

Promoting Pakistan as a Young and Digital Nation

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Executive Summary

Growing internet connectivity, rising proportion of young population is allowing youth to earn revenue and explore new economic opportunities. Established entrepreneurs in the software and hardware industry are making economic headway with production of cell phones and television, rise in software exports, provision of freelancing services, and rising share of e-commerce revenue, are among the promising developments of a rising digital economy. Some issues serve as impediments towards harnessing youth's potential from becoming part of young and digital nation. Lack of adequate market relevant digital skills, lack of connectivity with global markets, and barriers towards financial capital are preventing business oriented ideas, for startups, from being monetized. To overcome these issues, this policy brief offers following set of recommendations:-

- Developing network of networks, by major freelancing firms in Pakistan, under Digital Pakistan programme, whereby budding freelancers can be mentored and connected with major freelancing firms. The firms should offer 6-month mentorship programs for budding freelancers, enabling them to improve skills, product delivery and enable them to independently enter freelancing platforms.
- Creating linkages between venture capital firms, private banks, universities, incubation centers, and startups to provide access to financial capital for monetizing and scaling their business ideas.
- Requisite lobbying for introducing digital Payment system, i.e. Paypal in Pakistan to accommodate the freelancing community in Pakistan.
- Standardize Federal Board Revenue (FBR) and Securities and Exchange Commission mechanism to facilitate venture capital firms in Pakistan.
- Creating a talent pool for web 3.0 by setting up independent innovation labs tapping resources from venture capital firms.

Issues to be analyzed

Despite the economic opportunities offered by digital connectivity, and a changing digital and technology landscape, Pakistani youth remains impeded from tapping the complete economic potential of the digital landscape. The policy brief seeks to explore the following issues in this brief:

1. Undertaking an analysis of Pakistan's digital landscape, what are the ongoing developments in the digital economy of the country; including, growing hardware manufacturing base, rise in venture capital investment in startup sector, rising IT exports, and growing base of freelance exports.
2. Mapping some of the factors impeding more optimal progress in the above areas, especially among Pakistan's digital population.
3. Proffering interventions with which policy makers and diverse set of stakeholders can ignite the progress

Analysis

Digital Landscape of Pakistan

The number of internet users in Pakistan has continued to skyrocket—growing by 11 million users between 2020 and 2021 alone. In 2018, the Pakistan Telecom Authority reported approximately 59 million mobile internet users (3G and 4G subscribers)—approximately 28 percent of the population. By December 2021, these figures had risen by 83 percent to 108 million and 49.04 percent of the total population. A major reason for growing accessibility is due to growing affordability of the smart phones in Pakistan by the local consumers. Combination of affordable mobile internet data and digital devices has allowed the digital penetration to take root in the country. With the ongoing progress in digital penetration, an analysis of digital economy is equally warranted.

Digital Economy's Outlook

Promoting three critical areas may allow policy makers to brush Pakistan's credentials as a young and a digital nation. A nascent, yet growing, industrial base of hardware manufacturing in Pakistan, budding startups with promising venture capital investments, and an expanding base of freelancers in the country. An outlook of each of these three elements is articulated in the three, following, sub-sections.

Growing Hardware Manufacturing Base

From being a net-importer, Pakistan has produced over 22.12 million handsets during January-November 2021, and imported 9.95 million handsets.¹ Most of the players moving their manufacturing units so far include Chinese handset manufacturers with handsets ranging in millions: Itel produced 3.91 million units; VGO Tel 2.97 million; Infinix assembled 2.65 million; Vivo at 2.45 million; Techno manufactured 1.87 million; QQMEE and Oppo 0.86 million and 0.67 million phones, respectively.² Compared to 2020, when the industry produced about 9.95 million handsets, in 2021 handset production experienced a growth upward of 122 per cent. On the other hand, Samsung, the South Korean giant, has set up a TV manufacturing unit with R&R industries in Karachi aiming production of 50,000 units – earning revenue of PKR 5 billion – with plans to scale it to 100,000 in two years.³ On the other hand, Samsung entered a separate joint venture with Lucky Motor Corporation⁴ to assemble Samsung handsets. Another Chinese smart phone manufacturer Xiaomi commenced cell phone production with its JV partner AirLink Communications in Pakistan; Xiaomi plans to invest US\$ 500 million to export handsets out of Pakistan.⁵

Start Ups, Growing Venture Capital Investment and IT Exports

On the other hand, there were two additional developments: start-ups in Pakistan raised an unprecedented US\$ 365.87 million in 2021, compared to US\$ 66.4 million in 2020.⁶ In the first quarter of 2022, Pakistani start-ups have raised US\$ 163 million via 15 deals. In flow of capital from venture capital firms, budding startups will be encouraged to come up with productive business ideas.⁷ Rise in IT exports are another positive and promising trend for the budding IT industry of the country. The IT exports in fiscal year 2021-22 are expected to grow by 66 per cent to US\$ 3.5 billion⁸ up from US\$ 2.1 billion in 2020- 21.⁹ The ongoing

¹ Tahir Amin, "Jan-Nov: Local Cellphone Production Reaches 22.12m in Pakistan," *Brecorder*, December 26, 2021, <https://www.brecorder.com/news/40142590>.

² "After 'Big Success' in Local Cell Phone Manufacturing, Pakistan Eyes Expansion into Exports," *Arab News*, January 5, 2022, <https://www.arabnews.pk/node/1998621/pakistan>.

³ "Samsung TV Plant Begins Production in Karachi," *Dawn*, December 7, 2021, <https://www.dawn.com/news/1662359>.

⁴ "Biggest Chinese Mobile Manufacturer Enters Pakistani Market," *Global Village Space*, March 4, 2022, <https://www.globalvillagespace.com/biggest-chinese-mobile-manufacturer-enters-pakistani-market/>.

⁵ *Ibid.*

⁶ Mutaher Khan, Natasha Uderani, "2021 — the Year when Pakistani Startups Saw an Unprecedented Growth Spurt," *Dawn*, April 14, 2022, <https://www.dawn.com/news/1667045/2021-the-year-when-pakistani-startups-saw-an-unprecedented-growth-spurt>.

⁷ Khan and Uderani, "2021 Saw Unprecedented Growth."

⁸ "Pakistan IT Exports to Grow to \$3.5bn in 2021-22," *Profit by Pakistan Today*, February 2, 2022, <https://profit.pakistantoday.com.pk/2022/02/02/pakistan-it-exports-to-grow-to-3-5bn-in-2021-22/>.

⁹ "IT Exports Cross Record \$2bn Mark," *Dawn*, July 27, 2021, <https://www.dawn.com/news/1637074>.

size of exports suggest that the competitive advantage offered by Pakistani software houses and consultants will allow Pakistani IT exports to grow in the coming period. This is also subject to any unwelcome tax regime or tariffs introduced by the government in Pakistan.

E-Commerce

Lastly, a growing digitally native population has also led to a rise in e-commerce revenue in 2021 to US\$ 6 billion.¹⁰ In 2020, Pakistan's e-commerce raised US\$ 4 billion in overall revenue.¹¹ The rise in e-commerce is largely attributed to growing acceptance among merchants to use the online medium to expand the volume of their sales. Similarly, the Covid-19 pandemic also forced both the consumers and merchants or sellers to adapt online medium to receive orders and with the growing internet penetration the rise in sales revenue is likely to remain upward.

Growing base of Freelancers in Pakistan

Freelancers also brought in US\$ 360 million remittances in exchange for their service in 2021.¹² In 2019-2020, freelancers generated revenue of nearly US\$ 150 million. In 2019, it was reported, that 77 per cent of the revenue was being generated by freelancers below the age of 35.¹³ The reason attributed for high base of revenue is due to the large number of university and college graduate freelancers that are joining the freelancing work force. There are over 100,000 "active" freelancers in the country.¹⁴

Challenges to becoming Digital Nation

Lack of relevant Digital Skills

Unfortunately, in Pakistan, a lot of graduates from multiple universities lack relevant digital or other skills to tap their individual potential. Mr. Badar Khushnood at Margalla Dialogue 2021 disclosed that as part of their evaluation that only 10 per cent of professional in IT, and Engineering disciplines are employable due to shortage of relevant skills in the market. The overwhelming of the 90 per cent has to be trained with relevant skills to make them employable in the national and freelance ecosystem.

Becoming connected with Global Markets

¹⁰ "The E-Commerce Market in Pakistan," *EcommerceDB*, 2021, <https://ecommercedb.com/en/markets/pk/all>.

¹¹ "Pakistan - ECommerce," International Trade Administration, US Department of Trade, accessed on May 18, 2022, <https://www.trade.gov/country-commercial-guides/pakistan-ecommerce>.

¹² "Pakistani Freelancers Brought in \$360 Million Foreign Exchange in 2021," *ProPakistani*, March 2, 2022.

¹³ Ali Ahmed, "Pakistani Youth Power Growth in Freelance Economy: Report," *Business Recorder*, January 13, 2021, <https://www.brecorder.com/news/561298/pakistani-youth-power-growth-in-freelance-economy-report>.

¹⁴ Ahmed, "Pakistani Youth Power."

Market-driven skills provide relevant dividends to any freelancer or potential professional, if they are connected with the global markets. Professionals at present do not have relevant knowledge or information to get connected with the relevant market places globally. At present there is neither an assessment at the national level to map what proportion of professionals, in Pakistan, are connected with the international market or otherwise.

Barriers towards Venture Capital Ecosystem

Potential or budding startups in the far and wide regions of the country have mammoth task before them: the ability to identify or access a potential capital for financing the business venture. The barriers to potential venture capital investments and lack of mentorship from established entrepreneurs also prevent productive ideas from being monetized or being scaled appropriately.

Recommendations

- Developing network of networks, by major freelancing firms in Pakistan, under Digital Pakistan programme, whereby budding freelancers can be mentored and connected through assignments that are sublet by major freelancing firms. The firms should offer 6-month mentorship programs to budding freelancers, enabling them to improve skills, product delivery and be enable them to independently enter freelancing platforms.
- Creating linkages between venture capital firms, private banks, universities, incubation centers, and startups to provide access to financial capital for monetizing their business ideas and up-scaling them.
- Docudrama in global online streaming platforms, and well-placed stories in renowned global magazines such as the Economist, Time, Bloomberg and Wired, to pitch Pakistan as a Young and Digital nation.
- Requisite lobbying for introducing digital Payment system, i.e. Paypal in Pakistan to accommodate the freelancing community in Pakistan.
- Standardize Federal Board Revenue (FBR) and Securities and Exchange Commission mechanism to facilitate venture capital firms in Pakistan.
- Creating a talent pool for web 3.0 by setting up independent innovation labs tapping resources from venture capital firms

Conclusion

The overall digital indicators in terms of internet and smart phone penetration are increasing steadily. Pakistan's rising IT exports, e-commerce operations in the domestic market, leading

workforce of freelancers globally, and startups growing success to secure funds point towards a promising trend. Translating these developments into economic success is condition to imparting relevant digital skills, connecting digitally skilled resource to global markets, and most importantly connecting promising start ups with global venture capital firms. Promoting an ecosystem based on these different elements will enable a productive and sustainable digital economic landscape to mature across the country.