

GENERAL AGREEMENT ON TARIFFS AND TRADE

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Working Party on Structural Adjustment
and Trade Policy

RECORD OF DISCUSSION ON COUNTRY CONTRIBUTIONS
RELATING TO EXPERIENCE WITH STRUCTURAL ADJUSTMENT

Turkey
(Spec(82)6/Add.9)

1. The representative of Turkey stated that the statistical tables contained in the Turkish submission in Spec(82)6/Add.9 should be replaced by revised and up-dated tables which he made available to the Working Party. They were circulated as document Spec(82)6/Add.9/Rev.1. Referring to new table 1 he pointed out that in the period 1962-1977 Turkish GNP had shown an average growth rate of 6.5 per cent. After the second oil shock the situation changed dramatically and in 1979 and 1980 the growth rate was negative with -0.4 per cent and -1 per cent respectively. Table 2 showed that the share of agriculture in the Turkish economy had fallen from 39.4 per cent to 20.7 per cent in the period 1962-1982. In the same period the share of industry had increased from 16.1 per cent to 27.7 per cent. A parallel development had taken place as shown in table 4 in Turkish foreign trade where the share of agricultural products had decreased from 79.7 per cent in 1962 to 37.3 per cent in 1982 while during the same timespan the share of industrial products had increased from 20.3 per cent to 59.7 per cent. In the same period the value of imports had risen twelve times compared to their 1962 level, whereby particularly raw materials had taken an increasing share. In the last thirty years the Turkish economy had been characterized by a continuous balance of payments deficit which was mainly due to the chronic deficit in the trade balance. As shown in table 9 that deficit had increased from US\$320 million in 1963 to US\$4,757 million in 1980 and had shown a decreasing tendency only during the last two years. Part of the deficit had been covered by remittances of Turkish workers abroad. Despite the fact that the number of Turkish workers in foreign countries was very high Turkey had one of the highest unemployment rates in the world. As shown in table 10 that rate had risen from 10.37 per cent in 1962 to 18.2 per cent of the active population in 1982, representing about 3.3 million people unemployed. Apart from the economic impact these figures had a strong significance for the political and social structure of Turkey.

2. One member of the Working Party wanted to know what measures had been employed by the Turkish government or industries which had the effect of either encouraging or slowing down the process of structural adjustment (e.g. subsidies, taxation or investment measures, import restraints, reduction of protection, retraining or relocation schemes, etc). Furthermore, he wondered why such measures were employed and what sectors of the economy were involved. The representative of Turkey replied that in its planning effort, both prior to the Second World War and after 1960, Turkey had concentrated on industrialization without however neglecting the

agricultural sector. That effort had aimed at developing the country's potential, profitably utilizing its resources and raising the population's low standard of living. The creation of new industries and production sectors had required support, especially at the beginning, to enable them to attain a certain level of maturity and fit them for free competition based on real comparative advantage. Various measures of the kind mentioned in the question had been applied with a view to ensuring a minimum of national production capacity and protecting the budding, and hence fragile industries. It should be borne in mind, in that regard, that in the years following the creation of the Republic, a private sector and private capital had been almost non-existent in Turkey. It was the State which had been called upon to make the necessary investment effort. Hence, the first nuclei of industrialization had been created by the public sector, which had accounted for a large proportion of the economy especially in the 1930s and 1940s. The 1950s, on the other hand, had seen a strong expansion of the private sector, and the five-year plans adopted since 1960 were only indicative for that sector, which now played a steadily increasing role in the Turkish economy.

3. In that connection, mention had also to be made of the series of measures which Turkey had been applying since January 1980. These measures, initiated on 24 January 1980 and supplemented by others since, aimed at reducing the growing balance-of-payments deficit and the rate of inflation, which had reached a very high level (more than 100 per cent) and at providing the Turkish economy with healthy and balanced conditions that would enable it to function in accordance with free-market rules. Among the measures, mention could be made of a more liberal import régime; the reduction from 25 to 1 per cent in the stamp duty on imports; and, apart from some limited exceptions involving certain commodities and services, the complete cancellation of subsidies to State Economic Enterprises, thus compelling these public enterprises to operate under the rules of free competition. Furthermore, there was foreseen the liberalization of legislation and practices concerning investments of foreign capital; the adoption of a foreign-exchange régime reflecting real international exchange rates on a day-to-day basis; and the freeing of interest rates, thereby mobilizing domestic savings and enabling market mechanisms to play a more important part in the allocation of resources. As a result of the application of that programme of economic, monetary and financial measures, which had received the support of the international agencies concerned and which, taken as a whole, had aimed at increased liberalization of the economy, one could already observe a certain improvement in the conditions affecting the Turkish economy - reflected, by the way, in the figures for 1980-1982 in the tables that had been supplied.

4. In spite of an unfavourable international economic situation, in which protectionist pressure were hardly contributing to an encouraging environment, and in spite of the severe problems Turkey faced as an oil-importing developing country, it had persisted in developing the liberal character of its foreign trade. In addition to the measures outlined above, further important changes of a liberalizing nature had been made in its import régime. However, only time would tell what the final effects of that programme would be; for the present, in spite of certain optimistic and encouraging signs, Turkey's economy had not yet reached the desired levels of production, employment and external trade. The burden of foreign debt

and the negative development of its terms of trade, reflected in table 12, were still being felt by Turkey's economy. Obviously, those factors were having an impact on the levels of employment, utilization of production capacity and inflation, which, although having been reduced by more than two-thirds, still required continuing efforts if it was to be brought down to a reasonable level.

5. Another member of the Working Party wanted to know what percentage of total Turkish GNP was accounted for by external trade. The representative of Turkey provided data which are contained in Annex to this report.

6. The same member was interested to hear whether Turkey had encountered trading problems as a result of rigidities elsewhere in the world economy. In reply, the representative of Turkey said that mention could first of all be made of the difficulties which the oil bill had caused Turkey's economy as a whole and therefore its foreign trade. The amount paid by Turkey for its oil imports represented 75.7 per cent of its export earnings in 1979 and 122 per cent in 1980. What was more, the terms of trade had developed in a manner unfavourable to Turkey. As would be seen from table 12, since 1973 Turkey's terms of trade had deteriorated by 50 per cent. To those difficulties, which had been weighing heavily on the balance-of-payments, must be added the obstacles Turkish exports were encountering in certain countries. Textile products, which constituted an important part of those exports, confronted, or were threatened with, restrictive measures by certain developed countries. The rigidity being shown in that sector by the EEC, its main trading partner, was liable to affect Turkey's trade balance as a whole.

7. The same member wanted to know also the share of employment in the agricultural sector in relation to total employment, the rate of capital formation in the agricultural sector in comparison with the overall average rate, the output per unit of labour and the amount exported in relation to output. The figures given by the representative of Turkey are shown at Annex to this report.

8. Another member of the Working Party was interested to hear more about the objectives and priorities of the current five-year plan of Turkey. The representative of Turkey said that the plan had obligatory character as far as the public sector was concerned while for the private sector it provided only indicative guidelines. The current five-year plan was in its last year of application, a new plan was in elaboration. Since 1980 Turkey had introduced a set of economic measures with the aim of increasing private savings, of providing export incentives and of making maximum use of production capacities. The results of these measures had been very encouraging in particular in the export field where for the first time the share of industrial products surpassed agricultural goods.

9. Another member of the Working Party wanted to know whether Turkey - once infant industries had been established and protective trade measures in their favour were not necessary any more - intended to reduce such measures over time in order to make these industries fully competitive. Furthermore, referring to page 5 of the Turkish submission he wondered whether the decline of Turkish imports of investment and consumption goods was due to the introduction of trade restraints and if so, what were the

reason behind these restraints. The representative of Turkey stated that infant industries were protected in order to enable them to reach a certain capacity and productivity level. Once that stage was reached further protection was not granted. Part of the measures introduced in 1980 had led to a considerable liberalization of imports. Many quota restrictions had been abolished and at present about 90 per cent of Turkish imports were liberalized. The main problem on the import side was the limited availability of foreign exchange and as a consequence import priorities had to be set. He stressed, however, that Turkish imports were always higher than exports, a fact that explained the chronic balance of payments deficit and the heavy burden of external debt.

ANNEX

1. Percentage of total Turkish GNP accounted for by external trade:

<u>Year</u>	<u>External trade (imports & exports) Million LT</u>	<u>GNP Million LT</u>	<u>Ext. trade/GNP %</u>
1977	148,268.2	872,893.8	16.98
1978	172,623.6	1,290,723.4	13.37
1979	261,702.4	2,199,520.0	11.89
1980	985,007.2	4,435,153.0	22.20
1981	1,594,492.5	6,555,500.0	24.32
1982	2,475,552.0	8,656,900.0	28.59

2. Employment in agricultural sector in relation to total employment:

<u>Year</u>	<u>Employment in agriculture(1)</u>	<u>Total employment(2)</u>	<u>1/2</u>
1979	9,537,200	16,640,100	57.3
1980	9,520,000	17,182,600	55.4
1981	9,511,000	17,621,000	53.9
1982	9,981,400	18,081,300	55.2

3. Rate of capital formation in agricultural sector in comparison with overall average rate:

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Agriculture	-2.7	28.1	24.2
Total	-10.9	3.5	4.8

4. Output per unit of labour: 4,398 tonnes per unit in 1980

5. Amount exported in relation to output:

<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
3.93%	4.6%	3.7%	5.4%	9.1%	12.3%