

KEY POINTS

- Structural factors, including logistics, productivity, governance, and fiscal capacity, drive long-term resilience.
- Industrial strength determines resilience for high inflation. Türkiye has a deep industrial base, strong export capacity, and high productivity. Pakistan, with weaker industrial capabilities, experiences far greater economic strain than other countries with similar inflation levels.
- Türkiye's large, diversified export sector enables currency depreciation to boost foreign exchange earnings. In Pakistan, depreciation mostly raises import costs and inflation because the tradables sector is too narrow to offset higher import costs through higher exports.
- In Pakistan, a weaker real exchange rate can be contractionary for domestically oriented non-tradable sectors that rely heavily on imported inputs. Hence, Pakistan's industrial policy has tended to be inward-looking.

Beyond Inflation: Industrial Capability and External Resilience in Pakistan and Türkiye

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INTRODUCTION

Sustained high inflation is considered deleterious to economic activity. However, the extent to which high inflation harms the economy is an empirical question, influenced by various factors. To explore these factors and their impact, this policy brief compares the differences between Pakistan's and Türkiye's economic performance and assesses whether Pakistan's economy could sustain the high inflation Türkiye has experienced, and what lessons may be shared. The conclusion is that the extent to which the economy can accommodate high inflation depends on economic fundamentals. Hence, the inflation rates of these two countries cannot simply be compared, given their completely different productive capacities. Factors need to be carefully assessed beyond the inflation rates.

MACROECONOMIC OVERVIEW

Türkiye's broadly diversified economy—spanning advanced manufacturing sectors such as automotive, machinery, and equipment—stands in contrast to Pakistan's industrial structure, which has remained largely unchanged for decades. The Pakistani

Notes: In this publication, "\$" refers to United States dollars. ADB recognizes "Turkey" as Türkiye.

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economy continues to rely heavily on traditional, low-technology, and labor-intensive industries, particularly cotton-based textiles, leather goods, and food and tobacco products, which together account for 73.3% of total exports. Pakistan lacks a strong base of high-value-added export products, has made limited progress in diversifying its product base, and continues to depend on a narrow set of export markets. At the same time, Pakistan is heavily reliant on imports of fertilizers, petroleum, food items, machinery, and raw materials, contributing to persistent import-bill pressures. Many of these imports have inelastic demand, while Pakistan's export basket shows little short-term flexibility. As a result, Pakistan's share in global exports has remained stagnant at about 0.2% (Khan, 2009).

Türkiye, by comparison, possesses a far more diversified and technologically sophisticated production sector, supported by significantly larger domestic investment. Machinery and transport equipment—inputs essential for industrial activity—account for 31.0% of Türkiye's imports, reflecting strong import demand for domestic productive capacity development aligned with technological upgrading and productivity enhancement goals. Meanwhile, Pakistan imports machinery and intermediate investment goods, accounting for 14.5% of total imports; these goods are not easily substitutable due to limited domestic production capacity (Khan, 2009). Structural reforms in Pakistan's industrial sector have progressed slowly, and the private sector has faced challenges arising from an unfavorable investment climate, high levels of regulation and government involvement, and policy uncertainty. As a result, technology-driven industries have struggled to achieve economies of scale, and high production costs have prevented them from competing effectively in global markets.

Table A.1 presents macro indicators for Pakistan and Türkiye. Macroeconomic data highlight important differences in growth quality, fiscal capacity, and labor market absorption. The Turkish economy has been among the fastest-growing in emerging and developing economies. The average real gross domestic product (GDP) growth rate was 6.4% during 2021–2024. A combination of external and internal factors drove growth. External factors contributing to Türkiye's growth were cycles of capital inflows and favorable commodity prices, such as oil and gas. Internal factors were expansionary fiscal and monetary policies. Türkiye's GDP per capita is several times that of Pakistan's, in part reflecting higher labor productivity; Pakistan's rapid population growth dilutes per-capita gains even in years of solid economic growth. Türkiye also sustains a much higher tax-to-GDP ratio (about 17%–18% versus Pakistan's 9%–10%), giving it greater fiscal room to absorb shocks, support industry, and implement countercyclical policies. While new tax measures were introduced in 2023, government expenditures continued to grow as the government increased energy subsidies, pensions, and public employees' wages. However, the government was able to borrow domestically and internationally due to Türkiye's still-low debt-to-GDP ratio. General government debt as a share

of GDP remained broadly stable at 27.1% during 2022–2024, and the primary fiscal deficit remained low. By contrast, Pakistan's narrower tax base constrains public investment and curbs growth through expenditure compression.

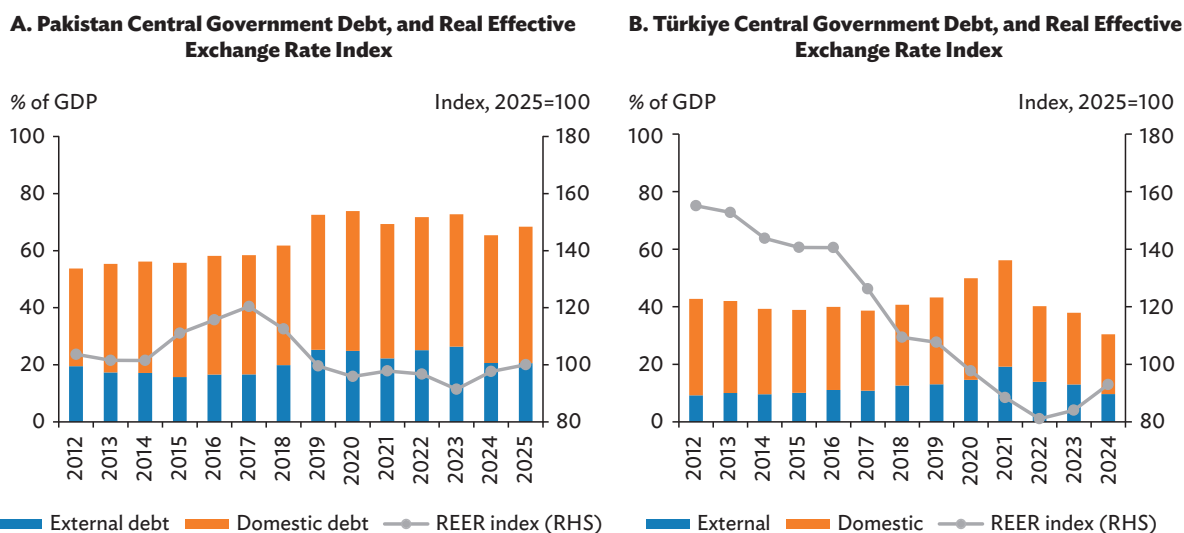
Foreign direct investment (FDI) inflows reinforce this pattern. Türkiye attracts substantially larger and more stable FDI, aligned with its export-oriented industrial base, whereas Pakistan's FDI remains modest and sporadic. FDI in Türkiye recorded strong growth following major reforms in financial market regulations, labor market policies, governance, public finances, and monetary policy.¹ FDI is crucial for bringing advanced technologies and know-how, expanding access to global value chains, and creating high-value jobs by improving employees' skill sets. Türkiye tolerates much higher inflation but maintains rising employment and labor force participation, whereas Pakistan's inflation spikes translate more directly into real-economy stress, with limited job creation and weaker labor force absorption. Taken together, these indicators suggest that Pakistan's macro constraints are structural, rooted in low productivity, weak fiscal capacity, and limited industrial depth, rather than merely cyclical or financial.

One notable fact is the contrast in the external sector accounts. Pakistan lags Türkiye by roughly 10 percentage points in the export-to-GDP ratio. However, it leads in remittances by almost the same margin. For this reason, Pakistan has at times avoided a full-blown external account collapse, as remittances provided a large, relatively stable foreign exchange inflow. However, remittances do not generate a lasting impetus for the economy as exports do. Exports are linked to domestic production, firm capabilities, learning-by-doing, productivity growth, and employment. Remittances are primarily a form of household income transfer. They support consumption and imports and can smooth crises, but they do not directly develop industrial capacity (de Padua et al., 2024). Pakistan's challenge is not only inadequate foreign exchange inflows; it is also how those inflows are used to expand production and industrial upgrading, a point also highlighted in the World Bank's Pakistan Development Update (World Bank, 2025).

Türkiye has a much higher exports-to-GDP ratio (typically 17%–27%) and very low remittances. Türkiye can run a large trade deficit because it has a larger tradables base, stronger logistics, and higher industrial productivity. Pakistan's import compression cycles reflect that the country cannot reliably expand exports when the currency weakens (Figure 1).

Pakistan has long resisted allowing its currency to undergo real depreciation, largely by keeping an overvalued exchange rate (Figure 1A). This was made possible through foreign exchange interventions and administrative controls on the exchange rates. This approach contributed to persistent inflation, widening trade deficits, and broader macroeconomic instability. In contrast, Türkiye experienced a clear pattern of substantial real depreciation,

¹ FDI is particularly important for upper-middle-income countries aspiring to become a high-income country.

Figure 1: Exchange Rates and Public Debt Levels: Pakistan and Türkiye, 2012–2025

GDP = gross domestic product, REER = real effective exchange rate, RHS = right-hand side.

Notes: The fiscal year for the Government of Pakistan ends on 30 June. A rise in the REER indicates an appreciation, and a decline indicates depreciation.

Sources: Central Bank of the Republic of Türkiye; Government of Türkiye, Ministry of Treasury and Finance; and State Bank of Pakistan.

with its real effective exchange rate (REER) trending downward amid macroeconomic turbulence, loose monetary policies, and recurring currency crises (Figure 1B).

Using exchange rate depreciation—as a deliberate policy tool and as a market response to unsustainable current account deficits—can help improve the current account balance, provided that domestic prices do not rise enough to neutralize the competitiveness gains from depreciation. Although Türkiye had higher inflation than Pakistan, it also experienced much greater nominal depreciation, mitigating the lira's real appreciation. From a Washington Consensus standpoint, however, prolonged undervaluation risks fueling inflationary overheating.

Pakistan, on the other hand, has also struggled to contain inflation. Its real exchange rate showed minimal depreciation from 2012 to 2025 with several years of real appreciation—particularly during 2014 and 2017—and many years of relative stability. Pakistan's exchange-rate pattern reflects sustained government intervention that pushed the currency away from equilibrium levels. The State Bank of Pakistan continued to defend an overvalued exchange rate, thereby depleting foreign exchange reserves. Interest rate adjustments had a limited impact on the real exchange rate because money markets were heavily managed. Structural weaknesses—including a narrow tax base and a substantial debt burden—further restricted fiscal space for public sector investment (Hina, 2025).

The empirical literature on real exchange rate depreciation in developing economies is inconclusive. Several studies find that depreciation can be contractionary due to adverse balance-sheet effects associated with financial dollarization

(Cavallo et al., 2002; Bebczuk et al., 2006). Other research argues the opposite: that an undervalued real exchange rate can stimulate growth. Rodrik (2008) argues that undervaluation boosts the tradable sector—particularly in economies with institutional weaknesses—by raising profitability in a sector disproportionately affected by market distortions. According to Rodrik, undervaluation serves as a second-best policy tool for strengthening the tradable sector—which suffers most from institutional inadequacies—and for enhancing overall growth. The broader empirical evidence remains mixed, however. Some studies attribute positive growth effects to increases in investment and savings triggered by undervaluation rather than export expansion directly (Gluzmann et al., 2012).

The influence of real depreciation on exporting industries is conditioned by their net revenue positions and debt structure. In Türkiye, major manufacturing industries that export tend to have the highest levels of liability dollarization. Persistent dollarization undermines the effectiveness of monetary policy and intensifies inflationary pressures. Expansive money supply growth in Türkiye has further elevated inflation, weakening monetary transmission and limiting the room for interest rate-based stabilization without harming growth. Pakistan faces similar challenges but to an even greater extent: even higher levels of dollarization constrain macroeconomic stability and restrict long-term growth potential.

Türkiye maintains a low public debt-to-GDP ratio despite high inflation and interest rates; therefore, it has a strong debt-repayment capacity, underpinned by its export and industrial strength. However, Pakistan has a higher public debt-to-GDP ratio, causing

fiscal and external vulnerabilities. Therefore, debt sustainability is a major concern for Pakistan, as it impacts the development of the industrial base due to misallocated financial resources.

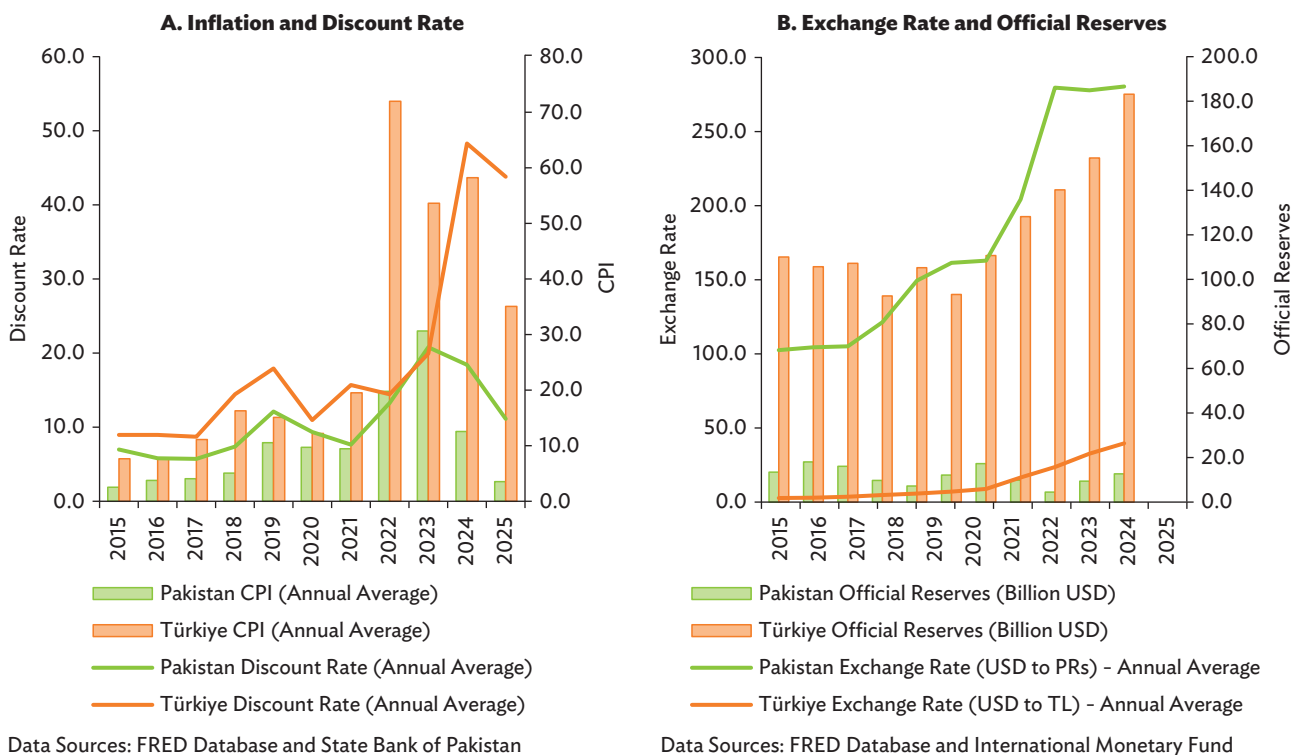
COMPARISON OF RECENT NOMINAL ECONOMIC INDICATORS

In Türkiye, inflation was consistently higher and far more volatile: it rose from single-digit levels in 2015–2016 to the mid-teens by 2018–2020, then surged dramatically in 2022 (72.3%) and remained elevated in 2023–2024 (53.9%–58.5%). The average annual inflation rate was 47.8% during 2020–2025—still high, though not as high as in the 1990s.² The discount rate did increase over time, but the decisive tightening occurred later, with a sharp jump to 48.5% in 2024 and a continued high level

of 44.0% in 2025. Pakistan saw a gradual shift from low, stable inflation from 2015 to 2017 to a clear inflation buildup after 2018, which peaked in 2023 (30.8%). The discount rate increased with a lag, rising sharply to 20.9% in 2023, then falling to 18.5% in 2024 and 11.2% in 2025 as inflation fell rapidly from 12.6% in 2024 to 3.5% in 2025.

When interpreted in terms of the real policy stance (approximated by the discount rate relative to the consumer price index [CPI]), Pakistan’s stance became clearly restrictive during the inflation surge—most notably in 2022–2023, when inflation outpaced the policy rate—indicating that monetary policy had lagged the shock.³ As inflation declined sharply in 2024–2025 while interest rates remained elevated, the stance shifted decisively to an accommodative one, consistent with tight monetary conditions and disinflation (Figure 2).

Figure 2: Comparative Inflation, Monetary Policy, Exchange Rate, and Reserve Dynamics in Pakistan and Türkiye, 2015–2025



CPI = consumer price index, FRED = Federal Reserve Economic Database, PRs = Pakistan rupees, TL = Turkish lira.

Sources: Government of the United States, Federal Reserve. [Federal Reserve Economic Database](#) (accessed 1 March 2026).

² The case of prevalent inflation is not new in Türkiye. Over the past 25 years, the inflation rate (measured as a change in CPI) was below 10% for just 9 of those years. Even in years when the inflation rate was below 10%, it was only marginally so.

³ The policy rate was increased from 9.75% in 2021 to 16.0% in 2022 as inflation jumped from 9.5% to 19.9%.

In Türkiye, following interest rate cuts beginning in 2021, prices rose quickly. The central bank did not increase interest rates until mid-2023, when inflation was already high. Following the abandonment of the loose credit policy, in effect since 2021, the central bank introduced limits on credit growth in July 2023, alongside a series of interest rate hikes.⁴ Thus, Türkiye's real stance became persistently and deeply relaxed during the period of elevated inflation, especially in 2022 and the first half of 2023, when CPI far exceeded the discount rate, with the outcome being a strong depreciation of the lira and inflation rising above target (Gürkaynak, Kısacikoğlu, and Lee, 2023). Only after the aggressive tightening in 2024–2025 did the stance become expansionary, coinciding with the initial moderation of inflation.

In contrast, for Pakistan, the exchange rate and foreign exchange reserves closely mirrored the inflation and interest rate dynamics. Figure 2A shows that periods of rising inflation and a lagging policy response were accompanied by sharp Pakistan rupee (PR) depreciation and falling reserves, most visibly in 2018–2019 and again in 2022–2023, when the exchange rate weakened from PRs163 per \$1 (2021) to PRs280 (2023), while official reserves fell to a low of \$4.5 billion. This coincided with the period when the real policy stance undershot the inflation rate, and inflation was accelerating.

The Turkish lira continued to depreciate until July 2023, and interest rates similarly remained below the inflation rate before the policy tightening was instituted. Other measures to control lira depreciation included increasing reserve requirements on foreign exchange deposits, disallowing foreign exchange credits for companies engaged in non-tradable sectors, and widening the spreads between buying and selling foreign exchange.⁵ This pattern of lagging monetary policy response is consistent with recent empirical evidence for Pakistan and Türkiye, showing that currency depreciation is a primary driver of inflation, with strong co-movement across time horizons, and that the interest rate channel is comparatively more pronounced in Pakistan (Genç, and Selçuk, 2023). As inflation declined sharply after 2023 and the policy stance became strongly accommodative, the exchange rate broadly stabilized in 2024–2025 (remaining around PRs278–PRs281 per \$1), while reserves recovered to \$9.4 billion in 2024 and \$12.8 billion in 2025, indicating easing external stress and improved confidence.

In Türkiye, the exchange rate trajectory was one of sustained and accelerating depreciation, reflecting the prolonged period of negative real interest rates. The lira (TL) weakened steadily from TL2.7 per \$1 in 2015 to TL8.9 in 2021, before depreciating sharply during the inflation surge to TL16.6 in 2022 and TL23.8 in 2023. Unlike Pakistan, however, Türkiye's official reserves did not collapse; instead, they fluctuated but trended upward after 2019,

rising from \$93.0 billion (2018) to \$140.9 billion (2023) and further to \$184.0 billion by 2025. This reflected a different adjustment mechanism—greater tolerance of currency depreciation combined with active reserve management and external financing—despite intense inflationary pressures.

Read together with the earlier inflation and interest rate analysis, the comparison underscored a key contrast in adjustment paths. In Türkiye, prolonged negative real rates coincided with persistent exchange rate depreciation, even as reserves were maintained and later increased; only after aggressive tightening in 2024–2025 did depreciation begin to slow. In Pakistan, a turn toward a tight real monetary stance was associated with currency stabilization and reserve rebuilding after a period of acute stress. The data thus reinforced the earlier conclusion: positive real policy settings tended to support the exchange rate stability, while extended periods of negative real rates were associated with sustained currency pressure, albeit mediated by differing reserve strategies.

STRUCTURAL DIFFERENCES BETWEEN THE TWO ECONOMIES

Türkiye is growing because high inflation and high interest rates are growth-enhancing, and because of a strong industrial base. In other words, Türkiye's growth is export and industry-driven, not consumption-driven. The high interest rate and inflation mostly suppress credit-driven consumption, but export-oriented firms rely on foreign demand, foreign exchange revenue, internal cash flow, and government-backed credit programs. Therefore, credit is selectively allocated to strategic export sectors, allowing production to continue. For Türkiye, as long as external demand holds, growth will persist even under tight monetary conditions. Nevertheless, a slowdown in total factor productivity was observed due to misallocation of capital and labor across sectors, which weighed on productivity growth. Pakistan's economy cannot replicate the Turkish-style growth outcome because it is consumption-driven and import-dependent, often facing weak or stagnant external demand for its products.

Türkiye successfully shields its export and industrial sectors from the full impact of high inflation and interest rates by adopting various adjustment programs and targeted support measures, including selective credit access for export-oriented firms, subsidies, tax incentives, and the ability of exporters to earn foreign-currency revenues. This creates a certain duality in the economy: tight money for households and targeted liquidity for industry. This approach ensures that the higher financing costs are not fully passed through to producers, allowing industrial output and exports to remain competitive despite macroeconomic challenges. In Pakistan, high inflation and interest rates directly

⁴ While higher interest rates can be effective in reducing excessive aggregate demand, they may be counterproductive for reigning in the inflationary pressures triggered by increased supply costs, resulting in worsening income distribution.

⁵ These measures reduced the profitability of exporters while increasing their costs.

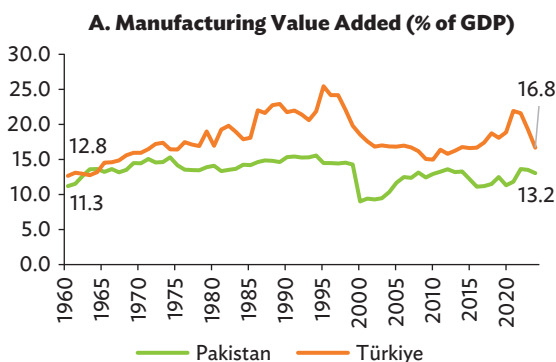
increase production costs. On top of that, expensive energy, imported inputs, working capital financing, and government borrowing that crowds out private credit, raise input costs to firms and contribute to an uncompetitive environment. Therefore, Pakistan cannot develop a competitive production base comparable to Türkiye.

The structural differences become clearer in Figure 3. Figure 3A shows that Türkiye has maintained a much higher manufacturing value-added-to-GDP ratio over the long run, a fact also reported by Taymaz (2025) and the New Zealand Ministry of Foreign Affairs and Trade (2023). While Türkiye’s manufacturing share has fluctuated with global cycles and domestic shocks, it has consistently remained well above Pakistan’s, reflecting deeper industrial capabilities, broader firm ecosystems, and stronger backward and forward linkages (Aydın, 2025). Exports as a share of GDP in Türkiye have risen steadily since the 1980s, reflecting

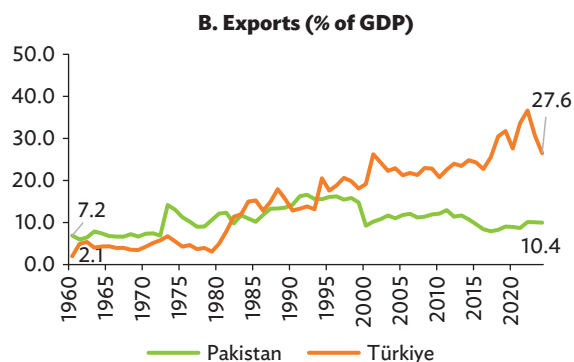
growing integration into global value chains and the capacity to scale exports when the currency depreciates. In Pakistan, exports remain persistently low relative to GDP, with only modest increases over time. This gap implies that exchange rate adjustment operates very differently across the two economies: in Türkiye, depreciation appears to have boosted export competitiveness and foreign exchange earnings; in Pakistan, it primarily raises import costs and inflation without triggering a commensurate export response.⁶

Türkiye has a strong strategic geographic advantage at the crossroads of Europe, the Middle East, and the Central Asia Regional Economic Cooperation region with advanced port infrastructure, integrated road-rail links, well-developed logistics arrangements, supply chains, and connectivity, which not only allows Turkish firms to operate in major regional consumer markets but also reduces the time and cost of shipments across borders along major trade corridors. This enhances the

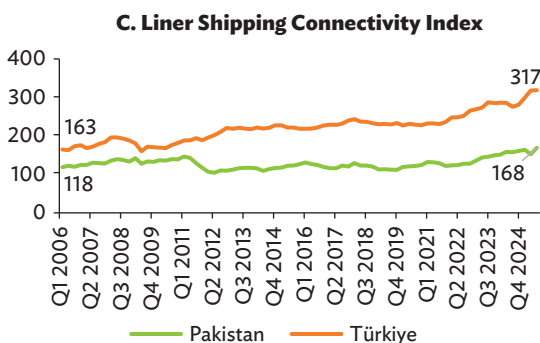
Figure 3: Structural Divergence Between Pakistan and Türkiye: Manufacturing Depth, Export Capacity, Logistics Connectivity, and Industrial Productivity



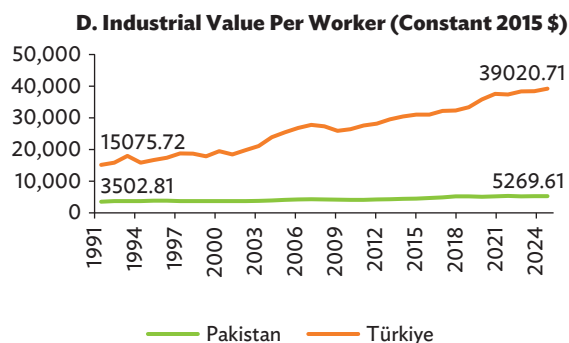
Data Source: World Development Indicators.



Data Source: World Development Indicators.



Data Source: UN Comtrade.



Data Source: ILO Database.

GDP = gross domestic product, ILO = International Labour Organization, Q = quarter, UN = United Nations.

Source: [United Nations Industrial Development Organization database](#) (accessed 1 March 2026).

⁶ See Hina (2020) and Brun, Gambetta, and Varela (2020) for more details on the asymmetric response of Pakistan’s exports to exchange rate depreciation.

efficiency of trade facilitation. In contrast, Pakistan’s geographic advantage is not fully utilized despite access to the Arabian Sea and other seaports. Pakistan lacks port, supply chain, and railway connectivity and relies heavily on roads for freight movements, which contributes to infrastructure and transport bottlenecks. This results in a trade ecosystem that suffers from high costs rather than competitiveness. Therefore, transport, connectivity, and logistics proliferations remain a growth multiplier in Türkiye, but a structural constraint in Pakistan. One study finds that due to its geography, Pakistan’s export performance is closely linked to economic conditions in its trading partners. A 1.00% rise in the combined GDP of Pakistan’s major export destinations leads to a 0.91% increase in Pakistan’s export volumes, underscoring the importance of trade and connectivity (Mahmood, Zia, and Rana, 2020).

Türkiye’s liner shipping connectivity index has consistently and substantially exceeded Pakistan’s, and the gap widened further after the mid-2010s. This reflects Türkiye’s dense port infrastructure, shipping frequency, and integration into European and Mediterranean trade routes. Pakistan’s lower connectivity constrains exporters even when price competitiveness improves, raising trade costs and limiting economies of scale. In effect, Türkiye’s tradables sector is embedded in a logistics ecosystem that allows firms to respond quickly to global and/or regional demand. According to the United Nations Conference on Trade and Development (Pallis, Notteboom, and Rodrigue, 2024), Türkiye ranks 17th globally on the liner shipping connectivity index as of early 2024, while Pakistan ranks 34th.

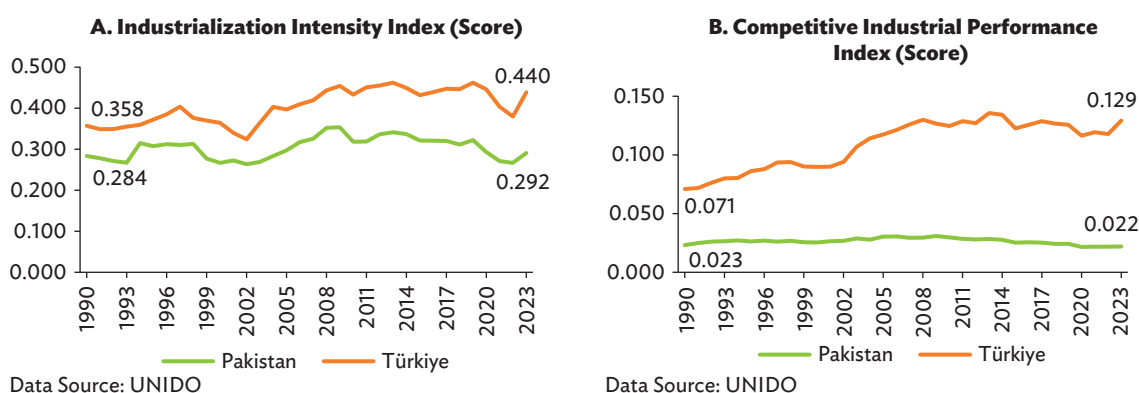
Industrial value added per worker in Türkiye has been steadily rising and far exceeds Pakistan’s level. This gap is not simply about wages; it reflects differences in technology adoption, firm size distribution, skills, energy reliability, and managerial capacity. Higher productivity enables Turkish firms to weather macroeconomic volatility while continuing to pay wages, invest, and export.

Pakistan’s low and slowly growing industrial productivity leaves firms far more vulnerable to energy shocks, interest rate spikes, and working capital constraints.

Figure 4 further confirms that differences in industrial capability explain the gaps seen in manufacturing, exports, logistics, and productivity. Türkiye consistently scores higher on both United Nations Industrial Development Organization (UNIDO) measures: its Industrialization Intensity Index trends upward and remains well above Pakistan’s, indicating deeper industrialization over time, while its Competitive Industrial Performance Index rises from the early 1990s to a level much higher than that of Pakistan’s, signaling stronger export competitiveness, diversification, and industrial sophistication, also emphasized by Aydın (2025). Pakistan’s indexes, by contrast, stay broadly flat, suggesting that manufacturing has not developed enough to generate sustained tradables dynamism. This explains why Türkiye can continue to earn foreign exchange through a competitive industrial base even under stress, while Pakistan’s weaker industrial capacity and reduced competitiveness result in demand compression rather than export-led industrialization.

Türkiye’s export structure is highly complementary to the import demand of its main trading partners—particularly the European Union, the Middle East, the Central Asia Regional Economic Cooperation region, and North Africa. This shows that Türkiye benefits from stable external demand, that its exports align with established value chains, and that product complexity is continuously increasing, thereby buffering economic sectors from external shocks. The Turkish economy shows diversification, mid- and some high-tech industrial strength, and growing prospects for increased integration into global value chains. In contrast, Pakistan exhibits low trade complementarity with regional and global demand growth, as its export basket is mainly concentrated in low-value textiles

Figure 4: Long-Run Differences in Industrial Depth and Competitiveness Between Türkiye and Pakistan



UNIDO = United Nations Industrial Development Organization.
Sources: UNIDO database (accessed 1 March 2026).

and agricultural and surgical products. Therefore, its integration into regional value chains is low. In addition, Pakistan has low-tech and labor-intensive manufacturing, which erodes its comparative advantage.

Furthermore, according to UNIDO's Competitive Industrial Performance Report (UNIDO, 2020), Pakistan scores lower on indicators capturing medium- and high-technology manufacturing shares in both production and exports. This suggests little movement up the value chain and weak learning-by-doing dynamics. Manufactured exports account for a relatively small share of total exports, and Pakistan's share in global manufacturing trade and value added is negligible, underscoring its weak integration into global manufacturing networks. On the other hand, Türkiye is an economy with accumulated industrial capabilities, enabling it to sustain export performance and foreign exchange earnings even under macroeconomic stress.

KEY LESSONS FOR PAKISTAN FROM TÜRKIYE'S EXPERIENCE

A lesson Pakistan—as well as the world—has learned from Türkiye's recent monetary policy experience lies in the importance of central bank independence for anchoring inflationary expectations and ensuring macroeconomic credibility. However, this lesson, while important, is not the most instructive one for Pakistan. The deeper and more impactful lessons lie in how the real economic variables determine whether an overall economy can continue to function under stress.

Lesson 1: Macroeconomic adjustment works only when an export-capable tradables base already exists. Türkiye's experience demonstrates that an exchange rate depreciation becomes economically meaningful only when firms can respond by scaling up exports. Its diversified manufacturing and services sectors allow downward currency adjustments to translate into higher foreign exchange earnings rather than merely spiral into inflation. Pakistan's experience shows the opposite: repeated depreciation raises import costs and inflation because the tradables base is too narrow and constrained in its ability to respond to an economic opportunity. The lesson is clear: export responsiveness must be built *before* macro stress develops, without expecting it to happen during a crisis.

Lesson 2: Focusing on non-tradables limits growth and resilience while structural constraints promote import dependence. Pakistan's emphasis on spending in non-tradable sectors, combined with slow progress in improving the investment climate, severely restricted gains in productivity and efficiency. Although exports support growth, the country's heavy dependence on imports leaves it vulnerable to external shocks. Moreover, the extent to which real exchange-rate movements influence output and trade varies across industries, depending on technological levels and product complexity. These structural features determine

how individual sectors respond to changes in competitiveness, and the aggregate economic impact depends on each sector's weight within total manufacturing.

Lesson 3: Industrial depth matters more than trade competitiveness. Türkiye's resilience reflects decades of accumulated industrial strength—firm ecosystems, supplier networks, and sector diversification—rather than competitiveness measures or incentives in isolation. Pakistan's manufacturing sector, by contrast, remains shallow and concentrated, limiting learning-by-doing and scale effects. The implication is that industrial policy must focus on depth, continuity, and expansion, rather than short-term export kicks or sector exemptions. Countries should introduce policies to encourage innovation and investment in new technologies along a green growth path. Addressing institutional barriers that hinder efficient resource allocation is also crucial for long-term growth and sustainability of reforms. Issues such as corruption and weak property rights must be tackled through effective governance and institutional reforms.

Lesson 4: Logistics and connectivity are core growth enablers, not auxiliary infrastructure. Türkiye's high liner shipping connectivity firmly establishes its firms in regional and global markets, allowing rapid adjustment to demand shifts. Pakistan's weaker connectivity raises trade costs and caps exports even when price competitiveness improves. The lesson is that ports, shipping frequency, customs efficiency, and hinterland connectivity should be treated as central components of an industrial strategy rather than as stand-alone infrastructure projects.

Lesson 5: Productivity is the real buffer against volatility, not low wages or subsidies. Türkiye's much higher and rising industrial value added per worker explains why its firms can handle inflation, interest rate volatility, and currency swings while continuing to invest and export. Pakistan's low industrial productivity leaves firms highly exposed to energy shocks, credit tightening, and working capital constraints. The lesson is that firm upgrading—technology adoption, skills, management capability, and reliable inputs—is more important than relying solely on cost-cutting measures. Targeted policies and reforms addressing inherent inefficiencies would help boost productivity and support growth. These policies and reforms should aim at improving the quality of economic growth by equipping the labor force with new skills and fostering a more productive, higher-value manufacturing sector.

Lesson 6: Remittances can stabilize the economy, but they cannot substitute for export-led transformation. Pakistan's large remittance inflows safeguard the external sector, but Türkiye's experience underscores that sustained resilience stems from production-linked foreign exchange earnings. Remittances mainly support consumption during a crisis; exports support jobs, productivity growth, and industrial upgrading. The lesson is not to downplay the importance of remittances, but to invest in tradables capacity rather than allowing them to mask structural weaknesses in the economy.

The key message of this brief is that factors affecting economic fundamentals—including productivity, infrastructure, and connectivity—are critical to understanding how high an inflation rate an economy can tolerate while growth is still promoted. When comparing inflation figures, it is important not to limit the discussion to a single indicator, but also consider other metrics of economic performance that determine economic fundamentals.

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APPENDIX: SELECTED MACROECONOMIC, EXTERNAL, AND LABOR MARKET INDICATORS FOR PAKISTAN AND TÜRKIYE, 2015–2024

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Pakistan (area = 881,913 km²)										
Real GDP growth rate (%)	3.8	4.1	4.6	6.1	3.1	(0.9)	5.8	6.2	(0.2)	2.5
Population (in millions)	191.7	198.8	207.7	211.8	216.1	220.4	224.8	229.2	241.5	255.2
GDP per capita (\$)	1,609	1,640	1,723	1,768	1,578	1,458	1,677	1,767	1,547	1,662
Exports (% of GDP)	10.0	8.7	8.2	8.6	9.4	9.3	9.1	10.5	10.5	10.4
Imports (% of GDP)	13.8	13.1	14.1	15.6	16.1	14.5	15.6	19.0	15.6	14.3
Personal remittances received (% of GDP)	6.4	6.3	5.8	5.9	6.9	8.6	8.9	8.0	7.8	9.4
FDI (\$ billion)	4.2	3.1	2.5	2.6	3.0	3.3	2.7	3.4	3.1	3.2
Current account balance (% of GDP)	(0.9)	(2.3)	(4.8)	(5.3)	(2.7)	(0.2)	(3.5)	(3.3)	(0.3)	0.1
Tax-to-GDP ratio	9.9	10.4	10.4	10.8	9.7	9.3	9.4	10.1	9.3	9.6
Fiscal deficit (% of GDP)	(4.7)	(3.9)	(5.2)	(5.7)	(7.8)	(7.0)	(6.0)	(7.8)	(7.8)	(6.8)
Labor force participation rate	52.0	51.7	51.3	51.0	51.6	51.6	52.7	52.5	52.6	52.6
Unemployment rate	5.9	5.8	6.9	...	6.3	7.1
CPI (annual average)	2.5	3.7	4.0	5.0	10.5	9.7	9.5	19.8	30.7	12.6
Türkiye (area = 783,562 km²)										
Real GDP growth rate (%)	5.8	3.3	7.8	3.5	1.3	1.8	11.8	5.4	5.0	3.3
Population (in millions)	80.2	81.9	83.4	84.9	86.2	86.9	87.8	88.6	88.6	88.6
GDP per capita (\$)	10,822	10,621	10,354	9,502	8,992	8,397	9,424	10,434	13,008	15,325
Exports (% of GDP)	17.4	17.1	19.0	21.9	23.3	23.2	27.2	27.5	22.2	19.3
Imports (% of GDP)	24.6	23.2	27.6	28.6	27.1	30.1	32.8	39.3	31.4	25.3
Personal remittances received (% of GDP)	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
FDI (\$ billion)	19.3	13.8	11.2	12.5	9.5	7.5	12.7	13.8	10.7	11.7
Current account balance (% of GDP)	(2.5)	(2.5)	(4.1)	(1.8)	1.9	(4.2)	(0.8)	(5.0)	(3.5)	(0.8)
Tax-to-GDP ratio	18.1	18.3	17.7	17.1	16.5	17.5	17.5	17.2	18.2	17.6
Fiscal deficit (% of GDP)	(1.0)	(1.1)	(1.5)	(1.9)	(2.8)	(3.4)	(2.7)	(0.9)	(5.1)	(4.7)
Total debt/GDP (%)	26.5	27.0	26.9	28.8	31.2	38.3	38.9	29.4	28.2	23.6
Labor force participation rate	51.3	52.0	52.8	53.2	53.0	49.3	51.4	53.1	53.3	54.2
Unemployment rate	10.3	10.9	10.9	11.0	13.7	13.2	12.0	10.4	9.4	8.7
CPI (annual average)	7.6	7.7	11.1	16.3	15.1	12.2	19.6	72.3	53.8	58.5

... = data not available, () = negative, CPI = consumer price index, FDI = foreign direct investment, GDP = gross domestic product.

Source: Asian Development Bank.

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