

094014



REPORT TO THE CONGRESS

United States Economic Assistance
To Turkey

B-125085

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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C To the Speaker of the House of Representatives
and the President pro tempore of the Senate

This is our report on United States economic assistance to Turkey.

We made our review pursuant to the Budget and Accounting Act, 1921 (31 U.S.C 53), and the Accounting and Auditing Act of 1950 (31 U.S.C 67)

We are sending copies of this report to the Director, Office of Management and Budget, the Secretaries of State and Commerce, and the Administrator of the Agency for International Development

James B. Adams

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
EEC	European Economic Community
GAO	General Accounting Office
NATO	North Atlantic Treaty Organization
PARA	Policy Analysis and Resource Allocation

D I G E S T

WHY THE REVIEW WAS MADE

Over the past 27 years, the United States has provided Turkey with \$6.7 billion of assistance-- \$3.7 billion for military assistance and \$3 billion for economic assistance. Target dates set for the early 1970s by the Turkish and United States Governments for phasing out concessionary aid to Turkey have come and gone. (See pp 5 and 21)

GAO made the review to determine whether results were commensurate with the aid provided and to determine the need for continuing large amounts of assistance. GAO examined major constraints on attaining U.S. foreign policy objectives. The review is part of GAO's continuing effort to assist the Congress in making decisions on U.S. foreign assistance programs. (See p. 8)

FINDINGS AND CONCLUSIONS

Formal U S Policy Planning

U S. programs and activities in Turkey have changed in size, direction, and emphasis since the early 1950s. Although policy guidance is being provided by Washington and by the U.S Mission, these programs have operated in Turkey without benefit of an approved policy paper setting forth U.S. priorities, objectives, and goals.

U S. officials recognize the need for a formal policy paper, the

importance of having a clear assessment of U.S. vital interests, and the cost of maintaining those interests. (See p. 9)

The Policy Analysis and Resource Allocation (PARA) exercise for Turkey, now being developed by U.S. officials, is a useful and desirable effort that can help clarify present and future direction of U.S. programs in Turkey. (See pp. 10 and 11)

GAO suggests that several important areas be given careful consideration in developing the PARA paper, including

- the phaseout of U.S. concessional aid,
- the recently revoked opium poppy ban,
- a U.S. trade strategy, and
- the level of U.S. military assistance and activity. (See p. 11.)

United States and Turkey
Move Toward Phaseout

Despite a decade of discussions directed toward phasing out U.S. concessional economic assistance by 1973, the Agency for International Development (AID) program in Turkey continues.

Recent economic events and assistance trends in Turkey have created a favorable climate for phasing out U.S. economic assistance.

- Certain types of U.S. aid are no longer needed.

- AID has had difficulty placing funds allocated for Turkey's development.
- Non-U.S. aid has increased considerably.
- Most important, Turkey's economic performance has improved greatly since 1970. The Department of State and AID have not developed a plan with specific target dates for such a phaseout.

Worldwide increases in oil prices will raise the amount of foreign exchange that Turkey, as well as other countries, must spend for crude oil imports. This factor and any major change in the high level of remittances from Turkish workers abroad could affect a continuing requirement for concessional assistance. (See pp 21 and 25.)

U S Assumption of Turkey's Debt to the European Fund

In December 1972 the U S. Treasury received a total of \$355.5 million in canceled claims, cash, and a long-term concessional loan to Turkey of \$114 million as its share of the liquidation of the European Fund, a part of the European Monetary Agreement. The liquidation resulted in a substantial recapture of assets for the United States and provided significant benefits for Turkey. (See p 26)

The Congress and its foreign affairs committees have not been fully informed of the U.S. role in this transaction. The fiscal year 1974 AID program presentation to the Congress in May 1973 did not discuss the new \$114 million U.S. loan or the debt relief it represents.

Thus it did not provide full and timely information to congressional committees responsible for authorizing and appropriating U.S. economic assistance. (See pp. 30 to 34.)

Liquidating the European Fund was a one-time occurrence, but it is a vivid example of how U.S. assistance can be provided through unexpected channels. It shows that Department of State and AID procedures for reporting all U.S. assistance flows to less developed countries are neither systematic nor adequate.

The recently approved Foreign Assistance Act of 1973 requires the President to report on all forms of debt relief and on net aid flows provided by the United States. (See pp. 28 and 33.)

The Turkish Opium Poppy Ban

U.S. diplomatic initiatives succeeded in convincing the Turkish Government to ban the growing of opium poppies. Although the United States agreed to provide more than \$35 million in support of the Turkish decision, the ban was a difficult step to take and generated considerable controversy in Turkey.

On July 1, 1974, the Turkish Government revoked the ban and announced that opium cultivation would be permitted in six provinces and parts of a seventh beginning in the fall. Progress of agricultural development activities to aid the former poppy farmers has been very slow. In GAO's view, the lack of success in developing new sources of income for former poppy farmers was instrumental in the Turkish decision to revoke the ban.

The U.S. diplomatic success resulting in the nationwide poppy ban was achieved, in large part, because Turkey is a staunch North Atlantic

Treaty Organization (NATO) ally receiving substantial U.S. economic and military assistance. Although economic and political considerations are important, the issue of a poppy ban must also be considered in the context of the longstanding U.S. and Turkish NATO defense relationships. (See pp. 35 and 43 to 46.)

U S Trade and Investment in Turkey

The U.S. share of Turkey's imports has declined as U.S. economic assistance has declined. This is an apparent result of Turkey's stronger alliance with the European Economic Community and its member countries in recent years.

The U.S. trade effort in Turkey has received less emphasis than other U.S. objectives in an era of changing economic conditions in that country. In addition, there is evidence the Departments of State and Commerce are not acting in harmony with respect to the direction and emphasis of U.S. trade efforts in Turkey.

Meanwhile the ambiguous attitude of the Turkish Government toward foreign investors has, over the years, tended to discourage foreign private investment. (See p. 53)

RECOMMENDATIONS

GAO recommends that the Secretary of State and the Administrator of AID, taking into account the full range

of U.S. political, military, and economic interests, develop an overall plan with firm target dates and integrated strategies for reducing and phasing out U.S. economic assistance to Turkey. (See p. 25.)

GAO recommends also that the Secretary of State, in cooperation with the Treasury and AID, insure that all efforts and agreements to relieve debt service burdens are more fully and systematically reported to the Congress, preferably in a unified presentation of all U.S. assistance flows to developing countries. (See p. 34.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of State and AID agree with GAO's recommendations. The Department does not agree, however, that U.S. acquisition of Turkey's debt on lower terms, upon liquidation of the European Monetary Agreement, constitutes U.S. assistance to Turkey. Complete State and AID comments, which are classified, are contained in a supplement to this report available to authorized persons. (See pp. 57 and 58.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

The Congress may wish to review with appropriate executive agencies any proposed phaseout plan for ending concessional economic assistance to Turkey because of the importance of interrelated U.S. political, military, and strategic interests. (See p. 25.)

CHAPTER 1

INTRODUCTION

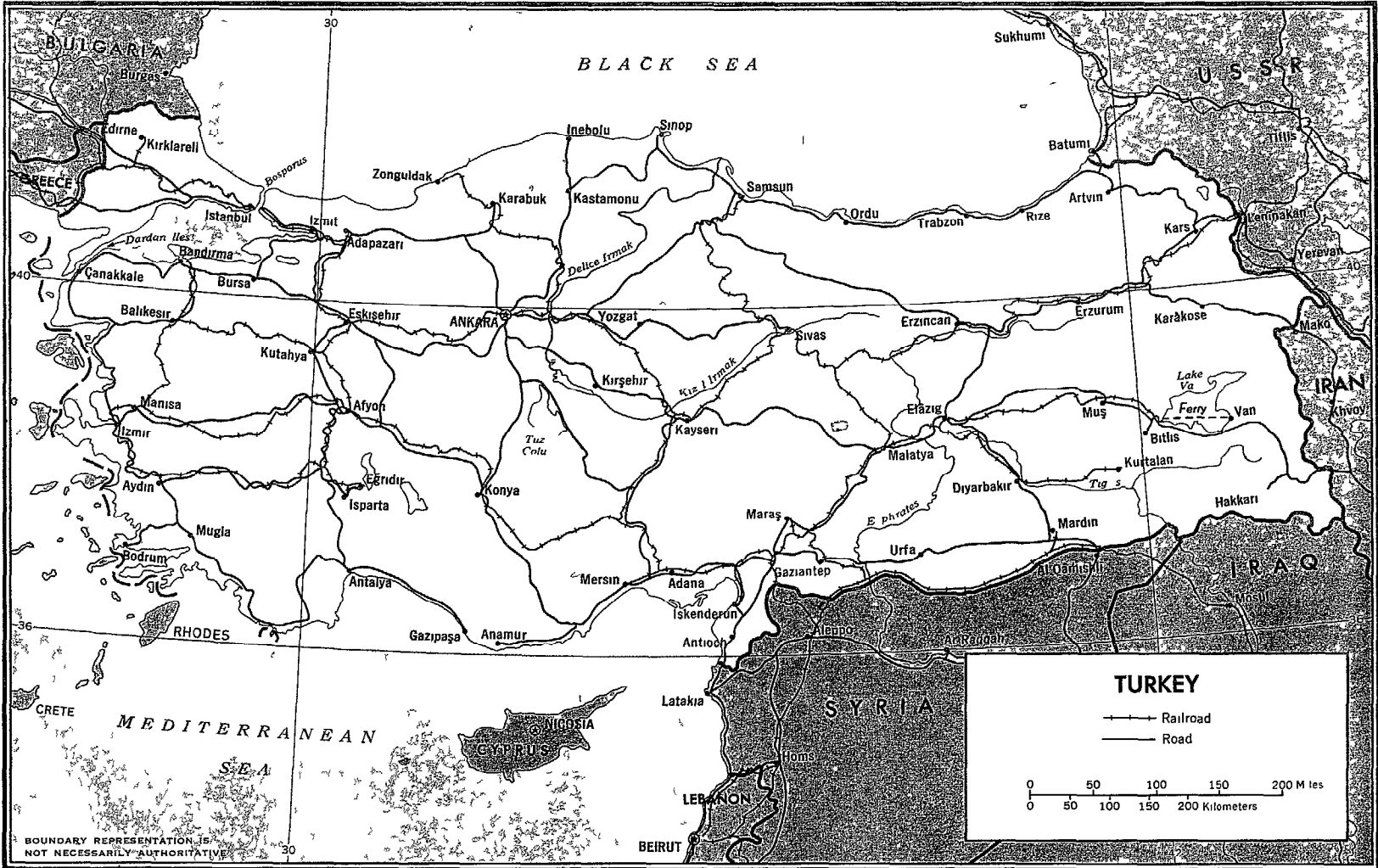
Economically the 1960s was the longest period of sustained and rapid progress in Turkey's history, with the gross national product growth averaging more than 6.5 percent annually since 1962. To counteract a slowdown in exports and the development of overly protected industrial growth, a major economic reform program, including the devaluation of the Turkish lira and the liberalization of imports, was carried out in 1970. The Turkish Government has a 15-year integrated economic development program consisting of three 5-year plans covering 1963-77.

The Turkish economy is predominately agricultural (mainly grains, cotton, and tobacco), with about two-thirds of the labor force in farming and related occupations. The country also has a wide range of mineral resources, but they have not been fully explored and are still being developed. Government owned or controlled enterprises account for about half the country's industrial output.

Turkey's largest industry is textile manufacturing, its main exports are cotton, fruits and nuts, and tobacco, and its major imports are machinery and raw materials. The primary trading partners are the European Economic Community (EEC) member countries and the United States. With an annual per capita gross national product of about \$378 in 1972, Turkey is attempting to narrow the considerable gap between its economy and the thriving economies of Western Europe as it moves from associate membership toward full membership in the EEC.

TURKEY'S ECONOMIC PROGRESS

In the Agency for International Development (AID) congressional presentation for fiscal year 1974, Turkey is described as "a dynamic economy able to feed its people, provide expanded educational and social benefits, and fuel a rapid rise in per capita income." Industrial production increased about 10 percent in 1972, and the overall economy grew by 7.8 percent. Per capita gross national product reached \$378 in 1972, a relatively high figure for a less developed country.



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Turkey's balance of payments has improved dramatically in the last few years, largely as a result of remittances from some 1 million Turkish workers abroad. The savings these workers send home represent a large part of their earnings and has become the major net source of foreign exchange. They account for the recent sharp rise in Turkey's net reserves. Workers' remittances increased from \$141 million in 1969 to about \$740 million in 1972 and over \$1 billion in 1973.

Foreign exchange reserves have risen to record high levels, from \$300 million in 1970 to \$2 billion in January 1974. Generous incentives and protection have stimulated private investment and exports. Trade policy had been considerably liberalized, and commodity exports rose by 15 percent in 1971. Although imports grew by 24 percent in the same period, reflecting a clearing of the backlog of import applications and a rebuilding of stocks, the trade deficit increase was more than offset by the sharp rise in remittances by Turkish workers abroad.

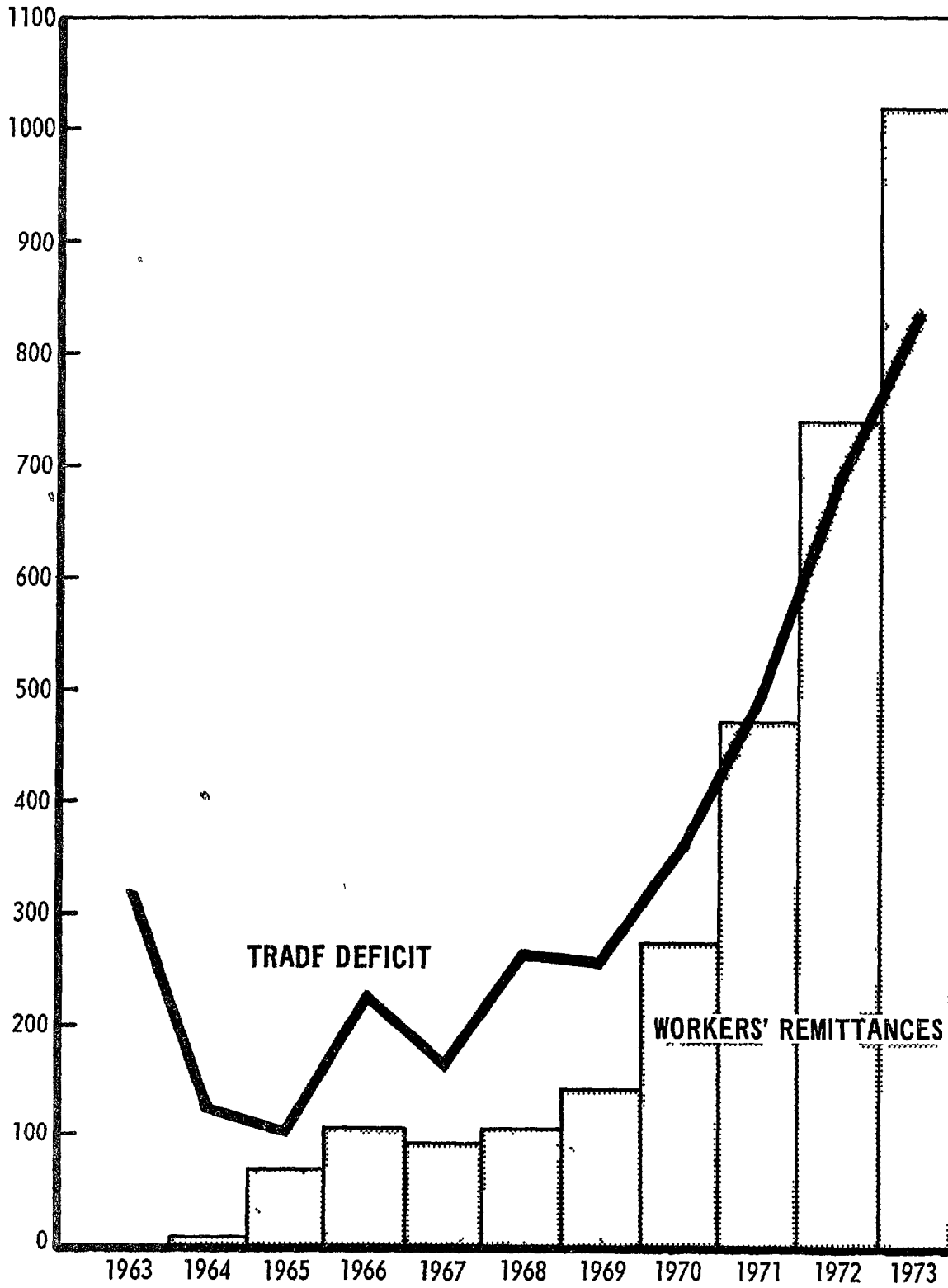
The chart on page 4 compares Turkey's trade deficit with workers' remittances for an 11-year span. Over the years the remittances have become important in the balance-of-payments structure. This one source of foreign exchange has, in recent years, virtually offset the trade deficit.

Changes in the Turkish economy from 1950 to 1971 show that wheat production increased from 3.9 million to 10.7 million metric tons, cotton, from 118,000 to 523,000 metric tons, hard-surface roads, from about 1,000 to over 13,050 miles, electric power production, from 790 million to 9.7 billion kilowatt hours, salable coal, from 2.8 million to 4.6 million metric tons, iron ore, from 0.2 million to 2.1 million metric tons, cement production, from 0.4 million to 7.5 million metric tons.

Despite these improvements, development problems continue. As in other developing countries, a high population growth rate of 2.6 percent reduced the benefits of economic growth, while unemployment increases and rapid urbanization created social and economic problems. Inflation has not been brought under control, and some areas have not shared equally in the benefits of recent progress. Economic efficiency and resource management need more attention.

**COMPARISON OF TURKEY'S FOREIGN TRADE
DEFICIT AND WORKERS' REMITTANCES**

MILLIONS OF U S DOLLARS



AID Mission officials said that continuation of a strong balance-of-payments performance was the chief factor influencing a possible phaseout of AID concessional assistance during the 1970s. Such performance will depend heavily on confidence in the lira, the country's ability to attract private investment funds, and, to a degree, worker remittances through authorized channels

The better Turkey manages its balance of payments, the more credit it will be able to obtain from other than U.S. concessional sources. But such factors as a bad year for exports due to poor harvests, a severe European recession leading to repatriation of Turkish workers, or a weakened lira value through severe inflation could bring deterioration of the Turkish balance of payments and could reduce the capital inflow from nonconcessionary sources

In reality the country no longer has a significant balance-of-payments problem, and its need for net concessional borrowing may end in the middle or late 1970s. These factors point up the country's strong economic progress and its decreasing reliance on U.S. economic assistance

U S. INTERESTS AND ASSISTANCE

Turkey continues to be of strategic importance to the United States, primarily as an important obstacle to Soviet Union attempts to expand into the Eastern Mediterranean area. NATO membership has made Turkey attractive to the United States as a base for defending against the Soviet Union threat and gaining information about it

U.S. aid programs have been geared to Turkish development plans and to a consortium of foreign aid donors. Cutbacks in aid programs during the late 1960s due to reduced appropriations and growing U.S. balance-of-payments difficulties caused a sharp reduction in AID development lending--from \$135 million in 1967 to \$40 million in 1969. From 1969 through fiscal year 1972, such assistance averaged \$42.5 million annually. U.S. military assistance, to help modernize Turkey's Armed Forces, was \$137 million in fiscal year 1972 and \$128 million in fiscal year 1973, not including credit sales of \$15 million and \$20 million, respectively. Overall, U.S. assistance from 1947 through mid-1973 totaled \$6.7 billion--\$3.7 billion for military assistance and \$3 billion for economic assistance. (See app. I)

U S. programs in Turkey include those of economic and military assistance (AID and the Department of Defense), the United States Information Agency, the Export-Import Bank of the United States, the Overseas Private Investment Corporation, and the Drug Enforcement Administration, Department of Justice. A Peace Corps program, which once included some 800 volunteers in Turkey, ended for all practical purposes in 1970 because of the anti-Americanism of the late 1960s.

Cutbacks in U S programs overseas and pressures within Turkey also brought about a reduction in the U S. military presence during the late 1960s. The number of American military personnel and their dependents in Turkey were reduced from 24,000 in 1968 to about 15,000, and several U.S. military facilities were turned over to the Turks. After several years of negotiations, a bilateral defense cooperation agreement was signed in 1969. The agreement replaced a patchwork of past agreements and understandings and made the remaining facilities into joint defense installations, subject to various provisions for Turkish control, inspection, and approval of activities.

U.S. military activities include several communications and/or electronics facilities, a major airbase, U.S. contingents at two North Atlantic Treaty Organization (NATO) headquarters, and various smaller facilities throughout the country.

MULTILATERAL ASSISTANCE

As a result of the 1970 devaluation and an improved economic climate, Turkey is looking increasingly to the World Bank and commercial sources of capital for its development needs. In 1972 the World Bank, which receives large U S contributions, provided \$214 million in development loans for Turkey. Bank lending is projected to continue at about \$150 million annually through 1977. The International Finance Corporation, the U S Export-Import Bank, and the European Investment Bank have increased their lending activities in Turkey.

Overall, gross aid pledges and agreements from foreign sources for program and project assistance to Turkey reached almost \$500 million in 1972. Projections of foreign aid needs at the end of the third 5-year plan in 1977 are at levels now being pledged by the World Bank and the European Investment Bank alone. (See app II)

The Consortium for Turkey

The Consortium for economic assistance to Turkey consists of 12 European countries, Canada, the World Bank, and the United States. Established in 1962, it operates under the auspices of the Organization for Economic Cooperation and Development. Its chief purpose is to promote economic development through increased and coordinated concessional aid

Turkey has viewed the Consortium as an instrument for obtaining more development aid. U.S. objectives have been to spread the aid burden, lessen the bilateral emphasis, and achieve more effective coordination of assistance. Most of the European countries have viewed Turkey as an increasingly important export market and as a prospective member of EEC.

West European interest in Turkish economic development has been stimulated and has led to a growing share of long-term loan commitments, largely due to U.S. efforts within the Consortium. Before the Consortium was established, the United States provided most of the economic assistance to Turkey, but since then the U.S. share has dropped to less than 20 percent.

The Soviet Union, though not a Consortium member, has also provided substantial aid to Turkey in recent years. Over \$369 million worth of aid has been for loans for construction of a steel mill complex at Iskenderun on Turkey's southern coast.

Turkey and EEC association

EEC has probably become Turkey's most important and direct source of multilateral aid, aside from the Consortium. Turkish planners see the country's future economic development as being primarily determined by Turkey's association with EEC. New industries need to be created and existing ones made more competitive for eventual competition with the developed countries in EEC. All EEC major members are also members of the Consortium--a positive indication of the increasing importance of the growing EEC association.

Turkey became an associate member of EEC in 1963 and began receiving commercial and financial concessions to help strengthen its economy and prepare it to participate in EEC. Turkey received concessional loans equivalent to \$175 million

from EEC countries through the European Investment Bank. These loans were for a number of projects, including power stations, transmission lines, railways, bridges, roads, and industrial investments.

In November 1970 Turkey and EEC signed an additional protocol covering the transitional stage of the association to be completed by 1995. Under the new financial protocol effective January 1, 1973, EEC, through the European Investment Bank, is scheduled to lend Turkey the equivalent of \$236 million through May 1976. Turkey may also receive additional money from the Bank on nonconcessional lending terms. Finally, the recent entry of the United Kingdom, Ireland, and Denmark into EEC increases Turkey's share of concessional funds available through the Bank. Altogether, Turkey may receive as much as \$323 million over the next several years from EEC.

The ultimate integration of Turkey into EEC is in line with overall U.S. objectives, although this integration may not forward U.S. trade objectives. For Turkey, EEC association provides opportunities for expanded trade with Europe and a major source of financial development assistance.

SCOPE OF REVIEW

We reviewed the management and results of U.S. economic assistance programs in Turkey and recent Turkish economic and social progress, to determine the need for continued assistance. We examined the major constraints on attaining U.S. foreign policy and assistance objectives. We did our work in Turkey primarily during February and March 1973.

Our review did not encompass the management and results of U.S. military assistance programs and U.S. defense activities in Turkey.

We examined and discussed policy papers, program documents, reports, and other pertinent records and information. We talked with officials of the following agencies in Washington, D.C., and their representatives in Turkey: The Departments of State, Agriculture, and Commerce, AID, and the United States Information Agency. We also contacted officials of ACTION and Export-Import Bank in Washington, Drug Enforcement Agency, United Nations Development Programme, and the European Investment Bank in Turkey, and the Department of State in Bonn, Germany, and Brussels, Belgium.

CHAPTER 2

FORMAL U S. POLICY PLANNING

U S. objectives in Turkey still show the same basic security considerations under which the U S -Turkish alliance began in 1947. Recent U S program and policy documents state that Turkey's membership in both NATO and the Central Treaty Organization reflects that country's firm pro-Western orientation and its determination to maintain Turkish sovereignty against historic Soviet Union pressure.

Turkey's geographic position makes it an especially valuable location for U S. communications activities and NATO defense facilities. The Soviet Union's continuing Arab involvement and naval presence in the Mediterranean emphasize (1) the strategic importance of Turkey to NATO and the United States and (2) Turkey's exposed position on NATO's southeastern flank.

U S. relations are grounded not only in the above-mentioned strategic interests, according to policy statements and program documents, but also in the pattern of close bilateral economic and military cooperation over the past 25 years. The U.S. goal is to nurture this relationship and at the same time assist Turkey in moving toward greater economic and military self-reliance.

U.S. programs and activities in Turkey have changed in size, direction, and emphasis since the early 1960s, as discussed above and in chapter 1. Although policy guidance is being provided by Washington and by the U.S. Mission in Turkey, these programs have operated without benefit of an approved policy paper setting forth U S priorities, objectives, and goals. U S officials recognize the need for a formal policy paper to guide U S programs in Turkey, they have also acknowledged the importance of having a clear assessment of U.S. vital interests, and the cost of maintaining those interests. A final draft of a national policy paper, in preparation since 1964, was completed in June 1966. It was approved within the Department of State's Near East and South Asia Bureau and cleared by other agency officials. A State official said that the completed paper had only limited value and was not widely used.

In 1970 an interagency group prepared an extensive National Security Study Memorandum analyzing U.S programs in Turkey and sent it to the National Security Council for further action. No further action was taken, however, and State officials told us in May 1973 that the study had been dropped from items on the Council's agenda.

In 1971 the Department of State inaugurated a Policy Analysis and Resource Allocation (PARA) system--a systematic process for identifying issues, interests, and priorities, allocating U S resources in accordance with those priorities, and reviewing those policies periodically. In 1972 a wide variety of these reviews were made on general foreign policy issues and on policies in specific regions and countries.

State officials told us in May 1973 that they had begun work on a PARA paper for Turkey which they hoped would be completed in the fall. U S officials in Turkey said in March 1973 that an approved policy paper would be very useful. They believed that, although such a paper would not radically change the operating policy decisions, it could help in formulating policy and forward planning and assessing agency programs in Turkey in terms of overall U S objectives.

The Secretary of State's 1972 foreign policy report states, among other things, that

"Like children, policies compete for attention. The process of policy implementation can thus become unruly. To assure order, there must be analysis, review, establishment of priorities, and optimum allocation of resources. It is just this balancing, disciplinary role that the PARA system was initiated to perform "

U.S. officials have observed that the current period in Turkey--marked with the beginning of a new Turkish 5-year economic plan and a 10-year military modernization plan and the Turkish national elections in October 1973--is a very appropriate point at which to formally assess U S. objectives and interests in Turkey.

CONCLUSIONS

The bilateral relationship between the United States and Turkey has undergone many changes since the alliance began in the post-World War II cold-war period, not only in the size and nature of the various U.S. programs and activities in Turkey but also in the policies and attitudes of the two countries and in international affairs as a whole. Since the late 1960s, the Turks have been moving toward independence and self-reliance and the United States has been gradually phasing down its programs and activities.

We believe the PARA exercise for Turkey which U.S. officials are now working on is useful and desirable and the "balancing, disciplinary role" which the Department of State attributes to the analysis and allocation system can help clarify and place in perspective the present and future shifts in U.S. programs in Turkey.

A PARA review should include (1) a plan for an AID program phaseout (see ch. 3), (2) the recent action by Turkey to revoke the opium poppy ban (see ch 5), and (3) a unified strategy for promoting U S trade with Turkey. (See ch. 6.)

Broader questions also exist as to the nature and extent of future U.S. military aid to Turkey. The need for U.S. military facilities in Turkey, in terms of U.S. military and economic assistance levels, requires careful assessment

CHAPTER 3

CURRENT AND FUTURE U.S. AID

The record of U.S. aid to Turkey is, in many respects, unique, since it spans the full course of U.S. assistance to less developed countries. Because of the experimental and innovative quality of the program in its early days, changes made pragmatically have served as precedents for programs in other countries.

ASSESSMENT OF AID PROGRAMS

Turkey has made great strides in its economic and social development over the past quarter century, and continuous U.S. aid has helped to make this progress possible.

Shortly after AID programs began in 1961, AID believed that some countries, such as Turkey, were reaching the stage where they could afford to take loan assistance, rather than grant assistance. Moreover, the balance-of-payments difficulties, which were becoming of increasing concern to the United States, led to the tied loan concept, which insured that loan assistance to Turkey would be used for U.S. purchases.

Program loans provided foreign exchange for imports, which helped build a larger base for industrial development. More aid was directed to specific projects and less to underwriting a share of the Turkish balance-of-payments deficits. U.S. officials encouraged creating the foreign aid donor consortium in 1962 and its increasing activity thereafter. They also encouraged the Turks to plan more effective use of resources and to carry out economic reforms. Turkey established a national development planning mechanism and started a series of 5-year plans, which provided a framework for all economic aid to Turkey.

Although it is difficult to determine the total impact of U.S. assistance, the programs have undoubtedly played a major role in the dramatic overall progress which the Turkish economy has made. Nonquantifiable results may be even more important. For instance, the contact of peasants with the outside world through the U.S.-funded road-building program of the 1950s has been one of the great modernizing forces in Turkey.

AID programs, though, continue to experience difficulties. Eleven of the 14 active AID projects in Turkey have encountered delays. These delays slow Turkish development by postponing the receipt of potential operating revenue. At the same time, local currency project costs are increased.

Because of a lack of local currency funds and because Turkish ministries lack local currency to pay customs on AID-financed imports, projects have been slowed. Tying AID loans to U.S. procurement has, on occasion, made their use difficult in joint projects, and AID planning and monitoring procedures for projects have not always been adequate.

Unfavorable Prospects for U.S. Development Lending

In recent years U.S. development lending opportunities in Turkey have decreased. Presently the Mission sees very little likelihood of providing Turkey with another loan in the category of program assistance. Turkey is currently more interested in receiving commodity assistance from Europe because, as a prospective member of EEC, its trade will largely be with European countries. Furthermore, Turkey now has available considerable project funding from other sources and a much healthier balance of payments, which largely negates the need for U.S. concessional loans.

U.S. project lending was sharply reduced in fiscal year 1968, and no projects were authorized in fiscal years 1969, 1970, and 1971 for several reasons, including declining AID appropriations, an adequate project pipeline, few readied project opportunities appropriate for U.S. financing, and the presence of other donors willing to give assistance.

Problems in meeting specific loan requirements, the increasing availability of less restrictive World Bank and European Investment Bank loans, and increasing amounts of bilateral assistance from European countries have made it difficult to find projects suitable for AID financing. Thus, U.S. concessional loans have become less attractive to Turkey, and AID has found it difficult to usefully obligate all funds designated for Turkey.

AID officials in Turkey told us in March 1973 they had tried to emphasize to the Turkish Government that the AID funds were available but that Turkey was responsible for developing good projects. The officials said that two major reasons AID was having difficulty finding good loan projects in Turkey were (1) the large volume of recent project lending from the World Bank and from other aid lenders was tying up the local currency resources which the Turks had budgeted as their share of development project funding and (2) proposed Turkish projects had not included the adequate planning and feasibility studies AID believed were needed.

At the close of our work in Turkey in August 1973, no project loan agreements had been signed using fiscal year 1973 funds. Subsequently, AID was able to commit only \$9 million of the \$40 million in development loan funds originally targeted for Turkey in fiscal year 1973. As of January 1974, AID was discussing and trying to develop three loans totaling \$17 million from the \$40 million in development loans targeted for fiscal year 1974.

AID capital development projects

The AID Mission believes that the high rate of economic growth Turkey has achieved would not have been possible without considerable success in developing basic industry. AID has sought to further Turkish economic development through a wide variety and number of capital development loans. The following capital project loans have made important contributions to the country's impressive overall economic growth over the past 15 years.

<u>Type of activity</u>	<u>Project loans</u>		<u>Total amount</u> (note a)
	<u>Number of projects</u>		
	<u>Completed</u>	<u>Active</u>	(millions)
Eregli steel	2	3	\$213.2
Power	5	3	111.3
Transportation	5	-	50.4
Coal	2	1	43.4
Copper	-	1	30.5
Industrial banks	2	2	27.1
Education	1	2	11.0
Agriculture	2	-	7.6
Manufacturing	2	-	5.8
Development studies	2	-	5.3
Mineral exploration	3	-	3.1
Poppy control	-	1	3.0
Health	-	1	2.1
	<u>26</u>	<u>14</u>	<u>\$513.8</u>

^a Totals include amounts used for completed projects and amounts of loan agreements for active projects.

Turkey's accelerated rate of inflation has been a major reason for the shortage of Turkish lira needed to support AID-financed projects which, in turn, has caused delays in project completions. Escalating project costs, contractual disputes, preference for less expensive European products, and unpredictable engineering problems are other reasons contributing to delays.

Virtually all U S -funded projects have experienced a shortage of local currency support. Lira costs for such items as customs duties on AID-financed imports and construction contractor salaries for local labor generally are borne by the Turkish Government. Project delays result when Turkish ministries lack the necessary local currency to meet these expenses as they occur. In August 1972 the AID Mission Director concluded that the lack of adequate and timely local currency support had become a central issue in considering further project lending.

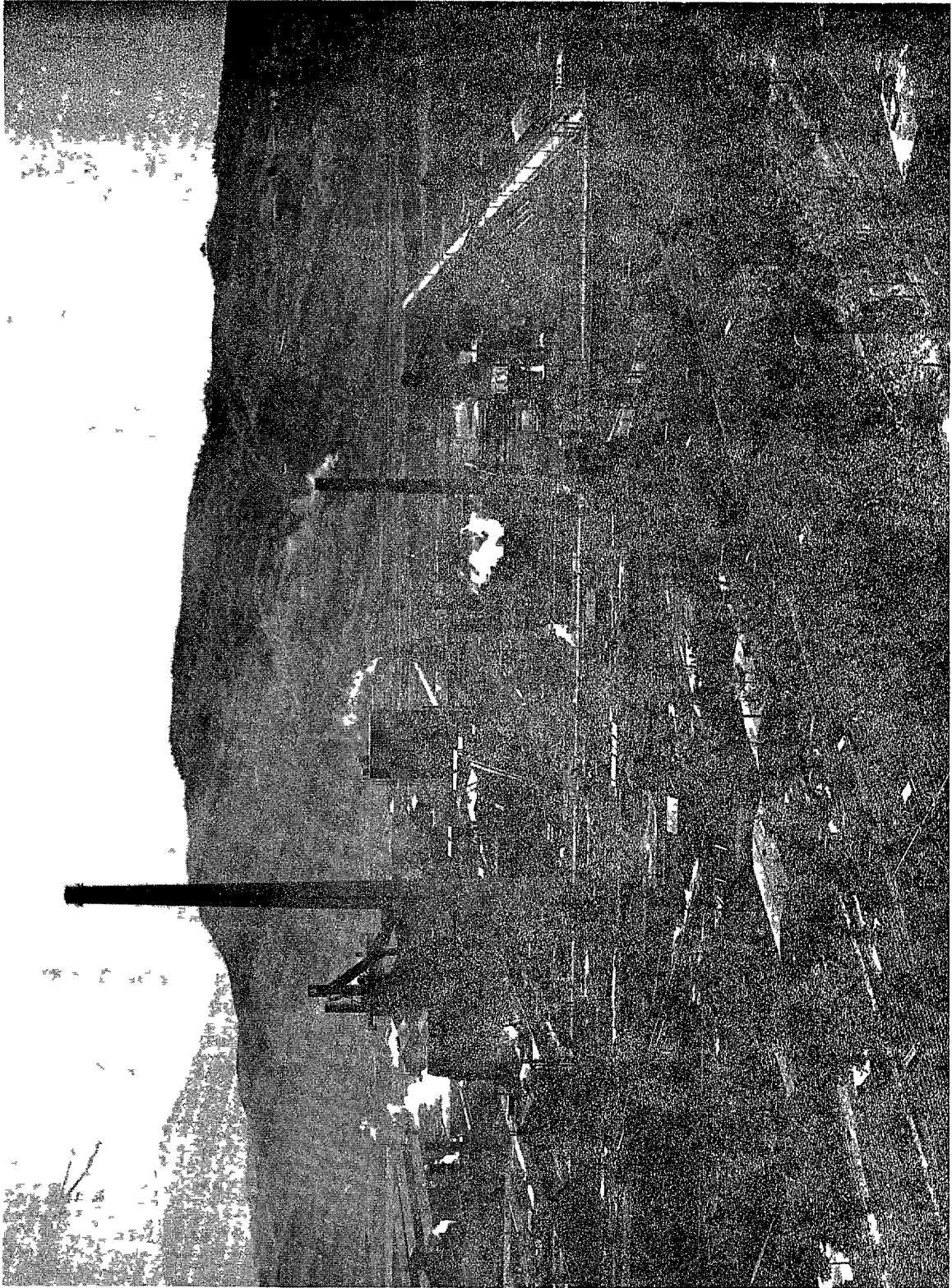
One example of an apparently unpredictable delay concerns the Keban Dam which is expected to increase Turkey's power capacity by 60 percent. The United States is financing about one-eighth of the total cost, which may go to \$351 million. After construction began, underground fault zones were discovered, which required structural redesign and additional work. Turkish officials estimate that the 2-year delay thus far has caused an \$80 million loss in gross revenue from electric power--not counting economic losses accruing because the establishment of productive enterprises, dependent on the additional power, has been delayed.

The Eregli Steel Mill, a large-scale capital development project, is considered a showcase project and has contributed to Turkey's growing economy. At the end of 1971, Eregli had 4,096 employees. The project saves Turkey valuable foreign exchange by using indigenous iron ore and producing steel which would otherwise be imported.

Eregli's current expansion highlights an important factor in declining capital project opportunities for AID--the lack of competitiveness of U.S. products. In fiscal year 1972 Eregli received \$40 million from AID and \$70 million from the World Bank. Since AID funding was tied to U.S. products, the Bank expressed concern that such procurements would not be competitive and that most of its funds and none of AID's would be quickly used. The Bank and AID were concerned that the tied U.S. loan funds would also result in limited competition among U.S. firms for the AID funds and would eventually make the U.S. procurements more expensive to Eregli.

Public Law 480 programs

An AID analysis states that Public Law 480 commodity sales have played an important role in Turkish development. In all but 2 years since 1954, when Public Law 480 programs began, the United States has supplied Turkey with wheat to help meet expanding population needs. In addition, Public Law 480 sales have generated \$340 million in local currency which has been made available for common defense purposes and development loans.



GENERAL VIEW OF TURKEY S EREGLI STEEL PLANT

Source AID

Self-help programs included in Public Law 480 agreements began to take hold in 1971. The Turkish Ministry of Agriculture began reorganizing its agricultural directorate to help farmers adopt new technology, and started a wheat seed program which greatly increased wheat production. The Turkish Government expects to be self-sufficient in cereals by 1980. In 1971 and 1972 Turkey had a wheat surplus, and, as a result, there was no Public Law 480 wheat agreement in 1972 and none was planned for 1973.

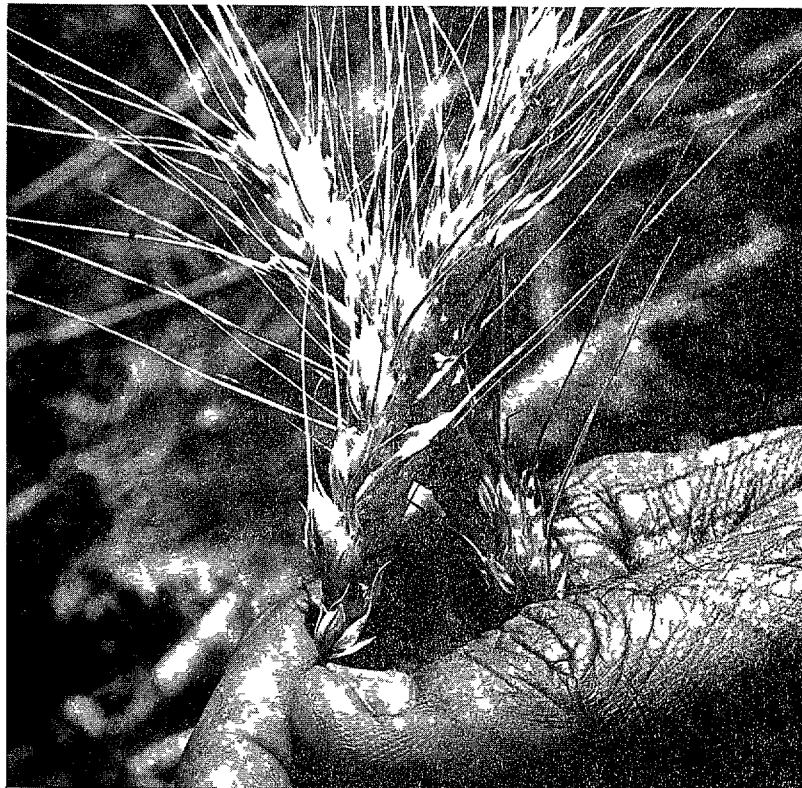
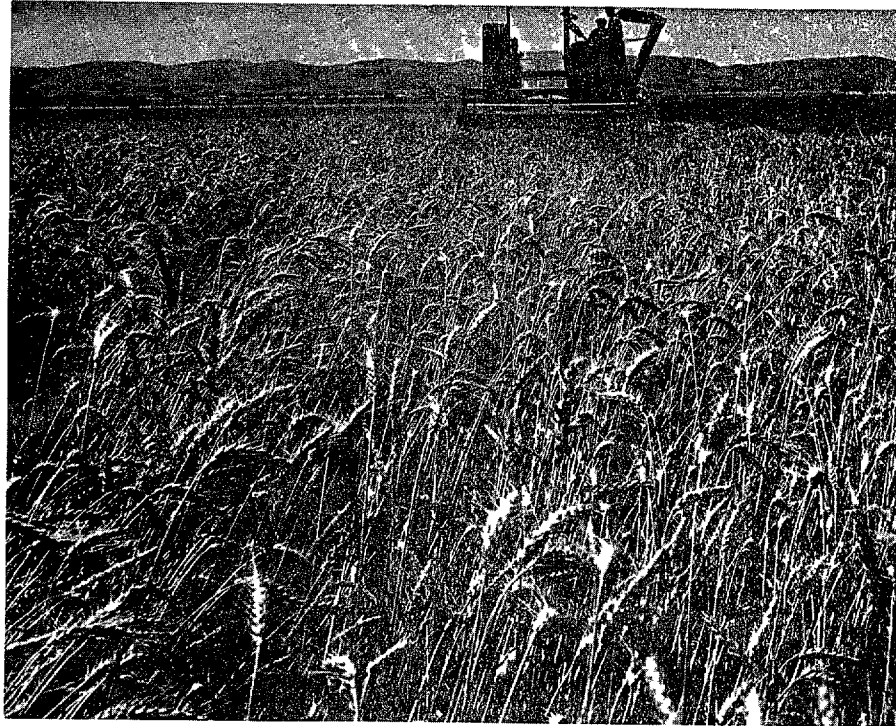
Also under Public Law 480, the United States has donated \$128 million in food for school feeding programs. Over the past 7 years the Cooperative for American Relief Everywhere has been the major distributor of this food aid. Since 1963 the Turkish Government has concentrated on school construction and the United States has provided the commodities for the nutrition programs. Since 1968 the United States has been trying to phase out nutrition programs due to limited availability of U.S. commodities and Turkey's approaching self-sufficiency in wheat.

Technical assistance activities

U.S. technical assistance programs seek to develop a nation's technical and scientific knowledge. The program in Turkey has been funded by grants of about \$4 million a year. In the latter part of the 1960s, the emphasis was on university and agricultural programs. Previously, the programs had emphasized vocational and technical training to meet Turkey's need for skilled manpower.

Two AID success stories in agriculture have involved Mexican wheat and food and vegetable exports. AID supported the introduction of Mexican wheat seed into Turkey's coastal areas in 1967 with a \$3.5 million seed loan and 12 advisers. Plantings tripled from 400,000 acres in 1967 to 1.2 million acres in 1972. The Mexican variety yielded an estimated 3.75 million metric tons more than indigenous varieties could have produced during the 1968-72 period. The program for improving wheat production in the Turkish Anatolian Plateau is underway.

An AID agricultural adviser to the Turkish Government and private sector has helped to stimulate the increase in Turkish exports of fresh fruits and vegetables from 20,000 metric tons to 200,000 metric tons over a 9-year span, the



HIGH YIELDING MEXICAN SEEDS HAVE INCREASED TURKEY'S WHEAT PRODUCTION

Source AID

value of which rose from \$25 million in 1964 to \$40 million in 1972.

Several U.S. technical aid programs have successfully supported economic and social development. Overall U.S. efforts to influence educational institutions and modernize bureaucratic organizations have had only moderate success. A variety of constraints have affected AID technical assistance programs over the years, including a difficulty in finding participant training prospects with an adequate knowledge of English, varying abilities of Turkish agencies to make full use of advisers, lack of stability in Government officials' tenure, and limited delegation of authority within Turkish agencies.

Family planning

As in many developing countries, a rapidly growing Turkish population dilutes the effect of economic growth. It was not until 1965 that the distribution of family planning information and contraceptives became legal in Turkey, and the Government launched an educational family-planning program.

In 1966 AID provided a project loan to support family planning in Turkey, it also sponsored displays at the Izmir Fair and programs bringing family-planning officials and midwives to the United States to attend family-planning activities. AID's in-country effort in revising the adult literary curricula to emphasize family planning was discontinued in February 1973 because the Turkish Government would not commit the necessary resources to the project.

Even though an estimated 70 percent of all Turkish couples in their reproductive years have a desire to practice birth control, the United States and other donors feel that family planning will remain low keyed until the Turkish Government establishes a definite policy giving family planning a high priority.

UNITED STATES AND TURKEY MOVE
TOWARD ASSISTANCE PHASEOUT

Despite a decade of discussions on phasing out U.S. concessional economic assistance by 1973, the AID program in Turkey continues. Recent economic events and assistance trends have improved the opportunity for a phaseout, but target dates are vague. The Department of State and AID do not have a specific phaseout schedule and strategy. We believe such a plan should be developed.

The phaseout of concessional foreign assistance to Turkey and the corresponding phaseout of the AID program have been discussed since the first Turkish national economic development plan was launched early in the 1960s. In 1965 the AID Mission Director in Turkey announced that soon Turkey would no longer need concessional foreign aid and that the U.S. economic aid program was to end by 1973, in accordance with the 1972 Turkish development plan target. An AID Mission study determined that the Turkish phaseout target was feasible, and U.S. planning discussions subsequently focused on ending the AID program through an organized scaling down and completion of AID projects.

During the late 1960s Turkey's inflation and balance-of-payments difficulties increased, and the Government seemed reluctant to make economic reforms considered necessary by foreign aid lenders. In August 1970, however, the Turkish Government yielded to economic pressures, it devalued the lira and undertook significant economic reforms. Since then economic performance has increased, foreign exchange reserves have reached a record high, and the balance of payments has improved.

The recent worldwide energy crisis and price increases, however, have raised considerably the amount of foreign exchange that Turkey, and virtually all other countries, must spend for crude oil imports. Moreover, Turkey relies heavily on worker remittances from abroad, and any major change in the high level of such remittances could have an important bearing on a continuing requirement for concessional assistance.

The AID program was not phased out by 1973. U.S. interest in maintaining Turkey's ban on growing opium poppies has been a factor working against ending economic assistance.

Although the United States continues to make statements about phaseout, these statements tend to be vague, referring to an end of concessional assistance "by the mid-1970s" or "in the near future." Department of State and AID officials in Turkey and in Washington said that they believed the phaseout could take place sometime during the 1970s. AID officials also told us in February and May 1973 that there was no specific plan for achieving the phaseout goal. The AID Assistant Administrator for Asia said in July 1973 that AID's traditional lending program in Turkey would be phased out in the next year or two.

Recent U.S. economic assistance funding for Turkey has continued at the phased-down levels established in 1968, and several parts of the program are being further reduced or ended. Public Law 480, title I, commodity credit sales are not needed because of good grain harvests in Turkey in 1971 and 1972. The number of technical assistance projects has been reduced from 15 active projects in 1968 to only 5 active and 2 under consideration. AID operations in general have been reduced, and the number of U.S. personnel in Turkey has declined from 158 in mid-1965 to about 41 in mid-1973.

With the phasedown of these economic assistance areas, the focus of the AID program has been placed even more on its traditional major activity--development loans. Development loans are of three general types (1) program loans, providing foreign exchange and commodities to support a country's balance of payments, (2) project loans, providing funds for specific capital projects, and (3) sector loans, providing both capital and technical resources to help carry out an integrated program in one particular sector of the economy.

In past years most AID assistance to Turkey was in program loans. Because the Turkish balance of payments had improved after the 1970 devaluation of the lira, program loans were no longer needed. AID therefore shifted to project loans.

The following schedule categorizes U.S. development lending to Turkey for fiscal years 1968-73.

<u>Fiscal</u> <u>Year</u>	<u>Program</u> <u>loans</u>	<u>Project</u> <u>loans</u>	<u>Total</u>
-----(millions)-----			
1968	\$40	\$28	\$68
1969	40	-	40
1970	40	-	40
1971	50	-	50
1972	-	40	40
1973	-	9	40

Despite the shift to project lending, AID has not been able to use all the funds programed for Turkey.

In the final analysis, Turkey's move toward full partnership in EEC will unavoidably diminish its past sense of dependence on the United States because Turkey sees its future more closely tied with Europe. As a matter of policy, however, the United States supports Turkish membership in an increasingly strong EEC.

BROADER U.S. PROGRAM AND
POLICY CONSIDERATIONS

The potential phaseout of AID concessional assistance to Turkey cannot take place in a vacuum; concessional assistance must be related to the other U.S. programs and objectives of which U.S. economic assistance is only a part. Determining when and under what circumstances an AID recipient is ready to become an "AID graduate" is difficult, particularly in such a country as Turkey where other important interests are involved. We agree, however, with the Secretary of State's statement in his 1972 foreign policy report that

"Programs once formulated tend to assume a life of their own and live on after the reason for their being has ceased to exist. * * * polices can demand and receive more than what is really required to achieve their goals * * *."

As discussed in chapter 1, the United States values Turkey's membership in NATO and its firm pro-Western orientation and desires to maintain Turkish sovereignty against Soviet Union pressure. Turkey is also considered an especially valuable location for U.S. special activities and NATO defense facilities, whose strategic importance to NATO and the United States is underscored by continuing Soviet Union involvement in the Arab world and the Mediterranean Area. The strength and stability of Turkey and Greece, as allies on NATO's southern flank, is considered essential to Western defenses in an era of detente as in less tense times.

As Turkey reaches economic viability, the United States plans to convert its military assistance to forms other than grant aid. The fiscal year 1974 military assistance presentation for Turkey states that, even with Turkey's currently favorable balance of payments, the magnitude of Turkish defense requirements is well beyond that which the Turkish economy can absorb. Improvement in the Turkish economy, however, has enabled the Turks to finance a major part of the cost of modernizing its Armed Forces. The fiscal year 1974 U.S. military aid request for Turkey includes \$85.5 million in grant aid and \$75 million in foreign military credit sales, indicating a shift from grant aid to dollar sales.

The U.S. goal in Turkey is to nurture the close bilateral relationship of economic and military cooperation developed over the past 25 years and, at the same time, assist Turkey in moving toward greater economic and military self-reliance. In moving ever closer to this goal, the United States will have to consider what impact, if any, a phaseout of U.S. concessional economic aid will have on the political, economic, military, and strategic interests and on the overall U.S.-Turkish relationship.

CONCLUSION

Despite the favorable climate created by recent events, Department of State and AID have not yet decided when U.S. concessional aid can be phased out, nor have they developed a plan with firm target dates.

In our view, estimating general phaseout dates while continuing to observe Turkish economic progress is inadequate, from a management standpoint, for meeting the goal

of phasing out the AID program in Turkey. Such an approach could prolong the program indefinitely and prevent the freeing of resources for other, more productive uses.

Given the current difficulty in finding good projects to fund, AID funds might possibly be applied to projects for which there is not a truly critical need. The executive agencies responsible for U.S. economic aid to Turkey need to develop a plan which directly addresses the phaseout of that aid.

RECOMMENDATION

We recommend that the Secretary of State and the Administrator of AID, taking into account the full range of U.S. political, military, and economic interests, develop an overall plan with firm target dates and integrated strategies for reducing and phasing out U.S. economic assistance to Turkey.

MATTER FOR CONSIDERATION BY THE CONGRESS

The Congress may wish to review with the appropriate executive agencies any proposed phaseout plan for ending concessional economic assistance to Turkey because of inter-related U.S. political, military, and strategic interest.

CHAPTER 4

U.S. ASSUMPTION OF TURKEY'S DEBT TO THE EUROPEAN FUND

In December 1972, after more than 2 years of discussion and negotiation, the U.S. Treasury received a total of \$355.5 million in canceled claims, cash, and a long-term loan to Turkey of \$114 million as its share of the liquidation of the European Fund. The Fund, started in 1958 as part of the European Monetary Agreement, had its origin in the European Payments Union formed after World War II to promote European monetary cooperation and currency convertibility.

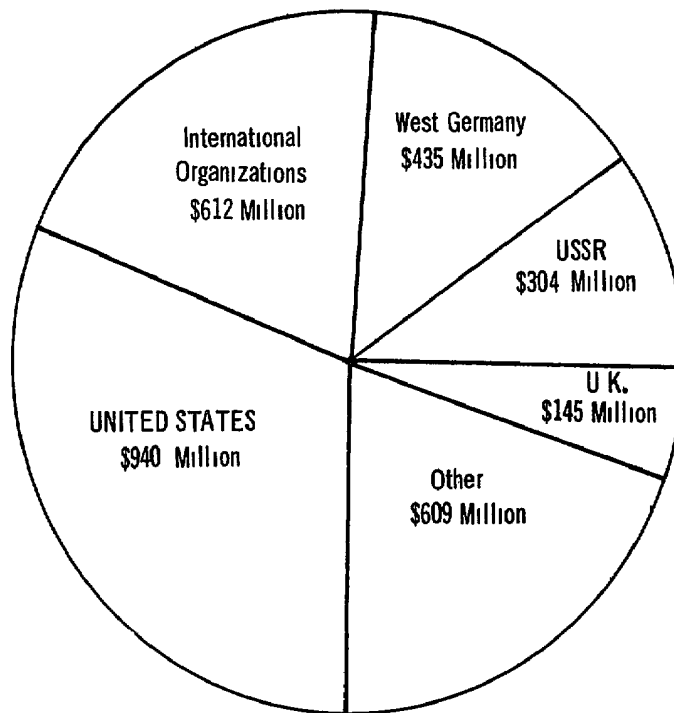
The \$114 million concessional loan provides new U.S. assistance for Turkey in the form of debt relief at a time when U.S. economic assistance is scaled down and Turkey's balance of payments and economy are quite strong. By allowing Turkey to postpone repayments due in 1972, the United States provided debt relief of \$27 million, which is quite significant, compared to total AID development lending to Turkey of \$40 million in that year.

DEVELOPMENT OF THE DEBT ASSUMPTION SITUATION

From World War II until 1970, Turkey had problems with its external debt. Debt relief was necessary in 1959, 1965, and 1970. As a result of past debt rescheduling, debt relief arrangements, and increased exchange earnings, Turkey's debt ratio as a proportion of total foreign exchange earnings fell from 17 percent in 1970 to 13 percent in 1971. Its capacity to service additional debt improved in 1970 and 1971, and, if the growth of suppliers' credits--which amounted to only 3 percent of total debt in 1971--can be restrained, improvement could continue.

Since the devaluation of the lira in August 1970, Turkey's balance of payments has improved. The burden of Turkey's external debt has diminished and does not appear to present a problem over the next few years. Turkey's total external debt amounted to \$3 045 billion as of December 31, 1971, about 31 percent of which was owed to the United States. The total distribution of the debt follows.

**Breakdown of Turkey's External
Debt as of December 31, 1971 ¹**



¹ Total debt including undisbursed portions with an original or extended maturity of more than one year

A continuing and important element in Turkey's external debt for more than a decade has been the series of short-term debts which it owed to the European Fund. The United States provided most of the European Fund's capital by agreeing to transfer the remaining portion, \$271.6 million, of the original \$350 million grant to the former European Payments Union. A tabulation of subscriptions and called-up capital of the Fund follow

<u>Source of capital</u>	<u>Capital subscription</u>	<u>Called-up capital</u>		<u>Total</u>
		<u>Available at start</u>	<u>Added by November 1962</u>	
(000 omitted)				
United States	\$271,575	\$148,037	-	\$148,037
Member countries	<u>335,925</u>	<u>-</u>	<u>\$38,000</u>	<u>38,000</u>
Total	<u>\$607,500</u>	<u>\$148,037</u>	<u>\$38,000</u>	<u>\$186,037</u>

In July 1970 the United States proposed that the capital which it had granted to the European Payments Union, most of which was transferred to the European Fund, be released and used for other purposes. The United States was not a member of the European Monetary Agreement, and, under the agreement terms, the United States had no legal right to recoup any part of its grant, but it had an effective veto power over any liquidation and distribution of the European Fund's assets among the participating European countries.

LIQUIDATION OF THE EUROPEAN FUND

The members of the European Monetary Agreement decided to terminate the agreement and to liquidate the Fund by the end of 1972. The United States received \$355.5 million as its share of the assets, and other countries received \$44.6 million. The U.S. share consisted of the following components.

	<u>Amount</u>
	(millions)
Cancellation of a claim on the U.S.	
Treasury (uncalled but committed capital)	\$123.5
Cash	118.0
Credit to Turkey, repayable in 30 years	<u>114.0</u>
Total	<u>\$355.5</u>

The \$355.5 million represented the net U.S. contribution to the founding of the European Payments Union of \$271.5 million plus \$84 million interest earned on this capital

during the lifetime of the agreement. U S. Treasury officials told us that the canceled claims and cash were not earmarked for economic assistance programs but were classified as miscellaneous Treasury receipts. The \$114 million loan receivable is to be administered and serviced by the Treasury's Bureau of Accounts, not by AID.

The \$114 million credit represented a consolidation of credits previously granted by the Fund and repayable by 1975. The concessional terms of the new credit (30 years' maturity, including 5 years' grace, 2 percent interest during the grace period and 3 percent thereafter) were established in bilateral negotiations between the United States and Turkey. In the mechanics of the liquidation, actions related to Turkey's debt to the Fund were simultaneous Turkey repaid its debt, received an equivalent new credit from the Fund, and the Fund assigned this credit to the United States.

The conversion of Turkey's short-term European Fund debt to a long-term debt to the United States provided significant benefits to Turkey. Instead of being required to repay the debt by the end of 1975, with an annual interest of 3.5 to 4 percent, Turkey will repay the principal from 1978 to 2002 at reduced annual interest of 2 to 3 percent

The debt relief immediately benefited Turkey's balance of payments. Turkey avoided principal repayments to the European Fund in 1972 of \$27 million. In addition, the \$114 million U.S. credit has released Turkey from having to pay approximately \$33 million in 1973 and \$27 million of principal repayments due the European Fund in both 1974 and 1975.

The concessional terms of the consolidation credit were agreed on during April 1972 negotiations between Turkey and the United States. The justification for such terms was "Turkey's financial position and its development needs " The negotiations, however, are outside the framework of the Turkey Consortium and the U.S. bilateral assistance program administered by AID. In fact, AID was not directly involved in the negotiations in which State and Treasury officials represented the United States.

A Department of State official told us in early 1973 that the termination of the European Fund and the return of

most of its assets to the United States was an important accomplishment. Treasury officials agreed the transaction could be considered a "windfall" to the United States. They felt it would not have been possible to terminate the Fund without U S. agreement to take over the Turkish debt. In their opinion, Turkey would have continued to roll over, or refinance, this debt to the Fund because of its continuing need for concessional economic assistance.

REPORTING TO CONGRESS

Although the liquidation agreement was signed in December 1972, subsequent reporting to the Congress has been limited. The European Fund liquidation and U S contribution recoupment were mentioned in March 1973 by a Treasury official in testifying before a Subcommittee of the House Committee on Government Operations on delinquent foreign debt collection. As far as we could determine, this was the first time that the Congress was advised of the Fund's assignment of Turkey's debt to the United States.

Despite the economic assistance impact of the U S debt assumption, the AID Congressional Program Presentation for fiscal year 1974, sent to the Congress in May 1973, made no mention of the new U S loan. AID and State officials told us in May 1973 that they were not aware of any reporting of this matter to the Congress. An AID official observed that the new Turkey loan was being handled by the Department of the Treasury and that general responsibility for reporting the U S loan and debt status was with that Department.

Subsequently, the transaction was mentioned in at least two reports to the Congress: the October 1973 annual report of the Secretary of the Treasury on the State of the Finances and the November 1973 National Advisory Council on International Monetary and Financial Policies annual report transmitted by the Secretary of the Treasury as Chairman. Neither report discussed the foreign assistance benefits accruing to Turkey as a result of the U S assumption of Turkey's \$114 million debt.

In a report to the Congress entitled "Developing Countries External Debt and U S Foreign Assistance: A Case Study" (B-177988, May 11, 1973), we said that U S assistance provided to developing countries through debt relief

was not included in the President's proposals for new economic assistance, nor was it meaningfully summarized in subsequent reports on assistance provided. We observed that any form of debt relief was comparable to new aid, that the United States was the largest single creditor to the developing countries, that debt relief was increasingly an important form of economic assistance, and that the importance of keeping the Congress well informed on debt relief matters could not be overemphasized.

In response to the report's recommendation that the Secretary of State report systematically and comprehensively to the Congress on total resource transfers to developing countries, including debt relief, the Department of State and AID said that they had informed, and would continue to inform, the Congress on net aid, debt, and related balance-of-payments problems in countries where these matters were of major importance. We believe, however, that the Congress should be more fully and systematically informed of all agency efforts and agreements to relieve debt service burdens.

Section 657 of the Foreign Assistance Act of 1961, as amended, requires an annual foreign assistance report to the Congress, including the total dollar value of all foreign assistance provided by the United States by any means to foreign countries and international organizations. More specifically, on December 17, 1973, the Congress approved the Foreign Assistance Act of 1973 (Public Law 93-189). Section 634(g) of this act requires the President to send to the Speaker of the House of Representatives and to the Senate Committee on Foreign Relations, not later than January 31 of each year, a comprehensive report based on the latest data available, showing

- 1 A summary of the worldwide dimensions of debt-servicing problems among such countries, together with a detailed statement of the debt-servicing problems of each such country.
- 2 A summary of all forms of debt relief granted by the United States with respect to such countries, together with a detailed statement of the specific debt relief granted with respect to each such country and the purpose for which it was granted

3. A summary of the worldwide effect of the debt relief granted by the United States on the availability of funds, authority, or other resources of the United States to make any such loan, sale, contract of guarantee or insurance, or extension of credit, together with a detailed statement of the effect of such debt relief with respect to each such country.
4. A summary of the net aid flow from the United States to such countries, taking into consideration the debt relief granted by the United States, together with a detailed analysis of such net aid flow with respect to each such country

These annual reports would seem most appropriate for reporting the U.S. loan assumption and the simultaneous granting of debt relief

AGENCY COMMENTS

The Department of State agrees that the Congress should be kept fully informed of such agreements as the one liquidating the European Monetary Agreement. The Department's position was that the U S assumption of Turkey's debt to the European Monetary Agreement did not constitute U S assistance. Instead, the Department believed that the transaction represented the acquisition of an asset to which the United States had no legal claim.

Technically, whether this assistance is U S. assistance or not can be argued on both sides. The United States provided nearly all of the original capital used by the European Fund (part of the European Monetary Agreement) to aid Turkey, and it directly negotiated lower concessional terms with Turkey in consolidating Turkey's debt to the Fund. But the United States had no legal claim on assets from the dissolution of the European Monetary Agreement because the United States was not a member. The United States, however, had retained an effective veto power over any plan for distribution of the assets in the event of dissolution. The favorable dissolution and distribution of assets obviated any need to use the veto.

We believe the renegotiation of loan terms and the debt assumption by the United States definitely resulted in

additional assistance to Turkey--assistance directly related to foreign aid funds originally provided by the United States. Moreover, the Organization for Economic Cooperation and Development's Consortium for Turkey, in its February 1974 report of financial assistance to Turkey, specifically categorized the debt assumption as debt relief provided by the United States.

CONCLUSIONS

The European Fund liquidation resulted in a substantial recapture of assets for the United States and provided significant benefits for Turkey. The new U.S. \$114 million loan provided debt relief to Turkey of about \$27 million in 1972, a significant amount, compared to the total AID development lending program of \$40 million for that year. Another \$87 million in debt relief was provided to Turkey over the 1973-75 period. This loan has had, and will continue to have over the next several years, an economic impact in Turkey which has not been considered as U.S. assistance to Turkey.

It appears, moreover, that the Congress and its foreign affairs committees have not been fully informed of either the economic benefits to Turkey which have arisen from this liquidation or the U.S. role in providing these benefits. The fiscal year 1974 AID program presentation to the Congress did not mention the new \$114 million U.S. loan and thus did not provide full and timely information to congressional committees responsible for authorizing and appropriating U.S. economic assistance funds.

The European Fund liquidation was a one-time occurrence, but we feel that it points out that the United States can provide economic assistance through unexpected channels and that existing Department of State and AID procedures for reporting all assistance flows from the United States to less developed countries are neither systematic nor adequate.

RECOMMENDATION

Executive agencies should insure that the Congress is fully and promptly informed of major changes in debt relationships with developing countries so that Congress may consider such matters in determining the amount of U.S. assistance to be provided.

We therefore recommend that the Secretary of State, in cooperation with the Treasury and AID, insure that all efforts and agreements to relieve debt service burdens are more fully and systematically reported to the Congress, preferably in a unified presentation of all U S. assistance flows to developing countries.

CHAPTER 5

THE TURKISH OPIUM POPPY BAN

On July 1, 1974, the Turkish Government announced that it was lifting its ban on growing opium poppies and that it would permit cultivation beginning in the fall in six provinces and parts of a seventh. The ban had been decreed in June of 1971 and became fully effective in the autumn of 1972. As of mid-July 1974, the U S. Government was not contemplating further disbursements from the \$20.1 million remaining out of \$35 7 million granted to Turkey in support of the ban.

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Turkey has been the second largest licit exporter of opium gum ready for refinement to opium alkaloids, such as morphine and codeine. The opium poppy represents from \$5 million to \$6 million of more than \$3 billion in total Turkish agricultural production. Nevertheless, it has been an important cash earner in modern times for a relatively small number of about 90,000 Turkish farmers

The poppy farmer has earned cash from opium gum, poppy heads, and seeds. Poppy byproducts are used for baked goods, edible oil, animal feed, and fuel. Also farmers are believed to hold opium stocks as capital, and particularly for marriage dowries

Great quantities of opium production have been diverted into illicit channels due to the much higher prices available from illicit traffickers. Opium diversion has been further intensified because there is very little domestic consumption in Turkey.

Turkish opium has been preferred by heroin traffickers because its morphine content is one of the highest in the world. The major trading network for Turkey's illicit opium and its derivatives operates through narcotics channels largely controlled by Turkish and French traffickers and ends in distribution systems operated by major American narcotics syndicates. Thus, the major part of illicit opium ultimately converted into heroin for U S. consumption originated in Turkey.

Because of rapidly mounting public feeling and the realization that U S. heroin addiction was continuing unabated, the United States succeeded in convincing the Turkish Government to completely ban the growing of opium poppies. U.S. narcotics control objectives in Turkey included (1) continuing the poppy ban without an increase in U S. aid, (2) effectively enforcing the law and controlling opium trafficking, and (3) maintaining the poppy ban through successful rural development in former poppy areas

EVOLVEMENT OF THE POPPY BAN

U.S. officials estimated that about 80 percent of the heroin illicitly entering the United States in the mid-1960s came from opium diverted from Turkish production. The United States therefore undertook diplomatic discussions with Turkey to stop the illicit supply. U.S. efforts continued during Turkey's ratification of the Single Convention on Narcotics in 1966 and through the phased reduction of poppy-growing provinces from 21 to 4 during the 1967-72 period.

In 1968 the United States made a \$3 million loan to Turkey to equip and train Turkish enforcement agencies in detecting and apprehending illicit narcotics traffickers, as well as for certain agricultural research and extension activities connected with crop substitution. Only minimal progress has been made on the agricultural aspects of this loan because Turkish customs officials have delayed such procured items as vehicles and agricultural research commodities. Under the enforcement segment of the loan, Turkey's Ministry of Interior established 62 narcotics enforcement units, all equipped with AID-financed equipment. Previously, not a single man, vehicle, or piece of equipment had been devoted full time to narcotics enforcement in Turkey. The control units have been hampered, however, by extensive transfers of key personnel.

By 1970 the war on illicit drugs had become an even higher U.S. priority, and the United States tried to convince Turkey publicly of the need to eliminate all its opium fields. Concern increased with rumors that the United States might withhold future economic aid to force a ban on opium production, but the Department of State denied any intent to apply economic sanctions against Turkey.

The Turkish Government position in late 1970 was that it sought regulation, not eradication, of poppy growing. The U.S. position was that, under the Single Convention on Narcotics, a country was obliged to abandon poppy cultivation if it could not prevent the diversion of opium to illegal channels. Discussions in the press and in the U S. Congress were mounting for the Turkish Government to halt heroin at the source.

The final phase of a program to reduce poppy growing, originally allowed in 42 provinces, was implemented in June 1971. The Prime Minister issued a decree completely banning opium production throughout Turkey. In doing so, the Prime Minister declared that Turkey was recognizing its humanitarian obligation to stop illegal opium traffic.

By Turkish law, the Government must announce poppy cultivation decisions 1 year in advance of implementation. Thus the June 30, 1971, decree confirmed four provinces for cultivation during the 1971-72 growing season but announced that a total ban would apply thereafter. This was the strongest and most direct action legally possible by the Turkish Government.

The ban was subject to argument and challenge in Turkey. Some maintained that Turkey should not accept the economic losses without the commitment of massive compensatory assistance. Some characterized the situation as capitulation to purely American pressure, thus preying on historical grievances and the Turkish sense of pride and honor. Farmers were concerned about the change in a centuries-old practice and about what would replace the opium products they sold and used. The success of the ban was therefore predicated largely on developing new sources of income to make up for these losses.

The United States also sent an advisory group to work with Turkish technicians studying rural development and the economic impact of the ban. AID suggested that a Turkish group prepare an inventory of socioeconomic and physical resource characteristics of the region and an analysis of the importance of the poppy to Turkey's economy.

In November 1971 a joint report recommended a wide variety of actions which could offset the ban's economic effect. The report suggested soil and water practices,

marketing services, and processing facilities. It concluded that, although many wheat yields could be increased more than 50 percent through improved seed and better agricultural practices, other cultivated land had such low production potential that it should be shifted to forests or grazing land.

It was agreed that, after the Turkish Government considered the recommendations, part of the U S team would return to help prepare a program of action for the poppy region. A second team met in February 1972 to concentrate on immediate action programs and to lay the groundwork for longer term development. This team's efforts produced a crash winter wheat program and a regional authority to administer development programs in the area.

U S \$35 MILLION PLEDGE

The United States agreed to support the Turkish Government action to ban poppy growing by pledging a \$35 million grant to Turkey in July 1971. The grant was divided into two parts (1) \$15 million to help replace Turkish foreign exchange losses because of lost exports of legal opium and related poppy products and (2) \$20 million for agricultural development--programs and projects to produce new sources of income for the poppy farmer and the region in which he lives. Early in 1972 additional amounts were granted--\$300,000 for controlling and collecting Turkey's last poppy crop and \$400,000 for U S advisers helping to develop income substitution projects.

Turkey has elected to subsidize farmer losses due to the poppy ban out of the \$15 million income replacement pledge. AID officials said in March 1973 that the \$15 million was to be distributed over a 4-year period with an initial \$2 million used for farmer compensation payments. The actual value of the exceptionally large 1971 crop, the base year for determining compensation, was about \$8.3 million. Therefore the United States increased its initial allocation to \$5 million to help Turkey with the 1971 farmer compensation payments.

The United States planned to spread the \$15 million grant over a 3-year period ended early in 1974. As of mid-June 1974, the U S Government had not disbursed \$5 million of the \$15 million grant, pending a Turkish Government

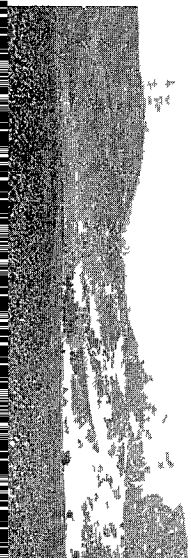
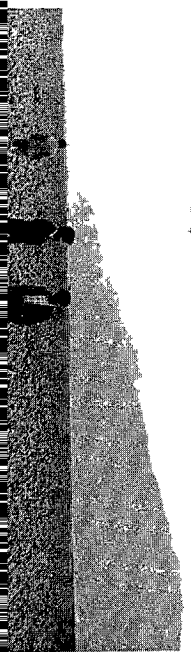
decision on retaining the ban. Now that Turkey has decided to revoke the ban, the U S Government has no intention of releasing the remaining narcotics funds originally programed for Turkey.

The Turkish Government has established a Central Board of Coordination to administer projects and development activities in the former poppy-growing areas. A grant agreement totaling \$10.4 million of the \$20 million designated for agricultural development has been signed thus far, but only \$5.3 million had been released by the United States as of mid-July 1974, and less had actually been spent by the Turkish line agencies carrying on projects.

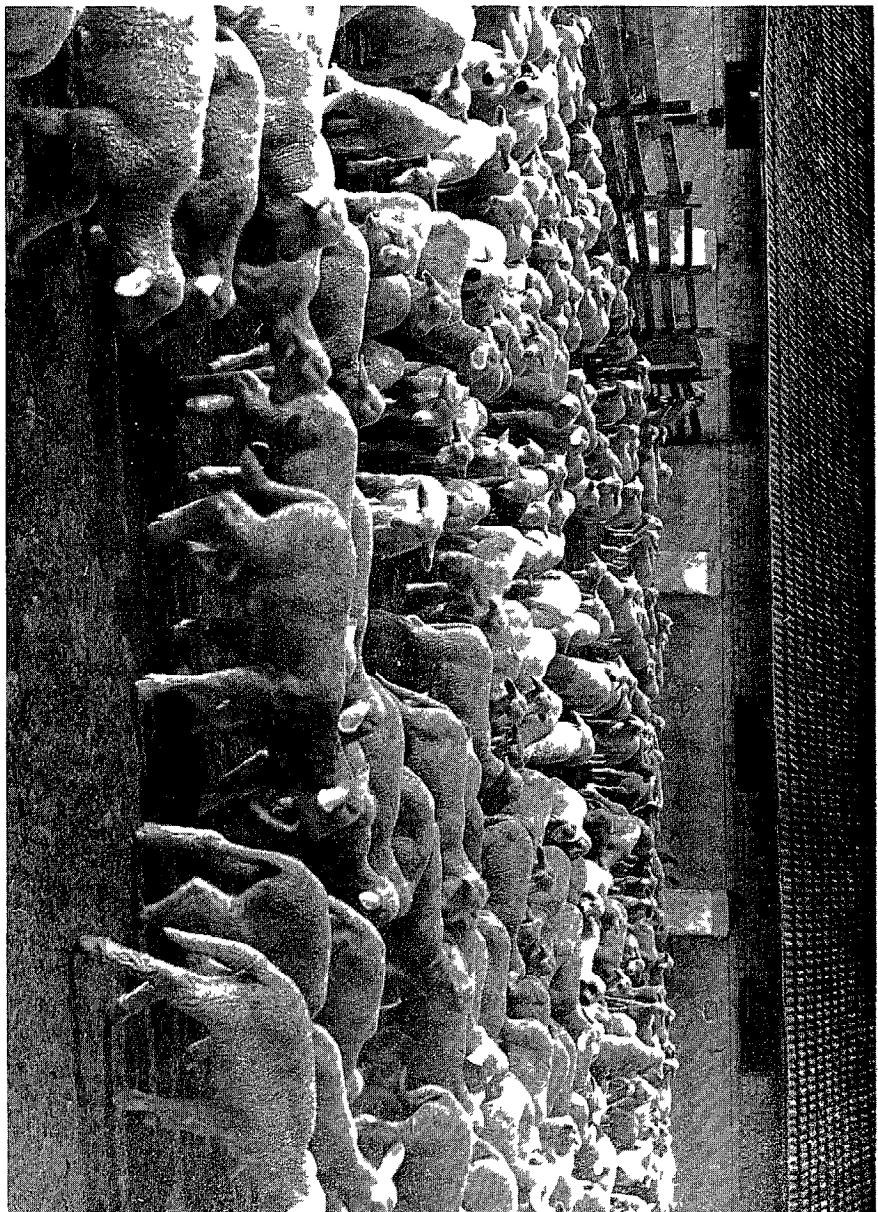
<u>Activity or project</u>	<u>Allocated from grant</u>
Organization and administration	\$ 500,000
Livestock fattening	864,786
Irrigation--1972	640,786
Wheat production--1972	58,036
U.S. Department of Agriculture research	199,483
Forage, fodder, and pasture	316,008
Oilseeds processing survey	14,593
Research on poppy compensation	21,429
Sunflower production	542,857
Cattle development	341,875
Dairy products plant	212,587
Wheat production--1973	855,715
Research on suitable products	9,286
Handicraft research	4,693
Irrigation (16 projects)--1974	<u>726,126</u>
Total	<u>\$5,308,260</u>

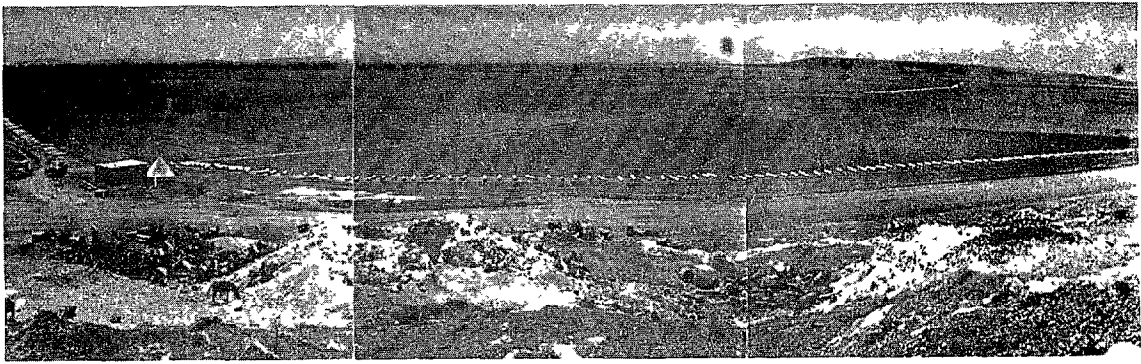
Thirty-six additional proposals have been submitted to the project directorate for consideration. The number of farmers participating in the projects is as follows: 3,600 in the livestock fattening project, 17,000 in sunflower production, and 60,000 in the wheat project.

Two basic reasons are given for the slow progress of the agricultural program. First, a good management system for selecting, evaluating, approving, and administering



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IRRIGATION PROJECTS.

Source: AID

projects is still being developed, second, Turkey has recently undergone several changes in leadership.

Normally, no other single crop can equal the per hectare cash return of the opium poppy, especially in poor soil areas. Thus, improved farming and marketing techniques have received the most emphasis in an effort to return farm incomes to those levels earned when poppy growing was legal

Some evidence of improved agriculture has been shown in two small irrigation projects and in cattle fattening, forage crop, and sunflower demonstration projects. The first stage of the irrigation projects was completed in June 1973, the forage and sunflower plantings were expected to out-produce areas using ordinary seed and little or no fertilizer, but the cattle fattening project met less than half its initial target of 50,000 head.

An AID adviser said that the most critical projects started in October 1973 and should begin to show results during the 1974 spring crop season. The second and final part of the \$20 million U.S. pledge for agricultural programs is not expected to be granted because of Turkey's decision to revoke the ban on growing poppies.

Additional U.S. support

In May 1972 the United States increased the original grant of \$35 million by \$400,000 because the AID mission felt that the U.S. offer of a technical team to follow up on the November 1971 report would be interpreted as a further financial commitment. The additional grant will be used for a U.S. team to help develop projects providing substitute income for affected farmers

The Turks had hoped for a quasi-official U.S. technical team whose recommendations would be the responsibility of the U.S. Government. Instead, an American team was offered that would be hired by and responsible to the Turkish Government. A memorandum on the subject of technical assistance was signed by Turkey and the United States late in 1972. Initially, one resident adviser was assigned for 1 year, as well as temporary specialists as requested. The permanent adviser is working with Turkey's rural development committee, and two temporary specialists are helping to establish an

effective development organization and to compile sound statistical data. As of June 1973, \$105,890 had been allocated from the \$400,000 grant

In January 1972 the United States granted another \$300,000 for controlling, monitoring, and collecting Turkey's last legal poppy crop. With this money Turkey was able to control and purchase a larger percentage of the opium produced during the 1971-72 crop year. In addition, the Department of Agriculture has obligated \$247,800 for three projects in Turkey to develop alternative crops, to perform research on field crops, and to study nonopiate sources of drugs to treat heroin addiction. Agriculture is planning expenditures of \$167,300 for two additional projects.

Agriculture officials said the first significant breakthrough may come with the development of a winter lentil crop which may potentially replace licit poppies on a one-for-one basis. The crop's potential should be known by 1974.

PROSPECTS FOR SUCCESS

One major problem that must be solved is the development of alternative sources of income for the small number of farmers who depend on poppy crops grown on land so poor that it is virtually unsuited for any other crop. Several possibilities are being considered, such as seasonal work, retraining, and relocating.

Before the ban was revoked, U.S. officials were confident that the poppy region could be developed to produce income equivalent to that earned when poppies were legally grown, they believed U.S. grants would enable Turkey to start projects which would achieve this goal. However, they told us in March 1973 that a satisfactory solution for these farmers would be difficult and may depend on the farmers' willingness to relocate.

U.S. officials considered the \$20 million in U.S. agricultural development funds sufficient to generate new income sources for those farmers who suffered loss. They viewed this as "seed" money which would be used to assist Turkey in starting projects.

Vigorous collection efforts by the Turkish Government in the fall of 1972 sharply reduced opium diversion into illegal channels. However, some leakage is occurring from illegal stocks of opium and morphine base stored in Turkey and elsewhere. U.S. officials hope that such leakage can be minimized and that the Middle East will eventually be eliminated as a source of illicit opium.

It is difficult to directly assess the net effect of the now-rescinded opium ban on the U.S. heroin problem. There are definite signs of reductions in heroin addiction, crime, and overdose deaths. Informed U.S. officials and members of Congress are convinced that these improvements are due largely to the heretofore successful opium ban in Turkey. According to the Drug Enforcement Administration, the immediate and very real effect of the poppy ban was a sharp dropoff in heroin addiction and an increase of addicts seeking treatment.

CURRENT DRUG ENFORCEMENT ACTIVITIES

The Drug Enforcement Administration has a regional office in Ankara, Turkey, which provides supervision and support to seven district offices located at Istanbul and Izmir, Turkey, Beirut, Lebanon, Tehran, Iran, Kabul, Afghanistan, New Delhi, India, and Islamabad, Pakistan. Utilizing its financial and personnel resources, the Ankara office establishes and maintains liaison with narcotic enforcement agencies in the Arab world, where possible, and in Eastern Africa.

The Drug Enforcement Administration's staff in Turkey consisted of eight agents, five American support personnel, and four Turkish employees as of August 1973. The agents' mission is to fully cooperate with their Turkish counterparts to prohibit the shipment of illegal narcotics from Turkey to Europe and to encourage removing major violators. Other activities include training personnel for Turkey's drug enforcement agencies, monitoring drug activities, and, when necessary, assisting in their investigative work.

Seizures by Turkish drug enforcement agencies follow.

	<u>1972</u>	<u>First half of 1973</u>
Opium	3,116 kgs.	1,902 kgs.
Morphine base	176 kgs.	116 kgs.
Heroin	7 kgs.	-
Hashish	7,469 kgs	2,528 kgs
Poppies	Not applicable	70,066 sq. meters

In August 1973 the regional director stated that, for the past few months, there had been a shortage of morphine base in Marseilles, France, a notorious heroin conversion center. Prices for illicit opium and morphine base had also increased. This may have been an attempt for traffickers to "cash in" on reports that Turkish opiates would soon be scarce. Although there is very little data on which to estimate the extent of Turkish stocks of opium gum or morphine base, U.S. officials believe great quantities exist.

CONCLUSIONS

U S. diplomatic initiatives succeeded in convincing the Turkish Government to ban opium poppy growing. Although the United States agreed to provide more than \$35 million in support of the Turkish decision, the ban was a difficult step to take and generated considerable controversy in Turkey.

On July 1, 1974, the ban was revoked by the Turkish Government bringing to a halt further disbursements from the \$35.7 million grant for narcotics control. Progress of agricultural development activities to aid the former poppy farmers has been very slow. We believe the lack of success in developing new sources of income for the former poppy farmers was instrumental in Turkey's decision to revoke the ban.

The U S diplomatic success, resulting in a nationwide poppy ban, was achieved, in large part, because Turkey is a staunch NATO ally and received much economic and military assistance from the United States. In recent campaigns each of the leading political parties pledged to end or to reconsider the ban. The ban, however, involves more than economic and political considerations. Any discussions of

the ban, including the consequences of its recent revocation, must be considered in the context of the longstanding U.S. and Turkish NATO defense relationships.

We plan to issue a separate report describing the situation concerning the ban, its recent revocation, and U S. assistance provided in support of it

CHAPTER 6

U.S. TRADE AND INVESTMENT

Exports of U S. goods and services to Turkey have been largely a direct result of the \$3.0 billion in economic aid and indirectly of the \$3.7 billion in military aid provided by the United States since World War II. American companies benefited directly from sales and construction generated by AID-sponsored programs and projects. The U.S. share of Turkey's import market, however, has been declining (1964-72) as U.S. economic assistance has declined.

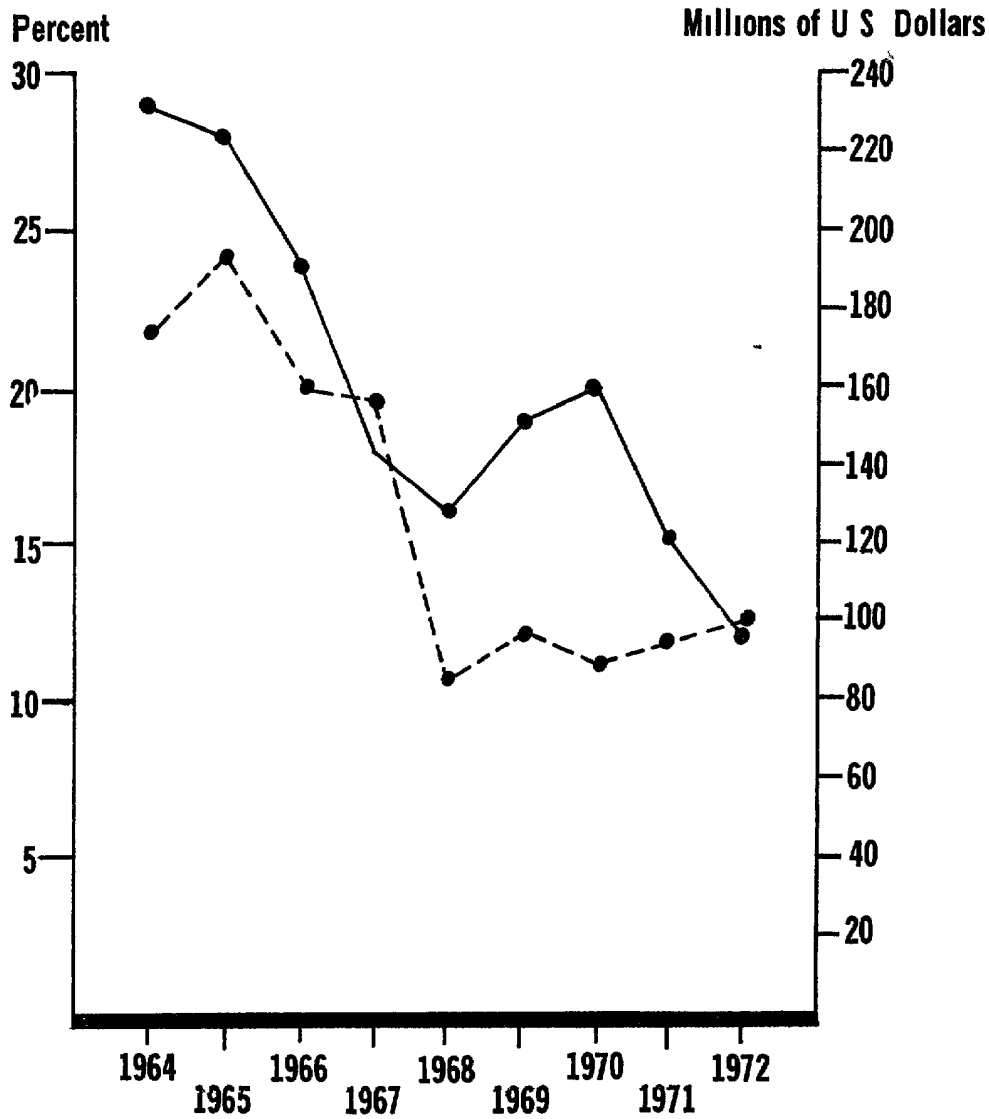
U S. EXPORTS TO TURKEY

West Germany has replaced the United States as Turkey's leading supplier. Although the value of U.S. economic exports to Turkey have remained relatively stable and the United States continues to maintain a large trade surplus--\$88 million in 1972--it is slowly losing its share of Turkey's expanding market. In 1964 the U.S. share of Turkey's imports was 29 percent and by 1972 had declined to about 12 percent.

Four primary reasons have been given for the steady U.S. loss of Turkey's market to Western Europe (1) declining U.S. assistance and increasing assistance from multinational organizations, (2) Turkey, as an associate EEC member is firmly committed to becoming a full member and is entitled to preferential trading arrangements, (3) the natural geographic advantage of Western Europe in contrast to the United States, and (4) Western European firms have been more vigorous than U.S. firms in establishing and expanding commercial ties with Turkey.

The following chart shows the decline in the U.S. share of Turkey's import market and U.S. economic assistance to Turkey over the last 9 years.

— Percent of Imports from U.S. to Turkey's Total Imports
 - - - Total Economic Assistance to Turkey



U S. trade objectives in Turkey have received less emphasis than other U S objectives, although the changing economic situation seems to warrant more emphasis. For example, an October 1972 Embassy report cited the changing situation and pointed to opportunities for increasing U S exports in many areas, including textiles, construction, and transportation equipment. According to Embassy officials, however, discussions on the trade problem with the Turkish Government must be considered within the framework of other U S objectives.

As Turkey's economic involvement with EEC expanded, the Government established certain important policies to favor EEC. Although the United States fully supported Turkey's developing EEC association, the Embassy said it was important that Turkey and EEC comply with the General Agreement on Tariffs and Trade during Turkey's integration into the EEC customs union. The Embassy has noted three discriminatory practices favoring EEC--reverse tariff preferences, import quotas, and a stamp tax.

Lower tariffs for EEC countries, although discriminatory in nature, are in accordance with the General Agreement on Tariffs and Trade which permits a country in the process of joining a customs union to establish internal trade preferences with other union members. Thus, according to an international organization, Turkey is expected to establish such tariff preferences.

Turkey has used import quotas quite extensively to protect both its shortage of foreign exchange and its developing domestic industries. In accordance with its EEC agreement, Turkey liberalized quotas for 590 items in 1972. All but 50 of these items were liberalized for all contracting parties to the General Agreement. The Embassy concluded that most of the remaining 50 items were not important in terms of U.S. exports to Turkey but that quota discrimination was in violation of the General Agreement. The Embassy pursued negotiations through the General Agreement and directly with the Turkish Government to liberalize the remaining 50 items for non-EEC countries, and 34 items were completely liberalized. The Embassy expects similar, though less intensive, encounters as Turkey continues to liberalize its import quotas in accordance with the EEC agreement.

From September 1971 to January 1973, a stamp tax was applied to Turkish industrial goods imports in a discriminatory manner favoring EEC. Although this did not have much effect on U.S. exports to Turkey due to the nature of the items, the United States again successfully negotiated directly with the Turkish Government and at the General Agreement on Tariffs and Trade meetings for the elimination of this discriminatory trade practice.

U.S. TRADE AND INVESTMENT ACTIVITIES

Each year the Embassy, in conjunction with the Departments of Commerce and State, develops a program of various in-country trade and investment activities, including trade fairs, trade missions, and catalog shows. Over the last several years, the Embassy and Commerce have disagreed on methods to maximize their trade promotion activities in Turkey.

A trade fair is held annually in Izmir, Turkey, for 1 month and is attended by Turkish importers and citizens. The United States entered the Izmir trade fair in 1972 after a 2-year absence, and the U.S. Mission in Izmir acted as a coordinator to help representatives of U.S. products.

In assessing the value of participating in the fair, a Department of State official said that U.S. participation had two aspects--public relations and export promotion. He added that individually neither aspect justifies U.S. participation but when considered jointly U.S. participation is justified. Because the fair places a heavy workload on limited Embassy and Izmir consulate commercial staffs, the Embassy has solicited increased support for the fair from Commerce. Commerce officials in Washington felt that the fair was of minimal trade promotion value and consequently limited their support to providing a fair expert each year for 1 month. In addition, Commerce officials believe that the United States Information Agency should fund the fair since it deals more in public relations.

For fiscal year 1973 Commerce proposed several trade promotion activities for Turkey. Two of these activities were subsequently combined, a tourism catalog show was canceled, and a textile machinery trade mission went on as originally proposed. The combined activity, a food processing and packaging equipment seminar and catalog exhibition, was held in Ankara in October 1972.

In January 1973 the Embassy sent a memorandum to Commerce reporting criticisms of the event from visitors, participants, and the Embassy itself. It said that the show should have been held in another city, that there was no sales pitch, and that the show was poorly organized. Although the commercial attache in Ankara expected a reply, Commerce representatives

said they did not plan to reply but would consider the criticisms and try to improve future programs.

For fiscal year 1974 Commerce again proposed four trade promotion events. Two of these were turned down by the Embassy because they would interfere with the Embassy's preparation for the Izmir fair. A Commerce official said that, although these shows might have been beneficial for U.S. exports, they were deleted from the program because of the Embassy's reluctance and a subsequent budget cut. One of the deleted activities was to promote U.S. exports considered to be competitive with European products.

Embassy and Commerce officials said that, to capitalize on the trade opportunities in Turkey, a larger commercial staff was needed at the Embassy and the consulates. The Department of State told us that requests for additional commercial positions for Turkey were denied by the Office of Management and Budget. According to an Embassy official, increased Commerce support of the Izmir fair would relieve much of the burden on the Embassy's commercial staff and thus allow it to perform more effectively its ordinary commercial activities.

The Export-Import Bank promotes U.S. exports to Turkey through its loan, guarantee, and insurance programs. U.S. officials hope that Bank credits will be an important factor in keeping U.S. imports in the Turkish market as the AID program declines. Bank credits to Turkey in fiscal year 1972 amounted to \$34.9 million, compared to \$11 million in fiscal year 1971.

The Bank is initiating a cooperative financing facility in Turkey to extend the Bank's financing opportunities to customers of Turkish financial institutions who might not otherwise be able to purchase U.S. goods and services.

U S. PRIVATE INVESTMENT

The ambiguous attitude of the Turkish Government toward foreign investors has, over the years, tended to discourage foreign private investment. Turkish statistics showed total foreign private investment from 1951 through 1972 at

1 9 billion Turkish lira,¹ of which 14.3 percent was U.S private investment. In addition, private foreign investment in Turkey's petroleum industry from 1954 through 1971 was \$289 3 million, of which the Embassy estimated the United States had about a \$100 million share. Because of the poor investment environment, Overseas Private Investment Corporation activities have been limited.

Turkish Government officials and legislation statements give the impression of a favorable climate for foreign private investment. Attempts to invest in Turkey, however, are stymied by delays in processing applications and burdensome administrative practices. The Government appears to be taking a long time to carefully examine investment applications and thereby discourages new foreign investment.

Turkish attitudes toward already established investments also tend to discourage new investments. Arbitrary interpretations of laws and regulations, reluctance to renew work permits for non-Turkish executives and experts, and efforts to restrict price increases are some of the problems faced by foreign private investors in Turkey.

One unique problem of U S investors in Turkey concerns the U.S Cooley Loan Program which was established to encourage U.S private investment in developing countries. Eighteen major U S firms have made use of these Cooley Loans in establishing operations in Turkey. The problem began with a decision by the Turkish Ministry of Finance in 1969 to block certain profits earned by U.S. investors who had participated in the Program. There had been mutual agreement that the portion of profits attributable to Cooley Loans could not be transferred abroad. The decision also prevented their use in normal business activities. Although never settled in court, this decision seemed to violate the individual written agreements of each of these firms with the Turkish Government. The firms reached a compromise settlement early in 1972 but felt they had been placed in a position of duress

¹The source of the foreign investment statistics does not provide a basis to convert to U.S. dollars because the U.S. dollar and Turkish lira ratio has fluctuated, e.g , 1 to 2 80 in 1951, 1 to 15 00 in 1970, and 1 to 14.00 in 1972

by the Ministry of Finance They agreed to the compromise only to avoid further damage to their relationship with the Turkish Government.

The Government's slowness in issuing, renewing, or extending work permits for essential non-Turkish officials of certain foreign firms, including several U S. firms, is another major problem often faced by U,S investors. By January 1973 most of the companies involved apparently had resolved their problems of obtaining work permits for their expatriate workers, at least for the next 8 to 12 months, but clear statements of Turkish policy indicate that pressure to replace expatriates will continue.

CONCLUSIONS

The U S share of Turkey's imports has declined as U.S. economic assistance has declined. This is an apparent result of Turkey's stronger alliance with EEC and its member countries in recent years. The U.S trade effort in Turkey has received less emphasis than other U.S. objectives in an era of changing economic conditions in that country. In addition, there is evidence that the Departments of State and Commerce are not acting in harmony with respect to the direction and emphasis of U.S. trade efforts in Turkey.

Meanwhile the ambiguous attitude of the Turkish Government toward foreign investors has, over the years, tended to discourage foreign private investment

AGENCY COMMENTS

The Department of Commerce, in responding to our report, agreed that our recommendation on the reduction and phaseout of U S. economic assistance (see p. 25) seemed quite germane to our observations on U.S. trade and investment activities in Turkey Commerce is concerned with expanding trade in areas where AID has fostered development and particularly where U S concessionary aid is phasing down. Commerce agreed that the U.S share of the Turkish market had decreased as tied U S economic assistance had declined

We share the agency's concern that the Secretary of Commerce be included in the development of a clear assessment of U S. vital interests in Turkey. We understand that the more formal policy planning currently taking place, through a

PARA paper for Turkey, will include important input from Commerce to be used in developing a unified strategy for promoting U.S. trade with Turkey. The joint development and finalization of a more formalized policy can serve to resolve areas of interagency differences over trade promotion activities.

U S ECONOMIC AND MILITARY ASSISTANCE TO TURKEY, 1947 THROUGH 1973
(Obligations and loan authorizations, U S fiscal years)

	<u>1947 61</u>	<u>1962 66</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>Total 1947-73</u>
	(millions)									
AID and predecessor agencies										
Loans	\$ 325 8	\$ 498 2	\$134 9	\$ 68 0	\$ 40 0	\$ 40 0	\$ 50 0	\$ 40 0	\$ 9 0	^a \$1,161 1
Grants	<u>825 8</u>	<u>151 6</u>	<u>4 5</u>	<u>4 2</u>	<u>3 5</u>	<u>3 3</u>	<u>3 6</u>	^b <u>19 0</u>	<u>7 8</u>	^a <u>985 3</u>
Total	1,151 6	649 8	139 4	72 2	43 5	43 3	53 6	59 0	16 8	^a 2,146 4
Food for Peace										
Title I	149 9	190 4	-		22 8	33 7	21 8	-	-	418 6
Title II	<u>16 8</u>	<u>40 3</u>	<u>8 2</u>	<u>12 0</u>	<u>23 7</u>	<u>12 2</u>	<u>7 2</u>	<u>7 9</u>	<u>6 1</u>	<u>134 4</u>
Total	166 7	230 7	8 2	12 0	46 5	45 9	29 0	7 9	6 1	553 0
Peace Corps	-	8 8	2 4	1 6	1 3	1 0	0 1	-	-	15 2
Surplus property credits	<u>12 2</u>	-	-	-	-	-	-	-	-	<u>12 2</u>
European Fund loan consolidation	-	-	-	-	-	-	-	114 0	-	114 0
Export-Import Bank loans	<u>64 3</u>	-	<u>7 1</u>	-	<u>6 2</u>	-	<u>11 0</u>	<u>34 9</u>	<u>67 1</u>	<u>190 6</u>
Total economic	<u>1,394 8</u>	<u>889 3</u>	<u>157 1</u>	<u>85 8</u>	<u>97 5</u>	<u>90 2</u>	<u>93 7</u>	<u>215 8</u>	<u>90 0</u>	^a <u>3,031 4</u>
Military assistance										
Credit sales	-	-	-	-	-	-	-	15 0	20 0	35 0
Grants	1,665 6	850 5	131 8	93 1	98 5	89 7	99 4	61 1	58 4	3,148 1
Grants from excess stocks	26 6	38 4	13 6	26 4	26 7	29 5	35 7	35 1	42 3	274 3
Other grants	<u>170 3</u>	-	<u>15 4</u>	-	-	<u>4 5</u>	<u>7 5</u>	<u>41 4</u>	<u>27 9</u>	<u>267 0</u>
Total military	<u>1,862 5</u>	<u>888 9</u>	<u>160 8</u>	<u>119 5</u>	<u>125 2</u>	<u>123 7</u>	<u>142 6</u>	<u>152 6</u>	<u>148 6</u>	<u>3,724 4</u>
Total economic and military assistance	<u>\$3,257.3</u>	<u>\$1,778.2</u>	<u>\$317.9</u>	<u>\$205.3</u>	<u>\$222.7</u>	<u>\$213.9</u>	<u>\$236.3</u>	<u>\$368.4</u>	<u>\$238.6</u>	^a <u>\$6,755.8</u>

^aCumulative totals reflect prior years' deobligations of \$82 8 million

^bIncludes \$15 million for narcotics control

Source AID's report entitled "U S Overseas Loans and Grants and Assistance from International Organizations "

APPENDIX II

FOREIGN ECONOMIC ASSISTANCE TO TURKEY (note a)

1963 THROUGH 1972

	<u>1963-66</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>Total</u> <u>1963-72</u>
	(millions)							
Consortium sources								
United States (note b)	\$ 471.6	\$137.8	\$ 62.9	\$ 45.0	\$ 65.0	\$ 25.0	\$ 40.0	\$ 847.3
World Bank Group	88.0	0.3	25.0	66.0	58.6	74.5	213.7	526.1
European Investment Bank	70.0	35.0	35.0	35.0	-	-	-	175.0
European Fund	150.0	25.0	25.0	15.0	115.0	12.4	-	342.4
West Germany	185.9	45.1	43.9	50.8	59.8	58.5	50.0	494.0
France	59.6	18.8	20.8	24.6	18.4	19.5	20.0	181.7
United Kingdom	71.6	14.3	17.3	24.8	8.4	14.4	-	150.8
Italy	42.4	18.0	20.0	25.0	15.0	15.0	10.0	145.4
Other European and Canada (note c)	<u>52.7</u>	<u>11.9</u>	<u>33.2</u>	<u>8.5</u>	<u>6.8</u>	<u>7.8</u>	<u>7.9</u>	<u>128.8</u>
Total	<u>1,191.8</u>	<u>306.2</u>	<u>283.1</u>	<u>294.7</u>	<u>347.0</u>	<u>227.1</u>	<u>341.6</u>	<u>2,991.5</u>
Other sources								
Soviet Union	-	200.0	-	-	113.7	-	158.0	471.7
Hungary, Japan, and Poland	-	15.7	-	11.2	-	54.9	-	81.8
Total	<u>-</u>	<u>215.7</u>	<u>-</u>	<u>11.2</u>	<u>113.7</u>	<u>54.9</u>	<u>158.0</u>	<u>553.5</u>
Total economic assistance	<u>\$1,191.8</u>	<u>\$521.9</u>	<u>\$283.1</u>	<u>\$305.9</u>	<u>\$460.7</u>	<u>\$282.0</u>	<u>\$499.6</u>	<u>\$3,545.0</u>

^a Pledges and/or agreements signed, including debt relief

^b Excludes technical assistance and Public Law 480

^c Austria, Belgium, Denmark, Luxembourg, the Netherlands, Norway, Sweden, and Switzerland

Source Organization for Economic Cooperation and Development Assistance Statistics for the Turkey Consortium



DEPARTMENT OF STATE

Washington D C 20520

May 13, 1974

Mr J Kenneth Fasick
 Director
 International Division
 U S General Accounting Office
 Washington, D C 20548

Dear Mr Fasick

I am replying for the Department of State and Agency for International Development to your letter of February 12, 1974, which forwarded a copy of the draft GAO Report "Review of U S Economic Assistance to Turkey " You will note from the enclosed comments that the Department agrees with the recommendations in the report Although the Department agrees that Congress should be fully informed of such agreements as the liquidation of the European Monetary Agreement, it does not concur that the acquisition of this debt constitutes U S assistance to Turkey

I regret the delay in submitting these comments This was caused in part by the absence of personnel on other projects, and in part by the necessity of reconsidering the classification of the report Our supplementary comments are enclosed

The Bureau of Near Eastern and South Asian Affairs, particularly the Office of Turkish Affairs, has asked me to express their appreciation for the good working relations established by the auditors involved in the study and for the excellence of the draft report

I want to thank you for the opportunity to review and comment on the draft report

Sincerely yours,

Richard W. Murray
 Richard W Murray
 Deputy Assistant Secretary
 for Budget and Finance

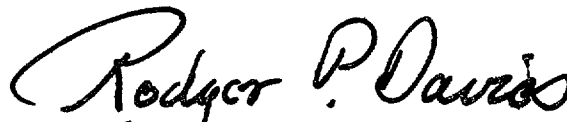
[See GAO note, p 58.]

Enclosure
 Comments

DEPARTMENT OF STATE AND AGENCY FOR INTERNATIONAL
DEVELOPMENT COMMENTS ON GAO DRAFT REPORT "REVIEW OF
U.S. ECONOMIC ASSISTANCE TO TURKEY"

[See GAO note.]

- 2 The Department of State agrees that it should keep Congress fully informed of such agreements as the one liquidating the European Monetary Agreement. It does not, however, share GAO's view that the acquisition of the Turkish debt by the U.S. under terms more favorable to Turkey than originally granted by the EMA constituted U.S. assistance. Instead, the Department believes that this represented an acquisition of an asset by the U.S. While Turkey did receive some debt relief in theory, if not in practice, it did not receive relief from an obligation to the U.S. Government, but rather, from an obligation to the EMA, to which the U.S. had no legal claim. (UNCLASSIFIED)



Rodger P. Davies
Acting Assistant Secretary
for Near Eastern and
South Asian Affairs

GAO note Deleted comments relate to matters considered classified by the agencies. The report is unclassified due, in part, to certain modifications made. A classified supplement containing full State and AID comments is available to authorized persons.



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Administration
Washington D C 20230

April 3, 1974


Mr J K Fasick
Director
International Division
U S General Accounting Office
Washington, D C 20548

Dear Mr Fasick

This is in reply to your letter of February 12, 1974,
requesting comments on a draft report entitled
[See GAO note.]

We have reviewed the attached comments of the Assistant
Secretary for Domestic and International Business and
believe that they are appropriately responsive to the
matter discussed in the report

Sincerely,



Henry B Turner
Assistant Secretary
for Administration

Attachment

GAO note Title of report subsequently changed to
"United States Economic Assistance to Turkey."



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for Domestic
and International Business
Washington D C 20230

MAR 20, 1974

Mr J K Fasick
Director, International Division
United States General Accounting Office
Washington, D C 20548

Dear Mr Fasick

We are pleased to have the opportunity to comment on your draft report to the Congress on U S economic assistance to Turkey. Particularly we have read with much interest the discussion in Chapter 6 concerning U S trade and investment in Turkey.

This discussion seems quite germane to your recommendations concerning the reduction and phaseout of U S economic assistance to Turkey. Since the expansion of U S exports is a major concern of the Department of Commerce, we are particularly interested in moving forward with trade expansion efforts in areas where development has been fostered by AID's efforts and where U S concessionary development is no longer indicated.

Unfortunately, as stated in the draft report, it is in precisely these markets that we have seen the U S share decrease as tied U S economic assistance has declined. To a great extent the erosion of the U S market position has been a consequence of price differences and of the growing economic strength of our major competitors. However, we are very much aware that another major factor has been our inability to create lasting trade links while our AID efforts have been in progress and to bridge with commercial endeavors the interval while the aid effort is being reduced. It would seem that the GAO draft recommendation of an overall coordinated policy is well directed to that problem. We would hope that an overall plan containing an integrated strategy for the reduction and phaseout of U S economic assistance to Turkey would also contain active plans to participate commercially in the economy that we had helped to develop. To further this objective it would seem to us that the Secretary of Commerce would be included in the development of such an overall plan along with the Secretary of State and the Administrator of AID.

The Turkish market, however, merits some special caveats. While it is undoubtedly true that a greater emphasis on trade promotional activities in Turkey could produce some increase in U S exports there, the same conclusion is equally valid for many other countries. However, since the total resources that the Department of Commerce can devote to trade promotion are finite, we must allocate these resources as efficiently as possible in terms of their potential to generate increased exports.

Turkey is not a prime market for the United States, nor is it a principal world trade nation. In fact, Turkey maintains a rigid system of non-tariff barriers on imports as well as effective restrictions on investments which severely limit the trade potential for U S firms at present and in the near future. This could conceivably change if Turkey's economic position improves materially.

Beginning in FY '73 the Department of Commerce expanded its trade promotion activities in Turkey beyond its traditional participation in the Izmir Fair. Commerce, in cooperation with the Embassy, selected two product areas on the basis that they offered special opportunities to increase U S sales. A successful Textile Machinery and Equipment Trade Mission was held, and a new technique, a combined sales seminar and catalog show featuring food processing and packaging equipment, was tried out. This last event was a pilot project which admittedly did not come up to expectations. Nevertheless, it served a useful purpose in highlighting the problems inherent in supporting a technical sales seminar. As a direct result of the lessons learned in Turkey, this particular technique has now developed into a tightly organized format which has been measurably successful elsewhere.

In the case of trade missions, we plan to effect an economy of resources - at the possible expense of a loss of precision in targeting - by adding Turkey as a second or third stop for missions already programmed for neighboring countries, such as Iran and Israel.

The Izmir Fair warrants special discussion. Our primary commercial incentive for entering the Fair is the import quota (usually less than \$3 million) that the Government of Turkey authorizes to American exports if we participate, there is some additional incentive in the opportunity it gives Turkish importers to display their American wares, although the Izmir Fair, being primarily a "publicly attended fun fair" in concept, is far from an ideal vehicle for sales promotion. For example, new products and most consumer goods cannot be promoted readily because the special quota is restricted to items already on the limited importable list. Few U S exporters wish to undergo the expense of exhibiting in a market where they cannot sell their products. Our commercial aims would be most efficiently met at Izmir by a clear, austere, businesslike exhibition. However, the Embassy is understandably reluctant to enter the Fair on this basis.

APPENDIX IV

while our competitor countries mount spectacular "image" events. The Department of Commerce does not see its commercial objectives being well served by the expenditure of funds and manpower for "image" purposes.

The newly-conceived Commercial Presence Fair Program may offer a way for the U S to enter the Izmir Fair on terms acceptable to the Embassy, and this is currently being discussed with both the Department of State and the Embassy. Commercial Presence Fairs are conceived as those which have a trade promotion priority less than the major vertical and "trade only" fairs in developed countries, which have traditionally offered the most sales potential to U S exhibitors, yet have a secondary rationale, usually one of public image. This public image criterion meets the objectives of the Embassies, particularly in developing countries.

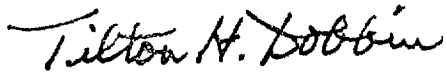
Commerce and State expect to bring Turkey under the Country Commercial Program system in FY '76. The Country Commercial Program is a document jointly drafted by Commerce, State and the Embassy presenting our commercial objectives and outlining the strategy and activities agreed upon to achieve those objectives. Additionally, it sets forth the resources required by the posts to carry out the activities and establishes priorities for them to follow. The Country Commercial Program effort will induce extensive coordination and cooperation among Commerce, State and the Embassy toward achieving our commercial objectives in Turkey.

On another subject discussed in your draft report, we find full and timely reporting of significant changes in debt relationships of great assistance in export expansion activity planning. We would thus welcome any expansion of such U S Government programs in Turkey, particularly as Eximbank credit availability is a prerequisite to our trade expansion efforts. Extensive work in this area has been begun under the auspices of the National Advisory Council on International Monetary and Financial Policies, and also by international agencies such as the World Bank and IMF, and it is our intention to fully participate in this area.

With the development of a clear assessment of U S vital interests in Turkey, and the setting forth of U S priorities, objectives, and goals in more formal policy planning as is currently being done through a

Policy Analysis and Resource Allocation paper on Turkey, it is our firm hope that we can resolve areas of inter-agency difference that have emerged in recent years

Sincerely,

A handwritten signature in cursive script that reads "Tilton H. Dobbins".

Tilton H Dobbins
Assistant Secretary for Domestic
and International Business

APPENDIX V

PRINCIPAL OFFICIALS
RESPONSIBLE FOR ACTIVITIES
DISCUSSED IN THIS REPORT

Appointed

DEPARTMENT OF STATE

SECRETARY OF STATE

Dean Rusk	Jan 1961
William P. Rogers	Jan. 1969
Henry A Kissinger	Sept. 1973

UNITED STATES AMBASSADOR TO TURKEY

Parker T. Hart	July 1965
Robert W Komer	Nov. 1968
William J. Handley	June 1969
William B. Macomber, Jr.	May 1973

AGENCY FOR INTERNATIONAL DEVELOPMENT

ADMINISTRATOR

William S. Gaud	Aug 1969
John A. Hannah	Mar. 1969
Daniel S. Parker	Oct. 1973

DIRECTOR OF AID MISSION TO TURKEY

James P Grant	Sept. 1964
James S Killen	July 1967
Joseph S Toner	Sept. 1970

DEPARTMENT OF COMMERCE

SECRETARY OF COMMERCE

Cyrus R Smith	Mar. 1968
Maurice H. Stans	Jan 1969
Peter G Peterson	Feb. 1972
Frederick B. Dent	Feb. 1973

Appointed

DEPARTMENT OF COMMERCE (continued)

DEPUTY ASSISTANT SECRETARY AND
DIRECTOR, BUREAU OF INTERNATIONAL
COMMERCE

Lawrence A. Fox
Harold B. Scott

Sept. 1965
May 1969

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