

# Analyzing Pakistan's Trade Opportunity with Turkey



# Motivation

- Pakistan and Turkey have long hailed a ‘brotherly’ relationship
- Lately there has been a renewed focus on Turkey given the increasing collaboration projects in various sectors (for e.g. Metro Bus Lahore)
- A proposed Preferential Trade Agreement under discussion
- Lack of empirical literature addressing trade between Pakistan and Turkey

# Research Objectives

- ❖ Analyze Pakistan's trade status with Turkey
- ❖ Explore potential trade opportunities, especially in lieu of the proposed Preferential Trade Agreement
- ❖ Make possible recommendations about the way forward

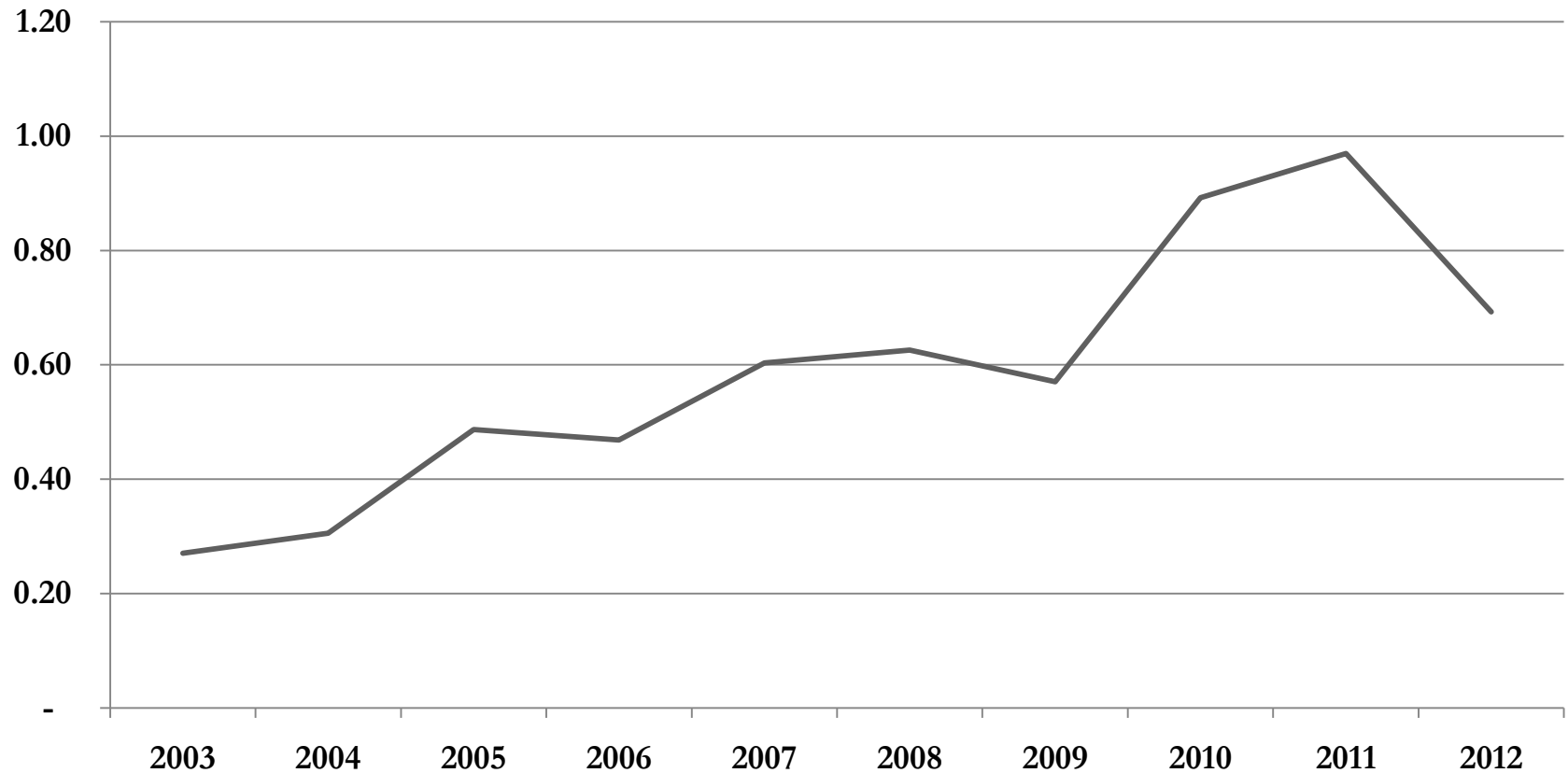
# Pakistan Vs Turkey (2003-12)

	Pakistan	Turkey
▪ GDP (average)	\$119.67 billion	\$526.24 billion
▪ GDP growth rate	4.4%	5.07%
▪ Trade as % of GDP	33.32%	50.65%
▪ Share of Top 10 Exports	53.58%	33.38%
▪ Share of Top 10 Imports	52.55%	24.78%

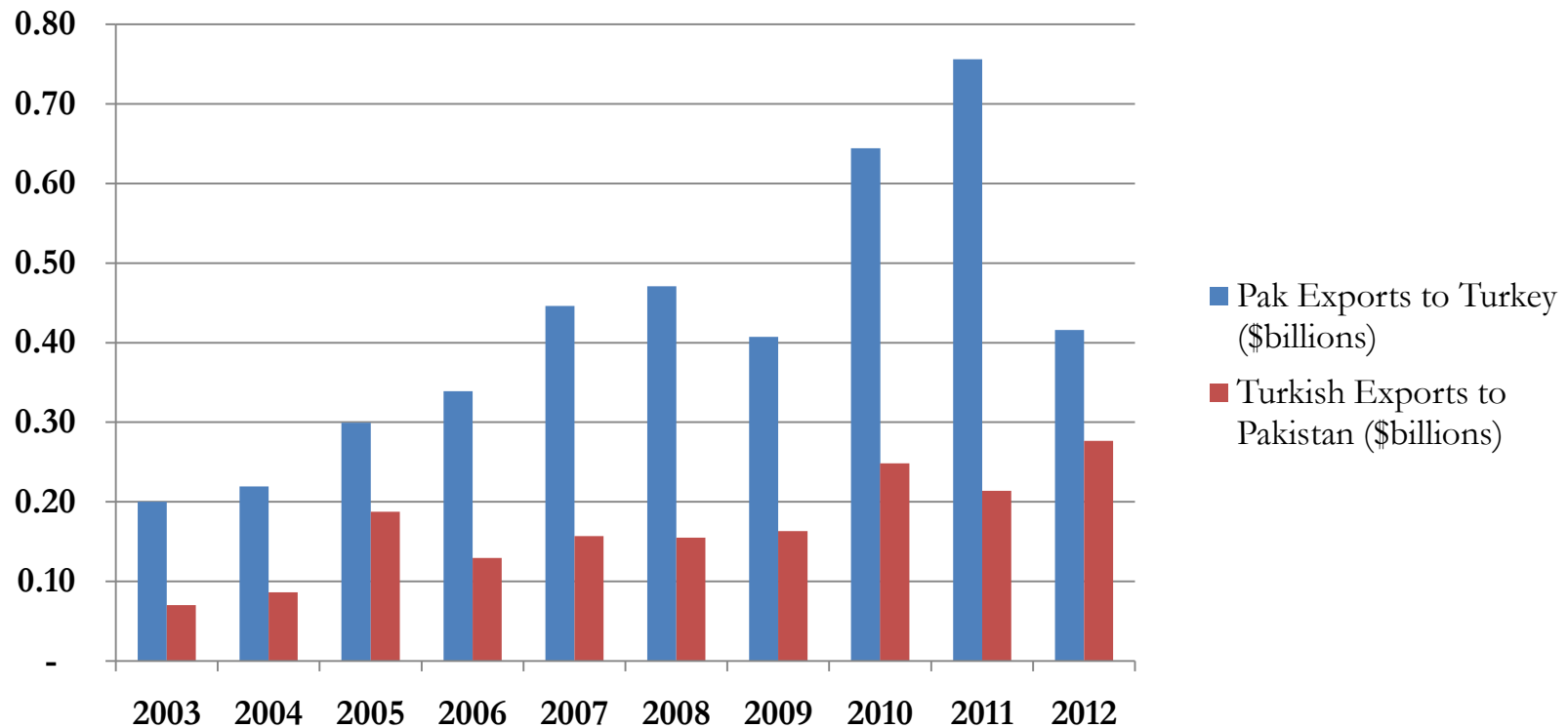
- Turkey is Pakistan's 8<sup>th</sup> largest Export Market and 33<sup>rd</sup> largest Import Market
- Pakistan is Turkey's 66<sup>th</sup> largest Export Market and 53<sup>rd</sup> largest Import Market

# Trade between Pakistan and Turkey

Trade Volume between Pakistan and Turkey (\$billions)



# Trade between Pakistan and Turkey



# Top Ten Exports

PAKISTAN	\$bn	%
All products	0.42	100
Polyacetal ,o polyether ,epoxide resin, polycarbonate, in primary form	0.08	19.95
Woven cotton fabrics, 85% or more cotton, weight > 200 g/m2	0.08	19.60
Woven cotton fabrics, 85% or more cotton, weight < 200 g/m2	0.04	9.52
Cotton yarn (not sewing thread) 85% or more cotton, not retail	0.03	6.11
Ethyl alcohol & other spirits	0.02	4.32
Woven fabric of cotton, less than 85%,mixed with manmade fibre, weight >200	0.02	3.98
Polymers of styrene, in primary forms	0.02	3.64
Carpets and other textile floor covering knotted	0.01	2.63
Men's suits, jackets, trousers etc & shorts	0.01	2.50
Woven cotton fabrics, less than 85% cotton, mixed with manmade fibers	0.01	2.46
Leather of other animals, o/t leather of hd no 41.08/41.09	0.01	2.03
Articles of apparel & clothing access, of leather /composition leather	0.01	2.01
<b>Total share of Top Ten Exports</b>		<b>78.75</b>

TURKEY	\$bn	%
All products	0.276	100.00
Electric app for line telephone ,including current line system	0.035	12.52
Aircraft parts	0.011	3.81
Carpets & floor coverage, woven, not tufted/flocked	0.008	2.98
Petroleum oils, not crude	0.007	2.62
Synthetic organic or inorganic tanning substances; tanning preps	0.007	2.38
Tar distilled from coal, lignite or peat & other mineral tars etc	0.006	2.09
Special purpose motor vehicles (fire fight vehicle, crane lorry)	0.005	1.97
Transmission shafts & cranks, bearing housing; gearing; etc	0.005	1.84
Insulated wire/cable	0.005	1.78
Part for use solely/principally with the motor engines	0.005	1.77
Safflower ,sunflower/cotton-seed oil & fractions	0.005	1.68
New pneumatic tires, of rubber	0.005	1.66
<b>Total share of Top Ten Exports</b>		<b>37.10</b>

# Trade Indices Analysis

- Trade Complementarity Index (TCI)

$$TCI = 100 - \sum_{i=1}^n \frac{1}{2} |m_{ik} - x_{ij}|$$

- The TCI for Turkish exports and Pakistani imports is calculated as 26.89 while the TCI for Pakistani exports and Turkish imports is computed as 13.16 (at the 4-digit HS4 product classification)



# Trade Indices Analysis

Trade Complementarity Index		
	Pakistan	
	Exports	Imports
Turkey (Suvanklov and Ali, 2012)	27	41
Bangladesh (Dawood et al., 2011)	39	8
Sri Lanka (Dawood et al., 2011)	33	17
SAARC (Dawood et al., 2011)	24	53
India (Dawood et al., 2011)	20	58
India (Pasha and Imran, 2012)	8.2	42

- Limitations
  - Aggregation bias
  - Market size bias/ Export portfolio bias

# Trade Indices Analysis

- Intra Industry Trade Index (IIT)

$$IIT_{ijk} = 1 - \frac{|X_{ijk} - M_{ijk}|}{(X_{ijk} + M_{ijk})}$$

- The IIT between Pakistan and Turkey in 2012 is almost 18.8%, with most important industries being sugar and confectionery, technical apparatus, lime and cement, carpets and other textile floor coverings  
(at the 4-digit HS4 product classification)

# Trade Indices Analysis

Intra Industry Trade Index	
	1982-2012
	%
China	26.28
India	34.14
Iran	19.72
Japan	25.66
Kuwait	17.2
Saudi Arabia	19.69
Singapore	39.52
UAE	27.73
USA	18.01

*Source: Zaheer,R., Nizami,U., & Niazi,F.K (2013) 31 years Intra-Industry Trade of Pakistan, *European Journal of Business and Management*, 5(31)*

# Trade Indices Analysis

- Export Similarity Index (XSI)

$$XS_{jk} = \sum [\min(x_{ij}, x_{ik})]$$

- Pakistan and Turkey share an XSI of about 0.39 in 2012 implying that almost 40% of the export industries are similar between the two countries (at the 2-digit HS product classification code)

# Trade Indices Analysis

- There are two important implications of this degree of export similarity
  - Pakistan and Turkey are competitors in similar markets
  - There is a great opportunity for synergies and horizontal and vertical integration/joint ventures between export firms in similar industries

# Preferential Trade Agreement: An Opportunity?

- Turkey is a special trading partner for Pakistan
  - Strong political willingness that facilitates strengthening of economic cooperation
  - Pakistan has been enjoying a strong trade surplus which can be expanded
  - Strong export similarities and intra industry trade providing opportunities for firm synergies
    - Scope for technology transfers and moving up the value chain
  - Turkey may be exploited as a gateway to expand further in the European market and Central Asian Republics

# Preferential Trade Agreement: An Opportunity?

- Definitely an opportunity Pakistan should pursue more rigorously
  - Expected direct gains given the trade surplus
  - Expected indirect gains given the opportunity for firm synergies
- Given the present trade structures and volumes, Pakistan needs Turkey more than Turkey needs Pakistan
- The need of the hour thus is to leverage this trade agreement in such a way that Pakistan can maximize its potential in its bestest interest

# Looking Forward

- There is a need to re-evaluate Pakistan's trade opportunities with an increased focus on intra-industry trade
  - Greater firm synergies can help in export diversification, value addition, market diversification
  - Intra industry trade can play a pivotal role in bilateral economic cooperation especially because Pakistan lacks strong trade complementarities with its trading partners