Pakistan's Economic Relations with the European Union (2013-2023): Challenges, Opportunities, and Policy Lessons

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Abstract: The relations between the European Union (EU) and Pakistan are shaped by interrelated political, economic, and strategic factors. Pakistan's economic relations with the EU are shaped by its GSP+ status. In 2014, the EU included Pakistan in GSP+ status when it ratified all international conventions required for admission in the scheme. The primary aim of the GSP+ scheme is to assist developing nations in alleviating poverty, establishing good governance, and promoting sustainable development. The scheme offers opportunities for these states to engage in trade with the EU with low or no tariffs to generate additional revenues. While Pakistan is currently the largest beneficiary of the GSP+ scheme, several challenges, mainly related to the diversification and competitiveness of exports, reduce the scope of its economic ties with the EU. However, the country can address these challenges and upgrade economic relations with the EU. Drawn on David Ricardo's theory of comparative advantage and the H-O model and using a qualitative research approach, this study analyses Pakistan-EU trade relations to examine challenges and opportunities and offer policy lessons to upgrade Pakistan's economic relations with the EU.

Keywords: Pakistan, European Union, GSP+, UN conventions, export diversification, human rights, challenges, opportunities, policy lessons.[1]

1. Introduction

Pakistan and the European Union (EU) have had more than fifty years of relations. The EU is the largest trading partner and a substantial source of investment for Pakistan. Moreover, it is a strong political partner of Pakistan as the two have strategic engagement and cooperate in areas of mutual interest. The EU has sponsored hundreds of development and environment sustainability projects across Pakistan. To promote sustainable development, the EU's cooperation with Pakistan mostly focuses on education, poverty alleviation, health, human rights, governance, and gender equality.

Pakistan-EU relations gained momentum after 9/11 when Pakistan decided to participate in the global war on terror (GWOT). Pakistan's geo-strategic position and its geographical proximity to Afghanistan had made it a pivotal front-line ally for the US and the EU. It extended multilateral cooperation for NATO forces fighting in Afghanistan and allowed its airspace for logistics, communication, and emergencies (Shad, 2017, p.29). Due to these efforts, US President George Bush declared Pakistan a major non-NATO ally in 2004 (Aljazeera, 2004). Pakistan's pivotal role in the war against terrorism changed the dynamics of EU-Pakistan relations. During 2001-2008, recognizing its importance in GWOT, the EU assisted Pakistan in meeting its developmental and economic needs. The EU granted around €100 million in aid and trade concessions to Pakistan in recognition of its significant role in GWOT (Shad, 2017). Although the EU reinforced its support to Pakistan in the post-9/11 period, its assistance and dialogue towards Pakistan remained limited till 2008.

From 2009 onwards, the EU increased its assistance and cooperation vis-a-vis Pakistan due to the latter's resumption of democracy, deteriorating internal security, and mounting instability. The EU assistance to Pakistan under the Development Corporation instrument (DCI) for the period 2007-2013 amounted to €425 million, while under the European Instrument for Democracy and Human Rights (EIDHR), it provided €900.000 per annum during 2011-2013 (European Commission, n.d.). The EU also contributed €51 million under the Instrument for Stability (IFS) from 2009 to 2013 for seven social support programs (Delegation of the European

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Union to Pakistan, n.d.). These programs included support for electoral reforms in Pakistan, post-crisis assessment, good governance, trust fund, rehabilitation of Internally Displaced Persons (IDPs), free media, and law enforcement. From 2007 onwards, the rising incidents of terrorism in Pakistan, along with political instability, security flaws, and lack of socio-economic development, drew the attention of the EU. In addition, Pakistan's military operations against terrorism in 2009, coupled with the subsequent humanitarian crisis in the form of IDPs, gathered considerable sympathy and admiration for Pakistan within the EU policymaking circles.

This paper argues that despite a significant improvement in bilateral trade relations, particularly under the GSP+ status, Pakistan's economic relations with the EU remain limited in scope and volume. This is because of Pakistan's limited comparative advantage in trade relations with the EU. In this context, the paper underlines the challenges and opportunities and proposes policy recommendations for expanding Pakistan's economic relations with the EU.

2. Theoretical Framework

Comparative advantage occurs when a country produces commodities at a lower opportunity cost than another country. David Ricardo's theory of comparative advantage provides insight into Pakistan-EU trade relations. David Ricardo was a political economist who wrote Principles of Political Economy and Taxation. Ricardo used the theory of comparative advantage to argue against Great Britain's protectionist Corn Laws, which restricted wheat import from 1815 to 1846 (CFI, n.d.). David's theory advocates free trade, contending that countries are better off producing what they enjoy a comparative advantage and importing the goods in which they lack a comparative advantage (CFI, n.d.).

The Heckscher-Ohlin model also called the H-O model, expands the Ricardian theory of comparative advantage by explaining why some countries have more comparative advantage than others (Krugman et al., 2023, p. 105). According to the H-O theory, a country's comparative advantage in trade is determined by its factor endowments, which involve several factors, including labor, capital, and natural resources. The H-O theory argues that capital-abundant countries produce capital-intensive goods like machinery and electronics while labor-abundant countries produce labor-intensive goods like textiles and garments. Therefore, a state gains a comparative advantage by exporting surplus commodities and importing the least produced commodities.

Pakistan-EU trade relations are based on comparative advantage. A key area of comparative advantage for Pakistan is textile production. Pakistan has a well-developed and cost-effective textile industry with low labor costs. Similarly, it has a comparative advantage in producing agricultural goods and leather products. Pakistan has a comparative advantage in these products due to low opportunity costs. On the other hand, Pakistan imports high-value-added goods from the EU, such as machinery, pharmaceuticals, automobiles, and electronics, where the EU has a comparative advantage. Pakistan lacks the technological capacity and infrastructure to produce these items and imports these goods from the EU and other industrially advanced countries. The EU also benefits by importing cheap raw materials from Pakistan.

The H-O model indicates that Pakistan's exports to the EU are limited to the labor-intensive sectors, including textiles and agriculture. To expand comparative advantage in capital-intensive products, the country needs productivity in the sectors where it has an advantage in terms of the skilled labor force and potential in terms of investment. Information technology, automobiles, chemicals, and pharmaceuticals are the key sectors in which Pakistan has the potential to enhance and upgrade production and gain a comparative advantage in regional and international markets. The country needs FDI to experience a 'takeoff' level of industrial growth in these sectors. Further, Pakistan needs to meet international production, marketing, and environmental protection standards.

3. Literature Review

Shahroo Malik, in the paper, "EU-Pakistan Trade Relations: The Role of GSP Plus Status and Pakistan's Enhanced Access to EU markets," highlights the constraints and limitations that affect Pakistan-EU trade relations. The major constraints Pakistan faces in industrial production are the shortfalls and high cost of energy supplies. Due to insufficient power supply, the industrial sector has been operating at less than 70% of its full capacity. She also points out how the higher duties on raw materials make Pakistani products more expensive in the international market. In addition, Pakistani products lack competitiveness in innovation and value addition in international markets. The author gives policy recommendations, including diversification in export portfolios, economic diplomacy, and improving labor and human rights (Malik, 2020, p.36).

Dr. Hafiz A Pasha, in the article "GSP Plus Status and Compliance of Labor Standards," analyses Pakistani exports to the EU market and recent trends. This research provides a statistical analysis of major contributors to the EU through product evaluation. The author emphasizes the necessity of Pakistan's compliance with the GSP+ conventions to continue the status. In this regard, he mentions the importance of improving Pakistan's labor and human rights situation. This article is valuable in analyzing the patterns and factors of the EU-Pakistan economic relations (Pasha, 2014).

Dr Ramzan Shahid, Dr. Sumaira Rehman, and Dr. Shumaila Rafique, in an article titled "Analyzing Pakistan-EU Relations in Perspective of Economic and Social Interaction in New Millennium," underline the factors that Affect Pakistan's economic growth and social development. The research also highlights the EU-Pakistan trade potential through the lens of GSP plus status. The authors discuss the instruments of EU trade ties with the developing countries. They argue that the diversified trade policies of the EU help developing states gain benefits in economic and social development (Shahid et al., 2018).

Dr. M. Riaz Shad, in the article "Interests and Norms in EU's Policy towards Pakistan after 9/11," discusses the importance of interests and norms in the EU's external policy. The article highlights the evolution of Pakistan-EU relations following the 9/11 incident and the consequent EU's participation in the US-led fight against terrorism. As a result, the EU provided technical and development assistance to Pakistan under the instruments of stability, democracy, human rights, and development cooperation. Gradually, the EU-Pakistan bilateral relations have been elevated to the level of strategic engagement. Pakistan's GSP+ status and political conditionality reflects the EU's policy preferences towards Pakistan (Shad, 2017).

The existing literature on Pakistan-EU relations mostly focuses on the issues and challenges that hinder realizing the full potential of trade relations. There is a gap in the literature from the policy perspective. There is very little and scattered debate on the policy measures that Pakistan should adopt to upgrade economic relations with the EU. This paper fills in this gap by highlighting challenges and identifying opportunities in Pakistan-EU relations and then suggesting policy recommendations to uplift the relations.

4. Background of Pakistan-EU Economic Relations

Interrelated political, economic, and strategic factors characterize Pakistan-EU relations. Pakistan attracted the EU's attention due to its geopolitical significance and support in the GWOT. Since then, the relationship has evolved significantly over the years. Today, the EU is Pakistan's second-most important trading partner, accounting for 15.3% of Pakistan's total trade in 2023 (European Commission, n.d.). Pakistani exports to the EU are dominated by textiles, clothing, leather, and farm and sea goods. Specifically, Pakistan's trade relations with the EU are shaped in the context of its GSP+ status, which it has had since January 2014. Pakistan's GSP+ status broadly defines its relations with the EU, as the country has adopted 27 international conventions on human rights, labor rights, environmental protection, and good governance.

The European Union introduced the Generalized System of Preferences (GSP) 1971 to help developing countries export their products to the European market with lower or zero tariffs. The EU adopts its GSP scheme every 10 years. Pakistan has been a beneficiary of the EU's GSP for a long time, which remains key to its economic interests. After 9/11, the EU's assistance to Pakistan included trade concessions and development cooperation. Pakistan's efforts for eradication and transit of drugs were supported through the provision of trade concessions under the GSP scheme from 2002 to 2004. This concession eliminated €150 million of duties a year, increasing Pakistani exports' competitiveness to the EU market (European Commission, 2001).

In 2004, Pakistan and the EU signed a new cooperation agreement, which paved the way for strengthening bilateral relations. The agreement seeks to enhance EU cooperation with Pakistan in various areas, including trade, development, climate change, industries and services, agriculture, livestock and fisheries, tourism, energy, science and technology, and prevention of precursor chemicals and money laundering (European

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Union, 2004). While the agreement enhanced the scope of Pakistan-EU cooperation, extending GSP status for Pakistan became challenging after 2004. In 2006, Pakistan lost trade concessions in the EU market after its disqualification from the GSP+ scheme. Consequently, there was a decline in its exports to the EU. In 2007, Pakistan and the EU established a sub-group on trade under the auspices of the Pakistan-EU Joint Commission to promote bilateral trade (European Commission, n.d.). This sub-group provided a forum to discuss trade issues between the two parties. Following the floods of 2010 in Pakistan, the EU granted an exceptional aid package to Pakistan on humanitarian grounds. This included an "additional autonomous trade preferences" package for the country, providing tariff-free access to the European markets for 75 dutiable goods exports from Pakistan (Shad, 2021).

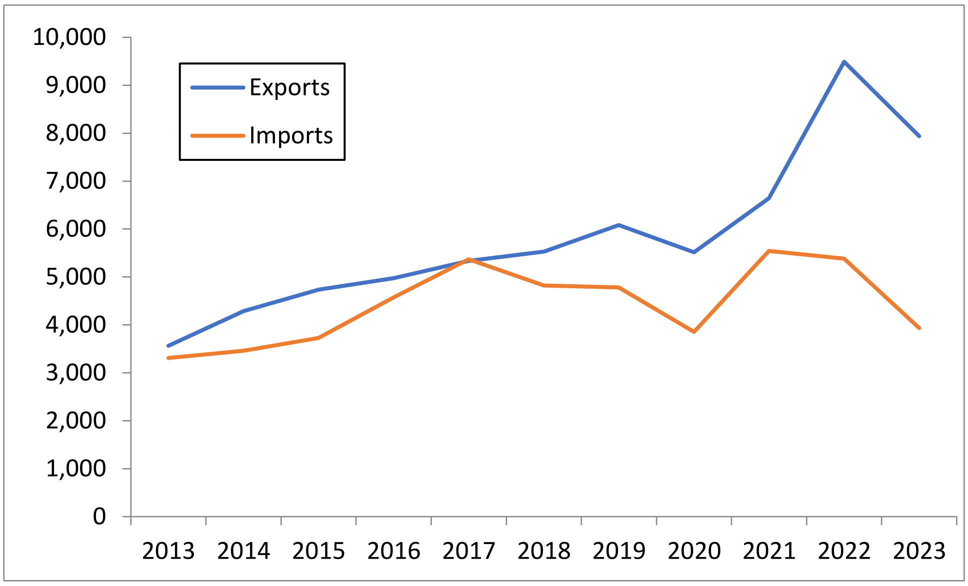
In 2014, the EU granted GSP+ status to Pakistan when it ratified all international conventions required under the scheme (Shad, 2021). Preferential access to the EU market under the GSP+ scheme required the implementation of 27 UN conventions related to human rights, labor rights, environmental protection, good governance, and narcotics control. The EU's GSP+ status enables developing countries to access the EU export market on reduced or zero tariffs. This way, the scheme aims to assist developing nations in alleviating poverty, establishing good governance, and promoting sustainable development. The GSP scheme provides opportunities to the beneficiary states to enhance exports and generate additional revenues that can be utilized for poverty reduction and the advancement of sustainable development goals. Pakistan's inclusion in GSP+ represents a milestone in Pakistan-EU relations that has strengthened their trade relations. In the first year of GSP+ status, Pakistan's exports to the EU rose by 21%, worth $1.32 billion (Economic Survey of Pakistan 2014-2015, p. 7). From 2014 to 2023, Pakistani exports to the EU have registered an increase of 165 percent, reaching US$ 9.2 billion for the year 2021-22 (Pakistan Economic Survey 2022-23, p.141). The largest increase in Pakistani exports was witnessed in the textile, garments, and hosiery sectors. The exports of these goods to the EU rose by 92% (Malik, 2020, p.25).
The table below shows trade flows and balance between Pakistan and the EU for 2013-2023.

Table: 1 Pakistan-EU Trade Flows, 2013-2023 (Value: Mio €)

Year	Exports	Imports	Total Trade	Balance
2013	3,564	3,310	6,875	254
2014	4,290	3,463	7,753	827
2015	4,733	3,730	8,464	1,003
2016	4,975	4,578	9,553	398
2017	5,334	5,366	10,700	-31
2018	5,530	4,819	10,349	711
2019	6,083	4,782	10,865	1,300
2020	5,518	3,854	9,372	1,664
2021	6,642	5,543	12,185	1,098
2022	9,491	5,381	14,872	4,110
2023	7,939	3,932	11,871	4,007

Source: Eurostat – European Commission

Figure 1: Pakistan-EU Trade Flows, 2013-2023 (Value: Mio €)



Source: Eurostat – European Commission, 2024

The above table shows a significant increase in Pakistan's exports, trade volume, and trade balance with the EU. This increase reflects the positive impact of tariff reductions for Pakistan under the GSP+ scheme. Out of eight beneficiary countries, Pakistan remains the largest beneficiary of the scheme. Still, its exports to the EU fall short of the actual potential. Pakistan's exports to the EU are concentrated in a few items, including cotton products, rice, and leather. This underlines Pakistan's major economic issue: the lack of diversified production and the consequent lack of competitiveness of Pakistani exports.

The Pakistan-EU trade relations based on the above data indicate some important trends. First, following the GSP+ status, Pakistan's exports to the EU have generally increased, reaching €9.49 billion in the year 2022. However, this export boost is majorly concentrated in the textile and clothing sectors and owes much to trade concessions granted by the EU under the GSP+ scheme. Second, Pakistan has been unable to translate the GSP+ trade preferences into export diversification and competitiveness. By implication, Pakistani textile exports will experience a tough situation in the EU market without the GSP+ status. Third, consequently, Pakistan has a meager share of the EU market. The country is the 47th largest trading partner of the EU, having only a 0.2% share in its total trade (European Commission, n.d.). Despite having a trade balance in its favor, Pakistan does not export much to the EU compared to many other states. In comparison, India is the 9th largest, while Bangladesh is the 36th largest trading partner of the EU.

5. Challenges in Pakistan-EU Economic Relations

Despite the limitations, the EU remains a crucial trading partner and Pakistan's most important export destination, but economic relations face several challenges. These challenges hinder the realization of the full potential of Pakistan-EU economic relations. Key challenges are discussed here.

Export Diversification

Export diversification is a significant challenge for Pakistan's exports to the EU. Pakistani exports to the EU are heavily dominated by the textile and clothing sector, which accounts for 73.2% of Pakistan's total exports to the EU in 2023 (European Commission, n.d.). These statistics show Pakistan's small export basket and indicate that the country misses increased export opportunities under the GSP+ status. Moreover, India, Vietnam, Bangladesh, and other countries also export textile and clothing products to the EU, which undermines the' competitiveness of Pakistan. In 2023, Pakistan ranked the 45th largest economy in the world in terms of GDP and 66th in share in global exports (Observatory of Economic Complexity- Pakistan, n.d.). In comparison, India was 5th largest economy and 12th largest exporter in the world (Observatory of Economic Complexity- India, n.d.), while Bangladesh ranked 32nd largest in GDP and 55th largest in exports (Observatory of Economic Complexity- Bangladesh). These statistics indicate that Pakistan has a smaller economic base and size than India and Bangladesh.

Pakistan needs to diversify its production and exports with a focus on the industries where it has potential, such as IT and electronics. Further, competition with similar products from other countries is an important concern. For example, the top 15 products Pakistan exports to the EU are similar to the Bangladeshi products (The Express Tribune, 2023). Therefore, Pakistan must offer a wide range of textile products to compete. Pakistan needs to offer a variety of commodities along with export promotion strategies to overcome this challenge. Moreover, Pakistan's exports do not exist in the Global Export List. This indicates a need for innovation and technological advancement to offer competition in the international market for Pakistani products.

Value-Added Exports

Low value-added exports refer to products either in raw form or with minimum industrial processing and contribute less to earnings than processed or finished goods. In this regard, Pakistan exports low-value-added products to the EU market, particularly compared with commodities from other countries with advanced manufacturing. The World Bank reported 2021 that Pakistani exports lack value addition (Hussain et al., 2023). The number of products Pakistan exported in 2003-2004 was 2311, which increased to 2792 in 2017-18 (Mustafa et al., 2023). These statistics indicate that Pakistan has not recorded a significant increase in the number of products over the 16 years. For the past few years, it has been noticed that the EU and the US have shifted their textile imports from Pakistan to Bangladesh due to fine quality and better variety. Therefore, low-value goods are a critical issue for Pakistan as these offer low-profit margins and generate revenue from international markets.

Lower Productivity

One of the grave challenges for Pakistan's poor export performance and economic stagnation is lower productivity. This issue affects the output of every Pakistani economic sector. A research report published in 2023 by the Pakistan Institute of Development Economics states that Total Factor Productivity (TFP) is crucial for the sustainable economic growth of a state. Countries with high and stable TFP experience fast and long-term economic development. A TFP above 3% indicates good productivity in the state. Unfortunately, Pakistan has been running low on this productivity level for decades. Pakistan's average growth across 61 sectors from 2010 to 2020 was only 1.5%. On the other hand, India maintains a productivity level of 5.7%, Bangladesh 3.9%, and China 8.5% (Alam, 2024). Some sectors, including agriculture, leather goods, weaving, and spinning, are experiencing negative growth. Moreover, Pakistan's goods are not listed in the top 15 global exports. The top two global export sectors consist of goods and electronics, while Pakistan's exports are mainly based on textile and agricultural products. Thus, lower productivity increases the cost of production, resulting in price escalation and, hence, leading to the loss of competitiveness at the international level.

The low TFP of Pakistan creates barriers to effectively utilizing the benefits of GSP+ status. As GSP+ offers tariff reductions in trade, Pakistan's limited production ability and low-quality standards prevent it from maximizing its true export potential. Therefore, it is crucial to address this issue through investment in the IT sector, revision of management policies, infrastructure development, training in human resources, and adoption of innovative production techniques. Only through increased productivity growth can Pakistan diversify and expand its exports to the global market, become competitive, and secure robust trade relations with the EU.

Lack of Innovation

Innovation and technological development are fundamental to sustainable growth and increased industrial productivity and efficiency. Unfortunately, Pakistan is considered among the least innovative nations because its industrial and economic sectors resist adapting to the changing world trends. Pakistan ranked 88th globally and 7th regionally in the Global Innovation Index 2023 (Sattar et al., 2024). There is a lack of industrial infrastructure and competition to support innovative economic activity in the country. According to the Global Competitive Report 2017-18, Pakistan ranked 110th out of 137 countries in terms of infrastructure, just one rank above Bangladesh, while India ranked 66th (Schwab, 2017, p. 230). There are different reasons for Pakistan's lower innovation index. First, innovation in trade is driven by exporters. Having access to international markets, they are responsible for fulfilling the domestic and international demands of the consumers. To meet the market demands, exporters avail themselves of the services of efficient firms in a country. This increases competition among firms, resulting in innovation and an expanding competition window in the international market. However, in Pakistan, the government subsidizes uncompetitive and inefficient firms that use outdated technologies for production (Sattar et al., 2024). An important source of innovation is the private sector and international investment, which have a poor footprint in Pakistan.

The second important factor is learning from trade. Trade creates knowledge spillovers and opens windows for learning new strategies and technologies. Firms engaged in trade develop minute innovations and expand their networks in the global value chain (Sattar et al., 2024). Hence, there is a correlation between internal market exposure and innovation. If competition exists between the firms for trade, there is a chance of innovation in the market development strategies. Therefore, Pakistan needs to foster a conducive environment for innovation to utilize its full potential in the global market.

Compliance with GSP+ Conditionality

The GSP+ status was granted to Pakistan in 2014, and it will last till 2027, following its extension for another four years. The most important part of this scheme is the country's compliance with the 27 international conventions, which determine its continuity. These conventions are related to human rights, labor rights, climate change, and good governance. Pakistan has ratified all these international conventions connected with the GSP+ status. However, it faces challenges in implementing conventions related to human rights and blasphemy laws. The European Union Delegation to Pakistan has expressed concerns regarding Pakistan's lack of compliance with human rights conventions (European Union Delegation to Pakistan, n.d.). Moreover, Pakistan has been delaying reporting to the EU regarding compliance with the UN conventions and has been found absent many times.

The EU has also highlighted issues related to the violations of labor rights. These concerns include inadequate labor inspection mechanisms, lack of social security, harassment, forced child labor, and discrimination. In 2023, the European Commission reported concerns about cases of forced disappearances and torture in Pakistan (Rana, 2023). Such concerns from the EU raise questions regarding the continuation of GSP+ status. In 2010, the EU revoked the GSP+ status of Sri Lanka over alleged human rights violations. This severely affected the garment industry of Sri Lanka (Pignal, 2009). Without GSP+ status, Pakistan would have to pay an MFN tariff of 12% for most traded commodities to the EU (International Democracy Reporting, n.d.). Hence, revoking or discontinuing GSP+ status will undermine the competitiveness of Pakistani exports in the EU market.

International politics

International politics plays an important part in developing bilateral relations between states. The dynamics of global politics, shifting alignments, and geopolitical events affect trade relations among the states. For example, post 9/11, Pakistan's decision to participate in the GWOT resulted in enhanced EU cooperation that experienced a significant progression over the years. Consequently, Pakistan received development assistance and trade preferences from the EU. Likewise, Pakistan's closer ties and economic partnerships with China might affect the Western interests in the region. The growing US-China rivalry may reach the point where the EU must explicitly ally with the US in containing the Chinese global economic expansion through the Belt and Road Initiative. Potentially, this kind of scenario may affect Pakistan's preferential economic relations with the EU. Finally, previously, the UK played a key role in raising and supporting Pakistan's case for the GSP+ status within the EU system. However, this pivotal support is unavailable following the UK's exit from the EU.

6. Opportunities for Pakistan-EU Economic Relations

Notwithstanding the challenges, Pakistan's GSP+ status presents several opportunities for the country to experience a boost in exports, increased production, export diversification, and economic stability.

Utilization Rate of GSP+

The GSP+ status has provided Pakistan with numerous benefits. Regarding utilization rate, Pakistan stands at the top among all GSP+ beneficiary countries. Its exports to the EU have been increasing continuously since 2014. Consequently, Pakistan has become the largest contributor of textiles and garments to the EU market. The scheme has proved beneficial for other sectors as well. GSP+ encourages Pakistani industries to upgrade their production processes and improve product quality standards to meet global regulatory compliance and compete well in the EU market. With improvements in the industrial sector, there is a high chance of attracting foreign direct investment (FDI) in the key areas of textiles and agriculture. Foreign investments can bring innovations in technological expertise and strategies, leading to an improved productivity ratio and a larger share in international markets.

The EU GSP+ scheme aims to promote sustainable growth in beneficiary countries through enhanced exports and the implementation of 27 international conventions. Pakistan's compliance with these conventions aims to promote good governance and structural reforms. Improving the human rights situation can help attain long-term social and political stability in the country.

Increase in Exports
Pakistan's GSP+ status has been pivotal in Pakistan's trade with EU countries. From 2014 to 2022, Pakistan's exports to the EU increased by 108% (The European Union Releases the Fourth GSP Report: Evaluating Implementation of 27 International Conventions in Beneficiary Countries, including Pakistan, 2023). Total trade volume has increased from €8.3 billion to €14.85 billion in the respective years (Delegation of the European Union to Pakistan, 2023). Pakistan can utilize the full potential of its GSP+ status by diversifying exports and adding value-added products to its export basket. Producing high-value commodities, involvement of the private sector, and foreign investment in the industrial sector are crucial. The EU's imports from the world are mainly concentrated in machinery, automobiles, electronics, and petroleum products (Javaid, 2022). Pakistani exports to the EU are not related to the sectors. This shows that Pakistan does not export high-demand products to the EU. Secondly, Pakistan faces competition in textile and clothing exports with Bangladesh, Vietnam, and India. Therefore, Pakistan needs not only to diversify its exports but also to produce high-demand commodities.

Export Competitiveness
As the GSP+ status gives Pakistan preferential access to the EU market with reduced or zero tariffs, Pakistan can increase its competitiveness and market share in the EU market by improving product quality and meeting international quality standards. Pakistan has the largest share in the textile sector of the EU, giving it a competitive edge and a leading position in the textile market. The most important opportunity that GPS+ offers to Pakistan is the extensive list of products it can export to the EU market. So, the country should diversify its export basket instead of depending on a single industry. Export competitiveness can increase Pakistan's export volumes, leading to high foreign exchange earnings. The increased export revenues can improve Pakistan's overall trade balance and contribute to economic stability and debt repayments.

Economic stability
Pakistan has been witnessing economic instability recently because of declining exports, huge trade deficits, and the consequent balance of payments crisis. The GSP+ status provides Pakistan with significant trade benefits and can boost the country's economic stability. Increased exports to the EU market under GSP+ allow Pakistan to strengthen foreign exchange reserves. With the increasing demand for Pakistani products in the EU market, the labor-intensive sectors will open more job opportunities. Above all, the GSP+ status strengthens Pakistan's economic relations with the EU and creates better opportunities for the country to upgrade integration in the global economy. In addition, Pakistan's stronger economic relations with the EU create political goodwill and a conducive environment in its favor for improving economic ties internationally.

7. Policy Lessons for Pakistan

Considering the challenges and opportunities for Pakistan's economic relations with the EU, several policy lessons can be drawn for upgrading the relations.

Enabling Economic Environment
The GSP+ status of Pakistan is very helpful in attaining economic stability by promoting trade and an enabling economic environment. Trade preferences incentivize more production and exports. As the GSP+ scheme is attached to international conventions about human rights, labor rights, climate change, and good governance, implementing these conventions improves the domestic economic environment. In this regard, Pakistan must learn from Bangladesh's example of strengthening the social protection system. In 2024, the EU granted a €45

million grant to the government of Bangladesh for the successful implementation of several social security reforms (Financial Express, 2024). Bangladesh has set an example of improving labor rights. Pakistan also needs to work on social security for labor. Potentially, this can prove a catalyst for higher productivity, efficiency, and long-term economic growth.

Diversifying Exports

The EU imports a trillion dollars ' worth of commodities annually from countries worldwide. Pakistan needs export diversification to increase its share in the EU market. As the global market is expanding in production, innovation, and value-addition, Pakistan's exports to the EU are limited to a few traditional commodities. Therefore, Pakistan needs diversification and competitiveness in production and exports to maximize the benefits of the GSP+ status. It should prioritize investing in innovation, skill development, and value-added production to boost exports in textile and other sectors. By capitalizing on sectors like IT, agriculture, value-added textiles, mining, and tourism, Pakistan can diversify its exports and strengthen its position in the EU and other international markets.

Seizing Opportunities in the Green Economy

The EU is promoting the concept of a green economy and has initiated a carbon emission tax on carbon-related imports. Pakistan must adopt clean energy and green economy mechanisms in its production process. As part of the GSP+ conventions, Pakistan must take steps to enforce environmental protection policies. Further, the EU plans to introduce a mandatory Carbon Border Adjustment Mechanism (CBAM) from January 2026 onward. This policy will impose charges on the import of carbon-intensive products like iron and steel, cement, fertilizers, aluminum, hydrogen, and electricity (Lobdell, 2023). This requires Pakistan to generate eco-friendly energy by developing solar and wind energy projects. Further, there is a need to undertake a clean industrial production process. In this regard, Pakistan's Special Investment Facilitation Council (SIFC) should pursue technology transfer and investment in green energy from the EU, given the latter's expertise in this area.

Strengthening Internal Balancing

The economic stability of a state is highly dependent on its internal stability and the availability of an environment conducive to business and economic activities. A joint approach by all stakeholders, including government, private sector, civil society, and international partners, will help foster a more stable, sustainable, and inclusive environment for economic growth. By creating a unified vision for the country and ensuring the peaceful resolution of conflicts, Pakistan can unlock its full economic potential and build a more prosperous future for its citizens.

8. Conclusion

The GSP+ scheme is a trade program that grants preferential access to the EU markets for Pakistani exports. It has provided Pakistan enormous opportunities and benefits to expand its export market. Consequently, Pakistan has substantially increased exports to the EU market after attaining the GSP+ status in January 2014. However, Pakistan's export share in the EU market falls short of its true potential; in particular, it is much less in the regional and global contexts. This is mainly because of low productivity, less diversified exports, and a lack of value addition and innovation in Pakistan. Further, Pakistani textile and clothing exports face competitive pressures from the same exports of regional competitors, including India, Bangladesh, and Vietnam.

Notwithstanding Pakistan's limitations in realizing the full potential of the GSP+ status, the scheme offers several opportunities to enhance economic competitiveness. It incentivizes surplus industrial production for exports. Zero or reduced tariffs allow the production of innovative and value-added goods per international standards. Moreover, trade concessions under the GSP+ scheme encourage export diversification, enabling low-performing industries to increase production. In this regard, Pakistan needs to undertake necessary policy measures. Foremost, it should bring about an enabling business environment by adopting business-friendly policies, ease of doing business measures, and labor rights protection. Then, the speedy and timely construction of Special Economic Zones (SEZs) under CPEC promises the increased and diversified production of commodities for domestic consumption and exports to international markets, including the EU market. Finally, Pakistan must integrate human rights and environmental protection measures with economic policies to meet obligations under the GSP+ scheme and avoid charges for exports of carbon-intensive products to the EU market.

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