Introduction

1. In accordance with the Decision taken at the plenary meeting of the CONTRACTING PARTIES on 17 November 1956, the Working Party on Balance of Payments conducted a consultation with Turkey under paragraph 4(b) of Article XII.

The Working Party had before it:

(a) a basic document prepared by the secretariat in collaboration with the Turkish authorities, describing the system and methods of the balance-of-payments import restrictions in operation in Turkey. The document also contains a statement under Part II - "Effects on Trade", submitted by the Turkish authorities;

(b) a document provided by the International Monetary Fund.

All these documents should be deemed to be supplementary material annexed to this report.

2. In conducting the consultation, the Working Party followed the plan recommended by the CONTRACTING PARTIES for the consultations. The present report summarizes the main points of the discussion during the consultation.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of paragraph 2 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.

4. As a part of the consultation between the CONTRACTING PARTIES and the Fund, the latter transmitted the results and background material from its recent consultation with Turkey concluded on 22 July 1957. The results of the Fund's consultation with Turkey are reproduced in document QRC/17 of 16 October 1957.
5. In accordance with the procedure agreed upon by the Working Party, the representative of the Fund was invited to make a statement supplementing the Fund's documentation with respect to the position of Turkey. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the results and background material from its last consultation with Turkey under Article XIV of the Fund Agreement which was concluded on 22 July 1957.

"With reference to Section I of the Plan for Consultations, relating to balance-of-payments position and prospects, the general level of the restrictions applied by Turkey does not go beyond what is required to put an end to a heavy fall in its financial reserves.

"With reference to Section II of the Plan, relating to alternative measures to restore equilibrium, the intention of the Working Party is drawn to the results of the last Fund consultation with Turkey. The Fund has no additional alternative measures to suggest at this time."

Opening Statement by the Representative of Turkey

6. The representative of Turkey opened the discussion with a statement the full text of which is appended to this report in Annex I. This statement, which outlines the policy followed by his Government, is summarized in the following paragraphs.

7. In his general remarks, the representative of Turkey laid special emphasis on the vital questions of economic recovery and development with which the Turkish Government is concerned. He recalled that Turkey sincerely believed in free trade, in the necessity and value of multilateral co-operation and in the liberalization of trade and payments, and was resolved to adhere to the principles of the General Agreement. But other preoccupations deriving from its firm determination to overcome balance-of-payments difficulties, to achieve a substantial expansion in national production and productivity, to secure for the Turkish people adequate standards of living and adequate purchasing power, to provide employment for the ever-increasing labour force and to achieve full
internal economic and financial stability, inevitably checked, for the time being, the speed at which it would like to proceed.

8. He recalled the reasons for which Turkey might well become, in the near future, one of the most interesting markets for its trading partners. At the same time, however, its vital recovery programme could be carried out only at the cost of certain sacrifices which the Turkish people were prepared to accept during a well-defined period of transition. Consequently, a country like Turkey, which had no other foreign exchange receipts than its export proceeds, needed a period of controls and restriction. Turkey had resorted to restrictions whenever forced to do so, but it had not failed on each occasion to demonstrate its intention of moving towards a much more liberal system.

9. The present system could be described as follows: this was a transitional period; the non-discriminatory restrictions applied at present could be considered to be temporary because their purpose was only to pave the way for the creation of a sound, viable, powerful and profitable national economy, which would enable Turkey to play in world markets its rightful constructive part within a free multilateral trading system.

10. The representative of Turkey also stated that, in his opinion, existing difficulties could be overcome only through mutual understanding of the problems and close economic and trade co-operation. As the final objective was the introduction of a far-reaching and continuing multilateral system, the problems affecting a given country were, in a sense and at the same time, problems of concern to other countries and the strength of the economic potential of that country was merely an integral part of the common potential.

Balance-of-Payments Position and Prospects.

11. With respect to this part of the plan for consultations, the delegation of Turkey submitted an additional statement on the balance of payments and financial problems of Turkey. The full text of this supplementary statement, which is appended to this report in Annex II, is summarized in the following paragraphs.
12. In his statement the representative of Turkey pointed out that his country was essentially an agricultural country and that the economic development which had been in progress since 1950 was one of the most characteristic features of the Turkish economy. Until 1952, the policy of economic expansion had yielded excellent results in the field of trade. Between 1949 and 1952, exports had risen as much as 80 per cent and at the same time imports had increased to an exceptional degree. Unfortunately, exports did not rise at the same rate as imports and the drought years which Turkey had suffered since 1954 had further aggravated the situation. The disparity between domestic and international prices and in particular the slackening of trade in agricultural products had influenced exports unfavourably. The result was disequilibrium in the trade balance and balance of payments which in 1952 had led the Turkish Government to suspend the liberalization measures which it had been applying successfully since 1950.

13. From 1952 to the present time, Turkey's balance of payments had shown an annual deficit of about £T.500 million. The principal factors which led to the deterioration in the balance of payments had been: (a) a fall in exports since 1953; (b) a relative rise in imports since 1950, which was mainly due to the expansion of investment in the public and private sectors, to the population increases and also to the rising standard of living.

14. In view of the foregoing, the Turkish Government had taken certain measures in recent years with a view to stabilizing the internal situation and the country's balance of payments. Such measures could be summarized as follows: (a) suspension of trade liberalization in 1952 and reinstatement of import controls; (b) maintenance of budgetary equilibrium and reductions in public expenditure; (c) control of bank credit; (d) certain tax reforms; (e) investments, and (f) increased productivity.

15. The fiscal measures taken had consisted essentially in introducing a new tax on production to replace the transaction and consumption taxes, in raising the income tax, the taxes on inheritance and real estate, and in introducing the so-called "treasury tax". It was expected that these internal measures would yield a revenue of £T.500 million which would ensure budgetary equilibrium. The representative of Turkey also made reference to the law
on the petroleum industry under which exemption from all taxes and internal charges is granted for equipment, tools, machinery and raw materials used for the construction and the operation of refineries. He also recalled that all such materials and equipment were free from all import duties and related taxes.

16. Among the monetary measures which might have a favourable influence on the balance-of-payments situation, the Turkish representative first mentioned the steps which had been taken in order to check the expansion of bank credit by establishing selective credit controls. A committee known as the "Committee for the Administration of Bank Credit" had been established as of 7 February 1956 and its main task was to promote a policy of selective credit in order to prevent the use of bank credit for speculative purposes, particularly in non-productive branches of activity. The Committee had taken a number of decisions, in particular:

(a) a credit ceiling had been fixed for banks;
(b) the utilization of liquid funds which were immobilized had been made compulsory;
(c) the use of credit for importation of consumer goods had been prohibited; and
(d) steps had been taken to prevent the banks from engaging in real estate transactions in order to avoid a reduction in their liquidities.

As a result of these measures, the volume of credit granted to the industrial sectors had increased considerably, while a decline had been recorded in the trade sector.

17. As regards long-term measures, the Turkish representative mentioned investments and the financing of economic development through credit made available in the budget. Such investments in favour of several sectors of the Turkish economy, and the resulting increase in industrial production had prevented a further deterioration of the trade deficit, notwithstanding a very sharp drop in agricultural production in the course of the last few years.
18. The representative of Turkey also stressed other measures which had been taken by his Government, including severe controls over the financial transactions of State enterprises, the tightening of price control measures, and the freezing of rents at the 1953 level.

19. As regards import restrictions which had had to be taken in the form of the re-imposition of the licensing system, the Turkish representative said that at the present time no change could be foreseen in his Government's policy. He made it clear, however, that in administering the existing system, due account was taken, in allocating foreign exchange within the limits of existing availabilities, of the following criteria:

(a) the essentiality of goods from the point of view of public health;
(b) whether the requests related to domestic production requirements;
(c) any special factors such as the wish to meet the needs of the people.

Although balance-of-payments difficulties had compelled the Turkish Government to suspend liberalization and to introduce quantitative restrictions, the Turkish Government nevertheless remained firmly attached to the principle of multilateral trading. Since deterioration had occurred in the balance of payments, it had endeavoured by all possible means not to reduce the volume of imports and very liberal consideration had always been given to applications for licences.

20. The Turkish representative then gave some indications as regards the balance-of-payments prospects for 1957. According to current estimates, the 1957 figures would exceed the 1956 levels. Such estimates were based in particular on the assumption that receipts from infrastructure equipment and off-shore purchases, as well as Commodity Credit Corporation procurements, would show a considerable increase. Export estimates in 1957 were very close to the 1956 export figure. Imports, on the other hand, tended to decline. As far as the area composition was concerned, figures for the first half of 1957 showed that both imports to and exports from the dollar area tended to increase. The Government was trying to maintain trade with EPU countries at the level reached in 1956. The Turkish representative then quoted a few figures relating to previous years and recalled that the balance-of-payments deficit as a whole was covered by the considerable assistance extended by the
United States Government, by credit granted by the International Bank and the International Monetary Fund, by American surpluses and by import credit, as well as various other forms of assistance and credit.

21. In concluding, the representative of Turkey recalled that his country was addressing itself to the arduous and heavy task of creating a new infrastructure and economic framework. The major part of investments had not yet been fully carried out, but there was no doubt that when they had been concluded, they would have beneficial results on the Turkish balance of payments. At present, however, Turkey remained in balance-of-payments difficulties because of the heavy expenditure which had to be incurred in order to meet the needs of economic development and quantitative restrictions were therefore indispensable.

22. A member of the Working Party thanked the Turkish delegation for the very complete and detailed information it had been good enough to supply and said that he recognized the serious nature of the Turkish balance-of-payments difficulties. He did not wish therefore to urge that Turkey should alleviate the existing system of restrictions. He was pleased to see that the Turkish Government had taken internal measures of a fiscal and monetary nature, and expressed the hope that these measures would remedy the present situation. He also recognized the difficulties which Turkey was encountering as a result of the disparity existing between internal prices and prices on world markets. As to the tax alleviation measures in favour of certain industries, such as the petroleum industry, he expressed the hope that they would lead to a reduction in costs for the industry concerned. In this connexion he asked whether the tax alleviation measures concerned could also be applied to other industries. In reply the representative of Turkey stated that for the time being tax alleviation measures were applicable only to the petroleum industry. Similar measures had been taken previously in respect of agricultural machinery, but had been rescinded when they were no longer justified. The Turkish representative added, however, that if the need arose, further such exemptions could possibly be granted.

23. Another member of the Working Party said that he also appreciated the detailed and exhaustive statement by the representative of Turkey. He stressed that the serious difficulties with which the Turkish Government was confronted could best be overcome by mutual co-operation and through multilateral
collaboration. He then made a few observations on the following two fundamental problems:

(a) There was in Turkey an excessive internal demand as a result of the economic development plan. This acted as an export disincentive to the extent that domestic outlets could easily be found. The Turkish Government had therefore adopted certain measures to counteract these difficulties.

(b) Another difficulty resulted from the disparity between domestic and international prices. As a consequence, even when there was a desire to export, the question of prices raised additional difficulties. These combined factors worked towards increasing imports and made it the more difficult to restore trade on a multilateral basis. This member also noted with pleasure the assurances given by the Turkish delegate concerning his Government's desire to progress towards greater trade multilateralism and expressed his satisfaction with the measures taken by Turkey to reduce monetary circulation, thereby deflating internal demand.

In reply, the representative of Turkey explained that his Government was determined to give effect to those measures, some of which were being applied already. He also stressed the importance which his country attached to the very close co-operation which had been developed in Ankara between the United States and Turkish administrations.

24. A member of the Working Party noted with pleasure that Turkey had engaged in a very extensive plan for economic development. Naturally, this had repercussions on the balance-of-payments situation but not on the external trade of Turkey, in view of the fact that as a consequence part of the exchange availabilities were directed to meet the needs of economic development rather than the ordinary requirements of the domestic economy. In other words, the existing situation brought about an increase in imports of capital goods to the detriment of consumer goods. This led the member in question to ask whether the investment policy of Turkey was liberal enough to attract foreign capital and
whether it favoured economic development, considering that internal demand was steadily growing and that the Turkish population was increasing. The representative of Turkey stressed in reply that this was a very important question for his country and that inflow of foreign capital was considerably facilitated. He mentioned that the relevant legislation was very liberal.

25. In connexion with the same question one member of the Working Party asked the Turkish delegation whether it could give an indication as to those sectors of Turkish economy where foreign investment would be welcome. In response to this question the representative of Turkey read out the text of Article I of the Law of 18 January 1954, which encourages inflow of foreign capital. This Article reads as follows: "This law applies to foreign capital to be imported to Turkey and to loans to be floated abroad under the relevant Decision taken by the Committee for the promotion of foreign investments, in accordance with Decisions by the Council of Ministers; provided that the undertaking for which investment is intended: (a) should work towards the economic development of the country; (b) should operate in a field of production to which Turkish undertakings have access; and (c) should not involve any monopoly or special privileges". He added that such provisions, the purpose of which was to encourage inflow of foreign capital, had been supplemented by two agreements signed with the Government of the United States concerning (1) transfer guarantees, and (2) guarantees against expropriation and confiscation. Another agreement on war risks was under discussion.

Alternative measures to restore equilibrium

26. Commenting on certain information included in the IMF paper, a member of the Working Party pointed out that 1956 had shown improvements in certain sectors in Turkey but that there had also been an intensification of inflationary trends. He recalled that the budgetary deficit was still very large and that the increase in prices, although less marked than in 1955, was continuing. This situation had resulted in an increase in monetary circulation and the Turkish Government therefore had to face a serious situation, since on the one hand it had fewer resources available to finance imports, and on the other hand the amount of money in circulation had increased. In those circumstances, this member of the Working
Party said that he would like to be informed of the prospects for 1957 regarding the deficit of State enterprises. The Turkish representative declared that the Committee to encourage foreign capital inflow, to which he had already referred, exercised strict control in the field of public investment, and that no programme of this type was accepted unless the budget of the department included sufficient provision to cover the expenditure involved, without any decisions of an inflationary nature having to be taken.

27. With regard to point 7 of the plan for the consultations, a member of the Working Party asked to what extent the Turkish authorities had considered the possibility of reducing the degree of discrimination which existed in import controls in order to improve the competitive power of certain sectors, in the light of the fact that the European currencies were becoming increasingly hard. In his opinion there was a considerable degree of discrimination in Turkish trade, which favoured particularly imports from the EPU countries and imports under bilateral agreements. He therefore asked whether it would not be in the interest of the Turkish Government to reduce the degree of the discrimination in view of the fact that importers of raw materials and machinery would reap the benefit of more favourable price conditions offered by other supplying countries. The Turkish delegate stated in reply that he did not believe that his country's foreign trade system discriminated between, on the one hand, imports from the dollar area, and on the other hand, imports from EPU countries or under clearing agreements. He reminded the Working Party that in order to import, Turkey had to export, as she relied mostly on her export earnings for the settlement of imports. Referring to capital goods, he pointed out that those were imported from EPU countries under economic co-operation agreements which provided for multilateral credit arrangements. He added that capital equipment was also imported from the United States, though perhaps to a lesser extent, and that such imports were financed by means of United States assistance. In each case, however, Turkey had always been guided by the amount of her foreign exchange availabilities, and therefore if there was any discrimination, this was due solely to the existence or the lack of the necessary means of payment; if the latter was lacking the Turkish authorities could not issue licences. The same was true of imports of consumer goods for which the
Turkish authorities had to take into account exchange availabilities in respect of the EPU area as a whole, in view of the fact that at the end of each month any deficit had to be settled in gold or dollars. Imports from countries with which Turkey had bilateral agreements were effected under such agreements in accordance with the provisions thereof within the framework of existing arrangements. The Turkish delegate concluded that if there was any discrimination, such discrimination was not intended. Furthermore, he mentioned that, after the Turkish Government had learned that Canada was supplying capital equipment to certain Asian countries under long-term credit arrangements, the Turkish Embassy in Ottawa had contacted the Canadian Government in order to ascertain whether closer economic co-operation could be established between the two countries.

28. The member of the Working Party who had raised this question pointed out that his intention had not been to raise the problem of discrimination in Turkey, but rather to ascertain whether that country had taken into consideration the price advantages, particularly with regard to raw materials and capital equipment, which the national economy would reap from an increased liberalization of imports. The Turkish representative replied that his Government attached great importance to the question of prices, and that a special committee supervised such matters. That committee frequently had to consider complaints from Turkey's trading partners who wanted to sell their products at prices higher than those prevailing on world markets.

29. A member of the Working Party drew attention to the fact that Turkey's economic development resulted not only in greater utilization of manpower, but also in increased imports of raw materials. The need for increased imports, in turn, resulted in additional demands on the balance of payments. If, however, Turkey were to import finished products manufactured from the same raw materials, the cost of imports would be even higher than at present. There was therefore some saving, in spite of the increased expenditure resulting from the industrial development programme. In connexion with this problem, this member of the Working Party asked whether the Turkish delegation could give an indication of the amount of the saving. In his reply, the Turkish representative recalled that his country's economy was essentially agricultural. Industrialization had been introduced, but on a relatively modest scale. For the time being, therefore, the administration did not intend to make Turkey an important competitor on world
markets of industrial products, and only the first step towards industrialization was being made. Progress in that direction was dependent on the credit and assistance which his country would receive, and in those circumstances Turkey had to conform to certain criteria set by the United States, the IMF, other international institutions and the countries granting credit. The guiding principle at present was to establish in Turkey industries which could utilize Turkish raw materials and could therefore be placed on a paying basis within a very short time. That would make it possible to reduce imports and save foreign exchange, which could then be used elsewhere. Wider plans for industrialization could only be envisaged at a later stage.

30. In connexion with problems resulting from Turkey's rapid rate of population increase, a member of the Working Party enquired whether the present level of investment was sufficient to absorb the extra manpower, or whether increased investment would be required for that purpose. He asked whether that manpower surplus had employment possibilities in agriculture, or whether, on the contrary, as a result of increased productivity and the market situation, agriculture had attained such a degree of stability, from the point of view of employment, that this surplus manpower would have to be employed in industry. The Turkish representative reminded the Working Party that the Turkish population was currently increasing at the rate of 3 per cent per annum. Since there was at present under-employment in agriculture, that sector of the Turkish economy could absorb part of the surplus manpower but not all, and therefore industry would have to absorb part. Having regard to this situation, the present level of investment was adequate. However, it was possible that in the future it might be necessary to set up new industries if the rate of population increase was maintained. The Turkish representative added, however, that his country could not move too fast in that field, nor could it continue to invest indefinitely.

31. With regard to the question raised in the preceding paragraph, the same member of the Working Party asked the IMF representative a question of a general nature. In particular, he asked whether, in examining the adequacy of the level of a country's monetary reserves, the Fund took account first of the volume of trade, or if it also took into consideration the rate of population increase. In his reply, the IMF representative stated that in considering the situation of
a given country, the Fund took into account all factors which might affect the balance of payments and the country's requirements in monetary reserves. Those factors included the rate of population increase and also investment programmes. He also recalled that, in the case of Turkey, the Fund had taken this aspect of the problem into account. As an illustration he quoted the passage in the basic document supplied by the Fund which states: "As a result of these developments, and of the significant rise in population, the per capita income has not increased since 1953. The Turkish population (24.1 million in 1955) increases annually at a net rate of 2 per cent, representing an estimated increase of some 480,000 persons in 1956." At the request of a member of the Working Party and in order to avoid any confusion in the figures, the Turkish representative indicated that the present rate of population increase was 3 per cent, representing about 750,000 inhabitants per annum.

System and methods of restriction

32. A member of the Working Party stated that, while recognizing the difficulties which Turkey had to face, he wished to make a few comments concerning the thorough network of bilateral agreements in that country's foreign trade system. He expressed the hope that in the near future progress would be made towards the establishment of a multilateral system. He emphasized that bilateralism was a cause for concern when it led to a high level of short-term commitments which prevented the free utilization of export receipts. This system also had the disadvantage of resulting in higher production costs and prices, which, in turn, had a harmful effect on exports and by this very fact led to the diversion of trade. In connexion with this statement another member of the Working Party stated that trade between his country and Turkey was affected by the system of bilateral agreements. As was mentioned in the basic document prepared by the secretariat, he recalled that Turkey had concluded many bilateral agreements with certain countries in order, in particular, to settle outstanding commercial debts. His country's Government authorities had, on the other hand, had always been averse to such agreements. On the one hand the existence of a complicated network of bilateral agreements concluded by Turkey, and on the other hand the fact that there was no agreement of this type between Turkey and his country had the following consequences: (a) in order to avoid certain risks,
exporters in his country had been cautious in their trade with Turkey; (b) the absence of a bilateral agreement had affected trade between the two countries, and its volume had diminished in both directions; (c) his country's export trade with countries other than Turkey had also been affected because of the existence of those bilateral agreements which provided, in particular, for trade in products which competed with his own country's products. In conclusion, this member of the Working Party said that he had made his statement in order, first of all, to show the influence of bilateralism on the trade of other countries which, because they did not wish to resort to similar practices had to suffer prejudicial effects. He also pointed out that in order to succeed, bilateralism should cover a very large number of countries, and such a system was contrary to the philosophy of the General Agreement. Replying to this statement, the Turkish representative expressed regret at the fact that the government of the country concerned had not accepted to sign such an agreement with Turkey; he added that his country was still prepared to consider the problem anew. Referring to other agreements which Turkey had concluded with certain countries of the EPU area, it was pointed out that those agreements were, in fact, payment protocols which were intended to make possible increased exports of certain Turkish agricultural products to those countries. He added, however, that those exports were not of very great significance for those countries, but they were very important for the Turkish economy. In support of his statement he quoted the following statistics: Turkish exports to the United Kingdom represented 30 per cent of Turkey's total exports to the EPU area, while in the United Kingdom's trade balance the corresponding imports only accounted for 0.22 per cent of total imports. Similarly, imported Turkish products only accounted for 3 per cent of the total imports of the EPU countries. Considering these figures, the Turkish representative found it difficult to admit that the situation could have harmed the interests of other countries.

33. A lengthy discussion took place in the Working Party regarding the problem of bilateralism which had thus been raised. One member expressed his satisfaction at seeing that the Turkish Government wished to follow a multilateral policy, but at the same time he pointed out the difficulties which the implementation of such a policy was meeting with countries which, like Turkey,
were in the process of economic development always had special difficulties in maintaining the balance of payments. Those difficulties included the following: (a) the reserves available were not adequate to maintain a certain standard of living which was usually already very low; (b) the requirements of economic development caused pressure on foreign exchange reserves, which were already inadequate; (c) exports of those countries were usually subject to seasonal fluctuations and were in many cases affected by drought, floods and other calamities. He had been happy to note that the Working Party had taken those factors into consideration in examining the case of Turkey. Nevertheless, some members of the Working Party had pointed out that in that country there still existed a number of measures, and, in particular, the network of bilateral agreements, which did not conform to the philosophy of the General Agreement. This member of the Working Party recognized that bilateralism was not a desirable system, but on condition that competition be open to all countries and that there was monetary convertibility. That unfortunately was not the case. Imports and exports were not entirely free, certain countries accumulated reserves in non-convertible currencies, and other countries only had access to markets by means of bilateralism. That being so, bilateral agreements presented certain advantages to those countries and it was sometimes useful, and even essential, to conclude them. Another member of the Working Party, although sharing to some extent the opinion of the previous speaker, nevertheless stated that, in his view, the countries which considered that they needed an extensive system of bilateral agreements should weigh both the short-term advantages which those agreements could bring them and the disadvantages which they brought in the long run. He considered that this system could not result in the establishment of a sound economy or in a higher standard of living. With regard to the two contrary theories which had thus been expounded, a third member of the Working Party stated that, in his view, there was an intermediate solution: the conclusion of arrangements regarding primary products. In the case of Turkey, for instance, it seemed to him that price and market stability for cotton was an essential factor for the restoration of that country's balance of payments. In that connexion he noted that the United States were making praiseworthy efforts, which had met with great success, to maintain cotton prices at a remunerative level; that policy of the United States had a greater effect on Turkey's economic position than all the latter country was doing or could do alone.
That was a good example of a case in which action by one country contributed greatly to another country's situation, and it illustrated the advantage of collective action in such matters. This member of the Working Party then asked if it would not be useful to recall during the consultations that the prospects for improving the balance of payments, and consequently the return to trade liberalization, depended to a great extent on the level and stability of the prices of raw materials exported by those countries.

34. Referring to the network of bilateral agreements which his country had concluded, the Turkish representative again recalled that those measures were only of a temporary nature, and his Government was resolved to follow a multilateral policy as soon as possible. That intention had already been put into effect in the framework of OEEC where his Government had recently announced that it would participate in the setting up of the European free-trade area, as well as in the Economic Committee of the countries belonging to the Baghdad Pact, which was also studying the possibility of establishing a free-trade area between those countries. Those were the first two steps which the Government had made towards a more multilateral system. He recognized that the question of the level and stability of prices of agricultural products was of interest to his country; for the time being his Government was endeavouring to keep Turkish prices in line with world prices. That policy entailed certain sacrifices, but those sacrifices had been accepted during the current transitional period. For the time being the most pressing problem was, nevertheless, that of production, which had to be increased to the greatest extent possible.

35. A member of the Working Party pointed out that imports under long-term credit arrangements were only allowed if certain conditions were met; one such condition was that the credit must be for at least one year. In his view, such conditions hampered free competition and gave an advantage to the exporting countries which granted the longest credit. As his own country was not in a position to compete on such terms, he feared that the system might have harmful effects on its export trade towards Turkey. He also asked if, once the requirements were fulfilled, authorization to transfer foreign exchange was automatically given. In reply, the Turkish representative pointed out that the system applied
principally to imports of equipment goods. The minimum one-year period seemed to him a normal requirement, particularly in view of the fact that the Turkish Government did not have sufficient funds at its disposal to permit the issue of licences for imports under very short-term credit arrangements. Those imports of equipment goods were necessary and could only be increased if Turkey enjoyed long- and medium-term credit facilities. In any case, the system was not discriminatory in any way, it was a case of provisional arrangements which had had to be made in view of current difficulties. In reply to the second question, the Turkish representative stated that once the licence had been granted, transfer authorizations were granted automatically when instalment payment became due. By way of further information, he indicated that the country of the delegate who had raised the question had recently made available to Turkey a credit of $1 million to finance imports of certain equipment goods, and the establishment of a chemical industry in Turkey was being discussed.

36. A member of the Working Party asked whether imports financed out of the economic assistance funds granted by the United States Government could come from any contracting party, or if certain conditions and limitations were imposed by the country providing those funds. The Turkish representative replied that such imports could be allowed from any country.

Effects on Trade

37. A member of the Working Party asked if the Turkish authorities took advantage of every opportunity to remind those concerned that the quantitative restrictions at present in force were of a temporary nature. The Turkish representative replied in the affirmative, and cited several examples. In the first place, Turkey maintained the OEEC liberalization list in its foreign trade system. For the time being, that list was not applied, but the fact of its existence drew the attention of all concerned to the fact that it might be applied at any moment. The Turkish representative also reminded the Working Party that the question of the application of the list was examined each year by OEEC, and the Chambers of Commerce and Industry were kept informed of the decisions taken by that organization. With reference to the work which was under way in OEEC and in the Economic Committee of the Baghdad Pact countries regarding the establishment of
free-trade areas, the Turkish representative mentioned that one or two representatives of the Chambers of Commerce and Industry were always invited to attend the preparatory discussions as observers: in that way, the private sector was kept informed of the difficulties which it would have to face. From the practical point of view, the Turkish representative pointed out that new industries had been established in the country, and from time to time the authorities granted import licences for goods produced by those industries, not to meet domestic needs, but rather in order to maintain those industries in a state of alertness and to impress it upon them that they might feel the wind of open competition at any time.

General

38. Concluding the consultation with Turkey, several members of the Working Party expressed their satisfaction with the very detailed statement made by the Turkish delegation at the beginning of the discussion. They also thanked the Turkish representative for his very clear and detailed replies to the many questions which had been asked. Several members also recorded their appreciation of the fact that Turkey had decided to take part in the consultations. The Working Party wished the Turkish Government much success in its endeavours to restore the country's economy, and expressed the hope that the results of those endeavours would soon become apparent and that, as the delegation had not failed to point out, Turkey would then be able to move towards a multilateral system and a greater degree of trade liberalization. The consultation had achieved its objective since it had led to a better understanding of the problems with which Turkey was faced and of that country’s policy. The Chairman of the Working Party also thanked the Turkish delegation for the co-operation and readiness which it had shown during the consultation.

39. The Turkish representative congratulated the Chairman on the way in which he had conducted the discussions, and said that he was overwhelmed by the friendly way in which the Working Party had consulted with his delegation; he was happy to have been able, by replying to questions that had been asked, to throw additional light on his country's very complex foreign trade system. He added that he hoped at a future consultation to be able to announce to the Working Party that more liberal trade measures had been introduced.
There are two basic documents for your consideration today of problems concerning Turkey's exchange control and foreign trade control systems, and other related questions; one of these documents has been prepared by the International Monetary Fund, and the other by the GATT secretariat.

The report by the Fund is the result of the consultations which took place in Ankara a few months ago between the Turkish Government and the Fund representatives, and it deals in all necessary detail with the problems which may also be of interest to GATT. From the point of view of presentation, this report is perhaps not completely in accordance with the GATT plan for the consultations, in particular with regard to the table of contents.

Considering this, and in order to give more detailed information on the problems as a whole, the Turkish delegation will make a further statement to supplement the information contained in the report regarding the points which are of particular interest to GATT.

The second document, prepared by the secretariat, sets forth the system and methods of the restrictions which are applied in Turkey, and their effect on trade; a list of valid decrees and lists is also included.

We can congratulate Mr. Doig and Mr. Arents for their work on behalf of the secretariat. This comprehensive document, which is available in English and in French, will not only be very useful for the GATT but will also be considered as a valuable acquisition by the Turkish departments which deal with such questions.

At first sight these two documents have perhaps given you the impression that the system in force in Turkey is rather complicated and complex and could not easily be implemented for that reason. Perhaps I should admit now that the Turkish Government also has that impression. But in order better to understand the reasons which lead the Turkish authorities to adopt such a system, would it not be better to take into account first of all the vital problems of economic recovery and economic development which are of such concern to the Turkish Government.

Turkey believes sincerely in the notion of free trade and in the necessity and value of multilateral co-operation, as well as in the liberalization of trade and payments, and is resolved to adhere to the principles of the GATT. But there are other preoccupations which for the time being prevent Turkey from making all the progress which it would desire. These preoccupations stem from the Turkish Government's firm determination to overcome Turkey's present balance-of-payments difficulties, to achieve a substantial expansion in national production and productivity, to secure for the Turkish people a satisfactory standard of living and adequate purchasing power, to provide employment for the ever-increasing labour force, and to achieve full internal economic and financial stability.
Turkey has tremendous untapped reserves, mineral wealth, and an active demographic potential which increases by almost 1,000,000 inhabitants each year, and there is, therefore, every reason why it may well become in the near future one of the most interesting markets for its trading partners. Pending the realization of these objectives, the Turkish Government has found it necessary to maintain the present system for some time yet to come. The vital recovery programme can only be carried out at the cost of certain sacrifices which the Turkish people is prepared to accept during a well defined period of transition. Such a period of controls and restriction is therefore necessary for a country which, like Turkey, has no other foreign exchange receipt than export proceeds. The system currently enforced is a sort of combination, on the one hand, of essential restrictions and controls, and, on the other hand, of measures which reflect the Turkish Government's support of more liberal principles. As you will see, despite existing difficulties, Turkey has resorted to restrictive measures whenever there was no alternative, and, at the same time and on each occasion, has not failed to demonstrate through its restrictive systems its intention of moving towards a much more liberal system. The essential features of the system may be summarized as follows:

This is a transitional period; the non-discriminatory restrictions which are applied to-day can be considered to be temporary, since they will only serve to pave the way for the creation of a sound, viable, powerful and profitable national economy, which will enable Turkey to play in world markets its rightful constructive part within a free, multilateral trading system.

The Turkish delegation has come to Geneva for these consultations with the firm conviction that our GATT partners will show understanding, and with the comforting hope of receiving as much support and assistance from them in order to fulfil the legitimate and constructive objectives which the Turkish Government has set itself.

We believe sincerely that if there are difficulties, they can only be resolved through mutual understanding of our problems and through close economic and trade co-operation.

Our objective is to bring about some day a far-reaching and continuing multilateral system and, therefore, the problems which concern one or other of us are in a sense, and at the same time, problems of concern to other countries; the strength of the economic potential of that country is an integral part of the common potential.

After this general statement, the Turkish delegation is prepared to make a statement on individual questions, and in particular on questions relating to Turkey's balance-of-payments and financial problems.

My delegation is also ready to meet to the fullest extent possible any requests for additional information which representatives may wish to make.
ANNEX II

Turkey's balance-of-payments position must be examined in the light of the structural development of the Turkish economy since 1950, and in particular in the light of the consequences of the economic development policy which Turkey has pursued for the last few years.

1. Turkey is essentially an agricultural country. Agricultural products account for 87 per cent of exports, and 8½ per cent of the population derive their livelihood from agriculture.

2. Furthermore, one of the most characteristic features of the Turkish economy is the economic development which has been in progress since 1950. In order to diversify Turkey's economy through the co-ordinated development of natural resources, it was considered necessary to follow a policy of economic expansion which will at the same time raise the standard of living of the Turkish population, which increases by about 750,000 inhabitants each year.

3. Up until 1952 this policy of economic expansion yielded excellent results, particularly in the field of trade. Between 1949 and 1952 exports rose by as much as 80 per cent. At the same time Turkey's imports increased to an exceptional degree. Turkey entered the world market with new export products such as wheat and cotton, which had hitherto only been traded on the domestic market. However, contrary to expectations, exports did not rise at the same rate as imports. The drought years which Turkey has suffered since 1954 aggravated this situation further and hampered the export drive, thus making it impossible to reach the export target. Without going into details, it may be said that the disparity between domestic and international prices, and above all the slackening in trade in agricultural products, had unfavourable influence on exports, as is the case in all countries in the process of economic development. The result was disequilibrium in the trade balance and balance of payments, which in 1952 led the Turkish Government to suspend the liberalization measures which it had been applying successfully since 1950.

4. Government and private investments led to increased imports. Among the factors which brought about an increase in the volume of imports, one may mention first of all the exceptionally high rate of increase in income and investments, as well as the growth of population already referred to. This rise in income, which represented increased purchasing power, was used in particular for the purchase of various capital and consumer goods abroad. The rapid expansion of the trade volume coincided with the application of liberalization measures. At the time when the Turkish Government decided to suspend liberalization, the balance-of-payments deficit was tending to become structural.

5. From 1952 to the present time, Turkey's balance of payments has shown an annual deficit of about 500 million Turkish pounds. More detailed information concerning the 1956 financial year and the outlook for 1957 will be given later.
6. The factors which led to the deterioration in the balance of payments, and to which reference has already been made, are briefly as follows:

(a) a fall in exports since 1953;
(b) a relative rise in imports as compared with exports; since 1950 we have noted a very marked annual increase in imports although the import level remains far below the country's needs and has suffered a net decline in the last few years. This relative rise is mainly due to the expansion of investment in the public and private sectors, to the population increase, and also to the rising standard of living.

7. In view of the foregoing, and also because no economic expansion can be achieved unless a solution is found to the balance-of-payments deficit either by means of investments of foreign capital or by long-term credit, the Turkish Government has taken certain measures in recent years with a view to stabilizing the internal financial situation and the balance of payments.

8. These measures which affect in particular budget, trade, monetary and fiscal questions, may be summarized as follows:

(a) suspension of trade liberalization in 1952, reinstatement of import controls, additional measures to control exchange and import prices;
(b) maintenance of budgetary equilibrium, reductions in public expenditure;
(c) control of bank credit to prevent any increase in the volume of credit;
(d) certain tax reforms;
(e) investments; and
(f) increased productivity.

Among the measures intended to improve the balance-of-payments situation, I wish to make particular reference to action taken in the fiscal and monetary fields.

Fiscal measures

The fiscal measures taken have consisted essentially in introducing a new tax on production to replace the transaction and consumption taxes, in raising the income tax, the taxes on inheritance and real estate and in introducing the so-called Treasury tax. It is expected that these internal measures will yield a revenue of 500 million Turkish pounds, which will ensure budgetary equilibrium. The new production tax will encourage productivity and will indirectly have beneficial effects on the balance of payments. Other legislative provisions applicable to certain branches of industry, such as the petroleum industry, for instance, provide for tax exemption on machinery, plant equipment and complete installations. The law on the petroleum industry grants exemption from all
taxes and internal charges for equipment, tools, machinery and raw materials used for the construction and operation of refineries. All such materials and equipment are also free from all import duties and related taxes.

Monetary measures

Among the monetary measures which may have a favourable influence on the balance of payments, reference may first be made to the steps which have been taken in order to check the expansion of bank credit by establishing selective credit controls. By a decree dated 7 February 1956, a committee known as the "Committee for the Administration of Bank Credit" was established. Its main task is to promote a policy of selective credit in order to prevent the use of bank credit for speculative purposes, particularly in non-productive branches of activity. This Committee also makes credit available depending upon production requirements and productivity in the various economic sectors. The following are some of the decisions which this Committee has taken:

(a) a credit ceiling has been fixed for banks;
(b) the utilization of liquid funds which are immobilized has been made compulsory;
(c) the use of credit for importations of consumer goods has been prohibited; and
(d) steps have been taken to prevent the banks from engaging in real estate transactions in order to avoid a reduction in their liquidities.

These new regulations, which provide for both quantitative and selective restrictions on credit, have so far yielded appreciable results. As a result of these measures the volume of credit granted to the industrial and agricultural sectors has increased considerably, while a decline has been recorded in the trade sector. The annual increase in the amount of credit granted by the Central Bank of the Turkish Republic was about 761 million Turkish pounds in 1955, but the 1956 figure did not exceed 620 million. Furthermore, the rediscount rate was raised from 4.5 per cent to 6 per cent in 1956 in order to check the rate of monetary and credit expansion. A number of other legislative measures are also under consideration, and the relevant bill which provides for a certain flexibility in the rate of interest and is intended to encourage private savings has been submitted to the Turkish National Assembly.

Long-term measures

As regards long-term measures mention should first be made of investments and the financing of economic development. With regard to investments, credit made available in the budget for 1955, 1956 and 1957 amounts to 3,156 million Turkish pounds, representing more than $1,000 million. This credit has been used for the following sectors in particular: industry, mining, energy, agriculture, transport and public works. Such investments, and the resulting
increases in industrial production prevented a further deterioration of the trade deficit, notwithstanding a very sharp drop in agricultural production in the course of the last few years. The following measures have also been taken:

(a) severe controls over the financial transactions of State enterprises (tightening of price control measures and particularly in the whole trade sector);
(b) rents have been frozen at the 1953 level. These measures have had favourable effects on prices in general;
(c) an increase in the retail price and cost of services by enterprises in the public sector.

The situation which I have just outlined led my Government to restrict imports by placing them under licence. At the present time no change can be foreseen in the policy governing the application of these restrictions. The intention is not at present to make any change in the administrative structure of the regulations. In administering the existing system, the following criteria are taken particularly into account in allocating foreign exchange for imports, within the limits of existing availabilities:

(a) the essentiality of goods from the point of view of fuller health;
(b) whether the requests relate to domestic production requirements;
(c) any special factors such as the wish to meet the needs of the people.

Although balance-of-payments difficulties have compelled my Government to suspend liberalization and to introduce quantitative restrictions, it remained nevertheless firmly attached to the principle of multilateral trading. In fact, since deterioration occurred in the balance of payments, the Government has endeavoured by all possible means not to reduce the volume of imports and very liberal consideration has always been given to applications for licences. As in the past, the Turkish Government endeavours to direct its foreign trade towards the European Payments Union countries and the dollar area.

Balance of Payments Prospects for 1957

Statistics regarding the Turkish balance of payments in the first half of 1957 are not yet final. According to estimates, however, they should reach a higher level than in 1956. Such estimates are based in particular on the assumption that receipts from infra-structure equipment and off-shore purchases, as well as Commodity Credit Corporation procurements, would show a considerable increase. Export estimates in 1957 are very close to the 1956 export figures. Imports, on the other hand, tend to decline. It is hoped, however, that in the second half of the year, imports will show an increase to balance the drop in the first half of the year. According to figures available for the first half of the current year, both imports to and exports from the dollar area tend to increase. The Government is trying to maintain trade with EPUB countries at
the level reached last year. In 1956 the value of foreign trade reached 1,939 million Turkish pounds, while a deficit of some 230 million Turkish pounds was recorded in the trade balance. In 1955, these amounts were respectively 2,210 million Turkish pounds and 456 million Turkish pounds. As can be seen from these figures, the trade deficit fell by 50 per cent as compared with the preceding year. This reduction of the balance-of-payments deficit is accounted for by the actual fall in the volume of imports. In 1956 the value of exports dropped by about 23 million Turkish pounds, principally on account of a fall in exports of cotton and hazelnuts. The tightening of import restrictions has affected mainly the following sectors of the domestic economy: textiles, iron and steel, machinery and cement, liquid fuels, chemicals, coffee, etc., and other consumer goods.

The balance-of-payments deficit as a whole is covered by the considerable assistance extended by the United States Government, by credit granted by the International Bank and the International Monetary Fund, by American surpluses, by import credit as well as by various other forms of assistance and credit.

Turkey which is a country in the process of economic development, has, particularly since 1950, addressed itself to the arduous and heavy task of creating a new infrastructure and economic framework. The major part of investments have not yet been fully carried out, but there is no doubt that when they have been completed they will have beneficial results on our balance of payments. At the present time, however, because of the heavy expenditure which is necessary in order to meet the needs of economic development, Turkey is in balance-of-payments difficulties. For the time being, quantitative restrictions are indispensable to meet such difficulties. Consequently, the progressive elimination of such restrictions can only begin as and when the balance of payments is being restored to normal.