

# PROMOTING PAKISTAN'S EXPORTS IN PROFESSIONAL, COMPUTER RELATED AND TRANSPORT SERVICES

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POLICY RECCOMENDATIONS PAPER

TRADE RELATED TECHNICAL ASSISTANCE PROGRAMME



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## FOREWARD

This policy recommendations paper was produced as a result of an extensive public private consultation process conducted under Component 1 of the European Union funded Trade Related Technical Assistance (TRTA II) programme. The specific objectives of Component 1 are trade related capacity building of the public sector and institutionalization of public private dialogue (PPD) for the design and implementation of coherent and inclusive trade and regulatory policies. Component 1 of the TRTA II programme is implemented by the International Trade Centre (ITC).

A Public Private Dialogue Steering Committee (PPDSC) was established under Component 1 with the formal approval of Ministry of Commerce. The Committee is mandated to guide a series of PPDs as well as ensure necessary follow up with Government on trade policy issues. The PPDSC also commissions a number of research studies on selected trade policy issues which feed into the PPDs as well as put forward consolidated policy recommendations to the Government of Pakistan. In April 2011, the Committee selected Trade in Services and Regional Integration for the two PPDs during 2011. These broad topic areas were later refined by the Executive Committee of the PPDSC<sup>[1]</sup> to focus on three services sectors of Transport Services, Professional Services and Computer and Related Services to ensure more focused policy debate during the later public private dialogue (PPD), *Services Sector Export Development Strategy for Pakistan* held on 27 October 2011 at Islamabad

### *Methodology for arriving at recommendations*

- An extensive stakeholder identification and mapping was carried out in order to ensure the participation of all potential stakeholders in the process. Moreover a database of stakeholders comprising of federal government ministries and departments, provincial departments and authorities, trade associations, chambers of commerce and industry, individual firms, universities and independent research organizations was prepared.
- A brief detailing the overall background, purpose and of the PPD initiative as well specific information concerning the PPDs for 2011 was sent to about 750 of the above identified stakeholders. These stakeholders were invited to contribute their policy views on the identified topic areas through proposals, position papers or policy recommendations.
- In addition to invitations to attend the PPD, summaries of the three draft policy recommendations services research studies were shared with the stakeholders with the intention to inform and allow the invitees plenty of time to prepare for the PPD. Stakeholders were further invited to complete and submit a short policy reform recommendations form.
- Adequate opportunity was provided to the stakeholders to participate in the debate during the PPD either as panel discussants or during the open house discussion among the participants. Stakeholders were further invited to complete and submit policy recommendations forms.
- Following the PPD, stakeholders were provided a short summary of the meeting and invited to further comment.
- A summary of the outcome of the PPD and stakeholder recommendations conveyed through the policy reform proposal forms was completed and shared with stakeholders with a request to provide any additional input.
- Lastly, the findings and recommendations of the commissioned research studies, the received position papers and the outcome of the PPD discussion were produced in this paper which was shared with the key stakeholders for their consideration and final comments.

As such, the document was prepared after a thorough consultation process with all the stakeholders in order to make it coherent and inclusive. Following this final consultation process, the paper is being submitted to the Government for consideration and implementation.

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<sup>[1]</sup> The Executive Committee of the PPDSC IS established to make decisions on behalf of the PPDSC when the PPDSC is not in session.

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I sincerely hope that the recommendations contained in this policy recommendation paper will be well received and considered by the government for implementation through the currently under construction Strategic Trade Policy Framework 2012-15.

Dated: Islamabad the 26 March 2012

-Sd-

Asaf Ghafoor

Co-chair PPDSC/Chair Executive Committee

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This policy recommendation paper was produced under Component 1 of the European Union funded Trade Related Technical Assistance (TRTAII) Programme. Component 1 is about trade policy capacity building and is implemented by the International Trade Centre (ITC). The views expressed in this recommendation paper are the result of a public-private consultation process carried out under this programme, and thus do not represent the views of the ITC, their staff or the countries they represent.

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## EXECUTIVE SUMMARY

Services are no more non-tradable as they account for more than half of domestic production and exports in a large proportion of countries. In 2010, world exports of commercial services grew by nine percent, reaching US\$ 3,695 billion. The growth has not been evenly distributed across regions and countries. The most rapid growth was registered in Asia, where services exports rose by 22 percent in 2010, led by India and China. Since 2005, Asia's exports of commercial services have expanded on average by 13 percent annually. Even this large sum, however, underestimates the real size of services trade, since international trade statistics simply do not cover all trade in services as defined by the General Agreement of Trade in Services. In fact, since the 1980s, world services trade has actually been growing more rapidly than world merchandise trade.

As a result of technological innovation and services trade liberalization due to multilateral, regional and bilateral trade agreements, trade in services cannot be ignored given its tremendous potential for exports and contribution to the production and trade of merchandise commodities. The service sector contributes 53.8% to Pakistan's GDP which is gradually increasing.

In the same way as it is for international trade in goods, the international trade in services profile of Pakistan is also highly concentrated on a few sectors. There is a need for Pakistan to develop and diversify its services trade. As such, the service sectors of Computer and Related Services (CRS), Professional Services and Transport Services have been identified as having export potential, which can be enhanced through domestic regulatory and trade policy reforms.

### Computer and Related Services

CRS is the term used in the World Trade Organisation's (WTO) GATS for the grouping of services related to: i) Consultancy services related to the installation of computer hardware; ii) Software implementation services; iii) Data processing services, and; iv) Data base services, and v) Other services.

CRS is an emerging field in international trade in services and especially so for the Asia and Pacific economies. For Pakistan, the importance of the CRS sector cannot be under-estimated in terms of its export potential and contribution to the domestic economy. The CRS industry in Pakistan has been growing very rapidly in the last few years; coupled with the growth of ICT infrastructure and related services. Some of the services such as software designing and implementation as well as business process outsourcing (BPO) are important areas and carry a huge potential for growth in the international market.

Potentially CRS is one of the key export growth sectors for Pakistan, given the country's entrepreneurial eagerness together with the fact that there is an ever increasing global market for CRS. There is a need to develop a proper legal, regulatory and institutional support mechanism to translate this potential into reality.

### Recommendations

- **Branding Pakistan in the global CRS market:** Government provides support for existing/potential CRS niche market development through more effective utilisation of foreign commercial representation offices of Pakistan; Government supports mechanism for certification/accreditation of software.
- **Skills development through a proactive approach:** Develop labour force through proactive approach by meeting industry's demand (especially the future demands) and based on international trends and benchmark.

- **Transforming research into action:** Government support more practical application of CRS research through bridging the existing gap between industry and academic institutions.
- **Collective outreach and marketing:** The CRS industry should be marketed through a collective effort and common platform. The industry and government have to join hands to effectively implement this.
- **Government ownership and priority beyond fiscal incentives:** The government needs to recognize the export potential of this sector and its contribution to employment generation and devote the required policy focus and resources and show an ownership to convert this sector into a greater earner of foreign exchange; Government should establish an IT exports cell/board either in the Ministry of Commerce or the Trade Development Authority of Pakistan (TDAP).
- **Sign the WTO Information Technology Agreement:** Government should sign this agreement as it would provide an enabling environment for the CRS.
- **Establish a CRS supervisory committee:** A supervisory committee should be established to keep track of policy and related instruments in the CRS and recommend any other actions required.
- **Ensure a culture of intellectual property (IP) compliance:** Protection of IP (particularly copyrights) is an essential element for the growth of the industry; therefore the government should ensure an IP regime is in place to promote protection and compliance. Further reinforcement in the framework of intellectual property rights protection for the CRS and related sectors is required.
- **Establish and encourage venture capital funds:** Government and private sector initiatives needed to encourage venture capital funds in CRS and ensuring preferred credit access to SMEs in this sector.
- **Join ICT initiatives and industry benchmarks:** The CRS industry in Pakistan should integrate with the global community of CRS providers through various industry associations and similar initiatives.
- **Join multilateral negotiations for a plurilateral initiative on ICT:** WTO members are thinking about a plurilateral initiative on ICT sector which would encompass CRS as well. Pakistan should join the initiative at an early stage rather than later paying the heavy entry price in terms of taking too many commitments.
- **Enabling environment through regulatory reform**
- The government should provide short-term and long-term legislation to create an enabling environment for the CRS providers. The legislation should facilitate development in CRS through enabling infrastructure and policy tools and reward innovation and R&D.
- **Legislation for data protection and e-commerce:** Certain laws. Particularly the Data Protection Act and on-line payment enabling e-commerce and associated regulatory regime, need to be put in place to enable export of CRS services
- **IT professionals need to be posted in selected trade offices in EU and US.** Market Access through establishment of IT Trade offices in EU and US

### Professional Services

Professional Services are of particular importance for economic development through their relevance for the build-up of infrastructure (architecture, engineering), and the role they play in the creation of an investment and business friendly institutional framework (legal and accounting services). Especially for developing countries, granting progressively more liberal market access conditions for these services may prove indispensable for attracting foreign direct investment and promoting an accompanying transfer of knowledge.

Professional services are an integral part of the production of merchandise goods and other services. Legal and accountancy services play major roles in ensuring effective market transactions and the management control of firms in modern economies. Architectural and engineering services are essential in the creation of infrastructure. Engineering services are also vital in creating new



production processes. It is therefore important that these services are provided efficiently, both domestically and across frontiers.

### **Recommendations**

- **Establishment of an institutional mechanism for professional services exports:** There is a need to establish a “coalition of professional services providers” supported by a governing council with representatives from the industry, regulators and the government.
- **Focusing on mutual recognition agreements:** To better penetrate foreign market, there is a need to negotiate mutual recognition of qualifications and licensing for Pakistani professional services providers, particularly in major trading market.
- **Providing an enabling environment for use of Mode-1 (Cross-border supply):** A more enabling environment can be supported through preferential access and rates for the internet bandwidth, frequency allocation (if required), dedicated servers etc. and the cost sharing by the government for IT related infrastructure.
- **Investing in education and skill base:** Better educational and training facilities needs to be developed by the government and private sector to improve human resources.
- **Incentive schemes for increasing exports in these services:** Government should support incentive schemes (such as tax breaks) designed after consultations with the industry and taking into consideration their needs.
- **Entering into bilateral agreements exclusively for Mode-4 (Presence of a natural person):** In order to benefit industry, government needs to enter into bilateral arrangements with major markets.
- **Using the government channels for oversight and outreach to global markets:** Government and private sector can better promote professional services through commercial diplomacy channels, targeted marketing activities and participating in global fairs,
- **Encouraging the foreign service providers in local market:** Government should promote foreign service providers in professional services so that the market becomes competitive and learns from such providers in terms of knowledge and business techniques.
- **Awareness creation regarding professional services:** Government should take steps for awareness creation among stakeholders and service suppliers regarding the export potential of the sector.
- **Role of Bar Associations in legal services export:** Bar Associations should enhance their role in regulatory and market access issues of the legal services in Pakistan
- **Separation of regulatory authorities from industry:** There should be an institutional mechanism for the development of professional services in Pakistan as regulatory authorities in professional services are representing the industry itself. It would be more appropriate to delink the regulatory authorities from the domestic industry.
- **Participation in GATS visa negotiations:** The member countries in the GATS agreement are trying to introduce a GATS visa so that professionals from all the GATS member countries may easily move to other countries to supply services. Pakistan should proactively participate in the negotiations.
- **Curriculum review of universities:** The curriculums of Pakistani universities are outdated, which is a main hurdle in international recognition of Pakistani professionals.

### **Transport services**

The transport services sector is closely linked with domestic industrial and agricultural output as well as with the import and export of goods and services. It accounts for over one-fourth of global trade in commercial services. In Pakistan more attention is given to the development and upgrading of transport sector infrastructure while transport services does not enjoy the same level of attention.

Pakistan has a trade deficit in transport services and a substantial portion of its merchandise trade is using external transportation services. This deficit should be reduced by expanding the export of transport services. As such, there is a need to investigate the challenges affecting Pakistan's export potential in transport services.

### ***Recommendations***

#### *Sectoral recommendations*

- **Regulatory oversight to reduce unhealthy competition:** Unhealthy competition in the road transport sector should be reduced through regulatory oversight to enhance competitiveness and service efficiency.
- **Increase efficiency in railways:** There is a need to increase efficiency in service and reduce mismanagement, overstaffing underinvestment, poor maintenance and weak ticketing checks in railways.
- **Reduction in government ownership of railways:** The government desire of ownership, command and control over railways needs to be reduced.
- **Partial privatization of railways/PIA should be considered:** Partial privatization of Pakistan International Airlines (PIA) and Railways needs to be seriously considered. Pakistan Railways can adopt partial privatization measures such as outsourcing stations management, rail hospitals, allowing companies to run their own container trains, letting suburban trains run as separate companies.
- **Market based pricing:** There is need to deregulate the prices in Pakistan Railways which should be market structured.
- **Enhancement of air transport capacity:** Pakistani airlines already have commercial presence in many countries. Through increasing the capacity of the Pakistani air transport services, Pakistan can tap into other markets for exports gains.
- **Enhancement of maritime transport capacity:** Pakistan has a surplus in supporting and auxiliary maritime transport services but it is the only area where the Pakistani maritime transport sector is severely lacking in capacity.
- **Mobilization of private investment:** Private investment in the shipping sector would increase if the government accorded the cargo preference and protection not only to the Pakistan National Shipping Corporation (PNSC) but all the local private sector shipping companies.
- **Enabling environment for transport services growth** Creating an enabling environment is critical for increasing growth and export of transport services through improved government policies.
- **Capacity enhancement programmes for stakeholders**  
There is a need for development of capacity building programs for service providers, business support organizations, government trade promotion organizations and alliances involved in transport services.

#### *Modal recommendations across subsectors*

##### For Mode 1

- **Transport related capacity and infrastructure development:** Emphasis should be placed on increasing the domestic capacity of transport services and expanding the national transportation fleet (locomotives, ships and aircrafts), reducing transit times, improving ports and terminal facilities, making cargo handling costs and time effective and ensuring the high quality of services.

- **Incentives for service quality enhancement:** Incentives should be provided, such as easy and simplified access to finance, simplified regulations and procedures, better enforcement of regulations and decreasing imports duty on transport vehicles and development of local manufacturing industry.
- **Development of private sector/public private partnership development:** More government support and attention should be extended to the private sector in transport services. Greater use of public-private partnerships should be promoted.
- **Regulatory oversight and elimination of political interference:** Regulatory oversight is needed where strong implementation and continuity of policies should be ensured. Political interference should be eliminated or at least limited.
- **Level of protection should be reduced to state owned enterprises:** It is imperative to check the misuse of the dominant position and reduce the level of protection offered to state owned enterprises hence providing a level playing field and making them competitive and effective.
- **Market accessibility:** Need for interconnecting domestic and international markets and making markets accessible and attractive for the private sector.

For Mode 2

**Transport and repair expertise to be marketed:** Possibilities for enhancing export potential in the Middle East and developing countries by exploiting Pakistan transport expertise and repair capabilities in these countries.

For Mode 3

**Policies to attract foreign investment in transport sector:** Foreign investment and service providers should be attracted through development of conducive environment and policies. Multilateral and bilateral fora should be utilized

For Mode 4

**Export of skilled labour through upgrading training institutes:** Emphasis should be given to upgrading the transport related training institutions whereby knowledge and skilled labour can easily be exported across the globe. Multilateral and bilateral commitments for the export of skilled labour should be negotiated.

## COMPUTER AND RELATED SERVICES

### Context

The Information Technology (IT) and Information Technology enabled Services (ITeS) industry (grouped as CRS) in Pakistan is growing rapidly due to the countries attractive investment environment for entrepreneurs. The current main facts related to the CRS in Pakistan are:

- Pakistan's IT industry's global share is estimated at US\$2.8 billion, including global sales revenue of US\$1.6 billion in June 2011.
- A skilled workforce of 110,000 English-speaking IT professionals in the economy, of which 24,000 are engaged in exports.
- Nearly 1500 IT and related companies. Two are listed on the Karachi Stock Exchange (KSE), two on the National Association of Securities Dealers Automated Quotations (NASDAQ) and one on the Dubai International Financial Exchange (DIFX).
- Pakistan features nine Software Technology Parks offering around 700,000 square feet of IT-enabled office space.
- Seven multinational companies have 'Development Centres' in Pakistan.
- There are some international certifications for computer and software companies. At present there are 110 ISO 9001<sup>1</sup>, 23 CMMi<sup>2</sup> and 11 ISO 27001<sup>3</sup> certified companies.
- A strong telecoms sector supports the IT industry's development.
- Impressive (40%) growth in CRS has been registered since 2007. About half of this growth is coming from foreign, software and high-end services projects. IBM, Cisco and Microsoft are expanding Pakistani operations aggressively while several start-ups are now backed by Venture Capitals such as ePlanet Ventures, Motorola, Adobe and Innovacom.
- Current growth rates indicate that the industry will exceed the US\$ 11 Billion mark within the next five years.
- Putting it all together, the Pakistani technology industry is very different from what it was in the early 1990s, when it was marred by capacity constraints, lack of proper regulation infrastructure and facilities and absence of multilateral commitments. Aggressive policy reform is needed to further develop the sector.

### Domestic regulatory environment

Until deregulation in 2003, the telecoms and related infrastructure, i.e. telephone, internet bandwidth, frequency allocation etc, in Pakistan was largely under government control. There is no licensing system per se to operate as a CRS provider however if a company wants a dedicated frequency allocation or dedicated high bandwidth lines then it has to go through the procedural formalities of the Frequency Allocation Board and the Pakistan Telecom Authority (PTA) respectively.

Introduced in 2002, the Electronic Transaction Ordinance (ETO) covers public key infrastructure<sup>4</sup> (PKI) and certification authorities (CA), electronic transactions, digital signatures, and related elements that constitute the basis for secure electronic transactions over the Internet.

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<sup>1</sup> International Standards Organization (ISO) standards for operations of entities involved in services.

<sup>2</sup> CMMI (Capability Maturity Model Integration) is a process improvement approach that provides organizations with the essential elements of effective processes, which will improve their performance

<sup>3</sup> ISO standard on information security management

<sup>4</sup> Public Key Infrastructure (PKI) is a set of hardware, software, people, policies, and procedures needed to create, manage, distribute, use, store, and revoke digital certificates

Recently a bill on cybercrime was promulgated which was agitated and opposed by the industry on the basis of proposed penalties and the lack of clarity with regard to building the capacity of the implementers/agencies (police, investigation agencies, lawyers, courts). The bill will undergo necessary changes after review by the government.

New laws relating to Internet Protocol (IP) protection, data security, and consumer protection are also being drafted. The telecoms sector has a comprehensive set of laws that are supplemented by the requisite rules and regulations.

The current Investment Policy of Pakistan provides incentives to foreign investors in the CRS. Some of these incentives are permission of 100 percent equity for foreign investors, establishment of IT parks, swift dispute resolution system, facilitation of business services and other infrastructure issues through Board of Investment.

### **GATS commitments and compliance overview**

Pakistan made liberal commitments under CRS during the Uruguay Round and has offered to commit to this area more fully in the form of "none" (full commitments) in its schedule during the ongoing DDA negotiations. This means full market access to any foreign service providers to operate in the Pakistani market. There is no discriminatory licensing regime or any other requirements; however there are still some restrictive or non-compliant measures which may be questioned in the context of GATS commitments.

#### *Some notable non-compliant measures*

- Under its horizontal commitments, Pakistan has committed different categories of service providers in the form of natural persons. In practice, work visas or permits are processed in a centralized manner through the Board of Investment (BOI) of Pakistan and rarely are these commitments taken as a determining factor, i.e. the discretion of BOI in granting work visas often overrules the country's binding commitments under GATS. Obtaining the permission to work as a contractual service supplier and independent professional is a very hard task. There is no appeal or enquiry procedure available for this.
- The BOI practice has at times clashed with Pakistan's commitments under GATS when it comes to commercial presence (Mode 3) of foreign IT and related companies. The BOI requires a minimum investment of US\$ 150,000-300,000 in some cases which is not inscribed in Pakistan's schedule of commitments.
- The investment policy of Pakistan has a condition that any foreign representative office cannot engage in "profit earning" activities in Pakistan, i.e. no substantive business operations is allowed unless foreign services suppliers register with the securities and exchange commission of Pakistan. However, this condition has not been inscribed in GATS commitments by Pakistan, thus contradicting the commitments.
- The State Bank of Pakistan has certain profit repatriation conditions such as a certain percentage of revenues (12% at present) as a franchise fee. Such a measure is also not inscribed in Pakistan's schedule of commitments, thus posing a possible burden on foreign service providers.

### **Challenges faced by the industry**

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The CRS is a growing yet nascent industry in Pakistan faced with many challenges at the national and international levels. Some of the major challenges faced by the industry are given below.

### *Challenges for exports*

- Although the government of Pakistan has announced various measures and incentives for the CRS industry, the real ownership and drive is still missing largely due to the absence of a unified industry platform.
- The infrastructure available to the CRS industry remains far less developed than under the international benchmark.<sup>5</sup> The recent trend of power outages and other energy related issues have seriously hampered the industry's capacity.
- The CRS industry requires a lot of interaction with clients where professionals need to go abroad but confront onerous visa-related issues. Sometimes visa requests are totally rejected or delayed which affect the capacity of an IT company to fulfil client's needs in a timely manner. Lack of mutual recognition agreements was also identified as a hurdle.
- Many professionals who directly deal with foreign clients face language barriers which hamper understanding client's requirements, providing solutions, and support. This issue exists for both Mode 4 and Mode 1 service supply.
- Foreign clients expect all of the codes and related processes to be properly documented but most IT companies do not give due importance to such documentation. This results in a decreased level of client satisfaction. Lack of documentation also affects the transfer of knowledge in case of job rotation and new hiring.
- Inadequate after sale service support is one of the shortcomings of Pakistani software houses as some of the clients increasingly inquire about separate support departments.
- The IT industry has experienced high turnover of skilled labour. As a result, software houses face problems in the delivery of software and in fulfilling commitments in a timely manner. This problem is compounded by the lack of documentation which is a hurdle in the effective transfer of knowledge.
- Lack or absence of regulatory oversight is frequently cited as a major hurdle.
- Processing the payments through internet is not available in Pakistan which hampers the e-commerce growth.
- Data security and privacy is a serious issue.
- Enforcement of intellectual property laws is asymmetrical. Large foreign companies can enforce IPR in Pakistan while Pakistani companies are unable to do so abroad.

### *Challenges for imports*

The use of imported CRS in Pakistan is limited mostly to big enterprises and multinational firms operating in Pakistan. There have been no major problems regarding the use of CRS in Pakistan except over uncertainty due to privacy and public policy issues as witnessed through closure of certain services and websites in recent months. Another ongoing problem, for the foreign CRS suppliers exporting into Pakistan, is the protection of copyrights.

## **Policy recommendations**

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<sup>5</sup> As per ICT Development Index (IDI) of the International Telecom Union, the Maldives tops the IDI rank, in South Asia, securing the 67th position, followed by Sri Lanka (105th), India (116th), Bhutan (119th), Pakistan (123th), Nepal (134th) and Bangladesh (137th).

### **Branding Pakistan in the global CRS market**

Pakistan has a huge potential for penetrating the global market of CRS but has yet to achieve significant brand recognition. Pakistani CRS providers should seek a niche to occupy in the CRS market for which the government should provide support through the foreign commercial representation offices of Pakistan. Moreover, the government should facilitate the BPO services through providing necessary infrastructure such as bandwidth etc. and granted access to preferential credit and incentivizing through fiscal measures such as extended tax holidays.

It is suggested that in order to gain the trust of foreign clients, consideration should be given to devising a mechanism for certification/accreditation of software. In this regard adopting the Indian model is advised. Pakistan Software Houses Association (PASHA) and Pakistan Software Export Board (PSEB) can give their own accreditation and certifications.

### **Skills development through a proactive approach**

The skilled labour force for CRS is rarely trained for future demands and industry trends; rather the mere talent of such workers is moulded through putting them into practice at the work desk. There is a greater need for educational institutions, through coordinated efforts by the Government, to more systematically train the manpower for its future needs and skills than at present. This would provide a major boost to the industry.

Prior to developing improved domestic training capacities, Pakistan would be well advised to use Mode 3 access to foreign educational services suppliers in CRS to provide training and skills needed for on the job training and preparing the future skilled workforce.

Another possible solution to a skilled workforce gap is to utilize the market access granted by Pakistan, under Mode 4 to attract the foreign CRS professionals to work in Pakistan.

Some of the large multinational IT companies working in Pakistan have joined hands with universities to offer joint programs and specific training activities. Such programmes ought to be further encouraged.

### **Transforming research into action**

There is a need to provide a bridge between the research and business worlds through government interventions or encouraging the private sector to tap into such R&D resources directly. There is a disconnect between the industry and the R&D community due to which neither the research findings reach the industry for enhancing production and exports nor the problems faced by industry find plausible technical and policy remedies due to lack of interaction with research organizations.

This flow can be facilitated through providing a bridge between the industry and the research institutes/universities. An effort by the government may be required to do this through development of extension services and/or regulatory reform to formalize an exchange between the industry and R&D. Government can provide regulations and facilitate engagement between research and industry in which the research is utilized by the industry to generate profits. Additionally research can be supported from industry through scholarships, provision of free equipment, financial contribution to research etc. A final further is where the government facilitate extension services for communicating results of research to industry and vice versa.

### **Collective outreach and marketing**

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Most of the companies in the software export business are privately owned and of small size. They are unable to afford high costs of marketing, research and development. To address this limitation, support ought to be provided through centralized outreach and marketing efforts led by representative organizations like PSEB and PASHA. The services provided by these organisations would be financed through greater annual contributions by the member CRS providers.

Foreign customers often feel more comfortable in dealing with representative bodies than with individual companies. For one, individuals and small companies do not enjoy the kind of reputation that an organization does. Secondly, there are more chances of agreements to be fulfilled with organizations than companies. Security of transactions and terms of agreements are more secure with organizations than small companies etc. TDAP may be tasked with this mandate as it has done it for many other sectors in the goods area. There is a dedicated cell for export of services in TDAP that may be mobilized for this task, in association with the private sector CRS providers.

### **Government ownership and priority beyond fiscal incentives**

The Government of Pakistan has not sufficiently focused on the CRS industry beyond the provision of fiscal incentives such as tax exemptions on the profits of IT companies until 2016 etc. On the contrary, the government has imposed additional taxes on IT in the current budget which would impede growth in this sector. TDAP has rarely thought about participating in an international fair of CRS providers but they have done so for other product areas (attendance of more than 50 events per year). The government needs to recognize the export potential of this sector and its contribution to employment generation and devote the required policy focus and resources and show an ownership to convert this sector into a greater earner of foreign exchange. In order to give the required ownership, the government may establish an IT exports cell/board either in the Ministry of Commerce or TDAP. This cell should be manned by the industry professional and proactive policy managers and given a target to steer the CRS sector towards global trends and find ways to utilize its full potential.

### **Sign the WTO Information Technology Agreement<sup>6</sup>**

The WTO Information Technology Agreement (ITA) is a plurilateral initiative but almost all of the major countries have joined this Agreement. The Agreement deals with the liberalization of trade in goods related to IT but the impact of such liberalization on the creation and trade of IT and related services is potentially significant as it addresses the hardware of the IT sector.

Pakistan has frequently indicated its willingness to join the ITA but this has failed to occur to date. The government needs to focus on this more resolutely and sign the Agreement. A simple cost (loss of potential customs duties through lowering of tariffs) versus benefit (export earnings through IT enabled services) analysis would likely be heavily tilted towards signing the ITA.

### **Establish a CRS supervisory committee**

The Government of Pakistan should establish an inter-ministerial committee (reporting periodically to the Cabinet Committee on Economic Coordination) to design, implement and monitor the policy mix for growing the CRS sector. The Committee should focus on the development of the domestic market and the greater use of CRS as well as the realization of export potential and providing an enabling policy environment. The Committee should be chaired by the Minister for IT and Telecom and comprised of the Secretaries of relevant ministries and heads of departments. To begin with the Committee would be well advised to consider the following necessary policy tools:

- Mapping and documentation of the CRS sector in Pakistan

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<sup>6</sup> PSEB could not endorse signing of the ITA due to insufficient discussion among the stakeholders and possible impact.



- Identification of bottlenecks and possible policy options to deal with these
- Measures required to boost entrepreneurship in CRS
- Necessary monetary and fiscal measures for growth of the CRS
- Establishment of required coordination mechanism between ministries and different departments to create efficiency for the CRS sector
- Promotion of industry and university linkage in R&D activities

### **Ensure a culture of IP compliance**

The weak protection and enforcement of Intellectual Property Rights (IPR) is a very serious issue in Pakistan, hampering both foreign and local IPR holders especially in CRS activities such as software, databases and digital media services. Pakistan has been put on the priority watch list of the Office of the United States Trade Representative (USTR) and is regularly told by partner countries to improve IPR compliance and enforcement.

In the context of CRS sector, judicial process is insufficient and legislation is not enough for understanding the complex nature of this business and deciding upon the cases in this sector. There is a need to educate judges, bar associations, enforcement agencies and inform the public about the application of IPR and other laws in CRS sector.

The joint platform for IPR awareness, capacity building and compliance culture with CRS development and commercialization would be of great help to foster the entrepreneurship and making CRS as one of the leading foreign exchange earning areas for Pakistan.

### **Improve IP protection**

Regarding the IP protection laws, there is a need to consider whether or not to have patents protection for the software and business processes in CRS as it is being done in the major markets such as the United States.

There is a dire need of reinforcement in the framework of IPR protection for the CRS and related sectors. This could be done through normal channels such as IPO Pakistan and using the international expertise of organisations such as WIPO. A comprehensive work programme should be developed on IPR aspects of the CRS and focus on it from policy and industry application aspects

### **Establish and encourage venture capital funds**

There is a visible absence of entrepreneurship in many services areas in Pakistan, notably in the CRS sector. There are either very big companies or individual operators, or a group of individual operators at best. There is a lack of initiative, platform and concept for start-ups which is largely attributed to the absence of an enabling environment. It is not only the government that could try to provide this enabling environment, notably through enhancing access to credit by SMEs, and notably service sector SMEs for whom access to formal credit is particularly challenging, but the private sector has equal responsibility as well. An effort should be made to encourage venture capital operators and creating an entrepreneurship culture to provide a breeding ground on the model of Silicon or Bangalore Valley.

### **Join ICT initiatives and industry benchmarks**

## PROMOTING PAKISTAN'S EXPORTS IN PROFESSIONAL, COMPUTER RELATED AND TRANSPORT SERVICES

The CRS industry in Pakistan should integrate with the global community of CRS providers through various industry associations and similar initiatives. Adopting global or regional best practices and benchmarking at the global and regional level, including in regard to required certifications, would certainly help improving the image and branding of the CRS industry of Pakistan.

### **Join multilateral negotiations for a plurilateral initiative on ICT**

CRS is one of the most important sectors in current and future negotiations in the WTO's context and Pakistani stakeholders should take it very seriously. WTO members are thinking about a plurilateral initiative on ICT sector which would encompass the CRS as well. This is going to be a leading step for the existing and potential services suppliers in ICT area. Pakistan should keep track of these developments and join the initiative at an early stage rather than later paying the heavy entry price in terms of taking too many commitments.

### **Enabling environment through regulatory reform**

The government should provide short-term and long-term legislation to create an enabling environment for the CRS providers. The legislation should facilitate development in CRS through enabling infrastructure and policy tools and reward innovation and R&D.

### **Legislation for data protection and e-commerce**

In the absence of Data Protection Law compatible with EU and United States standards, flow of data processing business exported from Pakistan is suffering. As such there is a need to enact Data Protection Law to promote exports of CRS services. Similarly, the huge potential of e-commerce in Pakistan is untapped and under-capitalized because of an almost absence of an online payment mechanism. A study needs to be conducted delineating variables and policies hampering e-commerce in Pakistan. This needs to be followed by enactment of on-line payment enabling e-commerce law and associated regulatory regime.

### **Market Access through establishment of IT Trade offices in EU and United States**

Establishment of IT trade offices for IT SMEs in selected United States and EU regions would help enhance exports in the sector, increase Pakistani CRS buyer's confidence and overcome negative country perception. These offices will help Pakistani CRS companies establish their short term and long term presence in those markets.

## PROFESSIONAL SERVICES

### Context

Pakistan's professional services industry is an established industry which has been contributing to the country's economic development. Pakistan has skilled professionals including engineers, doctors, accountants, lawyers, tax practitioners and consultants working efficiently in Pakistan and abroad. The professional services sector of Pakistan has strong potential for export enhancement which makes it suitable for policy intervention; for instance:

- Good pool of skilled professionals in different fields which carry a professional value and recognition in major markets such as the United States, Europe and Gulf Cooperation Countries (GCC) countries.
- Relatively low wage supply of skilled labour.
- International affiliations and adherence of quality standards strengthens the user/consumer confidence in the services supplied by Pakistani professionals.
- Developments in IT have made the provision of professional services easier. Professionals are earning revenue through the outsourcing of accountancy, legal and other services.
- Pakistani professionals already possess a rich international experience in the United States, the United Kingdom and the Gulf States. They have also worked with several foreign engineering companies on large-scale projects in Pakistan.
- It is a great advantage for Pakistani accountants that British and American accounting norms and practices are being adopted by most key emerging markets, including China.
- Pakistan's export of professional services i.e. construction, legal, accounting, auditing and tax consulting, architecture engineering and technical and services in medicine such as tele-medicine exports in reached \$81.369 million<sup>7</sup> in 2009-10.
- Pakistan has strong and forward-looking bodies of accountants working in the country. Such bodies are internationally recognized following the rules framed by International Financial Reporting Interpretations Committee (IFRIC) and are trying to integrate the global services market via Mutual Recognition Agreement.
- Good command in English is a positive factor for the professionals of Pakistan which is an important factor facilitating the growth of outsourcing services for Fortune 500 clients.

### Domestic regulatory regime

Article VI of GATS allows Members to maintain their regulatory regime to maintain technical standards, administrative or licensing procedures for regulating services sectors where specific commitments have been made. Accordingly, multiple regulators and licensing bodies exist in Pakistan for various subsectors of professional services for instance Pakistan Medical and Dental Council (PMDC), Pakistan Engineering Council (PEC), Bar Councils, Institute of Chartered Accountants of Pakistan (ICAP), Institute of Management Accountants of Pakistan (IMAP) etc.

## GATS Commitments and compliance overview

### *Horizontal commitments*

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<sup>7</sup> Source: Statistics Division website: [www.statpak.com.pk](http://www.statpak.com.pk)

- Under mode-3, 'commercial presence', is subject to incorporation in Pakistan with maximum foreign equity participation of 51 percent unless a different percentage is inscribed against a particular sector or sub-sector. All expenses of representative offices were specifically provided for in this Schedule shall be met by remittances from abroad. Such offices shall restrict their activities to the undertaking of liaison work or of representing the interest of the parent company abroad. In terms of applied policy in Pakistan, there is no restriction regarding the equity or similar requirement for any foreign service provider wishing to operate in Pakistan.
- Under mode-4, presence of natural persons, Pakistan has kept it unbound, except for the measures concerning the entry or temporary stay of natural persons up to a maximum of 50 percent in superior categories namely, executives and specialists (this is not very well defined in the schedule of commitments but in practice the term executive refers to professionals at decision making level, next to the board of directors) in any company. These natural persons shall have been employed by juridical persons of another Member for a period of not less than one year prior to the date of application for entry in to Pakistan and shall be transferred to render services to the juridical person in Pakistan.

#### *Specific commitments*

Pakistan made specific commitments in the Uruguay Round in four professional sub-sectors: two in architectural and engineering services and two in construction services.

It is interesting to note that Pakistan's commitments in construction and engineering services under mode-4 in the horizontal commitments are for executives and specialists which will only provide opportunities for developed country suppliers (due to regulatory regime and trend of foreign services suppliers thus far. Moreover, with India there is the problem of MFN status). Since Pakistan has cheap skilled and unskilled labour, its movement abroad to provide construction and related engineering services may be resisted by developed countries due to issues such as visa restrictions (fear of permanent migration) and recognition of skills.

### **Challenges faced by professional services**

Pakistan's professional services industry is fertile with experienced and highly skilled professionals. However, the industry is faced with certain challenges which need to be addressed to benefit from its true potential.

#### *Policy challenges*

The government needs to frame rules, regulations and policies to reduce trade distortive barriers without affecting the quality of service, protection of consumers, public safety while also safeguarding the rule of law.

There is a need to have a centralized, coordinated and well thought out policy plan and related tools which would enable sustained growth of this sector and enable it to fully utilize the available market access opportunities.

There is a notable absence of focused policy guidelines and tools for professional services in Pakistan. The regulators and industry associations are focused on the domestic market and lack the vision for exports and expansion into the global market.

### *Institutional challenges*

In Pakistan, many services associations/organizations are weak, suffering from problems due to lack of dedicated staff, lack of funds, lack of transparency, and a perception of partiality. The Government can assist in developing service coalition groups that can jointly advocate regulatory reform, facilitate contacts with foreign buyers and assist in trade negotiations.

At the industry level, the federal government with the assistance of the provincial government can monitor service industry performance and report findings. There is a need to take note of indicators that predict export potential and recognize and frame best practices. This would create an export culture and encourage start-ups in professional services exports. Capacity of services association could be enhanced to undertake that function.

Data on professional services is gathered from the balance of receipts and payments which does not reflect accurately the exports of professional services. There should be a common platform to quantify the receipts from such services.

### *Industry challenges*

Skilled professionals are the key for the service industry. However, in order to make their skills "exportable", there is a need for a concerted action by the industry. This may take the form of the collaboration between the industry and the educational institutions to design and run educational programs that factor into the market reality and cater to the demands in terms of skills base.

Export of services is not as easier as exports of goods due to less recognition and business relation of Pakistani services. In particular the supply through mode 4 is possible only in a few target countries. Small firms usually have less relationship with the consumer of services in the foreign countries. Small firms really have to work much hard in getting themselves recognized by the international customers. Commercial offices abroad can play their role in this connection.

The respective industry associations should create in-house capacity to study, analyze and harness the market access opportunities in different markets.

### *Sub-Sector specific challenges*

#### Engineering sector

- Pakistani engineers are partially recognized internationally but the level of recognition varies from institute to institute. Additional qualification is always required from Pakistani engineers to practice abroad.
- Mutual recognition agreements in engineering sector have been signed with Bangladesh, Sri Lanka, Saudi Arabia and Qatar etc but not with European countries.
- Forced (and non-reimbursed) contributions such as social security are required for Pakistanis working abroad.
- There is a notable lack of proper research and development activities and funds required for such endeavours in engineering sector in Pakistan.

#### Health sector

## PROMOTING PAKISTAN'S EXPORTS IN PROFESSIONAL, COMPUTER RELATED AND TRANSPORT SERVICES

- Pakistani graduates of medicine to some extent are recognized internationally and are required to take additional exams even in Gulf countries (in some cases amounting to an additional 4 to 5 exams).
- It is not easy for Pakistani doctors to get visas to work in foreign countries.
- In the Middle East there are no forced social security or pension contributions but in western countries there are many such taxes and forced contributions.
- The barriers faced by Pakistani doctors to access foreign markets are typically degree recognition, lack of job opportunities, and limited scholarships for specialized training.

### Accountancy services

- Individual service providers are operating in most of the export markets although this has not yet been effectively translated into institutional and corporate base
- The ICAP and the Institute of Cost and Management Accountants of Pakistan (ICMAP) have embarked upon the route of mutual recognition with major counterparts in target markets such as UK, USA, Australia and Middle East. The number of graduates from ICAP and ICMAP is very low, 6000 and 5000 respectively since 1961. With such limited number of accountants we cannot cater the huge foreign markets.

### Legal services

- There are many instances whereby the Pakistani lawyers (based in Pakistan) are providing services to foreign clients on assignment basis but there is a lack of consistent and notable trend due to absence of big law firms.
- The legal professionals in Pakistan mostly target local market whereas the big firms are specialized in one or two areas. There are some affiliations of local law firms with international operators but there has not yet been an evidence of using such affiliations for reaching out to the overseas market.
- Pakistan lacks international lawyers because there are no established regulations and norms of international law practice in Pakistan, in particular on the matters of public international law. Pakistan lacks compliance in some of the international law treaties due to suspension or no enforceability
- Judicial system in Pakistan is very weak and cases are too complex therefore foreign lawyers have no interest practice in Pakistan. In order to develop the interest of foreign lawyers, judicial system needs to be strengthened as well.
- There is some international recognition of Pakistani professionals working in Engineering, medicine and accountancy sector but no such recognition in the legal sector. Bar Associations in Pakistan should strive to get the Pakistani Lawyers internationally recognized. There is a lack of complimentary government policy to benefit from the available market access.

## **Policy recommendations**

### **Establishment of an institutional mechanism for professional services exports**

The professional services industry in Pakistan visibly lacks a collective platform especially in the context of trade and reaching to export markets. The regulators (such as ICAP and ICMAP in

accountancy, PMDC in medical and related, PEC in architectural and engineering and Bar Councils in legal) have assumed multiple roles which is not an efficient model for trade.

One of the options may be to establish a “coalition of professional services providers” of Pakistan. This platform may be used collectively for assessment, mapping, outreach and marketing activities for the professional services. The efforts of the government, such as the Services Exports cell of TDAP, may be clubbed in to achieve better results. The coalition should be an independent body with a governing council with representatives from the industry, regulators and the government.

### **Focusing on mutual recognition agreements**

Mutual recognition of qualifications and licensing is one of the most important features of international trade in professional services. While there are some efforts being made by various bodies in Pakistan, these are not sufficient and do not cover all of the target markets. The GATS Article VII, that encourages members to enter into mutual recognition, could be used in addition to the agreed arrangements in the FTAs with China and Malaysia. This would prove a very useful step towards reaching and penetrating the major markets for Pakistani professional services providers. The Government of Pakistan should take a lead in this area as the efforts thus far have been by the industry and the regulators.

### **Providing enabling environment for use of mode-1**

Due to a variety of factors as stated earlier the most feasible mode of supply for professional services from Pakistan is mode-1. There is a need of providing enabling environment such a preferential access and rates for the internet bandwidth, frequency allocation (if required), dedicated servers etc. and the cost sharing by the government for IT related infrastructure. There is a need of collaboration between the computer and related services in order to achieve better results.

### **Investing in education and skill base**

The professional services thrive on individuals and the skill base they carry. Pakistan has a very good skill base and professionals in these services areas but interestingly the number (supply) is very limited and some professions, such as medical, are facing shortage even for domestic market. There is a need to invest in education and skills base not only to increase the supply in quantitative terms but also focusing on qualitative aspects in order to achieve the international benchmark and making the mutual recognition easier. There were some efforts in recent years to establish international level engineering and medical universities but these have become victims of governance and red tapes.

### **Incentive schemes for increasing exports in these services**

The Government has not focused on professional services in terms of incentivizing them for exports. A model of IT sector incentives, such as tax breaks, may be used for these services as well. However, it may be noted that fiscal incentives are not the only and most effective pushing factors for increase in exports; there may be some other incentives in form of use of foreign exchange earned for duty free imports of inputs etc. The incentive schemes may be designed after consultations with the industry and taking into consideration their needs.

### **Entering into bilateral agreements exclusively for mode-4**

Pakistan professionals face very strict regulatory and visa regimes in the target markets. An effort at the government level for entering into bilateral arrangements with major markets such as United States and EU would prove very beneficial for the industry. India, for example, has many bilateral arrangements, both at the government and industry levels, with the United States and has preferential access to H-1 visas (for professionals).

### **Using the government channels for oversight and outreach to global markets**

In general, governments have an important role to play in policy oversight and global outreach in the same way as it can perform for all other services and sectors involved in exports. The usual commercial diplomacy channels of the government of Pakistan should be used to market professional services and reach out to the global market through targeted marketing activities and participating in global fairs, road shows and similar opportunities.

### **Encouraging the foreign service providers in local market**

The foreign service providers in professional services should be encouraged so that the market becomes competitive and learns from such providers in terms of knowledge and business techniques. The case of opening up financial and telecom services sectors in Pakistan for foreign providers has proven that the foreign service providers played a vital role in raising the benchmark for service delivery in local markets and making them more efficient and stronger to compete. The foreign providers in professional services may do the same for the domestic market.

### **Awareness creation regarding professional services**

Awareness campaigns must be arranged to increase the potential of exports in professional services. TDAP in association with relevant service associations, chambers, representative organizations and ministries may organize workshops/seminars. Marketing research to feed into the seminars should be conducted. In Pakistan the input/output ratio of services is far more efficient than that of goods therefore a proper focus should be given to this sector.

### **Role of bar associations in legal services export**

Bar associations should enhance their role in regulatory and market access issues of the legal services in Pakistan. The Pakistan Bar Association should encourage systematic education maintaining international standards. In this regard Rawalpindi Bar Association has taken an initiative and has set up an academy for the lawyers to learn international law. Government should provide support to bar associations where needed.

### **Separation of regulatory authorities from industry**

There should be an institutional mechanism for the development of professional services in Pakistan. In Pakistan the regulatory authorities in professional services are representing the industry itself. It would be more feasible to delink the regulatory authorities from the domestic industry.

### **Participation in GATS visa negotiations**

The member countries in the GATS agreement are trying to introduce GATS visa so that professionals from all the GATS member countries may easily move to other countries to supply services. Pakistan should proactively participate in the negotiations.



### **Curriculum review of universities**

The curriculums of Pakistani universities are outdated, which is a main hurdle in international recognition of Pakistani professionals. There is a need to strengthen our professional institutes, adopt international standards and associate ourselves with the rest of the world to make our professionals more competent and increase the export of professional services through more mutual recognition agreements.

## **TRANSPORT SERVICES**

### **Context**

Transport services are covered under the category 'Transport, Storage and Communication' in which transport covers roads, railways, air transport, port and shipping services. In 2010-11 services covered 53.8% of the total GDP, 10% of GDP is covered by transport storage and communication services.

In order to reduce the trade deficit in the area of transport services, there is a need to expand the export of transport services in land maritime and air, especially under GATS Mode 1 (cross-border supply) Mode 4 (temporary movement of natural persons), by attracting more foreign investment (Mode 3) and by enhancing the extent and quality of domestically competing services. For all three modes of transport there is a need to address common trade and investment constraints that are regulatory, policy and market related in nature.

#### *Institutional mechanism*

The three major transportation modes in Pakistan are land (roads and rail), maritime and air. These services sectors are managed by different Ministries and departments both at federal and provincial levels. Services in Internal Waterways Transport are not yet exploited by Pakistan and it is currently not regulated. The Government plans to set up an Inland Water Transport Authority (IWTA) under the Ministry of Water and Power and the Water and Power Development Authority (WAPDA). The Authority is yet to be set up and the ministry has yet to formulate draft legislation for approval from the Council of Common Interests. Pipeline transport is in the purview of the Ministry of Petroleum and Natural Resources. The Government has plans for the Iran-Pakistan-India gas pipeline but as such this sector of transport services has also not yet been exploited by the Government. Space transport services sector which is under the purview of the Ministry of Defence and the Pakistan Space and Upper Atmosphere Research Commission (SUPARCO) is also not yet exploited by the Government.

### **GATS Commitments and compliance overview**

At the WTO level Pakistan did not make any commitments on transport services in the Uruguay Round but has made "initial offers" under the current DDA round. At present Pakistan is considering taking commitments in maritime, land (road and rail) and pipeline transport services in all four modes of supply with limited restrictions on market access except foreign equity requirements, limitations on national treatment and minimum investment requirement.

#### *Bilateral commitments in transport services*

Pakistan has seven major regional/bilateral trade agreements namely Afghanistan-Pakistan Transit Trade Agreement (APTTA), Pakistan-Iran Preferential Trade Agreement, South Asian Free Trade Area (SAFTA), Pakistan-Malaysia Trade Agreements, Pakistan-China Free Trade Agreements, Pakistan-Sri Lanka Free Trade Agreement and Pakistan-Mauritius Preferential Trade Agreement.

The APTTA signed in 2010 and Pakistan-Iran Preferential Trade Agreement signed in 2005 covers land transport but transit trade with Afghanistan and Iran is restricted. APTTA restricts entry of Afghan trucks into Pakistan as they may not move cargo directly from Karachi Port, and Pakistani trucks must

be used to tranship at the border unless the state-owned National Logistics Cell (NLC) is used. Pakistan allows Afghan trucks to transport certain Afghan exports to India via the Wagah border. The Bilateral Transit Trade Agreement with Iran allows Pakistani trucks to carry goods to Zahidan while Iranian trucks can operate to Quetta. A road transportation agreement between Pakistan, Iran, and Turkey is not being implemented; this is restricting Pakistan-Turkey trade as Iran does not allow Pakistani trucks to enter and prevents Turkish haulers from transiting to Pakistan. Pakistan is negotiating revised agreements with Afghanistan and Iran aimed at allowing free movement of transit trade, the agreement with Iran is awaiting ratification.

Similarly, SAFTA, which also covers transport services, there are certain restrictions. For instance between India and Pakistan in land transportation there are limited border crossings; very limited rail traffic across borders; and requirement that rail wagons carrying goods across the border should return empty. For sea transportation ships must first touch a third country port to import from either Pakistan or India (i.e., Dubai or Singapore); limited ports and inland customs posts at which the import of "sensitive" products can be cleared.

The Pakistan-China Free Trade Agreement in Services covers the transport services sector, Pakistan has full commitments in land transport services including both rail and road transport services. China's commitments on the other hand include commitments in maritime transport services, limited commitments in air transport and inland waterways transport services.

The Pakistan-Malaysia Trade Agreement covers transport services which are not mutually reciprocated; Pakistan has full commitments in land transport services only while Malaysia has commitments in maritime transport services only.

In addition to the above, Pakistan has signed a number of regional road transport agreements. They are:

- The 1995 Quadilateral Agreement with China, Kyrgyzstan, and Kazakhstan was finally implemented in 2005.
- The 2005 Pakistan-Afghanistan Bus Service Agreement, which allows bus services between Peshawar and Jalabad, and Quetta and Kandahar.
- In 2005 Pakistan signed an agreement with India to allow limited bus services between Nankana and Amritsar in which cabotage is excluded.
- In 2005 Pakistan ratified United Nations Economic and Social Commission for Asia and the Pacific's (ESCAP) Inter-Governmental Agreement on Asian Highway Network designed to promote regional international road transport..

## **Challenges**

### **Road transport**

#### *Multiple regulators*

The regulatory and governance mechanisms of road transportation have not been brought under a unified, central authority. Vehicles registration, license issuance and renewal, grant/renewal of route permits and vehicle fitness certificates are issued by various provincial authorities and departments. In addition the governance issues are compounded as the provincial/regional transport authorities plan, devise and enforce rules/legislation independent of each other and do not function under a unified federal policy-making body.

## PROMOTING PAKISTAN'S EXPORTS IN PROFESSIONAL, COMPUTER RELATED AND TRANSPORT SERVICES

### *Fragmented nature of the market*

Under the different regulatory frameworks for road transport services the ownership of road transport companies by both domestic and foreign entities are allowed to operate. Pakistan does not closely control road freight rates by fixing rates. Pakistan also does not enforce cabotage policies and does not employ charges or conditions of access to road facilities that discriminate between different countries/companies. Under the law the road transports services are open to competition to foreign and domestic firms.

The liberalization of the road transport market resulted in a fragmentation of the sector's structure, with a vast majority of informal operators (worker-come-operators) entering the sector to secure a livelihood with little investment, followed by the emergence of individual/ joint ownership of small fleets of intercity passenger and freight services. The major investors stayed out of the market as they did not envisage public provision paying lucrative dividends.

### *Protection to state-owned enterprises (State monopoly)*

The level of protection for NLC (state owned) is quite high as NLC has near monopoly over Afghan transit trade. In addition the Government gives the NLC first priority, with second priority going to private domestic operators and lastly foreign operators.

### *Issues in road freight*

Pakistan's road freight sector is operating in a highly competitive environment; the overall structure is informal and un-organized. The sector generally comprises of very small fleet owners except for a few organizations that own fleets of more than ten vehicles. An unhealthy and intense internal competition prevails in the sector, which compels it to operate at very low profits.

With increases in traffic, the present fleets of trucks and road freight sector are not in a tune with the increasing domestic and international demand. In order to draw maximum benefit from geographical location of Pakistan and for becoming a regional trade hub it is essential to put in place a sustainable policy for the road freight sector of Pakistan taking care of economic, social and environmental issues relating to this sector.

### *Barriers in supporting and ancillary services*

It is relatively open to domestic and foreign business operators but there seems to be a possibility that such openness could easily lock in via status quo commitments in trade agreements without hanging a single law or regulatory measure.

## **Rail transport**

### *Sole regulator and service provider with decreasing efficiency*

The Ministry of Railways and Pakistan Railways is the sole regulator and provider of rail transport service in Pakistan. The performance and condition of Pakistan Railways has declined and its share of inland traffic has reduced from 41% in the 70's to 10% in 2010 for passenger and 73% in the 1970's to 4% in 2010 for freight traffic. In the recent years, the fall in growth rates for freight and passenger traffic has been attributed to the economic slowdown and security problems. There has also been a shortage of locomotives due to non-procurement of spare parts.

Pakistan Railways is trying to bring in private sector investment into railway operations by offering certain sections of the network for running of passenger and freight trains by paying track access charges. With massive losses, Pakistan Railways needs to better handle its employees and operations.

*Barriers to inter country rail transport*

National security issues, political issues and custom clearance-related issues have all prevented the development of an efficient inter-country logistics system between neighbouring countries especially India.

*Lack of private sector interest*

In the absence of a clear legal and policy framework for private sector involvement in the railways, coupled with the monolithic status of Pakistan Railways, no private sector group could be identified that is involved in the railway business. Further, the railway sector seems to be of least interest to the private sector financiers despite the existence of a large physical network, albeit requiring large investments to develop.

Hindering greater privatisation is that railways infrastructure is considered a strategic asset of Pakistan and for strategic and defence reasons full ownership cannot be given to private entities but only operational rights can be given. Without foreign participation, in order for the current policy to be advanced, more adequate local expertise from the private sector in area of railway business management needs to be enhanced, as evidence suggests it is unsatisfactory.

*Barriers in supporting and ancillary services*

Although there are no explicit restrictions on the provision of ancillary and supporting services in railways by the private sector, the matter has not attracted much attention nor has it been pursued aggressively. Only ticket sales, inspection and onboard services for two lines out of Lahore had been contracted out to private sector. Other private sector contracting services in Pakistan include luggage handling and parcel service only.

**Air transport**

This sector is generally weakly subject to trade and investment agreements, with only a few ancillary services subject to coverage under GATS and PTAs.

*Regulatory barriers*

The sector had been de-regulated in the 1990's and suffers from adverse effects of de-regulations in this regard several policies have been implemented to counter the effects of deregulation the latest one being the draft national aviation policy 2007.

*Protection to national flag carrier (state monopoly)*

## PROMOTING PAKISTAN'S EXPORTS IN PROFESSIONAL, COMPUTER RELATED AND TRANSPORT SERVICES

There is a high level of protection offered to the national flag carrier PIA. Since 1955, PIA faced competition only on international air routes by foreign airlines, liberalization of Pakistan's domestic aviation industry started in 1992 and resulted in the emergence of private airlines, such as Bhoja Air, Royal Airlines, Hajvairy Airlines, Safe Air, Aero Asia, Raji Airlines and Shaheen Air International entered the domestic aviation stage. However, most of these airlines had to close their operations within months leaving huge debts behind. Despite continuous heavy losses, PIA survived due to unmitigated financial and administrative support of the Government of Pakistan.

### *Restrictions on charter operations*

The National Aviation Policy 2000 puts no restrictions on domestic and international charter services; however the Draft Aviation Policy 2007 places a lot of restrictions on charter operations in favour of Pakistani operators. In addition it also stipulates that scheduled commuter services by Pakistani charter operators would be encouraged on those primary and secondary routes on which Regular Public Transport (RPT) operators are not operating but it is not clearly stated how they would be encouraged and what incentives would be provided.

### *Market access and bilateral air services agreements*

The Operation of international scheduled flights with traffic rights to and from Pakistan is conducted in accordance with the bilateral air services agreement (ASA). These services do not fall under the purview of GATS and rights and obligations are negotiated at the aeronautical authorities' level between two contracting states. The capacity to negotiate is limited and in case of dispute no remedy under WTO is available.

### *Airport construction, management, operations and commercialisation*

Private sector operators are free to construct and operate new, existing airports, airstrips, helipad, heliports (including cargo complexes) under different public-private partnership schemes ( Build Own Operate and Build Own Transfer) and to raise non-aeronautical revenues from these premises for example Sialkot Airport. Sialkot Airport is mainly used for exports of goods and same capacity exists even in other major industrial cities of Pakistan to construct, manage, operate and commercialize airports. Mobilization of private sector is a major problem in that connection.

### *Barriers in supporting and ancillary services*

The government policies envisage encouraging maintenance activities through setting up of maintenance infrastructure / facilities by private operators and maintenance companies. Policies also encourage private sector participation to establish aviation-related infrastructure including engine overhaul and repairs. Policies advocate promotion of ancillary services but lack exact mechanism of implementation which leave the supporting and ancillary services in very poor condition.

## **Maritime transport services (ports and shipping)**

### *Regulatory framework*

The maritime and shipping sector of Pakistan faced a heavy setback due to nationalization in 1974 which resulted in the disappearance of traditional ship owners. In response, in 2001 the Government of Pakistan introduced a policy to boost private sector participation and investment by giving a host of incentives. The previous policies did not cater for any incentives in the field of shipping. The laws and

regulations are outdated and the policies which were framed in 2001 could not bear fruit even in the following decade due to poor implementation and the huge gap in policy and practice in Pakistan.

*Protection to the national flag carrier (state monopoly)*

There is a high level of protection offered to the national flag carriers. First priority is given to the Government operator i.e. PNSC, second priority goes to private domestic carriers (if it exists, but none has been reported to exist) and lastly foreign carriers. Pakistan does not apply any specific restrictions and compulsions that certain commodities be carried by ships flying the national flag except for government-owned cargo. The element of specific restrictions is applicable only on government-owned cargo which is to be transported by the national carrier as it falls under the UNCTAD Code of Conduct of 40 percent trade which can be lifted by the national carriers.

*Citizenship requirements for ship registration*

Ship registration in Pakistan has a high level of protection and is the purview of the Mercantile Marine Department under the Ministry of Ports and Shipping.

The owner of every Pakistani ship is required to appoint a manager who is a resident in Pakistan. The manager may be an officer of the owning company or of a management company. The appointment of or the management agreement stating the name of manager shall be registered with the Registrar of ships

*Port management and operations*

The Ministry of Ports and Shipping has implemented the land lord port concept in Pakistan. Under the Landlord Port concept, the port management assumes the status of owners of the entity while outsourcing all the services under its control. The existing facilities like wharves, quays and storage facilities are leased out at rental/royalty on Build Operate and Transfer basis to the interested parties who pay an agreed amount of fixed revenue for specific period of time.

*Long dwelling times and high port charges*

Ports in Pakistan have longer dwelling times and internationally high port entry charges (especially the high "wet" relative to "dry" charges), and the inefficient and costly work practices of the Dock Labour Board are major restrictions on competitiveness. It has been reported that efforts have been made to significantly reduce "wet" charges and to "retrench" the Board.

*Controlling of freight rates and conditions of access to port facilities*

Pakistan does not closely control coastal freight rates by fixing rates. Although the Government exercises some control over these, they are mainly determined by market forces.

Pakistan also does not apply charges or conditions of access to port facilities that discriminate between vessels of different flags. However it has been reported that ports give certain incentives such as subsidies or cargo reservation privileges to PNSC or other ships with 80% Pakistanis onboard.

### *Policy constraints*

The 2001 Maritime Policy was envisaged to improve access to international markets by encouraging an efficient flow of foreign trade. However, the response has been reported to be not promising due to the lack of trust from the private sector. To this date, the Government has not fully achieved any of the major objectives as stipulated in its policies. The Government has been unsuccessful in encouraging private flag carriers. The reason is that it has not been able to create a conducive environment that would help in the growth of the maritime sector. The Government has de-regulated the sector but has been unsuccessful in attracting significant investment. The competitiveness of the country's merchant marine fleet has not been enhanced significantly. The Government has had limited success in augmenting foreign exchange earnings and has not significantly increased the capacity of National flag carriers. It has thus not been successful in reducing the present foreign freight bill. Nor has the government been able to expand and upgrade Pakistan's Merchant fleet to increase the present share of cargo. One of the major factors which detract entrepreneurs from investing substantial capital in Pakistani-flag tonnage is the uncertainty and lack of continuity in Government policies and the general perception that Pakistan is a high risk and low capital return market.

### *Barriers in supporting ancillary services*

Pakistan does not allow foreign companies to own and operate pilotage and towage business. Pakistan does not allow foreign companies to own and operate ship breakage businesses as it is considered a local industry

## **Policy recommendations**

### **Sectoral level**

#### **Regulatory oversight to reduce unhealthy competition**

The road transport services are closely linked with domestic industrial and agricultural output as well as with the import and export of goods and services. Pakistan has potential in expanding the exports of road transport services under the four GATS modes of supply. The sector is characterized by marginal profits, low investment, poor infrastructure and cut throat competition which is not conducive for growth in the sector. Unhealthy competition in the road transport sector should be reduced through regulatory oversight to enhance competitiveness and service efficiency.

#### **Increase efficiency in railways**

Given the current condition of the Pakistan Railways, there would seem very limited potential if any in the exporting of rail transport services in all four modes. In order for Pakistan to export rail transport services there is a need to increase efficiency in service and reduce mismanagement, overstaffing underinvestment, poor maintenance and weak ticketing checks in railways

#### **Reduction in government ownership of railways**

The government desire of ownership, command and control over railways needs to be reduced as it is resulting in lack of interest in railways transport services.



### **Partial privatization of railways/PIA should be considered**

Partial privatization of PIA and Pakistan Railways need to be seriously considered. Pakistan Railways can adopt partial privatization measures such as outsourcing stations management, rail hospitals, allowing companies to run their own container trains, letting suburban trains run as separate companies.

### **Market based pricing**

Ticketing in railways is not based on market prices and Pakistan Railways is not allowed to charge a market clearing price as directed by the federal government. There is a need to deregulate the prices which should be market structured.

### **Enhancement of air transport capacity**

Pakistan has potential in expanding the export of air transport services in Modes 1, 3 and 4. However the bulk of the sector lies outside trade agreements, be it GATS or PTAs, meaning liberalization would most likely need to be pursued outside such agreements and under ASAs. Pakistani airlines already have commercial presence in many countries. By increasing the capacity of the Pakistani air transport services, Pakistan can tap into other markets for exports gains.

### **Enhancement of maritime transport capacity**

Considering the present state of affairs in maritime transport services, Pakistan has very limited potential if any in exporting maritime transport services in all four modes. Apart from supporting and auxiliary maritime transport services as it is the only area where Pakistan has a surplus but is severely lacking in capacity.

### **Mobilization of private investment**

The Government has accorded shipping the status of an industry and has provided a number of incentives to attract the private sector investment in shipping. Private investment in the shipping sector would increase if the Government accorded the cargo preference and protection not only to the PNSC but all the local private sector shipping companies.

Lessons can be learnt from India's successful experience; here private shipping companies are required to place a ship-building order locally for every ship they import. The Pakistani ship building and repair sector enjoys no such governmental support apart from a 10% reduced berthing fees if ships are repaired at Pakistani ports. There is a need for policy reversal owing to years of neglect and non-implementation of policies having taken a heavy toll on the local shipping industry. Post 9/11 the imposition of stricter maritime security codes poses a major challenge for the sole shipping company of Pakistan, the PNSC.

### **Enabling environment for transport services growth**

Creating an enabling environment is critical for increasing growth and export of transport services. Government policies need to include: more market access and exploitation of trade agreements in transport services; direct transportation routes; a highly trained and skilled workforce; competitive and

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cost-effective transport infrastructure; good governance; simplified and well regulated standards and certifications procedures comparable to international standards; investor-friendly business environment (including reducing the security and other risks); tax and investment incentives; capacity building of transport services businesses and support organizations; strategic promotion of business opportunities in transport services sector and consistency in government policies with reduced political interventions.

Additionally some specific proposals from the stakeholders are:

- Transshipment facilities need to be supported by Government.
- Freight transit should be allowed to have a level playing field.
- The PNSC might consider selling 10% of its capacity to foreign operators without affecting the price.
- The cost of doing business in transport services needs to be brought down.
- Trucking policy 2007 has not been fully implemented; the Government should ensure complete implementation of trucking policy as it would revolutionize land transport services in Pakistan.
- The Government might consider setting up a separate Ministry of Transport.
- The Government should fast track the process of approval of the National Transport policy.
- More dry ports and container terminals need to be setup across the country (as per international standards) especially in Baluchistan.
- Ferry services need to be started between ports of Karachi and Gawadar.
- It is imperative to implement track access policy in Railways.
- There is no private sector membership in the National Logistic Board; private sector membership to the board should be ensured by the Government.

### **Capacity enhancement programmes for stakeholders**

There is a need for development of capacity building programs for service providers, business support organizations, government trade promotion organizations and alliances involved in transport services. For service providers the focus of these efforts should be on taking advantage of Pakistan's trade agreements, how to export transport services, position in value chain, differentiation, relationship marketing, standards and certification, costing and pricing, market entry, partnering etc. For support organizations the focus should be on advocacy, sub-sector development, policy environment, attracting foreign direct investment, export promotion programs etc. Capacity-building programs should include training, coaching, certification, tools and best practices. Cross-sectoral networking should also be encouraged and developed.

### **Modal recommendations across subsectors**

For Mode 1

#### **Transport related capacity and infrastructure development**

Emphasis should be placed on increasing the domestic capacity of transport services and expanding the national transportation fleet (locomotives, ships and aircrafts), reducing transit times, improving ports and terminal facilities, making cargo handling costs and time effective and ensuring the high quality of services.

### **Incentives for service quality enhancement**

Incentives should be provided such as easy and simplified access to finance, simplified regulations and procedures, better enforcement of regulations and decreasing imports duty on transport vehicles and development of local manufacturing industry.

### **Development of private sector/public private partnership development**

Enhancing public/private sector partnership is the ideal way to achieve growth and increase exports of transport services in Pakistan. One way this can be achieved is by creating an alliance of service providers in Pakistan which can emerge to take on the role of championing the transport services sector. From the public side it is recommended it would be more effective to have one department in each of the ministries that are regulating the transport services sub-sectors in Pakistan. These are to become the lead agencies in championing trade in transport services sub-sectors. These agencies will be responsible for interacting with service providers, trade organizations and other government bodies.

### **Regulatory oversight and elimination of political interference**

Regulatory oversight is needed where strong implementation and continuity of policies should be ensured. Political interference should be eliminated or at least limited. Time consuming and cumbersome bureaucratic procedures needs to be reduced

### **Level of protection should be reduced to state owned enterprises**

It is imperative to check the misuse of the dominant position and reduce the level of protection offered to state owned enterprises hence providing a level playing field and making them competitive and effective.

### **Marketing accessibility**

Need for interconnecting domestic and international markets and making markets accessible and attractive for the private sector.

For Mode 2

### **Transport and repair expertise to be marketed**

Possibilities for enhancing export potential in the Middle East and developing countries by exploiting Pakistan transport expertise and repair capabilities in these countries.

For Mode 3

Policies to attract foreign investment in transport sector

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More foreign investment needs to be attracted which can be achieved by providing pro private sector investment policies, incentives, assurances and support similar to transport infrastructure. In all cases the Government should provide export enhancing subsidies to suppliers of services such as preferential tax treatment for income generated by export of services. There is also a need for Pakistan to take a pro-active stance in DDA and PTA talks on trade facilitation as complimentary steps on border management and transport enhancement. Pakistan also needs to exploit inland waterways and pipe line transport services which are relatively unexploited,

### For Mode 4

#### **Export of skilled labour through upgrading training institutes**

Emphasis should be given to upgrading the training institutions such and making them centres of excellence whereby knowledge and trained/ skilled labour can easily be exported across the globe. In addition Pakistan can use the regional and bilateral services agreements to include exports of skilled labour and engage the Overseas Employment Corporation of Pakistan and Pakistani diplomatic and commercial missions abroad for this purpose.