Policy Brief

EU-Pakistan Trade: Significance of GSP+ Status

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EXECUTIVE SUMMARY

Pakistan has witnessed a growth in its exports to EU by 46.5% since it was granted the GSP+ status in 2014. Under this status, 91% of the tariff lines are exempted from duties for Pakistan. Pakistan has effectively utilized the GSP+ status, with a utilization rate of 96.5%. Its share in EU's total trade among GSP+ beneficiaries is relatively better, which is 0.3%. Although exports to EU have increased under GSP+ scheme, however they have risen at a relatively slow pace. This is due to the fact that majority of Pakistan's exports to EU are concentrated in low value added product categories like textile and leather products, whereas imports from EU consists of heavy machinery and other high value-added items. The anti-export bias, in the form of heavy import duties on raw materials, in Pakistan's tariff policy has left our products uncompetitive by raising their cost of production. As a result, demand for our routine exports is falling in EU markets.

Recommendation

- Our export sector needs a paradigm shift by manufacturing high value-added products coupled with their branding.
- Those regular exports of Pakistan to EU which do not come under zero duty tariff category, should be given tariff exemption by the EU under the GSP+.
- Government of Pakistan needs to eliminate the anti-export bias in its tariff policy and eliminate the custom duties on raw materials and machinery.

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EU-PAKISTAN TRADE: SIGNIFICANCE OF GSP+ STATUS

SIGNIFICANCE OF GSP+ STATUS

Pakistani goods have duty free access on 66% of EU tariff lines

91% of Pakistan's exports to the EU are exempted from duties

PAKISTAN'S TRADE PERFORMANCE (WITH EU) PRE AND POST GSP+STATUS

Increase in exports to EU pre-GSP+ Status (2007-2013)

→ **26%**

Increase in exports to EU post-GSP+ Status (2014-2021)

→ **46.56%**

BARRIERS TO UTILISING FULL POTENTIAL OF GSP+ STATUS

IMPORT DEMAND

Country has been overlooking import opportunities in EU by ignoring its import demands

LESS-DIVERSIFIED EXPORTS

Country's export basket comprises of limited and less diversified exports

LOW VALUE PRODUCTS

Majority of country's exports to EU are low value products

RECOMMENDATIONS

1. Strict implementation on 27 UN conventions
2. Paradigm shift from manufacturing man-made fibre to synthetic fibre
3. Negotiations with EU for tariff elimination on products not covered under GSP+ status
4. Provision of duty-free raw materials to SMEs
5. Elimination of the anti-export bias in the tariff policy

ISSUE TO BE ANALYSED

The paper attempts to evaluate the significance of GSP+ status for EU-Pakistan trade. It looks into the impact of GSP+ status on Pakistan's exports to EU and the challenges which the country's exports face in the European market despite the preferential treatment.

INTRODUCTION

Pakistan has had trade relations with European Union since 1970s. Despite having historic trade ties and enjoying Generalized System of Preferences (GSP) status for the last five decades, Pakistan had been consistently failing to score a higher position within the EU's trade preferences hierarchy. The most important trade development with EU took place on 1st of January, 2014, when Pakistan was granted the GSP+ status by the EU.[1] The GSP+ status is one of the three trade schemes of the EU which abolishes tariffs over 66% of tariff lines imported by EU from countries like Pakistan. Under GSP+ scheme, around 91% of Pakistan's tariff lines are getting duty free access to EU market. EU uses the instrument of GSP+ to give the beneficiary country the opportunity to ensure sustainable development and good governance by accessing duty free EU market for their exports. By giving duty-free access, the GSP+ scheme helps achieve World Trade Center's goal of creating a differential but favourable trade environment for the developing countries. For countries to qualify the GSP+ status, they have to ratify and implement 27 International Conventions. These conventions cover human and labour rights, environmental protection, and good governance.[2] Pakistan has effectively utilized the GSP+ status, with a utilization rate of 96.5%.[3] Pakistan's exports to the EU have increased by approximately 46.6% from fiscal year 2013 to fiscal year 2021, such that they reached $ 7.6 billion in 2022. They are projected to increase to USD 8.3 billion by the end of FY22. However, the country's record of implementing the 27 mandatory conventions is inconsistent. It also faces strict competition from countries like Bangladesh, and has been exporting low valued

[1] https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/pakistan_en
[2] https://www.freiheit.org/publikation/pakistan-and-european-union-under-gsp
[3] ibid

added goods to EU. That is the reason, it has failed to exploit the full benefit of GSP+ status.

SIGNIFICANCE OF GSP+ STATUS FOR PAKISTAN

The GSP+ status has assumed a critical significance for Pakistan as it has enabled country's exports in accessing the duty-free EU market on almost 91% of the tariff lines. A closer look into our exports highlights that the textile sector is the main export sector of Pakistan such that around 60% of total exports fall under this sector.[4] 87.3% of country's total exports to EU come under the GSP+ scheme.[5] And import duties on all the textile export items are exempted in the EU market under the GSP+ status. Had Pakistan not been granted the GSP+ status, our agriculture export items would have faced the MFN tariff of 12.1%, non-agriculture items with 9.8%, along with anti-dumping duties of 13.1% on cotton bed linen.[6] This would have severely impacted the competitiveness of our exports due to increase in the prices of our exports in the EU market. In short, our exports have benefitted a lot by duty-free aces to EU markets under the GSP+ status and therefore, country's exports to EU have increased by 46.5% from 2013 to 2022.[7] Table 1 below analyses the country's export growth to EU in pre and post GSP+ status years. From 2007 to 2013, before Pakistan was given the GSP+ status, country's exports to EU grew at the rate of 37%. After Pakistan availed the GSP+ status, exports to EU grew at 66% from 2014 to 2021. It shows that Pakistan witnessed a growth of 46.57% in its exports to EU under the GSP+ status.

Table 1: Pakistan's Exports to EU- Pre & Post GSP+ Status

	To World	To EU	Share in Total Exports	Increase in Exports to EU
Pre GSP+ (2007-2013)	150%	37%	24.6%	26%
Post GSP+ (2014-2021)	217%	66%	30.1%	46.57%

4 ibid

5 https://www.pbc.org.pk/wp-content/uploads/Pakistans-Performance-Under-the-EU-GSP-Plus-Program-2014-2019.pdf

6 ibid (n.2)

7 ibid (n.2)

Source: PAKISTAN AND THE EUROPEAN UNION UNDER GSP+, FNF and PRIME, Policy Paper, 2022[8]

BARRIERS TO EXPLOITING THE FULL BENEFIT OF GSP+ STATUS

Although Pakistan is efficiently utilizing the GSP+ status, such that its average GSP+ utilization rate is over 95% in the post GSP+ years, but its full potential remains to be harnessed by Pakistan. GSP+ utilization rate is calculated by dividing GSP+ imports with the GSP+ imports limit. The formula for calculating GSP+ utilization rate is given below:

$$Ut = Used\ GSP\ by\ country\ and\ section / Eligible\ GSP\ by\ country\ and\ section$$

Table 2: GSP+ Utilization of Pakistan for Years 2016, 2017 and 2018

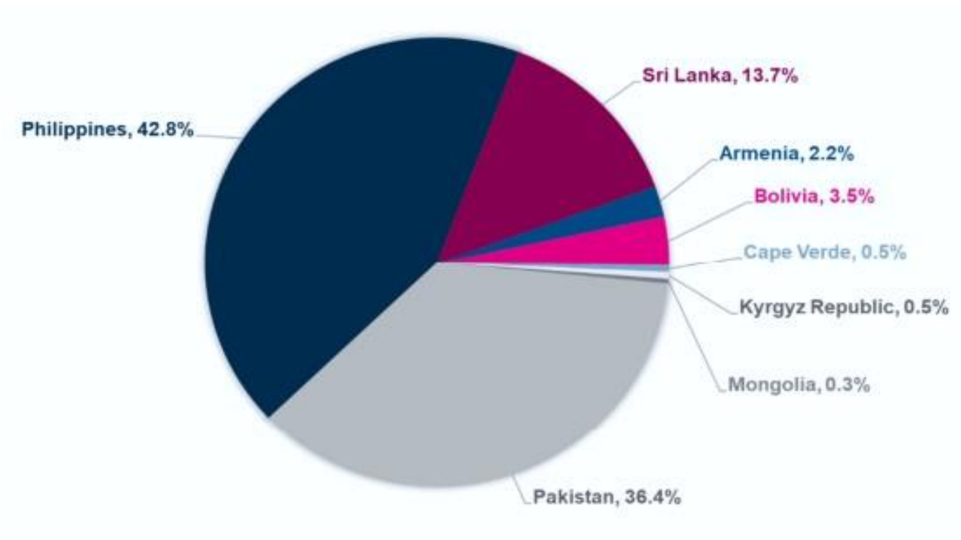
EU imports from Pakistan (billion dollars)	**2016**	**2017**	**2018**
Total imports	6,530.4	7,817.5	7,711.9
Total GSP Plus limit	6,085.9	7,250.4	6,977.7
GSP Plus imports	5,811.7	6,969.5	6,734.3
Utilization rate (GSP+ Imports/GSP+ limit)	95.5%	96.1%	96.5%

Source: PAKISTAN'S PERFORMANCE UNDER THE EU GSP PLUS PROGRAM: 2014 – 2019, Pakistan Business Council, June 2020[9]

Calculation performed in the table 2 highlights the GSP+ utilization rate of Pakistan for the years 2016, 2017, and 2018, which is quite satisfactory. Performance of Pakistan among the GSP+ beneficiaries is also good. It can be seen from figure 1 that out of 8 countries with the GSP+ Status, Pakistan ranks at number 2 in terms of its share in EU imports.

[8] Ibid (n.2)
[9] ibid (n.5)

Figure 1: EU Imports Share among GSP+ Status Awarded Countries



Source: PAKISTAN AND THE EUROPEAN UNION UNDER GSP+, FNF and PRIME, Policy Paper, 2022[10]

Though Pakistan is performing satisfactorily among the GSP+ beneficiaries, its exports to EU have been experiencing a slow growth. Even after getting GSP+ status with the import duties removed, Pakistan has failed to increase its exports to EU. This is because of certain challenges being faced by Pakistan.

In order to understand slow growth of Pakistan's exports to EU, import appetite of EU ought to be looked. EU's major imports include petrochemicals, machinery, electronics, and automobiles. It implies that the demand for high-end value added products in EU markets is high. Whereas, Pakistan neither has the capacity nor the resources to export sophisticated items to EU market. Pakistan's exports to EU comprises low demand and low value added products which are mostly concentrated in textile and leader products. That is the reason only 3 of the top items being exported by Pakistan to the EU were included EU's top 20 imports. Whereas, 8 top export items of India were included in top 20 EU imports. Even Sri Lanka exported 6 such items to EU, which were part of top 20 imports of EU.[11]

Being a GSP+ beneficiary, Pakistan's exports to EU avail zero percent duties on specific product categories only. This status does not allow the country to access zero

[10] ibid (n.2)
[11] ibid (n.5)

duties across all the tariff lines. As compared to Pakistan, Bangladesh is having zero duties access on all the product categories with the exception of only one category “armaments”. This is because Bangladesh enjoys EBA (Everything but Arms), which allows it to export all the items to EU markets with zero duty fee except arms.

Pakistan’s exports to EU are not only concentrated in fewer product categories, but also are less competitive. This is because Pakistan’s tariff policy has an anti-export bias. As Pakistan relies on imported raw material and intermediate goods, higher duties on imports raise the cost of production which make our products expensive and consequently, less competitive in the international markets. For example, the government has imposed custom duty on polyester at 6.0% to 7.0% to protect the local manufacturers. It has severely impacted the competiveness of man-made fibers.[12]

Pakistan has also missed out on opportunities to increase its share in the EU market. It has neither focused on manufacturing those items which are in high demand in EU nor has it concentrated on the production of those product categories which have witnessed growth in its exports to EU market. The Business Council of Pakistan has done extensive research into highlighting such items which can increase Pakistan’s share in EU imports.

As the GSP+ status would expire by the end of current year, the next GSP+ scheme (2023-2033) would have to be renewed. It has been mentioned that continuation of GSP+ status is subject to the compliance with the 27 UN conventions. The EU monitoring mission visited Pakistan last year and raised concerns over misuse of blasphemy laws, forced disappearances, curbs on media and press freedom. And Pakistan’s progress on improving human rights, governance and climate actions have deteriorated in the recent years. This could prove to be a big challenge regarding the continuation of GSP+ status.

RECOMMENDATIONS

- Pakistan needs to follow footsteps of Bangladesh, whose exports to EU (mainly textiles) are more competitive than Pakistan’s exports in the same product category under the GSP+ scheme. Pakistan’s exports to EU can be made competitive by eliminating the anti-export bias in its tariff policy. A case in point

[12] ibid (n.5)

is the growing demand of man-made apparels in EU market. To boost its manufacturing and export, government should eliminate custom duty on machinery and raw materials like polyester.[13]

- To encourage production and competition, government should provide duty free raw materials (DTRM) to the Small and Medium-sized Enterprises manufacturers. Government can set up trade information portals to provide right information to small exporters for exporting their products to EU market.
- Our export sector should realize that the demand for man-made fibers has surpassed that of the cotton products in the EU market. So, it should focus on manufacturing synthetic products to penetrate the EU market.
- There are certain high value added products that Pakistan has been exporting to EU, but does not enjoy duty free access under the GDP+. Government of Pakistan must negotiate with the EU to include these products in the duty free products category under the GSP+. Some of these items include salt, sugar and rice.[14]
- Since the continuation of GSP+ status is conditioned on effective implementation of 27 Conventions, government of Pakistan must put its all efforts and resources to show strict compliance to these. EU has expressed its concern on Pakistan's chequered record in abetting honour killing, forced marriages, attacks on journalists, implementation of child labour laws, and deregistration of NGOs.

CONCLUSION

Pakistan, as a beneficiary of the GSP+ status, has the potential to achieve even greater success by fully utilizing almost all of the tariff lines granted by the European Union under this preferential status. By focusing on increasing exports in the most traded tariff lines of the EU, Pakistan can further enhance its economic benefits. Government of Pakistan can help achieving this trade potential by eliminating export-bias in its tariff policies.

[13] ibid (n.5)
[14] ibid (n.5)

ACTION MATRIX				
Problem	**Pathways to Solutions**	**How to Implement Each Solution**	**Actors Responsible**	**Implementation Timeline**
Inefficient utilization of GSP+ Status	Elimination of anti-export bias in Tariff Policy Increasing Exports' Competitiveness Implementation of 27 UN Conventions + 5 others. Accessing duty free access for exports which are already not covered under GSP+	Removal of custom duties on raw material and machinery used in the manufacturing. Provision of duty free materials to SMEs. Transition from cotton-made products to man-made fibers. Issuance and regulation of international standards compliance certificates. Reforms and capacity building of Competitive Commission of Pakistan. Federal Government and all the relevant provincial assemblies must ensure strict compliance of these conventions. Government should negotiate with EU	Ministry of Commerce, Ministry of Finance, State Bank of Pakistan. Ministry of Industries, and relevant ministries. Ministry of law, Ministry of Interior, Civil Society Organizations, NGOs. Ministry of Commerce, Ministry of Foreign Minister.	All these policy measures can be undertaken and implemented in short term. It will take one to three years maximum.

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