Committee on Balance-of-Payments Restrictions

DRAFT 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) documents supplied by the International Monetary Fund as referred to in paragraph 3 below.

2. In conducting the consultation the Committee followed the Plan of Discussion for Consultations recommended by the CONTRACTING PARTIES. The consultation was 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 restriction 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
infrastructure 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.

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 delegation enquired, on the basis of information which it 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. Workers' 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 guarantee deposits, which in the case of these products amount to 70 or 100 per cent, were felt to have a distinctly restrictive effect on imports and one which tends to discriminate against distant suppliers. Deposits on global quota items tended to have similar effects but it seemed especially difficult to understand why such 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 many liberalized goods (and also many goods on the global quota list) are marked AID and can apparently be imported only from the United States. One delegate 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 delegations 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 delegate 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.

Balance-of-payments position and prospects, and alternative measures

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.