



Enhancing the Competitiveness of Pakistan's Services Exports – “Other Business Services”

ACCOUNTING,
AUDITING,
BOOKKEEPING,
AND OTHER TAX
CONSULTING
SERVICES

JUNE 2022



ENHANCING THE COMPETITIVENESS OF PAKISTAN'S SERVICES EXPORTS – “OTHER BUSINESS SERVICES”

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The findings, interpretations and conclusions expressed do not necessarily reflect the views of Board of Directors and Members of the Pakistan Business Council or the companies they represent.

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The Pakistan Business Council: An Overview

The Pakistan Business Council (PBC) is a business policy advocacy platform, established in 2005 by Pakistan's largest private-sector businesses and conglomerates, including multinationals. Currently, PBC's membership stands at 94 and covers nearly all sectors of the formal economy.

The PBC is a not-for-profit entity, registered under Section 42 of the Companies Ordinance 1984. It is a pan-industry advocacy group. It is not a trade body that advocates for any specific business sector. Rather, its key advocacy thrust is on easing barriers to allow Pakistani businesses to compete in regional and global arenas. The PBC conducts research and holds conferences and seminars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan.

The PBC works closely with relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues which impact the conduct of business in and from Pakistan. The PBC has submitted key position papers and recommendations to the government on legislation and other government policies affecting businesses. It also serves on various taskforces and committees of the Government of Pakistan as well as those of the State Bank, the SECP and other regulators with the objective to provide policy assistance on new initiatives and reforms.

The PBC's Founding Objectives

The major objectives of the PBC as stated in its founding documents are:

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and fieldwork for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the World economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

The PBC's Member Companies





Table of Contents

List of Tables	09
List of Figures	10
Key Findings	11
The Services Sector – in General	11
Classification 10 – Other Business Services	11
The Global Accounting Services Sector	12
Barriers to Trade	12
Pakistan’s Other Business Services Sector	13
Pakistan’s Accounting Services Sector	14
Competitiveness of Pakistan’s Other Business Services Exports	16
India’s Other Business Services Sector	16
Chapter 1: The Services Sector	18
Introduction	19
Global Trade in Services	20
Compound Annual Growth Rate (CAGR)	22
Chapter 2: Other Business Services	24
Introduction	25
Global Trade	26
Compound Annual Growth Rate (CAGR)	28
Annual Growth Rate	28
The Global Accounting Services Sector	29
The Big Four	29
Accounting Standards	30
Accounting Industry Trends	30
Chapter 3: Barriers to Services Trade	32
Introduction	33
Modes of Supply of Services	33
The STRI Indicator	34
Restrictions to foreign entry:	35
Restrictions to movement of people:	35
Other discriminatory measures:	35
Barriers to competition:	35
Regulatory transparency:	36

Chapter 4: Pakistan's Other Business Services Sector	37
Introduction	38
Pakistan's Classification	39
Foreign Direct Investment (FDI) in Services Sector	39
Ease of Doing Business	41
Pakistan's Trade of Classification 10: Other Business Services	43
Trade of Classification 10.2: Professional and management consulting services	45
Pakistan's Top Export Destinations for Other Business Services	47
STRI for Pakistan's Top Export Destinations	48
Pakistan's Top Import Sources for Other Business Services	49
Chapter 5: Pakistan's Accounting Services Sector	51
Introduction	52
Domestic Regulations	53
Trade of Classification 10.2.1.2: Accounting, auditing, bookkeeping, and tax consulting services	54
Incentives	55
Lack of Incentives	57
Input from Relevant Stakeholders on Pakistan's Accounting Service	58
Digitalization	58
Professionals	59
Marketing	60
Accounting and Compliance Standards	61
Credit Insurance & Digital Payments	61
Export Potential	62
Infrastructure	62
Chapter 6: Competitiveness of Pakistan's Other Business Services Exports	63
Defining Competitiveness	64
Global Competitiveness	64
Competitiveness Amongst Developing Countries	66
Measures of Competitiveness	67
Pakistan's Competitiveness – Classification 10: Other Business Services	70
Competitiveness of Classification 10.2: Professional and management consulting services	72
Chapter 7: India's Other Business Services Sector	73
Introduction	74
Incentives	75
Chapter 8: Recommendations	78
Annexure	81
References	82

List of Tables

Table 1: Services Classification	20
Table 2: Top Exporters of Services	21
Table 3: Top Importers of Services	22
Table 4: Top Exporters of Other Business Services	27
Table 5: Top Importers of Other Business Services	27
Table 6: The State Bank of Pakistan’s Classification of Other Business Services	39
Table 7: FDI Inflows in the Services Sector of Pakistan	41
Table 8: Change in Pakistan’s Position along Different Indicators, 2020	42
Table 9: Pakistan’s Top Export Destinations for Other Business Services	47
Table 10: Pakistan’s Top Import Sources for Other Business Services	50
Table 11: Domestic Regulatory Framework in Pakistan for Trade in Accounting	53
Table 12: Highlights of Investment Incentives for the Services Sector in Pakistan	55
Table 13: Sales Tax by Each Territory on Services Relevant to the Accounting Sector	56
Table 14: Pakistan’s ranking in Top Exporters of Other Business Services	65
Table 15: Pakistan’s ranking in Top Importers of Other Business Services	65
Table 16: Top Developing Countries’ CAGR – Exports of Other Business Services	66
Table 17: Competitiveness of Classification 10: Other Business Services	70
Table 18: Competitiveness of Classification 10.2: Professional and management consulting services	72
Table 19: List of Interviewees	81

List of Figures

Figure 1: World's Top 5 Exports in Services	20
Figure 2: World's Highest Growing Services Export Categories (2016-20)	23
Figure 3: Classification of Other Business Services	25
Figure 4: Exports of Other Business Services Sub-sectors	26
Figure 5: CAGR of Other Business Services Sub-sectors (2016-20)	28
Figure 6: Annual Growth Rate of Other Business Services' Sub-sectors	28
Figure 7: The Big Four's Revenues in USD Billion, 2021	29
Figure 8: Accounting Standards used Globally	30
Figure 9: Emerging Trends in the Accounting Profession	31
Figure 10: Break-up of Pakistan's Export of Services	38
Figure 11: Break-up of Pakistan's Import of Services	38
Figure 12: Total FDI Inflows in Pakistan	40
Figure 13: Pakistan's Doing Business Rank by Years	42
Figure 14: Overview of Pakistan's Trade in Other Business Services (FY12-FY21)	43
Figure 15: Pakistan's Exports of Other Business Services Sub-categories	44
Figure 16: Growth Rates for Pakistan's Exports of Other Business Services	44
Figure 17: Top Exporters of Professional and management consulting services, 2020	45
Figure 18: Overview of Pakistan's Trade in Classification 10.2	45
Figure 19: Pakistan's Export shares of the sub-categories of Classification 10.2 in FY21	46
Figure 20: Pakistan's Growth Rates of the sub-categories of Classification 10.2.1	46
Figure 21: Pakistan's Export shares of the sub-categories of Classification 10.2.1 in FY21	46
Figure 22: STRI for Pakistan's Top Export Destinations, 2020	48
Figure 23: STRI - Accounting Sector	49
Figure 24: Pakistan's Trade in Classification 10.2.1.2	54
Figure 25: Growth Rates for Export and Import of Classification 10.2.1.2	54
Figure 26: India's Exports of Other Business Services Sub-categories	74

Key Findings

The Services Sector – in General

- The services sector represents the fastest growing segment of the global economy. This rapid growth of service-related sectors has been fueled by increases in knowledge and data, and rapid technological advances – especially, improvements in communication.
- According to the World Bank, value-added services contribute around 54.9% of the GDP of low- and middle-income economies and around 70.1% of GDP of high-income economies.
- Employment in the services sector as a percentage of total employment, accounts for around 45.2% and 74.5% for low- and middle-income economies, and high-income economies, respectively.
- Globally, Pakistan ranked as the 69th largest exporter and 63rd largest importer of services in 2020.
- This study, which is the second in the series on services exports from Pakistan by the PBC, focuses on **Classification 10 “Other business services”** and its sub-section **Classification 10.2.1.2: “Accounting, Auditing, Bookkeeping, and Tax Consulting Services”**.

Classification 10 – Other Business Services

- Classification 10 – Other business services comprises of three sub-sectors: **Classification 10.1 “Research and Development (R&D)”**, **Classification 10.2 “Professional and Management Consulting”**, and **Classification 10.3 “Technical, Trade-related, and other Business Services”**.
- Classification 10.2 – “Professional and management consulting services” include business consulting, legal, accounting, auditing, advertising, market research, and other related services. This sector contains a section on **Accounting, Auditing, Bookkeeping, and Tax Consulting services**.
- Technical, trade-related and other business services include architectural, engineering, scientific, operating leasing, and other related services. Furthermore, trade-related services cover commissions on goods and service transactions payable to merchants, commodity brokers, dealers, auctioneers, and commission agents.
- Other business services are an important export category worldwide. With global exports of \$1,292.8 billion in 2020 and with CAGR (2016-20) of around 3.2%, this category ranks as the largest export service with the fourth highest growth rate.
- The USA and the UK dominate the world’s export market in these services, with market shares of 14.2% and 9.9%, respectively, in 2020. Meanwhile, Ireland and the USA dominated the world’s import market of other business services during the same year, with market shares of 11.4% and 9.0%, respectively.
- Singapore had the highest five-year export growth rate of 11.9%, indicating that it might be an emerging export market for other business services.
- Pakistan ranked as the 57th largest exporter and 48th largest importer of classification 10 in 2020.

The Global Accounting Services Sector

- Classification 10.2.1.2: “Accounting, auditing, bookkeeping, and tax consulting services” includes accounting and bookkeeping (measuring and recording the financial flows and positions of an enterprise), auditing (verifying and attesting/certifying the accuracy of the financial position and results of the enterprise, for internal or external purposes), and tax preparation, amongst other services.
- The Big Four firms dominate the accounting arena globally.
- It is worth noting that most of the largest accounting firms are headquartered in the USA, followed by the UK. The international presence and dominance by the large US-headquartered accounting firms makes the US the largest exporter of these services.
- Accounting standards include IFRS, GAAP, and CAS. More details of these standards can be seen in Figure 8 in the report.
- The accounting process is becoming more and more automated. New dimensions have been developed in the area of fin-tech, algorithms, analytics and assurance.
- Emerging trends in the accounting industry include cloud-based accounting, blockchain technology, artificial intelligence, advisory services, and so on.

Barriers to Trade

- While tariffs do not usually apply to trade in services, non-tariff barriers (NTBs) are known to have a substantial influence on the international trade of services. A few NTBs, relevant to the other business services, especially the accounting sector are listed below.
- **Restrictions to foreign entry:** requirements such as the majority of the board and the manager of auditing, engineering, or architectural firms must be locally qualified.
- **Restrictions to movement of people:** licensing requirements and other measures such as procedures to recognize foreign university degrees, combined with minimum years of practice and examinations designed to monitor the quality of professionals.
- **Other discriminatory measures:** foreign suppliers are treated less favorably regarding taxes and eligibility to subsidies.
- **Barriers to competition:** regulations on prices and fees as well as limitations on advertising or marketing.
- **Regulatory discrepancy:** opaque regulatory regimes such as excessive visa processing time.

Pakistan's Other Business Services Sector

- With an export value of \$1.4 billion (market share: 24.1%) and import value of \$2.4 billion (market share: 30.2%) in FY21, other business services were Pakistan's second-largest exports and imports in the services sector. The trade deficit for this service amounted to around \$1.0 billion for Pakistan during FY21.

Classification 10.2: "Professional and management consulting services"

- Classification 10.2 is the second largest export for Pakistan, amongst the other business services sector. Exports were valued at \$346.7 million (annual growth rate: 17.0%, five-year CAGR: 9.4%) in FY21.
- Pakistan has a trade surplus for professional and management consulting services, which improved from \$102.8 million in FY12 to \$206.7 million in FY21.
- Under this sub-sector, classification 10.2.1 "Legal, accounting, management consulting, and public relations" contributes most to the exports with a value of \$209.0 million in FY21.
- Going into greater details of classification 10.2.1, it can be seen that "Accounting, auditing, bookkeeping, and tax consulting services" are the second-largest export service under this sector, with the largest annual and five-year growth rates.

Pakistan's Top Export Destinations for Other Business Services

- **Top Export Destinations:** USA, UK, and China were Pakistan's top three export destinations for this sector in FY21, with market shares of 24.0%, 9.7%, and 9.3%. Exports of other business services to China increased the most, with the increase of \$50.3 million in FY21 as compared to FY20.
- **Restrictions Applied by Top Export Destinations:** Overall, Italy (Pakistan's 13th largest export destination) is the most restrictive for trade in services across the sectors mentioned, followed by China. On the other hand, USA (Pakistan's largest export destination) is the least restrictive for trade in services across the sectors mentioned, followed by the UK and Ireland. For the accounting sector in particular, China's economy is the most restrictive for trade in accounting, followed by Italy, Sweden, UK, and Canada. Meanwhile, the USA is the least restrictive market.
- **Top Import Sources:** China, USA, and Singapore were Pakistan's top three import sources for other business services in FY21, with market shares of 29.2%, 14.2%, and 8.6%, respectively. Pakistan's imports of these services are quite concentrated since the top two import sources accounted for a combined market share of around 50.0% in FY21.

Pakistan's Accounting Services Sector

- Accounting standards are approved for use by the Securities and Exchange Commission of Pakistan (SECP). The SECP, however, has delegated the responsibility of developing and adopting accounting standards to the Institute of Chartered Accountants of Pakistan (ICAP).
- There are a number of professional accountancy organizations in Pakistan including ICAP, ICMAP, PIPFA, ACCA, and CIMA.
- A prominent feature of the domestic regulation of services in Pakistan is that the majority of regulations do not address trade and associated issues adequately (related to market access, international trade, etc.), focusing more on administrative concerns instead. Furthermore, there are often more than one regulatory body for a single service sector, such as in the case of accounting and management consultancy services.

Pakistan's Trade in Classification 10.2.1.2: "Accounting, auditing, bookkeeping, and tax consulting services"

- Pakistan's exports in this sector increased sharply from FY15 to FY18, after which they decreased slightly till FY20, reaching an all-time high of \$41.4 million in FY21. Five-year (FY17-21) CAGR of exports were 15.98%.
- Imports of such services have remained low throughout, amounting to around \$0.7 million in FY21, leading to a positive balance of trade of \$40.6 million during the financial year. Five-year (FY17-21) CAGR of imports were -15.33%.

Taxes & Incentives

- Each territory in the federation of Pakistan – Islamabad Capital Territory (ICT), Punjab, Sindh, Khyber Pakhtunkhwa (KPK), and Balochistan – applies a different rate of sales tax on the rendering and provision of services. The standard sales tax on services are as follows: ICT and Punjab – 16%, Balochistan and KPK – 15%, and Sindh – 13%. Territory-wise sales tax levied on services relevant to the other business services sector are discussed in detail in Table 13. These range from 5 to 16%. It is important to note here that a lack of tax harmonization for the services sectors across the provinces creates a heavy burden in terms of taxes, as well as compliance.
- Incentives for the sector include the Export Finance Scheme and other incentives for the ITeS sector. These are discussed in detail in Chapter 5.

Input from Relevant Stakeholders

- **Digitalization:** Demand for accounting services in the near future is expected to be in areas such as cloud-based accounting, software, blockchain technology, communication technology, and artificial intelligence. Pakistan's progress in these areas has been relatively slow and the country needs to keep emerging trends in focus and invest in new technology to become globally competitive. Moreover, the lack of a virtual portal or platform for the services and accounting sector poses a challenge for Pakistan. Foreign markets are unaware of the qualified professionals in Pakistan and the services that they provide which limits the export of such services.

- **Professionals:** While the accounting profession is shifting towards digitalization, accounting professionals however, with ethical lens, objectivity, independence, and broader knowledge of business models remain at the core of the profession. According to stakeholders, the technical knowledge of a fresh accounting professional in Pakistan is excellent and in line with international demand. Most of the time these fresh talents however, struggle in the areas of critical thinking, negotiation skills, presentation skills, and communication skills. Stakeholders are also of the view that there needs to be a change in the mindset of professionals. Accounting is usually not considered the preferred profession, which is why the passion that is needed to compete in the international market also appears to be missing.
- **Marketing:** Stakeholders believe that the country needs to work on its branding and marketing to create awareness within Pakistan about the international market, and outside Pakistan about the talent present in the country. One restriction in this area is that Chartered Accountants are not allowed to market themselves.
- **Accounting and Compliance Standards:** IFRS standards are followed in Pakistan, which is one of the few South Asian countries which have majorly adopted IFRS. While this gives the country an edge, stakeholders believe that we cannot rely on this edge for much longer since a number of countries are moving towards fully adopting IFRS. Other compliance standards involve data protection, quality and timely delivery of work, providing objective and independent opinion/assessment, and so on. Pakistani accounting service exporters do not feel any issues in this regard. Working on licensed products such as Microsoft office, cloud servers (Amazon, Oracle, and so on), putting up firewalls, and anti-viruses are other compliance standards that foreign buyers expect adherence to. Once again, while large-scale accounting firms do not face an issue in this area, medium or small-scale firms might find complying with such standards costly.
- **Credit Insurance & Digital Payments:** Lack of credit insurance and payment gateways in Pakistan translates into a reluctance on the part of service providers to export their services and this acts as a barrier to trade. There is also a general lack of trust in digital transactions.
- **Export Potential:** To reach potential, experts believe that service exporters need to look beyond traditional accounting services such as payments processing, receivable management, assurance and taxation and focus on value-added services like data analytics, research, feasibilities, decision support, investment and transaction advisory, digital transformation, and opinions. Furthermore, non-traditional markets such as Eastern Europe, the Middle East, Brazil, Australia, and Africa also need to be explored since demand for such services are high in these countries. Eastern Europe is becoming the hub for off-shore outsourcing however, due to lack of young talent in the bloc, this makes it a potential market as well.
- **Infrastructure:** Stable, uninterrupted, high-speed and affordable internet connections and power supplies, along with a proper workspace set up with computers or laptops are a few of the most vital things needed to provide services abroad. Clients abroad need timely reports for which such utilities are vital. Stakeholders revealed that to provide quality services, they needed to invest in multiple broadband connections, electric generators, and similar backup devices which increased their cost of doing business.

Competitiveness of Pakistan's Other Business Services Exports

- In this study, competitiveness has been analyzed through the following measures: **Market Share and Change in Market Share, Balassa's Revealed Comparative Advantage (RCA) Index, Greenaway and Milner's RCA Index, and Vollrath's Indices for Competitiveness (Relative Export Advantage, Relative Trade Advantage, and Revealed Competitiveness)**. More details on these indices can be found in Chapter 6.
- Majority of the top global exporters of other business services are in developed countries, with whom, comparison seems to be unrealistic. Hence, Pakistan's competitiveness indices have been compared with top exporting developing economies.
- Amongst developing countries, Pakistan ranks as the 23rd largest exporter of other business services. Comparing the growth rate, Pakistan's five-year growth rate for the export of other business services is the 5th highest, behind Poland, Romania, India and China.
- The table below ranks Pakistan's competitiveness for classification 10.2: Professional and management consulting services, when compared to the top 10 exporting developing countries.

	Professional and management consulting services
Change in Market Share	2 nd
RCA – Balassa	7 th
RCA – Greenaway and Milner	3 rd
Relative Export Advantage (RXA)	7 th
Relative Trade Advantage (RTA)	2 nd
Revealed Competitiveness (RC)	3 rd

India's Other Business Services Sector

- India was the 5th largest exporter of other business services in 2020, exporting around \$78.04 billion worth of this service.
- Classification 10.2 accounts for a majority of the other business services exports from the country. In fact, India is the 3rd largest exporter of professional and management consulting services in the world. According to the Services Export Promotion Council (SEPC), this is one service sector in India which has never experienced negative growth, except for a single year during the global financial crisis of 2009.
- The reason why India's services sector has been able to grow is because of government support and exporter-friendly policies.
- These initiatives of the Indian government include the identification of the 12 Champion sectors (which include accounting and finance services, legal services, and engineering services) for which funds have been allocated. The country is also working towards equipping its workers with relevant skills (soft skills, entrepreneurship, financial and digital literacy, and so on) needed for these sectors which can be seen in the Skill India Initiative launched in 2015.

- The government has announced plans to establish 75 science technology & innovation hubs in India, along with increased allocation for R&D in the Union Budget.
- The SEPC in India has been making efforts to bridge the gap and connect foreign service importers to India's service exporters through issuance of a monthly e-newsletter called India Serves, highlighting different service sectors. Plans to open a portal that will work as an interface between foreign buyers and Indian service sellers are underway. This will provide comprehensive information on Indian services exporters, domestic and foreign market regulations, trade flows related information, and so on.
- Lastly, participation in exhibitions, webinars, virtual meetings have been taking place, which have further improved export of services.



CHAPTER 1

**THE SERVICES
SECTOR**

Introduction

The services sector, or the tertiary sector produces services or intangible goods, as opposed to tangible goods. This sector is responsible for the largest portion of the global economy's business activity and is especially important in more advanced economies. According to the World Bank, value-added services contribute to around 54.9% of GDP of low- and middle-income economies and around 70.1% of GDP of high-income economies. Meanwhile, employment in services as a percentage of total employment, accounts for around 45.2% and 74.5% for low- and middle-income economies, and high-income economies, respectively. According to the Labor Force Survey of Pakistan, employment in services contributes to 37.8% of total employment in the country.

Currently, services represent the fastest growing sector of the global economy. This rapid growth of service-related sectors has been fueled by increases in knowledge and data, and rapid technological advances – especially, improvements in communication.

Trade in services refers to receipts and payments of intangible products and economic activities such as accounting and legal services, transportation, tourism and so on. Services trade is classified under the EBOPS¹ 2010 classification which provides a breakdown of the Balance of Payments Trade in Services as defined in BPM6, by types of services. The table below lists the different types of services traded under BPM6/EBOPS 2010.

While this report concentrates on Classification 10.2.1.2: “Accounting, auditing, bookkeeping, and tax consulting services”, the PBC took a broader approach and focused on Classification 10: “Other business services”, due to non-availability of data.

¹ Extended Balance of Payments Services

Table 1 Services Classification

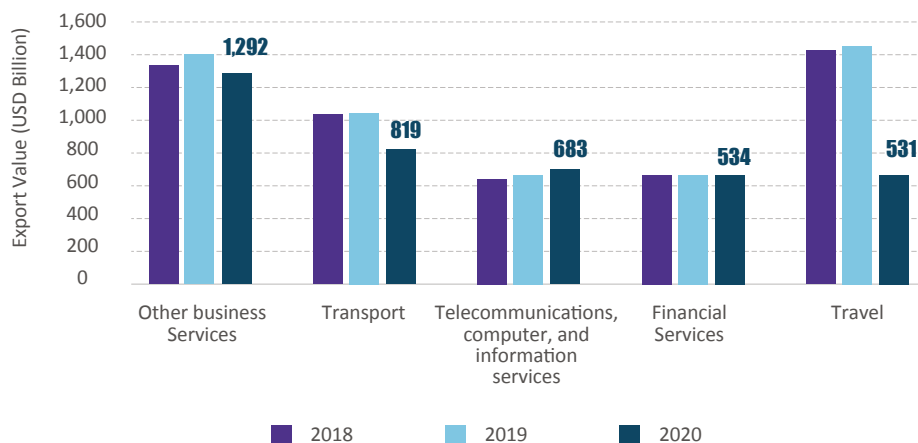
BPM6 Code/EBOPS 2010 Classification	Categories
SOX	Memo Item: Commercial services
1	Manufacturing services on physical inputs owned by others
2	Maintenance and repair services, n.i.e.
3	Transport
4	Travel
5	Construction
6	Insurance and pension services
7	Financial services
8	Charges for the use of intellectual property, n.i.e.
9	Telecommunications, computer, and information services
10	Other business services
11	Personal, cultural, and recreational services
	Non-commercial services
12	Government goods and services

Source: United Nations

Global Trade in Services

The figure below illustrates the world's top five services exports in 2020, along with their export values in 2018 and 2019. Classification 10 "Other business services" was the highest export, with a value of \$1,292 billion in 2020. Exports of classification 4 "Travel" fell to \$531 million in 2020 due to Covid. In 2018 and 2019, Travel was the highest exported service.

Figure 1 World's Top 5 Exports in Services



Source: ITC Trade Map

Tables 2 and 3 list the world's top ten exporters and importers of services in 2020. The five-year growth rates (2016-2020), along with annual growth rates (2019-2020), have also been shown. Pakistan, which ranked as the 69th largest exporter and 63rd largest importer in 2020, is also listed in both tables. The country has a miniscule share in exports and imports of 0.1% and 0.2%, respectively.

The USA and the UK dominate the world's export market in services, with market shares of 14.2% and 6.9%, respectively, in 2020. Meanwhile, the USA and China dominated the world's import market in services, with market shares of 9.9% and 8.2%, respectively, in 2020. Other top exporters and importers mostly include developed countries such as Germany, France, Netherlands, and Singapore.

Table 2 Top Exporters of Services

Ranking	Exporters	Exported value in 2016 (USD Billion)	Exported value in 2020 (USD Billion)	Market Share 2020	CAGR (2016-19)	Annual Growth (2019-20)
1	United States of America	780.94	705.64	14.21%	-2.50%	-19.47%
2	United Kingdom	358.74	342.44	6.90%	-1.16%	-15.55%
3	Germany	293.45	310.66	6.26%	1.44%	-10.38%
4	China	209.53	280.63	5.65%	7.58%	-0.91%
5	Ireland	149.52	262.70	5.29%	15.13%	6.01%
6	France	259.18	245.58	4.94%	-1.34%	-16.50%
7	India	161.82	203.25	4.09%	5.86%	-5.36%
8	Singapore	151.92	187.56	3.78%	5.41%	-13.64%
9	Netherlands	190.94	186.64	3.76%	-0.57%	-32.33%
10	Japan	175.81	160.29	3.23%	-2.28%	-22.72%
69	Pakistan	5.05	5.35	0.11%	1.47%	-8.81%

Source: ITC Trade Map

Table 3 Top Importers of Services

Ranking	Importers	Imported value in 2016 (USD Billion)	Imported value in 2020 (USD Billion)	Market Share 2020	CAGR (2016-19)	Annual Growth (2019-20)
1	United States of America	512.62	460.30	9.89%	-2.66%	-22.13%
2	China	452.10	381.09	8.19%	-4.18%	-23.89%
3	Germany	316.68	308.80	6.64%	-0.63%	-16.76%
4	Ireland	220.06	295.75	6.36%	7.67%	-10.96%
5	France	236.79	231.66	4.98%	-0.55%	-14.18%
6	United Kingdom	228.15	204.75	4.40%	-2.67%	-26.18%
7	Japan	186.18	184.53	3.97%	-0.22%	-10.54%
8	Singapore	158.48	172.69	3.71%	2.17%	-17.06%
9	Netherlands	183.55	169.25	3.64%	-2.01%	-36.25%
10	India	133.53	153.92	3.31%	3.62%	-14.21%
63	Pakistan	9.71	7.54	0.16%	-6.11%	-26.73%

Source: ITC Trade Map

Compound Annual Growth Rate (CAGR)

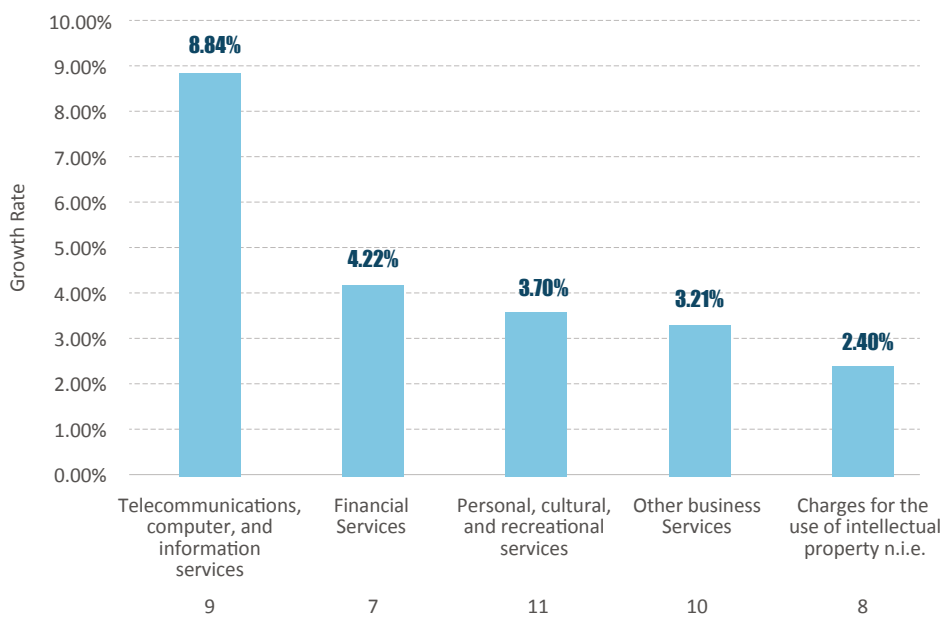
CAGR represents the rate at which a value has grown over a specified time period, if it had grown at the same rate every year. The formula is as follows:

$$\text{CAGR} = \left[\left(\frac{\text{V final}}{\text{V begin}} \right)^{1/n} - 1 \right] \times 100$$

Where “V final” is the final value, “V begin” is the beginning value and “n” is the number of years.

Figure 2 shows the world's top five export services according to their growth rates during 2016-2020. Exports under classification 9 "Telecommunications, computer, and information services" have been witnessing high levels of growth in the last five years, with a CAGR of 8.8%. This is followed by classification 7 "Financial services", classification 11 "Personal, cultural, and recreational services", and classification 10 "Other business services", respectively.

Figure 2 World's Highest Growing Services Export Categories (2016-20)



Source: ITC Trade Map



CHAPTER 2

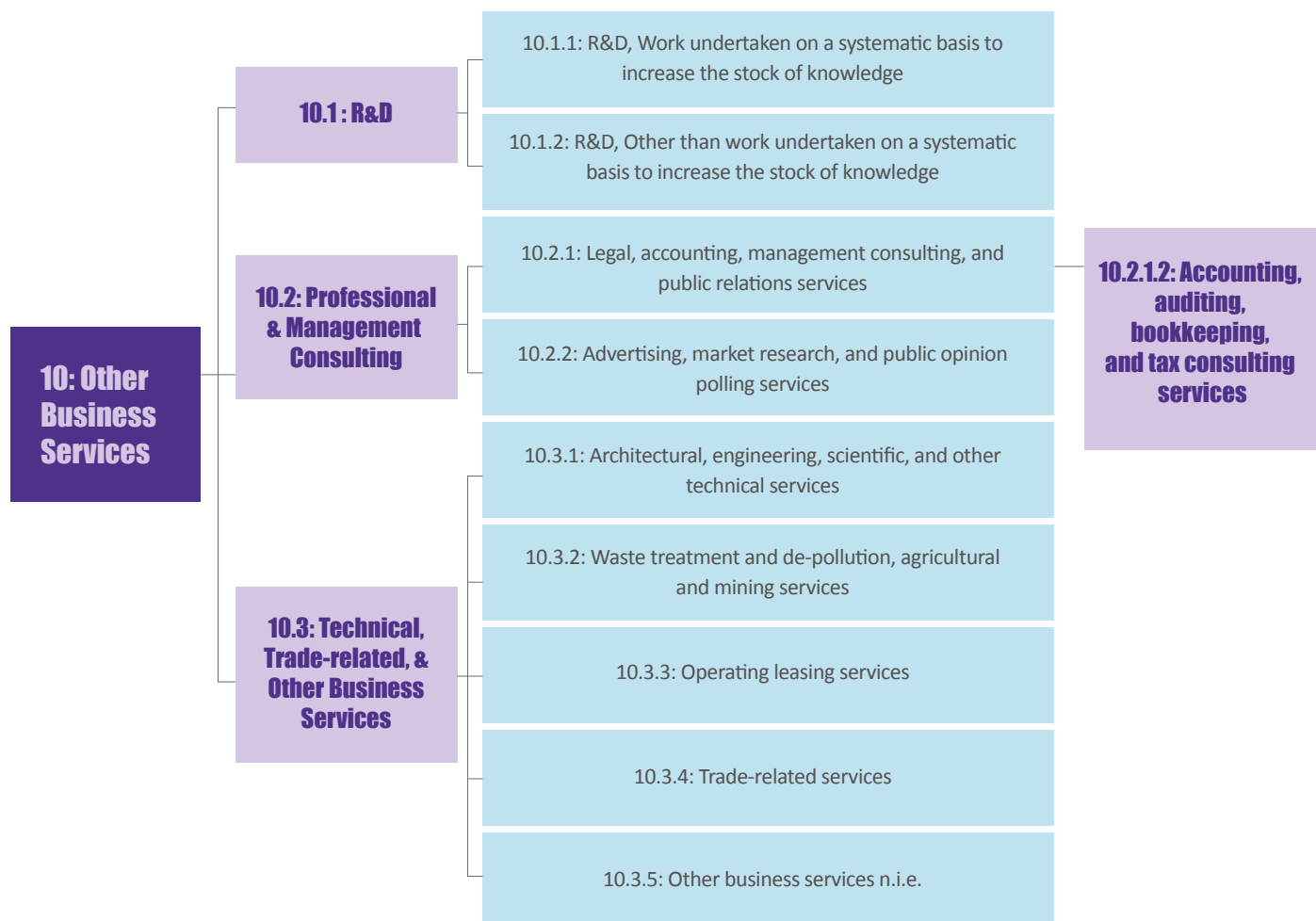
OTHER BUSINESS SERVICES

Introduction

As seen in Chapter 1, classification 10 “Other business services” is an important export category worldwide. With exports amounting to \$1,292.8 billion in 2020 with a CAGR (2016-20) of around 3.2%, this category ranks as the largest export service with the fourth highest growth rate.

According to the International Monetary Fund (IMF) classification, other business services consist of three sub-sectors: Research and Development (R&D), Professional and Management Consulting, and Technical, Trade-related, & Other Business Services. These sub-sectors are further divided into different sub-sectors which can be seen in the figure below. Classification 10.2.1.2: Accounting, auditing, bookkeeping, and tax consulting services, the subject of this Study has been highlighted.

Figure 3 Classification of Other Business Services



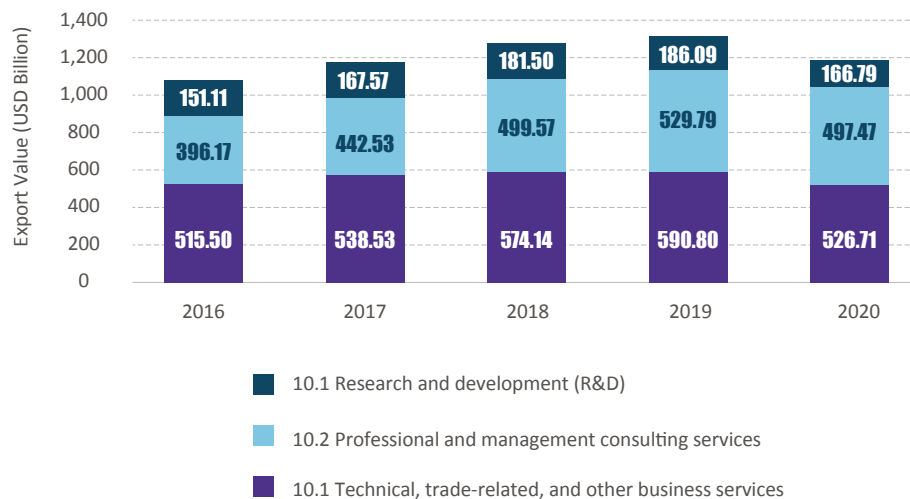
Source: IMF

While the IMF has provided recommended classification categories as shown for classification 10 above, countries can deviate from this classification in the case of reasons such as not having the requisite data source or due to national relevance.

Global Trade

Figure 4 below shows the world's exports of classifications 10.1, 10.2, and 10.3 in the last five years. Classification 10.3 "Technical, trade-related, and other business services" has the largest share of exports under the other business services sector, followed by classification 10.2 "Professional and management consulting services". Classification 10.1 "Research and development" accounts for the smallest share in the last five years, with exports remaining less than \$200 billion.

Figure 4 Exports of Other Business Services Sub-sectors



Source: ITC Trade Map

Tables 4 and 5 list the world's top ten exporters and importers of other business services in 2020. The five-year growth rates (2016-2020), along with annual growth rates (2019-2020), are also shown.

Pakistan, which ranked as the 57th largest exporter and 48th largest importer of classification 10 in 2020, is also listed in the tables.

The USA and the UK dominated the world's export market in other business services, with market shares of 14.2% and 9.9%, respectively, in 2020. Meanwhile, Ireland and the USA dominated the world's import market of other business services, with market shares of 11.4% and 9.0%, respectively, in 2020. Other top exporters and importers mostly include developed countries such as Germany, France, the Netherlands, and Singapore.

It can also be seen that the export CAGR is positive for all top exporters, with the exception of France. Singapore had the highest five-year growth rate of 11.9%, indicating that it might be an emerging top export market for other business services.

Table 4 Top Exporters of Other Business Services

Ranking	Exporters	Exported value in 2016 (USD Billion)	Exported value in 2020 (USD Billion)	Market Share 2020	CAGR (2016-20)	Annual Growth (2019-20)
1	United States of America	153.09	183.18	14.18%	4.59%	-1.29%
2	United Kingdom	112.75	128.47	9.94%	3.32%	-9.34%
3	Germany	85.09	89.33	6.91%	1.22%	-6.25%
4	France	84.80	84.33	6.53%	-0.14%	-8.40%
5	India	54.66	78.04	6.04%	9.31%	5.46%
6	China	57.89	75.45	5.84%	6.84%	3.00%
7	Singapore	38.13	59.75	4.62%	11.88%	-4.83%
8	Netherlands	53.08	54.48	4.22%	0.65%	-34.57%
9	Ireland	33.31	48.18	3.73%	9.67%	-1.71%
10	Japan	39.31	43.94	3.40%	2.82%	-5.86%
57	Pakistan	1.07	1.33	0.10%	5.53%	-9.95%

Source: ITC Trade Map

Table 5 Top Importers of Other Business Services

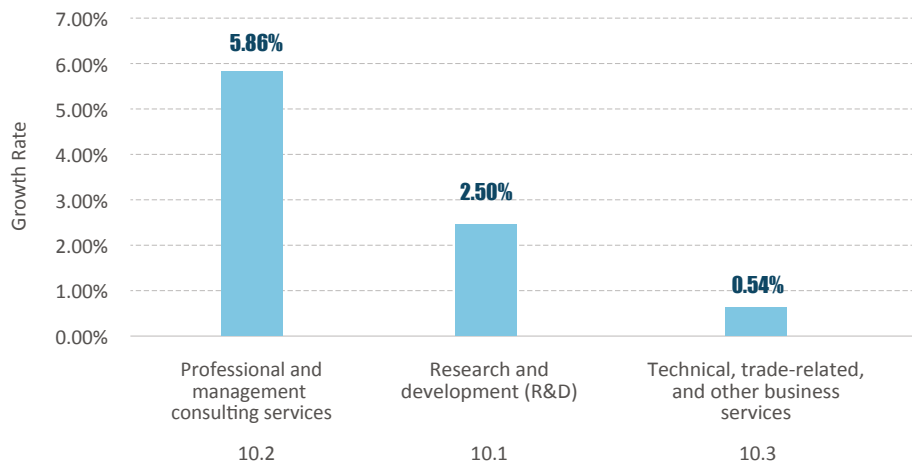
Ranking	Importers	Imported value in 2016 (USD Billion)	Imported value in 2020 (USD Billion)	Market Share 2020	CAGR (2016-20)	Annual Growth (2019-20)
1	Ireland	106.35	149.50	11.38%	8.89%	-19.46%
2	United States of America	100.51	117.67	8.96%	4.02%	4.34%
3	Germany	86.77	94.78	7.22%	2.23%	-3.69%
4	United Kingdom	68.65	90.40	6.88%	7.12%	-4.75%
5	France	79.84	76.81	5.85%	-0.96%	-8.55%
6	Japan	62.61	63.59	4.84%	0.39%	-4.65%
7	Singapore	46.53	58.93	4.49%	6.08%	-5.32%
8	Netherlands	55.43	54.34	4.14%	-0.49%	-39.52%
9	China	43.43	50.49	3.84%	3.84%	1.43%
10	India	32.74	48.60	3.70%	10.38%	5.50%
48	Pakistan	2.12	2.59	0.20%	5.10%	0.98%

Source: ITC Trade Map

Compound Annual Growth Rate (CAGR)

Analyzing the growth rate of other business services for the last five years reveals that classification 10.2 “Professional and management consulting services” of which accounting services is a part, is the fastest growing export globally with a CAGR of 5.9% since 2016. More details can be seen in Figure 5 below.

Figure 5 CAGR of Other Business Services Sub-sectors (2016-20)

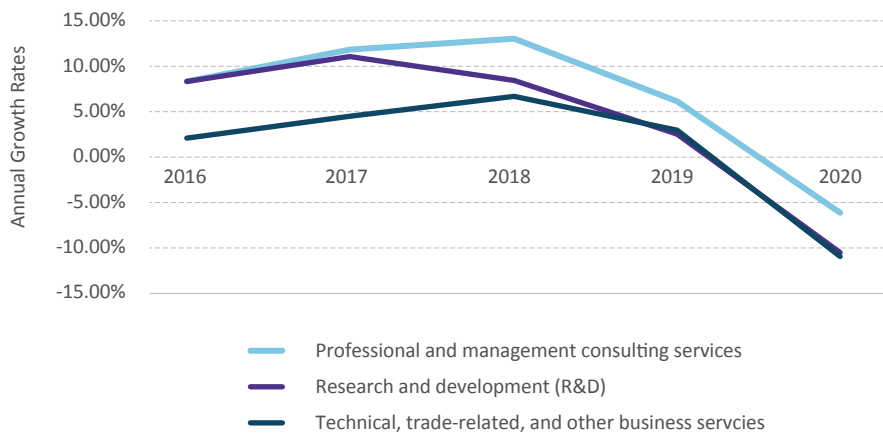


Source: ITC Trade Map

Annual Growth Rate

Figure 6 shows the annual growth rate for the export of sub-categories of other business services. In 2020, exports of all three sub-sectors faced contractions due to the Covid-19 pandemic.

Figure 6 Annual Growth Rate of Other Business Services' Sub-sectors



Source: ITC Trade Map

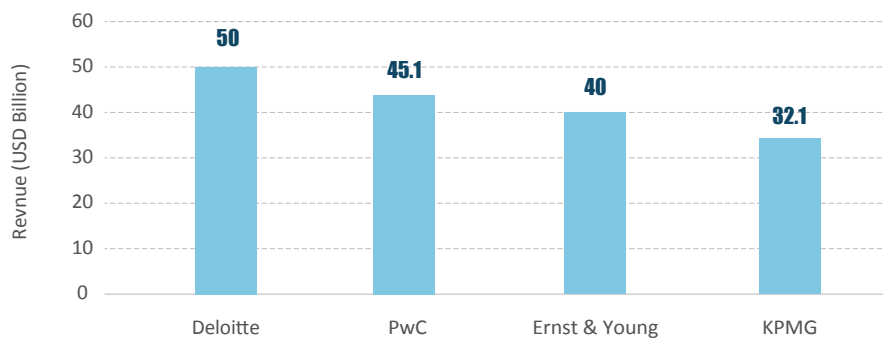
The Global Accounting Services Sector

The scope of accounting services is usually understood to include accounting and bookkeeping (measuring and recording the financial flows and positions of an enterprise), auditing (verifying and attesting/certifying the accuracy of the financial position and results of the enterprise, for internal or external purposes), and tax preparation, amongst other services. Over the past few decades, the largest accounting firms—especially in the USA—have become actively involved in management consulting, and growth in this area has been considerably more rapid as is shown in Figure 5 above.

The Big Four

Big Four, is the name used to collectively refer to the four largest professional services networks in the world, they include Deloitte, Ernst & Young, KPMG and PwC. The Big Four are largely known for their audit practices, along with assurance services, taxation, management consulting, corporate finance and other advisory services. These firms dominate the accounting arena globally and their revenues in 2021 can be seen in Figure 7 below.

Figure 7 The Big Four's Revenues in USD Billion, 2021



Source: The Big Four Accounting Firms Website

Other top accounting firms in the world according to revenue include Grant Thompson, BDO, RSM Tenon, Smith & Williamson, and Baker Tilly. It is worth noting that most of the largest accounting firms are headquartered in the United States, followed by the United Kingdom. The international presence and dominance of the large US-headquartered accounting firms affect the US balance of payments. With the limited data that is available at such level, it can be seen that the USA is the largest exporter of such services, followed by the UK and Germany. In 2020, US exports of accounting, auditing, bookkeeping, and tax consulting services totaled \$3.37 billion, while imports of the same category totaled \$6.35 billion.

Accounting Standards

Accounting standards provide a system of rules and principles that prescribe the format and content of financial statements. These standards cover topics such as how to account for inventories, depreciation, research and development costs, income taxes, investments, intangible assets, and employee benefits.

The International Accounting Standards Board (IASB) is the major entity proposing international standards of accounting. As countries developed different cultures, languages, and social and economic traditions, they developed different accounting practices as well. The figure below lists the major accounting standards used over the world.

Figure 8 Accounting Standards used Globally



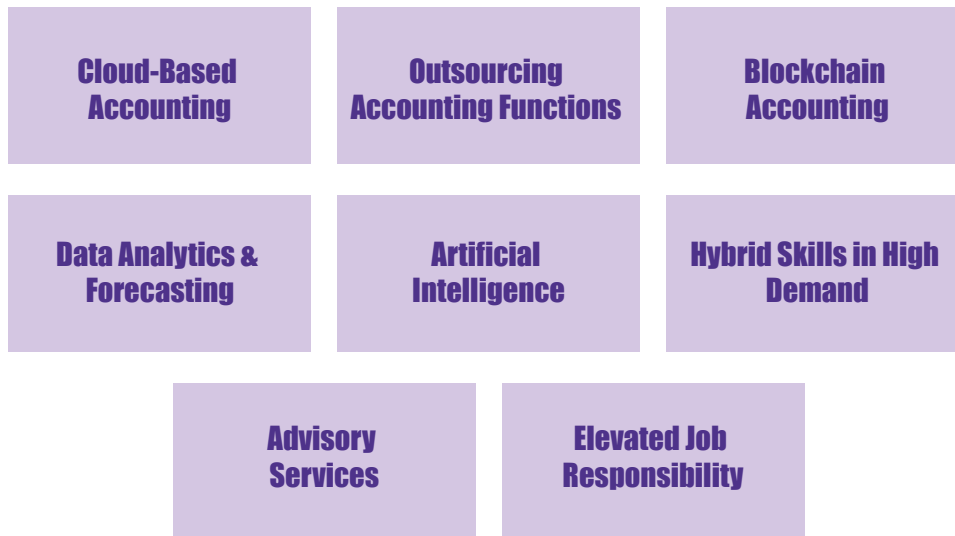
Source: IFRS Website, Interviews of Stakeholders

Accounting Industry Trends

The accounting process is becoming more and more automated. Accounting is no longer a labor-intensive profession, relying more and more on technological developments, which range from basic data gathering processes to the provision of insights and assurance. New dimensions have been developed in the area of fin-tech, algorithms, analytics and assurance. Automation is transforming entry-level accounting duties and creating a greater need for managerial accountants to handle complex responsibilities, such as programming, compliance, financial system creation and so on.

The figure below lists some emerging trends in the accounting profession.

Figure 9 Emerging Trends in the Accounting Profession



Source: ACCA website, Interviews with Relevant Stakeholders

CHAPTER 3

BARRIERS TO SERVICES TRADE

Introduction

While tariffs do not usually apply to trade in services, non-tariff barriers (NTBs) are known to have a substantial influence on the international trade of services. Hence, this chapter will aim to discuss the NTBs applied on the trade of other business services, especially accounting services. However, before discussing these barriers, it is important to briefly discuss the four modes of supply of services.

Modes of Supply of Services

Under the General Agreement on Trade in Services (GATS), there are four modes of supply of services:

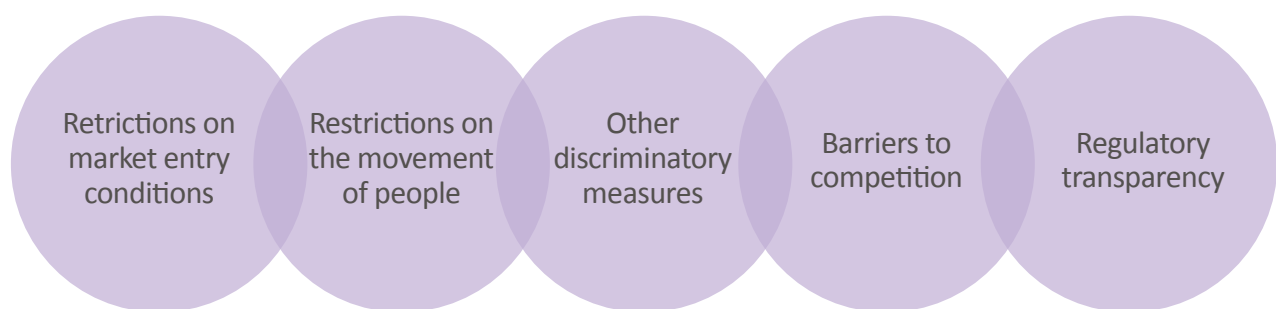
1. **Mode 1 – Cross-border supply:** When a service is produced in one country but consumed in another one. For example, an accounting firm may deliver financial advice by telephone or through the internet to a client overseas.
2. **Mode 2 – Consumption abroad:** When services are consumed in the country where they are produced. The consumer or his/her property are abroad when the service is supplied. For example, the property of a consumer, such as a ship, may be sent abroad to be repaired.
3. **Mode 3 – Commercial presence:** When a service supplier establishes a presence abroad in order to provide services. For example, a financial institution may open a branch in another country to provide financial services there.
4. **Mode 4 – Movement of natural persons:** When an individual is present abroad in order to provide a commercial service. The service is produced in the country where it is consumed. For example, a tax consultant may travel abroad to oversee aspects of a financial project. This mode is most common in the other business services sector.

The delivery of accounting services is highly dependent on the physical presence of local establishments (Mode 3) and then provision of services through the internet, especially in the case of small-sized firms and freelancers (Mode 1).

The STRI Indicator

According to the Organization for Economic Co-operation and Development (OECD) Services Trade Restrictiveness Index (STRI) ², the step towards more open services trade has been reversed in the last few years, with restrictions increasing the most in computer services, commercial banking and broadcasting services sectors.

The STRI index as reported by the World Bank is reported on 3 of the 4 modes of supply of services which are Modes 1, 3 and 4. Meanwhile, the OECD STRI indicators are similar to the 4 modes of supply, but categorized into different headings. This study considers the OECD STRI due to the availability of latest data for this index. The OECD measures STRI in the range from 0 to 1, where 0 is completely open while 1 is completely closed. These are broken down in five policy areas:



The business services covered in this study are largely competitive and lightly regulated in most countries. Some exceptions to this include regulations in services such as advertising, which is subject to specific regulation in many countries. For instance, Chartered Accountants in Pakistan cannot market themselves as per law³. Other barriers include banning advertising for certain products (tobacco, alcohol and drugs) or that directed towards certain target groups (children).

A few non-tariff barriers to trade, relevant to the accounting sector and the other business services sector as a whole, under the five policy areas are listed below.

² a unique, evidence-based tool that provides information on regulations affecting trade in services in 22 sectors across all OECD member countries and Brazil, China, Costa Rica, India, Indonesia, and so on. These countries represent more than 80% of global trade in services.

³ Chartered Accountants Ordinance, 1961

Restrictions to foreign entry:

- Overall, few restrictions to legal form remain in place: architects, consultants and engineers are largely free to organize their practice as sole practitioners, limited liability partnerships, public limited companies or private partners.
- Requirements such as the majority of the board (or equity partners in the case of partnerships) and the manager of auditing, engineering, or architectural firms must be locally qualified are some restrictions that are in place in certain jurisdictions.

Restrictions to movement of people:

- Apart from labor market tests, accountants, consultants, and other professionals can be subject to licensing requirements and other measures designed to monitor the quality of professionals providing these services. These requirements vary, and often include procedures to recognize foreign university degrees, combined with minimum years of practice and examinations.
- Limitations on duration of stay for foreign professionals are also contained in this category.

Other discriminatory measures:

- One of the most important sources of discrimination concerns limitation on the use of professional titles to foreign suppliers, as well as restrictions on the names of foreign firms.
- Foreign suppliers are treated less favorably regarding taxes and eligibility to subsidies.

Barriers to competition:

- Price control mechanisms and other measures may have detrimental effects to competition between services providers, this reduces the incentive to work efficiently, lower prices, and increase quality.
- Regulations on prices and fees as well as limitations on advertising or marketing.
- Minimum capital requirements.

Regulatory transparency:

- Excessive visa processing time represents an additional constraint, affecting the movement of consultants, accountants, and other professionals.
- Opaque regulatory regimes increase the cost of compliance and uncertainty in business operations.

All in all, according to the World Bank, existing regulations in many professional services, such as accounting, legal, and engineering services, have become entry barriers and have created vested interests that are difficult to overcome ⁴.

⁴ World Bank Report – Shifting Gears: Digitization and Services-Led Development



CHAPTER 4

**PAKISTAN'S OTHER
BUSINESS
SERVICES SECTOR**

Introduction

According to the SBP, classification 10 “Other business services” was Pakistan’s second-largest export and import classification in the services sector during FY21. The importance of other business services in Pakistan’s trade in services can be seen in Figures 10 and 11 below, which highlight this sector’s 24.1% share in the export basket, and 30.2% share in the import basket for the financial year 2021.

Figure 10 Break-up of Pakistans’s Export of Services

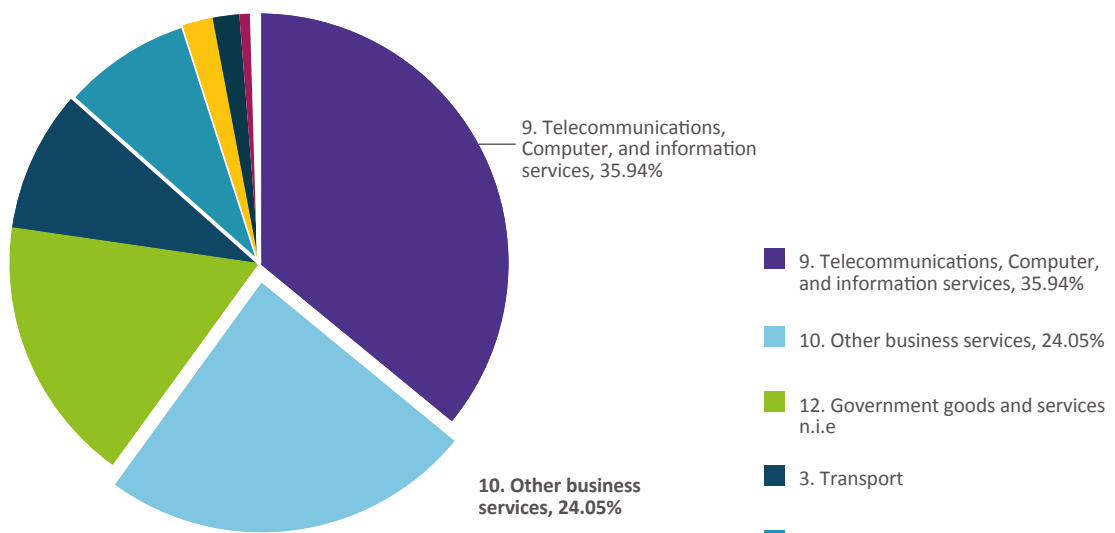
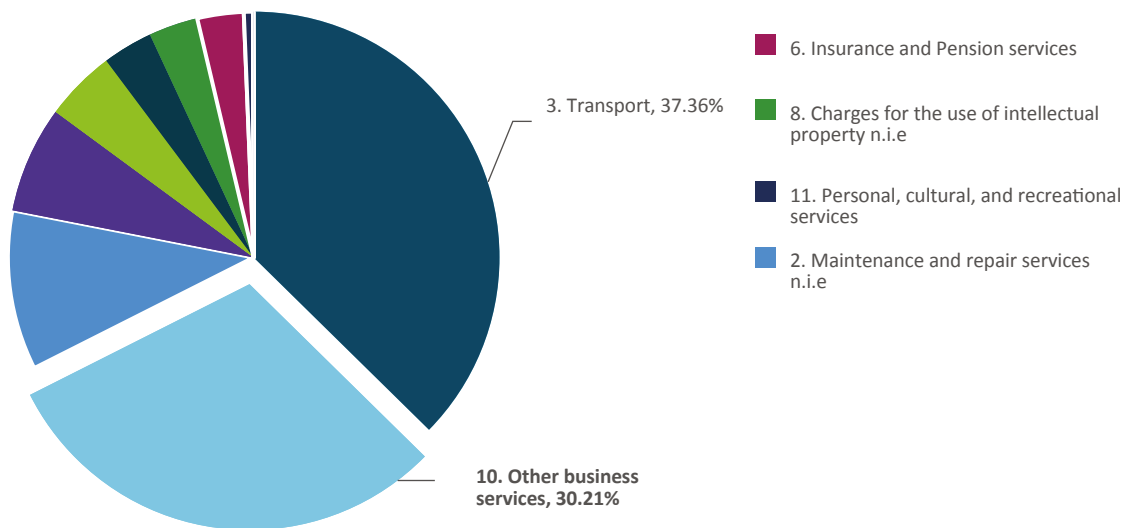


Figure 11 Break-up of Pakistans’s Import of Services



Source: State Bank of Pakistan

Pakistan's Classification

As mentioned previously, the IMF allows countries to deviate from the recommended classifications in case of non-availability of data and national relevance. While the IMF has classified services trade till BPM level 5, Pakistan records its trade in other business services till BPM level 3 and 4. The table below shows the detailed classification used by the State Bank of Pakistan.

Table 6 The State Bank of Pakistan's Classification of Other Business Services

BPM Level	Service Code and Label
1	10. Other business services
2	--- ---10.1 Research and development services
2	--- ---10.2 Professional and management consulting services
3	--- --- ---10.2.1 Legal, accounting, management consulting, and public relations
4	--- --- --- ---10.2.1.1 Legal services
4	--- --- --- --- 10.2.1.2 Accounting, auditing, bookkeeping, and tax consulting services
4	--- --- --- ---10.2.1.3 Business and management consulting and public relations services
3	--- --- ---10.2.2 Advertising, market research, and public opinion polling
2	--- ---10.3 Technical, trade-related and other business services
3	--- --- ---10.3.1 Architectural, engineering, scientific and other technical services
3	--- --- ---10.3.2 Waste treatment and de-pollution, agricultural and mining services
3	--- --- ---10.3.3 Operating leasing services
3	--- --- ---10.3.4 Trade-related services
3	--- --- ---10.3.5 Other business services n.i.e.

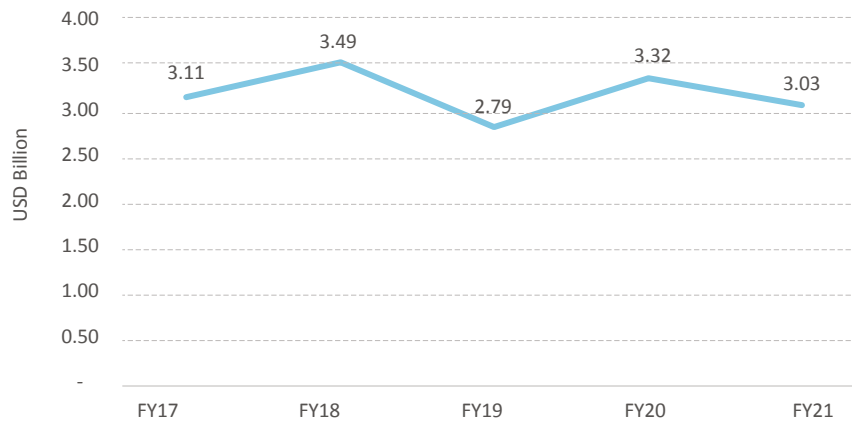
Source: The State Bank of Pakistan

Foreign Direct Investment (FDI) in Services Sector

Foreign direct investment (FDI) in the services sector has increased substantially in recent decades. Increasing FDI inflows in services sector is vital as it contributes over 50% to Pakistan's GDP. For developing countries, services sector FDI can intensify domestic competition, contribute towards growth, hence leading to growth in market size. Almost all countries impose certain restrictions on FDI in services. These include, but are not limited to, limitations on foreign ownership, screening or notification procedures, management restrictions and operational restrictions.

The figure below shows the trend of FDI inflows in Pakistan during the last five years. As can be seen, Pakistan's total FDI during FY21 amounted to around \$3.03 billion which is a decrease from FY20. In fact, the level of FDI inflow in FY21 is the second-lowest recorded inflow in the last five years. The lowest amount of FDI inflow was during FY19.

Figure 12 Total FDI Inflows in Pakistan



Source: State Bank of Pakistan

Table 7 lists FDI inflow and outflow for Pakistan, relevant to the services sector during FY17 and FY21. During FY21, the highest inflow, amounting to \$360.4 million was for Financial Business, while the lowest inflows were under Tourism and Hardware Development. Meanwhile, the highest outflow, amounting to \$19.3 million was for Transport services and the lowest outflows were under Software Development during the same financial year.

Moreover, as can be seen from the table, inflows for other services (relevant to this study) amounted to \$95.3 million while outflows amounted to \$0.27 million.

Table 7 FDI Inflows in the Services Sector of Pakistan

Service	FDI Inflow in FY17 (USD Million)	FDI Inflow in FY21 (P ⁵) (USD Million)	FDI Outflow in FY17 (USD Million)	FDI Outflow in FY21 (USD Million)
Construction	14.2	53.4	5.88	1.31
Trade	53.3	198.8	20.65	5.32
Transport	175.9	27.4	12.41	19.34
Tourism	-	14.5	31.95	-
Communications	158.7	282.01	207.98	7.77
1) Telecommunications	116.6	202.34	207.41	7.41
2) Information Technology	41.6	79.67	0.57	0.36
I) Software Development	7.1	15.85	0.46	0.00
II) Hardware Development	0.1	0.40	0.02	0.02
III) I.T. Service	34.5	63.42	0.09	0.33
3) Postal & Courier Services	0.5	-	-	-
Financial Business	345.5	360.43	48.21	8.78
Of which Privatization proceeds	36.5	-	-	-
Social Services	0.5	35.85	-	0.34
Personal Services	38.4	57.96	6.80	4.44
Others	43.69	95.31	57.94	0.27

Source: State Bank of Pakistan

Ease of Doing Business

The World Bank Group's Doing Business (DB) project provides a measure of the "Ease of Doing Business" through a set of objective indicators that focus on the impacts of laws, regulations and their enforcement across 190 economies. Pakistan's ranking along this parameter has improved in recent years due to consistent efforts and implementation of policy reforms. During the last year, Pakistan jumped up by 28 ranks, which is an "unprecedented improvement" as reported by the World Bank.

Figure 13 below shows the country's rank for the last five years while Table 8 lists areas where Pakistan has improved its ranking, as opposed to areas where its position dropped, in 2020.

⁵ Provisional

⁶ Value less than USD 50,000

Figure 13 Pakistan's Doing Business Rank by Years



Source: BOI, Pakistan

Table 8 Change in Pakistan's Position along Different Indicators, 2020

Indicator	Positions Jumped	Positions Dropped
Overall – out of 190	28	
Starting a business (reform)	58	
Dealing with Construction Permits	54	
Getting Electricity (reform)	44	
Registering Property	10	
Paying Taxes	12	
Trading Across Borders	31	
Getting Credit		7
Protecting Minority Investors		2
Enforcing Contracts		0
Resolving Insolvency (Negative Data Correction)		5

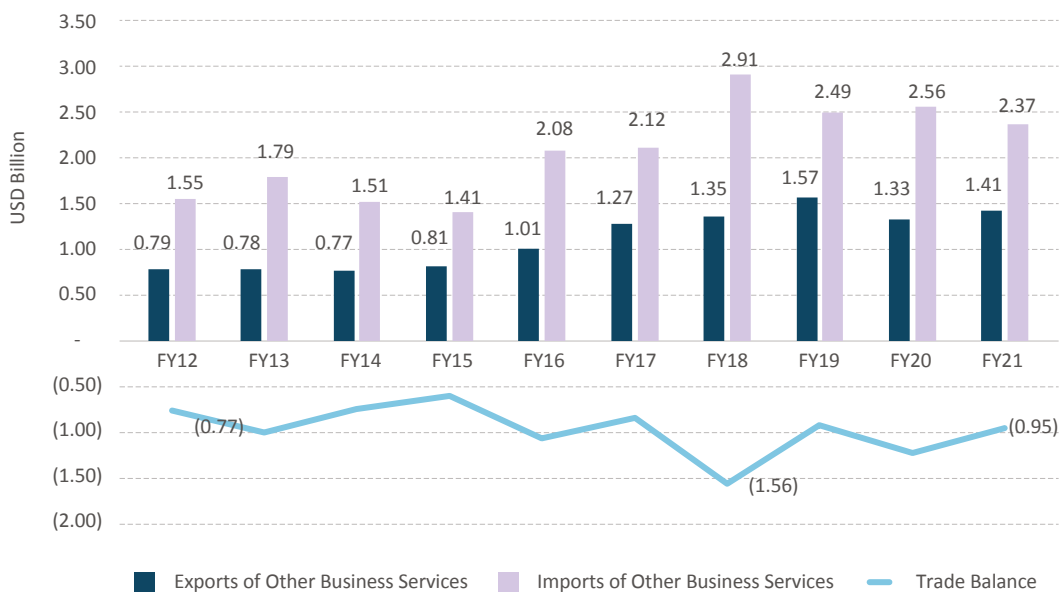
Source: The World Bank, Doing Business Database

However, the country's regional competitors such as China and India ranked 31st and 63rd respectively, in 2020, which is far ahead of Pakistan's ranking. Improving the country's DB score and rank can attract more foreign investors, thus, increasing inflows of FDI in the other business services sector of Pakistan.

Pakistan's Trade of Classification 10: Other Business Services

Figure 14 illustrates Pakistan's exports and imports of classification 10 "Other business services" for the last ten years. As can be seen, imports have been higher than exports, leading to a trade deficit since at least FY12. The highest trade deficit amounted to \$1.6 billion in FY18. However, imports of other business services decreased afterwards, while exports increased marginally, leading to a trade deficit of around \$1.0 billion in FY21.

Figure 14 Overview of Pakistan's Trade in Other Business Services (FY12-FY21)



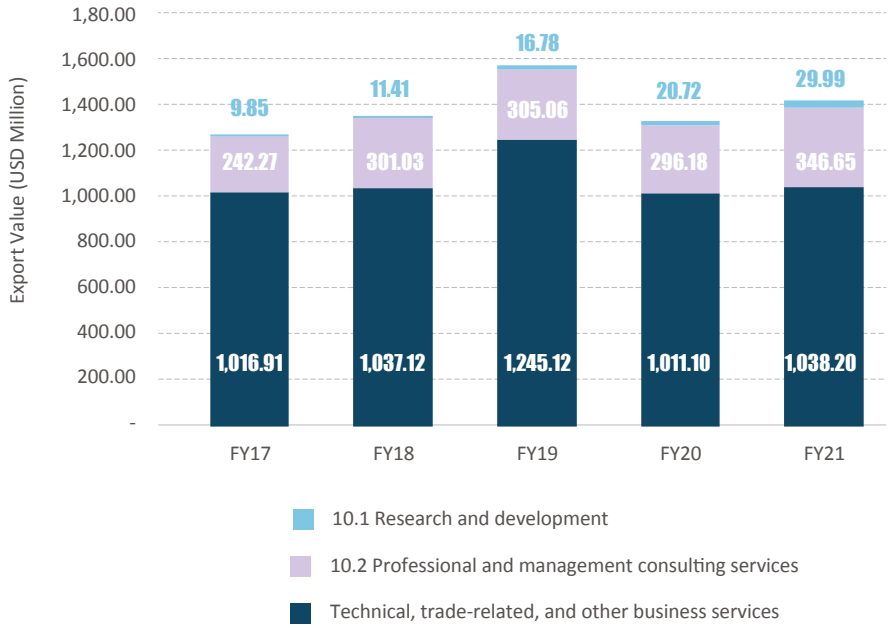
Source: State Bank of Pakistan

Looking at Pakistan's exports of the sub-categories of other business services in Figure 15 reveals that the most exported service under this sector was classification 10.3 "Technical, trade-related, and other business services", with an export value of \$1,038.2 million in FY21. This accounts for majority of Pakistan's export of other business services. Exports of this sub-category in FY21 experienced the slowest growth, compared to both, FY17 and FY20, as shown in Figure 16.

Classification 10.2 "Professional and management consulting services" is the second largest export. Valued at \$346.7 million in FY21, exports of this service are considerably lower than those of classification 10.3. This sub-section is of interest as it contains Classification 10.2.1.2: "Accounting, auditing, bookkeeping, and tax consulting services".

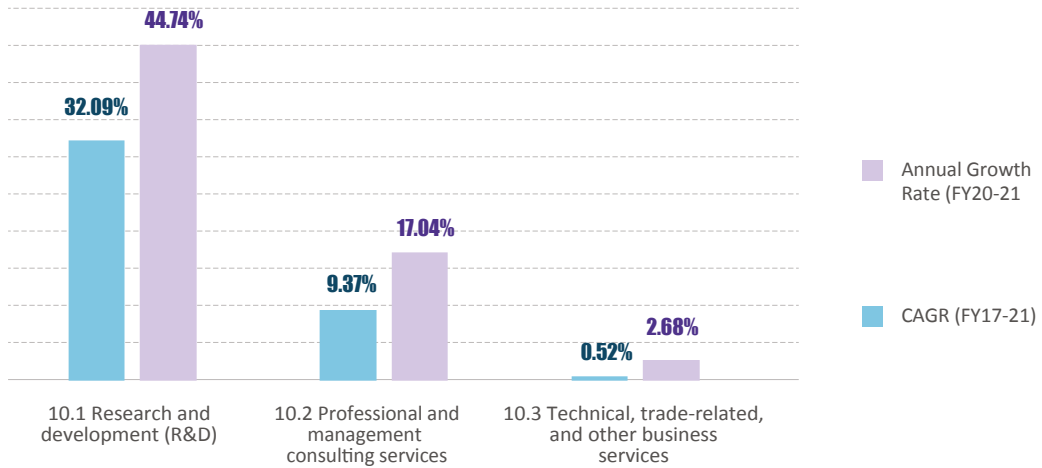
Similar to the world trend, exports of classification 10.1 "Research and development" are the least, amounting to around \$30.0 million in FY21. However, the annual growth rate and five-year CAGR for exports of R&D amounted to 44.7% and 32.1%, far exceeding the other two sub-categories as can be seen from Figure 16.

Figure 15 Pakistan's Exports of Other Business Services Sub-categories



Source: State Bank of Pakistan

Figure 16 Growth Rates for Pakistan's Exports of Other Business Services



Source: State Bank of Pakistan, Author's own calculations

Trade of Classification 10.2: Professional and management consulting services

Classification 10.2 covers legal services, accounting, management consulting, managerial services, public relations services, advertising, market research, and so on. It also includes services for the general management of a branch or subsidiary, provided by a parent enterprise.

Figure 17 Top Exporters of Professional and management consulting services, 2020

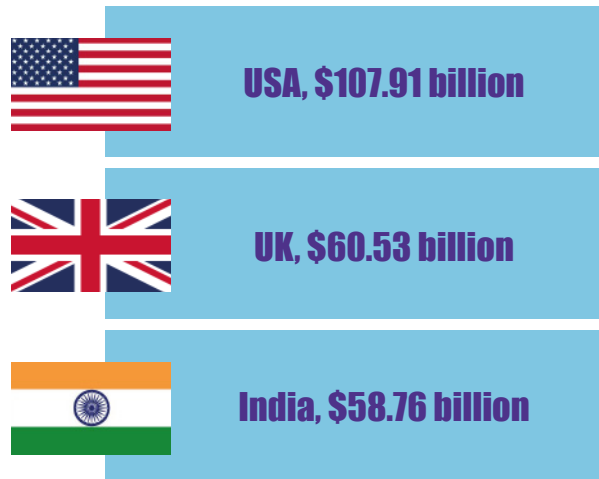
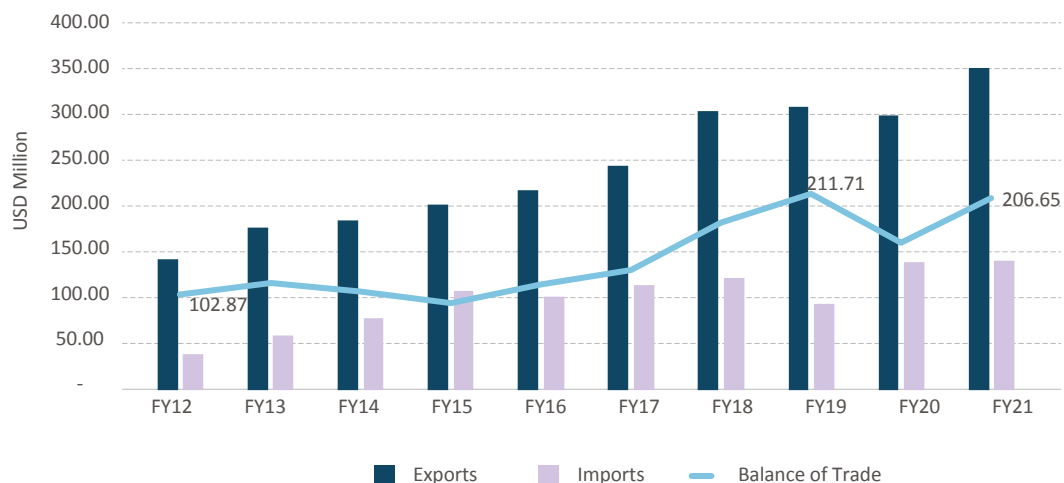


Figure 17 shows the top three exporters of professional and management consulting services. India, Pakistan’s regional competitor, ranks as the third largest exporter of this service.

Source: ITC Trade Map

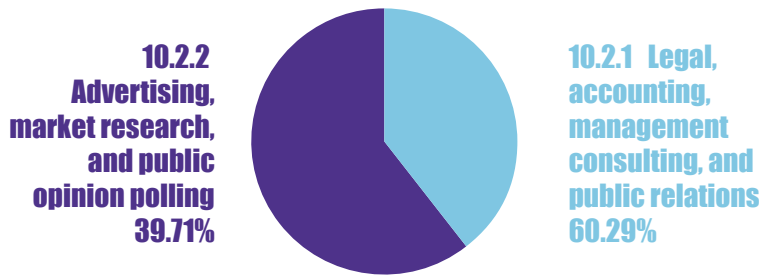
The figure below illustrates Pakistan’s exports, imports and trade balance of classification 10.2 “Professional and management consulting services”. The trade surplus improved from \$102.8 million in FY12 to \$206.7 million in FY21. Trade balance was the highest in FY19, amounting to \$211.7 million, in Pakistan’s favor. In the following years however, imports of this service increased more than exports, leading to a comparatively lower surplus.

Figure 18 Overview of Pakistan's Trade in Classification 10.2



Source: State Bank of Pakistan

Figure 19 Pakistan's Export shares of the sub-categories of Classification 10.2 in FY21



Source: State Bank of Pakistan

Figure 19 shows that with a share of 60.3%, classification 10.2.1 “Legal, accounting, management consulting, and public relations” contributes most to exports under classification 10.2 in the case of Pakistan.

Going into more details in classification 10.2.1, it can be seen that “Accounting, auditing, bookkeeping, and tax consulting services” are the second-largest export service under this classification, with the largest annual and five-year growth rates. “Business and management consulting and public relations services” remain the largest, accounting for 70.8% of the exports in FY21. This can be seen in Figures 20 and 21.

Figure 21 Pakistan's Export shares of the sub-categories of Classification 10.2.1 in FY21

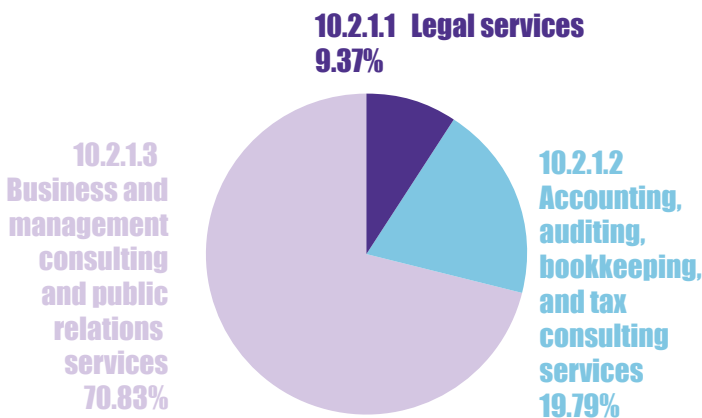
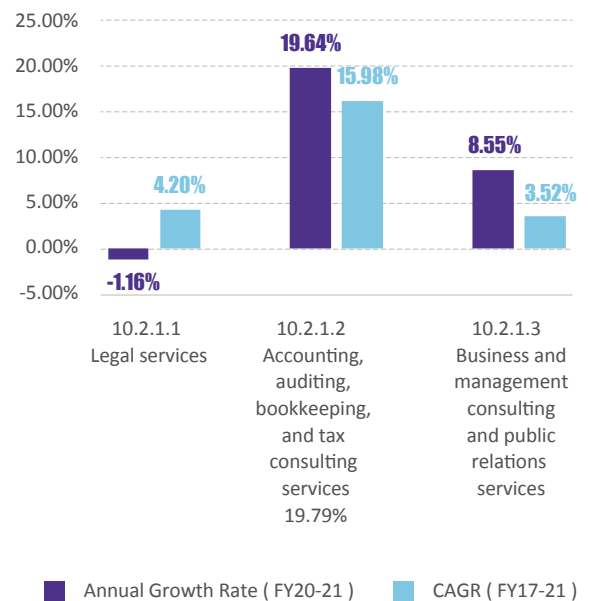


Figure 20 Pakistan's Growth Rates of the sub-categories of Classification 10.2.1



Source: State Bank of Pakistan, Author's own calculations

Pakistan's Top Export Destinations for Other Business Services

USA, UK, and China were Pakistan's top three export destinations in FY21, with market shares of 24.0%, 9.7%, and 9.3%, respectively. The USA's share in Pakistan's services exports is significantly higher than that of other countries, indicating that Pakistan's exports under this sector are not that diversified.

Exports of other business services to China increased the most, with the increase amounting to \$50.3 million, when compared to FY20. Exports to Germany, on the other hand, decreased the most, with a decrease of around \$16.6 million.

Other top destinations can be seen from Table 9 below.

Table 9 Pakistan's Top Export Destinations for Other Business Services

Ranking	Export Destinations	Exported value in FY20 (USD Million)	Exported value in FY21 (USD Million)	Change (USD Million)	Market Share FY21
1	U. S. A.	332.67	339.90	7.23	23.96%
2	U.K.	109.57	138.16	28.59	9.74%
3	China	81.10	131.37	50.27	9.26%
4	U.A.E. Dubai	95.82	120.76	24.94	8.51%
5	Singapore	89.81	105.97	16.16	7.47%
6	Hongkong	80.77	83.18	2.41	5.86%
7	Sweden	17.17	56.29	39.12	3.97%
8	Germany	71.80	55.84	-15.95	3.94%
9	Ireland	22.62	31.71	9.09	2.23%
10	Switzerland	27.30	31.67	4.37	2.23%
11	Saudi Arabia	28.90	23.68	-5.22	1.67%
12	Canada	20.54	23.60	3.06	1.66%
13	Italy (Including Vatican City)	16.90	21.83	4.94	1.54%
14	Japan	21.76	20.89	-0.86	1.47%
15	Netherlands (Holland)	25.05	17.05	-8.01	1.20%

Source: State Bank of Pakistan

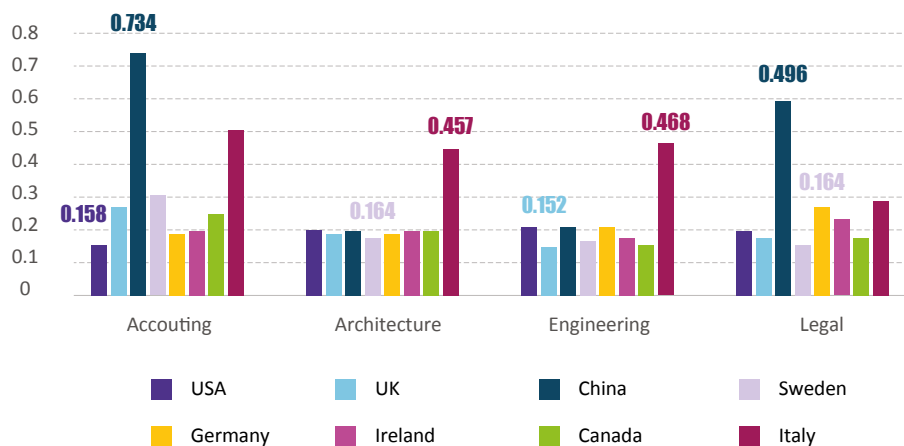
STRI for Pakistan's Top Export Destinations

As mentioned in Chapter 3: Barriers to Trade, the OECD's STRI quantifies restrictiveness of services' trade in certain countries. This index ranges from 0 to 1, with 0 indicating that the economy is completely open (no restrictions) and 1 indicating that it is completely closed (fully restricted).

The graph below illustrates STRI indices for a few of Pakistan's top export destinations along a few sectors relevant to classification 10 such as accounting, architecture, engineering, and legal. As can be seen, China's economy is the most restrictive for trade in accounting, followed by Italy, Sweden, UK, and Canada. Meanwhile, USA is the least restrictive in the accounting sector. Highest and lowest indices have been labeled in Figure 22.

Overall, Italy (Pakistan's 13th largest export destination) is the most restrictive for trade in services across the sectors mentioned, followed by China⁷. On the other hand, USA (Pakistan's largest export destination) is the least restrictive for trade in services across the sectors mentioned, followed by the UK and Ireland⁸.

Figure 22 STRI for Pakistan's Top Export Destinations, 2020



Source: OECD

Figure 23 focuses on the restrictions along the five policy areas on the accounting sector for the above-mentioned countries. As can be seen, restrictions on foreign entry and restrictions to movement of people are most common in the accounting sector. Regulatory transparency, barriers to competition, and other discriminatory measures account for a small number of restrictions.

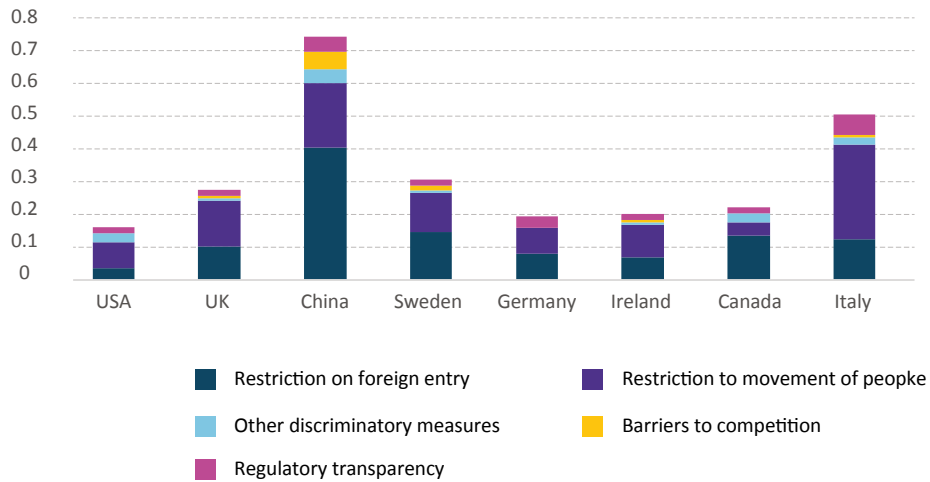
⁷ Italy's Average STRI: 0.430.

China's Average STRI: 0.408

⁸ USA's Average STRI: 0.192.

UK and Ireland's Average STRI: 0.198.

Figure 23 STRI - Accounting Sector



Source: OECD

Pakistan's Top Import Sources for Other Business Services

China, USA, and Singapore were Pakistan's top three import sources for other business services in FY21, with market shares of 29.2%, 14.2%, and 8.6%, respectively. Pakistan's imports of these services are quite concentrated since the top two import sources accounted for a combined market share of around 50.0% in FY21.

Imports of other business services from Norway increased the most during the past year, with an increase of \$44.5 million. Meanwhile, imports from China decreased the most, with a decrease of \$117.4 million.

Other top import sources can be seen in Table 10.

Table 10 Pakistan's Top Import Sources for Other Business Services

Ranking	Export Destinations	Imported value in FY20(USD Million)	Imported value in FY21 (USD Million)	Change (USD Million)	Market Share FY21
1	China	812.08	694.71	-117.37	29.20%
2	U. S. A.	395.62	337.58	-58.04	14.19%
3	Singapore	184.21	208.06	23.84	8.75%
4	U. A. E. Dubai	267.90	203.10	-64.81	8.54%
5	Hong Kong	260.43	189.69	-70.74	7.97%
6	U. K.	154.95	122.38	-32.58	5.14%
7	Other Countries	39.25	106.31	67.06	4.47%
8	Norway	12.94	57.43	44.49	2.41%
9	Saudi Arabia	34.36	54.71	20.35	2.30%
10	Bahrain	12.82	34.81	21.99	1.46%
11	U. A. E. Ummal Quwain	12.05	33.15	21.10	1.39%
12	Germany	105.02	31.69	-73.33	1.33%
13	European Economic Community	11.82	27.03	15.21	1.14%
14	Netherlands (Holland)	31.48	25.16	-6.32	1.06%
15	Canada	22.96	21.94	-1.02	0.92%

Source: State Bank of Pakistan



CHAPTER 5

PAKISTAN'S ACCOUNTING SERVICES SECTOR

Introduction

The accounting and financial reporting framework for all companies in Pakistan is specified in the Companies Act of 2017. Under this act, accounting standards are approved for use by the Securities and Exchange Commission of Pakistan (SECP). The SECP, however, has delegated the responsibility of developing and adopting accounting standards to the Institute of Chartered Accountants of Pakistan (ICAP). As mentioned previously, ICAP has adopted IFRS in Pakistan, which is internationally accepted.

There are a number of professional accountancy organizations in Pakistan and they are briefly described below:

1. **Institute of Chartered Accountants of Pakistan (ICAP):** Established in 1961 to regulate chartered accountants (Cas) in Pakistan, ICAP is the principal professional accountancy forum in the country.
2. **Institute of Cost and Management Accountants of Pakistan (ICMAP):** Established in 1951, ICMAP was granted statutory status under the CMA Act to regulate cost and management accountants in Pakistan.
3. **Pakistan Institute of Public Finance Accountants (PIPFA):** Established in 1993 by ICAP, ICMAP, and the Auditor General of Pakistan to provide long-term and enduring foundations for almost all public financial management reforms.

The next two bodies are UK-based, but are also running their operations in Pakistan.

4. **Association of Chartered Certified Accountants (ACCA):** Operating in Pakistan since 1997, ACCA is promoting public trust, training professional accountants and working with stakeholders to think ahead and prepare for future opportunities and challenges. The ACCA qualification is well recognized in Pakistan and the ACCA Pakistan chapter is actively promoting export of accounting services.
5. **Chartered Institute of Management Accountants (CIMA):** Operating in Pakistan since 2009, CIMA offers training and qualification in management accountancy and related subjects. It also publishes industry-leading insight, funds academic programs, and collaborates with partners globally to help

Domestic Regulations

A prominent feature of the domestic regulation of services in Pakistan is that the majority of regulations do not address trade and associated issues adequately (related to market access, international trade, etc.), focusing more on administrative concerns instead⁹.

There are certain gaps in the domestic regulation of accounting services. The table below lists the regulatory bodies for accounting in Pakistan, along with the gaps that need to be filled to facilitate and enhance Pakistan's export of these services.

Table 11 Domestic Regulatory Framework in Pakistan for Trade in Accounting

Sectors/Sub-Sectors	Regulatory Body	Key Features	Gaps between domestic regulations and international benchmarks/bestpractices
Accountancy/ Management consulting services	Securities and Exchange Commission of Pakistan (SECP)	SECP holds the overall responsibility of regulating this sector, however, ICAP	Domestic regulations, especially those related to reciprocity with foreign services suppliers, and their respective regulatory systems, are frail. These need to be redrafted, to warrant a smooth interaction with global markets which is vital for the supply of services in this sector.
	Institute of Chartered Accountants of Pakistan (ICAP)	and ICMAP regulate affairs of their members, maintain standards, ensure	
	Institute of Cost And Management Accountants of Pakistan (ICMAP)	compliance with international benchmarks and interact with the users of such services.	

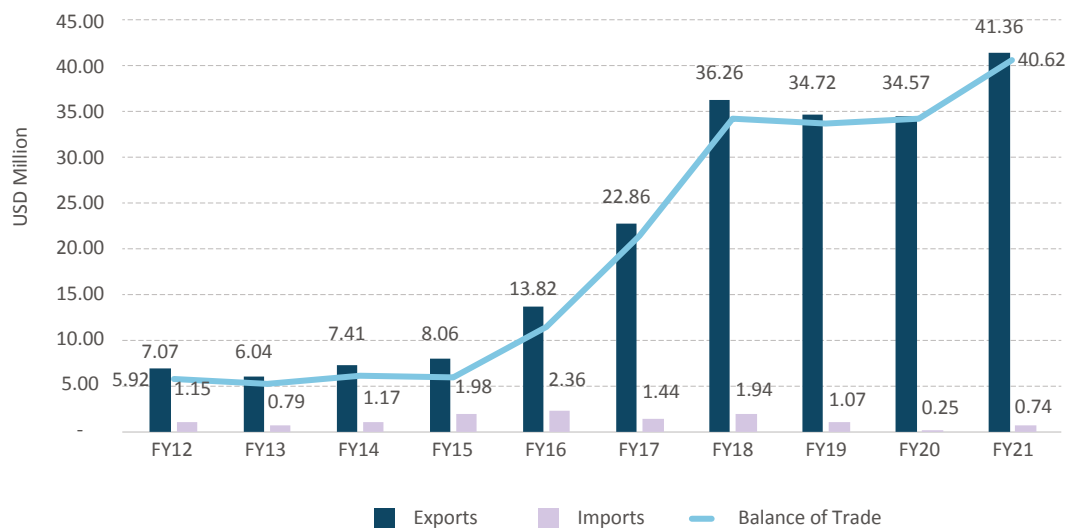
Source: Strategy for Export Development of Services for Pakistan

⁹ Strategy for Export Development of Services for Pakistan – Study funded by the EU

Trade of Classification 10.2.1.2: Accounting, auditing, bookkeeping, and tax consulting services

Figure 24 below shows Pakistan's exports, imports, and trade balance for classification 10.2.1.2.

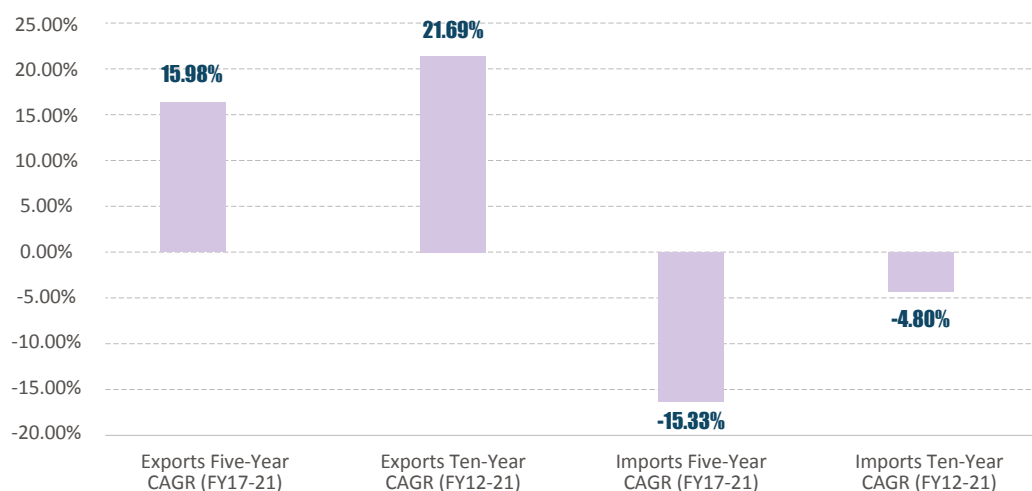
Figure 24 Pakistan's Trade in Classification 10.2.1.2



Source: State Bank of Pakistan

As can be seen in the figure above, Pakistan's exports in this sector increased sharply from FY15 to FY18, after which they decreased slightly till FY20, reaching an all-time high of \$41.4 million in FY21. Imports of such services have remained low throughout, amounting to around \$0.7 million in FY21, leading to a positive balance of trade of \$40.6 million during the financial year. The five-year and ten-year growth rates for both, exports and imports, can be seen in Figure 25.

Figure 25 Growth Rates for Export and Import of Classification 10.2.1.2



Source: State Bank of Pakistan, Author's own calculations

Incentives

Even though the other business services sector is a significant part of the services trade of Pakistan, incentives for the rendering or exporting of these services remain limited. For the services sector as a whole, there are certain investment incentives provided by the government, which are summarized in the table below.

Table 12 Highlights of Investment Incentives for the Services Sector in Pakistan

Policy Parameter	Services Sector
Government permission	Not required except specific licenses from concerned agencies
Remittance of capital, profits, dividends, etc.	Allowed
Upper limit of foreign equity allowed	100% after having a no objection certificate from the concerned agency/sector
Customs duty on import of Property, Plant, and Equipment	5%
Royalty and Technical Fee	Allowed as per guidelines – Initial lump-sum up to \$100,000 – Max Rate 5% of net sales – Initial period 5 years

Source: Board of Investment, Pakistan

Taxation:

Each territory – Islamabad Capital Territory (ICT), Punjab, Sindh, Khyber Pakhtunkhwa (KPK), and Balochistan – applies a different rate of sales tax on the rendering and provision of services. The standard sales tax on services are as follows: ICT and Punjab – 16%, Balochistan and KPK – 15%, and Sindh – 13%. However, territory-wise sales tax levied on services relevant to the accounting sector are discussed below in Table 13.

It is important to note that the lack of tax harmonization for services sectors across the provinces creates a heavy burden in terms of taxes, as well as compliance.

Table 13 Sales Tax by Each Territory on Services Relevant to the Accounting Sector

Sales Tax	ICT	ICT			
5%		•Services provided by accountants			•Services provided by accountants
8%			•Services provided by accountants (However, the services rendered by accountants are exempted from sales tax if services are exported by registered persons, to residents located outside Pakistan, subject to certain terms and conditions)		
13%			•Services provided by management consultants		
15%				•Services provided or rendered by professionals and consultants	
16%	•Management consultancy services •Services provided by accountants and auditors	•Management consultancy services			

Source: Federal Board of Revenue, Punjab Revenue Authority, Sindh Revenue Board, Balochistan Government Website, KP Revenue Authority¹⁰

Export Finance Scheme:

Foreign earnings remitted into Pakistan against consultancy services in various service sectors of the economy such as accountancy, management, financial services, and other consultancy services which are being rendered by various Pakistani enterprises by way of designing, solution providing, surveys, feasibility preparation, and so on, have been accorded as “deemed export” by the government of Pakistan¹¹. The foreign earnings against all such consultancy services are treated as export proceeds and all consultancy services mentioned above qualify for export finance facility under Part I of Export Finance Scheme for a period not exceeding 180 days at the rates prescribed under the Scheme.

¹⁰ The detailed tax schedules can be accessed through the following links:

ICT: [https://download1.fbr.gov.pk/Docs/202110131110409364IslamabdCapitalTerritory\(TaxonServices\)updatedupto30.06.2021.pdf](https://download1.fbr.gov.pk/Docs/202110131110409364IslamabdCapitalTerritory(TaxonServices)updatedupto30.06.2021.pdf)

Punjab: [http://pra.punjab.gov.pk/Downloads/Updated-Punjab-Sales-Tax-on-Services-Act-2012.\(2021-2022\).pdf](http://pra.punjab.gov.pk/Downloads/Updated-Punjab-Sales-Tax-on-Services-Act-2012.(2021-2022).pdf)

Sindh: http://srb.gos.pk/contents/Downloads/Working_Tariff_as_of_1st_July_2016_05092016_002.pdf

Balochistan: <https://phkh.nhsr.pak/sites/default/files/2020-12/Sales%20Tax%20on%20Services%20Amendment%20Act%20No.%20II%20Balochistan%202019.pdf>

KPK: <http://kpra.gov.pk/page?p=37>

¹¹ State Bank of Pakistan BSD Circular No. 41 dated 30th October, 2001

Incentives for the IT-enabled Sector (IteS) and Freelancers:

Incentives to the industry include zero income tax on IT and IteS exports till June 2025, tax breaks for the Pakistan Software Export Board (PSEB) registered IT start-ups for three years, up to 100% foreign ownership of IT and IteS companies, up to 100% repatriation of profits for foreign IT and IteS investors, tax holiday for venture capital funds till 2024, among other incentives. Hence, as can be seen, the IteS sector has been under focus and many incentives are being provided. This is helpful for the accounting sector as well due to the linkages in outsourcing and freelancing.

Lack of Incentives

For the accounting sector in specific, low spending on audit services has always been a concern in the country. The situation got so worse that ICAP had to issue a circular in 1999 fixing minimum audit fee to be paid to auditors. Overall, there is absence of any key incentives for the main constituents of the accounting system, such as the corporate entities and auditors. In a study by Ball et al. (2003) on four East Asian countries, it was concluded that nations trying to improve the quality of their financial reporting and accounting sector should try and change auditors and managers incentives. Hence, there is a need for more incentives to be designed and implemented for such services in the country.

Input from Relevant Stakeholders on Pakistan's Accounting Services

Interviews were conducted with 20 respondents who are providing accounting, auditing, bookkeeping, and tax consulting services in Pakistan, as well as, abroad. More details of the interviewees can be seen in the Annexure. The PBC was also in contact with several representatives from ACCA, ICAP, and ICMAP, who helped arrange some of the interviews.

Digitalization

As mentioned previously, industry trend shows that the accounting process is becoming more and more digitalized. Demand for accounting services in the near future is expected to be in areas such as cloud-based accounting, software, blockchain technology, communication technology, and artificial intelligence, making it imperative for companies to adapt to automating the redundant processes that involve manual labor. The profession has transitioned from manual labor, to calculators, to computer-based processing, and now to the platforms, data and artificial intelligence. Without use of these technologies, success in this field cannot be achieved. With the world moving towards digitization, even more so since Covid-19, the lack of a virtual portal or platform for the services and accounting sector poses a challenge for Pakistan. Foreign markets are unaware of the qualified professionals in Pakistan and the services that they provide which limits the export of such services.

Making use of the virtual world, Befiler, Pakistan's first and largest digital tax filing and advisory solution has been launched to make tax filing and advisory services available to everyone at a low cost and promote tax awareness, documentation, and tax filing culture in the country. The platform is now planning to incorporate export of accounting, tax and other services in the Befiler platform by developing a team to file tax returns for US, Canada, and other jurisdictions. Similarly, Hysab Kytab is a fin-tech company that provides digital solutions through a suite of white-labelled financial management and consumer products. It focuses not only on individuals, but also banks and small and medium-sized enterprises. One product under Hysab Kytab is Hysab Kytab Business which aims to provide an affordable ERP solution to businesses, especially small and medium-sized enterprises, since software like Oracle and SAP are quite expensive. These services are not only offered in Pakistan, but in countries in Africa, the Middle East, and so on. Such technological advancements are beneficial for Pakistan and can be studied in greater detail by professionals.

Apart from such advancements, Pakistan's progress on the technological front has been relatively slow, compared to countries such as India. BUSY accounting software and Zoho Books are examples of accounting software that have been made in India and are acceptable in the Middle East and other countries, giving India an edge in this regard. Moreover, Robotic Accounting, a form of robotic process

¹² Enterprise Resource Planning refers to a type of software that organizations use to manage day-to-day business activities such as accounting, procurement, project management, risk management and compliance, and supply chain operations.

automation, is an emerging technology in the field of accounting. However, this trend has not come to Pakistan yet. Informational sessions regarding such technology have been arranged and hands-on courses on fin-tech and data analytics have also been initiated by institutes such as ICAP. Industry experts however believe that if Pakistan is to reach its potential in the accounting services sector, it is vital to inculcate and integrate more of these practices in educational examinations, as well as, in professional trainings.

In future, it is expected that every company in the accounting services business would need to invest in technology to digitalize their business, explore new markets and be open to acquisitions and mergers. Moving forward, Pakistan needs to keep the emerging trends in mind and invest in new technology to become globally competitive and to gain a larger market share in the global market. In this regard, the government should provide support to small and medium-sized accounting firms since accounting and auditing software is expensive. While large accounting firms do not face any issues in this domain, small and medium-sized firms usually do not have the means to access new technologies and software. This restricts new entrants and discourages existing firms from growing.

Professionals

In the last few years, there has been a change in terms of mindset, skillset and tools that professional accountants use to deliver on-shore and off-shore services. Accounting as a profession has become more tech-driven and talent dependent to deliver value. While the accounting profession is shifting towards digitalization, accounting professionals with ethical lens, objectivity, independence, and broader knowledge of business models remain at the core of the profession. Professionals need to be able to reflect primary skills such as critical thinking, problem-solving, service orientation, commercial acumen and communication skills, along with, subject matter expertise of finance, accounting, auditing, taxation and business laws.

According to stakeholders, the technical knowledge of a fresh accounting professional in Pakistan is excellent and in line with the international demand. Most of the time these fresh talents struggle in areas of critical thinking, negotiation skills, presentation skills, and communication skills. These challenges are not just restricted to accounting, but are common across all professions which is why it is necessary to incorporate more courses in curricula which build upon soft skills. Furthermore, such areas should be targeted during employment and trainings to ensure that the skill set of Pakistani professionals is in line with international demand. Constant upgradation of curriculum is also necessary for such professionals to keep competing in the international arena. For these purposes, there needs to be a network of education providers to help talent progress alongside technical exams, and a network of employers who not only train the talent, but also provide continuous professional development.

Stakeholders are also of the view that there needs to be a change in the mindset of professionals. Accounting is usually not considered the preferred profession, which is why the passion that is needed to compete in the international market is not present. In this regard, career counselling sessions in schools are very important, along with webinars and seminars that increase awareness about the profession and future opportunities that might be available. The local professional accounting bodies need to interact frequently and devise strategies for promoting the profession of accountancy in Pakistan by embarking on new ideas and making use of the appropriate technology. These bodies should play their role in producing more visible opportunities for prospective students so that they consider accounting as their first career choice.

Marketing

Technology has created a larger opportunity for accounting professionals in Pakistan to access the global workplace. Stakeholders, however, believe that the country needs to work on its branding and marketing to create awareness within Pakistan about the international market and outside Pakistan about the talent present in the country. Digital platforms should be used to market and promote Pakistan as the preferred destination for such services and email marketing can be used to target potential clients. Indian and Polish accounting firms make use of aggressive email marketing to target potential clients, which is why they may be getting more business as compared to Pakistan. Furthermore, Pakistan's commercial counsellors based in high potential markets should make an effort to increase awareness about Pakistan's high quality accounting services in the international market. Pakistan can arrange conferences, outsourcing expos, and meet ups with international clients. For instance, the Pakistan Software Export Board (PSEB) extended facilitation and financial support to IT companies to attend the Mobile World Congress in Barcelona in 2021. Similar efforts should be undertaken for the accounting profession so that such professionals can build an international network.

One restriction in this area is that Chartered Accountants (CA) are not allowed to market themselves, as previously mentioned in Chapter 3: Barriers to Trade. According to an interviewee, amendments to this law have been proposed and these are with the government at the moment. It is recommended that these amendments be approved, and that CAs be allowed to advertise their services, provided that they maintain the dignity of the profession and that the advertising, publicity, or promotional material is not false, misleading, or deceptive. In the case of India, the Institute of Chartered Accountants of India (ICAI) has relaxed this law by allowing CAs to advertise through a write-up, setting out the services provided by him/her or their firm and particulars of the firm, subject to advertisement guidelines issued by the Council of ICAI.

Accounting and Compliance Standards

As mentioned previously, IFRS has been adopted in Pakistan. In fact, Pakistan is one of the very few South Asian countries who have majorly¹³ adopted IFRS which gives the country an edge. Stakeholders believe that Pakistan cannot rely on this edge for much longer since numbers of countries are moving towards fully adopting IFRS.

Buyers' compliance standards include discipline and processes to protect the buyer's interests, specifically when one has trusted the service provider with sensitive information. This has more to do with the attitude towards work rather than technical capability. Data protection, quality and timely delivery of work are a few standards that accounting professionals are required to adhere to.

Accountants are expected to observe applicable accounting standards, laws and provide objective and independent opinion/assessment. Furthermore, they need to keep themselves up-to-date with the latest developments in the profession and in technology. While accountants from Pakistan do not face many issues in complying with these standards, development is needed in the areas of critical thinking and other soft skills. To stay relevant in the global market of accounting services, it is important that accountants continuously improve their technical and soft skills.

Working on licensed products such as Microsoft office, cloud servers (Amazon, Oracle, and so on), putting in place firewalls, and anti-viruses are other compliance standards that foreign buyers expect adherence to. Once again, while large-scale service firms do not face an issue in this area, medium and small-scale firms or freelancers might find such standards costly.

Credit Insurance & Digital Payments

Amongst other requirements, credit insurance is necessary for the export of services. Lack of credit insurance in Pakistan translates into reluctance on part of service providers to export their services as this serves as a barrier to trade. Hence, stakeholders suggest that EXIM¹⁴ bank should be made functional in Pakistan to provide credit insurance to exporters of services.

Moreover, international payment gateways should be activated so that the payment and receipt method is smoothened out. Expanding the use of digital payments, along with promoting trust in digital transactions will improve Pakistan's ease of doing business score.

¹³ With the exception of IFRS 1 and 14

¹⁴ Export Import Bank of Pakistan. It has been established to play a leading role as catalyst for Pakistan's export growth by providing export and import credit facilities, guarantees, insurance products and other supporting services.

Export Potential

Pakistan's current accounting exports are much less than the country's potential. To reach potential, service exporters should look beyond traditional accounting services such as payments processing, receivable management, assurance and taxation and focus on value-added services like data analytics, research, feasibilities, decision support, investment and transaction advisory, digital transformation, and opinions since this is the future of accounting.

Furthermore, non-traditional markets such as Eastern Europe, the Middle East, Brazil, Australia, and Africa should also be explored since demand for such services are high in these countries. Eastern Europe is becoming the hub for off-shore outsourcing, however due to a lack of young talent, professionals in Pakistan should look to take advantage of this opportunity. Partnership with companies outside Pakistan, participating in events and building relevant services offerings after understanding the target market needs are some of the key strategies that can help tap into these markets.

Infrastructure

Stable, uninterrupted, high-speed and affordable internet connections and power supplies, along with a proper workspace set up with computers or laptops are a few of the most vital things needed to provide services abroad. Clients abroad need timely reports for which such utilities are vital. Stakeholders revealed that to provide quality services, they needed to invest in multiple broadband connections, electric generators, and similar backup devices which increased their cost of doing business. While this may not be a big cost for large service providers, medium and small-scale firms often find it difficult to cover these costs and new entrants are hesitant to even begin their businesses because of these additional costs.

It has been suggested that technology parks where the required infrastructure is present should be used for the provision of services as well. The government can even assign an area, building or a complex where all such facilities are provided and businesses can coexist here. Such technological parks will prove to be beneficial for the ITeS sector, as well as for freelancers.

CHAPTER 6

COMPETITIVENESS OF PAKISTAN'S OTHER BUSINESS SERVICES EXPORTS



Due to non-availability of country-wise data on classification 10.2.1.2: Accounting, auditing, bookkeeping, and tax consulting services, this section will look at Pakistan's competitiveness in classification 10: Other business services and then focus on competitiveness of classification 10.2: Professional and management consulting services.

Defining Competitiveness

The concept of competitiveness is extremely broad which is why there is no consensus on the definition of competitiveness, regardless of the fact that the issue has been the topic of a number of theoretical and empirical studies for years. The OECD's definition of competitiveness refers to a country's ability to sell goods (under free and fair conditions) in global markets "...while simultaneously maintaining and expanding the real incomes of its people over the long term" (OECD, 2005).

The typical approach is to analyze competitiveness at the national level, comparing one economy with another. Export competitiveness can be measured through changes in global market shares, growth of exports, and comparative advantage, amongst many other measures. The sections below will aim to measure Pakistan's competitiveness in the other business services trade through different methods. All the data has been sourced through ITC Trade Map to ensure competitiveness can be measured across countries.

Global Competitiveness

As can be seen from Table 14, Pakistan's exports of classification 10 "Other business services" ranked 57th in the world in 2020, with a five-year export growth rate of 5.5%. Amongst the top exporters, Pakistan's CAGR is the 5th highest.

On the other hand, Pakistan's imports of classification 10 "Other business services" ranked as 48th in the world in 2020, with a five-year export growth rate of 5.1%. This can be seen in Table 15. Similar to exports, Pakistan's import CAGR is the 5th highest amongst the top importers.

The country's export growth rate is slightly higher than its import growth rate, which indicates that exports have been increasing at a somewhat faster rate. This also explains why Pakistan's trade deficit for this sector has decreased slightly in the last five years.

However, it is also important to note that majority of top exporters are developed countries, with whom, comparison seems to be a bit unrealistic.

Table 14 Pakistan's ranking in Top Exporters of Other Business Services

Ranking	Exporters	Exported value in 2016 (USD Billion)	Exported value in 2020 (USD Billion)	Market Share 2020	CAGR (2016-20)
1	United States of America	153.09	183.18	14.18%	4.59%
2	United Kingdom	112.75	128.47	9.94%	3.32%
3	Germany	85.09	89.33	6.91%	1.22%
4	France	84.80	84.33	6.53%	-0.14%
5	India	54.66	78.04	6.04%	9.31%
6	China	57.89	75.45	5.84%	6.84%
7	Singapore	38.13	59.75	4.62%	11.88%
8	Netherlands	53.08	54.48	4.22%	0.65%
9	Ireland	33.31	48.18	3.73%	9.67%
10	Japan	39.31	43.94	3.40%	2.82%
57	Pakistan	1.07	1.33	0.10%	5.53%

Source: ITC Trade Map

Table 15 Pakistan's ranking in Top Importers of Other Business Services

Ranking	Importers	Imported value in 2016 (USD Billion)	Imported value in 2020 (USD Billion)	Market Share 2020	CAGR (2016-20)
1	Ireland	106.35	149.50	11.38%	8.89%
2	United States of America	100.51	117.67	8.96%	4.02%
3	Germany	86.77	94.78	7.22%	2.23%
4	United Kingdom	68.65	90.40	6.88%	7.12%
5	France	79.84	76.81	5.85%	-0.96%
6	Japan	62.61	63.59	4.84%	0.39%
7	Singapore	46.53	58.93	4.49%	6.08%
8	Netherlands	55.43	54.34	4.14%	-0.49%
9	China	43.43	50.49	3.84%	3.84%
10	India	32.74	48.60	3.70%	10.38%
48	Pakistan	2.12	2.59	0.20%	5.10%

Source: ITC Trade Map

Competitiveness Amongst Developing Countries

According to the IMF, there are 152 countries that can be classified as developing economies. With a population of around 6.61 billion, this makes up a considerable portion (85.20%) of the world's population.

The table below lists the five-year CAGR of Pakistan and the top 10 developing countries, for exports of other business services. Since comparing Pakistan's competitiveness with developed countries would appear to be unrealistic, the following sub-sections will aim to determine Pakistan's competitiveness in other business services exports against top exporting developing economies through different measures of competitiveness.

Amongst developing countries, Pakistan ranks as the 23rd largest exporter of other business services. Comparing the growth rate, one can see that Pakistan's five-year growth rate for the export of other business services is the 5th highest, behind Poland, Romania, India and China.

Table 16 Top Developing Countries' CAGR – Exports of Other Business Services

Ranking Amongst Developing Countries	World Ranking	Exporters	Exported value in 2020 (USD Billion)	CAGR (2016-20)
1	5	India	78.04	9.31%
2	6	China	75.45	6.84%
3	19	Poland	18.64	14.51%
4	20	Philippines	17.62	3.90%
5	22	Brazil	13.56	-4.83%
6	24	Thailand	11.98	1.98%
7	25	Russian Federation	11.55	-0.36%
8	29	Romania	6.44	10.53%
9	30	Malaysia	6.40	2.70%
10	35	Indonesia	5.11	-1.19%
23	57	Pakistan	1.33	5.53%

Source: ITC Trade Map

Measures of Competitiveness

In this report, a few measures of export competitiveness, which are backed by literature, will be used. These are as follows:

1. Market Share and Change in Market Share:

Market Share is a measure of the share a country's exports have in world exports. It is calculated as:

$$\text{Market Share} = \left(\frac{X_{ij}}{X_{wj}} \right) \times 100$$

Where X represents exports, i represents country, j represents the commodity and w represents the world.

Similarly, change in the market share provides an idea of how the competitiveness of a country's exports change over time. This is calculated as:

$$\text{Change in Market Share} = \left\{ \frac{(X_{ij}/X_{wi}) - (X_{ijt-1}/X_{wjt-1})}{(X_{ijt-1}/X_{wjt-1})} \right\} \times 100$$

Where X represents exports, i represents country, j represents the commodity, w represents the world, and t represents period.

Relative market shares and changes in market shares provide an overall picture of how a country's exports are performing in comparison to other countries.

2. Revealed Comparative Advantage (RCA) – Balassa, 1965:

Revealed comparative advantage (RCA) is used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. The original RCA index, formulated by Balassa (1965) is widely used in literature to measure country-sector comparative advantage. It is calculated as:

$$RCA = \frac{\frac{X_{ij}}{X_j}}{\frac{X_{iw}}{X_w}}$$

Where X represents exports, i represents the commodity, j represents the country, and w represents the world.

The RCA index ranges from 0 to infinity with 1 as the break-even point. That is, an RCA value of less than 1 means that the product or service has no export comparative advantage, while a value above 1 indicates that the product or service has a revealed comparative advantage.

3. Revealed Comparative Advantage (RCA) – Greenaway and Milner, 1993:

However, it is argued that the RCA index might be biased due to the omission of imports especially when the country's size is important (Greenaway and Milner, 1993). Hence, an alternate RCA index was suggested by Greenaway and Milner, which takes into account the country's import basket. This is calculated as:

$$RCA = \frac{\frac{X_{ij}}{X_j}}{\frac{M_{ij}}{M_j}}$$

Where X stands for exports, M for imports, i for the commodity, and j for the country.

Similar to Balassa's RCA, a value of greater than 1 in this index indicates competitive advantage of a country in the trade of the commodity or service.

4. Vollrath's Indices for Competitiveness, 1991:

A specification to measure RCA at the global level was proposed by Vollrath who introduced three new methods to measure competitiveness: Logarithm of the Relative Export Advantage (RXA), Relative Trade Advantage (RTA), and Revealed Competitiveness (RC). For all three indices, a positive value shows a revealed comparative advantage while a negative value shows a revealed comparative disadvantage.

a. Relative Export Advantage (RXA): The RXA index is defined as a relation between the ratio of export of some product or service of a country on the world market and the ratio of export of all other products or services of that country on the world market. It is calculated as:

$$RCA = \ln(RXA) = \frac{\frac{X_{ij}}{X_{it}}}{\frac{X_{nj}}{X_{nt}}}$$

Where X stands for exports, I for the country, j for the commodity, n for a set of countries, and t for a set of commodities.

b. Relative Trade Advantage (RTA): RTA is calculated as the difference between RXA, which is the equivalent to the original Balassa index (RCA), and its counterpart, relative import advantage (RMA). It is calculated as:

$$RTA = RXA - RMA = \left(\frac{\frac{X_{ij}}{X_{it}}}{\frac{X_{nj}}{X_{nt}}} \right) - \left(\frac{\frac{M_{ij}}{M_{it}}}{\frac{M_{nj}}{M_{nt}}} \right)$$

Where X stands for exports, M stands for imports, i for the country, j for the commodity, n for a set of countries, and t for a set of commodities.

c. Revealed Competitiveness (RC): RC is obtained by subtracting the logarithm of relative import advantage from the logarithm of the relative export advantage. According to Vollrath, RC is the preferable measure of competitiveness out of the three measures since it takes into account the supply and demand balance. This is calculated as:

$$RC = \ln(RXA) - \ln(RMA)$$

Pakistan's Competitiveness – Classification 10: Other Business Services

The table below uses the previously- discussed measures of competitiveness to quantify Pakistan's competitiveness in exports of Classification 10 "Other business services", in comparison with the top 10 developing countries.

Table 17 Competitiveness of Classification 10: Other Business Services

Ranking Amongst Developing Countries	Exporters	Market Share 2019	Market Share 2020	Change in Market Share (2019-20)	RCA – Balassa 1965	RCA – Greenaway and Milner 1993	RXA	RTA	RC
1	India	5.27%	6.04%	14.53%	1.07	0.88	-0.15	-0.52	-0.47
2	China	5.22%	5.84%	11.87%	1.43	2.80	0.14	0.57	0.68
3	Poland	1.21%	1.44%	19.28%	1.07	0.92	-0.15	-0.46	-0.43
4	Philippines	1.24%	1.36%	9.65%	2.16	2.05	0.55	0.54	0.37
5	Brazil	1.13%	1.05%	-7.01%	1.83	1.10	0.38	-0.41	-0.25
6	Thailand	0.83%	0.93%	11.39%	1.45	1.15	0.15	-0.27	-0.21
7	Russian Federation	0.93%	0.89%	-3.48%	0.94	0.97	-0.29	-0.34	-0.38
8	Romania	0.46%	0.50%	8.37%	0.91	0.76	-0.31	-0.64	-0.63
9	Malaysia	0.50%	0.50%	-1.49%	1.13	1.37	-0.10	-0.03	-0.03
10	Indonesia	0.47%	0.40%	-15.85%	1.32	1.09	0.06	-0.31	-0.26
23	Pakistan	0.11%	0.10%	-2.20%	0.96	0.72	0.27	-0.73	-0.67

Source: ITC Trade Map, Author's own calculations

Change in Market Share: As can be seen from the table, Pakistan's change in market share for the export of such services is the fourth lowest amongst the top 10 developing countries. The countries with lower values than Pakistan are: Russia, Brazil, and Indonesia. All in all, Pakistan does not have a high market share for the export of other business services.

RCA – Balassa and Greenaway & Milner: In both cases, Pakistan's RCA index is lower than 1 indicating that the country does not have export comparative advantage for this service. In fact, Pakistan's index is the lowest in the case of RCA – Greenaway and Milner.

RXA, RTA, and RC: The negative index for Pakistan indicates a relative disadvantage for exports of other business services. In the case of RTA and RC, Pakistan's index is the lowest amongst the listed countries and only China and Philippines have a relative advantage.

Since Table 17 only lists the competitiveness for exports of Classification 10 "Other business services", it only provides an overview of the sector as a whole. Therefore, the sub-section below estimates competitiveness for this sector's sub-category – Classification 10.2.

Competitiveness of Classification 10.2: Professional and management consulting services

Table 18 estimates Pakistan's competitiveness in Classification 10.2 "Professional and management consulting services" amongst developing countries.

Table 18 Competitiveness of Classification 10.2: Professional and management consulting services

Ranking Amongst Developing Countries	Exporters	Market Share 2019	Market Share 2020	Change in Market Share (2019-20)	RCA – Balassa 1965	RCA – Greenaway and Milner 1993	RXA	RTA	RC
1	India	10.24%	11.81%	15.35%	2.09	2.73	0.63	-0.09	-0.05
2	China	-	-	-	-	-	-	-	-
3	Poland	1.72%	2.04%	18.46%	1.51	0.87	0.31	-3.13	-1.19
4	Philippines	0.03%	0.02%	-44.94%	0.03	0.14	-3.75	-0.44	-2.99
5	Brazil	0.83%	0.80%	-3.14%	1.40	2.68	0.23	-0.09	-0.07
6	Thailand	-	-	-	-	-	-	-	-
7	Russian Federation	1.14%	1.13%	-1.16%	1.18	1.25	0.06	-1.37	-0.83
8	Romania	0.53%	0.54%	0.77%	0.99	0.92	-0.12	-1.89	-1.14
9	Malaysia	0.58%	0.60%	3.96%	1.37	1.68	0.21	-0.88	-0.54
10	Indonesia	-	-	-	-	-	-	-	-
23	Pakistan	0.04%	0.04%	12.76%	0.37	1.95	-1.10	-0.16	-0.38

Source: ITC Trade Map, Author's own calculations

Change in Market Share: In the case of professional and management consulting services, Pakistan's increase in market share has been relatively greater than other developing countries. At 12.3%, the country's change in market share is the 3rd largest.

RCA – Balassa and Greenaway & Milner: Pakistan does not have a comparative advantage in professional and management consulting services according to Balassa's index. However, when taking the import basket into account, as in the case of Greenaway and Milner's RCA, the index exceeds 1, indicating revealed comparative advantage.

RXA, RTA, and RC: All three ratios are negative, indicating a relative trade disadvantage. In fact, all the above-mentioned developed countries have a negative RTA and RC index.

Hence, even though Pakistan's market share for this service has improved, most of the indicators point towards Pakistan's comparative disadvantage in the export of professional and management consulting services.



CHAPTER 7

**INDIA'S OTHER
BUSINESS SERVICES
SECTOR**

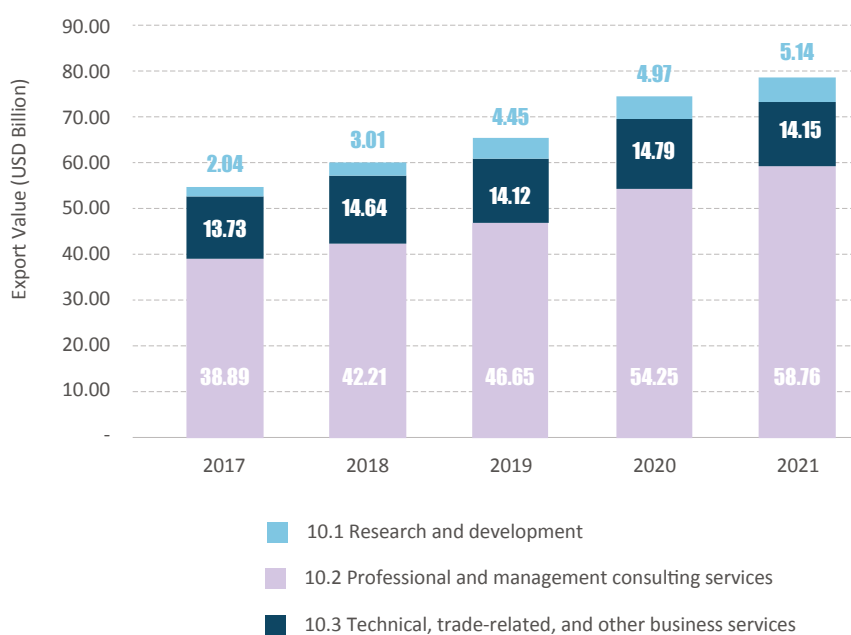


Introduction

The services sector accounts for around two-third of India's total FDI inflows and approximately 38.0% of total exports of the country. As per the Economic-activity wise classification of active companies in India, the highest number of companies are in Business Services, comprising 32% of the total share of active companies. Business services comprise of information technology, R&D, and other business activities such as law, auditing, accounting and consultancy, and so on.

As mentioned in Chapter 2, India was the 5th largest exporter of other business services in 2020, exporting around \$78.04 billion worth of this service. Figure 26 below shows India's exports of the sub-categories of other business services for the last five years.

Figure 26 India's Exports of Other Business Services Sub-categories



Source: ITC Trade Map

Classification 10.2 accounts for a majority of the other business services exports. In fact, India is the 3rd largest exporter of professional and management consulting services in the world, with the USA and UK ranking as the top 2 exporters. According to the Services Export Promotion Council (SEPC)¹⁵, this is one service sector in India which has never experienced negative growth, except for one year during the global financial crisis of 2009.

¹⁵ SEPC has been set up by the Ministry of Commerce and Industry and Government of India to enhance the competitiveness of India's services sector.

Incentives

The major reason why India's services sector has been able to grow is government support and exporter-friendly policies. This has enabled the country to jump up 79 positions since 2014 in the World Bank's Ease of Doing Business rank.

Initiatives taken by the government and relevant councils are outlined briefly below.

12 Champion Sectors:

For the services sector as a whole, the government of India has identified 12 sectors, labelling them as the 12 Champion Sectors¹⁶, with immense potential for focused support. The sectors that are relevant to other business services include accounting and finance services, legal services, and engineering services. A dedicated fund of INR 5,000 crore has been proposed to support action plans for these sectors. The government plans to raise the share of services in India's gross value-added (GVA) from around 54% in 2019 to 60% by 2022 (67% including construction services) through action plans for these sectors.

Skills Development:

The Skill India initiative was launched in 2015 with the aim to empower the youth of India with relevant skills. It offers courses across 40 sectors, and imparts training in soft skills, entrepreneurship, financial and digital literacy, and so on. In addition, India's software revolution is a case in point. The key elements of this included a major expansion of engineering colleges, the establishment of research and training institutes for software development, and programs to leverage the technical expertise of the diaspora (Nayyar et al. 2021).

Investment in R&D:

Under the Union Budget 2021-22, the government announced allocation of INR 14,794.03 crore (US\$ 2.02 billion) to the Ministry of Science and Technology. Furthermore, in October 2021, the government announced plans to establish 75 science technology & innovation hubs in India. The country offers various opportunities for R&D and innovations. As of 2021, more than 70% of the 50 most innovative firms across the world have a research and development center in India¹⁷.

¹⁶ More information can be accessed through: <https://journalsofindia.com/champion-services-sectors/>

¹⁷ India Brand Equity Foundation: Science and Technology

Service Exports from India Scheme (SEIS):

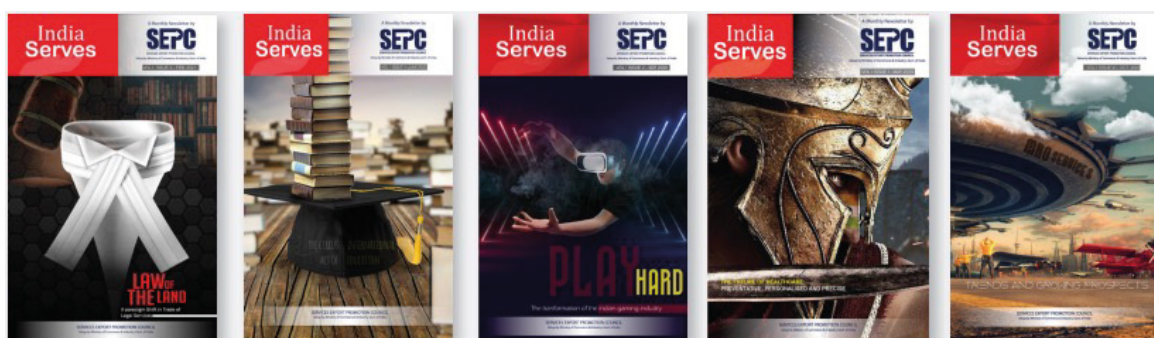
Introduced for the period 2015-2020, this scheme aimed to provide incentives ranging from 3%-5% to service exporters (Mode 1 and Mode 2 only) of India. These incentives were given in the form of duty-free credit scrip. The duty credit scrips issued under SEIS Scheme could be used for payment of various taxes levied on goods and services¹⁸.

Other Incentives:

The SEPC in India has been making several efforts to bridge the gap and connect foreign service importers to India's service exporters. A few initiatives by the council are as follows:

India Serves:

An initiative to build Brand India in Services. "India Serves" is a monthly e-newsletter highlighting different services sectors, along with overseas market information. This is being circulated to all members of SEPC, embassies, ministries and missions relevant to the services sector.



Digital Platform/Portal:

SEPC plans to run a robust portal ensuring global business networking. The portal will work as an interface between foreign buyers and Indian service sellers. It will provide comprehensive information on Indian services exporters, domestic and foreign market regulations, trade flows related information, and all events organized by SEPC including exhibitions, conferences and so on.

¹⁸ The detailed policy document can be accessed through: <http://www.servicesepec.org/wp-content/uploads/2017/12/Foreign-Trade-Policy-Mid-Term-Review.pdf>

Participation in Exhibitions, Webinars and other Events:

Continued participation is being ensured in events which promote India's services sector. For instance, a webinar titled "Tapping Professional Opportunities Abroad" was held on 5th April 2020 where opportunities and challenges in the export of accounting and bookkeeping services were discussed.

Virtual B2B Meetings:

During Covid-19, special efforts were taken to organize virtual meetings for each service sector covering all global markets and regions. Highlights are listed below:

Regions	100+ Countries
CIS	40+ Indian Companies
Africa	250+ Foreign Delegates
ASEAN	700+ Meetings
European	
Latin America	



CHAPTER 8

RECOMMENDATIONS

Recommendations

- Since R&D is an important driver of economic growth, spurring innovation, invention, and progress, Pakistan needs to focus on this sector in specific if it wants to compete with international markets. With companies, governments, universities, nonprofit organizations, and others around the world investing substantially in R&D, this sector seems to have the most potential.
- Services, especially in this sector, require many contacts as part of their production processes. Government policies should aim at reducing business transaction costs and providing a more predictable legal and regulatory environment. This will also improve Pakistan's ease of doing business score.
- With the world moving towards digitalization, Pakistan needs to keep these trends in mind and invest in upgraded technology to become globally competitive and gain a larger market share in the global market. The Pakistani market needs to be made aware of such trends, which will be the first step towards digitization. More webinars and seminars will help increase awareness.
- The government should provide financial support to small and medium-sized accounting firms since accounting and licensed software is expensive. While large accounting firms do not face such issues in this domain, small and medium-sized firms usually do not have the means to access new technologies and software.
- It is vital to inculcate and integrate emerging accounting trends such as Robotics Accounting in educational examinations, as well as, in professional trainings.
- To tackle the country's professional and technical needs, the HEC in Pakistan, universities, and other stakeholders need to collaborate and agree on a curricular update.
- There needs to be a network of education providers to help talent progress alongside technical exams, and a network of employers who not only train the talent, but also provide continuous professional development.
- Career counselling sessions in schools are very important, along with webinars and seminars which increase awareness about the profession and future opportunities that could be availed. The local professional accounting bodies need to interact frequently and devise strategies on promoting the profession of accountancy in Pakistan by embarking on new ideas and making use of appropriate technology. These bodies should play their role in producing more visible opportunities for the prospective students that they must consider accountancy as their career.

- The lack of sufficient knowledge and expertise in existing and emerging services has been a constant hindrance to improving the competitiveness of services in Pakistan. Digital platforms should be used to market and promote Pakistan as the preferred destination for such services and email marketing can be used to target potential clients. Pakistan's trade missions in potential markets should make it a point to increase awareness about Pakistan's high quality accounting services in the international market. Pakistan can arrange conferences, outsourcing expos, exhibitions, and meet ups with international clients to create awareness and give the country an equal footing with its competitors. Services knowledge platforms should be established in the country to fill in the gaps in knowledge.
- As for the restriction on CAs marketing themselves, it is recommended that the amendments proposed to the government be approved, and that CAs be allowed to advertise their services, provided that they maintain the dignity of the profession and that the advertising, publicity, or promotional material is not false, misleading, or deceptive. India's ICAI, which relaxed this restriction, can be a case in point.
- Technology parks for provision of such services are vital, where the required infrastructure is present. The government can even assign an area, building or a complex where all such facilities are provided and businesses can coexist here.
- Domestic regulations and regulatory bodies are frail. These need to be redrafted, to warrant a smooth interaction with global markets which is vital for the supply of services under this sector. Gaps in domestic regulations should be addressed by a gradual adoption and effective implementation of basic internationally recognized regulatory principles such as the OECD good regulatory practices and strengthening capacity at agency levels, including at the provincial level (OECD, 2014).
- Pakistan can also learn from India's other business services sector and work towards building a brand for services.

Annexure

Table 19 List of Interviewees

Sr. No.	Company/Institute	Name of Authorized Representative	Designation
1	ACCA	Sajjeed Aslam	Global Head of Public Sector
2		Assad Hameed Khan	Head of ACCA Pakistan
3	Accounting Bookkeepers	Faisal Siddiqi	Managing Partner
4	Adroit Accountax	Naeem Sargani	Senior Accountant
5	Assad Ali Shah Associates	Assad Ali Shah	Owner, Ex-Managing Partner of Deloitte
6	BDO Ebrahim & Co.	Muhammad Asif Iqbal	Executive Director Quality Control & Risk
7	BNW Accountants	Zeeshan Asim	Management
8	Ernst & Young	Haider Ali Patel	Practice Manager
9	FAMCO Associates (Pvt.) Ltd.	Arif Haider	Tax Partner
10	Hysab Kytub	Hassan Veqar	Consultant
11	ICAP	Sohail Malik	Global Partnerships & Alliances Lead
12	ICMAP	Aamir Ijaz	Director Technical Services
13	Jaffer Business Systems	Veqar Islam	Executive Director
14	Lanop Accountants	Aurangzaib Chawla	Director and CEO
15	Nash Technologies	Rehan Kazmi	Partner & Financial Accountant
16	Pancea Consulting	Noor-ul-Huda Ashraf	CEO
17	Professional Plus	Syed Haseeb-ur-Rehman	Principal Consultant
18	PwC	Farrukh Rehman	Chief Consultant
19	Tayyab & Co. Chartered Accountants	Muhammad Tayyab	Partner, Council Member of ICAP
20	The BPO	Mohsin Iqbal	Business Consultant and Life Coach

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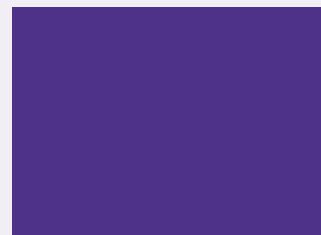
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