



## 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 granted Pakistan GSP+ status upon its ratification of all international conventions required for admission to the scheme. The primary aim of the GSP+ scheme is to assist developing countries in alleviating poverty, promoting good governance, and fostering sustainable development. The scheme offers these states opportunities to trade with the EU at low or no tariffs, generating additional revenue. While Pakistan is currently the largest beneficiary of the GSP+ scheme, several challenges, primarily related to the diversification and competitiveness of its exports, limit the scope of its economic ties with the EU. However, the country can address these challenges and upgrade economic relations with the EU. Drawing on David Ricardo's theory of comparative advantage and the Heckscher-Ohlin model, and employing a qualitative research approach, this study analyzes Pakistan-EU trade relations to examine the challenges and opportunities and offers policy lessons to enhance Pakistan's economic relations with the EU.

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

### 1. Introduction

Pakistan and the European Union (EU) have maintained relations for over fifty years. The EU is Pakistan's largest trading partner and a substantial source of investment. Moreover, it is a strong political partner of Pakistan, as the two countries have a strategic engagement and cooperate in areas of mutual interest. The EU has sponsored hundreds of developments and environmental 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 have made it a pivotal front-line ally for the US and the EU. It extended multilateral cooperation to NATO forces fighting in Afghanistan and allowed NATO forces to use its airspace for logistics, communications, and emergencies (Shad, 2017). As a result of these efforts, US President George W. Bush designated Pakistan a major non-NATO ally in 2004 (ally, 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). 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-à-vis Pakistan due to the latter's resumption of democracy, deteriorating internal security, and mounting instability. The EU assistance to Pakistan under the Development Cooperation 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 (Commission). The EU also contributed €51 million under the Instrument for Stability (IFS) from 2009 to 2013 for seven social support programs (S. o. E. P. i. Pakistan). These programs

Received 11 Jan 2025; Accepted 10 Mar 2025; Published (online) 19 Mar 2025

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DOI: 10.61363/1t6hck71

included support for electoral reforms in Pakistan, post-crisis assessments, good governance, a trust fund, the 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 significant improvements 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 Pakistan's comparative advantage in trade with the EU is limited. In this context, the paper highlights the challenges and opportunities and proposes policy recommendations to expand 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 the *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 ([E. t. r. b. c. r. Pakistan](#)). David's theory advocates free trade, contending that countries are better off producing what they enjoy and importing goods in which they lack a comparative advantage ([Ibid](#)).

The Heckscher-Ohlin model, also known as the H-O model, extends the Ricardian theory of comparative advantage by explaining why some countries have a greater comparative advantage than others ([Academy, 2012](#)). 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 posits that capital-abundant countries produce capital-intensive goods, such as machinery and electronics, while labor-abundant countries produce labor-intensive goods, including textiles and garments. Therefore, a state gains a comparative advantage by exporting surplus commodities and importing the commodities that are least produced.

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 therefore imports them from the EU and other industrially advanced countries. The EU also benefits from importing cheap raw materials from Pakistan.

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

## **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 energy shortages and the 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 provides policy recommendations, including diversifying export portfolios, pursuing economic diplomacy, and improving labor and human rights

Dr. Hafiz A Pasha, in the article "GSP Plus Status and Compliance of Labor Standards," analyzes 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 maintain 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.

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 the 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 the GSP+ status. The authors discuss the instruments of the EU trade ties with the developing countries. They argue that the EU's diversified trade policies help developing states achieve economic and social development.

Dr. M. Riaz Shad, in the article "Interests and Norms in the 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, EU-Pakistan bilateral relations have been elevated to a strategic level. Pakistan's GSP+ status and political conditionality reflect the EU's policy preferences towards Pakistan.

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

#### 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. Today, the EU is Pakistan's second-most important trading partner, accounting for 15.3% of Pakistan's total trade in 2023 ([Commission, 2024](#)). Pakistani exports to the EU are dominated by textiles, clothing, leather, and agricultural and marine products. Specifically, Pakistan's trade relations with the EU are shaped by its GSP+ status, which it has held 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) in 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 the 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 in duties annually, increasing Pakistani exports' competitiveness in the EU market ([Commission, 2001](#)).

In 2004, Pakistan and the EU signed a new cooperation agreement, paving the way for stronger bilateral relations. The agreement seeks to enhance EU cooperation with Pakistan across various areas, including trade, development, climate change, industry and services, agriculture, livestock and fisheries, tourism, energy, science and technology, and the prevention of precursor chemicals and money laundering (European Union, 2004). While the agreement expanded the scope of Pakistan-EU cooperation, extending Pakistan's GSP status

became challenging after 2004. In 2006, Pakistan lost its trade concessions in the EU market after being disqualified from the GSP+ scheme. Consequently, its exports to the EU declined. 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 ([Commission, 2018](#)). This sub-group provided a forum to discuss trade issues between the two parties.

Following the 2010 floods in Pakistan, the EU granted an exceptional aid package 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 upon its ratification of all international conventions required under the scheme ([Malik, 2020](#)). Preferential access to the EU market under the GSP+ scheme required implementing 27 UN conventions on 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 beneficiary states with opportunities to enhance exports and generate additional revenues to support poverty reduction and the advancement of sustainable development goals. Pakistan’s inclusion in GSP+ represents a milestone in Pakistan-EU relations, strengthening trade ties.

In the first year of GSP+ status, Pakistan’s exports to the EU rose by 21%, worth \$1.32 billion (Economic Survey of Pakistan ([Finance](#))). From 2014 to 2023, Pakistani exports to the EU increased by 165 percent, reaching US\$9.2 billion in 2021-22 ([Survey](#)). 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% ([Ministry of Finance](#)).

Table 1 and Figure 1 below show trade flows and balance between Pakistan and the EU for 2013-2023.

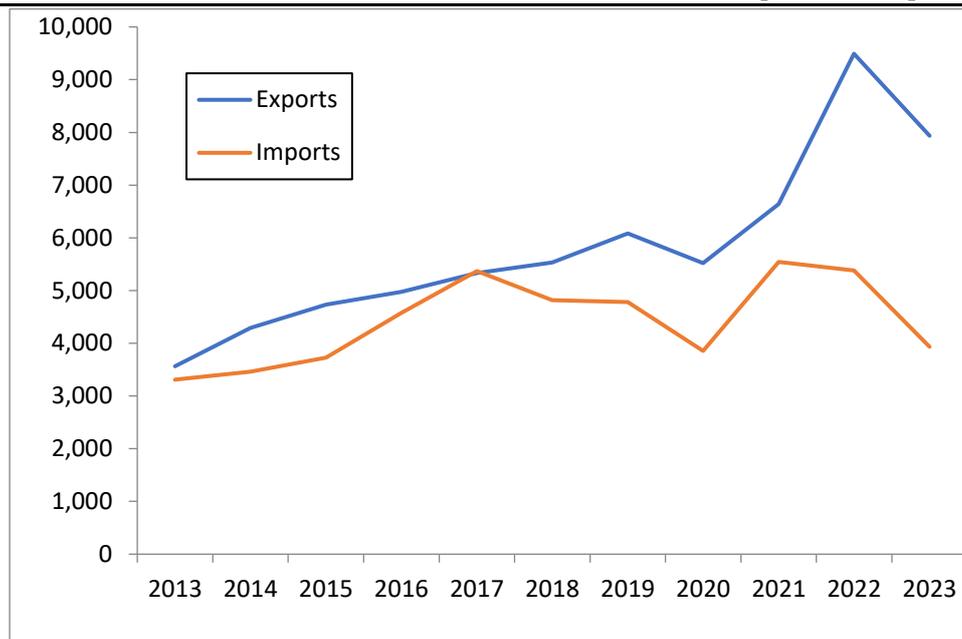
**Table 1: Pakistan-EU Trade Flows, 2013-2023 (Value: Mio €)**

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

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 weakness of Pakistani exports.



**Figure 1:** Pakistan-EU Trade Flows, 2013-2023 (Value: Mio €); **Source:** Eurostat – European Commission, 2024

Based on the above data, Pakistan-EU trade relations indicate several important trends. First, under the GSP+ status, Pakistan's exports to the EU have generally increased, reaching €9.49 billion in 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 face difficulties in the EU market without GSP+ status. Third, consequently, Pakistan has a meager share of the EU market. The country is the EU's 47th-largest trading partner, accounting for only 0.2% of its total trade ([Hussain, 2023](#)). Despite having a trade surplus, Pakistan does not export much to the EU compared to many other countries. In comparison, India is the EU's 9th-largest trading partner, while Bangladesh is the EU's 36th-largest.

## 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 full realization of Pakistan-EU economic relations. Key challenges are discussed here.

### 5.1 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 ([C. a. R. Pakistan](#)). These statistics show Pakistan's limited export basket and indicate that the country is missing out on 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 45th among the world's largest economies by GDP and 66th in its share of global exports ([\(OEC\)](#)). In comparison, India was the 5th-largest economy and the 12th-largest exporter in the world (Observatory of Economic Complexity- India, n.d.), while Bangladesh ranked 32nd in GDP and 55th in exports (Observatory of Economic Complexity- Bangladesh). These statistics indicate that Pakistan has a smaller economy than India's and Bangladesh's.

Pakistan needs to diversify its production and exports, focusing on 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 those of Bangladesh ([Observatory of Economic Complexity \(OEC\)](#)). 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 are not listed on the Global Export List. This indicates a need for

innovation and technological advancement to offer competition in the international market for Pakistani products.

### **5.2 Value-Added Exports**

Low-value-added exports refer to products in raw form or with minimal 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 in 2021 that Pakistani exports lack value addition ([Hussain, 2023](#)). The number of products Pakistan exported in 2003-2004 was 2311, which increased to 2792 in 2017-18. These statistics indicate that Pakistan has not recorded a significant increase in the number of products over the past 16 years. Over the past few years, the EU and the US have shifted their textile imports from Pakistan to Bangladesh due to higher quality and a wider variety. Therefore, low-value goods are a critical issue for Pakistan, as they offer low profit margins and generate revenue from international markets.

### **5.3 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 2023 research report by the Pakistan Institute of Development Economics states that Total Factor Productivity (TFP) is crucial for a state's sustainable economic growth. 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 operating at 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% ([Ibid](#)). Some sectors, including agriculture, leather goods, weaving, and spinning, are experiencing negative growth. Moreover, Pakistan's exports are not among the top 15 global exports. The top two global export sectors are goods and electronics, while Pakistan's exports are mainly textiles and agricultural products. Thus, lower productivity increases production costs, leading to price escalation and, hence, loss of competitiveness at the international level.

Pakistan's low TFP creates barriers to effectively utilizing the benefits of GSP+. As GSP+ offers tariff reductions, Pakistan's limited production capacity and low-quality standards prevent it from realizing its full export potential. Therefore, it is crucial to address this issue by investing in the IT sector, revising management policies, developing infrastructure, training human resources, and adopting 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.

### **5.4 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 global trends. Pakistan ranked 88<sup>th</sup> globally and 7<sup>th</sup> regionally in the Global Innovation Index 2023 ([Mubasal, 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 110<sup>th</sup> out of 137 countries in terms of infrastructure, just one rank above Bangladesh, while India ranked 66<sup>th</sup> ([Forum, 2017](#)). 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 meeting the domestic and international consumer demands. To meet market demand, exporters avail themselves of the services of efficient firms in the country. This increases competition among firms, leading to innovation and an expanding competitive window in the international market. However, in Pakistan, the government subsidizes uncompetitive and inefficient firms that use outdated production technologies ([Shad, 2021](#)). 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 ([R. Shahid, 2018](#)). Hence, there is a correlation between internal market exposure and innovation. If firms compete for trade, there is a chance of innovation in market development



strategies. Therefore, Pakistan needs to foster a conducive environment for innovation to utilize its full potential in the global market.

### 5.5 Compliance with GSP+ Conditionality

The GSP+ status was granted to Pakistan in 2014 and will last until 2027, following its extension for another 4 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 human rights conventions and blasphemy laws. The European Union Delegation to Pakistan has expressed concerns regarding Pakistan's lack of compliance with human rights conventions ([E. U. D. t. Pakistan](#)). 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 Sri Lanka's GSP+ status due to alleged human rights violations. This severely affected the garment industry of Sri Lanka ([Politico, 2010](#)). Without GSP+ status, Pakistan would have to pay an MFN tariff of 12% for most traded commodities to the EU ([Reporting](#)). Hence, revoking or discontinuing GSP+ status will undermine the competitiveness of Pakistani exports in the EU market.

### 5.6 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 a point where the EU must explicitly align with the US to contain China's 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, the UK previously played a key role in raising and supporting Pakistan's case for GSP+ status within the EU system. However, this pivotal support is no longer available following the UK's exit from the EU.

## 6. Opportunities for Pakistan-EU Economic Relations

Notwithstanding the challenges, Pakistan's GSP+ status offers several opportunities to boost exports, increase production, diversify exports, and achieve economic stability.

### 6.1 Utilization Rate of GSP+

The GSP+ status has provided Pakistan with numerous benefits. Regarding utilization rates, Pakistan ranks first 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 likelihood of attracting foreign direct investment (FDI) in key sectors such as textiles and agriculture.

Foreign investments can bring technological innovations and strategies, leading to higher productivity and a larger share of international markets. The EU GSP+ scheme aims to promote sustainable growth in beneficiary countries by enhancing exports and implementing 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.

## **6.2 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 over the same period ([Pakistan, 2023](#)). Pakistan can fully leverage its GSP+ status by diversifying exports and adding value-added products to its export basket.

Producing high-value commodities, private-sector involvement, 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](#)). Pakistani exports to the EU are not sector-specific. 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.

## **6.3 Export Competitiveness**

As the GSP+ status gives Pakistan preferential access to the EU market with reduced or zero tariffs, it can increase its competitiveness and market share by improving product quality and meeting international quality standards. Pakistan has the largest share in the EU textile sector, giving it a competitive edge and a leading position in the market.

The most important opportunity GSP+ offers Pakistan is its extensive product list for export to the EU market. So, the country should diversify its export basket rather than relying on a single industry. Export competitiveness can increase Pakistan's export volumes, thereby boosting foreign exchange earnings. The increased export revenues can improve Pakistan's overall trade balance and contribute to economic stability and debt repayments.

## **6.4 Economic stability**

Pakistan has been experiencing economic instability recently due to declining exports, large trade deficits, and the resulting 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 its integration in the global economy. In addition, Pakistan's stronger economic relations with the EU create political goodwill and a conducive environment for improving its international economic ties.

## **7. Policy Lessons for Pakistan**

Considering the challenges and opportunities in Pakistan's economic relations with the EU, several policy lessons can be drawn to improve them.

### **7.1 Enabling Economic Environment**

Pakistan's GSP+ status is very helpful in achieving economic stability by promoting trade and fostering 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 ([English Desk](#)). Bangladesh has set an example of improving labor rights. Pakistan also needs to improve social security for workers. Potentially, this can serve as a catalyst for higher productivity, greater efficiency, and long-term economic growth.



## 7.2 Diversifying Exports

The EU imports a trillion dollars' worth of commodities annually from around the world. Pakistan needs to diversify its exports to increase its share of 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 to diversify its production and enhance its export competitiveness to maximize the benefits of the GSP+ status.

It should prioritize investing in innovation, skills development, and value-added production to boost textile and other sector exports. 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.

## 7.3 Seizing Opportunities in the Green Economy

The EU is promoting the concept of a green economy and has introduced a carbon tax on carbon-intensive 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](#)). 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.

## 7.4 Strengthening Internal Balancing

The economic stability of a state is highly dependent on its internal stability and on 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 Pakistani exports preferential access to EU markets. It has provided Pakistan with 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, particularly in regional and global contexts.

This is primarily due to low productivity, limited export diversification, and a lack of value addition and innovation in Pakistan. Further, Pakistani textile and clothing exports face competitive pressure from regional competitors, including India, Bangladesh, and Vietnam. Notwithstanding Pakistan's limitations in realizing the full potential of GSP+, the scheme offers several opportunities to enhance economic competitiveness. It incentivizes surplus industrial production for exports.

Zero or reduced tariffs enable the production of innovative and value-added goods that meet 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 foster an enabling business environment by adopting business-friendly policies, implementing measures to ease doing business, and protecting labor rights.

Then, the timely construction of Special Economic Zones (SEZs) under CPEC promises increased, diversified production of commodities for domestic consumption and for export to international markets, including the EU market. Ultimately, Pakistan must integrate human rights and environmental protection measures with its economic policies to meet the obligations under the GSP+ scheme and avoid charges for exporting carbon-intensive products to the EU market.

### Funding

This research did not receive any funding.

### Data availability

The datasets generated during and/or analyzed during the current study are available from the corresponding author on reasonable request.

### Ethics approval and consent

Not applicable. This study uses publicly available, de-identified secondary data and does not involve human participants or personal information.

### Competing interests

The authors declare no competing interests.

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