

GENERAL AGREEMENT ON TARIFFS AND TRADE

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REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS ON THE CONSULTATION UNDER ARTICLE XVIII:12(b) WITH TURKEY

1. In accordance with its terms of reference the Committee conducted the consultation with Turkey under paragraph 12(b) of Article XVIII. The Committee had before it the following documents: (a) a basic document for the consultation (BOP/68 and Addendum 1); (b) the annexes to the basic document for the 1965 consultation (BOP/48); (c) the Executive Board Decision taken on 13 February 1967 at the conclusion of the International Monetary Fund's consultation with Turkey (Annex I hereto); and (d) a background paper provided by the International Monetary Fund, dated 30 January 1967, with additional statistical tables.
2. In conducting the consultation the Committee followed the plan for consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was held on 20 July 1967. This report summarizes the main points of the discussion.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with the consultation with Turkey. In accordance with the agreed procedure, the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of Turkey. The statement was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of February 13, 1967 taken at the conclusion of its most recent Article XIV consultation with Turkey, and particularly to paragraphs 5 and 6 which read as follows:

'The increase in economic activity halted the improvement in the balance of payments. Export earnings increased somewhat though internal demand pressures diverted supplies of exportable commodities to the domestic market, and there was a large rise in workers' remittances. Imports, however, rose substantially, and the deficit on goods and services account increased from \$80 million in 1965 to \$175 million in 1966. Turkey continued to benefit from external assistance and the net inflow on capital account was about the same as in 1965. Nevertheless the reserves of gold and net foreign exchange fell by \$33 million to a low level. In view of the importance which the strengthening

of the balance of payments plays in the further development of the economy, the Fund urges Turkey to make further efforts to increase foreign exchange earnings and so provide a basis for the liberalization of the restrictive system.

'The Fund does not object on a temporary basis to the multiple currency practices involved in the special treatment accorded to remittances from workers abroad to Turkey and the tax levied on exchange purchases for foreign travel and on the cost of transportation. It will review these matters again at the next consultation. The Fund notes that bilateral payments arrangements continue to be maintained with three Fund members and urges that they be terminated.'

"The reserves of gold and net foreign exchange of Turkey amounted to about \$20 million in mid-May, about the same level as at the end of 1966. The general level of restrictions on imports by Turkey, and the 10 per cent stamp duty on imports which are under reference, do not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves."

Opening statement of the representative of Turkey

4. In his opening statement, the full text of which appears in Annex II, the representative of Turkey pointed out that increasing balance-of-payments difficulties was one of the main characteristics of the developing countries, and Turkey was not an exception from the rule. The Turkish balance-of-payments difficulties arose mainly from large trade deficits and heavy external debt services. The trade balance improved slightly in 1965 but deteriorated again in 1966. The exports increased somewhat in 1966, but the import increase was larger. External debt payments had accounted for 41.2 per cent of Turkey's export earnings in 1965-66. Turkey was one of the countries with the heaviest external debt burden in the world.
5. A positive element was the improvement of the invisibles balance due to the increasing remittances from Turkish workers employed abroad. The gap between imports and exports had, however, to be closed mainly with the help of Consortium Credits. The external debts repayable in foreign currency had increased from \$986 million at the end of 1964 to \$1,190 million at the end of 1966. External debts repayable in Turkish lira had gone up from \$340 to \$366 million in the same period. The level of gold and foreign exchange reserves had decreased further. In these conditions the maintenance of the level of import liberalization should be interpreted as a positive action in the spirit of free trade. The recent increase of the stamp duty rate should not be considered to be a restrictive measure but a remedy against a further deterioration of the reserve position.
6. The representative of Turkey recalled that his country was in the last year of the First Five-Year Development Plan. The investment targets of the Plan had been achieved; the investments as a percentage of gross national product had gone up from 16.3 in 1963 to 18 in 1966. The average annual growth

rate had been 6.5 per cent in the same period against the Plan target of 7 per cent. Imports had been a little larger than foreseen in the Plan. Between 40 and 44 per cent of total imports were liberalized. Exports had exceeded the Plan targets by 12 per cent. Agricultural exports - including reduction of accumulated stocks - accounted for the major part of the increase. The proportion between agricultural and industrial exports had remained unchanged. Terms of trade had developed unfavourably. Interest payments had been higher than foreseen in the Plan, but foreign capital profit transfers had been lower. Tourism income had been smaller than foreseen but workers' remittances larger. With regard to capital transactions, external debt payments had been higher and capital inflow lower than foreseen in the Plan.

7. With regard to the forecasts in the Second Five-Year Plan (1968-72), he said that imports should increase by 7.4 per cent annually. Export increase should be 7.2 per cent. The export share of agricultural products should drop from 77.3 to 66.8 per cent and the share of manufactured goods go up from 17.2 to 27.3 per cent. Whilst the trade deficit would increase by 7.9 per cent per annum, the invisibles balance would improve by 19.2 per cent. Current account deficits would increase by 4 per cent.

8. The main characteristic of the Second Plan was that it was export oriented, whilst the First Plan was oriented towards import substitution. It was not to be expected that the long-term objective of removing quantitative restrictions and lowering customs duties would be fully achieved during the Second Plan either.

Balance-of-payments position and prospects

9. A member of the Committee said that it was gratifying to see that the Government of Turkey was adhering to the stabilization plan drawn up by the International Monetary Fund in 1958. This had doubtless led to greater economic stability. He welcomed the declaration that Turkey expected that early in the nineteen seventies it would no longer have to rely on foreign aid. He asked whether it was foreseen that the reliance of Turkey on exports of agricultural products could be reduced. The representative of Turkey replied that it was planned that the importance of industrial exports would increase (cf. paragraph 7 above) and that efforts were being made to orient certain manufacturing industries more towards exports.

10. Another member of the Committee pointed out that the deterioration of the balance of payments in 1966 seemed to be due more to an unsatisfactory inflow of capital than to the deficit in the balance of trade. With regard to the latter factor, he asked whether the domestic demand had not reduced the amount of goods available for export. The representative of Turkey confirmed that his Government met difficulties in obtaining the required capital abroad. To a certain extent it had had to rely on short-term credits instead of on development loans. It was true that domestic demand to a certain extent, e.g. for cotton textiles, had affected quantities available for export, but the aim of the monetary policy was to keep the demand within acceptable limits. The stamp duty increase should also be seen against this background. With regard to the increase in imports in 1966, he explained that it was the result of pent up demands from 1964-65, when imports had been smaller than planned.

11. In reply to a question regarding tourist income, the representative of Turkey said that the fact that the revenue had been smaller than foreseen in 1966 was due not to a decrease in the number of tourists, but to the fact that their foreign exchange outlay in Turkey had been smaller. The slowing down of economic activity in Western Europe was likely to affect the remittances from Turkish workers in foreign countries.

12. A member of the Committee pointed out that there were some positive factors which warranted a certain optimism. Exports had surpassed estimates by \$50 million in 1966. Repayments of principal on external debts were expected to decrease from \$184 million in 1965 to \$125 million in 1967. Another positive factor was the relative stability of the internal price level.

Alternative measures to restore equilibrium

13. Members of the Committee said that there were some measures which it seemed that the Government of Turkey could with benefit use as an alternative to restrictions: promotion of tourism, encouragement of private investment and export diversification.

14. The representative of Turkey said that his Government was determined to encourage tourism. According to the estimates the tourism account would show a deficit of \$2 million in 1967, be balanced in 1968, show a surplus of \$5 million in 1969 which would grow to \$70 million in 1972. An improvement of the existing facilities was a part of the Plan.

15. With regard to foreign private investments, the representative of Turkey said that legal measures were being taken to encourage them. Hitherto such investments had been concentrated in the petroleum industry but it was the intention that they would be extended to other sectors as well. According to the Plan estimates foreign private investments would increase from \$35 million in 1967 to \$55 million in 1972.

16. Export diversification was an aim of the Government of Turkey. Efforts were to be concentrated on the manufacturing industry. The Kennedy Round results would be useful in that respect. Efforts would also be made to increase productivity in agriculture. The use of fertilizers was to be encouraged and efforts were being made to promote higher yielding crops. Imports of agricultural products were decreasing rapidly, from \$31 million in 1964 to \$17 million in 1966.

17. A member of the Committee questioned whether it was advisable to rely on borrowing in the domestic market to the extent that the Government of Turkey had done. The representative of Turkey replied that the Government relied primarily on taxation rather than on borrowing when covering the deficit in the public sector. For some time domestic borrowing would, however, be inevitable, but the amount would go down from LT 700 million in 1966 to LT 500 million in 1967.

18. The representative of Turkey, in reply to a question, said that State monopolies existed in Turkey only for tobacco, liquor and salt. The Government was going to reorganize the State enterprises in order to give them a freer status and have them rely less on the Government budget. With regard to foreign exchange allocations there were no differences in principle in their allocation between State and private enterprises.

19. The representative of Turkey explained that there were annual programmes in which the development of the many variable factors could be taken into account in implementing the aims of the Five-Year Plans.

System and methods of the restrictions

20. A member of the Committee pointed out that a large and increasing majority of Turkish imports were investment goods (36 per cent of total imports in 1966) and raw materials (47 per cent), while consumption goods imports were very limited (12 per cent). He asked if imports of consumption goods could not be somewhat increased, whether imports of goods competing with domestic production would be allowed and whether the import system on the whole could not be simplified. In reply to these and similar questions put by other members of the Committee, the representative of Turkey said that it would remain the policy of his Government to simplify the system and increase liberalization as soon as the balance-of-payments position would permit. In the present situation the mere maintenance of the level of liberalization represented a maximum effort. He said that general priorities for certain classes of goods were fixed in the Five-Year Plans, but that adjustments of the allocations were made in the Annual Programmes. Import applications for items in the liberalized lists were always granted. The difference between the two liberalized lists was only that for items in the first list - mostly essential investment goods - the guarantee deposit was 70 per cent while for items in the second list it was 100 per cent.

21. In reply to questions concerning the guaranteed deposits and the advance import payments and their discriminatory effect against distant suppliers - to which reference had been made in the 1965 consultation - the representative of Turkey said that they were not intended to be an import restriction but an internal stabilizing element. Their restrictive effect was very limited in the opinion of the Turkish authorities.

22. A member of the Committee recalled that the representative of Turkey had promised in the 1965 consultation to convey to his Government the concern expressed in the Committee regarding the one-month limit for licence applications by importers, which discriminated against distant suppliers. The representative of Turkey replied that his Government had carefully studied the question in 1965 and that it would do it again. It did not seem, however, that the importers were particularly concerned by that requirement.

23. The representative of Turkey confirmed, in reply to a question, that there were regulations whereby manufacturers were obliged to use to a certain extent domestic raw materials and semi-manufactures; they applied, inter alia, to certain colouring materials. The reason for the regulations was the necessity to use products available in local markets and save foreign exchange.

24. The representative of Turkey explained that the requirement that certain imports should be approved by the competent ministry or department had been imposed primarily for public security and health reasons and meant only a quality control, performed by the institution best qualified to pass a judgment for the particular product.

25. A member of the Committee asked a number of questions relating to products of export interest to his country. In reply to questions whether it would be possible to reinstate the previous quota for zinc to its size before the reduction in August 1966 and whether wool could be transferred back from the global quota list to the liberalized list, the representative of Turkey said that he would convey the questions to his Government. In reply to a question whether raw hides and skins could be transferred from the category of goods for which imports could only be made against AID funds from the United States to the category in which the importer would have the option to apply for allocation from free foreign exchange reserves, the representative of Turkey said that the present classification was a result of the balance-of-payments difficulties and the need to use the AID funds to the greatest possible extent.

26. Members of the Committee pointed out that Turkey's dependence on bilateral trade agreements had increased recently. In 1964, 9.3 per cent of imports had been made under such agreements whilst the figure was 13 per cent in 1966. The representative of Turkey said that his Government wished to terminate the agreements as soon as the balance-of-payments situation allowed. In the present situation the agreements were necessary, as they guaranteed a market for a number of export products which would otherwise be very difficult to dispose of. The plans to terminate the bilateral agreements with Israel, the United Arab Republic and Yugoslavia to which reference had been made in the 1966 consultation with the International Monetary Fund had been postponed as a result of the deterioration of the balance-of-payments position.

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27. The Committee thanked the representative of Turkey for the valuable information he had supplied and for the replies he had given to the questions put to him and expressed their understanding of the difficulties which Turkey faced. The representative of Turkey promised to convey the various points which had been raised to the competent authorities of his country and thanked the Committee for their sympathetic consideration of Turkey's position.

ANNEX I

INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH TURKEY ON 13 FEBRUARY 1967

1. This decision is taken by the Executive Directors in concluding the 1966 consultation with Turkey, pursuant to Article XIV, Section 4 of the Articles of Agreement.
2. The rise in gross national product at constant prices is estimated to be 8.4 per cent in 1966 compared with 4.9 per cent in 1965. This reflects a record agricultural year and a substantial increase in industrial production stimulated by a large increase in private and public investment. Prices remained stable throughout the year with the help of a restrictive credit policy in the first half of the year, and of a sharp rise in imports as well as in domestic production. The maintenance of price stability was also aided by a slowdown in wage increases which, however, still tend to exceed the increase in productivity.
3. With a substantial budget deficit in prospect for the fiscal year ending February 1967, the Turkish authorities took a number of decisions to limit expenditure. Nevertheless, the remaining deficit is adding to internal pressures on resources. The Fund therefore welcomes the decision of the Government to ask Parliament's approval for a substantial increase in tax revenue and to seek also by other revenue-raising measures to ensure a balanced budget in 1967-68. Progress has been made in improving the economic performance of the SEE but they continue to rely excessively on Central Bank financing. Measures designed to strengthen their financial structure and their rate of savings are essential to sound implementation of the development program.
4. In the first half of 1966, credit expansion was moderate and the money supply increased only slowly. In the second half, however, Central Bank advances rose sharply, both to the public sector and to the banking system, and there was also a sharp expansion in commercial bank credit. The monetary expansion represents a threat to internal price stability. The Fund therefore welcomes the Government's decision to pursue a restrictive credit policy in 1967.
5. The increase in economic activity halted the improvement in the balance of payments. Export earnings increased somewhat, though internal demand pressures diverted supplies of exportable commodities to the domestic market, and there was a large rise in workers' remittances. Imports, however, rose substantially, and

the deficit on goods and services account increased from \$80 million in 1965 to \$175 million in 1966. Turkey continued to benefit from external assistance and the net inflow on capital account was about the same as in 1965. Nevertheless the reserves of gold and net foreign exchange fell by \$33 million to a low level. In view of the importance which the strengthening of the balance of payments plays in the further development of the economy, the Fund urges Turkey to make further efforts to increase foreign exchange earnings and so provide a basis for the liberalization of the restrictive system.

6. The Fund does not object on a temporary basis to the multiple currency practices involved in the special treatment accorded to remittances from workers abroad to Turkey and the tax levied on exchange purchases for foreign travel and on the cost of transportation. It will review these matters again at the next consultation. The Fund notes that bilateral payments arrangements continue to be maintained with three Fund members and urges that they be terminated.

ANNEX II

OPENING STATEMENT BY THE
REPRESENTATIVE OF TURKEY

We have been considering these consultations as an occasion for exchange of views with the representatives of the contracting parties on the continuing balance-of-payments difficulties of Turkey.

As a matter of fact, increasing of balance-of-payments difficulties has been one of the main characteristics of the developing countries in our time, and Turkey's position, unfortunately, is not an exception in this respect.

I think that the balance-of-payments situation of Turkey is clearly seen in the documents before us. As it will be noticed by the members of the Committee these difficulties mainly have been arising from big trade deficits and heavy external debt services, as it is the case with many of other developing countries. Since the last consultation, the trade balance of Turkey having shown some slight improvement in 1965 deteriorated in 1966 at a very large scale. This is mainly due to the rapid increase in imports in the last year. In 1966, increase in our imports has been substantial, exports have also increased, but at a more moderate rate. In the last two years, increase in imports and exports have been 33.7 per cent and 19.2 per cent respectively.

In relation with the external debt services, I would like to mention that interest payments and principal repayments of the external debts accounted for 41.2 per cent of Turkey's export earning during this period. Turkey is one of the heaviest external debt burden bearing countries. External debt service figures relating to the local currency are not, of course, included in this calculation.

One important positive aspect of the balance-of-payments situation of Turkey is the improvement of the invisibles mainly due to workers' remittances from foreign countries. But this favourable improvement is not yet, of course, sufficient to close the gap between imports and exports. Therefore current account deficits and external debt repayments have been met mainly by the Consortium Credits for the project and programme financing. As a result of this, external indebtedness of Turkey has been increasing continuously. So that, the amount of the external debts repayable in foreign currency increased from \$986 million at the end of 1964, to \$1,190 million at the end of 1966, showing

over \$200 million increase in the last two years. Turkey's external debts repayable in Turkish lira arising mainly from Public Law 480 imports are also of the magnitude which cannot be overlooked. These debts showed \$26 million increase since the end of 1964 reaching a level of \$366 million at the end of 1966.

Finally, increasing balance-of-payments difficulties in 1966 and in the course of the current year have, of course, adversely affected our very low level of gold and foreign exchange reserves. It is generally accepted the optimal level of such reserves should be of the order of one fourth of the annual foreign exchange outlays. And yet, Turkey is far from that optimum level of reserves, consequently, maintenance of the degree of liberalization of imports in spite of the restraints, should be interpreted as a positive determination of my Government to the principles of free trade, to the extent we could afford it.

Although the import stamp duty is increased in the current year, this in no way should be construed as a further restriction on imports but as a remedial measure against serious deterioration of our reserve position and against further need of internal financing which otherwise would even further deteriorate our reserve position and would unbalance the equilibrium in the economy.

Since this situation is a result of our development efforts, I would like to point out some related aspects of our development plans.

Now we are in the last year of our First Five-Year Development Plan, Second Five-Year Development Plan has been approved by the Parliament recently which will cover the next five-year period, that is, 1968-1972. In relation with the implementation of the First Five-Year Development Plan, I would like to explain the following:

- (i) Investment targets have been realized with a yearly average of 92 per cent between 1963 and 1966. Percentage of the investments to the gross national product was increased from 16.3 per cent in 1963 to 18 per cent in 1966.
- (ii) In the same period, an annual average of 6.5 per cent growth rate was achieved instead of 7 per cent target rate. In fact, growth rate showed big differences from year to year, changing between 4.6 per cent and 9.2 per cent due to weather conditions in agriculture and delays in industrial investments.
- (iii) As to external economic relations, total of import figures of four years exceeded 0.5 per cent, the total foreseen in the Plan. Taking into account the very limited foreign exchange resources in order to give priority to the imports necessary for the Plan targets, import restrictions and foreign exchange controls have continued. However, items given priority for the development purposes have been taken in the liberalization lists. Imports through liberalization lists constituted between 40 and 44 per cent of total imports.

- (iv) Total of export figures of four years exceeded 12 per cent of the Plan targets. However, this was achieved rather with the decreasing of the accumulated stocks of some agricultural products and with the increasing of the production of some agricultural export items. It did not occur a substantial change in the structure of Turkish exports, in other words, percentage of the exports of manufactured goods remained unchanged. In this period, terms of trade were not favourable for Turkey. On one hand, export price indices showed more than 6 per cent decrease from 1963 to 1965, import price indices increased considerably on the other; thus, terms of trade were far from being favourable for Turkey.
- (v) In relation with the invisibles, interest payments for the external debts were higher than the Plan figures. But the foreign capital profit transfers remained lower than that foreseen in the Plan. Revenues from tourism were less than Plan targets. Nevertheless, as I told you before, in recent years quite a new revenue source, which is workers' remittances from foreign countries, made a substantial change in the balance of invisible transactions.
- (vi) The results of the capital transactions showed that in the first Plan period, external debt repayments were higher than that of the level foreseen in the Plan, and that capital inflows remained well below the Plan figures. Therefore, it will not be wrong to state that in this period the development was achieved through the internal efforts more than foreseen in the Plan.

In this relation, I would also like to mention some projections of the Second Five Year Plan:

- (i) It is projected that between 1968 and 1972 imports will increase annually by 7.4 per cent.
- (ii) For the same period, export targets of Turkey are to achieve an annual increase of 7.2 per cent. To achieve such an increase needs to change the structure of the exports. In this direction, it is foreseen that percentage of the exports of agricultural products will decrease from 77.3 per cent in 1966 to 66.8 per cent in 1972, while in the same period the percentage of the exports of minerals will remain almost stable between 5.5 per cent and 6 per cent, and the percentage of the exports of manufactured goods will rise from 17.2 per cent to 27.3 per cent.

- (iii) It is expected that the trade deficit will be growing at the annual rate of 7.9 per cent. But balance of invisibles is expected to improve at the annual rate of 19.2 per cent. As a result of these developments, it is estimated that current account deficits in the Second Plan period will increase at the annual rate of 4 per cent.
- (iv) One of the main characteristics of the Second Five Year Plan is that it is export promotion oriented while the first one was rather oriented towards import substitution.

Therefore, under these circumstances, the long run objective of the Plan in the direction of removing quantitative restrictions and lowering the tariffs cannot be expected to be realized fully in the Second Period, too.

I believe that these facts and figures relating to the continuing balance-of-payment difficulties of Turkey will facilitate the task of the Committee.