Appendix I

The services sector in Pakistan

Pakistan is one of the emerging economies of the world. It has shown great economic growth due to dynamism in its industrial, agriculture and services sectors. The services sector alone has continued to perform strongly and has averaged growth of over 8% per annum since 2000.

Snapshot of the services sector

Number of services enterprises	2.65 million (80% of all enterprises)
Average employee size	less than 50 persons
Average sales	between PKR 60,000 and PKR 400,000
Contribution to GDP	53.3%
Construction	2.3%
Retail & Wholesale	19.1 %
Transport & Communication	10.3%
Finance & Insurance	5.6%
Other services	9.6%
GDP growth rate	over 8.7% annually since 2004
Employment generation	40% of skilled labour force (70% of employed)
Share in global exports	0.13% (US$3.34 billion)
Share of local exports	19.2% (PKR 200.7 billion)
FDI	US$2.6 billion during 2006-07

Source: Economic Survey of Pakistan, 2006-07

The services sector grew by 8.5% in 2006-07 as against 9.6% growth the previous year. The finance and insurance sector remained the major driver of growth, while better performance in the wholesale and retail trade as well as the transport and communications sectors also contributed.

All components of the services sector registered strong growth in 2006-07, with the exception of ownership of dwellings, and public administration and defense. The finance and insurance sector posted remarkable growth in 2004-05, 2005-06 and 2006-07 with growth of 30.8%, 33.0% and 18.2%, respectively. The wholesale and retail trade, and transport, storage and communications sectors also registered strong growth of 7.1% and 5.8%, respectively.

The growth performance of the various economic sectors over time can be seen in Table I.1 below.

Table I.1: Growth performance of components of GNP (% growth at constant factor cost)

Economic group	1980s	1990s	2002-03	2003-04	2004-05	2005-06	2006-07
Commodity Producing Sector	**6.5**	**4.6**	**4.2**	**9.3**	**9.5**	**3.4**	**6.0**
1. Agriculture	5.4	4.4	4.1	2.4	6.5	1.6	5.0
- Major crops	3.4	3.5	6.8	1.7	17.7	-4.1	7.6
- Minor crops	4.1	4.6	1.9	3.9	1.5	0.4	1.1
- Livestock	5.3	6.4	2.6	2.9	2.3	7.5	4.3
- Fishing	7.3	3.6	3.4	2.0	0.6	20.5	4.2
- Forestry	6.4	-5.2	11.1	-3.2	-32.4	-43.7	-3.8
2. Mining & Quarrying	9.5	2.7	6.6	15.6	10.0	4.6	5.6
3. Manufacturing	8.2	4.8	6.9	14.0	15.5	10.0	8.4
- Large scale	8.2	3.6	7.2	18.1	19.9	10.7	8.8
- Small scale*	8.4	7.8	6.3	6.2	6.3	8.3	7.7
4.Construction	4.7	2.6	4.0	-10.7	18.6	5.7	17.2
5. Electricity & Gas Distribution	10.1	7.4	-11.7	56.8	-5.7	-23.8	-15.2
Services Sector	**6.6**	**4.6**	**5.2**	**5.8**	**8.5**	**9.6**	**8.0**
6. Transport	6.2	5.1	4.3	3.5	3.4	6.9	5.8
7. Wholesale & Retail Trade	7.2	3.7	6.0	8.3	12.0	8.7	7.1
8. Finance & Insurance	6.0	5.8	-1.3	9.0	30.8	33.0	18.2
9. Ownership of Dwellings	7.9	5.3	3.3	3.5	3.5	3.5	3.5
10. Public Administration & Defense	5.4	2.8	7.7	3.2	0.6	10.0	6.9
11. Services	6.5	6.5	6.2	5.4	6.6	6.3	8.5
12. GDP	6.1	4.6	4.7	7.5	9.0	6.6	7.0
13. GNP	5.5	4.0	7.5	6.4	8.7	6.4	6.9

Source: Economic Survey of Pakistan, 2006-07

Value added in the wholesale and retail trade is based on the margins taken by traders on the transaction of commodities traded in the wholesale and retail market. In 2006-07, the gross value added in wholesale and retail trade increased by 7.1% over the previous year, compared to 8.6% growth in 2005-06. Value added in the transport, storage and communications sector is based primarily on the profits and losses of Pakistan Railways, Pakistan International Airlines and other airlines, Pakistan Post & Courier Services, Pak Telecom and motor vehicles of different kinds on the road. In 2006-07, this sector grew by 5.7% compared to 6.9% in 2005-06. The increase resulted primarily from strong consumer demand for mobile phones, Internet services of Pak Telecom, and motor vehicles on road.

Public administration and defense posted growth of 6.9% in 2006-07, while ownership of dwellings grew by 3.5% and the social services sector by 8.5%. The construction sector continued its strong showing, partly helped by activity in the private housing market, spending on physical infrastructure, and reconstruction activities in earthquake affected areas.

Telecom, energy (oil, gas and power), financial services, trade, construction, chemicals, food and personal services were the major recipients of FDI, accounting for almost 88% or US$3.7 billion. The telecom sector was the single largest recipient of FDI with US$1.4 billion, followed by the financial services (US$871 million), energy sector (US$585 million), food services (US$492 million), wholesale and retail trade (US$133.9 million), construction (US$117.1 million), personal services (US$74.1 million) and cement (US$15.2 million).

Services sector contribution to real GDP growth

Pakistan's economic growth is broad-based and is shared by all the major sectors of the economy. However, a major contribution towards growth has come from the services sector, which has emerged as a growth powerhouse over the past few years. The commodity producing sectors (agriculture and industry) have contributed two-fifths while the services sector contributed the remaining three-fifths of the 2006-07 real GDP growth of 7.0%. Agriculture and industry contributed 30.2%, or 2.9% percentage points, while the remaining 59.8%, or 4.2 percentage points, came from the services sector. Within the commodity producing sectors, agriculture contributed 1.1 percentage points or 15.1% to overall growth, while industry contributed 1.8 percentage points or 22.7% (see Table I.2 and Figure I.1 for details). The services sector has contributed the bulk of GDP growth for some time.

Table I.2: Sectoral contribution to GDP growth (% points at constant factor cost)

Sector	2002-03	2003-04	2004-05	2005-06	2006-07
Agriculture	1.0	0.6	1.5	0.4	1.1
Industry	1.0	3.8	3.1	1.3	1.8
- Manufacturing	1.1	2.3	2.7	1.8	1.6
Services	**2.7**	**3.1**	**4.4**	**4.9**	**4.2**
Real GDP	4.7	7.5	9.0	6.6	7.0

Source: Economic Survey of Pakistan, 2006-07

Pakistan's reliance on agriculture is minimizing with the passage of time. It is encouraging to note that the contribution of wholesale and retail trade is increasing. It contributed 19.4% or 1.4 percentage points to GDP in 2006-07. This sector is highly labour-intensive and this higher growth may have contributed to the rise in employment and income levels of people attached to the sector.

Composition of GDP

The composition or structure of GDP has undergone considerable change during the last three and a half decades (see Table 1.2 above for details). The commodity producing sector's share, which accounted for almost 62% of GDP in 1969-70, declined to almost 46% in 2006-07 — a decline of 16 percentage points.

It is estimated that the contribution of agriculture to overall GDP will shrink rapidly in the next five to ten years because of the faster growth of both the industry and services sectors. Over the last six years, the impetus for growth has largely come from the services and the manufacturing sectors. The share of manufacturing in GDP remained stagnant at around 16% for 33 years until 2002-03. Its contribution to GDP has surged only during the last three years - rising from 16.3% in 2002-03 to 19.1% in 2006-07, an increase of almost 3.1 percentage points.

Within the services sector, almost all components raised their contribution to GDP over the last three and half decades, but have remained more or less stagnant since 2000-01.

Structure of the SME sector in Pakistan

The small and medium enterprise (SME) sector is defined by size rather than a uniformity of business process or markets. The advantages and ills of this mode of business are mostly associated with size. Size gives SMEs the flexibility to survive in difficult economic conditions; it also helps them to create jobs at a lower capital cost. Together these two advantages foster income stability, growth and employment in an economy.

The definition of SMEs in Pakistan (see Table I.3) was formalized in the recent announcement of the SME Policy of Pakistan.

Table I.3: SME definition in Pakistan

Sector	Employment	Annual Sales	Productive Assets
Manufacturing, Services & Trade	Up to 250 persons	Up to PKR 250 million	Up to PKR 25 million

Source: SME Policy, 2007. (US$ 1 = PKR 60)

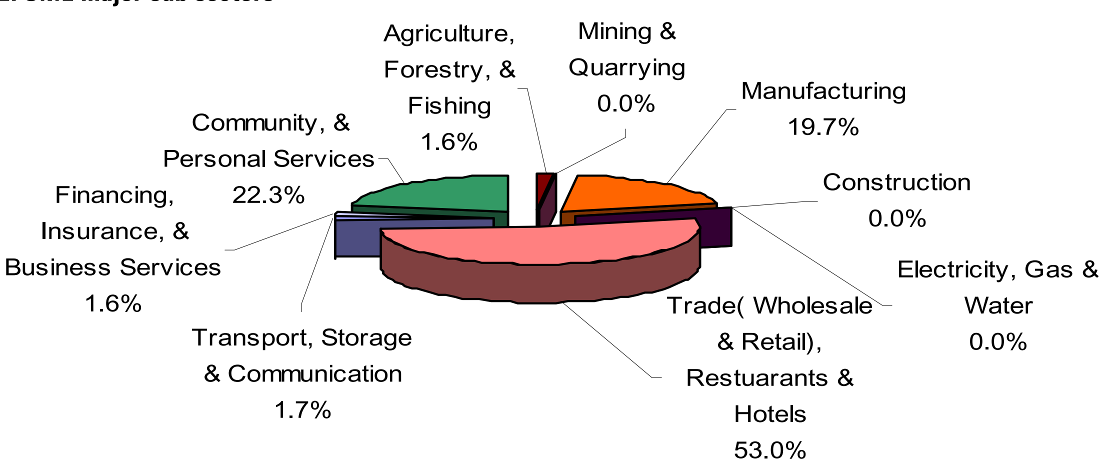
The annual Economic Census, conducted by the Federal Bureau of Statistics (FBS), provides useful information about the size, growth pattern, composition and ownership trends in the SME sector in this country. According to the Economic Census of Establishment Pakistan 2005, there were 3.2 million economic establishments operating in Pakistan, of which 2.96 million comprised less than 99 employees. Therefore, 93% of entities fell into the category of SMEs.

SMEs have a pervasive presence across the economy with varying density. The wholesale & retail trade and restaurants & hotels sector has the lion's share (53%) followed by other services (27%) and the manufacturing sector 19.7% (see Figure I.2 below). SMEs in the manufacturing sector are generally not capital intensive in nature. Instead the majority consists of labour intensive set ups involved in providing support services to larger manufacturing units catering to niche consumer markets.

As for the pattern of ownership in the SME sector, 968% of enterprises are sole proprietorship concerns (or partnerships).

Putting the above information together, SMEs are mainly concentrated in the trade and services sector with manufacturing comprising just a quarter of the whole. Most are personally or family owned and managed businesses.

Figure I.2: SME major sub-sectors



Source: Economic Census of Pakistan 2005

Services sub-sectors

A closer look on the composition of sub-sectors that contribute most to the services sector shows that retail trade, wholesale trade, research and educational consultancy services, restaurants and hotels, financial, construction, and some business services, such as computer and information technology (IT) services, and professional services, such as engineering, legal and accounting services. IT and related services are the most significant in terms of scope and scale of export markets and the extent to which these services are currently being delivered. Professional services, such as legal and accounting, is a promising sector. While it is rare to find a Pakistani architectural firm with an office abroad, a handful of engineering companies have extended their presence outside Pakistan. Medical and health services are delivering primarily to foreign nationals in the domestic market.

Table I.4: Statistics by economic sector, 2005

Economic sector	Median employment	Median sales (PKR)	Number of firms	Total sales (PKR)	Total employment	Contrib. to employment
Retail Trade	2	216,000	1,439,340	697,299,877,664	2,371,419	28.47%
Research Services & Institutions	2	72,000	311,545	43,919,690,727	1,360,015	16.33%
Personal & Household services	2	72,000	463,728	51,576,177,143	820,281	9.85%
Government (excl. Defense)	6	108,000	21,207	5,073,952,619	456,445	5.48%
Restaurants & Hotels	2	180,000	145,922	43,151,511,256	344,654	4.14%
Wholesale Trade	2	480,000	89,574	274,603,864,296	212,207	2.55%
Real Estate & Business services	2	180,000	49,926	22,838,542,584	130,828	1.57%
Communication	1	144,000	49,892	12,706,640,967	117,340	1.41%
Recreation & Cultural services	1	84,000	52,994	6,851,800,206	88,378	1.06%
Financial Institutions	6	720,000	8,252	33,248,144,612	69,445	0.83%
Transport Storage	3	288,000	12,151	10,517,242,726	54,047	0.65%
Manufacturing, Paper & Paper Production/ Printing & Publishing	3	300,000	10,735	19,554,739,689	42,169	0.51%
Water Works & Supplies	2	62,400	3,155	30,532,582	11,682	0.14%
Insurance	4	480,000	874	1,453,666,072	6,235	0.07%
Const., Rep & Maintenance Drainage, Hydraulics	2	108,000	965	285,074,354	2,486	0.03%
Building Construction	2	120,000	653	1,215,859,094	2,065	0.02%
Construction/Repair/Maintenance of Streets, Roading	2	360,000	288	58,037,651	529	0.01%
Electricity Gas & Water	6	22,800	30	1,246,032	421	0.01%
Financing, Insurance, Real Estate & Business Groups	5	108,000	102	1,863,900	387	0.00%
Community Social & Personal services	181	-	2	-	181	0.00%
Construction Repair, Maintenance of Railway P	3	204,000	10	2,089,050	27	0.00%
Construction Group	2	90,300	14	180,600	26	0.00%
Transport Storage & Communications	4	42,000	6	710,400	14	0.00%
Construction, Repair, Maintenance of Pipe Lines	3	480,000	1	480,000	3	0.00%
Construction, Repair, Maintenance of Sports Premises	2	-	5	-	3	0.00%

Source: Economic Census of Pakistan, Federal Bureau of Statistics (FBS) – tabulated by SMEDA.

The courier services sector stands out in terms of scale, and the Internet-related services sector distinguishes itself in terms of scope. Environmental services have significant exports in the area of environmental impact assessments. The banking sector is very prominent, while 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. Communications, distribution and transport services are significant in terms of scale of services traded but their supply is limited.

Pakistan's exports of services

Pakistan's exports of commercial services in 2005-06 represented just 0.1% (US$3.75 billion) of world services exports. Imports of commercial services amounted to US$8.15 billion.

Services sector exports increased by 25% during 2004-05 and again by 13% during 2005-06. The star performers were sub-sectors dominated by small and medium enterprises (SMEs), namely computer software exports, professional (other business) services and travel services (see Table I.5).

Services were predominantly exported to the United States of America (USA), the European Union (EU) and Middle East countries.

Table I.5: Services exports (US$ million)

	Description	2003-04	2004-05	2005-06*
1.	Transportation	864.0	1062.0	1066.1
2.	Travel	164.2	176.6	215.7
3.	Communication services	204.0	331.0	198.0
4.	Construction services	12.4	23.5	16.3
5.	Insurance services	19.3	25.2	28.5
6.	Financial services	21.4	39.4	70.0
7.	Computer & Information services	40.5	46.7	71.6
8.	Royalties & License Fees	10.1	12.7	33.2
9.	Other Business services	202.2	285.1	390.8
10.	Personal, Cultural & Recreational services	1.4	1.3	1.9
11.	Government services (not included elsewhere)	1106.4	1314.5	1657.2
	Total Exports	**2645.9**	**3318.1**	**3749.1**

* Provisional figures.
Source: State Bank of Pakistan Annual Report 2006

Table I.6: Services exports – sub-sectoral detail (US$ million)

Description	2003-04	2004-05	2005-06*
2. Travel services	**164.2**	**176.61**	**215.71**
Official travel	0.2	0.67	3.96
Other official travel	0	0.97	0.34
Commercial travel	0.4	0.62	0.69
Non-official delegations	0.2	0.6	0.1
Medical	2.9	1.85	1.66

	Description	2003-04	2004-05	2005-06*
	Students	2.1	1.19	1.39
	Trainees	0.5	2.55	1.08
	Tourists Pakistan national	12.9	9.52	7.38
	Tourists foreign national	144.9	156.83	195.31
	Religious travel	0.1	0.01	0.05
	Other	0	1.8	3.75
7.	**Computer & Information services**	**40.4**	**46.7**	**71.6**
	Hardware consultancy services	0.4	0.4	1.2
	Software consultancy services	8.9	10.2	19.0
	Maintenance & repairs of computer	0.0	0.2	0.1
	Export of computer software	21.8	31.9	45.9
	Other computer services	1.5	3.7	4.9
	Earnings of journalists / authors	0.0	0.1	0.1
	Subscription to news papers / periodicals	7.8	0.3	0.4
	News agents and correspondents	0.0	0.0	0.0
9.	**Other Business services**	**8.1**	**11.4**	**23.1**
	Legal services	3.7	4.7	5.8
	Accounting, auditing, & tax consulting services	4.4	6.7	17.3

* Provisional figures.
Source: State Bank of Pakistan Annual Report 2006

Pakistan's imports of services

The imports of services increased by 23% during 2005-06, i.e. from US$6,613 million to US$8,152 million. The major services imported included other business services (36%), transport (35%) and travel (17%) services. Services were predominantly imported from the United States (US), the European Union (EU) and Middle East countries. It is interesting to note that services imports are predominately from the same countries, where Pakistan exports its services. The following table provides details of imports of commercial services in 2005-06.

Table I.7: Pakistan services imports, 2005-06 (US$ million)

	Description	2003-04	2004-05	2005-06*
1.	Transportation	1754.0	2280.0	2856.4
2.	Travel	1198.0	1171.9	1400.9
3.	Communication services	38.4	59.4	100.5
4.	Construction services	18.9	5.5	144.2
5.	Insurance services	81.0	101.6	127.3
6.	Financial services	77.0	77.4	133.3
7.	Computer & Information services	12.0	26.7	42.9

	Description	2003-04	2004-05	2005-06*
8.	Royalties & License Fees	47.0	106.8	99.7
9.	Other Business services	534.0	2501.8	2943.6
10.	Personal, Cultural & Recreational services	0.5	7.5	5.4
11.	Government services (not included elsewhere)	201.0	274.0	297.8
		3961.8	**6612.7**	**8151.9**

* Provisional figures.
Source: State Bank of Pakistan Annual Report 2006

Issues faced by the services sector

Unlike the manufacturing sector, services are a live concert. Things happen in the theatre of services on the spot. There are no pre-recorded events that can be corrected and refined later on. Hence issues related to services cannot be discussed in a static context, i.e. as a formal list of impediments, accessibilities and constraints. The analysis following reflects the dynamism of services markets and the culture and environment that shapes them, particularly in developing societies.

A view of the services market

"While dealing with a service giver, I am constantly gripped by a fear of being cheated. I have to play extra vigilant; as the fear is not just about the conscious wrong doing on the part of a service giver but also about his skill and ability to deliver the right quality stuff".

These remarks were made in the course of a series of focus group meetings conducted by SMEDA in the course of adaptation of this publication. Feedback received during these meetings threw interesting light on the issues of service delivery. These issues are reflected below.

Lack of standardization

Services are not standardized. Legislation protecting consumers is still at a very early stage and there are no strong traditions to support customers seeking recompense or damages from a services deliverer. International quality certifications are systems-based requiring a lot of documentation, besides being expensive. There is a need for a simple but effective mechanism, at the level of the sectoral or professional associations, to certify the quality of services and thereby ensure adherence to a consistent set of quality standards.

Free entry and unemployment

With rising unemployment, services businesses requiring a minimum level of skill, a small capital outlay and virtually no registration are an easy option for investment to earn a living. With scores of people entering the lower end of the market, competition is high and the range of pricing limited. Therefore, livelihoods are squeezed from the thin margin left after meeting all costs and overheads. Expecting such a market to be quality conscious is an illusion.

Deficiency of trained HR

Apart from a few organized sub sectors, like banking, medicine and engineering, there are no credible training institutions offering courses in the skills required for the services sector. Resultantly, most of the artisans in trades like electricians, mechanics, drivers, tailors, barbers, cooks, masons, etc, are trained on the job. The level and quality of skill acquired by them is inconsistent and uneven depending on the source and environment of learning.

Informational asymmetry

In the absence of professional and quality certification, the customer doesn't have adequate information about the pricing structures for various grades of services. Nor is she/he fully aware of their availability.

Lack of IP protection

Informal and open services markets are not conducive to intellectual property protection, particularly as protection through copyrights, patents, trade marks, etc, are not yet much in vogue in the developing world. This has multiple consequences, such as:

- Hindering brand development
- Discouraging innovation
- Frequent copying and plagiarism discouraging competition and progress and availability of services to people at lower cost.

Constrained access to formal finance

Access to formal finance is a challenge for all the SMEs in Pakistan. SMEs find themselves on the wrong side of the collateral-based lending paradigm of the banking industry. The problem is further exacerbated in the case of the services industry. In the absence of tangible assets to mortgage as security, and a lack of tradition for valuation of intangible assets and their use as security for borrowing, services businesses find themselves further excluded from the domain of formal finance.

Lack of international gateway

International gateway provides the back up support for Internet based transactions. Absence of an international gateway in Pakistan hinders potential for e-business. Export of services also suffers in this context.

In the course of the focus group meeting SMEDA also distributed a questionnaire specifically designed to gather feedback on the issues related to exports of services. The respondents included banks, hospitality firms, educational institutions, IT firms, medical and engineering firms and other miscellaneous service firms. Following is a brief account of the findings.

- **Level of competition in your sub-sector**

  With the exception of the service monopolies in the public sector, like utility companies and health, education and other social service networks financed by the Government, competition ranged from medium to intense and even fierce in various segments of the private sector services provider's market. Competition among banks was intense. Among legal and accounting firms and IT businesses it was medium to intense. Competition among media, advertising and marketing firms was also quite intense. One can make a distinction between lower and upper end of the market: competition among the lower end firms serving the majority of services needs was quite intense and even fierce. There was also a rural-urban differential in the degree of competition.

- **How do you market your services?**

  Use of marketing methods was quite divergent. Banks made intense use of all means of marketing, including personal contacts, media, seminars and quality services. Legal and accounting firms and IT firms generally only rely on personal contacts. You do not see much advertisement in the media regarding ERP solutions, etc. Education, hospitality, construction, etc, services make a medium use of media.

- **Impact of taxation**

  The survey threw an interesting light on the impact of taxation. Not all the respondents were sufficiently clear about the number and level of taxes that affected them. More importantly, the views on the incidence of taxation on their businesses and profit margins were also inconsistent. For instance, with the exception of one bank all respondents were silent regarding the impacts of multiple taxation.

- **Impediments in import of inputs**

  Most respondents either ignored or replied no to this question. One university listed problems with the import of lab equipment and research journals. Otherwise, firms from the banking, hospitality, advertising and marketing, broadcasting and information and, most importantly, IT sector reported no impediments whatsoever.

- **Incentives offered by the Government**

  All banks and the majority of legal and accounting firms said that the Government offered no incentives. One education sector respondent mentioned recognition as an incentive, although the meaning of this was unclear: perhaps they were referring to recognition of degree awarding status as the incentive. Among hospitality businesses, one mentioned incentives such as institutional development, faculty arrangement and reference material. In broadcasting and information, one radio station received financial incentives: the rest answered no. In the IT sector, incentives included a training and certifications subsidy, and foreign exchange remittance.

- **Availability of information regarding setting up a business**

  There were mixed replies, with a slight tilt towards the negative, i.e. that good information is not always readily available. When asked about their sources of information, most respondents indicated institutions and government agencies, such as the State Bank of Pakistan (SBP), Central Bureau of Revenue (CBR), Tourism Development Corporation of Pakistan (TDCP), Trade Development Authority of Pakistan (TDAP), Pakistan Software Export Board (PSEB), and Institute of Cost & Management Accountants of Pakistan (ICMAP).

- **Mode of services delivery**

  Some firms who had earlier said they were not services exporters reported here services that fell into the category of exports of services. There is confusion in roles and understanding about what falls into the domain of services exports.

Conclusion

Despite our general habit of talking about services in a structured manner, the truly dynamic spirit of the sector needs to be understood. Services are a mix of a few formal and many informal establishments. The economics of these markets is defined within a situation where the market doesn't have backward linkages with standardized skill development institutions. Assurance of quality is lacking and awareness about IP issues is still thin. All these factors shape the context of exports in services and our expectations in this regard.

Building a services export base in Pakistan

The services sector is a large contributor to the GDP growth rate. Over the years it has shown a tremendous potential for growth and has evolved into an economic sector of considerable know-how. The share of Pakistan's services exports in the global export of services is negligible, seemingly though it has the capacity to grow, if an organised campaign is unleashed to promote the sector. Government of Pakistan has, with the assistance of the European Community (EC) Trade Related Technical Assistance programme (TRTA), implemented by the International Trade Centre (ITC), undertaken a series of integrated initiatives to build the services sector in Pakistan.

- *Successful Services Exporting* training courses were launched in collaboration with EPB (now TDAP) in June 2005 (Karachi) and September 2005 (Karachi and Lahore). In addition two training programs (Karachi and Lahore) were organised in September 2006 by SMEDA in which services exporters and industry association representatives participated. The training was designed to increase the awareness of participants regarding opportunities for Pakistani services exporters, enhance knowledge about services exporting fundamentals, and improve the skills needed for services exports.

- A *Services Capacity Report*[1] looking at the export potential of the sector was completed in September 2005. This comprehensive study of five sectors — information technology services, financial services, construction and architectural services, professional services, and medical and health services — presents important information on services trade activity in Pakistan and provides useful insights into the strengths and weaknesses of the services market, including market opportunities and infrastructure challenges.
- A *Services Export Roadmap*[2] was initiated in October 2005. The Roadmap, developed following extensive consultation with service firms and trade facilitating ministries. It identifies practical, achievable means to expand Pakistan's exports in services by increasing institutional support, streamlining the regulatory environment, improving the availability and quality of key services inputs, and providing better trade information. Improving services exports would thereby deliver a range of economic development benefits, including:
  - Increased foreign exchange earnings
  - The competitiveness and innovation of service firms
  - Stronger domestic capacity and decreased reliance on imports
  - Lower demands for start-up capital from SME service firms
  - A more competitive goods export sector due to input of higher-quality services
  - More jobs for skilled and semi-skilled people (expanding the domestic workforce and stemming the 'brain drain').
- A number of workshops and seminars were held throughout the TRTA programme, at which the draft Services Export Roadmap was discussed. A services seminar in Karachi in May 2005 identified private sector trade interests, while a GATS conference held in Lahore in November 2005 discussed the key issues at play in the negotiations under the General Agreement on Trade in Services (GATS) at the World Trade Organisation (WTO). National Services Workshops in Karachi in May and December 2006 brought together public officials and private sector representatives of service associations and service firms to discuss the enhancement of service firm competitiveness and Pakistan's services export potential, as well as the WTO GATS negotiations. The December 2006 seminar also looked at methods of collecting and reporting of services statistics in Pakistan.[3]

The key actions put forward in the Services Export Roadmap are given below.

Table I.8: Services Export Roadmap key strategic areas

Key strategic areas	Strategies
Increase Institutional Support	- Strengthen associations - Build services awareness and capability in the Trade Development Authority of Pakistan (TDAP) - Improve services focus in other relevant organizations - Establish special developmental organization
Streamline Regulatory Environment	- Review the domestic regulatory environment - Improve public-private consultation - Integrate private sector priorities into multilateral trade negotiating objectives

1 *Services Capacity in Pakistan: A national report*, ITC, September 2005.

2 *Services Exports: National Roadmap for Pakistan*, ITC, February 2007.

3 *The Statistical System of Pakistan for reporting on International Trade in Services*, ITC, December 2006.

Key strategic areas	Strategies
Strengthen Service Input Infrastructure	- Match human resource supply with demand - Improve the financial lending environment for services - Further Improve the Telecom infrastructure, delivery systems and processes - Improve utility provision and expand transport
Provide Better Information	- Classify services revenue as per the UN Interagency Task Force Framework - Establish physical and online resource centres to provide commercially valuable information to services exporters - Create greater national awareness of services export potential among providers and people with support roles

Source: Services Exports: National Roadmap for Pakistan, ITC, February 2007.

In addition, a number of government agencies provide specific programmes for the benefit of services sector. See Appendix IV for further information.

The way forward

During consultations with services sector stakeholders, it was suggested that the Government should initially focus on services sub-sectors with good export potential, and boost exports in these sub-sectors by providing targeted interventions. Five priority sub-sectors were identified, as follows:

1. Business Process Outsourcing (data processing, call centers, etc.)
2. IT (software development and solutions)
3. Accounting, Legal, Financial and other Consultancy Services
4. Medical Tourism
5. Architecture and Construction Services

It is proposed that the following strategy may be adopted for realizing the potential of these sub-sectors.

Setting up a services development company

It is recommended that a company be established that is focused on development of cross-sectoral diversity of services sub-sectors. Currently, a number of different ministries and departments are undertaking services sector development initiatives involving duplication of efforts at times. In order to focus on this fast growing sector of our economy and avoid duplication of effort, it is desirable to set up an independent company overseeing the needs of this sector and launching collective programs, projects and initiatives that would have a positive impact on the sector's development.

Building a conducive environment

Currently Pakistan has no specific regulations for the services sector. This has encouraged entrepreneurs to set up businesses without any service standardization and quality assurance to customers. These anomalies may be curtailed once the services development company, mentioned above, is established followed by implementation of the recommendations contained in the National Services Roadmap.

Build quality human resources

The key to advancement in the services sector is to build quality human resources. In order to meet the demand for skilled professionals in the domestic market, vocational training institutes should be encouraged to provide skills development training, along with an improvement in the level of education taught at professional colleges/universities. Creation of industry-academia linkages would allow the introduction of new subjects and options to meet the HR requirements of services exporters.

Capacity building of government organizations and associations to provide business development services to services entrepreneurs

In order to assist the services sector to export, there is a need to set up independent desks in all concerned government ministries, departments and agencies to focus on the constraints and issues facing the services sector. Working side-by-side, these desks should work to strengthen the associations and build strong networks with service providers and service facilitators, like Chamber of Commerce and Industry, SMEDA and trade associations.