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Exploring The Impact Of EU GSP Policies On Export And Growth In South Asian Economies – A Case Of Pakistan, India And Sri Lanka

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Abstract

In recent years, considerable attention has been directed toward understanding the intricate and multi-dimensional relationship between the European Union's Generalized System of Preferences (GSP) and export activities from South Asian countries. This paper explores the impact of EU GSP policies on the export and growth performance of South Asian countries, specifically Pakistan, India and Sri Lanka drawing insights from existing literature and empirical evidence. The findings suggest that while the GSP scheme has contributed positively in boosting exports yet growth in India and Pakistan, it has not been successful in promoting exports or growth in Sri Lanka. The paper concludes with a discussion of the policy implications and recommendations for further research in this area.

Keywords: Exports, Economic Growth, EU GSP Policies, Trade, GSP Plus, Preferential Treatment. Pakistan, India, Sri Lanka, South Asia

INTRODUCTION

The last two centuries have witnessed a tremendous growth in trade which has drastically changed the picture of trade globally. One- fourth of the production around the globe is now being exported. Historically, the waves of globalization can be classified into two. The first wave of globalization began in the nineteenth century and continued until the First World War. The second globalization wave began after World War II and still exists. Colonialism drove trade before the first wave of globalization. The first wave of globalization has marked the rise and fall of European trade. It supported inter-industry trade, such that the exports of a country were different from its imports. For instance, England imported tea and spices from India and wool from Australia and exported machines. The second wave of globalization is characterized by intra-industry trade. Due to the immense role of technology the trade has grown globally after the Second World War.

The European Union's (EU) Generalized Scheme of Preferences (GSP) is a trade policy instrument that aims to promote exports and economic growth in developing countries. These preferential

treatments granted by EU comprises of three categories: The Standard GSP, GSP Plus status and EBA (Everything but Arms) arrangements. Standard GSP is granted to low or lower middle-income countries with a partial or full removal of custom duties on two-third of tariff lines. Meanwhile, GSP Plus status allows vulnerable countries that successfully implement 27 international conventions including rights of human and labor, environmental protection, sustainable development and good governance, a tariff free access to EU markets applied to 66% of tariff line. However, EBA ensures the LDCs a duty-free access to EU market (except arms and ammunition). While India currently benefits from the standard GSP arrangement, Pakistan and Sri Lanka have been among the 8 countries that have gained the GSP+ status.

Pakistan gained the GSP plus status in January, 2014. To maintain GSP+ Pakistan has ratified 27 core international conventions. Around 29% of Pakistan's total exports to the world are absorbed by EU. After gaining the GSP + status, there has been a tremendous increase in exports of Pakistan to EU, rising from €3.56 billion in 2013 to €7.4 billion, showing about 108% increase in exports in the said period, hence making Pakistan the largest beneficiary among all the GSP + countries. Textiles and clothing are major exports of Pakistan under the GSP Plus status accounting about 75% of the total exports to EU market. The current GSP Plus status is valid till 2027.

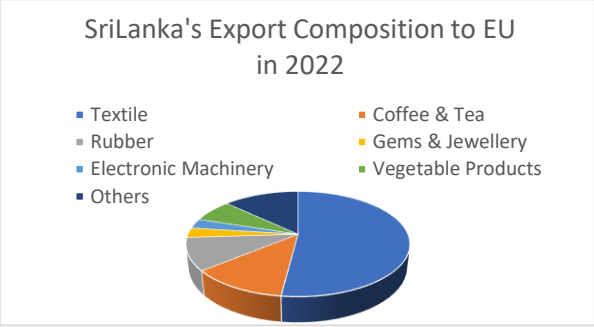
India is classified as a lower-middle income country by the World Bank (per capita income of $2390 in 2022) and therefore can enjoy the benefits of EU GSP status. As per a joint report of EU to the European Parliament and Council 2022, India is the biggest exporter to EU under the generalized scheme of preferences (GSP). Around 15% of India’s total exports are absorbed by EU market. India’s exports to the EU increased from €22.6 billion in 2006 to €65 billion in 2022. A substantial amount of these goods enjoyed preferential duties under the GSP totaling €18.8 billion, thus making India the largest beneficiary of the standard GSP. Some of the products including textiles, electrical machinery, plastic, leather articles, stones have recently been graduated from GSP benefit by EU and this policy will remain persistent till 2027, still about 41% of the Indian exports to the EU market are eligible to enjoy the benefits of tariff reduction under GSP scheme.

Sri Lanka has achieved the EU GSP Plus status in 2005. However, in 2004-05, the government revised the trade policies and nationalization was re-emphasized. There was overstaffing in the state-owned enterprises with rising nepotism. In 2008, the EU launched an investigation committee that completed its investigation in 2009. The investigation suggested that there was a violation of human rights in the country. In light of the findings of the committee, the EU decided to withdraw the trade benefits under GSP plus status from Sri Lanka in2010. However, by improving the human rights conditions, Sri Lanka regained the GSP plus status in May 2017. Sri Lankan exports to the EU mainly comprise of textile and clothing, accounting for 52% of its total exports to EU market. About 22% of Sri Lankan exports are absorbed by EU. There has been a 15% in the exports of Sri Lanka to EU since it has regained the GSP Plus status in 2017, rising from €2.6 billion in 2017 to €3.05 billion in 2022.

Fig 1: Composition of Exports in EU Market





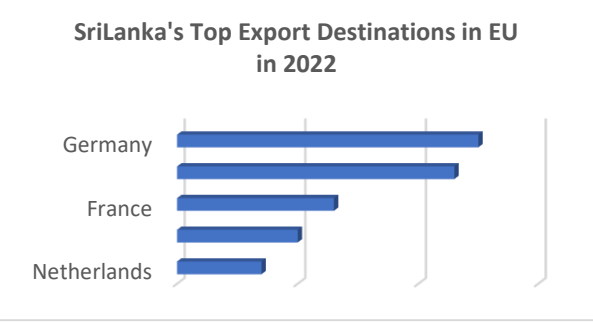


*Source: State Bank of Pakistan, Ministry of Finance Pakistan, Ministry of Finance India, Ministry of Finance Sri Lanka, GSP hub EU

Fig 2: Top Export Destinations in EU







*Source: European Parliamentary Research Service

Fig 1, shows the composition of exports of Pakistan, India and Sri Lanka to EU in 2022. From the figure, we can see that around 75% of the exports by Pakistan to EU comprises of textile and clothing, whereas, textile and clothing accounts for 52% of the Sri Lankan exports to EU. However, Indian exports to EU market is mainly composed of machinery, pharmaceutical, chemicals, textile etc. Fig 2, indicates that Netherlands has been the top destination of Pakistani and Indian exports to EU in 2022, whereas, 25% of Sri Lankan exports to EU are absorbed by Germany.

We have tried to explore the impact of the Generalized Scheme of Preferential policies granted by the EU to the South Asian countries included in our model, on exports and growth of these countries. For this purpose, we have used a dummy variable representing these preferential treatments. The Johansen co-integration method within the Vector Autoregressive (VAR) framework has been applied to annual time series data for the period from 2007 to 2022. This study provides findings that will help us to formulate policies accordingly. This study comprises of five sections: Introduction, the literature review, methodology, results of our study and lastly. the policy recommendations in view of the results of our study.

LITERATURE REVIEW

This section presents a review of selected literature, including both theoretical perspectives and empirical studies, aimed at examining the effects of EU GSP policies on the relationship between exports and economic growth.

Theoretical Overview

The relationship between trade and economic growth has been a subject of extensive investigation. Theoretically, exports lead to specialization and allocation of resources from inefficient sectors to the highly productive sectors. On the contrary, economic growth reflected from higher output can increase exports.

The classical economists, including Adam Smith and David Ricardo, recognized the importance of trade and specialization in driving economic growth. The neo-classical economists further emphasized the link between trade and growth, proposing the theory of factor endowment (Hecksher-Ohlin). Proponents of the export-led growth hypothesis, such as Bhagwati (1988), argued that export expansion can positively impact both supply and demand, thereby promoting long-term economic growth (Ram, 1987). More recently, endogenous growth theory has suggested that exports can stimulate technological innovation and productivity gains, leading to higher growth rates (Lucas 1988). Modern trade theories suggest that strategic trade policies can influence the degree of specialization and, consequently, the long-term growth rate of an economy. These theories posit that investment in R& D can lead to product expansion, either through the introduction of new goods (Romer 1990) or improvements in the quality of existing products (Grossman and Helpman 1991.

Empirical Evidence

Much contribution has been done in the literature in recent years to access (Lucas, On the Mechanics of Economic Development, February 1988) (Romer, Endogenous Technological Change, 1990) the importance of EU GSP policies in the growth of beneficiary countries. The results however have been of mixed nature. Cuyvers (1998) uses data from 1991 to 1996 to explore the impact of GSP on ASEAN countries. The findings show that the ASEAN exporters of textile and agriculture goods only gained marginal benefits from the new GSP. There was evidence of the reduction of imports by the EU from ASEAN countries after the enactment of the new GSP in 1995. Moreover, the shrimp- conflict between Thailand and the EU can also be blamed for the reductions in exports of ASEAN countries. Dagar & Malik (2023) conducted an empirical analysis to identify the determinants of Pakistan's export performance with its five major trading partners: the United States, China, the United Kingdom, the United Arab Emirates, and Germany. The study utilized monthly data on oil prices and macroeconomic uncertainty, applying cointegration and Granger causality methodologies. The findings demonstrated a statistically significant positive relationship between oil prices and Pakistan's exports. In contrast, macroeconomic uncertainty exhibited a significant negative effect on export levels. Handoyo et al. (2023) examined how exchange rate volatility impacts the export of manufactured goods in the ASEAN-5 countries, which include Indonesia, Singapore, Thailand, Malaysia, and the Philippines. The study employed ARCH/GARCH, ARDL, and Nonlinear ARDL models and indicates both symmetric and asymmetric effects of exchange rate fluctuations on manufacturing exports over the short and long term. Sobia et al. (2024) investigate the role of macroeconomic policies in shaping the relationship between exports and economic growth in India and Pakistan. While previous studies generally affirm the existence of an export-led growth nexus, they also point to differences arising from varying policy contexts. This study addresses a research gap by offering a comparative evaluation of how policy frameworks influence export-driven growth in the two countries. Wusheng & Vig (2003) have conducted a study that reveals that the impact of EBA has been very limited and marginal. This may be because the preferences given by the EU in the past had already covered most of the exports of LDCS and the number of products affected by EBA is very small. Brenton and Manchin (2003) conclude that GSP is beneficial for few products only and not every good receives benefits from the preferential scheme by EU under GSP. He also suggests that the new preferential scheme introduced as EBA in 2001 has a negligibly minor impact on the currently exported items of LDCs. Candau & Jean (2005) have adopted a gravity model to explain the impact of EU GSP in Sub- Sahara Africa and other developing countries for the year 2001. T (Ahmed, 2014) (Balassa B. , May 1965)he result of this study shows that the EU GSP in sub-Sahara African countries was well utilized and had a positive impact on the trade of this zone however the GSP remained underutilized in non- African LDCS in 2001. Persson and Wilhelmsson (2006) considers the period 1991-99 for his study and finds a negative impact of these trade preferences on the exports of LDC's. Wodkowska and Folfas (2016), include the period from 1995-2011 in their study and have found no evidence to support the positive impact of GSP + on the exports of developing countries. Moreover, GSP + scheme has failed in decreasing the effect of the global crisis. Also, the exports from GSP+ beneficiary countries are increasing at a much slower pace than exports from all 176 GSP beneficiary countries. Redwan Ahmed (2014) studies the impact of changes in EU GSP on the export of ready-made garments of Bangladesh. Following Balassa (1965), he also develops RCA Index to measure which apparel exporting countries have a competitive advantage. He highlights that the revised GSP scheme restricts exports from 90 countries which renders benefits to the remaining beneficiary countries including Bangladesh. Wijayasiri (2007) explores the impact of both EU GSP as well as the GSP by the USA on the

exports of Sri Lanka. He reveals that under the EU GSP scheme, around 98% of the export products receive preferential treatments. The analysis reveals that the major export item of Sri Lanka- textile has not been successful in fulfilling the Rules of Origin (RoO) requirement by the EU, therefore the EU GSP has proved to be of limited use. Moreover, the USA GSP has also been of limited scope for Sri Lanka as only 8% of the export are covered under USA GSP, excluding the main export – textile. The findings of this study show that both the EU GSP and USA GSP have not played an effective role in providing market to the textile products of Sri Lanka. Sarvananthan and Sanjeewanie (2008) to find the role of GSP in reducing poverty and ensuring sustainable development in Sri Lanka, study data for 6 years from 2002 to 2007. They have used graphical illustrations to present their findings. They have analyzed the changes during the GSP regime (2003 to mid-2005) and GSP + regime (from mid-2005 to 07) and then have compared these changes to the pre-GSP time (2002). They have considered both primary and secondary data for their study. Primary data has been collected through collecting a survey of apparel factory workers in eighteen Sri Lankan districts. The results from both the primary and secondary data reveal that neither the GSP nor the GSP+ has been successful in reducing poverty or fostering sustainable development neither at micro nor at the macro level. Awan, et al (2015), have employed the OLS technique on a monthly data from Jan 2007- Aug 2014, to test the effect of GSP on the textile exports of Pakistan. A significant positive impact of the GSP+ scheme on the textile exports of Pakistan is found by the results since the scheme provides free access to Pakistani textile exports to the EU countries. Wagan (2015), produces similar results using graphical analysis that GSP + status has positively contributed to the exports of textile products of Pakistan. The results show an increase in textile exports by 3.8% from 2012-13 to 1013-14. Malik (2020) in his study concludes, that if the preferential scheme GSP Plus is fully utilized it can increase our foreign reserves of Pakistan which is already struggling with public debt and deficits in current account and balance of payment. Soomro & Ansari (2022) have studied the impact of GSP plus status and suggest that Pakistan has been the largest beneficiary of GSP plus status as compared to Sri Lanka and Philippines. They employed regression analysis on a time series data divided in to 2 periods from 2008-2013 and 2014-2019 to capture the impact of GSP plus status (six year before achieving the status and six years after securing the GSP+ status).

ECONOMETRIC METHODOLOGY

Since its introduction in 1980, the Vector Autoregressive model (VAR) has been commonly used due to features (Sims, 1980). The methodology is very much appreciated since it can explain the dynamic structure of the model. Moreover, for the estimation of the model under the VAR environment, we do not require any explicit economic theory. Much empirical evidence has been generated using the VAR technique, which has provided fundamental support to many economic theories. The VAR-based Johansen Cointegration approach has been employed because it treats all variables as endogenous, eliminating the need to designate a specific dependent variable (Luqman et. al, 2013). Moreover, the Johansen cointegration test (Johansen, 1988) is capable of identifying multiple long-run equilibrium relationships among variables. When applied within the Vector Autoregressive (VAR) framework, it is regarded as a particularly effective method, as it accommodates data heterogeneity and accounts for both static and dynamic interrelationships among the variables.

The first step is to check the order of integration. Augmented Dickey-Fuller (ADF) (Dickey & Fuller, 1979) test is applied for this purpose followed by the lag length determination of time series.

Iqbal et.al (2001), Mansoor et.al (2020) used same methods. Finally, the Johansen Co-integration test is applied to test the long run relationship between the variables.

Equation for Co-integration

$$\Delta X_t = \propto + \Gamma_1 \Delta X_{t-1} + \Gamma_2 \Delta X_{t-2} + \cdots \Gamma_{k-1} \Delta X_{t-k-1} + \Pi_k X_{t-k} + GO_t \qquad 3.1$$

Where X_t is an (nx1) column vector of p variables, $\propto$ is (nx1) vector of the constant term, Γ and Π are coefficient matrices and k denote lag length. The coefficient matrix Π, known as the impact matrix explains the long-run relationships. Once the order of integration of the variables is established, Johansen's method calculates two likelihood ratio test statistics: the trace test and the maximum eigenvalue (λ-max) test. These are represented by the following equations:

$$L_{trace} = -T\sum_{i=r+1}^{n} \ln (1- \lambda_r) \qquad 3.2$$

$$L_{max} = -T \ln (1- \lambda_{r+1}) \qquad 3.3$$

Where λ_r is the estimated eigenvalues, and T is the number of valid observations.

According to the literature, the presence of co-integration between two variables indicates the existence of either unidirectional or bidirectional Granger causality between them. (Lutkepohl, 2005) However, the direction of this causality cannot be directly inferred from the co-integration analysis itself. As Helmut (2005) explains, the vector error-correction model is required to determine the specific direction of the Granger causal relationship.

Sources of Data

Annual time series data for the period 2007 – 2022 has been used in this study. Variables used in the model include exports of goods and services in US$, and GDP per capita in US$ and REER. The majority of the variables used in our model were sourced from the World Bank's World Development Indicators (WDI) database. However, data for the Real Effective Exchange Rate (REER) was obtained from the International Monetary Fund (IMF).

Empirical Equations

The purpose of our study is to access the contribution of EU GSP policies in determining the relationship between exports and economic growth in South Asia, therefore, the following set of equations have been constructed for each country included in our model.

$$\ln GDP_{it} = \alpha_{1i} + \Sigma \beta_{11} \ln GDP_{i,t-1} + \Sigma \beta_{12} \ln Exp_{i,t-1} + \Sigma \beta_{13} \ln REER_{i,t-1} + \Sigma \beta_{14} Dummy + \mu_{1it} \qquad 3.4$$

$$\ln Exp_{it} = \alpha_{2i} + \Sigma \beta_{21} \ln GDP_{i,t-1} + \Sigma \beta_{22} \ln Exp_{i,t-1} + \Sigma \beta_{23} \ln REER_{i,t-1} + \Sigma \beta_{24} Dummy + \mu_{2it} \qquad 3.5$$

$$\ln REER_{it} = \alpha_{3i} + \Sigma \beta_{31} \ln GDP_{i,t-1} + \Sigma \beta_{32} \ln Exp_{i,t-1} + \Sigma \beta_{33} \ln REER_{i,t-1} + \Sigma \beta_{34} Dummy + \mu_{3it} \qquad 3.6$$

$$Dummy_{it} = \alpha_{3i} + \Sigma \beta_{41} \ln GDP_{i,t-1} + \Sigma \beta_{42} \ln Exp_{i,t-1} + \Sigma \beta_{43} \ln REER_{i,t-1} + \Sigma \beta_{44} Dummy + \mu_{3it} \qquad 3.7$$

In the above set of equations, we have included a dummy variable. Dummy represents EU GSP policies, taking a value of 1 if the country has gained preferential policies in a particular year and 0 otherwise.

RESULTS

Impact of International EU GSP Policies in Determining the Relationship between Exports and Growth

Unit Root Test

Table 1. Unit Root Test

		Augmented Dickey Fuller			
		Intercept		Trend and Intercept	
		Level	First Difference	Level	First Difference
Pakistan	GDP	0.788	-6.875*	-1.028	-6.025*
	Exports	-1.115	-4.419*	-1.551	-5.379*
	REER	-0.089	-5.433*	-2.137	-7.332*
		Intercept		Trend and Intercept	
		Level	First Difference	Level	First Difference
India	GDP	0.393	-5.284*	-1.608	-6.065*
	Exports	-1.113	-5.938*	-1.161	-5.767*
	REER	-0.036	-5.211*	-1.181	-7.754*
		Intercept		Trend and Intercept	
		Level	First Difference	Level	First Difference
Sri Lanka	GDP	0.083	-5.322*	-1.608	-6.409*
	Exports	-1.181	-5.184*	-1.461	-5.392*
	REER	-1.291	-4.991*	2.042	-7.622*

Lag Order Selection Criteria for the Determination of Lag Length

Table 2.

	Lag	Log L	LR	FPE	AIC	SC	HQ
Pakistan	0	31.02	NA	5.00e-05	-1.390	-1.126	-1.298
	1	160.36	222.74*	6.28e-08*	-8.075*	-7.415*	-7.845*
	2	167.24	10.709	7.18e-08	-7.958	-6.902	-7.589
	3	170.66	4.753	1.02e-07	-7.648	-6.196	-7.141
	Lag	Log L	LR	FPE	AIC	SC	HQ
India	0	13.623	NA	6.89e-06	-0.534	-0.358	-0.473
	1	204.94	329.48	4.08e-10	-10.274	-9.394*	-9.967*
	2	223.80	28.299*	3.61e-10*	-10.433*	-8.850	-9.880
	3	237.15	17.058	4.59e-10	-10.286	-7.999	-9.488
	Lag	Log L	LR	FPE	AIC	SC	HQ
Sri Lanka	0	-0.1865	NA	1.48e-05	0.232	0.408	0.293
	1	169.45	292.16*	2.93e-09*	-8.303*	-7.423*	-7.996*
	2	179.35	14.85	4.27e-09	-7.964	-6.380	-7.411
	3	196.13	21.43	4.49e-09	-8.007	-5.720	-7.209

* indicates lag order selected by the criterion
LR: sequential modified LR test statistic (each test at 5% level)
FPE: Final prediction error
AIC: Akaike information criterion
SC: Schwarz information criterion
HQ: Hannan-Quinn information criterion

Lag length criteria determine that SIC (Schwarz Information Criterion) was satisfied at lag 1 for all the countries.

Table 3. Co-integration Test

Countries	Hypothesized No. of CE(s)	Eigenvalue	Trace Statistics	0.05 Critical Value	Max-Eigen Statistics	0.05 Critical Value
Pakistan	None *	0.804	53.02	47.856	34.30	27.584
	At most 1	0.688	17.80	29.797	11.47	21.131
	At most 2	0.429	6.33	15.494	6.15	14.264
	At most 3	0.005	0.18	3.8414	0.181	3.841
	Hypothesized No. of CE(s)	Eigenvalue	Trace Statistics	0.05 Critical Value	Max-Eigen Statistics	0.05 Critical Value
India	None *	0.554	51.02	47.856	29.87	27.584
	At most 1	0.394	20.63	29.797	15.13	21.131
	At most 2	0.128	5.49	15.494	5.09	14.264
	At most 3	0.002	0.39	3.8414	0.098	3.841
	Hypothesized No. of CE(s)	Eigenvalue	Trace Statistics	0.05 Critical Value	Max-Eigen Statistics	0.05 Critical Value
Sri Lanka	None *	0.539	51.47	47.856	27.90	27.584
	At most 1	0.405	23.56	29.797	18.71	21.131
	At most 2	0.125	4.854	15.494	4.84	14.264
	At most 3	0.0001	0.006	3.841	0.006	3.841

The results of the co-integration test in the table above show the existence of at most 1 co-integration relationship among the variables in the case of all the countries.
The estimated relationships for the countries are given below:

Pakistan GDP = 6.007 + 0.492Exp + 1.575REER +0.236Dummy
t- stats (7.74) (0.08) (3.70)
India GDP = 4.51 + 0.209Exp +1.177REER + 3.68Dummy
t- stats (3.73) (-4.15) (5.27)
Sri Lanka GDP = 11.97 + 1.394Exp + 1.080REER +0.081Dummy
t- stats (3.67) (1.203) (0.775)

Results of Granger Causality Based on VECM

Table 4.

Countries	Variables	DGDP	DExports	Dummy	DREER	EC term
Pakistan	GDP		3.062***	0.002	0.1525	-0.159***
			(0.080)	(0.962)	(0.696)	(0.065)
	Exports	1.000		5.518**	3.301***	0.0697*
		(0.317)		(0.018)	(0.068)	(0.008)
	Dummy	0.0997	0.008		0.0142	0.622
		(0.752)	(0.926)		(0.905)	(0.428)
	REER	0.445	0.974	0.207		0.196**
		(0.504)	(0.323)	(0.648)		(0.018)
	GDP		5.217**	0.548	0.120	-0.052*
			(0.022)	(0.459)	(0.728)	(0.008)
	Exports	4.807**		5.516**	4.677**	0.0467*

India		(0.029)		(0.018)	(0.030)	(0.0002)
	Dummy	0.500	0.390		2.376	0.1489*
		(0.479)	(0.532)		(0.123)	(0.0002)
	REER	0.333	0.001	0.497		0.0101**
		(0.560)	(0.968)	(0.480)		(0.016)
	GDP		4.471**	1.671	0.109	-0.059*
			(0.034)	(0.196)	(0.740)	(0.001)
	Exports	0.174		1.440	0.379	-0.194**
Sri Lanka		(0.676)		(0.230)	(0.537)	(0.028)
	Dummy	0.648	0.640		1.451	-0.043
		(0.423)	(0.423)		(0.228)	(0.133)
	REER	0.395	30.593	1.902		0.023
		(0.529)	(0.044)	(0.167)		(-0.105)

The values in the columns for lagged variables report the $\chi 2$-statistics, while the column for EC term provides the coefficients for the error-correction terms. The values in parenthesis represent p-stats. The coefficients for the error-correction terms indicate the speed of adjustment. We have considered GSP Plus for Pakistan and Sri Lanka (1 when the country has the GSP Plus status, 0 otherwise.

CONCLUSION

This study is an attempt to determine the impact of EU Generalized Scheme of Preferential policies in explaining the export-growth relationship. We have considered three South Asian economies namely, India, Pakistan and Sri Lanka. Annual time series data for the period from 2007 to 2022 has been considered. Our study has provided interesting findings for the case of India, highlighting GDP and export relationship. The dummy variable is found to be significant showing there has been an increase in exports of India under the GSP policies. GDP, export and the dummy variable for GSP policies are found to be related in the long run showing the positive impact of these EU preferential policies in boosting the export and GDP growth in the country. For the case of Pakistan, a uni-directional relationship is found flowing from exports to GDP growth supporting the export-led growth phenomena in the short run. Also, the exports and growth are found to be related in the long run phenomena. Moreover, the dummy variable is found to be statistically significant indicating that the GSP Plus arrangements have been fruitful in increasing the exports of the country. However, the result suggests that the GSP Plus status has proved to be unsuccessful in promoting exports and GDP growth in Sri Lanka.

Policy Recommendation

Since the mid of the 1970s, developing economies are concentrating more on export promotion strategies as export expansion is said to be associated with optimum resource allocation, attaining economies of scale, improving competition in local and international markets, capital formation and employment generation. Moreover, they are an important source of earning foreign exchange which can be used for the payment for imports. The European Union has awarded Pakistan the GSP+ status, with the aim of promoting economic stability and good governance within the country. Pakistan can make a significant progress by diversifying its exports and adding value to its exports, if it aims at fully utilizing the potential benefits of enhanced tariff reductions under

GSP+ status. In order to boost Pakistan's export performance and improve the global competitiveness of its products, there is a pressing need to revisit and reform existing trade and industrial policies. The current policy framework often lacks the adaptability and strategic direction required to respond effectively to changing global market dynamics. Modernizing these policies with a focus on innovation, value addition, and diversification can help Pakistan transition from low-value to high-value exports. Moreover, in-depth research and systematic analysis of international markets are critical. Such efforts can uncover existing weaknesses in Pakistan's export strategy and identify untapped niche markets where Pakistani products can gain a competitive edge. This requires collaboration between government bodies, research institutions, and industry stakeholders to ensure that policy reforms are data-driven and aligned with global demand trends. Strategic interventions—such as targeted incentives for export-oriented industries, infrastructure improvements, simplification of export procedures, and exchange rate stability, combined with robust market intelligence systems, can play a pivotal role in strengthening Pakistan's position in international trade and achieving sustainable export-led growth.

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