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JANUARY 1981

B. BALASSA CHRON FILE JAN 1981

January 30, 1981

Professor Geza Lauter
School of Government and Business Administration
George Washington University
Washington, D.C. 20052

Dear Geza,

I enclose a short curriculum vitae for Professor Berend. I hope that it will serve the purpose. Please let me know of the developments.

Yours sincerely,

Enclosure

Bela Balassa

Dr. Ivan T. Berend

Dr. Berend is a professor of economics at the Karl Marx University. Between 1970-1978 he was the Rector (Chancellor) of the University. Prior to that he was head of the Division of Long Term Planning at the National Planning Office.

Dr. Berend is one of the outstanding Hungarian economists. He is well respected in the West and has received several invitations to teach and to lecture. Dr. Berend was a visiting professor for a semester at the Univeristy of California (Berkeley) in 1978 and at the University of Oxford, England in 1979.

Dr. Berend has written widely on a variety of economic topics including the Hungarian economic reform. He published an article in English on "Regulations of Economic Growth" in the volume Reform of the Economic Mechanism in Hungary (Budapest 1972). More recently he reviewed the experience with the the economic reform in "Ten Years: A Balance Sheet" Valosag (Reality) 1978 (7) and "Hungarian Road in the 1970s" Kozgazdasagi Szemli (Economic Review) 1980 (7-8).

Mr. Hollis B. Chenery, VPD

January 30, 1981

Bela Balassa, DRC

John H. Dunning

I enclose a copy of a letter from John H. Dunning who is the foremost expert on international direct investment and on multinational corporations in England. Should we wish to do work on these subjects, I would recommend that we invite him.

Enclosure
BBalassa:nc

Department of Economics

Professor J.H. Dunning
Head of Department

Faculty of Letters and Social Sciences

University of Reading
Whiteknights
Reading
RG6 2AA

Telephone: 0734 85123

30 October 1980

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

Dear Bela,

Greetings from England.

I have just been looking through the 1980 catalog of the World Bank publications and note there is comparatively little published material on the impact of international direct investment and MNEs on development. As you know most of my research (apart from that for the UN) has been on MNEs in developed countries, but recently I have been interested in relating my eclectic model to patterns of economic development (à la Chenery) and in explaining the interaction between production financed by foreign direct investment and such patterns of development. Some exploratory thoughts on these issues are set out in the attached 'green back' and I am proposing to develop these ideas for some lectures I shall be giving in the US next year.

I have never spent any time working at the World Bank and I'm wondering whether there would be any interest in my visiting Washington in the latter part of 1981 or sometime in 1982 to work on the general subject of the interaction between international production (production financed by fdi and/or other forms of resource transference?) and the structure of economic development. Alternatively, if a visit is not feasible, would the Bank consider commissioning a research project (or paper) in this area? I'm writing to you, because, of the senior people working at the Bank, you best know my work and are yourself doing closely allied research.

I hope all is well with you. We have not so far had the pleasure of welcoming you to Reading. Perhaps on your next visit to Europe we could arrange for you to stop over a day or two at the University. We could help towards your travelling expenses - at least within Europe - and offer you a modest honorarium for a seminar.

Kindest regards,

John

John H. Dunning

encl.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Frederick Jaspersen, LC2

DATE: January 31, 1981

FROM: Bela Balassa, DRC

SUBJECT: Adjustment Experience and Growth Prospects of the NICs

1. In the following, I will concentrate on questions relating to the use of the Salter-Corden methodology in your paper. This methodology separates changes in the level of domestic absorption (aggregate expenditure) and output from switching between tradeables and non-tradeables in absorption and in output. It can be applied to decompose changes in the resource balance that occur over time.

2. The methodology can also find application in examining adjustment to external shocks if the shocks occur in one period and adjustment in the next. One may then consider changes in the resource balance in the second period as reflecting the effects of policy responses to the external shocks of the first period. In fact, however, external shocks and policy responses occur simultaneously, with their relative magnitudes and effects varying over time. Correspondingly, the methodology needs to be modified to allow for this eventuality.

3. In the event of simultaneous external shocks and policy responses to these shocks, one should compare the balance-of-payments effects of external shocks, in the form of terms of trade effects, with changes in the resource balance that are due to the terms of trade change itself and to other factors subsumed under policy responses. This, in turn, requires the disaggregation of "autonomous" absorption in your tables by separating the effects on absorption of changes in domestic output from those of the terms of trade change. These effects, incidentally, should be considered induced rather than autonomous, and equation (6) in Annex I should be re-interpreted to allow for the fact that a deterioration of the terms of trade will reduce, and rise in domestic output will increase, absorption.

4. The Salter-Corden methodology cannot handle, however, external shocks due to the slowdown of foreign demand for the country's exports (export volume effects, in my terminology). Rather, these effects are included under output switching, which is taken to represent the effects of domestic policies. This is a serious shortcoming as export volume effects have assumed increased importance over time relative to terms of trade effects in oil-importing developing countries, and they represent the only form of adverse external shocks in the case of countries where the terms of trade improved after 1973.

5. A further consideration that while switching effects are measured as deviations of actual from hypothetical values, the latter being derived under the assumption of equi-proportionate changes in tradeables and non-tradeables, the growth effect - and its impact on absorption - is measured as absolute changes over the previous period. This would be appropriate only if the entire change in GNP could be attributed to domestic policies. A more appropriate assumption is that only changes in the growth rate of GNP have been due to policy actions.

6. Reference should further be made to differences in the treatment of output effects in the Salter-Corden methodology and my own. Under my methodology, the positive balance-of-payments effects of increases in the output of tradeable goods are included under exports and import substitution effects while the impact of higher GNP on imports is shown with a negative sign. Although the latter is subsumed under your induced absorption effects, you are led to the incorrect policy conclusion that reducing growth rates would be an inappropriate way to deal with the balance-of-payments effects of external shocks. Yet, a switching policy (devaluation) will generally have to be accompanied by disinflationary policy in order to get the desired improvement in the balance of payments.

7. The discussion of the individual country cases in your paper makes only limited use of the empirical results derived by the use of the Salter-Corden methodology, with two or three paragraphs devoted to them in a text of 20 to 30 pages. While it may be difficult to interpret e.g. the large year-to-year variations in autonomous absorption in Brazil and Uruguay, in expenditure switching in Brazil, Korea, and Turkey, and in output switching in Korea and Turkey, an attempt should be made to explain the results in terms of exchange rate changes and the macroeconomic policies followed. I would further suggest replacing the estimates of annual changes by changes from a base period, such as 1971-73, as I have done. Apart from reducing the year-to-year variability of the results, this would increase the comparability of the two sets of estimates.

8. The estimates should be presented in current as well as in constant prices, linking them to national income and balance of payments statistics and indicating the implications of differences in the deflators used for the various items. The same procedure should be followed in regard to the decomposition of changes in the output of traded goods, where one wonders how data on "non-exported exportables" have been derived as national income and sectoral production statistics do not provide such information.

cc: Recipients of Mini-WDR
Chief Economists

BBalassa:nc

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert Cassen, WDRIV

DATE: January 31, 1981

FROM: Bela Balassa, DRC

SUBJECT: Mini-WDR

1. It was a very good idea to circulate a mini-WDR for comments, so as to get the discussion going before the report jells. My comments concern Part I and the section on interdependence in Part II.

The Setting

2. This is a weak section that is entirely backward-looking. It should be combined with the subsection "General questions" (pp. 12-16) that looks forward to the 80's. In so doing, emphasis should be given to similarities and differences as between the situation following the 1973-74 and the 1979-80 oil price increases.

3. As far as the industrial countries are concerned, differences in the policies applied during the two periods deserve emphasis. Deflationary policies were stronger in 1974-75 than to-day, deepening the recession and leading to the elimination of the collective current account deficit of the industrial countries. The recession was shallower this time and I question the validity of pessimistic forecasts concerning an extremely slow recovery.

4. Differences in the policies applied relate to the apparent acceptance by the industrial countries of a continuing current account deficit, thereby reducing the financing requirements of the non-oil developing countries. At the same time, I do not share the fears expressed about increased protectionism against the developing countries. If this did not happen in 1980, at the trough of the recession, it is unlikely to occur during the expansionary phase.

5. A lesser degree of deflation, together with greater wage moderation, have had a differential impact on profits and investment in the two periods. The profit squeeze observed in 1974-75 has not occurred this time around, and the burden of the slowdown has been shared between investment and consumption rather than being carried by investment alone as was the case in 1974-75. These results, together with the rise of investment activity in recent years, will have beneficial effects on economic growth in the industrial countries in the future.

6. I question the validity of the statement that "OPEC surpluses are almost certain to remain at a higher level and for a longer period of time than occurred the first time" (p. 14). For one thing, supply-demand conditions may not lead to continued increases in oil prices in real terms as predicted in the report. For another thing, one should not underestimate the prospective expansion of expenditures in the OPEC countries. Several of these countries have established the infrastructure on which they now plan to build, not to speak of military expenditures. Saudi Arabia alone plans civilian expenditure of $250 billion in its Five Year Plan, which may rise to $400 billion if defense spending is taken into account. And, one should recall the fate of the projections of a growing OPEC surplus after 1974.

Country Experience

7. More attention should be given in the report to the policies followed by different groups of countries and one should eschew a deterministic view of country experiences and prospects. It is too easily forgotten, for example, that several of the "fast growing better off countries" (p. 6) were poor two decades ago. This is illustrated in Table 1 which shows some of the shifts in relative standing that have occurred.

8. In the discussion of adjustment by country groups at different income levels, use may be made of the results of the OECD Development Centre study I distributed last December. The study shows that, a small group of low-income mineral producers apart, developing country groups other than the NICs did not adjust to external shocks after 1973 but relied on foreign capital instead. On the whole, these groups lost export market shares and the lower income groups also experienced negative import substitution. This is shown in Table 2 where Group I includes the NICs (1B excludes Mexico and Portugal); Group II and III are relatively industrialized developing countries exporting agricultural and mineral products, respectively; Groups IV and V are less industrialized developing countries exporting agricultural and mineral products (IVA excludes India); and Group VI includes the least developed countries.

9. The question arises as to whether adjustment could be postponed any further. While according to the report, "market capital is readily available albeit at high rates" (p. 13), there may not be ready lenders to countries that continue to refuse adjustment. With prospects for early IDA replenishment being poor, the availability of concessional aid to low income countries may also be limited.

10. In view of these considerations, an appropriate theme for the report may be the need for domestic adjustment through policy reform. The recommendations could be buttressed by the example of countries that have made successful adjustment, with favorable growth performance, after 1973 cf. my "The Newly Developing Countries After the Oil Crisis" (October 29, 1980) and "Policy Responses to External Shocks in Less Developed Countries" (March 30, 1981).

11. In the discussion of the experience of the various groups of developing countries, differences in policies and performance should be emphasized. This comment applies in particular to Low (and Middle Income) Africa, where the policy differences are more important than the similarities. Also, ´revival´ in the form of the acceleration of "development efforts through increased public sector investment programs" (pp. 17-18) has proved to be counterproductive in this region as "the productivity of public investment ... has been low and may be falling in some cases" (p. 19).

12. In Low Income Southeast Asia, one should note the absence of a genuine export promotion effort and the lack of consistent policies by successive governments in India. Unless a clear policy is adopted, entailing substantial reforms, the report´s optimistic assessment of India´s economic prospects will prove to be wrong.

13. The discussion of adjustment in Selected Middle Income Primary Producers needs substantial revision. Inclusive of the effects of increased import prices on its trade deficit, Egypt suffered adverse rather than favorable external shocks. It was nevertheless able to attain rapid economic growth by doubling the rate of investment. Colombia, in turn, did not utilize the possibilities offered by favorable external shocks to accelerate the rate of economic growth as it failed to raise investment shares. Nor can Egypt be considered a resource rich economy.

14. The parallel drawn between Turkey and Thailand, and the contrast with the Philippines, are off the mark. Thailand adjusted to external shocks through export promotion and import substitution while Turkey relied on foreign borrowing. Thailand also compares favorably with the Philippines that utilized additional net external financing in response to external shocks rather than domestic adjustment. As a result, debt service and external debt ratios increased much more rapidly in the Philippines, although Thailand suffered considerable declines in service earnings and private transfers after the ending of the Vietnam war. Finally, while the Philippines had a slightly higher investment share than Thailand, its GNP growth rate was lower due to high incremental capital-output ratios that reflect an import substitution orientation as against Thailand's export orientation. In fact, the rise in the ICOR partly offset the effects of higher investment shares on economic growth in the Philippines.

15. In the case of the Newly Industrializing Developing Countries, emphasis should be given to their successful adjustment to external shocks. As shown in Table 2, export expansion and import substitution gave rise to negative additional net external financing in 1978. At the same time, emphasis should be given to differences in the policy performance of the NICs. Here again, the discussion would need substantial revision.

16. One cannot explain the lack of adjustment in Turkey by "a difficult domestic political situation" (p. 52). Nor can Brazil's present difficulties be attributed to the second oil price increase; they have been due in large part to the policies followed. And finally, rather than political uncertainties preventing a timely response to the second oil price increase, Korea's poor economic performance since 1978 is explained by the inappropriate policies adopted towards the end of President Park's reign.

17. Also, it is incorrect to say that "most of the newly industrialized developing countries have attempted to increase their exports to offset the decline in their terms of trade" (p. 55). Brazil, Israel, and Yugoslavia moved towards import substitution after 1973 and Argentina and Turkey did little to increase their exports.

18. Finally, the statement, according to which "the experience of many of the NICs indicated that reduction of growth of output was not necessary for bringing about improvement in the balance of payments" (p. 56), is far over-simplified. Thus, Taiwan, Singapore, and Chile accepted a temporary decline in GNP for the sake of subsequent rapid expansion. At the same time, foreign borrowing to avoid a slowdown has proved counterproductive in cases where the proceeds were used for consumption and inefficient investment.

19. The inclusion of Peru among Oil Exporting Developing Countries is not warranted as Peru was a net oil importer until 1977; nor did Mexico export oil in substantial quantities until 1977. At any rate, the comparison between Mexico and Peru, on the one hand, and Indomesia and Nigeria, on the other, is of limited interest, given the differences in their economic structure.

Trade Performance and Prospects

20. Comparisons of data for the 60's and the 70's will not be appropriate for indicating adjustment to external shocks. Also, the 6.7 percent reported growth rate of manufactured exports from the developing to the industrial countries (p. 75) is incorrect. GATT statistics show a growth rate of 10.5 percent for 1973-78, with larger increases in 1970-73 as well as in 1979.

21. As regards "positive adjustment" in Japan, it should be noted that the volume of Japanese imports of manufactured goods from the developing countries declined in absolute terms between 1973 and 1977 and increased only afterwards. This contrasts with rapid increases in both the US and the EEC. In turn, notwithstanding the MFA, the developed countries' imports of textiles and clothing from the LDCs rose at an average annual rate of 7.7 percent between 1973 and 1978 with larger increases in 1979.

22. The discussion of the political mechanisms of trade relations is too rudimentary in its present form to be of much interest. The discussion also disregards evidence for several industries where losses to consumers exceed gains to producers several times. Finally, the new non-tariff codes will help to reduce the "technical" barriers to trade.

Interdependence

23. The statements on pump-priming and recycling are correct. At the same time, transferring resources to the LDCs as against using them domestically will not be the relevant choice if deflationary policies are applied. Thus, the 1974-75 recession would have been deeper without increased exports to non-oil LDCs. Furthermore, there are gains to both parties through the exploitation of comparative advantages and the beneficial effects of increased manufactured exports on LDC growth.

cc: Recipients of Mini-OWDR
BBalassa:nc

Table 1

Per Capita GNP for Selected Developing Countries
(in 1978 dollars)

	1960		1978		Growth Rate
	US$	Rank	US$	Rank	1960-78
Jamaica	777	1	1110	4	2.0
Turkey	592	2	1200	2	4.0
Malaysia	547	3	1090	5	3.9
Ivory Coast	539	4	840	8	2.5
Peru	518	5	740	9	2.0
Colombia	500	6	850	7	
Taiwan	443	8	1400	1	6.6
Morocco	430	7	670	10	2.5
Ghana	427	9	390	16	-0.5
Tunisia	409	10	950	6	4.8
Zambia	394	11	480	13	1.2
Senegal	365	12	340	18	-0.4
Korea	349	13	1160	3	6.9
Liberia	322	14	460	14	2.0
Philippines	321	15	510	11	2.6
Sudan	314	16	320	20	0.1
Cameroon	275	17	460	14	2.9
Kenya	223	18	330	19	2.2
Thailand	218	19	490	12	4.6
Egypt	217	20	390	16	3.3

Source: World Development Report, 1980, Table 1.

TABLE 2

THE RELATIVE IMPORTANCE OF POLICY RESPONSES IN MEETING THE BALANCE-OF-PAYMENTS EFFECTS OF EXTERNAL SHOCKS

Group	Additional Net External Financing/ Effects of External Shocks				Import Substitution/Effects of External Shocks			
	1974-75 Average	1976-77 Average	1978	1974-77 Average	1974-75 Average	1976-77 Average	1978	1974-77 Average
	(in percent)				(in percent)			
I A	86.6	18.4	-17.9	54.8	12.2	48.3	55.6	29.0
B	82.3	11.8	-17.1	48.7	15.5	42.7	44.4	28.5
II	151.5	145.4	136.2	148.0	-39.6	-38.0	-34.8	-38.7
III	76.3	76.8	74.3	76.6	-21.1	-7.5	-14.3	-12.3
IV A	87.4	-101.7*/	269.0	153.2	7.6	143.9*/	-119.1	-39.7
B	135.6	244.5	216.3	171.9	-21.5	-99.9	-82.8	-47.7
V	15.7	-16.1	--	-2.6	68.5	104.0	--	89.0
VI	121.8	113.0	143.8	119.5	25.5	97.5	-1.1	44.6

Group	Increase in Export Market Shares/ Effects of External Shocks				Import Effects of Lower GDP Growth Rates/Effects of External Shocks			
I A	-4.6	-2.1	10.0	-3.4	5.8	35.4	52.3	19.6
B	-3.1	5.1	13.4	0.8	5.3	40.4	59.4	22.0
II	-7.2	3.5	8.4	-1.2	-4.7	-10.9	-9.8	-8.2
III	37.4	16.8	23.5	24.1	7.4	13.9	16.5	11.7
IV A	-1.3	104.2*/	-61.8	-37.9	6.3	-46.0*/	11.8	24.4
B	-15.2	-53.3	-40.8	-28.0	1.1	8.7	7.3	3.7
V	-29.3	-73.5	--	-55.0	45.0	85.3	--	68.6
VI	-48.0	-136.4	-58.5	-71.6	0.8	25.9	15.5	7.5

*/ The effects of external shocks were favorable in this period and hence have a negative sign.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: January 30, 1981

FROM: Bela Balassa, DRC

SUBJECT: Back-to-Office Report, Morocco, December 29, 1980 - January 5,1981

1. I went to Morocco to review the progress of the research project on the Industrial Incentive System in Morocco and to have discussions on proposed reforms of export incentives and the industrial investment code. Memoranda incorporating my recommendations in these reform proposals have been transmitted to the government, and I have discussed the recommendations with Mr. Gessous, Minister of Industry and Mr. Jouahri, Director of Economic Affairs in the Prime Minister's Office, Copies of the memoranda are enclosed.

2. The reform proposals on export incentives and the industrial investment code have been prepared by Brendan Horton and his team who carry out the research project on the industrial incentive system. The preparation and the extensive discussion of the proposals has necessitated delays in the completion of the research project that is now planned for December 1981.

cc: Messrs. Chaufournier,EMNVP; Bart, EM2; Picciotto, EMP; M.Carter, EM2 ; Zaidan, Ettori, EMP
Dubey, EMNVP; Asfour, EM2; Guerard, EM2
DPS Directors ,DRC Senior Staff, Messrs. Tolbert, IDF; Westphal, DED, Pursell, DRC

Enclosure
BBalassa:nc

THE PROMOTION OF EXPORTS IN MOROCCO

Bela Balassa*

In manufacturing industries, export promotion is necessary in Morocco in order to ensure rapid and equilibrated industrial growth. The development of manufacturing industries has so far been largely characterized by import substitution that has involved increasing costs in the confines of the narrow domestic market. At the same time, with considerable profits made in selling in the highly-protected domestic market and the increased overvaluation of the currency, there has been little incentive to export. Correspondingly, the growth of industrial exports has been slow and Morocco has lost market shares to other developing countries after 1973.

The exports of agricultural products have also suffered the adverse effects of import protection, the appreciation of the exchange rate in real terms (i.e. after adjustment made for changes in relative prices), and the low prices paid to farmers. Morocco's major agricultural exports have declined as a result, contributing to the deterioration of the balance of payments.

In the following, consideration will briefly be given to improvements that may be made in the export promoting measures presently applied, including export credits and export insurance, temporary admissions and drawbacks, tax measures, foreign exchange allocation, and information and administrative procedures in general. Subsequently, alternative ways of providing additional export incentives will be examined.

I. Improvements in Existing Export Promotion Measures

Export Credits and Export Insurance

Under the present system of export credits, firms can rediscount their export bills at preferential rates. They are also supposed to receive preferential loans for export production (pre-financing), but these are in practice limited to a considerable extent. It would be desirable to extend the system of pre-financing and to give commercial banks greater freedom in providing loans for this purpose. There would also be need for establishing a system of medium-term credits, so as to encourage the exportation of durable goods and construction abroad, in competition with foreign firms that enjoy such facilities. There are possibilities for these exports in Africa and in the Middle East, in particular.

Medium-term export financing would need to be combined with the extension of the existing export insurance scheme to cover medium-term transactions.

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* The author is Professor of Political Economy at the Johns Hopkins University and Consultant at the World Bank. This note expresses his views on questions of export promotion in Morocco discussed in "Note sur la promotion des exportations au Maroc," prepared at the Ministère du Commerce, de L'Industrie, de la Marine Marchande et des Pêches Maritimes, Direction de L'Industrie.

The export insurance scheme should further be revised to provide reimbursement up to 80 percent of export value, as it is done in most other countries, in the place of the present limitation of the reimbursed amount to thirty times the premium paid.

Temporary Admissions and Drawbacks

The system of temporary admissions of imported inputs used in export production is now applied to a predetermined list of export products. It would be desirable to generalize the application of temporary admissions to all exports, replacing the system of drawbacks that is more costly to the firm and involves considerable delays. The system of "exportation prealable," permitting the duty-free importation of inputs in replacement of the inputs that have actually been used in export production, reduces but does not eliminate these difficulties as the duties had to be paid before production for export was undertaken.

It would also be desirable to extend the application of temporary admissions to imported inputs used in the domestic manufacture of products that undergo further transformation before exporting. This system, used to good effect in Korea and Taiwan, extends the privilege of duty-free entry to indirect exporters (for example, the domestic producers of textile fabrics used in producing clothing for export can import thread and yarn duty free).

Tax Measures

Exporters are exempted from indirect taxes on their inputs and are not liable for indirect taxes on export sales. These privileges are also enjoyed by the domestic producers of inputs used in export production, inasmuch as they can deduct the taxes paid on their own inputs from the total tax bill. The operation of the system is satisfactory, although administrative simplifications could usefully be made.

Exporters are further exempted from corporate income taxes on the portion of profits presumed to be derived from exporting, calculated on the assumption of equal profitability in domestic and in export sales. This assumption may not be fulfilled in practice, and it is conceivable that the exemption will encourage exporting at a loss as long as this loss is more than offset by tax savings on profits derived from production for domestic markets.

Such a possibility is likely to represent an extreme case, however. At the same time, income tax exemptions were used to good effect at earlier stages of export promotion in Korea and Taiwan; they are presently applied in the United States, in the form of the so-called DISC scheme. Their continued use is recommended for Morocco until they can be replaced by a more appropriate system of export incentives, described in Part II, and the system of import protection is reformed.

It is further recommended to lower the present minimum limit of 10 million dirhams for the eligibility of trading firms for exemptions from income taxes. Trading firms have played an important role in the development of exports in Korea and Taiwan, where they have enjoyed similar privileges. Their marketing function is of especial importance in Morocco for promoting exports by small and medium size enterprises that could not undertake marketing themselves.

At present, only a single trading firm has reached the minimum of 10 million dirhams. It may be considered appropriate reducing this limit to 2 million dirhams, so as to encourage the development of specialized trading firms that may export a single product or a few products having similar characteristics.

Foreign Exchange Allocation

Trading firms should also receive a foreign exchange allocation in the amount of 3 percent of export value that is granted to producers who do their own export marketing. And, in all cases, foreign exchange allocations should be provided automatically, rather than being subject to administrative requirements. At the time when exchange controls were applied, this was the case in Korea and in Taiwan where such allocations exceeded the 3 percent allocation provided in Morocco.

Information and Administrative Procedures

The export promotion measures presently applied in Morocco are not sufficiently widely known, which fact tends to discourage exports by small and medium size producers in particular. In order to remedy this deficiency, it would be desirable to publish a compendium of regulations pertaining to exports, with a practical explanation of the administrative procedures to be followed.

The Centre Marocain pour la Promotion des Exportations may play an important informational role through the publication of brochures and the use of the media to provide information on export promoting measures. The Centre may also collect information on the availability of foreign markets for products of interest to Moroccan firms.

There would further be need for simplifying the administrative procedures presently applied in regard to exports. All producers should be able to obtain export permits locally, thereby eliminating the need for exporters who utilize temporary admission procedures to travel to Rabat to obtain the permits. The procedures pertaining to import permits should also be simplified and the time needed for customs clearance reduced.

II. The Need for, and the Modalities of, Additional Export Incentives

Incentives to Import Substitution and to Exports

The proposed improvements in the export promotion measures actually applied would alleviate the difficulties exporters face but would not materially reduce the extent of discrimination against exports that is due to incentives for sales in domestic markets which raise the profitability of import substitution much above that obtainable in exporting. Manufactured goods are protected by tariffs and import controls; furthermore, a 15 percent special tax has been levied on practically all imports.

One may regard the special tax on imports as a partial devaluation, which has not been extended to exports. All exports, then, are subject to a discrimination of 15 percent vis-a-vis production for domestic markets, with manufactured exports suffering additional discrimination as a result of industrial protection that increases the profitability of domestic sales.

Providing Additional Export Incentives

Substantially reducing the extent of discrimination against exports (increasing export incentives) is a pre-condition for the rapid expansion of exports in Morocco. A first step in this direction may be taken by extending to exports the partial devaluation that took the form of the imposition of a 15 percent special tax on imports. As far as merchandise trade is concerned, this could be done in two equivalent ways: transforming the 15 percent import tax into a 15 percent devaluation or providing a 15 percent export subsidy on value added in exports. The latter could be accomplished by granting a 15 percent subsidy on the fob value of exports and simultaneously removing the present exemption of imported inputs into export production from the special import tax.

In either case, the price of imports, and incentives to import substitution, would remain unchanged since it is immaterial whether import prices are raised by a 15 percent import tax or by a 15 percent devaluation. In turn, the domestic currency equivalent of net foreign exchange earnings from exports would increase by 15 percent under both alternatives. Export prices would rise by 15 percent as a result of the devaluation in the first case and the export subsidy in the second while the cost of imported inputs would go up by 15 percent as a result of the devaluation in the first case and the elimination of exemptions of imported inputs from the special import tax in the second.

The Economic Effects of the Two Alternatives

The economic effects of the two alternatives on merchandise trade would also be the same. The balance of payments would improve as exports increased in response to the incentives provided. At the same time, to the extent that the expansion of exports would be accomplished from existing capacity, production for domestic markets would not be affected, and there would be a corresponding increase in domestic production and employment. Production and employment would rise further as a result of multiplier effects operating through demand for domestic inputs used in export production and the spending of domestic incomes generated by the expansion of imports.

With import prices remaining unchanged under both alternatives, inflationary effects would be relatively small. In manufacturing industries, the products exported are sold in domestic markets under protection and hence their prices to domestic users would not change. Prices of domestic sales would increase only for those primary products, relatively few in number, which are both sold domestically and exported, and where the domestic price adjusts to the export price.

Fiscal Repercussions

Assuming that the increased domestic currency equivalent of sales of foreign exchange to importers under the devaluation can be transferred to the government budget, the fiscal effects of the two alternatives would again be identical. They can be represented by the fiscal cost of export subsidies that has been calculated by the Ministère du Commerce, de L'Industrie, de la Marine Marchande et des Pêches Maritimes, Direction de L'Industrie for the 1979 value of exports.

The calculations assume that phosphate exports would be subjected to a 15 percent export tax under the first alternative and would not receive export subsidies under the second. This appears appropriate as the supply of phosphate exports is not sensitive to the price, at least in the short run. By contrast, agricultural as well as manufactured exports respond to the increased incentives higher prices provide.

Adjusting for phosphates, Morocco's merchandise exports amounted to 5.4 billion dirhams in 1979, with imports under temporary admission estimated at 545 million. Taking further account of imports under drawback and under "exportation préalable," which are not included in the Ministry's calculations, imported inputs used in export production, and hence exempted from the special import tax, may have reached 1 billion dirhams. Calculating with a net export figure of 4.4 billion dirhams, the 15 percent export subsidy would have a fiscal cost of 660 million dirhams. This could be financed by an increase of 3 percentage points in indirect tax rates (the taxe sur les produits et les services), raising it from 15 percent to 18 percent. Alternatively, one may raise taxes on luxury consumption, on incomes and/or on land, when in the latter two cases the inflationary effects of increased taxation could be avoided.

<u>The Implications of Export Expansion</u>

The fiscal effects of the proposed measures have been calculated for the value of merchandise exports in 1979, with no account taken of the implications of export expansion. Yet, increases in exports will have fiscal effects both directly and indirectly through the demand for domestic inputs used in export production and through spending on domestic goods of incomes generated by the expansion of exports.

Taxes on these increments of incomes and consumption will outweigh the fiscal cost of subsidies on the increment in exports, thereby providing an offset to the fiscal cost of subsidies on 1979 export value. The extent of this offset will depend on the income streams generated through export expansion as well as on the taxation of increments in incomes and consumption.

Assume for example, that exports increase by one-half in response to the 15 percent explicit or implicit (in the case of devaluation) export subsidy, raising the fiscal cost of export subsidies to 1.0 billion dirhams. Assume further that exports have a multiplier of 2, i.e. export expansion has indirect effects on domestic incomes equal to the increment in (net) exports, and that income and consumption taxes, taken together, equal 25 percent of the incomes generated (approximately the average ratio of tax revenue to the gross national product). With increases in incomes of 4.4 billion dirhams, then, the tax take will increase by 1.1 billion dirhams, more than offsetting the fiscal cost of the export subsidy.

In the example, a temporary increase in government revenue would be required to finance the export subsidy that would eventually become selffinancing. The time period may extend over three years, with financing needs declining over the period. Financing may take the form of some combination of temporary tax increases and borrowing.

Judging from the experience of other countries, the assumed increase in exports by one-half over a period of three years may be considered realistic. Thus, rapid increases in exports were experienced in the first half of the sixties in Korea and Taiwan and in the mid-seventies in Chile and Uruguay, all of which combined a devaluation of the exchange rate with reductions in import protection. In the second half of the sixties, similar results were obtained in Argentina, Brazil, and Colombia that introduced explicit export subsidies.

The Choice between Alternative Methods of Export Incentives

The choice between the described alternatives (extending the devaluation to exports or providing subsidies to value added in exports) will depend on external as well as on internal considerations. External considerations include the possibility of retaliation by the importing countries in response to explicit export subsidy that would not occur in the case of the extension of the devaluation to exports. Retaliation may take the form of the application of countervailing duties by the importing countries.

The possibility of retaliation on the part of the European Common Market, Morocco's principal trading partner, is attenuated by reason of the fact that the trade agreement with the EEC does not preclude the granting of export subsidies by Morocco and under GATT rules material injury to domestic industry needs to be proven. Under recent legislation, the proof of material injury is a pre-condition of the application of countervailing duties in the United States also, but Morocco would have to sign the Code on Export Subsidies, negotiated in the framework of the Tokyo Round, in order to benefit from this provision.

Given the value of Moroccan exports, an increase by one-half is not likely to cause material injury in foreign countries, so that the application of countervailing duties is not an immediate threat. However, experience shows that, in the case of rapid export expansion, subsidies to exports may eventually be subject to retaliation. In a few instances, such as Brazil, agreement has been reached on the elimination of export subsidies. Finally, the International Monetary Fund may object to the continued use of subsidies and urge the unification of exchange rates.

These external considerations, then, tend to favor extending the devaluation to exports rather than providing an explicit export subsidy. Internal considerations point in the same direction. Thus, fiscal constraints may induce selectivity in the provision of export subsidies while the extension of the devaluation to exports would apply across-the-board. At the same time, selectivity is undesirable as the government cannot foresee all export possibilities and discriminating among exports would not ensure earning foreign exchange at the lowest possible cost to the national economy.

Rather, phosphates excepting, all exports should receive the same incentives and it should be left to firms to choose among alternative export possibilities. In this connection, reference may be made to the case of Korea where exports of human hair gave place to the exportation of synthetic hair and of wigs made of synthetic hair in response to the incentives that were provided to all potential exports. While wigs were for a time Korea's second largest export earner, it may not be assumed that the government would have foreseen these export possibilities. In Morocco's case, domestic and, in particular, foreign, enterprises may discover opportunities for export that are not apparent today.

The extension of the devaluation to exports has the further advantage that it would apply to nonmerchandise transactions as well. The inclusion of tourism is warranted, since it would improve Morocco's competitive position vis-à-vis other countries and demand is highly responsive to price differences among alternative suppliers of tourist services. A more favorable exchange rate would also encourage the repatriation of workers' remittances and limit the scope of black market transactions. At the same time, as Morocco's foreign debt is largely publicly held, a devaluation would not add to the debt service burden.

Conclusions

In this paper, recommendations have been made for improving the operation of existing measures of export promotion and for introducing additional export incentives. These incentives may take the form of extending the devaluation implicit in the introduction of the 15 percent special import tax to exports or providing explicit export subsidies. While the two alternatives are equivalent as far as merchandise exports are concerned, external as well as internal considerations favor the application of the former.

The proposed measures would represent a first step towards a more rational system of incentives that would provide similar incentives to exports and to import substitution. It should be followed by the elimination of quantitative import restrictions, the lowering of import tariffs, and reductions in tariff disparities. A proposal for the reform of the system of protection should be available before the end of 1981 and be implemented over a three to five year period.

Until the system of import protection is reformed, it is recommended that tax exemptions be maintained on incomes derived from exports. These exemptions offset only a small part of import protection and their elimination would reduce the effectiveness of the proposed export incentives.

Apart from increasing exports from existing capacity, continued rapid expansion would require new investment by domestic nationals as well as foreign firms in export activities. This purpose could be served by modifying the existing investment code. Such modifications have been proposed in a separate note, entitled "The Industrial Investment Code in Morocco."

THE INDUSTRIAL INVESTMENT CODE IN MOROCCO

Bela Balassa*

The Industrial Investment Code is one of several codes in existence in Morocco, including the handicraft, maritime, tourist, mining, export and real estate codes. The incentives provided under the Industrial Investment Code are by-and-large comparable to those in other domestic and in foreign codes. Correspondingly, substantial reductions in these incentives would tend to disfavor manufacturing industries in Morocco. In turn, increases in incentives would run into budgetary limitations by reason of their fiscal cost.

These considerations limit the possibilities for modifying the total incentives provided under the Industrial Investment Code (for short, the Code), although they do not exclude changes in its individual provisions. The present note will take up the following issues: (1) conditions of application of the Code; (2) treatment of foreign investment: (3) effects on employment, capacity utilization, and labor training; (4) effects on the domestic production of investment goods; (5) regional implications; and (6) selectivity.

I. Conditions of Application of the Code

The present lower limit of 100 thousand dirhams for the application of the Code seems appropriate and no changes are proposed. Nor is it recommended to modify the length of the period of application of the Code. While it has been suggested that the period is overly long, such will not be the case if comparisons are made with other codes applied in Morocco or abroad.

At the same time, it would be desirable to extend the application of the Code to renewal investments that tend to embody new technology Also, the Code should be applied to service activities benefiting industry, such as firms undertaking industrial promotion and studies.

2. Treatment of Foreign Investment

The scope of application of the Code is presently limited to firms where the share of foreign investment does not exceed 50 percent. And while firms fully owned by foreigners may benefit from the provisions of the Export code, the latter does not allow for the duty free entry of machinery and equipment. Yet, such duty exemptions are used in practicaly all developing countries and their application in Morocco would be necessary to put exporters on a free trade footing.

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* The author is Professor Political Economy at the Johns Hopkins University and Consultant at the World Bank. This note expresses his personal views on questions relating to the Industrial Investment Code in Morocco discussed in "Note Relative a La Revision du Code des Investissements Industriels" prepared at the Ministere du Commerce, de L'Industrie, de la Marine Marchande et des Peches Maritimes, Direction de L'Industrie.

It has been suggested that the application of the Code be extended to foreign direct investment, irrespective of the foreign ownership share in the firm. This proposition has merit, inasmuch as foreign capital brings with it technical, managerial, and marketing knowledge. It will be observed, however, that under high protection foreign investment entails a financial transfer from domestic consumers and the government budget to the foreign firm. Now, it is conceivable that the country will suffer a foreign exchange loss as a result, with the sum of imported inputs and repatriated earnings exceeding the foreign exchange saving due to the replacement of imports by domestic production.

In order to avoid such an eventuality, the application of the Code to firms with foreign ownership in excess of 50 percent may be made conditional on the exportation of a certain share of output. Alternatively, rather than receiving full privileges under the Code, such firms may enjoy these privileges in proportion to the share of exports in their output.

The latter of the two alternatives appears preferable as it entails the application of an automatic rule while the former would involve administrative discretion in setting export limits for individual firms. Automaticity should also be introduced in regard to foreign exchange transfers, including the transfer of the value of foreign capital at the time of liquidation.

3. Effects on Employment, Capacity Utilization, and Labor Training

It has been claimed that several of the provisions of the Code, including accelerated depreciation, the 2 percent reduction in the rate of interest paid on B.N.D.E. loans, and exemptions from duties on imported machinery and equipment, tend to discourage the use of labor and encourage that of capital. To remedy this situation, it has been suggested that some or all of these measures be replaced by a subsidy based on increases in employment. Such a subsidy has also been said to encourage the greater use of existing capacity.

While increases in employment are subsidized in Tunisia, such a measure has considerable practical difficulties of application and it invites evasion. Considering further the administrative apparatus necessary to ascertain variations in employment levels over time, and the opportunities provided for corruption, the introduction of such a measure is not recommended.

At any rate, the 2 percent interest rate reduction does not bias the incentive system against labor as it applies to credit used to constitute the firm's fixed as well as the variable capital. Correspondingly, changes in this provision should be made only in the context of a review of the entire interest rate structure, including interest rate reductions provided under the other Codes which generally exceed that for industry.

Finally, the elimination of accelerated depreciation provisions may be contemplated if some form of replacement cost accounting is adopted since otherwise the profits of firms, and hence their tax burden, would be overstated. However, as noted below, provisions for duty exemptions on imported machinery and equipment should be reviewed.

While the Code does not concern itself with labor training, under a 1974 law, firms pay 1 percent of their total wage bill to the Office de Formation

Professionnelle and receive reimbursement for part of the cost of manpower training. It would be desirable to increase the automaticity of the application of these provisions and to ensure that the full proceeds of the tax are utilized for labor training.

4. Effects on the Domestic Production of Investment Goods

At the actual stage of Morocco's economic development, possibilities exist for the domestic production of various investment goods. These possibilities are not sufficiently exploited at present, in large part because of the duty free entry of machinery and equipment under the Code. At the same time, this provision tends to encourage capital intensive investments.

To remedy these shortcomings of the Code, it would be desirable to eliminate the duty free entry of machinery and equipment, replacing this by the payment of duties over the period of depreciation. For reasons noted above, exceptions should be made, however, for export activities when the extent of these exemptions may be calculated on the basis of the share of exports in the firm's production in any particular year.

5. Regionalization

Tax incentives provided under the Code vary according to location. In the case of investments in Casablanca, accelerated depreciation may be applied to new investments as well as to extensions, but reductions in the corporate income tax are not granted. By contrast, in Morocco's under-developed regions, full income tax exemptions are provided for ten years, and accelerated depreciation may be applied to extension investment (given the exemption from corporate income tax for a period of ten years, accelerated depreciation for new investments would not serve a useful purpose). Finally, in the in-between category, one-half of the benefits enjoyed in the underdeveloped regions are granted.

While the preferential treatment of regions outside of Casablanca has not given results according to expectations, additional fiscal measures in favor of these regions are not recommended, by reason of their budgetary cost. Rather, it is suggested that the government continues with the establishment of industrial zones while limiting their number, so as to avoid the undue dispersion of industrial activities. At the same time, the provision of physical infra-structure should be complemented by labor training in the form of the establishment of technical schools and courses.

6. Selectivity

The benefits of the Code are available automatically to all firms that fulfil the required conditions. Automaticity allows for speedy action and provides certainty to the firm as to the availability of the benefits without the need for bureaucratic procedures. It further represents the application of the "market principle" inasmuch as firms are free to choose among industrial activities.

These considerations call for maintaining the general application of the Code. At the same time, one should examine the possibility of providing additional incentives on a temporary basis to the production of capital goods that may be considered an infant industry. This would, however, require a coordinated approach for the development of this industry where the experience of the World Bank may be utilized.

Concluding Remarks

In this note, recommendations have been made in regard to the proposed reform of the Industrial Investment Code. The preliminary nature of these recommendations should be emphasized; they will be revised once more definite proposals for the revision of the Code are prepared by the Moroccan authorities.

BBalassa:nc

January 30, 1981

Mr. John W. Mellor
International Food Policy Research Institute
1776 Massachusetts Avenue N.W.
Washington, D.C. 20036

Dear John,

I enclose the paper on "Trade Among Developing Countries 1973-1977." I will send you the proposal for research on the subject in the near future.

I was unable to find the name of the person who wrote on the common agricultural policy. However, I provide below the address of Mr. Mohammad Zubair Khan who is a former student of mine and is now a consultant for the World Bank in Sri Lanka. Khan is an expert on effective protection, domestic resource cost and he is also a trained econometrician.

I very much enjoyed our lunch, next time it will be my turn to invite you.

Yours sincerely,

Enclosure

Bela Balassa

Mr. Mohammad Zubair Khan
Advisor
Ministry of Finance and Planning
53 Ward Place
Colombo 7
Sri Lanka

January 30, 1981

Professor J. H. Dunning
Head of Department
Department of Economics
Faculty of Letters and Social Sciences
University of Reading
Whiteknights
Reading RG6 2AA
England

Dear John,

I am afraid that your letter of October 30th has gone astray and the copy of the letter reached me only now. I will inquire at the Bank about the possibility of a visit here and I will let you know at the earliest.

Yours sincerely,

Bela Balassa

January 30, 1981

Professor Tzong-shian Yu
The Institute of Economics
Academia Sinica
Nankang Taipei Taiwan
Republic of China

Dear Professor Yu:

I am in receipt of your letter of January 16th which crossed mine dated January 23rd. The December 18-20 dates are fine with me.

With best regards,

Yours sincerely,

Bela Balassa

January 30, 1981

Dr. Maxwell J. Fry
Department of Economics
University of Hawaii
2424 Maile Way (Room 542)
Honolulu, Hawaii 96822

Dear Max,

I am sorry to have missed you again. I was happy to hear, however, that you may be moving to California. This will give us more occasions to meet.

While I would very much like you to join me in a mission to Turkey, this may not be possible because the Region has already contacted Governor Silva Lopes. I will let you know, however, if something develops.

Thank you for inviting me to present a paper at the next AAEA meeting. Needless to say, my main interest would be in writing a paper on exchange rate disequilibrium but I could also do one on domestic distorting measures.

With best regards,

Sincerely yours,

Bela Balassa

January 30, 1981

Mr. Yildirim Akturk
Under-Secretary
State Planning Organization
(Devlet Planlama Teskilati)
Basbakamlik
Bakanliklar
Ankara, Turkey

Dear Mr. Akturk:

I was sorry to have missed you on my visit to Ankara. In your absence, I had discussions with several of your collaborators, as well as with the Minister of Industry and the Director General of the Treasury, on recent economic developments in Turkey, my May mission for the World Bank, the January 1981 reform of the import regime, and the long term study on protection and incentives. I also had discussions on the long term study with Professors Hic, Alkin and Ertuzum.

Professor Hic has indicated to me that he is prepared to assume the task of coordination of the long term study. Given his fine reputation and experience with survey work, this would be an excellent solution, provided that he would be assisted by a full-time project manager with responsibility for the day-to-day direction and supervision of the firm survey and of the subsequent calculations.

Professor Hic suggests to cover, in the firm sample survey, the entire manufacturing sector as originally proposed by the Bank. I consider this to be a desirable alternative and have accordingly revised the budget, which is enclosed together with a draft proposal to the Research Committee of the Bank for financing. The draft proposal also indicates the assistance the Bank could provide to you in the implementation of the project.

If you agree, these documents will be submitted to the Research Committee, to be considered at its mid March meeting. For the Research Committee to pass judgment on the proposal, we would need a formal request from you for financing, with an endorsement of the research proposal and the budget. It would be necessary to indicate, at the same time, the financial value of the contribution SPO will be making to the long term project.

Looking forward to hearing from you, I remain,

Sincerely yours,

Enclosure

Bela Balassa

cc and cleared with Messrs. Dubey, EMNVP and Berk, EM2

cc: Messrs. Davar, Zaman, EM2

le 28 janvier 1981

Monsieur Patrick Guillaumont
Universite de Clermont
Faculte des Sciences Economiques
BP54
41, Boulevard Gergovia
63002 Clermont-Ferrand
France

Cher ami,

Je suis désolé de vous avoir manqué lors de mon dernier passage à Paris. En effet, je me réjouissais de vous revoir et à cette fin je m'avais tenu libre pour déjeuner avec vous le mercredi 7 janvier.

Malheureusement, la secrétaire de M. Berthelot ne m'a pas fait part de votre premier message, et c'est seulement le lendemain que j'ai eu connaissance de votre seconde communication. A ce moment-là, n'étant plus libre pour le déjeuner, j'avais prié la secrétaire de M. Berthelot de vous proposer que nous nous rencontrions en début d'après-midi; mais mon message est resté sans suite.

Veuillez croire, cher ami, à l'assurance de mes sentiments les meilleurs.

Bela Balassa

le 28 janvier 1981

Monsieur Henri Bourguinat
Universite de Bordeaux 1
Faculte des Sciences Economiques
Avenue Leon Duguit
33604 Pessac
France

Cher ami,

Je vous remercie de votre lettre du 19 décembre que j'ai trouvée à mon retour d'un long voyage dans la région méditerranéenne. C'est avec plaisir que j'accepte votre invitation à participer au colloque sur le thème "Internationalisation et autonomie de décision" qui se tiendra les 28 et 29 juin.

Je regrette de vous signaler qu'à l'heure actuelle il semble incertain que j'effectue une mission pour la Banque Mondiale en Europe au moment où aura lieu le colloque. A la fin des mois de mars et de mai, je compte me rendre respectivement en Tunisie et en Turquie; par contre je n'ai aucun projet de voyage pour le mois de juin.

Je ne connais malheureusement aucune étude récente traitant du problème des effets de détournement sur les flux commerciaux par le change. En effet, c'est un sujet que je n'ai plus suivi depuis l'étude que j'ai préparée sur les effets des taux de change fluctuants sur les échanges commerciaux, dont une copie est jointe à cette lettre.

Envvous adressant à mon tour mes meilleurs voeux pour l'annèe nouvelle, je vous prie de croire, cher ami, à mes meilleurs souvenirs.

P.J.

Bela Balassa

~~Enclosed: The Process of Industrial Development and Alternative Development Strategies W.P. No. 438~~

Enclosed: Flexible Exchange Rates and the Balance of Payments (Reprint)

Mr. Ernest Stern, VPO

January 26, 1981

Bela Balassa, DRC

Korea

1. Thank you for your comments on my paper on Korea. At the same time, I would be inclined to modify your statement, in which you expressed surprise as to "how such a star performer still has such a messy policy framework." In fact, Korea has ceased to be a star performer, at least for the time being, because of the deterioration of its policy performance in regard to the exchange rate, macro-economic policy, and investment allocation.

2. You are correct in saying that "a maxi-devaluation will have to be followed by mini-adjustment ... unless they get prices and wages under control." This explains my recommendation for a "combination of policies..., with a wage restraint accompanying a one step devaluation cum tariff reductions and disinflationary monetary and fiscal policies." If these policies do not succeed in reducing the rate of inflation to an extent necessary to avoid further exchange rate changes, changes in the rates will indeed be necessary in order to keep the real exchange rate constant. (The maxi-devaluation would be designed to lead to a depreciation of the exchange rate in real terms.) But, in the past, Korea did maintain its exchange rate unchanged for long periods (1965-68, 1972-1974, 1975-78).

3. Reducing taxes on fuels is recommended in conjunction with a devaluation, so as to avoid an inflationary push from devaluation induced increases in fuel prices. Finally, foreign investment in banking, insurance, and transportation would help the Korean export effort.

cc: Mr. Jaycox

BBalassa:nc

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Guy P. Pfeffermann, LCNVP

DATE: January 26, 1981

FROM: Bela Balassa, DRC

SUBJECT: The Measurement and the Effects of Inflation

1. This is a belated reaction to your memos "How to Measure International Inflation" (October 8, 1980) and "Cost of High Inflation" (October 27, 1980). Both of these memos raise important questions to which there is no easy answer.

2. The choice of the international inflation index will have to depend on the purpose of the investigation. It is customary to use wholesale prices and unit labor cost indices to examine changes in export competitiveness. This will not work, however, with primary exports and some years ago an article in the IMF Staff Papers attempted to devise a method for this case. As to import prices, the U.S. wholesale price index has been re-weighted to correspond to the composition of the domestic price index in Mexico also. It should be recognized, however, that U.S. wholesale prices may not move parallel with international prices, in part because of price differentiation between domestic and foreign markets and in part because of exchange rate changes that affect prices with a lag.

3. I come now to the most difficult question, the cost of high inflation. I had a discussion on this with Hans Schmitt the other day before his departure for Israel on a Fund mission and we agreed that our knowledge of this question is woefully limited. There is evidence in the work of Bresciani-Turroni, Cagan, and others that hyper-inflation has a considerable cost due to disruptions in economic life. I would assume that this cost increases exponentially with the rate of inflation. It will also be affected, however, by the extent of indexing. Following Friedman, Schmitt argued that the cost of inflation may be minimized by indexing. This leaves out of account the uncertainty due to the lack of indexing of profits, with adverse effects on production and investment. At the same time, in the presence of widespread indexing, it is more difficult to reduce the rate of inflation.

4. In my "The Newly Industrializing Developing Countries After the Oil Crisis" I argued that high inflation rates in Argentina and Israel have given rise to considerable disruption, leading to a decline in the rate of economic growth. This conclusion is admittedly impressionistic and, to reach more definite results, one would have to examine the experience of the two countries in some detail. This would be of considerable interest, I believe, given differences in their institutions which are bound to affect the outcome.

cc: Messrs. Ardito-Barletta, LCNVP; Landau, LCNVP; Selowsky, DED;
LAC Senior Economists

BBalassa:nc

CABLE

JANUARY 26 1981
61991

MR. ABEL M. MATEUS, SENIOR ADVISER, RESEARCH DEPARTMENT

BANCO DE PORTUGAL, LISBON, PORTUGAL

PLEASE INFORM OF THE MAILING DATE OF REVISED TABLES, REGARDS,

BALASSA

Bela Balassa

Bela Balassa

BBalassa:nc

DRC - Director's Office

January 26, 1981

Mr. Jacob M. Myerson
Deputy Secretary General
Organization for Economic Cooperation
and Development
2, rue André pascal
Paris 16^e
France

Dear Mr. Myerson:

I enclose a copy of my back-to-office memo that was prepared following my return from Ankara. On the whole, I am optimistic about the prospects for the Turkish economy provided that they have a continuing net inflow of foreign capital over the next several years.

It now appears that I will lead a Bank mission on industry and trade strategies to Turkey in mid May. I would very much like to see you and your collaborators before the mission and I plan to stop in Paris on my way to Turkey.

I understand that a new Economic Survey on Turkey is in preparation. I would appreciate receiving an advance copy.

With best regards,

Sincerely yours,

Bela Balassa

Enclosure

cc: Messrs. Stephen Marris
Kjell Andersen

Mr. Guy P. Pfeffermann, LCNVP

January 26, 1981

Bela Balassa, DRC

The Measurement and the Effects of Inflation

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cc: Messrs. Ardito-Barletta, LCNVP; Landau, LCNVP; Selowsky, DED;
LAC Senior Economists

BBalassa:nc

Mr. Hollis B. Chenery, VPD

January 26, 1981

Bela Balassa, DRC

Professor Merih Celasun

1. As indicated in my back-to-office memo, Professor Celasun has made good progress in his research for the Bank and he expects to have the final report by April. In our discussions, Professor Celasun has indicated to me his interest in coming to the Bank for the period September 1981 to September 1982 if an appropriate research assignment could be found. Needless-to say, I would strongly support this request.

cc: Mrs. H. Hughes, EPD

BBalassa:nc

January 26, 1981

Mrs. Irma Adelman
Department of Agricultural
and Resources Economics
University of California at Berkeley
Berkeley, California 94720

Dear Irma,

Thank you for your letter of December 30th which reached me on my return from a long trip abroad. I understand from Carol that you were in Washington and I am sorry to have missed you.

I do not expect to make any changes in the paper I presented at the Conference on "The Process of Industrial Development and Alternative Development Strategies." However, the paper has been quite skillfully edited at the International Finance Section of Princeton University. You might wish to use the edited version. I will be able to send it to you in a few weeks.

As agreed, I am also planning to write a review paper on the Hungarian reform. On my visit to Budapest two weeks ago, I had discussions on this with a number of people and also received some additional material. I am planning to write the paper during the summer and discuss it with a number of Hungarians on my next trip to Budapest in August. I wonder, therefore, if you could give me time until then.

I would indeed be very interested in teaching a course on development in China. However, August is sacroscant as it is the time of our annual family vacation.

With best regards,

Sincerely yours,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
January 23, 1981

Committee for Human Rights in Rumania
P.O. Box "J", Gracie Station
New York, New York 10028

Dear Sir:

I have been contributing to your organization to a Stanford Connecticut address. Since I want to avoid any misunderstanding, I enclose my check for $15 with the request that you forward it to those responsible.

Yours sincerely,

Enclosure

Bela Balassa

Mr. Guy P. Pfeffermann, LCNVP

January 23, 1981

Bela Balassa, DRC

Gradualism

1. Indeed, the issue of gradualism has not been seriously explored. Bhagwati and Krueger make a distinction between the short-term, intermediate-term, and long-term effects of reforms, but they limit their attention to trade policy and the exchange rate and have little to say on the time pattern of the reform measures.

2. At the same time, as you note, the answer is far from simple. While changing inflationary expectations would necessitate shock treatment, tariff reductions would need to be gradual in order to minimize dislocations. The inflationary policies followed in 1974-75 in Chile, will qualify as shock treatment, for example, while tariffs were reduced over a five-year period.

3. There are several instances of policy reform that could be studied, with a view to arriving at some conclusions about the relative merits of gradualism and shock treatment. They include Korea, 1964-65; Brazil, 1966-67; Chile, 1974-76; Uruguay, 1974-76; Portugal, 1978-79; and Turkey, 1980-81. Perhaps a few people who are familiar with these countries could get together talk about the relevant issues. Outside of Latin America, Hans Schmitt of the IMF has been involved in Portugal; Gilbert Brown wrote on Korean policies in the nineteen-sixties; and I know the Turkish situation quite well.

cc: Mr. Ardito-Barletta, LCNVP

BBalassa:nc

January 23, 1981.

Mr. Hubertus Müller-Groeling
Institut für Weltwirtschaft an der
Universität Kiel
2300 Kiel 1, Postfach 4309
23 Kiel
Germany

Dear Mr. Müller-Groeling:

This is to inform you that my paper for the Giersch volume will be completed during the month of February. The title of the paper is "Industrial Prospects and Policies in the Developed Countries." The paper examines the implications of trade with the developing countries for the manufacturing industries of the developing countries.

Yours sincerely,

Bela Balassa

Mrs. Betty Eltezam, DRC

January 23, 1981

Bela Balassa, DRC

Export Incentive Study in Greece

This is to request that payment be made to the Greek Center for Planning and Economic Research in the amount of $10,000. This payment is due because of the completion of the draft report by the Center.

BBalassa:nc

Mr. Shankar Acharya, VPD January 23, 1981

Bela Balassa, DRC

Research Project 671-35

I have just learned that, due to a clerical error, the amount of financial commitment on the contract with the Greek Center for Planning and Economic Research has been made in an amount lower than the fee shown in the contract. Thus, while the contract includes a total amount of $35,000, only $25,000 has been committed. As the research is being completed, it will be necessary to commit $10,000 for payment of the final installment in the contract.

I would appreciate your attention to this matter. Let me add that the final commitment is within the budget of the project.

Enclosures
BBalassa:nc

January 23, 1981.

Richard D. Irwin, Inc.
1818 Ridge Road
Homewood, Illinois 60430

Dear Sir:

The enclosed invoice was incorrectly addressed to the World Bank; it should be addressed to me personally. At the same time, I am entitled to a discount as a member of the American Economic Association and an author of publications by your firm.

I hereby return the remittance copy of your bill.

Yours truly,

Enclosure

Bela Balassa

January 23, 1981.

Mr. Brendan Horton
c/o Mr. Moumile
Director
Ministere du commerce et de l'industrie
Rabat
Morocco

Dear Brendan:

I have received your latest memo concerning the final timetable of the project. I have spoken to Michael Carter on this and it seems there will be no difficulty in extending the contract. Thought is further given to the financing of your stay in Rabat beyond December 1981.

I enclose a copy of my comments "The Industrial Investment Code in Morocco." May I ask you to send me a copy of the French translation once you complete it. I would also like to receive a copy of the French translation of my earlier note on export incentives.

With best regards,

Yours sincerely,

Enclosure

Bela Balassa

January 23, 1981

Mr. Tzong-shian Yu
The Institute of Economics
Academia Sinica
Nankang Taipei Taiwan
Republic of China

Dear Mr. Yu:

Please excuse my delayed response to your letter of October 27th but it is only now that I can give you a definite answer concerning my time schedule. I could participate at the Conference on Economic Development in Taiwan you are organizing if it were scheduled for August 2 to 5. I can arrive in Taipei on August 2, Sunday in the morning and would have to leave again on August 5, Wednesday in the early afternoon.

My participation at the Conference would be in a private capacity as Professor of Political Economy at the Johns Hopkins University; I should not be identified as a consultant to the World Bank. This raises the question of financing. Apart from approximately one week spent at the Conference and on travel, I would need about two weeks to write the paper for the Conference. I would also like to be reimbursed for first class round trip travel between Washington and Taipei.

May I add that my consulting fee at the World Bank, which is what I would have to forego in conjunction with preparation for, and participation at the Conference, is $389 a day. This will rise to approximately $420 as of March 1st.

Yours sincerely,

Bela Balassa

January 23, 1981

Mr. Mehmet Gün Çalika
Meban Securities Brokerage
and Finance Corporation
Odakule Is Merkezi Istiklal Caddesi
286 Beyoglü
Istanbul
Turkey

Dear Mr. Çalika:

This is to thank you for the arrangements you made for me in Istanbul. I very much enjoyed the conversation I had with you and others. I expect to be in Istanbul in mid May in connection with my leading the Bank economic mission on development policies and I look forward to seeing you then.

Yours sincerely,

Bela Balassa

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Roberto Gonzales-Cofino, LC2

DATE: January 23, 1981

FROM: Bela Balassa, DRC

SUBJECT: Jamaica

1. As my advisory report on Jamaica was written for government decision-makers, there was no need to provide a discussion of the non-economic problems and difficulties of which they are familiar. Among economic constraints, my recommendations simultaneously addressed easing foreign exchange limitations and improving the system of incentives in the short run by the use of a simple expedient, the parallel exchange market. The elimination of quantitative restrictions will, however, require time for adjustment and prematurely forcing this issue, and proposing oversimplified remedies, can only be harmful.

2. Mr. Moran would do well to read the remainder of the paragraph on p. 2. Nor should one underestimate the sophistication of Jamaican decision makers, who had no difficulty in understanding my verbal exposition of the ideas contained in the advisory report.

cc: Messrs. Landell-Mills, PPR; Meyer, LC2; Moran PPR

BBalassa:nc

Mr. Guy P. Pfeffermann, LCNVP — January 23, 1981.

Bela Balassa, DRC

Micro-Adjustment Research Project

1. As you know, I share your sentiments on the Micro-Adjustment Research Project. The only thing to add is that we should explore the possibility of having Vittorio Corbo coordinate the project. While I was only familiar with Corbo's theoretical writings, I have now learned that he has done an excellent empirical study on the employment effects of trade in Chile.

2. Needless to say, we would have to see Corbo before committing ourselves. Perhaps Luis Landau could call him to arrange a meeting. Luis should talk to de Melo on this in order to avoid that they call him separately.

cc: Messrs. Ardito-Barletta, LCNVP; Landau, LCNVP

BBalassa:nc

January 23, 1981

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

Dear Paul,

I am at a loss to understand the enclosed letter. The two papers I sent you were not yet in shape for submission; I simply wanted to have an expression of interest on your part. I would suggest that you disregard the paper on Korea which I will revise only in March. The paper, "Structural Adjustment Policies" however, would be ready within a few weeks. Comments would be appreciated.

Yours sincerely,

Enclosure

Bela Balassa

Renewal

Gazdaság (Economics)	$20.50
Kogazdasagi Szemle (Economic Review)	27.50
Pénzügyi Szemle (Financial Review)	35.00
New	
Figyelö (Observer)	23.00
	$106.00

Mr. Guy P. Pfeffermann, LCNVP January 23, 1981

Bela Balassa, DRC

Policy Responses to External Shocks

1. From Mr. Thumm's reference to "shift analysis" and to "pure and not so pure effects" it would seem that he did not understand my methodology that has been well received within and without the Bank. As to the lack of conclusions, it was expressly stated in my memo that the conclusions will be written only when the next version is completed. Finally, the data on debt service ratios include the servicing of public and private debt and are derived directly from balance of payments statistics.

2. Let me add that my method was also applied to Peru by Mr. Abusada-Salah who, as you know, has a high position in the present government. My discussion of the Peruvian case relies in part on his contribution to the OECD Development Centre's study I am directing.

cc: Mr. Thumm, LC1

BBalassa:nc

January 22, 1981

Mrs. Janet Innes
Brushwood Graphics
2619 Maryland Avenue
Baltimore, Maryland 21218

Dear Mrs. Innes:

I enclose the corrected page proofs of Chapter 1 to 3. The tables are fine but I would like to reduce "bunching" so as to improve readability. Please separate Table 2.2 from Table 2.1 by inserting two text pages between them. The same thing should be done with Tables 2.3, 2.4, 2.5, and 2.6, ensuring further that Table 2.6 is put on two pairs of facing pages in the book. There should also be two text pages between Tables 2.6 and 2.7.

I would also like more spacing in Chapter 3. In this case it may suffice to insert two text pages between Tables 3.3 and 3.4. I hope that these changes will not cause trouble.

We will send you the front matter and the index in about a week. We will be able to proceed rapidly once we get the proofs. It would also be useful if I could get the entire book in final form when you are ready to send it to Pergamon Press.

Best wishes for the New Year.

Sincerely,

Enclosure

Bela Balassa

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Messrs. Adi J. Davar, EM2; and Vinod Dubey, EMNVP DATE: January 22, 1981

FROM: Bela Balassa, DRC

SUBJECT: Supplement to Back-to-Office Memo, Turkey, January 12-71, 1981

1. I enclose a memorandum containing recommendations on the tasks and composition of the May 1981 mission, prepared in the light of discussions I had in Turkey on January 14-17, 1981. May I suggest that we hold a meeting to discuss the contents of this memorandum, and other matters relating to the mission, at the earliest.

2. I further enclose a note, prepared for submission to the Research Committee on the financing of the long-term study on protection and incentives, together with the revised budget. According to Turkish officials, counterpart funds could not be used to finance the long-term study, since this would require a separate budgetary appropriation. At the same time, I indicated to the SPO representatives the need for their participation in the financing of the project.

cc: Messrs. Zaman, Berk, Roy, Ms. Saito, EM2
Flease, VPO; Landell-Mills, PPR

Enclosure
BBalassa:nc

The May 1981 Mission on Industrialization and Trade Strategy in Turkey

Bela Balassa

1. As stated in the revised economic and sector work program for Turkey, the purpose of the mission is to review the impact of the January 1980 economic reform and other subsequent policy measures relevant to external trade and industrial performance. In the following, recommendations will be made on the tasks and composition of the mission in the light of discussions I held in Turkey on January 14-17, 1981.

2. The Dervis-Robinson macro-economic model has been transferred to Turkey and it has been modified and extended by Professor Celasun in the framework of a Bank-financed research project. In particular, the unrealistically high technological change variable has been substantially adjusted downwards and the data base has been revised, attaining conformity with Turkish official statistics. It is expected that the final report on the model will be available by April 1981.

3. In view of the extensive work carried out in Turkey, modelling tasks by the mission may be limited to having alternative estimates made by changing parameter values in the model as revised by Celasun, who is prepared to undertake the necessary runs. This would necessitate investigating the choice of parameter values before the departure of the mission. Following the return of the mission to Washington, one may further experiment with alternative variants of the model so as to derive medium-term projections.

4. The Dervis-Robinson-Celasun model is not suitable for making short-term projections. At the same time, recent and expected future changes in macroeconomic variables, including the money supply and budgetary receipts and expenditures, would need to be reviewed for the better understanding of the economic effects of the reforms undertaken since January 1980. This may require a staff member on the mission in addition to one concentrating on medium-term modelling.

5. The mission should further include a financial specialist, with responsibility for reviewing the financial system and interest rates in Turkey. Special attention would need to be given to the effects of changes in the level and structure of interest rates following the freeing of the rates in June 1980; the structure and the competitiveness of the banking system; the mobilization of savings; and the medium-and long-term financing of the principal sectors. The mission member would also do preparatory work for the planned FY83 mission on the financial sector.

6. It would further be desirable to analyze the economic effects of recent and prospective tax reforms in Turkey. These reforms modify the system of incentives, in particular incentives to investment and to export, and also have relevance for wage policy. Correspondingly, it is suggested to add a fiscal specialist to the mission.

7. The fiscal specialist would cooperate with the mission member who would have the task of reviewing the system of incentives in Turkey. The incentive measures to be covered include import licensing and tariffs, export subsidies, incentives to invest, and the treatment of foreign capital. The mission

member would also participate in the supervision of the protection and incentives study sponsored by the SPO.

8. The state economic enterprises have not generally responded to market signals and the January 1980 reforms affected their pricing policy but not their mode of operation. The reform measures under preparation (see memo on Recent Economic Developments in Turkey) would represent a first step towards increasing independence of the SEE. A staff member on the mission should be given the responsibility to review the policy issues relating to the SEEs and to prepare the FY82 mission on the performance and problems of SEEs.

9. Agriculture in general, and agricultural exports in particular, are of considerable interest to the Turkish government and to the Bank. At the same time, increases in agricultural production and exports would require improvement in various areas, including the organization of production, extension services, erosion control, storage facilities, the availability and cost of agricultural inputs and machinery, financial requirements, marketing, transportation, and port facilities. It would be useful if a member of the mission reviewed these issues, in order to identify the bottlenecks to future expansion and possible remedies. Agricultural pricing would also need to be dealt with and recommendations made on the government's proposed agricultural pricing study.

10. Given the potential importance of food processing in Turkey, another mission member may concern himself with questions relating to the processing of fruits, vegetables, meat, and wheat, including production costs, marketing, as well as technical issues. Attention would further need to be given to the possibilities for foreign investment in this sector. Ideally, the performance of these tasks would require a consultant who is a specialist in food processing.

11. In view of the fact that reviews of the energy sector and the engineering subsector are planned for FY81, there is no need for a specialists in these areas. However, the government as well as TSKB would welcome including minerals and mineral based chemicals in the purview of the mission. Considerable export possibilities exist in this sector and, under the new regulations, foreign investment is also allowed. At the same time, the sector, just as the agriculture and food processing, may provide opportunities for Bank and IFC investment.

12. Finally, the question of work on tourism would need to be raised. While this may appear to be a long-range prospect, inquiries have been made, among others by Aga Khan, for the construction of hotels in several regions in Turkey. At the same time, the danger is that in the absence of an overall plan on tourism decisions will be made in a piecemeal fashion. If we could obtain the services of an outstanding expert, I would suggest to have him participate in the mission in order to review the prospects for tourism in Turkey and to examine desirable measures that may be taken to expoit this potential.

BBalassa:nc

The Study on the Protection
and Incentive System in Turkey
Bela Balassa

1. The implementation of the study on the Protection and Incentive System in Turkey conforms to the provisions of the Structural Adjustment Loan (Supplement). It will be carried out by a Turkish research team, selected by the State Planning Organization, that retains overall responsibility for the research.

2. The objective of the study is to make recommendations on policies of protection and incentives, with account taken of the problems some Turkish industries may encounter in the process of trade liberalization. In conformity with the stated objective, the study will evaluate the incentives provided to individual industries and their comparative costs on the basis of a firm sample survey. This will involve calculating effective protection and subsidy rates, as well as domestic resource cost ratios and rates of social profitability, by utilizing the methodology established in Bank research.

The Firm Survey

3. The Turkish manufacturing sector is divided into 84 four-digit industries. In five of these industries there are no private firms or such firms account for less than ten percent of value added, leaving a total of 79. Using the same criterion, public firms are of importance in altogether 45 industries. Assuming that adequate coverage would require including two or three private firms from each industry in the sample, approximately 200 firms will need to be surveyed in the private sector. A smaller number of firms per industry may be surveyed in the public sector, where an industry is often dominated by a single firm, with a total of about 60 firms. Calculating with an average of four mandays per firm, the survey will require about 1000 mandays.

4. The questionnaire to be used in the firm survey will be that previously employed in Bank research, with adjustments made for Turkish accounting practices. The questionnaire will be subjected to trial applications, with subsequent modifications, if necessary, before utilizing it for the entire sample of firms. Data on nontraded inputs, such as electricity, gas, water, and construction, will also be collected.

5. For each industry, the firms to be included in the sample survey will be chosen so as to ensure a representative selection of products, the coverage of a substantial proportion of the industry's output and, to the extent possible, comparability between private and public firms in each industry. In preparation of the selection of the firm sample, a list of major firms will be established for each industry, with an indication of their product composition and the value of output, together with the product mix and output value for the entire industry.

6. The firm survey will be concentrated in three regions that account for 85 percent of value added in private, and 65 percent of value added in public, manufacturing in Turkey. The regions, with their value added share in private and public manufacturing in parenthesis are: Istanbul, Bursa, Kocaeli, and Zoguldak (65 percent, 42 percent), Izmir (9 percent, 14 percent), and Adana

and Icel (10 percent, 9 percent). In a few cases, such as food processing, firms in other regions may also be surveyed.

The Determination of Prices and Costs

7. Turkey applies quantitative import licensing that may raise protection above that provided by tariffs; however, competition may have reduced the domestic price below the tariff-inclusive import price in some cases. In order to allow for these possibilities, evaluating the extent of incentives and comparative costs will require comparing domestic prices with international prices (cif prices in the case of imports and fob prices in the case of exports). Price comparisons encounter particular difficulties in Turkey, in part because of the long-standing isolation of many of its industries from imports and in part because of rapid inflation. The former may require obtaining price information from abroad while the latter may be dealt with by calculating averages of domestic prices for the year 1980, for which the survey will be undertaken.

8. Attention will also need to be given to the revaluation of machinery and equipment in the face of the rapid inflation of recent years. This will necessitate obtaining information on the dates when investments were undertaken, and using the relevant price indices to estimate present values.

9. The full-scale firm survey will begin in May, by which time firm data for the year 1980 will be available. It is expected that the survey will be completed by the end of 1981 and that the preliminary estimates of incentives and comparative costs will be available by March 1982. The estimates will be prepared utilizing the computer program developed in the course of Bank research.

10. A preliminary evaluation of the estimates and the first version of policy papers on reforming the protection and incentive system will be ready in June 1982, followed by final versions at the end of 1982. A detailed time table for the year 1982, together with a listing of the policy papers, will be prepared in late 1981.

Bank Participation

11. Mr. Balassa will review the questionnaire, participate in the selection of the firms in the sample, and provide general advice on the research project in May 1981, when he will lead a Bank mission to Turkey. He will further review the progress of the research project in late 1981 when he will visit Turkey to discuss the report of his mission with the government. Mr. Balassa will return to Turkey in 1982 to participate in the review of the policy papers and in discussions on the policy recommendations.

12. Mr. Noel will assist Mr. Balassa in the course of his participation in the May 1981 mission. He will further spend two periods of 1-2 weeks each in Turkey to advise on the firm survey and on the methodology of the research project. The project will be monitored by the Turkey Division of the Bank.

Revised Budget Proposal

	Original (TL)	Revised (TL)
A- RESEARCHERS' FEES	3.000.000,-	2.700.000,-
i- Data search, organization menagement	1.750.000,-	1.350.000,-
ii- Data analysis	700.000,-	700.000,-
iii- Policy papers	700.000,-	500.000,-
iv- Editing	150.000,-	150.000,-
B- SAMPLING and INTERVIEWING COSTS.	1.700.000,-	3.500.000,-
i- Fees for interviewers	1.200.000,-	3.000.000,-
ii- Travel costs	500.000,-	500.000,-
C- DOMESTIC TRAVEL COSTS (Ankara-İstanbul)	250.000,-	250.000,-
D- OFFICE COSTS	400.000,-	400.000,-
TOTAL	5.650.000,-	6.850.000,-

Exchange rate $ 1 = TL. 90

$ 62.780,- $ 76.110,-

in the name of the executive
committee of the research group

16.Januery 1981

Associate Prof. Tevfik ERTÜZÜN

January 12, 1980.

Mr. Henri Bourguinat
Universite de Bordeaux 1
Faculte des Sciences Economiques
Avenue Léon Duguit
33604 Pessac
France

Dear Mr. Bourguinat:

Mr. Balassa is out of the country until next week. I will bring your letter to his attention when he returns.

Yours sincerely,

Norma Campbell
Secretary to Mr. Balassa

CABLE

JANUARY 12, 1981
61991

PROFESSOR MERIH CELASUN, DEPT. OF OPERATIONS RESEARCH, MIDDLE EAST TECHNICAL UNIVERSITY, ANKARA, TURKEY

MR BALASSA IS ARRIVING ON THURSDAY JANUARY 15 AND WOULD LIKE TO HAVE DINNER WITH YOU THAT NIGHT. COULD YOU COME TO HIS HOTEL THE BUYUK ANKARA AROUND 7 P.M. REGARDS, NORMA CAMPBELL

Bela Balassa

F. Graham Pyatt

Development Research Center

BBalassa:nc