

POLICY LESSONS FOR UPGRADING ECONOMIC AGENDA IN PAKISTAN-EU RELATIONS

By
Muhammad Taimur Fahad Khan
Research Associate
Centre for Strategic Perspectives (CSP), ISSI

Edited by
Dr Neelum Nigar

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



The European Union (EU) is one of Pakistan’s largest trading partners, accounting for over 15% of its total exports.¹ This is notwithstanding the fact that overall exports to the EU from Pakistan dropped slightly to \$6.1 billion from \$6.3 billion in 2024.²

The trade relationship is characterized by challenges such as limited export diversity, compliance with stringent EU standards, and an evident lack of institutional readiness. Pakistan’s economic agenda with the EU can be upgraded by addressing foundational issues, leveraging new opportunities in green and digital economies, and adopting strategic policy reforms.

This Issue Brief outlines actionable lessons for Pakistan, supported by examples and data to strengthen its partnership with the EU, and identifies key strategies to align Pakistan’s policies with global trends while addressing domestic challenges that hinder progress.

The global economic landscape is rapidly evolving, driven by sustainability imperatives, digital transformation, and shifting trade policies. The EU’s focus on sustainable development and regulatory compliance necessitates a recalibration of Pakistan’s approach to its economic partnership with Europe.

¹ “Pakistan – EU trade relations with Pakistan. Facts, figures and latest developments”, European Commission, accessed on December 10, 2024.

https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/pakistan_en?utm_source=chatgpt.com

² Mubarak Zeb Khan, “Exports to Europe fall despite GSP+”, DAWN, published on May 12, 2024.

<https://www.dawn.com/news/1832999/exports-to-europe-fall-despite-gsp>

Key Policy Lessons

1. Prioritizing Compliance with GSP+ Conventions

The GSP+ status has been a cornerstone of Pakistan’s trade relationship with the EU, particularly benefiting the textile sector. However, with the scheme set to expire in 2027, ensuring its renewal requires Pakistan to fully comply with the 27 conventions tied to labour rights, environmental protection, and governance.

Bangladesh’s proactive adoption of the EU-supported Sustainability Compact³ following the 2013 Rana Plaza disaster is an example of how improving labour conditions and regulatory frameworks can strengthen trade ties. By 2023, Bangladesh’s trade with the EU exceeded €20 billion⁴ (Figure – 1), underscoring the economic rewards of effective compliance.⁵



(Figure – 1) Bangladesh-EU Bilateral Trade

Pakistan must establish a dedicated inter-ministerial task force to monitor progress, ensuring it remains competitive and credible as a trade partner to the EU.

³ “Staying Engaged: Bangladesh Sustainability Compact – one year on”, European Commission, Press Release, published on July 8, 2014.

https://ec.europa.eu/commission/presscorner/detail/en/ip_14_802

⁴ “European Union, Trade in goods with Bangladesh”, European Commission, accessed on December 10, 2024.

https://webgate.ec.europa.eu/isdb_results/factsheets/country/details_bangladesh_en.pdf?utm_source

⁵ “Bangladesh – EU trade relations with Bangladesh. Facts, figures and latest developments”, European Commission, accessed on December 10, 2024.

https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/bangladesh_en?utm_source

2. Diversifying Export Portfolios

Over-reliance on textiles limit Pakistan's ability to tap into the EU's diverse market, which imports over \$3 trillion annually in goods.⁶ Sectors such as IT, pharmaceuticals, and agro-processed products present significant opportunities.

India's IT exports to the EU in 2023 were valued at over \$58 billion, illustrating the potential of leveraging digital innovation to access European markets.

Pakistan's IT sector, contributing \$3.2 billion to the economy in financial year (FY) 2023-2024⁷, can similarly benefit by aligning with programmes like the Digital Europe Initiative (DEI). Developing sector-specific strategies and fostering collaboration with European digital hubs can expand Pakistan's export base.

3. Addressing Standards and Certifications

Compliance with EU product standards remains a key barrier for Pakistani exporters, particularly in agriculture and manufacturing. Non-compliance often side-lines products despite their quality.

Kenya's EU-funded Standards and Market Access Programme (SMAP) significantly boosted its agricultural exports by enhancing producers' ability to meet certification requirements. While specific quantitative data directly attributing export increases to SMAP is limited, the programme's initiatives have contributed to the overall growth of Kenya's agricultural sector.

For instance, Kenya's fruit export earnings rose significantly from \$140.7 million in 2022 to \$231.2 million in 2023, driven by rising global demand and strategic market access expansion.⁸

Pakistan must follow a similar path by establishing certification facilitation centers and subsidizing exporters to meet EU-specific standards such as the CE mark (Conformite Europeenne). These steps will help ensure greater market penetration and competitiveness.

⁶ "European Union: Import of goods from 2012 to 2022", Statista, accessed on December 11, 2024.
https://www.statista.com/statistics/253584/import-of-goods-to-the-eu/?utm_source

⁷ Jawwad Rizwi, "IT exports surge by 24pc to record \$3.2bn in FY24", The News, published on July 20, 2024.
https://www.thenews.com.pk/print/1211260-it-exports-surge-by-24pc-to-record-3-2bn-in-fy24?utm_source

⁸ "The impact of market linkages on Kenya's agricultural exports", Fresh Plaza, published on September 25, 2024.
https://www.freshplaza.com/latin-america/article/9662105/the-impact-of-market-linkages-on-kenya-s-agricultural-exports/?utm_source=

4. Seizing Opportunities in the Green Economy

The EU's Green Deal⁹ and Carbon Border Adjustment Mechanism¹⁰ (CBAM) introduce challenges but also open doors for collaboration in sustainability.

Morocco's renewable energy transition, supported by EU investments, highlights how strategic alignment with green energy goals can enhance partnerships. Morocco's renewable energy transition has attracted substantial EU investments, with projects totalling over \$2.6 billion between 2021 and 2024, increasing renewable energy reliance to more than 44%.

Major agreements, such as Engie's \$18 billion partnership with OCP Group and TotalEnergies' green hydrogen project, position Morocco as a key EU partner in advancing sustainable energy goals.¹¹

Pakistan's solar and wind energy potential can serve as a platform for similar collaboration. Partnering with the EU to decarbonize the textile industry and exploring funding opportunities under the Green Deal can help Pakistan align with global sustainability trends while securing financial and technical support.

5. Enhancing SME Participation

Small and medium enterprises (SMEs) play a vital role in both the EU and Pakistani economies but are underrepresented in bilateral trade. SMEs account for 99% of businesses in the EU¹², and fostering their involvement can unlock significant potential.

Initiatives like matchmaking platforms have proven successful in connecting SMEs from developing countries with European markets. Pakistan can replicate this by creating SME-focused trade facilitation desks and organizing EU-Pakistan business forums to support collaboration and innovation.

⁹ "The European Green Deal", European Commission, accessed on December 10, 2024.

https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en

¹⁰ "Carbon Border Adjustment Mechanism", European Commission, updated December 10, 2024.

https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

¹¹ America Hernandez, "TotalEnergies studies Moroccan project to export green ammonia to Europe", Reuters, published on October 29, 2024.

https://www.reuters.com/business/energy/totalenergies-studies-moroccan-project-export-green-ammonia-europe-2024-10-29/?utm_source

¹² "SME definition", European Commission, accessed on December 10, 2024.

https://single-market-economy.ec.europa.eu/smes/sme-fundamentals/sme-definition_en?utm_source

6. Leveraging Green Hydrogen Collaboration

The EU's renewable energy strategy emphasizes green hydrogen, presenting Pakistan with an opportunity to position itself as a key supplier.

Germany's €9 billion commitment to green hydrogen development¹³ highlights the growing demand for global partnerships.

With its abundant renewable energy resources, Pakistan can attract EU investments by offering tax incentives and establishing public-private partnerships for green hydrogen projects. Aligning with EU energy goals can secure long-term economic benefits for Pakistan.

7. Enhancing Public Diplomacy

Outdated perceptions of Pakistan in the EU hinder deeper economic ties. India's diaspora, for instance, has actively lobbied for policies benefiting its trade relations with Europe, as evidenced by the efforts of the Europe India Centre for Business and Industry (EICBI).

Pakistan's diaspora, though significant, remains underutilized in this regard. A targeted public diplomacy strategy that highlights success stories in IT, education, and entrepreneurship can reshape Pakistan's image in Europe, fostering goodwill and economic collaboration.

8. Strengthening Internal Foundations

No economic agenda can thrive without a solid internal foundation. Vibrant institutions, security and effective rule of law, policy continuity, and an enabling environment are pivotal for attracting foreign investment.

Vietnam's focus on institutional reforms, efficient judicial processes, and industrial growth enabled it to attract \$27 billion annually in foreign direct investment (FDI), including significant contributions from European partners.¹⁴

Pakistan must rebuild institutional capacity, ensure judicial efficiency, and establish secure industrial zones tailored to European investors. Improving the Ease of Doing Business – including through

¹³ Nik Martin, "Germany invests €9 billion in hydrogen", DW, published on October 6, 2020.

<https://www.dw.com/en/germany-and-hydrogen-9-billion-to-spend-as-strategy-is-revealed/a-53719746>

¹⁴ Quang Minh, "Foreign investment inflows reach over US\$27 bln in ten months", Socialist Republic of Viet Nam, Government News, published on November 6, 2024.

<https://en.baochinhphu.vn/foreign-investment-inflows-reach-over-us27-bln-in-ten-months-111241106181931706.htm>

simplifying regulations and ensuring consistent enforcement will foster trust and confidence among international partners.

Conclusion

Upscaling Pakistan's trade and economic engagement with the EU requires a proactive and multidimensional approach, with the active involvement of all stakeholders. By addressing internal challenges, enhancing global competitiveness, embracing new opportunities, and fostering sustainable partnerships, Pakistan can transform its relationship with Europe into a model of mutual growth. A collaborative, reform-driven approach can secure a resilient and prosperous future for both Pakistan and its European partners.