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MARCH 1982

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Bela Balassa's chron files - March 1982

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B. BALASSA CHRON FILE MAR 1982

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
March 30, 1982

Cistercian Alumni Assoc. of N. America
c/o Mr. Michael F. Porgo
673 Pelham Road, E1
New Rochelle, N.Y. 10805

My dear friend:

I am sorry to say that I will again not be able to participate at the June meeting. In lieu of my presence, I enclose a check for \$50.00 for our old professors in Hungary.

Sincerely,

Enclosure

Bela Balassa

Mr. P. Hasan, AENVF

March 29, 1982

Bela Balassa, DRD

Growth and Structural Adjustment in East Asia

1. This is a very good, informative analysis of past trends and possible future developments in the major East Asian economies. I agree with the thrust of the discussion as well as with most of the details. Comments on a few points follow.

2. In Para. 37, I would be inclined to strengthen the criticism of investment in the heavy and chemical industries, many of which did not correspond to Korea's comparative advantage. At the same time, traditional export industries did not receive the necessary investment funds. You should also make explicit the failure to devalue in the face of rapid inflation (on all this, see my advisory report, "Korea during the Fifth Five Year Plan Period 1982-86", October 1980).

3. You note that "an equally important objective of adjustment programs is to avoid disruption of the momentum of economic growth" (Para. 43). I wonder if this does not promise much. One may refer in particular to the experience of Brazil, which postponed adjustment in trying to maintain the growth momentum and eventually suffered a deep recession, with industrial production in the fourth quarter of 1981 being 16 percent lower than a year earlier. (Incidentally, in the last line the reference should be to the second half of the 1970s not the 1980s.)

4. While I agree with your optimistic appraisal concerning the prospects for manufactured exports, I wonder if your projections of economic growth are not overly optimistic. For one thing, the expected investment growth may not suffice to support the projected GNP growth rates. For another thing, it is questionable that the import share could be reduced to the extent necessary for substantially improving the current account balance.

BBalassa:nc



Record Removal Notice

File Title Bela Balassa's chron files - March 1982	Barcode No. 30225142
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Document Date Mar 29, 1982	Document Type Letter
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Correspondents / Participants
 To : Mr. Jack Lemoine Lowther, DED
 From : Bela Balassa, DRD

Subject / Title
 Travel Expenses, April - June 1982

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MR. FRANCHET, WORLD BANK PARIS OFFICE
INTBAFRAD, PARIS, FRANCE

IN AGREEMENT WITH BANETH WE SUGGEST THAT HE PRESENTS SUBJECT (BBB)
FINANCE AND MULTINATIONAL MECHANISMS AND I PRESENT (CCC) ADJUSTMENT
NEEDS AND POLICY RESPONSE. THIS WOULD LEAVE YOU WITH TOPIC (AAA).
IF YOU HAVE COMMENTS CALL BANETH TOMORROW. I WILL BE AWAY UNTIL
THURSDAY. REGARDS, BALASSA

842-620628

3/29/82

BELA BALASSA

BELA BALASSA

DRD - Director's Office

cc: Messrs. Baneth, Burki
BBalassa:nc

March 29, 1982

Professor Michael Montias
Yale University
Department of Economics
New Haven, Connecticut 06520

Dear Michael,

I enclose three copies of the revised version of my "Reforming the New Economic Mechanism in Hungary." This version takes account of the comments received at Bloomington Conference. I hope that you can soon give me a definite answer concerning publication.

I enjoyed the Bloomington Conference. The papers by Bauer, Berend, Kornai, Nyers, and Tyson were especially good, and deserve to be published. I was less impressed by Tardos' paper, and found the papers by Hare, Milch, and Geullette rather weak.

With best regards,

Sincerely yours,

Enclosures

Bela Balassa

Mr. Jean Baneth, EPD

March 29, 1982

Bela Balassa, DRC

WDR V - PART I

1. I have little problem with your "Franco/Slovanic English" that is not worse than my Hungarian/English. However, I would suggest using fewer value-laden adjectives and eliminating some expressions that sound rather extreme. I refer in particular, to the first paragraphs of Chapter 1, where you may wish to delete references to "abject poverty," "eke out a precarious, hungry, disease-ridden living," and "human wretchedness," not to speak of "hecatomb" and "holocaust." You may also eliminate references to "extreme" income disparities and the "apparently unbridgeable gap" between developed and developing countries. Setting style aside, it would be appropriate to start with the more positive aspects of development that are brought up only towards the end of Chapter 1. Further comments on this chapter and on others, follow.

Chapter 1: Postwar Development Experiences

2. I find your citing per capita income figures, calculated at official exchange rates, and the subsequent introduction of purchasing power parities, rather awkward. It should be stated at the outset that, calculated at purchasing power parities. European countries had one-half to two-thirds, and Japan nearly one-fourth, of U.S. income levels in 1955. (Incidentally, purchasing power parities were first calculated for 1950 and 1955 at the OECD.)

3. One can hardly say then, that in 1955 Western Europe and Japan were "small appendages" (Para. 8) of the United States. Also, once use is made of purchasing power parities, references to the "dramatic" realignment of exchange rates and the "striking" new relationships in per capita incomes (Para. 10) may be eliminated. The same comment applies to the "readjustment of price levels" (Para. 9), the appreciation of currencies in real terms (Para. 14), and "depressed relative prices" (Para. 18), which readers may have difficulties to comprehend.

4. The references to manufactured output and steel as indicators of economic progress (Para. 11) are rather incongruous with the subsequent discussion of the "spectacular advances" of the oil exporters of the Middle East where these productions played no role. At the same time, the statement that changes in the prices of non-oil goods and services "reinforced the impact of the petroleum revolution on overall national income" (Para. 13) in these countries raises more questions than it answers. It should be deleted, together with the rest of Para. 13, which overstates the extent of social progress in the Middle East.

5. The statement that, in today's major exporters of manufactures among middle income countries, the "degree of development and per capita incomes were already relatively high at the beginning of the period" (Para. 15) fails to indicate the shifts that have occurred. Using data from WDR IV, one finds that in 1960 incomes per head in Korea were lower than in Ghana, Senegal, Liberia, Zambia, Honduras, Nicaragua, El Salvador, and Peru. Yet, two decades

later, Korea had more than three times the per capita income of the four sub-Saharan African countries and more than twice that of the four Latin American countries.

6. One would have to inquire, then, if middle-income countries exporting manufactured goods had higher incomes at the beginning of the period than middle-income countries exporting primary products. The question needs further be raised why did the former group embark on exporting manufactured goods while the latter did not and also lost market shares in primary exports. The answer to this question will give center place to policies, which are not sufficiently emphasized in the somewhat deterministic description of the growth process.

7. As regards the poorer countries, the reference to "their ability to ensure survival" (Para. 19) should be replaced by data on increases in per capita incomes. At the same time, the reference to the exhaustion of the fallow area, and to the high cost of additional irrigation, applies more to South Asia than to Africa, where poverty problems are concentrated. Finally, it should be emphasized that, in terms of the social indicators listed in Table 4, the low-income developing countries made greater progress than the middle income countries. (Nevertheless, the judgment of Tanzania in Para. 31 should be tempered by reference to extreme economic inefficiencies.)

8. The summary of development experience is fine and the "boxes" very interesting. Still, more attention should be given to development policies in their effects on savings and investment as well as on economic efficiency. Incidentally, I find the lack of a positive relationship between GNP growth rates and ICORs surprising; I obtained a highly significant correlation for the post-1973 period in a twenty-eight country sample. Comparisons of the economic performances of the Ivory Coast and Ghana, with similar natural endowments and with Ghana having a superior human capital endowment, are of further interest.

Chapter 2: The 1970s and Beyond

9. One should not overstate the role of the developing countries in helping "to avert a cumulative world-wide decline" (Para. 2); the mountain-climber analogy is particularly inappropriate here. And, in exacting a tax in the form of higher oil prices, the oil exporters aggravated -- if not precipitated -- the world-wide recession.

10. I welcome the distinction made between the pre-1973 and the post-1973 period; in fact, most of the statements in the remainder of the chapter apply to 1973-80 rather than to the 70's. At the same time, the statement that, in the oil-importing developing countries, "a good portion of the capital stock suddenly became less profitable, if not quite obsolete" (Para. 6) is much exaggerated. According to my results, ICORs were closely related to adjustment policies. Also, there is a positive correlation between outward orientation and manufactured export growth. Again, it was policies rather than alleged changes in various elasticities (Para. 16), which explain the results.

11. I particularly object to your approvingly citing a statement attributed to Arthur Lewis that, in the case of the low income countries,

"both the volumes of their exports and the prices at which these exports are traded are largely at the mercy of the high-income countries" (Para. 17). Apart from tropical beverages, price elasticities of demand for primary exports are high and Kravis and Lipsey have shown that, rather than deteriorating, the terms of trade of primary producing developing countries has improved over time.

12. European economies will not appear to be more open than the U.S., if we exclude intra-European trade that takes place in the framework of a free trade area. And, as the figures of Table 2 indicates, over the past two decades, the United States has become more open towards developing countries than Western Europe. Finally, emphasis should be given to the protectionist stance of Japan, in particular vis-a-vis developing countries, which is reflected in the very low average and incremental import/GNP ratios.

13. "The inescapable conclusion" that "unless the relationship of incremental imports to incremental GNP increases substantially, it will be increasingly difficult for the growth rate of developing countries' exports of manufactures to the industrial countries substantially to exceed the growth rates of the industrial economies themselves" (Para. 22) is hardly correct. Thus, taking the mid-point of the GNP projections of Chapter III for the industrial countries and assuming the maintenance of the incremental import/GNP ratio of 1.7, imports from the developing countries would increase by 48 percent as against a rise of GNP of 36 percent, i.e. on income elasticity of 1.33.

14. At the same time, as noted below, incremental import/GNP ratios may continue to rise. Exports to the oil-producing countries also offer considerable potential, notwithstanding the expected decline in the real price of oil. Correspondingly, one should modify the conclusion that the above statement "has negative implications for debt-carrying capacity of developing countries, for their growth and for the pace of world development in general" (Para. 22). In this connection, it should further be added that, per capita remittances from oil producing countries are expected to rise and there are considerable possibilities for further increases in construction in the middle East.

15. The constant price savings figures look rather strange, in particular the changes in Sri Lanka from -17.5 percent of GDP in 1960 to 15.8 percent in 1970 and to 36.6 percent in 1980. At the same time, as consumption-savings decisions are made in the actual prices, savings performance should be expressed in current rather than in constant prices. It will, then, be apparent that Kenya did much better than Tanzania. In fact, using three-year averages rather than benchmark years, one finds that Kenya has increased its savings ratio while a substantial decline occurred in Tanzania.

16. I also wonder if Sri Lanka could have had a terms of trade gain amounting to 27.8 percent of GDP between 1960 and 1970 and a loss of 22.1 percent between 1970 and 1980. In turn, the terms of trade loss for Tanzania appears to be underestimated according to my figures.

Chapter III: Recent Events and Prospects for the 1980s

17. The recent decline in the real price of oil should be noted and the prospects for its continuation evaluated. Changes in oil prices, in turn, have implications for the growth projections. This should be made explicit.

18. It should be recognized that, despite the recession, the trade policies of the industrial countries towards the developing countries have not become more protectionist. There is little reason, then, for pessimism on this count (Paras. 3 and 27). Nor should the past decline in the income elasticity of import demand in the industrial countries be interpreted as an unfavorable sign since incremental import/GNP ratios have been rising. Should these increase to 2.0, imports from developing countries would rise by 62 percent as against a 36 percent increase in the GDP of the industrial countries, corresponding to an income elasticity of import demand of 1.6. At the same time, in my paper in the Journal of Policy Modeling (October 1980), I showed that an incremental share of 8.9 for manufactured goods would not cause undue hardship to the industrial countries.

19. Projected economic growth rates for the developing countries also appear to be on the low side. While Parvez Hasan may be overly optimistic in projecting growth rates of 7.3 - 8.1 percent for middle income East Asian countries that only recently started exporting manufactured goods, they should do better than your projections would indicate. Also, Pakistan should be able to improve its performance if it adopts outward-oriented policies as Mahbub ul Haq suggested before departing.

20. The report emphasizes the importance of the domestic determinants of economic growth in the developing countries. At the same time, differences between the high and the low case are larger for the developing countries (index numbers of per capita incomes are 138.9 and 126.4, respectively) than for the industrial countries (134.8 and 125.5). Also, there would be little closing of the gap under the two alternatives and differences in the performance of the middle-income (136.1 and 124.5) and low income (130.8 and 119.2) developing countries would increase to a considerable extent. In order to provide an explanation for these results, it would be desirable to separate the effects on economic growth in the developing countries of (a) growth rates in the industrial countries and (b) their own domestic policies.

Chapter IV: Development Policies in an Uncertain World

21. The discussion of desirable policies to be followed in regard to trade, capital flows and foreign aid by the industrial countries, and of desirable trade and domestic policies by the developing countries, is unexceptionable. If policy performance is given greater attention in Chapters 1 and 2, and if the policy assumptions underlying the projections of Chapter III are made explicit, this should be a very good report.

cc: Messrs. Burki, VPE; Edelman, PPR; Holsen, ASNVP; Wood, AEA; Wright VPD.

BBalassa:nc

Mr. Ernest Stern, SVPOP

March 26, 1982.

Bela Balassa, DRC

Turkey SAL I Performance Audit Report

Stanley Please suggested that I send you the enclosed memo.

Enclosure
BBalassa:nc

March 25, 1982.

Mr. Geza Feketekuty
Special Representative for
Trade Negotiations
600 17th Street N.W., Room 101
Washington, D.C. 20506

Dear Geza,

Thank you for sending me the speech you gave in Lisbon.

I enclose a description of the study "Foreign Direct Investment Incentives and Controls" which is carried out under the auspices of the Bank by Stephen Guisinger. In turn, I would be interested to get any material you have on investment incentives.

Yours sincerely,

Enclosure

Bela Balassa

November 23, 1981

FOREIGN DIRECT INVESTMENT INCENTIVES AND CONTROLS

Purpose

In the last decade, both developed and developing countries have increased the incentives used to promote investment, while at the same time increasing the restrictions placed on foreign investment. Restrictions have taken two forms: 1) structural controls such as limitations on foreign ownership of equity; and 2) performance requirements that mandate certain maximum levels of imported components and minimum levels of exports, domestic inputs and domestic labor. While incentive and foreign investment control policies are adopted with home country objectives in mind, their effects inevitably spill over into the international economy. There is growing concern that the pattern of investment and trade that results from these incentive and control policies is undesirable and that the pursuit of strictly national objectives may lead to retaliatory moves with serious consequences for the growth of world trade and output.

The research study described below is designed to examine whether sufficient support exists for an international cooperative agreement to limit incentive and control policies among both developed and developing countries. For a large number of countries to gain from an international agreement, either of the two following sets of conditions would need to be met:

1. Existing incentive and control policies towards direct foreign investment seriously distort patterns of comparative advantage to the benefit of some countries and the detriment of others. The potential for retaliation is great for countries perceiving to be negatively impacted. Implied in these conditions are the notions that investment decisions of firms are significantly influenced by country control/incentive systems and that performance requirements imposed on investments at entry are enforced.

2. Investment incentive policies that do not alter patterns of investment but, through direct and indirect subsidies, result only in undesirable transfers of resources from governments to private firms. This condition implies significant competition among countries in the granting of incentives.

Both sets of conditions may be realized in practice. All countries may grant incentives, but some may provide a greater net incentive when full account of incentives and disincentives is taken.

The validity of the first statement depends on a chain of related events. First, host governments must adopt a control/incentive system that provides a net inducement to direct foreign investment and yet alters their operation through performance requirements in a way that conflicts with underlying comparative advantage. Second, the foreign investment decisions of companies must be significantly influenced by control/incentive policies. Finally, performance requirements must actually be enforced by governments.

The validity of the second statement depends on the degree to which governments compete for foreign investment and establish net incentive levels that are in excess of what is adequate to attract foreign investors but which at the same time are necessary to meet competition from other countries. The proposed research study will provide a means by which the extent and significance of these conditions can be tested empirically.

Research Method

Both of the statements can be subjected to empirical analysis, using data on actual foreign investment projects and country incentive/control systems. However, a number of important considerations must be incorporated in the research design.

1. Since control/incentive policies are tailored to individual investment proposals, information gathered from secondary sources is of limited value. Published accounts of incentives, structural controls and performance requirements are useful guides, but governments frequently vary each control and incentive instrument among industries and even among firms in the same industry. The most appropriate method for analyzing the relative impacts of control/incentive systems of countries is to examine the impact of these systems on the profitability of the same project. Comparisons of country policies on an instrument-by-instrument basis do not provide a measure of the impact of the total package of control and incentive measures on an investment decision.
2. Control/incentive policies may alter the form of a firm's involvement in a given market rather than the location of an investment. Existing research has tended to focus on the role of incentives in either raising the total level of investment or deflecting investment projects from one location to another. Companies may choose to involve themselves in a foreign market through trade, licensing or investment. Host country policies may have an important bearing on the choice among these alternative forms of involvement and, consequently, the research problem is more complex than determining the influence of control/incentive policies on the location of investment projects.
3. The choice of the form of involvement in each market is made after consideration of a broad range of involvement options in several markets. It is the relative differences in control/incentive systems among countries, along with the relative economic advantages of countries and the firm's competitive strategy, that determine foreign involvement type and site. As a result, an examination of the factors behind an investment decision must involve a review of the major alternative courses of action.
4. A firm's options depend as much on its competitive strategy within the industry as on economic conditions and policy environments of alternative market sites.

These considerations carry important implications for the organization of the research project. Two main areas of analysis are indicated. The first would focus on responses of firms to control/incentive systems. A sample of recent involvement decisions of firms will be compiled. The sample will be stratified according to industry to permit an examination of the competitive strategies within each industry. The second area would be comparative studies of country control/incentive systems. The empirical base would be specific investment decisions so that measures of the net incentive provided by each country can be evaluated.

Industry Studies

The involvement choice of a multinational firm is a function of three sets of factors: 1) basic economic conditions in foreign markets; 2) the control/incentive policies affecting involvement choices in these markets; and 3) the competitive strategies of the firm and its major competitors. The task of the industry studies is to evaluate the independent contribution of control/incentive measures to the firm's involvement decision. The problems of such a task are obvious. Competitive strategies cannot be captured in a few equations and are constantly evolving. Control/incentive policies cannot be expressed in a single numeraire. The policy packages negotiated at entry contain quantifiable benefits, such as tax holidays, and qualitative costs, such as limitations on parent company control, that must be "netted" out to assess the overall attractiveness of the package. In short, the analyst must translate subjective judgements of corporate decision-makers into objective explanations.

In this research study, four industries will be examined in depth-- automobiles, computers, petrochemicals and food products. These industries were selected because they meet the criteria deemed important for this study. Multinational corporations in these industries operate in both developed and developing countries. They span the range of technologies from the relatively simple (food products) to the complex (computers). The computing industry was selected because governments are generally eager to both acquire foreign technology and retain national control of the industry. The automobile industry was selected, in part, because the large minimum efficient scale plant and supplier linkages produce attractive employment generation effects for which governments will compete vigorously. The food products industry was selected because of its greater orientation to the domestic market compared to the other three industries. Petrochemicals was selected because of its good mixture of joint venture, licensing and export opportunities.

Within each industry, major firms will be identified and a specific product group common to the major firms will become the focus of the analysis. For each firm, at least one foreign investment of licensing decision for the product group made during the past three years will be selected for intensive analysis. For some firms, more than one such decision may be selected, so for the industry as a whole between 10 and 12 such decisions will form a sample and each decision will be analyzed with the following questions in mind:

1. For decisions where an investment was made, what was the package of control measures and incentives applied by the host country?
2. Did the firm consider other forms of involvement in the host country and was the control/incentive package a factor in the final decision to invest?
3. In what ways did the control/incentive package affect the scale, timing and plant site within the country? What alternative packages of control/incentives would have produced significant changes from the investment that actually occurred?
4. What alternative sites were regarded as mutually exclusive options to the investment or licensing decision observed? What control/incentive packages provided by the host countries of these alternative sites would have caused the firm to not select the observed site?

5. Did performance requirements significantly alter the level of exports, imported inputs, domestic inputs of domestic labor compared to the levels that would have been attained without performance requirements? (Note: whether performance requirements affected the decision to invest or the site of the investment is covered in question 4.) If the answer is positive, how seriously has the pattern of comparative advantage been distorted. (Note: comparisons of some measure of economic return calculated with and without requirements will provide an index of the degree of departure from comparative advantage).

6. Have any performance requirements been renegotiated in response to changed market conditions in the host country or abroad? Has the firm experienced difficulty in meeting the requirements and what penalties would be imposed for failure to meet stipulated requirements?

The industry studies clearly will require keen judgement on the part of the analysts. There is no single model or analytical method that can be employed to answer all of the above questions. In some cases, calculations of an investment's net present value under alternative assumptions about the host country package of control/incentive measures or about other country control/incentive systems may shed light on the firm's ultimate decision. Unquestionably, a thorough understanding of each major company's competitive strategy is essential for providing cogent answers to the above questions.

Country Studies

The purpose of the country studies is to evaluate the degree to which competition exists in the granting of incentives to attract foreign investment. A number of additional considerations affect the design of this phase of the research.

1. As noted, the tailoring of control/incentive packages to each major investment project renders instrument-by-instrument comparisons meaningless, especially since the disincentive effects of controls must be "netted out" against incentives to gauge the overall impact of the control/incentive system.
2. Comparisons of control/incentive packages among large numbers of countries will require construction of "representative packages" for specific projects. A considerable bias would be introduced in the study if comparisons were made only among countries for which observations on policy packages existed. It cannot be emphasized too strongly that the construction of the hypothetical policy packages will require a very thorough understanding of the objectives and organization of control/incentive agencies in the countries selected for study. Just as a firm's investment decisions are influenced by its internal structure, so control/incentive packages are shaped in part by the administrative structure of the responsible government agencies.
3. The comparisons of country control/incentive systems using specific projects as the sample base will inevitably retain an element of subjectivity as certain incentives and disincentives cannot be expressed in a single "common denominator." If all incentives and disincentives could be translated into variations in the cost of capital, then a measure such as the rental cost of capital could be used to make exact comparisons. However, performance requirements affect the revenues and non-capital input costs of projects. The effects

of these disincentives can be recorded using the effective rate of protection measure, but some control and incentive policies are not amenable to simple quantification. Both the rental cost and effective rate measures, along with direct comparisons of net present value of a project under different national control/incentive regimes, can be used to reduce the degree of subjectivity, but ultimately the analysts judgement is necessary to draw the final evaluation.

4. Enforcement of performance requirements by monitoring agencies is an important aspect of measuring the disincentive impact of controls, as is the issue of whether performance requirements are ever renegotiated following changed market conditions. Again, the performance of control/incentive agencies in policing and modifying controls depends on objectives and organizational structure. For example, decentralized responsibility of responsibility among agencies for monitoring performance requirements may prove less effective than centralized control through a single agency.

The country studies phase of the research design addresses these issues in the following way. A sample of approximately ten countries will be selected to include both developed and developing countries of various market sizes. These countries will be selected so that a majority are the host countries for the projects already identified in the industry studies. Thus, for example, Dow Chemical may have initiated an ethylene project in Spain and Japan, while considering sites in Brazil and Mexico as alternatives. Policy packages for six other countries will be constructed to permit a comparison over a broad range of countries. The obvious difficulty with this approach is that some of these other six countries might be ruled out by Dow and its principal competitors for economic or strategic reasons and thus, the policy packages will truly be hypothetical. Nevertheless, the issue of competitiveness cannot completely be addressed unless a detailed comparison of policy packages for very specific projects is made for a broad and representative group of countries.

Each country included in the study will be visited by a member of the study team. The purpose of the visit will be to collect the following data:

1. A concise description of the goals, organization and performance of the agency or agencies responsible for the control/incentive system.
2. Examples, real or hypothetical, of the policy packages for investment projects in the product groups selected in the industry studies. The purpose of this exercise is to provide a common set of data on which to judge the competitiveness of the control/incentive policies. Special attention will be given to the effect of the control/incentive system on the form of involvement.
3. Attitudes concerning the need for a new international agreement of a strengthening of existing agreements with regard to control/incentive measures applied to foreign direct investments.

An interview guide will be prepared to be administered by the researchers engaged in the country study phase of the project. The countries will most probably include the following, though a final list cannot be compiled until the industry projects have been selected:

Developed: Canada, France, Japan, The United Kingdom, and the United States of America.

Developing: Brazil, India, Indonesia, Mexico and the Philippines.

This phase of the study will yield a set of at least 40 observations on projects in the four industries. It will permit direct comparison of the incidence of the control/incentive systems of ten countries on the same project type, which no previous study of country incentive systems has provided.

Synthesis

The industry and country studies will provide answers to the two principal questions of trade distortions and excessive competitiveness in incentive granting that have been the focus of the study. A final report will be prepared that will contain, in addition to the industry and country studies, a final chapter that summarizes the results and discusses the support found for more active cooperation among countries in limiting incentives and controls placed on direct foreign investments.

The Study Team

The study team will be directed by Professor Stephen Guisinger of the University of Texas (Dallas). Professor Guisinger has for the past 15 years served frequently as a consultant to the World Bank Group on research projects involving trade and investment policies, social benefit-cost analysis and international labor migration. In the past two years he has conducted studies for the International Finance Corporation and the Bank on the investment incentive policies of Pakistan, Bangladesh, Morocco, Thailand, Portugal and The Yeman Arab Republic, Barbados and the Dominican Republic.

Industry Studies

The industry studies will be conducted by scholars whose fields of interest combine corporate strategy, government-business relations and international trade and investment theory.

Professor Neil Hood, who will be responsible for the automobile study, is professor of business at Strathclyde University. He has conducted several studies of the international automobile industry, as well as a book on the economics of the multinational enterprise. In addition, he has published several studies of corporate strategy and industrial location.

Professor R. Hal Mason will be responsible for the food processing industry study. Professor Mason worked extensively in the agri-business field and specifically on the food processing industry while employed at the Stanford Research Institute. He is the author of many studies involving corporate strategy, technology transfer and direct foreign investment in developing countries. In particular, he has done field research in the Pacific Basin area on the objectives and organization of control/incentive agencies.

Professor Robert R. Miller will be responsible for the computer industry study. He recently returned to the University of Texas at Dallas where he is professor of International Management after serving for a year in the U.S. Department of Commerce and the Office of Technology Assessment as a visiting scholar. Professor Miller recently completed a monograph on the international competitiveness of U.S. industries in steel, automobiles and electronics.

Professor Ingo Walter is Professor of Economics and Finance at New York University and will be responsible for the petrochemical industry. Professor Walter has written extensively on U.S. trade policy, international economic cooperation, and the problems of developing countries. He is the author of numerous industry studies, including a recently completed study of the fertilizer industry for the U.N. Centre on Transnational Corporations. He also serves on the editorial board of the newly created Journal of Business Strategy.

Country Studies

The principal responsibility for the country studies will be assumed by Stephen Guisinger. The country studies will consist of two primary components--studies of the objectives and organization of control/incentive agencies and the analysis of specific control/incentive packages in four industries. The studies of the control/incentive agencies will be conducted by Joseph Grieco and Dennis Encarnation under the supervision of Professor Louis T. Wells, Jr.. Professor Wells has long been associated with entry negotiations of multinational firms with governments of developing countries. He is the author of a recent study of the bargaining power of multinational firms and host governments and many publications dealing with corporate strategies and direct foreign investment.

Joseph Grieco and Dennis Encarnation are research associates at the Harvard Business School and Stanford University, respectively. The focus of their research for the past few years has been on the performance of control/incentive agencies in developing countries.

Organization of Study

The study will begin with the preparation of interview guides for both the industry and country studies. These guides will ensure that comparable information is collected to facilitate comparisons across firms and countries. Initial selection of involvement choices will take place during the first month of the study. A relatively brief paper will be prepared surveying the empirical studies on comparisons of incentive levels.

February 26, 1982

A meeting will be held in Washington, D.C. of the Study Team, the intergovernmental consultative group and Bank Group staff. The purpose of this meeting is to review the interview guides prepared for the study and reach consensus on the appropriate implementation of the research method outlined in the proposal.

September 24 and 25, 1982

A meeting will be convened in Washington with the same participants as the February meeting. The purpose of this meeting is to present preliminary findings of the study. Each author will provide an outline of his study with tables containing the data collected in the course of the study. Comments made at this meeting will be incorporated in the final draft.

December 15, 1982

Deadline of drafts of industry and country studies.

February 1, 1983

Delivery of draft final report.

Those listed

March 25, 1982.

Norma Campbell (Secretary to Mr. Balassa)

Memo of February 1, 1982

Back-to-Office Report, Tunisia, January 19-22

In error the above memo was sent to you yesterday, when it had already been sent on February 1st. Would you please discard it.

cc: Messrs. Chaufournier, EMNVP; Bart, EM2; Picciotto, EMP; Fernandes, EM2;
Dubey, EMNVP; Asfour, EM2; Bachmann, EM2; Zaidan, EMP;
Ettori, EMP; Reichelt, EM2; Vaurs, EM2.
DPS Directors, DRC Senior Staff
Messrs. Tolbert, IDF; Pursell and Westphal DED

:nc

Mrs. Ann Davis, ADM

March 24, 1982.

Norma Campbell, DRD

Mr. Balassa's Distribution List

Would you please make the following additions and changes to Mr. Balassa's outside list and run me off a set of labels and also I would need a set of labels for his inside the Bank list.

Please run off a copy for my files of both sets of names.
Thank you.

OFFICE MEMORANDUM

TO: Those listed

DATE: March 24, 1982.

FROM: Bela Balassa, DRD

SUBJECT: Seminar on the Hungarian Economic Reform

I enclose a copy of the paper Mr. Nyers will present at the seminar on Monday, March 29th. As background material, you may also wish to consult my "The Hungarian Economic Reform, 1968-81" World Bank Staff Working Paper No. 506, February 1982.

cc: Messrs. Chaufournier, EMNVP; Karaosmanoglu, EM1; Bart, EM2; Picciotto, EMP; Dubey, EMNVP; Hume, EMP; Asfour, EM2; Colaco, EM1; Humphrey, EM1; Chopra, EM1; H. Denton, EM1; Bery, EM1; Kilby, EM1; Chenery, VPD; Stoutjesdijk, DRD; Duloy, VPD; B.B. King, VPD; Robinson, DRD; Nowicki, EM2; P. Hasan, AENVP; Koch-Weser, AGR; Schrenk, AENVP; Gulhati, EANVP; Khalilzadeh-Shirazi, EMNVP; Schaefer, EM1.

Enclosure
BBalassa:nc

OFFICE MEMORANDUM

Mr. Everardus J. Stoutjesdijk, DRD

March 24, 1982

Bela Balassa, DRD

*B.B.
per N.A.*RPO 671-35, Export Incentives in Developing Countries

1. RPO 671-35 analyses export incentives and their effects in three developing countries, Greece, Korea, and Pakistan. Each country study consists of two parts: (1) the estimation of incentives and domestic resource cost ratios in export industries in a particular year, and (2) an econometric investigation of the effects of incentives on exports in a time-series framework. The Korea study has a further component, involving an analysis of the role of non-price factors, such as marketing and foreign investment, that nears completion.
2. Both parts of the Pakistan study were completed several years ago in the form of a Ph.D. dissertation by Mohamed Zubair Khan, who is now on the staff of the Fund. I just received revised and complete versions of the econometric investigations carried by researchers in Greece and Korea, both of which include a description of the development of the system of export incentives. I will review these in the next few weeks, but do not expect that further changes of any importance would be needed.
3. Demetrious Papageorgiou is scheduled to submit a complete draft of the estimation of export incentives and resource costs in Greece at the end of the month. The corresponding estimates for Korea remain to be completed. As Garry Pursell has not yet finished the Ivory Coast study, much of the burden of this work will fall on Yung Rhee. Rhee tells me that three months' full time work would be needed to complete the estimates. This will be followed by the write-up, the time requirements of which have not been estimated. Rhee will provide a detailed work program, indicating the tasks to be performed to complete the estimation and stating research assistant needs.
4. The Korea study of export incentives and domestic resource costs is the most ambitious of the three and it has absorbed the most resources, both in terms of the cost of the survey and staff time, in the entire research project. Its early completion would be necessary, both to bring to fruition the efforts made and to avoid delaying the publication of the rest of the studies. This, in turn, would require ensuring that Yung Rhee has sufficient time to work on the project.

cc: and cleared with Mr. Westphal, DED;
cc: Messrs. Pursell, IDF; Rhee DED.

BBalassa:nc

OFFICE MEMORANDUM

Mr. Shiv S. Kapur, OED

March 23, 1982

Bela Balassa, DRD

313
per N.A.Turkey SAL I Performance Audit Report

1. One may welcome the omission of some unduly critical statements from the revised version of the Performance Audit Report. Still, in my own estimation, the tone of the report remains overly negative and it contains several misstatements. In the following, suggestions are made for further changes in the course of the final revision.
2. In evaluating SAL I, it should be recognized that the negotiations on the loan started at the time of an economic crisis in Turkey that brought the country to the edge of bankruptcy. The immediate objective of the January 1980 reforms, prepared while the loan was being negotiated and supported by the loan, was to surmount the crisis and to stabilize the economy. At the same time, the impact of the measures was delayed by reason of unsettled domestic conditions until the military takeover in September 1980, when the Supplement to SAL I was negotiated.
3. In a situation of economic crisis, one could not have expected the Turkish government to formulate a medium-term program (Para. 16) and to set growth objectives (Para. 17). While it was perfectly reasonable to give priority to the control of inflation at a time when prices rose at annual rates of 130-150 percent, it could not have been foreseen how rapidly inflation might decline and what cost this would entail in terms of output foregone.
4. In the event, Turkey did much better than some other developing countries facing similar problems, where inflation accelerated (Israel in 1977-81), inflation rates were lowered only temporarily and at the cost of a balance of payments crisis (Argentina in 1979-81), or the process of reducing inflation was slow and entailed a considerable economic cost (Chile in 1974-76). Turkey was able to reduce the rate of inflation to 35-40 percent in a little over a year without a deep recession, and there does not appear to "be present in 1981 imbalances within the Turkish economy which might generate a return to higher rates of inflation, or a more difficult trade-off between inflation and growth" (Para. 22).
5. Nor could one blame the stabilization program for the existence of high unemployment rates (Para. 23), which originated in the policies applied during the previous decade. Rather, unemployment has been limited by permitting only small reductions in public employment and by not allowing private firms to fire workers (Para. 31). But, at any rate, SAL I did not deal with employment objectives, and it is difficult to say that the Bank could have pressed "the Turkish authorities for a more precise time bound medium-term action program placed within a comprehensive economic framework" (Para. 23) at the time when the stabilization effort was underway.
6. In turn, one should clearly separate the stop gap measures taken in 1979 and the policy changes that occurred in 1980. In particular, rather than 'consolidating' the real devaluation of the lira undertaken in 1979 (Para. 10 and 25), the 30-40 percent depreciation of the lira in real terms between the

fourth quarters of 1979 and 1980 (depending on the index numbers used) followed an appreciation of about 10 percent in the previous year (Table 2). In turn, the temporary appreciation of the lira in the first half of 1980 was fully reversed in the following months.

7. The final version of the report on Industrialization and Trade Strategy provides information on the reversal of the appreciation of the lira. It also presents revised figures on the real export exchange rate. At the same time, all variants of the real export exchange rate reported in the green cover version of the report include export subsidies. Rather than being inclusive and exclusive of export subsidies (Para. 28), the rates are inclusive and exclusive of the foreign exchange premium, which varies inversely with the real exchange rate.

8. The target export expansion rate set in SAL I at 10 percent a year in real terms for the 1979-83 period should be interpreted against the background of a 17 percent increase in the entire preceding decade. In the event, the real value of exports increased by 42 percent between 1979 and 1981. The statement that "this test appears not to have been very well formulated if it is to be used as one of the bases for judgment before 1983" (Para. 30), then, should be replaced by the actual figures which show that the four-year target was reached in two years. At the same time, the emerging export pattern broadly conforms to Turkey's comparative advantage and it cannot be claimed that "too many controls and specific incentives have been at work for such comparative advantage to emerge without ambiguity" (Para. 32). Finally, the subsequent statement that "similarly the increase in workers remittances during 1980 and 1981 may also be unsustainable" (Para. 33) should be modified to indicate continuing rapid expansion of the exports of goods and services (including overseas construction) as well as workers remittances.

9. In view of economic crisis and large balance-of-payments deficit, it could hardly "be argued that more ambitious targets should have been established to achieve changes in the protection system even in the first year after the adoption of the January 1980 program" (Para. 46); there were also limits to the extent of a real devaluation that could have been contemplated at the time. Nor should one belittle the import liberalization measures taken in January 1981 which, apart from "the reallocation of items to the various lists" (Para. 45), involved the abolition of quotas. Finally, while the report on Industrialization and Trade Strategy notes that the importation of certain items not included on any of the lists is prohibited, these items do not "represent a high percentage of domestic production" (Ibid).

10. The statement that "the outlook for a reduction in the overall public sector deficit in 1981 is favorable, but less so than expected earlier" (Para. 57) should be replaced by actual and projected figures which indicate reductions in the deficit exceeding earlier expectations. Note should further be taken of the rapid rise of time deposits and certificates of deposits in response to higher real interest rates. In view of the increase, one may question the validity of the statement that "it is not at all clear what has been the impact of these positive deposit interest rates on private savings" (Para. 60). The conclusion about domestic resources mobilization (Para. 65) would need to be correspondingly modified.

11. The statement that "although the need for reforms in SEEs had become widely known, implementing such reforms had lagged" (Para. 84) needs to be qualified by reference to the political and institutional obstacles to these reforms. Also, the recent reform proposal deserves a more favorable appraisal as it is done in the final version of the report on Industrialization and Trade Strategy.

11. The final conclusion of the Audit Report according to which "the claim in the PCR that progress in many respects 'exceeded all expectations' loses significance if expectations are not clearly formulated" (Para 109), fails to reflect the achievements of the reforms of 1980-81 in Turkey. These achievements have served as a basis in making recommendations for future changes in the Public Sector Investment Review and the Trade and Industrialization Strategy reports.

cc: Messrs. Weiner, DGO; Please, SVPOP; Chernick, PPR;
Chaufournier, EMNVP; Bart, EM2; Picciotto, EMP;
Dubey, EMNVP; Chaffey, WA2.

BBalassa:nc

March 23, 1982.

Professor Ray C. Fair
Department of Economics
Yale University
New Haven, Connecticut

Dear Professor Fair:

I would appreciate it if you could send me your paper "Estimated Effects of Relative Prices on Trade Shares."

With best regards,

Yours sincerely,

Bela Balassa

Ms. Virginia Hitchcock, IPA

March
~~December~~ 23, 1982.

Bela Balassa, DRD

Reprints

I have requested permission to reprint in Portuguese my paper on the "Newly Industrializing Countries After the Oil Crisis." Furthermore, I enclose in two copies my "Structural Adjustment Policies in Developing Economies" which appeared in World Development. I understand that this will be kept in abeyance until the matter raised with Mr. Winterbottom is settled.

Enclosures
BBalassa:nc

March 23, 1982.

Dr. Andor Csepinsky
Macroeconomic Model Section
Division of Economics
Keleti Karoly u. 5-7
Budapest II
Hungary

Dear Dr. Csepinsky:

Please excuse the delay in answering your letter of
December 7, 1981. We have noted the change in Dr. Halabuk's address
and I will continue to send copies of my publications to your Macroeconomic
Models' Section.

Yours sincerely,

Bela Balassa

March 23, 1982.

Mr. Robert Bolick
Acquisitions Editor
The MIT Press
28 Carleton Street
Cambridge, Massachusetts 02142

Dear Mr. Bolick:

Thank you for inviting me to prepare a book on the basis of my recent papers. I have in fact published my recent essays in a book under the title *The Newly Industrializing Countries in the World Economy*. As the essays fit nicely together, I do not plan to write another book on the subjects they cover.

With best regards,

Yours sincerely,

Bela Balassa

March 23, 1982.

Dr. Laszlo Rosivall
727 CDLD Building
University Station
University of Alabama in Birmingham
Birmingham, Alabama 35294

Dear Dr. Rosivall:

Please excuse my writing to you in English but this will speed up matters.

First of all, I would like to welcome you to the United States and wish you a pleasant and productive stay here. I am afraid, however, that I do not know of any person who could help you to extend your stay here. ~~Neither~~ I would rather try to obtain financing from a Foundation or from a medical school. Since I have no familiarity with this field, you may wish to ask your colleagues about the Foundations that finance medical research, as well as the names of major universities where research on high blood pressure is undertaken.

With best regards,

Yours sincerely,

Bela Balassa

March 23, 1982.

United Nations Industrial
Development Organization
UNIDO Newsletter
P.O. Box 300,
A-1400 Vienna
Austria

Dear Sir:

I would appreciate receiving a copy of the following publication.

Export processing zones in developing countries, 84 pages, UNIDO/ICIS, 176, E,F,S.

Yours sincerely,

Bela Balassa

Mr. Arshad Zaman, EM2

March 23, 1982.

Bela Balassa, DRC

Impact of OECD Growth on LDC Growth

I read with interest your memo of December 24th on the above subject. In the meantime, I have received an OECD report which provides estimates on the same relationship, using a different method and arriving at a much higher figure. The estimates originate from a study by Karsten Laursen from whom I requested a copy. In the meantime, I enclose the OECD study with a request that you return it to me after perusal. The relevant pages are 22 to 25.

Enclosure
BBalassa:nc

March 23, 1982.

Professor Morris Bornstein
Department of Economics
University of Michigan
Ann Arbor, Michigan 48109

Dear Morris,

I was very unhappy to learn of the loss of your library. Unfortunately, I do not have reprints of my earlier papers on the Hungarian reform that may be of interest to you. I enclose, however, my two latest papers on the subject.

Yours sincerely,

Enclosures

Bela Balassa

Enclosed: The Hungarian Economic Reform, 1968-81
Reforming the New Economic Mechanism in Hungary
P.S. Your comments on the papers would be appreciated.

March 23, 1982.

Professor Robert M. Stern
Department of Economics
The University of Michigan
300 N. Ingalls
Ann Arbor, Michigan 48109

Dear Bob,

I was very unhappy to learn of the loss of your library. As a fellow researcher I can fully understand what this means. I will be sending you a set of my publications on International trade and Development.

Yours sincerely,

Bela Balassa

Reprints sent to Professor Robert Stern - March 23, 1982

- W.B. Reprint Series No. 15 "Estimating the Shadow Price of Foreign Exchange in Project Appraisal"
- No. 30 "Economic Integration among Developing Countries"
- No. 41 "The Income Distribution Parameter in Project Appraisal"
- No. 55 "The 'Effects Method' of Project Evaluation"
- No. 68 "Exports and Economic Growth: Further Evidence"
- No. 69 "Types of Economic Integration"
- No. 132 "Accounting for Economic Growth: The Case of Norway"
- No. 133 "Incentive Policies in Brazil"
- No. 164 "Portugal in Face of the Common Market"
- No. 180 "Trade in Manufactured Goods: Patterns of Change"
- No. 181 "Growth Policies and the Exchange Rate in Turkey"
- Weltwirtschaftliches Archiv "The Newly-Industrializing Developing Countries after the Oil Crisis"
- Banca Nazionale del Lavoro "Resolving Policy Conflicts for Rapid Growth in the World Economy"
- Journal of World Trade Law "The Tokyo Round and the Developing Countries"
- Banca Nazionale del Lavoro "The Changing International Division of Labor in Manufactured Goods"
- North-Holland Publishing Co. "Flexible Exchange Rates and the Balance of Payments"
- The Review of Economics and Statistics "Export Composition and Export Performance in the Industrial Countries, 1953-71"
- European Economic Review "The Economic Reform in Hungary 10 Years After"

Mrs. Betty Eltezam, DRD

March 23, 1982.

Bela Balassa, DRC

Janos Kornai's Seminar on April 16th

Mr. Kornai is staying in Washington for several days and has made hotel reservations himself. Correspondingly, his reservation for the night of April 15th should be cancelled. He should, nevertheless, receive his normal per diem.

Kornai now tells me that he would need an open air ticket Washington-New York, Kennedy. Please arrange to have his ticket ready the day of his arrival.

BBalassa:nc

Mr. Jack Lowther, DRD

March 23, 1982.

Bela Balassa, DRD

Mr. Nyers' Visit

Mr. Nyers made hotel reservations himself and accordingly the reservation for the night of March 28th should be cancelled. He should, nevertheless, receive his normal per diem.

BBalassa:nc

Mr. Edwin R. Lim, AEA

March 23, 1982.

Bela Balassa, DRD

Travel Plans

I plan to arrive in Beijing on May 16th Sunday at 10:10 p.m. on PA 15 from Tokyo. I have not made reservations yet and I will let you know if my itinerary turns out to be different. I am planning to leave Beijing on May 28th, Friday, or 29th Saturday.

I enclose a copy of Tamás Bauer's paper "The Hungarian Alternative to Soviet-type Planning."

Enclosure
BBalassa:nc

March 23, 1982.

Professor Simon Kuznets
67 Francis Avenue
Cambridge, Massachusetts 02138

Dear Professor Kuznets:

Walter Galenson asked me to send you a copy of my paper "The Role of Foreign Trade in the Economic Development of Korea" that was prepared for the volume he is editing on the experience of Far Eastern economies. Any comments you may have on the paper by early April would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

March 23, 1982.

Professor Ronald Findley
Department of Economics
Columbia University
New York, New York 10027

Dear Ron,

Walter Galenson asked me to send you a copy of my paper "The Role of Foreign Trade in the Economic Development of Korea" that was prepared for the volume he is editing on the experience of Far Eastern economies. Any comments you may have on the paper by early April would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

March 23, 1982.

Professor Gus Ranis
Economic Growth Center
Box 1987 Yale Station
New Haven, Connecticut 06520

Dear Gus,

Walter Galenson asked me to send you a copy of my paper "The Role of Foreign Trade in the Economic Development of Korea" that was prepared for the volume he is editing on the experience of Far Eastern economies. Any comments you may have on the paper by early April would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

March 23, 1982.

Professor John Fei
Economic Growth Center
Box 1987 Yale Station
New Haven, Connecticut 06520

Dear John,

Walter Galenson asked me to send you a copy of my paper "The Role of Foreign Trade in the Economic Development of Korea" that was prepared for the volume he is editing on the experience of Far Eastern economies. Any comments you may have on the paper by early April would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

March 23, 1982.

Professor Gary Fields
School of Industrial & Labor Relations
Cornell University
Ithaca, New York 14853

Dear Gary,

Walter Galenson asked me to send you a copy of my paper "The Role of Foreign Trade in the Economic Development of Korea" that was prepared for the volume he is editing on the experience of Far Eastern economies. Any comments you may have on the paper by early April would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

March 23, 1982.

Professor S. C. Tsiang
Department of Economics
Cornell University
Ithaca, New York 14853

Dear Professor Tsiang:

Walter Galenson asked me to send you a copy of my paper "The Role of Foreign Trade in the Economic Development of Korea" that was prepared for the volume he is editing on the experience of Far Eastern economies. Any comments you may have on the paper by early April would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

March 23, 1982.

Ambassador James D. Theberge
American Embassy
Miami APO# 34033
Florida

My dear friend,

I am sorry to inform you that my visit to Santiago has been postponed until the end of the year. I will inform you in advance of my coming.

My wife joins me in sending our best regards to you and your family.

Yours sincerely,

Bela Balassa

March 23, 1982.

Mr. Luis Escobar
Banco de Fomento de Valvaraiso
Libertad 67
Bina del Mar
Chile

Dear Luis,

Please excuse my belated reply to your kind wishes for Christmas and the New Year. I have delayed answering you until I knew more definitely about my plans for a visit to Santiago. I had hoped to be able to come at the end of April, but my visit has now been postponed until December. I will let you know in time the dates I will be in Santiago.

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

Yours sincerely,

Bela Balassa

March 19, 1982.

Mr. Gerardo Bueno
El Colegio de Mexico
Apartado Postal 20-671
Mexico 20, D.F.
Mexico

Dear Gerardo,

It is a great pity that we could not meet on your last visit to Washington. Please let me know in advance of your next visit.

I very much appreciate the interest you have expressed in the Spanish language publication of my *The Newly Industrializing Countries in the World Economy*. I have since spoken to Mr. Kellogg who has not received a recent communication from Mr. Rivera. As the enclosed letter indicates, I have asked him to contact Rivera know the conditions associated with the publication of the Spanish translation.

Yours sincerely,

Enclosure

Bela Balassa

March 18, 1982.

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

Dear Mr. Kellogg:

In reference to our telephone conversation, I include copies of my correspondence with Getulio Vargas Foundation concerning the possible publication of a Portuguese version of my book.

I further enclose a copy of a letter from Fernando Rivera, the Deputy Director of CEMLA. In a recent conversation with one of my former collaborators, Mr. Gerardo Bueno, Mr. Rivera expressed a definite interest in publishing the book and inquired about the possibility and indicated that he would like to receive information on the conditions under which Pergamon Press is willing to cede the rights to a Spanish edition.

Yours sincerely,

Enclosures

Bela Balassa

March 19, 1982.

Mr. Kwang Suk Kim
Department of Economics
Kyonghee University
Seoul
Korea

My dear friend,

Thank you for your letter of March 8th in which you informed me of your joining the Kyonghee University. I wish you the best in your new endeavor.

I enclose a copy of my paper, "The Role of Foreign Trade in the Economic Development of Korea" which was prepared for a volume edited by Walter Galenson on the experience of newly industrializing economies of East Asia with foreign trade and foreign investment. I would very much appreciate it if you could provide me with comments on the paper at the earliest possible opportunity.

Yours sincerely,

Enclosure

Bela Balassa

Jt. Library

March 19, 1982.

Bela Balassa, DRD

Purchase of Book

Please purchase the following book. I would need the book urgently as I am going on mission to Portugal in the second half of April.

Tsoukalis, Loukas, *The European Community and Its Mediterranean Enlargement*, 1981.

BBalassa:nc

March 19, 1982.

Professor Walter Galenson
1150 Park Avenue
New York, N.Y. 10028

Dear Walter,

Thank you for your letter of March 17th. I have already sent copies of the paper to Larry Krause and Shirley Kuo. I am now sending copies for the others on your list.

Since you are asking me to wait with any final changes until I have comments from the entire group, I wonder if my fee could be paid on the basis of the paper I have sent you. According to the letter received from Mr. R. M. Lumiansky dated June 3rd, I am to receive \$15,000. Please have the check sent to my home address, 2134 Wyoming Avenue N.W., Washington, D.C. 20008.

Yours sincerely,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
March 19, 1982.

Superintendent of Documents
U.S. Government Printing Office
Washington, D.C. 20402

Dear Sir:

I would like to order United States Participation in the Multi-
lateral Development Banks in the 1980s and The Global 2000 Report to the
President ~~of the United States and Mexico~~. Please bill me at the time of delivery.

Yours truly,

Bela Balassa

March 19, 1982.

Professor Graham Hall
Manchester Business School
University of Manchester
Booth Street West
Manchester M15 6PB
England

Dear Professor Hall:

I am returning pages 131 and 141 to 44 of the proceedings of the Conference on Relevant Prices. I have restrained myself in making changes but some small modifications would be necessary. I also take the liberty of correcting a few points in Professor Robinson's exposition.

I would like to use the opportunity to correct an error on page 27 of my paper "Adjustment to External Shocks in Developing Economies." The third line from the bottom should read "(percent) occurred in inward-oriented economies. And although outward- and inward-."

Yours sincerely,

Enclosures

Bela Balassa

most models related exchange rate movements to changes in each country's prices measured in its own currency, Professor Houthakker used import prices in dollars for countries other than the United States. For example, a simplified version of his equation for the DM/dollar rate would be:

$$\%R_{DM/\$} = \beta_1 \%PX(DM) + \beta_2 \%PM(\$)$$

where

$$\%R_{DM/\$} = \text{Per cent change in the number of DM per \$}$$

$$\%PX(DM) = \text{Per cent change in German export prices, measured in DM (expected to be positive)}$$

$$\%PM(\$) = \text{Per cent change in German import prices, measured in \$ (expected to be negative)}$$

The equation could be rewritten as follows (and was in fact calculated this way):

$$\%R_{DM/\$} = \beta_1 \%PX(DM) + \beta_2 \%PM(DM) \cdot \%R_{\$/DM}$$

where

$$\%R_{\$/DM} = \text{Per cent change in the number of \$ per DM}$$

If PM(DM) were a poor representation of the variable that should be there, because it was a unit value index rather than a price index (as was true for most countries) or because it did not represent U.S. prices, which would usually appear in such an equation, Professor Houthakker would be, in effect, to some extent correlating $\%R_{\$/DM}$ WITH $\%R_{DM/\$}$. If that were the case, the import price coefficients would be biased towards -1. In fact quite a few of his coefficients were close to -1 and the t-statistics were surprisingly high. He suspected that these coefficients were somewhat tainted.

Although Professor Houthakker was very cautious about drawing conclusions from these results they might be read as supporting

the idea of purchasing power parity with rapid adjustment of exchange rates to price changes. For the reason given, Professor Lipsey thought such a conclusion would be unwarranted.

Professor Szakolczay in discussion of Professor Weiss' paper, argued that as so much of non-tradeable production could not be switched into tradeables, the price change necessary for a new equilibrium would need to be extreme. There was a definite difference between long and short term exchange rates; the latter could be pushed a long way below the equilibrium rate.

Professor Balassa stated that the difference between the effects of oil price ^{increases} ~~uses~~ in 197²/₇₃ and 1978⁹/₇₉ ⁴ and 1980⁸⁰ was that in the latter period it was the less-developed countries which had carried ^{much of} the burden, ^{of adjustment.}

As to employing, as Professor Houthakker had done, U.S. import and export prices, ^{he noted that} trade with the U.S. may be unimportant for some countries. Prices should be averages weighted by the amount of trade with each country.

Furthermore, he was not clear whether import prices were to be interpreted as exogenous nor whether it was prices or exchange rates which were assumed to be flexible.

He believed a problem with Professor Weiss' work was that the long and short term had ^{not} been ^{separated} married.

Professor Hague wanted to emphasise that in the U.K. consumer spending had risen very sharply in 1978 and 1979 and had not fallen significantly in 1980. Indeed a recent O.E.C.D. study had shown that for the employed, an important distinction, the real increase had been 17% between 1978 and 1980. In the U.K.

lead to a reduction in the growth of G.D.P.

A further improvement in the paper might have been to have taken into account the relative scarcity of factors, perhaps by estimating their appropriate shadow prices.

Professor Constantopoulos replied that they had tried to take into account Professor Ølgaard's suggestion but unfortunately the share of labour was in parts apparently bigger than national income.

The drawback with employing production functions was that assumptions had to be made about labour's input and this was very difficult.

Should oil be treated separately? She thought the ultimate effect was all that mattered. On the other hand, the exogenous instability, to which reference had been made, might be taken into account in a wider study.

She did not think the E.E.C. had changed the terms of trade as usually Greece was price-taker.

The scarcity of resources was certainly relevant but this was reflected in the price of exports.

Adjustments to External Shocks in Various Developing Countries

by B. Balassa (U.S)

Professor Robinson (Discussant) found Professor Balassa's paper to be very interesting and central to the issues of relative prices. He indeed found it doubly interesting because he was currently working in one of Professor Balassa's twenty-eight countries, Taiwan, on the problems of adjusting to relative price changes.

In considering Professor Balassa's paper he found the calculations to be admirably brave but he felt forced to ask whether seventy brave statisticians in seventy ivory towers would have produced seventy different results.

He had to apologise if he had misunderstood the paper but he had found the exposition difficult to interpret and had in any case been given the paper at short notice.

Dealing with the details of the paper he divided the "shock" into two elements - the change in the terms of trade and the change in the foreign demand for exports. Professor Balassa had quite naturally measured the former by estimating the difference between the relative current price values of exports and imports in, for instance, 1978 and the constant price-shock prices of 1971-73. He had no disagreement on this.

When Professor Balassa attempted to estimate the changes in foreign demand for exports he appeared to be measuring the average rate of growth of foreign demand 1963-73 and the share of each of the country's exports of that world demand in 1971-73. He had calculated what would have been the world demand for those export goods in say 1978 if world demand had continued to grow at the 1963-73 rate and had further calculated what would have been each country's share on the basis of its 1971-73 share. This enabled

142

the counterfactual to be compared with its actual exports. This was a reasonable approach but the assumption of constant shares was rather misleadingly static. Taiwan's manufacturing exports, for instances, were growing at some 13% or more each year, or about twice the rate of world growth. Its market was consequently rising each year. The "shock" had affected not only the growth of world trade but also Taiwan's rate of increase of its share. This could also be said of Korea, Hong Kong and Singapore.

Turning to the process of adjustment, Professor Robinson had listed as the alternative ways this might take place as a change in:-

external financing
^{up and} market share ✓
import substitution,
and growth in G.D.P.

His principal worry was whether the decline in the growth of G.D.P. was not being seriously underestimated by Professor Balassa. Revaluing goods in 1978 in terms of 1972 prices implicitly assumed 1972 terms of trade. The terms of trade loss to G.N.P. was thus excluded. For some purposes an adjustment should be made for the change in terms of trade. This point had been hammered out with Kusnet²(s) help in a previous I.E.A. Conference ✓ on the gap between rich and poor countries.

He would not comment on Professor Balassa's interesting discussion of policies except to say that he found some difficulty in regarding his process of adjustment as policies related to shock. He certainly agreed that "outward looking" countries, with rapidly growing exports, adjusted more easily but he was far from convinced that countries with slowly growing exports could have adjusted better by trying to depend on export promotion.

Professor Robinson then widened the discussion to take in some of the issues of the conference. The "shock" had had a far wider impact on L.D.C.'s than Professor Balassa had assumed.

Before 1973, productivity and wages in Taiwan had both been rising. Since the oil price rise this had not been possible and pressure to restrain wage-bargaining had come through monetary policies. Secondly many countries had aimed for false economies in energy consumption, the U.K. being a prime example. Much more important had been the structural effects of the oil price rise. In Taiwan, the aluminium, petrochemicals and heavy chemicals industries had been badly damaged. There was now a widespread move towards high technology low energy intensive industries, which in the short-term at least was leading to heavy capital losses. Clearly, Professor Balassa's paper presented only a partial picture of the damage suffered by L.D.C.s.

Professor Balassa answered that studying twenty-eight countries meant that one missed the richness of detail.

He had been asked by the O.E.C.D. to consider adjustments to external shocks. Here he presented his conclusions on the short-term effects. A ^{discussion of long-term effects} wider perspective would be published later. When considering hypothetical situations he felt there was a great advantage in simplicity, ^{and uniformity.}

^{As to} On the assumptions he had made about export-shares, he had ^{considered historical changes in} assumed that current shares to some extent reflected past policy which would not necessarily continue into the future. A good example was Korea's ^{recent large} policy on mass investments ^{in capital-intensive industries} which had been detrimental to her exports.

With constant G.N.P. figures if imports were inputs into production he did not consider one should adjust for terms of trade

but if imports were put into the consumption sector one should.

The facts showed that countries which relied on export-
promotion did better than those that did not. He was not worried
by Taiwan's experience as Japan faced the same problem. The
^{Oil-importing LDCs}
~~Third-World~~ should not invest in petrochemicals. That was a mistake
that Taiwan had made.

Structural Models of Inflation and Balance of Payments
Disequilibria in Semi-Industrialised Economies

by P. S. Malan (Brazil) and J. Wells (U.K.)

Professor Shinkai (Discussant) found the paper interesting but difficult; difficult because he had been trained as an orthodox economist. On the other hand, he came from Japan where structural approaches had a long tradition. Indeed, the authors' description often struck him as familiar; after all only 30 years ago Japan was a semi-industrialised country with 40% of its population in farming and exporting silk and cotton products. So it was as a sympathetic reader that he would present his comments.

Of the five sections of the paper he would have nothing to say on Section I. The reason was that he was not interested in methodological arguments per se. He would begin with Section II.

The authors' remark that many advanced countries established their industries through consciously designed policies, seemed to be right. It was certainly the case with Japan, and he would return to this point later. What they argued about the difficulties of increasing exports, also seemed to be true. But their pessimism on most primary exports struck him as too sweeping. Oil, coal and other energy related products were obvious and important exceptions. Grains, lumber and some metals might be in for a bright future. Indeed, Japan imported these commodities and had experienced a 60% decline in her external terms of trade in the past ten years, and was very much worried about a further decline.

Another point that he wanted to raise was: when there were changes in the productive structure of semi-industrialised economies (e.g. further industrialisation), what happened to income?



Record Removal Notice

File Title Bela Balassa's chron files - March 1982	Barcode No. 30225142
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Document Date Mar 19, 1982	Document Type Letter
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Correspondents / Participants
To : Mr. Ernest Stern, SVPOP
From : Bela Balassa, DRD

Subject / Title
Anne L. Muhtasib

Exception No(s).

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

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Additional Comments

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File Title Bela Balassa's chron files - March 1982		Barcode No. 30225142		
Document Date Mar 19, 1982	Document Type Letter			
Correspondents / Participants To : Mr. Jack Lowther, DRD From : Bela Balassa, DRD				
Subject / Title Robert Therriault				
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Additional Comments		<p>The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.</p> <table border="1"> <tr> <td>Withdrawn by Chandra Kumar</td> <td>Date Jun 5, 2014</td> </tr> </table>	Withdrawn by Chandra Kumar	Date Jun 5, 2014
Withdrawn by Chandra Kumar	Date Jun 5, 2014			

March 19, 1982.

Dr. Il Sakong
Vice President
Korea Development Institute
P.O. Box 113
Cheongryang
Seoul
Korea

Dear Dr. Sakong:

I wish to congratulate you on your appointment as Vice President of the Korea Development Institute. I would be happy if I had the opportunity to help you in the performance of your task.

I enclose "The Role of Foreign Trade in the Economic Development of Korea." In the final revision of my paper I would like to update some of the information relating to Korea. In this connection, I wonder if you or your staff could provide me with the data requested in the enclosure.

With best regards,

Yours sincerely,

Enclosures

Bela Balassa

P.S. I would appreciate your comments on my paper.

OFFICE MEMORANDUM

Messrs. L. Westphal and Y. W. Rhee, DED

March 23, 1982

Bela Balassa, DRD

B.B.
for N.C.Korea's Export of Technology

1. I find your paper very informative. At the same time, it appears that you have defined technology exports overly broadly. This has, in turn, led you to questionable conclusions as regards the character of Korea's technology exports.
2. I do not consider it appropriate to regard overseas construction as technology exports. As you correctly state, "Korea enjoys a cost advantage in the performance of these activities owing to comparatively low skill-and-productivity adjusted wages and salaries for skilled workers, technicians, and managers" (pp. 62-63). Korea appears to enjoy a further advantage in overseas construction in having workers who are willing to travel and to labor hard abroad. Similar considerations explain the recent upsurge of Turkish construction abroad (see enclosure); yet, one could not say that this would be the fruits of Turkey acquiring 'technological mastery.' The same conclusions apply to most social overhead installations abroad.
3. More generally, you seem to assume that productive activities performed abroad (i.e. the exports of services) are more 'technology-intensive' than those performed at home for export (i.e. the exports of goods). Yet to the extent that Korea innovated in simple industries, such as bicycles and textiles, the exports of these goods may constitute more of a technology export than construction abroad. I would suggest that you consider the exports of goods and of services on the same footing and examine the technology-intensity of each.
4. I also have problems with your definition of the technology exports of goods. In Table 3, I would not include metal containers and telecommunication equipment under 'plant exports' (the latter may largely consist of microphones and other parts and components assembled elsewhere). Also, I would strengthen the disclaimer that many of the other items are not true 'technology exports.'
5. Furthermore, the inclusion of the exports of capital goods unaccompanied by complementary technological services, leads to an overestimation of plant exports for Korea and the resulting figures are not comparable with those for other developing countries. In particular, the fact that, apart from the cement and tire plant, the average value of a manufacturing project was only \$1.7 million, with most projects being for less than this amount (p. 25), raises the suspicion that much of these projects represent unimportant items that cannot be regarded as technology exports. At the same time, as you note, the cement mill, accounting for about one-half of the total, did not incorporate Korean technology.
6. I also question the inclusion of technical services among technology imports. Given Korea's cost advantage, these services are bound to increase over time, yet they do not generally reflect Korea's technological mastery.

The same conclusion applies to direct investment abroad if this involves the use of conventional technology.

7. All in all, I would exclude from technology exports items that conform to the neo-factor proportions model and include only those that conform to the neo-technology model. This will correspond to your concept of 'technological mastery' since irrespective of whether exports consist of goods and services, they can be considered technology exports only if they embody what you call 'idiosyncratic technology.'

BBalassa:nc

COMPANY NEWS

Turkish Contractors Thrive On Foreign Building Projects

By MARVINE HOWE

Special to The New York Times

ISTANBUL, Turkey — The Turkish construction company Enka is building an industrial city in Libya, a water treatment plant and pipeline in Saudi Arabia, and various factories in Iraq and Jordan.

Sarik Tara, the chairman of Enka, is one of what might be called the "New Turks," a class of young, aggressive entrepreneurs who are spreading throughout the Middle East, providing qualified management and a hard-working, capable labor force.

Indeed, the contracting business has become a major source of foreign exchange and employment for Turkey in the past year and is continuing to grow rapidly. The volume of overseas contracts surpassed \$10 billion last

Icahn Calls Batus Bid 'Inadequate'

By ISADORE BARMASH

Carl C. Icahn, the financier, re-
sunday as "line"

year, or double the figure a year ago, and projections reach around \$20 billion for 1982, according to Turkish banking sources.

Currently, 116 construction contractors are doing business in the Middle East and North Africa, employing some 120,000 workers. That is twice as many concerns as last year, industry sources said. Turkish contractors are supplying only between 10 percent and 15 percent of the equipment for their projects, but this is up from 5 percent a year ago, and is expected to rise.

Expanding Turkish Markets

"Turkish businessmen are becoming more international now that the country is moving toward a free market economy," Mr. Tara said in an interview. He expressed confidence in Turkey's economic potential, despite longstanding balance-of-payments problems and high unemployment.

Mr. Tara, 51 years old, heads one of Turkey's largest contracting companies, with contracts now totaling \$1.2 billion in Turkey and the Middle East.

At the end of 1980, Enka stood 64th among the top 250 international contractors, Mr. Tara said, and it should rank about 50th now.

Enka Construction and Industry Inc. celebrates its 25th anniversary this year with a long list of achievements: all types of construction — bridges, pipelines, refineries, cement factories and other projects — as well as a wide variety of industrial activities, ranging from manufacture of

plastic pipes to animal feed and construction machinery.

The Enka Group employs 11,000 people, 4,000 of them working on projects abroad, and plans to send another 4,000 workers to the Middle East this year.

Most of Enka's Middle Eastern projects are joint ventures with companies from West Germany, Japan, France, Poland, England and Austria. It is the main contractor, however, for the construction of a new town for 50,000 inhabitants at Ras Lanov on the Libyan coast.

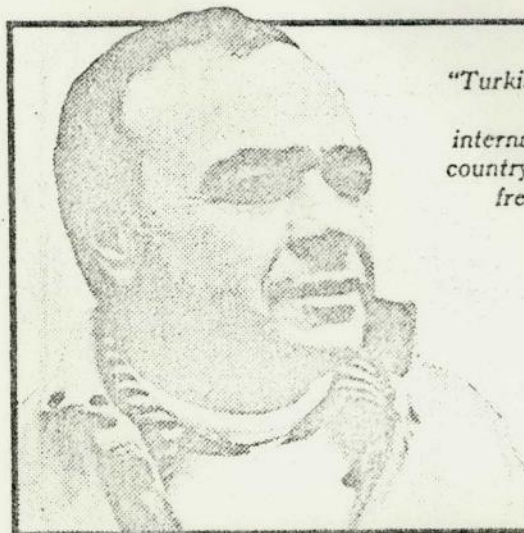
"It's a 28-month contract and we will be finished on schedule," Mr. Tara said. In Turkey, where deadlines mean little, such concern with promptness is rare. But it is just that determination to be on schedule, Mr. Tara believes, that is the key to the success of Turkish contractors in the Middle East.

"We know how to fight their bureaucracy because we have it at home," he said.

Sensitive to Customs

Also, although Turkey is a secular state, most Turks are Moslems and therefore may understand Moslem Arab customs better than other foreigners.

Furthermore, many of the workers were migrant laborers from eastern Turkey or the Black Sea and were already used to living apart from their families for long periods, Mr. Tara said.



"Turkish businessmen are becoming more international now that the country is moving toward a free enterprise market economy."

— Sarik Tara,
chairman of Enka

In fact, he said, most Turkish workers were better off in the Middle East than in Europe, where they have family problems and must spend most of their earnings on basic living costs. "They go alone to the Arab countries, stay two or three years, save their wages, and come back rich," he said.

Mr. Tara himself is a product of the Ottoman Empire and perhaps for that reason is more outgoing than the ordinary Turkish businessman. He was born at Skopje, Yugoslavia, where his family had settled in 1390, he said, under the Ottomans.

A Family Partnership

In 1957, he established a partnership with Sadi Gulcelik, his brother-in-law. Enka, in fact, refers to the Turkish words for brother-in-law. Mr. Gulcelik died in August 1980 aboard a Saudi Arabian airplane that went up in flames at Riyadh.

Mr. Tara started as a subcontractor, providing manpower for a man company building a cement factory in Libya a decade ago.

At present, Enka has offices in Riyadh, Wiesbaden, West Germany and London, and will soon open other in Hamburg, West Germany and Milan, Italy. In the future, perhaps, there will be offices in New York and Singapore.

One of Mr. Tara's main aims is to establish joint ventures with American concerns. During a seminar at Georgetown University's Institute for Strategic Studies, he urged American companies to enter partnerships with Turkish companies.

In return for American technical and financing, he said, Turkish contractors could provide capable management, an unlimited source of trained labor, access to Middle Eastern markets and new export activities.

OFFICE MEMORANDUM

TO: Mr. James K. Feather, PUB
FROM: Bela Balassa, DRD
SUBJECT: Reprints

DATE: March 18, 1982.

I do not think that we should change the rules in mid stream. If a decision is reached that papers will be included in only one of the two series, the authors should have the choice. But the rule should not be applied retroactively; i.e., papers that earlier appeared in some form in the Staff Working Paper Series should be included in the Reprint Series if all other conditions are met.

cc: Messrs. Winterborrom, PUB; Chih, PUB; de Melo, DED; Dervis, EMI;
Muncie, PUB; Robinson, DRD.

BBalassa:nc

OFFICE MEMORANDUM

TO: Those listed

FROM: Bela Balassa, DRD

SUBJECT: Paper on Adjustment Policies

DATE: March 18, 1982.

I have been invited to summarize the results of the OECD and World Bank studies on the adjustment experience of the developing countries, and to indicate the policy implications of these results, at a Conference on IMF Conditionality organized by the Institute for International Economics. The enclosed paper is the result.

Any comments you may have by April 7th would be appreciated.

cc: Messrs. Stern, Please, SVPOP; Waide, VPD; Kavalsky, DED; Landell-Mills, PPR
Chenery, Duloy, VPD; Stoutjesdijk, Pyatt, Newbery, Robinson,
Westphal, Gelb, Mitra, Wijmbergen, DRD.

Enclosure
BBalassa:nc

March 18, 1982.

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

Dear Mr. Kellogg:

In reference to our telephone conversation, I include copies of my correspondence with Getulio Vargas Foundation concerning the possible publication of a Portuguese version of my book.

I further enclose a copy of a letter from Fernando Rivera, the Deputy Director of CEMLA. In a recent conversation with one of my former collaborators, Mr. Gerardo Bueno, Mr. Rivera expressed a definite interest in publishing the book and indicated that he would like to receive information on the conditions under which Pergamon Press is willing to cede the rights to a Spanish edition.

Yours sincerely,

Enclosures

Bela Balassa

March 18, 1982.

Mr. Moacyr Antonio Fioravante
Fundacao Getulio Vargas
Instituto Brasileiro de Economia
Caixa Postal 9052
20.000 Rio de Janeiro RJ
Brazil

Dear Mr. Fioravante:

Thank you for your letter of March 9th. I very much hope that it will be possible to include the Portuguese version of my book in the publication program of your Foundation. I trust that the Brazilian readers would find the book of interest.

I am copying this letter to Mr. David Kellogg, Senior Editor of the Pergamon Press, Fairview Park, Elmsford, New York. Please address further communications regarding publication to him with a copy to me.

Yours sincerely,

Bela Balassa

cc: Mr. David Kellogg

Centro de Estudios Monetarios Latinoamericanos

FERNANDO RIVERA
SUBDIRECTOR

DURANGO 54
MEXICO 7, D. F.

September 17, 1981

Mr. David Kellogg
Senior Editor
Social Sciences
PERGAMON PRESS, INC.
Maxwell House
Fairview Park,
Elmsford, New York 10523

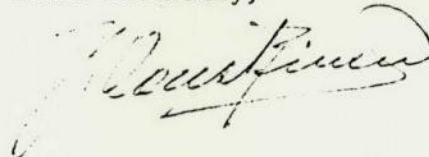
Dear Mr. Kellogg:

Thank you for your letter of September 8, enclosing a copy of Dr. Balassa's book "The newly industrializing countries in the world economy", sent to us at the request of the author so that we consider the publication of a Spanish translation.

Since I am about to leave Mexico City on an extended official travel to South America, I am asking our Editorial Committee to go over the book and prepare an opinion for my return, which I expect in two-three weeks. I will be able to give you a definite reply by the end of October.

Please convey our gratitude to Dr. Balassa for his kind attention. I hope that we shall be able to publish his new book as we have done in the past.

Yours cordially,



copy → A Moon
→ B Balassa .

FUNDAÇÃO GETÚLIO VARGAS
INSTITUTO BRASILEIRO DE ECONOMIA
CAIXA POSTAL 9052
20.000 - RIO DE JANEIRO - RJ - BRASIL

IBRE/CDI/RBE/489/1982

Rio de Janeiro March 9, 1982

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

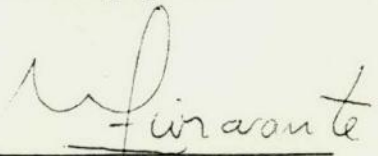
Dear Dr. Balassa

Thank you for your letter of February 12 inquiring about the possibility of the Getulio Vargas Foundation publishing your recent book, The Newly Industrializing Countries in the World Economy.

I am sending your letter and the enclosed material about your book, to Prof. Benedito Silva, director of The Documentation Institute encharged of FGV publications, with my recomendation. I am sure he will be interested in publishing your book, the only concern will be about the existence of funds in the publications budget.

As soon as I have an answer from Prof. Benedito Silva I will get in contact with you.

Sincerely yours



Moacyr Antonio Fioravante

March 18, 1982.

Mr. Moacyr Antonio Fioravante
Fundacao Getulio Vargas
Instituto Brasileiro de Economia
Caixa Postal 9052
20.000 Rio de Janeiro RJ
Brazil

Dear Mr. Fioravante:

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Yours sincerely,

Bela Balassa

cc: Mr. David Kellogg

Those listed

March 18, 1982.

Bela Balassa, DRD

Paper on Adjustment Policies

I have been invited to summarize the results of the OECD and World Bank studies on the adjustment experience of the developing countries, and to indicate the policy implications of these results, at a Conference on IMF Conditionality organized by the Institute for International Economics. The enclosed paper is the result.

Any comments you may have by April 7th would be appreciated.

cc: Messrs. Stern, [redacted], SVPOP; Waide, VPD; Kavalsky, DED; Landell-Mills, PPR
Chenery, Duloy, VPD; Stoutjesdijk, Pyatt, Newbery, Robinson,
Westphal, Gelb, Mitra, Wijmbergen, DRD.

Enclosure
BBalassa:nc

Mr. James K. Feather, PUB

March 18, 1982.

Bela Balassa, DRD

Reprints

I do not think that we should change the rules in mid stream. If a decision is reached that papers will be included in only one of the two series, the authors should have the choice. But the rule should not be applied retroactively; i.e., papers that earlier appeared in some form in the Staff Working Paper Series should be included in the Reprint Series if all other conditions are met.

cc: Messrs. Winterborrom, PUB; Chih, PUB; de Melo, DED; Dervis, EMI;
Muncie, PUB; Robinson, DRD.

BBalassa:nc

OFFICE MEMORANDUM

TO: Mrs. Christine Wallich, VPD

DATE: March 17, 1982

FROM: Bela Balassa, DRD

SUBJECT: Evaluation of Completed Research Project:
Economic Development of East and South-east Asia (RPO 670-79)

1. A panel comprising Messrs. B. Balassa (DRD), Chairman, R. Agarwala (AEA), D. Keesing (DED), B. Tuncer (PPR), S. El Serafy (OED), and Ms. G. Swamy (EPD) met on Monday, March 1 to evaluate the above research project. Mr. Parvez Hasan from the sponsoring department and Mrs. Wallich participated in the discussion.
2. The research project originated in high-level discussions with Mr. Saburo Okita, President of the International Development Center of Japan at the time. Apart from the Bank's interest in the subject matter of the research, another motivating factor had been to establish a good relationship with the newly-created IDCJ.
3. The original budget of \$350,000 was reduced to \$54,000, and Mr. Gilmartin, the Regional Chief Economist, noted that "the cutback may be excessive in the interest of a satisfactory study" (memo dated August 14, 1972). The cutback itself reflected dissatisfaction with the proposal submitted by IDRC but, despite subsequent improvements, the revised proposal was not fully satisfactory either. As Mr. Goodman, the Regional Program Director, stated in submitting the research project to the Research Committee, "the third revised proposal ... is acceptable in substance" (memo dated January 26, 1973), but further improvements will be necessary. It is on this basis that the Research Committee accepted the project.
4. Apart from lack of further improvements in the methodology, the research project subsequently veered away from the original objective of examining prospective changes in the interrelationship of Japan and East and Southeast Asia through trade and foreign investment. Rather, emphasis was given to the prospects for the Japanese economy. This fact was acknowledged by IDCJ and Mr. Ohkawa, its Research and Training Director, suggested undertaking a second phase of the project for this purpose (letter to Mr. Hasan, dated February 10, 1977). There was no desire, however, in the Bank to finance a second phase.
5. On the whole, while the industry studies offered interest to the Region, the research project did not live up even to the reduced expectations at the time the third version of the proposal was accepted by the Research Committee. Yet, the cost to the Bank was considerable in terms of the time of high level staff, although Bank staff was not involved in the implementation of the research project.
6. These findings indicate the need for having a fully acceptable methodology before a project is accepted by the Research Committee. They also point to shortcomings of a procedure, which involves contracting an outside

institution without Bank input in the implementation of the project. These issues may be usefully addressed to the Research Committee.

cleared with and cc: Panel Members, Mr. P. Hasan, AENVP.

BBalassa:nc

Mr. L. A. Whittome, IMF

March 17, 1982.

Bela Balassa, DRC

Seminar on the Hungarian Economic Reform

Mr. Rezső Nyers, former Minister of Finance and Director of the Institute of Economics in Hungary, will speak on "The International Aspects of the Hungarian Economic Mechanism" on March 29, Monday, at 11:00 o'clock in Room C710.

You and your collaborators are invited.

BBalassa:mc

Mr. Jacques de Groot, IMF

March 17, 1982.

Bela Balassa, DRC

Seminar on the Hungarian Economic Reform

Mr. Rezső Nyers, former Minister of Finance and Director of the Institute of Economics in Hungary, will speak on "The International Aspects of the Hungarian Economic Mechanism" on March 29, Monday, at 11:00 o'clock in Room C710.

You and your collaborators are invited.

BBalassa:nc

OFFICE MEMORANDUM

TO: Mr. Gerrit B. H. Renger, LCP DATE: March 15, 1982.

FROM: Bela Balassa, DRD

SUBJECT: BRAZIL - Industrial Sector Report. Green Cover Draft and Policy Issues
Recommendations Memorandum

1. I agree with the principal recommendations listed in Paras. 19-25 of the memorandum. The suggestions made below aim at complementing the recommendations that have been put forward.
2. The memorandum is not clear as to the extent of the devaluation necessary to permit eliminating the surcharge on imports and the fiscal incentive to exports. Given the recent rise of the dollar vis-a-vis other major currencies and the increased import needs of the Brazilian economy once expansion is renewed, a 10-15 percent real devaluation with respect to the U.S. dollar proposed for 1982 (Para. 19) would hardly be sufficient, I believe.
3. Furthermore, the question arises if the desired reduction of credit subsidies to exports should be accomplished through gradual decreases in the interest rate as the inflation rate declines (Para. 19). For one thing, continued restraint of fiscal and monetary policy proposed in the next sentence will keep interest rates high. For another thing, it is the margin of preference on interest rates to export loans that needs to be reduced.
4. The latter conclusion applies to preferential interest rates in general. The recommendations should emphasize the need to reduce credit preferences that have gotten out of hand in Brazil and have favored capital-intensive activities and production processes in preferred industries. More generally, it would be desirable to take up again the recommendations made in the recent report on capital markets in Brazil.
5. In the discussion, more emphasis should be given to the need for reducing the existing bias of the incentive system against exports and against primary activities. While in Para. 4 reference is made to "the renewed emphasis on an import substitution strategy after 1973," data on the extent of these biases are not provided. In this connection, reference may be made to my memorandum "Brazil Industrial Policy and Manufactured Exports," dated March 1, 1982, where detailed recommendations are made for the revision of the estimates.
6. Finally, the "main achievements through 1981" (Para. 16) may be overstated. To begin with, it is doubtful that the measures cited "amount to a full-fledged stabilization program" (Para. 16). The mini-devaluation do not seem to have taken sufficient account of the appreciation of the dollar and, without a deep recession, Brazil's balance of payments may have deteriorated further. Also, inflation rates for one quarter may not be a harbinger for things to come.

cc: Recipients of the memorandum dated March 3.


Balassa:nc

OFFICE MEMORANDUM

TO: Those listed

DATE: March 15, 1982.

FROM: Bela Balassa, DRD

SUBJECT: Visit to Chile 

1. Following our meeting, I immediately wrote to Jorge Cauas confirming my availability for a visit to Chile in the last week of April. In his reply, Jorge transmitted to me a request from the Central Bank to advance my visit by one week. Unfortunately, my teaching obligations do not make this possible. I informed Jorge on this and had telephone conversations with him, as well as Mr. Francesco Garces, Director of International Relations in the Central Bank.

2. Mr. Garces indicated to me that a visit at the end of April would conflict with an IMF mission as well as with the preparation of Mr. de la Cuarda's trip to Europe in May. He further suggested that my visit take place in October or November. Since this again conflicts with my teaching obligations, we have tentatively agreed on the first week of December for my visit.

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

BBalassa:nc

March 15, 1982.

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

Dear John,

I enclose my paper "The Adjustment Experience of Developing Economies after 1973" for distribution to the participants of the Conference on IMF Conditionality. I am sending a copy directly to Rudi Dornbusch.

Sorry for the delay.

Yours sincerely,

Enclosure

Bela Balassa

cc: Mr. Fred Bergsten

March 15, 1982.

Professor Rudiger Dornbusch
Massachusetts Institute of Technology
Department of Economics
Cambridge, Massachusetts 02138

Dear Rudi,

I enclose a copy of my paper "The Adjustment Experience of Developing Economies after 1973" you will comment on at the Conference on IMF Conditionality. Sorry for the delay.

Looking forward to seeing you, I remain,

Yours sincerely,

Enclosure

Bela Balassa


P.S. It seems that I have won the bet on the terms of trade.

OFFICE MEMORANDUM

TO: Those listed

DATE: March 15, 1982.

FROM: Bela Balassa, DRD

SUBJECT: Seminar on the Hungarian Economic Reform 

1. Mr. Rezső Nyers, former Minister of Finance and Director of the Institute of Economics in Hungary, will speak on "The International Aspects of the Hungarian Economic Mechanism" on March 29, Monday. The seminar is by invitation; please let us know at extension 61991 if you can attend.

2. The seminar will be held at 11:00 o'clock in Room C710.

cc: Messrs. Chaufournier, EMNVP; Karaosmanoglu, EM1; Bart, EM2; Picciotto, EMP; Dubey, EMNVP; Hume, EMP; Asfour, EM2; Colaco, EM1; Humphrey, EM1; Chopra, EM1; H. Denton, EM1; Bery, EM1; Kilby, EM1; Chenery, VPD; Stoutjesdijk, DRD; Duloy, VPD; B.B. King, VPD; Robinson, DED; D. Nowicki, EM2; P. Hasan, AENVP; Koch-Weser, AGR; Lim, AEA; Schrenk, AENVP; Gulhati, EANVP.

BBalassa:nc

OFFICE MEMORANDUM

TO: Those listed
FROM: Bela Balassa, DRD
SUBJECT: Paper on Korea

DATE: March 12, 1982.

I enclose a copy of my paper "The Role of Foreign Trade in the Economic Development of Korea." I prepared this paper in a private capacity for a volume edited by Walter Galenson on the experience of newly industrializing economies of East Asia with trade and foreign investment.

Any comments received by March 25th would be appreciated.

cc: Messrs. P. Hasan, AENVP; R. Agarwala, AEA; D.C. Rao, EGY; G. Pursell, IDF;
Y.W. Rhee, DED; Westphal, DED; Szapary, IMF.

Enclosure
BBalassa:nc

1 1 61991

E. GUILLON, DIRECTOR, CLUB DE DAKAR

4, AVENUE ROCHE, 75008 PARIS, FRANCE

PRIMO LIST OF COUNTRIES TRANSMITTED TO MR. DE AZCARATE FOR MAILING
OF COUNTRY ECONOMIC REPORTS. SECUNDO PLEASE INFORM ABOUT DATE AND
PLACE OF THE NEXT ANNUAL MEETINGS OF THE CLUB DE DAKAR. REGARDS,
BALASSA

CABLE

CLUBDAK 290139F 3/12/82

BELA BALASSA

BELA BALASSA

BBalassa:nc

DEVELOPMENT RESEARCH DEPARTMENT

March 12, 1982.

Mr. Jae-Ik Kim
Economic Secretary
The Blue House
Seoul
Korea

My dear friend,

I have the pleasure to enclose the preliminary version of my paper "The Role of Foreign Trade in the Economic Development of Korea." I prepared this paper for a volume edited by Walter Galenson on the experience of newly industrializing economies of East Asia with foreign trade and foreign investment.

I would appreciate receiving your comments on the paper. I would also like your agreement to my quoting from the Advisory Report I prepared for your government as well as from Plan documents. Finally, I wonder if there is a more recent version of the preliminary outline of the Fifth Five-Year Plan.

In putting the paper into final form I would like to check and up-date the calculations on real exchange rates. In this connection, I would appreciate it if your staff could provide the information requested in the enclosure.

With best regards,

Sincerely yours,

Enclosures

Bela Balassa

Debt Requirements

Growth Rates for 1980, 1981

Growth domestic product in constant prices,
the dollar value of exports,
export volume, and export unit value

Index numbers for the four quarters of 1981 as well as for the entire year

Manufacturing output, employment and wages;
wholesale and consumer price index

March 12, 1982.

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

Dear Mahn Je,

I have the pleasure to enclose the preliminary version of my paper "The Role of Foreign Trade in the Economic Development of Korea." I prepared this paper for a volume edited by Walter Galenson on the experience of newly industrializing economies of East Asia with foreign trade and foreign investment.

Your comments on the paper would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

March 12, 1982.

Professor Walter Galenson
1150 Park Avenue
New York, New York 10028

Dear Walter,

I enclose the preliminary version of my paper "The Role of Foreign Trade in the Economic Development of Korea." Your comments by March 25 would be appreciated. The final version of the paper will be sent to you before the April 15th deadline.

I spoke to Larry Krause and I agree with him that a meeting would be useful if the Far Eastern contributors could also participate. Otherwise, you may wish to go ahead with the publication of the volume once the papers have arrived.

Should you plan a meeting, please note that I have a heavy travel schedule in the months ahead, with trips to China and elsewhere. I expect to be away during the last week of April, between May 10 and 31, and from mid July to the end of August.

With best regards,

Sincerely yours,

Enclosure

Bela Balassa

cc: Mr. Larry Krause

March 12, 1982.

Messrs. C. Fred Bergsten and William R. Cline
Institute for International Economics
11 Dupont Circle N.W.
Washington, D.C. 20036

Dear Fred and Bill,

Thank you for your invitation to the Conference on "Trade Policy in the Eighties." I would be happy to participate.

Among the topics you list, I have a particular interest in issues related to foreign direct investment. I have been advising developing countries on investment codes in recent years. Also, Mr. Clausen has raised the issue of an international investment code.

There are a number of additional issues relating to direct foreign investment that may be considered. These include national treatment, international competition through incentives, the net benefits of tax incentives, the repatriation of capital and dividends, and the threat of nationalization. All these issues, directly or indirectly have relevance for international trade as well.

Yours sincerely,

Bela Balassa

March 12, 1982.

Mrs. S. W. Y. Kuo
Deputy Governor
The Central Bank of China
The Republic of China
Taipei, Taiwan

Dear Mrs. Kuo:

I have the pleasure to enclose the preliminary version of my paper "The Role of Foreign Trade in the Economic Development of Korea." I will prepare the final version of the paper by the April 15th deadline. In this connection, I would need some information to check and up-date the figures I have used. I would appreciate it if your staff could provide the information to me.

Yours sincerely,

Enclosures

Bela Balassa

Those listed

March 12, 1982.

Bela Balassa, DRD

Paper on Korea

I enclose a copy of my paper "The Role of Foreign Trade in the Economic Development of Korea." I prepared this paper in a private capacity for a volume edited by Walter Galenson on the experience of newly industrializing economies of East Asia with trade and foreign investment.

Any comments received by March 25th would be appreciated.

cc: Messrs. P. Hasan, AENVF; R. Agarwala, AEA; D.C. Rao, EGY; G. Pursell, IDF;
Y.W. Rhee, DED; Westphal, DED; Szapary, IMF.

Enclosures
BBalassa:nc

March 12, 1982.

Dr. Ki Hwan Kim
President
Korea Development Institute
P.O. Box 113 Cheongryang
Seoul
Korea

My dear friend,

I have the pleasure to enclose the preliminary version of my paper "The Role of Foreign Trade in the Economic Development of Korea." I prepared this paper for a volume edited by Walter Galenson on the experience of newly industrializing economies of East Asia with foreign trade and foreign investment.

Your comments on the paper would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

72065

Mr. Luis de Azcarate, WANVP

March 8, 1982.

Bela Balassa, DRC

Grey Cover Reports

In reference to our telephone conversation I would like to ask you to send the latest grey cover reports for the countries listed in the enclosed telegram to Mr. Diawara, President of the Club de Dakar. The Club de Dakar is carrying out a research project on integration in Western Africa that is financed by the Commission of the European Economic Community. The grey cover reports on these countries by the Bank would be of great help to the Club de Dakar in undertaking the study; in turn, we should benefit from the findings.

Mr. Mohamed T. Diawara
President du Club de Dakar
4, avenue Hoche
75008 Paris

Enclosure
BBalassa:nc

OFFICE MEMORANDUM

TO: Mrs. Christine Wallich VPD

FROM: Bela Balassa, DRC

SUBJECT: Review Panel: "Problems of Liberalization:
Argentina, Chile, Colombia, Uruguay"

DATE: March 8, 1982

1. A panel comprising Messrs. B. Balassa (DRC), Chairman, F. Levy (LC2), A. Gelb (DRC), J. Shilling (EPD), and K. Ikram (FPA) has been set up to review the above named proposal. The panel met on Thursday, February 25th. While Mr. Ikram was not able to participate at the meeting, he has been contacted by telephone.
2. The panel unanimously agrees on the usefulness of providing an analytical history for the liberalization experiment in Uruguay but does not favor to do this for Colombia that has a rather different history of liberalization than the countries of the Southern Cone. At the same time, the analytical history for Uruguay is part of the proposed research project on "Liberalization with Stabilization in the Southern Cone" submitted by Corbo and de Melo, which would provide financing for it.
3. The panel finds that the time elapsed is too short to estimate the benefits of liberalization with any degree of accuracy. As regards the costs of liberalization, the panel does not consider that the proposed methodology provides sufficient basis for going ahead with work on labor markets.
4. The panel is split on the question of undertaking an analysis of the interaction of exchange rates, interest rates capital flows and inflation. Some members of the panel favor this as they consider it to be an important and empirically tractable problem of considerable policy relevance for the developing countries and of operational relevance for the Bank. Several panel members are more dubious, largely because they have questions about the appropriateness of the proposed model. The proponents of research on the subject also feel that a further elaboration of the model would be in order in particular, of the way in which policy regimes and expectation formation are to be treated.
5. Finally, the panel members have queried the relationship between the proposed research and the Corbo-de Melo project. In particular, there is an apparent overlapping as far as the study of the interaction of exchange rates, interest rates, capital flows, and inflation is concerned.

cc: and cleared with Panel Members
cc: Messrs. Squire, DED; Hansen CON.

BBalassa:nc

March 8, 1982.

Mr. Kim Kwang Suk
Vice President
Korea Development Institute
P.O. Box 113, Cheongryang
Seoul
Korea

My dear friend,

Larry Westphal just showed me a book edited by L. B. Krause and
Wontack Hong. I would appreciate it if you could favor me with a copy.

With best regards,

Sincerely yours,

Bela Balassa

P.S. The name of the book is "Trade and Growth of the Advanced Developing
Countries in the Pacific Basin."

Mr. Roland Barker, AMEX

March 8, 1982.

Bela Balassa

In my last statement from American Express there was a charge of \$60.00 representing the cost of a round trip ticket on the Metroliner between Baltimore and New York. As you will recall, I never picked up this ticket and used the plane instead. I would like to ask you, therefore, to make arrangements that I receive a refund, if you have not yet done so.

I would also like to inquire if the request for refund has been submitted for my wife's travel between Paris and Lyon.

BBalassa:nc

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
Mar**h** 8, 1982

Investment Alert
18 Lois Street
Norwalk, Connecticut 06851

Dear Sir:

It is only last week that I received the first issue of your publication. I have now received the second issue and find that it does not correspond to my needs. In accordance with the advertisement, I wish to ask you, therefore, for a refund of the price of my subscription.

Yours truly,

Bela Balassa

OFFICE MEMORANDUM

TO: Mrs. Christine Wallich, VPD

DATE: March 8, 1982

Draft for Comments

FROM: Bela Balassa, DRD

SUBJECT: Evaluation of Completed Research Project:
Economic Development of East and South-east Asia (RPO 670-79)

1. A panel comprising Messrs. B Balassa (DRD), Chairman, R. Agarwala (AEA), N. Hicks (PPR), D. Keesing (DED), B. Tuncer (PPR), S. El Serafy (OED), and Ms. G. Swamy (EPD) has been formed to evaluate the above research project. The panel met on Monday, March 1. Mr. Parvez Hasan participated in the discussion.
2. The research project originated in high-level discussions with Mr. Saburo Okita, President of the International Development Center of Japan at the time. Apart from the Bank's interest in the subject matter of the research, another motivating factor had been to establish a good relationship with the newly-created IDCJ.
3. The original budget of \$350,000 was reduced to \$54,000, and Mr. Gilmartin, the Regional Chief Economist, noted that "the cutback may be excessive in the interest of a satisfactory study (memo dated August 14, 1972). The cutback itself reflected dissatisfaction with the proposal submitted by IDRC but, despite subsequent improvements, the revised proposal was not fully satisfactory either. As Mr. Goodman, the Regional Program Director, stated in submitting the research project to the Research Committee, "the third revised proposal ... is acceptable in substance" (memo dated January 26, 1973), but further improvements will be necessary. It is on this basis that the Research Committee accepted the project.
4. Apart from lack of further improvements in the methodology, the research project subsequently veered away from the original objective of examining prospective changes in the interrelationship of Japan and East and Southeast Asia through trade and foreign investment. Rather, emphasis was given to the prospects for the Japanese economy. This fact was acknowledged by IDCJ and Mr. Ohkawa, its Research and Training Director, suggested undertaking a second phase of the project for this purpose (letter to Mr. Hasan, dated February 10, 1977). There was no desire, however, in the Bank to finance a second phase.
5. On the whole, while the industry studies offered interest to the Region, the research project did not live up even to the reduced expectations at the time the third version of the proposal was accepted by the Research Committee. Yet, the cost to the Bank was considerable in terms of the time of high level staff, although Bank staff was not involved in the implementation of the research project.
6. These findings indicate the difficulties encountered in undertaking research projects that originate on the 'political' level. They further show the need for having a fully acceptable methodology before a project is accepted by the Research Committee. Finally, they point to shortcomings of a

procedure, which involves contracting an outside institution without Bank input in the implementation of the project.

cleared with and cc: Panel Members, Mr. P. Hasan, AENVP.

BBalassa:nc



Record Removal Notice

File Title Bela Balassa's chron files - March 1982		Barcode No. 30225142		
Document Date Mar 8, 1982	Document Type Letter			
Correspondents / Participants To : Mr. E. Stoutjesdijk, DRD From : Bela Balassa, DRD				
Subject / Title Research Assistance				
Exception No(s). <input checked="" type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input type="checkbox"/> 10 D <input type="checkbox"/> Prerogative to Restrict				
Reason for Removal Personal Information				
Additional Comments		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.		
		<table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date Jun 5, 2014</td></tr></table>	Withdrawn by Chandra Kumar	Date Jun 5, 2014
Withdrawn by Chandra Kumar	Date Jun 5, 2014			

March 8, 1982.

Organization for Economic Cooperation
and Development
1750 Pennsylvania Avenue N.W.
Washington, D.C. 20006

Dear Sir:

In reference to our telephone conversation, I would like to ask you to provide me, at a 50% authors' discount, with 32 copies of the English version and 8 copies of the French version of *The Balance of Payments Effects of External Shocks and of Policy Responses to These Shocks*.

Yours sincerely,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
March 8, 1982.

Kultura
H1389 Budapest
P.O.B. 149
Hungary

Dear Sir:

I would like to order the following periodicals effective immediately.

Heti Világgazdaság (Weekly World Economics)
Külgazdaság (Foreign Economy)
Valóság (Reality)

Yours sincerely,

Bela Balassa

Mrs. Christine Wallich VPD

March 8, 1982

Bela Balassa, DRC

Review Panel: "Problems of Liberalization:
Argentina, Chile, Colombia, Uruguay"

1. A panel comprising Messrs. B. Balassa (DRC), Chairman, F. Levy (LC2), A. Gelb (DRC), J. Shilling (EPD), and K. Ikram (FPA) has been set up to review the above named proposal. The panel met on Thursday, February 25th. While Mr. Ikram was not able to participate at the meeting, he has been contacted by telephone.
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3. The panel finds that the time elapsed is too short to estimate the benefits of liberalization with any degree of accuracy. As regards the costs of liberalization, the panel does not consider that the proposed methodology provides sufficient basis for going ahead with work on labor markets.
4. The panel is split on the question of undertaking an analysis of the interaction of exchange rates, interest rates capital flows and inflation. Some members of the panel favor this as they consider it to be an important and empirically tractable problem of considerable policy relevance for the developing countries and of operational relevance for the Bank. Several panel members are more dubious, largely because they have questions about the appropriateness of the proposed model. The proponents of research on the subject also feel that a further elaboration of the model would be in order in particular, of the way in which policy regimes and expectation formation are to be treated.
5. Finally, the panel members have queried the relationship between the proposed research and the Corbo-de Melo project. In particular, there is an apparent overlapping as far as the study of the interaction of exchange rates, interest rates, capital flows, and inflation is concerned.

cc: and cleared with Panel Members
cc: Messrs. Squire, DED; Hansen CON.

BBalassa:nc

Mr. Hollis B. Chenery, VPD

March 5, 1982.

Bela Balassa, DRC

I enclose my "Exports and Economic Growth: Further Evidence" that is the companion piece to "Export Incentives and Export Performance in Developing Countries: A Comparative Analysis" I earlier gave you. I further enclose a copy of my recent reading list for "Development Policies and Project Evaluation." Finally, I enclose, on loan, *Development Economics Course Materials*, containing reading lists of a number of major Universities for graduate and undergraduate development courses.

Enclosures

BBalassa:nc

Mrs. Christine Wallich, VPD

March 5 1982

REVISED DRAFT

Bela Balassa, DRC

Review Panel: "Problems of Liberalization:
Argentina, Chile, Colombia, Uruguay"

1. A panel comprising Messrs. B. Balassa (DRC), Chairman, F. Levy (LC2), A. Gelb (DRC), J. Shilling (EPD), and K. Ikram (FPA) has been set up to review the above named proposal. The panel met on Thursday, February 25th. While Mr. Ikram was not able to participate at the meeting, he has been contacted by telephone.
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cc: and cleared with Panel Members

BBalassa:nc

Mrs. Christine Wallich, VPD

March 5, 1982

REVISED DRAFT

Bela Balassa, DRC

Review Panel: "Problems of Liberalization:
Argentina, Chile, Colombia, Uruguay"

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cc: and cleared with Panel Members

BBalassa:nc

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
March 5, 1982

THE MET AT THE KENNEDY CENTER
Washington, D.C 20566

Dear Sir:

Opera-goers in Washington have enjoyed the best singers of La Scala, the Bolshoi, and the Berlin, Paris, and Vienna Operas in recent years. While the statement could have been applied to the first season of the Metropolitan Opera in Washington, this is no longer the case.

As noted in your announcement dated December 5, 1979, on its first engagement at the Kennedy Center, the Metropolitan Opera Company brought a star-studded cast to Washington, including Judith Blegen, Gilda Cruz-Romo, Teresa Kubiak, Richard Cassilly, Peter Glossop, Sherrill Milnes, James Morris and Luciano Pavarotti. The cast was much weaker the following year. Among other losses, Pavarotti did not come to Washington.

In the third year, among the eight stars appearing in 1980, only Gilda Cruz-Romo and James Morris will sing on one occasion each. And, on opening night, Christiane Eda-Pierre, Tatiana Troyanos, and Placido Domingo will not appear in the roles they sang in Les Contes d'Hoffmann in New York. Also, Rigoletto will arrive without the three principals of the very successful New York performance -- Eda-Pierre, Milnes and Pavarotti. Finally, the Met will not bring last fall's three new productions to Washington.

While I supported the Met in Washington in each of the last three years, I do not plan to be a subscriber this time. I only hope that next year will represent a change for the better. In particular, one would welcome having Kiri Te Kawana, Luciano Pavarotti, Judith Blegen, and Kurt Moll in the roles they will sing at the opening performance of "Der Rosenkavalier" next September in New York.

Indeed, it would not be inappropriate to offer productions of the same quality in Washington as in New York. Bringing the second cast of Metropolitan productions and old presentations of Parsifal and the Magic Flute (sang in English) to Washington does not qualify as "a season to dazzle the imagination" as the blurb pretends.

Bela Balassa

cc: Mrs. Marta Istomin
Mr. Anthony A. Bliss
Mr. Rogert L. Stevens
Washington Post
Washingtonian Magazine

OFFICE MEMORANDUM

TO: Mr. Manuel Penalver-Quesada, LCP

FROM: Bela Balassa, DRC

SUBJECT: Brazil: Industrial Policy and Manufactured Exports

DATE: March 1, 1982

1. The report is impressive in scope and in coverage. I am also favorably impressed with Tyler's background paper "Trade Policies and Industrial Incentives in Brazil, 1980-81" (August 1981), which tells us in detail about the origin of the protection estimates. However, I have trouble with some of the results and the policy conclusions that may be derived from them. In particular, references to the dispersion of incentives notwithstanding, the reported results may be used by the Brazilian authorities to defend the continuation of existing policies.

2. I have considerable doubts about the existence of a pro-export bias in manufacturing and of negative net nominal protection in Brazil. These results conflict with my and Tyler's earlier work as well as with the statement made in the introduction that "the economic policies followed after 1974 implied a departure from those followed from 1964 to 1973 and included a return to an active import substitution strategy, particularly in capital goods and intermediates, while maintaining the structure of export incentives virtually unchanged" (Para. v.).

3. In the following, I will review the principal items which need to be modified in order to obtain more appropriate estimates on incentives in Brazil. I will further consider the implications of these changes for the evaluation of the policies followed as well as the performance of Brazilian industry after 1973.

Estimating Implicit Tariffs

4. To begin with, doubts arise concerning the negative implicit tariffs obtained through price comparisons for manufactured goods (Table 7.1). Some of these are standardized products (cement, -34 percent; pig iron, -33 percent; woodpulp, -38 percent; paper, -32 percent; tubes and tires, -21 percent; caustic soda, -33 percent; and naphtha, -34 percent), others are differentiated commodities (agricultural equipment, -18 percent, office equipment and machinery, -18 percent; tractors, -48 percent; radio and television equipment, -22 percent; automobiles, -23 percent; trucks and buses, -46 percent; railway rolling stock, -22 percent). Such results can only be rationalized in the event of export taxes, export restrictions, or price control.

5. The background paper makes reference to the existence of export taxes and restrictions for agricultural products. It also implies their existence for some manufactured goods without, however, citing any examples (p. 29). Another paper by Tyler notes that woodpulp, cement, and basic steel were

subject to export restrictions. ^{1/} I understand that the exports of pig iron, paper, and caustic soda were also restricted and that several differentiated commodities with negative implicit tariffs were subject to price control.

6. In the absence of export taxes, export restrictions, and price control, the implicit tariff should be taken to be zero since errors in observations or differences in quality will account for the results. In the event that export taxes, export restrictions, or price control are applied, the implicit tariff should be estimated as the ratio of domestic sales prices to export prices. This will, then, permit estimating the bias against exports. The estimates provided in the report assume that export prices equal world market prices; the validity of this assumption needs to be verified.

7. Ascertaining actual export prices is of particular importance in the case of differentiated products where quality differences bedevil the comparison of domestic sales prices and world market prices. This observation applies to all the price comparisons made in the report. In the presence of quality differences in favor of foreign products, the rate of implicit tariffs and hence the bias against exports, will be underestimated. One may thus raise questions about the "robustness" of the estimates (Para. xxxi).

8. A further question is if financial incentives to exports have been overestimated. In Table 36, the report shows an average credit subsidy to exports of 11.5 percent. In Tyler's July 1981 paper, the corresponding figure is 6.9 percent and the following cautionary note is added: "our estimates are overestimates to the extent that (1) CACEX does not in fact authorize the full amounts of credits to which firms are entitled, (2) the banking system does not provide the authorized financing at the stipulated interest rates, (3) exports are growing, and (4) exporting firms possess negative trade balances."

9. While for exports nominal incentive rates have been derived by adding fiscal and financial incentives, in the case of domestic sales production subsidies (including tax credits, accelerated depreciation, and credit subsidies) have been added to the implicit protection rates to derive nominal incentive rates. In calculating the bias against exports, however, implicit tariff rates rather than nominal incentive rates have been used for domestic sales.

10. Since production subsidies are provided chiefly for import-substituting industries, the exclusion of production incentives at the 4-digit level leads to an underestimation of the bias against exports at the 2-digit level and for manufacturing as a whole. Moreover, the production incentives estimated in the report do not include the direct and indirect subsidies provided to investment in import substitution in pulp and paper, petrochemicals, fertilizers, steel, and nonferrous metals under the Sixth

^{1/} "Nominal Export Incentives and Effective Promotion Estimates for Brazil, 1980-81" July 1981.

Development Plan.^{1/} Their exclusion, then, further increases the extent of underestimation of incentives to domestic sales and hence the bias against exports.

Estimating Net Incentive Rates

11. As customary, net incentive rates are calculated by making adjustment for the shadow exchange rate. The calculations presented on p. 138 are in error, however, as the tariff and export subsidy rates do not correspond to the tariff and subsidy rates derived in the study. In particular, an average tariff of 33 percent was used in the calculations while implicit tariffs average only 11 percent. Thus, the 21 percent adjustment for overvaluation is excessive, and a correct estimate would give a positive average net nominal protection. A further source of underestimation is the exclusion of production subsidies in the calculation of net incentives.

12. Note finally that the formula for the shadow exchange rate does not correspond to the free trade exchange rate proposed by Squire and van der Tak as alleged on p. 139. Rather, it is the formula for the second-best exchange rate used by Bacha-Taylor and myself. At the same time, this is the appropriate formula since we live in a second-best world.

Concluding Remarks

13. The proposed adjustments would rectify the erroneous results obtained in the report as regards the existence of a pro-export bias and of negative net nominal protection in Brazil. But, one should be cautious in deriving policy conclusions even from the revised results. This is in part because the price control existing during the period of observation leads to the underestimation of the rate of protection and in part because rapid inflation in Brazil makes it difficult to match domestic and world market prices.

14. With the described adjustments and qualifications of the results, a more critical stance of Brazilian incentive policies is warranted and more appropriate recommendations may be made for future changes in these policies. The better evaluation of the results and policy recommendations would also require excluding from the estimates for the manufacturing sector processed food, beverages, and tobacco that are considered primary commodities in international trade statistics and in economic analyses. Furthermore, for ascertaining the effects of protection, profit rates should be estimated in world market prices and the results compared with profit rates calculated in distorted domestic prices. Protection gives rise to positive profit rates in import-substituting industries while profit rates in world market prices may be negative.

15. One may further query the validity of the statement according to which "the review of the performance of Brazilian manufacturing during the last decade shows increasing competitiveness and efficiency with respect to

^{1/} Cf. my "Incentive Policies in Brazil," World Development 1979, World Bank Report No. 133.

international standards, high growth of output, and an impressive growth of manufactured exports" (Para. XL). In fact, my results for the newly-industrializing countries show that Brazil relied largely on foreign borrowing and on high-cost import substitution in responding to external shocks and experienced much smaller increases in manufactured export shares between 1973 and 1978 than the Far Eastern countries that started with higher export shares than Brazil. ^{1/}

16. Furthermore, the data of Table 15 are misleading as they include certain primary commodities. Yet, grain products, other food products, and oils and fats had the highest export growth rates between 1970 and 1979. Also, as noted in the report, "the substantial growth of manufactured exports in 1980, and of some categories in 1981, is mainly due to a small number of agricultural-based product categories" (Para. 3.08). Finally, the inclusion of processed food has raised to a considerable extent the share of exports in manufactured output (Table 17) as well as the contribution of exports to output growth (Table 20).

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^{1/} Bela Balassa, "The Newly Industrializing Developing Countries after the Oil Crisis," Weltwirtschaftliches Archiv, 1981 (1).

Bela Balassa, DRC

Brazil: Industrial Policy and Manufactured Exports

1. The report is impressive in scope and in coverage. I am also favorably impressed with Tyler's background paper "Trade Policies and Industrial Incentives in Brazil, 1980-81" (August 1981), which tells us in detail about the origin of the protection estimates. However, I have trouble with some of the results and the policy conclusions that may be derived from them. In particular, references to the dispersion of incentives notwithstanding, the reported results may be used by the Brazilian authorities to defend the continuation of existing policies.

2. I have considerable doubts about the existence of a pro-export bias in manufacturing and of negative net nominal protection in Brazil. These results conflict with my and Tyler's earlier work as well as with the statement made in the introduction that "the economic policies followed after 1974 implied a departure from those followed from 1964 to 1973 and included a return to an active import substitution strategy, particularly in capital goods and intermediates, while maintaining the structure of export incentives virtually unchanged" (Para. v.).

3. In the following, I will review the principal items which need to be modified in order to obtain more appropriate estimates on incentives in Brazil. I will further consider the implications of these changes for the evaluation of the policies followed as well as the performance of Brazilian industry after 1973.

Estimating Implicit Tariffs

4. To begin with, doubts arise concerning the negative implicit tariffs obtained through price comparisons for manufactured goods (Table 7.1). Some of these are standardized products (cement, -34 percent; pig iron, -33 percent; woodpulp, -38 percent; paper, -32 percent; tubes and tires, -21 percent; caustic soda, -33 percent; and naphtha, -34 percent), others are differentiated commodities (agricultural equipment, -18 percent, office equipment and machinery, -18 percent; tractors, -48 percent; radio and television equipment, -22 percent; automobiles, -23 percent; trucks and buses, -46 percent; railway rolling stock, -22 percent). Such results can only be rationalized in the event of export taxes, export restrictions, or price control.

5. The background paper makes reference to the existence of export taxes and restrictions for agricultural products. It also implies their existence for some manufactured goods without, however, citing any examples (p. 29). Another paper by Tyler notes that woodpulp, cement, and basic steel were

subject to export restrictions.^{1/} I understand that the exports of pig iron and paper, and caustic soda were also restricted and that several differentiated commodities with negative implicit tariffs were subject to price control.

6. In the absence of export taxes, export restrictions, and price control, the implicit tariff should be taken to be zero since errors in observations or differences in quality will account for the results. In the event that export taxes, export restrictions or price control are applied, the implicit tariff should be estimated as the ratio of domestic sales prices to export prices. This will, then, permit estimating the bias against exports. The estimate provided in the report assume that export prices equal world market prices; the validity of the assumption needs to be verified.

7. Ascertaining actual export prices is of particular importance in the case of differentiated products where quality differences bedevil the comparison of domestic sales prices and world market prices. This observation applies to all the price comparisons that have been made in the report. In the presence of quality differences in favor of foreign products, the rate of implicit tariff and hence the bias against exports, will be underestimated. One may thus raise questions about the "robustness" of the estimates (Para. xxxi).

8. A further question is if financial incentives to exports have been overestimated. In Table 36, the report shows an average credit subsidy to exports of 11.5 percent. In Tyler's July 1981 paper, the corresponding figure is 6.9 percent and the following cautionary note is added: "our estimates are overestimates to the extent that (1) CACEX does not in fact authorize the full amounts of credits to which firms are entitled, (2) the banking system does not provide the authorized financing at the stipulated interest rates, (3) exports are growing, and (4) exporting firms possess negative trade balances."

9. While for exports nominal incentive rates are derived by adding fiscal and financial incentives, in the case of domestic sales production subsidies (including tax credits, accelerated depreciation, and credit subsidies) have been added to the implicit protection rates to derive nominal incentive rates. In calculating the bias against exports, however, implicit tariff rates rather than nominal incentive rates have been used for domestic sales.

10. Since production subsidies are provided chiefly for import-substituting industries, the exclusion of production incentives at the 4-digit level leads to an underestimation of the bias against exports at the 2-digit level and for manufacturing as a whole. Moreover, the production incentives estimated in the report do not include the direct and indirect subsidies provided to investment in import substitution in pulp and paper, petrochemicals, fertilizers, steel, and nonferrous metals under the Sixth

^{1/} "Nominal Export Incentives and Effective Promotion Estimates for Brazil, 1980-81" July 1981.

Development Plan.^{1/} Their exclusion, then, further increases the extent of underestimation of incentives to domestic sales and hence the bias against exports.

Estimating Net Incentive Rates

11. As customary, net incentive rates are calculated by making adjustment for the shadow exchange rate. The calculations presented on p. 138 are in error, however, as the tariff and export subsidy rates do not correspond to the tariff and subsidy rates derived in the study. In particular, an average tariff of 33 percent was used in the calculations while implicit tariffs average only 11 percent. Thus, the 21 percent adjustment for overvaluation is excessive, and a correct estimate would give a positive average net nominal protection. A further source of underestimation is the exclusion of production subsidies in the calculation of net incentives.

12. Note finally that the formula for the shadow exchange rate does not correspond to the free trade exchange rate proposed by Squire and van der Tak as alleged on p. 139. Rather, it is the formula for the second-best exchange rate used by Bacha-Taylor and myself. At the same time, this is the appropriate formula since we live in a second-best world.

Concluding Remarks

13. The proposed adjustments would rectify the erroneous results obtained in the report as regards the existence of a pro-export bias and of negative net nominal protection in Brazil. But, one should be cautious in deriving policy conclusions even from the revised results. This is in part because the price control existing during the period of observation leads to the underestimation of the rate of protection and in part because rapid inflation in Brazil makes it difficult to match domestic and world market prices.

14. With the described adjustments and qualifications of the results, a more critical stance of Brazilian incentive policies is warranted and more appropriate recommendations may be made for future changes in these policies. The better evaluation of the results and policy recommendations would also require excluding from the estimate for the manufacturing sector processed food, beverages, and tobacco that are considered primary commodities in international trade statistics and in economic analyses. Furthermore, for ascertaining the effects of protection, profit rates should be estimated in world market prices and the results compared with profit rates calculated in distorted domestic prices. Protection gives rise to positive profit rates in import-substituting industries while profit rates in world market prices may be negative.

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^{1/} Bela Balassa, "The Newly Industrializing Developing Countries after the Oil Crisis," Weltwirtschaftliches Archiv, 1981 (1).



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