

# Changing Trends of the European Development Cooperation with Pakistan: Challenges and Opportunities

Shamsa Nawaz<sup>\*</sup>

## Abstract

*A partnership plan for the Horizon 2020 programme was finalised between the European Union (EU) delegation and Pakistan Science Foundation (PSF) visiting Pakistan in November 2017. Aimed at promoting a more binding single market for research, innovation and knowledge, the Horizon 2020 is basically a financial instrument. It is a flagship initiative to secure Europe's global competitiveness by steering economic growth and to help generate more opportunities for employment. The programme also anchors on a unanimous keystone for cooperation by both the European leaders and members of the European Parliament. Pakistan and the EU have always celebrated cordial political, economic and trade relations. As one of Pakistan's largest trading partners and the biggest market for the Pakistani exports, the EU-Pakistan trade reached €10.49 billion in 2015.<sup>1</sup> Since January 2014, Pakistan has also benefitted from the EU's Generalised System of Preferences (GSP) and its exports to the EU are encouraged even further. However, with the shifting political paradigms in the post-Brexit period and the rise of the right-wing nationalist/populist syndrome, Brussels is changing. Amidst rising economic crisis and growing terrorism, solutions look dim or problems would at least take time to faint. The future shape and character of the EU are in question. The EU's insistence to help Pakistan with its aim of supporting on its path towards inclusive and sustainable growth needs revamping. Pakistan's five major priority areas of governance, local development, economic growth and trade, humanitarian assistance and regional cooperation are significantly dependent upon the support of the EU.*

**Keywords:** EU, Pakistan, Development, Populist Forces, Eurozone Crisis, Strategic and Security Collaboration.

---

<sup>\*</sup> The author is Research Fellow at the Institute of Strategic Studies Islamabad.

<sup>1</sup> "Pakistan and the EU," Delegation of the EU to Pakistan, November 5, 2016, [eeas.europa.eu](http://eeas.europa.eu)

## Introduction

Based on Immanuel Wallerstein's theory of functionalism, the European Union (EU) has emphasised on integration while seeking common interests in its inter-regional relations. The EU has mainly submitted itself to the functionalists model, which gives preference to the structures and not the individual interests in contrast to the theory of realism.<sup>2</sup> Integration into limited functional or technical areas is generally the main objective in order to find the impetus for further rounds of integration as a "spill-over" effect. To attain "spill-over" outcomes, a system is needed to work rather than individual agents or actors.<sup>3</sup> The functionalists believe that it is through the combination of structures and the systems that the individual agents are given incentives. This generates unaffectedness through common interests in working together.<sup>4</sup>

In order to avoid the negative "spill-over" effects the EU chose South Asia. Pakistan is less incorporated into the economy of the world as compared to the other countries. The negative effects of the external shocks would also be less likely. Pakistan is one of the most vital destinations for its investment in South Asia. According to the Manila-based lender, in the outlook, forecast growth in gross development product of Pakistan was at 5.6 per cent during the last fiscal year of 2018, due to substantial prospects for large-scale manufacturing and crop harvests.<sup>5</sup> The growth was identified in the second year in a row, along with a successful increase in domestic demand, the revival of exports, improvement in power supply and the commodity prices. The government also claims to have achieved the 13-year growth of 5.8 per cent in fiscal year 2018.<sup>6</sup> The Asian Development Bank (ADB) counted the agriculture sector as one of the key propellers of growth during the last fiscal year. An upswing in private investment is significantly noticed while raising Pakistan's economic vitality in the

---

<sup>2</sup> Ken Booth, ed., *Realism and World Politics* (Routledge, Taylor and Francis Group: London, 2011).

<sup>3</sup> Richard Sinnott, "Integration Theory, Subsidiary and Internationalisation of Issues: The Implications for Legitimacy," no. 13, EUI-RSCAS Working Paper, European University Institute (EUI), Robert Schuman Centre of Advanced Studies (RSCAS).

<sup>4</sup> Booth "Realism and World Politics," 143.

<sup>5</sup> "Pakistan's Growth Outpaces ADB'S Forecast in 2017-2018," *News*, July 20, 2018, [www.thenews.com.pk](http://www.thenews.com.pk)

<sup>6</sup> "Despite Challenges: Growth Rate at All Time High 5.8 per cent in 13 years," *News*, April 27, 2018, [www.thenews.com.pk](http://www.thenews.com.pk)

“Asian century.”<sup>7</sup> Moreover, by the launch of the China Pakistan Economic Corridor (CPEC), Pakistan’s geopolitical, geo-economic and politico-strategic importance is enhanced multi-fold. The ambitious development projects provide substantial space for joint ventures. This would significantly contribute to restructuring Pakistan’s economy. A productive blend of policies would further improve the prospects for Pakistan for both internal and external investors.

Many of the European countries have already shown interest to co-partner in the energy sector, in particular, initiated by the CPEC early harvest programme since it aims to build six economic corridors across Asia, Europe and Africa. The scope of regional connectivity goes even beyond Oceania and Latin America. This signifies the inclusive nature of the Belt and Road Initiative (BRI) by the involvement of over 69 countries.<sup>8</sup> Nonetheless, in the backdrop of celebrated political, economic and trade relations between Pakistan and the EU, the way forward for the Pak-EU relations in this context still carry several risks along with opportunities.

The EU is intensely divided into “core” and “periphery” countries. The remaining 27 leaders of the EU in the post-Brexit era have already devised a “reflection question” in March 2017, to address the sovereignty threat to their ‘nationhood’ or ‘nationalism,’ mostly anticipated by the fast emerging Eurosceptic or the anti-EU political parties. How would this effect Pak-Euro relations and Europe’s aim to improve Pakistan’s inclusive and sustainable economic growth surrounded by an extremist school of thought?

The rise of populist right-wing sentiments are further complicating the terms for a Muslim state of Pakistan. Political reconciliation and economic interdependence go hand in glove. How would Pakistan balance out the rising dichotomy in its more mercantile relations with the politically diverse EU? What are the possibilities that the economic reconciliation between the two would continue despite ongoing economic difficulties in the EU?

Based on the literature review, the paper is an endeavour to dissect the attempt of the EU to include Pakistan into the global economy through the single market of knowledge while keeping in view the ongoing economic

---

<sup>7</sup> Ibid.

<sup>8</sup> Ahmad Rashid Malik, “The All-inclusive CPEC,” *Pakistan Today*, January 27, 2018, [www.pakistantoday.com.pk](http://www.pakistantoday.com.pk)

crisis within the eurozone as well as the political and economic impact of the post-Brexit EU on the relations.

## **Historical Background of Pak-EU Relations**

Signed in 1951, the “Treaty of Paris” integrated shockingly devastated Europe after the World War II. It compelled the European nations to dilute their differences by moving towards supra-national interests by adopting the functionalists’ prescriptions and evolve regional unity. Ever since, the EU has played the role of a “dialogue” more significantly than “domination” contrary to their historical “imperialist” approach. Its 28 members (soon-to-be 27) union has significantly provided a balance of power in geopolitics and in the global economy since the recent past. With the third largest population bloc, the EU has both one of the largest economies in the world and the biggest single market ahead of the North American Free Trade Agreement (NAFTA). The EU stretches its wings from the Atlantic to the Baltic and then right down to the eastern edge of the Mediterranean.<sup>9</sup>

An apt and coherent participation of the EU, especially in poverty alleviation and other socio-economic fields in the developing and underdeveloped countries is the union’s proud contribution to the global economy. Approximately 56 billion Euros, which is over half of the world’s official development aid comes from the EU and its member countries.<sup>10</sup> Similarly, the EU outrivals in global governance and human rights as well.<sup>11</sup>

The EU tops the list in its donations to Pakistan. It is Pakistan’s largest trading partner.<sup>12</sup> From 2007-2013, the financial assistance from the EU and its member states amounted to Euro 2.458 billion.<sup>13</sup> The EU Ambassador to the World Trade Organisation (WTO), Marc Vanheukelen, said: “The EU has donated approximately Euro 20 million (over CHF 21 million) to WTO trust funds over the past 15 years, in addition to significant contributions

---

<sup>9</sup> Inis L Claude Jr., *Swords into Plowshare: The Problems and Progress of International Organisations* (Random House: New York, 1963), 384.

<sup>10</sup> “EU Official Development Assistance Reaches Highest-ever of Gross National Income,” European Commission Press Release, Data Base, Brussels, April 13, 2016.

<sup>11</sup> Ibid.

<sup>12</sup> European Union Report, Report on the EU Financial Management in the CR, [www.nku.cz](http://www.nku.cz)

<sup>13</sup> Ibid.

made by the individual EU member states.”<sup>14</sup> Pakistan had also been approved for the Generalised Scheme of Preferences (GSP) Plus status by the overwhelming vote of the European Parliament on April 22, 2004, with the signing of the “Cooperation Agreement on Partnership and Development.”<sup>15</sup>

The GSP was meant to ensure sustainable development, good governance and promote closer relations. The agreement granted the EU Commission to commit 500 million Euros on various projects and programmes in Pakistan.<sup>16</sup> Till 2015, there were about 48 bilateral and multilateral treaties signed between Pakistan and the EU.<sup>17</sup> The enforcement of 47 treaties has already been ensured with 86 projects already in progress in various sectors.<sup>18</sup> The GSP Plus status has provided Pakistan with a unilateral market access under the new governing system. Initially, the status was given for three years so that zero per cent tariffs on 20 per cent exports to the EU could be enjoyed.<sup>19</sup> It also gave preferential access to the European markets to 70 per cent of Pakistani products. Around 74 high potential exporting products from 11 sectors of Pakistan were also considered for the EU while maintaining the agriculture as the most sensitive sector.<sup>20</sup> On the other hand, Pakistan had to keep ratifications while implementing 27 core international conventions on human and labour rights, environmental protection and good governance.<sup>21</sup> A sub-group on trade has also been established under the auspices of the Pakistan-EU Commission to facilitate two-way trade. The commission is meant to contemplate on the trade development policies since Pakistan’s trade regulatory regime is comparatively still restrictive. In its International Trade Committee (INTA) of the parliament, held in Brussels in February 2018, to discuss the Second Biennial Assessment Report of GSP Plus, the European Parliament singled out progress on the

---

<sup>14</sup> “EU Donates Euro 1 Million to Help Developing Countries Participate in Trade Talks,” World Trade Organisation, Press Release, December 13, 2016, [www.wto.org](http://www.wto.org)

<sup>15</sup> “Official Journal of the European Union: Information and Notices C369,” vol. 61, October 11, 2018, [eur-lex.europa.eu](http://eur-lex.europa.eu)

<sup>16</sup> Amna Malik, “An Overview of Pakistan-EU Relations,” *Patriot*, May 18, 2015.

<sup>17</sup> *Ibid.*

<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*

<sup>20</sup> “A Roadmap for Optimising Pakistan’s GSP Plus status,” 2014 Report, The Pakistan Business Council, [www.pbc.org.pk](http://www.pbc.org.pk)

<sup>21</sup> Veronica Nilsson, “Enforcing Labour Standards in Pakistan,” Friedrich Ebert Stiftung, December 26, 2017, [www.fes-asia.org](http://www.fes-asia.org)

National Action Plan for Human Rights by Pakistan as impressive and up to the EU's expectations.<sup>22</sup> The parliament also hoped that Pakistan would continue to engage with the EU and ensure the implementation of counter strategies to bridge the gaps during the next two years of reporting on GSP Plus as well.<sup>23</sup>

Historically, Pakistan's multi-layered relations with the EU began in 1962<sup>24</sup> when the EU was still evolving. Pakistan also needed to improve both its economic and political standing at its nascent years. The EU established its diplomatic relations with Islamabad as the European Economic Community (EEC). They have since signed three Generation Agreements on trade. Firstly, the EC-Pakistan Commercial Cooperation Agreement was signed in 1976, and the first institutional representation in Pakistan was established in 1985 by the opening of the EU Commission.<sup>25</sup> It was to be upgraded into a delegation three years later. The second Generation Agreement for five years was signed in 1986 and was meant for the development of commerce, economy and the development cooperation.<sup>26</sup> The reasons for taking long for the third agreement to be signed were several. The EU started introducing human rights clauses in its commercial policy from 1995, and the nuclear tests in May 1998, by Pakistan in reaction to the Indian explosion as well as the military coup of October 1999, delayed the agreement.<sup>27</sup>

In 2009, 2010 and in March 2012, the EU-Pakistan ad-hoc summits were held.<sup>28</sup> A new political framework called the 5-year Engagement Plan (2007-2013) was endorsed by both the sides and provided a framework of cooperation in areas of counter-terrorism, trade, development, energy,

---

<sup>22</sup> "Pakistan Wins EU's Praise for Meeting GSP Plus Criteria," *Express Tribune*, February 20, 2018, <https://tribune.com.pk/story/1640084/1-european-parliament-lauds-pakistans-implementation-core-conventions/>

<sup>23</sup> Ibid.

<sup>24</sup> Ana Bailestros, "The EU-Pakistan Relationship: Looking Beyond the Trading Partnership," Centre for Security Studies, June 5, 2015, <http://www.css.ethz.ch>

<sup>25</sup> "Looking Beyond the Trading Partnership," *Jahangir's World Times*, August 12, 2015, <http://jworldtimes.com/jwt2015/tag/beyond-the-trading-partnership/>

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Khurram Abbas, "Pakistan's Relations with the European Union," IPRI Conference Paper, March 31, 2015, <http://www.ipripak.org/pakistans-relations-with-european-union-eu/>

human rights and democracy.<sup>29</sup> It also has the Vision 2030, Medium-term Development Framework (MTDF) and the Poverty Reduction Strategy Paper (PRSP-I, 2004).<sup>30</sup> Though, a long way to go to be included in the developed nations, the EU has enabled Pakistan to progress in lieu of social development to quite an extent.<sup>31</sup>

Social development is a very wide-ranging phenomenon. It draws its contours from norms and functions, which underpin the working of the societies. It is about bringing individuals to their full potential by investing in the people's well-being without prejudice. The objective is to remove all barriers to facilitate the individuals in their journey towards their dreams with pride and dignity regardless of caste, creed or class. It is about making the people accept that who live in poverty will not always be poor. On the contrary, a collective assistance is essential to help people achieve self-sufficiency. The EU has been an ardent proponent of social innovation to attain a respectable placement in the world. It has been assisting Pakistan generously with heavy funding in this sector from having new and advanced models of social networks to health care; from employment prospects to social inclusion; from encouraged opportunities to enhanced models; from social justice to effective solutions and from ignorance to educated social responses. Pakistan, on the other hand, had lagged behind due to the absence of core competencies as a result of political instability in the country and lack of integrated approach. Nevertheless, there are two most outstanding features of the EU's policy towards Pakistan:<sup>32</sup>

- i. The economic and commercial policy.
- ii. Human rights and democracy.

The EU has, so far, kept the image of a strong economic donor. It intends to alter this observation and use its position as a development and aid donor so that it may execute its main strategy of encouraging democracy

---

<sup>29</sup> Ibid.

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

<sup>32</sup> Ana Ballestros – Peiró, "The EU-Pakistan Relationship: Looking Beyond the Trading Partnership," Strategic and International Studies, Real Instituto, Elcano Royal Institute, May 14, 2015, [http://www.realinstitutoelcano.org/wps/portal/rielcano\\_en/contenido?WCM\\_GLOBAL\\_CONTEXT=/elcano/elcano\\_es/zonas\\_es/asia-pacifico/ari26-2015-the-eu-pakistan-relationship-looking-beyond-the-trading-partnership](http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/asia-pacifico/ari26-2015-the-eu-pakistan-relationship-looking-beyond-the-trading-partnership)

and strengthening Pakistan's institution building.<sup>33</sup> The adoption of the resolution by the European Parliament "Democracy-building in External Relations" in October 2009, has formally called for the coordination of the EU's external action for the endorsement of democratic values as the cornerstone of its cooperation, human rights and development policy instruments.<sup>34</sup> Observation of the recently held elections in 2018 and 2013 is also linked to the foreign policy of the EU. In fact, democracy with its underpinning values is at the core of the relationship between Pakistan and the EU while involving the civil society organisations for the purpose. Pakistan has a history of frequent transitions from influential military to weak civilian governments. The EU considers the civil society organisations as the best civil organisations for encouraging stabilisation. Stabilisation obviously contributes to the development in the long run.

Nonetheless, Pakistan has acquired a more pronounced purposeful position in the policy-making of the EU. A resolution is also passed by the European Parliament on "Pakistan's Regional Role and Political Relations," intended to strengthen Pakistan's institutions.<sup>35</sup> Pakistan was also visited by the members of the South Asia delegation of the European Parliament, from February 16-19, 2015, in order to hold the fourth round of the Pak-EU talks on counter-terrorism.<sup>36</sup> The presence of the European troops in the International Security Assistance Force (ISAF) in Afghanistan, terrorism and extremism are some of the issues which have made Pakistan vulnerable and has driven it at the forefront of the War on Terror (WoT). It has lost more than 60,000 lives in the process.<sup>37</sup> Consequently, a paradigm shift in the EU policies towards Pakistan was experienced.

The latest policy agenda introduced according to the EU-Pakistan Multi-Annual Indicative Programme 2014-20 has a slight variation. The main documents used in the policy agenda are Vision 2025 and PRSP-II (2010) which is a comprehensive country-based strategy for poverty reduction that

---

<sup>33</sup> "Harmonising Donor Practices for Effective Aid Delivery," *DAC Guidelines and Reference Series*, vol. 2, <http://www.oecd.org/development/effectiveness/34583142.pdf>

<sup>34</sup> Ibid.

<sup>35</sup> Abbas, "Pakistan's Relations with the European Union."

<sup>36</sup> Umbreen Jawaid, "Partnership in War on Terror," *South Asian Studies* 26, no. 2 (July-December 2011): 227-239.

<sup>37</sup> Ibid.



the IMF and the World Bank require from countries considered for debt relief or before receiving aid from donors.<sup>38</sup>

The EU is both the largest donor and the largest trading partner of Pakistan. The Pakistani exports to the EU stood at 4.656 billion Euros in 2014, yet it still does not enjoy the strategic partnership with the EU.<sup>39</sup> So far, two rounds of Pakistan-EU strategic dialogue have been held, first in June 2012, in Islamabad and second in Brussels in March 2014,<sup>40</sup> however, defence remains the weak area of its foreign policy with Pakistan.

### **Pakistan's Economic Support and Eurozone Economic Crisis**

The endorsement of the Horizon 2020 programme by the EU to partner with the Pakistan Science Foundation (PSF) is basically a flagship initiative to secure Europe's global competitiveness. It is designed for economic growth to create more and more job opportunities. Both the European leaders and the Members of the European Parliament have encouraged this joint venture. Around 29.5 per cent of Pakistan's population is living below the subsistence level and the proportion of the employed population below US\$1.90.<sup>41</sup> The daily purchasing power parity is only 8.6 per cent.<sup>42</sup> How ambitious is the EU plan of bringing Pakistan into the global economy and then make it sustainable also? In the backdrop of the ongoing eurozone's economic crisis, this could be a major area of outstanding future concerns in their relationship.

The overall objective for external action of the EU is to live up to its ambitions in promoting democracy, peace, solidarity, stability and poverty

---

<sup>38</sup> Poverty Reduction Strategy Paper (PRSP II), Ministry of Finance, Pakistan, <http://www.finance.gov.pk/poverty/prsp-ii.pdf>

<sup>39</sup> Abbas, "Pakistan's Relations with the European Union."

<sup>40</sup> "EU is the Largest Trading Partner of Pakistan: Envoy," *Pakistan Today*, May 3, 2013, <https://www.pakistantoday.com.pk/2013/5/3/eu-is-the-largest-trading-partner-of-pakistan-envoy/>

<sup>41</sup> "29.5% of Population Living Below the Poverty Line," *Pakistan Today*, August 30, 2017, <https://www.pakistantoday.com.pk/2017/8/30/29-5-of-population-living-below-the-poverty-line/>

<sup>42</sup> "Poverty in Pakistan," Asian Development Bank, <https://www.adb.org/countries/pakistan/poverty>

reduction and to help safeguard global public goods.<sup>43</sup> The focus is on four policy priorities: enlargement, neighbourhood, cooperation with strategic partners and development cooperation.<sup>44</sup> The total amount agreed for the package of external relations is 51,419 million Euros (current prices) over the period 2014-2020.<sup>45</sup> The basis for the support is essentially linked with the needs of the country, its capacity to build itself, commitment to perform and potential impact of the EU support. The EU and its member states jointly assess the priorities in each partner country to establish a common framework for their development programmes in order to receive better results.<sup>46</sup>

Since the euro policies were too loose for the single monetary policies, the countries got stuck in low growth equilibrium. The French and German leaders suggested a further push for political integration by giving more powers to Brussels as a way of completing the economic and monetary union.

This left the world with six major areas in which it faced the effects of the euro crisis identified by Massa, which had its varied domino effects on Pakistan also.<sup>47</sup>

- i. A quarter of world exports are destined towards Europe whereas the Eurocrisis lowered the growth rate in Europe.
- ii. Hence, adding to the depreciation of Euro.
- iii. Thereby, capital surging into promising markets.

---

<sup>43</sup> “Overall Goals of the EU: The EU Institutions Aim to Achieve the EU’s Goals Through Laws and Policies, Commission and its Priorities,” [https://ec.europa.eu/info/strategy/priorities-and-goals/overall-goals-eu\\_en](https://ec.europa.eu/info/strategy/priorities-and-goals/overall-goals-eu_en)

<sup>44</sup> “Setting the EU’s Agenda for Cooperation,” European Council: Council of the European Union, <https://www.consilium.europa.eu/en/european-council/>

<sup>45</sup> “The Multiannual Financial Framework: The External Action Financing Instruments,” European Commission Press Release, December 11, 2013, [https://ec.europa.eu/fpi/news/multiannual-financial-framework-external-action-financing-instruments\\_en](https://ec.europa.eu/fpi/news/multiannual-financial-framework-external-action-financing-instruments_en)

<sup>46</sup> “International Cooperation and Development: Building Partnership for Change in Developing Countries,” European Commission, [https://ec.europa.eu/europeaid/policies/eu-approach-aid-effectiveness\\_en](https://ec.europa.eu/europeaid/policies/eu-approach-aid-effectiveness_en)

<sup>47</sup> Isabella Massa, Jodie Keane and Jane Kennan, “The Eurozone Crisis and the Developing Countries,” Working Paper, Overseas Development Institute, London, <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/7688.pdf>

- iv. The crisis caused immense volatility in the financial markets and lead to holding several bouts for finding risk-aversion.
- v. The most fearful feature of the crisis is its potential to cause an acute blow to many fragile financial institutions.
- vi. The failure to contain the crisis raised the alarm on sovereign debt in other industrial countries. It, thus, exposed emerging markets as well.

## **Financial Contagion Effects**

The major role of intermediaries, for instance, bank lending and stock market get affected automatically by the varied avenues of the eurozone debt crisis as well. Shifts in the market sentiments of the investors and investor's perception of risks are also altered.

### *Effect of the Fiscal Consolidation*

The austerity packages, executed in the several European economies, led to a considerable rise in unemployment and weakened growth. The "simulation results show that a drop of 1 per cent in export growth could reduce growth rates in low and lower-middle income countries by an average of 0.4 per cent and 0.5 per cent respectively."<sup>48</sup> There are about 153.88 million Pakistanis quarterly employed in the Euro areas.<sup>49</sup> It adversely affected the remittances of Pakistan which have increased to US\$4760 Million in the fourth quarter of 2016,<sup>50</sup> in general. Further, the austerity drive may also affect the demand for developing country exports, which could impinge on adverse effects on trade inflows between the EU and developing economies. It may also affect the Foreign Direct Investment (FDI).<sup>51</sup>

---

<sup>48</sup> Ibid.

<sup>49</sup> "Pakistan Employed Persons 1986-2017," Trading Economics, <https://tradingeconomics.com/pakistan/employed-persons?embed>

<sup>50</sup> Pakistan's Remittances 2002-2017," Trading Economics, <https://tradingeconomics.com/pakistan/remittances?poll=2019-03-31>

<sup>51</sup> Konstantinos Dellis, David Sonddermann and Isabel Vansteenkiste, "Determinants of FDI Inflows in Advanced Economies: Does the Quality of Economic Structure Matter?," Working Paper Series, European Central Bank, <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2066.en.pdf>

## **Exchange Rate Effects**

The exchange rate effect of the Eurocrisis was yet another effect since Pakistan has a dollar-linked economy. With the appreciation of the dollar, the exports to the EU would lead to larger ramifications for Pakistan.

Pakistan has numerous trading partners amongst the eurozone countries. It has almost 17 per cent of the country's total exports destined in the eurozone.<sup>52</sup> According to the Economic Survey of 2011-2012, the eurozone debt crisis has impacted Pakistan's trade growth, both in terms of volume and trade.<sup>53</sup> The EU accounted for 12.8 per cent of Pakistan's total trade in 2015 and absorbed 23.7 per cent of Pakistan's exports. The current account deficit stood at US\$3,394 million during July-April 2011-12, largely caused by the widening of trade and services account deficits.<sup>54</sup> The major factor behind the widening of the trade deficit was the sharp rise in the import bill during July-April 2011-12, which was increased due to the higher international prices of crude oil.<sup>55</sup>

## **EU in the Post-Brexit Era: The Possible Scenarios for Pak-EU Relations**

The democratic process in Pakistan has seen several interruptions in its brief period of 70 years of history. Except for relief aid, Pakistan's relations with the EU remained almost frigid during the military regimes. The basic democratic values of the EU model were relentlessly contested. It was only after 9/11 when Pakistan backed the US-led coalition in Afghanistan, the EU resumed talks with the Musharraf government.<sup>56</sup>

However, ever since the 2008 general elections, the process is being experienced with relative success. The global forces have also been supportive to keep it alive. The EU's assistance has significantly propelled the functioning of democratic institutions and electoral processes at all

---

<sup>52</sup> "EU Asks Pakistan to Take Full Benefit of GSP Plus," *Express Tribune*, April 5, 2017.

<sup>53</sup> "Pakistan's Remittances 2002-2017," Trading Economics.

<sup>54</sup> *Ibid.*

<sup>55</sup> *Ibid.*

<sup>56</sup> Peiró, "The EU-Pakistan Relationship."

levels. For instance, all the elections have been closely monitored by the EU ever since. The support for federalisation and decentralisation of the public administration in provinces and districts at multi-tier, multi-year and multi-sector levels is also extensively appreciated.<sup>57</sup> The cooperation to improve the security and the rule of law is also purposeful after the 18th Amendment was introduced in the constitution during 2008-2013. Pakistan ranks 108th out of 167 countries on the Democracy Index of the Economist Intelligence Unit 2014 and 126th of 175 countries on the Corruption Perception Index according to the Transparency International 2014.<sup>58</sup>

A bilateral dialogue was also opened up during the two summits of 2009 and 2010. On June 17, 2009, the EU and Pakistan held its first summit in Brussels.<sup>59</sup> Their delegations discussed the security-related issues quite comprehensively. Pakistan, being in the neighbourhood of Afghanistan and at the forefront of WoT, showed remarkable resilience despite getting severely inflicted by the 9/11 attacks. Hence, the main emphasis of security cooperation has been mainly to improve the counter-terrorism capabilities and strengthen police competence.<sup>60</sup> The deterioration of the security situation in Khyber Pakhtunkhwa (KPK) province of Pakistan and the tribal areas, along with the desire of maintaining the stability in the region remained at the core of the discussion on cooperation. Pakistan is an exceedingly energy-starved country. Both the EU and Pakistan realised the concern and kept the need for sustainable energy supplies at the heart of the cooperation.

However, the EU is currently grappling with multiple challenges. They pose apprehensions for continuing with its foreign policy as a collective body. There are various speculations about shaping the EU might take in the times to come. For instance, the EU might continue to follow the policy of integration with certain adjustments regarding the commonly addressed issues of terrorism, immigration, the economic, political and ethnic crisis in various parts of the whole of Europe. The conflicts between the 'core' and periphery member states regarding the policies introduced and integration in

---

<sup>57</sup> Ibid.

<sup>58</sup> "Democracy Index 2017," *Economist*, [https://pages.eiu.com/rs/753-RIQ-438/images/Democracy\\_Index\\_2017.pdf](https://pages.eiu.com/rs/753-RIQ-438/images/Democracy_Index_2017.pdf)

<sup>59</sup> "EU-Pakistan Summit: Brussels," Joint Statement in Press Release 182, Council of the European Union, June 17, 2007, [www.consilium.europa.eu/Newsroom/11117/09](http://www.consilium.europa.eu/Newsroom/11117/09)

<sup>60</sup> Ibid.

select fields could be an area of unease as well while dealing with the outside world. Another possible scenario could be the preservation of the sovereignty reclaimed by some of the EU countries with a looser structure.

In fact, many British leaders and citizens are traditionally cautious of ceding too much sovereignty to Brussels and would like to emphasise more on the bilateral relations. The rise of populism in Europe and predominant Eurosceptic tendencies, are not only likely to compromise on the basic values of the EU model but would have a negative impact on the inclusive and sustainable political relationship with the Muslim countries. This could impede the EU's role as an international actor. Nonetheless, any possibility of attaining a more united and integrated EU against this complex political and economic backdrop could be a positive step corresponding fairly with the functionalist's model of integration.

### **Amidst Cooperation and Competition: A Way Forward**

The relationship between Pakistan and the EU is based on common values. A significant part of their sovereignty is ceded to the EU's institutions by its member countries as a supra-national model, which essentially clashes with Pakistan's rightful desire to protect its autonomy. This creates space for ambiguities or building any clear-cut understanding between the two.

The summits have been an essential tool for conducting the foreign policy decisions by the EU. Ever since the time of Pakistan's inception, Europe has wilfully helped legitimise its role as an independent sovereign nation, particularly for its own people. A historically rooted dislike towards the colonial and imperialist powers, further dominated by the history of interrupted cordiality made it an uphill task for both the sides to reach to a comfortable level of confidence. The ostensible inclination of the western world towards India, particularly in the political and security relations, often contributed more to the gap of the understanding between Pakistan and India.

However, after 9/11 and the 2004 and 2005 bombings in Madrid and London, a new political alliance was essential for them to achieve. Initially, the EU confined itself to curtail internal threats and fight against terrorism. The direction was later shifted to the outside world as well and in 2001 the

governments of the EU agreed on an action plan on counterterrorism.<sup>61</sup> The plan was later revised and adopted by the European Council in 2004 as the EU Plan of Action on Combating Terrorism with an objective of implementing an action plan in the countries where counterterrorist capacity or commitment to combating terrorism could be improved.<sup>62</sup> A political dialogue on counterterrorism with the US, Russia, India, Pakistan, Australia and Japan, followed by the counterterrorism strategy, was also initiated in 2005. It was composed of four strands: prevention, protection, pursuit and response.<sup>63</sup>

The EU was heavily engaged in formulating and adopting the 2005 UN Convention against Nuclear Terrorism and the 2006 UN Counter-Terrorism Strategy as well and encouraged the states to ratify existing UN conventions and protocols.<sup>64</sup> There, however, remained differences on the consequences of various perspectives regarding counter-terrorism strategies. Any extensive support for research and participation of the academics and experts particularly in Pakistan could have nonetheless helped remove the apprehensions. A public awareness programme could have been more useful. Furthermore, since the EU has placed more focus on trade and democracy and is virtually non-existent in the security-centric concerns, its potential influence on Pakistan gets limited. Aid and development approach is often considered as a mistaken and outdated policy.

Largely, the policy perceptions of both Pakistan and the EU have been harmed by the disrepute caused due to the EU's interventions in Iraq in 2003 and Afghanistan from 2001-2014. The EU's agenda is more perceived in terms of the proxy programme. The claims about democracy and human rights are considered as only excuses for foreign powers in tandem with neo-colonialist policies. No Confidence-Building Measures (CBMs) could bear fruits unless dialogue between equals is assured in terms of political and economic understanding. The EU already holds the edge since it has appreciably achieved success in a framework of divergent values. The

---

<sup>61</sup> "EU Response to 11 September: European Commission Action," European Commission Database (Press Release), June 3, 2002.

<sup>62</sup> "EU Plan of Action on Combating Terrorism," *EU Monitor*, <https://www.eumonitor.nl/9353000/1/j9vvik7m1c3gyxp/vi7jgsy56dzw>

<sup>63</sup> Federiga Bindi, "European Union Foreign Policy: A Historical Overview," [www.brookings.edu](http://www.brookings.edu)

<sup>64</sup> *Ibid.*

execution of similar flexibility towards Pakistan by the EU could certainly be more prospective.

At the same time, Pakistan also needs to undertake a serious policy review and address its internal radicalism. Similarly, since federalism has more acceptance in the democracy, Pakistan needs to sort out its differences between the provinces and find a path to integrate different visions of Pakistan.

## **Conclusion**

The EU's intention to shift to an influential political power as a development and aid donor is undoubtedly appreciated. However, its main strategy of fostering democracy and institution building in Pakistan require more profound efforts. The emerging ideologically divertive forces which are challenging the integration of the European project within Europe itself are posing an alarming threat to achieve a comprehensible and credible policy towards Pakistan. It could have an inflicting impact on the future generations as well, for instance, the results of the French elections in 2017 and entrance of AfD, as a centre to right political party in the German parliament, for the first time, indicate the popularity of the populist leadership amongst the youth. It certainly signifies dangerous tendencies.

The EU cannot be regarded as just a trade partner. The threat of terrorism is a common phenomenon, which has engulfed the world largely. The people of Pakistan already bear a heavy burden of terrorism and have shown remarkable resilience to a decade-long experience of losing lives and limbs, property and resources. More than 60,000 people have sacrificed their lives in the WoT. Europe's foreign policy towards Pakistan requires readjustments. Pakistan's contribution to counter-terrorism needs a realistic recognition beyond the influence of any third-party bigotry. Delinking economic benefits from the ideological prejudice would also have positive results.

One of the vital interests of the EU is to secure its economic as well as geostrategic capacity in the 'Asian Century.' The economic dominance of China is certainly gaining grounds in this region, particularly after the launching of the BRI. It has already launched its flagship project of the CPEC in Pakistan as well. The project, unfortunately, envisages a policy of



confronting some, while cooperating with others. Competition of such nature between the competing powers would have obvious repercussions for the Pak-EU relations as well, particularly in the development sector.

The issues of human rights and death sentence are one of the divergent curves in the Pak-EU relations. The political sourness prevalent in the relationship is more due to lack of cultural interaction as apart from the intense engagement of Pakistan in its fight against terrorism. Pakistan has also been significantly less convincing in its diplomatic overtures to build its image positively. It has not been able to coin its counter-terrorism resilience pro-actively.

Similarly, Pakistan's uncelebrated performance in governance and discontinuity in democracy has not only damaged its image in the world but has also largely threatened the foreign investors. As a result, there remained hickups between the aid donor countries and the recipients for the development projects such as, in the field of education, health and structural development.

Forging a closer strategic partnership with the Government of Pakistan on counter-terrorism through intensive diplomatic efforts at a multilateral forum and in cooperation with the key partners such as the US could prove an effective reinforcement source. Similarly, engagement with the key players within the Pakistani establishment and across the political spectrum and operational co-operation would be more fruitful. Pakistan also needs to build-up its key capabilities such as military, judiciary and police in order to ensure quality governance. Any assistance offered by the EU would be a welcome step to improve the relationship. Moreover, working closely with the media, civil society and others would not only bring the people of the EU states and Pakistan closer but would also simplify the path towards collective development projects while contributing to the world economy more efficiently.