE DATE. REGARDS, BALASSA

CABLE

12/21/82

BELA BALASSA

BELA BALASSA

DEVELOPMENT RESEARCH DEPARTMENT

BBalassa:nc

1 1 61007

CARLOS MASSAD, U.N., ECLA, EDIFICIO NACIONES UNIDAS, AVENIDA DAG HAMMARSKJOLD, CASILLA 179D SANTIAGO, CHILE WILL ARRIVE IN SANTIAGO ON JANUARY 10 FOR A STAY OF 5 DAYS. WOULD LIKE TO VISIT ECLA IN THE AFTERNOON OF THE SAME DAY TO MEET WITH YOU AND WITH ANDRES BIANCHI AND JOSEPH RANON. I WOULD ALSO LIKE TO INVITE YOU FOR DINNER THE SAME EVENING. REGARDS, BALASSA

CABLE

12/21/82

BELA BALASSA

BELA BALASSA

BBalassa:nc

XXXXXXXXXXXXX DEVELOPMENT RESEARCH

December 21, 1982.

Ms. L. Rebecca Jaimes, EDI

Bela Balassa, DRD

61007

Structural Adjustment in Developing Countries: Selected Readings

I enclose my approval of your including "The Newly-Industrializing Developing Countries after the Oil Crisis" in the above book of readings. I would further suggest that you include in the book my "Structural Adjustment in Developing Countries" that appeared in World Development.

Enclosure
BBalassa:nc

ECONOMIC DEVELOPMENT INSTITUTE
OF THE WORLD BANK

TELEPHONE: (202) 477-1234

1818 H STREET, N.W., WASHINGTON, D.C. 20433

CABLE ADDRESS: EDI INTBAFRAD

November 24, 1982

Mr. Bela Balassa
The World Bank
Washington, D.C. 20433

Mr. Balassa:

The World Bank intends to publish in English a book tentatively entitled Structural Adjustment in Developing Countries: Selected Readings, edited by Derek T. Healey, which we will recommend for publication by the Bank through The Johns Hopkins University Press or Oxford University Press; copyright will be held in the name of The International Bank for Reconstruction and Development/The World Bank. Distribution will be worldwide. The book may also be translated into French and Spanish for distribution by Editions Economica of Paris and Editorial Tecnos of Madrid, as well as into other languages.

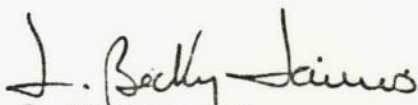
The purpose of World Bank publications is to encourage and provide technical information for economic and social progress in the developing countries of the world. As a consequence, many hundreds of copies will be distributed without charge in these countries, as well as among international organizations working in the area of development economics.

We should like to include in this book--in its English edition and in any translations--the following material (copy attached) for which you hold copyright:

"The Newly Industrialized Developing Countries in the 1960-1978 Period".
Bela Balassa. 'The Newly-Industrializing Developing Countries after the Oil Crisis' Weltwirtschaftliches Archiv Band 117 Heft 1 1981, pp. 143-155, 158-159, 186-192.

Full credit will, of course, be given to the source(s). If you wish a special form of citation to be used, please indicate it below:

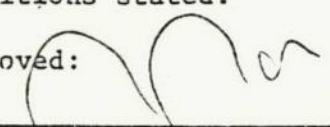
Sincerely,



L. Rebecca Jaimes

Training Materials and Publications Unit

The foregoing application is approved subject to the conditions stated.

Approved: 

By: _____

Date: Dec 21, 1982

December 17, 1982

Sr. Jesus Silva Herzog
Secretario de Hacienda y
Credito Publico
Palacio Nacional
3ero Piso
Mexico 1 D.F., Mexico

My dear friend:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrializacion y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd.

I would be very glad if we had an opportunity to meet during my visit to Mexico. I will arrive from New York at 12:40 on Sunday, January 2nd, and I will depart for Washington at 12:45 on Tuesday, January 4th.

Yours sincerely,

Att:

Bela Balassa
Development Research Department

December 16, 1982

Mr. M. Bart, EMI

Bela Balassa, DRD

61007

Protection and Incentives Study

1. On my visit to Istanbul on December 9-11, I reviewed the progress of the protection and incentives study on Turkey. This study was commissioned under SAL I and it is jointly financed by the Research Committee and by SPO.
2. The study is to provide inputs into the preparation of the next five-year plan, scheduled for the Spring. In order to accomplish this objective, it has been necessary to review the timetable of the study. In carrying out the review, account has been taken of the fact that the data collected so far pertain to firms that have the best accounting procedures.
3. In view of these considerations, it has been agreed with the researchers to limit the number of firms to be investigated to 110-120. This will permit adequate coverage of individual industries while speeding up the research. It is now expected to complete the calculations by February 1982 and to finish the evaluation and the policy papers by June 1982.
4. In this connection, the question arises what role the Bank should play in the policy phase of the research. Possible alternatives range from helping the researchers in the writing of the policy papers to sending a small mission to Turkey with a view to formulating policy recommendations on trade liberalization. It should be added that Mr. Akturk would welcome direct participation by the Bank.

cc: Messrs. Chaufourmier, Picciotto, Dubey, Asfour, Chaffey, Gassner,
Roy, Stoutjesdijk, Duloy

BBalassa:gm

December 6, 1982.

Mr. M. Carter, EM2

Bela Balassa, DRD

61007

Paris Meetings

I had very useful meetings with Messrs. Horton and Silva Lopes. Horton has made detailed comments on the Bonnel and Mateus chapters which are being mailed to Washington. The discussion of these notes have necessitated Horton staying in Paris until today.

BBalassa:nc

Dictated but not read.

December 3, 1982

Mrs. Ann Davis, ADM

Norma Campbell

61008

Labels

Would you please run-off labels for a distribution of Mr. Balassa's list; both inside and outside the Bank. Thank you.

:nc

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE December 2, 1982

TO Mr. David A. Cook, LCP

FROM Bela Balassa, DRD

EXTENSION 61007

SUBJECT MEXICO: Industrial Sector Report

1. This report provides a useful analysis of the industrial policies applied in Mexico in recent years. The analysis is generally sound; the following comments deal with particular points where further improvements may be made. Finally, the need for policy recommendations will be noted.
2. The treatment of the exchange rate issue is not entirely satisfactory. "Taking the 1976-1981 average as an 'equilibrium' exchange rate" (p. 3) is hardly appropriate, given the overvaluation of the peso in the preceding period. (On this point, see Gerardo Bueno's 1974 article as well as Leopoldo Solis' Economic Policy Reform in Mexico.) A more appropriate point of reference is the period 1977iii to 1978ii that is introduced subsequently.
3. Furthermore, the statement according to which "the problems faced by the manufacturing sector in the second half of the Lopez Portillo Administration ... stem from the growth strategy chosen and from the pressure of resource bottlenecks in the economy" (p. 4) needs to be modified. The sequence goes from the rapid growth of public expenditures to large budget deficits and to foreign borrowing that permitted maintaining an overvalued exchange rate, which discriminated against manufactured exports and favored manufactured imports.
4. The discussion of the effects of changes in the exchange rate on manufactured exports is marred by the inclusion of natural resource products (food, beverages, and tobacco, petroleum derivatives and petrochemicals) in the data. Excluding these items, it will be apparent that the dollar value of Mexican manufactured exports was lower in 1981 than in 1979. Correspondingly, the decline in the export performance of the Mexican manufacturing sector relative to the world exports of manufactures will appear to be more pronounced than indicated in Table 11. At any rate, comparison should be made with developing country exports of manufactured goods that rose much more rapidly than world exports. Thus, the conclusion that "export performance of manufacturing has been found to have been generally satisfactory during the 1970s given the environment in which it operated" (p. 12) needs modification.
5. Greater emphasis should also be given to the effects of the overvaluation of the exchange rate on the growth of the imports of manufactured goods into Mexico. At the same time, the discussion of the

impact of import liberalization (Para. 4.13 - 4.20) is rather weak and may be deleted.

6. I have queries about the validity of the results of the ten Kaate study. Apart from the lack of reliability of the input-output table for 1979 that has been obtained by extrapolating the 1970 table which was of low quality itself, the nominal protection estimates are open to doubt. For one thing, price comparisons were not made for a range of products; for another thing, the price comparisons did not adjust for quality differentials that may be of importance in particular for machinery and equipment.

7. It would appear, then, that estimates of effective protection for machinery and equipment are understated. Yet, ten Kaate's results already show a high rate of protection for the sector. Nor can this be rationalized on the grounds that it is "consistent with key elements of macro-economic strategy ... to promote the growth of the modern industries" (p. 26). It should further be noted that the apparent lack of protection of traditional consumer goods industries, aggravated by the overvaluation of the exchange rate, may have adversely affected the development of these industries.

8. All in all, the report provides a useful basis for policy dialogue with the Mexican government. Such a dialogue would further require, however, a set of policy recommendations. In particular, proposals for policy changes would be desirable in regard to import protection, export subsidies, as well as the system of investment incentives. In so doing, distinction would need to be made between traditional and new industries.

cc: Messrs. Glaessner, LCP; Pfeffermann, LCNVP; Meo, LCl;
Landau, LCl; Baskind, LCP; Ray, LCP; Ms. Press, LCP.

BBalassa:nc

1 1 61007

IBRAHIM ONGUT, TURKIYE SINAI KALKINMA BANKASI
MECLISI MEBUSAN CADDESİ 137, FINDIKLI, ISTANBUL, TURKEY
WILL BE IN ISTANBUL ON DECEMBER 10 FRIDAY. WOULD APPRECIATE MEETING
WITH YOU. ALSO, I WOULD LIKE TO ASK YOU TO MAKE APPOINTMENTS FOR ME
FOR THAT DAY WITH MESSRS. KARAGOZ, IS BANKASI, NARIN, CHAMBER OF
COMMERCE AND INDUSTRY AND KOCHAN, TUSIAD. WILL CALL YOU FROM ANKARA
THE PRECEDING DAY. REGARDS, BALASSA

CABLE

12/1/82

BELA BALASSA

BELA BALASSA

DRD - Director's Office

BBalassa:nc

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 1, 1982
TO: Pioneers Steering Group
FROM: Bela Balassa, DRD M
EXTENSION: 61007
SUBJECT: Invitation to Professor Gottfried Haberler

1. As the ERS representative to the Steering Group, I propose that we invite Professor Gottfried Haberler to give a lecture in the framework of the Pioneers I Series. Professor Haberler made signal contributions to the literature of economic development and no list of Pioneers can be complete without him.
2. In his magisterial Cairo lectures, International Trade and Economic Development, Haberler provided the theoretical basis for subsequent work on outward and inward oriented development strategies. While several contemporary authors claimed that international trade and foreign investment will often be detrimental to developing countries, Haberler showed that these countries would derive static and dynamic benefits from trade and from foreign investment. He subsequently extended the argument in his "An Assessment of the Current Relevance of the Theory of Comparative Advantage to Agricultural Production and Trade," International Journal of Agrarian Affairs, May 1964.
3. Haberler's "Terms of Trade and Economic Development" Economic Development of Latin America (H. Ellis ed.) 1961, is the basic contribution for the understanding of the terms of trade issue that was misstated by several contemporary authors. It underlies recent research, which has disproved the alleged tendency for the secular deterioration of the terms of trade.
4. The three papers have been reprinted in Theberge's graduate readings volume, Economics of Trade and Development; the Cairo lectures have also been used in Meier's Leading Issues in Economic Development. The papers importantly figure on reading lists of development economics and development policy.
5. Professor Haberler's principal contributions to development economics were made before 1960, the cut-off date for the Pioneers I Series. In this connection, note that the terms of trade article was presented at a Conference organized by the International Economic Association in 1958 and was widely available at the time; it was published in 1961, owing to the usual long printing lags of the IEA volumes.

6. I understand that there are no administrative reasons that would not permit adding Professor Haberler to the Pioneers I list. I suggest, therefore, that we invite him without delay.

BBalassa:nc



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2134 Wyoming Avenue N.W.
Washington, D.C. 20008
December 1, 1982.

J. K. Lasser Tax Institute
Larchmont, New York 10538

Dear Sir:

I recently ordered and paid for your tax calculator. Having received this, I find that it contains nothing but a tax table. Accordingly, I return it with the request that you return the purchase price.

Yours sincerely,

Enclosure

Bela Balassa

1 1 61007

MR. AYDEMIR KOC, OIEC, MITHATPASA CADDESİ 18
YENISEHIR, ANKARA, TURKEY

IN REFERENCE TO MR. BILGET'S TELEGRAM TO YOU, I CONFIRM MY ARRIVAL
ON LH322 DEC. 7 AT 1625. WILL LEAVE ON TURKISH AIRLINES 143 ON DEC.
9 AT 1630. I WOULD LIKE TO BE RECEIVED BY MINISTERS KAFAOGLU AND
PASIN. I WOULD ALSO LIKE TO MEET WITH MESSRS. ALTINOK, AKTURK,
AKMAN, PAKDENRILI, SIKLAR AND CANEVI. SINCERELY, BELA BALASSA

CABLE

12/1/82

Bela Bblassa

Bela Balassa

DRD - Director's Office

BBalassa:nc

December 1, 1982.

Professor Laura Tyson
Department of Economics
University of California
Berkeley, California

Dear Laura,

I very much appreciate the fact that you have taken the trouble to send me the calculations on Hungary. They just arrived the day before my departure and I will review them during my trip. I will write to you after my return in mid-December.

Yours sincerely,

Bela Balassa

1 1 61007

MERIH CELASUN, MIDDLE EAST TECHNICAL
UNIVERSITY, ANKARA, TURKEY

I WILL ARRIVE IN ANKARA ON DEC. 7 1625 HOURS. CONTACT ME AT THE
BUYUK ANKARA HOTEL RE DINNER THE SAME EVENING. REGARDS, BALASSA

CABLE

12/1/82

Bela Balassa

Jack Lowther

DRD - Director's Office

BBalassa:nc

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 1, 1982
TO: Those listed
FROM: Bela Balassa, DRD
EXTENSION: 61007
SUBJECT: Trade Policy in Mexico

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

cc: Messrs. Pfeffermann, LCNVP; Meo, LC1; Landau, LC1; Cook, LCP; Baskind, LCP; Pastor, LC1; Ozkan, LC1; Haque, LC1.

Enclosure
BBalassa:nc

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 1, 1982

TO: Mrs. Anne Krueger, VPERS

FROM: Bela Balassa, DRD

EXTENSION: 61007

SUBJECT: Pioneers I

1. At the meeting of the Pioneers Steering Group on Monday, November 29th I proposed that we invite Gottfried Haberler to give a lecture in the framework of the Pioneers I Series. While I received some support on this proposal, the decision will be made at the Thursday meeting of the Steering Group, which I cannot attend due to my departure for Europe the previous day. May I suggest that you send a high level ERS representative to the meeting, possibly in the person of Costas Michalopoulos.

cc: Mr. Michalopoulos, VPERS

Enclosure
BBalassa:nc

1 1 61007

MUKERREM HIC, ISTANBUL UNIVERSITY, INSTITUTE
OF ECONOMIC DEVELOPMENT, ISTANBUL, TURKEY

I WILL ARRIVE IN ANKARA ON DEC. 7 1625 HOURS. I WILL CALL YOU FROM
ANKARA TO DISCUSS MEETING ON SATURDAY DEC. 11. REGARDS, BALASSA

CABLE

12/1/82

Bela Balassa

Jack Lowther

BBalassa:nc

DRD - Director's Office

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION
OFFICE MEMORANDUM

DATE: December 1, 1982

TO: Messrs. Stoutjesdijk and Pyatt, DRD

FROM: Bela Balassa, DRD

EXTENSION: 61007

SUBJECT: Development Strategies in Sub-Saharan Africa

I enclose a copy of my paper "Adjustment Policies and Development Strategies in Sub-Saharan Africa, 1973-78." I would like to give a seminar on the subject of the paper in January. I will be at the Bank the entire month except for the week of January 10th.

Enclosure
BBalassa:nc

December 1, 1982

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

Dear Mr. Costa:

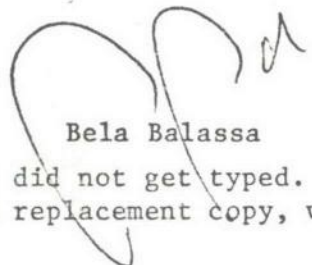
Thank you for your letter of October 14th and for sending me a copy of your trade matrices in current and in constant prices. While I am unable to comment on the figures themselves, I would like to make two points on methodology and on coverage, respectively.

I wonder if it is appropriate to derive the unit value index for manufactured goods as a residual. There is the danger that errors cumulate and the results will not be meaningful. I found the same problem some time ago when I tried to obtain unit values for the nontraditional primary exports of individual developing countries as a residual but had to abandon this because the results made little sense. I then decided to build up the unit value index for total trade from its components. You may try to do the same, even though it would mean jettisoning the existing total trade unit value indices.

I would further suggest deleting the 68. Nonferrous metals category from manufactured exports. These products are generally considered primary goods and price indices are easily available for them. At the same time, their inclusion with manufactured exports distorts the results.

With best regards,

Sincerely yours,



Bela Balassa

P.S. This was written some time ago but did not get typed. In the meantime, I lost your tables and asked for a replacement copy, which has not yet arrived.

December 1, 1982

Dr. Miguel O'Lea
Economics Minister
Mexican Embassy
2829 16th Street N.W.
Washington, D.C. 20009

Dear Dr. O'Lea:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

It was good to see you.

Yours sincerely,

Enclosure

Bela Balassa

December 1, 1982

Mr. Violente
Mexican Embassy
2829 16th Street N.W.
Washington, D.C. 20009

Dear Mr. Violente:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

orry for the delay in sending you the paper.

Yours sincerely,

Enclosure

Bela Balassa

December 1, 1982

Mr. Josua^e Saenz
Desierto de las Leones 5760
Mexico, D.F.

Dear Mr. Saenz:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

I will call you beforehand to find out when we could meeting during my stay in Mexico City.

Yours sincerely,

Enclosure

Bela Balassa

December 1, 1982

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

Dear Mr. Bueno:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

I will call you beforehand to find out when we could meeting during my stay in Mexico City.

Yours sincerely,

Enclosure

Bela Balassa

POLICY RESPONSES TO EXTERNAL SHOCKS IN DEVELOPING COUNTRIES

SUMMARY OF ADDRESS BY DR. BELA BALASSA,
JOHNS HOPKINS UNIVERSITY (ALSO CONSULTANT TO THE WORLD BANK)

TO THE NATIONAL ECONOMISTS CLUB

ON THURSDAY, JUNE 3, 1982

The speaker began by mentioning that he first recommended the adoption of outward-oriented policies for developing countries (LDC's) in the mid-sixties. He noted that while these policies proved to be very successful, it was suggested that they would be compromised as a result of external shocks such as those caused by the oil price increases. Following such criticism, Dr. Balassa decided to investigate the experience of the LDC's in the 1973 to 1978 period. He developed an approach which involved calculating the balance of payments effects of external shocks through changes in the terms of trade and export shortfall caused by the world recession, followed by an analysis of the effects of policy responses in the form of (1) borrowing abroad, (2) export promotion, (3) import substitution, and (4) reduced growth rate (thereby reducing import demand). This approach was applied to the case of newly industrializing developing countries. In conducting the study he grouped countries as "outward oriented" (Korea, Singapore, Taiwan, Chile-- since the mid-70's and Uruguay, also since mid-70's) and "inward oriented" (Argentina, Brazil, Mexico, Yugoslavia, and a few others) and examined their response to external shocks.

The initial response of countries to the external shocks caused by the oil price increase in 1973-74 was to borrow abroad. Some borrowed little (Singapore, Taiwan) while others borrowed heavily (Turkey, Brazil). Some countries stopped borrowing after 2 or 3 years while others continued to

borrow to maintain rates of growth of domestic consumption. Also, borrowed funds were to increase consumption in some cases and to invest in industries producing for exports or for import substitution in other.

Export expansion allowed resource allocation according to comparative advantage and the exploitation of economies of scale in domestic industries. Import substitution often resulted in a bias against agriculture and a poor choice of manufacturing industries, which did not enjoy competitive advantages in international markets. In general, countries which followed an outward orientated strategy were able to better adjust to external shocks, even allowing for the fact that some (Taiwan, Singapore) accepted a temporary decline in rates of economic growth during the adjustment period. Although they were more adversely affected by external shocks, outward oriented countries were thus able to regain rapid rates of economic growth that was not the case in inward oriented countries.

In carrying out their policies, outward oriented countries attempted to maintain realistic exchange rates and positive (i.e., above the rate of inflation) real interest rates whereas exchange rates were often overvalued and real interest rates negative in inward-oriented countries. Positive real interest rates encouraged private savings and an efficient choice among investment alternatives in the former group of countries while, negative real interest rates encouraged capital intensive production methods and resulted in credit rationing in the latter group.

The use of market vs. non-market methods, not just outward versus inward orientation, was another basis for distinguishing among countries which successfully adapted over the past five years to external shocks. Outward

oriented countries relied more on the market mechanism than inward-oriented countries did.

Returning to the topic of increased borrowing, countries like Korea were able to avoid increases in debt service ratios because the loan proceeds were used to increase manufactured exports as contrasted to maintaining domestic consumption levels or producing "white elephants" in inward oriented countries. Large increases in debt service ratios were recorded by Turkey, Brazil, and Mexico, in particular.

Lending by commercial banks is limited to prime quality borrowers, and the banks are periodically reviewing each country's situation. Sudden changes in these evaluations can occur, and Turkey, Brazil and Mexico have had to drastically revise their borrowing plans as a result of changed bank perceptions of their creditworthiness.

Dr. Balassa suggested that appropriate adjustment policies today are the same as they were in 1973 to 1978. However, the question has been raised if there are markets for export growth. During Dr. Balassa's visit to Turkey in May 1979, he recommended increasing exports to the rapidly growing markets in the Middle East and utilizing preferential access to the EEC to expand exports. By the end of 1981, which was a poor year for the world economy, Turkey more than doubled its manufactured exports to a level of \$4 billion as a result of a substantial devaluation of the currency and incentives to exports.

Outward-orientation will have limited importance in China, however; the unfilled internal demand for textiles, foodstuffs, bicycles, sewing machines, watches, etc., is so great that it will be years before China can become a significant competitor for other developing countries. A balanced

expansion in China will involve both agriculture and light industry, with each providing markets for the products of the other, would be his recommendation.

In response to a question about Mexico being inward oriented, Dr. Balassa responded that Mexico attempted to relax its protectionist measures, but was forced to reinstitute them in order to maintain its exchange rate of 23 pesos to the dollar. It remains inward-oriented despite the existence of its border industries, which essentially are part of the U.S. economy. Oil exports from Mexico do not change the fact that Mexican manufacturing is oriented toward import substitution.

Regarding a second question about whether inward oriented countries could change into outward oriented countries, the speaker said that several countries have made the transition: Chile, Uruguay, and Turkey. It is usually easier for dictatorships to implement major changes of economic policy, but democracies, such as Jamaica and Columbia, have also changed to outward oriented policies.

Singapore rejected import substitution as an economic policy and encouraged foreign investment. Even Korea, with a population 50% larger than Argentina, adopted outward oriented policies in the 1960's after an initial period of inward oriented policies. Other countries such as Chile went to external orientation without a period of transition. Chile went too fast and suffered the decline of some industries as a consequence of the removal of trade barriers. Thus, the way of how outward oriented policies are implemented are just as important as the change to such an orientation.

Japan's export achievements have far exceeded all historical projections. Developing countries have taken Japan's place as major exporters

of textiles as it has upgraded its exports into higher skill products. With Japan's move to high-technology exports the newly-industrializing countries can follow in its footsteps in exporting skill-intensive products. Except for color TV's, there has been no limitations on the exports of engineering products. Export markets are also available for furniture, toys, and sporting goods.

Regarding the impact of the two oil price shocks of the 1970's, the adjustment to the second shock has been more difficult to accomplish because of the (deflationary) policies being employed in the industrial countries, in part to combat the inflation resulting from the response to the first 1974-1975 shock. American economic policies are a major factor in the present situation and the acceptance of declining real wages by U.S. labor unions is a major difference from the pattern observed after the first shock. These domestic anti-inflationary policies by the United States are bringing fruit in reducing the rate of inflation but economic expansion is not yet on the horizon.

Rapporteur: George English

December 1, 1982

Mr. Leopoldo Solis
Subdirector General
Banco de Mexico, S.A.
Avenida 5 de Mayo, 2 piso No. 5
Mexico 1, D.F.
MEXICO

Dear Mr. Solis:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Bela Balassa', written in a cursive style.

Bela Balassa

Enclosure

December 1, 1982


Mr. Julio A. Millan B.
President
Consultores Internacionales, S.C.
Jose Maria Rico No. 55
Mexico 12, D.F.
MEXICO

Dear Mr. Millan:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,



Bela Balassa

Enclosure

December 1, 1982

Mr. Miguel Mancera
Banco de Mexico, S.A.
5 de Mayo No. 2
Mexico 1, D.F., Mexico

Dear Mr. Mancera:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'Bela Balassa', with a large, stylized flourish that loops around the name.

Bela Balassa

Enclosure

December 1, 1982

Lic. Fernando de Mateo
Pres. Escame 46
Mexico 10, D.F.
MEXICO

Dear Mr. de Mateo:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,

Enclosure


Bela Balassa

December 1, 1982


Mr. Héctor Hernández
Under-Secretary of Commerce
Secretaria de Comercio
Cuauhtémoc No. 80-2o. Piso
Mexico 7, D.F.
MEXICO

Dear Mr. Hernández:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,



Bela Balassa

Enclosure

December 1, 1982

Mr. Luis Bravo Aguilera
Secretaria de Aranceles
Ave. Cuauhtemoc 80-2o. Piso
Mexico 7, D.F.
MEXICO

Dear Mr. Bravo:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'B' followed by a cursive 'alassa'.

Bela Balassa

Enclosure

December 1, 1982

Mr. Rene Villarreal
Subdirector General
Promocion Hacendaria
Ministerio de Hacienda
Mexico D.F.
MEXICO

Dear Mr. Villarreal:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'B' followed by a smaller 'a' and a flourish.

Bela Balassa

Enclosure

December 1, 1982

Mr. Ignacio Bernal
Asesor del Presidente
Puerta 4, Residencia
Oficial Los Pinos
Mexico City
MEXICO

Dear Mr. Bernal:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Bela Balassa', written in a cursive style. The signature is positioned above the typed name.

Bela Balassa

Enclosure

December 1, 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,

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,



Bela Balassa

Enclosure

December 1, 1982

Mr. Abel Beltran Del Rio
Wharton Econometric Forecasting Associates
3624 Science Center
Philadelphia, Pa. 19104

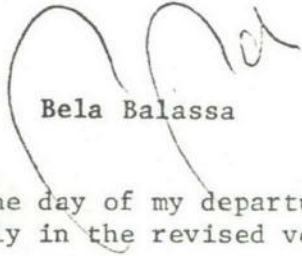
Dear Mr. Beltran Del Rio:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

Hoping to meet you at the Conference, I remain,

Yours sincerely,

Enclosure



Bela Balassa

P.S. I received your material only on the day of my departure for Europe. Thus, I will take account of it only in the revised version of the paper.

December 1, 1982

Mr. Josu^ea Saenz
Desierto de las Leones 5760
Mexico, D.F.

Dear Mr. Saenz:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

I will call you beforehand to find out when we could meeting during my stay in Mexico City.

Yours sincerely,



Bela Balassa

Enclosure

December 1, 1982

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

Dear Mr. Bueno:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

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Yours sincerely,



Bela Balassa

Enclosure

December 1, 1982

Dr. Miguel O'Lea
Economics Minister
Mexican Embassy
2829 16th Street N.W.
Washington, D.C. 20009

Dear Dr. O'Lea:

I enclose a copy of the preliminary version of my paper, entitled "Trade Policy in Mexico," I will present at the Conference on "Industrialización y Comercio Exterior" organized by the Colegio Nacional de Economistas and to be held on January 3rd. Your comments on the paper would be appreciated.

It was good to see you.

Yours sincerely,



Bela Balassa

Enclosure