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Turkish Export Model: What Can Pakistan Learn?

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PAKISTAN

Manzil Pakistan is a national non-profit think tank dedicated to developing and advocating public policy that contributes to the development of Pakistan. Our aim is to shape Pakistan to a country where policies on decisions of national interest are driven by non-partisan strategic thinking and implemented through consensus in the best interest of the people of Pakistan.

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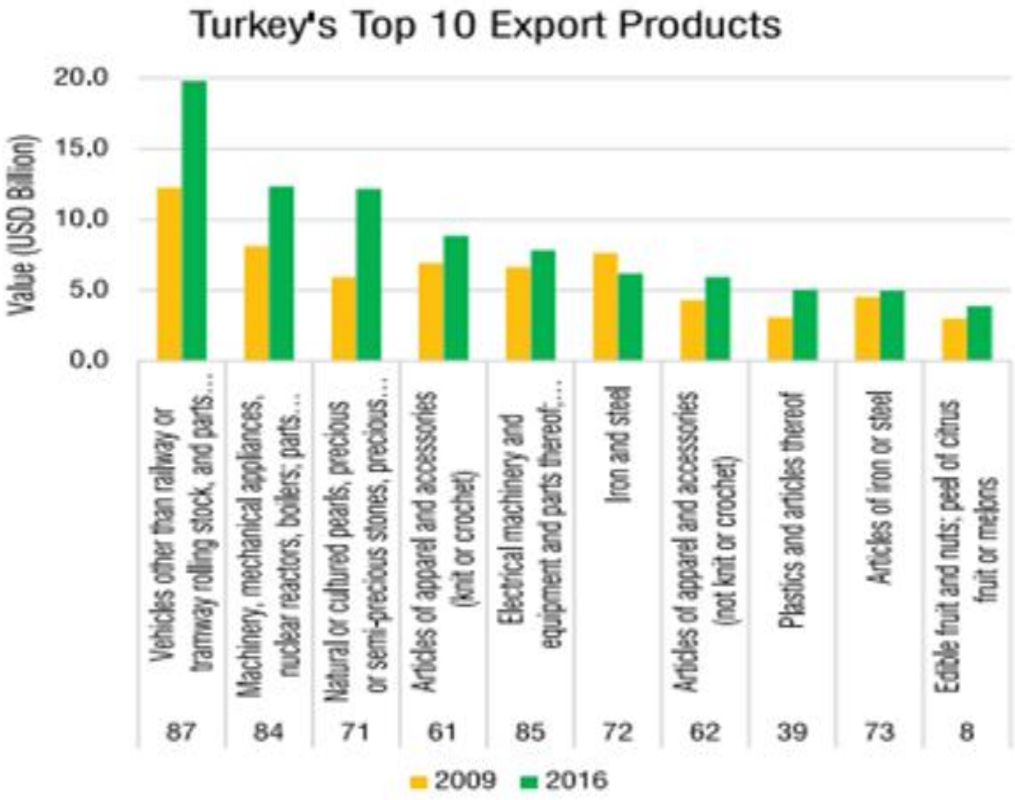
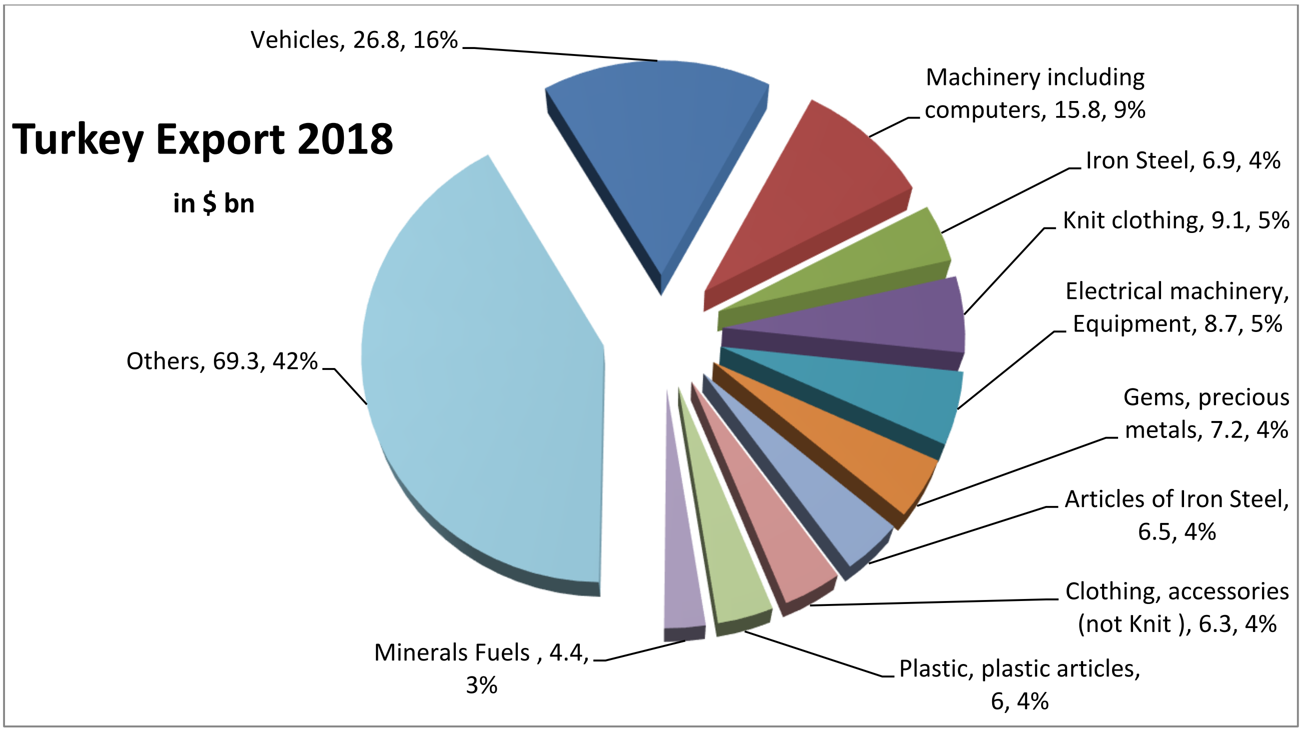
Introduction:

Turkey is ranked 13th biggest economy in terms of GDP (PPP). Geographically situated between Asia and Europe it enjoys great global access. Export outlook of turkey is very strong and it hits an all-time high of $167.9 billion in 2018 vis-à-vis $ 157 billion in year 2017. The export is projected to hit $182 billion by the end of 2019. The export composition of Turkey remained same in the last one decade, and there has been no sectoral transformation.



High tech value added products constitute more than 30 percent of country’s export (Vehicles 16 percent, Machinery including computer 9 percent, and Electrical Machinery 5 percent). Amongst all, Vehicle segment constitute highest dollar value export with the total value of $26.8 billion. Machinery (including computers) comprises of $15.8 billion and iron /steel worth 11.6 billion. Turkeys top ten export commodities accounts for almost 61% of the overall value of exports.



The table below provides the growth patterns in overall exports of Turkey and Pakistan during the last one decade. As can be seen, exports of Turkey is on upward trajectory with good growth rates, however, there are negative growth rates also observed during some years. Overall, Export performance of Turkey is remarkable but for embarking the quest for sustainable export, Turkey has now started a long term strategic master plan which will ensure the sustainability of export growth. Under this master plan, Turkey has identified countries and sectors which it will boost its export.

Years	Exports USD Billion		Growth Rate (%)	
	Pakistan	Turkey	Pakistan	Turkey
2008	20.3	132.0	-	-
2009	17.5	102.1	-13.8%	-22.6%
2010	21.4	113.9	22.2%	11.5%
2011	25.4	134.9	18.6%	18.5%
2012	24.6	152.5	-3.2%	13.0%
2013	25.1	151.8	2.3%	-0.4%
2014	24.7	157.6	-1.6%	3.8%
2015	22.1	143.8	-10.7%	-8.7%
2016	20.4	142.5	-7.8%	-0.9%
2017	21.6	157.0	5.9%	10.1%
2018	23.5	168.0	8.9%	7.0%

This master plan was prepared by trade ministry along with effective consultation of relevant stake holders. The objective this master plan is to achieve an improved performance in foreign sales and increase the value added of the exports.

This road map identifies 17 target countries and 5 target sectors where Turkish Government aims to double its exports. These countries include the U.S., Brazil, China, Ethiopia, Morocco, South Africa, South Korea, India, Iraq, the U.K., Japan, Kenya, Malaysia, Mexico, Uzbekistan, Russia and Chile. Currently, these countries absorb 25.2% of Turkish exports. Machinery, automotive, electric-electronic, chemical and food industry are the five sectors identified by the master plan and Turkey aims to achieve sustainable export through focusing on different sectors and countries.

The current document is a preliminary review of Turkey exports and growth patterns. The documents also look at the structural initiatives that have been taken to achieve boost in exports. The economy of Pakistan is currently faced with low and fragile GDP growth rates, facing high current account deficits due low export growth and high growth in imports. This document is an internal document of Manzil Pakistan, and solely for the purpose of policy making for any structural reforms in Pakistan. The document is largely a compilation of reports from other institutions including reports of State Bank of Pakistan.

Background:

In Pakistan, policy makers had to deal with the troubling dilemma of plugging external financing gap after every five years or so. Although the cause of this financial gap can be different; it could be due to unwarranted spending, adverse global economic situation or domestic political transition but these causes' only triggers this current account deficit crisis. These causes are not the defining factor; until we structurally straighten our economy, hence the Current Account Deficit (CAD) crisis could not address permanently.

July 2018 was no different; the current account deficit was $18.2 billion almost 6 percent of GDP raised form $2.7 billion which was 1 percent of GDP in 2015. Since 2015, the CAD crisis has be ever increasing and the trigging factor behind such rise was somewhat increase in imports demand as well as increase in imports by means of increasing prices of Oil in the international markets. The issue remains that why Pakistan seems to end up in this crisis more than other countries that have similar economic structure and financial cushion.

There are two major determinants of current account, Imports and Exports. Generally, the ideal situation is when Imports and exports raise symmetrically, there is no such crisis. In fact the the foreign currency gap either reduces or remain the same due to foreign remittances. However, the dilemma of Pakistan that the exports remain stagnant, hovering around or between $20 billion to $24 billion since last so many years. On the other hand, the imports have been rising consistently over the last few years, leading in to increase in deficit in the current accounts of Pakistan.

Analyzing export-import trend identifies that asymmetrical growth of import and export leads up to this crisis. In order to plug this balance of payment gap, Pakistan seeks assistance from IMF and other friendly countries. UNCTAD's annual flagship 'Trade and Development Report 2019' commented that

"Pakistan is in the midst of crisis"

as rupee is depreciated significantly, growth rate is been halved and balance of payment is in poor state.

Expanding the export is the only viable long term sustainable solution to this crisis. Curbing import can results in a short term relief but it slowdowns the economy resulting into aggravating other macroeconomic issues. Expanding export is not that easy but there are countries that have improved their exports immensely. Bangladesh is one of countries that had a phenomenal growth of export and can offer a road map for Pakistan to improve its export side.

Initiatives that lead to Export led Growth of Turkey:

Turkey provides a business conducive environment which facilitates the local industry, labour market and exports. There are many initiatives that led to this business friendly environment and enlarge the export portfolio of Turkey.

Export Support Program:

The aim of this program is to support exporters procuring inputs without custom duties, including Value Added Taxation (VAT) etc at world market prices for the production of their export commodities. This helps exporter's competitiveness and produces exportable commodities in competitive global prices.

This regime includes two types of processing measures: Conditional exemption system and reimbursement system.

- The Conditional exemption system facilitates the exporters by waiving commercial policy measures and taxes that applied during the importation of raw material, packages and operational equipment that would be used for the production and exportation of product under Inward Processing Regime. The guarantee given as a collateral would be released when the export of the final product is been made.

- Reimbursement System applies when the taxes were paid during the importation of raw material, packages, auxiliary material and operating equipment used for the production of exportable product under Inward Processing Regime. The taxes paid would be reimbursed upon the export of final product under Inward Processing Regime.

With a simple evaluation process Inward Processing Regime helps exporters become competitive and reap the benefits out of it.

Evaluation of Applications

- It should be possible to determine whether the imported raw materials are used to produce exported products.
- The activity should not have a negative impact on the economic interests of the producers in the customs territory.
- Activities should create added-value and the final product should not have a negative impact of the competitiveness in the sector.
- The company should be built in the customs territory in Turkey.

Benefits of Inward Processing Regime

- 100 percent Customs Duty Refund
- 100 percent VAT Refund
- 100 percent Special Consumption Tax Refund
- 100 percent Resource Utilization Support Fund Refund
- 100 percent Stamp Tax Refund
- **Exemption from quotas and surveillance measures:** There are import quotas determined by the government for a number of goods, and Inward Processing Regime certificate holders will not be affected by these quotas. The government also determines market prices for some products and imposes excise taxes to these products based on the determined market price, irrespective of the price paid by the importer. Participants in the Inward Processing Regime would also be exempt from such surveillance measures.

Investment Incentive Programs:

Turkey has two major investment initiatives, Investment Incentive Program and Project Based Incentive Scheme. In 2012, Investment incentive program is been launched with five different schemes; General, Regional, Priority, large Scale and Strategic. Project Based Incentive Scheme was started in 2016 which aims to generate economic growth by boosting exports and igniting industrial production.

Both local and foreign investors are eligible for different schemes of investment schemes according to their investment sector, region, size and product. Custom duty exemption, tax deduction, Value added tax (VAT) exemption, interest rate support VAT refund and land allocation are prime benefits of these investment programs.

Source: Ministry of Industry and Technology

Way Forward:

Improving exports and penetrating new markets is an uphill task but with structural policy changes Pakistan can increase and diversify its export portfolio. Increasing export is an long term process and requires consistent policy initiatives to harness export oriented business environment. Learning from Turkey's experience Pakistan needs to address three fundamental issues to bring Pakistan's export industry on track.

Fundamental #1: Incentivise and Promoting Competitive Business Environment:

Export Support programs and Investment incentives has created a business condusive environment in Turkey. Incentivising industry is an igniting factor in creating market sentiment and displaying commitment towards improving exports. Market sentiment and perception plays a vital role inclining investors towards indulging business activities and creating opportunities. Turkey has given two types of export support programs.

- Conditional Exemption Support
- Reimbursement Support

Moreover it has also started two successful investment initiatives

- Investment incentive Program
- Project based incentive scheme

These incentives has harnessed their export oriented businesses and helped them achieving this enormous export growth. Pakistan must draw out its own incentive plans for the businesses to be competitive and flourish.

Fundamental #2: Diversify Export Destinations:

Identifying new markets is an essential component for having improved sustainable export growth. Identifying 17 export destinations and developing a focused policy is the essential component of the export master plan launched by Turkey. Export dependency on any particular country would create unreliable export base. Pakistan must develop a country specific export plan keeping in mind the diversification of export destination and exploring new markets inorder to develop export oriented economy. It has to encourage exporters to look out for new destinations and incentivise them form breaking into new markets to promote this outward export approach.

Fundamental #3: Diversify Export Base:

Reliance on any single sector can be treacherous to the export sector. Incentivising certain sector and providing support would encourage producers to produce new exportable. Turkey has layout a master plan that specifically focuses on identified 5 sectors in their export portfolio. This would help develop more focused policy and create a more diversified export basePakistan needs to identify new products and incentivize them to be able to strengthen the export base of Pakistan in the long run.

Fundamental #4: Invest in Human Capital and Develop Skilled Labour:

Turkey is exporting high value and medium value products. Developing it would require improved productive capacity and skilled labour. Investing in human capital would help develop a pool of labour that possesses a productive skill compatible with global market standards. Creating a roam form investment through incentive measures would fill up the capital deficiency but in order to create a high value product Pakistan needs to invest in human capital.