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GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

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1967 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH TURKEY

Basic Document for the Consultation

1. The legal and administrative bases of the restrictions

(a) Law No. 3,614 and Law No. 13, which give authority to the Ministry of Commerce to regulate domestic as well as foreign trade in collaboration with the Ministry of Finance.

(b) Law No. 5,383 which provides that imports can be restricted or prohibited for the economic or financial needs of the country by the Council of Ministers.

(c) Law No. 1,567 for the protection of the value of Turkish currency and Decree No. 17 based thereon which provide some restrictions on transfers of foreign exchange for imports.

(d) Decree dated 29 June 1961, on the strategy of the Plan and its target, and the Development Plan adopted by the Parliament on 21 November 1962.

(e) Yearly Programme for 1967, Decree No. 6/7,413 dated 30 November 1966.

In accordance with the provisions of the above-mentioned laws and decrees, the Ministry of Commerce, upon consultation with the Ministry of Finance, other related ministries and other institutions such as the State Planning Organization, the Union of Chambers of Commerce, Industry and Commodity Exchanges and the Unions of Exporters, determines the principles of the foreign trade controls and restrictions and submits them for the approval of the Council of Ministers. The latest document issued concerning the foreign trade régime is Decree No. 6/7,490 and related import regulations, dated 4 January 1967.

2. Policy followed in restricting imports

(a) The main reasons for import restrictions in Turkey are the difficulties arising from the balance-of-payments situation, and especially deficits in the balance of trade. As foreign exchange is limited, the level of imports is restricted to commodities which are expected to contribute to an improvement in the balance of payments.

Necessary measures have been taken in order to meet the import requirements for capital goods. Efforts are being made to build industries which use relatively greater amounts of domestic raw materials.

(b) Programming of imports

Since August 1958 imports have been based on a quota system in accordance with the Stabilization Programme. Since 15 May 1959 this system has been moving towards the liberalization of imports. As a general policy imports from EMA and convertible currency countries are effected through yearly liberalization lists and bi-annual global quota lists.

Imports from bilateral agreement countries are effected according to the related agreements. Apart from these import programmes, there are infra-structure imports related to NATO, and imports related to private foreign capital and special investment credits, such as DLF, Eximbank, consortium members; IDA, IBRD credits, imports of agricultural surplus commodities under Public Law 480 and imports without exchange allocations.

(c) Financing of import programmes

Financing of import programmes is based on estimated cash positions revised every six months by the Ministry of Finance in co-operation with other related ministries and the Central Bank. The preparation of cash position estimates is based on the existing reserves and probable receipts.

3. Application of restrictions

There are no restrictions for commodities in the liberalization list; only on a few items is it necessary to obtain prior permission of certain authorities for quality control purposes.

The list of commodities subject to allocation is composed of separate global quotas for industrialists and importers. The shares of public and private sectors in the industrialists' quotas are determined by the Ministry of Commerce in co-operation with the Ministry of Industry and the Union of Chambers. Furthermore these shares are distributed to the related public and private sector industrialists by the Ministry of Industry and the Union of Chambers respectively.

Importer quotas are distributed through the Central Bank in proportion to the applications. No discrimination is made in this distribution between the private and public sector applicants.

The formalities regarding the imports of the public sector are determined by the Ministry of Finance in accordance with the Foreign Trade Régime and the legislation concerning the protection of the value of Turkish currency.

AID financed imports and imports under Public Law 480 are made in accordance with provisions of the special regulations published by the Ministry of Commerce.

All other imports which fall outside the Foreign Trade Régime (such as infra-structure and other similar special imports) are determined by the Ministry of Finance.

4. Methods of restrictions

(a) Import applications for commodities in the liberalized list are made to the authorized commercial banks without any limitation. A guarantee in cash of 70 per cent for the first list and 100 per cent for the second list of liberalization is required at the time of application, to prevent speculative activities. This guarantee is deposited through authorised banks to the Central Bank and held until importation has been effected.

(b) Import applications for commodities subject to allocation are to be made to the authorized commercial banks within one month from the publication of the Import Programme. Separate applications are made for each quota (up to 20 per cent at most) and a guarantee of 10-30 per cent must be deposited. The Central Bank, after classifying applications by quota serial number, makes the distribution in proportion to the demand.. The applicants are notified of the results by foreign exchange allocation letters.

(c) Allocations from the industrialists' quotas are made by requirement certificates, through the authorized agencies within the period of validity of the quota list. Ten per cent guarantee is required for importations by the industrialists. The requirement certificates are valid for three months.

(d) Application for imports from bilateral countries are made to authorized commercial banks under the same procedure as mentioned above. In these applications, the 20 per cent margin limit is likely to be applied Bilateral countries' quotas are subject to subsequent monthly applications and distributions. Applications concerning the imports without foreign exchange for commercial samples, advertising goods and commercially accepted accessories are made according to their values, up to LT 500 to customs authorities and post offices, from LT 501 to LT 10,000 to local exchange control authorities and over LT 10,000 to the Ministry of Finance,and the necessary import certificates are issued by the same authorities.

5. Treatment of imports from different sources

(a) The breakdown of imports according to the sources is as follows:

($ million)

Description	1961	1962	1963	1964	1965	1966
1. Normal imports	445.0	551.5	600.0	504.7	542.6	701.1
a. Free exchange area	388.7	493.5	532.3	454.3	473.3	606.6
1. Liberalization list	209.4	280.7	265.0	233.5	247.4	292.7
2. List of commodities subject to allocation	100.3	99.2	123.8	128.1	158.5	217.5
3. Foreign private capital	20.0	27.1	14.0	15.8	15.8	20.8
4. NATO infra-structure	37.0	33.7	18.0	2.2	1.9	3.6
5. Project credits	22.0	52.8	106.5	60.5	43.3	60.2
6. Import without exchange allocation and other	-	-	5.0	9.1	6.4	11.8
b. Bilateral agreement countries	56.3	58.0	67.7	50.5	69.3	94.5
2. PL 480 surplus commodities	64.5	70.7	87.5	32.7	29.3	17.2
TOTAL IMPORTS	509.5	622.2	687.5	537.4	571.9	718.3

As is seen from the above table, more than 86 per cent of normal imports are from the free exchange area.

The share of imports from bilateral agreement countries in total normal imports is around 13 per cent.

Imports from the liberalization list reached the following levels in the 1961-1966 period:

Percentage of Liberalization

	1961	1962	1963	1964	1965	1966
1. In total yearly imports	41.1	45.1	38.6	43.9	43.1	40.8
2. In total normal imports	47.1	59.9	44.1	47.6	45.4	41.7
3. In normal imports from free exchange area PL. 480	53.8	56.9	50.7	52.9	49.8	47.6
4. In programme imports[a]	57.0	64.1	58.1	58.8	52.0	48.4
5. In programme imports from free exchange area[b]	67.6	73.9	68.6	67.2	60.8	57.4

[a]Liberalization+list of commodities subject to allocation+bilateral agreement countries.

[b]Liberalization list+list of commodities subject to allocation.

(b) The breakdown of imports as investment goods, raw materials and consumption goods is shown in the following table:

Composition of Imports

Year	Investment goods		Raw materials		Consumption		Total	
	$ million	%	$ million	%	$ million	%	$million	%
1959	163.3	34.8	240.2	51.1	66.4	14.1	469.9	100
1960	191.4	40.9	217.6	46.5	59.2	12.6	468.2	100
1961	185.3	36.4	207.9	40.8	116.3	22.8	509.5	100
Average of 1959-1961	180.0	37.3	222.0	44.8	80.5	16.7	482.5	100
1962	228.2	36.7	291.5	46.8	102.5	16.5	622.2	100
1963	253.6	36.9	331.8	48.3	102.1	14.8	687.5	100
1964	197.0	36.6	296.0	55.1	44.0	8.3	537.4	100
1965	197.0	34.4	313.0	54.7	62.0	10.9	571.6	100
1966[a]	260.0	36.2	373.0	51.9	85.0	11.8	718.3	100
1967[b]	340.0	42.5	375.0	46.8	85.0	10.7	800.0	100

[a]Provisional

[b]Annual programme figure

As seen in the above table, the shares of investment goods, raw materials, and consumption goods are around 34-42 per cent, 40-55 per cent, and 8-22 per cent respectively, for the period of 1961-1967.

(c) The share of imports from bilateral agreement countries has been fluctuated during the 1961-1966 period. This share was 11 per cent in 1961 and it rose to 13 per cent in 1966. There is no discrimination in the contents of quota lists related to these countries. As a basic principle of the Foreign Trade Régime, the quota lists of bilateral agreement countries do not include commodities which are not covered by other import lists. All restrictive measures and conditions included in other import lists are also applicable to the lists of bilateral agreement countries.

The countries with which we have bilateral trade and payments agreement are: USSR, Poland, Rumania, Czechoslovakia, Hungary, Bulgaria, Eastern Germany, Yugoslavia, United Arab Republic, Israel. A union for multilateral payments arrangements has been established between Turkey, Iran and Pakistan.

6. Use of State trading or government monopoly in restricting imports

A limited number of commodities are imported by State-owned enterprises especially for reasons of revenue, security, and health, such as tea, coffee, playing cards, wheat, etc.

7. Effects of the restrictions

The actual results of the balance of payments for 1963-1966 and estimates for 1967 are shown in Table 1, attached to this document.

As will be seen from the following table, foreign trade volume between 1960 and 1966 has shown considerable increases due to both imports and exports:

	1960	1961	1962	1963	1964	1965	1966
Exports	321.0	347.0	381.2	368.1	410.8	463.7	490.5
Imports	468.0	510.0	622.2	687.6	537.4	571.9	718.3
Balance	-147.0	-163.0	-241.0	-319.5	-126.6	-108.2	-227.8

The growing import requirements of the Turkish economy and a favourable liberalization practice during the last decade are the main reasons for the increases in imports. The implementation of 1966 import programme is a typical example in this respect. A similar compositional change as that of 1964 in "imports by type of financing" has occurred in 1966. Self-financing imports have not reached the levels foreseen by the 1966 programme. On the other hand, unlike 1964, taking into consideration the import requirements of the economy, an addition of $48 million was made to the existing global quota list. This has created a considerable financial pressure in international liquidity position of the the country.

On the other hand, despite the growing domestic demands, increases in production, favourable foreign market conditions for some important export commodities, as well as some new export items, have caused unexpected increases in the total volume of exports.

The balance of trade in 1967 is estimated as $510 million in exports, $800 million in imports, thus giving a deficit of $290 million. As to the exports estimate for 1967, expected developments in various economic sectors, production surpluses over the domestic demand, marketing possibilities in foreign countries, the position of the competing countries and probable developments were taken into consideration.

The net total of invisible items showed a surplus of $10 and $45 million in 1965 and 1966 respectively, whereas it was a deficit of $43 million in 1964. This favourable development is mainly due to workers' remittances.

Infra-structure and offshore receipts, which are around $20-$30 million, represent a positive item partially reducing the deficit of the balance of current accounts.

Among the capital movements, the foreign debts constitute an important negative item. In 1967 this item is estimated at approximately $125 million, whereas it was $184 million and $146 million in 1965 and 1966 respectively.

The inflow of private foreign capital, which showed a continuous increase during recent years, is regarded as a promising item in the balance of payments.

Various credits and assistance from different sources constitute the remaining items of the capital movements. Total capital inflow in 1964-1967 amounted to $290, $330, $318 million respectively, showing a normal trend, and is expected to be $341 million in 1967. These figures include P.L. 480 assistance and Consortium Credits as well.

Owing to the substantial deficits of the current accounts and insufficient inflow of normal foreign capital, restrictive measures are indispensable in the import system of Turkey.

With future improvements in the balance of payments, and the foreign exchange reserves, the existing restrictions will be relaxed and eliminated.

According to the target set in the First and Second Five Year Development Plans, an equilibrium in the balance of current accounts will be achieved at the end of fifteen years, i.e., 1977. After this period the balance of payments may necessitate the importation of foreign capital equal to the amounts of foreign debt payments. This inflow of foreign capital will be in the form of private capital and banking credits for investment projects.

The expressed intention of the Turkish Government is to continue the 1958 stabilization measures, and this is considered indispensable to sustained growth with economic stability.

The fixed foreign exchange rate for the Turkish pound is being kept.

The rise in gross national product at constant prices was 9.1 per cent in 1966 compared with 4.6 per cent in 1965 and 4.9 per cent in 1964. Prices remained almost constant throughout the year, as a result of the sharp rise that took place in imports and domestic production as well as the restrictive yearly totals of some economic aggregates shown in Tables 2 and 3 attached to this document.

The highest priority is given to investments related to the promotion and diversification of exports. Foreign private capital investments are encouraged by administrative measures which were taken to speed up the operation and decision-making of the committee which deals with investment applications.

Table 1

BALANCE OF PAYMENTS

	1964	1965	1966	1967[1]
	(US$ million)			
I. CURRENT ACCOUNT				
(a) Foreign trade				
(i) Total imports (c.i.f.)	-537	-572	-718	-800
(ii) Total exports (f.o.b.)	411	464	490	510
Trade balance	-126	-108	-228	-290
(b) Invisibles				
(i) Interest	-34	-32	-31	-33
(ii) Tourism and travel	-14	-10	-14	-2
(iii) Workers' remittances	8	70	115	150
(iv) Profit transfers	-5	-15	-16	-20
(v) Payments for services from project credits	-4	-7	-7	-10
(vi) Other invisible transactions (net)	6	4	-2	14
Total invisibles (net)	-43	10	45	79
(c) Infra-structure and offshore receipts	59	20	19	20
Current account balance	-110	-78	-164	-191
II. REPAYMENTS OF PRINCIPAL ON EXTERNAL DEBTS	-131	-184	-146	-125
III. TOTAL (III, I-II)	-241	-262	-310	-316
IV. CAPITAL INFLOW				
(a) Private	42	27	41	48
(i) Suppliers' credits	10	-	-	-
(ii) Direct investments	25	22	30	38
(iii) Imports without exchange allocation	7	5	11	10

[1] Annual programme figures.

	1964	1965	1966	1967[1]
	(US$ million)			
(b) Official	217	274	260	293
(i) Project assistance	40	57	56	100
(ii) Programme assistance	128	167	162	193
(a) credits	114	132	111	145
(b) debt postponements	14	27	29	28
(c) refinancing	--	8	22	20
(iii) Borrowing from multilateral organisations	49	50	42	-
(a) IMF	19	-	20	-
(b) EMA[2]	30	50	20	-
(c) United States Public Law 480 Imports	31	29	17	-
Total IV	290	330	318	341
V. OVERALL BALANCE (V, III-IV)	49	68	8	25
Short-term import-export credits	-15	-35	-39	-25
Change in monetary reserves	-12	-13	39	-
(a) Gold and convertibles	-14	-7	33	-
(b) Non-convertibles (plus outflow)	2	-6	6	-
Errors and omissions	-22	-20	-8	-

[1] Annual programme figures.

[2] An additional debt postponement of $10 million is included in $30 million (1964) Hence, the total debt relief in 1964 amounted to $24 million.

Source: Treasury and OIEC, Ministry of Finance.

Date: 1 June 1967.

Table 2

GROSS NATIONAL PRODUCT, INVESTMENTS AND IMPORTS OF INVESTMENT GOODS

(at 1965 prices)

Year	Gross national product LT. Million	$ million[1]	Investments LT. Million	Imports of investment goods $ million	LT. Million[2]	Percentage (4/2)[3]	(6/4)
1963	66,648	7.405	10,800	256.0	3,328	16.2	
1964	69,910	7.767	10,800	197.7	2,565	15.4	
1965	73,127	8.125	12,000	197.0	2,561	16.4	
1966	79,537	8.837	14,900	260.0	3,380	18.7	
1967[4]	84,860	9.429	16,450	340.0	4,420	19.3	

Source: S.P.O.

[1] $1=LT.9

[2] $1=LT.13, being the cost value of $1 worth of commodity after the payment of custom duty.

[3] This column shows ratio of investment to gross national product, averaging 17.2 per cent. Since the average rate of growth of gross national product is 6.6 per cent in the last five years, the capital-output ratio is about 2.6.

[4] Annual programme figure.

Table 3

1967 INVESTMENTS ACCORDING TO SECTORS OF ECONOMIC ACTIVITY

Economic Sector	Private Sector LT. Mill.	Public Sector LT. Mill.	Total LT. Mill.
1. Agriculture	750.0	1,714.3	2,464.3
2. Mining	270.0	648.3	918.3
3. Industry (Manufacturing)	1,600.0	1,478.0	3,078.0
4. Energy	100.0	1,212.5	1,312.5
5. Transportation and communication	750.0	1,777.1	2,527.1
6. Tourism	200.0	143.0	343.0
7. Housing	3,000.0	170.0	3,170.0
8. Health	15.0	297.0	312.0
9. Education	15.0	1,050.0	1,065.0
10. Commerce	300.0	959.8	1,259.8
Total	7,000.0	9,450.0	16,450.0

Source: 1967 Annual Programme.