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CG-MTL/Reports/2017

19th June, 2017

Subject: **'Canada's Services Sector - An Overview' – Market Intelligence Report**

Please find enclosed Market Intelligence Report on Services sector of Canada titled 'Canada's Services Sector - An Overview' for information and further necessary action.


19.6.17

(Muhammad Aamer)
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**CANADA'S SERVICES SECTOR:
AN OVERVIEW**

Consulate General of Pakistan, Montreal

June 2017

EXECUTIVE SUMMARY

Globally, the service sector is the largest of the three sectors, the other two are agriculture and industry. It is the largest contributor in world GDP with average of 63.6%. Service trade is identified as a new frontier for enhancing participation in international trade for realizing their development gains for the developing and least developed countries.

2. The service sector of Canada is the largest contributor with 71.5% share in GDP. The Canadian Services imports and exports are C\$126.7 and C\$102.3 billion respectively, in 2015. The major sub-sectors of service include travel, transportation and commercial. To protect the interest of the industry, lobbying etc., almost every sub-sector has associations and many hold trade-shows to promote their businesses. Professional, scientific and technical sector, transportation sector, ICT, tourism, financial sectors contributed significantly in Canadian GDP. Opportunities for Pakistan in the tourism sector have been damned by the strict travel advisory. However, Pakistan's scope in the ICT as well as in the banking sector has recently been transformed.

3. Canada is a member of many international organizations and agreements such as TISA for improving market excess in services. It has also negotiated many bi-lateral and regional FTA's to find new markets, in which services always form a major portion. Being member of WTO GATS, Canada assists developing countries to increase their participation in the services trade.

4. WTO has developed some databases for value addition, which shows that the content of services in exported goods is 45% in the developed economies and around 35% for developing countries.

5. Pakistan services exports are US\$5.46 billion and imports are US\$8.84 billion and has a services share of 59.6% in Pakistan's GDP, with a growth rate of 6% in 2016-2017. Transport, storage and communications, wholesale and retail trade, finance and insurance etc., are the biggest sub-sectors. The Ministry of Commerce and TDAP are the lead organizations and have set up SEDC, SEDF etc., for promotion of services.

6. Pakistan's services trading ranking in Canada is quite low. Pakistan's services exports to Canada were C\$19.3 million and have imports of C\$94.7 million in 2015. Travel and transportation are the major export services to Canada.

ACRONYMS

ATSC	Apparel Textile Sourcing Canada
BPM	Balance of Payment Methodology
DFI	Development Financial Institution
FDI	Foreign Direct Investment
FIPA	Foreign Investment Promotion and Protection Agreements
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariff and Trade
GDP	Gross Domestic Product
HCBC	Habib Canadian Bank
ICT	Information and Communications Technologies
IT	Information Technology
LDC	Least Developed Country
LLDC	Land-Locked Developing Countries
NAICS	North American Industry Classification System
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
PDAC	Prospectors and Developers Association of Canada
PST	Professional, Scientific and Technical
PTDC	Pakistan Tourism Development Corporation
SBP	State Bank of Pakistan
SEDC	Services Export Development Cell
SEDF	Services Export Development Fund
TDAP	Trade Development Authority of Pakistan
TIAC	Tourism Industry Association of Canada
TISA	Trade in Services Agreement
WTO	World Trade Organization

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CHAPTER 1

INTRODUCTION

Ranging from architecture to voice-mail telecommunications and to space transport, services are the largest and most dynamic component of both developed and developing country economies. Important in their own right, they also serve as crucial inputs into the production of most goods. Their inclusion in the Uruguay Round of trade negotiations led to GATS. Since January 2000, they have become the subject of multilateral trade negotiations.

1.1 What is the 'Service Sector'

The service sector produces intangible goods, more precisely services instead of goods, and it is comprised of various service industries including warehousing and truck transportation services; information sector services; commodities, securities and other investment services; professional, technical and scientific services; waste management services; health care and social assistance services; and arts, entertainment and recreation services. Examples of service sector jobs include housekeeping, tours, nursing and teaching. By contrast, individuals employed in the industrial or manufacturing sectors produce tangible goods, such as cars, clothes or equipment. Countries with economies centered around the service sector are considered more advanced than industrial or agricultural economies. In terms of countries that place heavy emphasis on the service sector, the United States, the United Kingdom, Australia and China rank among the top. List of countries with major share of services in their GDP on PPP basis is at Annex-A.

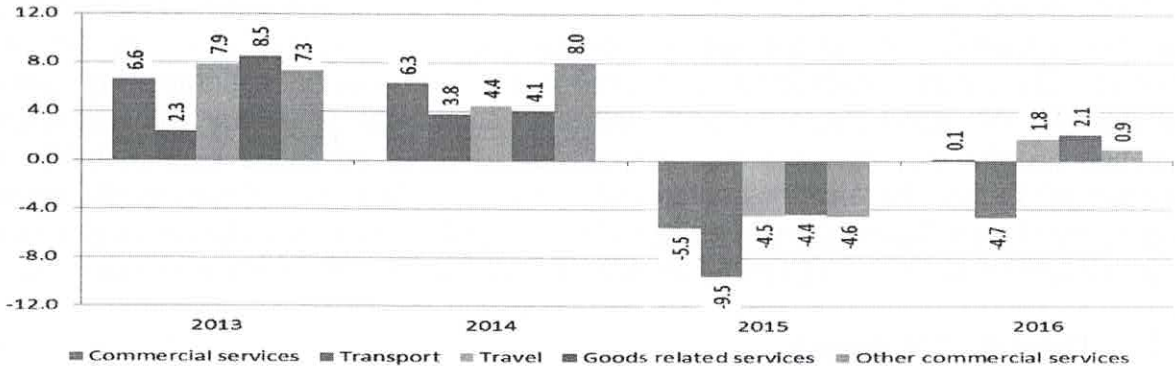
1.2 Three-Part Economy

Also called the tertiary sector, the service sector is the third piece of a three-part economy. The first economic sector, the *primary sector*, covers the farming, mining and agricultural business activities in the economy. The *secondary sector* covers manufacturing and business activities that facilitate the production of tangible goods. The service sector, though classified as the third economic sector, is responsible for the largest portion of the economy's business activity. Businesses in this sector are rapidly placing more focus on what is becoming known as the "knowledge economy," or the ability to surpass competitors by understanding what target customers want and need, and operate in a way that meets those wants and needs quickly with minimal cost.

The wide and deep impact of services on development is affirmed by many studies. Services are becoming crucial in a country's development, including in achieving the Millennium Development Goals, such as poverty reduction and access to basic services, including education, water and health services. The services sector plays an increasingly important role in the global economy and the growth and development of countries.

World Bank has pointed to the higher contribution of growth in the services sector to poverty reduction than the contribution of growth in the agriculture or manufacturing sectors. The services sector, which according to the World Trade Organization (WTO) is the fastest growing sector of the global economy, contributes 63.6% to the global output in 2016. It also accounts for a quarter of the total global trade and employs one third of global employment. It is expanding at a quicker rate than the agriculture and the manufacturing sectors.¹ Moreover, trade in services is growing at a pace faster than trade in goods since the 1980s and in 2011, commercial services exports grew 11% to US\$ 4.1 trillion², 29.8% coming from developing countries and 2.85% from transition economies.³

World commercial services exports were essentially unchanged in 2016 after having fallen 5.5% in value in 2015. Below chart shows growth in the dollar value of commercial services exports since 2013, broken down by major services categories. Total commercial services trade only grew 0.1% in 2016 and transport services fell 4.7%. Other types of services exports saw modest increases including other commercial services, a category that includes financial services.



Asia recorded the largest regional year-on-year increase in services in 2016 on both the export and import sides (0.9% and 2.6%, respectively). Meanwhile, other regions (including Africa, Middle East and the Commonwealth of Independent States) had the largest declines (-0.6% and -7.4%). In general, trade in commercial services tends to be less volatile than merchandise trade.⁴

Trade in services demonstrated relative resilience in the latest financial and economic crises in terms of lower magnitude of decline, less synchronicity across countries and earlier recovery from the crises. Such resilience has led many countries to incorporate services trade into the post-crisis national trade and growth strategies.⁵

¹ World Bank, 2010

² WTO World Trade Report 2012; Data from WTO and UNCTAD Secretariats for commercial services

³ <http://unctad.org/en/Pages/DITC/Services/Global-importance-of-services.aspx>

⁴ wto.org

⁵ UNCTAD Handbook of Statistics 2012

Strengthening the domestic services sector by multiplying its backward and forward linkages with the primary and the secondary sectors as well as its linkage with trade can be an effective component of a comprehensive development strategy.

International trade in services covers tradeables that are intangibles (or trade in intangibles), unlike goods, such as peoples' skills. Services trade is carried out through four modes of supply namely cross-border supply, consumption abroad, commercial presence and presence of a natural person. International trade in services through these modes does not physically cross national border and thus is not affected by customs tariffs and other taxes applied to merchandise trade.

Services trade is affected by domestic regulations in force in the sectors concerned in countries. International trade in services is thus sensitive to behind the border, national regulations that affect the supply of services.

For developing countries and least developed countries (LDCs), service trade is the new frontier for enhancing their participation in international trade and, in turn, realizing development gains. However, positively integrating developing countries, especially LDCs, and Land-Locked Developing Countries (LLDC) into the global services economy and increasing their participation in services trade, particularly in modes and sectors of export interest to them, remains a major development challenge.

CHAPTER 2

CLASSIFICATION OF CANADA SERVICES

The services sector is an important part of the Canadian economy - it employs approximately three Canadians in four. Trade in services is an important and growing contributor to the Canadian economy and the economies of most of their trading partners. In 2015, Canadian services exports were C\$102.3 billion and imports were C\$126.7 billion. Its share in Canadian GDP is 71.5%.

Services are, on balance, more knowledge-intensive than other sectors, and therefore, employ proportionately many more well-educated workers than other industries. For example, jobs in financial and insurance services and professional, scientific, and technical services are knowledge-intensive, and consequently are among the best paid jobs in Canada. Moreover, employment in these sectors is growing at a faster rate than the whole services sector's average.

Though, the classification of services sector includes hundreds of service sub-sectors but only the biggest contributors are discussed in this chapter. The import and export of sub-sectors of services by Canada is at Annex-B and C respectively.

2.1 Professional, Scientific and Technical sector

The professional, scientific and technical (PST) services industry consists of establishments primarily engaged in activities in which human capital is the major input. These establishments make available the knowledge and skills of their employees, often on an assignment basis.

The North American Industry Classification System (NAICS) codes are:

*54 - Professional, Scientific and Technical Services*⁶

- 5411 Legal Services
- 5412 Accounting, Tax Preparation, Bookkeeping and Payroll Services
- 5413 Architectural, Engineering and Related Services
- 5414 Specialized Design Services
- 5415 Computer Systems Design and Related Services
- 5416 Management, Scientific and Technical Consulting Services
- 5417 Scientific Research and Development Services
- 5418 Advertising, Public Relations, and Related Services
- 5419 Other Professional, Scientific and Technical Services

⁶ http://www.ic.gc.ca/eic/site/si-is.nsf/eng/h_ai02289.html

The PST services sector relies on "professional knowledge." Thus, employment is heavily weighted towards high skilled professionals, scientists, engineers, and experts of all types. While some are technology-oriented, others are more involved with administrative, legal and regulatory knowledge.

Professional service firms, led by client demand, are increasingly offering a wider range of services to offer "one stop shopping" and increase profitability. Investments in ICT have enabled some sub-sectors, such as engineering and IT) services, to successfully develop export markets.

Companies are increasingly outsourcing corporate functions (such as IT, legal, and accounting services), generating more work for professional services firms. The basic source of revenue for these professional firms remains hourly billing, but some also bill according to the value of the services they provide. More value billing can be expected as professional service firms become "advisers" rather than just hourly workers.

2.2 Transportation Sector

The transportation sector comprises establishments primarily engaged in transporting and warehousing goods as well as providing logistics services. It includes the four transportation modes (trucking, rail, air and marine) as well as Postal Services, Couriers and Messengers, and Warehousing and Storage. The NAICS codes are: 48 - 49 Transportation and Warehousing.⁷

Demand for transportation, warehousing and logistics services originates from all sectors of the economy and is directly affected by fluctuations in economic activity and trade patterns. Domestic freight moves primarily by truck (70%) and rail (30%). Air and marine modes mostly handle international freight. Trucking is comprised of a significant number of small for-hire carriers and owner-operators, and some medium and large size for-hire companies that operate fleets of trucks and offer comprehensive logistic services. Canadian National and Canadian Pacific Railway are the two main railways that serve the national market, offering services such as intermodal transportation, logistics, and brokerage services. There are also 36 short-line and regional railways operating in Canada.

Four major ports accounted for 99% of international container traffic: Vancouver (54%), Montreal (29%), Halifax (9%) and Prince Rupert (7%). Air transportation is mostly used for moving high value and perishable goods or to rush orders on short notice. Eleven air carriers serve Canada's North, which is highly reliant on air transportation for year round supply. Some of the 26 largest airports in the country handle approximately 90% of all passenger traffic as well as freight. In 2011, air transportation carried 78.4 million passengers and 739,000 tonnes of freight.

⁷ http://www.ic.gc.ca/eic/site/dsib-logi.nsf/eng/h_pj00541.html

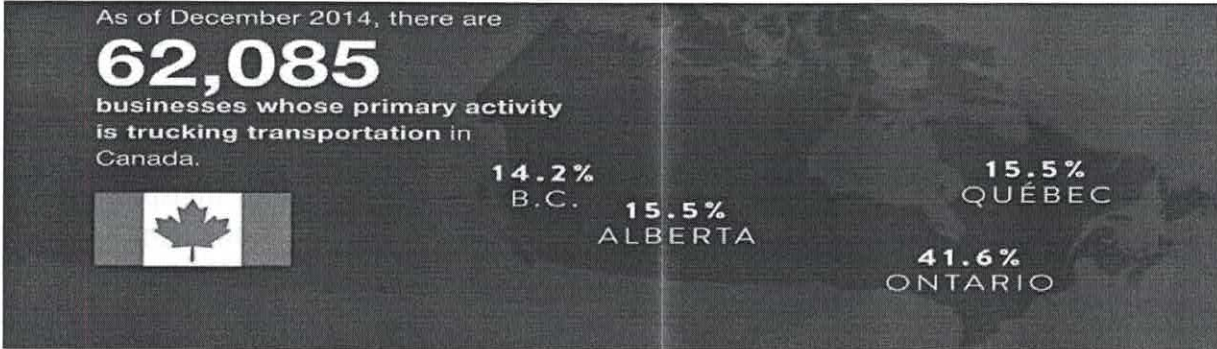
Industries rely on transportation and logistics network to deliver rapid, integrated and secure solutions to leverage their global supply chains. While some firms retain in-house capacity for their transportation and logistics needs, many outsource these services to companies that can provide transportation, warehousing, storage, shipments consolidation, packing, labelling, brokerage, customs clearance and international freight forwarding services.

The ability to respond to manufacturers' just-in-time needs and small shipment requirements, and provide extensive logistics services have distinguished courier firms. Demand for their services have increased as a result of more stringent regulations and security measures for international cargo, as well as growing complexity in managing the supply chain.

Canada is particularly well situated to capture trade opportunities emerging from developing economies and act as a gateway to North America. The country's transportation network is well developed and its services are diversified. The efficiency of the transportation network is complemented by gateways and trade corridors which optimize the competitiveness of the system.

While the United States remains Canada's main trading partner, changing terms of trade with other countries will continue to have a direct impact on demand for transportation, warehousing and logistics services on different trade routes.

The development and adoption of technology is resulting in better efficiency, reliability, sustainability, safety and security for all modes of transportation, warehousing and for logistic activities. Transportation and logistics providers are increasingly adopting advanced technologies and innovative processes to retain their competitive advantage. They are aiming at reducing costs, improving services and decreasing their carbon footprint. Adequate capacity in the country's infrastructure is key to support current and future trade needs. Investments required to upgrade existing infrastructure and to adapt to the ever-growing traffic volume represent a significant challenge for all levels of government.



2.2.1 Transport Associations

Following are some of the major transport associations in Canada:

- Canadian Transportation Agency (CTA)
- Air Transport Association of Canada (ATAC)
- Railway Association of Canada (RAC)
- Canadian Trucking Alliance (CTA)
- Canadian Shipowners Association (CSA)

2.2.2 Transport related Trade Shows

The following trade shows are held for promotion and networking in Canada:

- Cargo Logistics Canada Expo and Conference
- TAC Conference and Exhibition
- ITE- Institute of Transportation Engineers Annual Meeting and Exhibition - Toronto
- ITS World - World Congress and Exhibition on Intelligent Transport Systems and Services

2.3 Information and Communications Technologies

There are over 37,400 companies in the Canadian ICT sector. The large majority (over 33,000) fall within the software and computer services industries. It consists mainly of small companies, with over 32,000 of them employing fewer than 10 people. The number of large companies employing over 500 individuals is relatively small, accounting for approximately 115 firms, including subsidiaries of foreign multinational corporations.

The ICT sector makes a substantial contribution to Canada's GDP. In 2015, the sector's GDP was \$71.3 billion, and accounted for 4.4% of national GDP. ICT sector growth was slightly ahead of the overall economy in 2015. The sector increased by 1.7%, greater than the total Canadian economy (+1.0%). Since 2007, this sector has posted stronger growth than the total economy. On average, annual growth in this sector has been 1.7%, compared to 1.4% for the overall economy. This sector has accounted for 5.2% of Canadian GDP growth since 2007. The software and computer services industries experienced the fastest growth in GDP in 2015, up 5.0%.

The Canadian ICT manufacturing sub-sector relies heavily on the export market. About 87% of ICT products manufactured in Canada were exported in 2015. Canadian exports of ICT goods increased by 10.1% in 2015 to \$11.6 billion. Increases in exports of computer and peripheral equipment (+\$329 million), as well as audio and video equipment (+\$303 million) contributed the most to this growth.

However, between 2007 and 2015, exports of ICT goods dropped by 30.8%. Since 2007, exports of wired communications equipment (-59.6%) fell the most while exports of audio and video equipment (+61.2%) were the only to increase. Over this period, the

share of wired communications equipment in total ICT goods exports dropped by 19 percentage points to 17%.

Although ICT services exports declined in 2015, the long-term trend shows that exports of ICT services are catching up with exports of ICT goods. From 2007 to 2015, exports of software and computer services grew by 22.6%, while exports of communications services increased by 13.7%. However, the increase in exports of ICT services was not large enough to offset the decline in exports of ICT goods. Total exports of ICT goods and services decreased 12.8% over the period.

ICT industries are the largest performers of private sector R&D in Canada. In 2015, the ICT sector held a 29.8% share of all private sector R&D expenditures in Canada. This sector accounts for 3.3% of national employment. Employment increased 4.2% in 2015, amounting to 584,850 jobs. This growth was much faster than that of the overall economy (+0.8%).

The ICT sector is characterized by a knowledge-intensive workforce, with over half of its workers holding a university degree, compared to 28.8% within all Canadian industries. The software and computer services sub-sector employs the largest proportion of university educated workers within the ICT sector (56.8%).

Employees earn on average over C\$73,800 a year. In 2015, these workers earned 49% more than the economy-wide average, with the highest earners coming from the software and computer services industries. Despite being the lowest paid workers in the ICT sector, employees in the electronic component industry still earned 11% more than the national average in 2015.⁸

2.4 Tourism Sector

Tourism is an important aspect of relationship building. Due to the size of the Pakistani population in Canada, bilateral travel is important for business linkages, family connections, and for the economic and cultural/social benefits of tourism.

In 2017, the travel and tourism industry continues to make a real difference to the lives of millions of people by driving growth, creating jobs, reducing poverty and fostering development and tolerance. For the sixth consecutive year, industry growth outperforms that of the global economy, showcasing the industry's resilience in the face of global geopolitical uncertainty and economic volatility.

The industry contributed \$7.6 trillion to the global economy, which was 10.2% of global GDP, and generated 292 million jobs in 2016. International arrivals followed suit, reaching 1.2 billion in 2016, 46 million more than in 2015.

⁸ <https://www.export.gov/article?id=Canada-Information-and-Communications-Technology>

In 2016, the demand for tourism goods and services in Canada accounted for 2.05% of the Canadian GDP representing a gain of 0.06 percentage points over 2015. Canada's tourism sector benefitted from a robust year-over-year increase of 4.2% in tourism spending in 2016 as total tourism expenditures from domestic and international visitors reached \$91.6 billion.

The largest gains in revenues were registered with passenger air transport (+7.0%), accommodation (+5.7%) and food and beverage services (+5.6%). Spurred by an 11.1% growth in overnight arrivals of international visitors to Canada, tourism exports (+10.8%) expanded more than four times as fast as domestic tourism expenditures (+2.5%) in 2016. This generated \$20 billion in revenue from international visitors and representing a 21.8% share of total tourism demand in Canada, the highest share since 2008.

The largest gains in export revenues were reported for food and beverage services (+13.4%), transport services [+10.5%, including passenger air transport (+13.3%), passenger rail transport (+13.5%) and vehicle rental (+9.8%)], travel services (+13.2%) and accommodations (+12.3%).

Domestic tourism expenditures gained 2.5% in 2016, which was primarily driven by passenger rail transport (+5.6%), passenger air transport (+5.4%) and food and beverage services (+3.4%).

In 2016, domestic and export tourism demand in Canada required 721,600 jobs to meet the demand for service delivery. The largest sources of service demand were in the food and beverage industry (228,100 jobs, +3.2% over 2015), accommodation (143,900, +0.9%), recreation and entertainment (67,700 jobs, +1.5%), air transportation (52,800 jobs, +1.7%) and travel services (44,900, +0.3%).

Table 1. Key national tourism indicators for 2014 to 2016

	2014	2015	15/14	2016	16/15
Total Tourism Demand (\$million)	86,483	87,920	1.7%	91,618	4.2%
Domestic Demand (\$million)	69,383	69,857	0.7%	71,606	2.5%
Tourism Export (\$million)	17,100	18,063	5.6%	20,012	10.8%
GDP (\$million)	36,056	36,883	2.3%	38,753	5.1%
Tourism GDP Share	1.94%	1.99%	0.05	2.05%	0.06%
Employment (Jobs)	700.3	708.5	1.2%	721.6	1.8%

Source: Statistics Canada, **National Tourism Indicators** 2016 Q4 Custom Tables, non-seasonally adjusted

2.4.1 Tourism Industry Association of Canada

The Tourism Industry Association of Canada (TIAC) is the private sector advocate for the tourism industry. TIAC promotes tourism in Canada and promotes measures to help the industry grow. As part of this process, TIAC acts as a clearing house of

information on tourism issues, publishing several reports, some available publicly and some available to members only.

2.4.2 Conference Board of Canada

The Conference Board of Canada (CBoC) conducts, publishes, and disseminates research on various topics of interest to Canadians. Best known for its research and analysis of economic trends, the CBoC also conducts research on organizational performance and public policy issues, ranging from health, to security, to governance. Information for applying for a Canadian visa from Pakistan is readily available online. <http://www.vfsglobal.ca/Canada/Pakistan>

Canadian tourism is hindered by the decision of Government of Canada as they deem it unsafe for Canadians to travel to Pakistan, discouraging the few who were interested in travelling for the purpose of tourism. Global Affairs Canada⁹ advises against non-essential travel to Pakistan due to the unpredictable security situation, which includes the threat of terrorist attacks, kidnapping and sectarian violence.

Global Affairs Canada advises against all travel to the following regions:

- areas reporting military or militant activity;
- all border areas, except the Wagah official border crossing point;
- the Kashmir region, including Azad Kashmir and Gilgit-Baltistan;
- the province of Balochistan and its capital city, Quetta;
- the Khyber Pakhtunkhwa province, including Swat, the city of Peshawar and the Khyber Pass; and
- the Federally Administered Tribal Areas (FATA), including Khyber Agency, North Waziristan and South Waziristan.

The Government with the help of the Pakistan Tourism Development Corporation (PTDC) has tried to mitigate these effects in order to increase the inflow of tourists into the country.

There is great potential tourism in Pakistan for tourists from Canada especially the Sikh community residing there as numerous holy places in Pakistan. Pakistan's unique four-seasons tourist destinations offer an opportunity for tourists from all over the world to enjoy their holidays in peaceful environment of their own choice. From the snow-capped mountains of the north to crystal clear beaches in the south, Pakistan is a blend of exclusive culture, arts crafts, music, dances, flora and fauna.

With less than a million foreign tourists visiting the country on an average, Pakistan has been able to improve its ranking by one point in 2017 – currently at 124 out

⁹ <https://travel.gc.ca/destinations/pakistan>

of 136 countries – covered in the Travel and Tourism Competitiveness Index 2017 released by the World Economic Forum. Earlier, the country was ranked 125 out of 141 countries in 2015. Average receipts per arrival have been estimated at \$328.3 million whereas total receipt has been amounted to \$317 million, with travel and tourism competitiveness has a share of 2.8% of GDP.

The worst ranking for Pakistan pointed out by the report was visa requirements where ranking was 135 out of 136 countries. The government’s prioritization of travel and tourism industry was ranked at 132 among the 136 countries surveyed by the report, while the sustainability of travel and tourism industry development got the ranking of 128. Effectiveness of marketing and branding to attract tourists got the ranking of 125. The quality of tourism infrastructure got the ranking of 123 while hotel rooms got ranking of 129. Pakistan has a total of 36 world heritage cultural sites and attractiveness of natural assets scored 127.¹⁰

The following table shows the non-resident travelers from Pakistan to Canada.

Country of residence	2016			2017	
	Nov	Dec	Jan	Feb	Mar
Total non-resident travelers, countries other than U.S.	272,535	433,733	314,308	296,406	326,019
Pakistan	987	1,220	855	877	1,189

2.4.3 Tourism Trade Shows

- Canadian National Exhibition (CNE)
- Travel Trade Canada (Vancouver, Edmonton, Calgary, Toronto, Ottawa, Montreal)
- Vancouver International Travel Expo
- The Outdoor Adventure and Travel Show- Vancouver, Calgary, Montreal
- The Travel and Vacation Show- Ottawa

2.5 Financial Sector

Canada has one of the strongest financial services sectors in the world, comprised of banks, trust and loan companies, insurance companies, credit unions, securities dealers, finance and leasing companies, pension fund managers, mutual fund companies and independent insurance agents and brokers. The Canadian banking system was ranked the soundest in the world by the World Economic Forum for seven years in a row.

The financial services sector has been a strong source of growth for the Canadian economy over the past decade. The sector’s employment, financial results, and international trade and investment performance, have outpaced the average for all other sectors.

¹⁰ <https://www.dawn.com/news/> dated 17th April, 2017

Canada's financial services sector is innovative. According to Statistics Canada's Survey of Innovation and Business Strategy, 73.6% of financial services firms had undertaken some form of innovation in the previous year versus 63.5% for all sectors. Compared with their international peers, Canadian deposit-taking institutions have healthy levels of capital adequacy and liquidity, with high rates of return and low levels of non-performing loans. This contributes to Canada consistently being listed as having the soundest financial system in the world.¹¹

2.5.1 Banking

2016 has been a year of good performance, investment opportunities and expansion – all of which bodes well for the future. According to the World Economic Forum, Canada's banking system is the soundest in the world. The secret to its success comes down to market capitalization. Between 2007 and 2012, the combined market capitalization for Toronto's top-5 banks increased by 30%. This growth far exceeded that of New York's and London's banks (down -57.8% and down -31.9% respectively).¹² Put simply, Canada's banking system is well capitalized, well managed and well regulated. It surpasses the norms set by the Bank for International Settlements by considerable margins. During the 2009 financial crisis, none of Canada's banks failed or required a bailout. In fact, against the odds they continued to lend.

It seems almost certain that there will be a continuation of strong growth across Canada's banking system. Perhaps some of this success can be attributed to a move away from traditional business models within some banks. For example, Scotiabank has adopted a Silicon Valley-style approach to tackling issues, while banks such as Bank of Montreal and Canadian Imperial Bank of Commerce are actively embracing the digital space. With the combination of a banking industry that is in remarkably good shape and an increased focus on digital technology.

There are 80 domestic and foreign banks operating in Canada. There are more than 100 account packages on the market. 99% of Canadians have an account with a financial institution. Canadian consumers enjoy a wide choice of banking services and providers, as well as affordable and accessible services.¹³

And that competition isn't just among traditional deposit-taking institutions. Legislative and regulatory changes beginning in 1980 made it easier for foreign banks to compete in Canada and the new rules allowed for different players to enter the marketplace. As a result of regulatory changes made to the Bank Act over the past thirty years, many more foreign-owned banks have entered the market in recent years to compete with the domestic banks as well as the other foreign banks that have operated in

¹¹ http://www.conferenceboard.ca/press/newsrelease/15-1126/the_financial_services_sector_a_source_of_growth_for_canada_s_economy.aspx

¹² <http://www.investtoronto.ca/InvestAssets/PDF/TFSA-Toronto-Banking-Fact-Sheet.pdf>

¹³ World Bank, Global Findex Database 2014: <http://ow.ly/SfkaL>

Canada for years. For example, HSBC, headquartered in the U.K., established a bank in Canada in 1981.

Banks from all over the world, including China, the United States, India, Korea, the U.K., Japan, the Netherlands and France have operations here. Currently there are more than 21 foreign bank subsidiaries operating in Canada and it's just as easy to do business through one of these subsidiaries as it is at one of Canada's domestic banks.

Habib Canadian Bank is an example of a Pakistani bank operating in Canada. Habib Canadian Bank (HCB), is a wholly owned subsidiary of Habib Bank AG Zurich, began its operations from Mississauga on 22nd March, 2001. HCB is a member of the Canadian Deposit Insurance Corporation. National Bank of Pakistan also has a representative office in Toronto, Canada.

2.5.1.1 Pakistan's banking system

Banking system of Pakistan comprises of 38 Commercial Banks, 10 Microfinance Banks and 8 Development Finance Institutions. The banks / DFIs are operating with a network of 11,911 branches across the country. Pakistani banks have international presence in 36 countries around the globe, in almost all regional territories with 106 branches, 9 subsidiaries and 15 Representative Offices.¹⁴

The financial system of the country is dominated by banking sector with private banks holding around 78% of the total assets of the banking system. Public sector banks and foreign banks hold 20% and 2% share in total assets respectively.

The balance sheet of the banking sector has increased to Rs.9.9 trillion and its financial position is as under: ¹⁵

- Total Equity - \$ 8.4 billion
- Total Liabilities - \$ 89 billion
- Total Assets - \$ 99 billion

The commercial banks listed on stock market posted an after tax profit of \$ 1.18 billion, showing a 9% growth year on year.

Pakistan has been transformed into a country with liberalized Foreign Exchange regime to attract Foreign Direct Investment in the country. Pakistan's investment policy provides complete freedom of investment and repatriation of profits/ dividends / dis-investment proceeds to the foreign investors in line with the overall investment policy of Government of Pakistan. The only requirement of SBP with respect to FDI inflows is the registration of FDI with SBP. A foreign investor is free to repatriate profit / dividend and orderly dis-investment proceeds at any point in time without any approval from Central

¹⁴ <http://boi.gov.pk/Sector/SectorDetail.aspx?sid=9>

¹⁵ <http://boi.gov.pk/Sector/SectorDetail.aspx?sid=9>

Bank. Further, with regard to portfolio investment, foreign investors are allowed to make investment in Pakistani stocks, Government securities and registered corporate debt instruments listed on Stock Exchanges in Pakistan through Special Convertible Rupee Account (SCRA) opened with an Authorized Dealer (bank).

Existing outreach and penetration of financial services is low – 7 branches per 100,000 people and 0.22 branches per 1,000 km and 226 bank accounts per 1,000 adults.

Opportunity of introducing innovative products and innovative banking such as mobile banking should be explored. Equity markets are booming with Karachi stock exchange adjudged best stock market based on risk-adjusted-return.

2.5.2 Insurance Sector

Insurers are key contributors to Canada's economy, mitigating the economic and fiscal effects of a disaster. Insurance enables Canadians who own properties and businesses to recover from losses by absorbing financial risk. By investing in bonds and securities, the P&C insurance industry helps create employment and support growth. More importantly, insurance provides incentives for consumers to reduce their risks.

The P&C insurance industry employed 122,500 people across Canada. Of the \$31.7 billion in claims, insurers paid \$9.8 billion in property losses (includes residential and commercial properties). Canadian insurers paid \$9 billion in taxes and levies to the federal and provincial governments Property loss claims as a percentage of total claims have risen – from 24.4% in 2004 to 30.9% in 2015. Insurers paid out a total of \$31.7 billion in claims to victims of collisions, disasters and other losses in Canada.

Contributing to Canada's Economy Insurers are key contributors to Canada's economy, mitigating the economic and fiscal effects of a disaster. Insurance enables Canadians who own properties and businesses to recover from losses by absorbing financial risk. By investing in bonds and securities, the P&C insurance industry helps create employment and support growth. More importantly, insurance provides incentives for consumers to reduce their risks.

As of 31 December, 2015, the P&C insurance industry's total invested assets amounted to approximately \$115 billion. With the bulk of its portfolio invested in Canadian federal, provincial and municipal bonds, the insurance industry strongly supports the Canadian economy and is far less vulnerable to stock market fluctuations than other industries.

Insurance offers coverage to individuals or companies in the case of a loss being suffered in the future, e.g. damage after a car crash, items stolen from home etc. There are two main categories of insurance: life insurance and non-life insurance. Life insurance means that a specific beneficiary will receive a lump sum in the event of the policyholder's death or terminal illness, whereas non-life insurance covers all other

branches of insurance, including car insurance, property & casualty insurance and homeowner insurance.

In Canada, the largest insurance company in terms of total assets in 2016 was Manulife Financials with C\$697.35 billion. Intact Group held the largest market share of the property and casualty insurance in 2014 with 15.1% of direct premiums written on the Canadian market. The return on investment of property and casualty insurers has fallen since 1990. In 1993, the return on investments was 10.7%, whereas it was only 3.9% in 2014.

Home insurance isn't legally required, but most homeowners invest in it because it prevents having to pay all the costs of home repairs or replacement of items after a fire, robbery, flooding etc. In Ontario, the average monthly insurance cost for houses worth between C\$700k and 1500k was C\$117 in 2016. In 2014, net premiums written for home insurance amounted to C\$9.79 billion.

Auto insurance is required for all drivers, which is the reason for its popularity over other types of insurance. In 2014, auto insurance accounted for 43.4% of all direct premiums written in Canada and the value of direct auto insurance premiums amounted to C\$21.46 billion.¹⁶

Slower consumer spending on big-ticket insurable items, as well as an aging population, will weigh on the outlook for Canadian insurance firms, according to The Conference Board of Canada's first outlook for the insurance industry.

"Canadian insurance providers are facing a number of headwinds," said Michael Burt, Director, Industrial Trends, The Conference Board of Canada. "Discretionary spending on items that require insurance, such as recreational vehicles and vacation properties, is expected to slow amid rising household debt, and weak employment and wage increases. In addition, Canadian life insurance companies face challenges associated with an aging population, including an increase in death benefit claims and shrinking premium collections."

Overall, Canada's insurance industry is forecast to grow by an average of 1.3% annually through 2021.

The insurance industry is also going through significant transformations due to new technological tools. The emergence of big data and improved software are allowing for better risk assessment and pricing models. In addition, tasks such as claims processing are being automated and simple risks are now being calculated automatically reducing the demand for live agents and allowing firms to reduce labour costs. As a result, employment gains in the industry will be limited. However, technological change is also increasing

¹⁶ <https://www.statista.com/topics/3020/insurance-industry-in-canada/>

competition by opening the door for more insurtech start-ups. This should keep price growth below inflation and limit industry profitability.¹⁷

The “Canadian Industrial Outlook: Canada’s Insurance Industry” (<http://www.conferenceboard.ca/e-library/abstract.aspx?did=8685>) will be published two times per year and is available from the Conference Board’s e-Library.

Habib Insurance Company Limited is a Pakistani company that has a presence in Canada.¹⁸

Toronto is Canada's largest financial services hub; more than 30% of all financial services headquarters are located in Toronto.

The Toronto Financial Services Alliance (TFSA) is a public private partnership created by the City of Toronto in 2001 to enhance and promote the competitiveness of Toronto as a premier global financial services centre.

Other key industry associations include:

- Association of Canadian Pension Management
- Alternative Investment Management Association
- Insurance Bureau of Canada
- Canadian Bankers Association
- Canadian ETF Association
- Canadian Finance & Leasing Association
- Canadian Life & Health Insurance Association
- Canadian Venture Capital and Private Equity Association
- Financial Advisors Association of Canada Advocis
- Investment Industry Association of Canada
- Investment Funds Institute of Canada
- Mutual Fund Dealers Association of Canada
- Pension Investment Association of Canada
- Portfolio Management Association of Canada

2.6 Service Sector Associations

Apart from above major sectors, following associations takes care of other sectors which also contribute substantially in Canadian GDP:

- Association of Consulting Engineering Companies (ACEC)
- Chartered Professional Accountants Canada (CPA)

¹⁷ http://www.conferenceboard.ca/press/newsrelease/17-03-06/limited_growth_prospects_for_canada_s_insurance_industry.aspx

¹⁸ <http://www.habibinsurance.net/website/#>

- Certified General Accountants Association of Canada (CGA-Canada)
- The Canadian Bar Association (CBA)
- Architecture Canada | Royal Architectural Institute of Canada (RAIC)
- Canadian Association of Management Consultants (CMC-Canada)
- Association of Canadian Industrial Designers (ACID)

CHAPTER 3

AGREEMENTS LINKED TO TRADE IN SERVICES

Canada has been a member of various international organizations and agreements which either are services specific or has binding commitments in services. Some of such agreements are stated hereunder:

3.1 Trade in Services Agreement¹⁹

The Trade in Services Agreement (TISA) is a services-trade only agreement currently being negotiated by 23 Members of the World Trade Organization (WTO), including Canada. The negotiations were launched in March 2013 by a group of like-minded countries to further liberalize trade in services by developing new and enhanced disciplines and to improve market access. Although the TISA negotiations are being conducted outside the WTO framework, Parties are building upon the WTO's General Agreement on Trade in Services (GATS) with the objective of transforming it to a WTO agreement by broadening participation to all WTO Members.

TISA Parties represent an enormous services market of almost two-thirds of the world's economy with more than 1.6 billion people and a combined GDP of nearly \$50 trillion in 2015. The 23 Members of the WTO participating in the TISA negotiations (i.e. the Parties) are: Australia, Canada, Chile, Chinese Taipei, Colombia, Costa Rica, the European Union, Hong Kong (China), Iceland, Israel, Japan, Liechtenstein, Mauritius, Mexico, New Zealand, Norway, Pakistan, Panama, Peru, South Korea, Switzerland, Turkey, and the United States.

The objective of the TISA is to strengthen rules and improve market access for trade in services. More precisely, the agreement being negotiated between the Parties addresses discriminatory barriers to cross-border trade in services, provides a more predictable investment environment for service suppliers, and improves the mobility of services providers. Negotiating Parties are considering proposals related to transparency, domestic regulation, financial services, telecommunications, electronic commerce, movement of natural persons, international maritime services, air transport services, state-owned enterprises, and express delivery services, among others.

Canada holds a significant interest in the TISA negotiations, as it represents an opportunity to address market access issues (e.g. limits on the number of service suppliers or transactions, discrimination against foreign service suppliers, etc.) with many important trading partners. The TISA will promote the use of good regulatory practices, based on objective and transparent criteria, which supports the interests and competitiveness of Canadian service suppliers. Combined, these objectives aim to provide benefits to

¹⁹ <http://www.international.gc.ca/trade-agreements-accords-commerciaux/topics-domaines/services/tisa-acs.aspx?lang=eng>

Canadian consumers by stimulating healthy competition in the Canadian marketplace and by improving businesses opportunities for a wide range of Canadian companies, both small and large.

The TISA is also supportive of Canada's progressive approach to trade as it has the potential to contribute to greater innovation in the services industry and to support inclusive growth through the benefits that could flow to small-and-medium-sized services suppliers, including those in the environmental services sector. To help promote more inclusive participation, Canada has proposed an innovative provision to ensure that measures relating to licensing and qualification requirements and procedures do not discriminate on the basis of gender.

In the context of the TISA market access negotiations, Canada is pursuing improved commitments from all TISA Parties to address Canadian interests in key sectors, including:

- Professional services (legal, architectural, engineering)
- Environmental services
- Information and communication technology (ICT) services
- Financial services

Additionally, Canada is a strong advocate for increased transparency in trade in services. It is seeking commitments from all Parties to publish proposed laws and regulations in advance and to provide interested parties with an opportunity to comment on such proposed laws and regulations. Canada is also pursuing rules for domestic regulation to ensure transparency and objectivity for licensing and qualification requirements for certain services, while respecting and retaining each Party's right to regulate in the public interest.

TISA Market Snapshot

TISA Parties total GDP: CA\$61,329.2 billion (2015)

TISA Parties % of world GDP: 65% (2015)

TISA Parties total population: 1.621 billion (2015)

Canada services exports: CA\$102.3 billion (2015)

Canada % services exports: 16.3% of Canada's total export (2015)

Canada services exports to top 5 TISA Parties*: CA\$79,1 billion (2015)

Canada % services exports to top 5 TISA Parties*: 77% of total services export (2015)

*U.S., EU, Switzerland, Australia, Hong Kong

3.2 Bilateral & Regional Free Trade Agreements²⁰

Services are an important and growing part of the Canadian economy. Although Canada is already a significant services exporter in several sectors, it has much potential to grow. Therefore, trade in services is often included in the Free Trade Agreements negotiated by the Canadian government in order to provide more market access and legal stability, and therefore helping Canadian companies to expand and sell their services in new markets. The chapters that refer to trade in services in Canadian FTAs are: Cross-Border Trade in Services, Telecommunications, Financial Services, Temporary Entry for Business Persons, and Electronic Commerce.

Canada's FTA, FIPA, plurilateral agreements and WTO agreements with Pakistan

Agreement Title	Agreement Type	Status	In Force
Trade in Services Agreement (TISA)	Plurilateral Agreement	Negotiations	No
Canada-Pakistan Foreign Investment Promotion and Protection Agreement	FIPA	Negotiations	No
World Trade Organization Agreement on Trade Facilitation (TFA)	WTO Agreement	Concluded negotiations	No
Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)	WTO Agreement	In force	1-1-1995
Agreement on Trade-related Investment Measures (TRIMS)	WTO Agreement	In force	1-1-1995
General Agreement on Tariffs and Trade 1994 (GATT)	WTO Agreement	In force	1-1-1995
General Agreement on Trade in Services (GATS)	WTO Agreement	In force	1-1-1995

3.3 WTO General Agreement on Trade in Services²¹

The GATS is the first multilateral agreement covering trade in services. It was negotiated during the last round of multilateral trade negotiations, called the Uruguay Round, and came into force in 1995. The GATS provides a framework of rules governing services trade, establishes a mechanism for countries to make commitments to liberalize trade in services and provides a mechanism for resolving disputes between countries.

Similar in principle to the GATT, which deals with trade in goods, the GATS has two primary objectives: first, to ensure that all signatories are treated equitably when

²⁰ <http://www.international.gc.ca/trade-agreements-accords-commerciaux/topics-domaines/services/index.aspx?lang=eng>

²¹ <http://www.international.gc.ca/trade-agreements-accords-commerciaux/wto-omc/gats-agcs/index.aspx?lang=eng>

accessing foreign markets; and second, to promote progressive liberalization of trade in services (over time, eliminating trade barriers to enable further participation in one another's markets).

While services currently account for over 63% of global production and employment, they represent no more than 20% of total trade (BOP basis). This — seemingly modest — share should not be underestimated, however. Many services, which have long been considered genuine domestic activities, have increasingly become internationally mobile. This trend is likely to continue, owing to the introduction of new transmission technologies (e.g. electronic banking, tele-health or tele-education services), the opening up in many countries of long-entrenched monopolies (e.g. voice telephony and postal services), and regulatory reforms in hitherto tightly regulated sectors such as transport. Combined with changing consumer preferences, such technical and regulatory innovations have enhanced the “tradability” of services and, thus, created a need for multilateral disciplines.

All WTO Members, some 140 economies at present, are at the same time Members of the GATS and, to varying degrees, have assumed commitments in individual service sectors.

3.3.1 Four Modes of Services in GATS

The GATS distinguishes between four modes of supplying services: cross-border trade, consumption abroad, commercial presence, and presence of natural persons.²²

- Cross-border supply is defined to cover services flows from the territory of one Member into the territory of another Member (e.g. banking or architectural services transmitted via telecommunications or mail);
- Consumption abroad refers to situations where a service consumer (e.g. tourist or patient) moves into another Member's territory to obtain a service;
- Commercial presence implies that a service supplier of one Member establishes a territorial presence, including through ownership or lease of premises, in another Member's territory to provide a service (e.g. domestic subsidiaries of foreign insurance companies or hotel chains); and
- Presence of natural persons consists of persons of one Member entering the territory of another Member to supply a service (e.g. accountants, doctors or teachers). The Annex on Movement of Natural Persons specifies, however, that Members remain free to operate measures regarding citizenship, residence or access to the employment market on a permanent basis.

²² https://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm#4

Developing country interests have inspired both the general structure of the Agreement as well as individual Articles. These requires Members to negotiate specific commitments relating to the strengthening of developing countries' domestic services capacity; the improvement of developing countries' access to distribution channels and information networks; and the liberalization of market access in areas of export interest to these countries.

While the notion of progressive liberalization is one of the basic tenets of the GATS, Article XIX provides that liberalization takes place with due respect for national policy objectives and Members' development levels, both overall and in individual sectors. Developing countries are thus given flexibility for opening fewer sectors, liberalizing fewer types of transactions, and progressively extending market access in line with their development situation. Other provisions ensure that developing countries have more flexibility in pursuing economic integration policies, maintaining restrictions on balance of payments grounds, and determining access to and use of their telecommunications transport networks and services. In addition, developing countries are entitled to receive technical assistance from the WTO Secretariat.

3.4 Information for Developing Country Services Suppliers

Canada's on-line GATS contact point is an initiative aimed at providing information on the Canadian services market that will help developing country service suppliers sell their services in Canada. A key objective of the GATS, and one that is strongly shared by Canada, is to increase the participation of developing countries in world services trade. Article IV of the GATS agreement calls on developed country WTO members to establish contact points to facilitate the access of developing country Members' service suppliers to information related to their respective markets concerning:

- commercial and technical aspects of the supply of services;
- registration, recognition and obtaining of professional qualifications, and;
- the availability of services technology.

Canada's online GATS contact point provides an avenue through which developing country service suppliers can obtain this information quickly and accurately.

CHAPTER 4

SERVICES SECTOR – WTO, GATS AND PAKISTAN

This section highlights and discusses the modes of services, their measurement, services sector in Pakistan and GATS commitments besides some issues hampering progress in our expansion of services sector in Canada as opposed to goods trade.

4.1 WTO

The increasing importance of services sector in the global value chain has created challenges for policymakers to understand its role and enable policy to support competitiveness of national firms. One of the biggest challenges is statistics of the services sector which are difficult to measure.

Countries usually measure trade in services through the balance of payment maintained by the central banks. However, the content of the domestic services in the goods manufacturing for export is difficult to quantify.

The WTO Secretariat in collaboration with OECD has developed Trade in 'Value Added Database' that sheds some light on the content of services in trade in goods.

In the developed economies, the value addition or content of the services in exported goods is as much as 45%. For developing countries, this averages around 35%. However, for some developing countries such as India and China, the value addition done by services in the exported goods is around 50%.

This trend where services sector, domestic and imported, being a significant enabler in the manufacturing and production of goods, has led to the servicification of manufacturing and reclassification of industrial activities such as purchase, production, marketing, sales and customer relationship.

Several scholars consider the servicification of manufacturing as a "game changer" where the research has shown sufficient empirical evidence that share of services in the industrial output has doubled in the last decade for the developed countries. It means that countries that have placed restrictions on the import of services have undermined the capacity of their national manufacturing firms in exporting goods.

We can thus conclude that manufacturing and export of goods is dependent on the availability of competitive services both domestic and foreign. The scholarship on the subject has sufficient empirical evidence that just by reducing import tariff are not sufficient for export competitiveness. There is also need to liberalize and open services sector to be able to create opportunities for national firms competing globally.

4.1.1 Measurement of 4 Modes

International service trade transactions are measured by countries' respective Central banks using the standard Balance of Payment Methodology 5 (BPM 5) developed by the IMF.

Service trade is not measured according to the 4 modes of supply but we can use indicators: – Mode 1: Cross Border Supply – BPM 5 – Mode 2: Consumption abroad – BPM 5 – Mode 3: Commercial presence – FDI Statistics – Mode 4: Movement of natural person– Remittance Statistics

Many gaps exist regarding the availability of Service trade data. Unlike HS codes for trade in goods, there is no harmonized system internationally for the identification of Service sectors with countries applying different definitions for Service sectors. UN is developing a manual which standardizes the record of Service trade. UN has also developed a Service Statistics Database based on data gathered from country Central Banks. (This data is also available on Trade Map). Even then there are serious gaps in the data: It only covers Mode1 and Mode 2 (tourism, foreign students, foreign patients).

Mode1-2 Since 2002 the major service export category for Pakistan is Government Services accounting for 42% of total Service Exports.

In this category, the majority share is for Military Units & agencies which can be ascribed to disbursements related to the War on Terror. Transportation Accounts for 28.7% of Total Service Exports. Other Business Services account for 12% of total Service Exports.

4.2 Pakistan

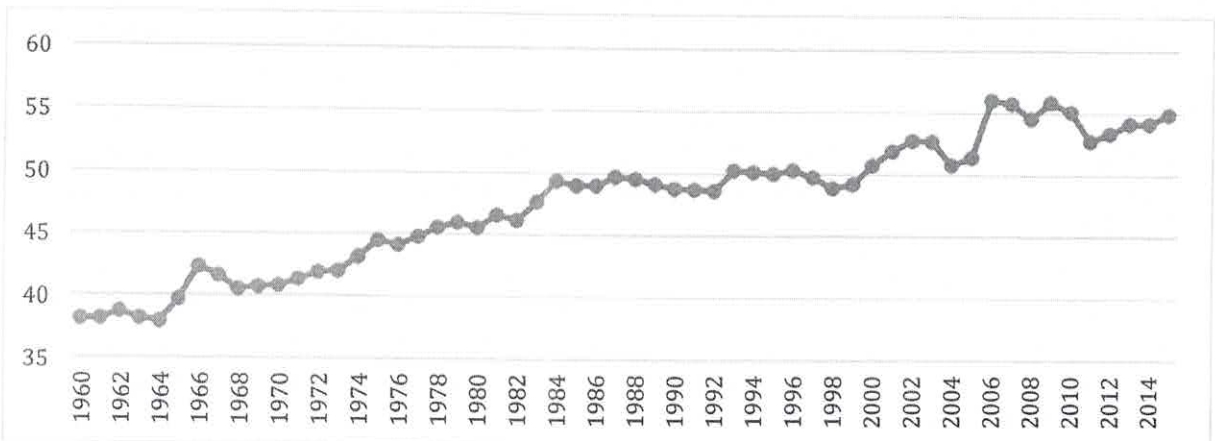
Pakistan's exports of services are \$5.46 billion in 2015-2016 as compared to \$5.88 billion last year 2014-15-2010 showing a decline of 7.1%. Import figures of services for current year are \$7.87 billion whereas in the last year 2014-15 were \$8.84 billion with a decline of 11%.²³ In the current year 2016-17, share of services has accelerated to 59.6% with growth rate of 6% (Annex-E).

Services sector has six sub-sectors including: Transport, Storage and Communication; Wholesale and Retail Trade; Finance and Insurance; Housing Services (Ownership of Dwellings); General Government Services (Public Administration and Defense); and Other Private Services (Social Services). In Pakistan services sector also has a great potential to grow and the government is making best efforts to provide enabling environment to economic agents to tap its potential. Pakistan's GDP grew at the rate of 5.3%.

²³ Pakistan Bureau of Statistics

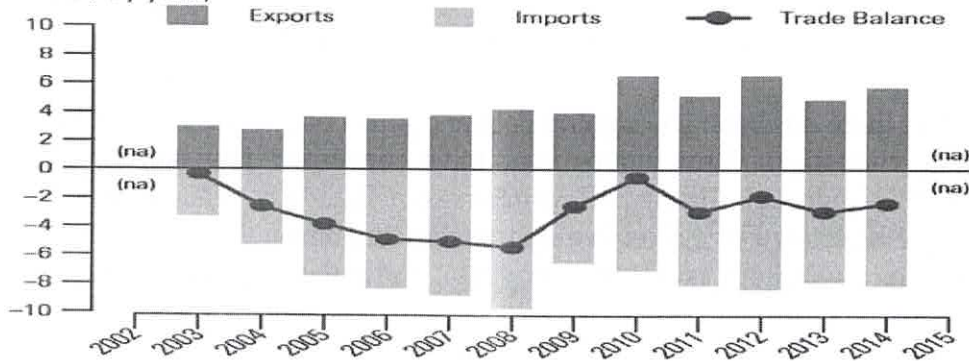
Export of services increased by 0.64% during July-April FY2017 of which travel, construction, insurance, telecommunication, computer and information services and other business services sectors showed positive growth.

Wholesale and Retail Trade Sector contributes 18.5% in GDP and is also the largest subsector of the services having share of 31.1% in the services sector. Wholesale and Retail Trade recorded a growth of 6.8% against the target of 5.5%, whereas it grew at 4.2% last year. Transport, Storage and Communication having a contribution of 13.3% in the GDP and has a share of 22.3% in services sector; moreover, directly and indirectly it plays an important role in improvement of economic activities in all sectors of the economy. The transport, storage and communication registered a growth of 3.9% as compared to 4.8% last year.²⁴



Source: World Bank Datafiles

Graph 2: Total services trade, by value
(Bln US\$ by year)



Recognizing the export potential of the services sector, the Ministry of Commerce has set up a National Steering Committee to devise a long-term strategy for improving Pakistan’s export of services. The Ministry of Commerce has established the Services

²⁴ Economic Survey of Pakistan 2016-17

Trade Development Council, which is preparing a Strategic Policy Framework for Trade in Services to give a major boost to the export of services.

The Ministry of Commerce has set up a National Steering Committee to devise a long-term Strategy for significantly improving Pakistan's export of Services. Recently established Services Export Development Cell (SEDC) is working with all the stakeholders to address core issues and devise comprehensive strategies for each sector.

SEDC of TDAP would be the lead department, having the primary responsibility, for promotion of trade in services. SEDC has identified 5 priority sectors for Service exports: – Financial Services – Construction & Architectural Services – Professional Services – Health & Medical Services – Information Technology. To help services sector grow and expand, a Services Export Development Fund is being established to aid in the form of reimbursable grants to Pakistan services exporters for tendering or negotiating for international projects and for conducting pre-feasibility or feasibility studies for international projects. [STPF 2009-12]. The International Trade Centre has also conducted two studies on services sector in Pakistan under the EU-funded Trade Related Technical Assistance Programme: “(i). Services capacity in Pakistan, (ii). National Services Export Roadmap”.

In Pakistan, sector also has strong backward and forward linkages with other sectors of the economy and contributes significantly to the cross-border trade. It complements the production process and is considered the glue that binds the various segment and components of the finished goods.

In the production process, services can be found at various stages from the inception to the final consumption. As the production process shows increasing fragmentation, the services sector is also scattered globally where advancement in information technology and communications have made it mobile and cost effective.

In Pakistan, there has been an ongoing debate on the competitiveness of local firms where increasing challenges from competitors have prevented Pakistan to realize its export potential. It is important for the policymakers to realize that global competitiveness is achieved not by defensive or protective approaches but through aggressive and bold steps by liberalizing trade (both goods and services), particularly in Mode 3 and 4 of the supply of services.

This would require Pakistan to facilitate foreign direct investment and take measures for ease of doing business. Pakistan would also be required to liberalize visa regime and work permits so that professional from abroad can visit Pakistan and render professional services for national firms.

Every year, the World Bank publishes the ‘Ease of Doing Business Index’ that ranks countries as per business-friendly environment. This ranking is an important barometer used by public and private sectors globally to make economic and investment

decisions. In 2014, the ranking of Pakistan slipped from 106 to 110 in the list of 189 countries. This does not hold well for attracting FDI and should be a cause concern for the policy makers.

4.2.1 Pakistan GATS commitments

In the Uruguay Round, Pakistan made commitments in six sectors, namely business services, financial services, communication services, health and related services, construction and related engineering services, and tourism and travel related services. A total of 42 sub-sectors were scheduled with limitations. New commitments have been proposed in business services, distribution services, educational services, and environmental services sectors. In business services, commitments are proposed in the legal services and accounting, auditing and bookkeeping services, architectural services, veterinary services and services provided by midwives, nurses, physiotherapists and para medics sub-sectors. Furthermore, computer related services, research and development services, rental and leasing services, printing and publishing, agriculture storage facilities and rangeland services have been proposed for commitments. In communications, commitments are proposed in courier services while in distribution services, retailing and wholesaling services are proposed for commitments.

4.3 Canada Pakistan services trade

As of 2016, Pakistan is Canada's 41st largest export destination for services and 34th largest export destination for merchandise trade (Annex-C). In that same year, Canada-Pakistan bilateral goods trade reached US\$1.08 billion with Canadian exports to Pakistan at \$814 million and imports at \$275 million. Opportunities for Canadian companies exist in infrastructure, information and communication technologies, mining, energy, oil and gas, and the agri-food and wood sectors.²⁵

Pakistan and Canada share over 60 years of development cooperation. The priorities for the bilateral development program are based on Pakistan's development priorities and Canada's comparative advantage. Global Affairs Canada is focused on women's economic empowerment, advancing democracy, polio eradication, and education (teacher training). Additional project funding in Pakistan has come from the International Development Research Centre. The Canada Fund for Local Initiatives provides direct funding assistance for small projects to local non-governmental organizations and, in exceptional cases, international NGOs and government institutions.

Canada has historically been a strong humanitarian partner in Pakistan, contributing almost \$47 million since 2013, including \$10 million in 2016. This assistance has targeted the most urgent life-saving needs, including assistance to internally displaced people and improving health and living conditions of conflict-affected people. Canada is currently the 7th largest single-country donor for humanitarian assistance in Pakistan.

²⁵ http://www.canadainternational.gc.ca/pakistan/bilateral_relations_bilaterales/canada_pakistan.aspx?lang=eng

Pakistan's exporters are faced with cumbersome visa formalities for attending trade fairs in Canada. Similarly, travel advisories discourage Canadian businesspeople from visiting Pakistan. The Canadian authorities have been approached to revisit the travel advisory and business visa regime to facilitate deeper bilateral economic engagement between the private sectors of both countries. The bordering region with Afghanistan, where operations against terrorists are taking place, makes up only four to six percent of the total area of Pakistan. Major business centres such as Lahore, Faisalabad, Sialkot and Karachi are peaceful. Four direct flights operate from Pakistan to Canada each week. About 200,000 hard-working Pakistani diaspora are contributing to Canada's economy and society. Number of immigrants during the last 10 years is at Annex-D.

The recent rise in the number of Canadian business people working with Pakistan is encouraging. Canada's SNC-Lavalin, AECOM, Hatch, Group RSW, AXOR, International Sovereign Energy and Enerflex have contributed to development projects in Pakistan. Likewise, Pakistani business people attend the SIAL Food, ATSC, PDAC and Construct Canada exhibitions in Canada.

Oil rigs and mining equipment are needed to exploit Pakistan's vast natural resources. Canada could make profitable investment in the oil, gas and minerals exploration, information technology, infrastructure, power generation, agro-business and science and technology sectors. Canadian investment in Pakistan is a 24eager \$20 million. Canadian business can also benefit from Pakistan's IT-enabled services in animation and gaming, retail banking and finance, mobile content, document management and call centres. A number of multinationals have established themselves in Pakistan because it's a competitive offshore destination in cost and quality.

PPP GDP sector composition

No.	Country/Economy	Purchasing Power Parity	Agri.	Indus.	Serv.	Agri.	Indus.	Serv.
–	World	74,264,873	6%	30.9%	63.2%	4,233,098	22,799,316	47,232,459
1	United States	14,657,800	1.1%	22.1%	76.8%	161,236	3,239,374	11,257,190
2	China	10,085,708	10.2%	46.9%	43%	1,028,742	4,730,197	4,336,854
3	Japan	4,309,532	1.4%	24.9%	73.8%	60,333	1,073,073	3,180,435
4	India	4,060,392	18.5%	26.3%	55.2%	751,173	1,067,883	2,241,336
5	Germany	2,940,434	0.9%	27.8%	71.3%	26,464	817,441	2,096,529
6	Russia	2,222,957	4%	36.8%	59.1%	88,918	818,048	1,313,768
7	United Kingdom	2,172,768	0.7%	21.8%	77.5%	15,209	473,663	1,683,895
8	Brazil	2,172,058	5.8%	26.8%	67.4%	147,700	582,112	1,463,967
9	France	2,145,487	2%	18.5%	79.5%	42,910	396,915	1,705,662
10	Italy	1,773,547	1.9%	25.3%	72.8%	33,697	448,707	1,291,142
11	Mexico	1,567,470	3.9%	32.6%	63.5%	61,131	510,995	995,343
12	South Korea	1,459,246	2.6%	39.3%	58.2%	37,940	573,484	849,281
13	Spain	1,368,642	3.3%	26%	70.7%	45,165	355,847	967,630
14	Canada	1,330,272	2.2%	26.3%	71.5%	29,266	349,862	951,144
15	Nigeria	1,109,884	22%	21.2%	56.8%	244,174	235,295	630,414
16	Indonesia	1,029,884	15.3%	47%	37.6%	157,572	484,045	387,236
17	Turkey	960,511	9.6%	26.6%	63.8%	92,209	255,496	612,806
18	Australia	882,362	3.9%	25.6%	70.5%	34,412	225,885	623,830
19	Taiwan	821,781	1.4%	31.1%	67.5%	11,505	255,574	554,702
20	Iran	818,653	11%	41.7%	47.3%	90,052	341,378	387,223
21	Poland	721,319	3.4%	33%	63.5%	24,525	238,035	458,038
22	Netherlands	676,895	2.6%	24.9%	72.5%	17,599	168,547	490,749
23	Argentina	632,223	8.5%	31.6%	59.8%	50,660	188,336	356,408
24	Saudi Arabia	621,993	2.6%	61.8%	35.7%	16,172	384,392	222,052
25	Thailand	586,877	12.4%	44.7%	42.9%	72,773	262,334	251,770
26	South Africa	524,341	3%	31.2%	65.8%	15,825	164,580	347,095
27	Egypt	498,176	13.5%	37.9%	48.6%	67,622	189,841	243,437
28	Pakistan	464,711	21.8%	23.6%	54.6%	98,362	106,483	246,355
29	Colombia	429,866	9.3%	38%	52.7%	40,167	164,122	227,611
30	Malaysia	412,302	9.1%	41.6%	49.3%	37,920	173,347	205,433

Canada's International Services Exports by category

	2011	2012	2013	2014	2015	% Share of Exports in 2015
Total Services Exports	84,356	89,223	93,136	97,878	102,296	100.0
Government Services	1,567	1,530	1,468	1,523	1,565	1.53
Travel Services	16,624	17,388	18,201	19,623	21,179	20.70
Business travel	2,864	2,899	2,974	2,975	3,091	3.02
Personal travel	13,760	14,488	15,227	16,648	18,088	17.68
Transportation Services	13,588	14,031	14,453	15,171	15,606	15.26
Water transport	2,733	2,963	3,017	3,315	3,207	3.14
Air transport	6,284	6,349	6,569	6,601	6,905	6.75
Land and other transport	4,571	4,720	4,867	5,256	5,493	5.37
Commercial Services	52,577	56,274	59,014	61,560	63,946	62.51
Communications services	1,963	2,188	2,115	1,921	1,997	1.95
Construction services	482	667	792	578	479	0.47
Insurance services	2,173	1,878	1,844	1,747	1,860	1.82
Financial services	7,041	7,463	8,043	8,947	10,276	10.05
Computer and information services	7,948	8,226	7,103	7,043	6,296	6.15
Charges for the use of intellectual property	3,310	3,929	4,707	5,025	5,537	5.41
Non-financial commissions	1,882	2,007	1,506	1,824	2,177	2.13
Equipment rentals	775	878	764	575	779	0.76
Maintenance and repair services	1,372	1,488	1,451	1,661	2,096	2.05
Management services	10,485	10,396	11,405	12,387	12,067	11.80
Advertising and related services	917	1,355	1,009	1,052	1,118	1.09
Research and development	4,320	4,342	5,360	5,893	5,471	5.35
Architectural, engineering, and other technical services	5,212	6,327	7,857	7,561	7,003	6.85
Miscellaneous business services	2,284	2,470	2,487	3,433	4,770	4.66
Audio-visual services	2,092	2,190	2,213	1,686	1,781	1.74

Source: Statistics Canada, CANSIM 376-0031, 376-0032, 376-0033, 376-0036, 376-0101

Canada's International Services Imports by category

	2011	2012	2013	2014	2015	% share of imports in 2015
Total Services Imports	106,153	111,845	116,236	122,004	126,751	100.0
Government Services	1,303	1,314	1,134	1,158	1,176	0.93
Travel Services	32,974	35,030	36,161	38,005	38,515	30.39
Business travel	4,119	4,274	4,387	4,608	4,607	3.63
Personal travel	28,855	30,756	31,774	33,397	33,908	26.75
Transportation Services	23,674	23,735	24,070	25,000	25,826	20.38
Water transport	10,127	10,181	10,356	11,223	11,845	9.35
Air transport	10,155	10,260	10,508	10,271	10,322	8.14
Land and other transport	3,392	3,294	3,206	3,506	3,660	2.89
Commercial Services	48,202	51,766	54,872	57,841	61,234	48.31
Communications services	1,908	1,822	1,788	1,742	1,882	1.48
Construction services	405	341	492	564	447	0.35
Insurance services	4,658	4,663	4,610	4,292	4,505	3.55
Financial services	5,252	5,016	5,926	6,794	8,978	7.08
Computer and information services	3,540	4,014	4,431	4,919	5,583	4.40
Charges for the use of intellectual property	10,300	10,893	12,157	12,864	12,605	9.94
Non-financial commissions	906	1,036	960	1,110	1,276	1.01
Equipment rentals	1,040	1,044	1,297	981	577	0.46
Maintenance and repair services	299	614	730	875	1,154	0.91
Management services	9,430	9,617	10,387	10,868	11,026	8.70
Advertising and related services	702	955	692	763	842	0.66
Research and development	1,126	1,383	1,498	1,505	1,267	1.00
Architectural, engineering, and other technical services	3,497	4,212	5,136	5,490	5,887	4.64
Miscellaneous business services	2,861	3,350	2,481	2,936	2,728	2.15
Audio-visual services	2,054	2,482	2,064	1,885	2,183	1.72

Source: Statistics Canada, CANSIM 376-0031, 376-0032, 376-0033, 376-0036, 376-0101

International transactions in services for Canada with the World and Pakistan
CANSIM 376-0101, 376-0102, 376-0036
December 2016

		2011	2012	2013	2014	2015
World	Services exports, total	84,356	89,223	93,136	97,878	102,296
World	Travel	16,624	17,388	18,201	19,623	21,179
World	Commercial services	52,577	56,274	59,014	61,560	63,946
World	Transportation services	13,588	14,031	14,453	15,171	15,606
World	Government services	1,567	1,530	1,468	1,523	1,565
World	Transportation and government services	15,155	15,561	15,921	16,694	17,171
World	Services imports, total	106,153	111,845	116,236	122,004	126,751
World	Travel	32,974	35,030	36,161	38,005	21,179
World	Commercial services	48,202	51,766	54,872	57,841	63,946
World	Transportation services	23,674	23,735	24,070	25,000	15,606
World	Government services	1,303	1,314	1,134	1,158	1,565
World	Transportation and government services	24,977	25,049	25,204	26,158	17,171
Pakistan	Services exports, total	152	166	183	184	194
Pakistan	Travel	96	104	121	133	n.a.
Pakistan	Commercial services	16	23	21	8	n.a.
Pakistan	Transportation and government services	39	40	41	43	n.a.
Pakistan	Services imports, total	76	81	92	87	92
Pakistan	Travel	9	9	9	10	n.a.
Pakistan	Commercial services	19	23	33	24	n.a.
Pakistan	Transportation and government services	48	49	51	54	n.a.

<http://www.international.gc.ca/economist-economiste/statistics-statistiques/bip-bdp.aspx?lang=eng>

Imports of goods by commodity and services by type for Canada

(In Thousands)

Type of Service	Pak. Rs.		US\$	
	FY15	FY14	FY15	FY14
	9,592,637	7,728,378	94,662	75,411
Transport	2,654,187	1,159,625	26,208	11,388
Travel	1,775,171	1,422,766	17,518	13,924
Insurance and pension services	35,054	21,975	346	215
Financial services	127,223	-95,573	1,246	-878
Charges for the use of intellectual property n.i.e.	2,131	5,429	21	53
Telecommunications, computer, and information services	222,870	197,077	2,201	1,913
Other business services	4,698,800	4,900,492	46,360	47,652
Personal, cultural, and recreational services	925	2,907	9	28
Government goods and services n.i.e	76,275	113,680	753	1,116

Exports of goods by commodity and services by type for Canada

(In Thousands)

Type of Service	Pak. Rs.		US\$	
	FY15	FY14	FY15	FY14
	1,954,392	2,253,518	19,291	21,793
Maintenance and repair services n.i.e.	9,817	11,704	98	116
Transport	-24,308	14,852	-237	143
Travel	29,164	20,714	289	199
Construction	31,305	12,330	313	120
Insurance and pension services	9,894	2,291	98	22
Financial services	4,658	13,163	46	125
Charges for the use of intellectual property	9,813	6,337	98	62
Telecommunications, computer, and information	1,113,913	888,044	10,994	8,631
Other business services	470,048	885,260	4,638	8,541
Personal, cultural, and recreational services	24,232	17,932	239	174
Government goods and services n.i.e.	275,855	380,891	2,717	3,660

Services Sectoral share in Pakistan's GDP

Sectors/Sub-Sectors	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17P
Commodity Producing Sector (A+B)	42.9	42.6	41.8	41.6	41.4	40.8	40.4
Agriculture	21.7	21.6	21.4	21.10	20.7	19.9	19.5
1. Crops	8.8	8.8	8.6	8.5	8.2	7.4	7.3
Important Crops	5.3	5.5	5.4	5.5	5.2	4.7	4.7
Other Crops	2.9	2.6	2.6	2.4	2.4	2.3	2.2
Cotton Ginning	0.6	0.7	0.6	0.6	0.6	0.5	0.5
2. -Livestock	11.9	11.9	11.9	11.7	11.7	11.6	11.4
3. -Forestry	0.5	0.5	0.5	0.5	0.4	0.4	0.5
4. -Fishing	0.5	0.5	0.4	0.4	0.4	0.4	0.4
B. Industrial Sector	21.2	21.0	20.3	20.5	20.7	20.9	20.9
1. Mining & Quarrying	3.0	3.0	3.0	2.9	3.0	3.2	2.9
2. Manufacturing	13.4	13.2	13.4	13.6	13.6	13.5	13.5
-Large Scale	11.0	10.8	10.8	11.0	10.9	10.7	10.7
-Small Scale	1.5	1.5	1.6	1.7	1.7	1.8	1.8
-Slaughtering	0.9	0.9	0.9	0.9	0.9	0.9	0.9
3. Electricity Generation & Distribution & Gas Distt	2.4	2.4	1.7	1.6	1.8	1.8	1.8
4. Construction	2.4	2.4	2.3	2.3	2.4	2.7	2.7
C. Services Sector	57.1	57.4	58.2	58.4	58.6	59.2	59.6
1. Wholesale & Retail Trade	18.8	18.4	18.4	18.5	18.3	18.2	18.5
2. Transport, Storage and Communication	13.1	13.2	13.3	13.3	13.4	13.4	13.3
3. Finance & Insurance	3.0	2.9	3.1	3.1	3.2	3.2	3.4
4. Housing Services (Ownership of Dwellings)	6.7	6.7	6.8	6.8	6.8	6.7	6.6
5. General Government Services	6.2	6.7	7.2	7.1	7.1	7.5	7.6
6. Other Private Services	9.1	9.4	9.5	9.7	9.9	10.1	10.2
GDP (fc)	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Pakistan Bureau of Statistics

Outflow of immigrants from Pakistan to Canada from 2006-2015

From 2006 to 2015, a total of 97,977 immigrants from Pakistan landed in Canada.

Landing Year	Total
2006	13,127
2007	10,123
2008	8,984
2009	7,215
2010	6,812
2011	7,467
2012	11,208
2013	12,611
2014	9,110
2015	11,320
2006 - 2015	97,977

Source: Statistics Canada