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Washington, D.C.

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FEBRUARY 1981

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Bela Balassa's chron files - February 1981

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B. BALASSA CHRON FILE FEB 1981

February 20, 1981

Mr. Jacob M. Myerson
OECD
2, rue André-Pascal
Paris-XVIIe, France

Dear Mr. Myerson:

Thank you for your letter dated February 10th, I have in the meantime received the draft reports on Turkey. Many thanks.

I will let you know in advance of my visit to Paris, that is likely to take place on May 18th.

Sincerely yours,

Bela Balassa

February 27, 1981.

Mr. Otto Gado
Tarnok u.13
Budapest 1014
Hungary

Kedves Baratom:

Nagyon koszonom februar 2-i leveledet es a konyvkuldemenyt amit a napokban kaptam meg. Sok erdekes dolgot tartalmaznak a konyvek es hasznosak lesznek szamomra a magyar reformmal foglalkozo tanulmanyon elkesziteseben.

En is nagyon crultem hogy alkalmunk volt talalkozni, Szeptember elseo napjaiban leszek valoszinuleg csaladdal Pesten de elozetesen meg ertesiteni foglak.

Barati udvozlettel

Balassa, Bela

February 27, 1981.

Mr. Szüts Pál
Hungarians' World Federation
P.O.B. 292
Budapest 62
Hungary

Tisztelt Fotitkar Ur:

Levelt es a konyvkuhdemenyt nagyon kuszonom. Sok erdekes dolgot tartalmaznak a konyvek es hasznosak lesznek számomra a magyar reformmal foglalkozó tanulmányom elkészítésében.

Szívelyes udvozlettel

Balassa Bela

Mr. J. Dirck Stryker

February 27, 1981

Bela Balassa, DRC

Ghana, Ivory Coast, Mali and Senegal Studies

Please provide the following information for the country studies you are presently engaged in.

1. Estimate date of completion.
2. Estimate double-spaced text pages.
3. Estimate number of tables.
4. Estimate number of diagrams

I need this information by March 5, Thursday, c.o.b.

BBalassa:nc

February 27, 1981.

Anthony S. Johnson
Minister of State
Ministry of Marketing and Commerce
City Centre Building (Block 4)
Ocean Boulevard
Kingston
Jamaica

Dear Mr. Minister:

Thank you for your letter of January 20th. I fully agree with you that religious traditions do not explain success. In turn, while import substitution may help, it may also hinder further development if it leads to the establishment of high cost industries. I briefly discussed this issue in the enclosed paper "Process of Industrial Development and Alternative Development Strategies."

Yours sincerely,

Enclosure

Bela Balassa

February 27, 1981.

Mr. Jean L. Waelbroeck
Universite Libre de Bruxelles
Faculte des Sciences Sociales
Politiques et Economiques
C.P. 139
Avenue F.-D. Roosevelt 50
B-1050 Brussels
Belgium

Dear Jean:

In response to the comments you made at the January OECD meeting I drafted the following additions to Chapter 2. Please let me know if you have any comments on these additions.

It was good to see you both. Carol joins me in sending our best regards to Isabelle and yourself.

Yours sincerely,

Enclosures

Bela Balassa

Measuring export volume effects for individual developing countries may seem to conflict with the "small country" assumption, according to which the countries under study cannot affect the prices of their export products. This conflict is more apparent than real, inasmuch as shifts in world demand in the course of the business cycle may affect each country's export volume and price without individual countries being able to affect the price at which they sell.

The effects of the business cycle on trade are shown by annual data on the developed countries' ~~on~~ GNP and their imports from the developing countries. This is the case, in particular, for the imports of manufactured products that varied to a considerable extent between 1973 and 1978. Apart from the business cycle, manufactured imports were also affected by changes in protectionist measures.

Concluding Remarks

As noted above, the balance-of-payments effects of external shocks, of policy responses to these shocks, and of internal shocks, have been estimated by postulating a situation that would have occurred in the absence of external and internal shocks. This involves making assumptions about an "anti-mode"ⁿ_^ that would have been established without such shocks.

The creation of an "anti-mode"ⁿ_^ would ideally involve estimating a complete economic model. A complete model would also permit examining the impact of particular policy instruments such as the exchange rate and changes in the money supply, on the balance-of-payments, that necessarily becomes a matter of interpretation in using the present analytical framework.

Nevertheless, by reason of limitations of time and data, we had to forgo building complete economic models in the framework of the present investigation. The difficulties of model building were particularly forbidding in the case of the seven country groupings, for which estimates are presented in Chapter IV.

At the same time, its simplicity notwithstanding, the analytical framework used in the volume has proved to be useful in providing a consistent set of estimates of the balance-of-payments effects of external shocks and of domestic policies. It has thus permitted indicating the relative importance of external shocks through the deterioration of the terms of trade and the slowdown of world demand, of the various forms of policy responses to these shocks, and of internal shocks.

Mr. Garry Pursell, DRC

February 27, 1981

Bela Balassa, DRC

Ivory Coast, Senegal and Korea Studies

Please provide the following information for the country studies you are presently engaged in.

1. Estimate date of completion.
2. Estimate double-spaced text pages.
3. Estimate number of tables.
4. Estimate number of diagrams

I need this information by March 5, Thursday, c.o.b.

BBalassa:nc

Mr. Demetrious Papageorgiou, DED

February 27, 1981

Bela Balassa, DRC

Greece Study

Please provide the following information for the country study you are presently engaged in.

1. Estimate date of completion.
2. Estimate double-spaced text pages.
3. Estimate number of tables.
4. Estimate number of diagrams

I need this information by March 5, Thursday, c.o.b.

BBalassa:nc

Mr. Yung Whee Rhee, DED

February 27, 1981

Bela Balassa, DRC

Korean Study

Please provide the following information for the country study you are presently engaged in.

1. Estimate date of completion.
2. Estimate double-spaced text pages.
3. Estimate number of tables.
4. Estimate number of diagrams

I need this information by March 5, Thursday, c.o.b.

BBalassa:nc

Mr. Geoffrey Shepherd

February 27, 1981

Bela Balassa, DRC

Mali Study

Please provide the following information for the country study you are presently engaged in.

1. Estimate date of completion.
2. Estimate double-spaced text pages.
3. Estimate number of tables.
4. Estimate number of diagrams

I need this information by March 5, Thursday, c.o.b.

P.S. I was glad to hear that you plan to come to Washington. Please cable your expected date of arrival together with the above information.

BBalassa:nc

February 27, 1981

Mr. A. R. Kemal
Co-Editor
Pakistan Development Review
Pakistan Institute of Development Economics
Post Box No. 1091
Islamabad
Pakistan

Dear Mr. Kemal:

I am sorry to say that, due to other obligations, I cannot give you any firm response for a contribution to your Review.

Yours sincerely,

Bela Balassa

February 27, 1981

Mr. Jean-Francois Baudry
23 rue du Bazinghien
59000 Lille
France

Dear Mr. Baudry:

Thank you for your letter of February 4th and the copy of your thesis. I
am looking forward to reading it.

Yours sincerely,

Bela Balassa

February 27, 1981

Professor Paul Marer
Associate Professor
International Business
Indiana University
School of Business
Bloomington/Indianapolis
10th and Fee Lane
Bloomington, Indiana 47405

Dear Paul,

Thank you for sending me the program of the Conference on Multinational Corporations in Latin America and Eastern Europe. I am sorry that I will not be able to participate.

You may be interested to know that a few months ago I gave a talk on the Hungarian reform at a Chinese American Conference. I will revise this talk for publication in the proceedings of the conference over the next several months. In this connection, I would appreciate your sending me copies of articles you have written on the reform. ~~In this connection~~ Let me add that my paper reviews developments since 1968.

Yours sincerely,

Bela Balassa

February 27, 1981.

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

Dear Mr. Kellogg:

Thank you for sending me a copy of the contract for the book. Apparently the first copy went astray.

I have now received permission for the use of a World Bank photograph on the cover of the book. I am asked that the credit line for the photograph should read as follows:

"World Bank Photo by K. Yong Choi"

I understand that Brushwood Graphics sent to Mr. Cutler the text of the book; the front matter and the index to follow soon. May I ask you to give me a tentative estimate of the price of the book, in hardback and in paperback, so that I can order the copies to be purchased by the World Bank. I would also like to know when you expect the book to be published.

Yours sincerely,

Bela Balassa

cc: Mr. Cutler

February 27, 1981

Professor Maxwell J. Fry
University of Hawaii at Manoa
Department of Economics
Room 542, Porteus Hall
2424 Maile Way
Honolulu, Hawaii 96822

Dear Max,

Your letters are arriving faster than I can answer them. I am now answering your letter of February 5th as well as your undated circular.

I understand from Ackley's letter you appended to your circular that he would prefer to have three papers rather than four. This fact, together with my lack of previous work in the area you suggest for me, induce me to ask you to delete my name from the program. Needless to say, I would be happy to serve as a discussant at the session. At the same time, I had agreed that Ron McKinnon would make an excellent chairman.

I can still not give you a final answer regarding the Turkey mission. However, I would like to have any papers you might have recently prepared on the financial sector in Turkey.

Yours sincerely,

Bela Balassa

Mr. John E. Merrian, IPA

February 27, 1981

Bela Balassa, DRC

Clearance

You earlier agreed to my presenting the paper "Industrial Prospects and Policies for the Developed Countries" at a symposium held in Vienna in January 1981. I would now like to ask your agreement to publish the paper in the proceedings of the symposium as well as in a volume honoring Professor Herbert Giersch. I would further like to ask your agreement for the publication of my paper "The Newly-Industrializing Developing Countries After the Oil Crisis" in the *Weltwirtschaftliches Archiv* and the "Policy Experience of Twelve Less Developed Countries, 1973-1978" in a volume honoring Professor Lloyd Reynolds. Copies of the papers are enclosed.

Enclosures
BBalassa:nc

Mr. Jacques de Groote, IMB

February 27, 1981

Bela Balassa, DRC

I am not certain if I sent you a copy of my back-to-office memo following my visit to Turkey last month. I enclose the memo together with the published version of my July 1979 lecture on Turkey.

I am sorry that you will not be able to join us for dinner on March 16th. I would like to meet with you for lunch to have discussions on Turkey and other matters. My secretary will call your office to arrange a date.

Enclosures
BBalassa:nc

Mr. Francis X. Colaco, EPD

February 27, 1981.

Bela Balassa, DRC

Turkey Mission

In reference to our telephone conversation I would like to request that you release Ms. G. Swamy to participate on the May mission to Turkey. Ms. Swamy would work with Mr. Scandizzo on agricultural and processed food exports. While it might sound excessive to ask for a second mission member from the same Division, Ms. Swamy would importantly contribute to the success of the mission.

cc: Messrs. Dubey, EMNVP
Davar, EM2
Scandizzo, AGR

BBalassa:nc

Those listed

February 27, 1981.

Bela Balassa, DRC

The Policy Experience of Twelve Less Developed Countries, 1973-1978

I enclose a copy of "The Policy Experience of Twelve Less Developed Countries, 1973-1978" that replaces my "Policy Responses to External Shocks in Less Developed Countries." Apart from the change in the title, modifications have been made in the country analysis and the conclusions have been revised.

cc: Participants at the February 23 workshop; DRC Senior Staff

Enclosure
BBalassa:nc

Mr. Richard Goode, IMF

February 27, 1981.

Bela Balassa, DRC

World Bank Mission to Turkey

I was glad to learn from your memo of March 24th that you will be able to provide Mr. Chand to participate in the Bank's mission to Turkey I will lead in mid May. I have asked our European Middle East and North Africa Department to make a formal request to the Fund's Administrative Department on Chand's participation at the mission.

cc: Messrs. Davar, EM2; Dubey, EMMVP
(with copy of Mr. Goode's memo)

BBalassa:nc



Office Memorandum

TO : Mr. Bela Balassa, DRC, IBRD

FROM : Richard Goode *RG*

SUBJECT : World Bank Mission to Turkey

DATE: February 24, 1981

Following our conversation on February 19, I have obtained the approval of Fund management for Mr. Chand to participate in the Bank's industrial policy mission to Turkey scheduled to begin its work in the field in mid-May 1981. It would now be appropriate for you to set in motion the necessary formal request to the Fund's Administration Department, through the relevant department in the Bank.

You may find it useful to have some brief biographical material regarding Mr. Chand. He joined the Fund staff in 1971 in the Fiscal Affairs Department and now holds the rank of Senior Economist in the Fiscal Analysis Division. He has participated in several Fund operational missions, including most recently those to Egypt and Sri Lanka. He is the author or co-author of five Fund Departmental Memoranda. A naturalized Norwegian citizen, Mr. Chand has a Ph.D. from the University of Western Ontario and has also studied at the Balliol College in Oxford, Yale University, and the London School of Economics. Mr. Chand took sabbatical leave from the Fund in 1978-79 to study at the Institute of Economics at Oslo University.

cc: Administration Department

OFFICE MEMORANDUM

TO: Those listed

DATE: February 27, 1981.

FROM: Bela Balassa, DRC

SUBJECT: The Policy Experience of Twelve Less Developed Countries, 1973-1978

I enclose a copy of "The Policy Experience of Twelve Less Developed Countries, 1973-1978" that replaces my "Policy Responses to External Shocks in Less Developed Countries." Apart from the change in the title, modifications have been made in the country analysis and the conclusions have been revised.

cc: Participants at the February 23 workshop; DRC Senior Staff

Enclosure
BBalassa:nc

Mr. Hollis B. Chenery, VPD

February 27, 1981.

Bela Balassa, DRC

I enclose copies of the two notes I mentioned to you yesterday. I have prepared these notes in a personal capacity; please consider them confidential.

Enclosures
BBalassa:nc

Enclosed: Paul Atkinson, Tain Begg, Francis Cripps, Michael Anyakike-Danes and Graham Gudgin, World Trade and Finance: Prospects for the 1980s, Cambridge Policy Review, December 1980, pp. 1-70
and
Recent and Prospective Changes in Trade, Aid and Current Account Balance

OFFICE MEMORANDUM

TO: Those listed

DATE: February 27, 1981.

FROM: Bela Balassa, DRC

SUBJECT: The Policy Experience of Twelve Less Developed Countries, 1973-1978

I enclose a copy of "The Policy Experience of Twelve Less Developed Countries, 1973-1978" that replaces my "Policy Responses to External Shocks in Less Developed Countries." Apart from the change in the title, modifications have been made in the country analysis and the conclusions have been revised.

cc: Participants at the February 23 workshop; DRC Senior Staff

Enclosure
BBalassa:nc

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
February 26, 1981

Puski-Corvin Books
1590 Second Avenue
New York, New York 10028

Dear Sir:

I wish to order the Faludi volume, if possible an autographed
copy. A check for \$23.54 is enclosed.

Yours truly,

Enclosure

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
February 26, 1981

Anametrics, Inc.
30 Rockefeller Plaza
New York, New York 10020

Dear Sir:

A check for \$250.00 is enclosed in payment of one-half of the annual subscription. The remainder will be paid in September.

Yours truly,

Enclosure

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
February 26, 1981

Working Papers
National Bureau of Economic Research
1050 Massachusetts Avenue
Cambridge, Massachusetts 02138

Dear Sir:

Please send me,

Economic Growth and the Rise of Service Employment, Victor R. Fuchs
Working Paper No. 486, May 1980
JEL Nos. 123, 226

A Model of Trade and Exchange Rate Projections, Halttunen and Warner
Working Paper No. 389

Prices and Market Shares in the International Machinery Trade, Irving
B. Kravis, Robert E. Lipsey, and Dennis M. Bushe, Working Paper 521,
July 1980, JEL Nos. 420, 430

Import Competition and Macroeconomic Adjustment under Wage-Price Rigidity
Michael Bruno, Working Paper No. 522
July 1980

Three Papers on Brazilian Trade and Payments, Eliana A. Cardoso and
Rudiger Dornbusch, Working Paper No. 541
September 1980

Trade Adjustment Assistance under the U.S. Trade Act of 1974: An Analytical
Examination and Worker Survey,
J. David Richardson, Working Paper No. 556
September 1980, JEL Nos. 400, 420, 800, 810

My check for \$6.00 is enclosed.

Yours truly,

Enclosure

Bela Balassa

PINK

DRC Staff

February 26, 1981

Bela Balassa, DRC

Reprint Series

Please send me by February 27th any papers you wish to submit to the World Bank Reprint Series in thirteen copies. Your submissions may include papers that have already been published as well as papers that have been accepted for publication. I also need a paragraph indicating the main contribution of the paper to literature and its relevance to the Bank and to developing countries.

BBalassa:nc

CABLE
SXXN INTBAFRAD

FEBRUARY 20, 1961
61991

MRS. LILIANA PONCHON INTBAFRAD

PARIS, FRANCE

DEPARTURE DATE FOLLOWING SECOND STAY SHOULD BE SUNDAY MARCH

29. REGARDS, BALASSA

Bela Balassa

Bela Balassa

DRC - Director's Office

BBalassa:nc

February 23, 1981.

Dr. Herbert Giersch
Direktor des Instituts für Weltwirtschaft
23, Kiel
Dusternbrooker Weg 120/122
West Germany

Dear Herbert:

Thank you for your invitation to again address your work shop this year. I will be happy to accept under the conditions indicated. Please note, that, just as last year, I will be in Lyon and would need to have my air fare paid. The suggested dates August 17 and 18 are fine. I would plan to arrive in the late morning on the 17th (I hope that the plane will not be delayed this time) and to leave in the early afternoon of the 18th. I hope that this will be convenient.

The suggested topic "Development and Trade Strategies for the LDCs" is fine with me. I plan to have two assigned readings for my lecture. The first, "The Process of Industrial Development and Alternative Development Strategies" is enclosed. The second, "The Newly-Industrializing Developing Countries After the Oil Crisis" will be published in the next issue of the *Weltwirtschaftliches Archiv*.

Yours sincerely,

Enclosure

Bela Balassa

February 23, 1981.

Mr. Willis Coburn Armstrong
U.S. Council of the International
Chamber of Commerce
3226 Broad Branch Terrace
Washington, D.C. 20008

Dear Mr. Armstrong:

I enclose a short outline of my paper together with a biographical note. A photograph was already provided to a representative of your office.

May I ask you to identify me as Professor of Political Economy, the Johns Hopkins University and Consultant, World Bank. As I will not represent the Bank at the Congress, it would be more appropriate to have "United States" rather than "World Bank" in parenthesis after my name.

With best regards,

Sincerely yours,

Enclosures

Bela Balassa

Shifting Patterns of World Trade and Competition: An Outline

Bela Balassa

This paper will examine the shifting patterns of world trade and competition. Emphasis will be given to recent and prospective changes in the manufacturing sector where these shifts have been particularly important. Changes in agriculture and services will also be briefly considered.

The paper will begin by addressing itself to two interrelated questions: Has competition from developing countries adversely affected the manufacturing industries of the industrial countries? Has protectionism in the industrial countries compromised the prospects for an outward oriented industrial strategy by the developing countries?

In answering these questions, the paper will briefly examine recent changes in trade patterns in manufactured goods, indicating the growing importance of the developing countries as markets for the industrial countries whose manufactured exports exceed their imports from developing countries by an increasing margin. Next, it will consider the implications for the developing countries of tariff and nontariff measures, industrial and regional subsidy schemes, and attempt made at cartellization by the industrial countries, with attention given to the outcome of the Tokyo Round of Multilateral Trade Negotiations.

The paper will summarize the author's projections on trade in manufactured goods for the 1980s and indicate the implications of these projections for industrial growth and structure in industrial and developing countries. It will further consider appropriate trade policies for the industrial and the developing countries in the framework of the MTN agreement and beyond, as well

as policies of adjustment and structural change that may be applied. In this connection, recent efforts made in several industrial countries to reverse the process of increased government intervention in economic life will be noted.

The process of structural change is closely linked to the changing pattern of comparative advantage in manufactured goods in countries at different levels of industrial development, including the industrial countries, the NICs, and the less developed countries. This, in turn, necessarily leads to a consideration of questions relating to foreign investment and technological transfer, as well as changes in technology and the introduction of new products which point beyond the 1980s.

Agriculture provides inputs for manufacturing while services enter at various stages of production and sale. But agricultural products, in particular food, and services are also subject to international exchange. The paper will examine the changing pattern of this trade and the policies followed, further indicating prospects for the future.

In closing, the paper will consider the importance of market forces and processes for enjoying the full benefit of international specialization and attaining high rates of economic growth. It will also note the role private business may play in the process.

Mr. Boris Blazic-Metzner, EPD

February 23, 1981

Bela Balassa, DRC

Data on Growth Rates

I would appreciate your providing me with data on the growth rates of GNP, population and per capita GNP for the periods 1963-73, 1970-73, 1973-76, 1976-79, and 1973-79 for the country groupings shown in the enclosure. The results are needed urgently for work I am doing for the World Development Report.

Enclosure
BBalassa:nc

Mr. Robert H. Cassen, PPR

February 23, 1981

Bela Balassa, DRC

Adjustment by Middle Income Primary Producers

In reference to my memo of February 16th, I enclose the aggregated estimates of external shocks and policy responses to external shocks for Middle Income Primary Producers. You will recall that this category includes Groups 2 to 5 of the OECD Development Centre Study. Chapter IV of the study, transmitted to you in December, contained estimates for Group 1 (the Newly industrializing countries) and Group 5 (the least developed countries). The estimates for Group 7, comprising India, Pakistan, Bangladesh, was sent to you with the memo referred to above. For the composition of the groups, see Annex B of the OECD Development Centre study.

cc: Messrs. Chenery, VPD; Jaspersen, WDR

P.S. I am afraid that I was unable to have the tables typed at this time. Given the urgency expressed in your memo, I am, therefore, transmitting them in a handwritten version. You will observe that the headings are identical to those in the other tables.

Enclosures
BBalassa:nc

Mr. Brian J. Svikhart, IPA

February 23, 1981

Bela Balassa, DRC

Development Strategies in Semi-Industrial Countries

In reference to our discussions with you and Mrs. Carroll, I enclose Appendix Tables 7-1 and 10-1. I further return Appendix Table 5-1 sent to us as the example.

I enclose four copies of the entire volume as you have requested. The newly typed tables have been inserted in these copies at the appropriate places.

cc: Mrs. Carroll, IPA

Enclosures
BBalassa:nc

February 20, 1981

Mr. Eduardo Cmesa
Director
Inter-American Development Bank
Casilla de Correo 39
Sucursal 1
1401 Buenos Aires
Argentina

Dear Eduardo:

Since your last visit, I received three copies of the December 1980 issue of Integracion Latino-Americana, please send me also two additional copies, as well as five copies of the November 1980 issue.

It was good to see you again and I look forward to future contacts.

Sincerely yours,

Bela Balassa



Record Removal Notice

File Title Bela Balassa's chron files - Febraury 1981	Barcode No. 30225100
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Document Date Feb 20, 1981	Document Type Outgoing wire
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Correspondents / Participants
Mr. Larry Westphal, DED
Bela Balsassa, DRC

Subject / Title
Mr. Robert Therriault

Exception No(s).
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 10 A-C
 10 D
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Personal Information

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Withdrawn by Chandra Kumar	Date May 30, 2014
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February 20, 1981

Mr. Thierry de Montbrial
Directeur
Institut francais des relations
internationales
6 rue Ferrus
75014 Paris, France

Dear Thierry:

In reference to our conversation, I enclose a short note I prepared on the present world economic situation. I hope you will find it of interest.

It was good to see you and it would be nice if we could get together in Paris. Please let me know, preferably by cable, if you will be free for dinner on Saturday, March 21th.

Looking forward to hearing from you, I remain,

Sincerely yours,

Bela Balassa

February 20, 1981

Professor Mükerrerem Hic
Istanbul University
Faculty of Economics
Institute of Economic Development
Istanbul, Turkey

Dear Professor Hic:

Thank you for your letter dated February 5, 1981.
In the meantime, you should have received the relevant
material that was sent to you on February 6th.

With best regards,

Sincerely yours,

Bela Balassa

Mr. Graham Pyatt, DRC

February 20, 1981

Bela Balassa

Jeffrey Nugent

I am familiar with Nugent's writing up to about five years ago and attended his seminar last week. I also had a long lunch conversation with him.

The seminar was on a rather arid topic, presumably designed to show Nugent's theoretical prowess. It is indeed remarkable that, parallel with his work on macro model and on energy, he has undertaken research on an unrelated theoretical subject. While I would have liked to hear him speak on macro models or energy, I was impressed with the theoretical skills shown at the seminar.

Mr. Nugent's writings also cover a wide range. I have particularly close familiarity with his book on economic integration in Central America which I read for Johns Hopkins University Press. This study is of high quality as are other writings by Nugent I have read.

BB:mb

PROFESSOR PAULO V. DA CUNHA, INPES/IPEA, RUA MELVIN JONES 5,
29^o ANDAR, 20040 RIO DE JANEIRO, R.J. BRAZIL

CONFIRM THAT PAPER ON NEWLY INDUSTRIALIZING DEVELOPING
COUNTRIES WILL NOT BE PUBLISHED ELSEWHERE BEFORE JUNE.

FIGURES FOR INDIVIDUAL COLUMNS OF TABLE 7 FOLLOW: COLUMN 1:

0.2, 2.7, 8.0, -0.7, 1.3, 6.1, 2.1, 11.9, 7.8, 6.9, 23.3, 6.5;

COLUMN 2: 3.8, 46.6, 61.1, -8.8, 23.4, 62.2, 48.8, 56.6, 74.2,

37.1, 22.5, 19.3; COLUMN 3: 65, 82, 89, 243, 63, 90, 71, 82,

76, 74, 72, 41; COLUMN 4: 35, 18, 11, -143, 37, 10, 29, 18,

24, 26, 28, 59; COLUMN 5: -207, 27, -6, 65, 205, 71, 134, 57,

64, -92, 68, -76; COLUMN 6: -95, 15, 54, -19, -28, 36, -20,

-20, -10, 89, 23, 10; COLUMN 7: 386, 67, 21, -139, -102, 4,

-13, 15, 18, 135, -43, 35; COLUMN 8: 16, -10, 31, -7, 25, -11,

-2, 48, 28, -32, 53, 131; COLUMN 9: 33.6, 53.6, 49.0, 24.4,

90.0, 26.7, 23.8, 40.4, 29.7, 18.8, 6.1, 6.7; COLUMN 10: 1.2,

6.3, 3.6, 5.5, 4.2, 3.9, 4.3, 2.3, 5.7, 10.1, 7.5, 7.6;

COLUMN 11: 1.3, 5.8, 8.0, 6.1, 4.7, 4.3, 3.7, 2.2, 6.1, 11.0,

8.2, 9.8; COLUMN 12: 13.0, 3.6, 2.8, 3.2, 4.1, 3.4, 4.9, 8.8,

4.4, 2.9, 4.2, 3.2; COLUMN 13: 16.6, 3.9, 1.4, 3.1, 4.0, 3.6,

5.7, 10.8, 4.7, 2.8, 3.6, 2.6; COLUMN 14: 24.6, 20.9, 10.3,

CONT'D

Bela Balassa

BELA BALASSA

XXXXXXXXXXXX DRC - Director's Office

EBalassa:nc

PAGE 2

22.1, 22.2, 12.1, 20.9, 6.6, 26.5, 23.6, 27.6, 27.6, 32.6;

COLUMN 15: 26.9, 21.4, 8.9, 23.2, 22.7, 12.5, 21.9, 6.1, 28.3,

24.0, 28.2, 32.3. REGARDS BALASSA

BELA BALASSA

BELA BALASSA

DRC - Director's Office

BBalasse:nc

February 19, 1981

Mrs. Janet Innes
Brushwood Graphics
4804 York Road
Baltimore, Maryland 21212

Dear Mrs. Innes:

I enclose the revised version of the Front Matter and Notes to
Readers Guide to my book.

With best regards,

Yours sincerely,

Enclosure

Bela Balassa

le 19 février 1981

La Directrice
Hotel Scandinavia
27 rue de Tournon
Paris 6
France

Chère Madame:

Je vous prie de bien vouloir me retenir une chambre pour les dates suivantes:

1. Arrivée: samedi, le 21 mars
Départ: lundi, le 23 mars
2. Arrivée: samedi, le 28 mars
Départ: lundi, le 29 mars

En attendant votre réponse, je vous prie de croire, chère Madame, à mes meilleurs sentiments.

Bela Balassa

cc: Mme. Ponchon, Banque Mondiale, Paris

February 18, 1981

Mrs. Anne Richards-Loup
OECD Development Centre
94 rue Chardon-Lagache
Paris 75016
France

Dear Anne,

The revised version of Chapters II and III were sent to you yesterday. I now enclose the edited copy of Chapter IV. (I have retained the tables that do not require modification.) As you can see, I have made few changes in the first part that deals with the balance-of-payments effects of external shocks. However, I have shortened the discussion of the estimates pertaining to policy responses that is rather tedious to read. While it was my suggestion to give more attention to changes over time, the result has been considerable repetition. We will have to leave it to the reader to get the details from the tables.

I agree with you on excluding Appendix Tables IV-2 and IV-5 (I did not find Appendix Table IV-4). One should, however, retain Appendix Table IV-3 (to be renumbered Appendix Table 2) as such a table is also included with Chapter III. The table should be prepared also for Group 7 for which I urgently need data on expenditure shares and economic growth as well.

Appendix Table IV-6 as well as the text tables on the relative importance of policy responses will be included with Chapter I. The same procedure will be followed in regard to the corresponding tables for the individual countries covered in Chapter III that are being prepared. Finally, the sources of statistical data should come at the end of the entire volume.

Please maintain the same order of the country groups in all the tables; it should correspond to the numbering of the groups. Also, do not report the commodity disaggregation of the terms of trade effects in Appendix Table IV-1. The reader can easily derive them from the data on the effects of import and export price changes provided in the same table. At any rate, I am uneasy with the interpretation of these estimates, since the results depend not only on price changes but also on differences between exports and imports. While we handle this problem in the aggregate by separating pure and unbalanced terms of trade effects, it is of even greater importance in a commodity disaggregation where differences between exports and imports are much larger. I have not modified the text but I wonder if we should give emphasis to it.

I have found a few cases where data in the tables have been misinterpreted. In some instances, reference was made to foreign borrowing

- 4 -

instead of additional net external financing. I did not have the time, however, to check all the numbers and, in several cases, inserted a rough estimate. All these cases are indicated by a question mark, so that you can check or insert the numbers in cases where they are missing. In particular, estimates should be provided for the entire period including 1978, whenever possible. Please check also that "percent" is not omitted in the text when several numbers are cited.

I am afraid that my handwriting leaves much to be desired; there was no possibility to have the text retyped. I hope, however, that your knowledge of the material will help you to decipher my writing. I have retained a xerox copy so that you can call me with questions.

Mondays, Thursdays and Fridays (202) 676-1991
Tuesdays and Wednesdays (301) 338-7612

Finally, I wish to congratulate you and Mr. Barsony for the excellent job you have done on the chapter. The changes I have made are largely stylistical and do not affect the substance.

Sincerely

Bela Balassa

cc: Messrs. Berthelot (without enclosures)
Barsony (with enclosures)

February 16, 1981

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

Dear Irma,

Thank you for your letter of February 3rd. I will send you the draft of my paper on Hungary in early August. I enclose a copy of the proofs of my paper on industrial development that will be published as essay 141 in the Princeton Essays in International Finance. I have already asked Peter Kenen and he has informally agreed to the publication of the paper in your volume, but he will need an official sounding letter from you. In the letter please indicate the expected publication date of the volume.

Yours sincerely,

Enclosure

Bela Balassa

Mr. Francis X. Colaco, EPD

February 16, 1981.

Bela Balassa, DRC

MR. Martin Wolf

1. This is in reference to your agreement with Mr. Vinod Dubey on the participation of Mr. Martin Wolf in the mission on Industrialization and Trade Strategy I will lead to Turkey in May. Martin will be asked to examine the export possibilities of the state economic enterprises. This will involve considering market prospects as well as factors affecting export supply including prices, incentives, costs, and management. It should be added that the public sector is of particular importance in the textile industry, in regard to which Martin acquired considerable expertise. Given the similarities in the system of controls in the two countries, Martin also will make use of his experience in India.

2. It is expected that the mission will depart on May 15th and will stay three weeks in the field. A first draft of the report should be completed by mid-July and a yellow-cover version of the report in September.

cc and cleared with Mr. Dubey
cc: Mr. Wolf

BBalassa:nc

Recipients of Mr. Cassen's February 6, 1981 memo

February 16, 1981

Bela Balassa, DRC

February 23 seminar

I enclose copies of my "Newly Industrializing Developing Countries After the Oil Crisis" which has relevance for the subject matter of the seminar. I further enclose, for those who have not received it, an exchange between Mr. Jaspersen and myself on Jaspersen's paper.

Enclosures
BBalassa:nc

OFFICE MEMORANDUM

TO: Mr. Frederick Jaspersen, LC2

FROM: Bela Balassa, DRC

SUBJECT: Adjustment Experience and Growth Prospects of the NICs

DATE: January 31, 1981

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

OFFICE MEMORANDUM

TO: Mr. B. Balassa

DATE: February 11, 1981

FROM: Fred Jaspersen

SUBJECT: Your Comments on My Background Paper:
Adjustment Experience and Prospects of the NIC's

1. Thank you for taking time to comment on my paper. I realize that I should have explained at the outset of the paper more of what I was and was not attempting to do with the decomposition.
2. My conclusion after reading your paper on Latin America was that I should not aim at anything as elegant and integrated as your approach in the few months I had to develop one and prepare my paper, but rather should use three separate tools to highlight particularly interesting facets of adjustment. The first piece of this partial analysis is identification of the external shock and its impact on the trade balance using balance of payments data. This is shown in Tables 5, 10, 16 and 20 of my paper. The second piece of the analysis (the one which you have addressed in your note) is a decomposition of the trade balance using national accounts data (in constant prices) which shows the impact of changes in the level of domestic demand, output and structure (of output and expenditure) on the real trade balance. Results are shown in Tables 6, 12, 17 and 21 in the country case studies. The third piece of the analysis is a breakdown of output growth into exports, import substitutes, non-tradeable goods, etc., this is shown in Tables 7, 13, 18 and 22 of the country case studies.
3. In contrast to what you have attempted with your decomposition, the decomposition which I have developed based on Corden's conceptual framework does not attempt to separate external shock from policy effect. I have consciously avoided doing this. Instead, my decomposition simply shows what portion of the trade balance change is attributable to change in output, change in domestic demand, and switching. Interpretation of the numbers (that is, why output increased, why domestic expenditure grew more or less rapidly than output, or why switching took place) is not done by the decomposition but is left to an account of what actually happened in the country during the period covered. Where a country has increased its investment coefficient, for example, reduced its ICOR and simultaneously experienced an acceleration of growth, which in turn was the principal way it improved its balance of payments, then I would link these three in the country discussion. If the acceleration of growth, however, was simply attributable to recovery from three years of drought or war, then I would give it that interpretation. There is, therefore, nothing inherent in the decomposition which explains why growth, switching or change in level of domestic demand has occurred. Obviously, this decomposition is more limited and less integrated than the methodology you have developed.
4. However, while this is a weakness, it is at the same time a strength. Its strength lies in not attempting to attribute more to the decomposition than it can "explain". A difficulty with your methodology

is, for example, that you are led to some doubtful conclusions in your attempt to distinguish shock and response. For example, if there is a shock in your adjustment period 1974-77, it is attributed to a policy response, e.g. drought or war which sharply reduces agricultural output and exports would be shown in your approach as the effect of policies which have an adverse impact on exports. Similarly, recovery during 1974-78 from a drought which occurred in your base period would be picked up with your methodology as being attributable to export expansion policies (i.e. the result of policies to expand exports) rather than a return to normalcy, which is what may actually have occurred. One further example; introduction of QR's which leads to a sharp reduction of imports, would be picked up in your methodology as production expanding import substitution when, in fact, no such import substitution may have taken place (it may have simply led to switching). I wanted to avoid these problems and for this reason did not design the decomposition to explain why output increased, why switching took place or why domestic demand changed (i.e. to separate shock from policy response). Whether these things are the effect of policy or shock have to be interpreted from the unique circumstance of each country.

5. Your paragraph 3. There is one exception to the general notion that I have tried not to separate shock from adjustment in my decomposition. I have attempted to take into account the effect of changes in terms of trade on income and domestic demand. A terms of trade change is considered to be an autonomous, automatic or exogenous force as opposed to a policy induced effect stemming from demand management policies. Deterioration of the terms of trade will reduce income and domestic expenditure, and thereby, reduce absorption (as you note), but that reduction in absorption is associated with an improvement in the real trade balance other things such as output remaining equal. Thus, equation 6, Annex 1 would seem to be correct. I am unclear as to your suggestion that it should be "reinterpreted".

6. Your paragraph 5. The growth effect shown in my decomposition is not attributed to policy unless, of course, policy is the main explanation for what has happened. Again, the decomposition simply shows the effect on the trade balance of increased output but does not attempt to explain why output has increased.

7. Your paragraph 6. You suggest that it may be difficult for a country to improve its balance of payments by simultaneously pursuing absorption reduction policies and output growth policies. This is discussed on pages 18 and 19 of my paper. It would seem that a country can simultaneously curb growth of domestic expenditure by taxing away a portion of increased income, and at the same time, expand output by, for example, increasing investment and making exports more competitive. Under such circumstances, output of tradeable goods could increase despite the decline in domestic demand. In fact, in the absence of price changes, the only way a country can improve its trade balance is to increase tradeable goods output more rapidly than domestic demand. I would not want to argue that reducing growth is an inappropriate way to deal with adverse balance of payments shocks (as you suggest in para. 6) if you are referring to growth

of domestic demand. However, I would argue that it is inappropriate to adjust to balance of payments difficulties by cutting output of tradeable goods (or for that matter reducing growth of output of such goods). Balance of payments improvement occurs (and this is simply a national accounts identity) when output grows faster than domestic expenditure (or when output declines less rapidly than domestic spending). The latter would seem to be an undesirable way of adjusting unless, of course, there is no other alternative.

8. I found many of your comments valuable, especially those in paras. 7 and 8. I am concerned, however, that moving from a year-to-year variations approach which I have used, to a change from the base period approach which you have used and which you suggest I adopt, would get me into some of the same problems which you may have with your methodology (see John Holsen's memo dated October 17, 22).

cc: Recipients of Mr. Balassa's memo of January 31.

/bd

OFFICE MEMORANDUM

TO: Frederick Z. Jaspersen, WDR

FROM: Bela Balassa, DRC

SUBJECT: Your Reply to my Comments

DATE: February 14, 1981

1. My memorandum of January 31st addressed itself to your application of the Salter-Corden methodology. You now allege also to have provided an "identification of the external shock and its impact on the trade balance by using balance of payments data" (Para. 2 of your memorandum of February 11). This is not the case as the tables in question only provide information on price and volume changes for exports and imports, without separating volume changes into external shocks and policy responses.
2. You further allege that the lack of separation of external shock from policy effect in your methodology "is a weakness [and] it is at the same time a strength" (Para. 4 of your memo). But, without such separation, the methodology applied is of limited usefulness to address the adjustment problem. This is evidenced by the fact that you do little to integrate the estimates into the country discussions that are descriptive rather than analytical.
3. In Para. 3 of my memorandum, I suggested that you should relate terms of trade effects to the consequent absorption effects. While you now allege to have done so, this is not the case since your "autonomous" absorption effects include both the impact of the terms of trade change and that of autonomous output changes. The two need to be separated in the estimates in applying the formulas shown in the Annex in the way indicated in my memorandum.
4. You attempt to defend your year-to-year calculations by an oblique reference to the index number problem noted in John Holsen's memo. But this is a high price to pay when you are unable to interpret the large year-to-year swings in the results and cannot provide an indication of the changes that occurred in the period taken as a whole. Apart from providing an overall view of adjustment for the entire period, my use of three year averages for the 1971-73 base period and five-year averages for 1974-78 period limits the effects of annual fluctuations, including the effects of "drought or war which sharply reduces agricultural output and exports" (Para. 4 of your memo).

cc: Recipients of my January 31 memorandum.

BBalassa:nc

Mr. Abdallah El Maaroufi, EM2

February 16, 1981.

Bela Balassa, DRC

Tunisia

I enclose my travel request for Tunisia. Unfortunately, there are no flights from Paris to Tunisia between Sunday morning and Monday morning. I will, therefore, arrive in Tunisia on March 23 Monday morning at 10:45.

Enclosure
BBalassa:nc

February 16, 1981

Mr. Dennis James, Jr.
Kaplan Russin & Vecchi
1218 Sixteenth Street N.W.,
Washington, D.C. 20036

Dear Dennis:

I tried to telephone you on Friday but you were busy and my call was not returned before the end of the day; hence this letter.

As I explained to Charles Pierson on the phone, the welfare loss due to OMA cannot be estimated without information on (a) the extent to which other countries have replaced Korea and Taiwan in supplying footwear to the U.S. market and (b) the extent to which higher unit values on footwear exported by Korea and Taiwan represent an upgrading of their exports. The FTC study postulates (a) full replacement and (b) no upgrading.

Neither of the two assumptions is satisfactory. At the same time, Pierson should obtain information on both in preparing his report. As the report will apparently not be ready before the deadline for the submission, I would not have time to make estimates of welfare costs by that date. At any rate, such estimates would ideally be part of Pierson's paper as they represent a use of the data he collects.

I wish to add here that, in order to deal with the two assumptions underlying the calculation of welfare costs, it will be necessary to obtain data on the value and volume of imports from major suppliers of footwear to the U.S. market for narrow product categories. This information will also permit answering three questions that are at the heart of Pierson's report:

(1) to what extent do increases in unit values represent a "rent" to the quota holders or the upgrading of exports?

(2) to what extent have imports from Korea and Taiwan shifted to categories where they more directly compete with U.S. production?

(3) to what extent have other suppliers replaced Korea and Taiwan in the kind of footwear they traditionally supplied to the U.S. market?

The relevant value and quantity data are available in "TSUSA Commodity by Country of Origin," from which unit values can be calculated for seven digit categories. This breakdown also permits examining the upgrading of imports of particular kinds of footwear from Korea and Taiwan.

Data should preferably be obtained for the 12 months periods July 1976-June 1977, July 1977-June 1978, July 1978-June 1979, and July 1979-June 1980. Should this present difficulties, calendar year data may also be used. Time permitting, one should collect data for Korea, Taiwan, and for major competing suppliers, so as to indicate the extent of substitution by non-OMA sources.

It would further be necessary to update the figures collected by my wife last July. By now, data should be available for the entire calendar year 1980. Finally, the employment effects of changes in consumption, imports, and productivity should be calculated as it was done in the case of textiles.

Some of these calculations might have been done in the detailed study on the OMA in footwear, prepared by a former member of the Federal Reserve Board. However, I have still not received a copy of this study.

Perhaps we should speak on the telephone once you have received this letter. I can be reached at 301-338-7612 all day Tuesday and Wednesday.

Sincerely,

Bela Balassa

cc: Messrs. Kaplan, Pierson

Mr. Robert Cassen, WDR

February 16, 1981

Bela Balassa, DRC

WDR IV Aggregation of Your Shock and Adjustment Data

1. In response to your memo of February 11th, I wish to reiterate that I cannot modify the groups used in the OECD Development Centre study. All I can do is to add together the results for various groups. The composition of the individual groups is indicated in "A Typology of Non OPEC Developing Countries" that was sent to you earlier.

2. I provide below information on the status of estimates for the various groups of countries you have requested.

Semi-Industrial - roughly corresponds to category 1, the Newly Industrializing Countries, in the OECD Development Centre study, estimates for which were included in Chapter IV of the study that was sent to you earlier.

Middle Income Primary - will be derived as a combination of categories 2 to 5 in OECD Development Centre study.

Low Income Southeast Asia - roughly corresponds to a new category, comprising India, Pakistan and Bangladesh, for which estimates have just been completed at the OECD Development Centre. The results are enclosed.

Low Income Africa - roughly corresponds to category 6, least developed countries, in the OECD Development Centre study, estimates for which were included in Chapter IV of the study that was sent to you earlier.

cc: Messrs. Chenery, VPD, Jaspersen, WDR

Enclosure
BBalassa:nc

CABLE

FEBRUARY 16, 1981
61991

MR. MULLER-GROELING, WELTWIRTSCHAFT
KIEL, GERMANY

REVISED VERSION OF MY PAPER QUOTE INDUSTRIAL PROSPECTS AND
POLICIES IN THE DEVELOPED COUNTRIES UNQUOTE COULD BE MAILED
TO YOU THIS WEEK. FURTHER ESTIMATES COULD BE INCORPORATED IN
THE PAPER IF SUBMISSION DATE COULD BE POSTPONED UNTIL MARCH
15. PLEASE REPLY BY RETURN CABLE. REGARDS, BALASSA

Bela Balassa

DRC - Director's Office

Bela Balassa

BBalassa:nc

PINK

February 16, 1981

Mr. Werner Baer
The Quarterly Review of Economics
and Business
Editorial Offices
428 Commerce West
University of Illinois at Urbana-Champaign
Urbana, Illinois 61801

Dear Werner:

I am returning to Mrs. Wagner the manuscript of my paper together with the information she has requested. As to the length of the paper, I have already cut five pages by excluding the methodological annex. Should further cuts be unavoidable eliminate Appendix Table 4 and, if absolutely necessary, also Appendix Table 2. This will modify the references to these tables as well as to the present Appendix Table 3 in the text.

Mrs. Wagner also raised questions concerning the size of the tables. I agree with her that it would not be possible to reduce the tables to the size of a normal book page without making them illegible. I rather suggest putting tables over facing pages in the book.

With best regards,

Yours sincerely,

Bela Balassa

cc: Mrs. N. N. Wagner

OFFICE MEMORANDUM

TO: Mr. Francis X. Colaco, EPD

DATE: February 16, 1981.

FROM: Bela Balassa, DRC

SUBJECT: MR. Martin Wolf

1. This is in reference to your agreement with Mr. Vinod Dubey on the participation of Mr. Martin Wolf in the mission on Industrialization and Trade Strategy I will lead to Turkey in May. Martin will be asked to examine the export possibilities of the state economic enterprises. This will involve considering market prospects as well as factors affecting export supply including prices, incentives, costs, and management. It should be added that the public sector is of particular importance in the textile industry, in regard to which Martin acquired considerable expertise. Given the similarities in the system of controls in the two countries, Martin also will make use of his experience in India.

2. It is expected that the mission will depart on May 15th and will stay three weeks in the field. A first draft of the report should be completed by mid-July and a yellow-cover version of the report in September.

cc and cleared with Mr. Dubey
cc: Mr. Wolf

BBalassa:nc

Frederick Z. Jaspersen, WDR

February 14, 1981

Bela Balassa, DRC

Your Reply to my Comments

1. My memorandum of January 31st addressed itself to your application of the Salter-Corden methodology. You now allege also to have provided an "identification of the external shock and its impact on the trade balance by using balance of payments data" (Para. 2 of your memorandum of February 11). This is not the case as the tables in question only provide information on price and volume changes for exports and imports, without separating volume changes into external shocks and policy responses.
2. You further allege that the lack of separation of external shock from policy effect in your methodology "is a weakness [and] it is at the same time a strength" (Para. 4 of your memo). But, without such separation, the methodology applied is of limited usefulness to address the adjustment problem. This is evidenced by the fact that you do little to integrate the estimates into the country discussions that are descriptive rather than analytical.
3. In Para. 3 of my memorandum, I suggested that you should relate terms of trade effects to the consequent absorption effects. While you now allege to have done so, this is not the case since your "autonomous" absorption effects include both the impact of the terms of trade change and that of autonomous output changes. The two need to be separated in the estimates in applying the formulas shown in the Annex in the way indicated in my memorandum.
4. You attempt to defend your year-to-year calculations by an oblique reference to the index number problem noted in John Holsen's memo. But this is a high price to pay when you are unable to interpret the large year-to-year swings in the results and cannot provide an indication of the changes that occurred in the period taken as a whole. Apart from providing an overall view of adjustment for the entire period, my use of three year averages for the 1971-73 base period and five-year averages for 1974-78 period limits the effects of annual fluctuations, including the effects of "drought or war which sharply reduces agricultural output and exports" (Para. 4 of your memo).

cc: Recipients of my January 31 memorandum.

BBalassa:nc



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Withdrawn by Chandra Kumar	Date May 30, 2014
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February 13, 1981.

Dr. Michael Roemer
Harvard Institute for
International Development
1737 Cambridge Street
Cambridge, Massachusetts 02138

Dear Mike,

Thank you for your letter of February 2nd. The subject you suggest is fine with me. There is no need to distribute the Jamaica paper.

I plan to arrive on April 9 at 11:45 on Eastern 878. This should give us time to have lunch before the seminar. Should I go to the Harvard Faculty Club directly? If so, please let me know where I should stop with the taxi. I plan to return on Eastern 199 leaving Boston at 5:15 or on American Airlines 275 leaving Boston at 5:55.

Yours sincerely,

Bela Balassa

February 13, 1981

Mrs. Andrea Deak
Economist
Deputy General Manager
State Development Bank
Budapest V. Deak F. u. 5
Hungary

Dear Mrs. Deak:

Not having your new address at the Ministry I am sending this letter to the Bank. I presume they will forward it to you.

Mr. Christian Stoffaes visited me in Washington this week. I explained to him your interest in French industrial policies. He would positively respond to an invitation to visit Hungary to have discussions on these policies.

Stoffaes also has familiarity with German industrial policies. Still, if you want to establish a contact he suggested that you write to Mrs. Buchner-Schopf of the German Economics Ministry. Her address as well as Stoffaes' is enclosed. I further enclose a paper Stoffaes prepared on French industrial policies for a conference held in Washington last year.

It was very good to see you and Janos last month. Carol and I are sending our best regards to Janos and you.

Yours sincerely,

Enclosures

Bela Balassa

cc: Mr. Christian Stoffaes

February 13, 1981.

Mrs. Ellen Seiler
Editor
Princeton University
International Finance Section
Dickinson Hall
Department of Economics
Princeton, New Jersey 08544

Dear Mrs. Seiler:

I enclose the corrected proofs together with the manuscript and the earlier pages you sent me. I have made only a few changes in the proofs.

I have replaced "investable" with "investible." While I understand that the preferred usage is the former in some dictionaries, the latter is acceptable provided that it is part of the professional language which is the case here.

I have also added a sentence at the end of the first paragraph following the subtitle "Vulnerability and Policy Responses to External Shocks." While you have deleted this in the course of editing, I consider it necessary in order to establish a link with the following paragraph. At the same time, I shortened a sentence so as to minimize changes.

Yours sincerely,

Enclosures

Bela Balassa

February 13, 1981

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

Dear Irma,

Thank you for your letter of February 3rd. I will send you the draft of my paper on Hungary in early August. I enclose a copy of the proofs of my paper on industrial development that will be published as essay 141 in the Princeton Essays in International Finance. I have already asked Peter Kenen and he has informally agreed but he will need an official sounding letter from you. In the letter please indicate the expected publication date of the volume.

Yours sincerely,

Enclosure

Bela Balassa

February 13, 1981

Professor Iran T. Berend
K. Marx University of Economics
1093 Budapest
Dimitrov tér 8
HUNGARY

Dear Ivan,

Professor Lauter of the George Washington University has arranged for you to give a talk at the U.S. Department of Commerce on April 14th. The Department will offer you an honorarium for the lecture.

Professor Lauter will pick you up at 8:15 near to my house and will take you there. The lecture is scheduled to last from 9 to 12. You could speak for about an hour and a half and reply to questions the remainder of the time.

The participants are not trained economists but have considerable practical experience. They are interested in recent and prospective future developments in the Hungarian economic system that would permit them to analyse the Hungarian economy. They are particularly interested in the effects of recent changes in the economic mechanism.

I have spoken to Ranki who suggested that you could come to Washington Monday morning. We would like you to stay with us Monday night. Tuesday I leave for my weekly two days stay in Baltimore and will not return until Wednesday night.

Please let me know at the earliest if this arrangements is convenient. I am sending copies of this letter to Ranki as well as to Lauter.

Yours sincerely,

Bela Balassa

February 13, 1981

Mr. Med Rachid Kechiche
Institut d'Economie Quantitative
2, Rue Benghazi
Tunis
TUNISIA

Dear Mr. Kechiche:

Thank you for your letter of January 27th. I found your comments very useful, in particular the reference to the import content of exports. I cannot, however, change the treatment of emigrants remittances which follows a common methodology for all the countries. This treatment corresponds to the definition of the resources gap in Table 2 of the study.

I will be going to Tunisia on March 23rd for discussions with your government on matters relating to incentive policies. I would be glad if we could meet on this occasion. I will be staying at the Hotel Hilton until March 27 or March 28.

With best regards,

Sincerely yours,

Bela Balassa

February 13, 1981.

Monsieur Y. Berthelot
Directeur de la recherche
Centre de développement de l'OCDE
94 rue Chardon-Lagache
75016 Paris
FRANCE

and Monsieur André Barsony
Centre de développement de l'OCDE
94 rue Chardon-Lagache
75016 Paris
FRANCE

Dear Yves and André:

You may recall that in the summary chapter I used my own estimates for Mexico as the estimates made by our Mexican collaborators arrived only late last year. I have since reviewed the estimates and found them unacceptable in places. I have discussed this with our Mexican collaborator who has agreed that I use my own estimates in the summary volume, complemented by his estimates for tourism and border transactions. He will in turn prepare a revised set of estimates in the final version of his study for the Centre.

Having solved the Mexican problem, I have completed the revision of chapters 2 and 3 of the summary of the volume. The revision takes account of the revised estimates for Mexico and Portugal, and the comments made at the meetings, with further changes made to improve the presentation. I hope that these changes will not cause trouble with the French translation.

I will mail to Mrs. Anne Richards Loup the revised version of the two chapters. Subsequently I will send my comments on chapter 4 which arrived recently. There is a problem with the estimates of this chapter, however, which I tried to talk to Anne about but could not get her on the phone either yesterday or today. Setting up a new group including India, Bangladesh and Pakistan, she has neglected excluding Bangladesh from group 6. This exclusion is absolutely necessary given the large weight Bangladesh has in this group. I will try to call her again on Monday with the request to prepare the revision at the earliest.

I further hope to be able to prepare a new version of chapter 1 in about two weeks. In view of Yves' comments, this will require a considerable amount of work. Finally, I will review the second part of the Brazil, Ivory Coast and Portugal studies in early March and will send instructions

to the authors for the preparation of their manuscript for the second volume.


With best regards,

Yours sincerely,

Bela Balassa

cc: Mrs. Anne Richards Loup

(Only on Mr. Berthelot's letter)

P.S. I hope that you have received my proposal for the contract 
the work described in this letter.

OFFICE MEMORANDUM

TO: Mr. Robert Cassen, WDR

FROM: Bela Balassa, DRC

SUBJECT: CMEA Background Paper

DATE: February 12, 1981

1. The author of the report has heroically struggled with a large amount of material, but the result is still rather amorphous. At the same time, sufficient distinction has not been made either among the Six (Bulgaria, Czechoslovakia, East Germany) Hungary, Poland, and Romania, or in CMEA relationships with individual developing countries and the country groups.

2. In noting points of disagreement on facts and on the interpretation of facts, I will follow the order of discussion in "Summary and Conclusions." At several points, reference will be made to two of my papers, "Types of Economic Integration," published in the Proceedings of the Fourth Congress of the International Economic Association held in Budapest in August 1974 and (World Bank Reprint Series No. 69) and "The Economic Reform in Hungary Ten Years After" European Economic Review, December 1978 (Hungarian translation published in Valosog, 1978, 5).

The Planning and Foreign Trade System

3. The description of the central planning framework does not apply to Hungary that has to a large extent decentralized economic decision-making, with a substantial part of foreign trade being handled directly by the producing enterprises. Further steps in this direction have been taken since the publication of my "The Economic Reform in Hungary Ten Years After." But there are also considerable variations among the other CMEA countries, in particular as far as the conduct of foreign trade is concerned. East German industry, for example, is organized in the form of trusts that have considerable freedom to engage in foreign trade.

4. In Hungary, prices obtained in exporting to the DMEs are directly reflected in the firm's accounts, thereby eliminating the need for price equalization schemes. Such schemes, incidentally, are rarely self-liquidating, (p. 15); until the 1968 reform they showed a large deficit in Hungary, for example. This is in part because trade is not balanced, and in part because tax and subsidy rates vary among commodities and between exports and imports in general. Incidentally, statements in the report notwithstanding, the concepts of taxes and subsidies as well as that of dumping (p. 76) have relevance for the CMEAs although admittedly it is difficult to determine the incidence of dumping (the U.S. International Trade Commission has recently made an effort in connection with certain imports from Poland).

5. References to "passive orientation to world market prices" (p. ii) and to the irrelevance of national prices for trade (p. 15), as well as the statement that "trade prices are basically world market prices" (p. 15), are misleading. In fact, as reported in "Types of Economic Integration" (p. 23), there are considerable deviations from world market prices that reflect in part domestic costs and in part success in bargaining. Bargaining has also

led to considerable variations in foreign-trade prices in bilateral relationships among CMEAs.

6. In summarizing the literature on the subject, Professor Bergson notes, "COMECON foreign trade prices tended during the sixties ... to be relatively high for machinery and equipment and manufactured consumer's goods and to be relatively low for agricultural products and, at times, for fuel, minerals, raw materials, and metals" ("The Geometry of COMECON Trade," European Economic Review, November 1980, p. 297). Bergson adds that low-priced products constitute a higher share of Soviet exports to, and high-priced products a lower share of Soviet imports from, the Six (Ibid.). This pattern is likely to have continued during the seventies as increases in Soviet export prices of fuels and raw materials lagged behind the rise of world market prices. In turn, the Six continue to charge high prices for manufactured goods that are not of the same quality as those obtainable in the West.

7. Note should further be taken of the use of "efficiency coefficients" for exports. These coefficients are formally equivalent to the well-known DRC ratio but factors of production are not valued at their shadow prices ("Types of Economic Integration" pp. 23-24). Rather, actual wages are used in the case of labor and, following an earlier disregard of the scarcity value of capital, a proxy is used for the rate of interest which however tends to be overly low.

8. At the same time, the statement that "CMEA is ... not even notionally a single integrated economic system as membership does not impinge on national sovereignty" (p. 16) fails to recognize the efforts made by the Soviet Union in this direction ("Types of Economic Integration," pp. 21-22). And, the Six are under constant pressure to enter into long-term agreements of industrial specialization with the Soviet Union. They have resisted the pressure in some cases but have not been successful in others; they have also been induced to invest in material production in the Soviet Union.

Trade Imbalance and Debt in Convertible Currencies

9. The statement that "the imbalance of CMEA in its trade with the DMEs ... gained increasing momentum during the 1970s" (p. 9) should be modified to take account of the fact that the deficit declined substantially in 1979 and, again, in 1980. Debt in convertible currencies, however, continued to increase, reflecting the growing burden of debt servicing. According to recent estimates, CMEA debt to the West increased from \$71 billion on December 31, 1979 to \$85 billion on December 31, 1980.

10 The report correctly notes that "in some of the smaller CMEA countries foreign indebtedness reached critical levels" (p. iv). The validity of several of the subsequent statements is, however, open to doubt. Thus, I am at a loss to understand the claim that "the debt-service ratios ... are not directly comparable to ratios as normally considered, as they refer to convertible currencies only" (p. 49). Also, the statement that "a sizeable portion of the debt ... are contracted within what is frequently referred to as 'countertrade' arrangements" (p. 48) overstates the importance of these arrangements as far as foreign indebtedness is concerned.

Adjustment and Prospects in the CMEAs

11. The description of recent trends in the CMEA countries is generally correct. However, the statement that "reserves of labor force -- shifts from agriculture to other sectors and increases in participation rates -- were exhausted in most CMEA countries during the 1970s" (p. iv) fails to recognize the fact that a reservoir of labor continues to exist in agriculture. Improvements in agricultural productivity could lead to a substantial labor transfer to the cities in the Soviet Union and in Poland in particular.

12. Also, the claim that "the control all CPEs have over the size and composition of effective demand and over level and schedule of domestic relative prices ... has enabled them to avoid some of the disruptive indirect effects of external disturbances through which built-in automatism of market economies enforce adjustment" (p. vi) is misleading. Not unlike Brazil and some other LDCs, several of the CMEAs failed to adjust and used much of the proceeds of foreign borrowing to maintain consumption growth rates. Notwithstanding differences in economic systems, the two groups of countries face similar constraint and will eventually have to make the adjustment. In this connection, I may refer to my paper on Hungary where measures of adjustment have since been taken, involving a considerable slowdown in economic expansion.

13. The evaluation of the situation in the agriculture of the CMEA countries is generally correct. At the same time, with near-stagnant population, a slow down in economic growth, and low income elasticities of demand for food in these countries, rapid increases in domestic demand for agricultural products may not be expected for the future. With increased effort made to increase supply, then, the prospects may not be as dim as suggested in the report.

14. Similar considerations apply to energy. As the data reproduced in the report also indicate, there are possibilities for substantial energy savings in the CMEA countries. At the same time, efforts are being made to effect such savings, in particular in Hungary. Nonetheless, the energy constraint will be increasingly binding on the Six as reportedly they will have to pay for part of their purchases from the Soviet Union in convertible currencies.

Relations with the LDCs

15. The report correctly notes the practice of 'absolute' protection against LDCs manufacture in the CMEA countries. Its references to gains the LDCs would derive from trade with the CMEAs are however, off the mark. One may also object to the endorsement of countertrade-type arrangements between LDCs and CMEAs in the report.

16. The claim that "there are instances of a strong presumption of net gains for LDCs (for example, when idle production capacities and associated resources provide the basis for strong multiplier effects on growth of output and employment, or when counterdeliveries are technically inferior capital goods which seriously impair the efficiency of key industries)" (pp. 74-75) is particularly curious. In fact, the latter factor has been to the detriment of LDCs that have received inferior capital goods from the CMEAs. In several cases, such as Egypt and India, the result has been high production costs and

low quality of the products manufactured by the use of inferior equipment, removing the possibility of competitive exports.

17. Questions arise also about the claims made for medium-term trade agreements between the CMEAs and the LDCs. According to the report, "such agreements are unaffected by business cycles whose downturn can be devastating for marginal exporters to the DMEs. CMEA trade, thus, can for LDCs introduce an element of stability into a volatile trade environment" (p. 75). To begin with, this trade is such a small proportion of total LDC trade that it can have little effect in the aggregate. Furthermore, notwithstanding the effects of the business cycle, the manufactured export of the LDCs to the DMEs declined only slightly in 1975 and resumed their rapid growth afterwards, much exceeding the rate of expansion of exports to the CMEAs for the entire 1973-78 period. At the same time, trade with the CMEAs has also been subject to fluctuations over time. Last but not least, the terms of medium-term agreements have often favored the CMEAs over the LDCs.

18. Similar considerations apply to barter arrangements between CMEAs and LDCs. This explains that LDCs are increasingly shifting away from such agreements and towards the use of world market prices, with clearing in convertible currencies. It is also doubtful that they would benefit from countertrade-type agreements proposed in the report (p. viii). Thus, one wonders if the LDCs should accept low-quality capital goods from the CMEAs when the latter are getting high quality capital goods from the CMEs in the framework of such arrangements.

19. According to the report, "on aid the evidence is spotty. However, it appears that aid is concentrated on a few LDCs which are either CPEs or with which close economic relations have been established" (p. viii). One should substitute "political ties" for "economic" relations in this statement. I recall having seen some years ago a table indicating that CMEA aid was concentrated in seven countries, chosen for political reasons. The data of Table 22 indicate that this continues to be the case.

20. It has been suggested that, with few exceptions, the grant element in CMEA aid tends to be low. As to the claim that "the CMEA countries provide a considerable amount of aid through trade (by means of prices deviating from world market prices at the advantage of LDCs)" (p. 83), the opposite may be the case due to the overpricing of manufactured goods by the CMEA countries.

cc: Messrs. Chenery, VPD
Mrs. Hughes, EPD
Baneth, EPD
Colaco, EPD
S. Lee, EPD
Miovic, EPD
Holsen, ASNVP
I. Frank, CON
Elsaas, EPD
WDR Core Group

BBalassa:nc

Bela Balassa, DRC

Proposed Modelling for Thailand and Egypt

1. I have read Boris Pleskovic's "A Disaggregated Social Accounting Matrix for Thailand" as well as your two papers on an economy-wide simulation framework for structural adjustment analysis. SAM 2 is a useful extension of SAM 1, although I wonder if the introduction of the "wants" concept represents any real change on the consumption side. Furthermore, the question arises if the disaggregation of the productive structure will suffice for the modelling of structural adjustment. This issue brings me to your paper on Thailand.

Suggestions for the Treatment of Selected Blocks of an Economy-Wide Simulation Framework for Structural Adjustment Analysis

2. In the paper, it is suggested separating rice, other crops, and other agriculture within the agriculture block, and mining and quarrying, construction, consumers' goods industries, intermediate goods' industries, and capital goods industries within the industry block, with the further separation of formal and informal activities as well as Bangkok and the rest of the country. My only question relating to the agriculture block pertains to an introduction of irrigation that can importantly increase the productivity of land.

3. In industry, you propose assuming that, in each activity, there is a single economy-wide firm producing a homogeneous commodity in the formal and the informal sector in both Bangkok and the rest of the country, with demand for the output determining the level of activity and the price. While this is an ingenious solution, it encounters practical difficulties relating to product homogeneity, data availability, transportation costs and large-scale economies.

4. To begin with, it can hardly be assumed that the formal and the informal sectors produce the same commodity in individual activities. It would be more appropriate to use an Armington-type demand function or, in some cases, to assume complementarity. At the same time, data limitations will make it difficult to derive production functions for informal activities.

5. There is further the question of transportation costs. As it is well-known, outlying areas are disadvantaged both because they are far from major markets (Bangkok as well as exports) and because they pay a higher price for inputs (originating in Bangkok and from abroad). It is crucial to include these aspects in a model that is to determine the locational structure of production.

6. There are further large-scale economies, both internal and external to the firm. External economies have particularly favored the Bangkok area and while diseconomies have assumed increasing importance, most firms on balance benefit from locating in the area. There is further the question of economies of scale that cannot be introduced at the level of commodity disaggregation.

7. More importantly, capturing the effects of export promotion and import substitution would require a more detailed industry classification. Nor can one follow the Egyptian model in assuming that imports of intermediate goods and capital goods are complementary to domestic production in Thailand where a considerable variety of these goods is produced. Finally, questions arise about the usefulness of postulating a parametrically shifting import demand function.

Review of Evidence and Design of Accounts for an Economy-Wide Simulation Framework for Structural Adjustment Analysis

8. The purpose of this paper is not entirely clear. While Thailand could be chosen as an example of a country suffering the effects of the 1979-80 oil price increase, Egypt is rather a beneficiary. A related issue is that whereas the savings constraint appears to be binding in Thailand, the main problem in Egypt is how available savings could be put to best use. Finally, apart from the relative importance of the public sector, the two countries differ in their trade and agricultural policies.

8. While Thailand has had a relatively open economy, Egypt has followed a policy of import substitution with high protection. This policy has had adverse effects on industry and agriculture alike. In the industrial sector, this has led to the establishment of high-cost, inefficient firms that are not internationally competitive. In agriculture, the low prices practiced have discouraged increased intensive cultivation. In turn, the policies followed by Thailand have contributed to rapid expansion in industry as well as in agriculture.

9. The paper suggests that "the two countries managed to improve income distribution and reduce poverty" (pp. 3-4). The data for Egypt permit judging only the first claim and the data for Thailand the second as the former does not provide information on changes in real income and the latter does not include income shares. At the same time, the Egyptian data show a considerable deterioration of the income distribution over the last decade with the wage share declining by one-third and the property income share increasing correspondingly.

10. The remaining part of the paper is long on description and short on analysis. In the discussion, too much emphasis is given to constraints and one may doubt the usefulness of separating structural and transitory constraints. At the same time, a greater commodity disaggregation would be necessary to capture the effects of alternative policies.

cc: Messrs. Duloy, Pyatt, DRC; Shilling, EPD.

BBalassa:nc

Bela Balassa, DRC

The Economics of Decay

1. This paper, written in collaboration with Michael Schluter and Uma Lele, contrasts a "decay" economy with a "growth" economy and suggests that external or internal shocks may have moved an economy into the decay phase, which tends to be self-perpetuating. In such an economy, operating "well within the frontier, well meant advice, and even direct aid, which is focussed on expanding the production possibility frontier, or on changing the position on the constrained frontier to more accurately reflect the terms of trade may be simply mischievous" (pp. 5-6).
2. In the simple model underlying the paper, the process of decay "operates through a sequence of inadequate allocations of foreign exchange to the export sector, leading to lower export earnings in the following period, and then to a further fall in allocations to the export sector and so on until a low-level equilibrium is reached" (p. 27). If this was indeed the problem, there is a simple remedy; increase the allocation of imported inputs for export production, thereby reversing the process of decay. I do not think that aid agencies would reject such a request provided that sufficient guarantees are given as to the use of foreign exchange for this purpose. Also, a number of export products could even be sold on futures markets or advances obtained from would-be buyers. Nor do I think that this, rather trivial, case is representative of developing economies in decay, so that the remedies have to be sought elsewhere.
3. Let us first separate the countries where decolonization and/or revolutionary change brought about a decline in GNP. These are no "true" economies in decay; they rather need to go through a period of normalization. This may require not so much foreign exchange as stable political conditions and appropriate incentives to resume the growth process.
4. There are, next, developing countries that experienced negative rates of growth of per capita incomes for protracted periods. They include, in addition to those listed in Table 1, Chad, Madagascar, and Senegal in Africa. These countries, together with Ghana and Niger, may be considered to be in "decay" that has little to do with the lack of imported inputs for export production. Rather, the main issue is one of policies, including government interventions, white elephants, inappropriate pricing etc. The best, or rather worst, example is Ghana where overly low farm prices, together with a grossly overvalued exchange rate, aggravated the damage wrought by inappropriate investment allocation, so that its economy decayed while that of neighboring Ivory Coast prospered.
5. The solution is the adoption of appropriate policies, a prescription that seems to be rejected in the statement cited above. The same conclusion applies to Jamaica, a country I recently visited, although foreign exchange limitations have admittedly adversely affected exports. Providing additional

foreign exchange alone would not help, however, as one needs to change the incentive system to ensure the rapid expansion of exports. I would thus suggest that you concentrate on the issues raised in Section 5 of the paper.

cc: Messrs. Gulhati, EANVP
Acharya, VPD
Grais, DRC
Duloy, DRC
Lamb, DRC
Schluter,
Lele, EAP
Kutcher, DRC

BBalassa:nc

Mr. Michel D. Noel, YP

February 10, 1981

Bela Balassa, DRC

Incentives and Resource Costs in Cocoa and Coffee Processing

1. With some revisions, your paper may serve as a useful background document for discussions on industrial policy in the Ivory Coast. Most readers will, however, find the descriptions overly detailed. It is also far too long for purposes of the OECD Development Centre as your entire contribution on external shocks and on short-term and long-term adjustments may not exceed 100 - 120 double-spaced pages. I understand that the second part will be co-authored with Garry Pursell.
2. I also have problems with your style. The writing is turgid and incomprehensible in places. In some of these instances, I put question marks on the margin of the paper. But, a major effort is required to improve the style and to make the text more understandable for the reader.
3. In regard to cocoa processing, you should provide a detailed explanation of how the nominal protection coefficients (NPC) for raw beans have been derived. Also, the change from an NPC of 2.01 in 1978 to 1.14 in 1979 strains the imagination. I presume that the problem is with the price data for subgrades which you calculated as export unit values. This is a weak reed on which to build the entire edifice of effective protection - domestic resource cost calculations. The quality problem raises its ugly head here as it does in the case of product prices, variations in which are left unexplained in the paper.
4. The observed large difference between the world market price and the Ivorian export price for cocoa beans further raises the question of underinvoicing. In the sensitivity analysis, it would be desirable to take account of this possibility. In conjunction with the use of weighted averages of the prices of subgrades in the sensitivity analysis, the same procedure should be followed with respect to the price of output. Last but not least, the discussion of the results of the sensitivity analysis especially needs improvement.
5. In the case of coffee, underinvoicing by Nestle will explain the fact that the export price of instant coffee to the CEE is lower than the value of the beans. In the absence of information on world market prices, however, it is difficult to judge the validity of the claim that higher prices charged in domestic and in CEAO markets offset the low export price to the EEC. Even without such offsets, Nestle may have found underinvoicing profitable if it thereby reduced its tax burden. This issue will need to be explored further, with consideration given to market structure. Incidentally, the choice of the export unit value of soluble coffee to the non-CEAO and non-EEC markets as the reference price assumes that these markets are competitive. Finally, just as in the case of cocoa, questions arise about the appropriateness of using the export unit value of broken beans as the reference price for inputs.

cc: Mr. Pursell, DRC
BBalassa:nc

February 11, 1981.

Mr. Alberto Guzmán S.
Project Manager
Monmeros Colombo Venezolanos, S.A.,
Apartado aéreo 3205
Barranquilla, Colombia
South America

Dear Sir:

The studies you have asked for, 671-35 Export Incentives in Developing Countries and 670-87 Industrial Policies and Economic Integration in Western Africa, are not available at the present time but we will be pleased to send you a copy when they become available.

Yours sincerely,

Norma Campbell
Secretary to Mr. Bela Balassa
Development Research Center

Mr. Josef Hadar, IPA

February 9, 1981

Bela Balassa, DRC

Publication of Photograph

In reference to our earlier conversation, I would like to ask your agreement for the use of one of the photographs originating from your services on the title page of my book "The Newly Industrializing Countries in the World Economy." The photograph in question appeared in the September/October 1980 issue of *Report, News and Views from the World Bank*. Please indicate in what form the acknowledgment should be made for the use of the photograph.

In agreement with Mr. John E. Merriam, the book is published by Pergamon Press.

cc: Mr. Merriam

BBalassa:nc

February 9, 1981

Dr. Albert Wohlstetter
5128 South Hyde Park Blvd.
Chicago, Illinois 60615

Dear Dr. Wohlstetter:

I would appreciate your informing me of the title, editors, publisher and prospective date of publication of the volume in which my paper "Policies for Stable Economic Growth in Turkey" will appear. Please confirm also if I correctly cited the paper as having been prepared for the Conference "The Security of Turkey and Its Allies" organized by the European American Institute for Security Research and held in Istanbul in September 1979.

Yours sincerely,

Bela Balassa

February 9, 1981.

Professor Reghinos D. Theocharis
Director-General
Center of Planning and Economic Research
22 Hippokratous Street
Athens 144
Greece

Dear Professor Theocharis:

I have given instructions for the next installment of the contract with KEPE to be paid. I have also requested an increase in the amount of the contract. I will not know the result until March at which time I will let you know what has transpired. Irrespective of whether I succeed in raising the amount of the contract, I would like to ask you if it might be possible to provide a small fee to Mr. Panourgias who has performed econometric calculations. Mr. Panourgias has worked very hard for a long period, mostly in unpaid overtime, at the Bank of Greece.

It was good to see you again. With best regards,

Sincerely yours,

Bela Balassa

cc: Dr. Evangelos A. Voloudakis

February 9, 1981

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

Dear Mr. Kellogg:

On June 27, 1980 I returned two copies of the contract for the publication of my "The Newly Industrializing Countries in the World Economy" with the agreed upon corrections. May I ask you to return a copy of the contract to me by return mail.

Yours sincerely,

Bela Balassa

February 9, 1981

Mr. Joseph Grunwald
The Brookings Institution
1775 Massachusetts Avenue N.W.
Washington, D.C. 20036

Dear Joe,

Please excuse the delay in sending you the preliminary version of my paper on "Industrial Prospects and Policies for the Developed Countries." The delay may be rationalized by reference to the fact that the short time available did not permit me to utilize in the paper the various material relating to your research project. I expect to do so in the revised version that will be sent to you in about a month.

With best regards,

Yours sincerely,

Enclosure

Bela Balassa

P.S. Your comments on the revision would be greatly appreciated.

February 6, 1981

Dr. Gerhard Fink
The Vienna Institute
for Comparative Economic Studies
P.O. Box 87
A01103 Vienna
Austria

Dear Dr. Fink:

Since our conversation I have reviewed my schedule and it appears that in 1982 our spring vacation will be between March 21 and 28. I am afraid that it does not coincide with Easter that will be on April 11.

As I indicated to you I could participate at the Conference you are organizing only during my vacation or over a weekend during the academic semester. Please let me know as things develop.

Yours sincerely,

Bela Balassa

February 6, 1981

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

Dear Professor Hic:

It was a pleasure meeting you and Professor Alkin in Istanbul. As I learned from subsequent conversations with Professor Ertüzün you have not seen either the methodology or the questionnaire used at the Bank for effective protection and domestic resource cost studies.

I enclose the methodology of our West African study together with one of our recent questionnaires. Apart from the main questionnaire, consisting of Tables 1.0.0 - 3.0.0, I would like to direct your attention to Table 6 that collects information on fixed assets. This is of particular importance in Turkey, given the need to revalue such assets in present prices. In fact, this would necessitate obtaining more detailed information on the dates of investment than requested in Table 6.

Needless to say, the questionnaire would have to be adapted to conditions existing in Turkey. It would further be necessary to try out the questionnaire on a few firms before it is put to general use.

The last point is made in the enclosed memorandum I prepared following my return to Washington. The contents of this memorandum have been incorporated in the research proposal to be submitted to the Bank's Research Committee. The Committee will make a decision on the project at its next meeting in mid March.

I further enclose a revised budget of the project that attempts to make a realistic estimate of the time required for the survey and for the calculations. Our experience is that approximately four days are required to perform these tasks per firm.

Looking forward to hearing from you, I remain,

Sincerely yours,

Enclosures

Bela Balassa

cc: Professors Alkin, Ertüzün

cc: Messrs. Berk, Roy, Hong, EM2

←ψωσσεφ: Methodology of the Western Africa Study, Questionnaires, Memorandum, Budget

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 timetable 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

	<u>Original (TL)</u>	<u>Revised (TL)</u>
A- <u>RESEARCHERS' FEES</u>	<u>3.000.000,-</u>	<u>2.700.000,-</u>
i- Data search, organization management	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- <u>SAMPLING and INTERVIEWING COSTS.</u>	<u>1.700.000,-</u>	<u>3.500.000,-</u>
i- Fees for interviewers	1.200.000,-	3.000.000,-
ii- Travel costs	500.000,-	500.000,-
C- <u>DOMESTIC TRAVEL COSTS</u> (Ankara-Istanbul)	<u>250.000,-</u>	<u>250.000,-</u>
D- <u>OFFICE COSTS</u>	<u>400.000,-</u>	<u>400.000,-</u>
TOTAL	5.650.000,-	6.850.000,-

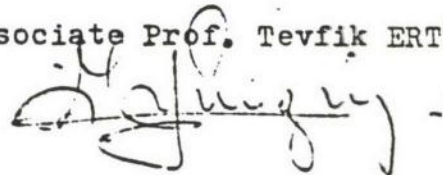
Exchange rate \$ 1 = TL. 90

\$ 62.780,- \$ 76.110,-

in the name of the executive
committee of the research group

16. January 1981

Associate Prof. Tevfik ERTÜZÜN



1.0.0. Summary of Financial Data
For 1970-76

	1970	1971	1972	1973	1974	1975	1976
1.1.0 Export Sales of Manuf.							
1.1.1 Domestic Sales of Manuf.							
1.1.2 Total Sales of Manuf.							
1.1.3 Other Income							
1.2.0 Depreciation							
1.2.1 Interest paid							
1.2.2 Net profit or loss							
1.2.3 Provision for Corporate Taxes							
1.2.4 Dividends Paid							
1.3.0 Net Worth							
1.3.1 Fixed Liabilities							
1.3.2 Current Liabilities							
1.3.3 Note and Bills Payable							
1.3.4 Inventories (Total)							
1.3.5 Receivables							
1.3.6 Total Assets							
1.4.0 Total tangible fixed assets (Underdepreciated Book Value)							
1.5.0 Total Employment							

- Notes: 1) Projected data for 1976
 2) All balance sheet items relate to the end of each financial year.
 3) Sales figures should include all indirect taxes, if any, the firms collect on behalf of the Treasury.

2.0.0 Tax Payments in 1975

<u>Code Number</u>		<u>Tax Payment in 1975</u>	<u>Tax Basis</u>	<u>Applicable Rates</u>
2.1.0	<u>Direct Taxes</u>			
2.1.1	Corporate Taxes			
2.1.2	National Crop and Insurance Agency			
2.1.3	Turn-over tax on output			
2.2.0	<u>Indirect Taxes</u>			
2.2.1	Import Duties			
2.2.2	Turnover taxes on imports			
2.2.3	Special tax on payroll			
2.2.4	Stamp Duties (Inclusive of National Crop and Insurance Agency)			
2.2.5	Other (Specify if important)			

Notes: Please indicate the basis upon which each tax is calculated, e.g., net profits, total sales, cif values, etc., and where possible, the tax rates applicable to your firm.

3.0.0 SALES AND STOCKS

Code Number	Quantity Unit f.g. meter, tons etc. (1)	Sales in Greece			DIRECT EXPORTS			Total Sales		Stocks of Finished Goods			
		Quantity (2)	Value (3)	B ^{1/} (4)	Quantity (5)	Value (6)	fob/cif (7)	Quantity (8)	Value (9)	Beginning		End	
										Quantity (10)	Value (11)	Quantity (12)	Value (13)
3.1.0	Principal goods manufactured by the firm												
	1.												
	2.												
	3.												
	4.												
	5.												
	6.												
	7.												
	8.												
	9.												
	10.												
	Other												
3.1.0	Subtotal: (Goods manufactured by the firm)												
3.2.0	Subtotal: (Goods not manufactured by the firm)												
3.3.0	Sales of Services												
3.3.1	1. Subcontracting of manufactured goods												
3.3.2	2. Other (specify if important)												
3.3.0	Subtotal (sales of services)												
3.4.0	TOTAL												

General Notes: Sales Values should include all indirect taxes. Please include all items whose overall sales in 1975 exceeded 3% of total sales.

^{1/} Indicate the valuation basis E F = ex-factory
 E = delivered
 cif
 fob

4.0.0 Price Information for Some Representative Products

Code Number		Product 1	Product 2	Product 3	Product 4	Product 5	Product 6
4.1.0	<u>Name, description and unit used for price information</u>						
4.2.0	<u>Sales in 1978</u>						
4.2.1	Domestic						
4.2.2	Exports						
4.2.2.1	a) Asia						
4.2.2.2	b) Rest						
4.3.0	<u>Prices in 1978</u>						
4.3.1	Ex-factory prices						
4.3.1.1	Beginning						
4.3.1.2	Middle						
4.3.1.3	End						
4.3.2	Export prices, f.o.b.						
4.3.2.1	Beginning						
4.3.2.2	Middle						
4.3.2.3	End						
4.4.0	C.i.f., Thailand, prices of foreign products which are equivalent or similar to products sold in the domestic market only in 1978 (if known)						
4.4.1	Name, description, country of origin, and unit						
4.4.2	Estimated prices, c.i.f.						
4.4.2.1	Beginning						
4.4.2.2	Middle						
4.4.2.3	End						
4.5.0	<u>Current Prices</u>						
4.5.1	Ex-factory						
4.5.2	Export, f.o.b.						
4.5.3	Foreign Equivalent						
4.5.4	c.i.f.						

General Note: Please complete this annex for a number of specific representative products.

5.0.0. Details of Material Inputs

1/

Code Number	Quantity Unit (e.g. meters, tons) (1)	Quantity Purchased (2)	Percentage Used in Manufacturing of exports (3)	Total Delivered Costs (4)	Stocks			
					Beginning Quantity (5)	Value (6)	End Quantity (7)	Value (8)
5.1.0	Materials and Parts used directly in Manufacturing							
5.1.1	Direct Imports							
	1.							
	2.							
	3.							
	4.							
	Other							
5.1.2	Indirect Imports 2/							
	1.							
	2.							
	3.							
	4.							
	Other							
5.1.3	Local							
	1.							
	2.							
	3.							
	4.							
	Other							
5.1.0	Sub-Total							
5.2.0	Materials and Parts used Indirectly in Manufacturing							
5.2.1	1. Petroleum Products							
5.2.2	2. Vehicles, spare parts & tires							
5.2.3	3. Rest							
5.2.0	Sub-total							
5.3.0	Supplies used for Administration and Selling							
5.4.0	Total							

1/ Include, if possible, all items which constitute 3% or more of total cost of parts and materials.

6.0.0 Price and Indirect Tax Information of Raw Materials and Intermediate Inputs in 1975

	Input 1	Input 2	Input 3	Input 4	Input 5	Input 6
Name and Description						
Landing and port costs (as % of c.i.f.)						
Import duties (as % of c.i.f.) ^{1/}						
Turnover tax (as % of c.i.f.)						
Other taxes (if important, specify their rates and bases)						
In-land transport cost to the factory						
<u>Total delivered unit costs (middle 1978)</u>						
for exports						
for domestic sales						
For inputs purchased locally, including indirect imports						
Turnover tax (as % of wholesale price)						
Transport and other costs						
Total delivered unit cost (middle 1978)						
Price of equivalent or similar foreign products (if known)						
Beginning						
Middle						
End						
Current (1979)						

Notes: ^{1/} For inputs imported under Temporary Admission (TA) or Drawback (D) schemes, please insert (TA) or (D) whichever is applicable.

7.0.0 Capacity and its Utilization: Major Products

Code Number		1		2		3		4		5		6	
		1973	1975	1973	1975	1973	1975	1973	1975	1973	1975	1973	1975
7.1.0	Estimated Annual full capacity (in meters, tons, pairs, dozens, etc...)												
7.2.0	Basis for above estimate (shift hours, shifts per day, days per year)												
7.3.0	Number of days during the year plant not in operation due to maintenance												
7.4.0	Actual production (in meters, tons, etc....), or percentage of 7.1.0												
7.5.0	Number of shifts per day, and number of days the plant was in operation (on a product by product basis)												

Note: In estimating annual full capacity assume that minor de-bottlenecking investments can be made. Allow for seasonal supply and demand fluctuations, and required maintenance time during the year.

Table 6 (continued)

Details of Fixed Assets

Code Number		Depreciation			Estimated average economic life (11)	Estimated market value, and 1975 (12)
		Depreciation charged during 1975	Total accumulated depreciation end 1975	Depreciation scheme applied		
		(8)	(9)	(10)		
6.1	Factory (buildings and structures)					
6.1.1	Foreign buildings and structures					
6.1.2	Other buildings and structures					
6.2	Machinery and equipment					
6.3	Trucks, cars and delivery equipment					
6.41	Ships and boats					
6.5	Tools, fixtures and furniture					
6.6	Construction in process					
6.71	Intangible fixed assets					
6.8	Other fixed assets					
6.9.1	Land used during 1975 for factories and offices					
6.9.2	Other land					
6.10	Loans and investments			Dividends and interest received 1975 ('000 Won) =		
6.11	TOTAL FIXED ASSETS					

Notes:

Column (10): Please describe the predominant scheme actually employed, e.g. straight line 10 years; 20% on decreasing balance, first year 30%, subsequent years 10%, etc.

Column (11): Please indicate your estimate of the average economic life of newly acquired assets.

Table 6^{*/}

Details of Fixed Assets

(Million Won)

Code Number		Book values before accumulated depreciation, 1975		End 1975 undepreciated book value attributable to acquisition or revaluation during				Amounts and dates of revaluations (7)
		Beginning	End	1975	1970-74	1965-69	Before 1965	
		(1)	(2)	(3)	(4)	(5)	(6)	
6.1	Factory (buildings and structures)							
6.1.1	Foreign buildings and structures							
6.1.2	Other buildings and structures							
6.2	Machinery and equipment							
6.3	Trucks, cars and delivery equipment							
6.4	Ships and boats							
6.5	Tools, fixtures and furniture							
6.6	Construction in process							
6.7	Intangible fixed assets							
6.8	Other fixed assets							
6.9.1	Land used during 1975 for factories and offices							
6.9.2	Other land							
6.10	Loans and investments							
6.11	TOTAL FIXED ASSETS							

*f PLEASE NOTE CONTINUATION OF TABLE 6 ON NEXT PAGE BEFORE COMPLETING ABOVE TABLE.

Notes: General: The total of column (2) minus the total of column (9) should equal the total value of fixed assets given in the Balance Sheet (item 2.1.2 1975).

Columns (3) - (6): The totals of these columns should equal column (2).

Column (7): Please indicate the date and amount of each revaluation.

Mr. Guy Pierre Pfeffermann, LCNVP

February 6, 1981

Bela Balassa, DRC

Duty Exemptions

There are two methods utilized to provide duty exemptions for inputs into export production. The first of these involves duty free admission of inputs on the basis of an engagement taken by the would-be exporter that he will use the inputs in production for export. Should exportation not occur a penalty is usually paid. The second method involves payment of duty followed by a rebate once exportation is undertaken.

The Far Eastern countries have traditionally used the first of the two methods; Morocco is using both; and some Latin American countries are utilizing the second. In the successful exporting countries, administration is rather simple, in particular for continuing exporters. New exporters in turn get an allocation on the basis of their productive capacity that can be used for export. Increased export orientation is usually accompanied by a simplification of the administrative procedures as it has happened recently in the case of Turkey.

Duty exemptions for inputs that are used in the domestic manufacturing of inputs for export production come under the same rules in the Far Eastern countries. There seems to be no particular administrative problems that involve statements by the exporters used as evidence.

Needless to say, I prefer the first method given the financial cost to the exporter involved in the second.

BBalassa:nc

February 6, 1981

Dr. Sung T. Kwack
Director
The Center for Pacific Basin Studies
1110 Vermont Avenue N.W.
Washington, D.C. 20005

Dear Dr. Kwack:

Thank you for your invitation to attend the Pacific Basin Business Outlook Conference in San Francisco to be held on March 26 to 27, 1981. I am afraid that I will be in Tunisia at that time and will not be able to attend.

I would like to use the opportunity to ask you for your comments on my paper on Korea I sent you late last year. I am revising the paper for publication and I would like to take account of any comments you may have. I would be interested to know if the model I referred to has since been revised.

Yours sincerely,

Bela Balassa

February 6, 1981

Mrs. Janet Innes
Brushwood Graphics
4804 York Road
Baltimore, Maryland 21212

Dear Mrs. Innes:

In preparing the Contents page and the List of Tables I found a few small errors that need correction. These errors are indicated on the enclosed pages. Please note that these are not the final Contents page and List of Tables because the page numbers will still need to be changed. They are sent to you only for corrections to be made in Essays 1 to 18, which were returned to you on Wednesday.

Yours sincerely,

Enclosures

Bela Balassa

P.S. I also enclose page 180 from the proofs where I found an error and several words in a paragraph need to be changed.

categories in the manufactured exports and imports of the OECD countries, taken together, the United States, the EEC, and Japan.

Among occupational categories, the share of professional and technical workers in total employment is nearly double for the exports than for the imports of manufactured goods in the OECD countries' trade with the developing countries. The relevant ratios are 1.96 for the United States, 1.99 for the EEC, and 1.53 for Japan, reflecting a less sophisticated export structure in the latter case.

Also, the share of foremen and skilled workers in total employment is about three-fourths higher for the exports than for the imports of the OECD countries in their manufactured trade with the developing countries, with Japan at the top (1.82) and the United States (1.55) at the bottom of the range. The differences go in the same direction,²⁴ but they are numerically smaller, for managers and administrators, clerical workers, service workers, and for workers in construction, transportation, and material handling.

Differences in the opposite direction are observed in regard to sales workers and, in particular, for the largest category, unskilled and semi-skilled production workers. In the latter case, the average employment share of developed country manufactured ^{skilled} imports from the developing countries is about ^{one-fifth} ~~two-fifths~~ lower than that of their ^{unskilled} exports, with the United States (36 percent) and Japan (45 percent) being at the opposite ends of the range. Again, these results conform to the Heckscher-Ohlin theory of international specialization.

By comparison, Keesing found that in 1957 the exports of the United States, Germany, Sweden, and the United Kingdom were relatively skill-intensive while skill intensity was higher for imports than for exports in the Netherlands, Belgium, Italy, France, and Japan.²⁵ In interpreting Keesing's estimates, it should be recalled, however, that they pertain to a relatively early postwar year and concern the total manufactured trade of the countries in question that was dominated by trade among the developed countries themselves.

In turn, Baldwin and Lewis estimate that a 50 percent multilateral tariff cut in manufacturing (textiles excluded) would provide a net employment gain in the professional and technical labor and in the management and administration categories, as against losses in all other labor categories, in the United States.²⁶ A comparison of the Baldwin-Lewis estimates with those reported in Table 7.3C shows that, as expected, increased trade with the developing countries would lead to a larger shift from low-skill to high-skill occupations than that resulting from an increase in U.S. overall trade.

While the estimates reported in Table 7.3A indicate the employment effects of a *balanced* expansion of manufactured trade between developed and developing countries in the various occupational categories, the estimates of Table 7.3C show the effects of *proportional* change in this trade. It is apparent that an equi-proportionate increase in OECD exports and imports in trade in

A little variation shown among the OECD countries

February 6, 1981

Mr. Herman Muegge
International Centre for Industrial Studies
United Nations Industrial
Development Organization
Vienna International Centre
P.O. Box 400, A-1400 Vienna
AUSTRIA

Dear Mr. Muegge:

It was good to see you and I hope that we can meet again before
long.

I enclose some of my recent papers that may be of interest to you.

Yours sincerely,

Enclosures

Bela Balassa

Enclosed: The Tokyo Round and the Developing Countries
Accounting for Economic Growth: The Case of Norway
Incentive Policies in Brazil
Structural Change in Trade in Manufactured Goods between
Industrial and Developing Countries

Mr. E. Peter Wright, VPD

February 6, 1981.

Bela Balassa, DRC

Submission to the Working Paper Series

I enclose the paper by Feder, Just and Zilberman "Adoption of Agricultural Innovations in Developing Countries: A Survey" for your consideration for the Bank Staff Working Paper Series. I have read the paper and find it eminently suitable for the series.

Enclosures
BBalassa:nc

February 6, 1981.

Dr. Alfonso Jozzo
Chief of Economic Research Department
Istituto Bancario San Paolo di Torino
Pizza San Carlo, 156
10121 Torino
Italy

Dear Dr. Jozzo:

Thank you for your letter of December 20th. I would be happy to be of assistance to Dr. Roberto Civalleri should the opportunity arise.

Yours sincerely,

Bela Balassa

February 6, 1981

Professor Victor Urquidi
El Colegio de Mexico
Camino Al Ajusco No. 20
Mexico 20, D.F.
MEXICO

Dear Victor,

The enclosed letter was sent to you last October and was recently returned due to apparently faulty addressing. I enclose a copy of a paper referred to in the letter together with a more recent paper of mine that analyzes policy responses to external shocks by the newly industrializing countries. The findings of these papers together with additional work I am doing will be utilized in my paper for the September 1981 IEA Conference.

Yours sincerely,

Enclosures

Bela Balassa

Enclosed: Policy Responses to External Shocks in Selected Latin American
Countries
The Newly Industrializing Countries After the Oil Crisis

February 6, 1981

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

Dear Ms. Kuo:

I would like to highly recommend Mr. Po-sheng Lin for a position at the Central Bank of China. Mr. Lin is an extremely bright student who has written some outstanding papers on international trade issues. The papers are of professional quality and I have suggested to him to submit them to Journals in the United States.

As you can see from the dissertation abstract, Lin's work has been theoretical. While I have not seen any empirical paper by him, I presume that you could use his intelligence and excellent training in applied work as well.

In sum, I very highly recommend Mr. Lin.

Yours sincerely,

Bela Balassa

February 6, 1981

Ms. Anna F. Moon
Pergamon Press Ltd.
Headington Hill Hall
Oxford OX3 OBW
England

Dear Ms. Moon:

In your letter of March 19, 1980 you indicated that the Portuguese edition of my book "Policy Reform in Developing Countries" would be published in July 1980 and that I would receive complimentary copies at that time. I have not yet received copies and wonder if indeed the book has been published.

Looking forward to hearing from you, I remain,

Sincerely yours,

Bela Balassa

February 6, 1981

Dr. Jiri Skolka
Osterreichisches Institut für
Wirtschaftsforschung
A-1103 Wien,
Postfach 91
Austria

Dear Dr. Skolka:

I read your papers with interest, in particular the one examining changes in sector shares over time. You may wish to know that I considered the latter issue in general terms in a paper I published in the June 1961 issue of American Economic Review under the title "Patterns of Industrial Growth: Comment."

I enjoyed the opportunity to have met you again and hope that we will have the occasion to meet next year.

With best regards,

Sincerely yours,

Bela Balassa

February 6, 1981

Dr. Felix Butschek
Institut für Wirtschaftsforschung
Österreichisches
A-1103 Wien, Postfach 91
~~Austria~~

Dear Dr. Butschek:

Thank you for your invitation to the Conference on
"De-Industrialization." I found the Conference of considerable
interest and I hope that the discussions were helpful to the
participants.

Yours sincerely,

Bela Balassa

February 6, 1981.

Professor Victor Urquidi
President, International Economic Association
Reid Hall, 4, rue de Chevreuse
75006 Paris
France

Dear Victor,

The enclosed letter was sent to you last October and was recently returned due to apparently faulty addressing. I enclose a copy of a paper referred to in the letter together with a more recent paper of mine that analysis policy responses by the newly industrializing countries to external shocks. The findings of these papers together with additional work I made, will be utilized in my paper for the September 1981 IEA Conference.

Yours sincerely,

Enclosures

Bela Balassa

Mr. Richard W. Richardson, CDD

February 5, 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 you wish to do work on these subjects, I would recommend him.

Enclosure
BBalassa:nc

February 5, 1981

Ms. Jacqueline A. Keith
Manager
Energy/Consumer Affairs
United States Council of the
International Chamber of Commerce Inc.
1212 Avenue of the Americas
New York, N.Y. 10036

Dear Ms. Keith:

Thank you for your invitation to the March 12 seminar on
North-South: A Business Viewpoint. I plan to participate at all the
sessions as well as the luncheon.

With best regards,

Sincerely yours,

Bela Balassa

TELEX
31872

FEBRUARY 2, 1981
61991

MR. BRENDAN HORTON, C/O MR. MOURILE, DIRECTOR, MINISTERE DU
COMMERCE ET DE L'INDUSTRIE, RABAT, MOROCCO

RECEIVED YOUR TELEX CONTAINING LAST THREE PARAGRAPHS OF
EXPORT INCENTIVE PAPER. PAPER ON INCENTIVE CODE WAS SENT TO
YOU JANUARY 23 AND COULD NOT BE TELEXED GIVEN ITS LENGTH.
MAKING ARRANGEMENTS FOR MEETING WITH MR. SMIRES. REGARDS,
BALASSA

Bela Balassa

Bela Balassa

DRC - Director's Office

BBalassa:nc

February 2, 1981

Mr. Tim Rose
Morgan Newman Associates
1835 K Street N.W.
Washington, D.C. 20006

Dear Tim,

In the enclosed paper, I tried to summarize the salient features of the recent GATT, OECD, and DAC reports, adding my own views on projections and policies. This did not prove to be an easy task and I would be glad to revise the paper if a different format appears more appropriate.

My suggestions for next month include a review of a short -- and excellent -- book containing a critical analysis of the views of the Cambridge School, as well as a special issue of the Cambridge Economic Bulletin that is devoted to projections for the nineteen-eighties by members of the Cambridge School, with consideration given to possible policy choices.

You might have the recent articles in the Washington Post on U.S. foreign aid. In a few months, one will see more clearly what may happen and the views of the Reagan administration on trade with the developing countries will also be clarified. At that time, one may write a note on these questions.

Sincerely,

Enclosure

Bela Balassa

CABLE
KDI PROJECT SEOUL

3 FEBRUARY 2, 1981
61991

MR. SUK TAI SUH, KDI, P.O. BOX 113, CHEONGRYANG
SEOUL, KOREA

CONFIRM FEBRUARY 19 AND 20 FOR MEETING ON KOREAN INCENTIVE
STUDY, REGARDS, BALASSA

Bela Balassa

Bela Balassa

DRC - Director's Office

BBalassa:nc

February 5, 1981

Mr. A. R. Kemal
Co-Editor
Pakistan Development Review
Pakistan Institute of Development Economics
Post Box No. 1091
Islamabad
Pakistan

Dear Mr. Kemal:

I am sorry to say that I have never received the paper "Changes in Export Shares and Competitive Strength" for review.

Yours sincerely,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20006
February 5, 1981

Met Ticket Service
Lincoln Center
New York, N.Y. 10023

Dear Sir:

I am a resident of Washington and will be ~~going~~ to New York for one day on March 11th. I would very much appreciate if if you could provide me with a ticket to Salome on that night. I enclose an order form for the ticket.

Yours truly,

Enclosure

Bela Balassa