

TRADE POLICY REVIEW

TURKEY

Report by the Government

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by the Government of Turkey is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Turkey.

CONTENTS

I.	ECONOMIC ENVIRONMENT.....	4
(i)	Macroeconomic Developments	4
(ii)	Stabilization Program and Aftermath	5
II.	TRADE POLICIES - DYNAMICS OF TRADE POLICIES.....	10
(1)	URUGUAY ROUND AND WTO IMPLEMENTATION.....	11
(i)	Industry	11
(ii)	Information Technology Products.....	11
(iii)	Agriculture	11
(iv)	Anti-Dumping and Subsidies	12
(v)	Technical Barriers to Trade.....	12
(vi)	Investment Measures	12
(vii)	Services	12
(viii)	Intellectual Property Rights.....	13
(ix)	Enforcement of Intellectual Property Rights	14
(x)	Accession Negotiations	14
(xi)	Preferential Treatment for the LLCD's.....	14
(2)	CUSTOMS UNION	14
(i)	Adaptation to the EU's Common Commercial and Competition Policies	15
(ii)	Textiles and Clothing.....	16
(iii)	Approximation of the Turkish Legislation to the Common Competition Policy of the EU.....	17
(iv)	Pan-European Cumulation System	18
(v)	ECSC products.....	18
(vi)	Basic Agricultural Products.....	18
(vii)	Free Trade Agreements.....	19
(viii)	Functioning of the Customs Union.....	19
III.	BILATERAL RELATIONS	20
(i)	North America.....	20
(ii)	Commonwealth of Independent States (CIS)	21
(iii)	Balkans.....	21
(iv)	Central European and Baltic States.....	21
(v)	Middle East Countries.....	21
(vi)	Asia.....	22
(vii)	Central Asia and Caucasus	22
IV.	REGIONAL TRADE ARRANGEMENTS AND COMCEC.....	23
(i)	Economic Cooperation Organization (ECO)	23
(ii)	The Black Sea Economic Cooperation (BSEC).....	23
(iii)	Standing Committee for Economic and Commercial Cooperation (COMCEC)	24
V.	FUTURE DIRECTION OF TURKEY'S FOREIGN TRADE.....	24

I. ECONOMIC ENVIRONMENT

(i) Macroeconomic Developments

1. The past decades have witnessed a significant transformation of the Turkish economy, from a highly protected state-directed system to a market-oriented free enterprise system. During the 1970s Turkey concentrated on domestic growth fuelled by foreign borrowing, which culminated in a period of financial distress and a rescheduling of its external debt. Reforms initiated since 1980 have, among other things, largely removed price controls and reduced subsidies; reduced the role of the public sector in the economy; emphasized growth in the industrial and service sectors; encouraged private investment and savings; liberalized foreign trade, reduced tariffs and promoted export growth; eased capital transfer and exchange controls and encouraged foreign investment; strengthened the independence of the Central Bank and moved to full convertibility of the Turkish Lira; and reformed the tax system.

2. The Turkish economy has responded well to these reforms. Turkey's real GNP growth rate averaged 5.5% during the period from 1984 through 1993. In particular, the industrial base has been significantly broadened, and exports of goods and services have grown rapidly. Financial markets have become broader and more sophisticated. Although Turkey's external debt in relation to GNP increased from 1991 through 1994, Turkey continued to service its external debt.

3. These reforms contributed significantly to the dynamism of private sector and underpinned the flexibility of Turkish economy to adapt to both internal and external shocks. These have been reflected also by the strong growth performance of Turkish economy in the last decade despite some years of unfavorable international environment and internal imbalances.

4. The principal source of economic growth during the 1980s and 1990s was the expansion of exports, which increased at an average of 4.41% per annum during the period from 1988 to 1995. A key contributor to GNP growth during this period was fixed investment, which rose 78.2% per annum on average during the period from 1988 to 1995.

5. Real GNP growth returned to higher levels in 1992 and 1993, with real GNP growing at a rate of 6.4% in 1992 and 8.1% in 1993. The economic growth was attributable in part to private sector consumption (due to increases in real wages and agricultural income in previous year, the increased use of consumer credit and lower effective import prices) and private investment (due to strong domestic demand and increased industrial capacity utilization rates, among others).

6. In 1994, due to the foreign exchange crisis and the Stabilization Program (see Section (ii) below), real GNP declined by 6.1%. In 1995, real GNP grew by 8.0%. The increase in GNP is mainly attributable to the growth in industry and trade sectors which grew by 12.1% and 11.6%, respectively, in 1995. Capacity utilization ratios and industrial production data indicate that the economic growth continued in 1996 and GNP growth was better than expected at 7.4% for 1996. This growth was largely due to an increase in domestic demand, particularly in consumer durables and automobile sales.

7. Real GNP growth registered as 8% for 1997 as a whole. In 1997, the value added in agricultural sector declined by 2.0% whereas industrial and service sectors grew by 10.0% and 8.0%, respectively. The high growth of industrial sector mainly stemmed from the rise in private sector manufacturing production which increased by 14.2%. The government's initial economic program forecasts 3% real economic growth in 1998, compared to 8% in 1997.

(ii) Stabilization Program and Aftermath

8. The combination of high public sector deficits, a high current account deficit and a sharp increase in external indebtedness led to a serious financial crisis in the beginning of 1994. The results were a marked increase in domestic borrowing rates and a sharp depreciation of the Turkish Lira against major currencies. The sharp depreciation of the Turkish Lira also adversely effected the banking sector.

9. On 5 April 1994, the Government announced the "Stabilization Program", designed to achieve a comprehensive macroeconomic stabilization and structural reform and to reduce the macroeconomic imbalances in the economy and re-establish the conditions for sustainable growth.

10. In particular, the Stabilization Program aimed to reduce the rate of inflation, improve the external balance and restore stability to the foreign exchange market. The core of the Stabilization Program consisted of measures to reduce the public sector deficit, supported by a restrained monetary and credit policy.

11. Efforts to restrain public expenditure and boost tax receipts were supported by structural reforms which included privatization, tax reform, a change in agricultural support policy and structural reforms in banking sector. In addition, the Government initiated consultation meetings with the IMF and the new macroeconomic program was supported by an IMF stand-by-programme designed to reduce the macroeconomic imbalances in the economy.

12. Implementation of the Stabilization Program has been broadly successful. Recovery in Turkey's external balances was better than envisaged with the current account swinging into surplus in 1994. In addition, official foreign currency reserves increased and exceeded pre-crisis levels, the public sector borrowing requirement (PSBR) was reduced from 12.2% of GNP in 1993 to 8.1% of GNP in 1994 and stability in the foreign exchange market was restored.

13. The improvement in the public deficit mainly derived from the consolidated budget. The ratio of consolidated budget deficit to GNP declined from 6.7% in 1993 to 3.9% in 1994. The main obstacle to a further reduction in the budget deficit was high domestic interest payments. This is indicated by the improvement in the non-interest budget balance from a deficit of 0.6% of GNP in 1993 to a surplus of 3.8% of GNP in 1994.

14. In the external sector, the 1994 recovery was better than forecast. Exports, which had stagnated in the first five months of 1994, began to increase as a result of the trade weighted effective real exchange rate for Turkish Lira having depreciated, thus making Turkish exports much more competitive, and improving the macroeconomic environment in general. The increase in exports, combined with a decline in imports due to economic recession, resulted in a substantial decline in the trade deficit from U.S. Dollars 14.2 billion in 1993 to U.S. Dollars 4.2 billion in 1994. Parallel to this development, the current account balance recorded a surplus of U.S. Dollars 2.6 billion in 1994, in contrast to current account deficit of U.S. Dollars 6.4 billion in 1993.

15. Stability in the foreign exchange rate was one of the main targets of the Stabilization Program and the rapid depreciation and wide exchange rate fluctuations experienced in the first four months of 1994 slowed substantially from the end of April 1994. The exchange rate with the U.S. dollar, which had depreciated by 131% during the first four months of 1994, depreciated by only 16% during the remainder of the year.

16. However, the inflation resulting under the Stabilization Program was disappointing and contraction in the real economy was sharper than envisaged. The monthly rate of inflation, which declined sharply after the price adjustments of April 1994, began to rise again from September. The annual rates of inflation, reflected in the wholesale price index (WPI) and the consumer price index (CPI), were 149.6% and 125.5%, respectively, in December 1994. Rapid reserve accumulation due to strong recovery in the external sector led to an increase in liquidity and caused aggregate demand to increase in nominal terms.

17. The surge in exports was also a factor that contributed to the increase in aggregate demand. On the supply side, a sharp decline in industrial production and a poor harvest caused aggregate supply to decline. As a result, inflationary pressure in the economy increased, causing inflation to rise despite substantial fiscal restraint.

18. It was inevitable that the austerity measures would cause economic activity to decline. Although GNP increased by 3.5% in the first quarter of 1994, this was due to in part to a continuation of the high growth rate of the previous year, as stated GNP declined by 6.1% in real terms overall in 1994.

Box I.1: Current Account

Turkey has maintained relatively balanced external accounts throughout a roughly 20 year period of strong economic growth and increasing openness to trade. Turkey's economy has been opened at a rapid rate, beginning with the liberalization program of the early 1980's. Turkey's combined exports and imports of goods and services amounted to 50% of GDP in 1997, up from a mere 14% in 1978. During this period, Turkey's merchandise exports and imports grew tenfold while, notably Turkey's current account deficit averaged only 1.7% of GDP since 1981, and it has never exceeded 3.7%.

This strength derives from a diversity of sources of foreign exchange revenues, a very dynamic and consistent expansion of the country's export sectors and supportive foreign exchange policy by the Central Bank,

The diversity of Turkey's foreign exchange earnings is an important and continuing pillar to the country's strong external position. An important contributor to Turkish current account inflows is Turkey's strong balance on services and transfers. Services and transfers are the basic reason that Turkey's trade deficit of nearly 10% of GDP in 1997, resulted in a current account deficit of only about 2.3% of GDP.

19. In order to address the underlying causes of macroeconomic imbalances and to ensure the sustainability of growth in a stable environment, various structural measures were taken in 1994, including the enactment of a new privatization law in November 1994. Cash proceeds from privatization in 1994 including collections of instalments from the previous year were U.S. Dollars 565 million.

20. Under these circumstances, the economy entered 1995 with a more stable picture in both the financial and real sectors. A major aim of monetary policy in 1995 was to reduce inflation but allow sufficient room for economic recovery. Tight fiscal and monetary policies have initially been continued to be pursued. These policies were intended to cause the WPI to fall from its level of 149.6% in year-on-year terms at the end of 1994, and by the end of 1995 WPI had realized as 64.9%.

21. As far as the 1995 figures are concerned, GNP grew by 8.0%, the industry sector increased by 12.1%, the services sector grew by 6.4% and the agricultural sector grew by 2.6%.

22. In 1996, the Turkish economy grew far more than expected. The growth rate highly exceeded the official target of 4.5% and equaled to 7.1%. The expected growth rate was relatively lower mainly due to two factors. First, it was opposed that the introduction of the Customs Union with the EU would slow down the growth rate by means of increasing competitive imports. Second and more importantly, general elections at the end of 1995 increased the possibility of putting the long-awaited stabilization policies into effect via a new Government. However, though competitive imports in general, and consumer goods imports in particular, showed a remarkable increase, the real growth rate remained high.

23. In 1996, the GNP increased by 7.1%. Regarding the sub-sectors, trade was the best performing sector with a growth rate of 8.9%. The transportation sector followed the trade sector with a growth rate of 7.6%. The industrial sector grew by 7.1% whereas the agricultural sector went up by 4.4%. On a year-on year basis, consumer price inflation was 79.8% at the end of 1996 and wholesale price inflation was 84.9%.

24. Industrial output showed an increase of 7.1% in 1996 over 1995. The trade deficit increased from U.S. Dollars 13.2 billion in 1995 to U.S. Dollars 18.5 billion in 1996. Besides, when the adjustment for shuttle trade is added to the foreign trade figures, the current account deficit declines to U.S. Dollars 1.8 billion for 1996. However, the current account deficit rose to 2.4 billion dollars in 1997 as a result of sharp decline in shuttle trade.

25. In 1997, the budget was prepared as a balanced budget based on the expected revenues from "resource packages". Revenues were targeted to increase by 6.8 percentage points over 1996 and reach 24.7% of GNP. Expenditures on the other hand were budgeted to decline by 2.0 percentage points to 24.7% of GNP mainly due to the sharp drop in interest expenditures. However, expected revenues from resource packages fell significantly short of the targets, while non-interest expenditures rose sharply during the first half of the year. Hence, an additional budget was approved by the Parliament. The bulk of the additional budget was allocated to the personnel expenditures, social security transfers, interest payments, and state participation to public banks and payments for duty losses.

26. During the preparation of 1998 Budget in October 1997, budget deficit was estimated to be 2.625 trillion TL for 1997 as a whole representing 9.0% of GNP. However, thanks to the strong performance of tax revenues in the last quarter and control in investment expenditures and non-interest transfers, budget deficit for 1997 was realized lower than projected in early October. Budget deficit for 1997 was realized as 2.232 trillion TL representing 7.5% of GNP. Primary balance, on the other hand, yielded a surplus of 0.2% of GNP.

27. In the last years, despite the significant gains in GNP growth and the establishment of an outward oriented economic structure, progress in fiscal consolidation and in controlling inflation fell short of the targets.

28. Growing public sector deficit became the major concern on the agenda and remained to be the main problem facing the economy. As stated below, PSBR/GNP ratio fell to 7.9% in 1994 and further to 5.2% in 1995. Fiscal stance became moderately expansionary in the last quarter of 1995 before the early election and public sector borrowing requirement rose by 3.8 percentage points over 1995 and reached 9.0% in 1996 and stood around 8.2% in 1997.

29. The increasing pressure of the public sector on the financial system and the rise of interest rates led to the shortening of the term structure and persistence of inflationary expectations.

Box I.2: Privatization

The Privatization Program, which constitutes one of the most integral parts of the irreversible transformation process of Turkey, aims to minimize state's involvement in the economy, while increasing the levels of productivity and efficiency of production in general, to even further increase the levels of employment and also targeting deepen the existing capital market by promoting wider ownership.

Although Turkey embarked on a plan to privatize a large part of its public sector, the progress has been slow mainly due to legal obstacles for many years. Upon formation of a political and social consensus on the needs for privatization, the new privatization law has been enacted in November 1994 with the Law No. 4046. Since 1985 a total of 173 companies have been taken into the privatization portfolio and 128 of them were fully or partially privatized either via sale of shares or asset sale, in 100 of them no state shares were left.

Since the inception of the new government in June 1997 the privatization efforts have been accelerated. Currently there are 43 enterprises slated for privatization covering a variety of sectors including among others textiles, petrochemicals, oil and petroleum refining, agro-industry, shipping and ship building, maritime, airlines, tourism, iron and steel, pulp and paper industry, insurance, mining and banking companies and some real estates and 28 of them have more than 50% state shares.

The 1998 privatization programme targets gross sales of US Dollars 12.2 billion, including US Dollars 7.6 billion earmarked for the budget. About US Dollars 4.6 billion is expected to be generated from the privatization implementations by Privatization Administration. This amount will be used for the financing the companies in the privatization portfolio in the form of capital increase, loans and transfer to Treasury.

30. In sum, the macroeconomic performance of the Turkish economy in recent years can be best described as strong output growth backed with fiscal expansion and an accommodating monetary policy. In this process, price increases tended to accelerate significantly, while primary public balance turned into a deficit in 1997 following the surpluses in 1995 and 1996.

31. Taking into account these unsustainable developments the government formed in June 1997 has decided to embark upon a three year structural adjustment and stabilization program beginning from 1998. The primary objective of the medium-term program is to pave the way for a "catching up" period to narrow income and productivity differentials with our partners and to set a sound basis for an healthy integration with EU countries. To this end, macroeconomic stability needs to be restored and a structural change is to be achieved.

32. In the way to achieve macroeconomic stability, the major challenge is to bring fiscal deficit onto a sustainable basis in the next few years. The program attributes great importance to maintain a primary budget surplus for a sustained reduction in inflation.

Box I. 3: Exchange Rate and Monetary Policies

As a result of the implementation of the new program, an exchange rate policy which aims at maintaining exchange rates in conformity with the targeted inflation rate started to be followed.

Turkey follows a flexible exchange rate policy under which the exchange rate for the Turkish lira is market-determined. On each business day, Central Bank of Turkey announces an indicative exchange rate which is freely determined by taking into account the developments in the international as well as domestic markets.

Additionally, Central Bank's exchange rate policy is conducted by taking into account the sustainability of the current account balance and inflation. The interest rates are also modified in response to inflationary expectations.

The pressure of public deficit, which grew rapidly during the recent years, has made it difficult to implement monetary policies effectively. In order to enhance the Central Bank's ability to control monetary aggregates and establish lasting stability in the financial markets, some measures have been taken under the Stability Program. Within this framework, a restriction is imposed upon the Central Bank credits to the Treasury and to the other public agencies. In this context, short-term advances to be made to the Treasury has been limited to 12% of the difference between the general budget appropriations of the current and the previous fiscal year for 1995. This ratio was 10% for 1996, 6% for 1997, and will be 3% for 1998 and the following years.

After forming of the new government, in 1997, the Treasury and the Central Bank signed a Protocol in order to cooperate in fighting inflation. The official aim of this accord is to give the Central Bank more freedom by allowing it to determine interest rates and monetary policy. The Treasury will conduct its monetary relations with the Central Bank, including the use of short-term advances, in coherence with the monetary program. This will give a guarantee to the Central Bank to implement the monetary program in an efficient way. All credits extended to the public sector by the Central Bank will be under full information of the Treasury and utmost care will be taken in order not to cause a derogation from the monetary program.

Based on this accord, the monetary program was prepared by the Central Bank and was announced to the public in January 1998. This monetary program was planned to be a part of a more comprehensive medium-term program to reduce the inflation.

According to the program the main goal of the Central Bank was to support the implementation of measures aimed at decreasing the annual inflation rate to 70% during the first half of 1998 in accordance with the macroeconomic targets. Reserve money was targeted to increase in the 18-20% band during the first quarter of 1998. Central Bank aimed to continue to limit increase in net domestic assets and create money against the increase in net foreign assets in the first quarter of 1998. On the other hand exchange rate policy was aimed at being implemented in consistency with the inflation rate. The short-term interest rate policy of the Central Bank was also aimed at being consistent with the tight monetary policy.

It was observed that, as of 1 April 1998, the conduct of the monetary program in the first quarter has been consistent with the anticipated framework.

The monetary policy pursued during the first quarter of 1998 has generally continued in the second quarter of the year.

With the implementation of the monetary program,

- The increase of wholesale price index with respect to the previous month's value was 1.6% in June 1998, while this rate was equal to 3.4% in June 1997.

- The wholesale price index increased by 26.4% within the first six months of 1998, while this rate was 36.6% in the same period of previous year.

33. Within the medium term program it is targeted that GNP growth will be around its long run growth rate of 4.0% on average during 1998-2000. Fiscal adjustment will continue to maintain a surplus of 4% of GNP and at the end of the program budget deficit-GNP ratio is estimated to decline to 2.1%. This fiscal adjustment coupled with forward indexation of wages and salaries is expected to lower inflation rate to single digit levels at 2000.

34. In this context, Turkey has signed a staff monitored program with IMF and announced in June 1998. The program will last for 18 months and be monitored by IMF staff on a quarterly basis. The aim of the program is to provide support for the Turkish Government in decreasing inflation rate to the target levels of the medium term program.

II. TRADE POLICIES-DYNAMICS OF TRADE POLICIES

35. Turkey has strongly been committed to following the path to free trade with rest of the world. In this line, two main factors greatly contributed to pursue a liberal foreign trade system based on the principles of free and fair competition, non-discrimination and elimination of barriers to trade. The first is the obligations to be fulfilled under the World Trade Organization and the second is the relations with the European Union aiming at full membership of Turkey.

36. It is interesting to note that the completion of the Customs Union between the European Union and Turkey had been realized in the same period as the commencement of the implementation of the Uruguay Round outcomes and the establishment of World Trade Organization.

37. Within the wider WTO framework, the Customs Union has been continuing to be the main determinant formulating foreign trade policies of Turkey. The steps that Turkey has taken, or will take, in compliance with its commitments for the proper functioning of the Customs Union are parallel to its commitments *vis-à-vis* the World Trade Organization. This situation certainly facilitates Turkey's implementation of the provisions of the Uruguay Round Final Act.

38. In this respect, Turkey has been implementing the provisions of the Final Act without encountering serious difficulties since they closely follow the EU legislation.

39. On the other hand, in order to meet its commitment of harmonizing its trade regime in line with that of EU, Turkey has signed free trade agreements with many countries and negotiations with some other are continuing.

40. The regional trade arrangements are other factors which occupy significant place in the formation of Turkey's trade relations. Considering them as complementary elements to the multilateral trading system, Turkey has followed active policies in promoting regional co-operation schemes in adjacent regions. The Black Sea Economic Cooperation, recently turned into a regional economic organization in June 1998, and the Economic Cooperation Organization (ECO) illustrates the intention of Turkey in this direction.

41. Owing to its unique geographical position which makes it a country with European, Middle Eastern, Balkan, Caucasian, Mediterranean and Black Sea identities, Turkey is obliged to have a wide spectrum of bilateral economic relations with countries from all over the world in different fora. In this regard, Turkey has established a solid economic basis for stable and fruitful cooperation with many countries, especially with her neighbours through bilateral trade and economic agreements.

(1) URUGUAY ROUND AND WTO IMPLEMENTATION

42. Turkey acceded to the GATT in 1951 under the Torquay Protocol as a developing country and has participated in all rounds of multilateral trade negotiations actively including the Uruguay Round. With the single undertaking signed in Marrakesh on 15 April 1994, Turkey became an original Member of WTO on 26 March 1995 and bound by the obligations of all Uruguay Round Agreements excluding the Plurilateral Agreements.

43. In this regard, Turkey has assumed new rights and fulfilled its obligations both in areas covered by GATT disciplines and in new areas such as Agreement on Trade in Services, TRIPS and TRIMs.

(i) Industry

44. In her Uruguay Round list for the industrial goods, Turkey provided 29% tariff reduction in compliance with the Marrakesh Protocol. But apart from this commitment, Turkey, with formation of a customs union with the EU in 1996, adopted the EU's Common Customs Tariff against imports from third countries. Thus, Turkey provided one of the most generous reductions with respect to average rate of protection applicable in 1986, which is the date when the negotiations were launched (see Chapter II(2)).

45. On the other hand, in compliance with the Textiles and Clothing Agreement, at the beginning of the second phase, on 1 January 1998, Turkey has integrated the products which accounted for 18.03% of total volume of her imports of 1990. Furthermore, the products in category 124 have been integrated into the GATT on 1 January 1998. It represents 29.07% of 1990 imports into Turkey by volume.

(ii) Information Technology Products

46. As one of the participant countries to The Ministerial Declaration on Trade in Information Technology Products (ITA) which was signed on 13 December 1996 in Singapore at the conclusion of the first WTO Ministerial Conference, Turkey committed to phase out customs duties on information technology products as of 1 January 2000.

47. In compliance with this commitment the first two stages of reduction were put into force due to the completion of domestic procedural requirements and appended to the 1998 Import Regime as of 1 January 1998.

48. Since then, Turkey actively participated to the works carried out within the framework of Committee of Participants on the Expansion of Trade in Information Technology Products (ITA Committee).

(iii) Agriculture

49. In accordance with the Agreement on Agriculture, Turkey bound 100% of duties on agricultural products and undertook to reduce the agricultural tariffs by 24% on a simple average basis, with a minimum reduction rate of 10% for each tariff line over a 10 year period (by the year 2004).

50. Since the domestic support implementation of Turkey was well below the "de minimis level" no reduction commitment had been assumed in this area.

51. For export subsidies, Turkey committed the value of the export subsidies between 1986-1990 and 1991-92 would be reduced by 24% in the 10 year period and the quantity of subsidized exports by 14% over the same period.

(iv) Anti-Dumping and Subsidies

52. Turkey revised her existing legislation on subsidies and countervailing measures and anti-dumping measures in conformity with the new rules and disciplines. Furthermore, Turkey also revised her incentive system in compliance with the Agreement on Subsidies and Countervailing Measures (see Chapter II(2)(iii)).

(v) Technical Barriers to Trade

53. The Agreement on Technical Barriers to Trade of the WTO has been implemented in Turkey since 1 January 1995. In this line, TBT Enquiry Point has been set up in Turkey.

54. On the other hand, as a result of the Customs Union, Turkey has integrated its legislation into the legislation of European Union concerning the removal of technical barriers to trade (See Box II.2).

(vi) Investment Measures

55. Trade and Investment liberalization has gained weight in the globalizing world economy in the last decades. In this line, Turkey attributed considerable importance to the foreign investment and pursued liberal foreign policies since 1980's. "The Law Concerning the Encouragement of Foreign Capital" provides foreign capital the same rights and obligations as the domestic capital and guarantees the transfer of profits, fees and royalties and the repatriation of capital in the event of liquidation or sale.

56. In this context, Turkey has faced no difficulty to harmonize its legislation with the new rules set forth in the Trade Related Investment Measures (TRIMs) Agreement.

(vii) Services

57. Turkey recognizes the growing importance of trade in services for the growth and development of the world economy and believes that by the effective application of GATS, the efficiency and competitiveness of the services sectors of the developing countries will increase and the expansion of the services exports of them will also be achieved.

58. Turkey actively participated in the Uruguay Round services negotiations and the negotiations taken place after the Round, such as negotiations on telecommunication and financial services. For the time being, Turkey's schedule of commitments covers most of the services listed in "Services Sectoral Classification List" (MTN.GNS/W/120) and has the same liberalization level as in the schedules provided by most of the developed countries.

Box II.1: ServicesTelecommunication Services

Turkey signed the 4th Protocol on Telecommunication Services on 17 November 1997. In the voice telephone services part of Turkey's current offer; it is stated that "Türk Telekomünikasyon A.Ş. is the exclusive operator and its exclusive right will end by 31.12.2005, subject to adoption of the relevant legislation by the Parliament". It means that, by 1.1.2006 the voice telephone services market in Turkey will be open to both domestic and foreign investors and Turkey is also trying to establish an independent "Regulatory Body" to rule and supervise the domestic market.

Financial Services

In 1997, Turkey had negotiations with some of the member countries on financial services and submitted the final version of its list to the Committee on Trade in Financial Services on 12 December 1997. Within a very short period of time, Turkey is planning to sign the 5th Protocol on financial services.

Maritime Transport Services

Negotiations on maritime transport services will begin by 2000 within the new WTO round and Turkey is planning to be an active party in these negotiations by taking into account of its current offer list on maritime transport services as a starting point.

Movement of Natural Persons

Initially, Turkey submitted an offer list on movement of natural persons which has the same liberalization level as developed countries provided. Therefore, Turkey did not sign the 3rd Protocol. Her position is at stand-still towards the new negotiations which will begin in 2000.

Professional Services

Turkey's current offer list contains most of the professional services like "Engineering and Architectural Services" and "Accounting, Auditing and Bookkeeping Services". Turkey is actively participating the Committee meetings on professional services.

(viii) Intellectual Property Rights

59. It is important to note that intellectual property protection is one of the core factors to ensure fair competition in global economy. Thus, Turkey has made considerable progress towards updating and harmonizing its legislation with universally acclaimed principles. In this context, Turkey attaches great importance to the full implementation of the TRIPS Agreement.

60. Although having totally five year transition period until the year 2000, Turkey has adopted her national industrial and intellectual property legislation for patents, trademarks, industrial designs and geographical indications in June 1995. All elements of this legislation are not only compatible with TRIPS standards but also contain much better and more effective provisions. This progress shows that Turkey is the first developing country that amended her national legislation according to TRIPS Agreement.

61. Considering the coverage and age of the previous legislation, the progress made especially in the field of industrial property protection can be called as revolution. In this regard, Turkey has established a special government authority having administrative and financial autonomy named Turkish Patent Institute for administration of Industrial Property Rights and to establish an efficient and contemporary industrial property system with the Decree Law 544 on 24 June 1994.

(ix) Enforcement of Intellectual Property Rights

62. The Commercial Courts and General Civil Courts have been given the material jurisdiction on civil infringement actions. The complaint of the right owner is a requirement to bring a criminal action. The Court has the power to grant injunctions for cessation and prevention of the infringing acts, and for the provisional seizure of the infringing goods and devices.

(x) Accession Negotiations

63. Liberalized international trading system based on clear and transparent principles of free and fair competition will contribute to the improvement of the global welfare. Therefore, WTO membership constitutes an important step for the countries willing to integrate to the world economic system.

64. In this framework, Turkey has constantly been supporting especially the countries of BSEC and ECO to become WTO members sharing her experience, including necessary legislation directed to promotion and liberalization of trade with all countries in accordance with the WTO rules and disciplines.

(xi) Preferential Treatment for the LLCD's

65. Being aware of the importance of integrating the least-developed countries to the world economic system and preventing their marginalization, Turkey supported the initiatives launched within the framework of High Level Meeting for the LLCD's held in Geneva on 27-28 October 1997 in line with the relevant provisions of the Singapore Ministerial Declaration. Within this context, Turkey assumed to grant additional tariff preferences to the export products of these countries.

66. The list including the products subject to preferential treatment was promulgated in the Official Gazette and put into effect under the Import Regime of Turkey as effective of 1 January 1998.

67. This unilateral preferential treatment envisages 556 products originating in the least developed countries to be imported into Turkey as duty-free, except two products.

(2) CUSTOMS UNION

68. In 1963, the Treaty of Ankara, which envisages the eligibility of Turkey to become a full member of the EC was concluded. The Treaty provided for several stages in order to enable Turkey to prepare itself for full membership.

69. Turkish-EU relations culminated in 1996 with the establishment of the Customs Union which is the most important development affecting Turkish economy since the adoption of liberalization measures by the 1980s. The framework of the Customs Union was drawn by the Additional Protocol to the Ankara Agreement signed in 1970. After a transition stage of 22 years, the parties established the Customs Union as of 1 January 1996, in accordance with the provisions of the Turkey-EU Customs Union Decision No. 1/95 (CUD) (WT/REG22/1).

70. Customs Union constitutes an advanced form of integration with its far-reaching perspective and comprehensive context covering a wide range of policies. It should be borne in mind that Turkey is the first and only country to enter into such an advanced form of economic integration without

being a full member. As it is a unique case for the EU, there are several issues other than tariff reductions where Turkey and the EU agree to cooperate.

71. In this regard, apart from the elimination of customs duties on EU imports and the adoption of the common customs tariff for imports from third countries, the Customs Union Decision necessitates of a wide range of legislation covering all aspects of trade, participation in several conventions on intellectual, industrial and commercial property rights and harmonization to the technical standards of the EU.

72. The Customs Union initially covers industrial and processed agricultural products. Traditional agricultural products will be included in the Customs Union following Turkey's adaptation to the Community's Common Agricultural Policy.

73. In this context:

- Turkey eliminated all customs duties and charges having equivalent effect applied to imports of industrial products from the EU;
- Turkey started to apply the Community's Common Customs Tariff (CCT) for imports from third countries with the exception of a limited number of products listed in Turkey-EU Association Council Decision No. 2/95 (WT/REG22/2) for which Turkey may retain customs duties higher than the Common Customs Tariff for further 5 years;
- Turkey and the EU established a system for processed agricultural products, in which parties differentiate between the agricultural and industrial components, for the duties applicable to those products and abolished the duties for the industrial component.
- Consequently, as of 1 January 1996, free circulation of goods between Turkey and the EU has been established. The following products can benefit from free circulation:
 - (a) Goods produced in the EU or in Turkey, including those obtained from third country products in free circulation in the EU or Turkey;
 - (b) Third country goods which are in free circulation in the EU or in Turkey;
 - (c) Goods obtained in the EU or in Turkey and incorporating third country products not in free circulation in the EU or in Turkey, provided that import formalities in respect of the third country components are completed in the exporting country and the relevant customs duties or taxes having equivalent effect collected.
- Turkey's weighted average rates of protection through customs duties including Mass Housing Fund Levy on industrial imports from the EU and EFTA countries dropped from approximately 10 % to 0. For products imported from the third countries, these rates declined from approximately 15% to 5.6%. It is projected that when reductions are made under the Uruguay Round commitments, Turkey's average rates will be lowered to 3.5% by the year 2001.

(i) Adaptation to the EU's Common Commercial and Competition Policies

74. Developments in the world trade as well as the present degree of integration in Europe changed the previous definition of the Turkey-EU Customs Union in a broader context so as to include implementation of identical commercial and competition rules applicable to both in bilateral

trade and in trade with third countries. In order to prevent trade diversion and facilitate proper functioning of the Customs Union, Decision No. 1/95 obliges Turkey to adopt EU's Common Commercial and Competition Policies.

75. In accordance with the relevant provisions of the Customs Union Decision, Turkey adopted measures which are substantially similar to those of the Community's commercial policy in the following fields (see Table I):

- Common rules for imports,
- Administration of quotas,
- Protection against dumped or subsidized imports,
- New Commercial Policy Instrument,
- Common rules for imports from certain third countries,
- Common rules on textile imports,
- Common rules for exports,
- Officially supported export credits,
- Autonomous arrangements on textile imports,
- Standardization on foreign trade,
- Preferential regime of the Community,
- Inward processing regime,
- Outward processing regime.

(ii) Textiles and Clothing

76. One of the most important aspects of the Customs Union between Turkey and the European Union is the Turkey's adoption of the EU's textiles and clothing restraints included in the Common Commercial Policy measures, in conformity with the Article XXIV of GATT 1994. The quantitative restrictions and surveillance measures applied by the EU on some textiles and clothing products originating in certain third countries are the integral part of this Policy.

77. Article 12 of the Decision No. 1/95 of the Turkey-EEC Association Council concerning the textile products, stipulates that:

"In conformity with the requirements of Article XXIV of the GATT, Turkey will apply as from the date of entry into force of this Decision, substantially the same commercial policy as the Community in the textile sector including the agreements or arrangements on trade in textile and clothing."

78. In this context, after inviting countries concerned to enter into consultations, as of 1 January 1996, all restrictions and surveillance measures were put into force and Turkey started to apply exactly the same measures against 52 countries, as of those of the EU.

79. Unless these measures had been put into force by Turkey, trade diversion would have occurred between the Parties and this could have prevented the proper functioning of the Customs Union. Turkey is continuously making necessary changes in the measures regarding the imports of textile and clothing products in line with the changes in the European Union's textile policy. At the beginning of the 1998, quantitative restrictions on textile products originating in Central and Eastern European Countries and some Mediterranean countries were abolished, in parallel to the EU's implementation.

80. In order to control textile and clothing imports originating in the countries concerned under double checking system, it is necessary to have agreements for administrative arrangements. Until now, Memorandum of Understandings (MOU) have been initialed or signed with 24 countries, including important suppliers for the Turkish market; such as Pakistan, Malaysia, China, South Korea and Indonesia.

81. By these agreements, the quota levels are determined bilaterally and the control of the trade flow is given to the authorities of the exporting countries through the issuance of the export licenses.

82. These arrangements are based on the provisions of the agreements on trade in textile products between the European Union and the related countries. MOUs contain similar provisions on rules of origin, classification of goods, import and export procedures, inward processing and outward processing trade.

83. Since the trade volume of the previous years and the trade potential between the Parties were fully taken into account in determining the levels of the quantitative restrictions, either the conclusion of the Memorandum of Understandings or the restraints applied without an agreement do not negatively affect traditional trade flows between the Parties. On the other hand, the surveillance measures, which aim only to follow the trade statistics do not foresee any quantitative restrictions.

84. In the single checking system, the quotas are distributed among importers in accordance with the past performance criteria by the Undersecretariat of Foreign Trade. For the new importers in the market, a share is also provided on the first come-first served basis.

85. All these measures and the latest developments with respect to the abolishment of the restraints were already notified to the appropriate WTO bodies.

(iii) Approximation of the Turkish legislation to the Common Competition Policy of the EU

86. A great progress is achieved with entry into force of the laws on protection of competition and protection of consumers, as well as Laws on patents, copyrights, trade marks and industrial designs, ensuring the internationally recognized norms of competition in Turkey (see Table II).

87. A Decree on state aids compatible with the system in force in the EU and the relevant provisions of the WTO Agreement subsidies and countervailing duties has entered into force. This Decree limits the scope of state aid to research and development, protection of environment, market research and promotion activities abroad.

88. "Law on the Protection of Competition" entered into force in December 1994. The Constitution has already, by virtue of its Article 167/1, put the state authorities under the obligation to take measures to ensure and promote sound, orderly functioning of markets and to prevent the formation, in practice or by agreement of monopolies and cartels. For this reason, adoption of the new competition code has been an important step not only for the achievement of a stipulation of the Customs Union but also for the fulfilment of the above-mentioned constitutional order.

89. The Competition Code provides a general prohibition of competition-restricting practices and indicates examples of prohibited agreements; it also contains a general prohibition for abuses of dominant position, and finally regulates merger control. In 1997, the Board of Competition has been established to enforce the Competition Law.

Box II.2: Technical Legislation Harmonization

The Articles 8-11 of the CUD sets the general framework of technical harmonization, such as standardization, conformity assessment, measurement, calibration, quality, accreditation, testing and certification. The detailed list of the legislation to be harmonized was determined by Turkey-EC Association Council Decision No. 2/97, on 21 May 1997.

In this line, initial steps towards adaptation to the EU's industrial standards have been realized with the adoption of the "Regime on Standardization in Foreign Trade" which aims at controlling the practices of standardization and conformity assessment under a single legislation. The Regime provides transparency in the implementations, assembling all the dispersed regulations regarding standardization policies in Turkey and establishing a legal base for harmonization of the Turkish legislation with legislation of the Community. The Regime is also in conformity with the requirements laid down in the Agreement on Technical Barriers to Trade of the World Trade Organization.

On the other hand, the Regulation on "The Type Approval for Motor Vehicles" has been prepared and put into force. The harmonization work on the Community Directives and Regulations has been continuing. According to Customs Union Decision No 1/95, the final date for the harmonization of technical legislation with that of EU is 31 December 2000.

(iv) Pan-European Cumulation System

90. Turkey will be a part of the Pan-European Cumulation System starting from 1 January 1999, which facilitates the free flow of trade without origin barriers between the EU, EFTA and Central and Eastern European Countries. The system enables the Parties to benefit from production facilities all over the Europe and provide them with cheaper production possibilities.

(v) ECSC products

91. The Customs Union is reinforced with a free trade agreement signed on 26 July 1996 on products covered by the European Coal and Steel Community. Since the entry into force on 1 August 1996 (WT/REG 22/1/ Add.1), EU has removed immediately all the tariffs on ECSC products of Turkish origin.

92. On the other hand, with an exception of 142 items, which include long steel and alloy steel products, tariffs are removed immediately on all ECSC products of the EU origin by Turkey too. The above mentioned 142 items are subject to a transitional period of 3 years, for which tariffs will be reduced gradually and shall be totally eliminated by the end of 1998.

(vi) Basic Agricultural Products

93. For basic agricultural products Turkey and the EU have agreed to develop the existing preferential trade regime in agricultural sector so as to allow Turkey to adapt its agricultural policy to that of the EC. In that respect, consecutive negotiations on better market access possibilities for agricultural products have been held between the parties within the period of 1993-97.

94. As a result of these negotiations, Turkey acquired concessions as tariff quotas and/or duty reductions in a number of products namely tomato paste, poultry meat, sheep and goat meat, olive oil, cheese, certain fresh fruits and vegetables, hazelnuts, fruit juices, marmalade and jams on a product/product group basis.

95. In that respect, concessions have been granted to the Community side on live bovine animals, frozen meat, butter, cheese, seeds of vegetable and flower, flower bulbs, apples, peaches, potato, cereals, refined or raw vegetable oil, sugar, tomato paste, some alcoholic beverages and animal feedstuff.

96. In this framework, the Protocol texts and the concession lists have been initialed, and the related Decree concerning the above mentioned concessions was published in the TR Official Gazette No. 23225 of 9 January 1998. Following the entry into force as of 1 January 1998 of the Turkey-EU Association Council Decision No. 1/98 regarding the reciprocal concessions, the relevant Communiqué was published in May 1998.

(vii) Free Trade Agreements

97. According to the Article 16 of the Association Council Decision establishing the Customs Union, Turkey shall align itself progressively with the preferential customs regime of the EU, which rests on the sets of autonomous regimes and preferential agreements, within five years starting from 1 January 1996. Article 16 of the Association Council Decision No:1/95 and its Annex 10 set the rules and modalities of the alignment and also provide that Turkey will take the necessary measures and negotiate agreements on a mutually advantageous basis with the countries concerned. Turkey gives priority to the adaptation of preferential agreements concluded between the EU and the third countries in which reciprocal trade provisions have been sought. Within the context of the Association Council Decision, Turkey stated that the priority will be given to the following preferential agreements: Israel, Hungary, Bulgaria, Poland, Romania, Slovakia, Czech Republic, Estonia, Latvia, Lithuania, Morocco, Tunisia, and Egypt.

98. In this respect, the Free Trade Agreement (FTA) between Turkey and the EFTA States which was signed in 1991 was the first step on the way to the adoption of the preferential regimes of the EU. Turkey concluded FTA Agreements with Israel in March 1996, with Hungary in January 1997, with Romania in April 1997, with Lithuania and Estonia in June 1997, with the Czech and the Slovak Republics in July 1997, with Slovenia in May 1998, with Latvia in June 1998 and finally with Bulgaria in July 1998.

99. Free Trade Agreements entered into force on 1 May 1997 with Israel, on 1 February 1998 with Romania, on 1 March 1998 with Lithuania and on 1 April 1998 with Hungary. The FTAs with Czech and Slovak Republics and Estonia were ratified by the National Assembly and will be put into force before the end of 1998.

100. On the other hand, FTA negotiations still continue with Poland, and exploratory talks will be initiated with Tunisia, Morocco, Egypt, Malta, and Palestine.

101. General objectives of these Free Trade Agreements are to align with the EU's Preferential Trade Policy, to establish free trade area between the parties through gradual reduction of trade barriers, to increase the trade volume between the parties, to improve the parties' competitiveness with cheaper inputs from the other party, to create joint investment possibilities in and out of European markets and to improve cooperation among the parties' businessmen.

(viii) Functioning of the Customs Union

102. The Customs Union expanded trade between Turkey and the EU in 1996 and this trend continued in 1997. Although the EU exports to Turkey expanded significantly and Turkey's trade deficit with the EU doubled from \$5 billion to \$10 billion, Turkish industries have managed to adjust

themselves to the new competitive environment without excessive damage in most cases. Turkey's entry into customs union with the EU without receiving economic and financial assistance indicates the resilience of the Turkish economy and its leading industries.

103. In the first year of the Customs Union, the EU exports to Turkey rose sharply while Turkey's exports to the EU have been stagnating. The figures for 1996 indicate a slight increase of 4.2 % for Turkish exports as compared to the previous year, whereas Turkish imports showed an extraordinary increase of 37.2% during the same period. Similarly, the share of the EU in Turkey's total exports which was 51.2 % in 1995 was reduced to 49.7 % in 1996 and to 46.7 % in 1997. Meanwhile, the share of the EU in Turkey's imports shifted from 47.2 % to 53 % in 1996 and to 51.2 in 1997. Turkey's main partners in the EU were Germany, Italy, UK and France.

104. In 1996, Turkey's total exports and imports were 23.2 billion dollars and 43.6 billion dollars respectively which, in turn, correspond to a trade deficit of 20.4 billion dollars. 11.6 billion dollars of this deficit was with the member countries of the EU. In 1997, Turkey's total exports were 26.2 billion dollars while its imports were 48.5 billion dollars.

105. Even though a portion of this trend is attributable to overheating of the Turkish economy in 1996 and to heavy investment in machinery, it seems that the EU exporters are enjoying the benefits of the Customs Union far beyond the initial expectations. The moderate increase in Turkey's exports to the EU during 1996 and 1997 was far below of any anticipation.

III. BILATERAL RELATIONS

(i) North America

(a) U.S.A.

106. By the significant increase in the volume of trade between Turkey and the U.S.A. over the last decade, Turkish imports from the U.S.A. reached approximately U.S Dollars 4 billion in 1997, while Turkish exports to the U.S.A. were of U.S. Dollars 2 billion in the same year. The bilateral trade figures indicate a sizable trade deficit against Turkey.

107. The U.S.A. has been applying quantitative restrictions on a large range of textiles and clothing categories imported from Turkey under the Multi-Fibre Arrangement (MFA) since 1984, and under the World Trade Organization Agreement on Textiles and Clothing (ATC) since 1995. The U.S.A. imposes countervailing duties on steel tubes and non-egg dry pasta imports of Turkish origin. In addition, antidumping duties have been put into effect by the U.S. on Turkish exports of non-egg dry pasta and rebar exports.

(b) Canada

108. The bilateral trade between Turkey and Canada has shown an increasing trend in the last five years' period. In 1997, Turkey's imports from Canada were registered as U.S. Dollars 311 million, and Turkey's exports to Canada were realized as U.S. Dollars 117 million. The trade deficit against Turkey reached U.S. Dollars 194 million. Canada applies quantitative restrictions on some textiles and clothing products imported from Turkey.

(ii) Commonwealth of Independent States (CIS)

109. After dissolution of the Soviet Union, a new market for the Turkish exports has appeared which also brought about a great opportunity to Turkey regarding the supply of its basic needs of economy. For that reason, the trade volume with C.I.S. increased on the annual average rate of 30.2% during the period of 1992-1997 from U.S. Dollars 1.9 billion to U.S. Dollars 7.1 billion in 1997.

110. The main trade partner in this group is the Russian Federation, representing a share of 59 % in total. In 1997 the Turkish exports to Russia is U.S. Dollars 2.1 billion and imports from Russia is U.S. Dollars 2.2 billion reaching the trade volume of U.S. Dollars 4,2 billion. Besides these figures, the shuttle trade which is estimated approximately 5-6 billion US\$, brings Russia to the top position in Turkish foreign trade. It is certain that as the new natural gas pipeline projects foreseeing the delivery of the Russian gas to Turkey in coming years are realised, bilateral trade will rise sharply.

(iii) Balkans

111. Since 1992, trade with Balkan countries has been increasing. It reached to U.S. Dollars 1.7 billion in 1997 indicating an annual average increase of 16.8 %. In this region, Romania and Bulgaria are the main partners of Turkey and it is very likely that the trade volume will rise accordingly as the free trade agreements with those are put into force.

(iv) Central European and Baltic States

112. Turkey gives special importance to the development of trade and economic relations with these countries. The trade volume has risen to U.S. Dollars 814 million in 1997 from U.S. Dollars 633 million in 1992.

113. In addition, finalisation of the free trade agreements with Hungary, Czech Republic, Slovakia and all the Baltic States will surely contribute to the bilateral trade relations.

(v) Middle East Countries

114. Turkey's exports to the Middle East Countries realised as U.S. Dollars 2.68 billion (10.2% of total) in 1997, while imports from these countries stood at U.S. Dollars 3.12 billion.

115. Turkey's main export items to the countries in this region are iron and steel products, foodstuff, textile products and machinery products. On the other hand, imports from the region is concentrated on crude oil and petroleum products.

116. Compared with 1980's, it is observed that the volume of trade between Turkey and the Middle East Countries has decreased in 1990's. Main reasons of this can be summarised as the embargo imposed on Iraq by the UN, negative effects of the Gulf Crisis, falling of the world crude oil prices.

117. However, taking into consideration the alleviating of the embargo imposed on Iraq, middle east peace process, Turkey's increasing energy demand and liberalisation activities in the region, bilateral trade is expected to increase in coming years.

(vi) Asia

118. The rise in the share of Asian in world trade also stimulates Turkey's trade relations with them. The total trade which had been approximately U.S. Dollars 3.7 billion in 1992 reached to U.S. Dollars 7.7 billion in 1997 with an increase of 108%. While Singapore, Hong Kong and Japan hold the lead in Turkey's exports to the region, Japan is the main source of imports.

119. In the last decade, Turkish exports to Japan has shown a decreasing trend, while Turkish imports from Japan has increased sharply. In 1997, Turkey's imports from Japan were realized as U.S. Dollars 2.04 billion and Turkish exports to Japan were registered as U.S. Dollars 144 million. Thus, the trade deficit against Turkey reached U.S. Dollars 1.9 billion in the same year.

120. Turkey's imports from China have been increasing steadily since 1992 (U.S. Dollars 539 million, U.S. Dollars 556,5 million and U.S. Dollars 787.5 million in 1995, 1996 and 1997 respectively), whereas its exports to this country that reached its peak in 1993 with U.S. Dollars 512 million, displayed sharp decreases in 1994 and 1995 resulting in U.S. Dollars 355 million and U.S. Dollars 67 million respectively. By 1997, Turkish exports to China have been realized as U.S. Dollars 44.4 million.

121. Within this context, taking into account the great potential of China, Turkish Government has embarked on a comprehensive program aiming at increasing Turkey's exports to China and overcoming the huge trade deficit against Turkey.

122. Besides, with the aim to diversify the orientation of Turkish exports in Asia-Pacific region, Turkey has been trying to establish comprehensive commercial and economic relations with countries in the region like Vietnam, a country which owns a great potential.

(vii) Central Asia and Caucasus

123. Turkey's trade relations have been increasing with Newly Independent States of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) and of Caucasus (Azerbaijan and Georgia). Total exports of Turkey to these countries were U.S. Dollars 196 million in 1992 and reached U.S. Dollars 1.081 million in 1997, Turkey's imports realized as U.S. Dollars 95 million and U.S. Dollars 465 million respectively for the same years.

124. Turkey's main export commodities in 1997 to the countries in the region are foodstuffs (U.S. Dollars 330 million, 30.5% of the total), machines (U.S. Dollars 110 million, 10.1% of the total), textile products (U.S. Dollars 101 million, 9.3% of the total) and chemical industry products (U.S. Dollars 93 million, 8.6% of the total).

125. The composition of Turkey's imports from the region depends on the natural resources of each country, in 1997 non-ferrous metals comprised 60% and iron-steel 30% of Turkey's total imports from Kazakhstan; cotton 80% of Turkey's total imports from Uzbekistan; cotton 65% of Turkey's total imports from Turkmenistan; cotton 26% and leather 24% of Turkey's total imports from Azerbaijan; iron-steel 30% of Turkey's total imports from Georgia and cotton 35% and leather 30% of Turkey's total imports from Kyrgyzstan.

IV. REGIONAL TRADE ARRANGEMENTS AND COMCEC

(i) Economic Cooperation Organization (ECO)

126. The Economic Cooperation Organization (ECO) was established in 1985 as a trilateral organization among Iran, Pakistan and Turkey to promote regional cooperation. Its aim and work procedures are identical with those of its forerunner, the Regional Cooperation for Development (RCD), which had remained in existence from 1964 to 1979.

127. The ECO covers vast areas of cooperation in the fields of economic and infrastructure development, agriculture, science, education, culture, public works and the transfer of technology.

128. In February 1992, the ECO was expanded to include those six Central Asian republics, as well as Afghanistan. With the adhesion of these countries ECO became a major regional organization encompassing an area of 7 million sq. kilometres, inhabited by nearly 300 million people.

129. There are many ongoing projects aiming for the promotion of trade and economic cooperation among the member countries of ECO;

- ECO Trade and Development Bank
- ECO Reinsurance Company
- ECO Shipping Company
- ECO Air Company
- ECO Science Foundation
- ECO Cultural Institute
- Agreement on Simplification of VISA Procedures for Businessmen of ECO Countries
- ECO Transit Trade Agreement
- The Protocol on Preferential Tariffs Among ECO Members

(ii) The Black Sea Economic Cooperation (BSEC)

130. The Black Sea Economic Cooperation (BSEC) project is a regional economic co-operation arrangement, established on 25 June 1992 by 11 states Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Turkey and Ukraine covering a vast economic area from the Adriatic to the Pacific with a total population of 325 million. The member states signed the "Charter of the Organization of the Black Sea Economic Cooperation" on June 1998 in Yalta, which transforms the Cooperation into a Regional Economic Cooperation.

131. The main objective of the Cooperation is to develop and diversify existing economic relations among its members by making efficient use of the advantages arising from their geographical proximity, their traditional ties, the complementary nature of their economies and large economic space and market.

132. The establishment of a BSEC Free Trade Area covering the BSEC region and further integrating its member countries into the New European Architecture has been a major goal since the very inception of the BSEC.

133. In this context, the BSEC Special meeting with the participation of the Ministers responsible for Economic Affairs on 7 February 1997 in Istanbul adopted the Declaration Of Intent For The Establishment Of The BSEC Free Trade Area.

134. The project of the BSEC Free Trade Area is not only important for the direct economic benefits to be acquired by the member countries (increased intra-regional trade, increased foreign investment, increased efficiency among the productive sectors of the BSEC countries) but also as the step that will prepare BSEC to become an integral part in a larger European economic space.

135. Taking into account the legal commitments of some BSEC member states with the EU and the aspirations of the majority of them to become full members, it is clear that any effort to create a BSEC FTA will be possible only through extensive discussions between BSEC and the EU.

(iii) Standing Committee For Economic and Commercial Cooperation (COMCEC)

136. COMCEC is one of the three standing Committees established by the Third Islamic Summit Conference held in Mecca and Taif in 1981. Since its First Session in November 1984, COMCEC adopted the document entitled "Action Plan to Strengthen Economic Cooperation among member States", as the basic starting point of its activities approved at the Third Islamic Summit and comprising suggestions for the development of cooperation in the different fields of activity. A new Action Plan was adopted by the COMCEC in 1994, updating the Action Plan adopted in 1981.

137. The new strategy handles economic cooperation among the member countries with an approach different from that of the previous period. Under this different approach, the principle of "collective self-sufficiency" is replaced by the concept of integration with the world economy, and in this connection, the importance of economic liberalization and the private sector is stressed. One new element of the strategy, with a view to carry on cooperation within a more realistic and flexible structure, is to have voluntary participation and to form regional sub-groups among countries with common interests, for cooperation.

V. FUTURE DIRECTION OF TURKEY'S FOREIGN TRADE

138. Since the structural adjustment program of 1980, Turkey has been pursuing liberal economic and trade policies with the objective of establishing a free market economy and integrating with the world economic system.

139. Undoubtedly, Turkey will continue to pursue liberal economic and trade policies based on the principles of free and fair competition, non-discrimination and elimination of technical barriers.

140. In this context, Turkey's foreign trade policy will be conducted in compliance with its commitments arising from the WTO and the customs union with the EU. The customs union is the most comprehensive and far reaching element that contributes to strengthening Turkey's expanding role in the world economic system. However, emphasis must be given to the fact that the customs union could not be regarded as the ultimate stage in Turkish-EU relations, rather it should be completed by full membership.

141. Turkey, committed to the expansion of world trade, will further strengthen its bilateral relations with all countries, including those which are not yet integrated into the multilateral trading system established under the WTO system.

142. Considering their positive overall impact on international trade as well as on the multilateral trading system and its regulatory framework, regional integration arrangements will also be the key elements in Turkey's future agenda.

Table I
Adaptation of common commercial policy instruments of the EU

AREA	EU LEGISLATION	CORRESPONDING LEGISLATION ENACTED BY TURKEY
Common Rules for Imports	Council Reg. (EC) No. 3285/94	Decree No. 95/6814 on Surveillance and Safeguard Measures for Imports and the Administration of Quotas and Tariff Quotas, and Implementing Regulation on Surveillance and Safeguard Measures for Imports (Official Gazette dated June 1, 1995, 22300).
Common Rules for Imports from Certain Third Countries	Council Reg. (EC) No. 519/94	Decree No. 95/7348 on Surveillance and Safeguard Measures for Imports of Products Originating in Certain Countries (Official Gazette dated October 19, 1995, 22438) and Implementation Regulation (Official Gazette dated November 1, 1995, 22450).
Administration of Quotas	Council Reg. (EC) No. 520/94 Com. Reg. (EC) No. 738/94	Decree No. 95/6814 on Surveillance and Safeguard Measures for Imports and the Administration of Quotas and Tariff Quotas, and Implementing Regulation on Surveillance and Safeguard Measures for Imports (Official Gazette dated June 1, 1995, 22300). Decree No. 95/7616 on Quota and Tariff Quota Administration on Exports (Official Gazette dated December 31, 1995, 22510)
Protection Against Dumped or Subsidized Imports	Council Reg. (EC) No 384/96 Council Reg. (EC) No. 3284/94	Law No 3577 on Prevention of Unfair Competition on Imports will be amended in accordance with new EU legislation and the UR Final Act. Draft legislation has been presented to the Parliament.
New Commercial Policy Instrument	Council Reg. (EC) No. 3286/94 (amended by Council Reg. No. 356/95 (EC))	Decree No. 95/7608 on the Protection of Commercial Rights of Turkey and relevant Regulation (Official Gazette dated December 31, 1995, 22510).
Common Rules for Exports	Council Reg. (EEC) No 2603/69	Export Regime Decree and Regulation (Official Gazette dated January 6, 1996, 22515).
Officially Supported Export Credits	Council Dec. (EEC) 112/93	Communication (Export 96/12) (Official Gazette dated January 23, 1996, 22532)
Common Rules on Textile Imports	Council Reg. (EEC) No. 3030/93	Decree No. 95/6815 on Surveillance and Safeguard Measures on Imports of Certain Textile Products, and Implementing Regulation on Surveillance and Safeguard Measures on Imports of Certain Textile Products (Official Gazette dated June 1, 1995, 22300)
Autonomous Arrangements on Textile Imports	Council Reg. (EC) No. 517/94	Decree No. 95/6816 and Implementing Regulation on Surveillance and Safeguard Measures on Importation of Textile Products from Certain Third Countries Not Covered by Bilateral Agreements, Protocols or Other Arrangements, or by Other Specific Import Rules (Official Gazette dated June 1, 1995, 22300)
Standardization on Foreign Trade		The Standardization Regime was renewed by Decree No. 96/7794 on Technical Arrangements and Standardization on Foreign Trade (Official Gazette dated February 1, 1996, 22541)
Preferential Regime of the Community		FTAs have been signed with EFTA States, Israel, Hungary, Romania, Estonia, Lithuania, Latvia, Czech and Slovak Republics, Slovenia and Bulgaria. Negotiations are continuing with Poland. Preliminary works with Morocco, Tunisia, Egypt. In order to adopt the preferential regimes (Lomé Convention, GSP) of the EU, Turkey has started the preparatory works.
Inward Processing Regime	Council Reg. (EEC) No. 2913/92 Commission Reg. (EEC) No. 2454/93	Decree No. 95/7615 on Inward Processing Regime (Official Gazette dated December 31, 1995, 22510)
Outward Processing Regime	Council Reg. (EEC) No. 2913/92 Commission Reg. (EEC) No. 2454/93	Communication (Official Gazette dated January 5, 1996, 22514). Decree No. 95/7617 on Outward Processing Regime (Official Gazette dated December 31, 1995, 22510)
Outward Processing regime for textile and clothing products (economic OPT regime)	Council Reg. (EC) 3036/94 Commission Reg. (EC) 3017/95	Communication (Official Gazette dated January 24, 1996, 22533). Decree No. 96/8703 on Economic Outward Processing Arrangements Applicable to Certain Textiles and Clothing Products Reimported into Turkey After Processing in Certain Third Countries (Official Gazette dated December 29, 1996)
		Implementation Regulation (Official Gazette dated January 3, 1997)

Table II.
adaptation of the competition policy of the EU

AREA	EU LEGISLATION	LEGISLATION ENACTED BY TURKEY SO FAR (CORRESPONDING TURKISH LEGISLATION)
Competition (The prevention of unfair competition)	Rome Treaty Articles 85- 91	<u>Law No. 4054</u> on Protection of Competition (Official Gazette 22140, dated December 13, 1994) <u>Law No. 97/9090</u> on Appointment of the Competition Board (Official Gazette 22918, dated February 27, 1997)
State Aid	Rome Treaty Articles 92-94	Turkey has two years in order to adopt the related provisions of the EU legislation, with the exception of textiles sector in which Turkey has accepted the harmonization before the entry into force of the Decision No.1/95. In this context, Decree No. 94/6401 Concerning State Aid on Exports was issued in 1995. (Official Gazette dated January 11, 1995) A Declaration was given to Commission regarding the state aids to the textiles sector in September 1995. This Declaration was accepted by the European Commission. In accordance with its commitment, Turkey has adopted the state aid programs of the EU in this sector from 1.1.1996 onwards.
The Protection of Intellectual, Industrial and Commercial Property Rights	Several Agreements and Council Regulations and Directives	<u>Decree No. 95/544</u> on the Establishment of the Turkish Patent Institute (Official Gazette dated June 24, 1995) <u>Law No. 4117</u> on adoption to the Paris Act (1971) related to Bern Convention. (Official Gazette July 12, 1995) <u>Law No. 4116</u> on adoption to Rome Convention (1961) (Official Gazette July 12, 1995) <u>Decree No. 95/7094</u> on adoption to Nice Agreement <u>Law No. 4115</u> on adoption to Patent Cooperation Treaty (1970, including the amendments) <u>Decree No.95/7094</u> on adoption to Vienna Agreement on figurative elements of Trademarks (Official Gazette dated August 13, 1995, 22373) <u>Decree No. 5903</u> on adoption of Stockholm Text of the Paris Agreement on the Protection of Industrial Property <u>Law No. 4128</u> on the Arrangement of the Penalty Provisions Related to Industrial Property Rights. <u>Law No. 4110</u> amending Several Provisions of the Law No.5848 on Intellectual and Artistic Works. (Official Gazette dated June 27, 1995, 22311) <u>Decree No. 95/551</u> on the Protection of Patent Rights (Official Gazette dated June 27, 1995, 22326) <u>Decree No. 556</u> on the Protection of Trademarks (Official Gazette dated 27, June 1995, 22326) <u>Decree No. 554</u> on the Protection of Industrial Designs (Official Gazette dated 27, June 1995, 22326) <u>Decree No.555</u> on the Protection of Geographical Indicators (Official Gazette dated 27, June 1995, 22326) <u>Decree No.97/9731</u> on adoption to the "Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks", "Locarno Agreement Establishing an International Classification for Industrial Designs" and "Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the purposes of Patent Procedure". (Official Gazette dated August 22, 1997, 23088) <u>Law No. 4077</u> on the Protection of Consumers (Official Gazette dated March 8, 1995, 22221) Implementation Regulations (Official Gazette dated August 15,1995,22375)
The Protection of Consumers		