

RESTRICTED

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 (a) a basic document (BOP/25/Rev.1) and (b) documents supplied by the International Monetary Fund as referred to in paragraph 3 below.
2. In conducting the consultation the Committee followed the Plan of Discussion for Consultations recommended by the CONTRACTING PARTIES. The consultation was completed on 13 June 1963. This report summarizes the main points discussed.

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 this 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 made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with Turkey under Article XIV of the Fund Agreement and the background material prepared in connection with that consultation.

"The general level of the restrictions on imports currently applied by Turkey does not go beyond the extent necessary at the present time to stop a serious decline in its monetary reserves.

"With respect to Part II of the Plan for Consultation, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last consultation with Turkey. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of Turkey

4. In his opening statement, the representative of Turkey outlined recent developments in the Turkish economy, foreign trade and external payments. Between 1960 and 1962, the value of Turkey's foreign trade had risen by 24 per cent or in absolute figures from \$789 million to \$982 million. While imports and exports had both risen, the trade deficit had risen from \$147 million in 1960 to \$220 million in 1962. It was estimated that, in 1963, imports would

reach \$567 million and exports \$348 million and that by the end of the first Five-Year Plan period, i.e. 1967, the figures would be \$704 million and \$457 million respectively.

5. Turkey's import policy not only reflected her balance-of-payments position but was also intimately connected with her development needs. In this connexion the representative of Turkey referred to the first Turkish Five-Year Plan which had been initiated in January 1963 and which aimed at an annual growth of 7 per cent in the gross national product as compared with a rate of 5.4 per cent in 1962. The implementation of the Plan necessitated a certain volume of imports consisting mostly of investment goods and raw materials. If this import programme were not exactly realized the Plan itself would be in jeopardy and the Turkish authorities had to ensure that its success was not threatened. In order to ensure such necessary imports without causing harmful effects to Turkey's exchange reserves, the Government had necessarily been compelled to be cautious in its approach to liberalization. It had recently been decided to slow down the policy of extending the liberalization list until conditions were more appropriate. The importation of petroleum products, tyres and heavy trucks had been deleted from the liberalization list with effect from January 1963 since domestic industry was capable of meeting the country's requirements of these items. However, some new articles were being added to the liberalization list and measures were being taken to ease restrictions on imports. In the opinion of the Turkish representative, by the end of 1963 it would be possible to provide a clearer picture of how imports were faring, meanwhile the present import controls could not be regarded as causing unnecessary harm to the interests of contracting parties.

6. As regards the future development of Turkey's exports, the representative of Turkey stated that no substantial change was expected in the near future. The Five-Year Plan envisaged an annual increase in exports of 6 per cent. In increasing exports, Turkey was faced with the normal difficulties confronting developing countries such as over-dependence on a limited number of products, reluctance on the part of exporters to adopt new marketing techniques, and deteriorating terms of trade. Furthermore, Turkey was faced with difficulties outside her own control in relation to traditional exports such as chromium. However, there were encouraging indications that the diversification of the economy was leading to a wider range of exports.

Balance-of-payments position and prospects

7. The Committee discussed with the representative of Turkey various factors affecting his country's balance of payments, particularly export earnings, imports, the diversification of the economy and exports and the balance-of-payments implications of Turkey's first Five-Year Plan.

8. A member of the Committee observed that the estimates for both exports and imports for 1963, \$348 million and \$567 million respectively, were lower than the estimated 1962 figures, \$370 million and \$580 million, and asked for an explanation of this unusual development. The representative of Turkey

emphasized that the 1963 estimates might have to undergo revision during the course of the year and thus were not to be regarded as final. As regards exports, these had been relatively high in 1962 because in addition to favourable marketing conditions, agricultural crops (particularly tobacco, cotton, olive oil and hazelnuts) had been unusually large. It was not expected that the 1963 crops would be as good and in the case of olive oil it was likely that Turkey's competitors would be able to supply more of the market than they had done in 1962. Imports, likewise, had been high in 1962 for a number of reasons. The economy had in 1962 demonstrated a renewed tendency to growth following a period of stagnation in 1960 and 1961. The fact that the gross national product had increased by only 5 per cent whilst imports rose by 24 per cent proved that in 1962 there had been no real connexion between the two rates. It could not be expected that imports would in future react in this manner to increasing economic activity. Moreover, in the second half of 1962, there had been a certain amount of speculative imports in anticipation of the imposition of the 5 per cent stamp duty early in 1963.

9. Members of the Committee noted that under her first Five-Year Plan, Turkey was anticipating a 6 per cent per annum increase in her exports and asked whether this growth was to be achieved by expanding sales of traditional exports or by introducing new export commodities. In reply the representative of Turkey stated that it was not expected that Turkey's exports would undergo a metamorphosis. Turkey would remain largely dependent upon agriculture to provide her export earnings. Of the likely new products to be marketed by Turkish exporters, he cited petroleum products, fresh fruit and vegetables.

10. The representative of Turkey explained that his Government was attempting to encourage exports by offering positive inducements. A Bill was at present before the National Assembly which, when enacted, would enable exporters to obtain drawbacks of import duties and rebates of internal taxes on exported parts and materials. An Export Promotion Centre had been established two years ago to conduct studies and to advise those engaged in fostering exports. The Turkish Government was presently contemplating a number of measures to increase exports including legislation to improve standardization of products and to regulate export packaging. Credit was provided to exporters at especially low interest rates. The Government was also considering the establishment of an Export Finance Corporation to provide credit for exports. The Organisation for Economic Co-operation and Development had provided the Turkish Government with technical assistance in connexion with the promotion of exports.

11. In reply to a question as to the rôle to be played in the Plan by foreign capital, both official and private, the representative of Turkey gave some details as to the requirements of the Plan. The target of an annual growth in output of 7 per cent, which would provide a 4 per cent rise in per caput incomes, necessitated the investment of $18\frac{1}{2}$ per cent of the gross national product. Of this figure it was expected that $14\frac{1}{2}$ per cent would be available from domestic savings and 4 per cent would have to be obtained from abroad. The implementation of the Plan was thus partly dependent upon the availability of foreign funds to that extent. The Turkish Government would shortly be consulting with the Consortium established under the auspices of the OECD for the purpose of providing governmental aid to Turkey. Certain members of the Committee expressed the hope that the Turkish Government would co-ordinate its efforts with the Consortium in order to ensure an inflow

of foreign exchange for the development programme and to pave the way for increased import liberalization.

12. On the side of private capital the picture was definitely encouraging. In 1962 foreign private capital inflow into Turkey had amounted to \$36 million. Under the Plan an inflow of \$25 million was expected in 1963. At the moment the Turkish Government was considering applications for the investment of \$76 million of foreign private capital. Foreign private investors were interested in such fields as cable manufacture, tourist establishments, synthetic dyes and paints, chemicals, tractors, plastics, food processing and base metals. The Turkish Government was pleased to note this interest on the part of foreign private investors which had followed the restoration of stability in the country. At present a bill was being drafted which, when enacted, would provide greater incentives for foreign private capital.

13. A member of the Committee asked what impact invisible transactions were having on the Turkish balance-of-payments position. The representative of Turkey stated that his country normally benefited from remittances, both in cash and kind, from Turkish workers abroad and from tourism. Although tourism was as yet little developed it would seem that foreign capital was interested in this field. The Turkish Government was attempting to encourage tourism by the establishment of schools where the skills necessary for the tourist industry could be taught. New roads were being built in areas favourable for the development of tourism. Blocked accounts held by foreigners in Turkey would be freed for the purpose of investment in the tourist industry. In 1963 150 million Turkish lire had been set aside for tourist promotion.

Alternative measures to restore equilibrium

14. A member of the Committee inquired whether it would not be possible for the Turkish Government to rely more on direct taxation to curb consumer demand and to provide revenue for the financing of development, and especially, the first Five-Year Plan. The representative of Turkey pointed out that, at present, between 16 and 20 per cent of the gross national product was taken in taxation. With an insufficient degree of literacy and, particularly, a low per caput income level, it was not possible to extend direct taxation more than marginally and indirect taxation had to remain the main source of governmental finance. Nevertheless, in February 1963, the Government had taken measures which had the effect of rendering rich agricultural landowners and small artisans liable to income tax. The inheritance tax had been made more comprehensive and its incidence higher. The real estate tax had also been increased. Levies had been increased on the transfer of buildings and motor vehicles. A 5 per cent stamp duty had been levied on imports for purely fiscal reasons.

15. Certain members of the Committee expressed regret that Turkey had had to resort to the stamp duty. Although they recognized the need for Turkey to raise revenue and although they appreciated the preference of her authorities for taxes as opposed to quantitative restrictions, they felt that the stamp duty was likely to result in an increase in the level of internal prices. The tax might also act as an additional curb on the volume of imports even though

imports were already severely restricted and were confined almost entirely to essential products. The Turkish representative, referring to his explanation given at the April meeting of the Council, assured the Committee that, under present circumstances, the imposition of this tax would have no effect on the volume of imports. The Committee noted that the Turkish Government was applying for a waiver from the CONTRACTING PARTIES with regard to the stamp duty in so far as it applied to items bound under the GATT and that this matter would be examined by the Council of Representatives at its next meeting.

System and methods of restrictions

16. On the basis of the information contained in the "Basic Document", the Committee discussed with the representative of Turkey the present restrictions in Turkey and recent changes. Members of the Committee welcomed the further liberalization which had occurred since the last consultation and noted that 55 per cent of Turkey's normal programme imports were now liberalized. However, a number of representatives expressed the hope that the Government of Turkey would find itself in a position to simplify the complicated system of import control at present in force.

17. In reply to questions the representative of Turkey explained that the additional authorizations by the Ministries of Agriculture, Health, Industry, etc. required for a number of items in both the liberalized and quota lists were necessary to ensure quality and sanitary standards or for similar purposes and did not, in his opinion, create significant difficulties for importers. Industrial quotas were divided between private enterprises and State-trading establishments by the Ministry of Commerce in collaboration with the Ministry of Industry (representing the State enterprises) and the Union of Chambers of Commerce and Industry (representing private establishments). About 40 per cent of the "Industrial Quotas" were allocated to the public sector and the remainder to the private sector. "Importer Quotas" were open to both sectors without any discrimination. There was no minimum level for applications for quota allocations except in the case of exchange provided by AID for which a minimum of \$1,000 had been established. The time-limit for the lodging of applications for quotas had recently been extended from one month to two months. The Turkish authorities permitted imports of small quantities of certain items, even where Turkish industry was able to meet local demand, in order to provide a brake on internal prices.

18. A member of the Committee observed that the details of the agreement between Turkey and the European Economic Community had not yet been made public and wished to know whether the agreement would, in any way, discriminate in favour of the member States of the Community as regards the allocation of foreign exchange. The representative of Turkey said that he was not, at this stage, in a position to supply any information on this subject.

19. Members of the Committee recalled that at the last consultation the Committee had urged that, in order to facilitate both the administration and the understanding of the Turkish import control régime, a "negative" list specifying the imports subject to restrictions should be established by the Government. The representative of Turkey stated that this was not as yet practicable.

20. A member of the Committee inquired about progress made in the elimination of Turkey's bilateral trade agreements with countries outside Eastern Europe. The Turkish representative informed the Committee that the bilateral agreement with Brazil was no longer operative. In 1962 there had been a slight increase in imports from bilateral agreement countries because of a desire to reduce the credit balances which Turkey had accumulated with these countries. However, apart from the need for running down such accumulated balances, there was no discrimination in favour of bilateral agreement countries. If anything, discrimination worked in the reverse direction in view of the fact that the liberalization list did not apply to those countries with which Turkey had such agreements.

21. A member of the Committee observed that State enterprises had in the past contributed to inflationary pressure in Turkey and had perhaps led to the establishment of industries which were uneconomic and could not be viable in the long run. He inquired as to the future of these State enterprises and what measures were being taken to minimize the special protection they enjoyed. The representative of Turkey explained that there was now no discrimination as regards allocation of imports between State and private enterprises: the financing of State enterprises through the Central Bank had ceased in 1960. A bill for the re-organization of these enterprises was at present before the National Assembly and contained provisions aimed at overcoming the problems of special protection for State enterprises.

Effects of the restrictions

22. Members of the Committee recalled the view, which had been repeatedly expressed by the Committee, that the restriction of imports aimed at the preservation of Turkey's foreign exchange reserves might encourage the establishment and development of inefficient industries. They expressed the hope that the Government of Turkey would continue to bear this in mind in the administration of its import restrictions. The representative of Turkey stated that his Government was fully alive of this problem.

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23. Members of the Committee emphasized that they fully understood the problems confronting Turkey in her efforts to implement her Five-Year Development Plan. They extended to the Turkish representative their best wishes for the fruitful completion of the Plan. They urged the Turkish Government to continue their efforts to simplify their import control system and to be constantly on the watch for opportunities to extend liberalization.

24. Members of the Committee expressed appreciation for the full and comprehensive manner in which the representative of Turkey had answered the various questions posed. In their view the consultation had been most useful in contributing to better understanding of the control policy and systems in Turkey. The representative of Turkey stated that he had listened with interest to the suggestions made by the members of the Committee which he would communicate to Ankara where they would receive serious consideration.