



**RESEARCH PAPER**

**Analyzing Pak-EU Relations in the perspective of Economic and Social Interaction in new Millennium**

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The current research summarizes economic situation and social structure developments of Pakistan. It studies those factors that affect the country's economic growth and social improvement. The study explores that stable economic growth is crucial for developments in Pakistan. EU as a trading hub provides different economic policies with sectorial development programs, therefore strong ties with EU are in favor of Pakistan. Research then examines and measures the trade potential between EU and Pakistan and discuss the policies of EU such as GSP plus and trade agreements. It also observes level of EU's cooperation in social developments. It also explores Pak-EU interaction at regional level, Pakistan's role in war against terrorism and enhanced role of EU in Pakistan. Finally, research explores the impact of this cooperation on Pakistan's economy and social sector. The economic growth is increasing after GSP plus and it is a positive sign while social sectors needs more developments and concentrations.

**Introduction**

European Union is a unique integration of economic and political cooperation between 28 member states.(Archick, 2015) European Union is not simply an economic organization or an organization of meek cooperation between its members states instead it is a supranational integration between its member states which have given up some of their sovereign rights to strengthen the EU's structure.(Mclver, 2011)EU broadens its relation gradually with the non-European countries and also built very constructive relations with developing countries. The EU's policy towards developing countries was based on two main elements economic cooperation and social development. EU wanted to pursue the non-trade

objective through trade therefore the policy towards developing countries has been constructed in this way.(Gsthol, 2013)

European Union and Pakistan started the relations since 1962 when Pakistan entered into diplomatic relations with European Community (EC).(EU-Pak Partnering for Democracy and Prosperity, 2013)In the early time of developments, European Union was fully concentrated on economic growth but later, European Union focused on political integration and foreign relations and developed its relations with Pakistan. Historically, relations between European Union and Pakistan were remained in a very slow pace.(Shad M. R., 2013) In 1990's, European Union established its single economic market and turn its attention towards Asian countries. Pakistan's economic growth and geographic position was not very appealing to European Union and its full attention was to establish its own periphery. European Union adopted Maastricht Treaty and started its relations with Asian countries that were predominantly economic.

In relations with European Union, Pakistan have some Sectorial Agreements with EC since 1969, according to which Pakistan have some trade agreements with EC on few products such as Handicraft, Silk and Cotton products and before this, in 1963, Pakistan was also considered for the Commercial Cooperation Agreement but the matter was late by its different procedure.(Pakistan and the European Comunity, 1976) The proposals of commission were approved on October 14th, 1974 by EC and Pakistan was also considered for the five years non Preferential Agreement. In 1976 the first Commercial Cooperation Agreement was signed between EC and Pakistan. The main objective of this agreement was to establish a Joint Commission which study and examine the difficulties and opportunities for trade between both sides.(Pakistan and the European Comunity, 1976) Meanwhile, Pakistan was also the part of Community Aid under which Pakistan was the beneficiary of two programs. One was Trade Promotions and Regional Integration and second was Food Aid Program.(Pakistan and the European Comunity, 1976) Pakistan also gained benefits from EC's trade promotion program for South Asia. Trade Promotions and Regional Integration was a program which helped in finance and give expert guidance on trade related issues to the developing countries. Pakistan was beneficiary of this program as EEC was the part of financed and provided expert advice to Pakistan since 1974. Pakistan was also the beneficiary of Food Aid program of EEC since 1968 and has aid on regular basis. Pakistan's import and export remained ECU 892m and 1,603m which is almost 20% of Pakistan's total trade.(Pakistan and the European Comunity, 1976) After the few years of Commercial Cooperation Agreement, in 1985, the European Commission opened its office in Pakistan.

## **European Community (EC) in Pakistan**

In 1985, European Commission developed its representation in Pakistan and monitored the trade and development policies. (Sultana, 2012) Under the supervision of EC the new pact which was Economic and Development Cooperation Agreement came into force on May 1<sup>st</sup>, 1986. The main objective of the agreement was to strengthen the trade relations of both sides extending their cooperation in economic and social sector and also focused on the industrial and technological cooperation between both participants. (The European Community and Pakistan, 1986) EC was also interested in Pakistan's developing programs and financed in these programs through this agreement. Along with this, EC also cooperated in the fields of agriculture, fisheries, transport and communications. Both sides also became agreed on the exchange of information on trade and economy as well as promote joint research programs. According to the agreement EC helped Pakistan to promote its trade. Under this project Pakistan was allocated by ECU 2m from 1983 to 1985. Besides this, EC also helped Pakistan to find Gulf and Middle East markets for vegetables and fruits trade. (The European Community and Pakistan, 1986) In economic cooperation two projects were launched by the first project. Six managers spent 3 to 6 months in European business schools to facilitate their economic sector, by the second project senior delegation visited the Europe to learn the new ways of trading and to promote them in their own country. (The European Community and Pakistan, 1986)

Agreement on Science and Technology set two objectives to obtain. First, two scientists from Pakistan spent two years in European Joint Research center and one British scientist spent his time to study and aware the institutions here about environment and atmospheric pollution. In development sector EC built 11 vocational training centers and provided electricity to 176 villages. Both projects have estimation of ECU 24 million. (The European Community and Pakistan, 1986) These investments and agreements show that the relations between both sides were proceeding in the right direction.

Meanwhile, in 1988, European commission upgraded its office into European Delegation Office and started the new era of democratic relations. (Sultana, 2012) Delegations of European Union are equal to the Embassies and Head of the Delegation was appointed as an Ambassador of EC in Pakistan. In the meantime, EU understand the position and role of Pakistan in Afghan war and the refugee problem that faced by the country. Afghan war became the cause of huge migration and in this situation EC also provided aid for Afghan refugees. Pakistan became the host of almost three million Afghan refugees. Era of 90's was the time when relations between European Union and Pakistan were almost frozen because EU core principal was to respect of human rights but Pakistan did not accomplished this criteria and some factors like nuclear test, Pakistan-India Kargil crisis, military takeover, support of Taliban government in Afghanistan and human rights abuse took these relations to its lowest ebb. (Shad M. R., 2013) European Union's relations were very much based on normative approach

while developing countries like Pakistan do not have proper system and laws to interact with normative approach and human right are seriously violated here, however, the new era of strong relations were started soon.(Shad M. R., Strategic Factors of the EU-Pakistan Relationship, 2013)

### **Trade Relations in new Millennium**

The new period of EU and Pakistan relations was started in 2004, when both participants signed the third generation Cooperation Agreement on Partnership and Development and created an EC-Pakistan joint Commission for development. Although, the negotiations between both participants took one and a half year and initiative was about to taken in 1998 but it delayed due to some political reasons and this third generation agreement was signed in 2001. This was the time when Pakistan suddenly obtained strategic and geographic importance in War on Terrorism and decided to play a front line role in the War against Terrorism. However, there was a dramatic change in both member relations when Pakistan decided to stand against terrorism and play a front line role in War against Terrorism. At that time EU realized the importance of Pakistan as well as the challenges Pakistan was facing at that time. (Cooperation Agreement, 2004)

It was agreed between both parties that trade would be conducted on the standards of WTO and diversify two-way trade to more enhance chances of market access, work towards elimination of tariff barriers, custom duties and exchange of information for better market opportunities.(Cooperation Agreement, 2004) In development sector EU was mainly focused on the projects and programs that stress on education, health, women development, child protection, human resource, rural development and population welfare to eliminate poverty and improve the living standard of people. This agreement was a wide-ranging package for Pakistan and deal with economic and social sector comprehensively.

In May 2007, the first meeting of EU-Pakistan Joint Commission was held in Pakistan. This commission was to cover those areas which were missed in Cooperation agreement of 2004. That agreement was mostly based on economic and trade relations but in Commission meeting, it was more focused on political dialogue. The meeting of Joint Commission was held between the ministerial and senior officials from both sides. The first meeting addressed the areas like interfaith dialogue, counter terrorism, counter narcotics, nonproliferation, human rights and good governance and development at parliamentary level. In this meeting EU-Pakistan focused on human rights, rule of law and poverty elimination to gain the Millennium Development Goal.

Meanwhile EU granted Pakistan GSP status and zero tariffs for limited time period because Pakistan was working towards elimination of narcotics as per demand of EU.(Stang, 2013) Due to Cooperation agreement and this facility, percentage of Pakistan's trade was boost. Import percentage increased from \$ 3.7

m in 2003-04 to 4.247 in the years of 2006-07 and export was increased to \$ 4.627 m in same year.

Pakistan also invited European Union to establish a commission which would observe the process of National and Provisional Assembly Elections of 2008 and then 2013. In this demand European Union sent its Election Observant Mission to Pakistan which monitored and observed the Election process by deploying its observers throughout the country.(Peiro A. B., 2014) The arrival of EU Election Observant Mission to Pakistan is indication towards EU commitment to build a democratic Pakistan.

In March 2009 the second meeting of EU-Pakistan Joint Commission was held in Brussels. In the result of this meeting the first Summit of EU and Pakistan was held in the same year on 17 June. Both parties were mutually agreed to strengthen cooperation and effort towards development of Pakistan. The main areas which became under discussion were to focus on development in trade and energy issues, democracy, governance, human rights, global and regional issues, and the most focused issue was security.(EU-Pakistan-Summit, 2009) In the Summit, both parties were agreed on exchange of information, non-proliferation of nuclear material and disarmament.(EU-Pakistan-Summit, 2009)

Third meeting of EU-Pakistan Joint Commission was held on March, 2010 in Islamabad and the second EU-Pakistan Summit was held in Brussels during the same year in June. The second Summit was a step towards the Five Years Engagement Plan and the first Strategic Dialogue. The Summit was re-emphasize on the first Summit's areas such as security, counter-terrorism, counter narcotics, economy and trade, energy, social developments and human rights, science and technology, democracy and prosperity.(Second EU-Pakistan Summit, 2010)

The fourth meeting of Joint Commission was held in Brussels in 2012. The same year in February EU Foreign Policy Council approved the Five Years Engagement Plan while in March Government of Pakistan approved this Plan. This Plan was the outcome of EU-Pakistan Joint Commission's meetings and summits. In this Plan EU and Pakistan started cooperation in all those fields that were mutually discussed between them in 2009 and 2010 meetings. All engagements were based on the international Laws and UN chartered. EU was focused on almost all sectors such as economic, social and security factors.

### **Trade and Development Policy of European Union**

Trade and economic cooperation was the basic factor comprise in the incorporation of European Union. To adopt a common trade policy was very challenging for the EU. The Union implemented a General Agreement on Trade and Tariff (GATT). According to the agreement all member states have a common external tariff.(Gsthol, 2013) However, a comprehensive trade and development policy was woven by EU to overcome the challenges. However these common

trade policies created some other internal and external challenges and amendments in treaties.(Gsthol, 2013) Such as EU trade policy face pressure from World Trade Organization to replace the historical links by the development needs of the beneficiary countries because in historical relations some developing countries got more benefits from EU rather than other countries.(Bartels, 2007)

### **Actors of EU Trade Policy**

Actors of EU trade policies are those factors that pressurize the Union to form and achieve a comprehensive trade policy that proves better for all. There are three main actors of EU's trade policy,

- a) First of all its own member states and institutions,
- b) Second non-state actors and
- c) Third are developing countries

In the first category, came the European Commission, European parliament and the representatives of member states in Council of Ministers. European Commission proposes new trade agreements to negotiate and regulations to implement in the European Parliament and Council of Ministers and mostly the issues are decided and policies are adopted by the consensus.(Gsthol, 2013) Meanwhile, the non-state actors such as NGO's and private sector of states tried to influence the trade policies. These interest groups of member states influence the trade policy on different stages such as lobby their own permanent representatives who tried to implement their own state interests. In the end, the representatives of developing countries also influence the trade policies of EU.(Gsthol, 2013)

Therefore, EU has also developed its trade policies according to the requirements of developing countries. So all these three actors influence the European Union's trade and development policies on different stages and tried to mold them according to their own interests as well.

### **Aims of European Union Trade Policy**

The basic goal of EU is to achieve liberalization of international trade such as development of more progressive world trade, minimizing the tariff and custom barriers and taxes and foreign direct investment.(Gsthol, 2013) Treaty, European Union set some goals in order to achieve the common policies and better cooperation in its international relations regarding trade and economic cooperation. EU did not bind its policies to only liberalization of trade but also want to achieve the non-trade goals through trade policy such as better political relations and normative issues.(Gsthol, 2013)

## **Instruments for Trade Policy**

EU used different instruments to enhance the trade level. Its most successful instrument is Generalized System of Preferences (GSP), developed in 1971 and renewed by the time, EU has granted to the developing nations. But not all developing countries are included, only those who lack high income and diversified in export.(Bartels, 2007) Moreover, EU defending the rights and positions of its companies in foreign markets by its defensive trade policy instruments such as anti-dumping duties, anti-subsidies and safeguarding of own markets to restrict the imports temporarily.(Gsthol, 2013) Along with this the low tariff and non-tariff barriers and regulatory barriers are also the instruments of EU's trade policy.(Brulhart & Matthews, 2007)

Overall, the trade policy of European Union is much diversified and tried to gain economic benefits as well as non-trade benefits or social developments through trade policy.

## **EU Trade Policy for Pakistan**

Trade policy of European Union is mainly based on two principles first human rights development and second democracy building. These two principles are the most important element of EU's trade policy for developing countries. EU is more focused on facilitating and supporting developing countries for human rights developments and democracy building rather than impose sanctions to achieve set goals. Pakistan is a developing country therefore the approach of European Union towards country is based on its policy for developing countries. EU has bilateral cooperation agreement with Pakistan which covers the areas of trade, investment and other social issues. Democracy and its supporting elements like human rights, good governance and rule of law are one of the main subjects between EU and Pakistan relations because democracy is EU's cornerstone.(Peiro A. , 2014)

## **EU - Pakistan Economic and Trade Cooperation**

The new era of economic cooperation between EU and Pakistan started in 2004, when a long awaited third generation Cooperation Agreement on Partnership and Development was came into force. This agreement contained a very comprehensive package with economic and social benefits. This agreement also indicated the EU economic policy towards Pakistan. Democracy building and human rights are the main elements of EU's economic policy along with trade.

The main objective of this Agreement was to

- 1) Increase the trade and development progress between both parties according to the WTO trade agreements,

- 2) To help Pakistan in economic and social development to attain a smooth sustainable development,
- 3) Increase the links of mutual interest and investments,
- 4) To enhance economic capability of Pakistan.(Cooperation Agreement, 2004)

EC invested almost € 500 million with the start of this cooperation. EU and Pakistan signed almost 48 bilateral and multilateral agreements together which have entered into force and many more projects are in progress.(Foreign Policy Roundtable Series, 2014)

Meanwhile, Pakistan also has been granted GSP status by EU for a limited time period ending in 2006. The GSP status put a positive impact on trade between both parties during that period. In 2006, the total trade value reached to € 7,512 million, which was € 7,549 in 2008, that showed a good increase rather than the trade value of 2004 which was € 6,388 million.(European Union; Trade in goods with Pakistan, 2015)

Another comprehensive package was the Five Years Engagement Plan between EU and Pakistan. This Engagement Plan was presented in EU-Pakistan joint summit in 2009 and came into force in 2012. Again, very broader area has been covered by this Engagement plan. Both EU and Pakistan agreed on the mutual cooperation on security, trade and investment, energy and sectorial cooperation, democracy and institutional building, human rights and social development.

There were some main objectives of this Plan in the context of trade

First, to grant the GSP+ status to Pakistan from 2014,

Second, to enhance the trade between both sides working towards Free Trade Agreements (FTA),

Third, improve the trade level by upgrading custom regulations and trade according to the WTO codes,

Forth, promotion of favorable environment for trade and enhance the public-private trade partnerships, and last transfer of technology in agriculture and industrial sectors.(EU-Pakistan Five Yeras Engagement Plan, 2012)

### **Generalized Scheme for Preferences (GSP)**

The Generalized Scheme for Preferences (GSP) status has been granted by European Union to the developing countries to enhance their export to EU member states. This has been working in the form of duty reduction, zero duties and full duty free on all products except arms (“Everything but Arms” EBA).(Highlights of New GSP, 2012) This status has been granted to only those



countries which fulfill the criteria and accept the 27 international conventions on human rights, good governance and environment than EC observe the application for six months and take into next step such as European Parliament and Council of EU if they have no objection. (The EU's New GSP and Pakistan, 2013) These United Nations conventions were related to human rights, women and child rights, economic, social and cultural rights, political rights, labor rights, elimination of racial discrimination, narcotic drugs corruption and environmental conventions.

### **Pakistan Qualified for GSP Plus**

Pakistan fulfills the criteria and has been awarded this status in 2014 and it is essential part of Pak-EU Five Years Engagement Plan. The basic criteria according to which countries can be eligible for the GSP plus status is that the country classified as a low income country by World Bank for three succeeding years, the country has non-diversified economy, export of that country must be less than 2 % of EU's global GSP imports, implement and ratifying the 27 conventions of UN, accept regular monitoring and report the requirements imposed by conventions. (Anum & Amir, 2014)

According to this criteria it can be seen that Pakistan has been classified a low income country by World Bank, Pakistan has non-diversified economy that only seven sections of GSP covered 87.66% share of the imports to EU, the total share of country's GSP to EU is only 1.6%, Pakistan accept and implement all the 27 conventions of UN and accept the regular monitoring and report to the conventions. (Anum & Amir, 2014)

### **Benefits for Pakistan**

Pakistan definitely gained benefits from GSP plus status which helped to boost its export to EU. In a meeting with KP Chamber of Commerce, the president of GSP plus monitoring mission Alina Boiciuc expressed that the export of Pakistan with EU has been increased after GSP status. It exceeded to € 1 billion and will reach to € 6 billion in the end of the current year. (The News, 2015) Another study resulted that the imports by EU from Pakistan will be increased to US\$ 7.7 billion in 2016 which was US\$ 6 billion in 2013. (Anum & Amir, 2014) The implementation of GSP plus has increased the value of different industrial products such as textile related products, sports goods and other traditional exports of Pakistan.

### **Conclusion**

European Union, with 28 member states, is a leading economic power of the world. EU started its journey in 1957 and through different treaties the current structure of EU emerged. It overcome its internal conflicts through integration in trade and became the largest trading hub. These all treaties provide basis of EU and step by step shaped it. Pakistan developed its relations with EU in 70's and

European Commission opened its office in Pakistan in 1986 but the revival of these relations was held in 2004 with the Third Generation Cooperation Agreement. This was the comprehensive agreement and provided the economic and social sector development. This first step opened other doors of cooperation for both parties and improved the integration between them in preceding years. EU has become Pakistan's largest trading partner. The main image of Pak-EU relation is economic but EU also provides the social development assistance and now the relations are becoming more political. The first Cooperation Agreement was a complete package from economic assistance to social development. EU also provides trading facilities therefore it became the largest exporter of Pakistan. Pakistan exports almost 70 products to EU in which textile and cotton products are higher in share which comprise 75% of total export. After GSP plus status, which has been granted to Pakistan in 2014, the ratio of trade has been raised. On the other hand, EU also focused towards Pakistan's social issues and delivered its assistance. EU focused in remote and terrorism hitting areas of Pakistan. EU funded and started the projects related to education, health, clean water, sanitation, rehabilitation, justice, security and other projects related to human, women and child rights.

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