STRATEGY FOR EXPORT DEVELOPMENT OF SERVICES FOR PAKISTAN

TRADE RELATED TECHNICAL ASSISTANCE PROGRAMME

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List of Abbreviations

BIS	Bank of International Settlements
BOP	Balance of Payments
BOP5	Balance of Payments 5th edition (by IMF)
BPO	Business Process Outsourcing
DDA	Doha Development Agenda
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FPCCI	Federation of Pakistan Chamber of Commerce and Industry
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GFCG	Gross Fixed Capital Formation
GVC	Global Value Chain
ICT	Information and Communication Technology
IMF	International Monetary Fund
IT	Information Technology
LDC	Least Developed Country
MTS	Marine Technology Society
OECD	Organization for Economic Cooperation and Development

PEC	Pakistan Engineering Council
PTA	Preferential Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SATIS	South Asian Association for Regional Cooperation Trade in Services
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
STPF	Strategic Trade Policy Framework
TDAP	Trade Development Authority of Pakistan
TIFA	Trade and Investment Framework Agreement
TISA	Trade in Services Agreement
TOR	Terms of Reference
UNCTAD	United Nations Conference on Trade and Development
USD	United States Dollar
WTO	World Trade Organization

Executive Summary

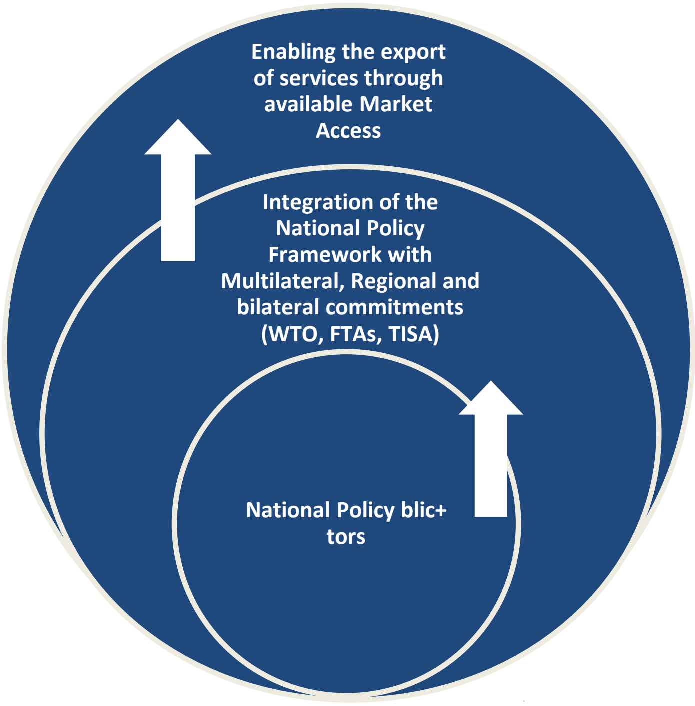
Services constitute a major portion of GDP in most countries, Pakistan being no exception where the sector represents more than 50 percent of the former. This relationship, however, does not hold true for the export of services. The ratio of services exports to that of goods stands at around 1.5 (far less than the ratio of services produced to commodities produced). In Pakistan, there is a visible absence of clear value and supply chains for the exports of services. Several factors can be attributed to the low scale of services exports, such as, inadequate quality of the services produced; the lack of a supply-side institutional infrastructure and enabling policies; and the deficiency of indispensable trade facilitation measures.

The most prominent feature of the services export outlook in Pakistan is the clear mismatch between the export potential and the corresponding efforts (both, by the public and private sectors) required to harness such potential. There are certain service sub-sectors, however, where Pakistan has been able to establish superior export potential, such as the field of professional services (accountancy, IT, engineering, etc.). More so, in a few other sectors Pakistan's geography gives it a comparative advantage, for instance in the case of transport services which facilitates regional trade.

Pakistan should actively pursue regional trade liberalization and integration for which the SAARC Trade in Services (SATIS) dialogue is a step in the right direction. Professional service exports—primarily via Mode 4—have undergone several individual efforts, even as an absence of policy and institutional mechanisms is clearly notable. In the broader domain, it is apparent that the importance of Mode 4 relative to Mode 1 is diminishing, as a result of technological progress in the remote supply of services.

The Government of Pakistan has recently made efforts to give momentum to the export of services, but these endeavours remain to be embedded in a concrete national policy framework. Pakistan's strategic policy framework of 2012-15, outlined a policy focus towards services that led to the establishment of dedicated work units within the Ministry of Commerce, along with an intensification of efforts by the Trade Development Authority of Pakistan to increase the export of services.

In spite of the positive efforts exerted by the Government, a lot remains to be achieved in the area of trade in services. One proposition for Pakistan in this regard, is for a sound services export development strategy to be built around the following framework:



Scope of the Study

This study presents the findings of a factual investigation of the state of affairs governing the export of services in Pakistan. The analysis initiates with a detailed review of literature (both academic and policy-related), and describes the evolution of the support measures taken by the Government for the development of services in Pakistan. It then goes on to elaborate the merits and demerits of the current policy dimension controlling the export of services. The study concludes with an assessment of the impacts of the current policies, witnessed to date (in cases where lucid and factual evidence is available).

The main purpose of this study is to provide an input for devising a successful export development strategy for services. The objectives of the study, as given in the TORs, are as follows:

i) Mapping the domestic regulatory environment and identifying domestic challenges hindering the development of the export of services sector.

ii) Identifying key growth bottlenecks in the services sector (related to energy, infrastructure, human capital/education, informal sector employment, support institutions, access to finance for SMEs, etc.).

iii) Conducting an analysis of financial, construction and related engineering services to assess their export potential under the four modes of supply.

iv) Preparing a list of regulatory and related measures, applied in the two sectors, so as to get a sense of the nature and importance of trade and investment restrictive measures affecting these sectors.

v) Advancing a set of recommendations related to domestic regulatory reform to address domestic challenges, the development of laws to regulate the sector, and the promotion of exports through a better regulatory environment and improved marketing strategies.

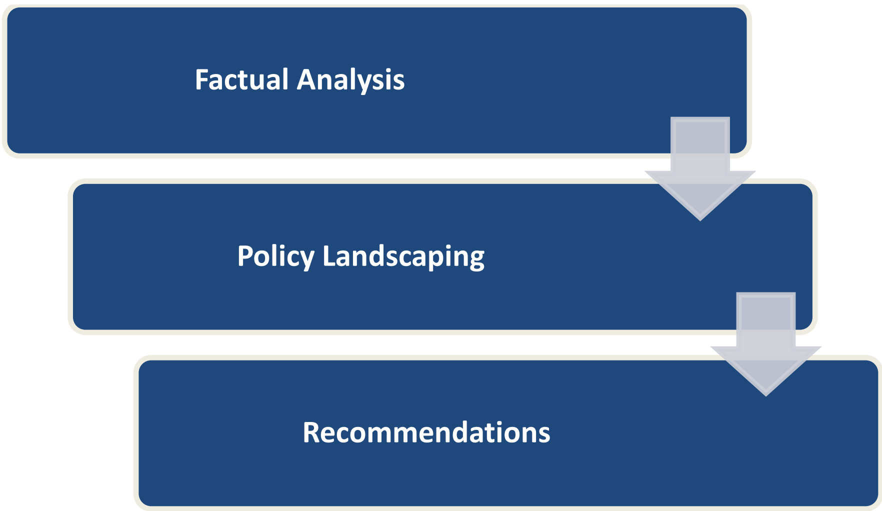
vi) Developing a Services Export Development Strategy in light of the priorities set by the STPF (2012-15), and in doing so, integrating the available research, stakeholder consultations and recommendations of the current study.

vii) Providing a long-term and short-term strategy, and addressing challenges faced behind the border, at the border and beyond the border.

viii) Aligning recommendations based on a combination of analytical research and stakeholder consultations.

Approach of the Study

This study is primarily structured in the following sequence:



The factual analysis is based on existing literature, the current policy and regulatory framework, and information pertaining to any collective action platforms forged by the private sector (such as the Pakistan Software House Association). On the data and statistics front, the study relies on primary and secondary data sources at the available disaggregation levels. In Pakistan, the data on trade in services are not reported in an ideal format; the State Bank of Pakistan (SBP) reports data on a BOP5 basis, while the Bureau of Statistics relies on secondary reporting, based on SBP's compilation of data. In 2004, the Ministry of Commerce took the lead in reporting services export data, however, the process remained irregular and unaligned with international best practices. The classification of services, used for data reporting purposes in Pakistan, is not based on the GATS (W/120) classification, thus, one limitation of this report would be the existence of a slight gap in factual analyses.

The recommendations put forward in this study are based on the analyses conducted, the evolving international policy and market access scenarios, and Pakistan's capacity at the national level, to implement the recommendations set forth. As regards the latter, factors of practicability, jurisdiction, ownership by stakeholders, and the overall impact, have been kept under consideration.

Global Landscape on Trade in Services

Over the last decade, services sector has globally gained increasing importance owing to its growing contribution to the world economy and employment generation. The sector accounted for 66.3 percent of the world's GDP[1] and 43.8 percent of global employment[2] in 2011.

The service sector is crucial to a country's development, particularly in achieving the Millennium Development Goals, such as those related to poverty reduction and access to basic education and health services. The impact, in terms of poverty reduction, is predominantly attributed to the role that services play in economic growth and employment generation. In 2011, services accounted for 74.4 and 51.4 percent of the GDP[3], and further about 74.1 and 37.3 percent of total employment[4] in developed and developing countries respectively. In LDCs,

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[1] UNCTAD Statistics
[2] ILO Global Employment Trends 2012
[3] UNCTAD Statistics
[4] If CIS and non-EU Eastern European Countries are included, the employment figure will be 37.8 percent. At the global level, the employment figure was 43.2 percent in 2009.

services have been the largest sector of the economy, with its share in GDP remaining fairly stable at slightly below 45 percent since 1980. Employment in the sector, however, has represented only 26 percent of the jobs in LDCs (up till 2008).

UNCTAD's research, based on a sample of 139 countries, finds a strong correlation between the quality of infrastructural services, and economy-wide competitiveness and national income.[5] A recent World Bank study[6] of a sample of 136 countries found that between 2000 and 2005 there was a strong correlation between services sector growth and overall GDP growth. It was also found that in 50 developing countries, during the period between 1990 and 2005, growth in services was more closely correlated to poverty reduction than growth in agriculture.

In India[7], for every job created in the information technology sector and IT-enabled services (IT/ITES) sector, four additional jobs are created in the rest of the economy (e.g. in training, transport and real estate sub-sectors). It also appears that countries with high employment in services tend to have the highest participation rates of women in the labour market. This may also partly explain the relationship between the growth of services and poverty reduction, as women employment plays a central role in the annihilation of poverty.

Finally, recent studies have shown that intermediate services play an indispensable part in increasing productivity in the agricultural, manufacturing and service sectors, as many of these are crucial inputs to these sectors.

Economic Growth through Trade in Services

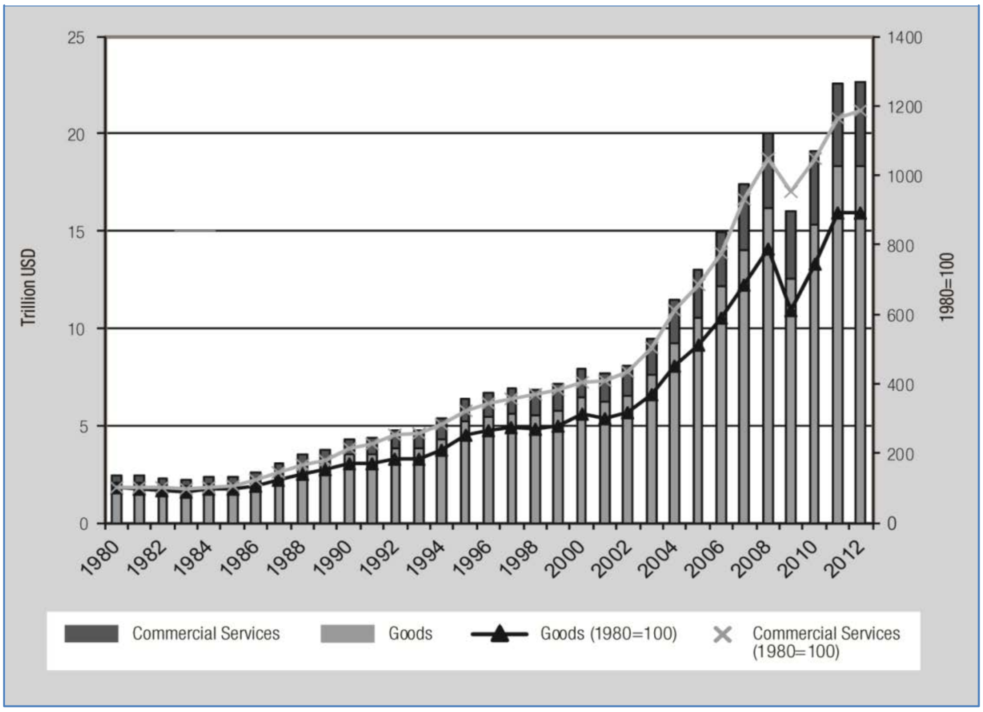
In line with the ever-increasing significance of the services sector within domestic economies, trade in services has also witnessed rapid growth in recent years. At the global level, commercial services exports have increased significantly from about USD 400 billion (1980) to USD 4.3 trillion (2012). Between 1980 and 2012, the export of services has grown faster than merchandise trade, with its share in total world trade increasing from around 17 percent to 19 percent (see Figure 1).

[5] UNCTAD (2011), Services, development and trade: the regulatory and institutional dimension – Expanding trade opportunities for developing countries (TD/B/C.I/MEM.3/8), 26 January.

[6] Ghani and Kharas (2010), *The Service Revolution,* available at: http://siteresources.worldbank.org/INTPREMNET/Resources/EP14.pdf

[7] NASSCOM-Deloitte Study (2008), *Indian IT/ITES Industry: Impacting Economy and Society 2007-2008*, available at: http://www.deloitte.com/assets/DcomIndia/Local%20Assets/Documents/Nasscom%20Booklet%20Executive%20summary%20fow%20web(3).pdf

Figure 1: Global Exports of Goods and Services 1980-2012



Source: UNCTAD statistics

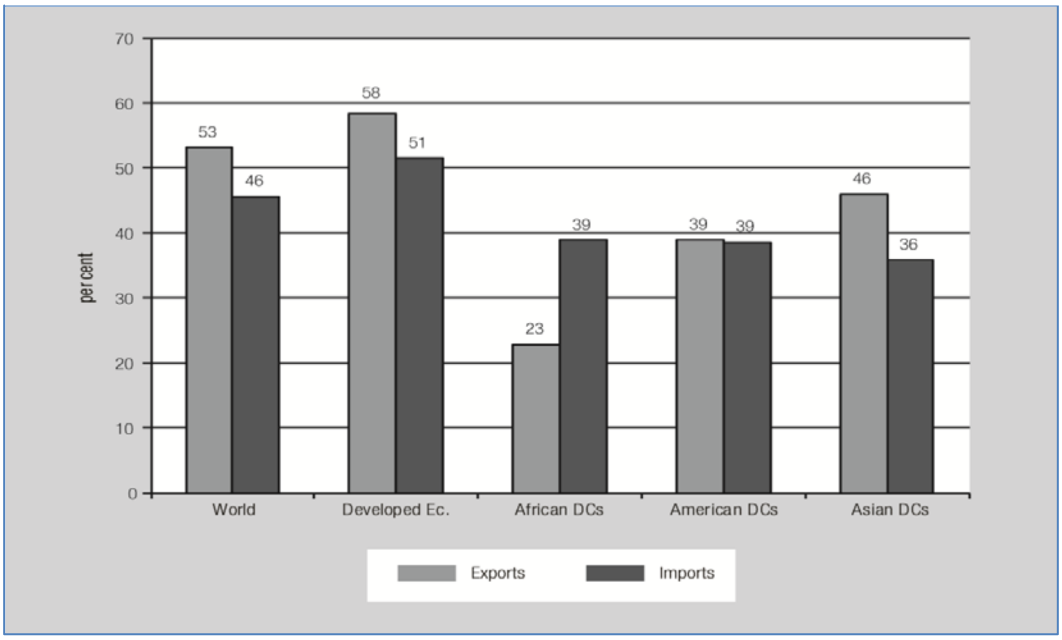
World commercial services exports grew at an average of 10.7 percent annually between 2000 and 2012 (UNCTAD data), slightly higher than the growth rate of merchandise exports witnessed for the same period (10.4 percent). Developing countries' share in total services exports hit 21 percent for the first time in 2011. The rapid expansion of high technology services including communication, computer and information services has driven a steady growth reflecting technological advances and fragmentation of production processes in global value chains (GVCs) despite the weak recovery of financial, construction and transportation services following the 2008-09 global financial crisis.

With blurring lines of demarcation between the manufacturing and service sectors, services constitute major tasks being performed and exchanged in GVCs. The so-called *servicification of manufacturing*[8] phenomenon is described as 'the rising use of intermediate services by the manufacturing sector', accompanied by the mounting number of service-related workers employed by manufacturing firms. Not only does this signify an increase in the number of services being incorporated into physical processes, but also a swell in the number of services being offered in combination with manufacturing processes. Recent academic research[9] has revealed that the share of services in total supply chain trade has increased from 24 percent to

[8] Lodefalk, Magnus (2010), "Servicification of Manufacturing - Evidence from Swedish Firm and Enterprise Group Level Data", Working Paper 3/2010, Swedish Business School, Örebro University.
[9] Richard Baldwin and Javier Lopez-Gonzalez, *Supply-Chain Trade: A Portrait of Global Patterns*

28 percent, while that of manufacturing has declined from 61 percent to 52 percent. OECD[10] estimates show that intermediate inputs currently represent 73 percent of services being traded among the OECD countries. Other commercial services such as computer, information, financial and business services amenable to outsourcing, represent 53 percent of the world's total services exports, growing by 12.2 percent over the 2000–2012 period (see Figure 2).

Figure 2: Share of "other commercial services" in total services by region - 2012 (percent)



Source: UNCTAD Statistics

While these numbers might seem substantial, the true size and scale of trade in services could be found to be much larger if complete and precise cross-border service transactions data could be collected, and if FDI in services, which contributes to over half of the world's trade in services, could be fully taken into account. For example[11], according to official statistics of the Finnish Government, the total service exports from Finland to China were worth EUR 0.6 billion in 2007. In the same year, Nokia's internal service exports from Finland to China, with respect to one of its mobile phones (the N95), were valued at around EUR 0.8 billion. In 2007 (the latest year for which published data is available), U.S. firms sold USD 1,026 billion worth of services to foreigners by means of majority-owned foreign affiliates, as compared to the cross-border export of services of a value of USD 478 billion[12].

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[10] Miroudot, Sébastien, Rainer Lanz and Alexandros Ragoussis. 2009. "Trade in Intermediate Goods and Services". *OECD Trade Policy Working Papers* No. 93. OECD Publishing.

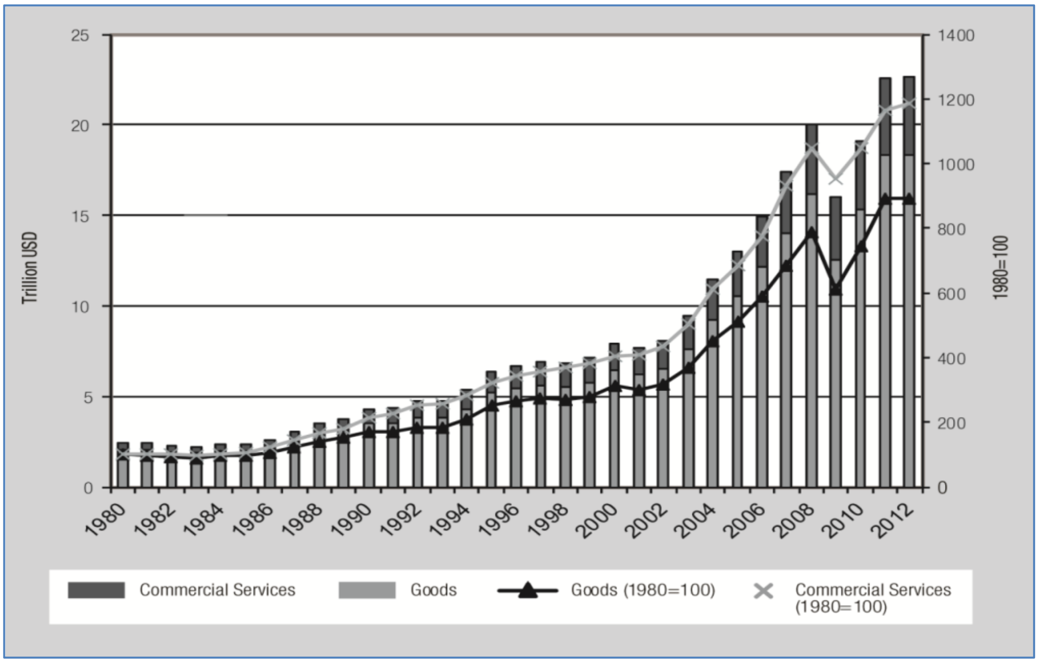
[11] ELTA (2011), *Who Captures Value in Global Supply Chains?* Available at: http://www.etla.fi/files/2592_no_1240.pdf

[12] William Cooper (2010), *Trade in Services: The Doha Development Agenda Negotiations and U.S. Goals*

Global trends indicate that FDIs are increasingly being directed towards service sectors. The investment flowing into service sectors from developed countries, between 2008 and 2010, was eight times as large as it was during the period of 1990 to 1992 (USD 852 billion vs. USD 105 billion).[13] Furthermore, services attracted an estimated 40 percent of global FDI project inflows in 2011.[14] The share of the inward FDI stock of services sector in the total climbed from 49 percent in 1990 to over 64 percent in 2010.[15]

Research has shown cross-border services trade to be more resilient than merchandise trade to economic crises[16]. In the recent financial and economic crisis, fluctuations in services exports exhibited less synchronicity across countries and experienced lower magnitudes of decline (a 22 percent decline in trade in goods compared to an 11 percent fall in trade in services in 2009). Moreover, cross border trade in services has, by and large, witnessed a faster post-crisis recovery than trade in goods. Between 2008 and 2012, despite the weak recovery of financial, construction and transportation services, there had been a rapid expansion of technology services (including, communications, computer and information services), reflecting technological advancement and the fragmentation of production processes of GVCs (see Figure 3). Similar trends can be observed for tourism services.

Figure 3: World exports of services by category (2008=100)



Source: UNCTAD calculations based on UNCTAD Statistics

[13] UNCTAD World Investment Report 2012 annexure tables: (http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx), 9 April 2013.
[14] UNCTAD World Investment Report 2012
[15] UNCTAD World Investment Report 2012 annexes tables: (http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx), 9 April 2013.
[16] World Bank: The Crisis-Resilience of Services Trade; 2009, Aaditya Mattoo and Ingo Borchert

Global remittance flows (which include in part, transfers associated with temporary movements of service providers) posted a 7.7 percent increase in 2011. During the same period, LDC remittance receipts ranked 16 percent above their 2008 level. Remittances have become a major source of financial inflows for developing states, accounting for as much as 20 to 40 percent of GDP in small countries such as Lesotho, Moldova or Samoa. Likewise, in Pakistan, remittances represent about 6 percent of the GDP, entailing that it is extremely important to facilitate labour mobility along with channelling remittance flows to productive uses.[17] The achievement of this objective calls for an enhanced free movement of service providers, and the exploration of ways to establish closer regulatory cooperation between the sending and receiving countries (during multilateral and preferably regional trade negotiations).

Concerned with remittance flows, another area that falls under the umbrella of services is tourism. International tourism receipts reportedly increased to more than USD 1 trillion in 2011,[18] and the number of tourist arrivals rose by 4 percent in 2012 (to a level 11.4 percent above the 2008 figure).[19]

The relative resilience of trade in services to financial crises, its rising role in GVCs and its increasing potential in attracting investment and creating employment opportunities, have led governments across the world to implement a services-driven development strategy in the post-crisis era – typically within the context of comprehensive and coherent trade development policy frameworks.

Modern exportable business services exhibit strong economies of scale and generate a number of favourable externalities. They also require relatively high skilled labour, thereby providing a realistic opportunity for structural transformation, even for countries that are not blessed with natural comparative advantages. Global efforts to address climate change and environmental issues also lend support to the development of the services sector and trade in services, since most services are less polluting, generate lower CO2 emissions and require fewer quantities of exhaustible resources for their production.

Exploring opportunities for the expansion of services exports is one of the key focus points of the European Union's (EU) trade policy. The United States National Export Initiative has

[17] UNCTAD (2012), *Maximizing the development impact of remittances* (UNCTAD/DITC/TNCD/2011/8); UNCTAD (2011), *Impact of remittances on poverty in developing countries* (UNCTAD/DITC/TNCD/2010/8). UNCTAD Report of the Expert Meeting on Maximizing the Development Impact of Remittances (TD/B/C.I/EM.4/3, 2011)

[18] UNWTO Tourism Highlights, 2012 Edition.

[19] UNWTO World Tourism Barometer, Vol. 11, January 2013.

listed the promotion of services exports as one of the country's top trade policy priorities. For the past 5 years, governments in Bangladesh have targeted the IT sector as the focal point of the economy, introducing favourable policy measures for its growth, including subsidies towards technology imports and tax breaks intended to enhance the country's presence in the international business process outsourcing (BPO) market.[20] Likewise, in its 12th Five-Year Plan (2011-2015), China has set a target for the service industry's share in GDP to increase from 43 percent to 47 percent, and for the value of trade in services to hit the USD 600 billion mark.

Background of Pakistan's Service Sector

Pakistan has witnessed a massive rise in the contribution of services to all sectors of its economy. In fact, over the past decade, the growth rate of services has exceeded that of agricultural and industrial services. Pakistan's service sector accounts for 54 percent of its GDP and for slightly more than a third of its total employment. The services sector has strong linkages with all other sectors of the economy, providing essential inputs to agriculture and the rest of the industry.

The structure of Pakistan's economy has undergone significant changes over the past few decades. The share of agriculture in GDP has declined over time, from 43.6 percent to 21.5 percent, while that of industry has increased from 15.6 percent in to 25.2 percent (from 1960–61 to 2009–10). During this period, the share of the service sector in GDP has increased from 39.0 to 53.3 percent, making the services sector the largest contributor to economic output in Pakistan.

Cross-country data reveals that structural transformation of economies is spread over various stages. In the first stage of transformation, a decline in the share of the agricultural sector is compensated by an almost equal increase in the share of industry, with the share of services largely remaining constant. In the second stage of economic growth, substitution effects come into play between the industry and services, while agricultural output remains steady. This implies that ultimately it is the service sector that gains momentum at the expense of agriculture. Pakistan, however, appears to have gone through only a single stage of structural transformation i.e. from agriculture to the service sector.

[20] ITC-KMPG (2012), *Bangladesh Beckons, an emerging destination for IT/ITES outsourcing* available at http://www.basis.org.bd/resource/KPMG-Bangladesh-January-2012.pdf

Pakistan's service sector has grown rapidly in recent decades. From 1975-76 to 2009-10, the growth rate of the sector averaged 5.46 percent per annum. This compares to an average annual growth rate of 4.96 percent of goods production over the same period. The growth rate of the overall manufacturing sector amounts to around 5.7 percent, which is still higher than that of the services sector. The increasing growth of services is largely attributed to the rising share of financial services in the total output. The financial sector grew by an average of 6.8 percent annually from 1975 to 2010. This level of performance is an outcome of SBP's pursuit of enabling policies to support the banking and financial services industry of Pakistan.

Other service sub-sectors that have experienced modest growth include all modes of transportation, storage and communication, wholesale and retail trade, ownership of dwellings, public administration, and defence. The service sector has been a major contributor to value-addition, and gross fixed capital formation (GFCF) in Pakistan.

The share of employment in the service sector is mounting steadily, explaining the job shift from the agricultural sector into services activities. The service sector is also becoming an increasingly important source of fiscal revenues; 26 percent of the country's aggregate revenue is derived from taxes levied in the service sector, compared to a paltry 1 percent acquired from the agricultural sector.

The GDP growth rates of various sectors of Pakistan's economy (from 1975 to 2010) are given in Table 1 on the next page:

Table 1: GDP growth rates of Pakistan

GDP growth rates, by sector, in Pakistan 1975-76 to 2009-2010	
Sector	**Average annual growth Rate (percent)**
Agriculture	3.63
Mining and Quarrying	5.99
Manufacture	6.31
Construction	3.86
Electricity and Gas Distribution	5.46
Industry	5.72
Goods	**4.96**
Transport, Storage and Communication	5.07
Whole Sale and Retail trade	4.95
Finance and Insurance	6.80
Ownership of Dwellings	5.19
Public Administration and Defence	4.84
Social and Community Services	6.52
Total Services	**5.46**

Source: Economic Survey of Pakistan

The Statistics Department of the SBP has been compiling Balance of Payment (BOP) accounts since November 2003, using IMF's Fifth Balance of Payments Manual. In these records, international service transactions have been disaggregated into various sub-categories. The share of services in Pakistan's total exports stood at 20.77 percent in 2011–12, but the services trade balance showed a deficit of USD 733 million (2012 statistics).

Pakistan, one of the founding members of the WTO, has adopted an ambitious and forward-looking attitude during the DDA negotiations as far as market access in services is concerned. The country's existing, yet both modest and conservative, commitments made under the GATS (in 1994 and in 1997-8 for financial and telecom services) may not necessarily reflect the strategic approach pursued in the DDA; since a significant amount of liberalization has taken place since the end of the Uruguay Round.

The initial offer made by Pakistan during the DDA negotiations marked a striking improvement (62 sub-sectors), over its GATS commitments (47 sub-sectors). In addition, the ambitious cues given by Pakistan during the Signalling Conference of July 2008 included increasing horizontal equity limits up to 66 percent, alongside significant liberalization of financial and insurance services. Beyond the GATS, Pakistan has signed PTAs with China and Malaysia that encompass provisions for liberal market access in services. 11 sectors and 87 sub-sectors are committed to in these PTAs, as compared to 6 sectors and 47 sub-sectors committed under the GATS. Apart from the abovementioned agreements, the Trade and Investment Framework Agreement (TIFA) negotiations with the United States have also led to a notable increase in the liberalization of financial and insurance services. The recent plurilateral negotiations underway for a Trade in Services Agreement (TISA), among the so-called Really Good Friends of Services in Geneva, are another manifestation of Pakistan's laissez-faire approach towards market access and domestic regulation in the services sector.

Challenges for Trade in Services in Pakistan

Supply-side constraints

Since Pakistan is aiming for a more stable growth trajectory, there is a need to create capacities to support the consequential expansion of internal markets, and identify export opportunities within key service sectors. The creation of supply-side capacities in services demands a series of well-known prerequisites to be in place, such as a coherent development of service sector strategies, an enabling regulatory environment and institutional framework, adequate physical and technological infrastructure, an abundant supply of human capital, and access to cost competitive finance and working capital.

Pakistan direly needs to focus on enhancing the quality and reliability of the supply of basic infrastructure such as energy, telecommunication, transport (including maritime and air transport) and related logistics services, to serve international markets in a sustained manner. In recent times, there have been some instances where BPO suppliers (such as call centres) have witnessed work orders get cancelled due to interruptions in power and undependable internet line supply.

Market Access Issues

Many sectors or modes of supply of interest to Pakistan are subject to complex regulations, especially in developed markets. Mode 1 (cross-border supply) in the case of outsourcing regulations; and Mode 4 (temporary movement of service suppliers) in terms of admission, work visa acquisition, qualification and licensing requirements for various skill levels, are examples of such complexities and of policy sensitivities that underlie domestic regulatory constructs. In sectors such as business and professional services, diverse regulations—economic need tests, burdensome recognitions of foreign credentials (or the lack thereof), — may impede services trade and potentially nullify the scheduled commitments made under trade agreements. This reality warrants a careful examination of service opportunities, especially those related to emerging services that attune better to their respective competitive advantage, such as professional, construction, IT and telecom-related services.

Interplay between Domestic Services and the Regulatory Framework

While a well-managed process of service liberalization may contribute to higher levels of investment, competition and technology transfers, there are a few instances where negative environmental, social and economic externalities have been associated with liberalisation and privatization in selected service sectors. Investigation of this aspect highlights the difficulties that exist in mobilizing labour to provide full-scale support to the relevant sectors. This is particularly the case for the small and medium-sized service providers in Pakistan. Exploring the use of tailor-made financial mechanisms and fast-track licensing for small service suppliers could allow for increased competition and has the potential to encourage the growth of suppliers in poorer and/or more geographically remote areas.

Finding an adequate mix of sound policies, and designing an enabling and adaptive regulatory and institutional environment for services is a permanent quest for developed and developing countries alike. Creating supportive regulatory and institutional frameworks necessitates significant planning, constant inter-agency coordination, institutional and administrative capacity building, as well as sufficient human and financial resources. Challenges, such as those that emanated from the recent financial crisis or from climate change, show how regulations have to continuously respond to changing contexts. In order to fully assess the state of affairs, Pakistan needs to conduct a comprehensive exercise to map out all of the regulations and related instruments that, directly or indirectly, affect the trade in services. The ultimate intent should be the execution of a trade-related regulatory audit, to arrive at a set of practical recommendations for regulatory reforms, wherever they are needed.

Addressing Human Resource Gaps

The lack of sufficient knowledge and expertise in existing and emerging services has been a constant hindrance to improving the competitiveness of services in Pakistan. Most service sectors are knowledge-intensive and require solid educational reforms that can facilitate both, the creation, and the constant supply of a capable and skilful workforce. Low availability of qualified human resources hampers the ability of numerous potential entrepreneurs to expand their service offers.[21] In certain cases, for example, the real costs of employing ICT and the associated learning processes may be too high for traditional and small-scale businesses to absorb. [22]

Women's exposure to ICT services is often hindered due to cultural barriers that obstruct them from receiving the necessary education required to operate ICT tools, thereby preventing them from entering formal labour markets.[23] In the case of Pakistan, the gap in human resources is manifested by low literacy rates on the one hand and the small number of highly qualified professionals on the other. For instance, if Pakistan manages to find an opportunity in overseas markets for service professionals, the availability of qualified experts would almost certainly be an issue due to domestic training capacity constraints. A notable factor is that none of the Pakistani universities rank in the top 500 universities in the world (except according to one or two ranking claims that do not have much credibility at the global level).

[21] UNCTAD (2011). Report of the multiyear expert meeting on Services, Development and Trade: the regulatory and institutional dimension.

[22] Information economy report (2011).

[23] Ibid.

The table below shows Pakistan's poor performance/ranking as per the Global Innovation Index.

Table 2: Global Innovation Index 2014

Rank	Country	Score	Percentage Rank
76	India	33.7	0.47
79	Kazakhstan	32.8	0.45
86	Bhutan	31.8	0.4
105	Sri Lanka	29	0.27
112	Kyrgyzstan	27.8	0.22
120	Iran, Islamic Rep.	26.1	0.16
128	Uzbekistan	25.2	0.11
129	Bangladesh	24.4	0.1
134	**Pakistan**	**24**	**0.06**
136	Nepal	23.8	0.05
137	Tajikistan	23.7	0.04

Financial Services and Security

A recurring challenge faced by developing countries, including Pakistan, hinges around how the management of commercial objectives of private sector players, relative to the achievement of development objectives and the pace of liberalization in the financial services sector.[24] The recent financial crisis has demonstrated that it is imperative to design and implement specific macroeconomic, prudential, regulatory and supervisory mechanisms in order to minimise systemic risks that can negatively impact economic cycles.

The reliability, affordability and safety of remittance transfers (predominantly inflows) are considered to be a key challenge for Pakistan. In the case of wired money transfers, the requirement of a minimum level of knowledge of the use of such services (in terms of technology) can become obstacle for recipients. Nevertheless, emerging mobile banking applications can help in solving these problems and curtailing transfer costs.

[24] UNCTAD (2012). Services Trade and Development.

Statistics and Data-related issues

Informed policy decision-making and regulatory adjustments require the collection of up-to-date, disaggregated and high-quality data on domestic outputs, consumption, employment and trade in services. Lack of data limits the use of potential positive approaches to improve the efficiency and quality of services, along with deterring the policy formulation process. Availability of reliable data could enable the use of benchmarking methodologies and the carrying out of regulatory impact assessments. At the same time, it could provide negotiators with the information necessary to weigh up the value of negotiating proposals and potential commitments to be made under prospective trade agreements.[25] Pakistan's inability to collect numbers on the development and evolution of sectors is further exacerbated by the overall difficulty of collecting services data itself. The problem persists due to the usage of old data collection and reporting methodologies that fail to properly cater to the trade in services. Moreover, there is a less than optimal deployment of resources (including financial and human resources) for the collection of data.

Service Sector Opportunities in Pakistan

Adequate facilitation and promotion of the service sector can give birth to a series of positive catalysts for the overall economy, enable sustained economic growth, generate employment, facilitate diversification, enhance supply-side capacities of the primary and manufacturing sectors, and generate new trade and investment opportunities. The actual growth potential of many developing countries against complications faced by a few developed economies is presenting a pool of opportunities for the future. Developing economies now have the chance to create several prospective competitive services, for instance in the fields of agricultural, business, tourism, and others, to allow for greater value addition. This section describes some of the major opportunities that are unravelling to facilitate the growth of Pakistan's service sector.

Cross-cutting impact

Efficient services can improve the competiveness of agricultural producers in Pakistan. For instance, suitable financial and insurance services can provide options to hedge agricultural production risks. Environmental, testing and research and development services can support more sustainable agricultural practices and allow for the specialisation of production.

[25] UNCTAD (2013). Report of the Multiyear Expert Meeting on Services, Development and Trade: the institutional dimension, p.12.

Marketing services in the agricultural sector, including agribusiness opportunities, can expand the distribution of agricultural goods, both internally and externally, and assist in the diversification of clients.[26]

ICT and related infrastructure

A major strategic opportunity revolves around investing in the development and expansion of technological infrastructures, such as broadband networks. This initiative will contribute towards lowering the costs of using the internet and communication services for a vast number of sectors, firms and individuals. It will also facilitate digital transactions, potentially leading to the creation of new services and online businesses. The widespread deployment of these services can also become a powerful engine of job creation, particularly for women.

Pakistan has the potential to integrate a wide range of additional value-added services, starting from simple back-office work. The need for quality upgradation and for developing opportunities for firms to integrate service value chains is particularly important in the area of software development services. The real value of adaptation, however, is based on the condition that the integration of existing technologies must be in line with the capabilities and needs of the entities (private or public) operating within an economy. This process becomes all the more crucial when economies attempt to improve these technologies while making efforts to sustain economic development.

The expansion and increasing use of modern ICTs have allowed for a steady increase in trade in services through cross-border supply. New technologies have enabled outsourcing to become an option that reduces costs, improves efficiency, acquires benefits from other countries' skills (e.g. language and IT knowledge), and takes advantage of time differences to maintain a constant provision of services. Outsourcing is creating significant opportunities in a great variety of services for developing countries, for instance in the fields of data entry, back office support, software development, e-travel and e-finance. In India, outsourcing has accompanied the creation of IT hubs, enabling a swift increase in software exports. Exports of software and IT-enabled services in India hit a USD 47 billion mark in 2008-2009, up from USD 6.3 billion in 2000–2001[27]. In Pakistan, IT exports rose by 97.34 percent during the 2008-2013

[26] UNCTAD (2012). Services Trade and Development, p.218
[27] UNCTAD (2009). Implications of the economic crises in India, p.14.

period[28] (from USD 202 million in 2008-2009 to USD 334 million in 2012-2013). The Ministry of Information Technology and Telecom has set substantial targets for Pakistan for the next five years to thrust IT exports up to a value of USD 1, 230 million by 2017-18.

Contribution towards Environmental Management

Emerging concerns, pertaining to environmental protection, internalisation of environmental costs and the introduction of new environmental regulations (including those related to climatic change mitigation and adaptation), have greatly increased the demand for environmentally friendly goods and services. Environmental policies and regulatory and institutional frameworks in developing countries, especially those applicable to infrastructural services, are not fully developed yet. However, new regulatory standards, targeted incentives directed towards the supply of renewable energy[29] and investments in environmentally responsive infrastructure, are already giving a boost to internal demand in many countries. These measures are also encouraging the creation of new business opportunities in areas such as clean energy generation, diverse environmental and pollution control services, low emissions transport systems as well as a broad array of water and sanitation services.

Improvements in Governance

Similar to the case of other countries, the Government of Pakistan can be a significant source of demand for services. By setting fast-track licensing procedures, providing targeted technical assistance to help firms meet relevant standards and by establishing well-directed procurement rules that favour small and medium services providers, the Government can encourage the entry of new service suppliers and promote their integration into value chains.[30] Additionally, the Government can also work with international agencies to improve the reliability of service sector data. However, this remains a challenge for all governments at varying levels of development.

Contributions towards Financial Services

Within the financial services sector, off-shoring (both for financial markets and back-office operations) offers great potential for growth to developing countries. The growth of the middle class and the number of small service providers in Pakistan is expected to lead to an

[28] Ministry of Information Technology and Telecom Pakistan
[29] UNCTAD (2013). Report of the Multiyear Expert Meeting on Services, Development and Trade: the institutional dimension, p.12.
[30] UNCTAD (2012). Services Trade and Development.

increased need for new financial and insurance products built to address particular needs. These novel financial and insurance services could include micro-finance and insurance products, accounts in foreign currencies and products needed to hedge risks specific to developing countries (such as those related to security, health, labour accidents, natural disasters, inability and pension building).

Remittances are required to be channelled properly to allow for capital accumulation, the creation of local business and to finance investments in local infrastructure. Several programmes in Latin America, Africa and South East Asia are seeking to promote diaspora investments (either directly or through their families and communities) by advancing small business creation. This is being achieved by means of providing advice, technical assistance and several country return incentives.[31] Postal and financial services can be designed to promote financial inclusion by enabling specific transfers, providing easier access to credit, expanding service coverage and creating special savings and credit products for the diaspora. The Government of Pakistan has made various incentive scheme announcements aimed at channelizing foreign remittances to productive sectors but nothing has come to fruition yet. There have been claims that a share of remittances (mainly flowing in from professionals working overseas), have been invested in the IT and Health sectors; however nothing, to date, has been sourced as evidence to support these assertions.

Islamic banking and financial related services is another area with huge potential in the financial services sector. A few banks and financial institutions that have dwelled into these services at an early stage have yet to make their mark within national and international markets. One of the reasons attributable to this lack of harnessed potential could be limited outreach, and restrained collaborative efforts exercised by the Government and the industry in a collective and institutional manner.

Opportunities in the Tourism Sector

Tourism services offer significant opportunities for Pakistan; however the current political and security situation has led to a temporary halt in this sector's growth. Tourism's contribution to global GDP is recorded to be in excess of 5 percent, with annual turnover growing at a faster rate than the global average GDP.[32] The tourism sector has become a tool to promote economic diversification, and to strengthen linkages with related services, cultural

[31] UNCTAD (2011). Maximizing the development impact of remittances, p.13 and 20.
[32] UNCTAD (2012). Services Trade and Development, p.7 Box 1.

industries, handicrafts, food production and related manufacturing. The endorsement of open skies policies, expansion of transport, tourism, and rural infrastructure, and improvements in the state of security and safety measures, form the fundamental basis for increasing tourist flows (both regionally and internationally).

Emerging services - such as tourism, ecotourism, medical and health tourism services, traditional and niche hospitality services, traditional culinary services, and specialized energy distribution services - coupled with the availability of packaging traditional goods, offer unique opportunities to the tourism sector to address competitive challenges. However, the development of Pakistan's tourism services is restricted by a few major challenges, the most important being the deteriorating security situation of the country (particularly rampant in the northern areas that attract the largest share of tourists).

Enhancing market access for services exports through trade negotiations

Pakistan's services exports have significant potential to expand, given that market access conditions abroad can be improved, particularly in the sectors and modes of supplies of interest to the country's suppliers. These improvements can be achieved through the WTO negotiations under the DDA, in accordance with the development objectives of the GATS of increasing the participation of developing countries in international trade in services.[33] Experience suggests that the same holds true for negotiations conducted along preferential lines, which often generate WTO-plus outcomes in the services field.

Compared to the liberalization of trade in goods, services trade liberalization in the WTO has a shorter history. Thus there is a long way to go for services trade to reach comparable levels of market openness. In reality, service markets are a lot more open relative to services trade than is indicated by the commitments typically undertaken by WTO members (i.e. there exists a significant gap in many countries between "bound" and "applied" regulatory regimes. In services markets, various border and regulatory measures—including those relating to qualification and technical standards, the establishment of companies, and the rules governing the temporary admission and work of natural persons—can still pose important obstacles to trade and investment in services). At the same time, some of these regulatory requirements may clearly pursue legitimate national policy objectives (e.g. consumer and environmental

[33] For a discussion on development implications of the evolving international trading system, see, for instance ,UNCTAD, "Evolution of the international trading system and its trends from a development perspective (TD/B/59/5, 17 July 2012) and United Nations, "International trade and development: Report of the Secretary-General" (A/67/184, 26 July 2012).

protection goals). Since these measures cannot simply be eliminated, regulatory convergence and harmonization, along with cooperation between importing and exporting countries (for instance through agreements on mutual recognition and equivalence), will typically be required to minimize the potentially adverse effects of domestic regulatory conduct on trade. This may be necessary even where domestic regulatory conduct is otherwise non-discriminatory in nature.

The DDA of the WTO is intended to raise the bar for the liberalization of services trade that was secured during the Uruguay Round in 1994, with its sectoral negotiations concluding in 1997 (in financial and basic telecommunications services). Developing countries are concerned about the lack of value added by the negotiating offers made to them in key areas of interest—notably with respect to the cross-border supply of services, to facilitate outsourcing (Mode 1) and the temporary movement of natural persons (Mode 4). The development and spread of information and communication technologies have allowed for an increasing volume of trade in services to take place via Mode 1. The gains from this for developing countries are significant, as export earnings derived from outsourcing and remote supply are often accompanied by a number of related advantages, including FDI, human capital formation and knowledge spill-overs. In addition, barriers to outsourcing either include requiring service providers to establish a commercial presence (in order to deliver cross-border services), or an outright prohibition on outsourcing. Therefore, commitments could range from creating substantial new liberalizations to binding existing regulatory regimes.

Mode 4 remains more restricted than all other modes of service delivery, owing to concerns over the implications of market liberalization for labour market performance, and the fear that temporary admission might create incentives for permanent illegal migration flows. Many countries allow the entry of high-skilled labour, such as intra-corporate transferees, while limiting the entry of lower to medium skilled labour, for which developing countries, including Pakistan, have sought enlarged opening. Effective market access, for services supplied by way of Mode 4, could be provided through increased labour quotas, removing needlessly burdensome economic needs tests, or setting clear criteria for such tests. Both the quantity and quality of Mode 4 commitments continue to be limited in the Doha Round offers, restricting the movement of people at all skill levels. With 93 percent of the global migrant stock representing economic migrants – including service suppliers – liberalizing Mode 4 can create a win-win situation for both developed and developing countries.[34] A strong, commercially meaningful outcome in Mode 4 could therefore have huge potential spill-over benefits for developed and developing countries, and the LDCs.

Using the Trade in Services Agreement (TISA) Platform

Around 24 WTO members (counting EU-28 as one member), including Pakistan, are currently engaged in discussions aimed at achieving a plurilateral Trade In Services Agreement (TISA). Current negotiations aim to build upon the GATS, and capture a substantial portion of the liberalization autonomously achieved under the PTAs. Some TISA proponents propose that the outcome of these plurilateral talks could be "brought into the multilateral system", although the practical modalities of such a migration appear complex and uncertain at the moment.

The agreement is expected to be comprehensive in scope – with substantial sectoral coverage and no *a priori* exclusion of any sector or mode of supply. It is set to include a mix of national treatment and market access commitments that correspond very closely to presently applied regulatory levels. Existing analyses suggest an increase in bilateral exports among the participating countries of around USD 78 billion.[35] Whether such gains will materialize or not, depends on real economic conditions and the extent to which liberalization proceeds beyond the *status quo,* under the proposed agreement.

TISA's relationship with the MTS appears to be a key question in terms of whether the results of negotiations are to be extended to non-participating WTO members. It is argued[36] that the liberalization of services, resulting from this approach, could be extended to non-participating countries through (a) Rules of Origin (which are usually more relaxed for services, based on the notion of "substantial business operations", than for goods, based on the notion of "substantial transformation") and (b) a *de facto* non-discriminatory application of regulatory measures (as it is difficult to discriminate between firms when applying regulations behind the border, which are typical services barriers). Nevertheless, developing countries, in general, do not have enough capacity to negotiate with the parties to this plurilateral agreement to take advantage of any putative relaxed Rules of Origin; their major export interests remain in Modes 1 and 4 – arguably the most sensitive modes for developed country members that account for

[34] UNCTAD (2012), Maximizing the development impact of remittances (UNCTAD/DITC/TNCD/2011/8); UNCTAD (2011), Impact of remittances on poverty in developing countries (UNCTAD/DITC/TNCD/2010/8).UNCTAD; UNCTAD Report of the Expert Meeting on Maximizing the Development Impact of Remittances, (TD/B/C.I/EM.4/3, 2011).

[35] Hufbauer G. C., et. al. (2012), *Framework for the International Services Agreement*, Peterson Institute for International Economics.

[36] *Ibid*

the bulk of intra-TISA trade. Moreover, the argument over the *de facto* non-discriminatory application of TISA outcomes would not prevent TISA signatories from imposing discretionary measures unfavourable to exports from non-parties – such as, differentiated visa requirements and procedures, and the non-recognition of professional qualifications and home country regulations of financial institutions. The advent of the TISA also entails the risk of services being increasingly marginalized in the Doha Round. In other words, the question is of how willing will the eventual signatories to the plurilateral services agreement be to improve their current revised GATS offers tabled before 2006, if and when the Doha Round talks are revived. Such developments carry the risk of shifting the delicate balance in the Doha Round negotiations (stemming from the single undertaking package), and of depriving developing countries from potential benefits of a complete services liberalization package offered in the Doha Round.

Domestic Regulations for Trade in Services in Pakistan

The impact of domestic regulations is as important an area for trade in services as are the issues linked to market access. The role of domestic regulations, however, extends beyond providing market access to the service sector for national/domestic market management. For the purpose of this study, the role of domestic regulations has been discussed in the context of trade in services—particularly with regard to the supply and quality management of services (for existing and potential exports).

A prominent feature of the domestic regulation of services in Pakistan is that the majority of regulations do not address trade and associated issues adequately (related to market access, international trade, etc.), focusing more on administrative concerns instead. Quality, recognition and market placement issues are often left at the disposal of industry associations, without defining necessary benchmarks.

The following table[37] outlines the major service sectors (that have existing or potential export capacity), their respective regulators (at times more than one) and the gaps that need to be filled in order to facilitate the entry and operation of Pakistan's service exports in the global marketplace.

[37] The listing of sectors does not follow any particular classification or order.

Table 3: Domestic Regulatory Framework in Pakistan for Trade in Services

Sector/sub-sector	Regulatory Body	Key features	Gaps between domestic regulations and international benchmarks/best practices
Financial services	**State Bank of Pakistan** **Securities and Exchange Commission of Pakistan**	Prudential regulations are strict; entry into the market by new service providers, particularly in the case of insurance services, is difficult. There are various attributions to this state of affairs – such as an over- cautious attitude of the State Bank of Pakistan and the protection of existing service providers (i.e. financial institutions and banks).	There are certain issues associated with regulatory compliance and the reporting of banking institutions, as per international best practices and BIS benchmarks. The commitments made by Pakistan under GATS are disaggregated and comprehensive, whereas domestic regulations do not go into that level of detail. This may result in a number of operational difficulties for service suppliers in Pakistan, in their attempt to seek reciprocal arrangements in the global marketplace. The situation needs to be addressed by detailing prudential regulations.
IT and computer related services	**Ministry of IT and Telecom** **Pakistan Telecom Authority**	This sector carries significant potential and constitutes a major share of existing service exports. However, the domestic regulatory structure is complex, scattered	There is a lack of understanding, amongst relevant authorities, of the regulation of trade in this sector through Mode 1 (the most commonly used mode

	Frequency Allocation Board **Pakistan Software Export Board**	and often cumbersome for services suppliers (particularly in the case of market entry and fulfilment of the requisite licensing requirements).	for IT exports). Moreover, there is a lack of harmonized regulations (such as those concerned with the criteria and process of applying for allocation) in this sector; suppliers are confronted with at least three separate sets of domestic regulations.
Accountancy/ Management consulting services	**Securities and Exchange Commission of Pakistan (SECP)** **Institute of Chartered Accountants of Pakistan** **Institute of Cost and Management Accountants of Pakistan**	SECP holds the overall responsibility of regulating this sector, however, the institutes of chartered and management accountants regulate affairs of their members, maintain standards, ensure compliance with international benchmarks and interact with the users of such services.	Domestic regulations, especially those related to the reciprocity with foreign services, suppliers, and their respective regulatory systems, are frail. These need to be redrafted, to warrant a smooth interaction with global markets which is vital for the supply of services under this sector.
Engineering and Architectural services	**Pakistan Engineering Council**	Domestic regulations are very rigid and restrictive for new entrants.	There are a few instances of non-compliance to the commitments made under GATS – for example in the case of the minimum equity requirement (PEC rules

			allow 30 percent while the commitments under GATS lay out a minimum of 49 percent).
Transport Services	**Ministry of Communication** **Ministry of Ports and Shipping** **Ministry of Defence (Aviation Division)** **Ministry of Railways**	There a number of regulatory instruments dealing with different modes of transport. However, there is an evident lack of clarity and uniformity within the existing regulations. Most of these regulations are restrictive to market entry (with the exception of road transport).	This sector needs a single regulatory framework, particularly for the air and rail transport subsectors, which should be designed in the light of different commitments made by Pakistan at bilateral, regional and multilateral levels.
Distribution services	**Ministry of communications** **Board of investment**	No clear regulatory instruments exist at the federal and provincial levels. A few of the city/municipal rules, however, are directly related to a few distribution services.	There is a notable absence of domestic regulations in the distribution services segment. The situation becomes more complex because of the presence of foreign investors, thus warranting the establishment of a proper regulatory framework.
Environmental services	**Ministry of National Regulations and Services** **Provincial Environmental agencies**	There is an absence of a clear set of domestic regulations.	There is a dire need to develop enabling domestic regulations—due the growing importance of the sector from a policy perspective and the evolving nature of related services.

Health and Related Services	**Ministry of National Regulations and Services** **Provincial Departments of Health** **Pakistan Medical and Dental Council**	There is a well-developed regulatory system. However, the devolution plan and the sequential handing over of health services to provinces, has given birth to weaknesses and differences among provinces, when it comes to the implementation of regulations.	Due to dissimilar implementation mechanisms at provincial levels, the existing regulatory system may lead to a decline in the quality perception of Pakistan's health professionals and related services in the global marketplace.

Conclusion and Recommendations

Pakistan possesses true potential for broadening its services exports portfolio and reaching out to the global marketplace. While it is notable that in recent trade policy announcements (such as the STPF 2015), there has been a strong recognition and focus on the export of services, practical enabling actions and policy/regulatory tools have yet to emerge. Another important feature surrounding the discussion is the generally low level of awareness of the concept of trade in services, which tends to afflict the private sector, the most important player in trade in services. For Pakistan, the most prominent private sector subdivision in terms of exports is the IT related services (owing to the fact that they do not command sufficient demand in the national market).

The following measures could be useful in creating a culture that boosts the export of services, and in laying down an enabling policy and associated actions.

Trade and Related Policy tools

i) **Harmonization of services data with international reporting standards**: there is no single, globally accepted, services statistics and reporting system, however, the only one developed by various agencies including, WTO, OECD and IMF (Manual for Statistics on Trade in Services) is the latest and most comprehensive. In Pakistan, statistical data on international trade is collected by the Statistics Bureau on the basis of inputs acquired from the State Banks of Pakistan and the Federal Board of Revenue. This collection of statistics is not harmonized with international best practices, and it is often difficult to disaggregate the data acquired, particularly if it is used as a primary source. Data reporting (by the Ministry of Commerce) is also conducted in an irregular and unsystematic manner. It is imperative to report international trade in services statistics alongside the data reported on trade in goods. As the first step in this regard, a task force should be established under the Ministry of Commerce, to institute a system for collecting and reporting services trade statistics based on international best practices. Technical assistance from the WTO and/or the IMF could be sought in this regard.

ii) **Establishment of an inter-agency coordination mechanism**: an institutional arrangement, which supports the coordination of government agencies concerned with the trade in services, needs to be developed. This is essential in order to provide the necessary impetus to the service sector, and to formulate a concrete export strategy. The established institutional mechanism should be headed by the Ministry of Commerce and other major stakeholders – such as Federal Ministries (of finance, foreign affairs, economic affairs, communication, railways, IT and telecom, and ports and shipping), the State Bank of Pakistan, the Board of Investment Pakistan, the Securities and Exchange Commission of Pakistan, the Statistics Bureau, and several provincial departments (such as those of finance, commerce, investment, and the competition commission).

iii) **Inclusion of Services in upcoming PTAs**: Pakistan should extend the scope of its existing PTAs to include services, while making the debate on services an essential part of the forthcoming agreements. This could provide a good testing ground for liberalization, at the same time as helping to expand the export of services. A step-wise approach (by means of the PTAs) could certainly prove to be useful in getting hold of a larger share in the global marketplace.

iv) **Utilizing the Trade in Services Agreement (TISA) platform:** Pakistan is a member of the group of countries negotiating the plurilateral Trade in Services Agreement (TISA). The participating nations are aiming for a high level of binding commitments. Once the TISA is established, it could usher in significant opportunities for Pakistan, in terms of its integration into the global services marketplace. The agreement could help Pakistan achieve global compliance certifications and accreditations, and potentially promote the conclusion of mutual recognition agreements among its signatories.

v) **Incentives for Services Exporters**: different forms of incentive schemes – such as tax incentives (in the case of IT services), venture capital financing by the Government, sharing of overseas marketing costs, the provision of preferential support by export-oriented government agencies and foreign trade representations of Pakistan – could prove to be useful in encouraging the existing and potential services exporters from Pakistan.

Regulatory Environment

i) **Detailed mapping of domestic regulations:** it is extremely important to thoroughly map the domestic regulations that are applied to services in Pakistan. This could help in identifying gaps in the multilateral and preferential market access commitments made by Pakistan, and in enabling various sectors to prepare themselves for the multitude of export markets.

ii) **Regulatory reforms to create an enabling environment:** some of the domestic regulations governing the services sectors of Pakistan were developed a long time ago with the essential objective of controlling service suppliers, rather than equipping them with export potential. For this reason the regulations that persist to date, are not enabling trade in services. A trade-related regulatory audit would prove to be useful in carrying out the required reform processes.

Public Private Partnership

i) **The establishment of a Pakistani Coalition of Service Industries or a Services Round Table**: a collaborative platform is necessary to create synergies and promote public-private dialogues for the enhanced export of services. Utilizing this platform, private sector stakeholders could gather to improve the export of services in a collective and collaborative manner, while at the same time liaising more closely with the public sector. Pakistan could adopt a model from among the many exemplary coalitions present across the globe.

ii) **Consultative platform on services**: a consultative platform should be established between FPCCI representatives and relevant government agencies dealing with trade in services.

Linkage to International Markets

i) **Implementation of a Services Export Strategy:** it is of utmost importance for the Government of Pakistan to design, approve and announce a dedicated “Services Export Development Strategy” with clearly defined short, medium and long term goals. This strategy should define enabling polices, identify targets and implementation tools.

ii) **Making better use of the foreign trade representations of Pakistan:** most of the overseas commercial/trade offices of Pakistan focus on the export development of goods (that too within usual product categories). These offices should be assigned specific targets for the expansion of services exports, especially those that carry significant potential in relevant markets. Moreover, they should act as remote hubs for Pakistan's service exporters, should the latter require assistance. In addition, they could also provide crucial market intelligence services to home-based companies, however, this would require proper training.

iii) **Participation in Global Services fairs:** Pakistan has been participating in various trade fairs, exhibition and shows for goods, particularly those of textiles and clothing. The next big focus should be on the participation in global services-related events (primarily in the IT and related services sector, where Pakistan possesses ready potential).

iv) **Niche Marketing:** Pakistan should focus on a few key areas within the broad domain of services, and market these globally. This selection of priority sectors, however, should be based on an in-depth analysis of existing strengths and capacities. Examples of such niches could be the outsourcing of accountancy services, the development of Enterprise Resources Planning systems, etc.

v) **International Accreditation:** the current export market for trade in services is both competitive and quality-conscious, making it hard to survive as a credible player in the global marketplace and to maintain a sustained presence in the absence of proper international accreditations and certifications. The Government should thus provide facilitation (for international accreditation and certification) to a variety of local service providers and encourage the private sector suppliers to do so.

vi) **Mutual Recognition Agreements:** the Government of Pakistan needs to work on signing Mutual Recognition Agreements with other countries, at least in major export service sectors such as IT, accountancy, engineering, and the medical and other related health sub-sectors. This effort calls for a great deal of diplomacy and consistent follow up with international counterparts, alongside an enhancement of the capacity and quality of national service suppliers.

Table 4: Summary of Recommendations discussed during the Public-Private Dialogue

Issue	Policy Solution/ Recommendation	Proposed Concrete Initiatives	Relevant stakeholders
Reporting of international trade in services statistics	*Harmonization of services data with international reporting standards*	The reporting of trade in services data, adjacent to the reporting of merchandise trade data Capacity building of the SBP and the Statistics Division, on the collection and dissemination of trade in services data Adoption of best practices, as given in the Manual of Statistics for International Trade in Services (inter-agency guide)	**Ministry of Commerce** **Statistics Division** **State Bank of Pakistan** **Federal Board of Revenue** **Ministry of Finance**
Lack of coordination at the policy level	*Establishment of an inter-agency coordination mechanism for the trade in services*	The Ministry of Commerce to establish permanent coordination mechanisms for services trade, and to report regularly to the Economic Coordination Committee of the Cabinet	**Ministry of Commerce**
Less importance given to services in preferential trade agreements	*Inclusion of services in the upcoming PTAs*	A discussion on services to be made a part of all on going and future negotiations carried out in preferential trade agreements	**Ministry of Commerce**

Utilization of available market access platforms	*Utilizing the Trade in Services Agreement (TISA) platform*	Pakistan, being a participant of the TISA, to aim at fully utilizing the current and potential market access available to it for expanding its services trade	**Ministry of Commerce**
Identify and focus on various modes of supply of services	*A clear evaluation of whether the choice to focus on Mode 4 is justified, as opposed to other modes of supply, particularly Mode 1*	While focusing on Mode 4, identify capable professionals from Pakistan who are abundant in supply; assess if they have potential in the available markets, due to accreditation and recognition issues It could be worthwhile to give more importance to Mode 1, as this course bypasses a number of regulatory and other market-related issues, and is less prone to supply-side constraints	**Ministry of Commerce** **Respective Professional Associations**
No or low incentives for service exporters	*Incentives to be extended to service exporters*	Service exporters to at least be given equal incentives, if not more, compared to those granted to exporters of goods. These incentives should be in the form of marketing partnerships between the Government and the private sector (i.e. the Government should provide assistance in the promotion of exports).	**Ministry of Commerce** **Ministry of Finance** **Federal Board of Revenue** **Board of Investment**

Uncertainty in services-related domestic regulations	*Detailed mapping of domestic regulations*	A task force to be established to map out every relevant domestic regulation that may impact the trade in services	**Ministry of Commerce**
Regulatory bottlenecks for the export of services	*Regulatory reforms to create an enabling environment*	Domestic regulations to be reviewed and scrutinized, to make them more enabling for services trade. Particular attention to be paid to regulations governing insurance and non-banking financial services, telecommunication services (licensing), audio-visual services (licensing), energy and related services, distribution services, and transport services (which special emphasis on the absence of regulatory assurance in road and freight transportation).	**Ministry of Commerce** **Board of Investment** **Securities and Exchange Commission of Pakistan**
Absence of a private sector collective action platform	*Establishment of a 'Pakistani Coalition of Service Industries' or a 'Services Round Table'*	A coalition of Service Industries, or a similar alliance, to be established and implemented in Pakistan.	**Ministry of Commerce** **Federation of Pakistan Chambers of Commerce and Industry**
Less importance given to services within trade	*Consultative platforms to be established in all*	Private sector associations to give due importance to services trade by	**Federation of Pakistan Chambers of**

bodies and chambers	*chambers, associations and similar bodies, to avert the focus on services*	establishing consultative platforms for upholding discussions, and advocating for the services sector.	**Commerce and Industry** **Ministry of Commerce**
Absence of the dedicated design and implementation of a services exports strategy	*Implementation of a Services Export Strategy*	The Ministry of Commerce to take a proactive stance towards the formulation and implementation of a comprehensive Services Export Strategy and related policies	**Ministry of Commerce**
Underutilization of trade representations abroad	*Making better use of foreign trade representations, by tasking foreign offices to lend a hand to service exporters in one or two key areas*	Commercial representatives to be directed to follow a target-oriented approach of picking one or two key sectors, and promoting trade within these sectors	**Ministry of Commerce**
Lack of visibility of Pakistan's service exports in the global marketplace	*Participation in Global Services Fairs*	TDAP to ensure Pakistan's participation in a few key international trade fairs, relevant to trade in services	**Trade Development Authority of Pakistan** **Ministry of Commerce**
Problems of accreditation and acceptance of Pakistan's services in the global market place	*International Accreditation* *Mutual Recognition Agreements*	The Ministry of Commerce, through its WTO Mission and other commercial representations, to promote international accreditation, and the signing of mutual recognition agreements, particularly for professional services	**Ministry of Commerce** **Relevant Professional Associations**

Supply-side constraints in qualified/skilled human resources	*Development of educational and vocational training programmes, in areas where skilled labour could be exported under GATS Mode 4*	Requisite educational and training programmes to be rolled out through existing educational and training facilities, after a carefully conducted needs assessment, and the detection of demand patterns and global market access levels. This should preferably be done in collaboration with, and with institutional support from the target country.	**Ministry of Commerce** **Ministry of Foreign Affairs** **Provincial Departments of Education** **Higher Education Commission** **Ministry of Science and Technology**

The International Trade Centre implemented the Trade Policy Capacity Building Component of the European Union funded TRTA II programme. It is aimed at the Ministry of Commerce and Government of Pakistan in developing a coherent trade policy and attendant regulations for export competitiveness. Specifically, it will aim to reinforce the skills of government officers working in trade related ministries and implementing agencies on issues related to trade policy, commercial diplomacy and regulatory reform. The main way in which to achieve this through the institutional capacity building of key local training institutes, which is intended to have an immediate effect on the capacity of government officers working on trade policy issues.

In addition, Component 1 promotes comprehensive, regular and well informed public-private dialogue among the government, private sector and civil society for trade policy development, monitoring and evaluation. To promote local ownership and legitimacy of the dialogue, a steering committee comprising equal representation of the public and private sectors has been established with the formal approval of the Ministry of Commerce of Pakistan. Its mandate is to oversee the planning, implementation and monitoring of public-private dialogue on key issues. To better inform the public-private dialogue process, research studies are commission and internationally peer reviewed before dissemination to stakeholders.

The targeted interventions of Component 1 to achieve these goals constitute the following:

Result for Component 1: Coherent trade policy and regulatory reform for export competiveness

1. The Pakistan Institute for Trade and Development (PITAD) institutional capacity is strengthened.
2. PITAD's and other research institutes' expertise on trade policy strengthened.
3. Government officers' capacity on specific trade policy and international trade negotiations strengthened.
4. Research studies contributing to the development of a national export strategy conducted.
5. Public-private dialogue for a coherent national export strategy is fostered.

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For further information about the ITC implemented Component 1
and the TRTA-II programme visit: **http://trtapakistan.org**