

## EC TRADE RELATED TECHNICAL ASSISTANCE PROGRAMME FOR PAKISTAN

### Services Capacity Report

Project PAK/75/17E

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## CONTENTS

1.	Executive Summary	1-1
2.	Presentation of Current Service Exports and Imports	2-1
2.1	Pakistan GDP by Economic Activity	2-1
2.1.1	Pakistan Trade in Services	2-3
2.1.2	Pakistan's Services Activity in a Global Context	2-6
2.1.3	Quality of Services Data	2-7
2.2	Exports by Mode of Supply	2-8
2.3	Export Potential	2-11
2.3.1	Organized Private-Sector Trade Associations	2-12
2.3.2	Successful Service Firms Trading Internationally	2-13
2.3.3	Foreign Direct Investment	2-16
2.3.4	Market Evidence of Domestic and Regional Demand	2-17
2.3.5	Domestic Services Firms with Competitive Advantage	2-17
2.3.6	Domestic Firms with International Recognition	2-18
2.3.7	Commercially Valuable Cultural, Regional, and Historical Relationships	2-19
2.3.8	Dynamic Domestic Services Market	2-19
2.3.9	Clear Evidence of Access to Financing	2-21
2.3.10	Conclusion	2-22
2.4	Exemplary Service Exporters	2-23
2.4.1	CresSoft	2-23
2.4.2	IMPACT Design Studio	2-24
2.4.3	KASB Securities	2-25
2.4.4	Surridge & Becheeno	2-26
3.	Domestic Capacity and Infrastructure	3-1
3.1	Telecommunications Infrastructure	3-3
3.1.1	Service Reach and Variety	3-3
3.1.2	Service Quality	3-6
3.1.3	Service Pricing	3-7
3.1.4	Recommendations	3-7
3.2	Service Firms' View of Input Infrastructure	3-7
3.2.1	Telecommunication Infrastructure	3-8
3.2.2	Information and Communication Technology	3-9
3.2.3	Energy Infrastructure	3-10
3.2.4	Transport Network	3-11
3.2.5	Educated and Skilled Workforce	3-11
3.3	Service Firms' View of Regulatory Environment	3-13
3.3.1	Professional Services	3-13
3.3.2	Medical and Health Services	3-15
3.3.3	Financial Services	3-16
3.3.4	Construction & Architectural Services	3-18

3.4	Economic Strengths and Weaknesses	3-19
3.4.1	Conclusion	3-22
4.	Service Trade Support Institutions	4-1
4.1	Financial Services	4-2
4.2	Construction and Architectural Services	4-2
4.3	Professional Services	4-3
4.4	Medical and Health Services	4-3
5.	Synopsis of Services Trade Consultation Process	5-1
5.1	Public Sector Entities with Trade in Services Responsibilities	5-1
5.2	Inter-ministerial Consultation Process	5-3
5.3	Private Sector Entities with Trade in Services Responsibilities	5-4
5.4	Public-Private Sector Consultation Process	5-6
5.5	Recommendations	5-7
6.	Services Sector Export Challenge	6-1
7.	Recommendations for Increasing Service Exports	7-1
7.1	Sector Specific Responses	7-1
7.2	General Measures (short term and long term)	7-3

## **ANNEXURES**

Annexure A: Examination of IT Trade Issues

Annexure B: Services Exports

Annexure C: Priority Services for Export Expansion

Annexure D: Services Associations

Annexure E: Survey Charts

## LIST OF TABLES

Table 2.1: GDP Share by Economic Activity, 1999 – 2003	2-1
Table 2.2: GDP Amount by Economic Activity (Million of Rupees), 1999-04	2-2
Table 2.3: Breakdown of Services Trade, 2003	2-4
Table 2.4: Export Potential Criteria and Priority Sectors	2-14
Table 3.1: Growth Pattern of Different Economic Sectors	3-1
Table 3.2: Airtime Ceiling of Cellular Mobile	3-7
Table 3.3: Quality and Status of Telecom Infrastructure	3-8
Table 3.4: Cost of Telecom Infrastructure	3-9
Table 3.5: Availability of ICT Equipment	3-9
Table 3.6: Cost of ICT Equipment	3-9
Table 3.7: Status of Energy Infrastructure	3-10
Table 3.8: Cost of Energy Infrastructure	3-10
Table 3.9: Status of the Skilled Workforce	3-11
Table 3.10: Number of Educational Institutions by Category	3-12
Table 3.11: Enrolment in Educational Institutions by Category	3-12
Table 3.12: Professional Services Response to Regulatory Questions	3-15
Table 3.13: Medical and Health Services' Response to Regulatory Questions	3-16
Table 3.14: Financial Services' Response to Regulatory Questions	3-18
Table 3.15: Construction and Architectural Services' Response to Regulatory Questions	3-19
Table 3.16: General Market Factors Contributing to Competitiveness	3-21
Table 4.1: Type of Trade Promotion Activities Undertaken by Associations	4-1
Table 5.1: Service Sectors and Associated Public Entities	5-2
Table 5.2: Private Sector Entities with Trade in Service Responsibilities	5-4
Table 6.1: Export Challenges and Constraints	6-1
Table 6.2: Threats to Firms and Supply Barriers	6-2
Table 6.3: Trade Constraints Impeding Export Capability	6-4
Table 7.1: Steps for Boosting the Export Capability of Domestic Services Firms	7-1

## LIST OF FIGURES

Figure 2.1: Pakistan Exports 2003	2-3
Figure 2.2: Pakistan Imports 2003	2-3
Figure 2.3: Pakistan Trade in Services 1999-2003 (Export)	2-5
Figure 2.4: Pakistan Trade in Services 1999-2003 (Import)	2-5
Figure 2.5: Balance of Trade in Services, 1999-2003	2-6
Figure 2.6: Activity Contribution to GDP of Selected Countries	2-6
Figure 2.7: World Trade in Commercial Services	2-7
Figure 2.8: Total Bank Profitability	2-22
Figure 3.1: Sectoral Contribution to the GDP Growth Rate (% points)	3-2
Figure 3.2: Illustration of Internet Users in Pakistan	3-4
Figure 3.3: Cellular Subscribers Growth	3-4
Figure 3.4: Fixed Line Teledensity Growth Pattern	3-5
Figure 3.5: Fixed Line Teledensity Growth Pattern	3-5
Figure 3.6: Satisfaction with Data Service Provision	3-6

# 1. EXECUTIVE SUMMARY

Trade in services is a fast growing component of world trade approaching 25% and representing approximately 60% of world foreign direct investment stock. In 2003, the dollar value of global commercial services exports expanded by 13%. This growth reflects the changing nature of services markets due to advances in technology, increasing competition, and deregulation. Today services constitute at least 50% of employment in most economies and represent a growing component of manufacturing and agricultural production. Services also play a central role in economic development, for example, financial services can effectively transform savings to investment, telecommunications can help diffuse knowledge, transport ensures participation in global trade, education and health services build human capital, and business services reduce transaction costs.

## Study

In recognition of the importance of services trade to the Pakistani economy, the International Trade Centre commissioned a study of five services sectors including information technology, financial, construction and architectural, professional, and medical and health services. The study collected information on how Pakistani service firms trade, what trade constraints they face, and where their export interests lie. Interviews were conducted with approximately 20 firms in each sector in the summer of 2005 in Islamabad, Lahore, and Karachi. A questionnaire with pre-coded as well as open-ended questions was used to allow for qualitative and quantitative analysis<sup>2</sup>.

This information can help Pakistan to reduce trade constraints through services negotiations in light of obstacles identified at home and abroad by the private sector. Feedback on key service infrastructure inputs from the private sector can also help focus on the areas in need of investment. A sense of the regulatory environment under which service exporters operate can indicate where greater clarity and efficiency is needed for market participants. Information from firms competing in the market can help the government to eliminate obstacles to their growth and their consequent ability to provide high-quality efficient services in Pakistan and abroad.

The study reviewed the breakdown of services in GDP and internationally as a reflection of available statistics. Researchers examined exports by mode of supply according to primary data provided by Pakistani service firms. Export potential was considered according to the extent of exports across the four modes of supply, the scope of export markets, as well as the scale of export markets. Researchers considered the strength of trade associations, evidence of foreign direct investment, as well as Pakistani firms' impression of domestic and regional services demand, for example.

As an indicator of export capacity, the private sector provided their views on cost and quality of key inputs to their firms including telecommunications, information technology, energy, transport, and the workforce. They gave their impression of demand for their services and their industry's competitiveness as well as the regulatory environment. Service exporters' operations are heavily influenced by the logic, clarity and consistency of the regulatory environment. Researchers investigated trade support institutions, the trade consultation process, as well as service export challenges according to the views of the private sector.

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<sup>2</sup> Field research included a survey by personal and telephone interviews with stakeholders. In many instances, the questionnaire was emailed to the selected individuals prior to the personal interview to allow for familiarity with the issues. In a few cases, corporate executives filled out the survey and returned it by mail. In these cases, a telephone interview with the concerned individual was necessary to clarify certain points in their responses. The study was augmented with desk research and discussions with associations and trade enabling ministries.

## Findings

The study provides important information on services trade activity in Pakistan. Services represent almost 60% of GDP in Pakistan as well as a growing component of employment. The services sector has strong forward and backward linkages with the major sectors of the economy such as textiles and commodities. Pakistan's total trade in commercial services in 2002, including both exports and imports, stood at \$3.591 billion – which was about 0.23% of world trade. (At the same time, the level of disaggregation of services trade data in Pakistan is low. Hence an important finding of the study is that Pakistan would benefit from implementing recommendations from the United Nations Interagency Task Force on Statistics of International Trade in Services to improve data collection.)

The study examined services exports and weighted the significance of those exports finding a vibrant services sector trading across all modes of supply. The four modes include: cross-border -- when a Pakistani firm delivers to an overseas customer without either leaving home; consumption abroad -- when a foreign consumer is in the Pakistani market and receives or uses a service; commercial presence -- when the Pakistani firm establishes an office abroad; and movement of natural persons -- when Pakistani service employees travel to another country to provide a service.

There is significant trade in services activity in all four modes of supply in financial, construction, and some business services such as computer and IT, engineering services, and legal and accounting services. Information technology and related services are the most significant in terms of the scope and scale of the export markets and the extent to which these services are currently being delivered in all four modes of supply. Professional services such as legal and accounting is a promising sector.

Numerous law firms operate across all modes of supply and accounting firms are active in modes 1, 2 and 4. While it is rare to find a Pakistani architectural firm with an office abroad, there are a handful of engineering companies that have extended their presence outside Pakistan, mainly in the Middle East and neighboring Afghanistan. Medical and health services are delivering primarily to foreign nationals in the domestic market.

The study found that courier services stand out in terms of scale and Internet related services distinguish themselves in terms of scope. Environmental services have significant exports in cross-border and consumption abroad in the area of environmental impact assessments. Banking services are delivered in all four modes of supply. Securities and asset management firms are also actively involved in international transactions mainly to solicit funds from foreign institutional and private investors. The insurance sector lags behind compared to the rest of the financial sector in international presence. Communication, distribution, and transport services are significant in terms of scale of services traded, but their supply is limited mostly to mode 2.

The study establishes that Pakistani service firms have specific export markets of interest in a very broad range of countries. Firms in the five sectors highlighted their attention to Afghanistan, China, Hong Kong, Singapore, India, the United Arab Emirates, other Gulf states, the US, Europe, and additional Asian markets. Pakistani service export growth can improve by eliminating trade barriers in these markets. In some instances, this may be accomplished through services trade negotiations.



## Primary Export Markets of Service Firms Surveyed

Service	Export Markets
Financial Services	USA, UK, Netherlands, France, Germany, Switzerland, Japan, China, Hong Kong, Singapore, UAE, Egypt, Turkey, Oman, Bahrain
Construction & Architectural Services	Bangladesh, Afghanistan, Sri Lanka, India, USA, China, UAE, Malaysia, Turkey, Spain, Iraq, Korea, Saudi Arabia, Switzerland, Canada, Qatar, Iran, Oman, Germany, Finland, Japan, Hong Kong, West Africa, North Africa.
Professional Services	USA, UK, UAE, Afghanistan, EU, China, Singapore, Middle East
Medical Services	USA, UK, UAE, Afghanistan, EU, Canada, Hong Kong, Tanzania, Kenya, Middle East

Domestic and regional demand for services is contributing to a dynamic services market according to Pakistani firms. Pakistani firms also recognize the value of foreign established firms within Pakistan as important service consumers and providers of service inputs. Firms reported that they expect growth in their sector and attribute their competitive position to product specialization and cost effectiveness. Pakistani service firms believe they operate in an intensely competitive market and recognize their role as important inputs to the manufacturing sector. With regard to foreign direct investment, the study found ample evidence of direct interest in the banking sector, linkages in the construction sector through local partnerships, and alliances in accounting.

Firms provide insight into the strengths and weaknesses of the services market including market opportunities and infrastructure challenges. For example, financial service firms attribute their success to the quality of their service, specialization and brand identification yet they face a shortage of trained professionals. Construction and architecture firms attribute their competitiveness to their expertise and quality of service but encounter licensing barriers in foreign markets. Professional service firms compete on quality of service but face difficulty in finding qualified personnel. Pakistani information technology firms have a footprint in the global IT market however they face challenges with the reliability of energy infrastructure. Firms also provide insight into private trade associations and the need to deepen and broaden their services to members.

Profiles of individual service firms in the IT, design, securities, and legal sectors identify particular obstacles to address in negotiations. These include mode four issues, detrimental joint venture requirements, establishment restrictions in Gulf states, as well as infrastructure constraints associated with transport, energy, and human resources. The survey of firms recognizes the immense growth in both service variety and reach of telecommunications. Firms categorize energy infrastructure as less than adequate and expensive. Pakistani service companies qualify the skill of available workforce indicating commercial need of improved technical and higher education.

The firms characterize their respective regulatory framework with regard to the ease of understanding administrative rules and regulations, the opportunity to comment on rules and regulations, industry standard-setting procedures, the regulatory application process, and the reasonable, objective and impartial administration of industry measures as well as application processes. The financial service industry positively rates their regulatory environment, while other sectors recognize room for improvement. These findings are indicative of the need for more regulatory transparency and efficiency.

When asked to identify constraints, professional, medical, financial, and construction firms faced when exporting, interviewees responded as charted below. (See Annexure A for all IT findings.)

## Trade Constraints Impeding Export Capability

Description	Professional Services	Medical Services	Financial Services	Construction Services	Total
Restrictions on temporary entry into the country with burdensome visa or work permit processes	35%	10%	75%	35%	39%
Non-recognition of your professional credentials	10%	5%	10%	20%	9%
Restrictions on external financials transfers	0%	0%	30%	20%	16%
Discriminatory access vis-a-vis a national firm or other foreign competitor to distribution networks, for example, retail or telecommunications networks	10%	0%	0%	20%	3%
Discriminatory treatment vis-a-vis a national firm or other foreign competitor under the regulatory framework of the industry for example discriminatory registration or authorization requirements	10%	0%	25%	20%	16%
Excessive delays or arbitrary treatment in licensing or accreditation procedures	10%	0%	20%	20%	14%
Excessive burdensome accreditation qualification, technical standards or licensing requirements	15%	0%	15%	35%	16%
Requirements for employment or management by nationals when operating in their market	20%	5%	20%	25%	18%
Limitations on the type or quantity of service products you can provide in their market	10%	0%	5%	5%	5%
Product specific restrictions that impede your ability to provide services in their market	0%	0%	0%	0%	0%
Restrictions on the availability of foreign currency available to purchase services abroad	0%	0%	0%	0%	0%
Requirements for the formation of a joint venture, or specific corporate structure, when operating in their market	15%	5%	10%	50%	20%
Limitations on your firm's ability to use its company name, when operating in their market	5%	0%	0%	40%	11%
Limitations on the percentage of foreign ownership of the firm, when established in their market	5%	0%	15%	35%	14%
Limitations on the geographic scope of operations of the firm in the market	5%	0%	5%	0%	3%

Description	Professional Services	Medical Services	Financial Services	Construction Services	Total
Requirements that local marketing and advertising firms be used, when operating in their market	5%	0%	0%	5%	3%
Prohibitions on the provision of your service by a foreign firm	0%	0%	5%	5%	3%
Imposition of high fees or taxes on repatriation of earnings	10%	0%	0%	5%	4%
Administrative rules and procedures that are difficult to obtain and understand	10%	0%	15%	5%	8%
Restrictions on foreign participation in government procurement processes	0%	0%	0%	5%	1%
Has your firm experienced adverse affects from subsidies provided to foreign competitors by their government	0%	5%	0%	10%	4%
Total Respondents	20	20	20	20	80

According to responses from the private sector, more needs to be done to create an environment that provides confidence to lending institutions to offer appropriate products to finance services export expansion. Energy infrastructure needs to be upgraded to enable service exporters to realize their full potential. Telecom services are improving in quality, reach and prices but there are still some growth-spurring measures that need to be taken, for example, introducing mobile number portability. Special attention needs to be given to human resources to keep up with the growing demand for service industry workers. Associations must embark on capacity building as they serve as an important platform to boost services exports.

The execution of the survey also indicated that Pakistani service exporters would benefit from the following recommendations:

- Improve statistical coverage of services sector with disaggregated data to make clear to policymakers the value and scope of services trade.
- Eliminate weaknesses in the regulatory framework and adopt a more participatory approach towards regulation to ensure competitiveness of Pakistani firms in the global market.
- Invest in e-governance to improve transparency in the services market and reduce transaction costs to business.
- Adhere to international standards and reduce discrepancies in application of standards with countries of importance to exporters.
- Build capacity of trade associations and trade enabling ministries.
- Address factors that inhibit lending institutions from offering appropriate products to service exporters.
- Encourage vocational training and skills enhancement.
- Improve law and order, and energy and transport infrastructure.

Pakistani service firms have clear export interests and offensive interests in strengthening services infrastructure through negotiations in the General Agreement on Trade in Services. According to interviews with service firms, these interests exist clearly on a regional basis in neighboring markets including India, China, Afghanistan, and the Gulf states. They are present in some key African countries and in the EU and USA. Pakistani service firms face a variety of obstacles as charted below.

#### Trade Negotiating Objectives

Export Sectors	Negotiating Objectives In Export Markets of Interest
Financial Services	<ul style="list-style-type: none"> <li>a. Remove restrictions on share in ownership and joint venture requirements</li> <li>b. Reduce limits of mandatory investment for setting up a bank</li> <li>c. Remove discriminatory restrictions on establishment of sales/representative offices</li> <li>d. Remove discriminatory restrictions on transfer of financial information</li> <li>e. Remove discriminatory restrictions on transfer of funds</li> <li>f. Eliminate discriminatory regulatory constraints that impede the ability to offer financial service products, including to retail investors in foreign markets</li> <li>g. Remove or reduce discriminatory licensing or certification requirements</li> <li>h. Reduce requirements to employ nationals</li> <li>i. Improve transparency in domestic regulation of financial service firms</li> <li>j. Remove or reduce overly burdensome administrative procedures related to visa, work permit</li> <li>k. Seek mutual recognition of financial service industry credentials</li> <li>l. Reduce discrepancy in standards</li> </ul>
Construction & Architectural Services	<ul style="list-style-type: none"> <li>a. Reduce restrictions on external financial transfers</li> <li>b. Eliminate arbitrary treatment in licensing and accreditation procedures</li> <li>c. Eliminate discriminatory treatment under the regulatory framework in export markets of interests</li> <li>d. Reduce requirements for employment or management by nationals in export markets of interest</li> <li>e. Eliminate requirements for the formation of the joint venture, or specific corporate structure when operating in export markets of interest</li> <li>f. Reduce foreign ownership restrictions in export markets of interest</li> <li>g. Seek the ability to use firms' names in export markets of interest</li> <li>h. Eliminate restrictions on temporary entry</li> <li>i. Seek mutual recognition of professional credentials</li> </ul>
Professional Services	<ul style="list-style-type: none"> <li>a. Increase access to information regarding laws and rules governing visas, work permits, business visits</li> <li>b. Increase procedural transparency of applications for temporary entry and stay</li> </ul>

<b>Export Sectors</b>	<b>Negotiating Objectives In Export Markets of Interest</b>
	<ul style="list-style-type: none"> <li>c. Reduce use of economic needs test as an obstacle to export market entry</li> <li>d. Eliminate discrimination in the application of standards and domestic regulations</li> <li>e. Seek mutual recognition of professional qualifications and requirements</li> <li>f. Eliminate discriminatory taxes and double taxation</li> <li>g. Seek improved publication of laws, regulations and administrative guidelines governing the legal profession</li> <li>j. Eliminate requirements for the formation of the joint venture, or specific corporate structure when operating in export markets of interest</li> <li>k. Reduce requirements for employment or management by nationals in export markets of interest</li> </ul>
Medical Services	<ul style="list-style-type: none"> <li>a. Minimize restrictions on forms of ownership: joint ventures, partnership, sole proprietorship and incorporation</li> <li>b. Remove or reduce overly burdensome administrative procedures related to visa, work permit</li> <li>c. Eliminate unjustified requirements regarding membership in professional associations</li> <li>d. Review requirements regarding employment or management by nationals when operating in foreign markets</li> <li>e. Review subsidies given to foreign competitors in their home country</li> </ul>
Information Technology	<ul style="list-style-type: none"> <li>a. Remove or reduce overly burdensome administrative procedures related to visa, work permit</li> <li>b. Reduce licensing/regulatory barriers in foreign countries</li> <li>c. Remove requirements to partner with local companies in foreign markets</li> </ul>
<b>Infrastructure Services</b>	<b>Offensive Interests in Building Services Infrastructure</b>
Insurance Services	Examine opportunities to strengthen insurance sector to effectively mitigate risk in the domestic market
Education Services	Examine opportunities to strengthen educational services to meet the demand for skilled professionals in the domestic market
Transport Services	Examine opportunities to improve logistical services in the domestic market
Energy Services	Examine opportunities to improve provision of energy services in the domestic market

Pakistan has a foothold in the global market for services. Pakistani service exporters would benefit from the removal of specific constraints in identified markets of export interest. Pakistani service exporters would also benefit from economically priced and quality service inputs as well as a more transparent regulatory environment. Although the investment environment is generally open at the national level, carefully crafted services commitments could be used to attract additional foreign investment in infrastructure services. Overcoming trade constraints through

services negotiations can materially improve the ability of Pakistani service firms to grow and compete globally.

**Annexures**

Fundamental findings from interviews with the private sector are illustrated in the annexures and are integral to the report. Annexure A focuses on information technology trade issues and capacity and identifies specific constraints and trade interest objectives including those associated with mode 4, licensing requirements, and joint venture requirements. Annexure B provides an indication of transactions by mode of supply for particular sectors to specific export markets as well as sources of information. Annexure C indicates priority services for export expansion according to qualitative criteria. Annexure D identifies active services associations with contact information. Annexure E provides the survey charts showing valuable information from interviewees.

## 2. PRESENTATION OF CURRENT SERVICE EXPORTS AND IMPORTS

### 2.1 Pakistan GDP by Economic Activity

Services are already an important component of the Pakistan economy. In 2003, the share of services, both commercial and public, in Pakistan's GDP stood at almost 58%, appreciating by a third of a percentage point since 2000. The share of commercial services was a little over 51% in 2003, down marginally since 2000. The single largest component of services was "Wholesale and Retail" at over 18% of the GDP in 2003 followed by "Transport and Communications" at almost 11.5% and "Others" at almost 10%.

Services grew at 3.6 % annually, at constant factor costs, between 2000 and 2003, which was more than the growth in GDP during the same period, which stood at 3.46%. Commercial services grew at an average annual rate of 3.26%, which was less than the GDP growth rate, while public or government services including defence services grew at 6.76%. Table 2-1 provides a breakdown of GDP by economic activity<sup>3</sup> while Table 2-2<sup>4</sup> provides a breakdown of GDP amount by economic activity from 1999/2000 to 2003/2004 (provisional).

**Table 2.1: GDP Share by Economic Activity, 1999 – 2003** (Constant 1999/2000 Factor Costs)

Economic Activity	Percent of GDP		Average Annual Growth <sup>5</sup>
	2000	2003	
Agriculture, forestry, fishing	26.17	24.16	0.64
Mining	0.24	1.52	7.50
Manufacturing	14.81	16.38	7.34
Services	57.65	57.94	3.64%
Utilities	3.96	2.80	-7.27
Construction	2.48	2.36	1.75
Transport, communication	11.36	11.41	3.60
Wholesale, retail	17.62	18.15	4.55
Finance, insurance	3.75	3.28	-1.22
Real estate (ownership of dwellings)	3.13	3.15	3.72
Community, social, personal services	n.a.	n.a.	n.a.
Public administration (& Defense)	6.24	6.80	6.76
Others	9.11	9.99	7.01
Total GDP	100.0%	100.0%	3.46%

Data Source: Statistics Division, Government of Pakistan

<sup>3</sup> Based on Statistics Division, Government of Pakistan, Table 5, ([www.statpak.gov.pk](http://www.statpak.gov.pk)). The Government of Pakistan changed its base year for calculating factor costs from 1980/1981 to 1999/2000 for the year 1999 onwards. Constant factor prices for years preceding 2000 are thus factored differently and cannot be directly compared with 2000 and following years.

<sup>4</sup> Statistics Division, Government of Pakistan, Table 5, ([www.statpak.gov.pk](http://www.statpak.gov.pk))

<sup>5</sup> Based on "simple" rather than "compound" growth

**Table 2.2: GDP Amount by Economic Activity (Million of Rupees), 1999-04** (constant 1999/2000 factor costs)

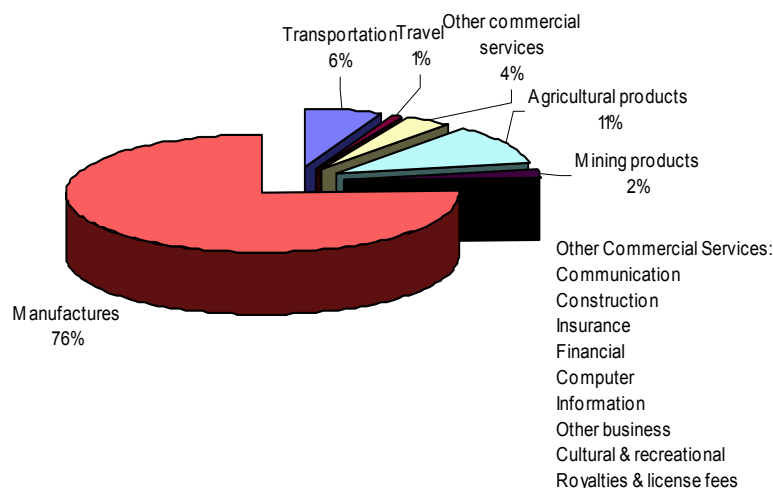
No.	Sector	Rs. Million				
		1999-00	2000-01	2001-02	2002-03	2003-04 (P)
	Agriculture Sector	923,609	903,499	904,433	941,275	965,372
	1. Major crops	342,200	308,474	300,911	321,548	330,402
	2. Minor crops	125,679	121,673	117,217	117,723	119,734
	3. Livestock	417,120	433,066	448,968	461,509	473,699
	4. Fishing	15,163	14,715	12,901	13,346	13,611
	5. Forestry	23,447	25,571	24,436	27,149	27,926
	Industrial Sector	798,190	827,229	849,139	898,369	1,015,630
	1. Mining and Quarrying	48,377	47,561	51,031	559,266	59,272
	2. Manufacturing	522,801	571,357	596,841	637,964	723,335
	i. Large scale	338,602	375,687	388,859	416,843	488,287
	ii. Small & household	132,369	142,310	152,997	164,487	176,841
	iii. Slaughtering	51,830	53,360	54,985	56,634	58,207
	3. Construction	87,386	87,846	89,241	91,976	99,283
	4. Electricity, gas, and water supply	139,626	120,465	112,026	109,163	133,740
	Commodity producing sector (A+B)	1,722,799	1730,728	1,753,572	1839,644	1981,002
C.	Services Sector	1,807,546	1,863,396	1,952,146	2055,608	2,163,317
	1. Transport, storage & communication	400,983	422,195	427,296	444,256	461,397
	2. Wholesale and retail trade	621,842	649,564	667,615	706,813	763,585
	3. Finance & insurance	132,454	112,455	131,761	127,604	122,924
	4. Ownership of dwellings	110,425	114,593	118,604	122,755	127,051
	5. Public administration & defence	220,291	225,152	240,585	264,997	280,527
	6. Services	321,551	339,437	366,285	389,183	407,836
	GDP factor costs	3,529,345	3594,124	3,705,718	3895,252	4,144,319



### 2.1.1 Pakistan Trade in Services

Services are a significant component of Pakistan’s international trade. In 2003, export of commercial services comprised 11% or US\$ 1.485 billion with the transportation sector accounting for more than half (6%). Other commercial services comprised 4% of all exports and included: communication, construction, insurance, financial, computer, information, cultural, recreational and other business services, royalties and technical fees. No further breakdown of the “Other Commercial Services” category is available (see Figure 2.1 and Table 2.3<sup>6</sup>). Travel comprises just 1% of exports. In 2003, manufactured goods – primarily consisting of textile products – comprised 76% of exports. Agricultural goods, mainly comprising cotton and rice, constituted another 11%.

Figure 2.1: Pakistan Exports 2003



In 2003, commercial services accounted for 20% of all imports or US\$ 3.095 billion with the transportation sector again accounting for half (10%). Travel comprised 6% of all imports while other commercial services accounted for 4% (see Figure 2.2 and Table 2.3<sup>7</sup>). In 2003, manufactured products, primarily consisting of machinery, constituted 45% of all imports with mining products, mainly comprising petroleum, constituting another 22% and agricultural goods, primarily consisting of edible oil, constituting another 13%.

<sup>6</sup> Based on WTO Time Series Database, 2005

<sup>7</sup> Based on WTO Time Series Database, 2005

Figure 2.2: Pakistan Imports 2003

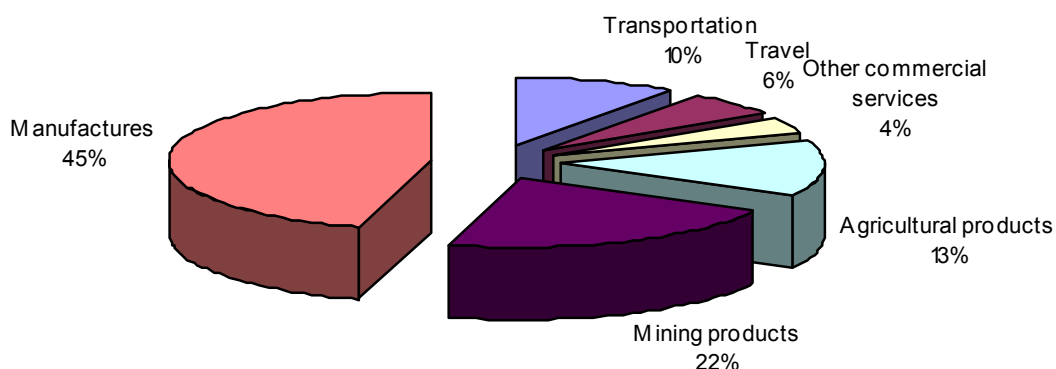


Table 2.3 summarizes the exports and imports for services below.

Table 2.3: Breakdown of Services Trade, 2003<sup>8</sup>

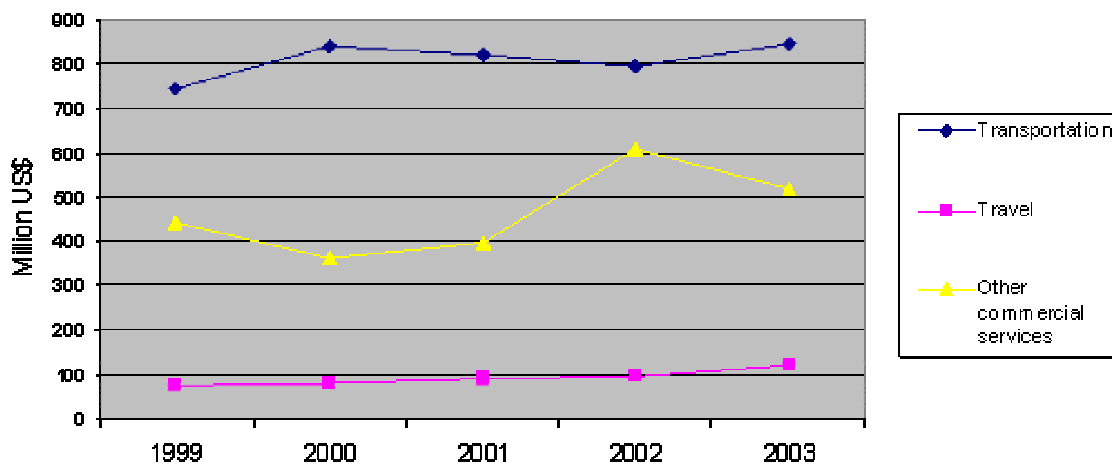
Category	Exports		Imports	
	Share	Amount (US\$ Million)	Share	Amount (US\$ Million)
Total	100%	13,415	100%	16,133
Services (Commercial)	11%	1,485	20%	3,095
-Transportation	6%	845	10%	1,581
-Travel	1%	121	6%	924
-Other Commercial Services	4%	519	4%	590

Figure 2.3 provides growth trends in services exports<sup>9</sup> from 1999 to 2003. All three reported service categories showed marginal growth in the period with some years actually seeing a decline. The low growth can be understood within the context of the poor macro-economic growth in the country during this period which has been widely ascribed to geo-strategic factors – like the testing of a nuclear device and 9/11 – and to questionable macro-economic management by some previous governments.

<sup>8</sup> Based on WTO Time Series Database, 2005

<sup>9</sup> Based on WTO Time Series Database, 2005

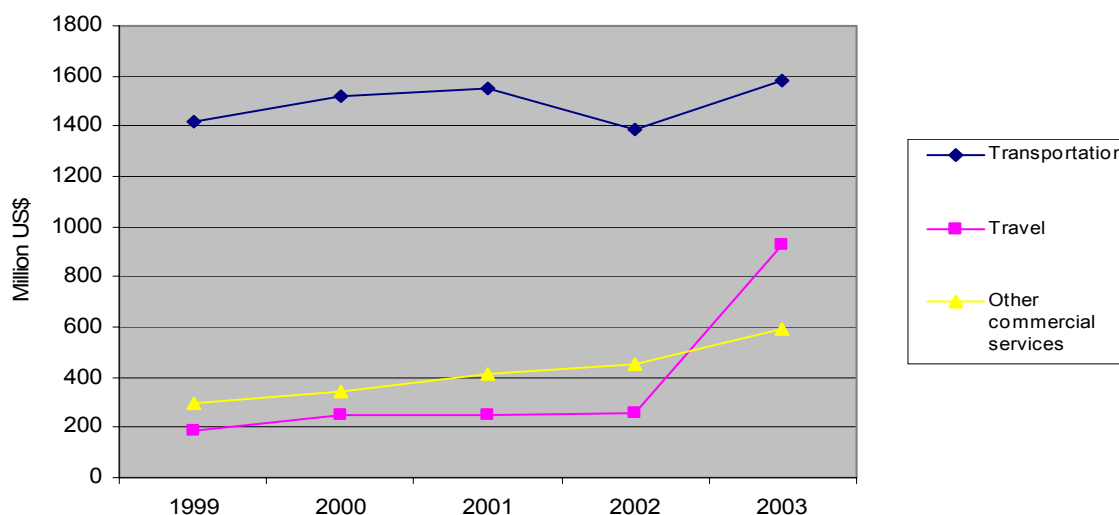
Figure 2.3: Pakistan Trade in Services 1999-2003 (Export)



There was a 50% increase (US\$ 200 million) in the export of services from 2001 to 2002 for “Other Commercial Services”. However, this category decreased by almost US\$ 100 million between 2002 and 2003. A significant part of this decline can be attributed to the reduction in exports of computer services to the USA, which declined both because of 9/11 and due to the technology industry recession in the USA. With the economic turnaround in Pakistan since 2003 – which witnessed a GNP growth rate of 8.4% in 2004-2005, it can be expected that growth in services exports will also pick up.

Services imports witnessed more robust growth<sup>10</sup> in the period 1999 – 2003 with “Other Commercial Services” growing by about US\$ 300 million or 100% and Travel growing by over US\$ 700 million or 350%. The growth in other commercial services is probably a result of the economic liberalization policies of the Government.

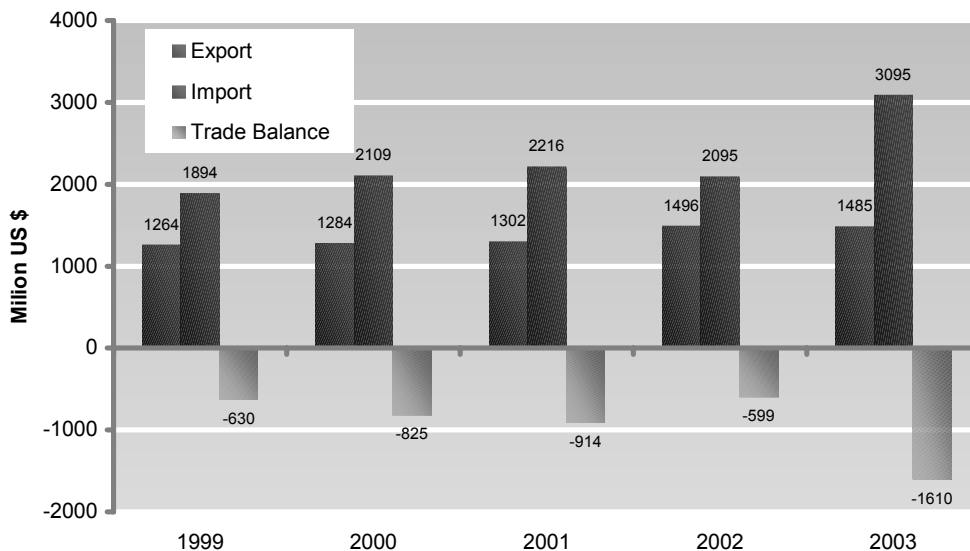
Figure 2.4: Pakistan Trade in Services 1999-2003 (Import)



<sup>10</sup> Based on WTO Time Series Database, 2005

Balance of Trade in Services remained significantly in favour of imports<sup>11</sup> as is shown graphically in Figure 2.5.

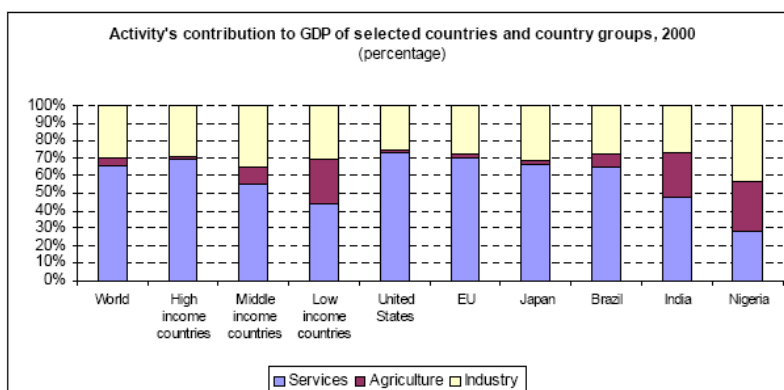
**Figure 2.5: Balance of Trade in Services, 1999-2003**



### 2.1.2 Pakistan’s Services Activity in Global Context

Services currently represent two thirds of World Gross Domestic Product (GDP). The share of services value added in GDP tends to rise significantly with the countries’ level of income, standing at 69% on average in high income countries (73% in the United States), against 55% and 44% respectively in middle- and low- income countries. Even in the latter group, the production of services is generally a core economic activity, whose contribution to GDP is above that of both industry and agriculture.<sup>12</sup> Figure 2.6 shows the contribution of services, agriculture and industry to GDP in select high, middle and low-income countries.

**Figure 2.6: Activity Contribution to GDP of Selected Countries**



Sources: World Bank, World Development Indicators (WDI) database online (September 2003), Eurostat New Cronos database Theme 2 (EU data) – note that “construction” is included in the industry sector.

<sup>11</sup> Based on WTO Time Series Database, 2005

<sup>12</sup> “Measuring Trade in Services,” World Trade Organization (WTO), November 2003, [www.wto.org](http://www.wto.org), p 7

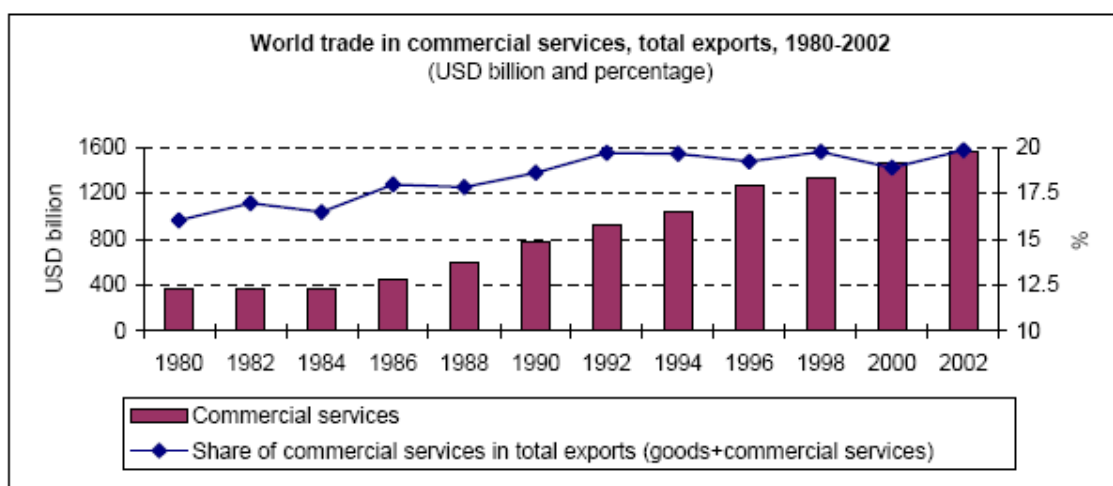
The contribution of services to Pakistan's GDP stood at almost 58% in 2003.<sup>13</sup> The contribution of services, less construction services, stood at 55.8% which was still higher than the World Bank's average for middle-income countries of 55%.<sup>14</sup> If Pakistan's economy continues the forward momentum, driven by very high growth rates in areas like telecom and financial services, it can be expected that services will gain an increasing share of the national economy.

World trade in commercial services, as distinct from Government services, amounted to USD 1,570 billion in 2002, which constituted almost 20% of total world trade in goods and services.<sup>15</sup> Since 1980, growth in trade in commercial services has averaged 6.9% per year in value terms, which was considerably higher than growth in trade in goods, which averaged 5.6% per year over the same period.<sup>16</sup> As a result, the share of commercial services in world trade has grown appreciably over the last two decades as shown in Figure 2.7.

Pakistan's total trade in commercial services in 2002, including both exports and imports, stood at \$3.591 billion – which was about 0.23% of world trade. Growth in trade between 1999 and 2002 averaged 5.3%, at current factor costs, which was less than the global average of 6.9%. However, services trade in Pakistan showed a dramatic upward turn in 2003 – driven by imports.

Remittances from Pakistani workers abroad, which stood at US\$ 4.237 billion<sup>17</sup> in 2003, are not included in services trade data. If such workers' remittances from mode 4 transactions were included, the measure of Pakistan's services exports would increase substantially.

**Figure 2.7: World Trade in Commercial Services**



Source: WTO

### 2.1.3 Quality of Services Data

The level of disaggregation in Pakistan's services data is low particularly for trade statistics. The Statistics Division of the Government of Pakistan maintains the best and most disaggregated data for services contribution to GDP though not on trade.<sup>18</sup> Services are classified into: Transport, Storage & Communications, Wholesale and Retail Trade, Finance & Insurance, Ownership of Dwellings, Public Administration & Defence, and (Other) Services.

<sup>13</sup> Based on Statistics Division, Government of Pakistan, Table 5, ([www.statpak.gov.pk](http://www.statpak.gov.pk)).

<sup>14</sup> In the World Bank's World Development Indicator (WDI) database "construction" is classified under "Industry" rather than "Services".

<sup>15</sup> "Measuring Trade in Services," World Trade Organization (WTO), November 2003, [www.wto.org](http://www.wto.org), p 8

<sup>16</sup> "Measuring Trade in Services," World Trade Organization (WTO), November 2003, [www.wto.org](http://www.wto.org), p 8

<sup>17</sup> State Bank of Pakistan Annual Report, 2003-2004, Chapter 7, p 121 ([www.sbp.gov.pk](http://www.sbp.gov.pk))

<sup>18</sup> Statistics Division, Government of Pakistan, Table 5, ([www.statpak.gov.pk](http://www.statpak.gov.pk))

The State Bank of Pakistan's Annual Report classifies services into: Shipment, Other Transportation, Travel, Investment Income, and Other Goods, Services and Income.<sup>19</sup> The Economic Survey of Pakistan<sup>20</sup> classifies services primarily into Energy, Environment and Housing, and Transport and Communications (which includes Telecommunications) with respect to the national economy. With respect to trade only a single category of "Services" is considered with no disaggregation.

Multi-lateral organizations also differ in services classifications. For example, the World Bank<sup>21</sup> categorizes "construction" under "Industry" rather than "Services." The Asian Development Bank omits some WTO services classifications like "Distribution (Wholesale and Retail)" and includes "Trade" in its definition of GDP.<sup>22</sup>

The low level of services data disaggregation and differing classifications make it difficult to compile and compare services data. It is recommended that the Government of Pakistan and its agencies such as the State Bank consider "Measuring Trade in Services", a training module produced by WTO in collaboration with the UN Interagency Task Force on Statistics of International Trade in Services, to improve the collection of trade in services data.

## 2.2 Exports by Mode of Supply

Interviews with Pakistani private sector firms provided primary data on exports by mode of supply. The execution of the study will have a sustainable impact on Pakistani service firms by exposing them to the modes of supply as defined by the GATS. Not all firms were aware that they were exporting when selling to foreigners in the domestic market or when providing services online. Understanding the modes can help them better identify trade constraints. In light of interviews and desk research further analysis focused on scope and scale of exports.

To assess the significance of services exports (Services Export Table - Annexure B) the following criteria is applied:

- ❖ Current extent of exports across the four modes of supply. For instance, if a service is being exported by more than one mode of supply, the more significant it is.
- ❖ Scope of export markets. For example, the more broadly the service is spread over different regions the more significant it is.
- ❖ Scale of export markets. For instance, the more revenue potential of an export market/region the more significant is the service being exported to that market/region.

The four most notable areas of export in Business Services are; firstly, the IT and related services such as computer consulting, software development, database processing, and database services; secondly, the engineering and architectural services; thirdly, professional services such as legal and accounting services; and fourthly, medical and health services.

The IT and related services are the most significant in terms of the scope and scale of the export markets and the extent to which these services are currently being delivered in all four modes of supply. Although, IT related services exports from Pakistan stood at only US \$ 40 million in fiscal year 2003-2004 compared to global spending on IT services to the tune of US \$ 450 billion<sup>23</sup>, they have shown a steady growth over the last couple of years. The single most important market for IT related service exporters from Pakistan is the USA, which is the hub for major global IT players

<sup>19</sup> State Bank of Pakistan Annual Report, 2003-2004, Chapter 7, p 121 ( [www.sbp.gov.pk](http://www.sbp.gov.pk) )

<sup>20</sup> Economic Survey of Pakistan, 2004 – 2005, Government of Pakistan, Economic Affairs Division.( [www.pakistan.gov](http://www.pakistan.gov) )

<sup>21</sup> World Bank, World Development Indicators (WDI) Database Online, September 2003

<sup>22</sup> Asian Development Bank, "Key Indicators of Developing Asian and Pacific Countries" Report, 2004

<sup>23</sup> Export Promotion Bureau (EPB) Paper. "Status of the Pakistani IT Industry"

and an important market for any aspiring IT company. While most of the jobs such as data processing are handled electronically (Mode 1), there are a few Pakistani software houses that are operating with an off-shore model (Mode 3), primarily in the US market. Off-shore models typically require deployment of skilled professionals. Within Pakistan, there is a lot of trade in services activity taking place between foreign multinationals and local entities. Typically the global IT giants have forged partnership with local entities to sell their products and deliver their services.

The second significant area of services exports from Pakistan in the Business Services category is the Engineering and Architectural services. While it is rare to find a Pakistani architectural firm with an office abroad, there are a handful of engineering companies that have extended their presence outside Pakistan, mainly in the Middle East and neighbouring Afghanistan. The Middle East represents an important source of revenue and Pakistan serves as an important provider of low-cost, skilled labour. Hence, services are being delivered by the large engineering companies in all four modes of supply mainly due to the interdependency of construction services on all the four supply modes. Currently, limited architectural services are being delivered outside Pakistan mainly in the form of Modes 1 and 4, and are not restricted in scope to any particular country or region.

Professional services is another promising and priority sector with export potential. Currently, in the legal sector, export services are being delivered in all four modes of supply to clients in US, EU, the Middle East and the Far East. Almost all prominent legal firms in Pakistan are delivering services to multinationals and multilateral institutions in Pakistan (Mode 2) as foreign lawyers do not have a right of audience in the court in Pakistan unless they register with Pakistan Bar Council<sup>24</sup>. Only a few Pakistani law firms have set up offices (Mode 3) in China and Afghanistan - both promising markets in the years to come. Lawyers have been offering advice electronically (Mode 1) to clients located abroad and also visit them frequently to deliver services (Mode 4).

Accounting services is an important sector with significant export potential. Presently, accounting firms are providing services in three modes of supply (modes 1, 2 and 4). Accounting firms have not set up offices abroad yet but will in the near future. Afghanistan can be tapped as a potential export market for setting up a subsidiary. Currently, accountants go to Afghanistan on assignments (Mode 4) for a limited time. Accounting firms have a number of multinationals as clients in Pakistan (Mode 2) and also offer services electronically to foreign clients (Mode 1) located abroad. In addition to professional services firms, management consulting firms also have significant export potential as these firms, like accounting firms, are quite active in three modes of supply (Modes 1, 2 and 4). A number of management consulting firms are serving multilateral and international firms such as UNDP, World Bank, European Commission etc.

Medical and Health services provide some export of services to foreign clients mostly in Modes 2 and 4. Some of the hospitals are contemplating opening referral offices in UAE and at least one prominent cancer hospital has fund-raising offices abroad. Given the high cost of dental services abroad, most of the expatriates in the EU, USA, Canada, UK, and Middle East undergo dental treatment when visiting Pakistan due to lower cost. Medical Professionals visit UK and USA for short duration during the year and deliver services in hospitals located in those markets.

Another promising area that comes to light is the scientific and technical services. Currently, only a handful of service providers, such as LMK Resources, are delivering scientific and technical services from Pakistan in all four modes of supply, mainly to their clients located in the USA. Once again, USA represents an important target market for any one aspiring to deliver scientific and technical services.

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<sup>24</sup> Pakistan Bar Council Act 1976.

In the communications category, courier services stand out in terms of scale and Internet-related services distinguish themselves in terms of scope. Currently, there are a few multinational courier companies operating in Pakistan with a joint venture with local entities, such as TCS. The local entities, in turn, have gained much from their experiences with multinationals and are now looking outwards and beginning to establish their presence outside Pakistan mainly in the Middle East (Mode 3). However, courier companies' main focus is multinationals operating in Pakistan (Mode 2). Internet related services such as web designing and coding are being delivered mostly in Mode 1 to clients across the globe. PTCL, the largest telecom operator in Pakistan, and state-owned (privatised in 2005), provides communications backbone infrastructure to almost all the foreign operators in the country (Mode 2).

Construction services are interlinked with engineering services and most of the large engineering service providers from Pakistan offer integrated services in all four modes of supply. In the domestic market, many established construction and engineering firms enter into joint venture agreements with large foreign operators, to satisfy compliance issues and qualify for mega projects. In turn, the joint venture foreign firms then sub-subcontract mid-size local firms for various jobs ranging from design services to complete civil works. However, there are also instances, where mid-size local firms have been contracted directly by multinationals for specific jobs (Mode 2).

There is significant activity in the distribution services category in terms of scale in Mode 2 only. Almost all the multinationals operating in the Fast Moving Consumer Goods (FMCG) sector, i.e. consumer items with limited shelf life such as coke, toothpaste etc., and the telecom sector have entered into franchise agreements with local partners. Typically these franchise agreements are on a commission basis and they act as wholesale and retail outlets for the multinationals.

In the Educational Services, the only significant export activity, taking place at the moment, is in the Higher Education services sub-category. Foreign students, mostly from Middle East attend universities and colleges across Pakistan (Mode 2). In the recent past, there has been a mushroom growth of institutions with foreign collaboration, which has also contributed to rising number of foreign students from neighbouring countries. Exchange programs allow faculty and students to spend a part of their term in foreign institutions, teaching or learning respectively (Mode 4). State-run Virtual University and Allama Iqbal Open University offer distant learning programs to students inside and outside Pakistan (Mode 1). To a limited extent primary and secondary educational services are being delivered to students in form of Mode 1, mostly to Pakistani expatriate community living in the Middle East and the UK. There is enormous export potential in the educational services mainly due to substantially lower costs and English being the medium of teaching.

In environmental services, significant export services (Modes 1 and 2) are being delivered in environment impact assessment category (EIA). Most multinationals, multilaterals and foreign firms located abroad engage the services of environment consulting firms to conduct EIA studies at different stages of a project. In addition some Pakistani firms are providing waste management services to some oil and gas multinationals in the country (Mode 2).

Banking services from Pakistan are currently being delivered in all four modes of supply. Almost all the large major banks in Pakistan have a commercial presence and skilled personnel abroad, with Middle East topping the list. In terms of scale, Middle East, USA, and UK are all important markets to commercial banks as most of the workers remittances, an important component of the balance of payments account in Pakistan, originate from these markets. For securities and asset management firms, mode 1 and 4 are the most important means of delivery of service and most of their important clients are based in the Middle East, Hong Kong and Singapore. Insurance and Actuarial services are mostly being delivered to multinationals operating in Pakistan (Mode 2) with only a limited activity taking place in other modes of supply.



There is scant evidence of export activity in the recreational, cultural, sporting services category. Some private entertainment companies are increasingly becoming active in organizing private shows and cultural events mostly in the Middle Eastern, UK, and US markets, to cater to the expatriate community (Mode 4). There are also instances of a few companies that offer recreational and sporting services, mostly to European and American clients, in the mountainous regions of Pakistan (Modes 1 & 2). These services typically include trekking to base camps of some of the highest peaks in the world, and hunting wild animals. There are limited news agency services sold out of Pakistan primarily to Middle Eastern clients. Most of the large international news networks have their own correspondents in Pakistan or purchase news from other foreign news agencies/correspondents based in Pakistan.

There is significant potential for tourism in the country although this potential has not been exploited to its maximum due to various reasons including poor image problem of the country and involvement in the war against terror. Travel agents and tour operators are providing services to tourists and foreign individuals serving with multinationals, multilaterals and international non-governmental organizations in the country (Modes 1 and 2). Travel agencies have linkages with foreign agencies for referral purposes but do not have commercial presence outside Pakistan. Among hotels, there is one prominent Pakistani hotel, which has commercial presence in UAE and Canada (Mode 3).

For foreigners purchasing transport services from Pakistani service providers their first point of contact, typically, is a freight forwarding company. Most of the freight forwarding companies provide comprehensive services that include customs brokerage, storage and warehousing, packaging, cargo handling, road and maritime transport etc. Clients range from foreign workers of multinational companies to multilateral agencies like the UN. Although, the scope of clients is not restricted to any particular country/region the recent events in Afghanistan saw a lot of cross-border activity and the country emerged on top of the list in terms of scale of work. In maritime transport foreign shipping lines dominate the shipping business in Pakistan, enjoying almost 90% market share, while road transport is completely dominated by local companies. Jobs are typically handled in form of Modes 1 and 2, regardless of whether the goods are being transported in or out of Pakistan.

Multinationals and foreign individuals residing in Pakistan are, currently, the only case in point of a trade in utility services (Mode 2).

To recap, there is significant current trade-in-services activity in almost all four modes of supply in the financial, construction, and some business services such as computer and IT-enabled services, engineering services, legal and accounting services etc. Although communication, distribution, and transport services are also significant in terms of scale of services traded, presently their supply is limited mostly to Mode 2.

## **2.3 Export Potential**

One of the problems in identifying and promoting the export potential of Pakistan's services sector is the lack of availability of disaggregated statistical data, making it difficult to decipher meaningful trends in Pakistan's trade in services. However, even if the disaggregated data were available, a case can be made against the past being a good indicator of future trends. Given the recent technical and technological changes affecting the services sector and influencing trade policy makers, it would be a mistake to rely just on the past performance of the services sector as the only reliable indicator of future potential. The future of services export is most likely to be different from the past as policy makers have only recently given importance to the potential of the services sector.

The volume, scope, and the speed of sale of services have increased immensely in the last decade, mainly, due to expansion and availability of internet services and the advent of e-commerce. During the last decade, Mode 1 transactions including long distance education and health services have already become important segments of national and international economic life, and it is expected that Mode 1 transactions will exponentially increase in the next few years. The development of services linked to internet and e-commerce is a reality in Pakistan and the government has worked to develop the IT industry. The government can also focus on specific sectors to promote and enhance export potential in specific markets of interest.

On the basis of export potential criteria (See Table 2.4), the following broad categories of services have been identified as priority sectors with significant export potential:

- Financial Services
- Construction and Architectural Services
- Professional Services
- Health and Medical Services
- Information Technology (See Annexure A.)

### **Financial Services**

The financial services sector in Pakistan is composed of a variety of service providers including commercial banks and non-banking financial institutions such as investment banks, development finance institutions, mutual funds, insurance and leasing companies, and Islamic finance companies. For the purposes of this report, the four main areas covered within the financial services sector are, commercial banks, securities firms, asset management companies, and insurance companies.

### **Construction & Architectural Services**

This category includes all auxiliary services to construction such as design and engineering.

### **Professional Services**

As defined in GATS, professional services include legal firms, accounting and taxation firms. For the purpose of this report, professional services are limited to legal and accounting firms only.

### **Health and Medical Services**

In this report, Health and Medical Services include hospitals and medical practitioners - doctors and dental surgeons.

Table 2.4 evaluates the export potential of each sector in light of the sample export potential criteria (**Annexure C**) and the results of the survey.

## **2.3.1 Organized Private-Sector Trade Associations**

As a qualitative indication of export potential, a review of trade associations from a private-sector perspective follows. The Pakistan Bankers Association<sup>25</sup> (PBA) is a well-funded and active association, promoting and protecting the interests of a financially strong banking community. Similarly, the Mutual Funds Association of Pakistan<sup>26</sup> (MUFAP) actively projects the interests of a

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<sup>25</sup> [www.pakbankers.com](http://www.pakbankers.com)

<sup>26</sup> [www.mufap.com.pk](http://www.mufap.com.pk)

growing industry. The Insurance Association of Pakistan (IAP) is relatively less organized and dominated by the interests of big market players. The broker community is the least organized in terms of formal representation despite the recent capital gains from the stock market.

The All Pakistan Contractors Association (APCA) represents the interests of the construction industry. This is a struggling association, which is not representative of the boom in the housing and construction sector of Pakistan. Similarly, the Institute of Architects Pakistan (IAP) is dormant in promoting the interests of the architectural community despite an upsurge in business activity.

In the legal sector, there are regional bar associations, which safeguard the interests of the lawyers. Sindh High Court Bar Association and Lahore High Court Bar Association are the two most active and prominent bar associations in the country. Bar associations mostly deal with ethical misconduct and enrolment issues and are not geared towards export orientation of their sector's potential. Sindh High Court Bar Association<sup>27</sup> has 1500 members and its offices are located in Karachi. Accounting firms, in view of their regulating code of conduct, cannot form a trade association for the purpose of trade promotion.

The Institute of Chartered Accountants in Pakistan (ICAP) is the regulatory body for the accounting profession. It safeguards and promotes the interests of accounting professionals by acting as a professional association. According to ICAP, it has 3596 members - of which nearly 800 members are serving in foreign countries and the remaining members are in the country. This number has increased from 2511 in 2000 to 3596 in 2005<sup>28</sup>. Most accounting firms have a good view of the professional expertise and export orientation of ICAP but it does not indulge in trade promotion activities as it is barred from doing so according to its code of ethics.

Pakistan Medical Association<sup>29</sup> Lahore and Karachi are the two important regional associations working for the interests of medical professionals in their respective regions. There are about 16,000 members of Pakistan Medical Association Karachi and about 13,000 members of Pakistan Medical Association Lahore.

### 2.3.2 Successful Service Firms Trading Internationally

To demonstrate that Pakistan has a stake in the global services market, examples of successful service exporters are illustrated. Banks trade services internationally in all four modes of supply. All the big banks in Pakistan such as the United Bank Limited, National Bank of Pakistan and the Habib Bank have branches outside Pakistan (Mode 3). Their main target markets are Middle East, USA, and UK, where there are substantial expatriate communities and significant commercial trade links with Pakistan. Similarly, significant trade links with the Far East was a compelling reason for Pakistani banks to open branches there. These banks also temporarily deploy professional Pakistani bankers (Mode 4) in their overseas branches and carry out hundreds of international transactions electronically (Mode 1). Pakistani professionals serve with several foreign banks operating in Pakistan such as Citibank, ABN Amro, Standard Chartered, and are frequently deputed abroad to other countries and regions around the globe (Modes 2 and 4).

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<sup>27</sup> [www.Sindhhighcourtbar.org](http://www.Sindhhighcourtbar.org)

<sup>28</sup> [www.icap.org.pk](http://www.icap.org.pk)

<sup>29</sup> [www.pma.org.pk](http://www.pma.org.pk)

Table 2.4: Export Potential Criteria and Priority Sectors

Sector	Organized Trade Association	Suc- cessful Firms	FDI	Domestic/ Regional Demand	Competitive Advantage	International Recognition	Com- mercially valuable Relations	Dynamic Domestic Market	Access to Financing
<b>Financial Services</b>									
Banks	1	1	1	1	1	2	1	1	1
Securities	5	1	4	1	1	2	2	1	2
Asset mgmt	1	1	4	1	1	2	2	1	2
Insurance	4	4	4	4	3	3	3	4	2
<b>Construction &amp; Architectural Services</b>									
Construction	4	1	2	1	1	3	3	1	4
Architects	4	3	5	1	1	4	4	1	5
<b>Health &amp; Medical Services</b>	4	2	4	1	1	3	2	1	2
<b>Professional Services</b>									
Accounting	3	1	2	1	1	3	3	1	1
Legal	4	1	2	1	1	3	3	1	5
Scale: 1: strong 2: semi-strong 3:normal 4:semi-weak 5: weak									

The securities and asset management firms are actively involved in international transactions mainly to solicit funds from foreign institutional and private investors. The bulk of securities trading transactions of foreign clients are handled electronically (Mode 1) by firms such as Elixir Securities and Alfalah Securities. Asset management firms find it imperative to hold road shows abroad (Mode 4) to compliment their electronic and mail marketing efforts. Firms like AKD Securities, Jehangir Siddiqui Capital Markets, and Arif Habib Investments actively conduct road shows for their investment products. Khadim Ali Shah Bukhari, another major player in the capital markets of Pakistan, has an arrangement with Merrill Lynch, whereby all Pakistan specific research and financial information is circulated globally to Merrill Lynch clients (Mode 1). Capital markets of Pakistan attract investment from around the globe, which is channelled mostly through fund managers based in Hong Kong and Singapore. Institutional and private funds from the Middle East and USA are also an important source for the financial intermediaries.

The insurance sector is lagging behind compared to the rest of the financial services sector in international presence. International transactions of the insurance industry include reinsurance transactions with international reinsurance companies (Mode 1) which is mandatory by law, and the insurance coverage provided to multinationals operating in Pakistan (Mode 2).

In construction and engineering services, Descon and Nespak are prime examples of Pakistani companies operating on an international level in all four modes of supply. Main clients of these companies are in the Middle East and Afghanistan, with an odd client or two in the Far East.

Very few architectural firms have handled jobs outside Pakistan. For instance, Kalim Saddiqui & Associates, CITE, and ACE, all architectural firms, have done a few projects outside Pakistan by visiting foreign sites (Mode 4) and then delivering drawings and designs electronically/courier (Mode 1). On the whole, the architectural community of Pakistan is yet to make its mark on the international arena and the examples of cross-border transactions are few considering the potential this sector represents.

In the legal services sector, Pakistani law firms are operating in all four modes of supply. Law firms in Pakistan have all the major multinationals, international non-governmental organizations and development agencies as their clients (Mode 2). Pakistani law firms deal with foreign clients through electronic means also (Mode 1) all across the globe. Pakistani lawyers visit their foreign clients abroad and deliver services in the form of legal advice and consultation via temporary movement of people to clients in the USA, UK, EU, Middle East, however they cannot appear in foreign courts, as they do not have the right of audience in these countries. The largest and leading law firm in the country, Zafar & Mandviwalla Law Associates has opened an office in Afghanistan (Mode 3) and is opening offices in China and UAE. Another leading corporate law firm, Rizvi Isa Afridi & Angell, has offices in China and UAE. One well-established law firm, SurrIDGE and Becheeno, has opened a referral office in UAE and other foreign establishments will follow soon.

Medical and Health Services are actively serving foreign clients in three modes of supply- namely 1,2 and 4. Although Pakistan needs to tap into the potential tele-health market, some doctors and dentists are advising their foreign clients through electronic means (Mode 1) but trade in services through this mode is quite negligible at the moment and needs to be focused on in the future.

Given the high cost of dental treatment abroad, most Pakistani expatriates residing in Canada, UK, USA, and the Middle East undergo dental treatment (Mode 2) in Pakistan during the visits to the home country due to cost advantages. Similarly employees of the multinationals enjoy health services at major hospitals such as Shifa International Hospital in Islamabad, Aga Khan University Hospital in Karachi. Some cancer patients from Afghanistan also undergo cancer treatment at Shaikat Khanum Memorial Cancer Hospital. Some Middle Eastern countries while importing labour from Pakistan require them to undergo medical examination at the major

hospitals in country, such as Shifa Medical Centre for Gulf Countries, who have opened exclusive medical centres catering to the needs of such foreign clients.

A number of Pakistani doctors and dentists go abroad every year for a short period (Mode 4) to serve in hospitals in UK and USA. None of the well-reputed hospitals or doctors' clinic in Pakistan has a commercial presence abroad (Mode 3) although a few might open referral offices abroad in the next few years. Shaukat Khanum Memorial Cancer Hospital has fund-raising offices in UK, USA and UAE but does not have a referral office abroad as yet. Given the nature and dynamics of the business, it is not possible for doctors or dentists to open branches of their clinics abroad (Mode 3) however opening of referral offices abroad is possible.

Accounting firms in Pakistan are active in three modes of supply-1, 2 and 4. Pakistani accounting firms provide services to multinationals and multilateral organizations in Pakistan (Mode 2). Moreover, international accounting firms in US, UK and the Middle East also outsource some of their business (Mode 1) to local accounting firms in Pakistan. Although none of the accounting firm, currently, has any office or subsidiary abroad (Mode 3), as the situation in Afghanistan stabilizes, accounting firms in Pakistan will have the opportunity to set up offices there and gain first mover advantage and a healthy market share through commercial presence.

### 2.3.3 Foreign Direct Investment

In Asia, the share of services in total FDI stock stood at approximately 50% in 2002. Finance, transport, telecommunications and business services are the targets of half of services FDI. For Pakistan distribution of foreign direct investment stock, by industry in 2002, concentrated 71.7% in services and 22.2% in manufacturing. In the same year, foreign direct investment grew in Pakistan in infrastructure and utilities<sup>30</sup>.

There is ample evidence of foreign direct investment in Pakistan. In the banking sector there are already eleven foreign banks operating in the market with substantial investments in fixed assets and local professionals. The arrangement between KASB and Merrill Lynch (Mode 1), mentioned earlier, is also a classic example of the confidence of foreign institutions in the professional skills of their Pakistani counterparts. Many reputed securities firms carry out trading transactions on behalf of their foreign clients (Mode 1) on a daily basis, as part of a commercial arrangement. Hence, the physical absence of foreign brokers and fund managers is mainly due to the regional security situation and higher transaction costs for foreign operators and not due to poor returns or deficiency in local skills.

In the construction services sector, foreign operators have to enter into partnership with local entities to bid for projects in order to comply with the by-laws of the Pakistan Engineering Council (PEC).

As foreign barristers do not have right of audience in Pakistani courts, under Pakistan Bar Council Act 1976, foreign clients have to hire Pakistani lawyers to appear in court for them. Leading law firms in Pakistan have linkages with foreign law firms who act as referral offices for foreign clients needing legal services in Pakistan. A number of lawyers and law firms specializing in WTO related issues have become active during the last few years. Previously a British law firm, Richards Butler opened its office in Islamabad but closed in 2000 due to lack of sufficient business activity. A leading international law firm Clyde & Co<sup>31</sup> has announced its intentions of opening offices in Pakistan and is in negotiations with number of major players, including Zafar & Mandviwalla, for partnership.

Five top accounting firms in Pakistan have linkages and alliances with international accounting firms. They collaborate on various assignments with these local firms in the Pakistani market.

<sup>30</sup> World Investment Report 2004 the Shift Towards Services, United Nations Conference on Trade and Development.

<sup>31</sup> [www.legal500.com](http://www.legal500.com)

A.F.Ferguson & Company is associated with Price Waterhouse Coopers. Yusuf Adil Saleem and Company is associated with Deloitte, Anjum Ausim Shahid & Co with Ernest and Young, Sidat Hyder Morshed and Co with Ford Rhodes, and Taseer Hadi and Co with KPMG<sup>32</sup>.

In Hospitals and health services, Pakistani expatriates have been instrumental in establishing hospitals such as Shifa International in Islamabad and Doctors Hospital in Lahore. Both these hospitals are providing services of international standards and are serving employees of multinationals in the country.

### **2.3.4 Market Evidence of Domestic and Regional Demand**

Pakistani banks handle a significant volume of the commercial and trade transactions of almost all the multinationals operating in Pakistan (Mode 2). Privatisation of large state-owned entities typically involves a multitude of local and foreign banks and other financial intermediaries. For instance, the recent privatisation of PTCL, a telecom giant in Pakistan, involved several local banks and financial intermediaries in an international consortium of financial institutions, to carry out a range of activities including valuations, under writing, advisory etc. Strong performance of the capital markets has also attracted foreign investment in the equity market, which is channelled through financial intermediaries (Mode 2) like AKD Securities, Jehangir Siddiqui etc.

Most multinationals operating in Pakistan, have some form of insurance. EFU and Adamjee, two of the largest private insurers in the market, have a significant number of multinationals in their portfolio (Mode 2). However, the demand for insurance services is limited to urban centres and dominated by the public sector companies.

A majority of those (50%) surveyed in the financial services sector strongly agreed that the demand for services is growing. Similarly, overwhelming majority (65%) in the construction and architectural services agreed that the demand was on the rise.

Kaizen Construction, a mid-size firm, was recently contracted by Nestle, a multinational, for the complete civil works of its new mineral water processing plant outside Karachi (Mode 2). Descon Engineering has civil works of several foreign owned power projects in Pakistan, in its portfolio.

In architectural services, firms like Kalim Saddiqui & Associates have completed several projects for multinationals operating in Pakistan such as banks, telecoms etc (Mode 2).

Both accounting and legal firms have all the multinational and multilateral firms as their clients. Similarly, hospitals such as Aga Khan, Shifa International Hospital etc. have all multilaterals and multinationals on their clients list.

Regarding export of medical professionals abroad especially in the Gulf region, Pakistan already has a substantial capacity to join the international job market in the medical and dental services sector. It will however be necessary for the concerned associations and the Ministry of Commerce to monitor the offers of WTO members relating to this service. In addition to doctors and dentists, Pakistan has already demonstrated its capacity to export midwives, nurses, physiotherapists and paramedical services to the Gulf States.

In our survey, 70% and 75% of the respondents among professional and medical services firms respectively either strongly agreed or agreed that demand for their services is growing.

### **2.3.5 Domestic Services Firms with Competitive Advantage**

In the financial services sector, almost three fourth of the respondents to the survey believed that their international competitive edge lies in their workforce and the quality of service. Nearly half of

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<sup>32</sup> Conversation with Mr. Asad Ali Shah, Vice President Institute of Chartered Accountants in Pakistan (ICAP)

them believed that specialization and brand identification distinguished them from the crowd in international markets.

Most Pakistani banks operating in the Middle East, USA, and UK, specialize in home remittance services and have strong brand identity and loyalty amongst the expatriate community, particularly in the Middle East. While quality of service may not be a distinguishing attribute of Pakistani banks, they do possess a pool of seasoned professionals with vast experience in international transactions. Similarly, financial intermediaries like securities and asset management firms also specialize in attracting expatriate community funds, and employ high quality professionals. In contrast, there is a serious shortage of trained professionals in the insurance industry.

In the construction and architectural services sector, three fourths of them thought that specialization and cost effectiveness enabled them to compete internationally and even more of them believed that quality is their hallmark on the international stage.

Most of the construction firms originating from Pakistan have an inherent advantage in terms of cheap labour, both skilled and semi-skilled. Engineers with years of experience working for multinationals within Pakistan and in the Gulf states, form a valuable pool of resource for engineering firms. Moreover, engineering qualifications of Pakistan are recognized in the Middle East, which makes it relatively easier for Pakistani companies to meet pre-qualification requirements in this important market. However, this may not be the case in developed markets. Pakistan is also one of the largest suppliers of semi-skilled labour to the Middle East.

The architectural community, in particular, felt very strongly about the quality of their service as any compromise on the quality of their product was likely to seriously damage their credibility as a reliable service provider in the international market.

As international accounting firms are outsourcing business to local accounting firms, this is a clear indication of competitive advantage in terms of price and quantity. In health and medical services, expatriate community often prefer undergoing treatment, especially dental treatment, in Pakistan compared to high cost of dental treatment abroad. Law firms have a captive market in Pakistan as foreign lawyers do not have a right of audience in Pakistan, so foreign firms have to deal with local law firms and lawyers.

In the survey, 90% of professional firms and 100% of medical services firms ranked means of delivery of services as their competitive advantage while 65% in both services sector considered specialization as another major competitive advantage of these firms.

### **2.3.6 Domestic Firms with International Recognition**

The National Bank of Pakistan (NBP) was recognized as the best foreign exchange bank in Pakistan by Global Finance, in its March 2004 issue, and the best emerging market bank from Pakistan for the year 2005. Similarly, Asia Money<sup>33</sup>, another popular business periodical, frequently recognizes Pakistani banks and financial intermediaries for their achievements.

It is not uncommon to find mention of Pakistani construction and engineering firms operating in the gulf region in the business pages of 'Khaleej Times'<sup>34</sup> or the 'The Gulf News'<sup>35</sup>, two of the most widely circulated journals in the Middle East.

Among hospitals, Aga Khan University Hospital in Karachi, Shifa International Hospital in Islamabad and Shaukat Khanum Memorial Hospital in Lahore are internationally well known hospitals.

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<sup>33</sup> [www.asiamoney.com](http://www.asiamoney.com)

<sup>34</sup> [www.khaleejtimes.com](http://www.khaleejtimes.com)

<sup>35</sup> [www.gulfnews.com](http://www.gulfnews.com)



Among the law firms, Surridge and Becheeno and Orr Dignam and Co<sup>36</sup> are the two oldest and most well-established law firms in the country which have brand recognition in the region

### 2.3.7 Commercially Valuable Cultural, Regional, and Historical Relationships

This attribute is particularly true for the region of Middle East, where close cultural, regional, and historical relationships helped Pakistani companies establish their presence. The same opportunity exists in Central Asia and countries of South Asia, if Pakistani companies were to identify commercial opportunities. Pakistani firms can apply their experience in Gulf States and elsewhere, to gain a foothold in these new emerging markets.

Pakistani law and accounting firms are becoming active in Afghanistan either in form of temporary movement or commercial presence. Similarly a local accounting firm has commercial presence in Central Asia and some law firms have either set up or are in the process of setting up offices in China and UAE. Pakistan has valuable cultural regional and historical relations with all these countries. Aga Khan Hospital attracts consumers from African countries such as Tanzania and Kenya- which has sizeable Indian community mostly Aga Khani Ismailis.

### 2.3.8 Dynamic Domestic Services Market

Commercial banks dominate the domestic financial services sector with total assets to the tune of PKR 2,933 billion as of December 2004<sup>37</sup>, equivalent to 65.5% of GDP. The capital market (KSE Index) for the first time represents a significant share of 46% in GDP<sup>38</sup> whereas, insurance, and other non-bank intermediaries are relatively small.

At present, the total number of banks operating in Pakistan are 38, out of which 4 are public sector commercial banks, 20 are local private banks, 11 are foreign banks, and 3 are specialized banks. With the privatisation of United Bank Limited in October 2002, and Habib Bank Limited in February 2004, 75% of the country's banking assets are in private hands. National Bank of Pakistan is the largest bank in Pakistan with assets in excess of PKR 500 billion, followed by Habib Bank (465 billion), United Bank (273 billion), and Muslim Commercial bank (259 billion) Of these four largest banks only NBP remains state-owned. However, NBP is being gradually 'corporatised', with 23% of its shares floated on the Karachi Stock Exchange<sup>39 40 41 42 43 44</sup>.

The capital markets in Pakistan witnessed phenomenal growth in the last couple of years. At the close of trading on June 30, 2005 the benchmark index (KSE-100) stood at 7450.12 basis points with market capitalization of PKR 2068.19 billion and listed capital to the tune of PKR 438.49 billion. The share of market capitalization in GDP has risen from 19.7% in FY 2003 and 26% in FY 2004, to 46% in FY 2005. While the number of listed companies on the KSE dropped down to 659 in FY 2005, a record amount of PKR 55.6 billion was added to the listed capital in the previous year. Despite public offering of state-owned companies the investor base remains small and trading is highly concentrated in a few shares, which account for nearly half of the market capitalization on the Karachi Stock Exchange.

<sup>36</sup> [www.legal500.com](http://www.legal500.com)

<sup>37</sup> State Bank of Pakistan Review, Dec 2004. [www.sbp.org.pk](http://www.sbp.org.pk)

<sup>38</sup> Karachi Stock Exchange. [www.kse.com.pk](http://www.kse.com.pk)

<sup>39</sup> [www.imf.org/external/pubs/ft/scr/2004/cr04215.pdf](http://www.imf.org/external/pubs/ft/scr/2004/cr04215.pdf)

<sup>40</sup> [www.imf.org/external/pubs/ft/scr/2005/cr05157.pdf](http://www.imf.org/external/pubs/ft/scr/2005/cr05157.pdf)

<sup>41</sup>

[www.worldbank.org/servlet/WDSContentServer?WDSPath=IB/2005/04/01/000012009\\_20050401092303/Rendered/PDF/31936.pdf](http://www.worldbank.org/servlet/WDSContentServer?WDSPath=IB/2005/04/01/000012009_20050401092303/Rendered/PDF/31936.pdf)

<sup>42</sup> [www.sbp.org.pk/publications/bsr/bkg\\_system\\_review\(2004\).pdf](http://www.sbp.org.pk/publications/bsr/bkg_system_review(2004).pdf)

<sup>43</sup> [www.sbp.org.pk/reports/stat\\_review/stats\\_bulletin.htm](http://www.sbp.org.pk/reports/stat_review/stats_bulletin.htm)

<sup>44</sup> [www.sbp.org.pk/reports/annual/arFY04](http://www.sbp.org.pk/reports/annual/arFY04)

The recent surge in the stock market also spurred modest growth in the fund management industry. In FY 2004, the Net Asset Value (NAV) of the mutual funds nearly doubled from the previous year reaching the figure of PKR 97.3 billion<sup>45</sup>, which is less than two percent of the GDP. The aggregate net assets under management of mutual funds thus increased by a very substantial 81.2 %, much faster than the growth of KSE<sup>46</sup>. At present, there are a total of 31 funds of which 18 are closed-end funds with NAV of PKR 26.1 billion, and the remaining 13 are open-ended funds with NAV of PKR 71.2 billion<sup>47</sup>. National Investment Trust (NIT), the largest open-ended fund, is state-owned.

While the insurance industry is regarded as a strong pillar in most developed economies, in Pakistan it is constrained by issues of legislation, reinsurance, and taxation. Moreover, there is a serious shortage of trained professionals in this sector. Despite these limitations, the insurance sector has shown some improvements in recent years, mainly on the back of a strong economy. The total insurance premium of life and non-life/general insurance for calendar year 2003 was PKR 55 billion compared to PKR 44.3 billion for calendar year 2002<sup>48</sup>. However, the size of Pakistan's insurance industry is relatively small in proportion to GDP, less than five percent.

The insurance market in Pakistan is broadly categorized into two main classes: life insurance and non-life/general insurance. At present, there are 54 insurance companies with total assets to the tune of PKR 145 billion, out of which 49 are non-life/general insurance companies and the remaining 5 offer life insurance. The Pakistan insurance industry has less than 10 companies underwriting over 80% of the total business. State owned service providers dominate both life insurance and non-life insurance segments<sup>49</sup>. In the non-life insurance business, Adamjee, EFU, and New Jubilee, all private companies, have the biggest stake in the market apart from NICL, a state-owned company. There is only one reinsurance company and the insurance market is highly concentrated in urban areas.

The absence of reliable data makes it very hard to comment on the exact composition of the construction and architectural industry. However, in general, few very large players and a plethora of small to mid-size firms characterize the construction industry. According to the latest Economic Survey 2005, the share of construction in GDP is 2 %. However, the survey classifies construction as a commodity and not as a service. If accounted for in the survey, the share of construction services in GDP would be much higher. As of March 12, 2005 the Pakistan Engineering Council (PEC) had 24793 registered companies of all sizes, out of which 680 are top tier C1 category. Competition has intensified immensely for mega projects by the entrance of foreign companies, mostly of China origin. Foreign companies cannot bid for projects without local partnership, and find it easier to meet the very demanding pre-qualification requirements for mega projects. As a result, smaller local players are often left out of the process simply because they cannot qualify.

The Institute of Architects Pakistan (IAP), the only trade association for architects, has 116 members. In reality, the architectural community is much bigger and spread through out the country. Competition has intensified with many new smaller entrants in the market trying to capitalize on a booming housing and construction sector in Pakistan.

The overwhelming majority of respondents in both the financial services (60%) and construction services (75%) agreed that the competition has intensified considerably in their respective industries, which supports the above assertions. When asked about market entry costs, 40% and 45% of the financial and construction services providers respectively, agreed that they were low.

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<sup>45</sup> State Bank of Pakistan Financial Markets Review. [www.sbp.org.pk/publications/FMR/index.htm](http://www.sbp.org.pk/publications/FMR/index.htm)

<sup>46</sup> [www.investcapital.com/capital.htm](http://www.investcapital.com/capital.htm)

<sup>47</sup> [www.mufap.com/what%20is%20mf.htm](http://www.mufap.com/what%20is%20mf.htm)

<sup>48</sup> Securities and Exchange Commission of Pakistan (SECP) [www.secp.org.pk/divisions/insurance/](http://www.secp.org.pk/divisions/insurance/)

<sup>49</sup> See [www.modarabas.com/php/admin/resources/uploads/obstacles%20in%20pakistan.pdf](http://www.modarabas.com/php/admin/resources/uploads/obstacles%20in%20pakistan.pdf)

This is despite the fact that the State Bank of Pakistan (SBP) has raised the minimum capital requirement for banks to PKR 1 billion. Similarly, the minimum paid-up capital requirement for life and non-life/general insurance companies has been raised to PKR 150 million and PKR 80 million, respectively. The cost of membership to the Karachi Stock Exchange (KSE) can go as high as a couple of million USD or higher sometimes. While it does not take much to start a construction firm, the Pakistan Engineering Council (PEC), has set a minimum capital requirement of PKR 20 million for firms wanting to qualify for the top tier C1 slot.

A number of sizable multinational companies are established in Pakistan. These companies and their employees provide an expansive pool of clients for legal and health service providers. There are approximately 120,000 lawyers in the country and about 25-50 corporate law firms<sup>50</sup> dealing with foreign clients. According to the Economic Survey 2005 and the Pakistan Medical and Dental Council, the regulatory body for Medical and Health Services, there are approximately 113,000 registered doctors<sup>51</sup> and 6,200 registered dentists in the country. However, there are large number of doctors and dentists who are working in the country but are not registered with Pakistan Medical and Dental Council<sup>52</sup>.

In our survey, 85% and 95% of professional services firms and medical services firms respectively considered that their industry is competitive.

### 2.3.9 Clear Evidence of Access to Financing

The persistence of favourable macro-economic conditions in the last few years, have improved the health of the banking sector considerably (see **Figure 2.8**). In 2002, bank deposits swelled on back of excess liquidity and massive corporate borrowing due to record low interest rates. In 2003, banks profitability was fuelled by hefty capital gains from investments in equities and government securities. Again in 2004, banks recorded healthy profits due to growth in advances and trade volume<sup>53</sup>. As interest rates have started to climb back up again as a control measure to curb inflation, investments once again appeared as a profitable avenue for the banks in 2005. Moreover, deposit rates in banks did not move in line with the lending rates which translated into higher spreads for the banks. In simple words, higher earning assets coupled with higher spreads meant greater profitability for the banks in 2005<sup>54</sup>.

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<sup>50</sup> [www.legal500.com](http://www.legal500.com)

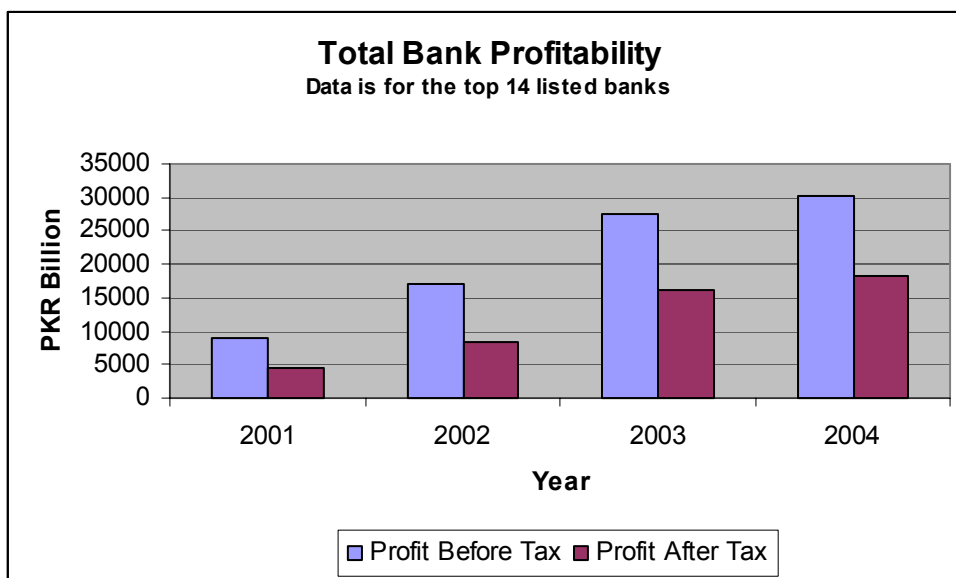
<sup>51</sup> [www.pmdc.org.pk](http://www.pmdc.org.pk)

<sup>52</sup> Economic Survey 2005. Chapter 12. Page 2. [www.finance.gov.pk](http://www.finance.gov.pk)

<sup>53</sup> See [www.kasb.com/KASBDirect/dynamic/research/Pakistan%20Strategy.PDF](http://www.kasb.com/KASBDirect/dynamic/research/Pakistan%20Strategy.PDF)

<sup>54</sup> [www.investcapital.com](http://www.investcapital.com)

Figure 2.8: Total Bank Profitability



Source: State Bank of Pakistan Annual Report 2004

Despite the recent rise in interest rates, borrowing is likely to be undeterred as the rates are still much lower than in the 90's. In addition, the rates are fairly low once adjusted for inflation and the returns on alternative investments are still higher than the lending rates.

In the survey, 65% of the respondents from the financial services community checked easy access to credit while majority of the respondents, 40% of them, in the construction and architectural services believed that access to credit was difficult. This comes as no surprise given the current excess liquidity in the financial services sector. Construction and architectural firms always had difficulty in accessing financing mainly due to lack of adequate collateral. Although excess liquidity and an upswing in demand has improved things marginally for this sector, as banks are more willing to lend to non-traditional clients, access to credit still remains constrained.

**2.3.10 Conclusion**

The Table for Priority Services for Export Expansion (**Annexure C**) summarizes the findings in this section.

Overall, the service providers have tremendous export potential for several reasons. Despite the disadvantage of weak associations, with the exception of banks, asset management companies, and accounting firms that have organized and vocal associations, most of the services firms are actively delivering services in at least two or three modes of supply. Few large law and construction firms, and commercial banks are delivering services in all four modes of supply. With eleven foreign banks operating in Pakistan, the capital markets surging with foreign and local investment, and numerous examples of collaboration between local entities and foreign operators in the fields of construction, law, and accounting there is ample evidence to conclude that there is substantial foreign direct investment in Pakistan. Moreover, product specialization and cost effectiveness give domestic service suppliers a strong competitive advantage and recognition on the international stage. Despite difficulties faced by some service providers in securing financing, the services environment in Pakistan continues to be dynamic with healthy demand and increasing competitiveness.

Pakistan has yet to develop the full export potential of its services sector, and take fuller advantage of the GATS to secure assured markets for its export-related services. Although Pakistani firms in the legal sector are serving clients in all four modes of supply, the opportunities for Mode 3 are limited as Pakistani lawyers do not have a right of audience in foreign courts just as foreign lawyers do not have a right of audience in the courts in Pakistan. Few Pakistani law firms have established commercial presence in Afghanistan, China and UAE and other law firms are also expected to tap these markets. Mode 1 and Mode 2 activities are the main source of business for accounting firms and a few of them have also opened offices in Central Asia and are planning of venturing into Afghanistan.

While Middle East continues to be the favourite destination for service exports in financial and construction sectors, there is tremendous room for expansion in the untapped emerging markets of Central Asia, Africa, and South Asia which can be explored by banks and construction firms in modes 3 and 4, by taking advantage of the cost efficiencies and the vast experience gained in the Gulf states. Pakistan being at the crossroads of civilization should benefit service exporters from the significant historical and cultural relations with its Asian neighbours to the West and the South. Moreover, the government of Pakistan has lifted most of the restrictions on investment abroad. More recently, the State Bank of Pakistan (SBP) allowed mutual funds to invest a certain percentage of their portfolio in assets outside of Pakistan. These measures reinforce the ability to tap new markets.

Given the strides that Pakistan has made in technology infrastructure and restrictions faced by Pakistanis in travelling to countries like the USA and UK, outsourcing (Mode 1) is a growing segment for architectural firms, financial intermediaries, accounting and medical firms. In particular, Pakistani health firms need to capitalize on opportunities being offered in tele-health and e-commerce in health related services. The dynamism of the market and the inherent cost effectiveness of service providers form a solid base to expand exports from Pakistan. Domestic firms will need to invest in technology to get on an equal footing with the international players and capitalize on their competitive advantages. Also the insurance industry has significant potential to grow if linked with the trade in services. However, this would require appropriate policy support from the regulatory institutions of the country.

## **2.4 Exemplary Service Exporters**

### **2.4.1 CresSoft**

CresSoft exports custom software and IT-enabled services to clients in the USA. Crescent Software Products (Pvt.) Ltd. (CresSoft) was incorporated in Lahore Pakistan in early 1992 by a group of four young Pakistani engineers who had been educated abroad. The venture received start-up funding from a large business conglomerate with interests in manufacturing and finance – the Crescent Group.

In mid 1992, the CEO proceeded to Los Angeles, California from where he launched his sales efforts. The first export client Digital Equipment Corporation (DEC), (since acquired by Compaq which was in turn acquired by Hewlett Packard,) was contracted in mid 1993 and all work was done free of cost in order to establish a reference site.

The first paying customer – Time Warner – was signed in early 1994 at which time a wholly owned USA subsidiary CresSoft, Inc. was incorporated in Englewood, Colorado. CresSoft went on to sign nine GLOBAL 2000 and FORTUNE 500 clients, won several awards, and received press coverage in leading publications like the Wall Street Journal and Forbes. Most of the clients were USA based and most of the work was performed in Pakistan. Direct marketing by company executives, sometimes to the expatriate Pakistani community, was the primary sales channel.

CresSoft's success was due to a good management team, venture capital funding by the Crescent Group, and the surge in the offshore IT outsourcing market in the 1990s. For a long time, CresSoft was not only the pioneer of software exports from Pakistan, but also the technology leader and by far the largest export revenue generator among software and IT firms in the country.

Later it suffered a decline and its story is useful not only for practices to emulate but also for a couple of practices to avoid. Its decline happened due to an almost exclusive focus on the USA coupled with an inability to retain sufficient higher managerial talent. As a result, following the technology decline in the USA in 2000 and 9/11, CresSoft was unable to build up other markets around the world. Today, with the USA market picking up again, CresSoft's revenues are on the upswing.

Trade impediments faced by CresSoft include cumbersome visa procedures in the USA, compensation floors in the USA, lack of access to commercial and partnership opportunities abroad, scarcity of quality human resources and inadequate access to funding.

#### **2.4.2 IMPACT Design Studio**

IMPACT Design Studio provides architectural and interior design services. Mr. Usman Khan who is a graduate of a premier Pakistani architecture college launched it in 1993. The firm was launched with a relatively small capital base from personal funds and no external funding was sought.

In a little over a decade, IMPACT has become one of the premier design firms in the country with branches or associate offices in Lahore and Karachi in Pakistan, Dubai in the United Arab Emirates (UAE) and Manila, Philippines – in addition to the Islamabad Headquarters. Number of employees is expected to reach 55 by the end of 2005. Mr. Usman Khan, the founder, Principal and CEO, attributes success to core values of long term focus rather than short term expediency, superior standards of quality and professionalism, and robust managerial processes.

Quality is assured through ISO certification and rigorous audit controls. IMPACT is the only design firm from Pakistan to be a Professional Member of the International Interior Design Association (IIDA). Membership in the Chicago, Illinois based association entails maintenance of international standards of service and participation in a continuing education program.

IMPACT was able to penetrate the local multinational market in 1995, only two years after launch, by landing a contract with Motorola's Pakistani subsidiary – Mobilink. Effective networking, a well-deserved reputation for superior designs, word of mouth advertising, and direct selling by the CEO helped land the contract. Since then IMPACT has gone on to sign a slew of multi-nationals including McDonalds, Pizza Hut, Nike, British Airways, Singapore Airlines, UNICEF, Petronas, Premier Exploration, Telenor, and several others. Superior performance and referrals are the engines of growth for IMPACT – in common with other high-end services companies.

IMPACT started marketing overseas five years ago through partnerships with design firms abroad and participation in International Trade Shows and Expos. A liaison office was opened in Dubai last year which helped in signing three contracts with large business conglomerates in the United Arab Emirates (UAE). IMPACT not only provides designs over the Internet from its Pakistan offices but also regularly sends its architects and specialist consultants on short-term work and sales assignments to clients overseas.

Trade constraints encountered by IMPACT in the local market are: limited supply of skilled human resource, onerous taxation, and inadequate access to funding.

Scarcity of skilled personnel is the biggest challenge. Freshly graduated architects prefer to start their own practices rather than working with established firms. Owing to the construction boom in

Pakistan and the region, supervisors with high-end skills and AutoCAD draftsmen are hard to find as well. Multiple layers of taxation is another problem which escalates service cost and reduces competitiveness in overseas markets. Finally, lending institutions do not accept receivables as collateral. As a result financing is not available to fund growth and export expansion. If receivables are delayed, the resultant cash flow crunch can impact operations. IMPACT believes that while solving the HR issue may be a longer-term proposition, a revision of the Tax Policy could boost exports in the short term – as would be the availability of funding.

Trade impediments in overseas markets include: non acceptance of professional credentials, lack of access to international trade leads, restrictions on opening branch offices abroad, and cumbersome regulatory procedures. IMPACT recommends that the Government of Pakistan should facilitate the translation of international design standards to domestic standards and that Pakistani missions abroad play a more active role in promoting credentials of Pakistani firms and introducing trade leads.

IMPACT would also like to see a removal of constraints in Gulf Cooperation Council (GCC) countries on the establishment of branch offices. Currently branch offices can only be opened as joint ventures with local firms. There have been instances where the local partner has edged out the foreign partner once the joint venture became profitable. The minimum investment and paid up capital requirements are also quite onerous, as is the time consuming procedure of registering with local Municipalities and Authorities.

Despite these hurdles, IMPACT is optimistic about its future and the future of services exports from Pakistan. Mr. Usman Khan expects his company's export growth trend to continue. He firmly believes that entrepreneurial zeal, long-term vision and a passion for excellence are the key determinants of success. With facilitation from the Government, prospects for trade in services from Pakistan would become even brighter.

### 2.4.3 KASB Securities

KASB Securities is Pakistan's leading securities firm with more than 50 years of experience in the domestic financial market. The company was established by the late Mr. Khadim Ali Shah Bukhari in 1952. The current chief executive of the company, Mr. Farrukh H. Sabzwari, is a dynamic individual with a foresight for new business opportunities.

The company is focused on securities sales and trading and Investment consultancy, and currently has 3 offices (Karachi, Lahore & Islamabad) in Pakistan. KASB Securities is the local affiliate of Merrill Lynch in Pakistan, since 1993, which gives the company a global presence. The company has recently acquired a stake in a Dubai based, asset management company, to tap into the regional brokerage and fund management opportunities.

KASB has been a four-time recipient of Euromoney's Award for Excellence. The KASB Securities' equity desk trades approximately 5% of the daily turnover on the Karachi Stock Exchange (KSE) and is responsible for attracting over USD 2 billion of investment from foreign institutional clients. Other key credentials include:

- ❖ Only securities firm to receive the "Top 25 Companies Award" from the Stock Exchange in 1999;
- ❖ Recipient of the Management Association of Pakistan's award for "Best Managed Financial Services Firm" for 2001; and
- ❖ Rated A1 (short term) and A (long term) by PACRA (a rating agency)

KASB attributes success to its long-term focus, local market expertise, quality human resources and services, product innovations, and technological superiority which have enabled the company

to develop world-class sales and distribution skills in the international markets, both in terms of institutional & retail capabilities. On the domestic front, they have very strong distribution and syndication capabilities that have made them a credible brand name. KASB's ability to execute large and complex transactions for its clients has been significantly enhanced by its affiliation with Merrill Lynch. KASB has been the first to introduce online trading system in Pakistan and only one of the few local companies to subscribe to Bloomberg service. The company's client list includes a large number of international fund managers, virtually all domestic financial institutions, and the largest retail client base in the local market (approximately 3800). KASB has developed in-house research and consultancy team which compliments its ability to deliver wholesome services to its national and international clients. In 1997, the company signed an agreement to produce research reports in conjunction with Merrill Lynch.

Although KASB's clients originate from a range of countries such as USA, UK, Hong Kong, Singapore, Middle East etc, its primary export markets are USA, Hong Kong, and Singapore. Currently, the company delivers services in three (Mode 1, 2, & 4) out of the four modes of supply. The main constraint facing the company is the restrictive travel regime. The company finds it essential to conduct road shows in foreign market to attract institutional and retail clients and is severely inhibited by the tight visa policies of countries like the USA, which is also one of its primary export market. Lack of market information and inability to obtain recognition of professional credentials are the other constraints impeding the company's ability to export. Mr Farrukh H. Sabzwari also pointed out to their inability to freely offer products/services to retail investors in foreign markets due to regulatory constraints as a major obstacle to export expansion. The impediments in the domestic market that hamper companies export capabilities are poor energy infrastructure and high cost of telecommunication services. Domestic regulatory measures without proper foresight (for instance, the "badla" transaction phase out) were also identified by KASB as impediments to growth.

#### **2.4.4 Surridge & Becheeno**

Surridge & Becheeno is one of the oldest and largest law firms in Pakistan and is widely considered as the leading law practice in the country. It provides a range of specialist advice to private, institutional and corporate clients, with most of the world's biggest law firms turning to it for advice on matters pertaining to Pakistani laws and jurisdiction. It is also the honorary legal advisor to the British High Commission and the Swiss Embassy in Pakistan.

The Firm was founded in 1948 in Karachi by two British Barristers, Charles Surridge and Peter Becheeno. Both the founding partners had a family history of legal practice in Rangoon (Burma) going back to the middle of the 19th century. Over the years the firm expanded and inducted several Pakistani partners and opened branch office in Lahore and Chittagong in the then East Pakistan. The last of the British Senior Partner was Mr. John Frederick Campbell Gallaher, CBE, DSO, DFC and BAR, war-time pathfinder and later Solicitor. Through his efforts and skill as a solicitor, the oldest law firm in the country contributed to the industrial development of Pakistan, which contribution is well recognized by local and foreign investors who have benefited from the Firm's assistance.

The firm, with its principal office in Karachi, now has four partners and twenty-one associates. In addition to the existing branch office in Lahore, the Firm has recently opened a branch office in Dubai, UAE, thereby becoming the first Pakistan based firm to go global. Mr. Anwar Aly Shareef is the Senior Partner of the firm in Karachi while Mr. Aftab Ahmed Khan heads the Lahore office of the firm as Senior Partner. The partners of Surridge & Becheeno have acted as Chairmen and Directors of many companies set up in Pakistan. They are active members of the International Bar Association and Inter-Pacific Bar Association and have read papers on different topics in various international conferences. The Firm's partners have appeared as counsel in many



landmark cases and secured decisions by the Supreme Court of Pakistan laying down the law which is followed as precedents.

The Firm is dedicated to providing the highest quality legal representation to institutional and individual clients who demand the sophistication and expertise of a large law firm but who can also benefit from the more individualized client services (and cost effectiveness) offered by a specialized practice. It provides legal services in almost all parts of Pakistan and has trained personnel specializing in different branches of law. The Firm while maintaining its position as the oldest law firm in Pakistan and highest quality of legal services, is committed towards making contributions to the legislative process, assisting courts and tribunals in setting new standards in enforcement prosecution practices. The Firm also provides to its clients the services of Negotiation, Mediation, Conciliation, and Arbitration.

The firm has long been recognized for the quality of its service, both technical and personal. This has been achieved by consistently recruiting team players possessing flair and intellect coupled with a desire to exceed clients' expectations. Frequently, its role puts the firm at the centre of industries, which are reshaping. The firm has an established reputation for innovative work on groundbreaking deals and restructuring. The firm has a longstanding reputation for advice on mergers, acquisitions and take-overs, and forms an integral part of an international network of commercial lawyers

The Firm has wide-ranging corporate clientele including international financial institutions, banks, pharmaceutical companies, oil and gas companies and airlines, insurance companies, shipping companies, consumer product companies, leasing companies, construction companies in energy, dams, road building and general construction business. In addition the Firm is the Karachi representative of a number of P&I Clubs based in the United Kingdom and Japan. The firm has also a corresponding relationship with major New York and London firms.

The Company has presence in all four modes of supply. Most of its clients are from US, UK, EU, China and Middle East. Specialization, unique expertise and quality of service are the three main sources of competitive advantage for the firm. Regarding infrastructure in the country, the firm is of the opinion that telecom services in the country are good with a variety of services at affordable prices. Regarding ICT equipment, the firm feels that it is sometimes available at affordable prices. The company feels that energy infrastructure in the country is of low quality and expensive while availability of skilled professionals in the country is also low. Deteriorating law and order situation coupled with political instability are the two main threats to the volume of business activity of the firm. The firm, given its reputation regionally and linkages with other international firms, has not faced any export constraint while delivering services to foreign clients inside or outside the country.

About proposed regulatory changes in the country, the company is of the opinion that publications of laws, regulations and administrative guidelines would improve the regulatory environment in the legal profession. The firm is of the opinion that legal bar associations lack export orientation and do not take concrete trade promotion steps aimed at boosting service exports. Surridge and Becheeno thinks that there is scope for foreign firms to open offices in Pakistan in collaboration with reputed local firms- as foreign barristers do not have right of audience in Pakistan's courts. However, this decision by foreign firms will be dependent upon volume of business activity and improving the law and order situation in the country.

### 3. DOMESTIC CAPACITY AND INFRASTRUCTURE

As pointed out in Section 2.1, the share of services and commodity producing sector in Pakistan's GDP is nearly equal<sup>55</sup>. The figures in Table 3.1 show that the services sector has posted higher growth every year for the last five years. The services sector registered an impressive growth of 7.9 % in 2005, against an equally robust growth of 6% last year and against the target of 6.2% for the year. This year's impressive growth was achieved on the back of robust growth in telecom sector, stellar performance in banking and insurance and wholesale and retail trade. The major sub-sectors within services sector, which posted buoyant growth in 2005, included telecom (5.6%), retail and wholesale trade (12%), finance and insurance (21%), and social services (5.4%)<sup>56</sup>.

However, there are certain data problems as some of the growth rates are based on surveys that are outdated<sup>57</sup>. This makes linkages with economic activity difficult and underscores the need for improving data sets to accurately reflect current economic activity in the country and help policy makers to devise appropriate policies. As the present classification of services is restricted to just six categories, it is very important that Federal Bureau of Statistics extend the coverage and presentation of services sector statistics through extension of its data collection network. Without efforts in this direction, the contribution of fast growing service sectors to growth, investment and employment may remain un-captured.

Table 3.1: Growth Pattern of Different Economic Sectors

	2000-01	2001-02	2002-03	2003-04	2004-05
<b>Commodity Producing Sector</b>	<b>0.5</b>	<b>1.3</b>	<b>4.4</b>	<b>6.9</b>	<b>8.9</b>
Agriculture	-2.2	0.1	4.1	2.2	7.5
Major Crops	-9.9	-2.5	6.8	1.9	17.3
Minor Crops	-3.2	-3.7	1.9	2.6	3.1
Livestock	3.8	3.7	2.6	2.8	2.3
Fishing	-3	-12.3	3.4	2	2.1
Forestry	9.1	-4.4	11.1	-5.5	0.4
Industry	3.6	2.6	4.7	12	10
Manufacturing	9.3	4.5	6.9	14.1	12.5
Large scale	11	3.5	7.2	18.2	15.4
Small Scale	7.5	7.5	44.5	6.2	6.2
Mining and Quarrying	-1.7	7.3	16.1	3.8	5
Construction	0.5	1.6	4	-6.9	6.2
Electricity and gas distribution	-13.7	-7	-11.7	21.1	2.1
<b>Services Sector</b>	<b>3.1</b>	<b>4.8</b>	<b>5.2</b>	<b>6</b>	<b>7.9</b>

<sup>55</sup> Table 2.1 shows in detail the breakdown of GDP by economic activity and the changes in its composition during 2000-2003.

<sup>56</sup> *Economic Survey 2005*. See website <http://www.finance.gov.pk/survey/chapters/01-Growth.pdf>

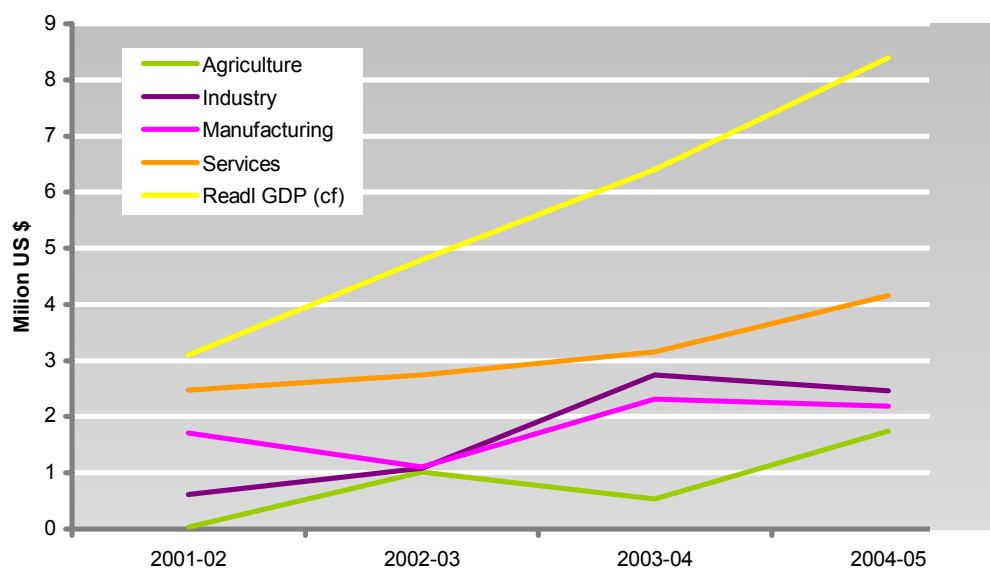
<sup>57</sup> State Bank of Pakistan Annual Report 2003-04. See Website [http://www.sbp.org.pk/reports/annual/arFY04/Chapter\\_2.pdf](http://www.sbp.org.pk/reports/annual/arFY04/Chapter_2.pdf)

Wholesale and retail trade	4.5	2.8	6	8.1	12
Transport, storage and communication	5.3	1.2	4.3	5.5	5.6
Finance and Insurance	-15.1	17.2	-1.3	4.5	21.8
Ownership of dwellings	3.8	3.5	3.3	3.5	3.5
Public administration and defense	2.2	6.9	7.7	4.2	-0.8
Other services	5.6	7.9	6.2	5.2	5.4
<b>Gross Domestic Product ( at constant factor cost)</b>	<b>1.8</b>	<b>3.1</b>	<b>4.8</b>	<b>6.4</b>	<b>8.4</b>

Source: Economic Survey 2005

The importance of services sector in GDP growth can be gauged from the fact that out of the economic growth rate of 8.4% in 2005, 4.16% is attributed to services sector while industry and agriculture contributing the remaining 4.3%<sup>58</sup>. This year the economic growth has been very broad-based and shared by all the sectors of the economy but in the last 3 years, services sector has been the main engine of economic growth (see Figure 3-1).

Figure 3.1: Sectoral Contribution to the GDP Growth Rate (% points)



Source: Economic Survey 2005

In terms of employment, agriculture is the major employer in the country, accounting for 43% of employed labour force while the services sector accounts, according to Economic Survey 2005, for 36% of employment. The share of services sector in employment goes up even further closer to 40%, if one partially includes construction sector in the services sector. Within the services sector, trade is the main contributor- accounting for 14%<sup>59</sup> of the total employment. Continued expansion in services activity domestically and internationally is heavily dependent on the quality and cost of telecommunications, information communication technology, energy, transport, services workforce as well as the nature of the services regulatory environment.

<sup>58</sup> *Economic Survey 2005*. See website <http://www.finance.gov.pk/survey/chapters/01-Growth.pdf>

<sup>59</sup> *Economic Survey 2005*. See website <http://www.finance.gov.pk/survey/chapters/13-population.pdf>

### 3.1 Telecommunications Infrastructure

Trade in Services has a high degree of dependency on telecommunications infrastructure. Telecommunications has been widely recognized for its dual role as a distinct sector of economic activity and as the underlying transport means for services trade. The importance of cost, efficiency, quality, and scope of telecommunications services can not be underestimated as a primary input into world global services trade and as a determinant of the competitive position of Pakistani service firms. Furthermore services "users" are important advocates for strengthening the policy environment, which creates competitively priced, quality service inputs. Therefore feedback from the private sector on Pakistan's telecom infrastructure follows in addition to the private sector assessment of other critical services inputs to their operations.

There is a substantial amount of growth in the telecom sector in Pakistan, which boosts service export development. Since 2000, Pakistan has witnessed rapid growth in the telecom sector in terms of variety, reach and subscriber base – which has been accompanied by lower cost, better quality and improved customer service. The telecommunications infrastructure now compares well with the region though some problems remain which are discussed later in this section.

The Pakistan Telecom Authority (PTA)<sup>60</sup> was established in January 1997, as an independent regulatory authority, to regulate the establishment, operation and maintenance of telecommunication systems, and the provision of telecom services. Policy is formulated by the IT and Telecom Division of the Government of Pakistan. The Primary Telephone and Telegraph (PTT) Company – Pakistan Telecom Company Limited (PTCL) is 88% owned by Government of Pakistan with the remaining 12% being publicly traded on the Karachi Stock Exchange (KSE). Recently, Etisalat, the telecom giant of the United Arab Emirates (UAE) won the bidding for 26 percent of shares of the state-owned Pakistan Telecommunication Limited (PTCL) by offering 2.598 billion US dollars with management control. Etisalat offered the highest bid with 1.96 dollars per share, China Mobile of China was the second highest bidder by offering 1.063 dollars and SingTel of Singapore offered 0.88 dollar at a bidding ceremony in Islamabad in June 2005 by the Pakistani Privatisation Commission<sup>61</sup>.

#### 3.1.1 Service Reach and Variety

Since 2000, there has been immense growth in both service variety and reach. In addition to landline – mobile, wireless local loop, broadband internet, calling card, and public call centre service providers abound. By 2004, Internet services were extended to 1819 cities.<sup>62</sup> Table 3.2 shows the growth in internet subscribers who in 2004 exceeded an estimated 2.5 million – a five-fold increase from just 0.5 million in 2000.

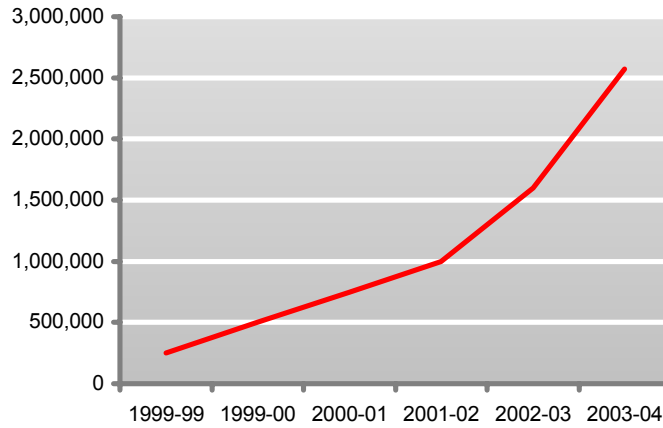
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<sup>60</sup> Pakistan Telecom Authority (PTA) website: [www.pta.gov.pk](http://www.pta.gov.pk)

<sup>61</sup> Ministry of Privatization, Government of Pakistan: [www.privatisation.gov.pk](http://www.privatisation.gov.pk)

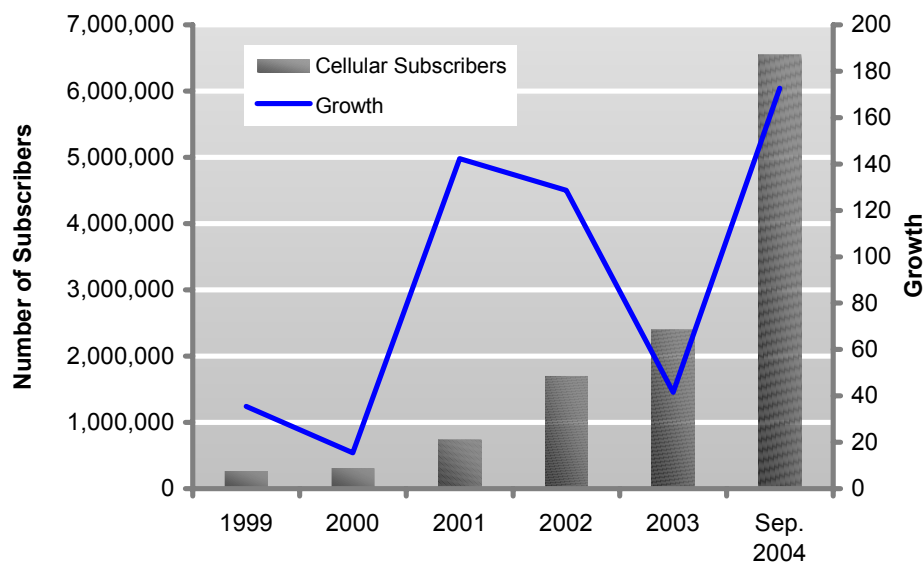
<sup>62</sup> Industry Analysis Report, PTA, 2004 ([www.pta.gov.pk](http://www.pta.gov.pk))

**Figure 3.2: Illustration of Internet Users in Pakistan**



In 2003-04, the mobile sector exhibited growth of 173% -- which was one of the highest anywhere in the world. Two new mobile licenses were issued, bringing the total number of licenses to six. LDI (Long Distance International) and LL (Local Loop) licenses were issued to thirty-three international and domestic firms. Spectrum was auctioned for WLL (Wireless Local Loop) to twenty-three companies.<sup>63</sup> **Figure 3.3** shows cellular subscriber growth.

**Figure 3.3: Cellular Subscribers Growth**



Source: Industry Analysis Report, PTA, 2004.

**Figure 3.4** shows growth in fixed line (or land line) teledensity, which in 2004 stood at 2.9% of the population or well over four million lines while **Figure 3.5** shows the explosive growth in Public Call Offices (PCO).

<sup>63</sup> Industry Analysis Report, PTA, 2004: [www.pta.gov.pk](http://www.pta.gov.pk)

Figure 3.4: Fixed Line Teledensity Growth Pattern

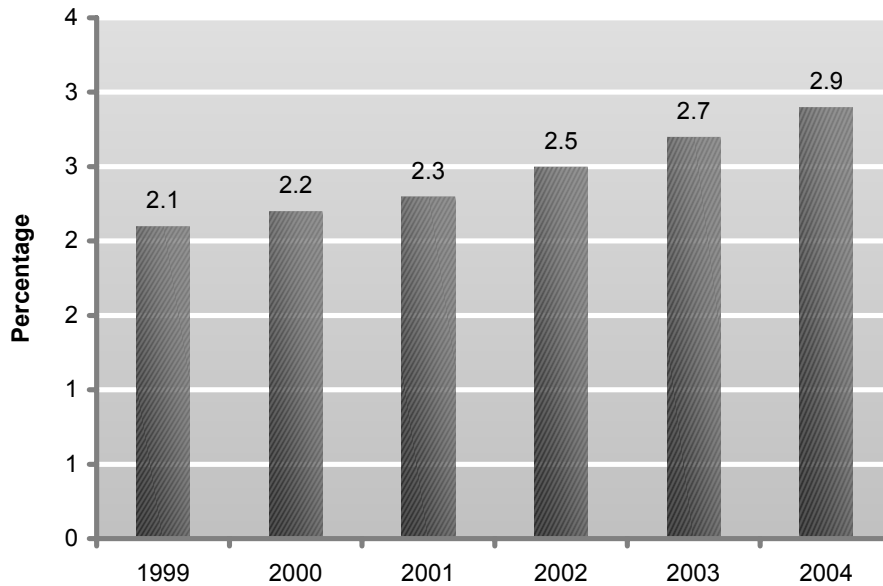
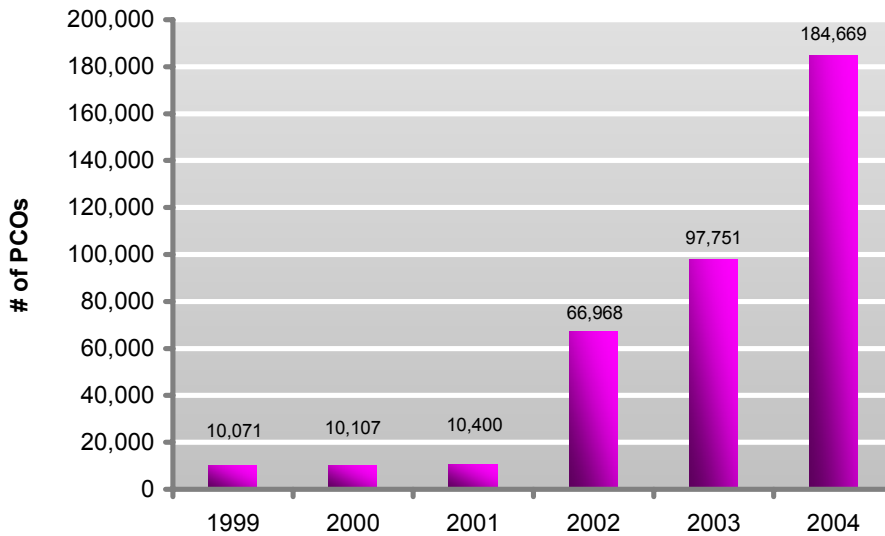


Figure 3.5: Public Calls Offices (PCOs)



Source: Industry Analysis Report, PTA, 2004.

Future growth and diversification in telecom look equally promising. A leading international analyst<sup>64</sup> has forecasted that Access Lines in Service (ALIS) in Pakistan, which are about 4.6 million in the year 2004, will surpass the 10 million mark in year 2007. It is expected that Fixed Line teledensity, which is only 2.9% of the population in the year 2004, will reach 7.1% of the population in the year 2007. Competition in the sector will help to reduce tariffs and improve affordability. The mobile sector will also grow considerably with the entry of two new cellular operators and expansion of networks by existing operators. It is expected that cellular subscriber

<sup>64</sup> "Business Monitors International", in Industry Analysis Report, PTA, 2004 ([www.pta.gov.pk](http://www.pta.gov.pk))

base would reach 33 million in the year 2007 which translates to a cellular penetration of 21% of the population.

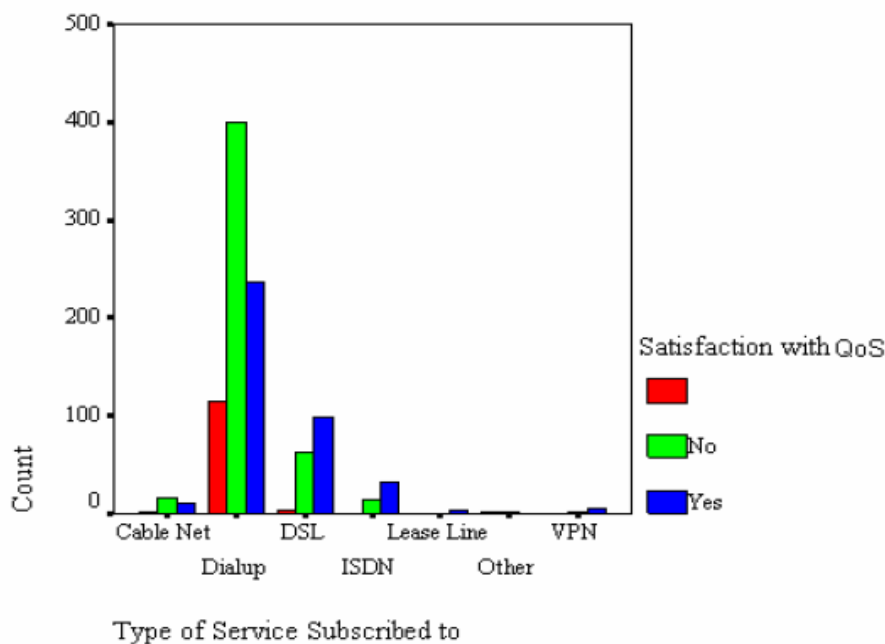
Local Number Portability (LNP) is an essential feature for businesses that allows switching of service providers without disruption. As of the middle of 2005, LNP was not available in Pakistan, but a senior government official<sup>65</sup> promised that this feature would be available before the end of calendar 2005.

Also, broadband internet is currently available in select locations only. This service needs to have much greater geographical range.<sup>66</sup>

### 3.1.2 Service Quality

The quality of cellular mobile service was not rated high by some service industry leaders.<sup>67</sup> The regulatory authority, Pakistan Telecom Authority (PTA), issued a “show cause” notice and imposed a fine on the largest mobile service provider in 2005. Satisfaction with data service provision is shown in **Figure 3.6**.

**Figure 3.6: Satisfaction with Data Service Provision**



(Source: Market Dynamic Study of DSL Market in Pakistan, 2004)

In 2003 -2004, PTCL and mobile operators were directed to improve quality of service (QoS) and fines were also imposed.<sup>68</sup>

Over the last five years, there has been a dramatic improvement in PTCL customer service with respect to order processing time, which has reduced from the order of months to days.

<sup>65</sup> Mr. Owais Ahmed Khan Leghari, Federal Minister of IT and Telecom, Budget Desk 2005, on 11 May 2005, 9:30 pm on “Indus Plus” Cable Television Channel.

<sup>66</sup> Trade in Service Symposium, Karachi, May 31, 2005. Recommendation by Mr. Babar Jhumra, Senior Partner, NB Computers, Karachi, Pakistan.

<sup>67</sup> ITC Services Capacity Survey for Pakistan, 2005

<sup>68</sup> [www.pta.gov.pk](http://www.pta.gov.pk)

Automated bill payment through banks and mobile service centres has reduced bill payment difficulties.

### 3.1.3 Service Pricing

Service pricing has witnessed a marked downward trend over the last five years with a drastic reduction in bandwidth charges of 80% since 2001 and of fixed and mobile tariffs from 7% to 33%.<sup>69</sup>

Respondents to the Services Capacity Survey generally considered pricing to be “affordable.” However heavy telecommunication service users like IT companies, mostly rated pricing as “expensive.”<sup>70</sup> Also, pricing for some service components like “inter-connection fees” and “broadband internet” were considered excessive by some industry leaders.<sup>71</sup> Senior Government officials felt pricing was quite affordable<sup>72</sup>, compared well with regional countries<sup>73</sup>, and would reduce further.<sup>74</sup> Air-time cellular rates ceiling for 2004 are provided in **Table 3.2**. Actual mobile and landline rates tend to be lower than the ceiling:

**Table 3.2: Airtime Ceiling of Cellular Mobile**

Year	PKR/min
2000	6.25
2001	6.25
2002	5.75
2003	5.75
2004	5.75

Source: PTA website<sup>75</sup>

### 3.1.4 Recommendations

- Telecom services pricing should maintain downward trend particularly in “inter-connection fees” and “broadband internet.”
- Quality of Service, particularly of mobile service providers, should improve appreciably.
- Local Number Portability is required to truly exploit service variety.
- Reach of broadband internet services should be expanded beyond select locations.

## 3.2 Service Firms' View of Input Infrastructure

Service firms are heavy users of services inputs and information computer technology and significantly influenced by the nature of the regulatory environment. Pakistani service firms have provided important information on the quality and cost of key inputs as well as their impressions

<sup>69</sup> [www.pta.gov.pk](http://www.pta.gov.pk)

<sup>70</sup> ITC Services Capacity Survey for Pakistan, 2005

<sup>71</sup> Mr. Mohsin Aleem Qazi, CEO Buraq Telecom, Budget Desk 2005, on 11 May 2005, 9:30 pm on “Indus Plus” Cable Television Channel.

<sup>72</sup> Mr. Aamir Matin, Managing Director, Pakistan Software Export Board (PSEB), personal interview with ITC/UN Consultant Yusuf Hussain on 10 June, 2005

<sup>73</sup> Mr. Owais Ahmed Khan Leghari, Federal Minister of IT and Telecom, World Telecom Day, Tuesday May 17, 2005, 6 pm Special Broadcast on “Indus Plus” Cable Television Channel: “Broadband rates less than India, international call rates from Pak to UAE less than UAE to Pak.”

<sup>74</sup> Mr. Owais Ahmed Khan Leghari, Federal Minister of IT and Telecom, Budget Desk 2005, on 11 May 2005, 9:30 pm on “Indus Plus” Cable Television Channel: “... activation fees to be reduced...”

<sup>75</sup> [www.pta.gov.pk](http://www.pta.gov.pk)



of the regulatory environment. The factors of service production and the nature of the regulatory environment influences the ability of Pakistani service firms to compete at home and abroad. The nature of the regulatory environment also influences businesses ability to understand the rules governing their commercial practices including international export. Firms' time to market, quality, and cost of providing services as well as their ability to compete with domestic and foreign firms are also affected by the nature of the regulatory environment.

The services sector is extremely dependent upon infrastructure as input into their final product. Significant infrastructure networks and categories that are considered important by different service providers are listed as under:

- Telecommunications Services
- Information and Computer Technology Infrastructure
- Energy Infrastructure
- Educated and skilled labour force.
- Health infrastructure
- Transportation and Communication Network and Infrastructure

### 3.2.1 Telecommunication Infrastructure: View of the Private Sector

Telecommunications is an underlining foundation of international services trade. It is instrumental in identifying, marketing, and delivering services to clients. In the survey, service providers were asked questions about the cost and the quality of telecom services. The response of the four services sectors has been presented in Table 3.3. (The response of IT sector about telecom infrastructure issues and other issues about their own sector has been covered in detail in Annexure A.)

**Table 3.3: Quality and Status of Telecom Infrastructure**

Status	Medical Services	Financial Services	Professional Services	Construction Services
State of the art	10%	5%	5%	0%
Good with a variety of services	20%	20%	30%	25%
Sufficient	35%	60%	30%	55%
Functional with limited services	35%	15%	35%	20%
Obsolete	0%	0%	0%	0%
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

As seen in the Table 3.3, majority response was that quality of telecom infrastructure is sufficient and quite a sizeable percentage thought it was good with a variety of services. This opinion was reflected across the four sectors surveyed. On the cost of telecom services, as seen in the Table 3.4, an overwhelming majority of the respondents across the board were of the opinion that cost of telecom services is affordable. These responses are in conformity with the opinion of IT sector service providers about telecom infrastructure available in the country. The views of the private sector indicate that Pakistan must continue to pay close attention to the telecommunications policy environment to ensure the continued improvement and build out of telecommunications infrastructure.

**Table 3.4: Cost of Telecom Infrastructure**

Response	Medical Services	Financial Services	Professional Services	Construction Services
Very affordable	5%	0%	0%	5%
Affordable	55%	70%	80%	45%
Expensive	40%	25%	15%	50%
Very expensive	0%	5%	5%	0%
No Comments	0%	0%	0%	0%
Total	100%	100%	100%	100%

### 3.2.2 Information & Communication Technology: View of the Private Sector

Rapid development of Information and Communication Technology (ICT) infrastructure is a pre-requisite for making progress in every sector of the economy. Modernization and development of telecom infrastructure has been correlated to an increase in economic activities. The Information Technology (IT) revolution is probably the most important force shaping economies today. The world has developed into an information economy and the application of new technologies is the centrepiece of activities affecting economy- both in services as well as the manufacturing sector.

Some governments have used the WTO's Information Technology Agreement (ITA), which entered into force in 1997 to eliminate tariffs on information technology products with the intent of providing direct cost savings to manufacturing and service forms that rely on such goods for competitive production of their products. In the survey, service providers were asked questions about the cost and the availability of ICT equipment. The response of different services has been presented in **Table 3.5**.

**Table 3.5: Availability of ICT Equipment**

Status	Medical Services	Financial Services	Professional Services	Construction Services
Available	95%	95%	85%	100%
Sometimes available	5%	5%	15%	0%
Unavailable	0%	0%	0%	0%
Total	100%	100%	100%	100%

An overwhelming majority of the service providers was of the opinion that ICT equipment is easily available. Those who gave their opinion as sometimes available were those service providers who needed high tech ICT equipment for specific use and did not find it easily available in the market. In terms of price or cost of ICT equipment (see **Table 3.6**), a very high proportion of service providers surveyed considered it affordable. Only those who bought high tech equipment found it expensive.

**Table 3.6: Cost of ICT Equipment**

Response	Medical Services	Financial Services	Professional Services	Construction Services
Affordable	85%	60%	85%	80%
Expensive	15%	35%	15%	20%

Unaffordable	0%	0%	0%	0%
Total	100%	100%	100%	100%

### 3.2.3 Energy Infrastructure: View of the Private Sector

Energy is an important input to the competitive production of service exports. Cost, availability and reliability of energy influence service exporters ability to deliver their product. In the survey, respondents were asked questions about the cost and state of energy infrastructure in the country. The response of different service providers has been presented in Tables 3.7 and 3.8.

Most of the respondents considered the state of energy infrastructure as either low or adequate. However, given the frequent power outages and the need to have alternative or backup arrangement forced some of the respondents to rate the state of energy infrastructure as obsolete. None of the respondents ranked the quality of energy infrastructure as high. On the cost basis, an overwhelming majority of respondents considered the cost of energy as expensive while some ranked it either as very expensive or affordable.

**Table 3.7: Status of Energy Infrastructure**

Status	Medical Services	Financial Services	Professional Services	Construction Services
State of the art	0%	0%	0%	0%
High	0%	0%	0%	5%
Adequate	40%	20%	45%	45%
Low	55%	55%	35%	45%
Obsolete	5%	25%	20%	0%
Total	100%	100%	100%	100%

**Table 3.8: Cost of Energy Infrastructure**

Cost	Medical Services	Financial Services	Professional Services	Construction Services
Very affordable	0%	0%	0%	0%
Affordable	5%	10%	15%	10%
Expensive	70%	45%	65%	50%
Very Expensive	20%	45%	20%	35%
Unaffordable	5%	0%	0%	0%
Total	100%	100%	100%	100%

The consumption of energy is one of the critical indicators of the level of development of any country. Developed countries use more energy per unit of economic output and far more energy per capita than developing countries. Energy use per unit of output does seem to decline over time in the more advanced stages of industrialization. Per Capita energy consumption in Pakistan is currently low at 14 MBtu as compared to 92 MBtu for Malaysia or 34 MBtu for China<sup>76</sup>. Energy sector in Pakistan comprises power, oil, gas and coal. The prices of power production and gas are linked to international oil prices. High international oil prices result in

<sup>76</sup> *Economic Survey 2005*. See <http://www.finance.gov.pk/survey/chapters/15-Energy.PDF>

higher import bill, inflationary pressures also affect cost of production of goods and services (as services also depend upon electricity and transportation network-affected by oil prices).

In terms of self-sufficiency, indigenous gas reserves are sufficient to meet local demand for the next 5 years and after that imported gas would be needed if more discoveries are not made. Pakistan is contemplating three gas pipeline projects with three different countries to meet the growing gas demand. Pakistan relies heavily on imported oil to meet local demand, as local oil production is insufficient to meet energy needs. A number of IPPs have been set up in the country in the last decade but energy distribution and transmission network need an up-grade and expansion to meet the growing needs of the economy<sup>77</sup>.

### 3.2.4 Transport Network

Transport has always been a major factor in the economic development of the regions. A well-developed and integrated infrastructure network is an essential pre-condition of economic growth on a sustainable basis. For promoting economic cooperation amongst nations, particularly in the fields of tourism and trade, and for attracting foreign investment and realizing the potential gains from an outward-oriented trade strategy, availability of efficient transport network, that too at a relatively low cost, is an essential pre-requisite.

Transport system broadly consists of roads, railways, air transport and ports/shipping services. All these basic modes of transportation are available in Pakistan but road transportation is not only the most popular and widely used, it is the only mode, which is available to the majority of the population. In addition to roads, railways and airlines, cargo (air and shipping) is another important variable for trade in services and goods. Karachi is the main port in the country. Cargo volume at the Karachi port in 2005, according to Economic Survey 2005, amounted to 21 million tones-showing an increase of 6.6 percent over the cargo volume last year<sup>78</sup>. No question in the survey was asked pertaining to transportation, however, transport and logistical services must be recognized as a primary input to effective service exporting.

### 3.2.5 Educated and Skilled Workforce: View of the Private Sector

An educated workforce is one of the most important inputs for a thriving and growing services sector. A question regarding state of the educated and skilled workforce was put to service providers in the survey. The response to this survey has been presented in the **Table 3.9**.

**Table 3.9: Status of the Skilled Workforce**

Status	Medical Services	Financial Services	Professional Services	Construction Services
Oversupply	0%	0%	0%	0%
High	0%	0%	5%	0%
Adequate	30%	25%	25%	30%
Low	60%	55%	60%	30%
Very Low	10%	20%	10%	35%
Total	100%	100%	100%	100%

<sup>77</sup> *Economic Survey 2005*. See <http://www.finance.gov.pk/survey/chapters/15-Energy.PDF>

<sup>78</sup> *Economic Survey 2005*. See <http://www.finance.gov.pk/survey/chapters/14-transport%20communication.pdf>

The majority of the respondents were of the opinion that availability of skilled workers in the country is low and at best adequate. Very few respondents considered the availability as high or very low. One of the main reasons why most respondents considered the availability low across the board was the recent surge in economic activity, which increased demand for services resulting in a supply and demand gap for skilled labour. Those who thought it was adequate were mainly referring to the ample supply of un-trained and unskilled personnel in the medical, law, and engineering fields with appropriate qualifications but not the relevant experience to cater for the immediate demand. This response about the availability of skilled workers is also borne out by the literacy rate of the country and the number of schools and higher education institutions in the country. **Table 3.10** depicts the major indicators pertaining to education system and institutions in the country.

**Table 3.10: Number of Educational Institutions by Category**

Year	Primary		Middle		High School		Secondary		Arts and Science Colleges		Professional Colleges		Universities	
	Schools in 000s		School in 000s		in 000s		Institutions		Total Female		Total Female		Total Female	
	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female
2000	162.5	58.7	18.4	8.1	12.6	4.6	612	233	889	358	324	15	26	1
2001	147.7	42.9	25.5	5.9	14.8	2.8	630	236	916	380	352	18	26	1
2002	149.1	43.5	26.8	6.3	15.1	2.8	607	239	939	394	374	20	29	1
2003	150.8	43.9	28	6.5	15.6	2.8	585	230	964	414	382	19	29	1
2004	155	43.9	28.7	6.6	16.1	3	636	252	1066	458	NA	NA	51	3

Source: Economic Survey 2005

According to the **Economic Survey 2005 (Table 3.11)**, literacy rate has improved to 53% from 45% about four years back. This figure is quite low given that only half of the population is considered literate but the situation is improving compared to the dismal state about 5 –10 years back. Male literacy rate has increased from 58 to 65 percent and female literacy rate has risen from 32 to 40 percent. Gross enrolment at primary level, after stagnating at around 71-72% during 1999-2001, increased substantially to 86% in 2005. Net enrolment at primary level increased by 10 percentage points (from 42% to 52%) in four years- suggesting that the drop rate had declined and cost effectiveness of education expenditure has improved<sup>79</sup>. Gross enrolment in middle and matric level also showed improvement during the last four years as against a total stagnation during 1999-2001.

**Table 3.11: Enrolment in Educational Institutions by Category**

Year	Primary Stage		Middle Stage		High School		Secondary		Arts and Science Colleges		Professional Colleges		Universities	
	(I-V) in 000s		(VI-VIII)		(IX-X) in 000s		Institutions		Total Female		Total Female		Total Female	
	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female	Total Female
2000	19148	7044	4112	1615	1726	653	91	17	792	372	160985	41036	114010	27369
2001	17135	6893	3759	1455	1565	597	83	14	763	374	158828	39580	124944	36699
2002	17529	7167	3821	1506	1574	644	83	15	751	370	161349	40540	117863	39682
2003	18220	7519	3918	1551	1589	658	94	19	802	396	163852	41932	126870	43668

<sup>79</sup> *Economic Survey 2005*. See <http://www.finance.gov.pk/survey/chapters/11-education.PDF>

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2004	19781	8179	4321	1737	1800	709	101	23	905	442	NA	NA	218275	83127
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NA- Not available

Source: Economic Survey 2005

### 3.3 Service Firms' View of Their Respective Regulatory Environment

A robust, responsive and enabling regulatory framework is one of the pre-requisites for promotion of the services sector and its export potential to foreign individuals and organization. An appropriate legal and regulatory framework can act as a catalyst for development, by attracting both foreign investment and domestic resources. In today's modern markets, legal and regulatory frameworks need to be responsive to business innovation. This flexibility, however, must be accompanied and supported by an appropriate risk management framework. While ensuring a level playing field to all market players and participants through an efficient regulatory framework, policy makers must guarantee that markets provide an attractive forum for foreign investment<sup>80</sup>.

For example, Pakistan's establishment of the autonomous Pakistan Telecommunication Authority in 1996 to provide independent oversight of the telecommunications market has succeeded in attracting foreign investment and building out telecommunications infrastructure. The PTA has an important role in effectively overseeing the establishment, operation, and provision of telecommunications services in order to achieve the government's broader economic and social development objectives and the fair functioning of the telecommunications market.

To provide a sense of the efficacy of the regulatory framework facing Pakistani service exporters, questions were posed to different service providers regarding the efficiency of the regulatory institutions and framework concerning their sector. An assessment of the regulatory framework for different sectors has been made sector-wise and presented here.

#### 3.3.1 Professional Services

A total of 20 professional service providers, legal and accounting firms, were surveyed. The Pakistan Bar Council is the appropriate regulatory body for legal firms and lawyers. Pakistan's legal system is primarily based on a combination of English common law and, to a lesser extent, the Islamic legal code of shari'ah. In commercial law matters, English case law remains a primary source of authority. The highest court is the Supreme Court, which comprises a chief justice and 17 other judges. A High Court exists in each of the country's four provinces, each with a chief justice and a number of other judges (determined by law or fixed by the president). The Federal Shariat Court has eight Muslim judges, including the chief justice; four of the judges are qualified to be High Court judges and three are members of the ulema (scholars versed in Islamic law). In addition, there are a number of special courts and tribunals that deal with drugs offences, environmental, trade marks and patents, banking and employment cases, income tax and customs and terrorism<sup>81</sup>.

The Pakistan Bar Council is a statutory organisation responsible for safeguarding the rights, interests and privileges of practicing lawyers, regulating their conduct and helping in the administration of justice. Its composition, powers and functions are described in detail by the Legal Practitioners and Bar Councils Act, 1973. An important role assigned to the Bar Council has been the promotion of legal education and provision of free legal aid to deserving citizens. The Bar Council may also help in the promotion of knowledge about legal issues/problems through holding lectures, seminars and conferences. The Pakistan Bar Council consists of 20 members. There are provincial bar councils also- Punjab Bar Council and Sindh Bar Council

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<sup>80</sup> Discussions with regulatory bodies such as Securities and Exchange Commission, Pakistan Medical and Dental Council, Pakistan Bar Council etc.

<sup>81</sup> [www.legal500.com](http://www.legal500.com)

being the two most prominent ones<sup>82</sup>. The head office of Pakistan Bar Council is located in Islamabad.

The Institute of Chartered Accountants of Pakistan (ICAP) was established on July 1, 1961 to regulate the profession of accountancy in Pakistan. It is a statutory autonomous body established under the Chartered Accountants Ordinance 1961. With the significant growth in the profession, the CA Ordinance and Bye-Laws were revised in 1983. In view of globalisation of the accountancy profession, the Institute (ICAP) is in the process of updating the Ordinance and Bye-Laws once again. The head office of the Institute is located in Karachi and the Institute also has regional offices at Lahore and Islamabad. The ICAP is a member of International Federation of Accountants (IFAC), International Accounting Standards Board (IASB), Confederation of Asian & Pacific Accountants (CAPA) and South Asian Federation of Accountants (SAFA). The affairs of the Institute (ICAP) are managed by the Council which discharges the functions assigned to it under the Ordinance. The Council is composed of 16 members, the members of the Institute elect 12 members from the profession and the remaining 4 are nominated by the Federal Government<sup>83</sup>.

Although the accountancy profession in Pakistan is mainly regulated by ICAP, the Securities and Exchange Commission of Pakistan (SECP) also has a role to play in the regulations of accounting professionals. SECP maintains oversight of the accountancy profession through powers given under the Companies Ordinance in relation to auditors and development of relevant financial reporting framework for companies. Furthermore, the Code of Corporate Governance, enforced by SECP, contains a number of provisions for bringing about greater transparency and independence in the activities of auditors and accounting firms. Chairman SECP is one of the members of ICAP Council, which facilitates in regulation of the accounting professionals<sup>84</sup>.

Respondents belonging to professional services were asked about the regulatory framework for their sector (see **Table 3.12**). Out of 20 respondents, about 30% disagreed that the sector is regulated while 55% agreed that the sector is regulated. Of the remaining, 5% strongly agreed while 10% neither agreed nor disagreed with the statement that the sector is regulated. Most leading corporate law firms were of the opinion that Pakistan Bar Council is a weak regulator and mostly deals with serious ethical misconduct and enrolment/registration issues. On the other hand, ICAP was considered to be a comparatively better regulator. As ICAP also acts as the association for chartered accountants, accounting firms also had good opinion about ICAP not only as a regulator but also as an association.

About 51% of respondents agreed with the statement that administrative rules and regulations are easy to understand, while nearly 22% disagreed. About 42% agreed that the private sector has the opportunity to comment on rules and regulations during their development. However, 32% disagreed and 16% strongly disagreed with this statement which means that a major segment of the respondents (48%) were of the opinion that the process of framing rules and regulations is not participatory. On the other hand, the majority of the respondents (52%) either agreed or strongly agreed with the statement that the industry application process is publicly available. Regarding impartiality and objectivity of government-administered measures, most of the respondents (37%) were ambivalent about this statement- they neither agreed nor disagreed. Among those who took a clear position on this statement about 21% agreed while 26% disagreed. Opinions were sharply divided over the statement that regulators inform applicants within a reasonable period of time on the status of their application: 37% of the respondents concurred with this statement while 37% either disagreed or strongly disagreed.

<sup>82</sup> [www.Pakistanlawyer.com](http://www.Pakistanlawyer.com) and [www.legal500.com](http://www.legal500.com)

<sup>83</sup> [www.icap.org.pk](http://www.icap.org.pk)

<sup>84</sup> [www.secp.gov.pk](http://www.secp.gov.pk) and [http://www.secp.gov.pk/annualreport/ar03\\_04.htm](http://www.secp.gov.pk/annualreport/ar03_04.htm)

**Table 3.12: Professional Services Response to Regulatory Framework Questions**

Description	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	Don't Know	Total
Administrative rules and regulations are easy to understand	15.8%	52.6%	10.5%	21.1%	0%	0%	100%
The private sector has the opportunity to comment on rules and regulations during their development	0.0%	42.1%	10.5%	31.6%	16%	0%	100%
Domestic industry standard-setting procedures are publicly available	15.8%	36.8%	5.3%	26.3%	11%	5%	100%
The industry regulatory application process is publicly available	10.5%	52.6%	5.3%	21.1%	5%	5%	100%
Government industry measures are administered in a reasonable, objective and impartial manner	0.0%	21.1%	36.8%	10.5%	26%	5%	100%
Regulators inform applicants within a reasonable period of time on the status of their application	0.0%	36.8%	15.8%	15.8%	21%	11%	100%

### 3.3.2 Medical and Health Services

Pakistan Medical and Dental Council (PMDC)<sup>85</sup> is the Regulating Authority for Health Professionals of Pakistan. Without PMDC registration, no Health Professional is allowed to practice. Pakistan Medical & Dental Council (PMDC) is a statutory autonomous organization constituted under the Pakistan Medical and Dental Council Ordinance, 1962. The objective of this regulatory authority is to establish a uniform minimum standard of the basic and higher education in medicine. To achieve the objective for which the Council has been constituted, the Council lays down the minimum standards for the degree of M.B.B.S. & B.D.S. and the higher qualifications like MD, MS, MDS, and other postgraduate minor diplomas. The Council also lays down the necessary qualifications and experience for the appointment of the various categories of teachers in the Medical/Dental Colleges in Pakistan. It meets at least twice a year. To ensure that the various Medical/Dental Institutions in the country follow the Regulations of the Council, the Council inspects the Medical/Dental Colleges periodically. The Council also prescribed the Code of Medical Ethics for the Registered Medical Practitioners to enforce ethical practice and prevent professional negligence. The Council issues registration to doctors and dental surgeons. PMDC is located in Islamabad and has sub-offices in four provincial capitals. The Council is financially independent. It does not receive any grant in aid from government. The funds are generated through its own resources- registration and inspection fees<sup>86</sup>.

Out of 20 respondents in Medical and Health services, about 45% either disagreed or strongly disagreed with the statement that the industry is regulated (see **Table 3.13**). About 20% agreed while an equal percentage was ambivalent about the statement. Most of the practitioners were of the opinion that PMDC is a weak regulator which is mostly involved with registration issues or quality of medical education. They pointed to a number of non-registered doctors in the market who were practicing without proper education or permission from PMDC to prove the ineffectiveness of PMDC's regulatory role.

<sup>85</sup> [www.pmdc.org.pk](http://www.pmdc.org.pk)

<sup>86</sup> [www.pmdc.org.pk](http://www.pmdc.org.pk)



A number of questions regarding the working of PMDC were put to medical practitioners in hospitals and clinics. About 35% agreed while 25% disagreed with the statement that administrative rules and regulations are easy to understand. Another 25% of respondents were ambivalent in their response. Half either disagreed or strongly disagreed about private sector being consulted in framing rules and regulations about the health industry. Respondents who disagreed or strongly disagreed with the statement represented 65%. Similarly, 55% either disagreed or strongly disagreed with the statement that the industry regulatory application process is publicly available. The majority of the respondents (40%) were ambivalent about the statement that government industry measures are administered in a reasonable, objective and impartial manner- however 30% agreed with this statement. About 45% disagreed or strongly disagreed with the statement that regulators inform applicants about the status of their application with a reasonable period of time. Most of these responses point to the direction that PMDC is a weak regulator which needs to be more participatory and open in its working towards the private sector and also needs to devote more energy and resources towards enforcement of its code of conduct in addition to emphasis on curriculum development, education standards and registration of doctors and dental surgeons.

**Table 3.13: Medical and Health Services' Response to Questions Regarding Regulatory Framework.**

Description	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	Don't Know	Total
Administrative rules and regulations are easy to understand	5.0%	35.0%	25.0%	25.0%	10%	0%	100%
The private sector has the opportunity to comment on rules and regulations during their development	5.0%	15.0%	30.0%	45.0%	5%	0%	100%
Domestic industry standard-setting procedures are publicly available	0.0%	10.0%	20.0%	50.0%	15%	5%	100%
The industry regulatory application process is publicly available	0.0%	30.0%	5.0%	50.0%	5%	10%	100%
Government industry measures are administered in a reasonable, objective and impartial manner	0.0%	30.0%	40.0%	15.0%	5%	10%	100%
Regulators inform applicants within a reasonable period of time on the status of their application	0.0%	15.0%	25.0%	40.0%	5%	15%	100%

### 3.3.3 Financial Services

The State Bank of Pakistan (SBP) is responsible for the supervision, licensing, and regulation of all commercial banks and development finance institutions (DFIs) in Pakistan. The SBP broadly adheres to the international standards such as the Basel Core Principles for Effective Banking Supervision. The SBP<sup>87</sup> has an array of powers to control the risks assumed by banks, has issued numerous prudential regulations, has adopted methods for on and off site supervision, and has the power to require a wide range of remedial measures. In addition, it has adequate resources, and the quality of its staff has been significantly upgraded in recent years<sup>88</sup>.

<sup>87</sup> [www.sbp.org.pk](http://www.sbp.org.pk)

<sup>88</sup> [www.imf.org/external/pubs/ft/scr/2004/cr04215.pdf](http://www.imf.org/external/pubs/ft/scr/2004/cr04215.pdf)

SBP has made significant progress in consolidation of the banking sector, by raising the minimum capital requirement for commercial banks to PKR 1 billion. The role of the state has been significantly reduced by privatisation of the nationalised banks and there has been a return to market-based monetary and exchange rate policies. Moreover, SBP has lifted most restrictions on Pakistani entrepreneurs wanting to invest abroad. More recently, SBP allowed mutual funds to invest a certain percentage of their portfolio in assets outside Pakistan<sup>8990</sup>.

All other Non-Banking Finance Institutions (NBFIs) are regulated by the Securities and Exchange Commission of Pakistan (SECP)<sup>91</sup>. In total, there are 297 brokers and 115 agents registered with the SECP. While the commission is empowered to conduct on site inspections of regulated entities, it has generally not done so unless it has reason to believe there has been malpractice. Since its inception in 1999, the SECP has introduced several reforms that have improved governance, disclosure, and transparency practices in the country. These measures have contributed to improved investor confidence and created a more conducive environment for the development of capital markets in Pakistan.

The regulatory and legal authority of SBP and SECP are sometimes overlapping.

However, SECP and SBP have instituted procedures for cooperation and exchange of information to ensure effective consolidated supervision and to curb opportunities for regulatory arbitrage.

A new Insurance Division in the SECP was established on the 1<sup>st</sup> day of January 2001. The newly created Insurance Division now monitors and regulates the insurance sector in the country through powers vested in the Commission, under the Insurance Ordinance, 2000. To consolidate the life and non-life/general insurance sectors, the Insurance Ordinance, 2000 stipulates that the minimum paid-up capital be raised to PKR.150 million and PKR.80 million by December 31, 2004, for life and non-life segments respectively. The law also requires that all insurance companies obtain adequate reinsurance cover from international reinsurance companies. SECP is empowered to revoke licenses of those insurance companies that are not in compliance with the law. In the post-Sept 11 scenario the reinsurance rates climbed steeply and the government had to intervene to create a reinsurance pool to underwrite the risks associated with terrorism.

The outcome of the survey is more or less a reflection of the relatively sophisticated regulatory regime that exists in Pakistan today (see **Table 3.14**). Highest majority of respondents agreed that the regulator is delivering in all categories. It was only in the first and the last two categories of the table that the responses are drifting towards the neutral column (Neither Agree nor Disagree). The impartiality of regulators has been rightly questioned by 30% of the respondents-pointing to the deficiencies in the legal provisions of the Banking Companies Ordinance relating to the independence of the SBP and the arrangements for consolidated supervision. Moreover, the decision by the SECP to phase out the 'Badla' transaction from the capital markets, without adequate mode of alternative financing available to investors, did not auger well with the investor community. Consequently the markets reacted negatively to the decision which forced SECP to reverse its earlier decision.

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<sup>89</sup> [www.imf.org/external/pubs/ft/scr/2005/cr05157.pdf](http://www.imf.org/external/pubs/ft/scr/2005/cr05157.pdf)

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[www.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/04/01/000012009\\_20050401092303/Rendered/PDF/31936.pdf](http://www.worldbank.org/servlet/WDSContentServer/WDSP/IB/2005/04/01/000012009_20050401092303/Rendered/PDF/31936.pdf)

<sup>91</sup> [www.secp.gov.pk](http://www.secp.gov.pk)

**Table 3.14: Financial Services' Response to Regulatory Framework Questions**

Description	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	Don't Know	Total
Administrative rules and regulations are easy to understand	25%	40%	25%	0%	10%	0%	100%
The private sector has the opportunity to comment on rules and regulations during their development	30%	40%	15%	5%	5%	5%	100%
Domestic industry standard-setting procedures are publicly available	25%	40%	10%	20%	0%	5%	100%
The industry regulatory application process is publicly available	25%	50%	5%	15%	5%	0%	100%
Government industry measures are administered in a reasonable, objective and impartial manner	5%	35%	30%	15%	10%	5%	100%
Regulators inform applicants within a reasonable period of time on the status of their application	5%	55%	25%	10%	5%	0%	100%

Similarly, it is not unusual to observe excessive overly burdensome regulations and bureaucratic delays. Also there was some confusion over the jurisdiction of regulators which prompted some respondents to drift to the right of the table.

### 3.3.4 Construction & Architectural Services

The Pakistan Engineering Council (PEC)<sup>92</sup> regulates the construction sector. The PEC has 24793 constructors and 88 operators registered with it. Out of the registered constructors 680 belong to the C1 category, 385 belong to the C2 category, and the rest are C3 or below. To qualify for the C1 category, the minimum paid up capital requirement and the minimum average annual value of work undertaken in the past three years, is PKR 20 million, which supposedly implies a firm with relatively sound financial and technical capacity. In reality, the bulk of the companies in C1 category are borderline cases. Regulation and enforcement by PEC is weak at best and far below the international standards.

The Pakistan Council of Architects and Town Planners (PCATP)<sup>93</sup> is a statutory body established by the government with the objective to regulate the profession of architecture. The Council's major functions include setting standards of conduct for the architects and advising government on issues relevant to the architectural industry. In order to practice Architecture or Town Planning in Pakistan, it is mandatory for individuals to register with the PCATP. At present, there are 2526 members registered with the council.

In addition, both architects and constructors are subject to the by-laws of local administration bodies. Every city and town in Pakistan has an independent administrative body that regulates construction plans and designs for its respective jurisdiction.

<sup>92</sup> [www.pec.org.pk](http://www.pec.org.pk)

<sup>93</sup> [www.pcatp.org.pk](http://www.pcatp.org.pk)

The response in the survey show mixed reaction to the regulatory regime in this sector. Most constructors were highly skeptical of PEC and its function as an effective regulator (see **Table 3.15**). Others, mostly large firms, did not seem to have a negative opinion of the regulatory environment. The response was divided amongst the architectural community as well.

Although the respondents were divided on the public availability of regulatory application process, majority of respondents (45%) felt that the criteria applied in selecting and approving consultants is lacking objectivity. Overall, the responses seem to be skewed towards the right side of the table which may imply a soft regulatory regime in this sector.

**Table 3.15: Construction & Architectural Services' Response to Regulatory Questions**

Description	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	Don't Know	Total
Administrative rules and regulations are easy to understand	20%	45%	10%	20%	5%	0%	100%
The private sector has the opportunity to comment on rules and regulations during their development	10%	25%	25%	35%	5%	0%	100%
Domestic industry standard-setting procedures are publicly available	15%	25%	15%	30%	10%	5%	100%
The industry regulatory application process is publicly available	20%	35%	15%	30%	0%	0%	100%
Government industry measures are administered in a reasonable, objective and impartial manner	5%	25%	25%	45%	0%	0%	100%
Regulators inform applicants within a reasonable period of time on the status of their application	5%	45%	15%	25%	10%	0%	100%

Pakistani service industries are governed by a broad scope of regulatory institutions. This study provides feedback on only a few. Although beyond the scope of this study, it is important to consider if existing regulatory institutions have adequate technical expertise, human resources, and enforcement ability to ensure effective oversight and transparency in the Pakistani services market.

The next chart identifies service industry regulatory bodies in Pakistan.

Industry	Regulatory Bodies
Business Services	<ul style="list-style-type: none"> <li>• <b>Institute of Chartered Accountants</b> and Institute of Cost &amp; Management Accountants of Pakistan - <i>Accounting Services</i></li> <li>• <b>Pakistan Bar Council</b> - <i>Legal Services</i></li> <li>• <b>Pakistan Council of Architects and Town Planners</b> - <i>Architectural Services</i></li> <li>• Pakistan Engineering Council - <i>Engineering Services</i></li> <li>• Pakistan National Accreditation Council - <i>Technical Testing &amp; Analysis Services etc.</i></li> <li>• Ministry of Interior - <i>Investigation and Security Services</i></li> </ul>
Construction and Related Services	<ul style="list-style-type: none"> <li>• Pakistan Engineering Council</li> </ul>
Communication Services	<ul style="list-style-type: none"> <li>• Pakistan Telecom Authority, IT &amp; Telecom Division – <i>Telecom Services</i></li> <li>• Ministry of Communication - <i>Postal and Courier Services</i></li> <li>• Ministry of Information &amp; Broadcasting - <i>Audio Visual Services</i></li> </ul>
Educational Services	<ul style="list-style-type: none"> <li>• Higher Education Commission - <i>Higher Education Services</i></li> <li>• Provincial Technical and Vocational Educational Authorities - <i>Other Education/Technical Education Services</i></li> <li>• Provincial Departments of Education and Divisional Boards of Intermediate and Secondary Education - <i>Primary and Secondary Education Services</i></li> </ul>
Energy Services	<ul style="list-style-type: none"> <li>• National Power Regulatory Authority, Cabinet Division</li> <li>• Oil and Gas Regulatory Authority, Cabinet Division</li> </ul>
Financial Services	<ul style="list-style-type: none"> <li>• <b>State Bank of Pakistan</b> - <i>Banking and Related Services</i></li> <li>• <b>Securities &amp; Exchange Commission of Pakistan</b> - <i>Insurance, Leasing and Related Services</i></li> </ul>
Health and Related Social Services	<ul style="list-style-type: none"> <li>• Ministry of Health and Provincial Departments of Health - <i>Hospital and Other Human Health Services</i></li> <li>• <b>Pakistan Medical and Dental Council</b> - <i>Medical and Dental Services (Professionals)</i></li> </ul>
News Agency Services	<ul style="list-style-type: none"> <li>• Ministry of Information and Broadcasting - <i>News Agency Services</i></li> </ul>
Recreation, Sports and Cultural Services	<ul style="list-style-type: none"> <li>• Provincial Home Departments/ District Governments - <i>Entertainment Services</i></li> </ul>
Tourism and Travel Related Services	<ul style="list-style-type: none"> <li>• Pakistan tourism development corporation - <i>Tour Operators and Tourist Guide Services</i></li> </ul>
Transport Services	<ul style="list-style-type: none"> <li>• Ministry of Ports and Shipping/Shipping Corporation of Pakistan / National Shipping Council - <i>Maritime Transport Services</i></li> <li>• Civil Aviation Authority - <i>Air Transport Related</i></li> <li>• Ministry of Railways - <i>Rail Transport Services</i></li> <li>• Ministry of Petroleum and Natural Resources - <i>Pipeline Transport (fuel)</i></li> </ul>
All Services	<ul style="list-style-type: none"> <li>• Monopoly Control Authority - <i>Applicable to all Services</i></li> </ul>

### 3.4 Economic Strengths and Weaknesses

From a macro-economic perspective, the service exporters have much to cheer as Pakistan's economy grew at 8.4%, the second fastest growing economy in the region after China. Prudent macro economic policies, a successful privatisation program, issuance of bonds in international capital markets, and a stable exchange rate all led to renewed investor confidence and an improved country image as foreign direct investment increased and foreign exchange reserves built up to an all time high of USD 13 billion. As a result of this strong growth momentum the demand for services remained robust and allowed service exporters to remain competitive in the national and international markets. However, inflationary pressures continue to threaten the competitive position of service exporters. Inflation also impacts interest rates, exchange rate and balance of payments. Given the persistent inflationary pressure due to higher oil prices and strong demand, cost of borrowing is projected to increase during the current year.

In the survey, service associations were asked questions about the importance of different market factors to their business activity. **Table 3.16** captures the importance and state of key market factors that help domestic service providers compete with other services providers in the global market.

**Table 3.16: General Market Factors Contributing to Competitiveness**

Factors	Accounting Services	Legal Services	Medical Services	Financial Services	Construction/Architectural Services
Proximity to important markets	G	G	G	G	G
Cost of borrowing	M	B	M	VG	B
Investment Climate	M	G	M	G	G
Energy Infrastructure	B	B	B	M	M
Capital Flows Liberalization	M	G	G	G	M
Regulatory Institutions	G	B	M	G	M
Transportation Infrastructure	M	M	M	M	G
Telecommunications infrastructure	G	M	G	G	G
Educational level of workforce	M	M	M	M	M

Note: VG= Very Good    G=Good    M=Moderate    B=Bad    VB=Very Bad

**Proximity to important markets:** Associations for different service providers were of the view that the country has good proximity to important markets for exports. Most associations thought of the Middle East and the Far East as priority export markets. According to Economic Survey, seven countries namely, USA, UK, Germany, Japan, Hong Kong, UAE and Saudi Arabia account for 50%<sup>94</sup> of Pakistan's exports- as these are the major export markets for both goods and services. Given the increasing role of Mode 1 type of transactions in services sector, proximity to important markets is losing its importance as one of the key factors defining competitive advantage of a country.

**Cost of Borrowing:** The international reinsurance companies, in wake of the Sept 11 events, refused to provide reinsurance cover for terrorism and raised the premiums considerably. The situation threatened to increase the cost of doing business across the board in Pakistan. In particular, the insurance industry, which is required by law to have insurance cover, seemed to be in a crisis till the government stepped in and created a reinsurance pool for underwriting risks associated with terrorism. On the other hand, workers remittance through the banking channels created excess liquidity in the market and saw interest rates nose dive. Excess liquidity in the market meant cheap borrowing for banks and for corporations. Compared to the last couple of years, interest rates have started creeping up and as a result most of the associations and service providers ranked prevailing interest rates as moderate. Moreover, despite the recent hike in interest rates, borrowing is likely to be undeterred as the real rates are much lower once adjusted for inflation.

Legal, architectural, and construction services complained of unfavourable access to credit given the nature of their business and characterised cost of borrowing as bad. Most professional service providers have intangible collateral, which the banks consider high risk.

<sup>94</sup> *Economic Survey*. [www.finance.gov.pk/survey/chapters/09-trade.PDF](http://www.finance.gov.pk/survey/chapters/09-trade.PDF)

**Investment Climate:** There were different opinions regarding the prevailing investment climate in the country. Lawyers considered it good, pointing to recent privatisation deals and inflow of foreign direct investment in telecom and oil and gas sectors as indicators for good investment climate. Accounting firms considered investment climate mediocre citing poor image problem of the country and Pakistan's front-line role in the current war against terrorism. Doctors cited poor law and order situation in Karachi, resulting in targeted killings of doctors in the last few years, and characterized investment climate as bad. Financial services regarded investment climate as good based on favourable macro economic conditions, which have resulted in soaring bank deposits and a boom in the capital markets. Similarly, robust demand has led to inflated house prices and a significant upswing in the construction and related activities.

**Energy Infrastructure:** Energy Infrastructure was considered bad and at best mediocre by service providers due to frequent power outages in Karachi and other major cities of the country. Most service providers like hospitals and professional services firms had back-up arrangements in the form of electricity generators and did not rely on public electricity distribution utility for supply of electricity. Cost of energy was also considered high.

**Capital Flows Liberalization:** Compared to capital flows restrictions in place for two years after 1998 nuclear explosions, service providers considered the current capital flow regime as liberal and without restrictions. Both Medical and Law firms ranked it as good while accounting firms termed the capital flows regime as moderate. Similarly, financial service providers ranked it as good while construction services considered it to be moderate.

**Regulatory Institutions:** The opinion of service providers regarding regulatory institutions was quite varied ranging from bad to good. The opinion of various associations and service providers about the role and effectiveness of regulatory institutions for their respective sectors have already been discussed in detail in **Section 3.3**.

**Telecom Infrastructure:** Most service providers considered telecom infrastructure as good with a number of foreign telecom operators present in the cellular market and recent buy-out of Pakistan Telecom by UAE telephone operator, Etisalat. Service providers also pointed to lower cost of telecommunications compared to about five years back and availability of large number of options at reasonable and affordable prices.

**Education Level of Workforce:** Most service providers ranked the educational level of workforce as mediocre while recognizing the increasing literacy rate in the country. According to Economic Survey 2005, literacy rate<sup>95</sup> in the country has reached 53% which is a marked improvement given the situation about 5-20 years back. However, service providers were of the opinion that the quality of educated workforce needs to improve further to make Pakistan services sector more competitive in the global market.

### 3.4.1 Conclusion

Pakistan has achieved high growth in the last three years. Country profile in the eyes of foreign investors improved after issuance of bonds in international capital markets and effective privatisation policies. Pakistan's privatisation program has been successful in attracting foreign investment in key areas such as telecom, banks, and oil and gas providing service firms- such as consulting, legal, financial etc., opportunities to trade services with international investors and banks (Modes 1, 2, & 4). Pakistan's stock market emerged as the best performing stock market in the region during 2003-04 and attracted significant foreign portfolio investment (Modes 1, 2, & 4). Issuance of bonds also attracted foreign institutional investors and involved local and foreign investment banks (Modes 1, 2, & 4). If the growth momentum continues, foreign investment will

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<sup>95</sup> *Economic Survey*. [www.finance.gov.pk/survey/chapters/13-population.pdf](http://www.finance.gov.pk/survey/chapters/13-population.pdf)

flow into the country and increase competition among service providers thus leading to a more dynamic market.

The vibrancy of the market coupled with liberalization of capital flow regime and the advances in telecom infrastructure allow service exporters to build on their competitive advantage of low-cost providers and tap foreign markets and other sources of revenue. Moreover, a stable exchange rate backed by growing reserves, gives more certainty to the cash flows of service exporters and improves their credibility among the lending institutions. Similarly, an improved country image along with good telecom infrastructure facilitates service providers in establishing themselves as reliable partners/vendors in local and foreign markets.

Among the weaknesses, the export base is quite narrow and limited to 7-10 foreign markets. The energy infrastructure is weak and needs to be improved as most professional service associations and multinationals complained of frequent power outages. In addition to energy infrastructure, Pakistan also needs to further enhance the education and skills level of its workforce, as it is important for service firms to employ skilled workforce for delivery of their services to foreign clients or attract foreign multinationals into the country. Moreover, computer literacy level along with education level of the population needs to be enhanced to boost Mode 1 exports. The capacity of local regulatory institutions needs to be strengthened to enhance the confidence of foreign investors in local market.



## 4. SERVICE TRADE SUPPORT INSTITUTIONS

One of the pre-requisites for a thriving services sector is the presence of a trade association which is export-oriented and responsive to the needs to the firms within the sector. The survey contained a number of questions related to the activities and effectiveness of trade associations. The response of firms in different sectors is presented in **Table 4.1**.

**Table 4.1: Type of Trade Promotion Activities Undertaken by Associations**

Description	Financial Services (Trade Association)	Construction & Architectural Services (Trade Association)	Professional Services (Trade Association)	Medical Services (Trade Association)
Provides foreign market information and intelligence	5.0%	5.0%	5%	5%
Delivers export training and counseling	5.0%	10.0%	0%	5%
Organizes business networking events	35.0%	10.0%	5%	5%
Assists with business export plans	5.0%	10.0%	0%	0%
Assists with management and technical training	20.0%	15.0%	10%	15%
Assists with media profile by facilitating interviews and press coverage	25.0%	20.0%	0%	5%
Maintains a database of services providers	45.0%	40.0%	10%	35%
Provides information about service providers on their web site	30.0%	10.0%	10%	5%
Includes service providers in international trade events	10.0%	5.0%	5%	5%
Invites foreign commercial delegations to meet with service providers	30.0%	20.0%	15%	10%
Recognizes exemplary service providers in awards programs	45.0%	15.0%	5%	5%
Acts as a clearinghouse on trade information for service providers	0.0%	5.0%	0%	0%
Provides technical assistance for service improvement & adaptation	15.0%	10.0%	0%	0%
Assists with service market analysis	20.0%	0.0%	0%	0%
Helps with quality improvement	20.0%	5.0%	15%	10%
Facilitates introduction to commercial trade contacts	10.0%	10.0%	0%	0%
Organize and undertake marketing missions	20.0%	5.0%	5%	5%
Assists with developing joint ventures, franchise agreements, service licensing agreements, and new service contracts	5.0%	5.0%	0%	0%

## 4.1 Financial Services

The results of the survey show that associations in the financial services sector are relatively active in promoting the interests of their members. Although, there are a few activities that emerge as being prominent, the responses are quite evenly spread across the remaining activities. The ones that clearly stand out and are acknowledged by nearly half (45%) of those surveyed include, maintaining a database of members and recognizing exemplary service providers through awards program. Another 35% viewed the associations as being active in organizing business networking events. Exactly 30% recognized that the associations are active in inviting foreign commercial delegations and providing information about members on their web site. The respondents were quite evenly spread over the remaining activities of the associations.

The Pakistan Bankers Association (PBA)<sup>96</sup> represents a strong banking community of 43, comprising mainly commercial banks. The association is known to be active in tackling issues of importance to the banking circles. The outstanding features of the association include its rewards program and its quarterly review of the pertinent issues. Similarly, the Mutual funds association of Pakistan (MUFAP)<sup>97</sup> with a membership of 18, is a tightly knit association of elite fund managers. The association, in the recent past, received stimulus from the vibrant capital markets and is increasingly active in promoting investment products on offer by the mutual funds industry. MUFAP also recognizes exemplary service providers and organizes business-networking events. It also maintains a web portal containing updated information on its members and the performance of the mutual funds.

The Insurance Association of Pakistan (IAP) represents 35 insurance companies of all sizes. The insurance industry in Pakistan is still in its development stage and the association reflects the industry dynamics. Since the promulgation of the Insurance Ordinance 2000, IAP in consultation with the SECP has been facilitating companies to comply with the statutory requirements. IAP also played an active role in the reinsurance crisis following the Sept 11 events. The only organization partially representing the brokerage houses is the Financial Markets Association (FMA), but its activities are restricted to brokers and agents that are involved in inter-bank transactions. Hence FMA does not represent the interests of the wider broker community.

## 4.2 Construction and Architectural Services

The results of the survey reveal that the associations in this sector do not go beyond maintaining a database of members. The opinion on remaining activities of the associations in the sector is evenly spread with no clear consensus on any particular activity.

The results are a reflection of the poor organizational capabilities of The All Pakistan Contractors Association (APCA), which has 116 members only. Similarly, the Institute of Architects Pakistan (IAP)<sup>98</sup> has minimal organizational capabilities but a healthy membership of 750. The APCA has very few members considering there are over two thousand registered members with the regulator, which is the Pakistan Engineering Council (PEC). The reason for weak associations has to do with characteristics of the industry. The industry can be best described as having a large number of small to mid-size firms that are spread through out the country with a regional focus and very few firms that are big enough to have a national focus. Hence, the majority of firms in this sector do not assemble and coordinate on issues of national importance.

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<sup>96</sup> [www.pakbankers.com](http://www.pakbankers.com)

<sup>97</sup> [www.mufap.com](http://www.mufap.com)

<sup>98</sup> [www.iap.com.pk](http://www.iap.com.pk)

### 4.3 Professional Services

In the professional services-accounting firms were represented by the Institute of Chartered Accountants in Pakistan (ICAP)<sup>99</sup> as a professional association. However, owing to its code of ethics this association cannot indulge in trade promotion activities but it does safeguard the interests of its association members. Consequently, the response for professional firms regarding trade promotion activities undertaken by their association was quite low. Legal firms have regional high court bar associations such as Lahore High Court Bar Association or Sindh High Court Bar Association<sup>100</sup>. However, these associations lack an export orientation and are mostly involved in political issues. About 15% of the respondents in professional firms were of the opinion that the trade association helps in quality improvement and invites foreign commercial delegations. Other activities undertaken by the professional associations include maintenance of database of service providers, assistance with management and technical training and providing information about service providers on their web site.

### 4.4 Medical and Health Services

Pakistan Medical Association<sup>101</sup> is the representative trade association dealing with the interests of medical practitioners in the country. Pakistan Medical Association is organized on regional basis and has approximately 13,000- 16,000 members in both Lahore and Karachi. As most of the export activities in this sector are related to Mode 2 or Mode 4, most of the respondents in this sector found questions related to Mode 3 quite irrelevant, as it was difficult for a hospital to open a subsidiary abroad. About 35% of the respondents believed that the Medical Association maintains a database of services providers while about 15% were of the opinion that the trade association assisted with management and technical training. About 10% of the respondents also gave credit to the association for inviting foreign commercial delegations to meet service providers.

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<sup>99</sup> [www.icap.org.pk](http://www.icap.org.pk)

<sup>100</sup> [www.Sindhhighcourtbar.org](http://www.Sindhhighcourtbar.org)

<sup>101</sup> [www.pma.org.pk](http://www.pma.org.pk)

## 5. SYNOPSIS OF SERVICES TRADE CONSULTATION PROCESS

### 5.1 Public Sector Entities with Trade in Services Responsibilities

Pakistan has in place public entities, at the federal and sub federal level, which undertake trade consultations. Stakeholder consultations are conducted with elected representatives through the following bodies:

**WTO Council:** The Council is composed of Ministers and Ministers' of State from the related ministries and departments pertaining to various WTO agreements. The Council is a bicameral body with membership from the Senate and the National Assembly. The Commerce Minister is its Chair.

**WTO Task Force:** This is a bipartisan body with membership from the National Assembly. The Commerce Minister is also its chair.

**National Assembly Standing Committee on Commerce:** This is an oversight committee of the National Assembly and calls for reports and presentations when deemed necessary from the Ministry of Commerce. The Ministry also requests consultations when an issue of importance arises.

**Senate Standing Committee on WTO:** This is an oversight committee and seeks input on various issues from the Ministry of Commerce. The Ministry also requests consultations when an issue of importance arises.

The WTO wing also informally liaises with various federal and provincial ministries and departments. Each relevant Federal Ministry/department has a WTO focal person as do all of the four provinces (NWFP, Punjab, Sindh and Balochistan) have WTO cells. There are also consultations with various stakeholders such as the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) as and when their input is needed on any issue. Thus, the overall mechanism is driven on a as need basis and as and when an issue arises. For example, in advance of the Hong Kong Ministerial, a round of stakeholder consultations with the Ministry of Industries and Production and the Central Board of Revenue (in charge of the Pakistan Customs), FPCCI, and civil society organizations.

In addition, the Rules of Business<sup>102</sup> of the Government of Pakistan (GOP) define the charter of ministries/divisions. Twenty-eight divisions of GOP – a Ministry has one or more divisions – in addition to several federal agencies and provincial government departments are likely associated with activities that directly impact trade in services.

Business, Communication, Health Related and Social Services and the cross sectoral area of “Modes of Supply and E-trade” are associated with the largest number of Government divisions. WTO classifies a large number of services under “Business Services” ranging from services incidental to manufacturing, agriculture and mining to software and legal services. Relevant Government Divisions therefore include: a) Industries, Production and Special Initiatives, b) Food, Agriculture and Livestock, c) Law, Justice and Human Rights, and d) Information Technology and Telecommunications.

The WTO service classification of “Communication” includes telecommunications, postal/courier and audio-visual services and relevant Government divisions include Information Technology and

<sup>102</sup> Rules of Business, 1973, (as amended up to 30<sup>th</sup> March 2005), Cabinet Division, Government of Pakistan, Islamabad.

Telecommunications Division, Communications Division, Information and Broadcasting Division, and Culture, Sports and Youth Affairs Division.

“Mode of Supply and E-Trade” is a cross service sector area which includes the movement of personnel. The Interior Division has responsibility for the allocation of work permits to foreign workers; the Labour and Manpower Division has responsibility for the promotion of overseas employment of Pakistani workers.

A listing of GOP Divisions and federal agencies categorized by WTO service sector classifications appears in **Table 5.1**.

**Table 5.1: Service Sectors and Associated Public Entities**

<b>Service/Topic</b>	<b>Government of Pakistan Division/Agency</b>
Business services	Industries, Production and Special Initiatives Division Food, Agriculture and Livestock Division Law, Justice, and Human Rights Division Information Technology and Telecommunications Division Pakistan Software Export Board (PSEB)
Communication services	Information Technology and Telecommunications Division Communications Division Culture, Sports and Youth Affairs Division Information and Broadcasting Division
Construction and related engineering services	Housing and Works Division Industries, Production and Special Initiatives Division
Distribution services	Industries, Production and Special Initiatives Division Pakistan Customs
Educational services	Education Division Industries, Production and Special Initiatives Division Labor and Manpower Division Local Government and Rural Development Division
Environmental services	Environment Division Industries, Production and Special Initiatives Division
Financial services	Finance Division State Bank of Pakistan Securities and Exchange Commission of Pakistan
Health-related and social services	Health Division Social Welfare and Special Education Division Women Development Division Population Welfare Division Labor and Manpower Division Law Justice and Human Rights Division Minorities Affairs Division
Recreational, cultural and sporting services	Culture Sports and Youth Affairs Division Information and Broadcasting Division
Tourism and travel-related services	Tourism Division
Transport services	Communications Division (Roads and Highways) Railways Division Ports and Shipping Division Defense Division (Air Transport)

Service/Topic	Government of Pakistan Division/Agency
Other services/Utilities	Water and Power Division Petroleum and Natural Resources Division
Cross-Sector: Modes of Supply & E-Trade	Interior Division (Immigration) Labor and Manpower Division (Overseas Employment) Board of Investment (BOI) Export Promotion Bureau (EPB) Securities and Exchange Commission of Pakistan (SECP) Commerce Division Information Technology and Telecommunications Division
Cross-Sector: Standards & Professional Credentials	Pakistan Standards Institute Labor and Manpower Division Commerce Division
Cross-Sector: Co-ordination among Levels of Government	Commerce Division Cabinet Division
Cross-Sector: Economic and Labor Force Development	Labor and Manpower Division Law, Justice and Human Rights Division Small and Medium Enterprise Development Authority (SMEDA) Central Board of Revenue (CBR) Planning & Development Division Economic Affairs Division

## 5.2 Inter-ministerial Consultation Process

The Rules of Business state that every Division of the Government of Pakistan shall consult with other Divisions on matters impacting other Divisions.

The only GOP Division specifically mandated, as per Rules of Business<sup>103</sup>, to undertake intra-ministerial consultation in the area of services is the Information Technology and Telecommunications Division.

The Trade Policy of Pakistan<sup>104</sup>, 2003-2004, proposes the formulation of an Inter-ministerial committee to consult on trade policy implementation which can be assumed to span goods as well as services:

*“An Export Facilitation Inter-Ministerial Committee will be established, comprising the Ministers of Finance, Commerce, Industries & Production, Investment & Privatization, the Governor State Bank of Pakistan, Secretary Commerce and Chairman EPB. Secretary Commerce will also act as the Secretary of the Committee. The Committee will meet at least once in a quarter and oversee the progress and also the implementation of trade policy. It will also be responsible to resolve all irritants faced by the business and export community.”*

Ministries/Divisions consult through circulation of drafts for comments, meetings, and inter-ministerial committees. For example, the Trade Policy of Pakistan states the following with respect to inter-ministerial consultation during policy formulation:<sup>105</sup>

<sup>103</sup> The responsibilities of the Information Technology and Telecommunications Division include: “Co-ordination with the Provincial Governments, autonomous bodies, private sector, international organizations and foreign countries in respect of information technology.” Rules of Business as amended up to 30<sup>th</sup> March 2005. GOP.

<sup>104</sup> Trade Policy of Pakistan, 2003 – 2004, Speech of Minister of Commerce. ([www.commerce.gov.pk](http://www.commerce.gov.pk))

<sup>105</sup> Trade Policy of Pakistan, 2003 – 2004, Speech of Minister of Commerce. ([www.commerce.gov.pk](http://www.commerce.gov.pk))

*“We have also held Inter-ministerial and Inter-departmental consultations, and have consulted with the governments of all the four provinces.”*

In terms of legislative processes, proposed legislation is usually submitted by the Secretary of a Division, with the concurrence of the Minister-in-Charge, to the Cabinet for consideration through the Cabinet Division. The Law, Justice and Human Rights Division whets any proposed legislative change and drafts the proposed legislation following approval. Approval can come from the Cabinet, National Economic Council, Inter-Provincial Conference, or one of their committees. Depending on its type, legislation may also need to be approved by the Parliament (*Majlis-e-Shoora*) – National Assembly and Senate – and the President.

Standing or ad-hoc Committees may be constituted by the Assembly or the Senate to advise the Divisions concerned on general administrative policy or a special problem.

### 5.3 Private Sector Entities with Trade in Services Responsibilities

Currently there are almost fifty registered chambers of commerce and industry in Pakistan<sup>106</sup> including a Federation of Chambers of Commerce and Industry (FPCCI), an Overseas Investors Chamber of Commerce and Industry (OICCI), the American Business Council of Pakistan, and forty three regional chambers.

There are over forty “A Class” Industry associations<sup>107</sup>, and almost ninety “B Class” industry associations<sup>108</sup> that are registered with the FPCCI. Some of these have trade in services responsibilities. In addition, there are several other private sector entities that are not registered with the FPCCI which also have trade in services responsibilities.<sup>109</sup> **Table 5.2** provides a comprehensive listing classified by WTO Service Sector categories. Unless otherwise specified, an organization is a registered as a “Class B” association with the FPCCI. “Class A” registered organizations; registered “Chambers” and “unregistered” organizations are specified accordingly.

Associations that deal with multiple WTO classified service sectors are listed under: “Cross-sector”.

**Table 5.2: Private Sector Entities with Trade in Service Responsibilities**

Service Sector	Private Sector Entities with Trade in Services Responsibilities
Business services	All Pakistan Security Agencies Association Pakistan Software Houses Association. PASHA, (unregistered) Call Center Association of Pakistan (CCAP), (unregistered) Pakistan Association of Printing and Graphic Arts Industry Pakistan Ship Breaker’s Association Pakistan Publisher and Booksellers Association Pakistan Mine Owners Association (Class A) Pakistan Advertising Association Pakistan Tanners Association
	Note: Those below all unregistered: High Court Bar Associations

<sup>106</sup> Federation of Pakistan Chambers of Commerce and Industry (FPCCI), Chambers of Commerce and Industry (<http://www.fpcci.com.pk/chambers.asp>)

<sup>107</sup> FPCCI, “A Class” Associations, (<http://www.fpcci.com.pk/aiclass.asp>)

<sup>108</sup> FPCCI, “B Class” Associations, (<http://www.fpcci.com.pk/bclass.asp>)

<sup>109</sup> “World Guide to Trade Associations,” WTO

	<p>Institute of Chartered Accountants of Pakistan, ICAP  Association of Chartered Certified Accountants  Association of Accounting Technicians, AAP  Deep sea Fishing Trawlers Operators Association of Pakistan  Marketing Association of Pakistan  National Book Council of Pakistan  Pakistan Drycleaners Association  Pakistan Photofinishers Association  Pakistan Seafood Processors and Exporters Association  Pakistan Women Lawyers Association</p>
<b>Service Sector</b>	<b>Private Sector Entities with Trade in Services Responsibilities</b>
Communication services (Note this category includes audio-visual services)	<p>Pakistan Motion Pictures Investors Association  Internet Service Providers Association of Pakistan (ISPAP) (unregistered)  Telecom Operators Association of Pakistan (TOA)  Pakistan Film Exhibitors Association  Pakistan Film Distributors Association  Pakistan Film Producers Association (Class A)  Motion Pictures Association (unregistered)</p>
Construction and related engineering services	<p>Association of Builders and Developers  All Pakistan Contractors Association (Class A)  Young Architects Association of Pakistan (unregistered)</p>
Distribution services	<p>All Pakistan Traders Association  Rice Exporters Association of Pakistan  Pakistan Automobile Importers and Dealers Association  All Pakistan Tires Importers and Dealers Association  Pakistan Stationers' Association  Indentors Association of Pakistan  Pakistan Chemists and Druggist Association</p> <p>Note: Those below all unregistered:  All Pakistan Cloth Exporters Association  All Pakistan Fiat Tractors Dealers Association  All Pakistan Paper Merchant's Association  All Pakistan Petroleum Cartage and Traders Association  Pakistan Chemicals and Dyes Merchants Association  Pakistan Pharmaceuticals Importers Association  Pakistan Petroleum Dealers Association</p>
Educational services	None listed with FPCCI or World Guide to Trade Associations
Environmental services	None listed with FPCCI or World Guide to Trade Associations
Financial services	<p>Leasing Association of Pakistan  Mutual Funds Association of Pakistan  Modaraba Association of Pakistan  Investment Banks Association of Pakistan  Insurance Association of Pakistan (Class A)  Pakistan Banks Association (Class A)</p>
Health-related and social services	None listed with FPCCI or World Guide to Trade Associations
Recreational, cultural and sporting services	None listed with FPCCI or World Guide to Trade Associations
Tourism and travel-related services	<p>Travel Agents Association of Pakistan  Pakistan Restaurants and Caterers Association  Pakistan Hotels Association</p>



Service Sector	Private Sector Entities with Trade in Services Responsibilities
Transport services	All Pakistan Shipping Association Air Cargo Agents Association of Pakistan Pakistan Oil Tanker Owners Association Pakistan Ship's Agents Association (Class A) Pakistan Airline Pilots Association (un registered)
Cross Sector	Federation of Pakistan Chambers of Commerce and Industry (Chamber) Federations of Overseas Investors Chambers of Commerce and Industry (Chamber) American Business Council of Pakistan (Chamber) Over 40 regional chambers (Chamber) Pakistan Overseas Employment Promoters Association Pakistan Small Industries Association  Note: Those below all unregistered: All Pakistan Federation of Labor All Pakistan Federation of Trade Unions Employers Federation of Pakistan Pakistan Association for Small and Medium Enterprises Pakistan International Exhibitors Association

“Business Services” and “Distribution Services” sectors have the most listings. “Business Services,” as defined by WTO contains a number of services including for example: legal, architectural, advertising, accounting, software development, IT, publishing and printing services and also services incidental to manufacture, mining, agriculture, and fishing. “Distribution Services” includes the broad categories of retail and wholesale and therefore associations dedicated to retailing, indenting and trade are included. However associations of “manufacturers and exporters” are not included because they are usually comprised of manufacturers who export – and therefore are “goods-oriented” rather than “service-oriented”.

WTO includes “audio-visual” services in “Communication Services.” Therefore motion picture related associations are included in this category. Note that the Government of Pakistan (GOP) uses the terminology “telecommunications” to refer to the WTO concept of “communications”. GOP uses the term “communications” to refer to the WTO concept of “Transport.”

The Federation of Pakistan Chambers of Commerce and Industry (FPCCI) or the World Guide to Trade Associations do not list any associations in Pakistan for the following sectors: a) Educational Services, b) Environmental Services, c) Health-related and Social Services, and d) Recreational, cultural and sporting services.

#### 5.4 Public-Private Sector Consultation Process

The Rules of Business<sup>110</sup> of the Government of Pakistan stipulate that the Information Technology and Telecommunications Division should coordinate with the private sector. While other Divisions oversee and regulate other services sectors – for example the Finance Division has responsibility for banking – no other Division is formally mandated to consult with the private sector on trade in services or other matters.

In practice, however, in keeping with the global trend of awarding increasing importance to the private sector as the driver of the economy, private sector opinion is widely sought and reflected in government policy decisions and initiatives. In the absence of formal public-private sector

<sup>110</sup> Rules of Business, 1973, (as amended up to 30<sup>th</sup> March 2005), Cabinet Division, Government of Pakistan, Islamabad.

consultation mechanisms however, the government consults informally with private sector firms on an “as need” or ad hoc basis. The government holds informal meetings with industry representatives to discuss services trade issues. These meetings may be with a cross-section of service firms or they may be on a one-on-one basis.

The Trade Policy<sup>111</sup> of the Government of Pakistan states that:

*In the formulation of the policy, we have held wide ranging consultations with all stake holders - the Federation and its constituent Chambers of Commerce & Industry, the Trade & Industry Associations, and exporters in all sectors, in long formal meetings and through eliciting their views and comments in writing. We have received hundreds of suggestions and proposals from the trade and industry which have all been given close consideration”*

Similarly, the development of the National IT Policy<sup>112</sup> also received considerable input not only from the domestic private sector, but also from expatriates:

*“Very important support and inputs came from expatriate Pakistanis who have formed volunteer support groups from all over the world. Ongoing support from the Strategic Advisory Board, USA and other Advisory Boards in the UK, Middle and the Far East are providing valuable key inputs in to the implementation of the Policy items.*

*At the meeting of over 100 Information and Communication Technology experts held in Islamabad on 01 April, 2000, under the auspices of IT Commission, it was decided to setup eleven working groups to study and give proposals on specific areas related to I.T. and its development, promotion and application in Pakistan.”*

On multi-lateral, WTO negotiations, private sector knowledge and insights tend to be low. The President of the Federation of Pakistan Chambers of Commerce and Industry<sup>113</sup> (FPCCI) stated that:

*“Private sector’s interaction is not much at global forums. Before we formulate our point of view on specifics there is a need for capacity building ... You cannot really expect an active entrepreneur to follow such complicated developments on his own. We need backup infrastructure to feed us with information that is relevant to our businesses ... To this end we are working on a project to create a research center.”*

## 5.5 Recommendations

Owing to the complicated, multi-lateral WTO trade framework, synergies across service sectors, small sizes of most service firms, and weakness of many service associations, it is advisable to form National Advisory Groups comprised of different stakeholders to advise the Government on multi-lateral negotiation issues. Stakeholders can comprise the private sector, government agencies, labour representatives, and subject matter experts. A knowledge management system would be essential to process the large amount information.

<sup>111</sup> Trade Policy of Pakistan, 2003 – 2004, Speech of Minister of Commerce. [www.commerce.gov.pk](http://www.commerce.gov.pk)

<sup>112</sup> IT Policy, Government of Pakistan, Information Technology and Telecommunications Division. ([www.moit.gov.pk](http://www.moit.gov.pk))

<sup>113</sup> Subohi, Afshan, “Gap between bound, applied tariff rates,” Economic and Business Review Section, Dawn Newspaper, Page II, May 9-15, 2005.

## 6. SERVICES SECTOR EXPORT CHALLENGE

In the survey, a number of questions were asked about export challenges, weaknesses and threats to the firm and also about the regulatory constraints faced in exporting their services to foreign markets under various modes. The results of export challenges and constraints identified by different respondents have been presented in **Table 6.1**.

**Table 6.1: Export Challenges and Constraints**

Description	Professional Services	Medical Services	Financial Services	Construction Services	Total
Inability to obtain adequate financing	5.0%	25.0%	5.0%	45.0%	20.0%
Difficulty attracting professionally skilled employees	40.0%	20.0%	25.0%	40.0%	31.3%
High cost of telecommunications services	5.0%	0.0%	10.0%	15.0%	7.5%
Insufficient commercial trade contacts	15.0%	20.0%	25.0%	55.0%	28.8%
Difficulty establishing credibility as a competitive service provider	10.0%	0.0%	20.0%	25.0%	13.8%
Difficulty managing client payments from abroad	5.0%	5.0%	0.0%	15.0%	6.3%
High cost of energy services	5.0%	10.0%	0.0%	10.0%	6.3%
High cost of transportation services	15.0%	10.0%	5.0%	5.0%	8.8%
Regulatory barriers in home country	10.0%	5.0%	35.0%	10.0%	15.0%
Regulatory/licensing barriers in foreign markets	25.0%	15.0%	50.0%	40.0%	32.5%
Market access barriers in foreign markets	10.0%	0.0%	45.0%	20.0%	18.8%
Insufficient insurance services	5.0%	5.0%	0.0%	15.0%	6.3%
Difficulty meeting international quality requirements	0.0%	5.0%	5.0%	10.0%	5.0%
Insufficient market demand	10.0%	0.0%	10.0%	5.0%	6.3%
Lack of market information	15.0%	20.0%	25.0%	55.0%	28.8%
Difficulty identifying suitable local partner in foreign markets	30.0%	20.0%	35.0%	55.0%	35.0%
Difficulty obtaining travel documents to visit and serve foreign markets and clients	25.0%	10.0%	55.0%	55.0%	36.3%
Inability to obtain recognition of professional credentials in foreign markets	20.0%	15.0%	20.0%	40.0%	23.8%
Others:	0.0%	0.0%	10.0%	15.0%	6.3%
Dual Tax Policy	0.0%	0.0%	0.0%	0.0%	0.0%
Linguistic Problem	0.0%	0.0%	0.0%	0.0%	0.0%
No Opportunities For Overseas Practice	0.0%	0.0%	0.0%	0.0%	0.0%
Poor Country Image	0.0%	0.0%	0.0%	0.0%	0.0%
Total Respondents	20	20	20	20	80

As seen in the table above, the highest percentage of total respondents identified difficulty in obtaining travel documents and visa for foreign markets as the most important constraint these

companies are facing. This opinion was shared across the board by all sectors- however, in medical and health services, only 10% identified this as a major constraint. The explanation is that Health and Medical Services is operating mostly in Mode 2 in which there is no requirement for foreign travel. Given the nature of the business- physical location of the clinic and hospital- it is very difficult for this sector to provide services in Mode 3. However, Medical and Health professionals also provide services in Mode 4 and foreign employers sponsor their temporary work permit.

Similarly a significant percentage of respondents (35%) also complained about difficulty in identifying suitable local partner in foreign markets. Related to the previous impediment, 32% of overall respondents also pinpointed regulatory and licensing barriers in foreign markets as another major export constraint. Other significant problems highlighted by respondents across the board are insufficient trade contacts, lack of market information and difficulty in attracting skilled professionals. As the Medical and Health services industry's scope of operations is limited to Mode 2, the respondents did not identify any significant export constraints and challenges- showing lack of export orientation (specially Mode 3 or Mode1) on behalf of medical practitioners and hospitals.

While looking at sector specific constraints, 45% of the respondents in the construction and architectural services industry identified the inability to obtain adequate financing as one of the major constraints. This was particularly true for small firms in this sector which had very few tangible assets to offer as collateral to banks and therefore had difficulty financing their expansion. Also a very high percentage 40% in this sector identified the inability to obtain recognition of professional credentials in foreign markets as a major export constraint. The majority of firms that highlighted this constraint were architects who noted that Pakistani architectural qualifications are not recognized in most industrialized countries, forcing the service providers to deliver services through a third party. Moreover, 45% of the firms in the financial services identified market access barriers in foreign markets as a serious impediment. This response is more of a reflection of the firms linked with the capital markets, who pointed out their inability to freely market their services abroad, principally because of tight regulatory regimes in those countries.

A number of respondents also identified threats to the firm which can affect the export potential of these service sectors in future. The responses of services providers to this question have been presented in **Table 6.2**.

**Table 6.2: Threats to Firms and Supply Barriers**

Description	Professional Services	Medical Services	Financial Services	Construction Services	Total
Bureaucratic Delay	5%	0%	10%	15%	8%
Arbitrary administration of justice	15%	5%	10%	20%	13%
Corruption	15%	5%	0%	5%	6%
Deteriorating , law and order situation	20%	15%	0%	0%	9%
Deteriorating infrastructure	10%	0%	5%	0%	4%
intensity of competition	20%	0%	55%	45%	30%
Low market entry barriers to the industry	10%	5%	20%	25%	15%

...Table 6.2, Continued

Description	Professional Services	Medical Services	Financial Services	Construction Services	Total
Negative economic trends	20%	25%	55%	15%	29%
Political instability	25%	15%	30%	5%	19%
Scarcity of skilled personnel	0%	0%	0%	15%	4%
Total	20	20	20	20	80

As seen in the table above, intensity of competition, negative economic trends and political instability were identified as main threats to the domestic business and export potential of these firms. Interestingly 30% of the total respondents listed intensity of competition as the main threat. Medical and Health Services were again an exception-most of the medical practitioners and hospitals surveyed were highly specialized and top of the line. They do not think that intensity of competition is a serious threat. Negative economic trends and political stability received overwhelming response from service providers as a potent threat to their business. Although the economy is strong, most respondents felt that the export performance of their firm was dependent upon the overall macro-economic stability in tandem with political stability. Service providers were of the view that volume of their business activity is highly correlated with macro-economic and political stability. This was especially true for financial services where the respondents felt particularly vulnerable to the economic and political shifts. As an exception to this assessment, the construction sector did not share the threat perception of political instability as strongly as other service providers. The most plausible explanation is the regional focus of majority of the firms in the survey that gave them a sense of immunity from political and economic shocks at the national level.

Service providers also pinpointed low market entry barriers as a significant threat to firm's business and export potential. The respondents in the construction and architectural industry felt that the standards set by the regulator were not enforced and almost anyone could start a construction or architectural firm. To make matters worse, vastly experienced low cost foreign operators, mostly of China origin, had entered the market and were considered a serious threat to the development of export potential of local operators who were often left out of the mega projects. Similarly, the competition in architectural services had increased substantially primarily due to the entry of small one-man firms in the industry.

In the interviews, respondents outlined the image problem of the country as a major export constraint and supply barrier. This poor image problem of the country directly affected the country in many ways: foreign investment shies away and moves to other countries considered less problematic, visa problems are encountered by professionals affecting their mobility and potential to export services, foreign consumers also stay away from the country which they perceive is inhabited by Islamic extremists (mode 2). Many lawyers and bankers complained of delays in obtaining visa, due to lengthy visa procedures put in place after 9/11 by Western embassies, resulting in cancellation of meetings with their foreign clients. Most respondents also expressed their helplessness in resolving this problem in the short-term as they thought this negative perception would persist as long as Pakistan continues to play a leading role as 'front-line' state in the war against terrorism.

In addition to export challenges and constraints within the country, a number of respondents also shared their experiences of regulatory constraints experienced in foreign markets (see **Table 6.3**). Nearly 40% identified visa problems or restrictions in work permit as a common and major problem being encountered by service sector professionals. This constraint seriously inhibited the export capability of service providers in Modes 3 and 4. A significant percentage

(20%) of respondents also complained about requirements for forming a joint venture with local firms in the foreign market as a major regulatory constraint. In tandem with this earlier impediment, about 18% of the respondents also pinpointed the requirement for employment of local nationals in a foreign market as a major barrier to establishing commercial presence in foreign markets (Mode 3). Respondents also ranked protracted accreditation or licensing processes, discriminatory treatment of foreign firm for registration or authorization requirements, and restrictions on external financial transfers as major regulatory constraints experienced in various foreign markets across the globe.

**Table 6.3: Trade Constraints Impeding Export Capability**

Description	Professional Services	Medical Services	Financial Services	Construction Services	Total
Restrictions on temporary entry into the country with burdensome visa or work permit processes	35%	10%	75%	35%	39%
Non-recognition of your professional credentials	10%	5%	10%	20%	9%
Restrictions on external financials transfers	0%	0%	30%	20%	16%
Discriminatory access vis-a-vis a national firm or other foreign competitor to distribution networks, for example, retail or telecommunications networks	10%	0%	0%	20%	3%
Discriminatory treatment vis-a-vis a national firm or other foreign competitor under the regulatory framework of the industry for example discriminatory registration or authorization requirements	10%	0%	25%	20%	16%
Excessive delays or arbitrary treatment in licensing or accreditation procedures	10%	0%	20%	20%	14%
Excessive burdensome accreditation qualification, technical standards or licensing requirements	15%	0%	15%	35%	16%
Requirements for employment or management by nationals when operating in their market	20%	5%	20%	25%	18%
Limitations on the type or quantity of service products you can provide in their market	10%	0%	5%	5%	5%
Product specific restrictions that impede your ability to provide services in their market	0%	0%	0%	0%	0%
Restrictions on the availability of foreign currency available to purchase services abroad	0%	0%	0%	0%	0%
Requirements for the formation of a joint venture, or specific corporate structure, when operating in their market	15%	5%	10%	50%	20%
Limitations on your firm's ability to use its company name, when operating in their market	5%	0%	0%	40%	11%

...Table 6.3, Continued

<b>Description</b>	<b>Professional Services</b>	<b>Medical Services</b>	<b>Financial Services</b>	<b>Construction Services</b>	<b>Total</b>
Limitations on the percentage of foreign ownership of the firm, when established in their market	5%	0%	15%	35%	14%
Limitations on the geographic scope of operations of the firm in the market	5%	0%	5%	0%	3%
Requirements that local marketing and advertising firms be used, when operating in their market	5%	0%	0%	5%	3%
Prohibitions on the provision of your service by a foreign firm	0%	0%	5%	5%	3%
Imposition of high fees or taxes on repatriation of earnings	10%	0%	0%	5%	4%
Administrative rules and procedures that are difficult to obtain and understand	10%	0%	15%	5%	8%
Restrictions on foreign participation in government procurement processes	0%	0%	0%	5%	1%
Has your firm experienced adverse affects from subsidies provided to foreign competitors by their government	0%	5%	0%	10%	4%
<b>Total Respondents</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>20</b>	<b>80</b>

## 7. RECOMMENDATIONS FOR INCREASING SERVICE EXPORTS

### 7.1 Sector Specific Responses

In the Survey, respondents were asked about or measures that would enhance the export capability of domestic service providers (see **Table 7.1**). A majority (53%) ranked management & skills training as the most important measure for boosting exports. Moreover, introduction to trade contacts and potential commercial partners (48%), assistance with development of market entry strategies (45%), training in marketing skills (45%) and improvement of media profile with interviews, newspaper articles, success stories (39%) were also considered as important initiatives to strengthen the export capability of domestic firms. The medical sector, given the potential for e-commerce in health services, stressed better commercial use of the internet, as 50% of the respondents in that particular sector ranked it as an important step. Respondents in the construction sector also stressed the need for training in the development of services export plans (50%) and financing strategies (60%). Respondents in the Financial and Construction sectors felt that participation in services marketing missions can be an effective measure as well.

**Table 7.1: Steps for Boosting the Export Capability of Domestic Services Firms**

Description	Medical Services	Financial Services	Professional Services	Construction Services	Total
Assistance with development of market entry strategies	20%	50%	35%	80%	46%
Training in marketing skills	40%	35%	60%	45%	45%
Guidance on better commercial use of the Internet	50%	20%	25%	20%	29%
Instruction in industry market analysis	10%	30%	5%	25%	18%
Technical assistance in designing quality assurance systems for the service firm	20%	40%	20%	50%	33%
Introduction to trade contacts and potential commercial partners	20%	40%	60%	70%	48%
Participation in services marketing missions	10%	45%	25%	65%	36%
Improvement of media profile with interviews, newspaper articles, success stories	50%	40%	25%	40%	39%
Training in the development of services export plans	15%	30%	35%	50%	33%
Financing strategies	20%	15%	15%	60%	28%
Management & skills training	40%	60%	45%	65%	53%
Honesty of justice	5%	0%	0%	0%	0%
Needs Govt. Cooperation	0%	0%	0%	0%	0%
To develop English language	0%	0%	0%	0%	0%
Total Respondents	20	20	20	20	80



In another question in the survey, respondents were asked about regulatory changes that are necessary to improve the environment for service exporters (see **Table 7.2**). Majority (55%) of the respondents, across the board, were of the opinion that streamlining of regulatory procedures is the single most important change needed for improvement in the environment for service exporters. Moreover, publication of laws, regulation and administrative guidelines regarding respective sectors (47%), and increased transparency in domestic regulation (43%) were ranked as other important steps that can contribute to improvement in the environment for service exports.

These opinions about necessary regulatory changes are in tune with the perceptions of service providers about the regulatory bodies for these sectors: majority of the service providers, perceived the regulatory bodies as weak and ineffective and did not adopt a participatory approach towards the private sector at the stage of framing rules and regulations. Although, financial service providers regarded the regulators as strong and effective, they also stressed the need for further improvement in areas mentioned above.

For instance, firms associated with the capital markets pointed out that the decision by SECP to phase out 'badla' transactions, without alternative mechanism of margin financing fully in place, had a negative impact on markets. Similarly, the time lag for funds transfers by the central bank can cause a substantial loss to exporter due to fluctuations in currency valuations. This is of paramount importance to securities traders when dealing with foreign investors. Hence, regulatory measures without proper foresight can sometimes be counter productive. Few respondents outside legal services were aware that government had recently given legal recognition to electronic forms and signatures. However, respondents were of the opinion that this is an important regulatory change, which would benefit service exports in the long run.

A significant majority in construction and financial sectors were of the opinion that service exporters should be treated at par with goods exporters in export assistance schemes. For instance, at present construction firms face considerable difficulty in securing finance facilities or insurance cover for infrastructure projects in overseas markets. Although State Bank of Pakistan (SBP) in its circular to banks dated 30<sup>th</sup> October, 2001<sup>114</sup> extends export finance facility to qualifying service enterprises, the intangibility of services, inadequate documentation, and poor business models makes it difficult for service providers to secure financing. Banks are reluctant because in case of default the entire risk is born by the banks as SBP debits the lending institutions account for the loan amount and the bank is left with the task of recovery. Moreover, banks are traditionally accustomed to physical assets as collateral and are not geared to do valuations of non-physical assets and therefore cannot properly account for the uncertainty in cash flows.

Most service exporters do not spend enough time and effort to develop business models that accurately capture the expected cash flows and often fail to provide satisfactory documentation to the banks. Also, given the nature of their business, construction and architectural services firms considered that the best steps for improving the regulatory environment are to make government procurement bidding non-discriminatory towards private sector and also give importance to technical competence along with quality and price in government procurement criteria. Professionals in this sector felt strongly that preferential treatment was given to state-owned firms in awarding contracts and that pre-qualification requirements for mega projects heavily favoured foreign contractors or very large local companies.

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<sup>114</sup> [www.sbp.org.pk/bsd/2001/C41.htm](http://www.sbp.org.pk/bsd/2001/C41.htm)

## 7.2 General Measures (short term and long term)

- Government needs to improve statistical coverage of the services sector by disaggregating the services statistics and incorporating other services sectors categories in addition to the current six sub-sectors only. Inclusion of data pertaining to other services sector categories would increase awareness among foreign investors about the dynamic presence of those sectors and their export potential. Methodology for estimating the real output and investment in the services sectors needs to be improved as some of the estimates in certain services sectors are based on surveys conducted two decades back<sup>115</sup> and are not representative of the current situation.
- Although the private sector share is increasing in most of the services previously dominated or exclusively delivered by the government sector, private sector participation and in particular of smaller firms, needs to be further encouraged in areas with significant government sector presence such as ports, roads, highways and mass-transit, civil aviation, broadcasting, telecasting, health and education services.
- The standards and criteria applied for selection need to be more transparent and accommodative so that smaller firms with adequate technical expertise but not necessarily the financial standing can also participate and build their export capacity.
- There are a number of service sectors for which regulatory bodies exist such as Pakistan Bar Council, Pakistan Medical and Dental Council, Securities and Exchange Commission (SECP) etc. However, there is a definite need to strengthen the current capabilities of these institutions in order to transform them into effective regulators who are responsive to the modern needs of their respective sectors. The regulatory framework should be strengthened with investment in human resources and infrastructure. Special attention needs to be paid to the legal status of these institutions to ensure fully autonomous bodies with minimal government interference. Some regulatory changes, on which different service providers concurred, have already been suggested above.
- Special emphasis should be given to introduce e-governance to improve transparency and reduce transaction costs. E-governance can also help counter the menace of corruption that is all pervasive in Pakistani society. It will help restore the confidence of foreign investors and improve the image of the country. With e-governance in place public officials are less likely to be influenced by political pressures and business lobbies. The improvements in efficiency and reduction in bureaucratic red tape are some of the other obvious advantages of e-governance.
- Regulatory institutions in collaboration with associations for different service sectors should make efforts for standardization, recognition and accreditations of service institutions, facilities and professional qualifications with international standards, qualifications and bodies.
- In addition to adhering to international standards, efforts need to be made to coordinate with regulatory bodies, specifically, of those countries that are of importance to service

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<sup>115</sup> State Bank of Pakistan Annual Report 2004. [www.sbp.org.pk](http://www.sbp.org.pk)

exporters, to establish common standards and criteria for business. The application of common standards and criteria will make it easier for service exporters to establish their credibility in export markets. Associations need to play an aggressive role in identifying export markets and coordinating with local as well as foreign regulatory institutions and trade associations.

- Although services sector associations exist for different sectors, these associations lack export orientation and are not aware of important issues affecting the export capabilities of their sectors. The institutional capabilities of these associations need to be strengthened. The associations through closer communication with their members should become aware of their sectors export potential. They should also be more responsive to the needs of small service exporters. Awareness of GATS and its related issues has to be raised among service providers and professional associations. Some of the important steps that associations need to take to boost the export potential of different service firms in their sector include:
  - ▶ Identification of export markets
  - ▶ Identification of international standards applicable to their industry
  - ▶ Identification of regulatory issues in the local and export markets
  - ▶ Identification and establishment of common standards and criteria
  - ▶ Identification of potential business partners in export markets
  - ▶ Establish commercial trade linkages in export markets
  - ▶ Projection of service exporters in export markets
- Service providers in the country lack export orientation and are unaware of immense export potential that exists in their sector for services export. A number of steps that can be taken by service firms to strengthen the export capability of their firm/employees are to invest in improvement of training and marketing skills of their employees, to invest in appropriate technology infrastructure that enables them to compete internationally, to seek help from all relevant organizations and government institutions in the development of export strategy. Health, Business Services, and Education Service firms need to focus on immense opportunities in Mode 1 such as tele-health and distant education.
- Trade enabling ministries such as the Export Promotion Bureau (EPB) should concentrate more resources on trade in services. A proactive trade enabling ministry should have a comprehensive database and information on export markets and importers and exporters of services, organise trade exhibitions and seminars to increase the awareness of trade in services, establish valuable commercial trade contacts in export markets, and identify trade opportunities.
- Availability of adequate financing and insurance cover is a pre-requisite to enhancing the services exports of any country. There is a dire need to introduce unambiguous lending criteria tailored for service exporters that establish the minimum acceptable documentation and financials required for availing export finance facilities. SBP in

conjunction with the banks need to review the current procedures and criteria to mitigate the risks undertaken by the lending institution. Banks and service firms need to evolve valuation models that accurately capture the cash flows from services and account for the inherent risks.

- Government should encourage improvement in skills and vocational training in the country to expand the human resource base in face of a growing demand for services. In this regard, the associations must play an active role and coordinate with relevant government bodies and educational institutes to enhance the skills of its professionals.
- In addition to strengthening of regulatory institutions and framework, improvement in energy and road and transport infrastructure is necessary. Most service providers complained of poor energy infrastructure which is inhibiting exports and also negatively impacts foreign investment in the long run. Most service providers complained about frequent power outages affecting their business and forcing them to opt for backup arrangements.
- Although the range of telecom services has improved vastly in the last 5 years, there is a need to introduce measures such as mobile number portability and the reach of broadband internet facilities have to expanded beyond select locations. Price of telecom services has declined in the last few years and this momentum towards price decline should continue particularly in the areas of broadband internet and inter-connectivity fees. Some of the telecom service providers have to improve their quality of service.
- It is important to form National Advisory Groups on WTO, comprising different stakeholders such as government, regulatory bodies, private sector firms, service associations and WTO experts. These groups should advise the government on multilateral negotiation issues pertaining to trade in services.
- Improvement in law and order situation and political stability are vital in attracting foreign investment. Therefore, it is imperative for Pakistan to improve its country image abroad by having political stability at home, adopting sound macro economic policies, clamping down on extremism, and considerably improving the law and order situation in the country.