

## EASING OF FINANCIAL CURBS ON PAKISTAN BY EUROPEAN UNION - AN ANALYSIS

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*(Views expressed in the brief are those of the author, and do  
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### ***Introduction:***

In a noteworthy development on March 29, 2023, the European Union (EU) decided to ease financial curbs on Pakistan and remove it from the list of High-Risk Third Countries.<sup>1</sup> This decision represents a significant shift in the EU's perception of Pakistan's financial system and opens avenues for enhanced economic cooperation. This highlights Pakistan's efforts to improve its anti-money laundering and counter-terrorism financing framework, diplomatic engagements with the EU, and the potential benefits for both parties.

In 2018, the EU included Pakistan in its list of high-risk third countries due to concerns over money laundering and terrorism financing. This listing subjected Pakistan to enhanced scrutiny and stricter regulations in financial transactions with EU member states. This designation made it difficult for Pakistani businesses and financial institutions to access European markets, hindering trade and investment opportunities.<sup>2</sup> However, in 2023, the EU decided to remove Pakistan from this list, signalling a change in its perception of the country's financial system and its regulatory framework.

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1 "EU eases financing curbs on Pakistan," Tribune, March 29, 2023, <https://tribune.com.pk/story/2408783/eu-removes-pakistan-from-list-of-high-risk-third-countries>  
2 Abid Hussain, "EU removes Pakistan from list of high-risk countries," Al Jazeera, March 29, 2023, <https://www.aljazeera.com/news/2023/3/29/eu-removes-pakistan-from-list-of-high-risk-countries>

***Factors Leading to the latest Decision:***

- One of the key factors behind the EU's decision to remove from the list of high-risk countries was Pakistan's commitment to strengthening its anti-money laundering and counter-terrorism financing (AML/CTF) framework. The country has made significant progress in recent years, implementing measures recommended by international financial watchdogs such as the Financial Action Task Force (FATF), well before the stipulated time limit.<sup>3</sup> These efforts have resulted in improved compliance with international standards, enhancing the EU's confidence in Pakistan's financial system.
- Pakistan has actively engaged with the EU to address concerns related to financial transparency and security. The (Pakistani) government's diplomatic efforts, including high-level visits and discussions, have helped forge better understanding of Pakistan's reforms and its determination to combat money laundering and terrorism financing. Such engagements have played a crucial role in building trust and facilitating the EU's decision to ease financial curbs.
- The EU's decision also reflects the potential for increased economic cooperation between the bloc and Pakistan. By removing financial restrictions, the EU aims to stimulate trade and investment opportunities, promoting economic growth in both regions. Pakistan's strategic location, abundant resources, and emerging market potential makes it an attractive partner for EU businesses looking to expand their global footprint.

***Implications of the Decision:***

- The EU's decision to ease financial curbs will have a positive impact on Pakistan's economy. It will facilitate access to international financial markets, increase foreign direct investment, and promote trade relations. Improved economic cooperation with the EU can help Pakistan diversify its export base, enhance its competitiveness, and create employment opportunities.
- The decision signifies an important step towards strengthening bilateral relations between the EU and Pakistan. Enhanced cooperation in various sectors, including trade, investment, and development projects, can pave the way for mutually beneficial outcomes.

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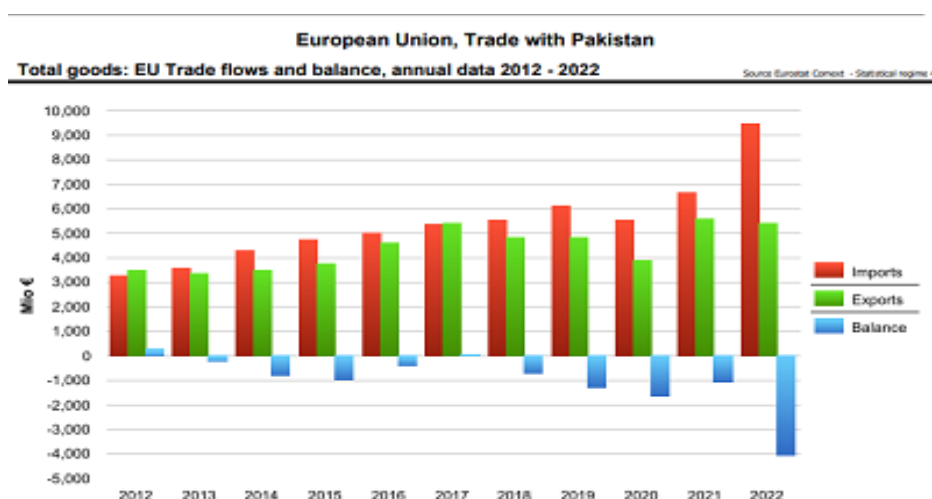
<sup>3</sup> Tahir Sherani, "FATF removes Pakistan from grey list after 4 years," Dawn, October 21, 2022, <https://www.dawn.com/news/1716183>

- Pakistan's improved financial credibility can contribute to regional stability. A strong and transparent financial system is crucial for countering illicit financial flows, reducing corruption, and curbing terrorist financing. By supporting Pakistan's progress in these areas, the EU can contribute to a stable and secure South Asian region.
- Pakistan's removal from the high-risk list carries a positive symbolic value and may help improve the country's reputation in the international community. Improved reputation can facilitate diplomatic relations, trade agreements, and cooperation in various sectors, benefiting Pakistan's overall diplomatic and economic standing.

### ***Pakistan EU Trade Relationship:***

The trade relationship between Pakistan and the EU has been significant, with both parties engaged in growing bilateral trade activities. In recent years, the total trade volume between Pakistan and the EU has shown a positive trend mainly due to Pakistan's GSP+ status. According to data from the European Commission, the total trade in goods between Pakistan and the EU reached approximately €14.85 billion in 2022.<sup>4</sup> This indicates the substantial scale of economic exchange between the two entities.

There is considerable potential for increasing mutual trade between Pakistan and the EU. Pakistan has been working on improving its trade competitiveness and expanding and diversifying its export base. Efforts to enhance product quality, comply with international standards, and explore new markets within the EU can lead to increased trade volumes and a more balanced trade relationship.



Source: European Commissions

<sup>4</sup> "European Union, Trade in goods with Pakistan," European Commission, accessed on May 22, 2023, [https://webgate.ec.europa.eu/isdb\\_results/factsheets/country/details\\_pakistan\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_pakistan_en.pdf)

<sup>5</sup> ibid

The EU has consistently been one of Pakistan's largest trading partners. The EU market provides Pakistan with a significant outlet for its exports, contributing to the country's economic growth. Likewise, Pakistan benefits from accessing high-quality goods and advanced technologies from the EU through imports.

The main export items from Pakistan to the EU include textiles, apparel, leather products, surgical instruments, and agricultural goods. Textiles and clothing account for a significant portion of Pakistan's exports to the EU. Major imports from the EU to Pakistan consist of machinery and mechanical appliances, chemicals, pharmaceutical products, vehicles, and electrical machinery. These imports play a vital role in supporting Pakistan's domestic industries and fulfilling its domestic demand for specialized products.

### ***Pakistan's GSP+ Status:***

Pakistan was granted GSP+ status by the EU in 2014. The decision was based on Pakistan's commitment to the effective implementation of international conventions related to human rights, labour rights, environmental protection, and good governance. The GSP+ status has provided Pakistan with improved market access and enhanced export opportunities in the EU. The GSP+ status has had a positive impact on Pakistan's exports to the EU market. It has facilitated increased export volumes and diversification of Pakistani products.<sup>6</sup>In essence, as acknowledged by Pakistan and the EU, this framework has been mutually-beneficial for both sides.

The preferential trade access has helped Pakistan in maintaining and expanding its market share in the EU. The GSP facility granted for ten years (2014-23), allowed Pakistan duty-free access to over 66% of its exports to the EU.<sup>7</sup> Due to this facility the bilateral trade between Pakistan and the EU went up to US\$15.55 billion in 2022, from US\$9.17 billion in 2013. EU imports from Pakistan were worth US\$9.94 billion while exports to Pakistan were to the tune of US\$5.61 billion during 2022, according to the United Nations COMTRADE database on international trade.<sup>8</sup>

The GSP+ status has contributed to Pakistan's economic development by supporting export-oriented industries and creating employment opportunities. The GSP+ status has stimulated investment and encouraged businesses in Pakistan to improve their competitiveness and compliance with international standards leading to trade balance in favour of Pakistan since it attained its GSP+

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<sup>6</sup> Country info, "What is the GSP+?" GSP Hub, accessed on May 22, 2023, <https://gsphub.eu/country-info/Pakistan>

<sup>7</sup> "GSP Schemes for which Pakistan is a Beneficiary," TDAP, accessed on May 22, 2023, <https://tdap.gov.pk/gsp-schemes-for-which-pakistan-is-a-beneficiary/>

<sup>8</sup> <https://tradingeconomics.com/>

status in 2014. This can be ascertained from the charts below which show annual trade volume in the form of exports and imports between the EU and Pakistan (figure 1 and 2).

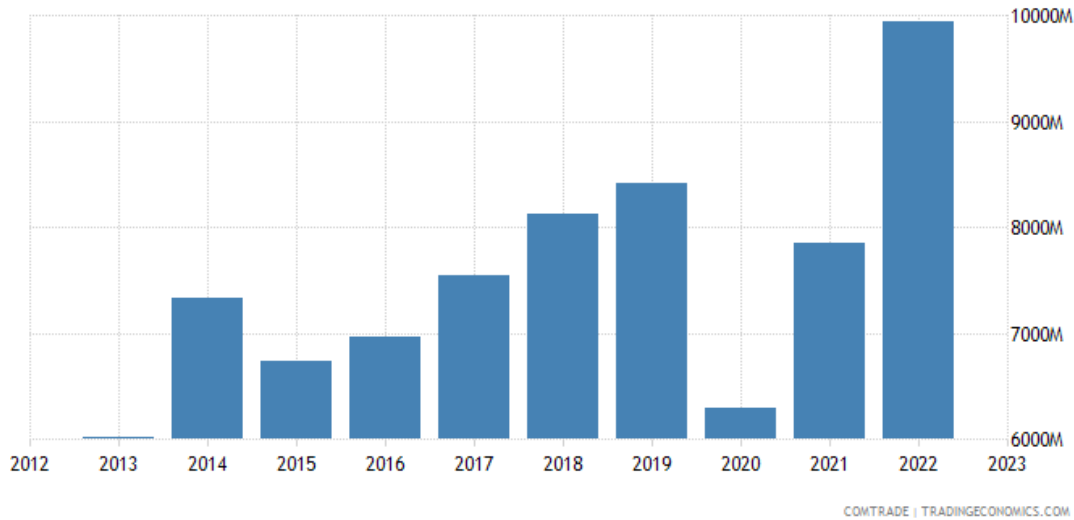


Figure 1 showing EU Imports from Pakistan from 2013-2022 in millions of USD<sup>9</sup>

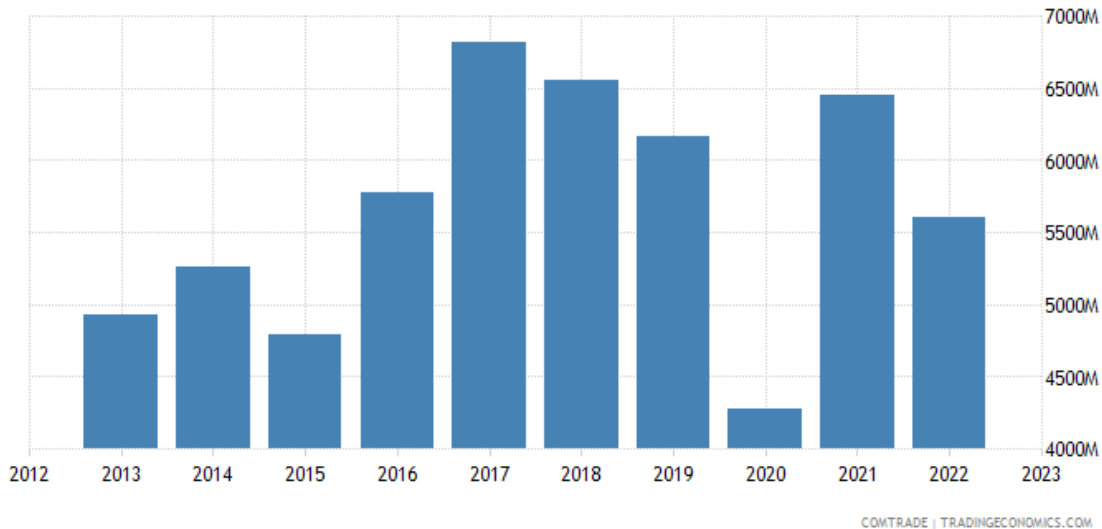


Figure 2 showing EU Exports to Pakistan from 2013-2022 in millions of USD<sup>10</sup>

### ***Challenges and the Way Forward:***

- Pakistan needs to sustain its efforts in strengthening its AML/CTF framework to reap full benefits of EU decision. This requires ongoing implementation of recommended measures,

<sup>9</sup> "EU Imports from Pakistan," trading economics, Accessed on June 16, 2023, <https://tradingeconomics.com/european-union/imports/pakistan>

<sup>10</sup> "EU Exports from Pakistan," trading economics, Accessed on June 16, 2023 <https://tradingeconomics.com/european-union/exports/pakistan>

regular monitoring, and continued cooperation with international financial watchdogs such as the FATF. Robust institutional frameworks, legislation, and capacity-building initiatives will be essential for long-term success.

- While the EU has acknowledged Pakistan's progress, certain concerns regarding financial transparency and governance persist. Pakistan must address these concerns by promoting accountability, strengthening regulatory bodies, and ensuring effective enforcement mechanisms. Continued reforms and proactive measures are crucial to addressing any remaining gaps.
- Pakistan must seize the opportunities arising from the EU's decision by attracting foreign investment, diversifying exports, and leveraging its strategic advantages. The government should prioritize creating a conducive business environment, improving infrastructure, and enhancing ease of doing business. Efforts to promote trade and investment should be complemented by initiatives aimed at skill development and technological advancement.
- While the EU's decision is significant, other jurisdictions and global financial institutions may have their own risk assessments and continue to apply stricter regulations to transactions involving Pakistan. Pakistan must continue its efforts to align with international standards and engage with relevant global bodies to address any remaining concerns.
- Next to fulfilling the eligibility requirements of the Standard GSP, GSP+ countries are required to implement 27 international conventions on human rights, labour rights, environmental protection, and good governance.
- Pakistan's current GSP+ scheme is due to expire in 2023. On September 21, 2021, in its review of the GSP+, the European Commission (EC) introduced six new conventions, pertaining to children's rights, environmental safety, labour rights, organised crime, and persons with disabilities.<sup>11</sup> The EU internal proceedings are currently underway to finalise the details of a new GSP+ scheme that is expected to go into effect from January 1, 2024. Pakistan has been engaged with relevant EU institutions to share its perspective on the new suggestions under consideration.
- To maintain the GSP+ status beyond 2023, Pakistan must continue its efforts to adhere to the relevant EC conventions as well as closely liaise with the EU on the contours of the suggested new scheme. Meanwhile, ongoing reforms, capacity building, and institutional

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<sup>11</sup> "Pakistan," GSP Hub, accessed on June 16, 2023. <https://gsphub.eu/country-info/Pakistan>

strengthening remain crucial to ensuring compliance and maximizing the benefits of the GSP+ arrangement.

- In terms of the trade balance, Pakistan has generally maintained a trade deficit with the EU, with imports from the EU surpassing exports to the EU. The trade deficit highlights the potential for Pakistan to further diversify and expand its exports to the EU market.
- There is considerable potential for better expanding trade between Pakistan and the EU. Pakistan has been working on improving its trade competitiveness and diversifying its export base. Efforts to enhance product quality, comply with international standards, and explore new markets within the EU can lead to increased trade volumes and a more balanced trade relationship.

***Conclusion:***

The trade relationship between Pakistan and the European Union has been significant, with trade volumes reaching billions of Euros. However, maintaining compliance with international conventions remains essential for Pakistan to retain its GSP+ status and continue reaping the benefits. Sustained efforts to promote sustainable development, good governance, and human rights will contribute to Pakistan's long-term economic growth and trade relations with the EU.

The significance of the continuation of Pakistan's GSP+ status for various political, economic, and diplomatic reasons cannot be stressed enough. Given the country's current tough economic situation, availing the benefits of economic and development regimes (like the GSP+) is in the best interest of Pakistan. This would also help facilitate the realization of the avowed pivot to geo-economics. It is thus important that Pakistan liaises closely with the EU on the new GSP+ scheme beyond 2023.

The EU's decision to ease financial curbs on Pakistan and remove it from the list of High-Risk Third Countries marks a significant milestone. Pakistan's progress in strengthening its AML/CTF framework, diplomatic engagements, and economic potential were key factors leading to this decision. The implications of this decision are far-reaching, including economic benefits, strengthened bilateral relations, and enhanced regional stability. However, sustaining reforms and addressing remaining concerns will be crucial for Pakistan's long-term success. By capitalizing on the opportunities presented, Pakistan can further strengthen its economy and contribute to a prosperous South Asian region.

Pakistan-EU trade relations offer both challenges and opportunities. Overcoming trade barriers, diversifying exports, ensuring compliance with EU regulations, and promoting investment and economic cooperation are key challenges. However, the EU market's size, the GSP+ status, opportunities in services and sustainable sectors, and potential for knowledge transfer present avenues for an enhanced trade and economic partnership. Strengthening bilateral ties and addressing challenges can lead to mutually beneficial outcomes for Pakistan and the EU.