



EU Trade Policy and Democracy Building in South Asia

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Abstract

The European Union (EU) is the largest trading partner of South Asia. It is safe to assume that South Asia will increase in importance to Europe's economy in the future. A parallel and important element of EU trade policy is the inclusion of democracy building and human rights as conditions for countries enjoying the full benefits of the EU's trade concessions. Research shows that EU policy in this area lacks consistency, has not been very effective and has not made a significant impact.

The countries of South Asia are diverse and at different stages of their democratic evolution. South Asian countries have already subscribed to several international conventions and charters that promote democracy and human rights. These are supported by specialist institutions and agencies mandated to ensure and monitor compliance. There is therefore little purpose in having a parallel democracy and human rights monitoring mechanism in the EU's trade policy.

An alternative approach is called for, consisting of a flexible policy that takes account of the situation in each country. The EU should consider adopting policies that incentivize democracy building, recognizing that it should come from within rather than being imposed from outside. This calls for the EU to consider practicing constructive engagement, political dialogue and capacity building in the region by working closely with its South Asian partners, rather than resorting to punitive sanctions which are neither consistently applied nor very effective at democracy building. The EU should become a supportive facilitator of democracy building and human rights in a non-intrusive manner, allowing South Asia to find its own answers that are consistent with the ethos of the region.

Summary of Recommendations

Including democracy building and human rights in the EU's trade policy with South Asia may not be the correct way to move forward. There are already several conventions and charters pertaining to promoting democracy and upholding human rights, with

specialist institutions and agencies mandated to ensuring and monitoring compliance. Thus a parallel monitoring mechanism through the EU's trade policy may not be necessary.

Instead of using a 'carrot and stick approach', trade policy should be used to positively reinforce democracy building and human rights by uplifting the economy of a country, thereby raising the living standards of its people which, in turn, will strengthen the country's democratic processes.

The EU should practice constructive engagement, political dialogue and capacity building in the region by working closely with its South Asian partners rather than resorting to punitive sanctions which are neither consistently applied nor very effective in democracy building.

The EU should recognize that democracy building can best come from within rather than being imposed from outside, and should therefore become a supportive facilitator of democracy building and human rights in a non-intrusive manner, allowing South Asia to find its own answers that are consistent with the ethos of the region.

1. Introduction

South Asia comprises three developing countries (India, Pakistan and Sri Lanka) and five least developed countries (LDCs) (Bangladesh, Bhutan, Nepal, the Maldives and Afghanistan). The region has many similarities but is also culturally and economically diverse. The European Union (EU) is the largest trading partner of South Asia. It has expanded its trade in Asia mainly through bilateral Partnership Cooperation Agreements (PCAs).

A parallel and important element of EU trade policy has been the inclusion of human rights development and democracy building as conditions for countries to become beneficiaries of its trade concessions. How effective has this policy been in the context of promoting democracy and respect for human rights in the South Asian region remains a question. There is also the question of the EU's lack of consistency with regard to its democracy building provisions in its trade agreements with other countries. Particular reference can be made to the Generalized System of Preferences (GSP)-plus scheme and the conditions that have to be satisfied by Sri Lanka in order to continue to qualify. Compliance with these conditions may not tangibly affect democracy building, and failure to comply might result in hasty punitive action in a developing country that has recently emerged from a protracted conflict.

This paper examines EU-South Asia relationships and EU trade policy in South Asia. In particular, it looks at country-specific trade policies adopted by the EU: the impending EU-India Free Trade Agreement (FTA); the EU-Pakistan Joint Commission; the GSP scheme, which is available to all South Asian countries; the Everything but Arms (EBA) initiative available to the LDCs in the region; and the GSP-plus scheme, which currently applies to Sri Lanka.

The paper assesses the relevance and appropriateness of linking EU trade policy to promoting democratization, particularly given the varying national and regional priorities of South Asian countries. It questions whether de-linking democratization

elements from EU trade policy would adversely affect democracy building in South Asia, given the plethora of international conventions and charters that these countries have already subscribed to, and the institutional mechanisms and agencies that are in place to ensure compliance. An alternative approach for driving the EU's quest for greater democracy and human rights in South Asian countries is suggested, based on constructive engagement, political dialogue and capacity building in the region, and through a persuasive rather than mandatory approach using means other than trade.

2. The Relationship Between the EU and South Asia

The European Union is comprised of 27 member states and has a population of over 500 million people. Primarily an economic and political union, the EU generates an estimated 30 per cent share of the nominal gross world product, making it one of the foremost powerhouses of the world economy. It is also the third most populated political entity after China and India. The EU is developing an increasing role in foreign policy, and has representation at the United Nations, the G-8, the G-20 and World Trade Organization (WTO) (Racine, 2003).

South Asia is a region of eight countries that are home to nearly 40 per cent of the world's poor, who live on less than USD 1 per day. The region sees international trade as a key necessity for economic development and six of the eight countries are members of the multilateral trading system defined by the WTO (not Afghanistan and Bhutan).

In the eyes of the EU, or at least those of the Head of the EU Delegation to India in 2003, Ambassador Callouet, South Asia is a region where 'strong nationalistic feelings still create stumbling blocks in the process of regional integration' (Racine, 2003). This has resulted in a country-specific approach being taken by the EU in South Asia. The EU mostly develops bilateral relations. In 2006, the EU gained observer status in the South Asian Association for Regional Cooperation (SAARC), in the belief that SAARC can play a 'useful role in regional co-operation and dialogue' and that the EU could 'help consolidate the ongoing integration process through its economic influence in the region, its own historical experience of economic and trade integration and of dealing with diversity, and its interest in crisis prevention' (see http://ec.europa.eu/external_relations/saarc/index_en.htm). As with all its relationships with third countries, the EU's relationship with South Asia mainly has an economic dimension and a political dimension.

The role of the EU in bringing political change to countries in South Asia is regarded with mixed feelings in the region. Some question whether the EU speaks with a collective voice while others wonder whether it has the capacity to intervene in a meaningful way to contribute to the sustainability of democratic institutions. Some countries in South Asia regard the EU simply as a bully. A recent study by International IDEA, however, concludes that, on the whole, the initiatives taken by the EU in South Asia have given it a positive image in the region. As South Asia strives towards regional and national development, in terms of both the economic and the political framework, the EU could play a role in strengthening the 'social component of democracy' by providing support and sharing experience in a vast number of areas (Khatri, 2009).

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3. EU Trade Policy in South Asia

The EU is the biggest trade partner of South Asia. The structure of EU-South Asian trade is common to most South Asian countries. The main exports from South Asia to the EU are textiles and garments, and imports from the EU to South Asia are mostly machinery-related.

A feature of EU-South Asian trading arrangements is the multiplicity of bilateral trade partnerships that exist between the EU and the different countries of South Asia. The different trading models and partnership agreements that apply can be categorized broadly as:

- Country level bilateral partnership agreements that cover trade and investment, including one with India which is currently under negotiation to be upgraded to the status of a Free Trade Agreement
- The Generalized System of Preferences scheme, which allows 176 developing countries, including all the South Asian countries, concessions on more than 6200 tariffs
- The GSP-plus scheme, for which Sri Lanka qualified for in 2005 (although its continuation is currently under review) allows duty free exports to the EU from vulnerable developing countries that have ratified and implemented 27 international conventions on human rights, labour rights, the environment and principles of good governance
- The Everything But Arms arrangement, which provides the 49 LDCs, including the five in South Asia, with duty free and quota free access to EU markets for all products except arms.

EU-South Asian trade has demonstrated significant growth in recent years and the EU is the most important trading partner through a multiplicity of bilateral cooperation mechanisms. An individual country analysis of trade and development assistance from the EU is provided in the Appendix.

The GSP scheme is the main trading framework between the EU and South Asia. Under a graduation mechanism in the GSP and GSP-plus schemes, preferential tariffs are suspended or reinstated according to whether the country is deemed competitive and no longer in need of the concessionary tariff, that is, depending on an individual country's performance in the EU market against a threshold. Access to concessionary tariffs by LDCs under the EBA scheme remains unchanged. The GSP scheme requires three main conditions to be met for exports to qualify: (a) the origin criterion, that is, the products must originate in the beneficiary country as defined in the EU GSP rules of origin; (b) the transport criterion, that is, the goods must be transported directly from the beneficiary country to the EU; and (c) the documentary evidence criterion, that is, a certificate of origin or documentary proof of the origin of the goods, issued by the beneficiary country's identified competent authority, must accompany the goods to the EU.

Case Study: Sri Lanka and the GSP Scheme

For exports to qualify as originating according to the EU's rules of origin, they should either be wholly obtained from the beneficiary country or the non-originating materials contained in the final product must have been 'sufficiently worked or processed' in the beneficiary country. This aspect of the GSP scheme, which determines the value addition threshold that needs to be met in order to become eligible for concessions, is a major factor behind the low take-up of GSP concessions. This is particularly problematic for the clothing sector, the main export sector from Sri Lanka to the EU, which finds itself difficult to meet the origin criterion set out in the EU's GSP scheme (Wijayasiri, 2007).

Sri Lanka, like many developing countries, does not produce fabric in the quantities required by its cloth-

ing industry, and is forced to source fabric as well as accessories from abroad. Hong Kong, China and Taiwan together account for more than 50 per cent of the total fabric imported to Sri Lanka (Weeraratne, 2005). As a result, the clothing industry in Sri Lanka has been unable to meet the origin criterion and fully utilize the preferences extended under the GSP scheme.

Nonetheless, statistics show that certain countries in South Asia and elsewhere have a relatively good utilization of the GSP scheme, notwithstanding the origin criteria. For example, in Pakistan the textile industry is the backbone of the country's economy, contributing 8.5 per cent of GDP. Pakistan has been able to meet the origin criterion of the GSP scheme due to the high value addition in its clothing industry (Weeraratne, 2005).

4. The EU's Approach to Democracy Building Through Trade

The EU's preferential trade packages have played a role in the substantial growth of South Asia's trade with the EU. However, this needs to be examined in relation to the conditionalities imposed by the EU and the cost of compliance in South Asian countries. The promotion of human rights and democracy has become an integral part of the EU's external relations. However, it needs to be recognized that the EU's strength in democracy building and human rights promotion is derived from a well developed legal system and strong enforcement of the rule of law, two aspects that are found wanting in most South Asian countries at the current stage of their development. Particularly since the mid-1990s, the EU's agreements with third countries have included a 'human rights clause', which stipulates respect for human rights and democratization as important principles. Since 2001, the EU has been 'mainstreaming' the process of integrating human rights and democratization issues into all aspects of EU external policy (European Commission, 2007).¹

The EU adopts a range of instruments to carry out its policy of 'democracy mainstreaming', including:

- 'Political dialogues' which use a persuasive and learning approach
- 'Conditionality clauses' inserted into agreements as part of a 'carrot and stick' approach (eg: the GSP-plus scheme)

- 'Capacity building' initiatives aimed at strengthening democracy building and human rights

(Schimmelfennig, 2009)

¹ The EU's non-trade approach to promoting democracy and human rights in the region has been largely 'bottom-up' by dealing mostly with civil society and non-governmental organizations (NGOs), in an attempt to empower the people of the region and make political leaders and institutions more accountable. In line with this policy, the European Instrument for Democracy and Human Rights (EIDHR), which was introduced in January 2007, spells out five priority objectives with regard to the promotion of democracy and human rights.

The GSP-plus scheme is an example of the conditionality approach adopted by the EU towards democracy building. Recipient countries must demonstrate, to the satisfaction of the EU, that they have ratified and implemented 27 international conventions.

The GSP-plus scheme is a good example of the conditionality approach adopted by the EU towards democracy building. To qualify for GSP-plus status and to ensure its continuation, recipient countries must demonstrate, to the satisfaction of the EU, that they have ratified and implemented 27 international conventions on core human rights and labour rights, and conventions on the environment and principles of good governance. Key international human rights conventions listed under the relevant EU law are

the International Convention on Civil and Political Rights (ICCPR), the Convention against Torture, and the Convention on the Rights of the Child (European Commission, 2008).

Case Study: Sri Lanka and the GSP Plus Scheme

Sri Lanka's continued beneficiary status under the GSP-plus scheme depends on the ratification and effective implementation of 16 core conventions on human and labour rights as well as the ratification and implementation of 11 conventions on good governance and the environment (Sarvananthan and Sanjeevanie, 2008). In October 2008, the GSP committee of the EU decided to initiate an investigation to ascertain whether Sri Lanka had effectively implemented these conventions. Sri Lanka objected to participating in this investigation as a matter of principle as it was felt to be both inappropriate and unnecessary given the process of ongoing constructive engagement that was already in place between Sri Lanka and the EU.

With regard to the International Labour Organization (ILO) conventions, the findings on the implementation of the conventions point to several lapses and violations, with the rulings of the Sri Lankan judi-

ary highlighting constitutional impediments to the application of certain provisions of ILO conventions in the country. This has caused concern and requires urgent clarification by the government (Edirisinha and Welikala, 2008). With regard to the International Covenant on Civil and Political Rights (ICCPR), the Sri Lankan Supreme Court's opinion that the ICCPR created no justifiable rights under Sri Lankan domestic law raised questions as to whether in that case, Sri Lanka could be considered as having not only ratified but also fully implemented the ICCPR (Edirisinha and Welikala, 2008).

These legal opinions cast doubt on the compatibility of the Sri Lankan legal regime with the requirements of the ICCPR and this, coupled with implementation issues with regard to human rights, could adversely affect Sri Lanka's case for renewal of the GSP-plus scheme.

5. The Consistency, Effectiveness and Impact of the EU's Approach

The EU's desire to disseminate its views on democracy building and human rights promotion through its trade policy is understandable, but its policy must be assessed on criteria such as consistency and effectiveness.

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A comparison of the EU's partnership agreements shows a variety of approaches, depending on the partner countries. The Cotonou Agreement, an Economic Partnership Agreement (EPA) that governed EU relations with the African, Caribbean and Pacific (ACP) countries, is an example in which the whole gamut of trade, development cooperation and democracy building initiatives were covered

(Pinhao, nd). However, 'essential element clauses' are missing from agreements with China and the Association of South East Asian Nations (ASEAN) countries, as well

as from agreements with Australia, Canada and New Zealand. Furthermore, the focus goes no further than economic and technical cooperation with regard to the Gulf Cooperative Council (GCC) countries (Schimmelfennig, 2009). It is evident that the EU treats countries differently regardless of certain similarities in their record on human rights. With certain countries, the EU's main interest seems to be in trade, with democracy building and human rights promotion coming a clear second.

Furthermore, association agreements with Mediterranean, and Central and South American states contain similarly worded political conditionality clauses, but such clauses are conspicuously absent from the EU's agreements with the countries of the Commonwealth of Independent States (CIS) as well as with certain Asian countries. The EU's bilateral agreements with many SAARC countries contain democracy and human rights clauses, but countries such as China, South Korea, Lao PDR, the Philippines and Malaysia have refused to have political conditionality clauses included in their agreements with the EU (Schimmelfennig, 2009).

The enforcement by the EU of democracy and human rights conditionalities in third countries, depends primarily on the EU's commercial and strategic interests and whether the country is economically or strategically important to the EU, how resource rich the country is and its geographic proximity to the EU. There is also a tendency for the EU to overreact to much publicized human rights situations and events that temporarily affect democracy and human rights in a country, such as the situation in Sri Lanka during the final stages of the North-East separatist war. At the same time, the EU turns a blind eye to undemocratic regimes such as China, which is the EU's second largest trade partner.

It is also pertinent to examine the effectiveness and impact of enforcing such conditionalities on trade as a means of promoting democracy and human rights. Research findings on non-EU third countries demonstrate low impact and low levels of effectiveness. This seems to be valid irrespective of geographical region or the particular strategy or instrument used. The reasons could include insufficient leverage and incentives provided by the EU, internal political imperatives, that the political costs of compliance are greater than the possible economic benefits foregone, and third countries' negative perceptions of the EU's inconsistency and variable application of conditionality.

In the light of these findings, it would appear that democracy building efforts in third countries are less effective when imposed from outside. It is also possible that countries respond better to internal efforts and actions by their own governments and institutions. The carrot and stick approach adopted by the EU of using trade concessions as a tool for promoting democracy and human rights must be revisited in the absence of any evidence that it has generated any momentum towards greater democratization.

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Research shows that, contrary to the EU's expectations, trade agreements between the EU and the Mediterranean countries have improved governance in the region and contributed to increasing respect for democratic principles.

The EU's inconsistency in the application of rewards for democratization has further confused the position as some of the biggest increases in recent EU aid and support have gone to authoritarian or partly autocratic regimes, such as China, Cambodia and Vietnam (Schimmelfennig, 2009).

6. The Relevance and Appropriateness of Promoting Democratization Through Trade Policy

The South Asia region consists of countries that are diverse and at different stages of development and democratic evolution. India and Sri Lanka are established democracies. The former is the largest democracy in the world. Other countries in the region, such as Bangladesh and Nepal, have seen a restoration of democracy in recent years while Pakistan, Bhutan and the Maldives have all taken positive strides towards establishing democracy (Khatri, 2009). In this context, there is a compelling need for a variable approach to democracy building and human rights advocacy in the region.

The EU's adoption of a carrot and stick approach to trade policy, far from contributing to democratization, could pose challenges to existing democratic reform in some countries. For instance, it is not inconceivable that social unrest could result among the large workforce that could become unemployed particularly from the clothing industry, if Sri Lanka were to lose its GSP-plus status. This, in turn, might challenge democracy in that country. It would be ironic if through punitive action the democracy building of the GSP-plus scheme ended up achieving the opposite effect to that which was envisaged. Writing in *The Guardian*, Patrick Bashan states that 'economic development is the true catalyst for Sri Lanka's political maturation'. He argues that eliminating trade benefits would not only guarantee substantial problems for the Sri Lankan economy but also result in significant economic hardship for the country's poorest citizens, thus making it even harder for a liberal democratic culture to take root in the country (Bashan, 2010).

It is important that democracy building recognizes the context in a given country and adopts approaches that are appropriate to the situation. For instance, the situation prevailing during the final stages of a 30-year conflict in Sri Lanka should be given special consideration before conditionalities relating to democracy and human rights are hastily imposed.

The conventions pertaining to democracy, human rights, child labour, and so on, have their own monitoring and compliance mechanisms through specialist institutions and agencies. International agencies such as UNHCR, ILO, UNICEF, and so on, have been set up with a specific mandate to monitor the implementation of the conventions and charters that countries have subscribed to. Thus it appears that there is no necessity for the EU to set up a parallel mechanism to monitor compliance with these conventions, and the inclusion of these conditionalities under the EU's trade policy and above all the punitive action taken based on the violation of these conditions possibly resulting in 'the remedy being worse than the disease'.

This is not to say that the EU should abandon its policy of promoting human rights and democracy, but more to emphasize the need to consider taking a different approach and use the correct vehicle for doing so. Basically, the EU should be a facilitator in a non-intrusive way while allowing South Asia to find its own answers to democracy and human rights development that are consistent with the ethos of the region.

Khatri (2009) makes several recommendations on how the EU should implement its democracy building and human rights agendas in the region at the national and regional levels. The study argues that the EU's support for democracy building programmes in South Asia should be based on the Development in Democracy model, which identifies recommendations grouped in three categories:

- The first category is applicable to all countries in the region. Recommendations cover democratization of political parties, capacity building for state institutions to establish proper checks and balances, strengthening the legislative branch of government, programmes to make civil society more effective, media training and setting up centres of excellence for the study of democracy.
- The second category provides country-specific recommendations. For example, the neces-

sity for EU aid in Pakistan in the fields of education, social awareness and employment generation programmes, and the role the EU could play in getting the international community to refocus on development issues in Nepal for the benefit of marginalized groups in order to ensure an inclusive approach to democracy building, capacity building and the strengthening of institutions in Bangladesh, and so on.

- The third category is comprised of recommendations made at a regional level, such as the EU providing assistance to SAARC to develop and strengthen the institutional framework under the SAARC social charter, and sharing the EU's own experiences and assisting in the development of structures for participatory governance and local democracy in South Asia.

(Khatri, 2009)

7. Conclusions

The importance of the EU as a trading partner for the South Asian countries cannot be overemphasized. As such, democracy building and human rights development, which are key objectives in the EU's relations with third countries, need to be appreciated.

Hitherto, the EU has endeavoured to achieve its democracy and human rights development objectives by including conditionality clauses in its trade agreements with South Asia. However, the EU's policy lacks consistency in its application, and its political, strategic and trade interests often take precedence over its objectives on democracy building and human rights advocacy. Research also shows that the policy has not been very effective and not made a significant impact. From a South Asian perspective, democracy and human rights provisions have often amounted to punitive clauses rather than incentives to uphold democracy and human rights.

Including democracy building and human rights in the EU's trade policy with South Asia may not be the correct way to move forward. There are already several conventions and charters pertaining to promoting democracy and upholding human rights, with specialist institutions and agencies mandated to ensuring and monitoring compliance. A parallel monitoring mechanism through the EU's trade policy may not be necessary.

From a South Asian perspective, democracy and human rights provisions have often amounted to punitive clauses rather than incentives.

Instead of using a carrot and stick approach, trade policy should be used to positively reinforce democracy building and human rights by uplifting the economy of a country, thereby raising the living standards of its people, which in turn will strengthen the country's democratic processes.

This calls for a flexible policy on the part of the EU that takes into account the situation in each country, rather than imposing a broad brush approach to democracy building. There is a vital need for the EU to adopt a more flexible approach that is based on incentivizing democracy building as opposed to the punitive approach currently being followed. The EU should practice constructive engagement, political dialogue and capacity building in the region, by working closely with its South Asian partners rather than resorting to punitive sanctions which are neither consistently applied nor very effective in democracy building. The EU should recognize that democracy building can best come from within rather being imposed from outside, and should therefore become a supportive facilitator of democracy building and human rights in a non-intrusive manner, allowing South Asia to find its own answers that are consistent with the ethos of the region.

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http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113431.pdf

http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113449.pdf

<http://www.dellka.ec.europa.eu/>

http://www.europapentru cetateni.eu/files/Decision_1904_2006.pdf

About the Author

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Appendix

EU Trade with and Development Assistance in South Asia

The EU and India

India has a population of over one billion people and is home to one-third of the world's poor. India has witnessed rapid economic growth in the past decade. The European Union's cooperation framework with India is the EU-India Joint Action Plan (JAP), which was established in 2005 and revised in 2008.

The EU is India's most important trading partner. Trade between the EU and India has more than doubled over the past five years and bilateral investment has increased ten-fold. The key tenets of the EU-India trade policy revolve around a Free Trade Agreement (FTA), which is currently under negotiation, by which the EU and India hope to increase their trade in both goods and services (Winters *et al.*, 2009). As well as increasing bilateral trade, the proposed FTA is expected to bring benefits to a broader section of the population, and to positively contribute to India's achievement of the Millennium Development Goals.

Negotiations on the FTA, which commenced in 2007, have already gone through several rounds. It is likely to improve market access for goods and services, and to cover all trade except for public procurement, which India is not willing to include in the FTA. Bilateral trade is expected to exceed EUR 70.7 billion by 2010 and EUR 160.6 billion by 2015 (Karim, 2009).

Projections show that exports from India to the EU will increase in all sectors as a consequence of the FTA and that country shares in each other's markets will increase. India's average applied tariff is now 14.5 per cent compared to an EU average of 4.1 per cent. Since the EU's tariff reduction is likely to be less than India's reduction, it is likely that the EU's share of the Indian market will rise more than India's share of the EU market (Decreux and Mitaritonna, 2007).

The EU and Pakistan

The EU is Pakistan's most important trading partner, signifying the strong ties between the two. The EU accounted for 20 per cent of Pakistan's total trade in 2007, and the annual growth rate from 2003–2007 averaged 8 per cent. Trade between the EU and Pakistan comes under the purview of an EU-Pakistan Joint Commission, which was established in 2007 to discuss trade policy developments and individual market access issues which hamper trade and to lay a platform for reinforcing economic and political ties (Korski, 2007).

Pakistan's exports are dominated by textiles and clothing. Exports of textiles and clothing to the value of the EUR 2.6 billion entered the EU from Pakistan in 2007, about 80 per cent at a preferential tariff rate. Currently, efforts are under way to broaden the base of the export profile and reduce reliance on the textiles and clothing sectors.

The EU has supported Pakistan's efforts to integrate into the global economy by granting Pakistan's exports to the EU reduced tariffs under the EU's Generalized System of Preferences (GSP). This allows almost 20 per cent of Pakistan's exports to enter the

EU at zero tariffs while a further 70 per cent are allowed to enter at a preferential tariff rate (see <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries/pakistan/>).

Table 1: The Major Import Partners

| Rk | Partners | Mio euro | % |
|----|----------------------|-----------------|--------------|
| | World | 30.934,7 | 100,0 |
| 1 | China | 4.825,4 | 15,6 |
| 2 | EU 27 | 4.313,4 | 13,9 |
| 3 | Saudi Arabia | 3.821,5 | 12,4 |
| 4 | United Arab Emirates | 3.551,2 | 11,5 |
| 5 | Kuwait | 1.713,0 | 5,5 |

Table 2: The Major Export Partners

| Rk | Partners | Mio euro | % |
|----|----------------------|-----------------|--------------|
| | World | 14.649,0 | 100,0 |
| 1 | EU 27 | 3.297,6 | 22,5 |
| 2 | United States | 2.366,2 | 16,2 |
| 3 | United Arab Emirates | 1.725,4 | 11,8 |
| 4 | Afghanistan | 1.268,0 | 8,7 |
| 5 | China | 651,7 | 4,4 |

Source: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113431.pdf

The EU has also provided Pakistan with substantial humanitarian and development aid – worth EUR 500 million since 1976 – for a mix of infrastructure and social development projects and to boost financial sector reform and promote small and medium-sized enterprises (SMEs). Nonetheless, there have been major ups and downs in relations between the EU and Pakistan depending on whether the latter has been under military or civilian rule (Korski, 2007).

The EU imports textiles and clothing with a value of EUR 3.5 billion annually, but EU anti-dumping investigations have strained the trading relationship. Pakistan is unhappy about its exclusion from the EU's GSP-plus scheme since the EU revamped the system after India won a World Trade Organization dispute panel against Pakistan's inclusion in 2005. Pakistan argues that it is now subject to higher tariffs on its exports of textiles and other products to the EU compared with other South Asian countries, some of which enjoy duty free access to the EU market. Unless all South Asian countries operate on a 'level playing field', Pakistan fears that EU investors and importers will move into Bangladesh or Sri Lanka, which have duty free access to the EU market, or to India once the FTA is negotiated (Islam, 2008).

The EU and Bangladesh

The EU accounted for roughly 50 per cent of Bangladesh's exports in 2007. It is by far the biggest export destination for Bangladeshi products. The main exports to the EU were ready-made garments (90 per cent), frozen foods (6 per cent), leather, jute and tea. In 2008 Bangladesh's exports to the EU amounted to EUR 5.5 billion, and Bangladeshi imports from the EU amounted to EUR 1.1 billion, mainly machinery, mechanical appliances and chemical products (see <http://eudelbangladesh.org/en/trade/index.htm>).

Table 3: Bangladesh's Trade Balance

| Bangladesh, Trade with the European Union | | | | | millions of euro, % | | | |
|---|---------|---------------------|-------------------------------|---------|---------------------|-------------------------------|---------|-------|
| Period | Imports | Variation (% y-o-y) | EU Share of total Imports (%) | Exports | Variation (% y-o-y) | EU Share of total Exports (%) | Balance | Trade |
| 2004 | 843 | 18,2 | 9,4 | 3.129 | 20,3 | 51,3 | 2.286 | 3.972 |
| 2005 | 981 | 16,4 | 9,1 | 3.201 | 2,3 | 46,9 | 2.219 | 4.182 |
| 2006 | 1.237 | 26,1 | 10,0 | 4.344 | 35,7 | 46,8 | 3.107 | 5.581 |
| 2007 | 1.235 | -0,2 | 9,4 | 4.334 | -0,2 | 46,6 | 3.099 | 5.569 |
| 2008 | 1.341 | 8,6 | 8,5 | 4.556 | 5,1 | 48,1 | 3.215 | 5.897 |
| 2008Q1 | 338 | - | 8,8 | 1.095 | - | 50,1 | 757 | 1.433 |
| 2008Q2 | 342 | - | 8,9 | 1.025 | - | 47,6 | 683 | 1.367 |
| 2008Q3 | 335 | - | 8,1 | 1.184 | - | 47,2 | 849 | 1.519 |
| 2008Q4 | 326 | - | 8,0 | 1.251 | - | 47,5 | 925 | 1.577 |
| 2009Q1 | - | - | - | - | - | - | - | - |
| 2009Q2 | - | - | - | - | - | - | - | - |
| 2009Q3 | - | - | - | - | - | - | - | - |
| 2009Q4 | - | - | - | - | - | - | - | - |
| Average annual growth (2004–2008) | | 12,3 | | | 9,8 | | | 8,9 |

Source: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113349.pdf

In addition to being the single largest business partner of Bangladesh, the EU is also the country's largest development partner. EUR 398 million is projected to flow into Bangladesh in 2007–2013. EU-Bangladesh cooperation has evolved over the years and a third generation cooperation agreement was reached in 2001. As a least developed country, Bangladesh enjoys quota and duty free access to the EU under a 1986 textile agreement and the GSP scheme, which was continued indefinitely under the EU's 2001 Everything but Arms initiative. However, its limited range of exports means that Bangladesh has been unable to take full advantage of the GSP scheme, and there have also been some difficulties in meeting quality standards and market access requirements (see http://www.bangladeshembassy.be/index_files/eu_bangladesh.htm).

The EU and Sri Lanka

Like Pakistan and Bangladesh, the EU is currently Sri Lanka's primary trading partner. It is Sri Lanka's largest export partner, with 29 per cent of the country's total exports by value, or EUR 1.7 billion in products and services, and its second largest import partner, representing 13 per cent of Sri Lanka's total imports by valued at EUR 1.2 billion (see http://www.dellka.ec.europa.eu/en/eu_and_srilanka/trade/index.htm).

Sri Lanka's Trade Balance with Main Partners (2007)

Table 4: The major import partners

| | Partners | Mio euro | % |
|---|--------------|----------|--------------|
| | World | 9 | 100,0 |
| 1 | India | 2 | 22,2 |
| 2 | EU | 1 | 12,7 |
| 3 | China | 1 | 12,4 |
| 4 | Singapore | 1 | 7,6 |
| 5 | Iran | 1 | 6,2 |

Table 5: The major export partners

| | Partners | Mio euro | % |
|---|----------------------|----------|--------------|
| | World | 6 | 100,0 |
| 1 | EU | 2 | 31,2 |
| 2 | USA | 1 | 23,5 |
| 3 | India | 1 | 9,9 |
| 4 | United Arab Emirates | | 3,2 |
| 5 | Russia | | 2,7 |

Source: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113449.pdf

The garments and textiles sectors account for more than 55 per cent of Sri Lankan exports to the EU in value terms, amounting to more than EUR 1 billion. Machinery accounts for nearly 25 per cent of Sri Lanka's imports from the EU (see http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113449.pdf)

Relations between the EU and Sri Lanka go back to 1975, when the first Partnership and Cooperation agreement was signed. This was updated in 1995 and an EU-Sri Lanka agreement has been in force since May 2005. (see http://www.dellka.ec.europa.eu/en/eu_and_srilanka/index.htm)

Since 2005, Sri Lanka has enjoyed the status of most preferred nation in South Asia, through its inclusion in the GSP-plus scheme. It is the only Asian country included in this unilateral trade concessionary scheme. GSP-plus allows Sri Lanka, which is a middle income country, to export more than 6400 product categories to the EU on a duty free basis (Sarvananthan and Sanjeevanie, 2008). The EU has also funded several development projects and provided development assistance to Sri Lanka, particularly through its major contributions to the post-tsunami response programme. (see http://www.dellka.ec.europa.eu/en/eu_and_srilanka/development/tsunami_sl.htm)

The EU and Afghanistan

The EU is Afghanistan's second-largest trading partner, accounting for nearly 18 per cent of Afghanistan's imports and 17 per cent of its exports. Three-quarters of Afghanistan's exports to the EU consist of mineral fuels, lubricants and crude materials, while its imports from the EU are mainly machinery, transport equipment, manufactured articles, food and live animals.

Afghanistan's trade with the EU has grown over the years, with imports and exports reaching their highest levels in 2008 (see http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113349.pdf).

Table 6: Exports from Afghanistan to EU

| SITC Codes | SITC Sections | Value (Millions of euro) | Share of Total (%) |
|------------|---|--------------------------|--------------------|
| | Total | 51 | 100,0 |
| SITC 3 | Mineral fuels, lubricants and related materials | 25 | 49,4 |
| SITC 2 | Crude materials, inedible, except fuels | 13 | 26,3 |
| SITC 9 | Commodities and transactions n.c.e. | 6 | 12,3 |
| SITC 7 | Machinery and transport equipment | 2 | 4,5 |
| SITC 0 | Food and live animals | 2 | 3,3 |

Table 7: Imports to Afghanistan to EU

| SITC Codes | SITC Sections | Value (Millions of euro) | Share of Total (%) |
|------------|---|--------------------------|--------------------|
| | Total | 636 | 100,0 |
| SITC 7 | Machinery and transport equipment | 314 | 49,5 |
| SITC 8 | Miscellaneous manufactured articles | 85 | 13,4 |
| SITC 0 | Food and live animals | 59 | 9,2 |
| SITC 9 | Commodities and transactions n.c.e. | 54 | 8,5 |
| SITC 6 | Manufactured goods classified chiefly by material | 47 | 7,4 |

Source: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113349.pdf

In addition to its leading role in the reconstruction effort, the EU is a major source of humanitarian assistance to Afghanistan, having contributed EUR 3.7 billion from 2004 to 2006 (see http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/esdp/91660.pdf). In November 2005, the EU and Afghanistan adopted a joint declaration, which set out a new partnership based on shared priorities such as the establishment of strong and accountable institutions, security and justice sector reform, counter-narcotics programmes, and development and reconstruction.