AN EVALUATION OF SOME CONSEQUENCES OF THE TURKISH IMPORT SYSTEM[1]

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Introduction

In the econmic life of a society institutions are formed to perform certain functions and policies are designed to achieve certain objectives. However, in the course of development of the society these institutions and policies may no longer serve the original purpose for which they were created and formulated. In fact there may no longer be a need for their functions and they may even become a hindrance to economic development.

In this paper it will be argued that the Turkish import system is an example of this phenomenon. In early 1950's the system was designed to limit imports to the volume permitted by available foreign exchange and allocate imported raw materials and capital equipment between public and private sector and among producers and firms within each sector. Yet not withstanding the intention of the creation of the system, it has tended to discriminate among activities and between import substitutes and exports. It has built-in allocative biasses against export expansion, thereby tending to prevent an optimal allocation of domestic resources among different sectors. Furethermore the "cost" imposed on the economy by the system outweighs the benefits it confers.

Section 1 outlines the institutional setting and briefly describes the operation of the system; while section 2 shows how the system obstructs an optimal allocation of resources and examines the costs imposed by the system on the economy. Finally, section 3 concludes that the system is far from being optimal and that it needs a revision.

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(1) The arguments put forward within paper are based on the findings of the author's previous work. See, H. Olgun, "The Structure of Protection and Policies of Industrialization in Turkish Manufacturing Industries, 1963-1971" unpublished Ph. D. Dissertation, Johns Hopkins University, Baltimore, 1973.

I. The Institutional Setting

All imports into Turkey are regulated by semi-annual Import Programs jointly prepared by the State Planning Organization (SPO), several ministries, the Chamber of Commerce, Industry and Commodity Exchanges (CCICE) and private firms. Import Programs distinguish between "self-financed" imports and "programmed" or "regulated" imports. The first category comprises imports financed by project credits, private foreign capital, NATO infrastructure, P.L 480 imports, imports with waiver and other imports. These imports do not put any pressure on the free foreign exchange available to the government. The latter category i.e., the programmed imports, are financed through the available free foreign exchange. Since 1986 these imports constituted at least 90 percent of total imports.

Within programmed imports, distinction is made between quota imports and liberalized-list imports. Quota imports are furher divided into regular commodity quotas and assorted quotas which are established to meet the specific requirements of specific industries. Regular commodity quotas specify for each commodity the amount that can be imported whereas the assorted quotas specify the amount of imports for well defined commodity groups and specific commodities. Imports in quota lists are further allocated to "industrialists" and "importers". Industrialists quotas denote the allocations for the direct use of the producers whereas the importers can resell the imported commodity on the market. In constrast to quotas, the liberalized lists include the commodities that can be imported but do not specify any limit on the amount of import. However, the importation of a commodity on the liberalized list is also subject to import licence and payment of the guarantee deposits. Secondly, the amount of total foreign exchange alloted to liberalized imports is also subject to limitation given by total available foreign exchange minus the amount allocated to quota imports. If sufficient foreign exchange is not available requests for imports on liberalized lists are put on a waiting list.

Commodity-by-commodity determination of the compcsition of imports is the most important aspect of the import licensing system in Turkey. Foreign competition against any domestically produced good can be minimized or eliminated by simply allocating a negligible amount of foreign exchange for the importation of that product. A domestic producer can secure a monopoly over the domestic production of a product by exerting his influence through the

Chamber of Commerce and Commodity Exchanges to limit its import.

Another important aspect of the system is that it bans the import of the commodities whose domestic production has expanded sufficiently to meet domestic demand. In principle a commodity not included in the import Programs cannot be imported. Secondly, very small or negligible allocations are made for the importation of luxury or ordinary consumption goods and for the material imports of the industries considered to be of secondary importance. Both these aspects of the import-licensing system exercise an important influence on the allcation of domestic resources.

Thus the crucial point is how and by whom the commodity composition of imports is determined. In practice the final responsibility rests with the Ministry of Commerce which in discharging this responsibility negotiates with other Ministries, the Central Bank, SPO and the CCICE. The role of the SPO in the determination of the imports is only advisory. The SPO's annual projections of domestic demand, domestic production and import requirements for each commodity, classified by sector of origin, are published in Annual Programs, which are taken as a starting point in the determination of the final composition of imports. But the degree of correspondence between SPO projections and those contained in the final Import Program is rahter obscure. Presumably the most influential parties are the Ministry of Commerce, representing public sector, and CCICE representing private sector.

2. The Economic Costs of the System

Besides quantitative restrictions and determination of the commodity composition of imports the system protects and subsidizes domestic production through tariffs and other custom charges on imports. In addition, various incentives are provided to selected activities in the form of tax exemptions. These incentives are designed to influence the profitability of investments and allocations of resources. Thus the first question to be answered is what cost the system, through its influence on the allocation of resources, imposes on the economy.

The Ailocative Biases of the System

One way of determining the ailocative biases of the system is to classify the import licences issued by the Central Bank or the dollar value of allocations in the Import Programs by industry or by

use of imports, e.g. consumption goods raw materials and investment goods. The share of consumption goods both in quota allocations and total imports has declined steadily between 1950 and 1968. The share of food, beverages and tobacco (SITC 0+1) in total imports has declined from 9.08 percent in 1950 to 0.50 percent in 1968. That of consumer durables (SITC 732+733) from 12.12 percent in 1950 to 8.44 percent in 1968. On the other hand, the shares of chemicals (SITC 5) and machinery and transport equipment in total imports have respectively increased from 6.12 percent and 34.67 percent in 1950 to 19.82 percent and 44.93 percent in 1968. The steady change in the composition of imports reflects the advance of the import substitution starting in consumption goods industries and expanding into intermediate goods and capital goods.[1]

The biases of the system are better ascertained by looking at the differences in the extent of subsidy and protection it provides to the industries. For the optimum allocation of resources and for the maximization of consumption possibilities the relative degree of incentives, measured by the effective rate of protection (calculated according to the Balassa method) should be equalized across the industries. If certain industries are to be given a priority, there must be a common rate of discrimination between priority and nonpriority industries (Bertrand, 1972). Furthermore, by providing different rates of effective subsidy to import substitutes and exports the system may create a discrepancy between the profitability of investments in production for domestic markets and exports. Quantitative restrictions and import bans can raise domestic prices well above foreign prices and encourage production for domestic market at the expense of exports. However, in order to induce the flow of resources into export industries the effective rates of subsidy given to exports must be greater than that provided to import substitutes. Judged in the light of these considerations the system is far from being optimal. Our empirical calculations have shown that :

1. There are large differences in the extent of effective protection given to the industries by the protection subsidy system. Thus, the inter-industry structure of protection prevents an optimal alocation of resources.
2. The protection-subsidy system entails a built in bias against exports. It encourages production for domestic markets rather than for exporting.

(1) For the measurements of import substitution for industries between 1963-1970, see (Olgun, 1973).

3. The Promotion Schemes and the resulting benefits accruing to the industries did not considerably modify the inter-industry structure of protection in 1968. Since these Promotion Scheme are usually applied at project level it is possible that they discriminate between firms within an industry (Olgun, 1973).

Other Costs of the System

The restriction of imports enables the licence holders to obtain a quota profit whenever the domestic price exceeds the landed cost of the imported commodity. Quota profits as a percentage of the c.i.f. price of import for selected commodities are presented in the last column of Table 1. In the Table colums 1, 2 and 3 respectively show the value of domestic production, c.i.f. value of imports and f.o.b. value of exports. Column 5 gives the percentage excess of domestic ex-factory price of a commodity over its c.i.f. import price. Column 6, designated as tariff protection, gives the total amount of custom charges including, customs duty municipality tax, wharf tax, stamp duties and import production tax on the commodity as a percentage of c.i.f. price. Quota profits as a percentage of c.i.f. value of import are simply obtained by deducting column 6 from column 5. All commodities in the Table except for ammonium nitrates, asetic acid, and iron plates were on the quota lists in 1968.

Table 1 shows that for most commodities the quota profits were well above 30 percent. Although the quota profits are underestimated due to the fact that the domestic prices are not retail prices but exfactory prices, they may also reflect the quality differences between the domestic and imported variety of a product. Nevertheless, the data indicate the existence of substantial profits.

It is perfectly possible that since 1950's profits obtained in importation have resulted in the accumulation of capital which was later channelled into industry. We do not have sufficient data to examine the role of these profits as a source of commercial capital accumulation, but the nature of the system and the rapid increase in industrial investments in the 1960's suggest that they might have played an important role in capital formation in the private sector. More important than this is the efect of the system on the speed of monopolization of the domestic industries. As we have noted, a producer can eliminate foreign competition by exerting his influence through CCICE. If he is also successful in eliminating domestic competition the system will enable him to obtain large profits as

Table 1 : Quota Profits for Selected Commodities, 1968

Commodity (1)	Domestic Production (Ex-factory Million TL) (2)	Imports (c.i.f., Million TL) (3)	Exports (f.o.b., Million TL) (4)	Percentage Excess of Domestic Over Foreign Price (5)	Tarif Protection (% of c.i.f. value) (6)	Quota Profits (as % of import value) (5) - (6))
Textiles						
Wool Thread	1 000.0	0.75	0.0	119	93	26
Cotton Fabrics	3 200.0	0.40	31.1	157	218	39
Artificial Silk Fabrics	280.0	0.0	0.0	284	212	72
Chemicals						
Caustic Soda	20.7	13.5	0.0	84	57	27
Sulphiric Acid	28.2	11.1	0.0	120	57	63
Ammonium Nitrates	14.4	0.0	0.0	76	53	23
Iron and Steel						
Round Profile	1 029.2	11.8	0.1	106	29	77
Phates	114.3	0.1	0.0	91	59	32
Hot Rolled Sheets	215.4	7.0	0.0	92	57	35
Cold Rolled Sheets	124.2	0.0	0.0	92	57	14
Bars and Rods	26.3	2.0	0.0	66	52	494
Steel Pipe	171.4	0.0	0.0	551	57	87

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Casted Pipe	33.2	0.2	0.0	143	56	87
High Pressure Steel Conduits	97.4	56.4	0.0	210	56	154
Petroleum Products						
LPG	109.0	11.2	0.0	97	39	58
Motorin	1 446.6	41.3	0.0	348	70	278
Miscellaneous						
Wrapping paper	111.0	38.0	0.0	128	126	2
Inner Tubes	39.2	3.3	0.0	623	111	555

Sources : SPO, Annual Program, 1968; 1964 Tariff Schedule

the sole producer of his product. Large profits, in turn, will stimulate rapid expansion and the urge for strengthening the monopoly position. When we compare the history of industrialization of the Western countries with that of Turkey with respect to the time-span required for the rise of monopolies out of competitive, small-scale industries, we will notice that, the transformation of competitive industries into monopolies in Turkey was efected in a much shorter time-span. The inducement to monopolization inherent in the import system and the existence of large profits due to secured and protected domestic markets can be used, along with other economic factors, to explain why and how in a short time period of twenty years we witnessed the rise of monopolies in every branch of the industry, whiie in the mid fiftees there was not a single monopoly except those owned by the State. Among other factors contributing to rapid monopolization, the availability of advanced technology abroad which can be easily transferred and used in domestic production, the availability of cheap labor force flowing from agriculture and the industrialization policies of the governments are the most important.

The elimination of certain imports and quotas imply that there is no pressure on producers to lower the cost of domestic production to world levels or to raise the quality of products to world standards. Since the protection system does not so much discriminate between firms within an industry as it does among the industries, all firms within an industry are almost equally affected and thus they can uniformly transfer the high costs of production to consumers. Higher prices and the restriction of outputs will affect the welfare of the consumers. If consumption is the final purpose of production the loss of welfare due to higher prices is another adverse effect of the system. A study is also available which will enable us to ascertain, to some extent, the effects of the system on individual firms. The study, in which 154 firms in 13 cities were interviewed was conducted by the USAID mission to Turkey in late 1966. Approximately 75 percent of the industrial firms interviewed had 100 or more employees while over twenty percent of the firms employed 10-90 workers. In the following we will summarize the main findings of this study.

The study has found that the quota allocations provided to the industrial firms were far too small. This does not, however, imply that the quota allocations for Turkey as a whole were necessarily below needs. Rather the problem stems from the fact that quotas

have become fragmented so that they may be distributed to a large number of applicants. About one-fifth of the firms interviewed indicated that the semiannual timing of the import programs created problems. Uncertainty as to what allocations might be forthcoming six months later under a new import program led many firms to order as much as they could finance or get licenses for. Other consequences of the system, most of which seem more widespread and significant than under-utilization of capacity are: excessively high inventories of imported items; higher prices for manufactured goods; some deterioration in the quality of the products; misallocation of manegiral talent in dealing with imports, and some discrimination against smaller enterprises and newly established ones.

3. Conclusion

From the above discussion it follows that the import-licencing system has several dimensions some of which are difficult to measure empirically. Among these, excessive bureaucracy and paper work which consume the time and energy of private and public firms and government agencies are the most important. Individual firms have to plan at least a year ahead their import requirements and apply to the local branch of the CCICE for their approval. It follows naturally that scarcity, uncertainty and the existence of price differentials between imported and domestic materials will induce firms to overstate their import requirements and hold high inventories. In a system of rationing the inducement to bribery is also very high.

The distribution of the total quota allocated to the private sector among the individual firms is the responsibility of the CCICE. Allocations to individual firms are made according to the share of the firm in the total amount of applications and some other criteria. Some of these criteria employed in allocating quotas consider the import substitution, domestic employment and income effects of the import. On the other hand, allocation of imports among public enterprises is to some extent influenced by the SPO which in turn emphasises import substitution, creation of domestic employment and income. Thus, the allocative biases of the system derive not

only from the variations of tariff rates between the inputs and outputs of the industries but also from the principles on which the functioning of the system is based.

Considering the arguments we have developed on the functioning and consequences of the import regulation and protection system in Turkey, we can cafely conclude that it is necessary and beneficial to take some steps to modify and improve it.

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ÖZET

Bu yazıda 1950'lerden günümüze kadar ana hatlarında ve işleyiş mekanizmasında önemli bir değişiklik olmadan sürüp gelen Türk ithalât sisteminin bazı sonuçları incelenmektedir.

Birinci kesimde ithalât sisteminin örgütsel yapısı ve çalışması incelenmektedir. Diğer kesimlerde de ithalât sistemi (i) kaynakların dağılımına olan etkileri, (ii) ithal ikamesi ile ihracatı teşvik bakımından göreceli etkileri ve (iii) ekonomiye yüklediği diğer maliyetler açısından incelenmektedir.