# Dissecting Pakistan’s lead in Service Exports

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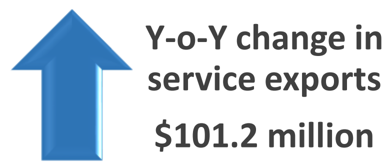
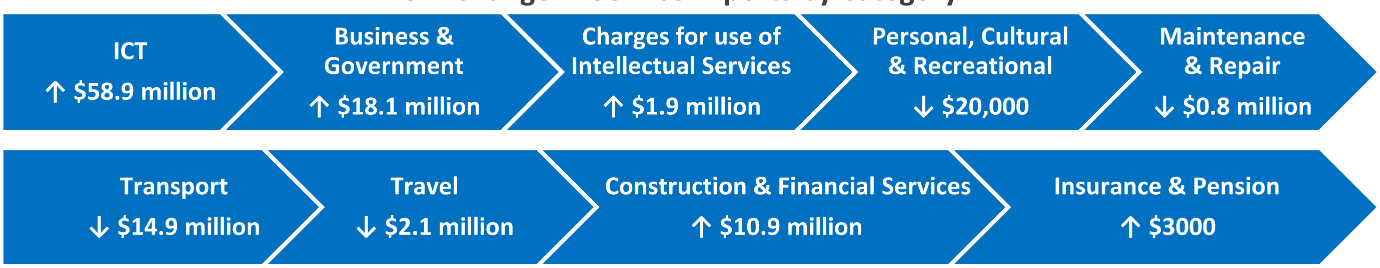
As per World Trade Organization’s latest statistics, global trade in services witnessed an average decline of 24 percent in the third quarter of 2020. Out of the 39 countries reviewed, approximately 90 percent experienced contraction in service exports whilst 10 percent observed a positive growth.

Interestingly, Pakistan took the lead in the latter category. Notwithstanding the unprecedented times, the country registered year-on-year (y-o-y) growth of 17 percent in November 2020 and 23.2 percent in December 2020. The month-on-month growth of service exports remained at 23.8 percent in December 2020.




**Y-o-Y Change in Service Exports by Category**




This uptick in service exports can be attributed to several factors. Most notably, to the exports of *Telecommunication, Computer and Information (ICT) Services* which increased by 48 percent y-o-y or $58.9 million, accounting for 31 percent of total service exports in December 2020. In the first three months alone of FY21, the remittances from the export of IT-enabled services (ITES) reached $379 million.

For the most part, the lockdown facilitated the expansion of the ICT services as the ‘work from home’ or ‘tele-work’ became a new norm. This provided an opportunity to ICT firms to outsource their services at a competitive rate causing an increase in its exports. Not only did the ICT firms accrued the benefits of this lockdown but so did the freelancing individuals as their numbers grew, making Pakistan the 4th largest freelance market in the world.

Another subcomponent of service exports has been the *Business (R&D services, professional, management and consulting services) and Government (Diplomatic services and military units and agencies) Services* which increased by 17.2 percent and 19.8 percent y-o-y, accounting for 24.4 percent and 21 percent of the total service exports in December 2020. With relaxation in lockdown at home and destination markets, business and government activities resumed causing an increase in its exports.

*Charges for the Use of Intellectual Property Rights* also took a leap, increasing from Rs. 13.9 million to Rs. 315.4 million y-o-y. This remarkable growth has been on account of *'Make in Pakistan'* campaigns coupled with initiatives taken for copyrights protection of Pakistani softwares and Trade Mark registration for other export goods such as sports products and basmati rice.

*Personal, Cultural and Recreational Services* increased by 1.3 percent y-o-y. Although travel and tourism was restricted due to Covid-19, this nominal increase is attributable to the collaborations under the Belt and Road Initiative's socio-cultural vision. However it is pertinent to note that due to depreciation of rupee, the export earnings from these services decreased by $20,000 y-o-y.

Export earnings from *Construction and Financial Services* grew by 190 percent and 130 percent respectively. Although these numbers look impressive, it is pertinent to mention that this revenue increase is largely on account of rupee depreciation instead of actual growth in these services.

*Insurance and Pension Services* increased by 3.4 percent y-o-y. This increase can be traced to a rise in demand for life insurances and monetary compensations largely driven by Covid-19.

During the period under review, export earnings from most of the service sectors increased with an exception of a few precisely; *Maintenance and Repair, Transport and Travel Services* which dipped by 95 percent, 20.3 percent and 0.4 percent respectively. This was anticipated since the pandemic-induced lockdown had a greater effect on certain modes of trade in services that involved presence of natural persons, commercial presence and/or consumption abroad. These sectors were therefore directly affected. However, the export of these services is likely to improve once the pandemic subsides.

Tax reforms introduced over the last two years have also contributed in the expansion of service exports via reducing the cost of doing business. For instance, the introduction of online payment modules for value added tax and corporate income tax in addition to the reduction in corporate income tax rate has made payment of taxes easier and less costly for the businesses, thus saving their financial and human resources. This has yielded cost reduction benefits in terms of increased profitability and international competitiveness which has provided the much needed boost to the service exports.

Amid the global slowdown in trade in services, Pakistan's performance in service exports is encouraging. However, there is need to ensure that this upward trend in service exports is not a one-time phenomenon but is sustained in the long-run. This demands that Pakistan joins the Global Value Chain.

With tele-work becoming a more prevalent reality, exports of services – and in particular of IT-enabled services is likely to grow substantially. To take advantage of this trend, Pakistan needs to upgrade its regulatory environment and encourage firms to innovate in the industry by adequately protecting their intellectual property rights.

It is pertinent that the service sectors with greatest export potential like *ICT* be provided with incentives similar to those extended to other exporting sectors such as textile. The recently approved *'The Right of Way'* (ROW) policy for the telecom sector is a good exemplar of policies introduced to facilitate the businesses.

Given the contribution of remittances in export of IT-enabled services, it is high time that Pakistan follows the practice of WTO to classify workers' remittances under service exports in order to fully realize the impact of service exports.

However, these reforms alone do not suffice and should be supplemented by other measures that aim at reducing taxes and tariffs for the businesses. One such possibility is Pakistan's accession to WTO's Information Technology Agreement, which PRIME has advocated. The proposal was accepted by the Ministries of Commerce and Information Technology, however due to objection by FBR, this was shelved. Pakistan's government has been dilly-dallying on this for last 20 years, while the world has moved on to a more progressive ITA-2. It is perhaps time to revive this proposal to capitalize on Pakistan's service exports.