March 31, 1983

Mr. Jacques Coudol, EMP
Bela Balassa, DRD
61007

TURKEY: Financial Sector Study Report

1. This is an outstanding report. It is clear and concise; it correctly evaluates the financial situation in Turkey; and its recommendations are generally sound. Some further sharpening of the recommendations would be desirable, however, with a view to ease the liquidity squeeze in the private sector that may otherwise deepen in 1983 (Para. 5.18).

2. The report notes that "in 1982 practically all the expansion of credits to the private sector was needed to finance interest payments" (Para. 5.16). It is added that "the new loans available were barely sufficient to cover the firms' losses" (Para. 5.18) and "even when they suffer from losses caused by high real interest rates, firms often prefer to increase their debts in order to survive ..." (Para. 5.20).

3. The report suggests that "the basic contribution to solving the problems created by the liquidity squeeze must come from the reduction of the real rates of interest" (Para. 5.21). For this purpose, it recommends (i) additional efforts to reduce the needs of public sector borrowing from the banking system; (ii) frequent adjustment of overall credit ceilings to the growth of the demand for money; (iii) reducing the issue of investment encouragement certificates to the private sector; (iv) the elimination of the transaction tax and the payment of higher interest rates for reserve requirements; and (v) the revitalization of the bond market (Para. 5.21). With the exception of (iii), these recommendations are repeated in "Summary of Conclusions and Recommendations" (p. 7).

4. The revitalization of the bond market is an important task but, given the time involved, its contribution to easing the liquidity squeeze is likely to be small. In turn, the transaction tax should be eliminated and higher interest rates paid on reserve requirements at the earliest possible date as suggested in the report.

5. According to the report, "in the face of the administrative difficulties of introducing a system of taxing only the real interest income, there may be some justification for maintaining the present system" (Para. 1.17). However, one may limit taxation to real interest income in conjunction with the indexing of interest rates on savings deposits to the rate of inflation (Para. 1.16). In view of the apparent overestimation of future inflation rates by savers, the application of these measures may permit maintaining — and even increasing — financial savings, while lowering their costs to the banks.
6. Rather than reducing the issue of investment encouragement certificates, it would be desirable to increase their issue, so as to contribute to the revival of private investment. This is necessary in order to assure the continued rapid expansion of exports and, more generally, the growth of the Turkish economy.

7. The need to find an early solution to the liquidity squeeze calls for making concrete recommendations on reducing the borrowing requirements of the public sector. This is the more important as the public administration continues to account for 18 percent of the advances of the financial sector (Table 2.2); it may be an exaggeration to say, then, that "substantial progress was achieved in reducing the proportion of total credit from the banking system absorbed by the Treasury" (Para. 2.12). At the same time, the increased sale of Treasury bond and bills (Para. 2.11) may not contribute to easing the liquidity squeeze, since it would impinge on available savings. At the same time, while the share of public enterprises in the advances of the financial sectors declined from 36 percent in 1979 to 26 percent in 1981 as these enterprises raised prices (Table 2.2) it would be desirable to further reduce their reliance on scarce financial resources. In this connection, the report may suggest ceilings for the financing of public administration as well as public enterprises.

8. The reference made to the need to adjust the growth of credit ceilings to increases in the money supply leads to the question of the overall ease or restrictiveness of monetary policy. According to the "Summary of Conclusions and Recommendations," the objective of "the rapid reduction of the excessively high real lending interest rates for most credits ... may also make it necessary to adopt a less tight credit policy" (p. 21). This question needs further analysis. My personal view is that, with the rate of inflation having declined from over 100 percent in early 1980 to 22 percent in November 1982 and with interest rates on one-year loans having increased from 30 percent to 50 percent during this period, the dangers of excessively high real interest rates for the Turkish economy are considerably greater than those of high inflation rates.

9. Nevertheless, any increase in credit expansion would have to be modest, so as to avoid rekindling inflation; also it should be oriented towards the rehabilitation of the financial system. The report notes that while "the reduction of the real interest rates will be a gradual process ... the liquidity and solvency problems of money enterprises may become more acute, and the government will be pressed with growing demands to assist firms in difficulty" (Para. 5.22). Rather than taking ex-post measures once difficulties have arisen, however, it would be desirable to act ex-ante. This may involve combining the recommendations made by the report on the rehabilitation of enterprises (Para. 5.23 and 5.28) and on the handling of non-performing loans (Para. 6.18-6.23). More specifically, it is suggested to review the banks' portfolio, with the participation of the Central Bank and/or the Ministry of Finance, and to weed out the bad debts of firms that absorb an increasing part of the resources of the financial system. A scheme of
compensation, to be established in accordance with Para. 6.21-6.23 of the report, could be financed within the limits of additional credit creation.

cc: Mr. Gassner, Ms. Guerard, EM2
Messrs. Dubey, Fitchett (EMNVP), Finzi, Zaidan, Malik, (EMP), Chernick (CPD), Yenal (EANVP), Asfour (EM2), Kohli, Dervis (IND), Robinson (DRD), Kaul (IM), van Agtmael (CCMD), Bart, Goffin, Pranich Stewart (EMP)
March 31, 1983.

Mr. Roberto M. Fernandes, EM2
Bela Balassa, DRD
61007

In reference to my telephone conversation with Mr. Schwartz, I enclose a copy of the letter of invitation to participate in a seminar to be held in Tunisia on June 9 - 11, 1983. The seminar would provide me with an opportunity to present some ideas on Tunisia policy. At the same time, my interest in participating would be much enhanced if arrangements could be made to work with the Ministry of Economy in the first part of the week, i.e., between June 6 - 8.

cc: Mr. Schwartz, EMP

Enclosure
BBalassa:nc
March 14, 1983

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

Dear Professor Balassa:

Following up on our telephone conversation, I wish to confirm that you are invited to participate in a seminar to be held in Tunis June 9-11, 1983. This invitation is extended to you with the earnest support of the Ministry of Planning and Finance where our co-operative program is located.

The purpose of the Seminar is to discuss the methodology and preliminary results of on going research on effective protection (both at the sectoral and aggregate level) and the construction of a general equilibrium model to simulate policy impacts.

You suggested that you might choose to develop some thoughts on policy implications of this type of research. I would welcome this idea since it fits exactly the subject matter of the last session we had in mind in the first place (this is Saturday morning June 11). If this is agreeable to you, I would organize the session so as to give you one hour or one hour and a half for your presentation. Then, I would probably follow you myself with some perspectives for future work arising out of what has already been achieved.

If you have other preferences, please let me know. The program is not finalized yet and I am sure that I could accommodate you.

.../2
I was sincerely delighted to learn that you might be able to participate in the Seminar because the Tunisians (and myself of course) have the highest regard for your past contributions to policy formulation and development.

Looking forward to a favourable response, I remain,

Sincerely yours,

mct

André Raynauld
March 31, 1983.

Mr. Rolf Geberth  
Chairman  
Turkish Consortium  
OECD  
2 rue Andre Pascal  
75775 Paris Cedex 16  
France

Dear Mr. Geberth:

I enclose my comments, on a personal basis, on the yellow cover version of Mr. Roy's report. I have asked that the green cover version be sent to you. I have not looked at it myself and thus I do not know if my suggestions have been adequately taken into account.

Yours sincerely,

Enclosure  

Bela Balassa
March 28, 1983.

Ms. Anne Gordon Drabek  
Managing Editor  
World Development  
Queen Elizabeth House  
21 St. Giles  
Oxford OX1 3LA  
England

Dear Ms. Drabek:

I do not recommend publishing "Rising Oil Prices and Industrial Production in Some Developing Countries in the Seventies" by Peter Nunnenkamp. The paper set out to provide evidence for the self-evident proposition according to which industrialization prospects of non-oil developing countries have not been seriously affected by the rise of oil prices in 1973-74. At the same time, I object to the use of electricity consumption as a proxy for capital; the former represents an intermediate input, the use of which varies over the business cycle, rather than the capital stock. At any rate, relatively few of the statistical results are significant at a high level of confidence.

Sincerely,

Enclosure  

Bela Balassa
March 28, 1983.

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

Dear Mr. da Silva Lopes:

I was sorry to learn that you will not join me for discussions in Rabat next week. I am told that the Bank wants to wait with a visit on your part to Morocco until your future position is clarified.

In this connection, let me express the hope that in a new government you again will fulfill a leading function. Your wisdom is needed very much indeed to improve economic policies in Portugal.

I enclose a copy of my report on Portugal which you read on the occasion of our mission to Morocco. The report is now public property and you may make any use of it you wish. I have also sent it to Mr. Nunes, indicating my interest to have it published in Economia.

Yours sincerely,

Enclosure  
Bela Balassa

P.S. Due to an oversight, this letter was not sent to you before my departure for Rabat. I now enclose my comments on your report.
March 28, 1983

Standard & Poor's Corporation
25 Broadway
New York, N.Y. 10004

Dear Sir:

I have received the first several issues of The Outlook. I have not received the Encyclopedia or the S&P stock guide.

Having reviewed the first issue of The Outlook I have decided to cancel my subscription. According to your offer, I wish to request that you refund the unused portion of my one year subscription of $175.00.

Yours sincerely,

Bela Balassa
March 28, 1983

Mr. J. Lesourne
Conservatoire National des Arts et Métiers
292 rue Saint-Martin
75141 Paris CEDEX 03
France

Dear Mr. Lesourne:

I have just received your letter of information No. 5 dated January 10, 1983. I am sorry to say that I still have not heard from Mr. Fujii. Thus, I have not been able to make any steps concerning the encyclopaedia.

Yours sincerely,

Bela Balassa
March 28, 1983

Mr. Maurice P. Bart, EM2
Bela Balassa, DRD and M. Carter, EM2
61007

Morocco: Mission to Discuss Report on Industrial Incentives and Export Promotion

1. This memorandum reports on the discussions based on the report "Industrial Incentives and Export Promotion," for which a mission consisting of ourselves and Messrs. Rene Bonnel and Hani Prasad visited Morocco from 22 to 25 March 1983. Our discussions took the form of separate meetings with the Ministers of Economic Affairs and Commerce and Industry (both of whom we saw twice); the Minister of Finance; the Deputy-Governor of the Bank of Morocco; and a series of plenary sessions with officials from the above Ministries as well as with the President of ODI and with representatives of the Ministry of Planning. We were also received by the Prime Minister, in the presence of the Ministers of Economic Affairs and Commerce and Industry. An Aide-Memoire we left with the Minister of Economic Affairs is attached.

2. It appears that our mission took place at an opportune moment. The initial signs of awareness of the seriousness of Morocco's financial situation, which began to emerge at the end of the last year, appear to be confirmed in some degree. Two weeks ago, the Government imposed generalized import licensing, and it established two interministerial commissions under the chairmanship of the Minister of Finance, to revise the development and recurrent budgets. These measures were taken, on the one hand, to ensure that Morocco would continue to be able to meet its obligations to commercial banks and suppliers and, on the other hand, to prepare an acceptable basis for negotiation of a new standby with the IMF in early May. The intention is to formulate a three-year stabilization programme by the end of April.

3. In all our discussions, we placed very considerable emphasis on the importance we attached to the successful implementation of stabilization efforts. For illustrative purposes, we presented three possible scenarios for economic development in Morocco and for their impact on Bank activity. Under the first, if inadequate stabilization measures are taken, Morocco would quickly face a financial crisis, a new standby with the Fund would be abandoned, and debt scheduling as well as serious difficulties in meeting import needs would be unavoidable; in such circumstances, a substantial reduction in the Bank lending programme would be extremely likely. Under the second, if work now under way leads to the application of a rational reduction in public expenditure, including a reduction of development expenditure in line with the recommendations of the recent Plan Review Report, it should be possible to reach agreement with the IMF on a new standby, and maintain Morocco's creditworthiness for at least the roll-over of existing commercial
2. Debt. Under such a scenario, it should be possible to maintain the Bank's project lending programme at about its present level; however, the overall impact of the measures taken would be deflationary. Under a third scenario, the stabilization programme would be accompanied by a medium-term adjustment programme which, through increased growth of exports, would counteract the deflationary impact of stabilization and permit substantially higher growth over the medium-term.

4. We received a mixed reaction to the proposed measures, based in a first phase on the elimination of an import surcharge accompanied by a devaluation, and in a second on protection reduction, together with accompanying fiscal, administrative, and financial measures. The Ministers of Economic Affairs and of Industry both reacted extremely favorably to the report, praised its high quality and expressed their agreements with virtually its entire contents. The Vice-Governor of the Bank of Morocco reacted extremely strongly against the proposal to devalue; he felt that it would buy only temporary benefits, but was not prepared to discuss the details of our proposals. The Minister of Finance said that he was not yet able to take a position on the recommendations of the report. His initial reaction was that he would prefer a selective rather than generalized reduction of tariffs, so as to minimize the size of the proposals to the budget; however, he recognized that such an approach involves a reduction of the beneficial impact of reforms on the growth of exports. After discussion, he agreed that the proposal for a compensated devaluation deserved careful study and we agreed that Mr. Bonnel should return to Morocco in about two weeks, when key staff in the Ministry of Finance would be available, to review in detail and agree on the estimations of the balance of payments and fiscal impact of the proposed measures. If an agreement is reached, a preliminary version of the specific short and medium-term adjustment programmes could be prepared jointly with the Ministry of Finance and the concerned ministries, during his visit, as a basis for decision by the Government. The Prime Minister appeared to recognize the advantages of adding an adjustment programme oriented towards export promotion to the stabilization effort. He was informed of the differences of views which exist at present and asked that discussion be continued to reach agreement among all concerned ministries on an entire programme.

5. Considerable interest was expressed in the financial support the Bank could provide to support the proposed measures. We explained to the Prime Minister that, if the third scenario mentioned above could be followed, it would be possible for the Bank to provide financial support on a programme basis. We indicated that a first loan could be of the order of $100 million. We also suggested that the establishment of an appropriate adjustment programme might make it possible for Morocco to have access to existing funds under the Special Action Programme. Finally, we brought to the attention of the Ministers we met the pilot programme of cofinancing which it might be possible to apply in the context of an adjustment loan to Morocco. However, we also emphasized that,

(i) an initial adjustment loan could only be made on the basis of a longer-term adjustment programme, for which a first loan could support implementation of the first phase; such a longer-term
programme should preferably be integrated with the three-year adjustment programme referred to in paragraph 2 above, and due to be completed in a month’s time;

(ii) an initial adjustment loan could only be envisaged once an initial reduction of the public investment programme had been achieved and a new standby agreement had been concluded with the IMF; and

(iii) an initial adjustment loan could only be made once implementation of the adjustment programme began.

6. In addition to its leading role in the stabilization effort, we emphasized in all our discussions the importance of ensuring that the development of the proposed adjustment programme take place in close coordination with the IMF. The Minister of Finance made the same point. We said that, on return to Washington, we would brief the IMF on the results of the mission, and continue discussions with the IMF in the hope that a common position could be arrived at in the next few weeks. The forthcoming visits to the U.S. of the Minister of Finance, Industry and Economic Affairs would clearly be the occasion for further discussion of the proposal with both the IMF and the Bank.

7. We will have a clearer view of the chances of being able to reach agreement with the government on a suitable adjustment programme when Mr. Bonnel returns from his mission. Following further discussion between the Bank and the IMF, Mr. Bonnel’s mission, and the forthcoming ministerial visits to the U.S., the next step would be to see whether progress is made in establishing a new standby agreement, for which an IMF mission is planned in early May. Subsequently, it would be possible to have a clearer idea of whether an adjustment loan by the Bank could be feasible, in which case, the process of seeking agreement from the Bank’s management for a specific basis for discussion of a loan could be initiated.

cc: Messrs. Stern, SVPOP; Chaufournier, EMNVP; Picciotto, EMP; Dubey, EMNVP; Asfour, EM2; Bonnel, EM2; Mateus, EM2;
Ms. Krueger, VPERS; Guerard EM2;
Messrs. Bhatia, Francois, IMF

BBalassa/MCarter:nc
March 28, 1983.

Professor Elliott Berg  
Department of Economics  
University of Michigan at Ann Arbor  
Ann Arbor, Michigan 48104  

Dear Professor Berg:

Due to an oversight I am only now sending you my two papers on Africa. I hope that you will find them of interest as they reinforce the conclusions of your report. Needless to say, any comments would be appreciated.

Yours sincerely,

Bela Balassa

Enclosures

Policy Responses to External Shocks in Sub-Saharan African Countries
March 28, 1983.

Mr. Gavin Peebles  
Department of Economics  
University of Hong Kong  
HONG KONG

Dear Mr. Peebles:

Thank you for your letter of February 28th and for sending me your paper on monetary reform in China. I have sent this paper to Mr. Byrd who has written on the subject.

Yours sincerely,

Bela Balassa

cc: Mr. Byrd – I have still not received your list of academic economists working on China.
March 21, 1983.

Mr. Thomas Hatzichronoglou  
Unité des Indicateurs de la Science et de la Technologie  
Organization for Economic Co-operation and Development  
2, rue André-Pascal  
75775 Paris CEDEX 16  
France

Dear Mr. Hatzichronoglou:

Thank you for your invitation to chair the September 12th session of your seminar. I would very much have liked to participate but unfortunately I cannot do so.

I will be returning to the United States after a long trip abroad and have to resume my teaching on September 12th. While I regret this, I hope that there will be another opportunity for future collaboration.

Yours sincerely,

Bela Balassa
March 21, 1983.

Mr. David O. Whitten
Managing Editor
The Wall Street Review of Books
Department of Economics
Auburn University, AL 36849

Dear Mr. Whitten:

The Morrison book is so hopelessly outdated that it is not worth reviewing. I will be happy to return it to you if you so wish.

Yours sincerely,

Bela Balassa
March 21, 1983.

Mr. E. Stoutjesdijk, DRD

Bela Balassa, DRD

61007

February memos

I enclose a copy of my memo on the Tanzania agricultural report together with some substantive memos I wrote in the month of February.

Enclosures

BBalassa:nc
March 18, 1983.

Mr. Luc Fauvel
International Economic Association
23, rue Campagne Première
75014 Paris
FRANCE

Dear Dr. Fauvel:

I am sending Mr. Aiyegbusi a copy of my paper today. At the same time, I am uncertain that I can participate at the Conference.

Yours sincerely,

Bela Balassa

Policy Responses to External Shocks in Sub-Saharan African Countries
March 18, 1983

Regional Chief Economists
Bela Balassa, EPR and D. McCarthy, EPD
61007

Adjustment Policies in Developing Countries, 1979-81

1. We enclose a draft report on the above subject. The purpose of the report is to evaluate the policies adopted by developing countries in response to the external shocks of the years 1979-81 in a comparative framework.

2. The preliminary character of this report should be emphasized. The country notes and evaluations have not been checked with regional economists, and we would appreciate receiving their reactions at this stage. A sufficient number of copies are enclosed for yourself and for senior economists in the front office, with the request that you transmit the notes for the individual countries, together with the comparative tables and the methodological annex, to country economists. Apart from the general evaluation of policies and performance, we are particularly interested in having comments on agricultural pricing for which we did not have quantitative indicators.

3. In the process of revision, we will be attempting to extend the data on the policy variables to 1982. In this connection, it would be appreciated if we could receive estimates of the government budget balance and, if available, the public sector balance, for the year 1982. In order to ensure comparability, it is requested that such data be provided also for the years 1976 to 1981.

4. In view of a tight schedule, it would be appreciated if we could have comments and reactions to the draft report, together with the requested data, by March 31, Thursday, c.o.b.

cc: Messrs. Waide, Chernick, Edelman, Kavalsky, and Leisersen, CPD

Enclosure
BBalassa:nc
March 18, 1983

Mrs. Anne Krueger, VPERS

Bela Balassa, DRD; D. McCarthy, EPD

Adjustment Policies in Developing Countries, 1979-81

Enclosed please find the first draft of our report on the above subject. We have distributed the report to Regional Chief Economists and to the Country Policy Department for comments per the enclosed memo.

cc: Mrs. Hughes, EPD; Messrs. Michalopoulos, VPERS; Stoutjesdijk, DRD; Baneth, EPD; Singh, and Rajapatirana, AEA; D.C. Rao, EGY.

Enclosure

BBalassa:nc
March 18, 1983.

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

Dear Gerardo,

Many thanks for your letter of February 22nd informing me that my paper will be published in Comercio Exterior. I am very glad for this opportunity to communicate to a large Mexican audience and to contribute to the policy dialogue. The final version of the paper has an extended section on policy recommendations.

Yours sincerely,

Bela Balassa
American Security Bank
1501 Pennsylvania Avenue N.W.
Washington, D.C. 20005

March 18, 1983.

Dear Sir:

I enclose the curriculum vitae of Anne Moulinier, a student at a French business school. Miss Moulinier would like to come to Washington on a six months internship.

In support of her request, I would like to note that she has studied at one of the most prestigious business schools in Europe. This school requires students to work as interns, and given Miss Moulinier's language ability and interest in the United States, she would like to come to Washington for this purpose. I most highly recommend her.

Yours sincerely,

Enclosure

Bela Balassa
Riggs National Bank  
Federal Office  
1750 Pennsylvania Avenue N.W.  
Washington, D.C. 20006

March 18, 1983

Dear Sir:

I enclose the curriculum vitae of Anne Moulinier, a student at a French business school. Miss Moulinier would like to come to Washington on a six months internship.

In support of her request, I would like to note that she has studied at one of the most prestigious business schools in Europe. This school requires students to work as interns, and given Miss Moulinier's language ability and interest in the United States, she would like to come to Washington for this purpose. I most highly recommend her.

Yours sincerely,

Bela Balassa

Enclosures
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Withdrawn by: Chandra Kumar  
Date: Jun 10, 2014
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**Correspondents / Participants**  
To: The George Washington University  
From: Bela Balassa

**Subject / Title**  
Asking for financial record to be corrected

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**Additional Comments**  
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**Withdrawn by**  
Chandra Kumar  
**Date**  
Jun 10, 2014
2134 Wyoming Avenue N.W.
Washington, D.C. 20008
March 18, 1983.

Davis Antenna Incorporated
Route 4, Box 335
Waldorf, Maryland 20601

Dear Sir:

On March 17th you installed an FM, UHF and VHF antennas in my house, located at 2134 Wyoming Avenue N.W. I found that rather than improving reception the FM antenna as introduced an additional noise I did not have with my "loose" antenna. Accordingly, I disconnected the FM antenna and reconnected my "loose" antenna.

In reference to the guarantee given by your representative, I wish to ask you to remove the FM antenna and reimburse me for the cost of this antenna. Also, the UHF t.v. antenna needs to be adjusted. While reception of channels 20 and 32 has improved, the reception of channel 26 as deteriorated. As I emphasized to your representative, my reason for installing a UHF antenna was to get a better reception of channel 26.

I am leaving for a trip abroad and will call you to set-up an appointment on my return towards the end of the month.

Yours sincerely,

Bela Balassa
March 18, 1983.

Mr. Kiertisak Toh
United States Aid Mission to Niger
American Embassy
B.P. 11201
Niamey
Niger

Dear Mr. Toh:

Thank you for your letter of March 2nd and for informing me of the omission of certain SIC categories.

With best regards,

Sincerely yours,

Bela Balassa
March 18, 1983.

Dr. Frank Wolter  
Institut für Weltwirtschaft  
Postfach 4309  
2300 Kiel 1  
Germany

Dear Dr. Wolter:

Thank you for your letter of February 28th and for the information contained therein. Should Dr. Loertscher have retained the data, I would appreciate receiving them.

With best regards,

Sincerely yours,

Bela Balassa
March 18, 1983
Mr. C. Michalopoulos, VPERS
Bela Balassa, DRD
61007

Pioneer Steering Group

I enclose a copy of my recent memo indicating that I will again not be able to participate at the meeting of the Steering Group. In view of Sid Chernick's informal reply, you may wish to ensure participation at the meeting.

BBalassa:nc
DATE: March 10, 1983.

TO: Messrs. S. Chernick, CPD and F. Leslie C. H. Helmers, EDI

FROM: Bela Balassa, DRD

EXTENSION: 61007

SUBJECT: Meeting of Steering Group for Pioneers Series

I regret that I will again not be able to participate at the meeting of Steering Group for Pioneers lecture series to be held on March 23; I will be leading a mission to Morocco at the time.

Prof. Bela Balassa

Bela - Sorry that you will be away this date - Do you wish to send a substitute for this meeting?

In any case, can we have ERS' confirmation of the Pioneers II Budget sharing agreement? It will entail a commitment of $10,000 in each of FY 1984 and 1985.

Sidney Chernick

cc: Leslie Helmers
March 18, 1983.

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

Dear Herbert,

Thank you for inviting me to participate at the panel meeting on "The Current Prospects of the World Economy." I will be happy to participate. As I will be presenting two papers in Madrid, there will be no additional cost involved.

May I use this opportunity to inquire if you plan to have your annual seminar this August. I would like to know at the earliest as I am in the process of making travel plans. As things stand, August 12th might be a possible date for me.

Yours sincerely,

Bela Balassa
March 17, 1983

Mr. James K. Feather, PUB
Bela Balassa, DRD
61007

Trustees for the Poor

Attached are my comments on Trustees for the Poor.

cc: Mr. Winterbottom, PUB
This is two books in one. The first, "Only a Beginning" (Part I), describes the achievements and disappointments of developing countries in the postwar period; the second, "Trustees and Guardians" (Part II), provides a history of thought on economic development. The link between the two is rather tenuous; while Meier makes references to the influence of the ECLA school of policy making in the early postwar period, he has little to say as to how recent changes in development economics have affected the policies applied.

Meier is at his best in presenting facts and opinions; he is at his worst in philosophizing. Not only is the title atrocious, so is the introduction, "With Cool Heads but Warm Hearts." The concluding section of the book, "Why Not" (Part III), is also weak.

A radical solution would be to excise the introduction and Part III and publish Parts I and II in the form of two small paperback books. In making the material of the books more homogeneous, this alternative would also maximize exposure as the two books appeal to different audiences.

Apart from organizational changes, few alterations would need to be made in the text. Nevertheless, some of the evaluation of institutions, policies and theories would require modification.

One may doubt the validity of the prediction, according to which the IMF would be "imposing relatively low conditionality" (II-22), and question the desirability of such a development. Also, the wholesale dismissal of the Tokyo Round (II-30) is not warranted. Finally, the experience of China and Sri Lanka are put in an overly favorable light and recent changes, aimed at redressing the adverse effects of the policies applied, are not indicated. A
more critical discussion of Tanzanian policies would also be warranted.

In Part III, the subtitle "Mill and Anti-Growth" is hardly appropriate since, in contradistinction to Ricardo, Mill emphasized the dynamic benefits of international trade, which he saw as the principal avenue of progress. Also, the expression "The New Development Economics" is a misnomer and one misses references to Gottfried Haberler who criticized this school as early as thirty years ago.

"Liberalizing Foreign Trade" predates "Redistribution with Growth" and "Basic Needs," which latter is overly charitably treated. At the same time, the liberalization of trade is closely linked with greater reliance on prices and markets; thus, the relevant sections in the books may be profitably combined.
March 17, 1983.

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

Dear Walter:

My secretary has been able to find a copy of the culinary guide which is enclosed. I hope that you will make good use of it. I especially recommend numbers 2, 4, 5, 12 and 16. In turn, you may want to cross out 7, 8 and 15.

I appreciate your giving clearance to the ACLS for the payment of my fee for the writing of the paper on Korea Trade Policies. As I mentioned on the phone, I will do my summary one week within my return on March 28th and make any further changes you request.

Yours sincerely,

Bela Balassa

Enclosed: A Primer in Culinary Economics
## Record Removal Notice

**File Title**
Bela Balassa's chron files - March 1983

**Barcode No.**
30225158

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<td>Letter</td>
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**Correspondents / Participants**

To: the 20th Century Fund  
From: Bela Balassa

**Subject / Title**

Notification of shares

**Exception No(s).**

- [ ] 1  
- [ ] 2  
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Withdrawn by: Chandra Kumar  
Date: Jun 10, 2014
**Correspondents / Participants**
To: Riggs National Bank  
From: Bela Balassa

**Subject / Title**
Not receiving monthly bank statement

**Exception No(s).**

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**Reason for Removal**
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**Withdrawn by** Chandra Kumar  
**Date** Jun 10, 2014

Archives 1 (May 2012)
March 17, 1983

Dining Room - Billing Information

Bela Balassa, DRD
61007

Dining Room Charges

I do not have the statement on my dining room charges for the period August 28, 1982 to October 3, 1982. I would appreciate receiving a copy.

BBalassa:nc
**Record Removal Notice**

**File Title**
Bela Balassa’s chron files - March 1983

**Document Date**
Mar 17, 1983

**Document Type**
Letter

**Correspondents / Participants**
To: Alfred I. Dupont Institute of the Nemours Foundation
From: Bela Balassa

**Subject / Title**
Re-Submitting a bill to Blue Cross, Blue Shield

**Exception No(s).**

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Withdrawn by: Chandra Kumar
Date: Jun 10, 2014

Archives 1 (May 2012)
March 14, 1983.

Value Line
Arnold Bernhard & Co., Inc.
711 Third Avenue
New York, N.Y. 10017

Dear Sir:

Having reviewed the Value Line OTC Special Situation Service volume you sent me, I have decided to cancel my subscription. In accordance with your offer, I wish to ask you, therefore, to refund the $300 I paid to you.

I am returning by registered mail the volume you sent me; I have not received the credit card calculator. A copy of this letter is enclosed with the volume.

Yours sincerely,

Bela Balassa

P.S. The volume has been returned to 5701 Kennedy Blvd., North Bergen, N.J. 07047.
A Service Devoted Entirely to Emerging Growth Companies

Objective: Maximum Capital Appreciation

For over 30 years, The Value Line OTC Special Situations Service has been seeking out small "under-researched" companies possessing superior appreciation potential. Our analysts pore over hundreds of annual and interim shareholder reports, prospectuses, SEC filings, press releases, and research reports each week in a never-ending search for the most attractive emerging investment opportunities in the growth industries of the Eighties. Twice each month an entirely new "Special Situation" is recommended for purchase in a detailed four-page report.

Special Situations Recommended
By Value Line During the Past 12 Months

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<td>Liebert Corp.</td>
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<td>Computer support systems</td>
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<td>BancTec, Inc.</td>
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<td>HBO &amp; Co.</td>
<td>2/15/82</td>
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<td>Datapoint Corp. Conv. Debent.</td>
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<td>Policy Mgt. Systems</td>
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<td>SoftTech, Inc.</td>
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<td>Computech Systems, Inc.</td>
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The Value Line OTC Special Situations Service
Published by Arnold Bernhard & Co., Inc. 711 Third Ave., N.Y. N.Y. 10017
No assignment of this agreement will be made without subscriber's consent.
March 14, 1983

Mrs. Anne O. Krueger, VPERS

Bela Balassa, DRD; Luis de Aza Rate, WANVP; and Ravi Gulhati, EANVP

Seminar for African Socialist Countries

1. We would like to propose organizing a Seminar with the participation of high level economic officials from China, Hungary, and Yugoslavia and from socialist countries in sub-Saharan Africa. The purpose of the proposed seminar is to acquaint officials in African socialist countries with reform efforts in China, Hungary, and Yugoslavia, with special attention given to the use of price and non-price measures and the role of markets and incentives.

2. The seminar will be organized around presentations by high-level economic officials from China, Hungary, and Yugoslavia on the reform measures actually taken and those contemplated in the future. The presentations will be followed by discussions on the experience of the three countries and their relevance to African socialist countries. The seminar may also include a discussion of policy experiences in sub-Saharan Africa.

3. As regards pricing, the role of exchange rates, product pricing in agriculture and industry, public utility pricing, the determination of interest rates, and wage setting will be covered. Attention will further be paid to the use of price control and of non-price measures, including procurement targets, production and export requirements, and import restrictions. The discussion of price and non-price measures will be linked to the system of incentives. In the case of state economic enterprises, incentives for managers and workers will also be considered. Finally, the role of state-owned, private, and cooperative enterprises and the extent of reliance on market processes will be examined.

4. Discussions have been held on the subject of the seminar with high-level economic officials in China and Hungary, who expressed considerable interest in participation. From China, the principal participant would be Mr. Dong Furen, Deputy Director of the Economic Institute of the Academy of Social Sciences; from Hungary, it would be Mr. Bela Csikos-Nagy, President of the Price and Material Board. No contacts have as yet been established in Yugoslavia.

5. On the African side, we propose to invite government representatives at the Permanent Secretary level as well as high-level party officials responsible for economic policy-making from countries that presently aim at pursuing a socialist course as well as from countries that have experimented with socialism. The countries in question include Benin, Congo P.R., Ethiopia, Ghana, Guinea, Madagascar, Mali, Tanzania, and Zambia. If non-Bank
members could also be invited, one may include Angola and Mozambique. Other possible candidates are Algeria and Yemen from EMENA.

6. The seminars may be held in Paris or London. Apart from the cost of travel for country participants and three or four Bank staff members, modest honoraria would be paid to those making invited presentations and simultaneous translation would need to be ensured.

cc: Messrs. Mozoomdar, EDI; de Lusignan, EDI; Stoutjesdijk, DRD and Waide, CPD.

BBalassa:nc
March 14, 1983

Mr. John H. Duloy, VPERS

Bela Balassa, DRD

61007


1. A panel comprising Messrs. B. Balassa (DRD), Chairman, A. Choksi (CPD), A. Meeraus (DRD), G. Ingram (URB), G. Tidrick (AEA), L. Westpha (DRD), and D. Williams (ASP) reviewed the above proposal on Thursday, March 3. Messrs. Duvigneau and Fog, representing the sponsors of the research project, Messrs. Duloy, Weiss, and Ms. Plesch also participated at the review meeting, which followed a workshop held in January.

2. Among the options described in the proposal, the panel favors Alternative III and has limited its attention to Phase A under this alternative. If Phase A is approved by the Research Committee, Phase B should be subject to a separate submission by the sponsors. At the same time, the panel urges the sponsors that any such future submission be limited to the study of the cement sector and of closely allied sectors, such as transportation and construction, while eschewing a detailed examination of general economic policies.

3. As indicated by the sponsors at the review meeting, Phase A would entail (a) collecting information on small-scale technologies of cement production as applied in China and in India; (b) making calculations on the social profitability of these technologies by utilizing data on relative prices in several developing countries, and (c) evaluating alternative combinations of plants by introducing data on demand patterns and transportation costs, in addition to economies of scale.

4. The panel concludes that the research defined in Para. 3 is of considerable interest to the Bank and to developing countries. It recommends approval of the research project provided that an appropriate benefit-cost ratio is established. The panel finds the cost estimate put forward by the sponsors excessive and suggests a budget of $100-120 thousand for Phase A.

5. The panel proposes limiting field work in China and India to three months each, with the participation of an economist and a cement engineer in both cases. It also recommends that the time allotted to the chief researcher be reduced to six months and an effort be made to find a suitable candidate, who possesses quantitative skills, at a cost considerably lower than the monthly $7500 presently envisaged. Also, travel for the research assistant may be eliminated and the research assistant and the information specialist posts combined.

cc: Participants at the meeting.
Seminar for African Socialist Countries

1. We would like to propose organizing a Seminar with the participation of high-level economic officials from China, Hungary, and Yugoslavia and from socialist countries in sub-Saharan Africa. The purpose of the proposed seminar is to acquaint officials in African socialist countries with reform efforts in China, Hungary, and Yugoslavia, with special attention given to the use of price and non-price measures and the role of markets and incentives.

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5. On the African side, we propose to invite government representatives at the Permanent Secretary level as well as high-level party officials responsible for economic policy-making from countries that presently aim at pursuing a socialist course as well as from countries that have experimented with socialism. The countries in question include Benin, Congo P.R., Ethiopia, Ghana, Guinea, Madagascar, Mali, Tanzania, and Zambia. If non-Bank
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6. The seminars may be held in Paris or London. Apart from the cost of travel for country participants and three or four Bank staff members, modest honoraria would be paid to those making invited presentations and simultaneous translation would need to be ensured.

cc: Messrs. Mozoomdar, EDI; de Lusignan, EDI; Stoutjesdijk, DRD and Waide, CPD.

BBalassa: nc
March 14, 1983.

Mrs. Kathleen A. Lynch  
Director of Publications  
The Institute for International Economics  
11 Dupont Circle N.W.  
Washington, D.C. 20036  

Dear Mrs. Lynch:

My secretary has proofread the tables you have sent me. Please note that the expression "newly industrializing economies" should be retained; it should not be replaced by "new industrial economies." A clearer copy of Table 8.1 is in the enclosed book on pages 68 and 69. Please return the book when you are finished with it.

Yours sincerely,

Enclosure

Bela Balassa

March 14, 1983

Mrs. Anne O. Krueger, VPERS and Mr. Ajit Mozoomdar, EDI
Bela Balassa, DRD; Luis de Azcarate, WANVP and Ravi Gulhati, EANVP
£1007

EDI Seminar

1. We would like to propose organizing an EDI Seminar with the participation of high level economic officials from China, Hungary, and Yugoslavia and from socialist countries in sub-Saharan Africa. The purpose of the proposed seminar is to acquaint officials in African socialist countries with reform efforts in China, Hungary, and Yugoslavia, with special attention given to the use of price and non-price measures and the role of markets and incentives.

2. The seminar will be organized around presentations by high-level economic officials from China, Hungary, and Yugoslavia on the reform measures actually taken and those contemplated in the future. The presentations will be followed by discussions on the experience of the three countries and their relevance to African socialist countries. The seminar may also include a discussion of policy experiences in sub-Saharan Africa.

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non-Bank members could also be invited, one may include Angola and Mozambique. Other possible candidates are Algeria and Yemen.

6. The seminars may be held in Paris or London. Apart from the cost of travel for country participants and three or four Bank staff members, modest honoraria would be paid to those making invited presentations.

cc: Messrs. de Lusignan, EDI; Stoutjesdijk, DRD and Waide, CPD.

BBalassa:me
March 11, 1983

Files

Bela Balassa, DRD and Desmond McCarthy, EPD

Structural Adjustment Indicators

1. We have been asked to devise numerical indicators for evaluating in a comparative framework the adjustment efforts made by developing countries in response to the 1979-81 external shocks that included the tripling of oil prices, the slowdown of the world economy, and increases in interest rates. We have selected policy variables and performance indicators for this purpose. The choice has been made following discussions with ERS and CPD staff, but it has been limited by the availability of data.

2. The policy variables utilized in the country tables, and described in Annex 1, have been designed to indicate actions taken by the individual countries with respect to exchange rates (the real effective exchange rate), monetary policy (the money supply ratio and the domestic credit ratio), public savings (the credit to government ratio and the budget balance ratio), private savings (the real discount rate), and energy prices. In the comparative evaluation of adjustment efforts, each of these policies is considered equally, with further attention given to changes after 1981.

3. In turn, performance indicators pertain to additional net external financing, export promotion, import substitution, and macroeconomic policy measure adopted in response to external shocks. In the comparative evaluation of these indicators, domestic adjustment is generally considered preferable to additional external borrowing and adjustment through increases in exports preferable to import substitution and deflationary macroeconomic policies, when the appraisal of import substitution effects depends on the choice of policy instruments (exchange rate and import protection).

4. Policy variables for the individual countries are summarized in Table 1 that also provides information on macroeconomic indicators, including the domestic savings ratio, the GNP growth rate, and the rate of inflation. Table 2 summarizes the performance indicators for the individual countries. In each table, oil-importing as well as oil-exporting countries are ranked according to their per capita GNP in 1978.
EXPLANATION OF VARIABLES USED IN EVALUATING STRUCTURAL ADJUSTMENT EFFORTS

I. Policy Variables

1. **Real Effective Exchange Rate** -- the trade-weighted index of exchange rates, adjusted for changes in domestic and in foreign wholesale prices. Increases (decreases) in the index compared to the 1976-78 base period show a depreciation (appreciation) of the real effective exchange rate, indicating the extent to which use has been made of the exchange rate mechanism to remedy balance of payments disequilibria.

2. **Money Supply Ratio** -- The broadly defined money supply, M2 (money plus quasi-money in the *International Financial Statistics*), expressed as a percentage of the gross domestic product. In the absence of rapid changes in inflation rates that affect the desire to hold money, increases (decreases) in this ratio may be considered as an indication of increases (decreases) in the ease of monetary policy, when both domestic and foreign exchange-based changes in the money supply are taken into account.

3. **Domestic Credit Ratio** -- Outstanding domestic credit, expressed as a percentage of GDP. Increases (decreases) in this ratio provide an alternative indicator of changes in the ease (restrictiveness) of monetary policy, limiting attention to domestic-based money creation.

4. **Credit to Government Ratio** -- Outstanding domestic credit to government (claims on government in the *International Financial Statistics*), expressed as a percentage of GDP. This ratio shows changes in the extent of the use of available financial resources by the government, thereby providing an indication of dissavings by the government (For lack of information for one-
half of the countries covered, credit to other components of the public sector are not included, however).

5. **Budget Balance Ratio** -- The government budget surplus (deficit) expressed as a percentage of GDP. Increases (decreases) in this ratio indicate changes in the extent of savings (dissavings) by the government, again excluding other components of the public sector.

6. **Real Discount Rate** -- The discount rate, adjusted for changes in consumer prices. On the assumption that the entire spectrum of interest rates moves parallel to the discount rate, changes in the real discount rate will provide an indication of changes in real returns to private savers.

7. **Relative Energy Prices** -- The ratio of domestic to international energy prices, calculated as the weighted average of prices for four major energy products, the weights being average consumption in 1975 in oil-importing and in oil-exporting countries, respectively. Increases (decreases) in this ratio may be taken to indicate increases (decreases) in the effort made to conserve energy.

II. **Balance-of-Payments Effects of External Shocks**

1. **External Shocks** -- The balance-of-payments effects of external shocks, expressed as a percentage of GNP. They are decomposed into terms of trade, export volume, and interest rate effects, each of which is expressed as a proportion of the balance-of-payments effects of external shocks.

2. **Terms of Trade Effects** -- The effects of changes in the relative prices of imports and exports on the cost of imports, compared to the 1976-78 base period.

3. **Export Volume Effects** -- The effects of changes in the growth of world demand as between the 1963-73 and the 1978-81 periods on the country's
exports, assuming the maintenance of 1976-78 world market shares in regard to agricultural products, non-fuel minerals, fuels, and manufactured goods.

4. Interest Rate Effects -- the effects of increases in Euro-market interest rates, compared to the 1976-78 base period, on the country's net interest payments shown in balance-of-payments statistics.

III. Performance Indicators

A. Balance of Payments Effects of Policy Responses to External Shocks
   (expressed as a proportion of the balance-of-payments effects of external shocks)

1. Net Additional External Financing -- The extent of net external financing over and above that derived on the basis of import and export trends in the years 1963-73, applied to the 1976-78 base period. Indicates the relative importance of relying on external financing in response to external shocks.

2. Export Promotion -- The effects of changes in export market shares, compared to the 1976-78 base period, on export value. Indicates the relative importance of export promotion efforts in response to external shocks.

3. Import Substitution -- The effects on imports of changes in the income elasticity of import demand for fuel and non-fuel products compared to the 1963-73 period. Indicates the relative importance of import substitution efforts in fuel and non-fuel products in response to external shocks.

4. Import Effects of Macroeconomic Policies -- The effects on imports of changes in GNP growth rates compared to the 1963-73 period. Indicates the relative importance of deflationary (expansionary) policies applied in response to external shocks.
B. Policy Response Ratios

1. Export Promotion/Exports -- Increases in exports associated with increases in export market shares, expressed as a proportion of actual exports. Indicates the magnitude of the export promotion effort.

2. Import Substitution/Imports -- The ratio of decreases in imports due to a fall in the income elasticity of import demand, expressed as a proportion of actual imports. Indicates the magnitude of the import substitution effect in fuel and nonfuel products.

3. Import Effects of Macroeconomic Policies/Imports -- The ratio of decreases in imports due to a decline in the rate of growth of GNP, expressed as a proportion of GNP. Indicates the magnitude of import savings associated with the application of deflationary policies.

IV. Macroeconomic Indicators

1. Domestic Savings Ratio -- Domestic savings expressed as a percentage of the growth of domestic product.

2. GNP Growth Rate -- The average annual rate of growth of the gross national product.

3. Inflation Rate -- The average annual rate of increase of the consumer price index.
Adjustment Policies in 1979-81: Brazil

External Shocks

1. In 1979-81 external shocks in Brazil were of similar magnitude as in 1974-78, with the balance-of-payments effects of these shocks averaging 2.7 percent of GNP in both periods. The principal external shocks Brazil suffered in 1979-81 were the deterioration of the terms of trade and the effects of higher interest rates on Brazil's large foreign debt. In turn, the slowdown of the world economy had little impact on Brazil's exports until 1981.

The Policies Applied

2. The stabilization program introduced by Simonsen in January 1979 was jettisoned by Delfim Netto who chose instead a policy of "fuite en avant" through the application of expansionary measures. This policy permitted maintaining high economic growth rates for a while at the cost of accelerated inflation and increased balance-of-payments deficits.

3. Adjustment measures introduced in late 1980 took the form of restrictive monetary policies, leading to an absolute decline of GNP and to commensurate import savings. In turn, export market shares increased, partly in response to the decline in domestic demand and partly in response to the re-introduction of subsidies; export subsidies had been abolished in late 1979 in conjunction with a 25 percent devaluation.

4. On the import side, the 1979 devaluation was offset by the elimination of import surcharges. Notwithstanding the subsequent appreciation of the real exchange rate, however, import substitution in nonfuel products increased as the pressure of domestic demand on existing capacity eased. However, import substitution in fuels declined in 1979, and again in 1981, as domestic energy prices fell relative to international prices.

5. The restrictive policies applied were not successful, however, in reducing the rate of inflation that remained about 100 percent a year. At the same time, the encroachment of the government on the country's financial resources and increasingly negative real interest rates contributed to the decline in domestic savings ratios.

6. Thus, in response to increases in oil prices in 1979 and 1980, Brazil adopted expansionary rather than deflationary policies and let its exchange rate appreciate in real terms. The adverse effects of these policies led to the subsequent application of severe deflationary policies, but exchange rate adjustments occurred only in early 1983 after the world's financial environment deteriorated.
Adjustment Policies in 1979-81: Chile

External Shocks

1. External shocks in Chile were of much smaller magnitude in 1979-81 than in the 1974-78 period when the decline in copper prices led to a substantial deterioration of the terms of trade; the balance-of-payments effects of external shocks averaged 8.0 percent of GNP in the earlier, and 1.8 percent of GNP in the later, period. These effects were nil in 1979 and 1980 but approached 5 percent of GNP in 1981.

The Policies Applied

2. While the devaluations undertaken in the preceding period permitted Chile to increase its export market shares in 1979, the subsequent appreciation of the real exchange rate led to reductions in these shares. The overvaluation of the exchange rate also aggravated the effects of tariff reductions on imports, leading to increasingly negative import substitution in non-fuel products. Higher rates of economic growth compared to the 1963-73 period further increased Chile's needs for non-fuel imports.

3. Fuels provide an exception as Chile maintained domestic energy prices above international prices. Thus, Chile experienced considerable import substitution in fuels, even though the price difference declined over time in conjunction with the increasing overvaluation of the exchange rate.

4. Increases in the rate of the money supply to GDP indicate the rebuilding of money holdings following the deceleration of inflation rates in Chile. An important anti-inflationary factor was the reduction of pressures on financial markets on the part of the government and the generation of a budget surplus. This surplus declined towards the end of the period, however, as the rate of economic growth decelerated in response to the adverse effects of the appreciation of the real exchange rate.

5. The decline in the rate of economic growth led to large unemployment that was a high price to pay for the substantial decrease of inflation rates in Chile. At the same time, increases in export market shares and savings in fuels did not suffice to offset Chile's rising import requirements, so that increased reliance was based on foreign borrowing.
External Shocks

1. Korea suffered increasingly large external shocks during the 1979-81 period. The balance-of-payments effects of these shocks equalled 2.7 percent of GNP in 1979, 9.7 percent in 1980, and 14.7 percent in 1981, averaging 9.0 percent for the entire period compared to an average of 6.9 percent in 1974-78. The deterioration of the terms of trade and export shortfalls due to the slowdown of the world economy were the principal external shocks, with interest rate effects being of secondary importance.

The Policies Applied

2. The expansionary policies applied by President Park led to the acceleration of inflation in 1979. With the nominal exchange rate being maintained unchanged vis-a-vis the U.S. dollar, the real exchange rate appreciated as a result. Correspondingly, Korea lost export market shares to other Far Eastern countries, although not to other countries. Export performance improved in 1981, when the lessening of the pressure of domestic demand and decreases in real wages helped exports.

3. With the appreciation of the real exchange rate, little import substitution occurred in nonfuel products. However, Korea reduced reliance on fuel imports as it raised domestic energy prices pari passu with the rise in international prices, maintaining these prices at more than double the world market level.

4. Numerically much more important were, however, the import reducing effects of the decline in economic activity. With the slowdown in exports, uncertainty following the assassination of President Park, and a disastrous harvest, Korea's gross national product fell to a considerable extent in 1980 and it barely recovered the 1979 level in the following year.

5. The lowering of real wages contributed to a decline in the rate of inflation after 1980 as did the slowdown in the growth of the money supply. Expansionary measures were taken, however, in June 1982, involving a rise in the rate of growth of monetary aggregates, decreases in interest rates, and reductions in tax rates.

6. A rising share of financial resources was appropriated by the government during the period under consideration. This fact, as well as decreases in real interest rates, may have contributed to the fall in the domestic savings ratio after 1979.

7. Import savings and increases in export shares permitted limiting reliance on foreign borrowing in Korea. Adjustment to external shocks was helped by the fall in real wages that also contributed to the decline in inflation. In turn, exchange rate policy and monetary policy did not exhibit stability during the 1979-81 period.
### POLICY VARIABLES

1. Real Effective Exchange Rate: 100.0, 114.2, 123.1, 101.9, 113.1
3. Domestic Credit/GDP: 27.7, 27.1, 22.3, N.A, N.A.
4. Credit to Government/GDP: -0.8, 0.9, 1.3, N.A, N.A.
5. Government Budget Balance/GDP: 0.1, 0.0, 0.0, 0.0, 0.0.

### BALANCE OF PAYMENTS EFFECTS

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<td>External Shocks/GNP</td>
<td>2.7</td>
<td>2.4</td>
<td>5.1</td>
<td>2.7</td>
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<td>Terms of Trade Effects/External Shocks</td>
<td>8.2</td>
<td>36</td>
<td>56</td>
<td>54</td>
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<tr>
<td>Export Volume Effects/External Shocks</td>
<td>1.9</td>
<td>4</td>
<td>10</td>
<td>7</td>
</tr>
<tr>
<td>Interest Rate Effects/External Shocks</td>
<td>N.A.</td>
<td>70</td>
<td>40</td>
<td>36</td>
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### PERFORMANCE INDICATORS

#### A. Balance of Payments Effects of Policy Responses (expressed as a % of Balance of Payments Effects of External Shocks)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Additional Net External Financery</td>
<td>27</td>
<td>-19</td>
<td>-10</td>
<td>-26</td>
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<tr>
<td>Export Promotion</td>
<td>15</td>
<td>-84</td>
<td>15</td>
<td>39</td>
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<tr>
<td>Import Substitution: Fuel</td>
<td>1.9</td>
<td>12</td>
<td>25</td>
<td>9</td>
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<tr>
<td>Import Substitution: Non-Fuel</td>
<td>5.7</td>
<td>53</td>
<td>33</td>
<td>29</td>
</tr>
<tr>
<td>Macroeconomic Policy Effects on Imports</td>
<td>-19</td>
<td>132</td>
<td>37</td>
<td>53</td>
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#### B. Policy Response Ratios

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Export Promotion/Exports</td>
<td>8</td>
<td>-7</td>
<td>5</td>
<td>20</td>
</tr>
<tr>
<td>Import Substitution/Imports of which: Fuel/Non-Fuel Imports</td>
<td>28</td>
<td>4</td>
<td>30</td>
<td>21</td>
</tr>
<tr>
<td>Import Substitution/Imports</td>
<td>28</td>
<td>5</td>
<td>14</td>
<td>31</td>
</tr>
<tr>
<td>Macroeconomic Policy Effects on Imports/Imports</td>
<td>-11</td>
<td>9</td>
<td>11</td>
<td>40</td>
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</table>

### MACROECONOMIC INDICATORS

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<tr>
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</thead>
<tbody>
<tr>
<td>Domestic Savings/GDP</td>
<td>21.3</td>
<td>17.3</td>
<td>19.0</td>
<td>19.1</td>
</tr>
<tr>
<td>GNP Growth Rate</td>
<td>6.3</td>
<td>6.3</td>
<td>7.3</td>
<td>-32</td>
</tr>
<tr>
<td>CPI</td>
<td>311</td>
<td>413</td>
<td>510</td>
<td>424</td>
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Source: Calculations based on data from World Bank and IMF databases.
INDICATORS OF EXTERNAL SHOCKS AND STRUCTURAL ADJUSTMENT 1978-81

(percent)

<table>
<thead>
<tr>
<th>Average</th>
<th>1979</th>
<th>1980</th>
<th>1981</th>
<th>Average</th>
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</thead>
<tbody>
<tr>
<td>1976-78</td>
<td>98.9</td>
<td>83.8</td>
<td>77.0</td>
<td>86.6</td>
</tr>
</tbody>
</table>

I. POLICY VARIABLES
1. Real Effective Exchange Rate
2. Money Supply/GDP
3. Domestic Credit/GDP
4. Credit to Government/GDP
5. Government Budget Balance/GDP
6. Real Discount Rate

II. BALANCE OF PAYMENTS EFFECTS OF EXTERNAL SHOCKS
1. External Shocks/GNP
2. Terms of Trade Effects/External Shocks
3. Export Volume Effects/External Shocks
4. Interest Rate Effects/External Shocks

III. PERFORMANCE INDICATORS
A. Balance of Payments Effects of Policy Responses (expressed as a % of Balance of Payments Effects of External Shocks)
   1. Additional Net External Financing
   2. Export Promotion
   3. Import Substitution: Fuel
   4. Import Substitution: Non Fuel
   5. Import Effects of Macroeconomic Policies
B. Policy Response Ratios
   1. Export Promotion/Exports
   2. Import Substitution/Imports

IV. MACROECONOMIC INDICATORS
1. Domestic Savings/GDP
2. GNP Growth Rate
3. Inflation Rate (consumer price index)
## Indicators of External Shocks and Structural Adjustment 1978-81

### Policy Variables

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Real Effective Exchange Rate</td>
<td>100.0</td>
<td>94.0</td>
<td>86.6</td>
<td>93.5</td>
<td>94.7</td>
</tr>
<tr>
<td>2. Money Supply/GDP</td>
<td>29.0</td>
<td>30.3</td>
<td>31.7</td>
<td>32.1</td>
<td>31.4</td>
</tr>
<tr>
<td>3. Domestic Credit/GDP</td>
<td>84.2</td>
<td>87.2</td>
<td>82.8</td>
<td>84.9</td>
<td>82.3</td>
</tr>
<tr>
<td>4. Credit to Government/GDP</td>
<td>3.5</td>
<td>2.8</td>
<td>3.1</td>
<td>4.3</td>
<td>3.4</td>
</tr>
<tr>
<td>5. Government Budget Balance/GDP</td>
<td>-1.5</td>
<td>-1.9</td>
<td>-2.4</td>
<td>-2.6</td>
<td>-2.6</td>
</tr>
<tr>
<td>6. Real Discount Rate</td>
<td>0.8</td>
<td>-2.8</td>
<td>-10.3</td>
<td>-6.4</td>
<td>-6.5</td>
</tr>
<tr>
<td>7. Domestic Energy Price/International</td>
<td>2.23</td>
<td>2.17</td>
<td>2.14</td>
<td>2.30</td>
<td>2.20</td>
</tr>
</tbody>
</table>

### Balance of Payments Effects of External Shocks

1. External Shocks/GNP                        | 6.9              | 2.7  | 9.7  | 14.7 | 9.0             |
2. Terms of Trade Effects/External Shocks     | 74               | 43   | 46   | 41   |                 |
3. Export Volume Effects/External Shocks      | 2.6              | 3.1  | 4.1  | 3.7  | 4.3             |
4. Interest Rate Effects/External Shocks      | MA               | 18   | 16   | 17   | 17              |

### Performance Indicators

#### A. Balance of Payments Effects of Policy Responses

(Expressed as a % of Balance of Payments Effects of External Shocks)

1. Additional Net External Financing         | -92              | -17  | -22  | -26  | -26             |
2. Export Promotion                          | 9.7              | 4.4  | 1.2  | 4.5  | 3.4             |
3. Import Substitution: Fuel                 | 1/1              | 20   | 6.1  | 10   | 15              |
3. Non Fuel                                  | 125              | -23  | 4    | 5    | 1               |
4. Import Effects of Macroeconomic Policies  | -32              | 34   | 143  | 115  |                 |

#### B. Policy Response Ratios

1. Export Promotion/Exports                  | 3.5              | 5    | 4    | 21   | 11              |
2. Import Substitution/Imports               | 48               | 4    | 3    | 7    | 5               |
   of which: Fuel/Fuel Imports               | 50               | 45   | 13   | 33   | 30              |
   Non Fuel/Non Fuel Imports                 | 48               | 46   | 3    | 54   | 30              |
3. Import Effects of Macroeconomic Policies  | -11              | 40   | 46   | 54   | 33              |

### Macroeconomic Indicators

1. Domestic Savings/GDP                      | 25.3             | 27.3 | 22.3 | 23.3 | 24.3            |
2. GNP Growth Rate                           | 10.1             | 6.4  | -2.4 | 7.1  | 2.2             |
3. Inflation Rate (consumer price index)      | 12%2             | 17%2 | 22%3 | 26%4 | 22%6            |
March 11, 1983.

Professor Laura Tyson  
Department of Economics  
University of California  
Berkeley, California 94720

Dear Laura:

Professor Bognar visited me recently and told me that he never received my letter of December 28th. I wrote him a second letter which he carried home with him.

In answer to my question, Professor Bognar indicated that he has no objection to your being co-author of the paper and will write you an official letter of invitation. Please let me know once you have received his letter.

I am enclosing a copy of the letter referred to above. In turn, I would be interested in getting your final calculations on Hungary.

Yours sincerely,

Enclosure  

Bela Balassa
February 23, 1983

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

Dear Professor Bognár:

Thank you for your invitation to present an invited paper to Specialized Session No. 15 of the Seventh World Congress of the International Economic Association, to be held in Madrid between 5 and 9 September, 1983. I would like to suggest "Policy Responses to External Shocks in Socialist and Private Market Economies" as the title of my paper.

As suggested in my letter of December 28th, I would like to have Ms. Laura Tyson as co-author of my paper. May I ask you to write a letter of invitation that will permit her to obtain financing of travel to Madrid from her university. The address is Department of Economics, University of California, Berkeley, California 94720.

Sincerely yours,

Bela Balassa
March 10, 1983
Mr. Goddard Winterbottom, PUB
Bela Balassa, DRD
61007

Submission to Staff Working Paper Series

We hereby submit Henry Bienen's paper "Oil Revenues and Policy Choices in Nigeria" for inclusion in the Staff Working Paper series. Attached is a memo from Chaudhry supporting its inclusion in the Series.

Also, Sweder van Wijnbergen's "Interest Rate Management in LDC's" is being submitted for inclusion in the Staff Working Paper series.

Enclosures
EBalassa:nc
March 10, 1983
Mr. Goddard Winterbottom, PUB
Bela Balassa, DRD
61007
Structural Adjustment in Developing Countries: Selected Readings

Mr. Feather asked me to review Gerald Maier's manuscript. In exchange he absolved me from reviewing Derek Healey's reading volume on the above subject.

While I have not been able to do a thorough review of the Healey readings volume, I must confess that I have not been favorably impressed by it. I find a large number of the readings rather pedestrian; the book is clearly intended for a "lowbrow" audience. For a more thorough review, I would suggest Messrs. Gelb, Mitra or van Wijnbergen, all of whom are familiar with lectures on structural adjustment.

Balassa: nc
March 10, 1983.

Mr. Goddard Winterbottom, PUB

Bela Balassa, DRD

61007

Submission to Staff Working Paper Series

We hereby submit Henry Bienen's paper "Oil Revenues and Policy Choices in Nigeria" for inclusion in the Staff Working Paper series. Also attached is a memo from Chaudhry supporting its inclusion in the Series.

Enclosures

BBalassa:nc
March 10, 1983

Mr. Larry Westphal, DRD

Bela Balassa, DRD

61007

Chenery Volume

I enclose the final version of my paper, "Adjustment Policies and Development Strategies in Sub-Saharan Africa, 1973-79" in three copies. I would again like to express my regret for not being able to participate at the dinner where the volume will be transmitted to Hollis. I will be leaving for Morocco on the 18th. May I ask you to tell Hollis about this at the time of the dinner.

Enclosures
BBalassa:nc
March 10, 1983.

Messrs. S. Chernick, CPD and F. Leslie C. H. Helmers, EDI

Bela Balassa, DRD

61007

Meeting of Steering Group for Pioneers Series

I regret that I will again not be able to participate at the meeting of Steering Group for Pioneers Series to be held on March 23; I will be leading a mission to Morocco at the time.

BBalassa:nc
March 10, 1983.

Ms. Rosa L. Schupbach
New York University
Faculty of Arts and Science
Department of Economics
269 Mercer Street, 7th Floor
New York, N.Y. 10003

Dear Ms. Schupbach:

May I ask you to return the package of reprints. I have not reviewed the list since Professor Machlup's untimely death.

Yours sincerely,

Bela Balassa
University Subscription Service  
5200 Thatcher Road  
Downers Grove, Illinois 60515

Dear Sir:

Not having received your renewal form, I entered a new subscription to Fortune magazine. In the meantime, a renewal form has arrived and I enclose it together with your bill on the newly entered subscription. Needless to say, I wish to receive only a single copy. Payment of $21.00 is enclosed.

Please note that on your bill my address is incorrect. My address is 2134 Wyoming Avenue N.W.

Yours truly,

Enclosures

Bela Balassa
District of Columbia
Department of Finance and Revenue
Ben Franklin Station
P.O. Box 7863
Washington, D.C. 20044

Dear Sir:

Please send me Form D-30 Unincorporated Business Franchise Tax form. Send me also a form for child and dependent care expenses.

Yours truly,

Bela Balassa
March 7, 1983

Mr. Henry P. Gassner, EM2
Bela Balassa, DRD
6T007

Professor Hic's Contract

I certify that Professor Hic has submitted economic indicators for fifty firms that is a condition for a first payment to be made under his revised contract. I find the results satisfactory and suggest that payment be made to him without delay.

cc: Messrs. Chaffey, EM2; Roy, EM2; Ms. Saito, EM2.

BBalassa:nc
March 7, 1983

Mr. John H. Duloy, VPERS

Bela Balassa, DRD

61007


1. A panel comprising Messrs. B. Balassa (DRD), Chairman, A. Choksi (CPD), A. Meeraus (DRD), G. Ingram (URB), G. Tidrick (AEA), and D. Williams (ASP) reviewed the above proposal on Thursday, March 3. Messrs. Duvaligneau and Fog, representing the sponsors of the research project, Messrs. Duloy, Weiss, and Ms. Plesch also participated at the review meeting, which followed a workshop held in January.

2. Among the options described in the proposal, the panel favors Alternative III and has limited its attention to Phase A under this alternative. If Phase A is approved by the Research Committee, Phase B should be subject to a separate submission by the sponsors. At the same time, the panel urges the sponsors that any such future submission be limited to the study of the cement sector, eschewing a detailed consideration of general economic policies.

3. As indicated by the sponsors at the review meeting, Phase A would entail (a) collecting information on small-scale technologies of cement production as applied in China and in India; (b) making calculations on the social profitability of these technologies by utilizing data on relative prices in several developing countries, and (c) evaluating alternative combinations of plants by introducing data on demand patterns and transportation costs, in addition to economies of scale.

4. The panel concludes that the research defined in Para. 3 is of considerable interest to the Bank and to developing countries. It recommends approval of the research project provided that an appropriate benefit-cost ratio is established. The panel finds the cost estimate put forward by the sponsors excessive and suggests a budget of $100-120 thousand for Phase A.

5. The panel proposes limiting field work in China and India to three months each, with the participation of an economist and a cement engineer in both cases. It also recommends that the time allotted to the chief researcher be reduced to six months and an effort be made to find a young graduate, who possesses quantitative skills, at a cost considerably lower than the monthly $7500 presently envisaged. Also, travel for the research assistant may be eliminated and the research assistant and the information specialist posts combined.

cc: Participants at the meeting.

BBalassa:nc
March 7, 1983

Mr. Pierre M. Landell-Mills, WDR

Bela Balassa, DRD

61007

WDR 1983: Chapters 7 and 8

1. In the heat of the polemics, you seem to have missed my main points. I have since discussed them with Ram Agarwala, together with possible ways to revise the chapters. They are briefly re-stated in the following.

Chapter 7

2. The main point is that the chapter should provide a historical perspective on developing country policies and should not give the misleading impression that the 1970s represented a historical peak in price distortions. I understand that the former will be done by utilizing the suggestions made in Para. 3 of my memo while the latter will be remedied by appropriate rewording.

3. As I have repeatedly noted, the chapter's main contribution lies in the identification and quantitative evaluation of the various distortions. At the same time, the statement made in Para. 7.22 will be modified, stating that the statistical analysis shows interrelationships among the relevant variables rather than causation. At the same time, contrary to your assertion, the estimates referred to in Para. 5 my memo derive from Anne Krueger's and my own publications and not from Agarwala's original work.

Chapter 8

4. I maintain my objection to giving pride of place to the planning agencies. Rather, I suggest focusing the chapter on the need for an institutional framework to undertake the reforms discussed in Chapter 7, together with appropriate macroeconomic policies, multi-annual budgeting, and economic project evaluation. In this connection, particular importance attaches to the coordination of short-term and medium-term policies.

5. Agarwala now agrees that one should not recommend that planning agencies be charged with policy coordination. In this connection, reference may be made to the experience of Hungary where the Economic Policy Committee, which has recently assumed a coordinating role, is not led by the planning office. Nor is this the case in Tanzania, where the planning office has not played a leading role in economic decisions-making. The conclusion applies a
fortiori to private market economies; among larger countries, Mexico does not even have a planning agency.

6. There is a wide range of opinions as to the role and performance of planning in France, India, Japan, and Korea. I find that the report consistently takes a rather extreme position in this regard. This is also reflected in your statement that "the weight of opinion coming from Paris is that the French are indeed taking their new style planning seriously." As it is well known, appointing Mr. Mitterand's principal rival, Michel Rocard, as planning minister has meant just the opposite.

7. The chapter is also overly complimentary in the discussion of country experiences. No mention is made of the 1979-80 debacle in Korea and my discussions with Guy Pfeffermann indicate that he is far from enthusiastic about the Brazilian experience. He also agrees that undue praise bestowed on past policies would reduce our leverage for recommending policy changes in the future. I understand that he has since suggested a revision that eliminates the statements I have criticized.

8. To conclude, I am far from suggesting a "radical departure" from the Bank's present stance as regards planning agencies. At the same time, it seems that you have failed to understand the implications of Agarwala's findings, which call for a shift from quantitative targeting to incentive policies. This is the relevant issue, and references to the planning agencies having done a poor job "because of the political directions they received" (your emphasis) entirely misses the point.

cc: Mrs. Krueger, VPERS, Messrs. Michalopoulos, VPERS; Wright, Agarwala, WDR; Pfeffermann, LCNVP.

BBalassa:nc
EXPLANATION OF VARIABLES USED IN
EVALUATING STRUCTURAL ADJUSTMENT EFFORTS

I. Policy Variables

1. Real Effective Exchange Rate -- the trade-weighted index of exchange rates adjusted for domestic and foreign price changes at the wholesale level. Increases (decreases) in the index compared to the 1976-78 base period show a depreciation (appreciation) of the real effective exchange rate, indicating the extent to which use has been made of the exchange rate mechanism to remedy balance of payments disequilibria.

2. Money Supply Ratio -- The broadly defined money supply, M1 plus M2, expressed as a percentage of the gross domestic product. Increases (decreases) in this ratio indicate increases (decreases) in the ease of monetary policy, taking account of both domestic and foreign exchange-based changes in the money supply.

3. Domestic Credit Ratio -- The ratio of outstanding domestic credit to GDP. Changes in this ratio provide an alternative indicator of changes in the ease (restrictiveness) of monetary policy, limiting attention to domestic-based money creation.

4. Credit to Government Ratio -- The ratio of outstanding domestic credit to government GDP defined as "claims on government" in the International Financial Statistics show changes in the extent of the use of available financial resources by the government, thereby providing an indication of dissavings by the government (For lack of information for one-half of the countries covered, credit to other components of the public sector are not included, however).

5. Budget Balance Ratio -- The ratio of the government budget surplus (deficit)
to GDP. Changes in this ratio indicate changes in the extent of savings (dissavings) by the government, again excluding other components of the public sector.

6. **Real Discount Ratio** — The discount rate, adjusted for changes in consumer prices. On the assumption that the entire spectrum of interest rates move parallel to the discount rate, changes in the real discount rate provides an indication of changes in real returns to private savers.

7. **Relative Energy Prices** — The ratio of domestic to international energy prices, calculated as a weighted average of prices for four major energy products, the weights being consumption in 1975 in the country concerned. Increases (decreases) in this ratio indicate increases (decreases) in the effort made to conserve energy.

II. **Balance-of-Payments Effects of External Shocks**

1. **Terms of Trade Effects** — The effects of changes in the relative prices of imports and exports on the cost of imports compared to the 1976-78 base period.

2. **Exports Volume Effects** — The effects of changes in the growth of world demand as between the 1963-73 and the 1978-81 periods on the country's exports, assuming the maintenance of 1976-78 world market shares.

3. **Interest Rate Effects** — the effects of increases in Euro-market interest rates, compared to the 1976-78 base period, on the country's net interest payments.

III. **Performance Indicators**

**Balance of Payments Effects of Policy Responses to External Shocks**

1. **Net Additional Net External Financing** — The extent of net external financing over and above that derived on the basis of trend values of imports
and exports. Indicates the relative importance of relying on external financing in response to external shocks.

2. Export Promotion -- The effects of changes in export market shares on export value. Indicates the relative importance of export promotion efforts in response to external shocks.

3. Import Substitution -- The effects on imports of changes in the income elasticity of import demand for fuel and non-fuel products. Indicates the relative importance of import substitution efforts in fuel and non-fuel products in response to external shocks.

4. Import Effects of Macroeconomic Policies -- The effects on imports of changes in GDP growth rates. Indicates the relative importance of deflationary (expansionary) policies applied in response to external shocks.

IV. Policy Response Ratios

1. Export Promotion/Exports -- The ratio of increases in exports due to increases in market shares, expressed as a proportion of actual exports. Indicates the magnitude of the export promotion effort.

2. Import Substitution/Imports -- The ratio of decreases in imports due to a fall in the income elasticity of import demand, expressed as a proportion of actual imports. Indicates the magnitude of the import substitution effort in fuel and nonfuel products.

3. Import Effects of Macroeconomic Policies/Imports -- The ratio of decreases in imports due to a decline in the rate of growth of GDP. Indicates the magnitude of import savings associated with the application of deflationary policies.

BBalassa:nc
Draft letter from M. Michael Carter to M. Bencheikh

I am writing to you in conjunction with the completion of the report "La structure des incitations dans le Secteur Industriel," prepared by the Cellule Incitations under the direction of M. Brendan Horton. This brings to an end several years or arduous work on the part of M. Horton and his collaborators.

We have reviewed successive drafts of the second part of the report, "Analyse Quantitative," and we are highly satisfied with the outcome. We have not reviewed the first part of the report that reflects the opinions of Mr. Horton and his collaborators on les régimes fiscaux et les incitations au Maroc. The views of the Bank on these matters are expressed in the Bank report we have recently transmitted to you.

We understand that you have directly received copies of the report of the Cellule Incitations.

cc: Messrs. Gessous

Horton
March 7, 1983

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

Dear Professor Hic:

Thank you for your letter of February 17th informing me of the progress made in the study. I am sorry that you continue to have difficulties in finding world price data. I agree that you should not try to give help to Garry Pursell in this regards.

I trust that by this time you have completed the primary data collection, since its continuation would jeopardize the speedy completion of the project. Please let me have the sectoral composition of the firms covered and the final deadlines for the completion of the papers by return mail.

Answers to the questions raised in your Note follow:

1. I suggest that you use method number 2 in making adjustments for quality differences. May I repeat, however, that we should have the estimates first of all without such adjustment.

2. I agree that we should neglect package quality differences.

3. I do not think that it would be fruitful to have the whole list reviewed by TSKB at this time.

4. The policy paper should be based on the actual import regime and export incentives.

5. I do not see the need for having complete files on the 200 firms. I will check with Mr. Roy on this.

I hope that you have since returned a signed copy of the contract to Mr. Gassner. This is necessary for making payment under Bank rules.

Sincerely yours,

Bela Balassa
March 4, 1983

T. L. Hutcheson, LCP
Bela Balassa, DRD
61007

Andean Group Report

1. I am in broad agreement with the recommendations made in the report. The Bank’s support for the Andean Common Market (ACM) should be conditioned on the implementation of these recommendations, since otherwise the net economic effects of the ACM might easily turn negative. A few comments on the effects of the ACM, on tariff protection, and on industrial programming follow.

2. The conclusions of the ACM studies on the trade creation-trade diversion issue and on implicit transfers, reported in Chapter I of the report, are inconsistent as the full exploitation of preferential margins would exclude all trade creation and trade diversion. At the same time, in order to evaluate the economic effects of ACM, it would be desirable to make more reliable estimates.

3. Trade creation and trade diversion may be estimated by the use of the methodology I earlier applied to the European Common Market (Economic Journal, March 1967), entailing the comparison of ex post income elasticities of import demand in intra-ACM and in extra-ACM trade, before and after integration. In turn, export unit values for ACM and non-ACM suppliers in regard to homogeneous products would permit gauging the size of preferential margins.

4. According to the report, “a striking aspect of the liberalization program is that slightly more than one-half of intra-Andean trade in 1980 excluding fuels, occurred in non-liberalized goods” (Para. 2.02). In fact, as shown in Table 2.1, the dollar value of liberalized trade increased fifteenfold and that of non-liberalized trade eighteenfold among the ACM countries between 1970 and 1980.

5. If these figures are correct, it would appear that the reduction of tariff barriers has not affected intra-ACM trade flows. A possible explanation is that products were included in the non-liberalized trade category if they appeared on at least one list of exceptions (Ibid.). Indeed, one could not otherwise explain the rise in intra-ACM trade in products on lists of exceptions from nil in 1970 to $142 million in 1980. I also wonder if Bolivia and Ecuador, whose imports of items on the automatic list from other ACM countries increased from $23 million in 1970 to $243 million in 1980, would not have reduced their tariffs on these items.
6. The proposed 20 percent average common external tariff (CET) would be acceptable as an initial target. In fact, in my 1975 advisory report, I recommended across-the-board protection of 20 percent "on the assumption that all manufacturing industries in the Andean Common Market can be considered as inflow industries" ("Guidelines for the Common External Tariff of the Andean Common Market" in Policy Reform in Developing Countries, p. 82).

7. At the same time, tariffs in the individual countries should be reduced at an early date and the proposed maximum tariff of 80 percent (Para. 3.12) is much too high. Also, the establishment of a minimum tariff of 20 percent (Ibid.) would be advisable only if export subsidies were provided at the same rate.

8. The report notes that "even a low uniform CET ... will still discourage exports to third countries ... if it is not offset by export incentives" (Para. 3.10). Correspondingly, it recommends the establishment of general export incentives in non-ACM trade on a country-by-country basis, from which exceptions could be made for e.g. traditional primary products. It should be recognized, however, that export subsidies are subject to countervailing action abroad. The arguments for a low common tariff are, then, reinforced.

9. The report notes that trade in metal working products, which were subject to the first industrial program, reached only $18 million in 1980 and not more than 4500 jobs were created (Para. 4.05). It may be added that firms are of a relatively small scale in this industry and extra-ACM exports are discouraged while such exports might have developed in the absence of industrial programming.

10. One should not encourage industrial programming in the ACM even if "specific products rather than broad subsectors [are] programmed" or "if the negotiating package [encompasses] several sectors" (Ibid.). This conclusion applies, in particular, to automotive products. In fact, the establishment of industrial programs may discourage compensation agreements with third countries that are recommended by the report (Para. 4.22).

cc: Messrs. Ardito-Barletta, Pfeffermann, LCNVP; Glassner, Renger, Cook, LCP; Roy, EM2; Aguirre-Sacasa, Gonzales-Cofino, LCl; Scherer, Schloss, LC2.

BBalassa:nc
March 4, 1983

Those listed

Bela Balassa, DRD

Tanzania-Agricultural Sector Report

1. I strongly favor devoting resources to the preparation of this report for publication in book form. The report places the Tanzanian experience with agriculture in an overall policy framework; provides a detailed discussion of the effects of the policies applied; and makes sensible recommendations for policy changes. It is rare among Bank reports in terms of its depth and the marshalling of evidence in support of the propositions it puts forward. Time and effort spent in further strengthening the analysis would bring high returns in providing an authoritative evaluation of the Tanzanian case.

2. While an effort may be made to place Tanzania in the general context of policy-making in sub-Saharan Africa, I doubt that time and resource constraints would permit doing anything comparable in other countries. The report on Tanzania provides the findings of a large team working for a protracted period and one should safeguard its richness by publishing the evidence in full. This is the more important, given the uniqueness of the Tanzanian experience and the controversy surrounding it.

3. The report successfully fulfils its objective to provide concrete proposals for reviving Tanzanian agriculture in a macroeconomic framework. The recommendations aim at a more efficient utilization of cultivated land and at increasing the area under cultivation. However, the statement according to which, "uncultivated land in Tanzania is three to four times that which is now under cultivation" (Para. 7.49) would need to be substantiated. Also, reasons should be provided for this low ratio, which does not appear to be of recent origin.

4. The recommendations made for "increases in real prices of the order of 15 to 25 percent for food crops and 30 to 50 percent for export crops" (Para. 7.37) would also require justification. The same applies to the proposed doubling of the consumer prices of wheat, rice and maize (Para. 7.38). In this connection, the crop procurement figures projected without and with the application of the proposed program, and the supply elasticities implicit in the projections of Table 7.1 would need to receive detailed consideration. Attention should further be given to effects of the proposals on income distribution in the urban-rural context.

5. In the case of export crops, recent changes in Tanzania's world market shares would need to be examined, indicating the extent to which the application of the proposed program would permit regaining past losses in these shares. Among export crops, coffee and sisal require special
attention. In the case of the former, assumptions need to be made as to the operation of the International Coffee Agreement; in turn, the latter raises questions of substitution by synthetic materials.

6. The excellent discussion of parastatals should be supplemented by evidence on their marketing margin. I understand that these margins have increased to a considerable extent over time, thereby squeezing producers over and above the unfavorable effects of the overvaluation of the exchange rate. At the same time, one should squarely face the possibility that, given their inefficiencies, parastatals may not survive in competition with cooperative and private traders in the absence of a surgical intervention. Thus, I doubt that "it will take time for cooperatives and even for the private sector to emerge as effective options" (p. 7.24).

7. The analysis of past experience would also need to be strengthened. The table on p.2 much overestimates the adverse external changes that have occurred. Changes in the value of food imports, the Uganda war, and the break-up of the East African Community had to do with Tanzanian policies. Furthermore, the reported terms of trade loss is much larger than what I have estimated in "The Policy Experience of Twelve Less Developed Countries, 1973-1978," World Bank Staff Working Paper No. 449 using world market prices; Tanzanian export prices are not appropriate for this purpose because of the decline in the quality of exports (Par. 1.15). Nor can one understand how import prices could have increased by 8-10 percent between 1980/81 and 1981/82 (Par. 1.13), when the world market prices of manufactured goods declined in conjunction with the appreciation of the dollar.

8. In the discussion of export performance 1972 rather than 1976 should be used as the base year (Par. 1.15). Also, I wonder if more evidence could be marshalled on the apparent decline of agricultural production that contrasts with the official estimates. The reported 50 percent fall in real wages for urban workers (Par. 1.68), too, should be compared to the GNP figures.

9. The report suggests that, among the criteria for resource allocation in agriculture, "short-term net foreign exchange earnings or savings ... would have to be weighted heavily; but other factors, including contribution to government revenue, income distribution, employment generation and contribution to essential services, presumably would also require consideration" (Par. 2.57). The criteria are too numerous and their simultaneous application invites mischief. For the short run, the foreign exchange costs and benefits of possible alternatives should be compared; for the medium and the long run, the domestic resource cost of foreign exchange is the relevant consideration. At the same time, it would be desirable to deal with issues of long-run resource allocation in the book, with explicit consideration given to the implications of short-term policy measures for the prospective development of Tanzania agriculture.

cc: Mrs. Krueger, VPERS; Mr. Gulhati, EANVP; Ms. Lele, AFA.
BBalassa:nc
March 4, 1983.

Mr. Luc Fauvel  
International Economic Association  
23 rue Campagne Première  
75014 Paris  
France

Dear Mr. Fauvel:

It is not clear as yet if I can attend the Conference in Addis Ababa at the new dates. I will let you know as soon as possible.

Yours sincerely,

Bela Balassa

cc: Professor H. M. A. Onitiri  
Mr. J. O. Aiyegbusi
March 4, 1983.

Professor Zeyyat Hatiboglu
Dean, Business Administration
Istanbul Technical University
Istanbul
Turkey

Dear Professor Hatiboglu:

Thank you for sending my your book "Rents, Development and Economic Analysis." I look forward to reading it.

I have asked that you be sent my report on Turkey which has just been made public. I hope that you will find it of interest.

Yours sincerely,

Bela Balassa
March 4, 1983.

Dr. S. Bhagwan Dahiya  
Incharge, Planning Forum  
Department of Economics  
M. D. University  
Rohtak 124001  
India

Dear Dr. Dahiya:

Thank you for your recent note. I am afraid that I do not have any unpublished paper I could send you for the book you are editing.

Yours sincerely,

Bela Balassa
March 4, 1983.

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

Dear Dr. Voloudakis:

This is to acknowledge, somewhat belatedly, the receipt of the new version of your study. I hope to be able to read it in the next few weeks.

Yours sincerely,

Bela Balassa
March 4, 1983.

Mr. Moses Abramovitz  
Journal of Economic Literature  
Department of Economics  
Stanford University  
Stanford, California 94305

Dear Moe,

The purpose of this letter is to check if you have received my book "Development Strategies in Semi-Industrial Economies." I have asked the publisher for the second time to send it.

Yours sincerely,

Bela Balassa
March 4, 1983.

Mr. Goddard Winterbottom, PUB

Ehriedus J. Stoutjesdijk, DRD

61007

Submission to Reprint Series

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


Enclosures

BBalassa:nc
March 4, 1983.

Mr. Manuel Jacinto Nunes
Governor
Bank of Portugal
Lisbon
Portugal

Dear Mr. Governor:

I wonder if you received from Mr. Salgueiro a copy of my paper on Portugal. In case you have not received a copy, I am enclosing it now.

I would also like to explore the possibility of publishing my paper in Economia. I believe that the paper has maintained its actuality and that it may be of interest to economists and policy makers in Portugal.

Yours sincerely,

Enclosure

Bela Balassa

ADJUSTMENT POLICIES AND DEVELOPMENT STRATEGIES
IN SUB-SAHARAN AFRICA, 1973-78

Bela Balassa

March 3, 1983

The author is Professor of Political Economy at the Johns Hopkins University and Consultant at the World Bank. He is indebted to Eric Manes and Kenneth Meyers for the collection of data and to Kenneth Meyers for his help at all subsequent stages of the research. The author greatly benefited from comments made at the workshop for Bank economists working on Africa, and especially by Luis de Azcarate and Ravi Gulhati. Helpful suggestions were also received from Pradeep Mitra and Larry Westphal.
Introduction

The author earlier investigated the adjustment policies applied by countries pursuing different development strategies in response to the external shocks of the 1973-78 period (Balassa 1981a, b, c). The studies concerned newly-industrializing developing countries, defined as having per capita incomes between $1100 and $3500 in 1978 and a share of manufacturing in GDP of 20 percent or higher in 1977, as well as less developed countries that cover the spectrum between the newly-industrializing and the least developed countries.

The results show the importance of the choice of development strategies in coping with the external shocks, which took the form of deterioration in the terms of trade and export shortfalls resulting from the slowdown of the world economy, in the 1973-78 period. While outward-oriented countries suffered greater external shocks than countries pursuing an inward-oriented development strategy, they were better able to overcome the effects of these shocks through domestic adjustment. As a result, after a temporary decline, economic growth accelerated in the first group of countries while declining in the second.

Differences in economic growth rates between the two groups of countries reflect differences in incremental capital-output ratios as well as in domestic savings ratios. Greater efficiency in the allocation of existing and incremental resources, together with the exploitation of economies of scale and technological change, permitted maintaining incremental capital-output ratios at relatively low levels in outward-oriented countries, which avoided a
bias against exports and established realistic exchange rates. By contrast, incremental capital-output ratios increased to high levels in most inward-oriented countries, which discriminated against exports and generally maintained overvalued exchange rates.

Countries applying an outward-oriented development strategy were also successful in generating domestic savings through the establishment of realistic interest rates and by avoiding large government budget deficits. In turn, most countries characterized by inward orientation had negative real interest rates and high budget deficits that limited the generation of domestic savings. Correspondingly, the latter group of countries had to rely extensively on foreign borrowing that raised the level of their external indebtedness.

These conclusions apply equally well to the newly-industrializing and to the less developed countries studied. In both groups of countries, one also finds that reliance on export promotion in response to external shocks, associated with the application of an outward oriented development strategy, was highly correlated with the rate of economic growth.

The question has been raised if these conclusions have relevance for the countries of sub-Saharan Africa. Doubts about such a possibility have been expressed by the critics of the so-called Berg report on sub-Saharan Africa (World Bank, 1981) who have argued that economic incentives have limited effect in this region, and especially in countries at lower levels of development.

The present paper set out to examine the relevance of the choice of development strategy for coping with external shocks in the oil-importing countries of sub-Saharan Africa. It does so by analysing the policies of adjustment to the external shocks of the 1973-78 period, including additional
net external financing, export promotion, import substitution, and lowering the rates of economic growth; by investigating the relationship between adjustment policies and by rate of economic growth; and by examining changes in economic growth rates, incremental capital-output ratios, and domestic and foreign savings ratios in the countries concerned.

The investigation covers middle-income sub-Saharan African countries that had per capita incomes in approximately the same range as the less developed countries studied earlier, as well as low-income countries that had per capita incomes less than $140 in 1970. 1/ Among medium-income countries, estimates have been made for Cameroon, Ghana, Ivory Coast, Kenya, Mauritius, Senegal, Sudan, Togo, and Zambia; the low-income countries covered include Benin, Botswana, Ethiopia, Madagascar, Malawi, Mali, Niger, Tanzania, Upper Volta, and Zaire.

Section I of the paper presents the classification scheme utilized in grouping countries according to the development strategies pursued, and it provides a brief description of the methodology used in estimating the balance-of-payments effects of external shocks and of policy responses to these shocks. 2/ In turn, Section II contains estimates of the balance-of-payments effects of external shocks experienced by the different groups of countries, with separate consideration given to changes in the terms of trade and to the export shortfalls resulting from the slowdown of the world economy, for the 1974-78 period.

Estimates of the balance-of-payments effects of the policies applied in response to external shocks are presented in Section III. The estimates

1/ On the choice of this classification scheme, see Balassa, 1983a.
2/ For a detailed description see Ibid.
pertain to the 1974-78 period and concern additional net external financing, export promotion, import substitution, and lowering the rate of economic growth. The economic effects of these policies, and the performance of countries applying different development strategies, are evaluated in Section IV of the paper.

I. Analyzing External Shocks and Adjustment Policies in Oil-Importing Sub-Saharan African Countries

Alternative Development Strategies in Sub-Saharan Africa

In the studies of policy responses to external shocks, referred to earlier, development strategies were defined in terms of relative incentives to exports and to import substitution. The application of an outward-oriented development strategy was said to involve providing similar incentives to sales in domestic and in export markets while inward-orientation was characterized by a bias in the incentive system against exports (Balassa, 1981a, b, c).

In a subsequent paper, the author noted the existence of further differences in the policies applied by countries pursuing outward-oriented and inward-oriented development strategies. These policies concern relative incentives to manufacturing and primary activities; the determination of exchange rates; the extent of price and wage control; the setting of interest rates, the degree of credit rationing, and the licensing of private investments; the choice of public projects and their relative importance in total investments; as well as the size of the government budget deficit (Balassa, 1983b).

Whereas outward-oriented countries generally provided similar incentives to manufacturing and to primary activities, countries pursuing an inward-oriented development strategy favored manufacturing over agriculture. At the same time, in response to external shocks, outward-oriented countries let
their exchange rate depreciate in real terms, i.e. after adjustment made for changes in relative prices at home and abroad, or offset the effects of an appreciation on exports by promotional measures; by contrast, there was a tendency towards appreciation in inward-oriented countries without it being compensated by export incentives. Price and wage controls, too, were more prevalent in the latter group of countries than in the former.

Furthermore, after the quadrupling of oil prices, positive real interest rates were re-established in practically all outward-oriented countries while negative real interest rates persisted under inward orientation, leading to credit rationing and adversely affecting domestic savings. Inward-oriented countries also used tax and credit measures and investment licenses to favor import-substituting investments and gave less attention to efficiency considerations in the choice of public projects than countries pursuing an outward-oriented development strategy. Finally, public projects had greater importance, and deficits in the governments budget were larger, under inward-than under outward-orientation.

More generally, it appears that countries applying an outward-oriented development strategy placed greater reliance on the price mechanism and on market forces than inward-oriented countries. Thus, the distinction between alternative development strategies in terms of outward- and inward-orientation may be generalized in terms of the extent of public interventions in product, capital, labor, and foreign exchange markets.

This classification is of especial interest in sub-Saharan Africa, where there are considerable intercountry differences in terms of the extent of public interventions in particular markets. This paper will distinguish between interventionist and market-oriented countries in the region.
High industrial protection in the interventionist countries of sub-Saharan Africa creates a bias against exports and discriminates against primary activities through its effects on the prices of industrial goods that are used as inputs in the primary sector or consumed by those engaged in the sector. Export taxes and price control, extensively used by the interventionist countries of the region, create further disincentives for agriculture. At the same time, the operation of parastatal trading companies increases the gap between, on the one hand, export prices and consumer prices and, on the other hand the prices paid to producers to the detriment of the latter.

As noted in more detail in the discussion of the policies applied in Section III, interventionist countries in sub-Saharan Africa also exhibit a tendency to maintain overvalued exchange rates and engage in other forms of public interventions, including wage and interest rate controls, credit rationing, and the licensing of private investment. At the same time, non-economic considerations are often decisive in the choice of public projects that are of considerable importance in interventionist countries, and these countries tend to have large deficits in the government budget.

The described characteristics are observed in countries which aim at establishing a socialist society, such as Benin, Ethiopia, Madagascar, Tanzania, and Zambia; in countries where socialism may not anymore be an avowed goal but there remains a distrust towards the price mechanism and market forces, such as Ghana and Mali; and in countries that do not aim at socialism but have introduced extensive public interventions in economic life, including Senegal, Sudan, and Zaire.

By contrast, market economies in sub-Saharan Africa limit reliance on government interventions or such interventions are aimed primarily at
remedying market imperfections. Nevertheless, it should be recognized that the extent of public interventions is generally greater in sub-Saharan Africa than elsewhere in the developing world, so that some of the countries that are considered market-oriented in this region, may be regarded as interventionist elsewhere.

Par excellence market oriented countries in sub-Saharan Africa include Botswana, Cameroon, Ivory Coast, and Mauritius, although departures from this policy have been observed in the Ivory Coast at the end of the period under consideration. Market orientation predominates, although public interventions have assumed a certain importance, in Kenya, Malawi, Niger, Togo, and Upper Volta.

The distinction made between interventionist and market-oriented countries appear rather robust as far as the countries under study are concerned. For one thing, most observers would agree on the classification of countries into the two groups. For another thing shifting countries that may be considered near to the margin from one group to another would affect the empirical results but little. Nevertheless, an alternative classification scheme has also been tried, grouping countries into three categories: étatist, intermediate, and private-market oriented.

Étatist countries, including Benin, Ethiopia, Ghana, Madagascar, Mali, Tanzania, and Zambia, exhibit the greatest degree of public interventions in economic life and are also characterized by a high level of state ownership
and rapid Africanization of middle- and high-level jobs in the economy.  \(^1\) At the other end, Botswana, Cameroon, Ivory Coast, and Mauritius are classified as private-market economies. Finally, Senegal and Sudan as well as Kenya, Malawi, Niger, Togo, and Upper Volta come in the intermediate group.

The division between interventionist and market-oriented countries in sub-Saharan Africa has been combined with the classification of these countries according to the level of economic development. In this way, a fourfold classification system has been established, with four to five countries in each category. The distinction between middle-income and low-income countries has not been carried over to the three-fold classification scheme, however. This is because there is only a single low-income country (Botswana) that belongs to the private market-oriented category.

**Estimating the Balance of Payments Effects of External Shocks**

The external shocks analyzed in the paper include changes in the terms of trade and the slowdown of foreign demand for the exports of developing countries. The balance-of-payments effects of these shocks have been estimated by postulating a situation that would have existed in the absence of external shocks.

Terms of trade effects have been derived as the difference between the current price values of exports and imports and their constant price values, calculated in the prices of the 1971-73 ("1972") base period. The procedure applied reflects the assumption that price increases since "1972" have been

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\(^1\) This category has been used by Acharya (1981) but he also includes Sudan in the group. At the same time, it should be emphasized that state ownership and reliance on markets are not incompatible. Thus, Hungary, where the means of production are largely state-owned, makes greater use of the price mechanism than several African countries where private ownership predominates. On the Hungarian experience, see Balassa, 1982.
due to external shocks, in particular the direct and indirect effects of the quadrupling of oil prices. 1/

The balance-of-payments effects of the slowdown of foreign demand on the exports of the less developed countries, or export volume effects, have been calculated as the difference between the trend value of exports and hypothetical exports. The trend value of traditional primary exports, defined as products that accounted for at least 1.5 percent of the country's total exports in "1972", has been derived on the assumption that the growth rate of world demand for these commodities, taken individually, remained the same as in the 1963-73 period and that the country concerned maintained its "1972" share in these exports. The same procedure has been applied to fuels, other nontraditional primary commodities, and manufactured goods, except that calculations have been made with respect to the combined exports of the developing countries rather than world exports. In turn, hypothetical exports have been estimated on the assumption that the country maintained its "1972" share in actual world exports and, respectively, developing country exports, during the period under consideration.

Estimating the Balance-of-Payments Effects of the Policies Applied

Policy responses to external shocks considered in the paper may have involved additional net external financing, export promotion, import substitution, and lowering the rate of economic growth. The balance-of-payments effects of these policies have again been estimated by postulating a situation that would have occurred in the absence of external shocks.

1/ Terms of trade effects have further been decomposed into a pure terms of trade effect, calculated on the assumption that the balance of trade, expressed in terms of "1972" prices, was in equilibrium, and an unbalanced trade effect, indicating the impact of the rise of import prices on the deficit (surplus) in the country's balance of payments, expressed in "1972" prices. The results are available from the author.
Additional net external financing has been derived as the difference between the actual trade balance and the trade balance that would have obtained if trends in the volume of imports and exports observed in the 1963-73 period continued and import and export prices remained at their "1972" level. Non-factor services and private transfers do not enter into the calculation as they are assumed to be unaffected by external shocks.

The effects of export promotion have been calculated as changes in exports associated with changes in the country's "1972" export market shares. In turn, import substitution has been defined as savings in imports resulting from a fall in the income elasticity of import demand in the country concerned. Finally, the effects on imports of changes in GNP growth rates as compared to the 1963-73 period have been calculated on the assumption of unchanged income elasticities of import demand in the importing country.

The procedure employed is subject to certain qualifications, however. To begin with, the policies applied in the period of external shocks may represent a continuation of past policies rather than a response to these shocks. Also, structural changes may limit the validity of the assumption that past relationships would have continued in the absence of external shocks and policy responses to these shocks. Finally, rather than being the result of conscious decisions, measured import substitution and lower GNP growth rates may reflect the effects of foreign exchange shortages, brought about by the deterioration of the terms of trade or export shortfalls, in countries that have limited capacity to obtain funds abroad.

While these considerations deserve attention, they do not invalidate the method applied. The fact that past policies continued in some countries after 1973 does not affect the conclusions about the relative success or failure of countries pursuing different development strategies in coping with external
shocks. Furthermore, structural changes may not have occurred during the relatively short time-span covered by the study; at any rate, there is no reason to assume that such changes would have introduced a bias in the results. Finally, countries that came to experience limitations on the availability of external financial resources, such as Zaire, applied inappropriate policies which did not permit the efficient use of the funds earlier obtained.

II. The Balance-of-Payments Effects of External Shocks

In this section, estimates are provided on the balance-of-payments effects of external shocks, in the form of terms of trade effects and export volume effects, in the 1974-78 period. All the data cited are averages for this period; they are reported in Tables 1 and 2 for individual oil-importing sub-Saharan African countries and for groups of countries classified according to the development strategies applied, respectively. Appendix Table 1 presents estimates for the various country groups for the years 1974 to 1978, taken individually, and averages for these years; in Appendix Table 2 terms of trade effects are related to the average value of exports and imports and to GNP, and export volume effects to the value of exports and to GNP, all expressed in the average prices of the years 1971-73.

Terms of Trade Effects

Terms of trade losses averaged 3.5 percent of the gross national product of interventionist countries, with the corresponding ratios being 3.0 percent in middle-income and 4.1 percent in low-income countries. The adverse terms of trade effects were especially pronounced in Zambia that suffered a substantial decline in copper prices and in Benin and Mali where increases in import prices aggravated the large trade deficit of the base period while Ethiopia benefited from increases in coffee prices.
### Table 1

**SUMMARY MEASURES OF THE BALANCE OF PAYMENTS EFFECTS OF EXTERNAL SHOCKS AND OF POLICY RESPONSES TO THESE SHOCKS IN SUB-SAHARAN AFRICAN COUNTRIES**

(averages for the years 1974-78)

<table>
<thead>
<tr>
<th>Country</th>
<th>External Shocks as a percentage of GNP</th>
<th>Terms of Trade Effects</th>
<th>Export Volume Effects</th>
<th>Additional Net External Market Effects</th>
<th>Increase in Export Share</th>
<th>Import Effects of Lower GNP Share/Exports</th>
<th>Increase in Export Market Share/Imports</th>
<th>Import Effects of Lower GNP Growth Rate</th>
<th>Debt Service Ratio (percent)</th>
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</thead>
<tbody>
<tr>
<td>Ethiopia</td>
<td>-2.7</td>
<td>-31.8</td>
<td>-144</td>
<td>44</td>
<td>121</td>
<td>-118</td>
<td>-116</td>
<td>12</td>
<td>-66</td>
</tr>
<tr>
<td>Madagascar</td>
<td>2.8</td>
<td>22.9</td>
<td>48</td>
<td>52</td>
<td>28</td>
<td>-88</td>
<td>101</td>
<td>60</td>
<td>-21</td>
</tr>
<tr>
<td>Tanzania</td>
<td>8.7</td>
<td>67.9</td>
<td>80</td>
<td>20</td>
<td>71</td>
<td>-48</td>
<td>68</td>
<td>8</td>
<td>-44</td>
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<td>78</td>
<td>22</td>
<td>35</td>
<td>-36</td>
<td>94</td>
<td>7</td>
<td>-10</td>
</tr>
<tr>
<td>Benin</td>
<td>11.9</td>
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Source: Calculations based on data from World Bank data base.
Terms of trade losses averaged 0.6 percent of GNP in market-oriented countries. This result reflects a slight improvement in the terms of trade of middle-income countries (0.8 percent in GNP) and a substantial deterioration in the terms of trade of low-income countries (7.7 percent). In the former case, gains through increases in cocoa and coffee prices in the Ivory Coast much affected the outcome. In turn, terms of trade effects were the most unfavorable in Botswana that experienced adverse developments in livestock prices and in Malawi where this occurred in sugar and in tea prices. By contrast, higher uranium prices gave rise to a terms of trade gain in Niger.

Utilizing a three-fold classification scheme, terms of trade losses were the largest, averaging 5.6 percent of GNP, in the intermediate group of countries, followed by étatist countries (2.9 percent). In turn, countries characterized by private market orientation experienced a terms of trade gain of 3.4 percent, due largely to improvements in the terms-of-trade of the Ivory Coast.

Export Volume Effects

In interventionist countries, export shortfalls averaged 1.8 percent of GNP, with little difference shown between middle-income and low-income countries. The average export shortfall was of similar magnitude in market-oriented countries (2.0 percent), where the shortfall equalled 2.4 percent of GNP in middle-income countries and 0.3 percent in low-income countries. Within the latter group, Malawi experienced a gain due largely to rapid increases in world demand for tobacco while Niger benefited from the acceleration of demand for uranium.

Under the three-fold classification scheme, the average export shortfall, expressed as a percentage of GNP, was the largest in private-market oriented countries (2.6 percent), followed by countries of the intermediate group (2.0
### Table 2

**Summary Measures of the Balance of Payments' Effects of External Shocks and of Policy Responses to These Shocks in Sub-Saharan Africa**

(averages for the years 1974-78)

<table>
<thead>
<tr>
<th>External Shocks as a Percentage of GDP</th>
<th>Terms of Trade Effects</th>
<th>Export Volume Effects</th>
<th>Additional Net External Financing</th>
<th>Increase in Export Market Share</th>
<th>Import Substitution</th>
<th>Effects of Lower GNP Growth Rates</th>
<th>Increase in Export Market Shares/Exports</th>
<th>Import Substitution/Imports</th>
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<th>Debt Service Ratio (percent)</th>
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Sources: Appendix Tables 1 and 2.
percent), and by étatist countries (1.4 percent). In the first case, the results were importantly affected by the deceleration of the growth of world demand for cocoa and coffee, the principal export products of the Ivory Coast.

Terms of Trade and Export Volume Effects Combined

The balance-of-payments effects of external shocks (terms of trade and export volume effects combined) averaged 5.3 percent of the gross national product in interventionist countries and 2.6 percent in market-oriented countries. Within the former group, the balance-of-payments effects of external shocks were smaller in middle-income (4.9 percent of GNP) than in low-income (5.7 percent) countries; such a result also obtained, but the differences were much greater (1.6 and 7.9 percent), in market-oriented countries. Finally, under the three-fold classification scheme, private-market oriented countries experienced a slight gain (0.8 percent of GNP), étatist countries a moderate loss (3.7 percent), and intermediate countries a large loss (7.7 percent) through the balance-of-payments effects of external shocks.

III. The Balance-of-Payments Effects of the Policies Applied

This section will examine the balance-of-payments effects of the policies applied in response to external shocks, with distinction made between additional net external financing, domestic adjustment policies in the form of export promotion and import substitution, as well as macro-economic policies affecting the rate of economic growth and hence that of imports. All cited data refers to average results for the 1974-78 period. The estimates of the balance-of-payments effects of the policies applied are shown in Tables 1, 2, and in Appendix Tables 1 and 2.
Additional Net External Financing

Additional net external financing equalled 84 percent of the balance-of-payments effects of external shocks in interventionist countries, with considerable differences shown between middle-income (129 percent) and low-income (37 percent) countries. In the latter group, additional external financing was negative in Zaire that had accumulated a considerable external debt by 1973 and was unable to borrow substantial amounts afterwards.

With efforts made at domestic adjustment, market-oriented countries relied to a much smaller extent on foreign borrowing than interventionist countries. Additional net external financing averaged 39 percent of the balance-of-payment effects of external shocks in these countries, with the ratio being 37 percent in middle-income and 40 percent in low-income countries.

Under the three-fold classification scheme, additional net external financing exceeded the balance-of-payments effects of external shocks in étatist countries, with a ratio of 111 percent. The corresponding ratio was 64 percent in the intermediate group while additional net external financing was negative in private-market oriented countries. Within the latter group, additional net external financing was negative in the Ivory Coast that experienced favorable external shocks and in Malawi that made vigorous efforts at domestic adjustment.

Export Promotion

In interventionist countries, losses in export market shares equalled 19 percent of export value, adding 43 percent to the balance-of-payments effects of external shocks; the corresponding ratios were 15 percent and 37 percent in middle-income countries and 23 percent and 52 percent in low-income countries. A decline in export market shares was observed in all
interventionist countries other than Senegal, where a slight increase is shown over the 1971-73 base period that was much affected by the drought. For the same reason, losses in export market shares were small in Mali. In turn, the decline in export market shares exceeded the balance-of-payments effects of external shocks in Ethiopia and Ghana.

By contrast, market-oriented economies increased their export market shares, with the increases averaging 3 percent of export value in middle-income countries, 24 percent in low-income countries, and 7 percent overall. These gains offset 46 percent of the adverse balance-of-payments effects of external shocks in middle-income countries, 38 percent in low-income countries, and 42 percent in total. Exceptions are Kenya that suffered an absolute decline in its exports to Tanzania and to Uganda as the East African Community disintegrated as well as Niger and Togo.

Differences in export performance are even more pronounced under the three-fold classification scheme. Losses in export market shares increased the adverse balance-of-payments effects of external shocks by 70 percent in étatist countries; the corresponding ratio averaged 18 percent in the countries of the intermediate group while there was a gain of 345 percent in private market oriented countries where the overall balance-of-payments effects of external shocks were small. Expressed as a ratio of export value, losses in market shares averaged 24 percent in étatist countries and 10 percent in the intermediate group, compared to gains of 15 percent in private-market oriented countries.

Import Substitution

In interventionist countries, import substitution did not fully offset losses in export market shares; it averaged 42 percent of the balance-of-payments effects of external shocks and accounted for a 16 percent decline in
imports. The corresponding ratios were 20 percent and 9 percent in middle-income countries and 65 percent and 23 percent in low-income countries.

Import substitution averaged 35 percent of the balance-of-payments effects of external shocks in market-oriented countries, thereby reinforcing the effects of export promotion. The corresponding ratios were 40 percent and 30 percent in middle-income and low-income countries, respectively, representing decreases in imports by 3 percent and 11 percent, with an average of 5 percent.

Under the three-fold classification scheme, import substitution averaged 64 percent of the balance-of-payments effects of external shocks in étatist countries, resulting in a 20 percent decline in their imports. The corresponding ratios were 24 percent and 11 percent in the intermediate group; the former ratio is undefined in private market-oriented countries that experienced favorable external shocks while the latter was 2 percent. All in all, import substitution reinforced the effects of export promotion in private-market oriented countries; it nearly offset losses in export market shares in the intermediate group; and it fell short of the amount of these losses in étatist countries.

Import Effects of Changes in GNP Growth Rates

Import savings due to lower economic growth rates averaged 6 percent of imports and 16 percent of the balance-of-payments effects of external shocks in interventionist countries. Growth rates, however, increased slightly in middle-income countries that relied to a considerable extent on foreign borrowing, leading to increases in the average ratio of debt servicing to merchandise exports from 11 percent in 1973 to 20 percent in 1978. Debt-service ratios increased even more, from 11 percent to 28 percent, in low-income countries, although these countries reduced their imports by 17 percent
through lower GNP growth rates, with the resulting import savings offsetting 47 percent of the balance-of-payments effects of external shocks. The latter ratio was 84 percent in Zaire that experienced an absolute decline in its gross national product during the period under consideration.

Market-oriented countries increased their rates of economic growth through export promotion *cum* import substitution rather than through extensive foreign borrowing. Correspondingly, average debt service ratios in these countries declined from 14 percent in 1973 to 13 percent in 1978. Debt-service ratios remained approximately constant in low-income countries while falling in middle-income countries. Both groups experienced an acceleration of economic growth, with the resulting increases in imports averaging 15 percent of the balance-of-payments effects of external shocks and adding 2 percent to imports.

Increases in imports due to higher GNP growth rates were even larger in the narrower group of private-market economies, adding 10 percent to imports and more than offsetting the favorable balance-of-payments effects of external shocks. As a result, their average debt-service ratios rose from 8 percent in 1973 to 13 percent in 1978. In turn, debt-service ratios increased from 18 percent to 29 percent in countries of the intermediate group, although import savings due to lower GNP growth rates offset 30 percent of the balance-of-payments effects of external shocks, representing import savings of 13 percent.

Finally, a slight increase in GNP growth rates added 1 percent to the imports of étatist countries, offsetting 4 percent of the balance-of-payments effects of external shocks. The average debt-service ratio increased only from 9 percent in 1973 to 11 percent in 1978 in these countries as they received substantial foreign grants, accounting for nearly one-half of net
external financing. The corresponding ratio was about one-third in countries of the intermediate group and in private market-oriented countries.

IV. Alternative Development Strategies: An Evaluation

The Choice of Adjustment Policies

There are some clear-cut differences among oil-importing sub-Saharan African countries as regards the adjustment policies adopted in response to the external shocks of the 1973-78 period. Market-oriented countries increased their export market shares during the period while interventionist countries experienced considerable losses in their market shares. Import substitution by the latter group of countries did not fully compensate for the adverse balance-of-payments effects of losses in export market shares. In turn, the effects of export promotion and import substitution reinforced each other in market-oriented countries, offsetting over three-fourths of the adverse balance-of-payments effects of external shocks.

Although the import requirements of market-oriented countries were increased through the acceleration of their economic growth, these countries were able to limit reliance on additional net external financing to two-fifths of the balance-of-payments effects of external shocks, resulting in a decline in their debt-service ratios. By contrast, the lack of adjustment through export promotion and import substitution combined made it necessary to increase the inflow of foreign capital in interventionist countries. Additional net external financing equalled five-sixths of the balance-of-payments effects of external shocks in these countries, leading to a more than twofold increase in their debt-service ratio between 1973 and 1978 even though import requirements were reduced through lower rates of growth of GNP.

These conclusions are reinforced if use is made of the three-fold classification scheme. Etatist countries not only suffered large losses in
export market shares, adding nearly three-fourths to the adverse balance-of-payments effects of external shocks, but these effects were only partially offset by import substitution. With the import effects of changes in economic growth rates being approximately nil, additional net external financing exceeded the adverse balance-of-payments effects of external shocks in these countries. Nevertheless, increases in debt servicing were mitigated by the large share of grants in external financing.

In countries of the intermediate group, import substitution exceeded losses in export market shares and import savings due to lower growth rates compensated for one-fourth of the adverse balance-of-payments effects of external shocks, with additional net external financing accounting for two-thirds of the total and debt-service ratios nearly doubling between 1973 and 1978. Finally, debt-service ratios remained low in private market-oriented countries which reinforced the benefits of favorable external shocks through export promotion and import substitution, leading to an acceleration of rates of economic growth.

Development Strategies and Economic Growth

While domestic adjustment to external shocks may take the form of export promotion and import substitution, both of which raise output levels if resources are not fully utilized, they may have different implications for long-term economic growth. In the interventionist countries of sub-Saharan Africa, import substitution occurred behind high protection that involves a cost to the national economy. In turn, export promotion in market-oriented countries reduced the bias of the incentive system against exports, thereby contributing to resource allocation according to comparative advantage, the exploitation of economies of scale, increased capacity utilization, and
investigated by the use of regression analysis. As shown in equation (1) of Table 3, the regression coefficient of the export promotion variable is positive and significant at the 2 percent level, although the $R^2$ (.29) is reduced by reason of the existence of some extreme observations. Statistically significant results have not been obtained for the import substitution variable, expressed as a percentage of the balance of payments effects of external shocks in the 1974-78 period, its $t$-value being 1.32. The $t$-value of the import substitution variable declines further, to 0.81, if in the estimating equation it is combined with the export promotion variable that, however, retains its statistical significance. 1/

One may further test the hypothesis that economic performance is related to the choice of development strategies. Equation (2) shows a positive correlation between market orientation, denoted by a dummy variable, and the rate of economic growth, statistically significant at the 2 percent level. Such a result is also obtained in equation (3) with respect to private market economies while the dummy variable for étatist countries is negative but not statistically significant.

Introducing the export promotion variable and the dummy variable for market orientation simultaneously in equation (4) raises the $R$ to .33 but reduces the extent of statistical significance of both variables, owing to the intercorrelation between the two. This result reflects the relationship between the choice of development strategies and export promotion, noted earlier. The existence of such a relationship also reduces the statistical significance of the export promotion and the private market orientation

1/ These results are not reported in Table 3.
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**NOTE:** The dependent variable for equations (1) - (10) is the growth rate of GNP for 1973-79 in the nineteen oil importing, sub-Saharan African countries. The dependent variable for equations (11) - (20) is the difference between GNP growth rates for the periods, 1973-79 and 1963-73. $T$ statistics are in parentheses.

**Explanation of Symbols:**
- EP = export promotion; ES = balance of payments effects of external shocks; $D_M$ = dummy variable for market oriented countries; $D_{PM}$ = dummy variable for private market oriented countries; $D_S$ = dummy variable for socialist countries; and GNP = gross national product.
Adjustment Policies and Development Strategies
in Sub-Saharan Africa, 1973-78
Bela Balassa

Introduction

The author earlier investigated the adjustment policies applied by countries pursuing different development strategies in response to the external shocks of the 1973-78 period (Balassa 1981a, b, c). The studies concerned newly-industrializing developing countries, defined as having per capita incomes between $1100 and $3500 in 1978 and a share of manufacturing in GDP of 20 percent or higher in 1977, as well as less developed countries that cover the spectrum between the newly-industrializing and the least developed countries.

The results show the importance of the choice of development strategies in coping with the external shocks, which took the form of deterioration in the terms of trade and export shortfalls resulting from the slowdown of the world economy, in the 1973-78 period. While outward-oriented countries suffered greater external shocks than countries pursuing an inward-oriented development strategy, they were better able to overcome the effects of these shocks through domestic adjustment. As a result, after a temporary decline, economic growth accelerated in the first group of countries while declining in the second.

Differences in economic growth rates between the two groups of countries reflect differences in incremental capital-output ratios as well as in domestic savings ratios. Greater efficiency in the allocation of existing and incremental resources, together with the exploitation of economies of scale and technological change, permitted maintaining incremental capital-output ratios at relatively low levels in outward-oriented countries, which avoided a
variables in equation (5), although the latter variable is significant at the 10 percent level while the $R^2$ of the regression equation is .41.

It may be objected that the results are affected by the size of external shocks as the adverse balance-of-payment effects of these shocks were larger for étatist than for market-oriented countries. The statistical analysis of the data does not lend support to this hypothesis. Thus, as shown in equations (6) to (10), the external shock variable (defined as the average ratio of the balance-of-payments effects of external shocks to the gross national product in the 1974-78 period) is not significant statistically in any of the equations, with $t$-values ranging between 0 and 0.2; the level of statistical significance of the other variables is little affected by the introduction of this variable; and the (corrected) $R^2$ remains unchanged.

The same variables have been utilized in equations (11) to (20) to explain changes in GNP growth rates between the 1963-73 and 1973-79 periods. Under this formulation, the constant term was not significant statistically and it has been deleted in estimating the equations shown in Table 3. This result reflects the lack of change in the intercept of the equations as between the two periods.

In explaining changes over time, the export promotion variable is again significant statistically at the 2 percent level whereas the import substitution variable is insignificant, whether taken individually or in conjunction with the export promotion variable. In turn, while the level of significance of the market-orientation variable is reduced, this is not the case for private market orientation. And, the $t$-value for the market orientation dummy rises to 1.8 if the external shocks variable is introduced
in the regression equation, although the latter is not statistically significant. 1/

These results reinforce the conclusions derived in regard to economic growth in the 1973-79 period. At the same time, it is hardly surprising that the increased error possibilities associated with the use of differences in GNP growth rates as the dependent variable have reduced the statistical significance of some of the coefficients. It is of further interest that the market orientation dummy gains in significance if the external shocks variable is introduced in the regression equations.

Factors Affecting Growth Performance

Data on rates of economic growth, incremental capital-output ratios, and domestic and foreign savings ratios are provided in Table 4 for the various country groups. In the 1973-79 period, the rate of growth of GNP averaged 1.9 percent in interventionist sub-Saharan African countries, with higher growth rates attained by middle-income (2.8 percent) than by low-income (1.1 percent) countries. In the same period, GNP growth rates averaged 6.2 percent in market-oriented countries, with more favorable results shown again for middle-income (6.5 percent) than for low-income (4.7 percent) countries. Finally, in the three-fold classification scheme, rates of economic growth averaged 1.5 percent in étatist countries, 3.5 percent in countries of the intermediate group, and 6.8 percent in private-market oriented countries.

Differences in the growth performance of market-oriented and interventionist countries may be explained in terms of differences in incremental capital-output ratios and in domestic and foreign savings

1/ However, as reported in Balassa, 1983a, the external shocks variable is statistically significant at the 2 percent level if the 1976-79 rather than the 1973-79 GNP growth rate is used in the calculations.
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| **MARKET ORIENTED COUNTRIES** |         |         |         |         |         |         |         |         |         |         |
| Low Income               |         |         |         |         |         |         |         |         |         |         |
| Domestic Savings Ratio  | 18.8    | 21.1    | 24.1    | 23.0    | 6.5     | 9.3     | 16.8    | 14.0    | 16.3    | 19.2    |
| Foreign Savings Ratio   | 0.2     | 1.0     | 4.1     | 3.0     | 12.0    | 18.7    | 15.2    | 16.5    | 2.6     | 3.9     |
| Incremental Capital-Output Ratio | 3.7  | 3.9     | 4.8     | 4.4     | 3.9     | 5.1     | 3.9     | 4.4     | 3.9     | 4.0     |
| Rate of Growth of GNP   | 5.9     | 5.8     | 6.9     | 6.5     | 2.7     | 3.8     | 6.3     | 4.7     | 5.2     | 5.5     |
| Growth Rate of Per Capita GNP | 2.9  | 2.3     | 3.5     | 3.1     | 0.3     | 1.7     | 3.0     | 2.5     | 2.4     | 2.5     |
| Total                   |         |         |         |         |         |         |         |         |         |         |
| Domestic Savings Ratio  | 18.8    | 21.1    | 24.1    | 23.0    | 6.5     | 9.3     | 16.8    | 14.0    | 16.3    | 19.2    |
| Foreign Savings Ratio   | 0.2     | 1.0     | 4.1     | 3.0     | 12.0    | 18.7    | 15.2    | 16.5    | 2.6     | 3.9     |
| Incremental Capital-Output Ratio | 3.7  | 3.9     | 4.8     | 4.4     | 3.9     | 5.1     | 3.9     | 4.4     | 3.9     | 4.0     |
| Rate of Growth of GNP   | 5.9     | 5.8     | 6.9     | 6.5     | 2.7     | 3.8     | 6.3     | 4.7     | 5.2     | 5.5     |
| Growth Rate of Per Capita GNP | 2.9  | 2.3     | 3.5     | 3.1     | 0.3     | 1.7     | 3.0     | 2.5     | 2.4     | 2.5     |

| **PRIVATE MARKET ORIENTED** |         |         |         |         |         |         |         |         |         |
| Low Income               |         |         |         |         |         |         |         |         |         |         |
| Domestic Savings Ratio  | 18.8    | 21.1    | 24.1    | 23.0    | 6.5     | 9.3     | 16.8    | 14.0    | 16.3    | 19.2    |
| Foreign Savings Ratio   | 0.2     | 1.0     | 4.1     | 3.0     | 12.0    | 18.7    | 15.2    | 16.5    | 2.6     | 3.9     |
| Incremental Capital-Output Ratio | 3.7  | 3.9     | 4.8     | 4.4     | 3.9     | 5.1     | 3.9     | 4.4     | 3.9     | 4.0     |
| Rate of Growth of GNP   | 5.9     | 5.8     | 6.9     | 6.5     | 2.7     | 3.8     | 6.3     | 4.7     | 5.2     | 5.5     |
| Growth Rate of Per Capita GNP | 2.9  | 2.3     | 3.5     | 3.1     | 0.3     | 1.7     | 3.0     | 2.5     | 2.4     | 2.5     |

Source: Calculations based on data from World Bank data base.
ratios. In the 1973-79 period, incremental capital-output ratios averaged 7.8 in interventionist countries, with ICORs of 7.0 for middle-income and 10.7 for low-income countries. They were much lower (4.4) in market-oriented countries, with identical results obtained for both middle- and low-income countries.

Domestic savings ratios averaged 10.1 percent in interventionist countries, with higher ratios for middle-income (11.2 percent) than for low-income (8.7 percent) countries; these ratios were considerably higher, 21.5 percent, 23.0 percent, and 14.0 percent, in market-oriented countries. With the exception of Zambia, where investments were made in the copper mines, domestic savings ratios were uniformly low in étatist countries, ranging from -3 percent in Mali to 12 percent in Zaire. In turn, apart from negative domestic savings in Upper Volta, the ratios ranged from 15 percent (Malawi) to 28 percent (Botswana) in market-oriented countries.

Finally, foreign savings ratios (the net inflow of foreign capital expressed as a percentage of the gross domestic product) averaged 6.3 percent in interventionist countries and 5.1 percent in market-oriented countries. In both cases, substantially larger inflows were observed in low-income (8.9 percent for interventionist and 16.5 percent for market-oriented countries) than in middle-income (4.2 percent and 3.0 percent), countries.

The effects of the choice of development strategies on incremental capital-output ratios, taken to represent the efficiency of using incremental resources, and on domestic savings ratios, reflecting the success of efforts at domestic resource mobilization, are also indicated by the results obtained in the three-fold classification scheme. In the 1973-79 period, 

\[\text{1/ Needless to say, the usual caveats in the interpretation of incremental capital-output ratios apply.}\]
incremental capital-output ratios averaged 23.2 in étatist countries, 4.9 in countries of the intermediate group, and 4.3 in private market oriented countries; the corresponding domestic savings ratios were 10.5 percent, 12.2 percent, and 25.1 percent. Finally, private market-oriented countries experienced the smallest inflow of foreign capital (1.8 percent of GDP), followed by étatist countries (4.0 percent), and the countries of the intermediate group (9.9 percent).

Differences in incremental capital-output ratios and domestic savings ratios are largely explained by the policies followed. The application of protectionist policies, aggravated by export taxes, price controls and the large margin of parastatal trading companies discriminated against exports and against agriculture in interventionist countries. On the whole, the extent of discrimination increased during the 1973-78 period, thereby reducing the efficiency of investment.

A review of the experience of the 1973-78 period further indicates that interventionist countries failed to devalue pari passu with inflation during the period under consideration. As a result, their real exchange rates appreciated to a considerable extent, thus discriminating against both exports and import substitution. The extent of appreciation in real terms was especially pronounced, exceeding one-fourth, in Mali, Sudan, and Zaire.

The licensing of private investments and the implementation of high-cost, capital-intensive public projects further reduced the efficiency of resource allocation in interventionist — and, in particular, étatist — countries. By contrast, a higher degree of openness, greater price flexibility, more realistic exchange rates, a freer choice of private investments, as well as a smaller number, and a more judicious selection, of public projects favorably affected the efficiency of resource allocation in market-oriented countries.
Domestic savings ratios are affected by public as well as by private decisions. By-and-large, the deficit in the government budget was larger in interventionist than in market-oriented countries, thereby reducing public savings. In interventionist countries for which data are available, the ratio of the government budget deficit to the gross domestic product was 17.6 percent in Zaire, 8.3 percent in Tanzania, 7.7 percent in Ghana, 4.6 percent in Sudan, 4.4 percent in Ethiopia, and 0.6 percent in Senegal in the 1974-78 period. The corresponding figures for market oriented countries were 6.2 percent in Malawi, 5.3 percent in Mauritius, 5.1 percent in Botswana, 3.5 percent in Kenya, 1.4 percent in Cameroon, and the government budget was balanced in Upper Volta.

In turn, private savings were affected by interest rate policy. While in the 1974-78 period, on the average, real interest rates were negative in all the sub-Saharan African countries, negative real interest rates were the highest in two interventionist countries, Zaire (24.3 percent) and Ghana (21.8 percent) and they were the lowest in two market-oriented countries, Malawi (2.5 percent) and Upper Volta (2.3 percent). Within these extremes, however, no particular pattern emerges. Thus, negative real interest rates were 9.0 percent in Sudan, 5.5 percent in Zambia, 5.2 percent in Benin, 3.4 percent in Senegal, and 2.8 percent in Madagascar among interventionist countries; they were 7.8 percent in Kenya, 7.3 percent in the Ivory Coast, 6.7 percent in Mauritius, 5.2 percent in Niger, and 4.5 percent in Togo among market-oriented countries.

The inflow of foreign savings depends on the availability of funds at concessional terms as well as on the creditworthiness of the country concerned for lending on commercial terms. As noted above, interventionist countries borrowed abroad relatively more than market-oriented countries and also
received a larger proportion of foreign funds at concessional terms. At the same time, during the period under consideration, two étatist countries, Zaire and Tanzania, encountered limitations in borrowing at commercial terms owing to a decline in their creditworthiness.

Thus far, the analysis concerned differences in economic growth rates and their determinants during the 1973-79 period in countries pursuing different development strategies. Further interest attaches to the changes that occurred in conjunction with policies applied in response to external shocks. In the following, comparisons will be made between the 1963-73 and 1973-79 periods.

The data of Table 4 show a decline in the average annual rate of growth of GNP from 3.1 percent in 1963-73 to 1.9 percent in 1973-79 in interventionist countries, with per capita incomes falling by 0.8 percent a year in the latter period compared to earlier increases of 0.7 percent. Incremental capital-output ratios rose, and domestic savings ratios fell, between the two periods while increased reliance was based on foreign capital. The extent of deterioration in economic performance was even greater in low-income countries, with GNP growth rates declining from 3.9 percent in 1963-73 to 1.1 percent in 1973-79 while increases in the rate of economic growth remained temporary in the middle-income group, falling below the 1963-73 growth rate of 2.2 percent in 1976-79 (1.9 percent).

By contrast, GNP growth rates rose from 5.2 percent in 1963-73 to 6.2 percent in 1973-79 in market-oriented countries, with the improvement being greater in low-income (from 2.7 percent to 4.7 percent) than in middle-income (from 5.9 percent to 6.5 percent) countries. In low-income countries increases in domestic and foreign savings ratios, as well as a decline in incremental capital-output ratios, contributed to this result; in middle-
income countries, increases in domestic and foreign saving ratios were only partially offset by a rise in incremental capital-output ratios. At the same time, market-oriented countries increased reliance on foreign capital to a much smaller extent than interventionist countries, thus avoiding increases in debt-service ratios that more than doubled between 1973 and 1978 in étatist countries.

These findings are confirmed in the three-fold classification scheme. Average rates of economic growth fell from 3.7 percent in 1963-73 to 1.5 percent in 1973-79 in étatist countries that experienced a near-quintupling of incremental capital-output ratios as well as a substantial decline in domestic savings ratios that was only partially offset by increased capital inflow. At the same time, average GNP growth rates increased from 3.0 percent to 3.5 percent in the countries of the intermediate group, which experienced a decline in their incremental capital-output ratios, whereas a decrease in domestic savings ratios was more than offset by the increased inflow of foreign capital. Finally, private market economies increased their average rate of economic growth from 5.8 percent in 1963-73 to 6.8 percent in 1973-79 as increases in domestic savings ratios more than offset a rise in incremental capital-output ratios and a decline in foreign savings ratios.

The results obtained for oil-importing sub-Saharan African countries applying different development strategies conform to the author’s earlier findings regarding outward-oriented and inward-oriented developing countries. Thus, outward-oriented developing countries had higher GNP growth rates than inward-oriented countries, and growth rates increased in the former group of countries while declining in the latter. The differences in the observed results are explained by the better performance of outward-oriented countries in regard to both incremental capital-output ratios and domestic
savings ratios. The same conclusions apply to the newly-industrializing developing and to the less developed country groups, taken separately (Balassa, 1981c).

Nevertheless, in comparing market-oriented sub-Saharan African countries with outward-oriented developing countries and interventionist sub-Saharan African countries with inward-oriented developing countries, it is apparent that incremental capital-output ratios are higher and domestic savings ratios are lower, in sub-Saharan Africa, leading to the lower GNP growth rates. These conclusions apply even if the comparisons are limited to countries at similar income levels; i.e. middle-income countries in sub-Saharan Africa and less developed countries in other regions. The observed differences may be explained by reference to the fact that public interventions are more prevalent in sub-Saharan Africa than elsewhere in the developing world.

Conclusions

This paper investigated the adjustment policies applied in response to the external shocks of the 1974-78 period by oil-importing sub-Saharan African countries, classified according to the development strategies pursued. The results show that successful adjustment policies through export promotion and import-substitution permitted market-oriented countries to accelerate their economic growth while limiting reliance on foreign capital. These countries experienced a decline in their incremental capital-output ratios and increased their domestic savings ratios during the period under consideration.

By contrast, interventionist countries lost export market shares and were not able to fully offset this loss through import substitution. Correspondingly, they increased reliance on foreign capital, leading to substantial increases in debt service ratios. At the same time, rates of
economic growth fell as incremental capital-output ratios increased and domestic savings ratios declined in these countries.

Similar conclusions are reached in a three-fold classification scheme. Thus, private-market oriented countries experienced an improvement, and socialist-oriented countries a considerable deterioration, in their economic performance, with the countries of the intermediate group in-between the two. Furthermore, in an econometric investigation of the entire group of nineteen countries, economic performance has been shown to be significantly related to the choice of development strategies and to export promotion.

Trade orientation has been an important consideration in classifying the countries of sub-Saharan Africa according to the development strategies applied. It is of interest, therefore, that the overall findings for these countries are similar to those obtained by the author in regard to outward-oriented and inward-oriented developing countries. Nevertheless, indicators of economic performance are generally less favorable for the countries of sub-Saharan Africa where public interventions are more prevalent than in developing countries at similar income levels elsewhere.

These conclusions indicate the importance of policy choices in sub-Saharan Africa and point to the need for policy reforms in the countries of the region towards greater market orientation. They thus support the findings of the report on Accelerated Development in sub-Saharan Africa, prepared under the direction of Elliot Berg (World Bank, 1981).
### APPENDIX TABLE 1

**BALANCE OF PAYMENTS EFFECTS OF EXTERNAL SHOCKS AND OF POLICY RESPONSES TO THESE SHOCKS IN SUB-SAHARAN AFRICA**

($US millions)

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<th>Year</th>
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<td>Average 1978-78</td>
</tr>
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</table>

#### EXTERNAL SHOCKS

- **Terms of Trade Effect**
  - Interventionist Countries: -241, 670, 520, 448, 736
  - Low Income: -192, 919, 750, 809, 1150
  - Total: -241, 670, 520, 448, 736
- **Export Volume Effect**
  - Interventionist Countries: 49, 249, 230, 361, 414
  - Low Income: 192, 919, 750, 809, 1150
  - Total: 49, 249, 230, 361, 414

#### POLICY RESPONSES

- **Additional Net External Financing**
  - Interventionist Countries: 218, 1242, 697, 1034, 1255
  - Low Income: -62, 435, 31, -248, 690
  - Total: 218, 1242, 697, 1034, 1255
- **Increase in Export Market Share**
  - Interventionist Countries: -340, -175, -46, -202, -502
  - Low Income: -154, 207, -164, -603, 299
  - Total: -340, -175, -46, -202, -502
- **Import Substitution**
  - Interventionist Countries: 105, 99, 182, -13, -34
  - Low Income: 105, 99, 182, -13, -34
  - Total: 105, 99, 182, -13, -34
- **Effects of Lower GDP Growth Rate**
  - Interventionist Countries: -154, -207, -164, -603, 299
  - Low Income: -154, -207, -164, -603, 299
  - Total: -154, -207, -164, -603, 299

#### MARKET ORIENTED COUNTRIES

- **Terms of Trade Effect**
  - Interventionist Countries: -154, 207, -164, -603, 299
  - Low Income: -154, 207, -164, -603, 299
  - Total: -154, 207, -164, -603, 299
- **Export Volume Effect**
  - Interventionist Countries: 92, 228, 195, 355, 391
  - Low Income: -62, 435, 31, -248, 690
  - Total: 92, 228, 195, 355, 391

#### ETATIST INTERMEDIATE PRIVATE MARKET ORIENTED

- **Terms of Trade Effect**
  - Interventionist Countries: -147, 693, 341, 232, 757
  - Low Income: -147, 693, 341, 232, 757
  - Total: -147, 693, 341, 232, 757
- **Export Volume Effect**
  - Interventionist Countries: 7, 226, 192, 330, 341
  - Low Income: -140, 920, 533, 562, 1098
  - Total: 7, 226, 192, 330, 341

#### SOURCE

Calculations based on data from World Bank data base.
## APPENDIX TABLE 2

### BALANCE OF PAYMENTS EFFECTS OF EXTERNAL SHOCKS AND OF POLICY RESPONSES TO THESE SHOCKS IN SUB-SAHARAN AFRICA

(percentage)

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### SOURCES
- Appendix Table 1 and World Bank data base.
References


March 2, 1983.

International Monetary Fund
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Yours truly,

Bela Balassa