

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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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/48 and Corr.1) and (b) documentation 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 held on 5 May 1965. 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 and background material from the last consultation with Turkey under Article XIV of the Fund Agreement.

"With respect to Part I of the Plan for Consultations, relating to balance-of-payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of January 29, 1965 taken at the conclusion of its most recent consultation with Turkey, and particularly to paragraphs 6 and 7 which read as follows:

'During 1964 a significant number of items were transferred from the liberalized list to the quota list and guarantee deposits were increased. The Fund hopes that domestic credit and fiscal measures and an expansion of exports will enable a gradual liberalization of the restrictive system in the period ahead. The bilateral trade and payments agreement with Iran was terminated. The Fund welcomes the proposed termination of the remaining bilateral agreements with Finland, Israel and Yugoslavia, and urges Turkey to continue to reduce its reliance on bilateralism.

'The Fund does not object on a temporary basis to the multiple currency practices arising from the tax levied on exchange purchased for foreign travel and on the cost of transportation and will review this matter during the next consultations.'

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

Opening statement by the representative of Turkey

4. In his opening statement, the text of which is annexed, the representative of Turkey outlined developments in the Turkish economy, progress in implementing the Development Plan, Turkish foreign trade and the balance-of-payments position since the last consultation; he then presented a description of the Turkish restrictive system. Against the background of a low per capita income and a rapidly increasing population, Turkey is attempting to foster a 7 per cent increase in national income annually, which should permit approximately a 4 per cent per annum increase in per capita national income. Industrialization is being promoted, although agriculture occupies nearly 77 per cent of the active population at present. This effort has necessarily led to a more rapid increase in imports than in exports, even though crops have been exceptionally good in the last three years. Exports, which were \$368 million in 1963, increased to a record level of \$410 million in 1964 and for 1965 are expected to continue at the high level of 1964. Imports, which had been higher in 1963, dropped to \$537 million in 1964, chiefly because of a slowing down of imports under project credits, NATO infra-structure and surplus payments, but are expected to amount to \$665 million in 1965, notwithstanding the measures taken to confine imports to goods which are essential. It is evident that the deficit on trade alone, which amounted to \$320 million in 1963, will not be immediately overcome. In 1964 the trade deficit dropped to \$126 million but if investment and development proceed according to plan in 1965, it will be up to \$255 million in 1965. Turkey's heavy foreign debt obligations, which in 1965 will amount to \$215 million, including interest, (approximately half the expected export earnings) will have to be dealt with in addition. As net earnings on invisibles are slight, this situation has made it necessary for Turkey to seek external financial assistance, notably through the Turkish Consortium. Assistance from members of the Consortium totalling \$169.5 million was utilized in 1963, but even this aid did not prevent a sharp decline in reserves. Turkey has embarked on a variety of measures to increase foreign exchange earnings from exports, aimed both at encouraging existing export specialities to enter new markets and at fostering new exports. Charges and formalities in connexion with exportation have been made less onerous, efforts are under way to improve standardization and quality control, export insurance is being studied and an export promotion research centre has been established.

5. Notwithstanding these efforts, it has been necessary to restrict imports by quantitative restrictions. There is a liberalized list for goods which are automatically licensed, but many products may only be imported within a global quota list on issuance of a specific licence. These lists govern trade with countries other than those with which Turkey has bilateral trade agreements. Advance guarantee deposits are required at 70 and 100 per cent for goods on the first and second liberalization lists respectively and at 10 per cent for industrialists or 30 per cent for importers importing under the global quota lists; these charges are intended to insure that licence applications will be made only when there is a bona fide intention and need to import the goods in question.

6. Bilateral quotas exist for commodities which can be imported up to agreed limits under bilateral agreements, although the bulk of Turkey's trade is carried out on a multilateral basis. The share of imports from bilateral agreements has declined from 11 per cent in 1961 to 9.3 per cent in 1964. Moreover the bilateral agreement with Finland has recently been terminated and there remain only a few bilateral agreements with GATT countries. Turkey firmly intends to pursue a policy of more liberal multilateral trade, but can only progress in that direction to the extent that her Development Plan succeeds in improving the long-term balance-of-payments position; in the meantime she must maintain the present restrictions on imports, which are believed to be in conformity with the provisions of the General Agreement.

Balance-of-payments position and prospects and alternative measures to restore equilibrium

7. With respect to the decline in foreign exchange reserves recorded at the end of 1963, as compared with the preceding year-end, which amounted to some \$40-\$50 million (depending upon the precise basis for comparison which is chosen), the question was asked whether Turkey expected to be able to avoid a further decline in reserves as appeared to be the case in 1964. The representative of Turkey indicated that this would depend upon Turkey's success in the Consortium, since reserves would have to be used if sufficient aid were not forthcoming. The hope was expressed that the Turkish Government would continue to co-ordinate its efforts with the Consortium to ensure an inflow of external resources to meet the needs of the development programme and to pave the way for further import liberalization.

8. On the trade balance itself, a question was asked whether the 1965 estimate for exports were not perhaps too conservative in foreseeing no increase over 1964, but the representative of Turkey felt that as 1964 represented a record export year, the figure was a realistic one.

9. With respect to Turkey's efforts to promote exports, the view was expressed that there might be substantial trade opportunities not yet fully exploited in the sale of fresh fruits and vegetables in Western European markets if some means could be found to overcome the costs of developing new markets and of establishing suitable transportation and distribution channels. A member of the Committee noted that in his country quotas open to Turkey in this sector had not been filled although there was certainly a demand.

10. As regards the overall evolution of Turkey's economy, it was pointed out that there seemed to be contradictory trends as between, on the one hand, growth in gross national product (GNP) which had only been about 4 per cent in 1964 as compared with 7.3 per cent in 1963 and, on the other hand, the trend in the balance of payments which had been more favourable in 1964 than in 1963. The latter trend had been influenced by the decline in imports, particularly in the first six months of 1964. In that connexion a member enquired, on the basis of information which he had received, whether the new Government intended to liberalize the Turkish mixed economy system by envisaging a more balanced apportionment of loans and other aids as between the private sector and the public sector. The representative of Turkey affirmed that all Turkish Governments, including the present one, would follow liberal policies designed for a mixed economy and he did not look for any change in this respect.

11. There was also a discussion of the Turkish invisible account in which some representatives expressed the feeling that the Turkish estimates of receipts might be overly conservative. Worker's remittances, it was noted, are increasing and may increase even more sharply as a result of new Turkish incentives to repatriate earnings. It was also the view of some members that once a sizeable emigration had taken place Turkish outlays for travel abroad might be reduced. Similarly, the view was expressed that tourism might well net more than it now does if Turkey were to intensify its efforts in this direction, as some of her neighbours have done.

System and methods of restrictions

12. With respect to the lists of liberalized commodities, a number of questions were asked. The advance import payments and guarantee import deposits were felt to have a distinctly restrictive effect on imports and one which tends to discriminate against distant suppliers. Advance payments and deposits on global quota items tended to have similar effects but it seemed especially difficult to understand why deposits were necessary on liberalized products. The representative of Turkey explained that these deposits are not regarded as a restriction but as a measure in part to combat inflation and in part to ensure that licences are granted only for goods which are actually to be imported and that in fact payment for these goods will be made.

13. Another group of questions was addressed to the fact that import licences for many liberalized goods (and also for many goods on the global quota list) are marked AID and such goods can apparently be imported only from the United States. One member enquired whether it was true that hides and skins, which formerly could be supplied from all sources, might now be imported only from the United States. Other members wished to know whether this notation meant definite exclusion of all other suppliers wherever it appears and what recourse an importer might have who wished to purchase elsewhere. One member remarked that in the aggregate a very high proportion of total Turkish imports, especially of raw materials in which his country was interested, were thus out of the question so far as traders in his

country were concerned. It was felt that there should be at least some cases in which other suppliers might be permitted to supply such goods and interest was expressed in knowing whether consideration is being given to easing and modifying these restrictions. The representative of Turkey confirmed that the notation "(exclusively AID)" in both liberalized and global quota lists, means that purchase may be made only from United States sources and that there were also other cases in which the available financing required that imports be purchased from specified country sources. He promised to refer to Ankara the question of import restrictions on products imported under AID programmes. As regards hides and skins, he stated that a part of the item may be imported only on AID financing, and another part of imports, financed out of other resources, could be purchased from any source.

14. The question was also asked why wool had been transferred from the liberalized to the global quota list and what were the prospects for its return to liberalization. In reply the Turkish delegate stated that Turkey must economize on foreign exchange, but that as much wool as Turkish industry requires is being imported under global quota; relaxation of the restriction will depend on an improved foreign-exchange position.

15. On the global quota list, it was noted that there is a distinction, as regards the period during which application must be made for licences, between importers and industrialists, the former being given only one month in which to apply under each six-months import programme. It was felt that this requirement discriminated against distant suppliers and it was asked whether there was any plan to extend the period. The representative of Turkey promised to convey this question to his Government.

16. The Committee noted favourably Turkey's progress in reducing reliance on bilateralism and members enquired what information might be available concerning plans to discontinue remaining bilateral agreements with certain GATT countries as mentioned in the decision of the Executive Board of the International Monetary Fund. It was recalled that the bilateral payments agreement with Finland has now been terminated, and the representative of Finland expressed hope that this welcome development would stimulate trade between the two countries. The representative of Turkey noted that certain bilaterals might, nevertheless, have to continue because of the structure of the Turkish economy or of that of the trading partners.

Effects of the restrictions

17. In answer to a question how commodities are selected for placing under global quota, the representative of Turkey said that an effort is made to foster domestic substitutions and to protect Turkey's new industries in this way. The question was then raised whether Turkey is exercising sufficient selectivity to ensure that only efficient industries are fostered by such protection, as an unfortunate allocation of resources might otherwise result. It was also suggested in this connexion that one way to make sure that new industries do everything possible to

become competitive is to keep some channels for imports open so that there is an incentive to local industry to improve quality and to lower costs. In this context a member of the Committee asked what share of total imports are allocated to private traders as against State enterprises of all kinds. The representative of Turkey replied on the last question that the share of private trade had been increasing and would continue to do so. He promised to convey the other suggestions to his Government and assured the Committee that in all these matters his Government was exerting every effort to promote industrialization in accordance with the Development Plan so that Turkey might in future hope for an improved balance-of-payments position. In the meantime his Government would pursue a liberal programme consistent with the requirements of a mixed economy and would be alert to the possibility of liberalizing trade to the extent made possible by the evolution of the Turkish balance-of-payments position.

General

18. It was agreed in the Committee that Turkey's problems are indeed of a long-term structural nature and understanding was expressed for the necessity of providing for economic growth while maintaining internal monetary stability and a balance in its external accounts. The Turkish Government was commended for its implementation of a comprehensive five-year development plan and for following through with related measures, including taxation measures. While interest was expressed in various current efforts to improve the efficiency of the economy, as through reform of the State economic enterprises, and to increase foreign exchange earnings - through export promotion, by increasing workers' remittances and through development of tourism - it was recognized that Turkey could not count on covering current foreign exchange outlays through current earnings for some time to come. This might not, however, preclude some movement toward liberalization of imports, as indicated above.

19. The representative of Turkey expressed appreciation for the views and comments expressed in the Committee, which he felt were generally consistent with the views of the Turkish Government itself. He promised to convey these views and recommendations to his Government, and felt sure they would receive appropriate consideration and would provide valuable guidelines.

ANNEX

OPENING STATEMENT BY THE DELEGATE OF TURKEY

The Turkish Delegation welcomes this opportunity to examine together with the representatives of the contracting parties the balance-of-payments problems currently confronting the Turkish economy and measures taken by the Turkish authorities to alleviate the difficulties of a transitory nature. For Turkey, the balance-of-payments problem, as for most other developing countries, is a structural one, stemming from the very imbalances and the weaknesses inherent in its economic structure. This problem is further aggravated by the process of industrialization and diversification of the economy embarked upon in recent years, as well as by ever deteriorating terms of trade.

In order to put the economic problems and the balance-of-payments difficulties of Turkey into the right perspective, it is necessary to keep in mind the main facts and factors related to the present pattern of the economy and its spontaneous trends.

The population at present exceeding 30 million is growing at the very rapid rate of almost 3 per cent, corresponding to an increase of 800,000 persons a year. It appears to be most unlikely that this rate will decline in the near future, for there still exists great scope for reducing infant mortality. Improvement in hygienic conditions now under way is expected to offset for the years to come the fall in birth-rate which might result from industrialization and urbanization.

The national income per capita is very low, in fact the lowest among the European countries: approximately \$200 per person. Moreover distribution of this low income is far from being equitable, as there are large discrepancies between urban and rural incomes. There are also important regional differences within rural economy itself.

Agriculture occupies nearly 77 per cent of the active population, a substantial part of which, however, adds little to production, hence disguised unemployment is the dominant factor in the rural economy. Despite significant achievements in industrialization the absolute and relative importance of industry is still very limited and its main feature reveals the less-developed

character of the economy. Although industrial employment is growing at the rate of 5 per cent a year and industrial production is increasing by 8 per cent per annum, industry still employs only about 10 per cent of the active population.

Balance of trade has shown large deficits, fluctuating around \$150-320 million in recent years. The persistence of a deficit of this magnitude indicates that the main bottleneck in the economic development of Turkey is the drainage of monetary reserves resulting from chronic balance-of-trade difficulties.

In recent years imports have tended to increase more rapidly than the rise in national income. Exports, on the other hand, have shown a very slow growth over the last decade. This fact lies at the bottom of the balance-of-payments problems of the country. A large part of exports consists of agriculture products for which international demand increases very slowly and is inelastic in response to price changes. The remaining exports consist of minerals and raw materials, prices of which have developed unfavourably since the 1952 boom.

Contrary to neighbouring countries in a similar stage of economic development, Turkey has also experienced a net deficit on current invisibles account of the magnitude of \$25-30 million a year.

To these crucial problems is to be added a very heavy repayment obligation of foreign debts, which in 1965 amounts to \$215 million, including interest charges.

As will be realized, a problem of this nature cannot be solved through short-term or partial measures. A solution can be found only by conscientious and purposeful efforts directed to fundamental changes in the economic structure, diversification of production, creation of national substitutes for imports, establishment of new export industries, and other appropriate economic measures.

In recognition of this, the Turkish Government has initiated and put vigorously into force a comprehensive Development Plan which aims at overcoming the economic and social problems and difficulties currently confronting the Turkish nation in a systematic and coherent manner. The first Five Year Plan has been designed within the perspective of a relatively long period, in other words of the desired level of growth of the Turkish economy over the next fifteen years. During this period an average rate of growth of 7 per cent has been set as a target. In view of the rapid increase of population, this rate of growth, corresponding to approximately 4 per cent net increase, ultimately will bring per capita income from \$200 in 1962 to \$355 in 1977. The Plan assumes that the investment required to support a 7 per cent growth shall be around 18.3 per cent of the gross national product, 14 per cent of which will be provided internally; the remaining 4.3 per cent will be met by external resources. It is further anticipated in the Plan that the current external deficit which corresponds to 4.3 per cent of the gross national product would persist in the first five year begin to diminish in the second five years and disappear only towards the end of long-term Plan period.

It is against this background that the precautionary measures taken and restrictive practices maintained by the Turkish Government should be viewed and further appraised. This also explains why despite the firm intention and declared policy of the Turkish Government to pursue a more liberal trade policy consistent with the principles and requirements of a mixed market economy envisaged in the Development Plan, radical changes in the present import regulations and controls could not be undertaken in the near future. It should be emphasized that Turkey's trade policy and import programme is not only connected with her balance-of-payments position but also reflects her development needs and problems. The development needs and the implementation of the Plan necessitates importation of a certain volume of commodities consisting mainly of investment goods and raw materials. In order to ensure such imports without causing harmful effects to the already meagre monetary reserves, the Turkish Government has been compelled to be cautious in its approach to liberalization and relaxation of restrictions.

Furthermore, the low level of monetary reserves and the uncertainty about the amount, the form, and the timing of proceeds of external aid and credits have made it even more necessary for the Turkish Government to take some measures at times, in order to avoid damaging delays in effecting current payments. Certain adjustments have thus been made in the system of guarantee deposits and some items have been removed from the liberalized list. Great efforts have, however, been made to maintain the necessary continuity in administering the import policy and to minimize the frequency of adjustments so as to lessen the disruptive effects on normal trade relations.

From these general remarks we may now turn more specifically to the trends in our balance of trade since the last consultations.

In 1963 Turkey's trade deficit reached \$320 million, partly as a result of a fall in exports, but mainly because of a rise in imports. Consequently monetary reserves fell to \$36.3 million at the end of 1963 from \$76.3 in 1962. The total utilization of external financial assistance provided by the member countries of the Turkish Consortium amounted to \$169.5 million. However, there were some delays in negotiations with the member countries and in the use of funds, which accounted partly for the sharp fall in reserves.

Trade deficit in 1964 fell to \$126 million because of certain increases in exports on the one hand, and a decline in imports under project credits, NATO infrastructure, and surplus programme on the other.

The trade deficit for 1965 is expected to be \$255 million, twice as high as the 1964 figure. Exports are estimated to continue at the record level reached in 1964, i.e. \$410 million. Imports are forecast to be \$665 million compared with \$537 million in 1964. The increase in imports is expected to originate from investment goods and raw materials required for the prompt implementation of the development programme.

As has already been pointed out, one of the major problems confronting the Turkish economy is to ensure a steady and appreciable increase in foreign exchange earnings. Although earnings from invisibles, notably from tourism and workers' remittances provide some prospect and scope, real progress towards solving this problem ultimately rests on earning more foreign exchange from the sale of commodities, which furnishes the bulk of total exchange receipts of the country.

In order to increase foreign exchange earnings from exports, the Turkish Government has endeavoured to diversify the trade structure by encouraging existing products to enter export markets and by fostering the production of new export commodities. The Turkish Government has also tried to develop new markets and further increase earnings from existing exports by expanded production of fresh fruits and vegetables which seem to offer better prospects. A number of measures have been taken in conformity with the underlying principles of the Development Plan to implement Turkey's export drive policy. In this connexion rebates of duties have been provided in respect of certain export commodities. Some export formalities have also been simplified or removed. Efforts have been made to improve standardization and quality control procedures. The preparation of legislation to encourage foreign capital, and investments particularly in mining, has been undertaken, the possibility of an export bank and provision of export insurance is being studied.

An Export Promotion Research Centre was established which began operation in 1962. The main task of this Centre is to investigate export possibilities and make appropriate recommendations to government agencies, producers, and exporters.

In order to get a clear understanding of the nature and the scope of import restrictions maintained by the Turkish Government it might be appropriate at this stage to give a brief description of some of its main features. Goods are imported into Turkey in accordance with the provisions of import programmes which are based on annual implementation programmes of the Development Plan. Import programmes, which are prepared for half-yearly periods and announced in January and July, classify imports into the following three categories:

- (1) A liberalized list covering commodities for which import licences are issued automatically;
- (2) A global quota list which embodies goods subject to specific allocations on two main categories: i.e. industrialists, and importers;
- (3) Bilateral quotas containing commodities which can be imported up to the limits agreed upon under bilateral arrangements.

In principle, the liberalized list and the list of global quotas are applicable to imports from countries other than those with which Turkey has bilateral trade agreements containing import lists.

Application for import licences for goods on the liberalized list can be submitted at any time through authorized banks; import licences are prepared by these banks and forwarded to the Central Bank. An overall exchange allocation is normally set aside in each import programme for commodities on the liberalized list.

Applications for imports on the global quotas have to be made through authorized banks within one month from the date of the announcement of the quotas.

The institution of advance guarantee deposits has been introduced in order to ensure that the goods will in fact be imported. For imports on the quota lists, a guarantee deposit of 30 per cent is required from importers while industrialists deposit 10 per cent of the value of goods imported. For the purpose of guarantee deposits, the liberalized list has recently been divided into sub-groups. A guarantee deposit of 70 per cent is required for commodities on the first sub-group while a guarantee deposit of 100 per cent is requested for goods on the second. Such deposits are blocked until the goods have been imported and the foreign suppliers paid; they are then refunded to the importers.

Payments for invisibles related to the flow of goods (including freight), to approved foreign investments, and to specified technical assistance are made automatically. Payments for subscriptions to newspapers and periodicals, registration fees, advertising expenses as well as purchase of books are liberalized.

Although the underlying principle of the economic policy is to carry out foreign trade on a multilateral basis, nevertheless, the Turkish Government has been compelled to maintain bilateral agreements with some countries. The countries with which Turkey has such bilateral agreements are: Bulgaria, Czechoslovakia, Hungary, Israel, Poland, Rumania, the United Arab Republic, the USSR and Yugoslavia. The agreement with Finland has been terminated.

The share of imports from bilateral agreement countries has been declining in recent years. As a matter of fact it fell from 11 per cent in 1961, to 9.3 per cent in 1964. There is no discrimination in the contents of quota lists related to these countries. As a basic principle of Turkish foreign trade policy, 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.

In the light of the above explanation it can now be stated that the actual practice is in no way harmful to the interest of other contracting parties and the level of restrictions under consideration does not go beyond the extent necessary to prevent a serious decline in our monetary reserves. Consequently, the Turkish Government believes that the present restrictions on imports are in conformity with the provisions of Articles XII and XVIII of the General Agreement.