**Abstract**
The EU granted GSP+ status of Pakistan aimed to foster economic stability and good governance in the country. However, Pakistan’s progress vis-à-vis both objectives remains far below the potential. It could not significantly take advantage of enhanced tariff reductions under GSP+ to realize the diversification and value-addition of its exports. Meanwhile, Pakistan’s performance in implementing 27 UN conventions—mandatory for a GSP+ beneficiary—needs improvement. The EU assessed the country’s overall performance, in this regard, as satisfactory but noted certain human rights violations. In this connection, it has recently started a process for possible “temporary withdrawal” of Pakistan’s GSP+ status. Drawing on the theory of Discursive Institutionalism, this paper analyses challenges and prospects for the GSP+ status of Pakistan. The paper argues that the GSP+ withdrawal will aggravate the economic vulnerability of Pakistan; however, the EU will possibly not exercise this option in view of various economic and political factors.

**Introduction**

Pakistan’s historical trajectory of economic growth is characterised by a fluctuating performance and a number of missed opportunities. The country has recurrently availed itself of the borrowings from the IMF, including three times since 2008. However, it has failed in improving economic performance by attracting Foreign Direct Investment (FDI) and enhancing value-added exports.

Since 2013, Pakistani exports have experienced no or little increase with a maximum worth US$ 23.7 billion in 2019 as against the exports worth US$ 50 billion in the same year (World Bank, n.d.). While the government officials expect the businessmen to diversify the export base and make the existing exports value-added, the latter view the higher taxes/duties and lack of government incentives as key hurdles in boosting exports.

Against this backdrop, Pakistan’s GSP+ status granted by the European Union (EU) since January 2014 carries immense importance. GSP+ status, which gives enhanced tariff reductions to a beneficiary country, has helped Pakistan enhance its exports to the European market from €4.538 billion in 2013 to €7.492 billion in 2019, an increase of 65 percent (Dawn, 2020). Pakistan’s overall exports saw a decline of 0.6 percent during 2014 and 2018, but its exports to the EU experienced an increase...
of 4.3 percent in terms of compound annual growth rate (CAGR) in the period 2014-2019 (Pakistan Business Council, 2020, p. 10). However, trade concessions under the GSP+ status are not a free fall. A beneficiary country should demonstrate satisfactory compliance with the 27 UN conventions related to human rights, governance and environment. The EU publishes assessment reports every two years in this regard. European Commission has acknowledged Pakistan’s overall efforts to implement UN conventions in its biennial assessment reports. However, it has raised concerns over the human rights situation in the country, particularly about the freedom of expression and minorities’ rights in the country. Lately, the European Parliament has passed a resolution to review Pakistan’s GSP+ status in the context of particular socio-cultural events.

This paper analyses the challenges and prospects for the GSP+ status of Pakistan by taking various factors and actors into account. It starts with a theoretical perspective on the characterisation of EU’s relations with third world countries. This is followed by an essential understanding of the historical evolution and the nature of the EU GSP scheme. This context leads to highlight how Pakistan struggled to benefit from the EU trade preferences and eventually achieved GSP+ status in January 2014. Finally, the paper underlines the politico-economic challenges in connection with the EU’s ‘temporary withdrawal’ move and discusses prospects in this regard.

Theoretical Perspective

The analytical framework of this study is based on the characterisation of EU foreign policy vis-à-vis developing countries. From this perspective, the study draws on the Theory of Discursive Institutionalism (DI). The DI is the fourth strand of the “new institutionalism” developed through the work of a number of authors and summarised and labelled by Vivien Schmidt (Schmid, 2011). It asserts that institutions (ideational structures) cannot be separated from actors who constitute as well as change them. The DI highlights the role of institutions, ideas and discourse in politics. It argues that actors engage in discourse to generate and deliberate ideas regarding their political behaviour in an institutional context in accordance with the “logic of communication” (Schmid, 2011, p. 47).

Different discourses about the EU’s foreign policy have been identified that reflect the nature and goals of its external policy in the light of its distinct identity. Schmidt has identified four such discourses (Schmidt, 2009). The first one is the “pragmatic discourse”, which sees the EU from the viewpoint of efficiency and utility linked to expanding the free market and ensuring regional security. The second one is the “normative discourse”, which derives from ethics and moral commitments shared by the European community in relation to peace, prosperity, tolerance and mutual respect. The third discourse, named “principled discourse”, views the EU from the angle of its commitment to universal values of democracy, human rights, and the rule of law. The fourth discourse, named “strategic discourse”, focuses on the EU’s role as a global actor and how it can pursue its strategic interests. This discourse defines the EU’s strategic interests not just in terms of a pragmatic approach aimed at promoting free trade and regional security but also in terms of normative approach aimed at promoting norms and principles of human rights and democracy. Schmidt argues that the strategic discourse better explains the nature of EU foreign policy. This paper follows the strategic discourse to understand the EU approach vis-à-vis Pakistan, particularly in the context of the latter’s GSP+ status.

EU GSP Scheme

The Generalised System of Preferences (GSP) refers to the trade concessions offered to the developing/least developed countries in order to accelerate their economic growth on the basis of the development needs of a particular country (Fakhar, 2005, p. 395). The main reason behind the creation of the GSP was the recognition of the need that the rules of trade liberalisation should take account of different development levels and needs. The creation of the GSP was first recommended by the “United Nations Conference on Trade and Development (UNCTAD)” in 1968. The European Community was the first among preference-giving parties to adopt its own GSP in 1971. Initially, the EU GSP was extended to a
limited number of developing countries, and it covered imports consisted of manufactured and semi-manufactured products, though later it included a limited number of processed agricultural products. Since then, it has undergone substantial changes in its administrative structure as well as in its substance.

The EU adopts its GSP scheme in 10-year cycles, reviewed approximately every three years through a Council Regulation. The last Regulation of 10-year cycle 1995-2004 was the first most comprehensive in terms of coverage of products, GSP arrangements and number of countries. The GSP Regulation, introduced for the period 2002-2004, offered lower or zeroed tariffs for exports of 178 developing countries and territories to the EU market. It consolidated different frameworks introduced since 1995 into five GSP arrangements. These arrangements included a general arrangement, two incentive arrangements designed for the promotion of labour rights and environmental protection, and two special arrangements embracing the least developed countries and the countries fighting the production of illegal drugs and their trafficking.

In its next GSP scheme 2006-2013, the EU introduced key changes. First, it reduced the five GSP arrangements to three: the general arrangement, the EBA, and a new special GSP+ for “vulnerable countries with special development needs”. Second, the EU attempted to convert negative conditionality into positive conditionality, by which a beneficiary country should ratify and effectively implement international conventions. Failure or violation would result in the rejection or withdrawal of preferential benefits instead of punishments or sanctions. The salient feature of the new GSP scheme was that it replaced the three former special incentive arrangements—drugs, labour rights and environment—with a new single arrangement, named GSP+. In order to benefit from the GSP+ scheme, developing countries have to fulfil a specific criterion (EEAS, n.d.). First, a country has to ratify and effectively implement a list of 27 international conventions pertaining to human and labour rights, good governance and environmental protection. Second, a country has to demonstrate that it is a small beneficiary, meaning that its GSP exports to the European market do not constitute more than 1% of the EU GSP imports from all countries. Under the GSP+ scheme 2014-23, this criterion has been raised to 2%.

**Pakistan as Beneficiary of GSP Scheme**

Trade remains the central feature of Pakistan’s relations with the EU; the latter serves as the top market for Pakistani exports. Textiles and clothing, along with leather, farm and seafood products, comprise the major Pakistani exports to the EU. The EU accounts for 1/3rd of Pakistan’s total exports (EEAS, n.d.). As Pakistan lacks diversification of exports, textiles and clothing constitute more than half of Pakistan’s total exports, while they account for 76 percent of its total exports to the EU (EEAS, n.d.). On the other hand, Pakistan has only a meagre share in the European market. This shows that the EU is far more important for Pakistan in terms of trade. Consequently, the GSP scheme of the EU bears a significant impact on Pakistan’s export sector and, therefore, remains a key economic interest of the country.

After 9/11, the EU announced a comprehensive package of assistance to Pakistan that also included the provision of trade concessions under its GSP drug arrangement. Pakistan earned a tremendous benefit from the EU trade package. Its exports to the EU15 increased from €2.91 billion in 2002 to €3.25 billion in 2004 (Delegation of the European Union to Pakistan). Textiles and clothing exports from Pakistan almost doubled in worth (Fakhar, 2005, p. 407). Pakistan’s utilisation rate of tariff reductions in textiles and clothing exports was more than 80 percent in 2002 (Fakhar, 2005, p. 399). In 2002, India challenged the legality of the EU’s drug arrangement before the WTO’s DSB, which, in 2004, declared it to be inconsistent with the principle of non-discrimination. Consequently, 12 developing countries, including Pakistan, lost the preferential benefits under this arrangement. Pakistan faced not only normal MFN duties of around 11% but also anti-dumping duty of 13.1% on cotton bed linen. Except for Pakistan, all of the countries benefiting from the former drug arrangement got qualified for the revised GSP+ scheme with effect from 1st January 2006.

Pakistan could not qualify because of both
technical and conditionality grounds. Although Pakistan did not qualify for the GSP+, the EU reduced anti-dumping duty on the Pakistani bed linen exports and later included the country in its GSP general arrangement. Due to the loss of enhanced trade concessions, Pakistani exports to the EU experienced a decline that subsequently increased because of the economic recession in the European power crisis in Pakistan. From 2007 onwards, Pakistan undertook diplomatic efforts for acquiring GSP+ status, arguing that it should be treated as a special case because of its key role in the war against terrorism and the sacrifices it made. Pakistan’s politico-diplomatic efforts had an impact on decision-makers in Brussels, but it could not achieve the desired results. Since 2009, Pakistan has made consistent efforts to get GSP+ status from the EU, which has made a commitment to include the country in its scheme in 2014.

However, the 2010 floods in Pakistan, which badly affected people and crops, led to a major shift in the EU approach towards Pakistan. In the wake of this disaster, the EU, alongside its member states, not only provided humanitarian assistance to Pakistan but also announced a trade aid package for it. This package of “additional autonomous trade preferences" comprised tariff-free access to the European market for 75 dutiable goods from Pakistan (Directorate-General for Trade, 2010). The package was limited to two years with the third year conditional on an assessment, and it did not include tariff cuts for bed linen, the most important export from Pakistan, because of opposition from the EU industry. It needed a waiver from WTO’s Council for Trade in Goods before its implementation as of 1st January 2011. But it remained at a standstill for 15 months due to opposition from the competing textile exporters such as India, Bangladesh, Brazil and Indonesia. Finally, it got approved in February 2012 when opposing countries dropped their objections after the EU amended the scheme by applying tariff-rate quotas on 20 products rather than full liberalisation.

Finally, the EU included Pakistan in its GSP+ scheme after the latter ratified all the UN conventions required for admission to the scheme. In addition, the EU revised the GSP scheme by increasing the condition of import threshold for GSP+ beneficiaries from 1% to 2%. Pakistan easily met the revised criteria because its GSP export share in the EU market was around 1.5%.

Challenges to Pakistan’s GSP+ Status

Given that the EU’s GSP+ arrangement is a special incentive for sustainable development and good governance, it is tied with political criteria defined in terms of 27 UN conventions. These conventions are related to human rights {7}, labour rights {8}, environment {8}, narcotics control {3} and corruption {1} (Ministry of Commerce, GoP). European Commission performs biennial assessment reports to confirm to the European Parliament and European Council that a beneficiary country is implementing the 27 UN conventions. In case of serious enforcement gaps, the EU institutions may decide for a ‘temporary withdrawal’ of the GSP+ status. European Commission published assessment reports on Pakistan’s performance in implementing the UN conventions in 2016, 2018 and 2020. All three reports were satisfactory as the country showed significant progress in undertaking legislation and creating new institutions to meet the criteria of the convention.

However, all reports pointed to the poor implementation with regard to the minority rights and the freedom of expression.

In a move that came as a surprise to Pakistan, the European Parliament adopted a resolution on April 29, 2021, asking the European Commission and the European External Action Service (EEAS) to review the GSP+ status of Pakistan and look into the possibility of its temporary withdrawal. The resolution made a point that Pakistan failed to address the misuse of blasphemy laws. In this regard, it referred to two cases. The resolution stated that a Pakistani Christian couple was sentenced to false accusations in 2014 and their appeal was not yet entertained. Further, it expressed concern over the violent anti-France protests in the country and the statements made by the governmental authorities in this connection. The resolution provoked an aggrieved response in Pakistan’s official and unofficial circles as it was perceived unjustified being associated with a specific context.
Factually, human rights issues exist in Pakistan because of the reasons ranging from governance to the socio-cultural complexities. But these issues are not a new phenomenon, rather have been persisting for long. This indicates that EU resolution against Pakistan on human rights grounds has to do with other factors as well. Firstly, Brexit is an important factor in this respect. Throughout the evolution of EU-Pakistan relationship, particularly in post-9/11 period, UK has been instrumental in advocating Pakistan’s interests in the EU. The efforts made by the country in favor of Pakistan led the EU to hold summit level dialogue with the latter in 2009 and 2010. Subsequently, British Prime Minister of the time, David Cameron, played key role in the EU’s decision to grant Pakistan a special trade package in the midst of the 2010 devastating floods in the country. Again, UK’s support was a decisive factor in the grant of GSP+ status to Pakistan with effect from January 2014. UK’s officials and representatives in the EU institutions had been safeguarding Pakistan’s case till Brexit came into force from January 2021 onwards. Following the Brexit, Pakistan has lost the support of 73 former British Members of the European Parliament (MEPs) who used to vote for the country and promote its case.

Secondly, the changing regional geopolitical environment should also be taken into account with regard to the EU’s strict stance on Pakistan’s GSP+ status. Rapid change in EU-Pakistan relations after 9/11 was the result of EU’s commitment to cooperate with the US in war against terrorism and the US influence over the EU for closer engagement with Pakistan. The US presence in Afghanistan together with its European allies since 2001 has been much dependent on Pakistan in terms of logistics, operational and political support. Consequently, the EU has been explicitly flexible and accommodative to Pakistan. As the US is realizing complete exit from Afghanistan, its strategy to deal with Pakistan is visibly changing. US military and economic assistance to Pakistan has been diminishing sharply in recent years. There is a general perception in Pakistan that the country’s continuing inclusion in the grey list of the Paris-based Financial Action Task Force (FATF) is possibly related to the US policy of pressuring it to undertake counter-terrorism measures and play effective role in the Afghan political settlement. In other words, with the changing geopolitical regional landscape, both US and EU are inclined to change the terms of engagement with Pakistan.

Whether the EU withdraws Pakistan’s GSP+ status prematurely following the European Parliament move or later decides not to include it in the new GSP scheme from January 2024 onwards, the country will face an economic cost in both cases. This argument is centered on the factor of Pakistan’s economic vulnerability—the key raison d’être for the award of GSP+ status to Pakistan. Pakistan’s economy remains vulnerable despite the incentives for stabilization under the GSP+ status. Because of its centrality, the factor of economic vulnerability needs more elaboration. The EU is the second largest trading partner of Pakistan, having a share of 14.3 percent in the country’s total trade in 2020. Notably, it is the most important destination for the Pakistani exports, accounting for 28 percent of its total exports in 2020 (European Commission, n.d.). Pakistan’s exports are highly non-diversified being majorly concentrated in the textiles and clothing sector. This non-diversification factor is obviously visible in Pakistan’s exports to the EU as well. The textiles and clothing exports account for more than 75 percent of Pakistan’s exports to the European market (European Commission, n.d.). In addition, Pakistan’s textiles and clothing exports lack value-addition and competitiveness, particularly in comparison with the same Chinese and Indian exports to the EU. In view of these factors, the GSP+ status assumes even more importance for Pakistan. This means that the economic value of GSP+ status for Pakistan needs to be seen in the context of the country’s economic vulnerability. Notably, during the COVID-19 pandemic, textiles and clothing exports were vital in the fragile economic recovery of Pakistan as the country received more orders in the midst of closure of factories in China, India and Bangladesh.

Admittedly, Pakistan has failed to take the much needed advantage of the GSP+ status. The country has almost missed another golden opportunity for diversifying the export base and streamlining the value-added exports. GSP+ status grants deep duty
reductions on 66 percent of all tariff lines covering more than 6000 products. This facility actually offers incentives to a beneficiary country to undertake diversification and value-addition of its exports. Pakistan has not been able to achieve this objective even after seven years since it got the GSP+ status. The country is not benefiting from tariff reductions on most of the product categories as its exports are limited to few categories, mainly textiles and clothing. With these economic vulnerabilities, the withdrawal of the GSP+ status will have serious negative economic consequences for Pakistan. The country will definitely lose market share in relation to the competitive exporting countries and those that continue to benefit from the GSP+ scheme.

In addition, withdrawal of the GSP+ status will create a negative perception for Pakistan adversely affecting the market image of the country and its exports. Particularly, this will have implications for investment in Pakistan. In this regard, the country is already suffering due to its grey-listing by the FATF. According to a study, the pre-listing may have cost Pakistan GDP losses worth $38 billion in the period 2008-2019 (Rana, 2021). GSP+ withdrawal will surely result in still worse consequences.

Future Prospects

There are four factors that may lead the EU to continue the GSP+ status of Pakistan. First, the European Commission may not find sufficient evidence for temporary withdrawal of the facility. However, Commission’s previous biennial assessment reports indicate that a case for GSP+ withdrawal can be made on human rights grounds. But, at the same time, there is a room for justification in favour of continuity of the status. In fact, the events that invoked the European Parliament resolution can not be characterized as extraordinary incidents involving gross breach of human rights. These are long-existing structural issues of Pakistan and the EU reports acknowledge Pakistani efforts to address them. Therefore, the EU may decide to continue the GSP+ status of Pakistan particularly when other factors are taken into consideration.

In this vein, another factor is related to the timing and context of the withdrawal move. Overall time period of Pakistan’s GSP+ status is ten years that ends in December 2023. Pakistan is just two and half years away to complete the maximum duration of the scheme. The EU may decide to let the country retain the trade preferences for the remaining short period. In addition, the immediate context of the EU resolution is not much convincing for making a withdrawal case. While the issues underscored in the resolution are real, the context of the resolution is eventually related to complicated and rather controversial socio-cultural issues. GSP+ withdrawal justified in this context will provoke anti-EU sentiment among the people. The EU is mostly mindful of public sentiments and soft image in its relations with developing countries. Thus, the timing and the context may also go in favour of the continuity of Pakistan’s GSP+ status.

Third factor that may neutralize the EU move is the diplomatic efforts made by the Pakistani leadership. In June 2021, two important meetings took place between the EU and Pakistan. Meeting of the Joint Pakistan-EU Commission was conducted on June 16 following the meetings of sub-groups on development cooperation, trade and democracy/human rights. This was followed by a meeting between Shah Mahmood Qureshi, Pakistani Foreign Minister, and Josep Borrell, EU High Representative for Foreign Affairs and Security Policy, at Antalya Diplomacy Forum in Turkey. In both meetings, Pakistani officials informed the EU delegates about the measures undertaken for an effective implementation of the UN conventions (MOFA, n.d.; Sajjad, 2021).

Lastly, in geopolitical terms, it is a crucial time for the US and its European allies in view of their complete withdrawal from Afghanistan till September 2021. An explicit politico-economic alienation of Pakistan will not serve their interests, particularly related to peace in Afghanistan. Pakistan is viewed as key actor in achieving the objective of political settlement in Afghanistan. Even after the US exit from Afghanistan, Pakistan will remain crucial for managing any adverse developments in Afghanistan. In addition, Pakistan’s stability is a pre-condition for realizing peace and security in Afghanistan. The US and EU have themselves been acknowledging this reality during their post-9/11 engagement in Afghanistan. Therefore, this geopolitical consideration may ameliorate EU’s approach vis-à-
Conclusion

Subsequent to Pakistan’s support for the US-led international intervention in Afghanistan, Pakistan was granted trade concessions by the EU from 2002 to 2004. However, it was not included in EU GSP+ scheme, 2006-13 for not qualifying the scheme’s political criteria of signing and ratifying the 27 UN conventions. Following the necessary measures undertaken by Pakistan in this regard, the country was ultimately granted GSP+ status from January 2014 onwards along with another eight beneficiaries. Deep tariff reductions under the GSP+ status come with a political conditionality, viz. an effective implementation of the 27 UN conventions related to human rights, governance and environment. The continuity of GSP+ status is subject to the European Commission’s biennial assessment reports on the beneficiary’s record in compliance with these conventions. Commission’s assessment reports on Pakistan published in 2016, 2018 and 2020 were overall positive though issues related to human rights were pointed out.

More recently, the European Parliament has moved a resolution to look into the possibility of temporary withdrawal of Pakistan’s GSP+ status on human rights grounds. In view of the economic vulnerability of Pakistan, withdrawal of the GSP+ status will have a serious economic cost for the country. Pakistan’s exports remain highly non-diversified comprising mainly textiles and clothing products. Being the largest destination for Pakistani exports, the EU has a lion’s share in absorbing textiles and clothing exports of the country. Therefore, withdrawal of Pakistan’s GSP+ status, sooner or later, will undermine the competitiveness of Pakistani exports. However, the EU may not decide to withdraw Pakistan’s GSP+ status in view of various economic and political reasons.
References


Pakistan Business Council.


