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OCTOBER 1981

The World Bank Group
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Bela Balassa's chron files - October 1981

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B. BALASSA CHRON FILE OCT 1981



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Correspondents / Participants

Subject / Title
Supplementary Performance Assessment of Mr. Roy, Mrs. Walker

Exception No(s).

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Withdrawn by Chandra Kumar	Date May 30, 2014
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Mr. Jayanta Roy, EM2

October 30, 1981.

Bela Balassa, DRC

Turkey Report

I enclose the revised version of Volume I of the Turkey report for distribution in the green cover. The volume includes the Overview, Mr. Dubey and you have agreed to. Please send the volume to the Print Shop so that we can have it early next week.

Enclosures
BBalassa:nc

Mr. Michel Noel, YP

October 26, 1981.

Bela Balassa, DRC

Chapter Two

1. Due to your delayed return I will not be able to see you until Wednesday afternoon when I return from Hopkins. Please call me immediately following your arrival.
2. I enclose slightly revised versions of paragraphs 44 to 56 in the Summary Volume. These pages contain the paragraphs you should include in your chapter. I further enclose the edited version of your chapter, together with a second copy of my memo to you on further revisions in the chapter. A few additional points follow.
3. You should show in the summary tables results for 1979 excluding the indirect tax rebate. Also, this will permit making comparisons with the situation immediately existing before the January 1980 reforms. Furthermore, in the absence of detailed data for 1980 on agricultural prices, the chapter should refer to average agricultural protection in 1978, further noting that the situation has changed little since.

Enclosures
BBalassa:nc

Messrs. Dubey, EMNVP and Roy, EM2

October 26, 1981.

Bela Balassa, DRC

Turkey Report Overview

I enclose a draft version of the Overview we discussed last week. Comments would be appreciated by Wednesday afternoon, October 28, when I return from Hopkins. The Overview is somewhat shorter than originally planned, in order to avoid repeating the same point three times. I further enclose pages 1 and 9 from the Summary Volume which contains references to earlier reports and note the need for institutional changes and for simplification in government regulations.

Enclosures
BBalassa:nc

October 23, 1981.

Mr. Joao Salgueiro
Minister of State for Finance
and Planning
rua da Alsandega
Lisbon
Portugal

Dear Mr. Salgueiro:

Please accept my congratulations for your appointment as Minister of State for Finance and Planning. I should also congratulate your Prime Minister for having made such an excellent choice.

I hope that you have received my book and various papers that were sent to your old address. Needless, to say, I would be happy to give any assistance to you in your new functions that I can.


Yours sincerely,

Bela Balassa

OFFICE MEMORANDUM

TO: Those listed

DATE: October 23, 1981.

FROM: Bela Balassa, DRC SUBJECT: Turkey Report

Please get the final version of your chapter, for inclusion in the green cover report, to Mr. Roy by Thursday, November 26, cob. The chapter should be typed single spaced. Page numbers should be written in pencil on the back of each page; they should not be typed. The page number should indicate the number of the chapter as well; for example, 5-1, 5-2, etc.

I enclose written comments on the report received from Messrs. Picciotto, Robinson and Tuncer for your information.

cc: Messrs. Noel, YP; Silva Lopes, CON; Chand, IMF; Roy, EM2; M. Wolf, CON; Scandizzo, AGR; Davis, URB; Hong, EM2.

Enclosures
BBalassa:nc

OFFICE MEMORANDUM

DATE: October 19, 1981

TO: Mr. Bela Balassa, DRC *BB*

FROM: R. Picciotto, Director, EMP

SUBJECT: TURKEY - Industrialization and Trade Strategy Report

1. I enjoyed going through this report. Jumbo ESW exercises are notoriously difficult to carry out. Volume I demonstrates that, with skillful leadership and a clear framework of analysis, it is possible to produce an analytical, well argued and readable summary document--however large the mission. It will not be easy for Turkey to ignore the recommendations of the report. It provides a very clear and cohesive framework of policy orientation which can serve to focus the Bank's dialogue with Turkey, particularly in relation to public investment and structural adjustment issues. On the other hand, given that the pitch of the report is on policies to be pursued in the medium term, there is a degree to which many of its recommendations tend to skate over the more immediate practical obstacles to their adoption. At the most general level of this point, there would seem to be a trade off (not emphasized in the report) between the medium term benefits of adopting the report's prescriptions (freer trade, freer markets and pricing) and the maintenance of monetary stability on the way there. Also, while the recommendations made are concrete and consistent with the general framework, they necessarily require further elaboration before they can be translated into actions specific enough to be included, for example, in the covenants of an SAL package. Some more detailed comments and questions follow, to illustrate these general points.

2. With regard to exchange rate policy, it would be useful to buttress the conclusion about the recent appreciation of the lira by the specific calculations and assumptions on which the conclusion is based. Do we have any model of elasticities which would underscore the desirability of any particular basket of currencies in making exchange rate adjustments? What is the position of IMF? As a general comment on the report, it seems unfortunate that it lacks a general macro model which could have been used to demonstrate the broad likely impacts of the policy prescriptions being argued for, i.e. at a minimum to trace one impact of the proposed policy package on the balance of payments, the budget and the capital market.

3. With regard to import licensing, it would have been useful were the report able to be more specific about what items should be liberalized as a matter of priority. Also I wonder whether the recommendation on luxury products is either politically sound or economically significant.

4. With regard to credit policies, it would be useful to present a somewhat better explanation of the findings and recommendations made. First, how do spreads compare with those in other developing countries, e.g. India, Egypt, or Tunisia? Second, can we demonstrate that high banking costs are linked to a public policy of spreading loans among clients and of other regulatory restrictions? Third, is there evidence of economies of scale, i.e. are there too many small banks? Fourth, what would be the budgetary consequences of raising interest rates on Treasury bills and bonds? Fifth, para 82 on agriculture credit needs substantial elaboration, given the operational implications.

5. Generally, the analysis of fiscal and monetary policy offers an odd parallel between Ozalnomics and Reagonomics--viz. a tendency to erode the tax base and rely on restrictive monetary policy without taking the hard decisions needed regarding entitlement programs and major public expenditures. Is this a fair parallel?

6. In the industrial sphere, it is disconcerting to see so little said about the energy problem--considering the crushing share of exports devoted to energy imports around 100% since 1979. On the other hand, the proposals regarding technological research, marketing training are interesting and could have operational implications. There are, again, some aspects of the recommendations on industry (e.g. divestiture of SEEs to the private sector; increased reliance on the capital market) which, while sound in principle, may not be actionable in the short run. There is also one recommendation - that to offer competition to the DYB by creating a second investment bank - with which we disagree. The malady of the DYB is not that it lacks competition but that it lacks autonomy.

7. The SEE section itself is unambiguous and depressing. Here, we will need to put SAL on the line provided the report can be translated into a clear action program for the SEEs. Para 154, second line, last word: replace "an" by "no". Para 155, last line replace "most efficient" by "least efficient"?

8. In agriculture, I was pleased to see pathbreaking analyses on the pricing side. The model framework also provides a welcome structure for discussion. On other aspects, however, I am somewhat leary about the concepts and the measures of capital intensity given and also about the anti-mechanization bias of the report. Agriculture development never comes cheap and draft price constraints are real. There has long been an urban bias in infrastructure development. In particular tractors are often used for haulage given the poor quality of the road infrastructure. On these, and other matters of detail it may worth while for our agricultural projects staff to have a side meeting with your team since there is a need to fully understand the material that underlies this chapter. As a factual matter our understanding is that the private sector is still prohibited from exporting wheat; and we dispute the practicality of volumetric water charges at this time.

9. In tourism, I wonder whether there are unspoken cultural dislocation aspects which the Turks wish to minimize. Can the section address how to guard against the disruptive social implications of rapid tourism development? Also, a question has been raised about the assumption that Turkey could significantly raise its share of European tourism at this time. Certainly this would need an improvement in infrastructure. Also the report could have given attention to the need to restructure the Tourism Bank to operate along general banking principles; it could also have emphasized the need to encourage foreign direct investment in the tourism sector.

RPicciotto/IHume:rcr
cc: Mr. Dubey (EMNVP)

OFFICE MEMORANDUM

TO: Mr. Bela Belassa, DRC

DATE: October 20, 1981

FROM: Sherman Robinson, DEDND *SR*SUBJECT: Mission Report: "Turkey: Industrialization and Trade Strategy"

I have been thinking over some of the comments made at the meeting to discuss your report and have some further thoughts about the report.

It seems to me that the report is essentially about how Turkey can implement a fundamental change in development strategy. The report is not concerned to any great extent with why Turkey should do so. That issue has been covered in great detail in earlier Bank reports, especially the Dubey mission which focused on macroeconomic issues, and now seems largely to be accepted in Turkey. Your report really discusses in commendable detail just what is involved in such a shift in strategy, which is something that Turkish policy makers really need badly. Given your focus, I think that you should resist some of the suggestions made at the meeting--including some of my own. In general, it is worthwhile to keep the report focused on the mechanics of a shift in strategy, and not get sidetracked into macroeconomic issues about the benefits and costs of such a shift.

I would thus suggest that your first chapter should state very clearly that this report will focus on how a country can shift its development strategy. You can then use the first chapter to review briefly the arguments that have been offered in the past as to why Turkey must shift, including the Dubey report and your own work. But the discussion should be seen as placing this report in the context of past reports and providing a summary of the basic results of the earlier studies on the need for (and benefits from) Turkey's shifting to an outward-looking strategy. After briefly reviewing the past work, you could then provide a reader's guide to the later chapters and chat about the major elements of a liberalization package and the crucial policies required to implement such a shift in development strategy. As suggested in the meeting, there is a real need to discuss the relative importance of different policy recommendations. Once you have set the context in Chapter 1 that the report is really going to focus on the mechanics of such a policy shift, you should be able then to discuss what components are more or less important.

The issue that Kemal and I raised about social problems, however, should be considered. It is fine to cite the great success of a shift in development strategy in Chile, but there will be legitimate concern in Turkey about who is going to bear the burden of adjustment. I think that the issue should be considered explicitly in Chapter 1 and you should discuss why you think that such a shift in strategy need not result in excessive burdens on any particular group.

Given your focus on the components of a new policy regime, I would resist any suggestions that you should consider the macroeconomic context. You certainly do not need a CGE model, and I think that you should seriously consider dropping any discussion of macroeconomic projections. Such projections do not really fit into this report and are not necessary for the message you are trying to get across. Similarly, you need not discuss in any detail the workings of the labor market, except insofar as they affect the implementation of the new trade regime --which is not all that much, in my view.

The report certainly has some problems which were discussed in the meeting. As one would expect at this stage, there is a need to integrate the various chapters better and to improve the summary statement of what the report is all about. However, I find that the report at this stage has a sensible focus and a message. In the revision, it would help to try to focus the report further and to strengthen the message. For example, of the chapters I read carefully, I found the one on SEE's to be somewhat diversionary. For the purpose of moving to a more open development strategy, there seem to be only two issues regarding SEE's that I would worry about: (1) how can they be stopped from being a source of macroeconomic imbalance? and (2) how can they be made more efficient so that they can make a positive contribution to exports or, at the very least, not be a source of inefficiency to sectors downstream? Standard Bank platitudes about selling them off to the private sector are not really very helpful. Given that they have been in the past, and will likely remain in the future, an important part of the Turkish economy, how can the government make them fit into the new development strategy?

A final point. The overriding sin of most Bank reports is that they are much too diffuse and therefore excruciatingly boring to read. If you tried to include in the report everything that was suggested at the meeting, it too would end up very diffuse. In your revision, I would hope that you can focus the report even further and resist any suggestions that do not fit its central theme.

cc: J. Roy
V. Dubey
A. Wood
K. Dervis

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

6-158

TO: Mr. Jayanta Roy, EM2

DATE: October 19, 1981

FROM: Baran Tuncer, PPR 39.

SUBJECT: Report on "Turkey Industrialization and Trade Strategy"

I have read both the "Summary and Conclusions" and the "Main Report" on "Turkey Industrialization and Trade Strategy", and I am impressed by the wealth of information contained in the main report and the quality of the analysis. The document also includes a large number of well-designed recommendations to be implemented in the medium term. I have the following comments on the report:

1. It is customary in the Bank documents to describe the process of import substitution in terms of distinctly identifiable stages, beginning with the easy stage of producing consumer non-durables and followed by the production of intermediate and capital goods. The report suggests that Turkey has gone through a similar path entering the second stage of import substitution by early 1960s. This is not exactly correct for Turkey invested in a number of so-called second stage products, such as iron and steel, paper, fertilizer and cement as well as a number of consumer durables back in the 1950s, some even going back to 1930s.
2. Import substitution policies of Turkey in the 1960s and 1970s may justifiably be criticized on a number of grounds, but it is not exactly true that economic growth rates were retarded during this period. The recorded annual average GDP growth of around 6.5% compared favorably with the experience of most industrial and developing countries. Per capita comparisons with some Southern European economies may not be fair, since Turkey's annual population growth has been so much higher. Elsewhere in the report, the earlier observation was contradicted by suggesting that Turkey's around 10% annual manufacturing growth rates compared well with other countries during the same period.
3. It was observed in the report that in the past, Turkey's agricultural sector was discriminated against. It is true that inward-oriented policies, have created a bias against this sector in general. However, it is also true that a number of policies during this period favored agriculture. It should be pointed out that mainly as a result of the government's price-support strategy, the internal terms of trade has changed in favor of the agricultural sector over a relatively long period of time. Also agricultural incomes have not been taxed until recently, and the main agricultural inputs have been provided at subsidized prices.
4. The recorded decline in the share of agricultural value added in total GDP, was not because of the sector's poor performance as indicated in the text, but is a natural phenomenon resulting from relatively high growth rates in other sectors. In fact, the achieved 3% annual average

growth is significant, especially in view of the fact that there has been no overall expansion of the area under cultivation, and growth has resulted from yield increases. The report is also critical of the increase in capital intensity in agricultural production by pointing out that the use of tractors, fertilizer and water was encouraged. In the case of tractor use the criticism may be valid but expansion in fertilizer use and investments in water resources are not in the same category.

5. The problems facing the State Economic Enterprises in Turkey are well summarized in the main text. However, I found the prescribed treatment for the ills of the system rather simplistic and not very convincing. How realistic is it to suggest that the market profitability to be the exclusive criterion to judge the success of these enterprises in an environment where markets are dominated by one or few firms? As the recent implementation in Turkey indicates, the firms can improve their financial positions by increasing their output prices without any improvements in cost reduction or efficiency. Obviously, for market profitability to make sense, it should not be too much different from social profitability, which in turn necessitates a proximity between market prices and scarcity prices for factors of production, inputs and output.

6. It should also be borne in mind that the issue of State Economic Enterprises has strong political overtones. Before sound recommendations can be made, it is important that the government should decide to what ends it wants to use the system. Leaving aside the possibility of pursuing certain social goals (regional distribution, employment, income distribution) with these operations, a case may be made for public enterprises where there is no viable alternative because of the lack of entrepreneurial capacity and the large size of financing, when there are significant externalities, and when the alternative is private monopoly. Then the issue would be how to provide an environment within which they produce efficiently and contribute to growth.

7. The report comes out being supportive of the changes made in the economic policies in Turkey since 1980, and recommends further measures for improvements. In Turkey, under the new policies price increases slowed down and exports, particularly in the manufacturing sector, increased significantly. In evaluating the current performance of the economy and forecasting into the future, the following considerations are also important:

- a. Manufacturing production did not show any significant increases since January 1980, despite improvements in the availability of imported oil and other inputs. Capacity use is still very low, in many cases being less than 50%. A drastic decline in the domestic demand resulting from the implementation of the stabilization measures coupled with very high cost of working capital due to the high interest rates, discouraged the firms from increasing production.
- b. Under the new strong incentives and as a result of slackened domestic demand, a number of firms were encouraged to export in recent months. Also, the political developments in the Middle East helped Turkey expand her markets. However, there is not any indication that the kind of structural change is taking place in the manufacturing industry for a sustained and healthy export drive.
- c. New investments are not forthcoming in the private manufacturing industry which are essential not only to expand the productive capacity but more importantly for the restructuring of that sector. Despite the establishment of the law and order and improvements in the political and economic climate, businessmen do not seem to be eager to invest.
- d. It appears that the social cost of the current stabilization program is being paid by the middle income class in an excessive way. Real incomes of the working people have declined considerably, in view of the high inflation and relatively small nominal wage and salary increases. Further erosion in the economic power of this class could have not only social and political implications but also some adverse effects on the productivity of the system. It would be desirable that the report should make some reference to the social impact of the present policies.
- e. The implementation of present policies has received strong support from disciplinary military government and relatively large financial transfers from abroad. What would be the impact of changes in the degree of support from these two sources on the implementation and success of these measures?

f. Many of Turkey's current economic difficulties can be traced back to the mistakes made in the past, particularly in the second half of the 1970s. However, in view of the above observations, it would also be useful to look into the implementation of present policies with a critical eye. I agree with the observation made in the report that the decisions are being taken in a crisis atmosphere with a short-term perspective, and what is missing is a medium term perspective. I would add that also needed is a more institutionalized and strengthened decision making process in Turkey with not only a medium term perspective but a long term development strategy at the same time.

cc: Messrs. Dubey, EMNVP
Balassa, DRC ✓
Chernick, PPR
Shakow, PPR
Landell-Mills, PPR

Those listed

October 23, 1981.

Bela Balassa, DRC

Turkey Report

Please get the final version of your chapter, for inclusion in the green cover report, to Mr. Roy by Thursday, November 26, cob. The chapter should be typed single space. Page numbers should be written in pencil on the back of each page; they should not be typed. The page number should indicate the number of the chapter as well; for example, 5-1, 5-2, etc.

I enclose written comments on the report received from Messrs. Picciotto, Robinson and Tuncer for your information.

cc: Messrs. Noel, YP; Silva Lopes, CON; Chand, IMF; Roy, EM2; M. Wolf, CON; Scandizzo, AGR; Davis, URB; Hong, EM2.

Enclosures

BBalassa:nc

CABLE
12372

OCTOBER 23, 1981
61991

MR. RENE VAURS, HILTON INTERNATIONAL
TUNIS, TUNISIA

I SUGGEST JANUARY 13 TO 15 AS POSSIBLE DATES FOR MY VISIT TO TUNIS.
SHOULD THESE DATES BE ACCEPTABLE PLEASE MAKE RESERVATIONS AT THE
SAHARA HOTEL IN NEFTA FROM JANUARY 8 UNTIL JANUARY 11. REGARDS
BALASSA

BBalassa:nc

Bela Balassa

Bela Balassa

DRC - Director's Office

Those listed

October 23, 1981.

Bela Balassa, DRC

Nominal and Effective Protection in Mexico

I enclose annual estimates of nominal and effective protection for 25 sectors in Mexico, prepared by the Presidencia, together with the price comparisons made for the industrial sectors. I further enclose a copy of my letter to Mr. Bernal, commenting on the estimates and requesting clarification on the methodology.

cc: Messrs. Baskind, LCP; Challa, LCP; Pursell, Sciolli, ELC1; Voljc, LCP

Enclosures
BBalassa:nc

October 22, 1981.

Mr. Joao Salgueiro
President
Banco de Fomento Nacional
Rua Mouzinho da Silveira
Lisbon
Portugal

Dear Mr. Salgueiro

Please accept my congratulations for your appointment as
Minister of State for Finance and Planning. I should also congratulate
your Prime Minister for having made such an excellent choice.

Yours sincerely,

Bela Balassa

Mr. Pasquale Scandizzo, AGR

October 22, 1981

Bela Balassa, DRC

Agricultural Chapter

1. I have done some further light editing on your chapter. The edited copy is enclosed. In the course of the editing, some questions have arisen which I would like to discuss with you on Monday, October 26th. Please have your secretary call mine to set up the meeting sometime after 11 o'clock.
2. The first issue is the choice of the shadow exchange rate. I favor using a higher rate and we should agree on a specific figure on Monday. I will ask Michel Noel to participate in the discussion.
3. The second issue concerns the revision of Section D, which has changed little in the present version. It is of particular importance to beef up the discussion of fruits and vegetables, fresh and processed; on which Mrs. Swamy has done excellent work. Livestock and meat would also need to be briefly discussed here, even though it was not covered in field work.
4. The third issue relates to the treatment of capital-intensity. This was raised in regard to irrigation and fertilizer by Baran Tuncer and in regard to mechanization by Bob Picciotto; comments are enclosed. As you can see, Picciotto is very complimentary about your work on agricultural pricing.
4. One page was missing from the earlier version of your chapter and is also missing from the revised one. This was noted in my memo of September 21st and it is apparent from the enclosed pages 52 and 56 from the earlier version. The ending of Para. 7.89, all of Para 7.90, and the beginning of Para. 7.91 are missing.
5. Finally, a few items that need attention in the final revision:
 - (a) Please replace the "%" sign by "percent" throughout the chapter.
 - (b) In Table 7.13 (not 7.12), try to add more 1980 prices and calculate an average for making comparisons with industry. Also, in each column, averages should be given including as well as excluding food processing.
 - (c) In referring to Annex 1, it should be noted when this will be available.
 - (d) Model results for changes in agricultural exports and imports should be provided as it is difficult to interpret estimates on changes in the trade balance.
 - (e) The GNP projections may have changed since you last ran the model. Please check with Jayanta Roy.

cc: Messrs. Roy, and Noel EM2
Ms. Girardot-Berg, AGR and Swamy, EPD.
Enclosures
BBalassa:nc

Mr. Guy Pierre Pfeffermann, LCNVP

October 22, 1981

Bela Balassa, DRC

Your Paper on LAC

1. I have much enjoyed reading your paper. I especially liked the discussion of the relationship between policies and performance. Your conclusions on foreign indebtedness apply equally well to countries outside LAC, including Turkey, and should be widely read. The discussion of exchange rates and interest rates is also instructive but I would emphasize that both of these prices would have to be reformed for good long-term performance as was the case in Korea, Portugal, Taiwan and also in Brazil in the mid-sixties. The situations you describe, with only one of the two prices right, can continue only for a time.
2. After the strong policy emphasis in Section III, I have found your analysis of future prospects rather weak. There is much to be done in improving economic policies in Brazil and Mexico in order to reach the projected growth rates. Also, the policy prescriptions for getting Argentina on the right track are not so simple as it appears from your discussion.
3. Regarding the past, comparisons with the United States put LAC into an overly favorable light. You should rather compare with average per capita income growth in the industrial country group (110 percent) and in the middle income countries (96 percent). It would, then, appear that only Barbados and Brazil are above the "mark."
3. While I very much liked your description of the colonial situation, it is not germane to your main discussion and you seem to skip from colonial times to the present. I would personally favor a more concentrated discussion of a few issues, omitting others. Apart from Section III, the discussion of social development (in particular, that of changes in the income distribution) is the most interesting, but would need to be developed further.
4. I return the paper with some marginal comments. These were written on the train, which fact reduces their readability.

Enclosure
BBalassa:nc

October 22, 1981.

Ms. Maria Teresa Barea
OECD
94 rue Chardon-Lagache
75016 Paris
France

Dear Ms. Barea:

Thank you for your letter of September 16. I do believe that it would be of considerable interest to apply the methodology of my stages approach to East European countries. I wonder, however, if you have the necessary trade data. If you do, and if you carry out the calculations, I would appreciate receiving a copy.

Yours sincerely,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
October 22, 1981.

Oxford University Press Incorporated
200 Madison Avenue
New York, N.Y. 10010

Dear Sir:

I would like to order a copy of the paperback edition of
"The Theory of Commodity Price Stabilization" by Newbery and Stiglitz.
Please bill me at the time of delivery.

Yours truly,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
October 22, 1981.

Mr. Astor Moore
1524 Ogden Street N.W.
Washington, D.C. 20010

Dear Astor:

Carol and I were planning to come to your reception on Sunday. However, we got caught by the rain while hiking with the children and by the time we returned it was too late. We are sorry to have missed not coming to your reception.

I would like to transmit our best wishes for your campaign and hope that you will be elected. A small contribution for the campaign is enclosed.

Yours sincerely,

Enclosure

Bela Balassa

Mrs. Monique Merali, IPA

October 22, 1981.

Bela Balassa, DRC

Development Strategies Book

I enclose a check for \$1115.00 for the purchase of 100 copies of my forthcoming book, Development Strategies in Semi-Industrial Economies.

Enclosure
BBalassa:nc

Mr. F. Graham Pyatt, DRC

October 22, 1981

Bela Balassa, DRC

Travel Expenses


Please approve my adding one day for business in Paris on August 25. This was necessary to have discussions with Mrs. Ann Richards-Loup who we are hiring as a consultant to the project on Changes in the Pattern of Comparative Advantage in Manufactured Goods.

BBalassa:nc

OFFICE MEMORANDUM

TO: Mr. Michel Noel, YP

DATE: October 22, 1981

FROM: Bela Balassa 

SUBJECT: Chapter 2 of Turkey Report

1. This is a good, solid chapter that provides much useful information for the Turkish government as well as for the Bank. It requires few changes. They are indicated in the following, with some additional comments listed on a separate sheet.

2. Despite the qualifications you have introduced, the puzzle remains that the average subsidy rate declined and the bias against exports increased after 1979, notwithstanding the increased scope of export subsidies. In this connection, various points need to be made. First, note that the decline has to do with the amount provided under the various headings rather than with the rate of the subsidy (Paras. 2.71-2.73) and give reasons for this decline, which probably has to do with the provision of various subsidies falling behind the rapid growth of exports. Second, de-emphasize further the foreign exchange premium, both in Paras. 2.71-2.73 and in Paras. 2.114-2.115. Third, note that income tax reductions and preferential credits for export-oriented investment have not been taken into account in the calculations. Finally, in Paras. 2.114-2.115, emphasize that tariffs do not provide an appropriate indication of protection and that increases in the real export exchange rate point to improvements in export incentives while exchange rate changes do not affect the rate of import protection under licensing (cf. further my August 15, 1981 memo on this).

3. I continue to be concerned with your use of a small sample of products for estimating implicit protection. In particular, comparability has to be established with the results reported in Chapter 6. Needless to say, this may also involve agreed-upon modifications in the latter chapter.

4. One cannot compare 1980 protection coefficients for industry, calculated at the existing exchange rate, with 1978 coefficients for agriculture, calculated at shadow exchange rates. 1980 protection data are now available for a number of agricultural products that should be utilized in making comparisons.

5. Since the estimates of DRC and SPC are not used in Jayanta Roy's chapter, we should consider retaining them in yours. I would like to discuss this, together with the changes referred to above, on Monday, October 26th. Please call my secretary for an appointment as soon as you arrive.

cc: Mr. Roy, EM2

BBalassa:nc

Comments on Chapter 2 of Turkey Report

- Para. 2.31 Have some items been deleted from the 1980 list? Cf. also my memo of August 15th.
- Para. 2.34 Replace "branches" by "sectors" throughout the chapter.
- Para. 2.39 Comparisons of rebate rates between 1981 first and second quarters should be made by using 1979 or 1981 first quarter export shares. (In the editing, I have assumed that you have used 1979 shares although you refer to 1980 shares.)
- Para. 2.44 There is a slight difference between the figures shown in Tables 2.7 and 3.19. Please check with Mr. Silva Lopes who will be here on Monday. Also, note the maturity of the short-term credits (six months or one year).
- Para. 2.47 The amount of export promotion credit appears too large for fruits and vegetables alone.
- Para. 2.49 Your reference to the "limitations faced by exporters in the use of the export credit facility" contradicts earlier statements on the increased availability of such credits.
- Tables 2.10 Data should be expressed in TL million for comparability ~~and~~
2.13 with other tables.
- Para. 2.64 How was the estimate made for the foreign exchange retention scheme in the second quarter of 1981, for which there is insufficient data in Table 2.13?
- Table 2.19 The 100 percent eligibility figures are not correct. Combine Table 2.18 and 2.19, providing data for each export subsidy on (a) the ratio of the base figures in Tables 2.14 to 2.17 to total manufactured exports; (b) the average rate of subsidy, expressed as a percentage of the base figures; and (c) the average rate of subsidy for total manufactured exports, when (c) equals (a) times (b).
- Para. 2.72 Discuss changes in export subsidy rates excluding the foreign exchange premium, indicating the effects of reduced coverage, and provide an explanation for this phenomenon.
- Tables 2.14- These tables should come in an Appendix.
2.17
- Para. 2.77 Replace by Paras. 49 to 55 of the Summary and Conclusions.
- Para. 2.109 Data on imports for second quarter of 1981 should be available.



Record Removal Notice

File Title Bela Balassa's chron files - October 1981	Barcode No. 30225108
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Document Date Oct 20, 1981	Document Type Letter
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Correspondents / Participants
Ms. P. Phillip, PMD

Bela Balassa, DRC

Subject / Title
Medical Bill

Exception No(s).
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 10 A-C
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Reason for Removal
Personal Information
Financial Information

Additional Comments

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Withdrawn by Chandra Kumar	Date May 30, 2014
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Record Removal Notice

File Title Bela Balassa's chron files - October 1981		Barcode No. 30225108		
Document Date Oct 20, 1981	Document Type Letter			
Correspondents / Participants Mr. C. Baron, Account Services Department - American Express Bela Balassa, DRC				
Subject / Title Payment of Debit Balance				
Exception No(s). <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/> 5 <input type="checkbox"/> 6 <input type="checkbox"/> 7 <input type="checkbox"/> 8 <input type="checkbox"/> 9 <input type="checkbox"/> 10 A-C <input checked="" type="checkbox"/> 10 D <input type="checkbox"/> Prerogative to Restrict				
Reason for Removal Financial Information				
Additional Comments		The item(s) identified above has/have been removed in accordance with The World Bank Policy on Access to Information. This Policy can be found on the World Bank Access to Information website.		
		<table border="1"><tr><td>Withdrawn by Chandra Kumar</td><td>Date May 30, 2014</td></tr></table>	Withdrawn by Chandra Kumar	Date May 30, 2014
Withdrawn by Chandra Kumar	Date May 30, 2014			

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, SVPOP

FROM: Bela Balassa, DRC

SUBJECT: Mexico: Capital Goods Credit Project

DATE: October 19, 1981

1. In response to your request, transmitted by Mr. Norman Horsley, I have reviewed the Decision Memorandum and the Issues Paper of the Capital Goods Credit Project in Mexico, together with various government documents. I applaud the proposed project that would permit reducing costs in the production of machinery for domestic as well as for export markets. In the following, I will consider the appropriateness of protection and incentive policies for the rational and efficient development of the machinery industry in Mexico.

The Policy Framework

2. The Project Brief stated that "the relatively large size of the domestic market combined with the relative labor intensity of most capital goods industries (as compared with consumer or intermediate products industries of similar size) and the low labor cost in Mexico lends reason to believe that Mexican capital goods industries can operate efficiently and compete internationally in many product categories" (Para. 1.06). It was added that, under present conditions, "there are many product lines, especially in the light-to-medium-heavy category, which are able to compete effectively in international markets at zero or moderate levels of protection ... However, the potential which is evident would have to be complemented by appropriate economic and commercial policies that would ensure that only economically efficient operations are supported" (Ibid.).

3. The Project Brief further reported that there is "a clear desire on the part of the government to define and implement a rational protection policy for the capital goods subsector in order to help in its take-off stage" (Para. 1.10) and that "a tariff and protection policy statement would soon be forthcoming from the Tariff Commission ..." (Ibid.). In the event, the policy statement, issued by the Secretaria de Hacienda y Credito Publico in April 1981, has remained an internal document. It was followed by the publication of a decree on the general policy framework for the subsector on September 10th.

Changes in Protective Measures

4. The decree (a) sets minimum domestic content at 50%; (b) increases from 5 percent to 15 percent the tax credit to the domestic purchaser of domestically produced machinery; (c) grants a 15 percent tax credit on the purchase of domestically produced parts and components to the machinery producer; and (d) prohibits the importation of used machinery. Along with other priority sectors, domestic machinery producers also receive a tax credit of 20 percent for new investment and a tax credit of 20 percent for the generation of employment and for additional shifts. Furthermore, credits are provided at an interest rate of 31 percent (in Mexican pesos) to the purchasers of domestically produced machinery and at an interest rate of 8 percent (in U.S. dollars) on export sales.

5. The decree also makes provisions to protect the domestic manufacture of new products, as well as of existing products that are considered "less competitive or infant industry," through import licensing over a period of five years. In turn, the manufacture of products that are considered to have reached a "mature" stage will be protected by tariffs, which will range between 30 and 50 percent on machinery and between 30 to 40 percent on their parts and components according to the policy statement. The policy statement further directs the public sector to orient its machinery purchases to domestic producers, adding that, in cases when domestic production is insufficient, import permits will be provided in the amount of the unsatisfied demand. The Issues Paper suggests, however, that public procurement would be subject to a preferential margin of 15 percent or the applicable tariff, whichever is higher (Para. 3).

6. The new provisions would raise the protection of the domestic production of machinery in Mexico. According to the Project Brief, "as a result of low tariffs and an overvalued exchange rate, the capital goods subsector has been subject to relatively low levels of protection through most of the recent period, and some effective protection levels have, in fact, been negative" (Para. 1.08). According to estimates made by the Commerce Ministry for 1979, however, domestically-produced machinery has received above-average protection in Mexico.

7. As shown in Table 1, the nominal rate of protection of non-electrical machinery was 20 percent and that of electrical machinery 17 percent in 1979. The nominal protection rate was even higher (58 percent) on electronic equipment that covers producer as well as consumer goods, with several items in the former considered infant industries by the decree. In turn, nominal rates of protection exceeded 20 percent in only four of the 33 remaining industrial sectors. Estimates of effective protection show a similar picture, with effective rates of 35 and 34 percent on nonelectrical and electrical machinery, respectively. These findings are supported by estimates made at the Presidencia that extend until 1980.

8. Increasing the nominal protection of domestically-produced machinery while maintaining that of its inputs, in particular steel products, would raise the effective protection of the industry more than the increase in its nominal protection. Protection rates would rise further as a result of the tax credits provided to the users and the producers of machinery and the prohibition of the imports of used machinery. In turn, the imposition of domestic content requirements would increase the protection of domestically-produced parts and components.

Effective Protection Estimates

9. To indicate the effects of prospective changes in protective measures, estimates of effective rates of protection have been made for the nonelectrical machinery industry. Utilizing the breakdown of domestic production value for 1975 reported in the Industrial Census as between material inputs (38 percent), other -- mostly nontraded -- inputs (13 percent), and value added (49 percent), and decomposing, more-or-less arbitrarily, material inputs into raw materials (18 percent) imported (15 percent) and domestically-produced (5 percent) parts and components, the

effective rate of protection of 35 percent, reported in the Commerce Ministry study, has been re-established (Table 2). The calculations do not include tax credit for new investment and for the generation of employment and additional shifts and the subsidy equivalent of preferential credits that would further raise the effective rate of protection.

10. According to the policy statement, tariffs on mature machinery products would be in the 40-50 percent range, to which the tax rebate of 15 percent needs to be added to derive the nominal rate of protection of machinery. Calculations have been made using the minimum tariff under Alternative A and the maximum tariff under Alternative B. The same procedure has been followed in regard to domestically produced parts and components, for which nominal rates of protection have been equated to the sum of tariffs (30 and 40 percent under the two alternatives, respectively) and the 15 percent tax rebate. Also, the value of domestically produced and imported parts and components has been brought to equality in conformity with the domestic content regulations under the September 1981 decree.

11. As shown by the estimates reported in Table 2, the effective rate of protection of mature products would rise from 35 percent to 151 percent under Alternative A and to 206 percent under Alternative B. Again, the calculations exclude tax credits for new investment and for the generation of employment and additional shifts and the subsidies equivalent of preferential credits. Nor has allowance been made for the protective effects of import prohibitions on used machinery.

12. Effective protection rates would increase to a considerable extent even if tariffs were not raised. Thus, if tariffs on nonelectrical machinery and its parts and components were maintained at 20 percent the effective rate of protection of nonelectrical machinery would rise to 70 percent as a result of the tax credits provided for the purchase of domestically-produced machinery. At the same time, it should be recognized that while profits, and hence effective rates of protection, in the domestic production of machinery are reduced by the higher cost of domestically-produced parts and components due to their increased protection, the protection of the entire capital-goods sector (including the production of machinery and their parts and components) would increase thereby.

13. Similar results are obtained for electrical machinery, which would receive the same nominal protection as nonelectrical machinery and differences in input composition are small. In turn, a rise in the effective protection of the industry would increase discrimination against machinery exports, since export subsidies would not change under the decree. At the same time, notwithstanding the tax credit on the purchase of domestically produced machinery, the cost to user industries would rise.

14. Effective protection rates would be even higher on infant industry products that are to be protected by import licensing. While the decree requires that the domestic price not exceed the comparable import price by more than 15 percent, it is difficult to gauge differences in quality and performance that increase differences in the "effective" price.

15. At any rate, the Secretaria de Patrimonio y Fomento Industrial can make exceptions from the 15 percent rule. Demands for exceptions may be

buttressed by the high cost of domestic parts and components under the 50 percent domestic content rule that is particularly objectionable in the case of machinery where the loss of economies of scale may raise the cost of production to a considerable extent. At the same time, once inefficient, small-scale facilities are established to produce machinery and its parts and components for the domestic market, it will be difficult to subsequently enter export markets.

Policy Conditions for the Proposed Project Loan

16. One is led to the conclusion that import licensing and high tariffs, complemented by tax credit and credit preferences, would provide excessive protection to the Mexican machinery industry and would not ensure that only economically efficient operations are supported. At the same time, discrimination against exports would hamper export expansion and would hinder the development of the industry according to its comparative advantage. In turn, increased cost for user industries would adversely affect their exports and may lead to demands for increased protection.

17. The Decision Memorandum calls for Bank review of a draft document outlining general protection and incentive policies, to be issued by the government prior to negotiations on the conditions of the loan. It is not apparent to what extent it is possible to propose changes in the incentive system in the course of this review. The following recommendations do not consider limitations on Bank actions owing to earlier discussions with the Mexican government.

18. In order to ensure production at an efficient scale, it would be desirable to rely on incentive measures that benefit domestic and export sales equally. This may be done by extending the tax credit on the purchase of machinery to export sales, when the danger of retaliation by the United States could be minimized if tax credits on both domestic and export sales are provided to the producer rather than the purchaser of machinery. An alternative way to reduce the bias against exports is to increase the tax credit for new investment and for the generation of employment and additional shifts in the case of export activities (a decree in preparation in Mexico lists exporting as one of the conditions for raising the tax credit for new investment). This alternative may not, however, permit providing benefits comparable to those resulting from the extension of the 15 percent tax credit to exports and it may be difficult to define export activities in the machinery industry.

19. In view of the considerable incentives tax credits and preferential financing provide to the machinery industry, and the adverse effects of protection on user industries, the case for raising tariffs and imposing import licensing cannot be established. At the same time, anti-dumping legislation may be utilized to respond to foreign dumping, the existence of which may, at any rate, be queried. Finally, questions arise about the desirability of prohibiting the importation of used machinery, which may permit the use of relatively labor-intensive techniques suitable for the conditions existing in Mexico.

General Considerations

20. In response to proposals to forego increases in tariffs and the imposition of import licenses, reference is customarily made to the overvaluation of the Mexican peso. In this connection, the question arises at what point will the Bank introduce exchange rate conditions in its dealings with the government. The issue is brought into focus by recent increases in tariffs and the imposition of import controls in response to declines in oil revenues, reversing the process of import liberalization. At the same time, the extent of the liberalization of imports in previous years should not be overstated as in 1980 two-thirds of the value of imports were still subject to licensing (Mexico: Development Strategy -- Prospects and Problems, August 31, 1981, Para. 170).

21. Table 1 indicates the existence of considerable distortions in resource allocation resulting from the system of incentives applied in Mexico. Even greater distortions are apparent from the price comparisons made for over 400 products by the Presidencia. The balanced development of the Mexican economy would require a reconsideration of the incentive system, including the exchange rate, import licensing, tariffs, export subsidies, and price control. The sooner this occurs, the less difficulties the high cost of facilities established under protection would provide for the other sectors of the economy and the easier will be the transition to exports. This conclusion applies, in particular, to the machinery sector where import licensing and high tariffs raise costs for user industries and exports are discriminated against.

cc: Messrs. Ardito-Barletta, LCNVP; Chenery, VPD; Horsley, SVPOP;
van der Meer, LCP, Lari LCI; Glaessner, LCP;
Perez, LCNVP; Pfeffermann, LCNVP;
Quijano, LCNVP, Nowicki, LCI; Dutt, LC1A; Sciolli, LC1A;
Cook, Challan, Baskind, Voljc, Lopez-Lopez, LCP12

BBalassa:nc

Table 1

ESTUDIO DE PROTECCION EFECTIVA

CUADRO RESUMEN

MA	DESCRIPCION	PROTECCION NOMINAL	PROTECCION EFECTIVA 1/	PROTECCION EFECTIVA C/PETROLEO PR. INI 1/	SUBSIDIO EFECTIVO 1/	COSTO DI VISAS	SESGO CONTRA EXPORTACIONES
	AGRICULTURA	- 8	- 6	8	- 4	0.91	- 9
	GANADERIA	- 2	0	0	2	0.96	- 3
	SILVICULTURA	-12	-12	-15	-12	0.87	-14
	CAZA Y PESCA	- 1	5	- 5	6	0.95	- 1
	CARBON Y DERIVADOS	-55	-61	- 1	-61	- .42	-69
	EXTRACCION DE PETROLEO Y GAS	-48	-54	- 1	-54	0.30	-26
	MINERAL DE HIERRO	-22	-23	-24	-11	0.77	-24
	MINERALES METALICOS NO FERROSOS	- 4	4	- 4	5	0.89	8
	CANTERAS, ARENA, GRAVA Y ARCILLA	0	3	0	3	0.98	0
	OTROS MINERALES NO METALICOS	-11	- 4	- 9	- 4	0.86	- 6
	PRODUCTOS CARNICOS Y LACTEOS	9	95	94	96	1.07	80
	ENVASADO DE FRUTAS Y LEGUMBRES	9	35	33	37	1.06	40
	MOLIENDA DE TRIGO Y SUS PDCTOS.	-24	-36	-38	-36	0.73	-43
	MOLIENDA DE MIXTANAL Y PRODS. DE MAIZ	- 8	-13	-25	-13	0.83	-28
	PROCESAMIENTO DE CAFE	37	42	40	42	1.31	77
	AZUCAR Y SUBPRODUCTOS	-48	-51	-52	-35	0.64	-51
	ACEITES Y GRASAS VEGETALES COMESTIBLES	- 2	- 2	- 4	- 2	0.94	- 2
	ALIMENTOS PARA ANIMALES	- 6	-21	-21	-21	0.86	-17
	OTROS PRODUCTOS ALIMENTICIOS	31	94	94	98	1.29	90
	BEBIDAS ALCOHOLICAS	43	604	599	613	1.33	-249
	CERVEZA	-23	-39	-40	-39	0.70	-19
	REFRESCOS EMBOTELLADOS	-60	-77	-78	-77	0.38	-76
	TABACO Y SUS PRODUCTOS	-27	-40	-47	-40	0.67	-64
	MILADO Y TEJIDO DE FIBRAS BLANDAS	1	- 2	- 3	0	0.97	7
	MILADO Y TEJIDO DE FIBRAS DURAS	10	14	14	17	1.09	17
	OTRAS INDS. TEXTILES	0	- 5	- 6	- 5	0.96	4
	PRENDAS DE VESTIR	24	64	64	65	1.20	103
	CUERO Y PRODS.	7	10	9	10	1.03	19
	ASERRADEROS INCLUIDO TRIPLAY	6	38	35	40	1.03	-19
	OTRAS INDS. DE LAS MADERAS	0	- 3	- 4	- 3	0.96	6
	PAPEL Y CARBON	20	52	47	56	1.17	96
	IMPRESAS Y EDITORIALES	0	- 6	- 7	- 5	0.95	- 7
	REFINAC. DE PETROLEO	-60	-78	- 9	-77	0.27	-81
	PETROQUIMICA BASICA	-42	-51	- 2	-51	0.45	-61
	QUIMICA BASICA	12	27	17	42	1.13	22
	ABONOS Y FERTILIZANTES	-18	-17	-28	9	0.92	-26
	RESINAS SINTET., PLASTICOS Y FIBRAS ARTIFICIALES	29	125	107	125	1.29	113
	PRODUCTOS MEDICINALES	9	15	14	16	1.05	31
	JABONES, DETERG., PERFUMES Y COSMETICOS	4	22	7	22	0.98	22
	OTRAS INDUSTRIAS QUIMICAS	4	22	3	28	0.98	15
	PRODS. DE HULE	16	22	22	23	1.14	47
	ARTS. DE PLASTICO	6	2	0	2	1.01	32
	VIDRIO Y SUS PDCTOS.	3	6	0	10	1.00	16
	CEMENTO	0	6	- 5	8	0.95	10
	OTROS PDCTOS. DE MINERALES NO METAL	1	4	0	4	0.97	4
	INDS. BASICAS DEL HIERRO Y DEL ACERO	1	11	0	37	1.11	5
	INDS. BAS. DE METALES NO FERROSOS	11	31	28	38	1.05	45
	MUEBLES Y ACCESOR. METALICOS	14	40	38	41	1.12	82
	PRODS. METALICOS ESTRUCTURALES	0	- 2	- 3	- 2	0.99	9
	OTROS PRODS. METALICOS	7	12	11	16	1.05	34
	MAQUIN. Y EQUIP. NO ELECTR.	20	35	34	40	1.20	64
	MAQUIN. Y APARATOS ELECTRICOS	17	34	33	39	1.15	52
	APARATOS ELECTRO-DOMESTICOS	24	52	52	53	1.22	98
	EQUIPOS Y ACCS. ELECTRONICOS	58	222	220	225	1.61	870
	OTROS EQUIP. Y APARATOS ELEC.	27	68	56	68	1.27	75
	VEHICULOS AUTOMOVILES	42	179	179	232	1.83	498
	CARRUCERIAS Y PARTES AUTOMOT.	15	28	26	30	1.15	44
	OTROS EQUIP. Y MATERIAL DE TRANSP.	21	24	49	48	1.38	35
	OTRAS INDS. AFRERAS.	5	10	5	13	0.99	18

Table 2

Estimation of the Effective Rate of Protection for Nonelectrical Machinery in Mexico ^{a/}

	Before September 1981 decree			After September 1981 decree					
	Domestic Values	Protection Rate <u>b/</u>	World Market Values	Domestic Values	Alternative A Protection Rate <u>c/</u>	World Market Values	Domestic Values	Alternative B Protection Rate <u>c/</u>	World Market Values
Output	100	20	83.3	100	55	64.5	100	65	60.6
Raw materials	18	12	16.1	18	12	16.1	18	12	16.1
Parts and components									
Imported	15	5	14.3	10	5	9.5	10	5	9.5
Domestic	5	20	4.2	10	45	6.9	10	55	6.5
Nontraded inputs	13	4	12.5	13	4	12.5	13	4	12.5
Purchased inputs, total	51		47.1	51		45.0	51		44.6
Value added	49		36.2	49		19.5	49		16.0
Effective rate of protection		35			151			206	

Note: (a) World market values have been obtained by deflating domestic values by the nominal rate of protection. The effective rate of protection equals the percentage excess of domestic value added over world market value added.

(b) The nominal rate of protection of the output and of domestically produced parts and components (20 percent) has been taken from the Commerce Ministry study. The average rate of tariff (12 percent) has been applied to raw materials and to the material content of nontraded inputs, estimated at one-third of the value of these inputs. The tariff on imported parts and components (5 percent) is an estimated figure.

(c) The nominal rate of protection of the output equals the tax rebate (15 percent) plus the tariff on mature products; 40 percent under Alternative A and 50 percent under Alternative B. The relevant tariff rates under the two alternatives are 30 percent and 40 percent on domestically-produced parts and components, to which the tax credit of 15 percent has been added.

October 19, 1981.

Prof. Dr. Béla Csikós-Nagy
President
Hungarian Economic Association
1370 Budapest Pf. 544
Hungary

Dear Béla:

Thank you for your letter of September 22. I appreciate your invitation to deliver a lecture at the Hungarian Economic Association on methods of structural adjustment. I will be happy to do so, and wonder if the last week of August might be an appropriate time for you.

I found the meetings in Athens very interesting and much enjoyed the conversations we have had. I look forward to our continuing contacts.

Yours sincerely,

Bela Balassa

P.S. Many thanks for your recent book that arrived a few days ago.

October 19, 1981

Mr. Suk Tai Suh
Senior Fellow
Korea Development Institute
P.O. Box 113
Cheongryang
Seoul
Korea

Dear Mr. Suh:

It has been a long time since I heard from you. I very much hope that you have progress in your work and that you can send me your study in short order.

Bela Balassa

Bela Balassa

OFFICE MEMORANDUM

TO: Mr. F. Graham Pyatt, DRC

DATE: October 19, 1981.

FROM: Bela Balassa, DRC

SUBJECT: Book Ordering

In reference to our conversation I would like to ask that 100 copies of my forthcoming book "Development Strategies in Semi-Industrial Economies" be ordered by the DRC for distribution in developing countries. Gary Kutcher says that the same number of copies were ordered by the DRC of his book.

I would like to order an additional 100 copies of the book for which I would make payment. IP tells me that these copies should also be ordered through the DRC. Correspondingly, IP should receive an order for all together 200 copies.

cc: Jean Ponchamni

BBalassa:nc

October 19, 1981.

Mr. Martin Wassell
International Chamber of Commerce
38 Cours Albert 1^{er}
75008 Paris
France

Dear Mr. Wassell:

Thank you for your letter of October 10. I am contacting Air France today to issue my ticket.

I also appreciate your informing me of the hotel reservations. I have confirmed my arrival on Northwest 1 on Sunday, November 22 at 2155 hours.

In reading the page proofs of my paper, I have found an error on p. 9 where two sentences were repeated (see enclosure). I would also like to delete some of the subheadings, including "Common interest" (p. 5), "Multinationals' role overestimated" (p. 7), "Foreign direct investment" (p. 8), and "Push-pull" (p. 10). I hope that it is still possible to make these changes.

Yours sincerely,

Enclosure

Bela Balassa

participation of domestic interests in these subsidiaries will be warranted. Such participation would also permit domestic producers to acquire technological and marketing knowledge.

The cost of adjustment

nb
e
The increasing importance of intra-industry specialization also has implications for the cost of adjustment in the developed countries to imports from the developing countries. In the case of horizontal specialization, adjustment takes the form of changing product composition within individual firms and can be accomplished at little cost. Increases in imports may in fact benefit the firm and its workers through a shift to higher-value items, the upgrading of the labor force, and the use of specialized machinery. ~~Adjustment takes the form of changing product composition within individual firms and can be accomplished at little cost. Increases in imports may in fact benefit the firm and its workers through a shift to higher-value items, the upgrading of the labor force, and the use of specialized machinery.~~ Adjustment costs associated with vertical specialization, too, are relatively low as firms may change over from the manufacture of one part or component to another and the skills used are transferable among firms within a given industry.

Shifting resources from one industry to another will, however, entail adjustment costs. But they should not be overestimated. In the clothing industry, which is most affected by competition from developing countries, I have estimated that in the United States the loss of employment due to productivity growth was more than six times higher than the loss due to increases in net imports in recent years. A similar result has been obtained for the European Common Market by José de la Torre.² And, while the EEC average is affected by the rising export surplus of Italy, it applies — among the larger countries — to the United Kingdom; in Germany, the employment loss due to productivity growth has been more than twice that due to increases in net imports; and there has been an improvement in the trade position of the clothing industry in France.

Furthermore, adjustment costs decline with the length of the period of adjustment. In this connection, the experience of New England provides an interesting example of successful adjustment.

² *Journal of World Trade Law*, March-April 1981.



Record Removal Notice

File Title Bela Balassa's chron files - October 1981	Barcode No. 30225108
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Document Date Oct 19, 1981	Document Type Letter
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Correspondents / Participants
Ms. Colleen M. Corrigan, Manager - The Washington Hilton

Bela Balassa,

Subject / Title
Payment of a Bill

Exception No(s).

1
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 10 A-C
 10 D
 Prerogative to Restrict

Reason for Removal
Financial Information

Additional Comments

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

Withdrawn by Chandra Kumar	Date May 30, 2014
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Mrs. Jane Carroll, IPA

October 26, 1981.

Bela Balassa, DRC

Page Proofs of Preface

As you can see from the enclosure, an error was made in the fourth paragraph of the page proofs of the Preface of my book. I also made two additional changes in the proofs.

Enclosure
BBalassa:nc

October 19, 1981.

Mr. Nguyen Tinh Nghia
1 avenue Saint-Exupéry
92160 Antony
France

Dear Mr. Nghia:

In answer to your letter, I enclose the papers you have requested as well as two of my recent papers on trade and manufactured goods between developing and developed countries.

Yours sincerely,

Enclosures

Bela Balassa

cc: The Changing International Division of Labor in Manufactured Goods Reprint
Prospects for Trade in Manufactured Goods between Industrial and Developing
Countries, 1978-1990 Reprint No. 156
Trade in Manufactured Goods: Patterns of Change Reprint No. 180



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File Title Bela Balassa's chron files - October 1981	Barcode No. 30225108
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Document Date Oct 19, 1981	Document Type Letter
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Correspondents / Participants
The Riggs National Bank

Bela Balassa,

Subject / Title
Sending a check for depositing in a savings account

Exception No(s).

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 10 D
 Prerogative to Restrict

Reason for Removal
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Additional Comments

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Withdrawn by Chandra Kumar	Date May 30, 2014
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October 19, 1981.

Mr. Robert H. Ballance
Senior Industrial Development Officer
Regional and Country Studies Branch
United Nations Industrial Development Organization
Vienna International Centre
A1400 Vienna
Austria

Dear Mr. Ballance:

Many thanks for sending me the volume on "World Industry in 1980." I have found the analyses of considerable interest. I believe, however, that the estimates of manufactured imports by the North from the South are on the low side.

I enclose some of my recent papers that may be of interest to you. In turn, I would like to get copies of papers prepared in your office.

Yours sincerely,

Enclosures

Bela Balassa

Enclosed: Structural Adjustment Policies in Developing Countries W.P. 464
Industrial Prospects and Policies in the Developed Countries W.P. 453
The Policy Experience of Twelve Less Developed Countries, 1973-1978
W.P. 449
Adjustment to External Shocks in Developing Economies W.P. 472

October 19, 1981.

Professor Malcolm C. Peck
The Middle East Institute
1761 N. Street N.W.
Washington, D.C. 20036

Dear Professor Peck:

I would like to explore your possible interest in publishing my paper "The Policy Experience of Newly Industrialized Economies after 1973 and the Case of Turkey" in the Middle East Journal. While the first part of the paper may be somewhat more technical than the articles you generally publish in the Journal, the discussion of Turkish policies should be of considerable interest. In this connection, I would add that the recommendations made in the paper have been discussed with the government and have met with their approval.

Yours sincerely,

Bela Balassa

CABLE

OCTOBER 19, 1981
61991

PAULO NOGUEIRA BATISTA, FUNDACAO GETULIO VARGAS, INSTITUTO BRASIL-
EIRO DE ECONOMIA, CAIXA POSTAL 9052, 20.000 RIO DE JANEIRO, BRAZIL

PART 1 OF BRAZIL STUDY NOT YET RECEIVED. PLEASE LET ME KNOW IF IT
HAS BEEN SENT. REGARDS, BALASSA

Bela Balassa

Bela Balassa

DRC - Director's Office

BBalassa:nc

October 19, 1981.

Professor Paulo Vieira da Cunha
Editor-Chefe da PPE
INPES/IPEA 15^o andar
Caixa Postal 2672 - ZC-00
20 020 - Rio de Janeiro, RJ
Brazil

Dear Professor Vieira da Cunha:

Please accept my belated thanks for your letter of June 19 and for sending me 50 reprints of my article that appeared in the April 1981 issue of the *Pesquisa e Planejamento Economico*.

I am ~~writing~~ asking to ask your advice in a different matter. I have recently published a book entitled, "The Newly Industrializing Countries in the World Economy" that contains essays I have written over the past three years, including two you have published. I would like to explore the possibility of publishing a Portuguese translation of the book and would appreciate your advice and help in this matter. A copy of the front matter of the book is enclosed.

Yours sincerely,

Enclosure

Bela Balassa

October 19, 1981.

Professor Juan Ignacio Varas C.
Faculty of Economics and
Administrative Sciences
Pontificia Universidad Catolica de Chile
Instituto de Economia
Casilla 114-D
Santiago
CHILE

Dear Professor Varas:

Thank you for your letter of September 16. I am sorry to say that I am completely booked-up for several months ahead, and therefore, cannot participate at your Conference.

Yours sincerely,

Bela Balassa

CABLE
HILTELS

OCTOBER 19, 1981
61991

MR. RENE VAURS, HOTEL HILTON
TUNIS, TUNISIA

PLEASE CALL ME COLLECT ON THURSDAY, OCTOBER 22, OR FRIDAY, OCTOBER
23 AT 676-1991. REGARDS, BALASSA

Bela Balassa

Bela Balassa

DRC - Director's Office

BBalassa:nc

THE JOHNS HOPKINS UNIVERSITY

BALTIMORE, MARYLAND 21218

DEPARTMENT OF POLITICAL ECONOMY

(301) 338-7600

1981. október 18

Kedves Ivan:

Eléggé elmaradtam a leveleid megválaszolásával pedig már a második is megérkezett néhány hete. Inkább géppel írok mert a kézírásom nem nagyon olvasható. A Tieddel viszont nem volt problémám.

Mindketten nagyon élveztük a Veletek töltött estét és a kitűnő vacsorát. Carol másnap reggel indult Párizson át Washingtonba, én pedig este Athén-be ahol elég jól sikerült konferencián vettem részt. Onnan Párizson át Rabat-ba mentem néhány napra mint kormánytanácsadó és azután Párizsba egy konferenciára ahol megint előadást tartottam.

Mire hazaertem, a gyerekek már nagyban tanultak. Gabor iskolája olyan szigorú mint egyidőben a ciszterek voltak de a testvériskola ahova Mara jár nem olyan nehéz. Az a benyomásom hogy a fiúk tanulását komolyabbra fogják mint a lányokét ami az egyenlőség élvének nem felel meg. Azért persze Marának is sok tanulnivalója van.

Tanulmányommal kapcsolatos megjegyzéseidet nagyon köszönöm. Sokminden ujat nem tartalmaz, hanem inkább áttekintést akar nyújtani. Szeretném Vargát idézni és megköszönném ha megírnád nekem a Közgazdasági Szemlében megjelent, a reforjavaslattal foglalkozó cikket. Arra is kérlek hogy küldj anyagot a nyári ill. szeptemberi rendezésekről. Nekem ezekről Faluvegi beszélt és ~~azt~~ azt hittem hogy a Figyelőben leírásukat megtalálom, de egy szó sem esett róluk. Pedig, amint írod, fontos rendelkezések és beleillenek abba amit a második gazdaságról írok. Tehát nagyon megköszönnék bármilyen anyagot amit erre vonatkozóan tudnál küldeni..

Érdeklődéssel olvastam a munkádrol való beszámolókat. Nagyon fontos témakkal foglalkozol és érdeklődésre tarthatsz számot. Különben Raffai Erzsi, akit elutazásom előtt meglátogattam, nagy szeretettel beszélt rólad és jól emlékszik rád abból az időből amikor férjével voltál kapcsolásban.

Carollal együtt feleségednek és Neked is sok-sok üdvözetet, küldünk és nagyon reméljük hogy a Woodrow Wilson Center meghívását hamarosan meg fogod kapni.

Barot. szerkesztés
C. il.

October 16, 1981.

Mr. José da Silva Lopes
Caixa Geral de Depositos
Largo de Santa Catarina
Lisbon
Portugal

Dear Mr. Silva Lopes:

Thank you for your letter of October 5. I have initialled your request for payment and have sent it to Mr. Davar for signature and processing.

I trust that you have received the copies of the Turkish report. It will be fine if you provide me with your comments on October 26. I will be in Washington on that day and would like to invite you for lunch. Please let me know by cable if this is convenient. Looking forward to seeing you, I remain,

Yours sincerely,

Bela Balassa

MR. JOSE DA SILVA LOPES, CAIXA GERAL DE DEPOSITOS, LARGO DE SANTA
CATARINA, LISBON, PORTUGAL

PLEASE BRING YOUR SUGGESTIONS FOR REVISION OF THE REPORT TO
WASHINGTON ON OCTOBER 26. WOULD LIKE TO INVITE YOU FOR LUNCH ON THE
SAME DAY. CABLED ANSWER IS REQUESTED. REGARDS, BALASSA

BELA BALASSA

BELA BALASSA

BBalassa:nc

DRC - Director's Office

October 16, 1981.

Professor Christian Stoffaes
Chef du Centre d'Etudes et de Prevision
Ministère de l'Industrie
101, rue de Grenelle
75700 Paris
France

Dear Christian:

I am enclosing the corrected set of proofs of my "The United States in the World Economy" as requested. In correcting the proofs I made all the changes that were incorporated in the version of the paper sent to you last week. Please acknowledge receipt of proofs and let me know when the French edition is expected.

Yours sincerely,

Enclosure

Bela Balassa

October 16, 1981.

Air France
1150 17th Street N.W.
Washington, D.C. 20036

Dear Sir:

Mr. Martin Wassell of the International Chamber of Commerce has informed me that authorization for an open first class prepaid ticket, Washington-Manila-Taipei-Washington has been sent to you. I would appreciate your issuing the ticket according to the following itinerary.

Nov. 21, Saturday	Washington, Dulles	9:38	Northwest 3
	Tokyo	16:00	
Nov. 22 Sunday	Tokyo	18:30	Northwest 1
	Manila	21:55	
Nov. 27 Friday	Manila	11:50	China Air 812
	Taipei	13:40	
	Taipei	14:30	China Air 006
	Los Angeles	9:45	
	Los Angeles	12:30	Western Airlines 502
	Washington	21:19	

I have already reservations with Northwest Airlines for the Washington-Manila trip. Please reserve flights for the return trip, Manila-Taipei-Los Angeles-Washington, and cancel the return reservations I made with Northwest Airlines.

May I ask you to make seat reservations for me in the nonsmoking section, preferably in the first row whenever possible. Should you have any questions, call me at 676-1991.

Yours sincerely,

Bela Balassa

~~337-874~~

Delta 331-8875

le 16 octobre 1981

Madame Françoise Carrière
Revue Economique
54, boulevard Raspail
75006 Paris
France

Chère Françoise,

C'est pour demander l'autorisation de reproduire mon article intitulé "Evolution de la structure des échanges de produits manufacturés entre pays industriels et pays en développement" dans World Bank Reprint Series que je t'écris aujourd'hui. Comme à l'ordinaire, il sera dûment indiqué que l'article a été publié dans la Revue Economique.

Je saisis cette occasion pour te remercier, avec beaucoup de retard, je l'avoue, d'avoir bien voulu lire les épreuves. Je te suis très reconnaissant d'avoir eu l'amabilité de te charger de cette tâche fastidieuse.

Je te prie de croire, chère Françoise, à mes meilleures amitiés ainsi qu'à celles de Carol.

Bela Balassa

Ms. Christine Wallich, VPD

October 15, 1981

Bela Balassa, DRC

Review Panel: "Evaluation and Estimation of National Accounts Statistics for Centrally Planned Economies on Atlas Basis"

1. A panel comprising B. Balassa (Chairman), S. Bery, M. Schrenk, W. Talroth, and B. Pleskovic reviewed the above proposal on October 5; Mr. Vujovic did not participate in the review. Mr. Acharya and Ms. Wallich from the Research Committee, Messrs. Baneth, Lee, and Park, the project sponsors from EPD, Professor Marer, and Dr. Bond, a representative of Wharton Associates were also present. The panel agreed on the desirability of the proposed research and expressed support for the proposal on the condition that the additional documents described in Para. 2 and 3 are provided.

2. The sponsoring department should prepare a memorandum, indicating the principal research objectives, EPD involvement in the proposed research, the expected research output, and the future utilization of the results. Apart from the considerations introduced in Mr. Baneth's memo of September 15, the possible uses of the results in comparative studies and in clarifying the status of Romania for Bank lending should be noted. The extent of EPD staff time to be devoted to the research project and EPD's role in organizing the proposed research seminar and in establishing contacts with socialist countries should also be indicated. It is understood that the research project will evaluate the usefulness of alternative methodologies and provide estimates of the level and the rate of growth of per capita GNP under alternative assumptions. It should be indicated what role EPD will play in deriving "hard" numbers for the Atlas and how the continued production of these numbers will be assured.

3. Based on the chart he presented at the meeting, Professor Marer should prepare a brief note describing the advantages and disadvantages of methods presently used in estimating (a) GNP in national currency units, (b) conversion ratios into dollars, and (c) GNP growth rates in socialist economies. The evaluation should be prepared from the point-of-view of providing comparable estimates with the Atlas figures that use exchange rates as conversion ratios as well as with estimates derived by the use of purchasing power parities.

Cleared with: Panel members, Messrs. Baneth and Acharya, Ms. Wallich

BBalassa:nc

October 15, 1981.

Dr. SaKong
Korea Development Institute
P.O. Box 113 Cheongryang
Seoul
Korea

Dear Dr. SaKong:

It was good to see you again and I much enjoyed the presentation you made on the Korean economy.

I enclose a copy of my advisory report "Korea During the Fifth Five-Year Plan Period (1982-86)" for inclusion in the volume you are editing. Please acknowledge receipt of the paper by cable. A copy is being sent to President Kim Mahn Je.

Yours sincerely,

Enclosure

Bela Balassa

CABLE
KDIPROJECT SEOUL

OCTOBER 15, 1981
61991

MR. SAKONG, KOREA DEVELOPMENT INSTITUTE, P.O.BOX 113 CHEONGRYANG
SEOUL, KOREA

ADVISORY REPORT TITLED QUOTE KOREA DURING THE FIFTH FIVE-YEAR PLAN
PERIOD (1981-86) UNQUOTE FOR INCLUSION IN VOLUME MAILED TODAY.

REGARDS, BALASSA

Bela Balassa

Bela Balassa

BB&lassa:nc

DRC - Director's Office

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, SVPOP

FROM: Bela Balassa, DRC

SUBJECT: Mexico: Capital Goods Credit Project

DATE: DRAFT
October 15, 1981

1. At your request, transmitted by Mr. Norman Horsley, I have reviewed the Decision Memorandum and the Issues Paper of the Capital Goods Credit Project in Mexico, together with related material. The following comments consider protection and incentive policies, with particular reference to the machinery sector.
2. The Project Brief stated that "the relatively large size of the domestic market combined with the relative labor intensity of most capital goods industries (as compared with consumer or intermedian products industries of similar size) and the low labor cost in Mexico lends reason to believe that Mexican capital goods industries can operate efficiently and compete internationally in many product categories" (Para. 1.04). It was added that, under present conditions, "there are many product lines, especially in the light-to-medium-heavy category, which are able to compete effectively in international markets at zero or moderate levels of protection ... However, the potential which is evident would have to be complemented by appropriate economic and commercial policies that would ensure that only economically efficient operations are supported" (Ibid.).
3. The Project Brief further reported that there is "a clear desire on the part of the government to define and implement a rational protection policy for the capital goods subsector in order to help in its take-off stage" (Para. 1.10) and that "a tariff and protection policy statement would soon be forthcoming from the Tariff Commission" (Ibid.). In the event, the policy statement, issued by the Secretaria de Hacienda y Credito Publico, remained an internal document. However, the mission has concluded that this statement and the decree issued on September 10th "provide a satisfactory framework for a rational and efficient development of the Mexican capital goods manufacturing subsector" (Issues Paper, Para. 6).
4. The new decree (a) sets minimum domestic content at 50%; (b) provides preferential credits for the purchase of domestic machinery; (c) increases the tax credit from 5 percent to 15 percent to the domestic purchaser and grants a 15 percent tax credit on the purchase of domestic inputs to the machinery producer; and (d) prohibits the importation of used machinery. The policy statement further indicates that domestic machinery producers will receive a tax credit of 20 percent for new investment and a tax credit of 20 percent for the generation of employment and for additional shifts.
5. Provisions have also been made to protect the domestic production of new machinery, as well as existing machinery that is "considered of low productivity or infant industry," through import licensing for a period of five years. In turn, the production of machinery that is considered to have been reached a "mature" stage will be protected by tariffs of 30 to 50 percent, according to the policy statement. At the same time, in public procurement, domestic machinery producers would enjoy a preferential margin of

15 percent or the applicable tariff, whichever is higher, and can request an increase in this margin (Issues Paper Para. 3).

6. These provisions would raise the protection of the Mexican machinery industry. The Project Brief considers this to be appropriate, largely on the grounds that "as a result of low tariffs and an overvalued exchange rate, the capital goods subsector has been subject to relatively low levels of protection through most of the recent period, and some effective protection levels have, in fact, been negative" (Para. 1.08). Estimates made by the Commerce Ministry for 1979 do not corroborate this view. As shown in Table 1, the nominal rate of protection of non-electrical machinery was 20 percent and that of electrical machinery 17 percent. The nominal protection rate was even higher (58 percent) on electronic equipment that covers producer as well as consumer goods, with several items in the former considered infant industries by the decree. At the same time, nominal rates of protection exceeded 20 percent for only four of the 33 remaining industrial sectors. Estimates of effective protection show a similar picture, with effective rates of 34-35% on nonelectrical and electrical machinery, and the findings are supported by estimates made at the Presidencia that extend until 1980.

7. Raising the nominal protection of the machinery industry while maintaining that of its major input, steel, will raise the effective protection of this industry more than the rise in nominal protection. The rates will increase further as a result of the imposition of domestic content requirements, the tax credits provided to the users and the producers of machinery, and the tax credits for new investment and the generation of employment. In extreme cases, the firm may make a profit even if world market value added is negative, i.e. inefficient operations give rise to a loss in foreign exchange. Take, for example, the case when there is no product protection (import licensing or tariffs) and the 15 percent tax credit is provided on machinery sold domestically for 100 thousand pesos, as well as on domestically produced parts and components, purchased for 40 thousand pesos, while 40 thousand pesos is the cost of imported equipment, and there is domestic value added of 20 thousand pesos. The world market value of output will now be 85 thousand pesos (the domestic price less the 15 percent tax credit) and that of domestically-purchased parts and components 46 thousand pesos (the purchase price plus the 15 percent tax credit). With the cost of imported equipment at 40 thousand pesos, the domestic currency equivalent of the net foreign exchange loss would be 1 thousand pesos ($85-46-40$). These results are not affected by the overvaluation of the peso while the extent of effective protection and, in the example, the loss of foreign exchange, would increase further if account was taken of import licensing and tariffs.

8. One is led to the conclusion that import licensing and high tariffs, in addition to tax credits and credit preferences, would provide excessive protection to the machinery industry and discriminate against exports. The proposed measures, then, would not ensure that the Mexican machinery industry would develop according to its comparative advantage. In particular, import licensing would provide practically unlimited protection. While the decree requires that the domestic price not exceed the comparable import price by more than 15 percent, it will be difficult to gauge differences in quality and performance that increase differences in the "effective" price.

9. At any rate, the Secretaria de Patrimonio y Fomento Industrial can make exceptions from the 15 percent rule. Demands for exceptions may be buttressed by the high cost of domestic parts and components under the 50 percent domestic content rule that has led to high costs in the automobile industry in Mexico and is particularly objectionable in the case of the machinery industry where the loss of economies of scale may raise the cost of production to a considerable extent. At the same time, once inefficient, small-scale facilities are established to produce machinery and its parts and components for the domestic market, it will be difficult to subsequently enter export markets.

9. The Decision Memorandum calls for the Bank review of a draft document outlining general protection and incentive policies, to be issued by the government, prior to negotiations. It is not apparent to what extent it is possible to demand changes in the incentive system in the course of this review. At the same time, in order to ensure production at efficient scale, it would be desirable to rely on incentive measures that benefit domestic and export sales equally. This could be done by providing preferential credits on equal terms in the two cases and extending the tax credit on the purchase of machinery to export sales, with the producer being the beneficiary. The danger of retaliation by the United States could be minimized if tax credits on domestic sales would also be provided to the producer rather than the purchaser of machinery. At the same time, anti-dumping legislation may be utilized to handle foreign dumping, the existence of which may, at any rate, be questioned. Finally, questions arise about the desirability of prohibiting the importation of used machinery, which may permit the use of relatively labor-intensive techniques suitable for the conditions existing in Mexico.

10. It would also be desirable that the government publish a statement on protection and incentives as originally envisaged, so as to reduce uncertainty for the would-be producers. Without such publication, there may be reluctance on the part of private industry to engage in the production of machinery or increased protection may be demanded.

11. According to the Issues Paper, "the reluctance of the Mexican government to publicize the details is understandable under the current volatile circumstances, of international trade and exchange rates" (Para. 6). In this connection, the question arises at what point will the Bank introduce exchange rate conditions in its dealings with the government. This issue is brought into focus by recent increases in tariffs and the imposition of import controls in response to declines in oil revenues, reversing the process of import liberalization. At the same time, the extent of the liberalization of imports in previous years should not be overstated as in 1980 two-thirds of the value of imports were subject to licensing (Mexico: Development Strategy -- Prospects and Problems, August 31, 1981, Para. 170). By contrast, practically no export subsidies are provided.

12. Table 1 indicates the existence of considerable distortions in resource allocation resulting from the system of incentives applied in Mexico. Even larger distortions are apparent from the price comparisons made for over 400 products by the Presidencia. The balanced development of the Mexican economy would require a reconsideration of the incentive system, including the exchange rate, import licensing, tariffs, export subsidies, and price control. The sooner this occurs, the lesser difficulties the high cost

of facilities established under protection would provide for the other sectors of the economy. This conclusion applies, in particular, to the machinery industry where import licensing and high tariffs raise costs for user industries.

13. In concluding, I would like to applaud the proposed Bank project that will permit reducing costs in the production of machinery for domestic as well as for export markets. It is a different question what kind of policy conditions may be negotiated with the Mexican government after the lengthy dialogue that is referred to in the Decision Memorandum (Para. 11).

PINK

Le 16 octobre 1981

Cher ami,

Nous vous avons expédié, voici quelques semaines, plusieurs de mes études à l'adresse suivante :

Fondation nationale des sciences
politiques
56, rue des Saints-Pères
75007 Paris

A la fin du mois de juillet, nous vous avons envoyé mon ouvrage intitulé "The Newly Industrializing Countries in the World Economy" à l'Institut d'études politiques, 27, rue Saint-Guillaume, 75007 Paris. J'espère que ces deux envois vous sont parvenus.

J'ai été très heureux de vous revoir à Paris et je souhaite que nous puissions nous rencontrer à l'occasion de mon prochain passage, en décembre ou janvier.

Croyez, cher ami, à mes sentiments les plus cordiaux.

Bela Balassa

Monsieur Jean-Claude Casanova
Directeur du Service d'étude
de l'activité économique
4, rue Michelet
75006 Paris (France)

October 15, 1981.

Mr. Ignacio Bernal
Coordinador de Proyectos de Desarrollo
Presidencia de la Republica
Felix Cuevas 301 4o Piso
Mexico 12, D.F.
Mexico

Dear Mr. Bernal:

It was good to see you again and I was much interested to hear about the results of your work on protection. Your study is unique in having provided a time series of sectoral nominal and effective protection estimates, based on a large sample of commodities. The following comments in part repeat the points I made to you verbally and in part go beyond them on the basis of a more detailed look at the results.

1. I am puzzled by some of the large differences shown between simple and weighted averages of nominal protection rates. Using the unadjusted figures (PN 30), the differences often exceed 20-30 percentage points, reaching 90 percentage points in the case of non-metallic minerals (Sector 15).
2. In general, a weighted average is preferable to an unweighted average. However, as I noted at our meeting, the weighting scheme utilized does not appear appropriate. In the case of other manufactured goods (Sector 20), for example, matches are given a weight of 48 percent while they account for only 5 percent of the value added of the sector. May I, therefore, repeat my suggestion that you calculate sector averages in two steps by (a) deriving averages for each 3-digit subsector and (b) subsequently averaging the results thereby obtained on the 2-digit sector level.
3. At both steps, nominal protection rates should be averaged by the use of output weights, expressed at world market prices (i.e. the domestic value of output, deflated by the nominal rate of protection). While the tables show value added rather than the value of output at the 3-digit level, I presume that output figures are readily available.
4. The world market value of output should further be used in averaging the sectoral results for primary activities (Sectors 1 to 5) and for manufacturing industries (Sectors 7 to 20) as well as for all sectors taken together. Such averages should also be derived for effective rates of

protection by using value added weights, again expressed at world market prices (i.e. value added expressed in domestic prices, deflated by the effective rate of protection).

5. It would be of further interest to compare your results with the estimates obtained in the Comercio study, which I have just received from Mr. Keesing who visited you in Mexico last July. Making such comparisons would require re-averaging the estimates of the Comercio study according to the scheme of product classification you have used.

6. Finally, may I again suggest that you estimate rates of export subsidies for comparison with rates of import protection. This would not require making price comparisons but rather the collection of information on the various forms of subsidies.

I will be interested to get further information on your study, including the method used in deriving the extent of overvaluation. I am also informing the staff of the Latin America and the Caribbean Regional Office about your study and you may hear from them in due course.

I am also sending you a few of my recent papers that you may find of interest.

With best regards,

Sincerely yours,

Enclosures

Bela Balassa

Enclosed: Adjustment to External Shocks in Developing Economies WP No. 472
The Policy Experience of Twelve Less Developed Countries, 1973-1978
WP No. 449
Structural Adjustment Policies in Developing Economies, WP No. 464
Industrial Prospects and Policies in the Developed Countries WP No. 453
Culinary Guide

cc: Messrs. Glaessner, Lari, Pfeffermann, Nowicki, Dutt, Baskind, Scollie

October 15, 1981.

Professor Cynthia Taft Morris
The American University
3030 Arizona Avenue N.W.
Washington, D.C. 20016

Dear Professor Morris:

Many thanks for your suggestions for the revision of my "Policy Experience of Twelve Less Developed Countries, 1973-1979." I have followed all of them, except that I have decided not to provide a brief overview of results in the introduction. I feel that this would have led to too much repetition.

I am sending the revised version of the paper, together with a copy of this letter to Professor Ranis.

Yours sincerely,

Bela Balassa

cc: Professor Gus Ranis

October 9, 1981.

Mr. Martin Wolf
Trade Policy Research Center
1 Gough Square
London EC4 3 DE
England

Dear Martin,

I enclose a copy of Volume One, Summary and Conclusions of our report. Another copy, together with Volume Two containing the detailed studies, will be sent to you in a few days.

I would appreciate your sending me your suggestions for changes in your report as well as in the Summary and Conclusions by October 23. I will have to get the report ready for distribution into green cover on October 30.

Thank you again, for your excellent report, I remain,

Sincerely yours,

Enclosure

Bela Balassa

October 9, 1981.

Ms. Shirley W. Y. Kuo
The Central Bank of China
Taipei, Taiwan
The Republic of China

Dear Ms. Kuo:

On November 23 I will go to Manila to make a speech at the Congress of the International Chamber of Commerce. On my return from Manila, I could spend a few hours in Taipei to present a paper or to have discussions with a small group.

I would arrive on Friday, November 27 at 13:40 on China Airlines 812 and depart at 17:30 on China Airlines 004. Since I travel with hand luggage only, little time would be required for arrival and departure formalities.

While I would have liked to spend more time in Taiwan, family obligations necessitate my return to Washington for the November 28-29 weekend. But it would be a pleasure to spend even a few hours in the company of old friends like yourself.

May I ask you to let me know by cable if the suggested timing is appropriate.

Yours sincerely,

Bela Balassa

Mr. Michael F. Carter, EM2

October 9, 1981.

Bela Balassa, DRC

Turkey Report

I enclose Volume One, "Summary and Conclusions" of the report *Turkey: Industrialization and Trade Strategy*. Chapters 2 to 4, as well as parts of Chapter 6 (agricultural pricing), have relevance for your proposed Morocco Incentives mission. At the same time, the Morocco mission could go further in making specific recommendations on tariff structure and on export subsidies as it will be able to build on the results of the Protection and Incentive study.

cc: Ms. Guérard, EM2

Enclosure
BBalassa:nc

October 9, 1981.

Mr. Christian Stoffaes
Conference Convener
Institut Auguste Comte Pour L'Etude
des Sciences de L'Action
21, rue Descartes
75005 Paris
France

Dear Christian,

I enclose copies of the English and French version of my paper "The United States in the World Economy." I hope that the papers arrive in time, before the volume goes to the printer.

With best regards,

Sincerely yours,

Enclosures

Bela Balassa

Mr. D. Joseph Wood, FPA

October 9, 1981.

Bela Balassa, DRC

Grant Element

While the style is rather turgid (especially in the first paragraph of p. 2) the position taken in Leipziger's August 12th memo "A Note on the Concept of Grant Element" is correct. In a revised version, it would be desirable, however, to explain the reasons for the position taken, which may not be immediately apparent to everyone.

P.S. Sorry for the delay in replying; it has been due to my long absence from Washington.

BBalassa:nc

October 9, 1981.

Mr. José da Silva Lopes
Caixa Geral de Depositos
Largo de Santa Catarina
Lisbon
Portugal

Dear Mr. Silva-Lopes:

This is a follow-up to my letter of October 6. I would appreciate your suggestions for the revision of the chapter "The Financing of Economic Activity," in Volume One, "Summary and Conclusions" in *Turkey: Industrialization and Trade Strategy*. We would particularly need a stronger statement on the measures that may be used to develop capital markets in Turkey.

With best regards,

Sincerely yours,

Bela Balassa

Ms. Christine Wallich, VPD

October 8, 1981

Bela Balassa, DRC

Review Panel: "Evaluation and Estimation of National Accounts Statistics for Centrally Planned Economies on Atlas Basis"

1. A panel comprising B. Balassa (Chairman), S. Bery, M. Schrenk, W. Talroth, and B. Pleskovic reviewed the above proposal on October 5; Mr. Vujovic did not participate in the review. Mr. Acharya and Ms. Wallich from the Research Committee, Messrs. Baneth, Lee, and Park from EPD, Professor Marer, and a representative of Wharton Associates were also present. The panel agreed on the desirability of the proposed research and expressed support for the proposal on the condition that the additional documents described in Para. 2 and 3 are provided.
2. The sponsoring department should prepare a memorandum, indicating the principal research objectives, EPD involvement in the proposed research, the expected research output, and the future utilization of the results. Apart from the considerations introduced in Mr. Baneth's memo of September 15, the possible uses of the results in comparative studies and in clarifying the status of Romania for Bank lending should be noted. The extent of EPD staff time to be devoted to the research project and EPD's role in organizing the proposed research seminar and in establishing contacts with socialist countries should also be indicated. It is understood that the research project will evaluate the usefulness of alternative methodologies and provide estimates of the level and the rate of growth of per capita GNP under alternative assumptions. It should be indicated what role EPD will play in deriving "hard" numbers for the Atlas and how the continued production of these numbers will be assured.
3. Based on the chart he presented at the meeting, Professor Marer should prepare a brief note describing the advantages and disadvantages of methods presently used in estimating (a) GNP in national currency units, (b) conversion ratios into dollars, and (c) GNP growth rates in socialist economies. The evaluation should be prepared from the point-of-view of providing comparable estimates with the Atlas figures that use exchange rates as conversion ratios as well as with estimates derived by the use of purchasing power parities.

To be cleared with: Panel members, Messrs. Baneth and Acharya, Ms. Wallich

BBalassa:nc

October 8, 1981.

Professor Janos Kornai
Institute of Economics
Hungarian Academy of Sciences
1502 Budapest Postafiók 262
Budapest XI., Budaosi út 43/45
Hungary

Dear Janos:

This is to inform you that both the Bank and Johns Hopkins would be happy if you could give a seminar following the meetings in Bloomington. Please confirm whether you would be available the week following the Bloomington conference (March 29 to April 2) or on the following week (April 5 to April 9). I would appreciate your early answer since Hopkins is setting up its seminar schedule for the next semester.

It was good to see you and I appreciate the comments you have made on my paper.

Yours sincerely,

Bela Balassa

October 8, 1981.

Professor Marton Tardos
Institute of Economics
Hungarian Academy of Sciences
1502 Budapest
Postafiók 262
Budapest XI., Budaosi út 43/45
Hungary

Dear Marci,

Thank you for sending me the article by Szira on the exchange rate. I earlier received a copy of the paper on the second economy from your secretary.

I have been delayed in revising my paper and would appreciate getting your comments on it.

With best regards,

Yours sincerely,

Bela Balassa

OFFICE MEMORANDUM

TO: Ms. Christine Wallich, VPD

DATE: October 8, 1981

FROM: Bela Balassa, DRC

SUBJECT: Review Panel: "Evaluation and Estimation of National Accounts Statistics for Centrally Planned Economies on Atlas Basis"

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To be cleared with: Panel members, Messrs. Baneth and Acharya, Ms. Wallich

BBalassa:nc

October 8, 1981.

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

Dear Dr. Hic:

Please excuse the delay in answering your letters of August 15 and 22. I received them after a return from a six months trip abroad. I understand that the financial questions raised in your letters have been settled. Mr. Michel Noel will have discussions with you on the questions that remain. He is hand carrying this letter to you.

Yours sincerely,

Bela Balassa

CABLE
TELEX CLUBDAK 290139F

OCTOBER 8, 1981
61991

MR. DIAWARA, PRESIDENT DU CLUB DE DAKAR, 4 AVENUE ROCHE
75008 PARIS, FRANCE

REGRET TO INFORM YOU OF THE IMPOSSIBILITY TO PROVIDE REPLACEMENT FOR
MR. ~~CHEBERRY~~ AND MYSELF AT VIENNA MEETING. LOOKING FORWARD TO
SEEING YOU IN WASHINGTON IN EARLY DECEMBER. I EXPECT TO DEPART FOR
A TRIP ON DECEMBER TENTH. REGARDS, BALASSA

BELA BALASSA

BELA BALASSA

DRC Director's Office

BBalassa:nc

October 8, 1981.

Ms. Jennifer Roback
Yale University
Department of Economics
Economic Growth Center
Box 1987
Yale Station
New Haven, Connecticut 06520

Dear Ms. Roback:

Thank you for your letter of September 14 inviting me to give a paper at your Trade and Development Workshop. I would be happy to do so and could come on November 9 or 16. If these dates are not convenient for you we could perhaps postpone my visit until the second semester.

Yours sincerely,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
October 8, 1981.

Kodak
P.O. Box NB-073
El Paso, Texas 79977

Dear Sir:

I enclose your coupon together with the sales receipt. I am afraid that I can not enclose the clip off model number tab because this was not on the package. I inquired of W. Bell & Co., whether purchased the camera, and they told me that none of the boxes had a tab.

I trust that this information is sufficient and I will soon receive my \$10.00 refund.

Yours truly,

Enclosures

Bela Balassa

TAKE THE MONEY FOR FUN!
When you buy a Kodak instant camera

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GET \$10 BACK on the Kodak Colorburst 250 instant camera or outfit. The Kodak Colorburst 250 instant camera offers the convenience of a built-in electronic flash, plus a lens you never have to focus.

GET \$10 BACK

GET \$10 BACK on the Kodak Colorburst 350 instant camera. Get closer instantly. This camera has all the features of the Kodak Colorburst 250 instant camera, plus a special close-up lens for portrait type pictures.

I'll take the money for fun! Please send me a \$10.00 rebate on my purchase of:

a Kodak Colorburst 250 instant camera or outfit ● a Kodak Colorburst 350 instant camera.

- 1 Complete the address portion of this certificate.
- 2 Enclose the clip-off model number tab from inside the box flap. (For Kodak Colorburst 250 outfits *only*, enclose the UPC code from back of camera carton.)
- 3 Enclose dated sales receipt. Camera must be purchased between April 1, 1981 and September 30, 1981. This request must be post-marked no later than October 31, 1981.

All three items must be submitted before a rebate payment can be made. Participation limited to one rebate per customer.

Send coupon and **Take the Money for Fun Rebate** proofs of purchase to: **P.O. Box NB-073, El Paso, Texas 79977**

Your Name BELA BALASSA

Address 2134 Wyoming Avenue, N. W.
Washington, D. C. 20008

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OFFICE MEMORANDUM

TO: Ms. Christine Wallich, VPD

DATE: October 8, 1981

FROM: Bela Balassa, DRC

SUBJECT: Review Panel: "Evaluation and Estimation of National Accounts Statistics for Centrally Planned Economies on Atlas Basis"

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To be cleared with: Panel members, Messrs. Baneth and Acharya, Ms. Wallich

BBalassa:nc

October 8, 1981.

Mr. S. E. P. Nowill
Kaçkar Apt. A/8
Devriye Sokak, 15
Moda, Kadikoy
Istanbul
Turkey

Dear Mr. Nowill:

Thank you for your letter of September 18 and for your comments on my paper. As to the GNP and population figures, I have been using data published by the International Monetary Fund.

Yours sincerely,

Bela Balassa

October 6, 1981.

Mr. Jose da Silva Lopes
Caixa Geral de Depositos
Largo de Santa Catarina
Lisboa
Portugal

Dear Mr. Silva Lopes:

The edited version of your chapter has now been typed and it will be sent to you, together with all other chapters and the Summary and Conclusions, by the end of the week. I would appreciate your informing me of any changes you wish to make in your chapter, or in the relevant section of Summary and Conclusions, by October 23. I will have to send the complete version to the Turkish authorities by October 31.

I would like to ask you to review Tables 3.2, 3.5 and 3.6, where some numbers are missing and send me these numbers if available. (In Table 3.2, I added a row on the decrease in net foreign assets of public administrations, but I am missing the figure for 1979.) I also wonder if you might have been able to obtain more recent data for some of the tables. Finally, there remains some repetition in the chapter as regards the effects on monetary policy and inflation of the financing of the public sector.

I would like to emphasize that we can make any desirable changes before the next version of the report is completed. While I have tried to retain all your ideas in the editing, you may find that I have not always succeeded in doing so.

I would like to use the opportunity to thank you again for the excellent work you have done. Your report should be very useful to the Bank as well as to the Turkish government.

Yours sincerely,

Bela Balassa

P.S. On your visit to Washington I mentioned to you the possibility of the Bank undertaking a mission to Morocco in January. This has now been postponed and will not take place until May or June. I will contact you, once there is information on the coverage of the mission, to discuss your possible participation.

PINK

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
October 6, 1981.

Dr. Wesley Oler
3301 New Mexico Avenue N.W.
Washington, D.C. 20016

Dear Dr. Oler:

Mr. Balassa has received your bill and as soon as he receives the attached completed form, payment will be made.

Yours sincerely,

Enclosures

Norma Campbell
Secretary to Mr. Balassa

TELEX
CLUBDAK 290139F

OCTOBER 5, 1981
61991

MR. DIAWARA, CLUB DE DAKAR, SECRETARIAT ADMINISTRATIF,
4, AVENUE NOCHE, 75008 PARIS, FRANCE

CLUB DE DAKAR DISCUSSIONS ARE ONGOING FOR NAMING A BANK REPRESENTA-
TIVE TO THE VIENNA CONGRESS OF THE CLUB DE DAKAR. WILL INFORM YOU
WITHIN A FEW DAYS. REGARDS, BALASSA

BELA BALASSA

BELA BALASSA

BBalassa:nc

DRC - DIRECTORS OFFICE

Mr. Hollis B. Chenery, VPD

October 5, 1981.

Bela Balassa, DRC

Club de Dakar

The Club de Dakar will be holding its annual meeting on October 12 - 14 in Vienna. The subject of the meeting is the least developed countries. Given the interest in the Bank in these countries it would seem desirable to send a representative to the meeting.

I am afraid that due to other obligations I cannot attend. Let me add here that last year Jean Baneth represented the Bank and the year before Jean Benard participated at the meeting.

cc: Mr. de Azcarate, WANVP

BBalassa:nc



Record Removal Notice

File Title Bela Balassa's chron files - October 1981	Barcode No. 30225108
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Document Date Oct 5, 1981	Document Type Letter
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Correspondents / Participants
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Bela Balassa,

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Withdrawn by Chandra Kumar	Date May 30, 2014
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Mr. Edwin R. Lim, AEA

October 5, 1981.

Bela Balassa, DRC

Hongarynce and Research on Hungary

I have spoken to Professor Marer who would be happy to have you, and other interested parties from the Bank, as well as Chinese visitors at the Conference on Hungary to be held on March 21 - 24. As the enclosed invitation indicates, the more interesting part of the Conference takes place in the first two days.

Professor Marer agrees with the idea of having a small seminar in Washington, with the participation of several Hungarian economists immediately following the Conference. At the seminar we could have discussions on some of the topics that are of interest to the Chinese as well as on prospective research on Hungary.

cc: Mr. Koch-Weser, AEA

Enclosure
BBalassa:nc



INDIANA UNIVERSITY

SCHOOL OF BUSINESS
Bloomington/Indianapolis
10th St. & Fee Lane
Bloomington, IN 47405
(812) 337-7529

July 31, 1981

Bela Balassa
International Bank for
Reconstruction and Dev.
1818 H Street, N.W.
Washington, D.C. 20433

Dear Bela:

We would like to invite you to participate in a Roundtable on the Hungarian economy next March 21-24 in Bloomington, hosted by the Hungarian Chair in the Department of Uralic and Altaic Studies and the Graduate School of Business of Indiana University.

The current plan is to "merge" two small conferences into a four-day meeting on the Hungarian economy, March 21-24, 1982, though we understand that some US participants may not be able to stay for the full four days. The first two days, with program responsibility principally by Indiana, would be devoted to:

1. Reforms in Hungary's macroeconomic planning and enterprise management (day one); and
2. The organization and performance of Hungarian agriculture in international perspective (day two).

The third and fourth days would in effect be the seventh annual session of the US-HUNGARIAN ROUNDTABLE ON ECONOMICS. As you know, the Roundtable is an annual meeting of US and Hungarian specialists on the economies of the two countries and East-West commercial relations. Hungarian participation in the Roundtable is organized by Prof. Mihaly Simai of the Institute of World Economics in Budapest, US participation by Prof. Ed Hewett of the Brookings Institution in Washington, D.C.

Given the small number of US academic specialists on the Hungarian economy, the difficulty for all of us to find time and money to participate in two conferences on Hungary in the same year, and the substantial expense of bringing a dozen or so leading economists from

Bela Balassa
July 31, 1981
Page two

Hungary to the US, Professors Hewett, Ranki and I thought that it would be sensible to hold the two meetings parallel, but with formal program and funding responsibility for the two components remaining separate but of course closely coordinated. It is our understanding that Prof. Simai has agreed to this arrangement but we are awaiting his written confirmation.

At the Roundtable meetings at least one or two days are usually devoted to East-West economic relations. Accordingly, the third and fourth days of the Conference would be:

3. East-West economic relations (papers on US economic relations with the East and Hungary's economic relations with the West); and
4. East-West economic relations (continued) and miscellaneous other topics involving either Hungary or the US (papers to be determined on the basis of topics suggested by the invited participants).

The four-day meeting is slated to bring together an unusually large and strong team of experts on the Hungarian economy. In the past, the Hungarians have always sent 8 to 10 outstanding economists to these Roundtables, usually including Otto Gado, Marton Tardos, Bela Kadar, Mihaly Simai, Istvan Dobozi and others of their caliber. On this occasion the Hungarian Chair at Indiana has invited, at its expense, several other leading specialists from Hungary, including Rezso Nyers (former member of the Politburo who is considered one of the architects of the NEM), Janos Kornai, and two others, and tentative acceptances have been received already.

US participation in the Roundtable is funded by the NSF. Since Ed Hewett must soon submit a grant request for the March 1982 Seventh session which must include a preliminary list of US participants and the tentative titles of their papers, he would like to know whether you can make a tentative commitment to present (even a short) paper at any of the four sessions. If yes, please send us the tentative title of the paper. On the assumption that NSF will continue to fund the Roundtable, Ed and I would then be in a position to cover the full cost of your conference participation.

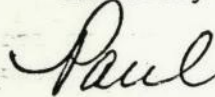
So far other letters of invitation have been sent to Professors Balassa, Bornstein, Brada, Grossman, Holzman, Marrese, Montias, Portes, and Wolf (possible members of the US Roundtable team) and to Messrs. Hare, Radice, and Swain (who just published a co-edited book on the Hungarian economy) in the UK. If you know any other professor or advanced graduate

Bela Balassa
July 31, 1981
Page three

student doing research on the Hungarian economy, please let us know so that we can extend an invitation.

To expedite matters, please send a copy of your reply also to Ed Hewett at Brookings (1775 Massachusetts Ave., N.W., Washington, D.C. 20036).

Sincerely yours,



Paul Marer
Chairperson and Professor
International Business

PM:dkc

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
October 5, 1981.

Mr. William S. Norman
Vice President, Sales and Marketing
400 North Capital Street N.W.
Washington, D.C. 20001

Dear Mr. Norman:

On May 15 and July 30, 1981, I wrote to your Corporation requesting that you again permit passengers to board all Metroliners going South in Baltimore. The reasons for this request are contained in the enclosed letter.

On a recent trip, I again had the experience of waiting for over an hour at Baltimore station because of the delay of the regular train while the Metroliner was passing by. The date was September 23rd when The Bankers arrived at 1:55 instead of the scheduled arrival of 12:49 and the Metroliner passed through Baltimore at 1:16.

In view of the inconvenience caused to passengers and the financial loss to AMTRAK, I hope that you will see it appropriate to modify the regulations and again permit passengers to board all Metroliners going South in Baltimore.

Very truly yours,

Enclosure

Bela Balassa

October 5, 1981.

Mr. Furen Dong
Deputy Director
Institute of Economics
Chinese Academy of Social Sciences
5 Jianguomen Nei Dajie
Beijing
China

Dear Mr. Dong:

Thank you for your letter of August 19th, which reached me after my return from a long trip abroad. This letter is handcarried by Mr. Edwin Lim who will discuss with you my prospective visit to China.

I hope that I could use the visit to discuss the Hungarian experience with decentralization and its relevance to China. I have been especially interested in questions of pricing and incentives in their relationship with the decentralization of decision-making. I would also like to learn first hand about the experiences of decentralization experiments that have been conducted in China.

I trust that, in addition to yourself, I will have the opportunity for exchanges on these subjects with Dr. Liu Shuinian and other officials of the Planning Commission. I would like particularly to meet Professor Xue Muqiau.

Looking forward to meeting you again, I remain,

Yours sincerely,

Bela Balassa

2134 Wyoming Avenue N.W.
Washington, D.C. 20008
October 5, 1981.

Sobel Overseas Corp.
210 East 86th Street
New York, N.Y. 10028

Dear Sir:

Please send me your latest catalogue on gifts to Hungary.

Yours truly,

Bela Balassa

TELEX
MININDU 204231

OCTOBER 5, 1981
61991

MR. CHRISTIAN STOFFAES, CHEF DU CENTRE D'ETUDES ET DE PREVISION
MINISTERE DE L'INDUSTRIE, 101 RUE DE GRENELLE, 75700 PARIS, FRANCE

ENGLISH AND FRENCH VERSIONS OF PAPER WILL BE MAILED THIS WEEK.

REGARDS, BALASSA

BELA BALASSA

BELA BALASSA

DRC - Director's Office

BBalassa:nc

Mr. Jayanta Roy, EM2

October 5, 1981

Bela Balassa, DRC

Turkey Report

1. The status of Volume Two of the Turkey report is shown on the enclosure. Please have the volume assembled and the Table of Contents done. The volume will be distributed in its present form, double-spaced, once Chapters 3 and 8 will have been corrected.
2. In the covering memorandum, it should be noted that appendices in medium-term projections, the engineering industries, mineral-based chemicals, and the agricultural model are under preparation. They will be distributed for comments in late November.

Enclosures
BBalassa:nc

Turkey Industrialization and Trade Strategy

Volume Two

Title Page	original enclosed
Mission Composition	original enclosed
Table of Conents	to be done
Chapter 1	original enclosed
Chapter 2	original enclosed
Chapter 3	to be corrected
Chapter 4	copy enclosed; Roy has original
Chapter 5	Roy has original
Chapter 6	original enclosed
Chapter 7	copy enclosed
Chapter 8	to be corrected

Mr. Jayanta Roy, EM2

October 5, 1981

Bela Balassa, DRC

Chapter 3

Thank you for the very good job that has been done on the chapter. I have made a number of changes which require corrections. Also Table 3.19 has been omitted. Finally, the headings for the subsections should be in lower case and underlined. (These headings are denoted by arabic numbers.)

Enclosure
BBalassa:nc

October 2, 1981

The Economist
25 St. James's Street
London SW1A 1HG
England

Dear Sir:

Your interesting survey of September 12, 1981 on Turkey has incorrectly represented my views. I have never suggested that "what Turkey most urgently needs is an economic development plan." In fact, I have long objected to the kind of long-term planning that Mr. Deniz Baykal, the former finance minister in the Ecevit government, favors according to your article. The failure of such planning could be ascertained in Turkey during the 1970s. Rather, I am on record to have advocated the adoption of an outward-oriented strategy in 1979. While Mr. Kurus, the then planning secretary, objected to this recommendation on the grounds that there are no foreign markets for Turkey, history has proved otherwise.

This summer in Istanbul I have suggested that the measures taken in 1980 and 1981 be complemented by further measures to fully effect the shift to an outward-oriented economy, with the increased use of the market mechanism. I have recommended the adoption of a medium-term policy framework for this purpose. Within this framework, the principal measures should involve lowering import protection, rationalizing export subsidies, reducing the cost of financial intermediation, lowering taxes on savings and corporate profits, promoting technological development and labor training, equalizing the conditions under which private and public firms operate, and decentralizing decision-making in the state economic enterprises.

Bela Balassa

Miss Marie Higginson, ADM

October 1, 1981.

Bela Balassa, DRC

Revision of French Translation

I enclose the revised English version together with the original French translation of my paper "The United States in the World Economy." I have spoken to Mrs. de la Renaudiere who has done the original translation, concerning the revision and she has told me that she will be able to make the revisions over the weekend. May I ask you, therefore, to send the enclosed revised English and original French version to her.

Enclosures
BBalassa:nc