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

Folder ID: 30225153

Date: 11/1/1982 – 11/31/1982

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

Fonds: Records of the Office of the Chief Economist

Digitized: 10/22/2018

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THE WORLD BANK  
Washington, D.C.

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The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

NOVEMBER 1982

THE WHITE STAR GROUP  
**Archives**



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R1991-086 Other # 5

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Bela Balassa's chron files - November 1982

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WITH RESTRICTIONS**  
WBG Archives

B. BALASSA CHRON FILE NOV 1982

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

Scudder Fund  
c/o State Street Bank and Trust Company  
P.O. Box 1912  
Boston, MA 02105

Dear Sir:

I am a shareholder in the Scudder Development Fund and would like to open an IRA account with you. Please send me the necessary material by return mail.

Yours sincerely,

Bela Balassa



November 30, 1982.

Mr. Fred Bergsten  
Director  
The Institute for International  
Economics  
11 Dupont Circle N.W.  
Washington, D.C. 20036

Dear Fred,

I enclose a letter for Raymond Barre. I am sorry I cannot  
be at the seminar.

Yours sincerely,

Enclosure

Bela Balassa



November 29, 1982

Messrs. de Azcarate, WANVP; and Gulhati, EANVP.

Bela Balassa, DRD

61007

Development Strategies in Sub-Saharan Africa

1. I enclose a substantially revised version of my paper "Adjustment Policies and Development Strategies in Sub-Saharan Africa, 1973-78." This version will be included in the DRD Discussion Paper Series.

2. I am grateful for your comments and for comments made by others at the workshop a few weeks ago. Should you have any further comments and suggestions, they could be taken into account in the final version of the paper.

Enclosure  
BBalassa:nc

November 29, 1982.

M. Raymond Barre  
The Institute for International  
Economics  
11 Dupont Circle N.W.  
Washington, D.C. 20036

Monsieur le Professeur et Cher Ami:

Je regrette de ne pas pouvoir vous rencontrer lors de votre passage à Washington. J'ai accepté il y a six mois de faire une conférence à Paris le 2 décembre et nous nous croiseront probablement au-dessus de l'Atlantique.

J'ai été très heureux de vous rencontrer, vous et Madame Barre, en mai dernier et j'espère que la prochaine fois ma femme pourra se joindre à nous.

Je vous prie de croire, Monsieur le Professeur et Cher Ami, à l'expression de ma parfaite considération.

Bela Balassa



1 1 61007

MRS. L. PONCHON, WORLD BANK, EUROPEAN OFFICE  
PARIS, FRANCE

PLEASE MAKE THE FOLLOWING RESERVATIONS FOR ME: FRIDAY DINNER FOR  
THREE AT 9 O'CLOCK, QUAI DES ORMES, 274.72.22. SATURDAY LUNCH FOR  
TWO AT ONE O'CLOCK IN LES CHAMPS D'ORS, 551.52.69. SATURDAY DINNER  
FOR THREE AT 9 O'CLOCK IN LE LOUIS XIV 208.56.56. SUNDAY LUNCH FOR  
TWO AT ONE O'CLOCK IN LE CAMELIA, BOUGIVAL 969.0302. THANK YOU.  
BELA BALASSA

842-620628

11/29/82

BELA BALASSA

BELA BALASSA

BBalassa:nc

DRD - Director's Office



1 1 61007

MR. RAHMI KOC, koc holding a.s. findikli 53  
ISTANBUL, TURKEY  
WILL BE IN ISTANBUL ON DECEMBER 9 AND 10. WOULD LIKE TO MEET YOU  
FOR DINNER IF CONVENIENT. PLEASE CONTACT MR. CALIKA WHO WOULD BE  
ARRANGING ANOTHER DINNER FOR ME. REGARDS, BALASSA

CABLE

11/29/82

Bela Balassa

Bela Balassa

DRC - Director's Office

RRalassa:nc

1 1 61007

MR. CALIKA, MEBAN SECURITIES BROKERAGE,  
ODAKULE IS MERKEZI ISTIKLAL CADDESI, 286 BEYOGLU, ISTANBUL, TURKEY  
WILL BE IN ISTANBUL ON DECEMBER 9 AND 10. WOULD LIKE TO MEET YOU  
FOR DINNER IF CONVENIENT. MR. RAHMI KOC SHOULD CONTACT YOU, WHOM I  
WOULD LIKE TO MEET THE SECOND EVENING. REGARDS, BALASSA

CABLE ,

11/29/82

Bela Balassa

Bela Balassa

BBalassa:nc

DRC - Director's Office



1 1 61007

DR. LUIGI CERIANI, BANCA NAZIONALE DEL LAVORO  
QUARTERLY REVIEW, VIA VITTORIO VENETO, 119, ROME, ITALY  
REPRINTS OF MY PAPER QUOTE ECONOMIC REFORM IN CHINA UNQUOTE HAVE  
NOT BEEN RECEIVED. PLEASE INFORM ABOUT DATE OF MAILING, REGARDS,  
BALASSA

CABLE

11/24/82

Bela Balassa

Bela Balassa

BBalassa:nc

DRD - Director's Office





# Record Removal Notice

<b>File Title</b> Bela Balassa's chron files - November 1982	<b>Barcode No.</b>  30225153
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<b>Document Date</b> Nov 22, 1982	<b>Document Type</b> Letter
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**Correspondents / Participants**  
 To : Department of the Treasury  
 From : Bela Balassa

**Subject / Title**  
 Income Tax Issues

**Exception No(s).**  
 1    2    3    4    5    6    7    8    9    10 A-C    10 D    Prerogative to Restrict

**Reason for Removal**  
 Personal Information

**Additional Comments**

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

<b>Withdrawn by</b> Chandra Kumar	<b>Date</b> Jun 10, 2014
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2134 Wyoming Avenue N.W.  
Washington, D.C. 20008  
November 22, 1982.

Metropolitan Family Ticket Service  
Lincoln Center  
New York, N.Y. 10023

Dear Sir:

I have been a member of the Metropolitan Opera Guild for the last two years. I have just up-graded my membership to the supporting category. Correspondingly, I would like to ask for priority treatment on the enclosed order.

Sincerely yours,

Enclosure

Bela Balassa



1 1 61007

IRENE DUPOUX-COUTURIER, CEFRI

PARIS, FRANCE

SUGGEST MEETING AT HOTEL SCANDINAVIA, 27 RUE DE TOURNON. REGARDS,  
BALASSA

204319F

11/22/82

Bela Balassa

Bela Balassa

DRD - Director's Office

BBalassa:nc



November 22, 1982.

Mr. James Chaffey, EM2

Bela Balassa, DRD

61007

Travel to Turkey

1. As I indicated on the phone, it has been necessary to postpone my trip to Tunisia. You agreed to pay my transportation to Turkey; the cost of three days stay in Paris will be covered by the Morocco Division and three days stay in Budapest by the Development Research Department.

cc: and cleared with,  
Messrs. Carter, EM2; Stoutjesdijk, DRD

BBalassa:nc

November 22, 1982

Ms. Anne Briber, Consultant Section, Travel

Bela Balassa, DRD

61007

Changes in Travel Request

1. It has been necessary to modify my travel plans for December. In view of the limited time available, I would like to ask you to change my reservations while the revised travel request is going through the required steps.

2. Should you not be able to reserve flights for me on the Paris-Munich-Ankara flights, an alternative would be to travel Paris-Zurich-Istanbul-Ankara.

BBalassa:nc





# Record Removal Notice

<b>File Title</b> Bela Balassa's chron files - November 1982	<b>Barcode No.</b>  30225153
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<b>Document Date</b> Nov 22, 1982	<b>Document Type</b> Letter
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**Correspondents / Participants**  
To : American Express  
From : Bela Balassa

**Subject / Title**  
Towing and emergency road service charges

**Exception No(s).**

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 10 A-C  
 10 D  
 Prerogative to Restrict

**Reason for Removal**  
Financial Information

**Additional Comments**

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<b>Withdrawn by</b> Chandra Kumar	<b>Date</b> Jun 10, 2014
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# Record Removal Notice

<b>File Title</b> Bela Balassa's chron files - November 1982	<b>Barcode No.</b>  30225153
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<b>Document Date</b> Nov 22, 1982	<b>Document Type</b> Letter
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**Correspondents / Participants**  
To : Accounting Department  
From : Bela Balassa

**Subject / Title**  
MCO for Sleeper

**Exception No(s).**

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  Prerogative to Restrict

**Reason for Removal**  
Corporate Administrative Matters

**Additional Comments**

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Withdrawn by Chandra Kumar	Date Jun 10, 2014
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November 19, 1982.

Dr. György Szakolczai  
Director of the Laboratory  
Közgazdaságtudományi Intézete  
Postafiók 262  
Budapest 1502  
Hungary

Dear Dr. Szakolczai:

Your letter of November 2 crossed mine. In the meantime, Mr. Meerhaus has written to you concerning your visit to the Bank. We could have further discussion on this during my stay in Budapest. I have asked Mr. Seikos-Nagy to arrange a meeting with you to discuss the application of my methodology for measuring external shocks and policy responses to external shocks to Hungary.

Sincerely,

Bela Balassa

1 1 61007

MRS. PONCHON, EUROPEAN OFFICE, WORLD BANK  
PARIS, FRANCE  
PLEASE INVITE MR. THIERRY DE MONTBRIAL FOR LUNCH AT THE LA CHAUMIERE  
DES GOURMETS TEL. 321.26.08. REGARDS, BALASSA

842-620628

11/19/82

BELA BALASSA

BELA BALASSA

DRD - Director's Office

BBalassa:nc



November 19, 1982.

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

Dear Bela:

This is a follow-up to my letter of October 22nd. Since I do not know the timing of my seminar on December 13th, I wonder if your secretary may be able to make some appointments for me for the remainder of the day.

If possible, I would like to see Minister Faluvégi who I have been meeting on past trips to Budapest. Should there be an opportunity, I would also like to visit Minister Hetényi who I met several years ago. Needless to say, these would be private visits; a World Bank mission may be there at the same time to discuss the economic report on Hungary, with which I have no involvement.

I would further like to have a working session with Dr. Szokolczai to discuss the application of my methodology for measuring external shocks and policy responses to these shocks to Hungary.

Looking forward to seeing you, I remain,

Sincerely,

Bela Balassa

November 19, 1982.

Mr. E. Guillon  
Club de Dakar  
Secrétariat Administratif  
4 Avenue Hoche  
75008 Paris  
France

Dear Mr. Guillon:

I am in receipt of your letter of November 9th in which you announce the January 19-21, 1983 date for the General Assembly of the Club of Dakar. This is to inform you that Mr. Everardus Stoutjesdijk, Director, Development Research Department is planning to participate at the Conference from the World Bank.

Mr. Stoutjesdijk is especially interested in the study of the Club of Dakar on the West African region. He has worked on issues relating to integration in West Africa and is now engaged in discussions with the EEC Commission on possible future cooperative work in the area.

I deeply regret that I cannot join Mr. Stoutjesdijk in Ouagadougou. This is due to obligations I have recently assumed, which conflict with the date of the General Assembly. Please convey my regrets and regards to President Diawara.

Yours sincerely,

Bela Balassa

cc: Mrs. Boskey, IRD; Messrs. Franchet, Paris Office; Stoutjesdijk, DRD.



November 19, 1982.

Professor John Komlos  
Roosevelt University  
430 South Michigan Avenue  
Chicago, Illinois 60605

My dear friend,

I enclose a check for \$12.00 in payment of the two publications  
I have just received from you.

Yours sincerely,

Enclosure

Bela Balassa

P.S. Please send me a formal bill in the future for tax purposes.



# Record Removal Notice

<b>File Title</b> Bela Balassa's chron files - November 1982		<b>Barcode No.</b>  30225153		
<b>Document Date</b> Nov 18, 1982	<b>Document Type</b> Letter			
<b>Correspondents / Participants</b> To : Mr. Henry P. Gassner, EM2 From : Bela Balassa				
<b>Subject / Title</b> Turkey Research Project				
<b>Exception No(s).</b> <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				
<b>Reason for Removal</b> Personal Information				
<b>Additional Comments</b>		<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><b>Withdrawn by</b> Chandra Kumar</td> <td><b>Date</b> Jun 10, 2014</td> </tr> </table>	<b>Withdrawn by</b> Chandra Kumar	<b>Date</b> Jun 10, 2014
<b>Withdrawn by</b> Chandra Kumar	<b>Date</b> Jun 10, 2014			



1 1 61007

SOO-GIL YOUNG, KDIPROJECT

SEOUL, KOREA  
SEOUL, KOREA

REGRET THAT DUE TO MY ABSENCE FROM WASHINGTON UNTIL DECEMBER 16 I  
WILL NOT BE ABLE TO GIVE REQUESTED INTERVIEW. REGARDS, BALASSA

CABLE

11/18/82

BELA BALASSA

Bela Balassa

DRD - Director's Office

BBalassa:nc

WORLD BANK WSI  
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COMMUNICATIONS DIVISION

LT

DR BLA BALASSA 18/17

INTBAFRAD WASHINGTON D.C. 20433 USA

IN CONSULTATION WITH GOVERNMENT KOREA BROADCASTING STATION PLANS  
NEW YEAR T.V. SPECIAL ON PROSPECTS OF WORLD AND KOREAN ECONOMICS  
FOR 1983 AND TO SEND MR KAYCK LEE CHIEF COMMENTATOR TO UNITED  
STATES FOR INTERVIEWS LEE WANTS TO KNOW IF YOU BE AVAILABLE FOR  
INTERVIEW ANY TIME DURING DECEMBER NINTH TO FIFTEENTH PREFERABLY  
DURING TENTH TO TWELVETH, HE REQUESTS THIRTY MINUTES OF YOUR  
TIME INCLUDING TEN TO FIFTEEN FOR RECORDING PLS LET ME KNOW  
IF YOU CONSENT TO INTERVIEW AND IF SO WHEN YOU CAN SEE  
THEN IN WASHINGTON REGARDS  
SOO-GIL YOUNG CABLE TO KDI-PROJECT SEOUL KOREA

COL D.C. 20433 1983



November 18, 1982

Mr. Roberto Fernandes, EM2

Bela Balassa, DRD

61007

Visit to Tunisia

1. In responding to an invitation from Minister Lasram, I have been planning a December visit to Tunis for sometime; in fact I have declined other invitations for the period and have organized related visits in the European and Mediterranean area. The timing of the visit has been repeatedly confirmed, most recently last week. I was surprised, therefore, to receive from Ben Miled a telegram in which he asked me to postpone the visit to Tunis until late February-early March.

2. I am afraid that my university obligations do not permit me to visit Tunis at the time now requested. I am committed to go to Rabat to discuss my report on the industrial sector with the Moroccan authorities during Spring vacation in March. Thus, I cannot visit Tunis before early May when the academic semester ends.

cc: Messrs. Bart, EM2; Schwartz, EM2; Stoutjesdijk, DRD.

BBalassa:nc

me

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MESSAGE NO 167 DU 13/11/82

ATT. MR. BELA BELASSA

*I-8-118*

POUR RAISONS EMPLOI DU TEMPS ET PREPARATIONS DES  
DOCUMENTS DEFINITIFS DE PROMOTION DES EXPORTATIONS  
VOUS PRIE ENVISAGER VOTRE SEJOUR A TUNIS POUR LE MOIS  
DE FEVRIER 83 QUATRIEME SEMAINE OU DATE ALTERNATIVE MOIS  
DE MARS

SALUTATIONS

NEJIB B.MILED

DIRECTEUR GENERAL/CEPEX



November 18, 1982.

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

Dear Andras:

Thank you for your letter of September 16th. We were interested to hear about your travels. I will be in Budapest between December 11 and 14 and wonder if you might be there at that time. If not, we will meet next summer when I will again take home the family.

The Kozgazdasagi Szemle published my paper on the 1980-81 reforms and Gazdasag will publish a paper of mine on "Structural Adjustment Policies in Developing Countries." My book on the Newly Industrializing Countries in the World Economy will also be published in Hungary. I am glad that in this way my writings get to a larger Hungarian audience.

Yours sincerely,

Bela Balassa

Bela Balassa, DRD

Etude sur les Industries Chimiques

1. Celle-ci est la meilleure des trois études sectorielles. L'étude souligne à juste titre l'importance des rapports input-output et l'effet de la protection des inputs sur les utilisateurs. Elle nécessite peu de commentaires.

Pate a Papier

2. Il faudrait expliciter que le Maroc exporte des pates chimiques fibres courtes et que cette exportation est subventionnée par le biais de la protection des ventes sur le marché local (pp. 2-3). D'autre part, les comparaisons faites à la Banque Mondiale ne montrent pas un surcoût de 45 pourcent pour le fuel oil au Maroc. Egalement, le coût de l'énergie électrique ne dépasse pas de beaucoup celui dans d'autres pays (p. 9).

3. L'éloignement relatif du Maroc de ses fournisseurs (p. 10) n'a rien à voir avec la nature capitaliste de la production de la pâte à papier. D'ailleurs, le coût élevé du transport fournit une protection "naturelle" pour l'industrie marocaine. La taxe spéciale et le timbre douanier ne représentent un surcoût que si leur taux est supérieur à la surévaluation du dirham par rapport à la situation de libre échange (p. 10). Finalement, un CPE global de 0,80 semble indiquer que le CPN pour les ventes sur le marché local a été sousestimé (p. 10).

Papier

4. Il n'y a pas de substitution entre le papier pour sac-à-ciment et le papier d'emballage. Ainsi, on ne peut pas prétendre que "les utilisateurs pourraient être tentés d'acheter le papier pour sac-à-ciment même s'il coûte



plus cher que le papier d'emballage" (p. 17). On se demande aussi si le papier d'écriture était suffisamment homogène pour accepter la conclusion qu'en France "les prix d'exportation à l'extérieur de la CEE (5,09 FF) sont supérieurs aux prix des exportations à l'intérieur de la CEE (3.99 FF) (p. 23). Dans le cas du papier, ainsi que dans le cas de la pâte à papier, l'importance des économies d'échelle et le surcoût du aux petites dimensions des usines marocaines devraient être indiqués.

5. La phrase selon laquelle la "rentabilité économique n'est pas tout-à-fait évidente" (p. 34) dans le cas du papier doit être modifiée vu que le CER est de 1,57 et, dans la meilleure des hypothèses, de 1,35. En même temps, la question se pose quel est le surcoût acceptable pour une installation régionale. Finalement, on devrait indiquer que, dans une importante mesure, les problèmes de fabrication du papier sont indépendants de la politique suivie à l'égard de l'industrie de la pâte à papier.

#### Fabrication du Carton Couché et des Emballages en Carton

6. Il est dommage qu'on n'a pas pu faire des estimations pour les entreprises transformant le carton couché et la cannelure en boîtes et en caisses. On pourrait indiquer au moins l'effet de la protection des inputs sur ses produits. D'autre part on ne peut pas dire que "le fait que le CPE soit supérieur à l'unité traduit une subvention à l'activité de la fabrication du carton et des emballages" (p. 46); la comparaison devrait être faite avec le taux de change de référence.

#### Industrie de la Sacherie

7. Pas de commentaire

#### Matériaux de Construction et Produits Annexes

8. Pourquoi a-t-on retenu un CPN de 1,40 quand la fourchette des

comparaisons des prix va de 1,40 à 1,70 (p. 54). On se demande si on pourrait utiliser les comparaisons des prix de 1981 dans les calculs pour 1978 (p. 54), étant donné les changements qui sont survenus dans la surévaluation du dirham. Finalement, vu le CER très bas pour le ciment, on se demande si ce produit ne pourrait pas être exporté par le Maroc, ce qui nécessiterait une réduction des prélèvements.

#### Soude, Clore et PVC

9. Le critère selon lequel il y a dumping si le prix à l'exportation est inférieur au prix de vente sur le marché local (p. 78) est celui utilisé dans le commerce international. Pourquoi est-ce que le fuel a un CPN de 0,95 (p. 79). Finalement, le CPE très élevé pourrait-il être expliqué par la petite taille des opérations au Maroc?

#### Industrie de la Pneumatique

10. Il est surprenant que le CER pour les pneus soit si bas. Selon les informations fournies par le Directeur de l'industrie, le prix de revient de la fabrication des pneus est très élevé au Maroc, étant donné la production d'une gamme étendue ce qui ne permet pas l'exploitation des économies d'échelle.

#### Industries Diverses

11. Pas de commentaire

#### Synthèse

12. Il faudrait souligner les différences entre produits de consommation et produits intermédiaires; ces derniers ont une protection plus élevée que n'importe quels produits, du probablement à leur production à petite échelle. Ou bien, est-ce qu'il y a de problèmes de gestion? Finalement, on devrait noter lesquelles des entreprises appartiennent à l'Etat.

cc: Messrs. Carter, EM2; Bonnel, EM2; Mateus, EM2.

BBalassa:nc



THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION  
OFFICE MEMORANDUM

DATE: November 15, 1982.

TO: Mr. Eugenio F. Lari, LCI

FROM: Bela Balassa, DRD

EXTENSION: 61007

SUBJECT: Visit to Chile

Following several postponements, a mutually convenient date has now been agreed upon for my visit to Chile for discussions with government authorities. For your information I enclose the relevant correspondence.

cc with enclosures: Messrs. Aguirre-Sacasa, LCI; Pfeffermann, LCNVP;  
Meo, LCI; Stoutjesdijk, DRD

cc for information: Messrs. Ardito-Barletta, LCNVP; Van Der Meer, LCP.

Enclosures  
BBalassa:nc

240729 CENBC CL

*Handwritten mark*

WORLD BANK, WASHINGTON D.C. ... 9 PM 2:21

CABLE SECTION

09.11.82.

ATT.: HR. BELA BALAUZA

*J.8-117*

WITH RESPECT TO INVITATION FOR YOU TO ASSIST TO MEETINGS AND SEMINAR AT THIS CENTRAL BANK, PLEASE INFORM ME IF THE WEEK JANUARY 12 TO 16 WOULD BE CONVENIENT FOR YOU.

KIND REGARDS,

CARLOS CACERES

PRESIDENTE

BANCO CENTRAL DE CHILE

240729 CENBC CL.....

157750 1754 091182 03650057 1752

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NNNN



1 1 61007

ROLF LUDERS SCH. MINISTRO DE ECONOMIA,  
FOMENTO Y RECONSTRUCCION Y DE HACIENDA, SANTIAGO, CHILE  
THANK YOU FOR YOUR INVITATION. FIRST WEEK OF NOVEMBER IMPOSSIBLE  
DUE TO PREVIOUS ENGAGEMENTS. SUGGEST LAST WEEK OF OCTOBER OR,  
ALTERNATIVELY, MID-JANUARY FOR MY VISIT. REGARDS, BALASSA

CABLE

9/30/82

BELA BALASSA

BELA BALASSA

BBalassa:nc

DRD - DIRECTOR'S OFFICE

14 SEP.82-022140

SANTIAGO DE CHILE, September 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 accepting our invitation to visit Chile in the near future.


Between November 1 and 5, the XIXth Meeting of Technicians of Central Banks of the American Continent, organized by the Central Bank of Chile, will be held in the city of Viña del Mar. We would appreciate very much having you as our special guest to deliver a conference on a topic of your choice in the field of International Trade and Economic Development.

Since your visit constitutes a special event we would like to schedule your conference either at the opening of the Meeting (November 1) or at its close (November 5). Furthermore, we would like to set conferences in universities and other institutions during the period of your stay in the country.

I hope that the first week of November will be convenient to you.

Looking forward to see you soon, I remain,

Sincerely yours,

  
ROLF LUDERS SCH.  
Ministro de Economía,  
Fomento y Reconstrucción  
y de Hacienda

G.E. N° 441



July 7, 1982.

Mr. Sergio de la Cuadra F.  
Ministro de Hacienda  
Banco Central de Chile  
Santiago  
CHILE

Dear Mr. de la Cuadra:

Thank you for your letter of June 8th inviting me to Santiago. I will be happy to come and would suggest the last week of October for my visit. Please let me know if this is convenient. Looking forward to see you, I remain,

Sincerely yours,

Bela Balassa

cc: Messrs. Ardito-Barletta, LCNVP; Lari, LCI; van der Meer, LCP;  
Aguirre-Sacasa, LCI; Pfeffermann, LCNVP; Meo, LCI.  
Stoutjesdijk, DRD

BANCO CENTRAL DE CHILE  
SANTIAGO

June 8, <sup>th</sup> 1982

Mr. Bela Balassa  
The World Bank  
1818 H. Street, Washington D.C. 20433  
USA

Dear Mr. Balassa:

Regrettably, due to various circumstances, it was not feasible to coordinate and arrive at a mutually convenient date for your trip to Chile last April. As you certainly are aware at the end of that month the cabinet reshuffle took place and in addition, there was previously some travelling scheduled for Mr. de Castro.

I would be delighted to have you in Chile, maybe in October or November, at your convenience. We hope that at this point in time the climate both of the country and the economy will be much improved.

Please let me know as soon as possible about this new possibility of coming to visit with us. After receiving your answer in this respect, the Central Bank will contact you in order to make the proper arrangements with respect to the trip and the program.

Sincerely yours,

  
Sergio de la Cuadra F.  
MINISTRO DE HACIENDA





November 15, 1982.

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

Dear Professor Bognar:

Thank you for your letter of October 26th inviting me to prepare a contributed paper for Specialized Session No. 15 you are organizing. I will be in Budapest from December 11 to 14 and I would like to discuss with you the preparation of the paper. My father will call your office to arrange a meeting.

Yours sincerely,

Bela Balassa

November 15, 1982.

Mr. Thomas F. Johnson  
Director of Economic Policy Studies  
American Enterprise Institute for Public  
Policy Research  
1150 Seventeenth Street N.W.  
Washington, D.C. 20036

Dear Tom,

Thank you for your invitation to attend the sessions of  
Public Policy Week. I am sorry to say that I will not be able to attend  
because I will be in Europe at the time.

Yours sincerely,

Bela Balassa



November 15, 1982.

Professor Vittorio Corbo  
Concordia University and  
Universidad Catolica  
Instituto de Economia  
Pontificia Universidad Catolica  
Casilla 114-D  
Santiago  
Chile

Dear Vittorio,

I enclose copies of an invitation received from Mr. Carlos Caceres together with my reply. I am very glad that, at the end, a mutually convenient date has been found.

I will be in touch with you concerning people to see outside the government.

With best regards,

Sincerely yours,

Enclosures

Bela Balassa

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CABLE SECTION

09.11.82.

ATT. MR. BELA BALASSA

*J-8-113*

WITH RESPECT TO INVITATION FOR YOU TO ASSIST TO MEETINGS AND  
SEMINAR AT THIS CENTRAL BANK, PLEASE INFORM ME IF THE WEEK  
JANUARY 12 TO 16 WOULD BE CONVENIENT FOR YOU.

KIND REGARDS,

CARLOS CACERES

PRESIDENTE

BANCO CENTRAL DE CHILE

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TO: CARLOS CACERES, PRESIDENTE BANCO CENTRAL DE

CHILE, SANTIAGO, CHILE

ACCEPT INVITATION TO VISIT CHILE DURING THE WEEK OF JANUARY 12 TO

16. I PRESUME THAT THE VISIT WOULD PERMIT ME TO HAVE DISCUSSIONS

WITH POLICY MAKERS OUTSIDE THE CENTRAL BANK AS WELL. REGARDS,

BALASSA

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NOT TO BE TRANSMITTED

CLASS OF SERVICE: <b>TELEX</b>		TELEX NO.: <b>240729</b>	DATE: <b>11/12/82</b>
SUBJECT:		DRAFTED BY: <b>BELA BALASSA</b>	
CLEARANCES AND COPY DISTRIBUTION:  <b>BBalassa:nc</b>		AUTHORIZED BY (Name and Signature): <b>BELA BALASSA</b>	
		DEPARTMENT: <b>DRD - Director's Office</b>	
SECTION BELOW FOR USE OF CABLE SECTION			
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December 15, 1982.

Mr. Vilmos Dalos  
General Manager  
Közgazdasági és Jogi Könyvkiadó  
1374 Budapest  
Postafiók 578  
Hungary

Dear Mr. Dalos:

Thank you for your letter of October 6th and the copy of memorial volume for Istvan Varga. I sent the other two copies to Mr. Haberler and Mr. Machlup. I presume that you sent a copy directly to Professor Fellner.

Yours sincerely,

Bela Balassa



November 15, 1982.

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

Dear Janos,

At the invitation of Bela Csikos-Nagy I will be presenting a seminar in Budapest on December 13th. I will also spend the preceding weekend there and would very much like if I could see you and Zsuzsa. I wonder if we could have dinner together on December 12th, Sunday. I would appreciate if if you could arrange to have the Deaks' join us this time.

My father will call you concerning this engagement or you may call him at 351261. Looking forward to see you, I remain,

Yours sincerely,

Bela Balassa



November 15, 1982.

Mr. Eugenio F. Lari, LCI

Bela Balassa, DRD

61007

Visit to Chile

Following several postponements, a mutually convenient date has now been agreed upon for my visit to Chile for discussions with government authorities. For your information I enclose the relevant correspondence.

cc with enclosures: Messrs. Aguirre-Sacasa, LCI; Pfeffermann, LCNVP;  
Meo, LCI; Stoutjesdijk, DRD

cc for information: Messrs. Ardito-Barletta, LCNVP; Van Der Meer, LCP.

Enclosures  
BBalassa:nc

November 12, 1982.

Mr. E. Stoutjesdijk, DRD

Bela Balassa, DRD

61007

Paper and memoranda in October 1982

I enclose a copy of my paper "Policy Response to External Shocks in Sub-Saharan African Countries, 1973-78" that was presented at a Regional workshop. I further enclose some substantive memos.

Enclosures  
BBalassa:nc



1 1 61007

CARLOS CACERES, PRESIDENTE BANCO CENTRAL DE  
CHILE, SANTIAGO, CHILE

ACCEPT INVITATION TO VISIT CHILE DURING THE WEEK OF JANUARY 12 TO  
16. I PRESUME THAT THE VISIT WOULD PERMIT ME TO HAVE DISCUSSIONS  
WITH POLICY MAKERS OUTSIDE THE CENTRAL BANK AS WELL. REGARDS,  
BALASSA

TELEX

240729

11/12/82

BELA BALASSA

BELA BALASSA

BBalassa:nc

DRD - Director's Office



November 12, 1982.

Dr. Jorge Cauas  
President  
Bank of Santiago  
Casilla 14437  
Santiago  
Chile

Dear Jorge,

I enclose copies of an invitation received from Mr. Carlos Caceres together with my reply. I am very glad that, at the end, a mutually convenient date has been found.

I look forward to seeing Rosario and yourself. I will be in touch with you concerning some meetings I would like to have in the private sector.

Yours sincerely,

Enclosures

Bela Balassa

240729 CENBC CL

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CABLE SECTION

09.11.82.

ATT.: MR. BELA BALASSA

J-8-117

WITH RESPECT TO INVITATION FOR YOU TO ASSIST TO MEETINGS AND  
SEMINAR AT THIS CENTRAL BANK, PLEASE INFORM ME IF THE WEEK  
JANUARY 12 TO 16 WOULD BE CONVENIENT FOR YOU.

KIND REGARDS,

CARLOS CACERES

PRESIDENTE

BANCO CENTRAL DE CHILE

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TO: CARLOS CACERES, PRESIDENTE BANCO CENTRAL DE

CHILE, SANTIAGO, CHILE

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 WITH POLICY MAKERS OUTSIDE THE CENTRAL BANK AS WELL. REGARDS,  
 BALASSA

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TEXT

NOT TO BE TRANSMITTED

CLASS OF SERVICE: <b>TELEX</b>		TELEX NO.: <b>240729</b>	DATE: <b>11/12/82</b>
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<b>BBalassa:nc</b>		DEPARTMENT: <b>DRD - Director's Office</b>	
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1. Use OCR-B210 Sphere and set typewriter for DOUBLE SPACING—No other markings acceptable.



November 11, 1982.

Dr. Asim Erdilek  
Division of Policy  
Research and Analysis  
National Science Foundation  
Washington, D.C. 20550

Dear Dr. Erdilek:

Thank you for your letters of November 2 and 4. I would indeed appreciate it if you could present my comments at the AEA meetings. I must tell you, however, that I have not yet received any of the papers I am suppose to comment on.

Yours sincerely,

Bela Balassa

November 11, 1982.

Professor Richard S. Eckaus  
Department of Economics  
Massachusetts Institute of Technology  
Cambridge, Massachusetts 02139

Dear Dick,

Thank you for your letter of November 1st. In the meantime, I have spoken to Mr. Currie of the Controllers office who gave me some additional information.

I am sorry to have missed your seminar last Friday but I gave a seminar myself during the same hour.

Thank you again for the information you have provided. I remain,

Sincerely yours,

Bela Balassa



November 11, 1982.

Ms. Susan Harmon thru Mr. E. Stoutjesdijk

Bela Balassa, DRD

61007

Travel Expense Report

This is in regard to my travel expense statement for the period August 4 to September 12.

No. 5. On the return trip I took a rest stop together with a stopover. This accounts for the two nights.

No. 9. As mission chief I had the right to a suite in Rabat. Correspondingly, the Bank travel office reserved a suite for me, the cost of which is included in the expense account.

No. 11. Representation and telephone expenditures incurred during the stay in France pertain to official business. A list of the telephone calls was submitted with the expense account.

No. 13. As noted on the expense account, the item "transportation to and from airport" includes local transportation. The two cannot be separated because car rental was used for both purposes.

MTV Claim. The number of days spent in Paris in August was three rather than two. Correspondingly, the average daily expense was \$61.03 rather than \$92.54. The difference from the Bank norm of \$52.00 represents an acceptable variation.

BBalassa:nc



November 11, 1982.

Mr. A. A. Aboagye  
International Labour Organisation  
Jobs and Skills Programme for Africa  
P.O. Box 2532  
Addis Ababa  
Ethiopia

Dear Mr. Oboagye:

In response to your letter, I enclose a copy of my paper  
"The Effects Method of Project Evaluation." Other papers prepared for  
this project are not yet available.

Yours sincerely,

Enclosure

Bela Balassa

November 11, 1982.

Professor Gottfried Haberler  
American Enterprise Institute  
1150 17th Street N.W.  
Washington, D.C. 20036

Dear Gottfried,

I enclose a copy of the volume published in honor of Istvan Varga to which you contributed. While I cannot vouchsafe for the translation, the book has been attractively produced.

Yours sincerely,

Enclosure

Bela Balassa



November 11, 1982.

Professor Fritz Machlup  
Department of Economics  
New York University  
New York, N.Y. 10003

Dear Fritz,

I enclose a copy of the volume published in honor of Istvan Varga to which you contributed. While I cannot vouchsafe for the translation, the book has been attractively produced.

Yours sincerely,

Enclosure

Bela Balassa



November 11, 1982.

Mr. Suk Tai Suh  
Economics Department  
Yonsei University  
Seoul 120  
Korea

Dear Dr. Suh:

Please excuse the delay in answering your letter of September 30th. I have indeed received your volume but I have not had the chance to review it. It now seems that I will not be able to do so until January.

With best regards,

Yours sincerely,

Bela Balassa

November 11, 1982.

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

Dear Dr. Voloudakis:

Please excuse the delay in answering your letter of October 12th. I have indeed received your volume but I have not had the chance to review it. It now seems that I will not be able to do so until January.

I very much enjoyed working with you and I appreciate your and Mr. Fylaktos' input into the study. We would be very happy if the Greek version was published by KEPE. It is a simple format for them to write a letter requesting permission. The letter could be addressed to me and I will take care of it from there.

Yours sincerely,

Bela Balassa



November 11, 1982.

Mr. James K. Feather, PUB

Bela Balassa, DRD

61007

Publication Clearance

I would like to request your permission for the publication of the articles listed in the enclosed memo from M. Nishimizo and S. Urata.

Enclosure  
BBalassa:nc

November 11, 1982.

Mr. Marvin Taylor Dormond  
Instituto de Investigaciones  
en Ciencias Economicas  
Universidad de Costa Rica  
Ciudad Universitaria "Rodrigo Facio"  
Costa Rica  
America Central

Dear Mr. Dormond:

I am sorry to say that I do not have the results yet of the  
research project "Export Incentives in Developing Countries" that I could  
send to you.

With best regards,

Yours sincerely,

Bela Balassa



November 11, 1982.

Mr. Michael Roemer  
Executive Director  
Harvard Institute for  
International Development  
1737 Cambridge Street  
Cambridge, Massachusetts 02138

Dear Mike,

In reply to your letter of November 3rd, I would like to suggest Brendan Horton for a five-year appointment at your Institute. Horton would also be an excellent candidate for the post in Indonesia which you described in your letter of October 19th to Sherman Robinson. I enclose a copy of the memo I wrote about Horton to Robinson.

Horton can best be reached on the phone at home in Rabat. His telephone number is 24827. I suggest that you call him directly.

Yours sincerely,

Enclosure

Bela Balassa

Mr. Sherman Robinson, DRDDS

October 28, 1982.

Bela Balassa, DRD

Indonesia Resident Advisor

I highly recommend Mr. Brendan Horton for the post of resident advisor in Indonesia. Horton worked as an advisor in Senegal and is presently completing an assignment in Morocco. He has advised both governments on export incentives, import protection, and tax policy and has carried out detailed firm analysis of effective protection and domestic resource costs.

Horton is well-qualified for the post from an academic point of view and has been effective as a policy advisor. He may be available in April 1983 and NIID would do very well with him.

BBalassa:nc



November 11, 1982.

Dr. Ashok Bapna  
Project Co-ordinator  
International Conference  
on North South Co-Operation  
C-114, Savitri Path Bapu Nagar  
Jaipur - 302004  
India

Dear Dr. Bapna:

Thank you for your letter of October 17th inviting me to contribute a paper for the volume you are publishing under the title "New International Strategies for Development." While I do not have the opportunity to write a paper designed expressly for the volume, I am sending one that should fit your needs. The paper is entitled "Structural Adjustment Policies in Developing Countries" and it appeared in the February 1982 issue of World Development.

Yours sincerely,

Enclosure

Bela Balassa

## OFFICE MEMORANDUM

TO: Mr. John H. Duloy, VPERS

DATE: November 11, 1982

FROM: Bela Balassa, DRD

SUBJECT: Review Panel: Demand for Personal Travel in Developing Countries

1. A panel comprising Messrs. B. Balassa (DRD), Chairman, C. Bell (DRD), R. Liebenthal (EAL), D. Hachette (LC1), and C. Carnemark (AEP) was set up to review the above proposal. Messrs. Willoughby, Bennathan, and Ingram from the sponsoring department, Mr. Deaton, consultant, and yourself participated in the panel meeting; Mr. Hachette was not able to attend.
2. The panel considers the proposed research to be of interest for the Bank's sector work and project work in transportation. At the same time, it requests the sponsors to be more explicit on this subject and, in particular, to indicate the usefulness of Phases I and II of the proposed research for the Bank.
3. The panel further requests that the sponsors highlight the objectives listed on p. 15 of the proposal, emphasizing aspects of "positive economics," such as projecting demand for personal travel, and de-emphasizing normative aspects, such as the welfare and income distributional impact of transport policy. As regards the latter, it notes that increases in the cost of work-related travel may be shifted forward through higher wages and prices.
4. More generally, the panel recommends that the sponsors give attention to work-related travel that is of much importance in developing countries. While non-work-related travel can be considered a consumer good, work-related travel may be regarded as an input. Correspondingly, the income elasticities of demand for personal travel, to be estimated in Phase I of the proposed research, need to be reinterpreted when both work-related and non-work-related travel are included. More emphasis would also need to be given to differences in the factors determining urban and rural personal travel.
4. The sponsors should carefully describe the tasks that would be accomplished in Phase I of the proposed research project. In so doing, they should establish a link between the objectives to be pursued, the availability of data for the individual countries, and the estimation of particular models. Finally, note should be taken of the extent to which Phase I would represent a prelude for Phase II, and consideration given to the data requirements of the Phase II research tasks.
5. The panel supports the choice of Angus Deaton as consultant to the project. It also welcomes the intention of the sponsors to carry out Phase II of the research project in collaboration with a developing country institute.

cc and cleared with: Participants at the panel meeting



## OFFICE MEMORANDUM

TO: Mr. John H. Duloy, VPERS

DATE: November 11, 1982

FROM: Bela Balassa, DRD

SUBJECT: Evaluation of Completed Research Project:  
International Trade Policy for the  
Development of Bangladesh (Ref. No. 671-75)

1. A panel comprising Messrs. B. Balassa (DRD), Chairman, D. Williams (ASP), G. Pursell (IIF), S. El Serafy (OED), M. Iskander (IND) was set up to evaluate the above project. Messrs. Ahamed and Armstrong from the sponsoring department and yourself attended the meeting; Mr. Iskander was not able to participate.
2. The stated objectives of the research project were "to provide the basis for an international trade policy conducive to the economic development of Bangladesh for the next five to ten years, and to suggest the elements of such a policy [as well as to] provide an improved basis for analyzing new investment projects in Bangladesh and determining their relative priority." The first objective has been partially met, the second not.
3. The research results have sensitized policy makers as to the inefficiencies of Bangladesh industry and have provided a starting point for the Bank's dialogue with the government. In particular, a Trade and Industry Reform Program has been initiated and will be developed over the next two years. At the same time, the policy recommendations made in the framework of the research project have proved to be of limited use, in part because of questions raised about the validity of the quantitative results and in part because of their abstract, and often unrealistic, character.
4. No use has been made of the shadow prices developed in the framework of the research project in the evaluation of alternative investments in Bangladesh. This has been the case both because of the conceptual difficulties involved and because of the lack of comparability with the Squire-van der Tak methodology. At the same time, the methodology used in the study to estimate shadow prices does not appear to have improved on existing practice.
5. The research project has been carried out largely by doctoral students at Boston University under the supervision of the chief investigators. It has suffered from insufficient field work that would have permitted improving the data base. This issue, as well as the methodological issues, were flagged by Bank staff at an early date but it proved difficult to exert an influence on the researchers.
6. The findings of research are available in mimeographed form. While they have led to acceptance of several Ph.D. theses at Boston University, the research project has not resulted in published output.
7. All in all, the research has had an impact on government thinking in Bangladesh and has provided a starting point for a dialogue with the Bank. It

is questionable, however, that this has been done in a cost-effective way as methodological and data limitations have impaired the value of the results obtained. This conclusion is strengthened if consideration is given to the time and effort spent by Bank staff on the project.

cc and cleared with: Participants at the Panel Meeting.

BBalassa:nc



Draft for Clearance  
November 8, 1982

Mr. John H. Duloy, VPERS

Bela Balassa, DRD

Evaluation of Completed Research Project:  
International Trade Policy for the  
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cc and cleared with: Participants at the Panel Meeting.

BBalassa:nc



## OFFICE MEMORANDUM

TO: Mr. James K. Feather, PUB

FROM: Everardus J. Stoutjesdijk, DRD

SUBJECT: Submission to Reprint Series

DATE: November 8, 1982.

I enclose copies of the following papers for your consideration for inclusion in the Reprint Series.

1. Bela Balassa, "Disequilibrium Analysis in Developing Economies: An Overview: World Development December 1982.
2. Clive Bell and Shantayanan Devarajan, "Shadow Prices for Project Evaluation Under Alternative Macroeconomic Specifications" Quarterly Journal of Economics (forthcoming).
3. J. B. Knight and R. H. Sabot, "From Migrants to Proletarians: Employment Experience, Mobility and Wages in Tanzania" Oxford Bulletin of Economics and Statistics, August 1982.
4. Gershon Feder and Knud Ross and Richard Just, "Projecting Debt Servicing Capacity of Developing Countries" Financial and Quantitative Analysis
5. T. N. Srinivasan, "General Equilibrium Theory, Project Evaluation and Economic Development" chapter in Theory and Experience of Economic Development: Essays in Honour of Sir W. Arthur Lewis.
6. S. Van Wijnbergen, "Stagflationary Effects of Monetary Stabilization Policies: A Quantitative Analysis of South Korea" Journal of Development Economics, 1982.

Enclosures  
BBalassa:nc

## OFFICE MEMORANDUM

TO: Mr. Ian Hume, EMI

FROM: Bela Balassa, DRD *B Balassa*  
*per N I*

SUBJECT: Economic Developments and Reforms in Hungary

DATE: November 8, 1982

1. Due to my teaching obligations, I will be unable to attend the review meeting scheduled for November 9 and provide some written comments instead. The comments concern primarily policy issues; the short time available has not permitted me to peruse the impressive amount of material collected by the mission on the Hungarian economy (Volume II of the report).

2. The report correctly describes the principal features of the New Economic Mechanism introduced in 1968. At the same time, it appears to overstate the role of planning under the NEM. While, according to official pronouncements, "implementation of the Plan was to be achieved through the use of 'economic regulators', including price measures, and exchange rate, monetary and fiscal policies" (Para. 6), in practice these policy instruments were utilized largely independently from the Plan. Also, rather than the Plan providing "guidelines to enterprises" (Para. 89), firms endeavored to pursue their own objectives while being subjected to ad hoc interventions by the supervising ministries that largely reflected short-term considerations.

3. Interventions by the supervising ministries assumed increasing importance in the wake of the November 1972 Party resolution. According to the report, "the deterioration in Hungary's terms of trade starting in 1974, provided an opportunity for the proponents of the earlier centralized model of economic decision-making to re-assert their ascendancy on economic questions" (Para. 7). The measures described in Para. 81 were, however, taken before the unfavorable turn in world economic conditions occurred.

4. At the same time, the report overemphasizes the adverse repercussions of the 1968 reforms in claiming that "towards the end of the [1968 to 1973] period some of the complexities in the process of restructuring a socialist economy, and the attendant costs, were becoming obvious" (Para. 7) and in suggesting that "a number of problems arose in the implementation of the NEM, which opened the door for a return to re-centralization when world economic conditions turned unfavorable for Hungary." (Para. 81). Re-centralization occurred as the political balance changed in favor of conservatives who were supported by the Soviet Union, and it subsequently was given a push by the 1974-75 external shocks. The inappropriateness of this policy has since come to be understood, and the Soviet Union now accepts the Hungarian reform as le moindre mal, given the problems encountered elsewhere in the CMEA.

5. I miss a discussion of the achievements of the reform in the years following its introduction, of the adverse effects of the subsequent recentralization, and of the impact of the 1980-81 measures. Data for five year periods does not give an indication of the changes that have occurred. Nor do data on industrial profitability for 1975, 1979 and 1980 establish a



trend. In fact, industrial profitability in 1979 and 1980 was much affected by the policies applied.

6. The statement in the report that "further evidence of adverse performance of the [industrial] sector may be gleaned from profitability data in relation to total assets of the sectors" (Para. 127) conflicts with the subsequent statement, according to which "the average profitability of the manufacturing sector has declined in 1980 both because of softness of demand and increases in energy and material costs" (Para. 128). Also, the deflationary policies applied and the introduction of new price fixing rules, aimed at reducing profit margins, adversely affected industrial profitability in both 1979 and 1980. At the same time, the report does not provide evidence on "other underlying factors [that are said to] also account for the decline in profitability over time" (Para. 128).

7. In discussing short-term economic policies, the recommendations of the report in regard to the size of the investment program are not unambiguous. Thus, after having suggested that "it seems unlikely, given the balance of payments outlook for the next few years, that the investment ratio in Hungary could much exceed its present level" (Para. 24; also Para. 7), it is claimed that "there is scope for meeting the country's medium-term structural transformation objectives while the investment ratio is at or even somewhat below the 1981 level" (Para. 200) and reference is made to Hungary's strategy, under which "the investment share of GDP reduced through cuts in the accumulation of fixed capital and stocks ..." (Para. 205).

8. I am not familiar with decisions taken by the Hungarian government to further reduce the share of investment, after this having declined from 41% of GDP in 1978 to 30% of GDP in 1981 in terms of current prices. According to the report "this level of the ratio although low by recent Hungarian historical standards, is higher than the 27% average for middle-income developing countries in 1980" (Para. 24). The question needs to be raised, however, if price distortions have not led to the overestimation of the share of investment in Hungary. The large consumer and producer subsidies, reportedly equal the 18.7% of GDP (Para. 8.20), point in this direction as the subsidies reduce the measured value of consumption, even if adjustment is made for the price raising effects of indirect taxes. In fact, in the International Comparison Project, the share of capital formation in Hungary is estimated at 27.1 percent in 1975 (I. B. Kravis et. al., World Product and Income, 1982, p. 186), i.e. before the recent reductions occurred, at international prices, compared to the 35.5 percent figure for that year in domestic prices (Table 1). And, unreported activities in the second economy (Para. 191) have further contributed to an over-estimation of the investment share.

9. If appropriate adjustment is made in the figures, one may understand the concern of some Hungarian observers about the adverse long-term effects of lower investment rates. At the same time, questions arise about the validity of the statement that "the short term financial crisis seems to have been used to reinforce rather than retard the process of rationalization of the productive structure of the economy" (Para. 200). Thus, while one may welcome



consultation and postponement of allocations for a number of large projects," the fact that "only energy rationalization and export promotion projects have received investment allocation" (Ibid) has not permitted modernization in other activities. And, most recently, severe limitations have been imposed on credits made available to the export sector as well.

10. It follows that it would be desirable to strengthen the statement according to which "it seems unlikely that over the next few years the objective of reducing domestic absorption can be met without some constraints being placed on consumption" (Para. 201). In this connection, note that per capita consumption reportedly rose by three-tenths between 1973 and 1981, although the figures do not allow for the high rate of growth of the second economy.

11. The rapid increase of consumption in the face of external shocks has been the result of the inappropriate policies followed by the Hungarian government, which do not receive sufficient attention in the report. The policies applied have also contributed "in 1981 and again in 1982 [to] excessively rapid growth of domestic absorption" (Para. 11), and it is difficult to accept the view that "because of lags in information flows [this situation] came to the knowledge of the authorities only towards the middle of the year" (Ibid).

12. According to the report, "the debt servicing difficulties experienced by some CMEA countries have led to both a marked reduction in availabilities, and a significant hardening in the terms of borrowing by Hungary in international capital markets" (Para. 4). While the Polish events have certainly contributed to this situation, Hungary's debt-service ratio did reach 35-36 percent of convertible currency exports of goods and services in 1981 (Para. 199), exceeding that for any CMEA country other than Poland (The Economist, February 13, 1982). At the same time, one can hardly speak of an "external debt overhang which the economy inherited" (Para. 86), when the accumulation of the debt has been the result of policy errors on the part of the Hungarian government.

13. The report puts emphasis on the adverse effects of protectionism in the industrial countries on Hungarian exports (Para. 4, 32, and 86). It claims that "the products most affected were steel, textiles, clothing, footwear, textile fibers (particularly synthetics), chemicals, nonferrous metal fabrications, electrical and transport equipment; all these are products in which Hungary is attempting to expand its exports" (Para. 32). This statement represents an exaggeration as do Hungarian estimates of the effects of restrictive measures on Hungarian exports, which the report uncritically cites (Para. 153-156).

14. In particular, the 2 percent decline in the volume of Hungarian exports of manufactured exports in convertible currencies in 1980, following an increase of 17 percent in 1979, had more to do with the introduction of new pricing rules in January 1980 than with increased protection in the industrial countries. And, the dollar value of total exports in convertible currency



trade stagnated in 1981 while policy reforms led to a 56 percent rise in Turkey, with manufactured exports more than doubling.

15. In fact, the improvement of the Hungarian trade balance in 1981 was achieved at the expense of an absolute decline in the dollar value of imports (Table 17). Apart from noting the unfavorable implications of the decline in imports for the Hungarian economy, it would be desirable to examine in the report the adverse effects on manufactured exports of the pricing rules introduced in 1980. The corrective measures taken in 1981 and 1982, which are inappropriately criticized in the report (Para. 129), have apparently not sufficed to fully offset these adverse consequences.

16. It would also be desirable to provide a critical evaluation of the system of wage determination, with suggestions made for improvements, beyond the general statement in Para. 117. In this connection, note should be taken of the fact that linking of wages to profitability would present problems not only because profits are affected by the underlying price and subsidies system (Para. 117), but because the profit-linking of wages would lead to inter-firm wage differences that do not correspond to differences in labor efficiency. In turn, with the reform of the price and subsidy system, it would be desirable to have manager bonuses increasingly based on profits.

17. Apart from price and wage setting, the system of investment financing, the need to close down inefficient firms, and changes in the functions of the government apparatus are at the heart of the 1980-81 reforms, and of the NEM in general. 1/ The Bank's policy dialogue with the Hungarian government could profitably cover these questions.

cc: Messrs. Chaufournier, EMNVP; Karaosmanoglu, EMI; Picciotto, EMP;  
Dubey, EMNVP; Colaco, EMI;  
ERS Directors, DRD and CPD Senior Staff.

BBalassa:nc

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1/ These issues have received considerable attention in Hungary in recent years; they have been reviewed in my "Reforming the New Economic Mechanism in Hungary," World Bank Staff Working Paper No. 534, published in Hungarian in the July-August 1982 issue of the official review of the Hungarian Economic Association.

November 8, 1982.

Dr. Gyorgy Szakolczai  
Research Institute for Applied  
Computer Sciences  
1536 Pf. 227  
Budapest  
Hungary

Dear Gyorgy:

Several months ago I sent you the methodology of my policy response to external shocks study. I now enclose a list of the variables that are necessary to make the estimates. I wonder if you could provide me with the relevant data for Hungary so that we could carry out the estimation on our computer here.

I will be lecturing in Budapest on policy responses to external shocks on December 14. It would be good if you could provide me with the data at that time and we could discuss the problems encountered in getting what also is needed.

Yours sincerely,

Enclosure

Bela Balassa



## Descriptions

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6. Interest Paid
7. Dividends
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10. Direct Investment
11. Portfolio Capital
12. Errors and Omissions
13. Changes in Reserves
14. Amortization
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17. Value of Manufactured Exports to the World
18. Value of Manufactured Exports to Developed Countries
19. Value of Manufactured Exports to Less Developing Countries
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22. Manufactured Exports, Unit Value Index
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26. Manufactured Exports to Developing Countries, Hypothetical Volume Index
27. Manufactured Exports to Central Planned Economies,  
Hypothetical Volume Index
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30. Fuel Imports, Hypothetical Volume Index
31. Non-fuel Imports, Hypothetical Volume Index
32. Total Imports, Unit Value Index
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34. GNP, Constant \$
35. Gross External Debt
36. Net Reserves
38. Developed Countries' Trend Income Elasticity  
Growth of Demand for Manufactured Imports
39. Developing Countries' Trend Income Elasticity  
Growth of Demand for Manufactured Imports
40. Centrally Planned Economies' Trend Income Elasticity  
Growth of Demand for Manufactured Imports

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

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- 44. SITC, Value of Exports of Good
- 45. SITC, Quantity of Exports of Good
- 46. SITC, Quantity of Exports of Good by the World as a Whole
- 47. SITC, Value at Exports of Good
- 48. SITC, Quantity of Exports of Good
- 49. SITC, Quantity of Exports of Good by the World as Whole

1963-73 World Export Volume Trend Growth Rates:

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



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Mr. John H. Duloy, VPERS

November 8, 1982

Bela Balassa, DRD

Review Panel: Demand for Personal Travel in Developing Countries

1. A panel comprising Messrs. B. Balassa (DRD), Chairman, C. Bell (DRD), R. Liebenthal (EAl), D. Hachette (LCI), and C. Carnemark (AEP) has been set up to review the above proposal. Messrs. Willoughby, Bennathan, and Ingram from the sponsoring department, Mr. Deaton, consultant, and yourself participated in the panel meeting; Mr. Hachette was not able to attend.
2. The panel finds that the proposed research is of considerable interest for the Bank's sector work and project work in transportation. At the same time, it suggests the need to highlight the objectives listed on p. 15 of the project proposal, emphasizing aspects of "positive economics," such as projecting demand for personal travel, and de-emphasizing normative aspects such as the welfare and income distributional impact of transport policy. As regards the latter, it notes that increases in the cost of work-related travel may be shifted forward through higher wages and prices.
3. More generally, the panel recommends that the sponsors give attention to work-related travel that is of considerable importance in developing countries. While non-work-related travel can be regarded a consumer good, work-related travel may be regarded as an input. Correspondingly, the income elasticities of demand for personal travel, to be estimated in Phase I of the proposed research, need to be reinterpreted when both work-related and non-work-related travel are considered. More emphasis would also need to be given to differences in the factors determining urban and rural personal travel.

4. The sponsors should carefully indicate the tasks that would be accomplished in Phase I of the proposed research project. In so doing, they should establish a link between the objectives to be pursued, the availability of data for the individual countries, and the estimation of particular models. Finally, note should be taken of the extent to which Phase I would represent a prelude for Phase II, and consideration given to the data requirements of the Phase II research tasks.

5. The panel supports the choice of Angus Deaton as consultant to the project. It also welcomes the intention of the sponsors to carry out Phase II of the research project in collaboration with a developing country institute.

cc and cleared with: Participants at the panel meeting

BBalassa:nc



November 5, 1982.

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

Dear Kathy,

A few weeks ago a visitor from Bangkok told me about a recent publication the Bank of Tokyo had provided on international wage comparisons for a number of countries, in particular, in Asia. We have been unable to identify this publication and I wonder if you could do so. I would appreciate receiving a copy of the article.

I hope that all is well with you. Anything new about your dissertation?

Yours sincerely,

Bela Balassa

Mr. Michael Carter, EM2

November 5, 1982.

Bela Balassa, DRD

Visit from Mr. Horton

At the time of our mission to Morocco, it was agreed that Mr. Horton would come to Washington in the first half of November for discussions of his two chapters, as well as the chapters by Messrs. Bonnel and Mateus in our report. I was hoping that his visit could be financed by the Research Committee. It has since transpired that such financing is not possible since two supplementary appropriations to the research budget have already been made.

Horton's visit is of considerable importance to us, not only for reviewing his chapters but because of his contributions to the Bonnel and Mateus chapters. Rene Bonnel is in full agreement on this. Accordingly, I would like to ask you to obtain financing for Horton's visit.

BBalassa:nc



November 5, 1982.

Miss Anne Moulinier  
63 rue Claude Bernard  
75005 Paris  
France

Dear Anne,

I have received your "unsigned" letter. I am answering it in English since this is easier on my secretary.

I will do my best to look for a financial institution where you could have your stage. I am afraid, however, that this will be rather difficult.

At the World Bank there are only research assistant positions which are filled from the Washington area. However, the Bank does hire temporary research assistants for the summer. Anyone from anywhere can apply. I wonder if you wish to try for such a summer job. I presume that it could be considered as fulfilling your obligations for part of a seven month period even though it would take place in the summer.

Needless to say, there is no guarantee that your application would be accepted and that you would be assigned to any particular department in the Bank. I would, however, make inquiries in the financial department if they may have any interest to you. This could not be done before next Spring when demands for summer employment are made. It would be useful, however, if I could have at this time your Personal History form filled out. Once I have this, I can inquire what the next steps are.

I would also need a curriculum vitae in English for inquiring about private financial institutions in the Washington area. It would be good if your English teacher could review the Personal History form as well as the curriculum vitae.

I am sending a copy of this letter to Lyon in case it reaches you there first. I am sending with it two booklets for your parents on things to see in the Bombay area.

Carol and the children join me in sending to all of you our best regards,

Yours sincerely,

Bela Balassa



November 4, 1982.

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

Dear Truus:

I enclose the retyped version of my paper; all changes I have made are indicated in red on the edited copy. The abstract for the JEL is also enclosed.

I am afraid that I have not been able to save much space; I had cut the length of the paper to a considerable extent in an earlier iteration. I would also like to ask you to retain the Hungarian and the English titles of the articles as it has been done in all my earlier papers published on Hungary. However, I have eliminated six titles from the list of references.

Yours sincerely,

Bela Balassa

cc: Ed. Hewett

## Abstract

Bela Balassa

### Reforming the New Economic Mechanism in Hungary

Following steps taken towards recentralization between 1972 and 1976, the reform measures introduced in 1980 and 1981 have re-established the original directions of the New Economic Mechanism in Hungary. The NEM, established in 1968, aimed at replacing plan directives by market relations among firms, limiting the scope of central price determination, linking domestic prices to world market prices, and increasingly decentralizing investment decisions. The paper evaluates the recent reform measures and considers possible future changes. It examines price setting, the exchange rate and protection, wage determination and personal income, investment decisions, and the organizational structure.



November 4, 1982.

Mr. Zvi Sussman  
The Maurice Falk Institute  
for Economic Research, in Israel  
P. Naphtali Bldg.,  
The Hebrew University Campus,  
Mt. Scopus  
91905 Jerusalem  
ISRAEL

Dear Zvi,

Many thanks for your letter of October 6th. I earlier learned that you are out of office and hope that you will be able to use the time productively in your research. In fact, with the updating of the protection study and the study on the adjustment of the Israel economy to external shocks, you will have your hands full.

I enclose a printout for Israel together with a list of variables we have used. In the computer program I am afraid I cannot provide an explanation for the difference in the external debt figures.

The differences in the results for the NICs in WDR, in the OECD study, and in my Weltwirtschaftliches Archiv article are explained by differences in country composition and in some of the data used. I suggest that you use the last mentioned figures.

You are right in trying to decompose investment and savings. I enclose a research proposal of Pradeep Mitra who is doing the same. You might wish to contact him directly.

Sincerely yours,

Enclosures

Bela Balassa

Messrs. Luis de Azcarate, WANVP and  
Ravi Gulhati, EANVP  
Bela Balassa, DRD

November 4, 1982.

Policy Response to External Shocks

I much appreciated the workshop you organized last Friday. The many suggestions made by yourself and others will be very helpful in the final revision.

Luis requested that I provide a list of the variables used in the estimation, with a view to adding further African countries. Should you or any of your economists wish to explore this further, they should call Kenneth Meyers at x61420.

Enclosures  
BBalassa:nc



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## Industry-Specific Variables Affecting Intra-Industry Trade

(RPO 672-41 Changes in Comparative Advantage in Manufactured Goods)

1. This note considers variables that may be included in the statistical testing of hypotheses concerning intra-industry trade in a multilateral framework. It is limited to industry-specific variables; country-specific variables will be discussed in a separate note.

2. The first question to be answered is whether measured intra-industry trade is a statistical artifice, owing to the inclusion of different products in the same commodity category, or whether it reflects "true" intra-industry trade in differentiated products. Caves (1981) used the number of products in the SITC classification scheme within each 3-digit category and the standard deviation of rates of profit on equity capital as measures of the heterogeneity of particular commodity categories; he found the former but not the latter variable to be statistically significant in explaining the intra-industry trade of thirteen industrial countries. <sup>1/</sup> Statistically significant results were also obtained by Pagoulatos and Sorensen (1975) and by Loertscher and Wolter (1980), who utilized the number of four-digit SITC positions within each 3-digit category for this purpose, in explaining the intra-industry trade of the United States and intra-industry trade among the member countries of the OECD, respectively.

3. Loertscher-Wolter used further the number of BTN tariff positions within each 3-digit SMC category as a measure of product differentiation, but did not obtain statistically significant results. This is hardly surprising,

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<sup>1/</sup> As several of the publications are repeatedly cited, the year of publication will be referred to only at the place of first citation.

given the high intercorrelation of the two variables, purportedly representing product heterogeneity and product differentiation -- a distinction that is far from clear. At the same time, the problem of product heterogeneity is minimized in the classification scheme employed in the present study, which defines "industry" to include close substitutes in production and makes use of 4-digit SITC detail whenever appropriate. The number of products within each industry, then, may be considered to reflect the extent of product differentiation. For this purpose, use will be made of the number of BTN positions and that of individual products under the SITC classification scheme in particular industries as alternatives.

4. Hufbauer (1970), in turn, employed the coefficient of variation of export unit values, calculated at the 7-digit SITC level, as an indicator of product differentiation, on the assumption that an inverse relationship exists between the degree of product standardization and the dispersion of prices within each commodity category. While this measure was correctly criticized by Gray and Martin (1980) on the grounds that unit values do not appropriately represent prices, the objection applies only to a limited extent at the 7-digit level. At any rate, for lack of price observations in the necessary detail, the hedonic price indices suggested by Gray and Martin could not be used in practice. Correspondingly, the present study will use the Hufbauer price variation variable as an alternative measure of product differentiation; this will be utilized in its original form that was successfully employed by Caves as well as in a study of the intra-industry trade of the United States by Toh (1982). In turn, the use of a dummy variable for this purpose, obtained by dividing commodity categories into two groups according to whether



they had above-average or below-average coefficients of variation, did not give statistically significant results in the Pagoulatos-Sorensen study.

5. Theorists of intra-industry trade, such as Krugman (1980) and Lancaster (1980) suggest that economies of scale underlie intra-industry trade; in the absence of scale economies, all product varieties could be produced domestically. Various measures have been used as proxies for economies of scale. Hufbauer regressed value added per man on firm size measured in terms of employment; Loertscher-Wolter used average value added per establishment; Caves divided minimum plant size by a measure of the cost disadvantages of small firms; and Lundberg (1982) defined the scale factor as the share of the labor force in firms having more than 500 workers in a study of the intra-industry trade of Sweden.

6. The relative importance of large firms is a measure of industrial concentration and will be affected by differences in the extent of vertical integration. In turn, it may be hypothesized that large plant size is characteristic of industries producing standardized products, such as paper, petrochemicals, steel, and nonferrous metals. This may explain that Loertscher-Wolter obtained a negative, and statistically significant, coefficient for this variable. Similar results were reached by Caves who proxied minimum efficient plant size by the average size of the largest plants of U.S. industry, accounting for one-half of industry shipments, divided by total industry shipment, and defined the cost-disadvantage ratio as value added per worker in the smaller plants divided by value added per worker in the larger plants. Finally, Lundberg used energy consumption per worker as an indicator of product standardization and obtained a statistically significant negative coefficient for this variable.

7. The variables utilized by Loertscher-Wolter, Caves and Lundberg will be used in the present study as alternative representations of product standardization. Use will further be made of the economies of scale variable introduced by Hufbauer. While the latter is subject to the shortcoming that it makes no adjustment for differences in capital intensity, it may provide an indication of the importance of economies of scale for product differentiation.

8. As Balassa (1967) first noted, product specialization in individual firms leads to longer production runs. Toh proxied the length of production runs by the ratio of the degree of mechanization, proxied by the level of expenditures on new machinery and equipment per worker, to investment in human capital. This ratio, as well as the two variables taken individually, were found to be statistically significant. However, Lundberg found that intra-industry trade was positively correlated with the average wage that may be taken to reflect the human capital intensity of the industry; the same author also obtained a positive correlation with the share of wage costs in value added while the share of technical personnel to the labor force was statistically significant in only one of the two years studied. Further work on these variables will be necessary before their introduction in the present study.

9. Willmore (1979) suggested that industrial concentration would lead to intra-industry trade through oligopolistic competition and Lundberg provided some weak evidence in support of this proposition. In turn, Toh successfully used a concentration ratio divided by the share of imports in U.S. sales as an indicator of oligopolistic interpenetration. These variables will also be employed in the present study.



10. Caves further successfully tested the proposition that intra-industry trade is positively related to expenditures on research and development, expressed as a percentage of sales. The regression coefficient of this variable was positive but significant only at the 10 percent level in Lundberg's study of intra-industry trade in Sweden. In turn, Toh used the number of patents issued to represent research intensity, combining it with the first date of the product, so as to provide an indication of the stage in its life cycle. He found that the product of the two variables was significantly related to intra-industry trade. First trade date was the only significant variable in the Finger-de Rosa (1979) study of intra-industry trade of the United States, albeit for only two out of four years, while Loertscher-Wolter obtained statistically significant results in using a dummy variable to represent product cycle goods.

11. In this study, separate use will be made of variables representing research intensity and the stage of the product cycle. R&D expenditures, expressed as a proportion of sales value, and the number of patents will be employed as alternative research intensity variables while the stage of the product cycle will be represented by first trade dates or, alternatively, by a product cycle dummy.

12. To the extent that intra-industry trade involves the exchange of proprietary knowledge, it may be reduced through foreign investment. In turn, intra-industry trade may be increased through trade among the affiliates of the multinational corporations. The two variables, defined as the extent of foreign investment and the share of exports to foreign affiliates in total exports, respectively, were successfully used by Caves to explain intra-industry trade. Pagoulatos and Sorensen also found that intra-industry trade

was negatively correlated with foreign investment while Pugel (1978) obtained the opposite result (significant at the 10 percent level), possibly due to his omission of the variable representing trade within the multinational firm. Both variables will be introduced in the present study.

13. It can further be hypothesized that intra-industry trade is reduced by the cost of transfer. This hypothesis receives support from the empirical estimates of Pagoulatos-Sorensen, Loertscher-Wolter, and Caves, although not from those by Toh and Pugel. Except for Pugel, the cost of transfer was defined as the average distance for domestic shipments in U.S. industry.

14. The latter variable will also be introduced in the present study. Use will further be made of the proportion of total inputs purchased by U.S. industry from nonagricultural primary sectors. Caves found that the variable is positively correlated with intra-industry trade and explained this result by the tendency towards the localization of manufacturing in cases when nonagricultural primary inputs are used.

15. Tariffs represent further elements of transfer cost. Balassa (1967) suggested that tariff reductions will lead to increased intra-industry trade and Pagoulatos-Sorensen obtained statistically significant results in support of this proposition. The regression coefficients for the tariff variable had the expected sign, positive, but t-values were lower in the studies by Caves and Toh. Caves but not Toh obtained higher levels of significance with a tariff dispersion variable derived as the standard deviation of tariffs; Pagoulatos-Sorensen also found that tariff similarity among the trading countries, was positively related to intra-industry trade. In the present study we will experiment with tariff as well as tariff similarity variables,



while recognizing the fact that the importance of nontariff measures in developing countries may affect the results.

16. The height of non-tariff barriers, and their similarity among trading countries, in Pagoulatos-Sorensen study were found not to be statistically significant in explaining intra-industry trade. These results may be explained by the difficulties involved in measuring the height of non-tariff barriers that also discourage their use in the present study.

17. It was further suggested that intra-industry trade is negatively correlated with advertising as the cost involved creates a barrier to such trade (Gray, 1973). While estimates by Pugel and to a lesser extent those by Lundberg and by Caves, provide some support for this proposition, it has questionable theoretical validity since advertising is associated with product differentiation and it is not needed for standardized products. Finally, Caves did not succeed in establishing the effects of the sharing of joint costs on intra-industry trade. Given the conceptual issues involved with the first of the two variables and the measurement issues involved with the second, these avenues of investigation will not be pursued in the present study.

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Country-Specific Variables Affecting Intra-Industry Trade

(RPO 672-41 Changes in Comparative Advantage in Manufactured Goods)

1. Staffan Burenstam Linder put forward the proposition that trade in manufactured goods among industrial countries can be explained by preference similarity, when "similarity of average income levels could be used as an index of similarity of demand structures" (1961, p. 94). Linder thus predicts that the extent of trade in manufactured goods between any two countries is negatively correlated with the difference in their per capita incomes. This hypothesis was subsequently tested by various authors who related the extent of bilateral trade to intercountry income differentials.

2. Linder himself presented some data in support of this hypothesis by comparing a matrix of bilateral propensities to import with differences in per capita GNP. Subsequently, Fortune (1971) applied multiple regression analysis to the data and found support for the theory. The data were further used by Sailors, Oureshi, and Cross (1973) who correlated absolute differences in per capita incomes with import propensities in bilateral trade. While, according to the authors, "the number of significant results (16 of 31) is far in excess of chance expectations [and] notable is the high preponderance of significant results among the countries comprising the European Economic Community" (p. 266), Hoftyzer (1975) noted that the results may in large part be explained by the geographical proximity of the EEC countries. This observation also applies to Fortune's results as well as to those of Kolhagen (1977) who regressed the propensity to import on absolute differences in per capita GNP. While both authors referred to the importance of the distance factor, they failed to make adjustment for it.



3. Subsequently, Greytak and McHugh (1977) and Oureshi, French, and Sailors (1980) explicitly introduced geographical distance as a variable explaining interregional trade in the United States. They found this variable to be highly significant while there was only a weak relationship between interregional trade and income differentials. In turn, in a time-series analysis of U.S. exports of manufactured goods to eighteen industrial countries, Ahmad and Simos (1978) obtained a positive correlation between U.S. manufactured exports to individual countries and changes in the ratios of U.S. to foreign per capita incomes. These results may, however, be explained by the effects of the rapid postwar growth of the industrial countries outside the U.S. on their imports from the United States without making reference to Linder. At the same time, the application of a similar method to trade among the industrial countries by Kennedy and McHugh (1980) did not lead to statistically significant results.

4. While Ahmad-Samos and Kennedy-McHugh used per capita income ratios, together with a distance variable to explain changes in manufactured exports Fortune (1980) and Hirsch-Lev (1973) employed these variables to explain the pattern of trade in manufactured goods in a particular year. In explaining the exports of consumer goods (SITC category 8), Fortune found the per capita income ratio was statistically significant at the 5 percent level only in the United Kingdom among the eight countries investigated. However, incorporating the ratio of per capita incomes in a gravitational model, Hirsch and Lev found that the coefficient of this variable was significant at the 1 percent level for pooled data of the four countries, and for most of the results of three countries, in explaining trade in food, textiles, machinery, as well as chemicals.

5. Linder's hypothesis was tested for intra-industry trade by Pagoulatos and Sorensen (1975), Loertscher and Wolter (1980), and Toh (1982).

Pagoulatos-Sorensen and Toh classified industries according to the extent of trade among high-income countries, measured as the ratio of U.S. industry exports plus imports in trade with OECD countries to total U.S. industry exports and imports. While both authors obtained statistically significant results, indicating that the extent of intra-industry trade is positively correlated with the share of the industrial countries in U.S. trade, their method only provides an indirect test of the Linder hypothesis.

6. A direct test was provided by Loertscher and Wolter, who reformulated the original Linder hypothesis. These authors postulated that intra-industry trade among countries is intense if (a) the average of their levels of development is high; (b) the difference in their levels of development is relatively small; (c) the average of their market size is large; (d) the difference in their market size is small; and (e) barriers to trade are low.

7. Hypotheses (a) and (b) are variants of Linder's proposition. Hypotheses (c) and (d) relate to economies of scale that lead to the exchange of differentiated products between large countries. Finally, hypothesis (e) introduces barriers to trade in the form of transportation costs, as well as political, language, and cultural factors.

8. Estimates made by Loertscher-Wolter confirmed hypotheses (b), (c), and (d) but not (a). In turn, Helpman (1981) provided mathematic proof for the validity of hypotheses (b) and (d) in a two-country model of international trade. Helpman assumed identical demand functions in the two countries and derived his results for differences in supply conditions in the form of relative capital and labor endowments.

9. Differences in per capita incomes, however, reflect both differences in demand and in supply patterns. In the present study several alternative specifications will be tried utilizing the four variables introduced in the Loertscher-Wolter study.

10. Loertscher-Wolter also obtained statistically significant results for a distance variable, used as a proxy for transportation costs, a customs union dummy, a language group dummy, and a border trade dummy. The regression coefficient for the cultural group dummy is not statistically significant which fact may be explained by the high degree of intercorrelation with the language group dummy. <sup>1/</sup>

11. In the present study, use will be made of a distance variable and of dummy variables representing historical and cultural ties. The dummy variables, listed in Table 1, pertain to regional integration, preferential ties with the European Common Market; past colonial ties; and language and cultural ties. Dummy variables will further be introduced for border trade.

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<sup>1/</sup> The cultural groups considered are Anglo-American, Germanic, Romanic, and Scandinavian.



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November 4, 1982.

Mr. Kiertisak Toh  
United States Agency for  
International Development  
Washington, D.C. 20523

Dear Dr. Toh:

I read with interest your paper on intra-industry trade in the Weltwirtschaftliches Archiv. I am engaged in work on the determinants of trade in manufactured goods and wonder if you could provide me with the data for the explanatory variables used in your study.

Thanking you in advance, I remain,

Sincerely yours,

Bela Balassa



November 4, 1982.

Dr. Lars Lundberg  
Department of Economics  
University of Umeå  
90187 Umeå  
Sweden

Dear Dr. Lundberg:

I read with interest your paper on intra-industry trade in the Weltwirtschaftliches Archiv. I am engaged in work on the determinants of trade in manufactured goods and wonder if you could provide me with the data for the explanatory variables used in your study.

Thanking you in advance, I remain,

Sincerely yours,

Bela Balassa

November 4, 1982.

Mr. Gary Hufbauer  
3213 Farmington Drive  
Chevy Chase, Maryland 20015

Dear Gary,

Your 1970 paper on trade in manufactured goods remains a gold mine of information and it is undoubtedly one of the most cited articles on international trade. It is hardly surprising, then, that I have turned to it in conjunction with work I am doing on comparative advantage in manufactured goods.

I also know from experience that, with the passage of time, one tends to forget the statistical sources of one's own work. I wonder, nevertheless, if you recall the U.S. Census Bureau publication referred to on p. 190 of your paper which provided differentiation coefficients for seven-digit SITC categories. If you do, please let me know because I would like to work with the seven-digit figures. For the same reason, I would like to have the seven-digit data for first trade dates if you still have them.

Thanking you in advance, I remain,

Sincerely yours,

Bela Balassa



November 3, 1982.

Professor Richard E. Caves  
Department of Economics  
Harvard University  
316 Littauer Center  
Cambridge, Massachusetts 02138

Dear Dick:

I have read with much interest your excellent article on intra-industry trade. I am working on the determinants of trade in manufactured goods and would appreciate receiving a copy of the statistical appendix to your paper.

Thanking you in advance, I remain,

Sincerely yours,

Bela Balassa



November 1, 1982.

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

Dear Gerardo,

In reference to our conversation last Friday, I enclose the printouts for Costa Rica, Guatemala, and Honduras. I hope that you will find them useful.

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

Yours sincerely,

Enclosures

Bela Balassa