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EICC-2022

Brussels, 20 May 2022

Mr. Valdis Dombrovskis
Executive Vice President and EU Commissioner for Trade
European Commission
Brussels

Dear Executive Vice-President Mr. Dombrovskis,

Re: **Misuse of EU's GSP plus in Pakistan**

I am writing to you to bring to your urgent attention certain matters about the very real and immediate threat of misuse of European Union's very generous GSP+ trade status in Pakistan.

As you are aware, Pakistan has been teetering towards bankruptcy for the past couple of years due to its unsustainably high external debt and most notably debt towards China incurred by Pakistan over the highly ambitious and unrealistic infrastructure development projects financed and implemented by China and which have all turned out to be duds, at least in terms of return on investment or even towards achieving their goals of social and economic development of Pakistan. Over the past decade as western nations, including the EU began to turn away from Pakistan notably due to its overt support for Taliban in Afghanistan, Pakistan has become ever-more dependent on China to meet its strategic, military, and economic needs.

And the high-level of indebtedness of Pakistan has made it even more vulnerable to pressure from China and this is posing a direct threat to EU's interests in Pakistan. In this context, I would like to bring to your attention the danger of growing influence of China in Pakistan's industrial sectors especially the textile sector which is a recipient of special trade incentives under EU's GSP, and how China is using its "debt-trap diplomacy" on Pakistan's asset for its own economic advantage. This letter is also in the background of earlier communications that Europe India Chamber of Commerce has sent to the European Commission on the GSP+ issues.

One of the objectives of EU's GSP+ policy is to help vulnerable and low-income countries to promote democracy, human rights and implement policies of sustainable development. In the case of Pakistan, this has sadly not happened; rather the country has further fallen on all parameters of required progress. For the last eight years since EU first granted GSP+ status to Pakistan in 2014, the country has failed to satisfy the international community of its commitment on democracy, let alone financing and abetting the terror outfits in the country. The fact that Financial Action Task Force (FATF) has kept Pakistan in the Grey List shows that the progress is far from satisfactory.

Pakistan's textile industry contributes approximately 46 pc to the total output or 8.5 pc of the country's GDP and provides employment to 38 pc of the work force in the country. Such is the importance of textile industry to Pakistan, and how EU's GSP has become a lifeline for the country's economy. The textile industry, however, is currently going through one of the toughest periods in decades. The high cost of production resulting from economic mismanagement, an instant rise in the energy costs, continued depreciation of Pakistani rupee, double digit inflation and high cost of financing have seriously affected the growth in the textile industry.

Taking advantage of the situation, China is exploiting Pakistan's current social disorder, political chaos, economic miseries, and financial crisis to advance its economic goals. It is learnt that recently China has asked new government in Islamabad to transfer thousands of hectares of land to set up textile units with the objective to export Chinese goods and products to EU under Pakistan's GSP thus avoiding complication of the issue of rule of origin.

China has also demanded that Pakistan allows Chinese workers to work in the textile factories. It is seeking guarantee that any textile factory or any industrial set up financed by China will be operated as per the Chinese rule where any discussion on trade union rights or any human right issues will not be entertained. If Pakistan succumbs to the Chinese demand, whatever progress in the trade union rights situation, if any, has been achieved under the EU's GSP, this will be wiped out under the Chinese "invasion" of Pakistan's industries. China has also threatened that if Pakistan does not agree to its demands, it shall cut off power supply in the major cities in the pretext of non-payment of loans.

It is no secret that China's ability to exert influence on Pakistan's economy has grown substantially in recent years, mainly due to the fact that Beijing is now Islamabad's largest creditor. It burdens Pakistan with mountains of debt, allowing China to use "debt-trap diplomacy" to gain access to strategic assets. With CPEC-BRI, China has established a legitimate pretext to intrude into Pakistan's economic policies and penetrate its social and cultural world.

It is widely known that Beijing's One Belt, One Road initiative is a ploy for economic domination of the country. By acquiring thousands of hectares of agricultural land to set up textile and other projects – a China's grand design, Pakistan has effectively become a raw materials supplier rather than an added value producer, a prerequisite for a sustainable textile industry.

Sir, we are aware that EU has asked for transparency, predictability, and information on tax breaks applicable in the strategic economic zones so that European companies could also invest in Pakistan. But the China-Pakistan Economic Corridor (CPEC), a set of projects under China's Belt and Road Initiative remains a highly secretive and closely guarded agreement between China and Pakistan.

I wish to take this opportunity to draw your attention to the European Parliament's resolution of April last year calling for review of Pakistan's GSP+ status over blasphemy law abuse as well as rising number of online and offline attacks on journalists and civil society organisations. The resolution had also called on the government of Pakistan to "unequivocally

condemn” incitement to violence and discrimination against religious minorities in the country. Instead of taking action, the Pakistani government rejected the resolution and conveyed to the world that its relations with terror outfit Tehrik-i-Labaik-Pakistan (TLP) is made in heaven, they both owe their existence to religious fundamentalism, and they are inseparable. It is important to point out that since the last biennial review in 2020, the situation for religious minorities in the country has further deteriorated with widespread violence and discrimination, including against Ahmadi Muslims, Shia Muslims, Christians, Hindus, and Sikhs. Blasphemy laws, so often used, continues to devastate scores of lives each year, and even sending a "blasphemous" text message over WhatsApp could be a death warrant.

It is important that EU follows the Financial Action Task Force (FATF) recommendations and centres its priorities on the assessment of human and trade union rights, especially those concerning slave labour and the protection of children’s and women’s rights in the different sectors of Pakistan’s economy. Furthermore, it is also important that EU’s monitoring process and Pakistan’s implementation of its GSP+ status is not only based on feedback mechanism but also from independent observers.

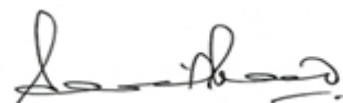
We are encouraged by the recent steps of the EU to tighten sanctions on Pakistan's compliance under GSP Plus. Proposing to add five new conventions to reinforce the social, labour, environmental and climate dimensions of the scheme, EU has finally shown its dissatisfaction on the promised progress in the country.

The Europe India Chamber of Commerce has consistently raised with the European Commission, Pakistan's abysmal human rights record which has been inconsistent with its image makeover efforts with the European Union and has asked the EU to withdraw special trade incentive the GSP plus.

In view of the above, it would be helpful for EU to study the limitations and ambiguity in the GSP policy in order to better understand where and how China is able to use its leverage on EU's trade incentives. EU should also recognise the fact that a socially and economically unstable Pakistan will not only be unable to repay Chinese debt, but it will also become an increasingly disruptive force in the region threatening peace and security.

With kind regards,

Yours sincerely,



Secretary General

Cc: Mr. Josep Borrell, High Representative for Foreign Affairs and Security Policy and Vice-President of the European Commission