

Pakistan-GCC Free Trade Agreement:

Pakistan's Potential Services Trade with the GCC

**Lahore School of Economics
Pak-GCC FTA and Services Trade**

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Introduction

Services have become the backbone of global economy and the most dynamic component of international trade (World Trade Report, 2019). Trade in services sector increased significantly worldwide reaching USD 13.7 Trillion in 2019. Whereas the main contribution was by the developed economies, developing countries also contributed significantly in the global services trade reaching 25 % of world services exports and 34.4 % of world services imports in 2017. The share of Pakistan remains quite low (see figures 1 and 2), despite the fact that trade in services increased considerably in the past decade (figure 3).

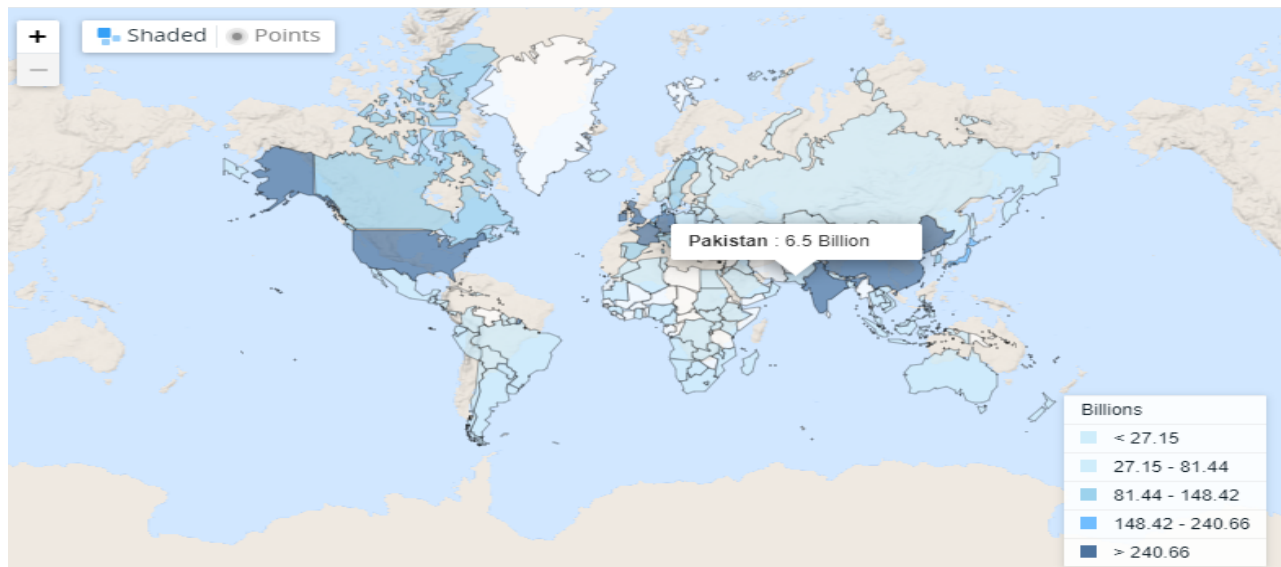


Figure 1: Share of services exports (USD) of various countries (2021). The value of Pakistan has been highlighted.

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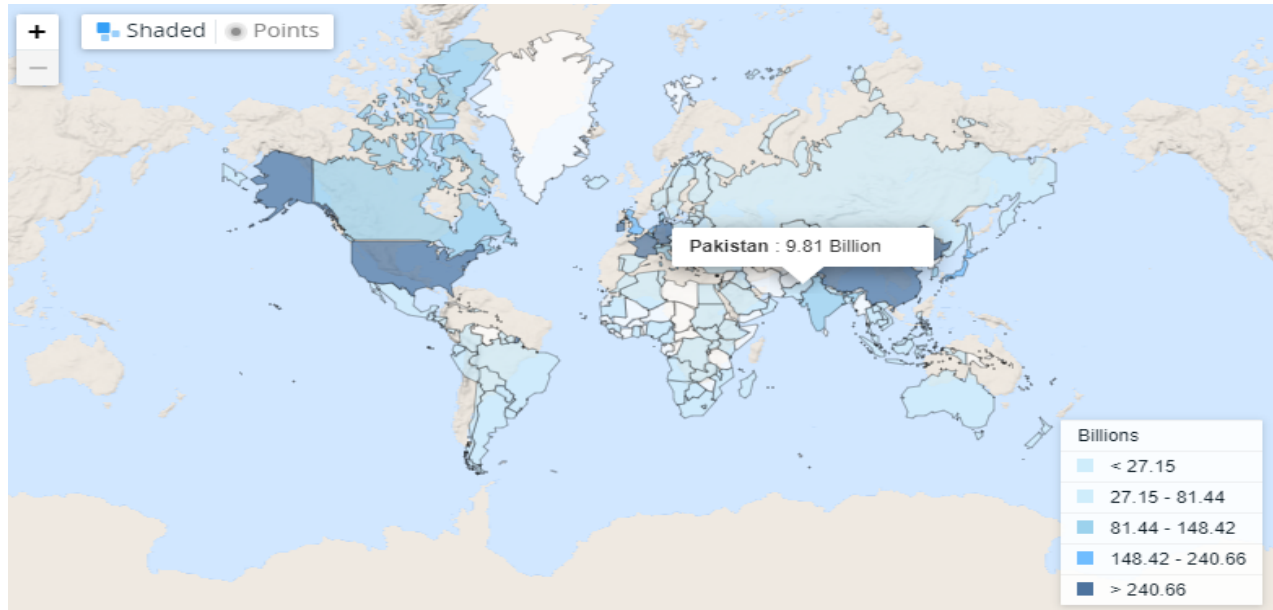


Figure 2: Share of services imports (USD) of various countries (2021). The value of Pakistan has been highlighted.

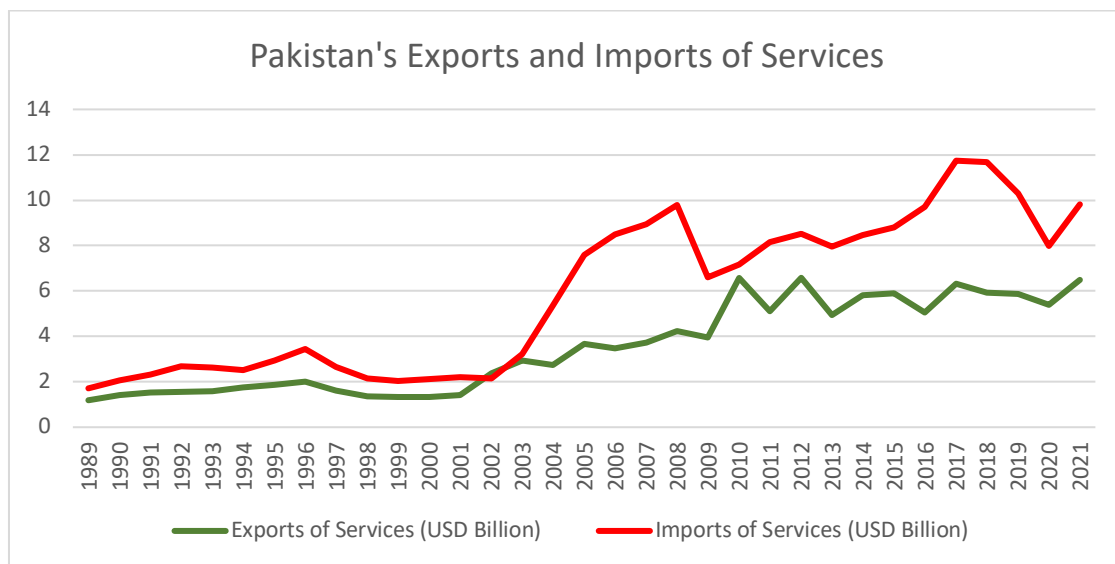


Figure 3: Exports and Imports of services in Pakistan (USD Billion). Source: World Development Indicators

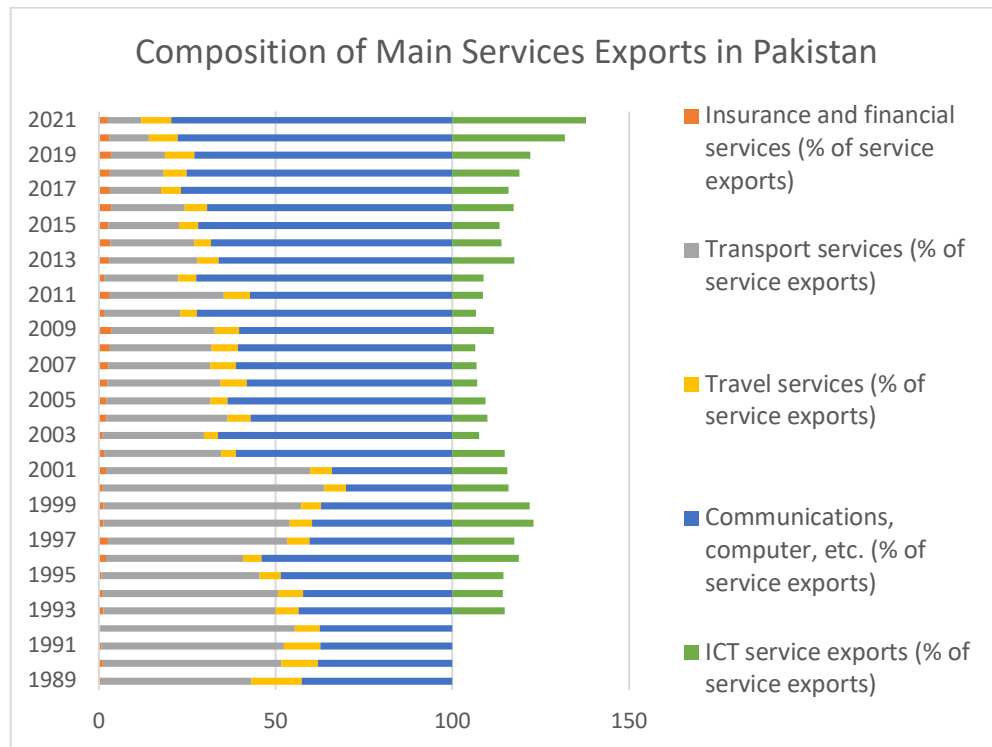


Figure 4: Composition of main services as % of total services exports in Pakistan. Source: World Development Indicators

It can be seen in figure 3 that Pakistan increased its exports and imports of services particularly after 2003 following the services sector liberalization in the Musharraf era. The information and communication technology (ICT) industry received special attention in the reforms. Figure 4 represents the composition of the main services exports in Pakistan over time and it can be witnessed that services exports in the categories of telecommunications and transport have higher proportions, especially the former. Having said that, the presence of consistent and widening trade deficit remained a cause of concern for the policymakers and still continues to remain so. While cutting down the essential services imports may not be the way to move forward, it is imperative that Pakistan can escalate the services exports to address the deficit.

This report explores the potential increase in the services exports and imports if the free trade agreement (FTA) with the Gulf Cooperation Council (GCC) materializes in the future. The report predominantly examines if Pakistan can take advantage of the FTA and deepen its market access in the services sector of GCC given the opportunities and the challenges of the Gulf region. The first part of the report highlights the potential areas where services exports to the GCC can increase. This is followed by highlighting the potential sectors where services imports from the GCC may increase and also addresses the ways and means that government of Pakistan can employ to restrain the services trade deficit.

Sectors where services exports to the GCC States can increase

The services trade between the GCC and Pakistan has been steadily increasing over time but there is a prevalence of consistent trade deficit. Table 1 shows the trade balance of Pakistan in services with GCC member states for the 2016-2020 period. Figure 5 shows that Pakistan services exports to GCC were worth only USD 83.4 Million in fiscal year (FY) 2022. Of these, exports in telecommunications, transport and other business services stood out, particularly to UAE. Pakistan's services trade deficit can be clearly observed in figure 6 which shows that aggregate imports from GCC were USD 241.7 Million for the same time period. Major imports were in the categories of transport followed by other business services.

Table 1: Trade balance of Pakistan in services with GCC member states

PAKISTAN'S TRADE PARTNERS	*ALL VALUES IN US\$, MILLIONS				
	PAKISTAN'S TRADE BALANCE				
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Gulf Cooperation Council (GCC)	-1,128.50	-1,300.28	-1,607.35	-1,648.15	-1,254.56
United Arab Emirates	-675.13	-620.34	-660.33	-807.28	-544.42
Saudi Arabia	-340.18	-474.47	-564.58	-573.18	-460.19
Qatar	-33.67	-105.21	-161.63	-109.35	-115.36
Oman	-15.19	-22.59	-33.96	-83.65	-63.63
Kuwait	-29.79	-40.97	-107.69	-33.52	-35.69
Bahrain	-34.54	-36.70	-79.17	-41.17	-35.27

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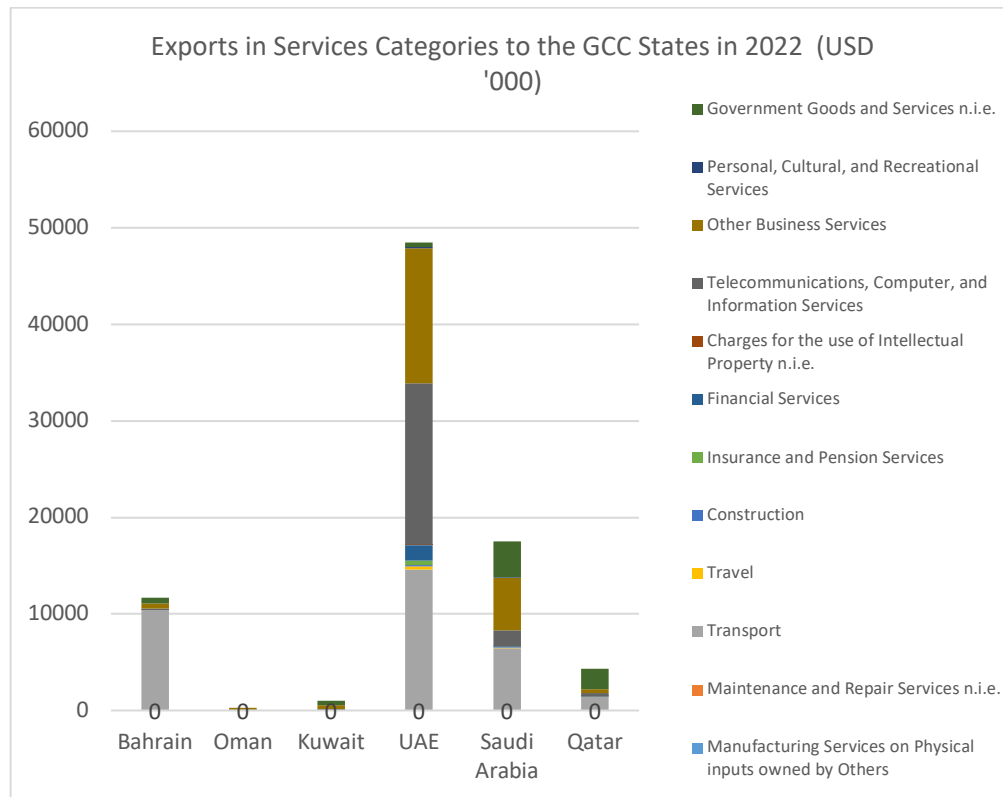


Figure 5: Pakistan exports in services to the GCC (2022). Source: State Bank of Pakistan (Services categories explained in detail in Appendices B and C)¹

Based on this data, we have estimated the intensive margin of export of Pakistan with respect to the GCC. The margin is a theoretical number which reflects the maximum potential increase in the services exports and is calculated by subtracting the current exports of Pakistan to the host region (GCC states in this case) from either the global exports of Pakistan or the global imports of the GCC; whichever value is lower.

We took into account all the six GCC states and then sorted the margins in descending order for the services trade data of FY 2021/22. **The top five service export categories that displayed highest margins were ‘Travel’, ‘Transport’, ‘Telecommunications, Computer, and Information Services’, ‘Other Business Services’, and ‘Government Goods and Services n.i.e.’. Hence, from Pakistan’s current services exports to GCC, the potential increase can take place in the aforementioned categories.**

Furthermore, a report published by the Pakistan Business Council (2021) stated that based on the aggregate growth rate of the services exports categories, Pakistan has the potential of exporting more in the ‘Government goods and services n.i.e’, ‘Telecommunications, computer, & information’ and ‘Construction’ services which have a CAGR of 14.4 %, 17.5 % and 19.1 %

¹ One-digit services categories taken from Extended Balance of Payments (EBOPS) 2010 version

respectively from the FY 2016 to the FY 2020. Higher potential in the IT exports in the Middle East (ME) is also backed up by the Federation of Pakistan Chambers of Commerce and Industry.²

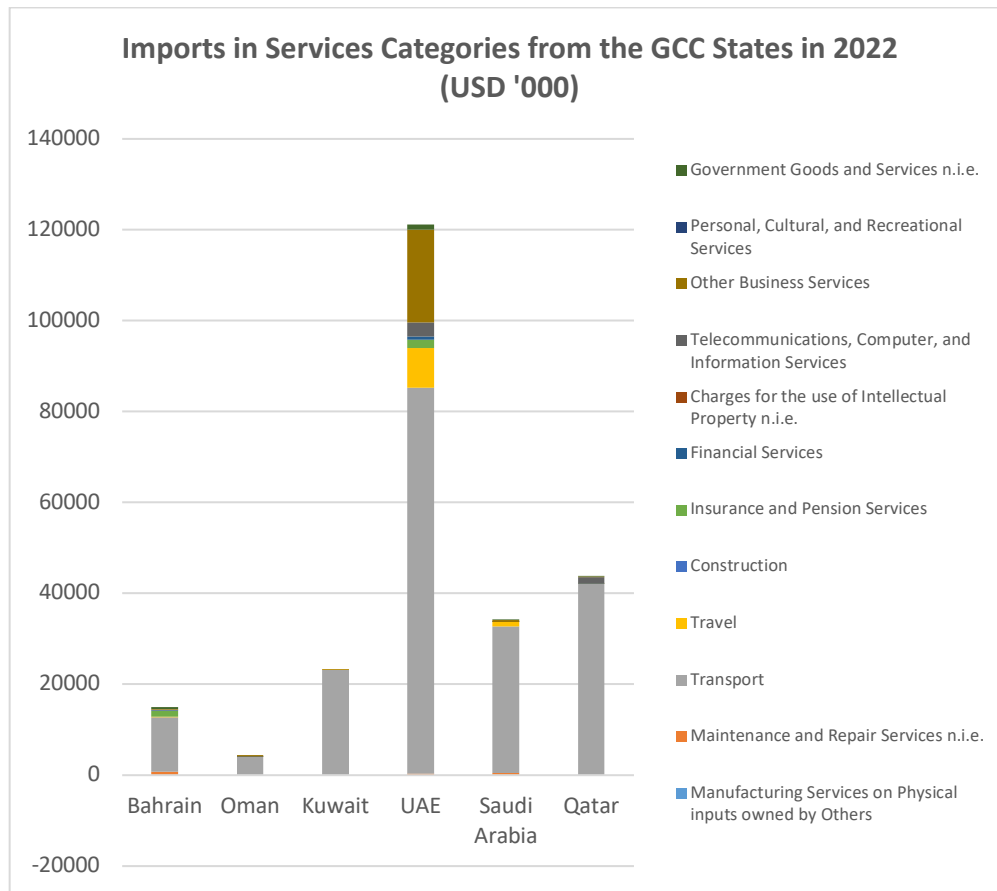


Figure 6: Pakistan services exports to the GCC (2022). Source: State Bank of Pakistan (Services categories explained in detail in Appendices B and C)

All of this reestablishes that the services export categories that can potentially increase the export revenues in the future for Pakistan are ‘Travel’, ‘Transport’, ‘Telecommunications, Computer, and Information Services’, and ‘Other Business Services’.

Other opportunities in the GCC states for higher services exports

The GCC States have laid down their vision for economic growth and transformation for the next decade. It is specified in the Saudi Arabia’s Vision 2030, Kuwait’s Vision 2035, Qatar’s Vision 2030, Oman’s Vision 2040 and Bahrain’s Vision 2030 that all the countries should diversify their exports and reduce their dependency on the exports related to the non-renewable hydrocarbons products. The plans for economic transformation inclusive of major infrastructure projects and booming tourism, especially the recent surge in the sports tourism in Saudi Arabia and Qatar, are

² See <https://tribune.com.pk/story/2366634/pakistan-asked-to-boost-ties-with-me>

making the GCC states as key investment destinations. Such projects are also associated with the provision of modern public transport, and construction of smart cities, etc. in the GCC. **The policymakers in the GCC states need manpower for fulfilling their visions and as the region continues to rely heavily on the expatriate talent, this open doors for construction companies and services in Pakistan to capitalize on the demand of highly qualified engineers and construction supervisors.**

Another services trade category that can potentially increase the export revenues for Pakistan is the field of ICT. PBC stated in their report that the software industry in Pakistan is growing at a fast pace and catering to the domestic market as well as foreign countries' requirements. Pakistan exported about USD 1.0 Billion worth of computers, software and information technology services to USA, UK, EU, South Africa, Japan, Australia, and the Middle East. The ability of Pakistan to produce quality software at competitive costs is based on highly talented pool of IT professionals and software engineers. On the other hand, the demand of the ICT services and adaptation of modern technology in the Gulf region, especially Saudi Arabia, Qatar and Kuwait, is expanding. The GCC countries want to create high-tech knowledge economies, but this requires a level of skills and research facilities that remain in short supply³. The GCC might be able to build a competitive technology ecosystem by importing talent from Asian countries. **They need skilled IT professionals that can provide cyber security, digital payment platforms and other e-commerce services, social networking applications and so on. Pakistan has the capability and capacity to exploit this opportunity and gain market access in the GCC states.**

As part of their strategic visions, the GCC countries also want to improve their education and healthcare facilities. **They need to increase the number of healthcare specialists and the education personnel which can be a promising opportunity for Pakistan so the government may want to train the required professionals to work abroad in the GCC states.** In addition to that, Pakistani companies can establish hyperstores and use that platform to showcase and advertise local products. This also has the potential to increase the outreach in the GCC market and amplify services exports. Pakistan and Saudi Arabia share the common interest in sports such as football and cricket. The government of Pakistan can train and send young players to join the teams there, which can be taken as a services export of manpower based on GATS provisions (Appendix A).

Such factors can only be taken advantage of if the negotiating team can successfully ease the related restrictions and help the firms access the GCC market in the FTA. The opportunities in terms of higher exports in the ICT services, construction services, and healthcare and education services are present but materializing on them depends on the how the negotiation tactics are utilized by Pakistan.

³ See <https://www.brookings.edu/research/economic-diversification-in-the-gulf-time-to-redouble-efforts/#footnote-16>

What may restrict the services exports in the GCC?

GCC governments have liberalized non-GCC investment regimes over time drastically and have also increased the ownership share of the foreign companies (as much as 100 % in Bahrain). Pakistani firms should think about taking advantage of such incentives and establish themselves firmly in the GCC states. The onus of that responsibility falls on the government. Each of the six GCC states may have a Pakistani mission that provides substantial support to the local firms. **This may include, but not restricted to, provision of funds, aggressive marketing strategies, and to facilitate easy registration of large-scale IT companies and establishment of hyperstores.** Failure to do so may act as a hindrance in increasing the potential export revenues from the ICT, health and education services, especially the former in which Pakistan already has a considerable comparative advantage.

As explained above, the GCC states have extensive plans for economic transformation and export diversification in the next decade. They need IT experts, healthcare specialists, engineers, construction supervisors and education personnel for that. Pakistan manpower exports have been significant to the GCC countries. More than 11.1 million Pakistanis have moved abroad for employment since 1971 with more than 96 % traveling to GCC countries. Although there is abundant supply of labor from Pakistan, there is an immediate need to understand the changing skills and demand of labor required in the GCC. **The government of Pakistan may want to set policies that take into account the changing trends and upgrade the skills of the local workforce. Pakistani professionals may also want to observe the international standards and the respective country's social and legal framework. This can aid in addressing the growing demand of skilled labor in the GCC and may also help in gaining market share from competitors such as India and China.**

The provision of e-commerce facilities and efficient transport & logistics go hand in hand. If Pakistani firms can provide digital platforms for online payments of local goods, they may also ensure that the goods are transported on time, making cost-effective transportation imperative. However, that has not been the case in the past because of which Pakistani firms lost their market share to Indian firms in the textile sector. Hence, improving transportation logistics paves way for higher export of online services.

So far, we have pinpointed internal factors that can restrict the potential gain from services exports to the GCC countries. **There are few external factors as well, and the most challenging of them is the future FTA of GCC with EU, UK, China and India.** With respect to the FTA with the EU, negotiations are focused on accessing restrictions in a number of services sectors in some countries—notably banking, telecommunications, and ports, and on government procurement policies. With over 56% of the UK's services exports to GCC⁴ states digitally delivered, the FTA is focusing on an ambitious digital chapter. In the China-GCC FTA, agreements in areas like tourism, telecommunications, renewable energy, smart cities, artificial intelligence, and

⁴ See <https://taxscape.deloitte.com/article/uk-gcc-trade-negotiations.aspx>

technology-oriented businesses are being discussed⁵. Pakistan has competitors worldwide and thus, the negotiating team from Pakistan may want to focus on the cost-effectiveness and the high quality of services exports from Pakistan that can not only benefit the GCC but also help Pakistani firms gain considerable market access there. **As explained in the previous section, another external factor that may restrict the exports of services from Pakistan is the implementation of barriers by the GCC on their services imports. These may include regulatory requirements or lengthy registration procedure or fee, and so on. Apart from addressing the challenge posed by the worldwide competitors, the negotiating team from Pakistan must also negotiate for lowering such barriers by exhibiting the potential gains the GCC can make if they export more services from Pakistan.**

Potential import of services from the GCC by Pakistan

As part of the future FTA with the GCC, we have also examined the sectors where GCC states may increase their exports of services to Pakistan. For the year of 2020, figures 7 to 12 show the services import flows from the six GCC states respectively and are sorted in descending order to analyze the services that are in high demand in Pakistan.

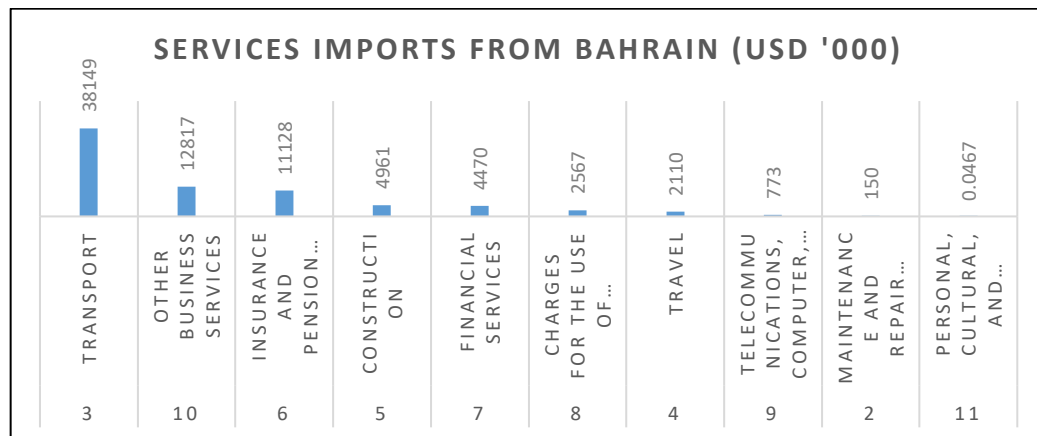


Figure 7: Imports of Pakistan in services categories from Bahrain (USD '000) in 2020. Horizontal axis represent the services categories in EBOPS (2010) version (See Appendix C)

⁵ See <https://www.china-briefing.com/news/china-and-the-gcc-bilateral-trade-and-economic-engagement/>

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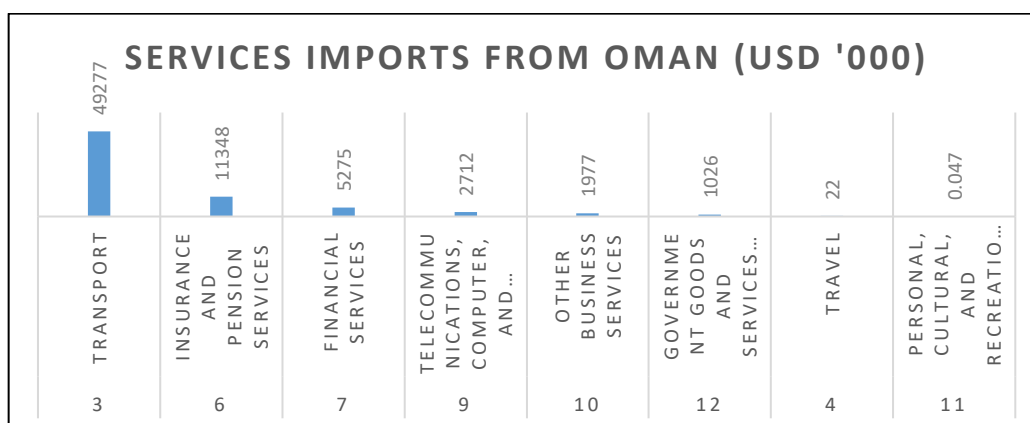


Figure 8: Imports of Pakistan in services categories from Oman (USD '000) in 2020. Horizontal axis represent the services categories in EBOPS (2010) version (See Appendix C)

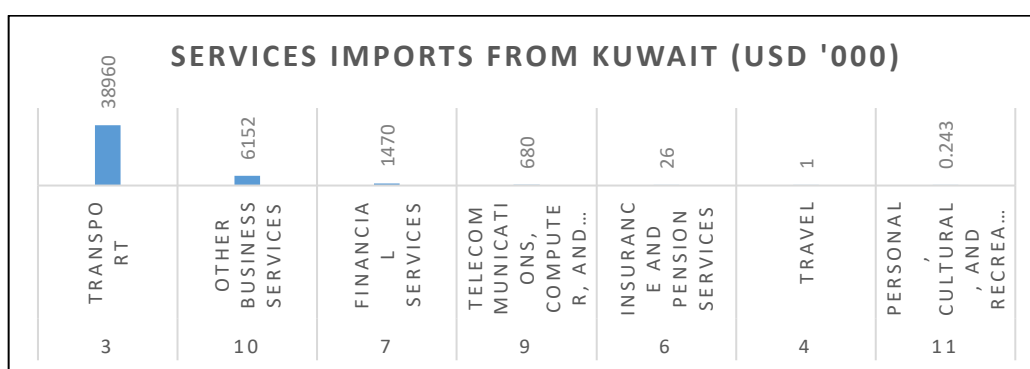


Figure 9: Imports of Pakistan in services categories from Kuwait (USD '000) in 2020. Horizontal axis represent the services categories in EBOPS (2010) version (See Appendix C)

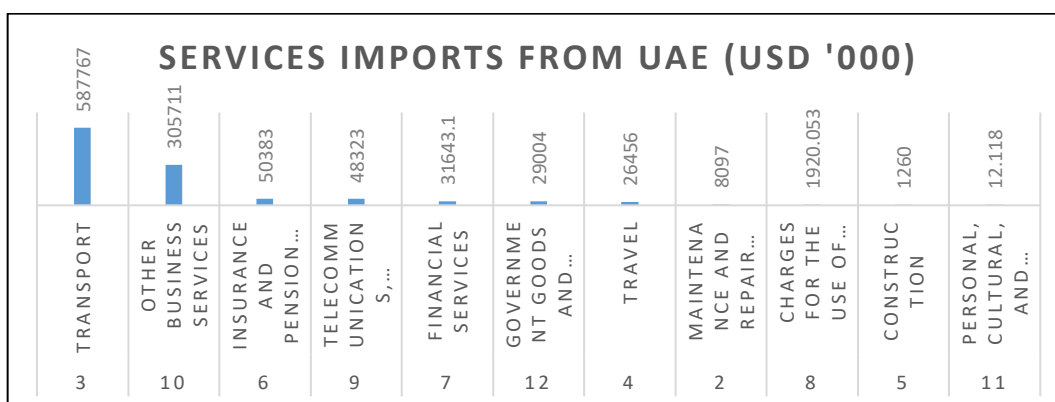


Figure 10: Imports of Pakistan in services categories from UAE (USD '000) in 2020. Horizontal axis represent the services categories in EBOPS (2010) version (See Appendix C)

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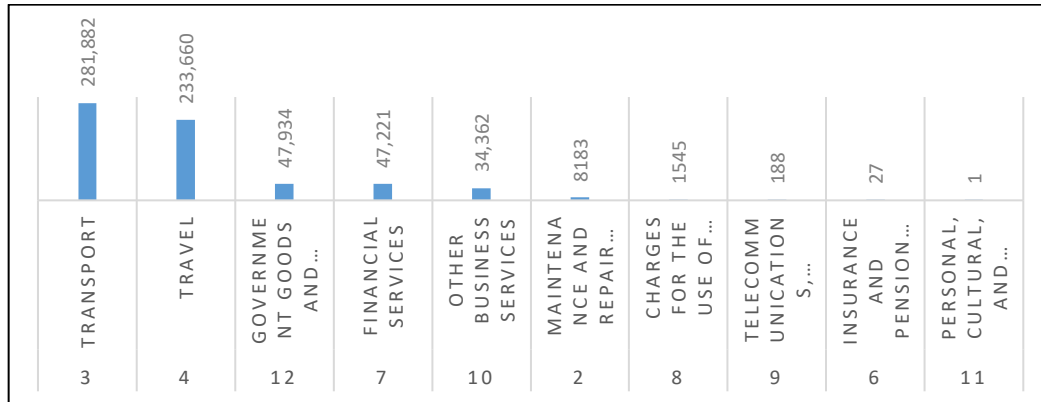


Figure 11: Imports of Pakistan in services categories from Saudi Arabia (USD '000) in 2020. Horizontal axis represent the services categories in EBOPS (2010) version (See Appendix C)



Figure 12: Imports of Pakistan in services categories from Qatar (USD '000) in 2020. Horizontal axis represent the services categories in EBOPS (2010) version (See Appendix C)

The highest import demand is in 'Transport' category followed by 'Business services', 'Insurance and pension services' and 'Travel'. Furthermore, we also replicated the intensive margin of export and used the most recent service import data to compute the intensive margin of import of Pakistan with respect to the GCC states. **Top six services identified were 'transportation', 'travel', 'insurance and pension services', 'telecommunications', 'computer and information services', and 'government goods and services'.** Figure 13 shows the services that Pakistan imports and GCC exports globally. **The right axis represents the value for GCC exports while the left represents the value for Pakistan's imports. It yet again establishes that Pakistan is likely to face higher imports in 'Transport' services where the GCC seem to have the competitive advantage. Apart from that, it can also be seen that Pakistan imports considerable amount in the 'Other Business Services' category from countries other than the GCC.** Since the GCC exports that, the team from the GCC might negotiate for higher market access in Pakistan in that category.

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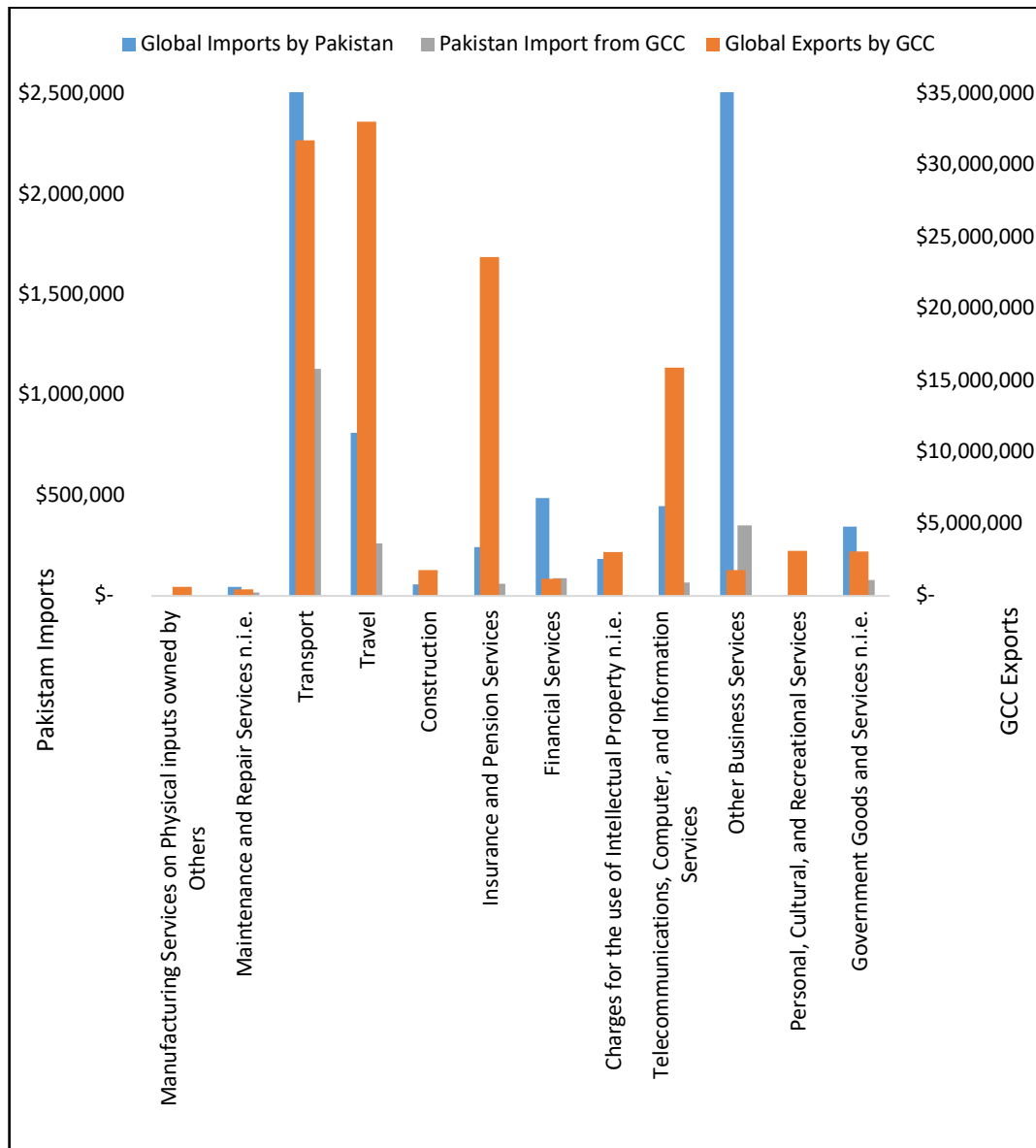


Figure 13: Global imports of services in Pakistan vs. global exports of services by the GCC states. Data is in USD 1000

Other sectors where import of services from the GCC can increase

In 2021, travel and transportation made for one-fourth of all services sold abroad from industrialized economies. From developed economies, the services exports were dominated by business services like insurance, finance, intellectual property, telecommunications, and computers. On the back of the pandemic's high demand, telecommunications, computer, and information services continued to expand. They increased by 19 % globally in 2021, which was more than twice as much as the year before. **Hence, Pakistan can also expect that the GCC will target increased ICT services exports to Pakistan.**

How can Pakistan manage the potential increase in services imports?

Although higher services imports are evident following a Pakistan-GCC FTA, it is important that the government of Pakistan manage the increase in imports for maximizing the impact of the FTA on the local economy. The most frequent tools to manage the level of imports of services according to Lehamann, Tamirisia, and Wieczorek, are:

- price-based measures applied through differential taxes on the transactions of foreign providers;
- licensure requirements;
- regulatory processes that require additional fees.

Nearly all trade tools used for managing service imports are regulatory in nature. When and how foreign providers can enter a market are governed by national regulations, which may include licenses, quotas, requirements for professional qualifications, and immigration laws.

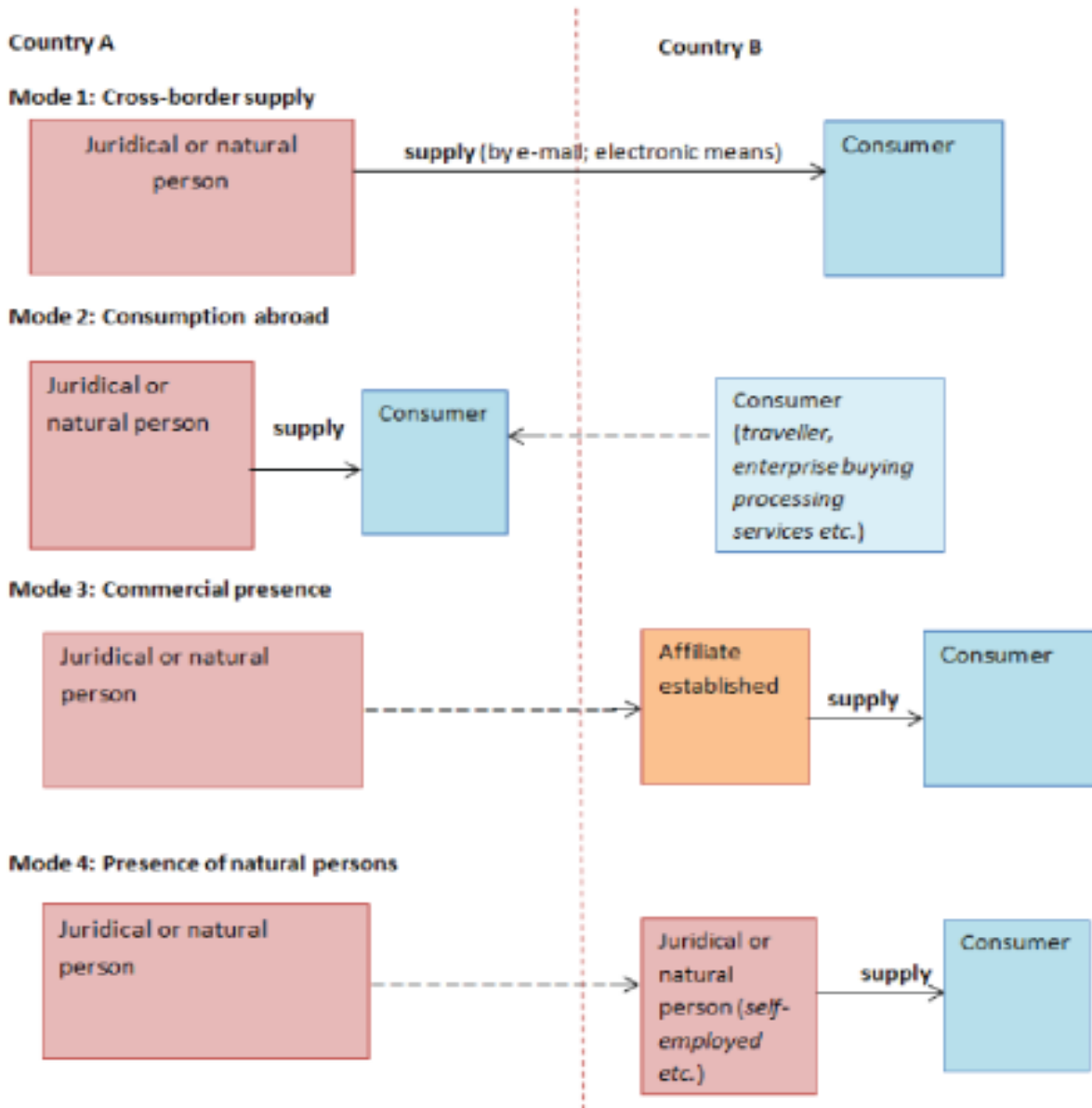
Key recommendations for the Pakistan-GCC FTA

Trade in services has increased significantly over time. In Pakistan, the services exports and imports gained pace after 2003 but a persistent prevalence of services trade deficit has been a cause of concern. There is a need to address this deficit and an FTA with the GCC states in the future could present Pakistan with an opportunity to magnify the services exports. At the same time, Pakistan must also manage the increase in services import so that maximum benefits can be reaped from FTA. Although the ultimate outcome would depend a lot on how the negotiations proceed, we do recommend the following to be key parts of the FTA negotiations:

- The government of Pakistan should explicitly state that Pakistani engineers and construction supervisors are cost-effective and highly qualified which can lead to higher exports of the construction services.
- The government of Pakistan must also showcase high quality and cost-effective cyber security platforms, digital payment platforms, software development and consultancy services in Pakistan that can help in increasing the exports of the ICT services.
- Exploiting the high demand of the healthcare and education services in the GCC by exhibiting that Pakistan has pool of talented workers in these sectors.
- Addressing the challenges presented by the competitor countries, particularly UK, EU, China and India, particularly by exploiting Pakistan's competitive advantage in being cost-effective and in having cultural and religious similarities which would make it easier for the GCC governments to accommodate workers from Pakistan.
- Committing to improving the transportation logistics in Pakistan.
- Providing support to Pakistani firms in marketing their services, giving them the grants needed, and in facilitating registration of the IT firms and hyperstores at a large scale in GCC.
- Increase in imports of services in the categories of 'transport' and 'business services' can be of benefit to Pakistan. However, the government of Pakistan may want to manage this increase in imports by implementing policies such as application of licensing fee or other price-based measures.

Appendix A:

**Simplified description of how services are supplied,
from country A to B**
(based on GATS provisions)



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Appendix B:

<i>Exports of Services</i>	
Category	Details
1. Transportation	Charter of Pak ships with crew Charter of Pak aircrafts with crew Remitt. Rec. by recruit. Agents Earnings of Pak road transport Passage Earnings of Pak air Cos. Freight earnings Others Local disburs. of foreign Shipping/Air Cos.
2. Travel	Official travel Others official travel Commercial travel Non official-Delegation Medical Students Trainees Tourists Pak national Tourists foreign national Religious travel Receipts through Exchange Cos. Others
3. Communications Services	Postal services Courier services Telecommunication services Call centres
4. Construction Services	Construction Services
5. Insurance Services	Treaties and standing open cover - life Surplus funds rec.by Pak ins.Cos.-abroad Rev. surplus funds of f. ins. cos.-life Insurance P & I Club Treaties and standing open cover-marine Refund of Ins. payments-others Other miscellaneous insurance Facultative reinsurance-life Facultative reinsurance-marine Other non-life reinsurance services Services auxiliary to insurance
6. Financial Services	Bank commission and charges Remittances for guarantees involved Others financial services

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	Hardware consultancy services
	Software consultancy services
	Maintenance & repairs of computer
7. Computer and Information Services	Export of Computer Software
	Other computer services
	Earnings of journalists / authors
	Subscription to news papers/periodicals
	News agents and correspondents
8. Royalties and Lisence Fees	Royalties, license fees & trade marks
	Merchanting, & trade related services
	Charter of ships without crew-op.leasing
	Charter of aircrafts without crew--op leasing
	Legal services
	A/c, auditing, & tax consulting Services
	Bus. & manag. Consult.& public relations
	Agency commission
9. Other Business Services	Printing charges of security documents
	Processing and repair fees
	Adv. market research & pub. opinion poll
	Research and development
	Arch., engineering, & technical services
	Agri., mining, & on-site proc. services
	Receipts of security dep. with tenders
	Services in medicine exports
	Misc. other business services, n.i.e.
	Refund
10. Personal, Cultural, Recreational Services	Audiovisual and related services
	Earnings of professional artists
	Other personal, cult. & recreation serv.
	Remitt. Rec. by foreign Missions in Pak.
	Military units and agencies
	Other government services
11. Government Services	Remittances Received by Int. Org.
	Receipt through Central govt.
	Receipts through International bodies
	Earnings of Pak Diplomatic Mission abroad

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Appendix C:

Services Trade Categories (EBOPS 2010)

One-digit Codes EBOPS 2010	Names
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
12	Government Goods and Services n.i.e.