The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

The India-EU FTA: IMPLICATIONS FOR PAKISTAN

APRIL 2026

The India-EU FTA: IMPLICATIONS FOR PAKISTAN

April 2026

Acknowledgements

Team Leader:
Samir S. Amir

Lead Researcher:
Wisha Ahmed

Disclaimer

The findings, interpretations and conclusions expressed do not necessarily reflect the views of the Board of Directors and Members of the Pakistan Business Council or the companies they represent.

Any conclusions and analysis based on the data from ITC, OEC World, Ministry of Commerce, European Commission, Government of India, Pakistan Bureau of Statistics and other sources are the responsibility of the author(s) and do not necessarily reflect the opinion of these agencies. Although every effort has been made to cross-check and verify the authenticity of the data, the Pakistan Business Council, or the author(s), do not guarantee the data included in this work. All data and statistics used are correct as of March 1st, 2026 and may be subject to change.

For any queries or feedback regarding this report, please contact
samir@pbc.org.pk or **wisha@pbc.org.pk**

The Pakistan Business Council: An Overview

The Pakistan Business Council (PBC) is a research-based business advocacy platform established in 2005. It is now supported by over 100 private sector local and multinational businesses with significant investment in, and long-term commitment to sustainable growth of the country. They come from 14 countries, have leading roles in 17 major sectors of the formal economy, generate 40% of annual exports, contribute a third of Pakistan's total tax revenues and employ three million. Their combined sales represent every 6th Rupee of Pakistan's GDP.

PBC's major objectives are to advocate policies that lead to creation of jobs, value-added exports and reduction in import reliance through improved competitiveness of manufacturing, services and the agriculture sectors. It also promotes formalization of the economy.

PBC's over-arching theme, "Make-in-Pakistan" consists of three pillars: "Grow More/Grow Better", "Make More/Make Better" and "Serve More/Serve Better." Its evidence-based advocacy is backed by over a hundred studies to date, through its full-time research team, supplemented by collaborative research with renowned industry experts and economists. Through its Centre of Excellence in Responsible Business (CERB), PBC works to build capacity and capability of businesses beyond its membership, to adopt high environmental, social and governance standards. PBC holds conferences, seminars and webinars to facilitate the flow of relevant information to all stakeholders in order to help create an informed view on the major issues faced by Pakistan. Through its presence in Islamabad and Karachi, it works closely with relevant government departments, ministries, regulators and institutions, as well as other stakeholders including professional bodies, to develop consensus on major issues impacting the economy.

PBC is a pan-sectoral, not-for-profit, Section 42 entity. It is not a trade body; therefore, it does not advocate for any specific business sector. Rather, its key advocacy thrust is on easing barriers that thwart competitiveness of businesses in Pakistan.

Further information on the PBC is available on: www.pbc.org.pk.

The PBC's Founding Objectives

- To provide for the formation and exchange of views on any question connected with the conduct of business in and from Pakistan.
- To conduct, organize, set up, administer and manage campaigns, surveys, focus groups, workshops, seminars and fieldwork for carrying out research and raising awareness in regard to matters affecting businesses in Pakistan.
- To acquire, collect, compile, analyze, publish and provide statistics, data analysis and other information relating to businesses of any kind, nature or description and on opportunities for such businesses within and outside Pakistan.
- To promote and facilitate the integration of businesses in Pakistan into the World economy and to encourage in the development and growth of Pakistani multinationals.
- To interact with governments in the economic development of Pakistan and to facilitate, foster and further the economic, social and human resource development of Pakistan.

The PBC Member Companies

ABACUS
Abbott A Promise for Life
AGP we value life
AIRLINK
AkzoNobel
alBaraka Bank
alkaram
Allied Bank
AMRELI STEELS Building for Life
ARCHROMA LIFE ENHANCED
Artistic Milliners
Atlas
Bank Alfalah
Bank AL Habib Limited
Bata
BEACONHOUSE GROUP
Bosch
CCL
CENTRAL DEPOSITORY COMPANY
CHANGAN AUTO
CHERAT CEMENT
CHUBB
Coca-Cola
COLGATE-PALMOLIVE
Dalda
Daraz
Dawlance
Dawood Lawrencepur Limited
DESCON
EBM
efu GENERAL
EMAAR PAKISTAN
engro holdings
Excel Group
Fatima Fertilizer Company Limited
faysalbank
FEROZSONS LABORATORIES LIMITED
FMC
FORWARD
FrieslandCampina Engro Pakistan Limited
GATRON
Getz pharma
gsk do more feel better live longer
GulAhmed
HBL
HiltOn PHARMA
INTERLOOP
international industries built on trust
ISMAIL INDUSTRIES LIMITED
Jazz
JS BANK
Jubilee LIFE INSURANCE
K&N's
KE Energy That Moves Life

The PBC Member Companies

The PBC Affliiates

engro elengy terminal

engro fertilizers

engro polymer & chemicals

HINUCON (Private) Limited

ISL International Steels Limited
Shaping Tomorrow

LCI
LUCKY CORE INDUSTRIES

Lucky Electric Power Company

LMC Lucky Motor Corporation

PAKISTAN CABLES
TRUSTED NOT TO COMPROMISE

Tri-pack
Tri-Pack Films Limited

IFL

HUBCO

MASTER
MASTER WIND ENERGY LTD.

Table of Contents

List of Tables

List of Figures

Acronyms

CAGR	Compound Annual Growth Rate
CBAM	Carbon Border Adjustment Mechanism
EPD	Export Portfolio Diversification
ESG	Environmental Social and Governmental
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GSP	Generalized Scheme of Preferences
GSP+	Generalized Scheme of Preferences Plus
HS	Harmonized System
ITC	International Trade Center
MFN	Most Favored Nation
MMF	Man Made Fiber
R&D	Research and Development
RoO	Rules of Origin
SME	Small and Medium-sized Enterprises
TCI	Trade Complementarity Index
TRQs	Tariff Rate Quotas
WTO	World Trade Organization

EXECUTIVE SUMMARY

On January 27, 2026, India and the European Union concluded negotiations on a historic Free Trade Agreement (FTA), a pact described as the "Mother of All Deals". This agreement, expected to be implemented within approximately one year, will eliminate tariffs on nearly all Indian exports to the EU, fundamentally redrawing the competitive landscape for South Asian exporters.

For Pakistan, this development represents a significant and multifaceted challenge. By eroding the tariff advantage Pakistan currently enjoys under the EU's Generalized Scheme of Preferences Plus (GSP+), the FTA intensifies competition across several sectors, most critically in textiles and apparel, which account for nearly three-quarters of Pakistan's exports to the bloc. While not an immediate, existential threat, the agreement removes the safety net enjoyed by Pakistani exporters, narrowing their margin of error and compelling urgent, structural policy action to safeguard market share and enhance long-term competitiveness.

What happens next depends on how the government of Pakistan responds. If it makes smart moves like negotiating well with Europe, lowering energy costs for industries, and finding new products and buyers, this challenge posed by the India – EU FTA could actually force Pakistan to fix its long-standing problems. If not, the country could slowly lose its hold on one of its most important export markets.

KEY FINDINGS

1. Preference has led to Over-Reliance

Pakistan is the world's largest beneficiary of the GSP+ scheme. Approximately 86% of its exports to the EU use these preferences, with a 95% utilization rate. This creates a "single-point-of-failure" risk; any change in GSP+ status would immediately jeopardize a significant volume in trade.

2. The India-EU FTA Threat

With the India-EU Free Trade Agreement finalized in early 2026, India's current 12% tariff disadvantage in textiles is being phased out. Once India reaches zero-duty access, Pakistan will lose its tariff edge unless it improves quality and sustainability.

3. The GSP+ Conditionality vs. FTA Certainty

Pakistan's preferential access is tied to the GSP+ scheme, which requires strict compliance with 27 international conventions related to human rights, labor rights, environment, and governance—significantly increasing production costs and compliance burdens. Its status is subject to periodic reviews and is not guaranteed beyond December 2027, when the current scheme ends. This creates a significant dichotomy:

- Pakistan's Vulnerability: Pakistani exporters face ongoing compliance costs, stringent monitoring, and the constant risk of losing preferential access due to political or social considerations within the EU which put Pakistan at a distinct disadvantage.

- India's Advantage: India's duty-free access under the FTA is a binding, reciprocal, contractual agreement. It is not linked to continuous human rights or labor compliance reviews, offering Indian exporters far greater long-term certainty and immunity from the conditionalities that hang over Pakistan's status.

3. The Scale and Diversification Gap

The competitive threat is magnified by the sheer scale and diversification of Indian exports compared to Pakistan's concentrated profile.
This concentration means that a relatively small shift in EU sourcing patterns away from Pakistani textiles could have a disproportionately large negative impact on Pakistan's total export revenue. European buyers may now find Indian suppliers more attractive, not just for apparel, but as a one-stop shop for a wider range of goods, potentially leading to a diversion of orders away from Pakistan, which is seen as a "textile oriented" supplier.

4. Energy Costs

Pakistan has worked on improving its regional industrial competitiveness by implementing a major tariff reform in February 2026. By reducing electricity rates from a high of 11.9 Euro cents/kWh (which caused 150+ factory closures) to approximately 7.9–8.1 Euro cents/kWh, Pakistan has become cost effective. The revised tariffs are however officially notified to remain in effect only until December 31, 2026.

5. The GSP+ Cliff-Edge: 2027 and Beyond

A critical layer of uncertainty is the expiration of Pakistan's current GSP+ scheme in December 2027. This creates a "cliff-edge" scenario:

- Scenario 1 (Renewal with Conditions): Even if GSP+ is renewed, Pakistan will face continued compliance costs and periodic reviews, while India enjoys unconditional FTA access. The playing field will be tilted in India's favor on certainty, if not on tariffs.

- Scenario 2 (Non-Renewal): If GSP+ is not renewed, Pakistan's exports to the EU would revert to Standard GSP (with partial preferences) or Most Favored Nation (MFN) terms, facing duties of approximately 9–12%. In this scenario, Indian goods would have a 9–12% price advantage over Pakistani goods in the EU market.

6. Quadrant Analysis

- "Other made-up textile articles" (HS 63) is truly aligned with both high EU demand and high Pakistani competitiveness. This indicates that while Pakistan is a textile powerhouse, the specific area where it perfectly meets current market growth is in specialized made-up articles rather than raw materials or standard apparel.

- Traditional export sectors like Iron and Steel (HS 72), Raw Hides (HS 41), and Edible Fruit (HS 08) are in the "Retreat" quadrant. They are suffering from stagnant EU demand and a drastic decline in Pakistani supply/competitiveness.

- Outside of textiles, Pakistan is quietly gaining a competitive edge in niche areas. Optical/medical instruments (HS 90) and Products of animal origin (HS 05) show impressive Pakistani export growth that actually outpaces EU demand growth.

- Pakistan's core exports, particularly Cotton (HS 52) and apparel (HS 61, 62), dominate the "Falling Stars" quadrant. While Pakistan holds a massive market share here and is still increasing exports, the EU market itself is flat. This means growth can only come by taking market share from competitors, not from an expanding market. The strategy must focus on efficiency and defending territory.

- Pakistan is missing out on the most lucrative and growing segments of the EU market. Pharmaceuticals (HS 30), Machinery (HS 84), and Cereals (HS 10) are all in high demand in Europe, yet Pakistani exports in these sectors are declining sharply. This "Lost Opportunities" quadrant suggests a fundamental competitiveness issue, likely relating to quality standards, certifications, or compliance with EU regulations that is preventing Pakistan from diversifying its export base.

7. Foreign Direct Investment (FDI)

- The India-EU FTA acts as a powerful magnet for investors, offering a stable, rules-based framework and access to a massive market.

- With 6,000 European companies already in India and goals to double bilateral trade, European firms are "preparing for a post-ratification phase" by expanding manufacturing in India.

THE INDIA–EU FTA A LANDMARK AGREEMENT

The India-EU FTA - A Landmark Agreement

Introduction: The "Mother of All Deals"

On January 27, 2026, India and the European Union concluded negotiations on a historic Free Trade Agreement at the 16th India-EU Summit in New Delhi, marking the culmination of negotiations that first began in 2007. This agreement represents the most ambitious trade liberalization India has ever granted and one of the largest trade agreements ever negotiated.[1]

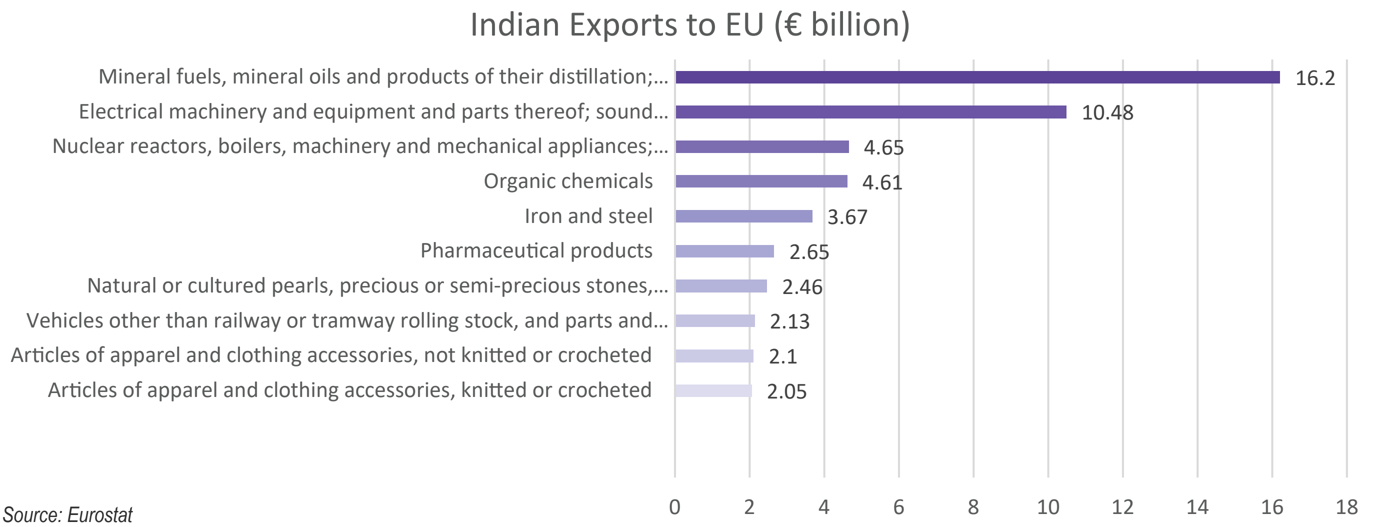
The agreement links two economic blocs accounting for approximately one-fifth of global GDP and one-quarter of the world's population, creating a free trade zone of nearly 2 billion people with a combined market estimated at over €22 trillion. Bilateral goods trade between India and the EU already stands at approximately €120 billion annually, with services trade adding another €59.8 billion. The agreement is expected to double EU goods exports to India by 2032.

Figure 1: India's Goods Trade Balance with the EU

Source: Eurostat

India's top exports to the European Union are heavily dominated by mineral fuels, which alone account for €16.2 billion, this is followed by a strong showing from the engineering and technology sectors, with electrical machinery (€10.48 billion) and mechanical appliances (€4.65 billion) representing significant shares, highlighting India's role as a key manufacturing hub. The list also features a diverse mix of traditional and industrial goods, including organic chemicals, iron and steel, and pharmaceuticals, alongside valuable precious stones and metals.

Figure 2: Indian Exports to EU (€ billion) 2024)



Source: Eurostat

[1] https://ec.europa.eu/commission/presscorner/detail/en/ip_26_227

This chapter provides a comprehensive overview of the agreement's provisions, market access commitments, and strategic significance, drawing on official documents from the European Commission and Government of India, quantitative modeling from the Kiel Institute for the World Economy, and independent analysis.[2]

Strategic Rationale

The India-EU FTA is not merely a commercial agreement but a strategic response to fundamental shifts in the global trading system. Both India and the EU have faced unprecedented pressure from US trade policy, creating urgency for diversification.

In August 2025, the US imposed punitive tariffs of up to 50% on Indian goods, linked to geopolitical disagreements regarding India's imports of Russian oil. An estimated 70% of India's exports to the US were subjected to these higher tariffs, affecting textiles, auto parts, steel, gems, pharmaceuticals, and chemicals.[3] The Kiel Institute's modeling estimates that if this 50%-point tariff shock had continued it would have reduced India's real value added by 1.64% in the short run, approximately €53 billion in foregone annual output.

In early 2025, the US also threatened tariffs on European goods in connection with disputes over Greenland's status and strategic resources. Though these measures were narrowly averted, the episode underscored that even transatlantic allies are not immune from trade policy volatility.[4]

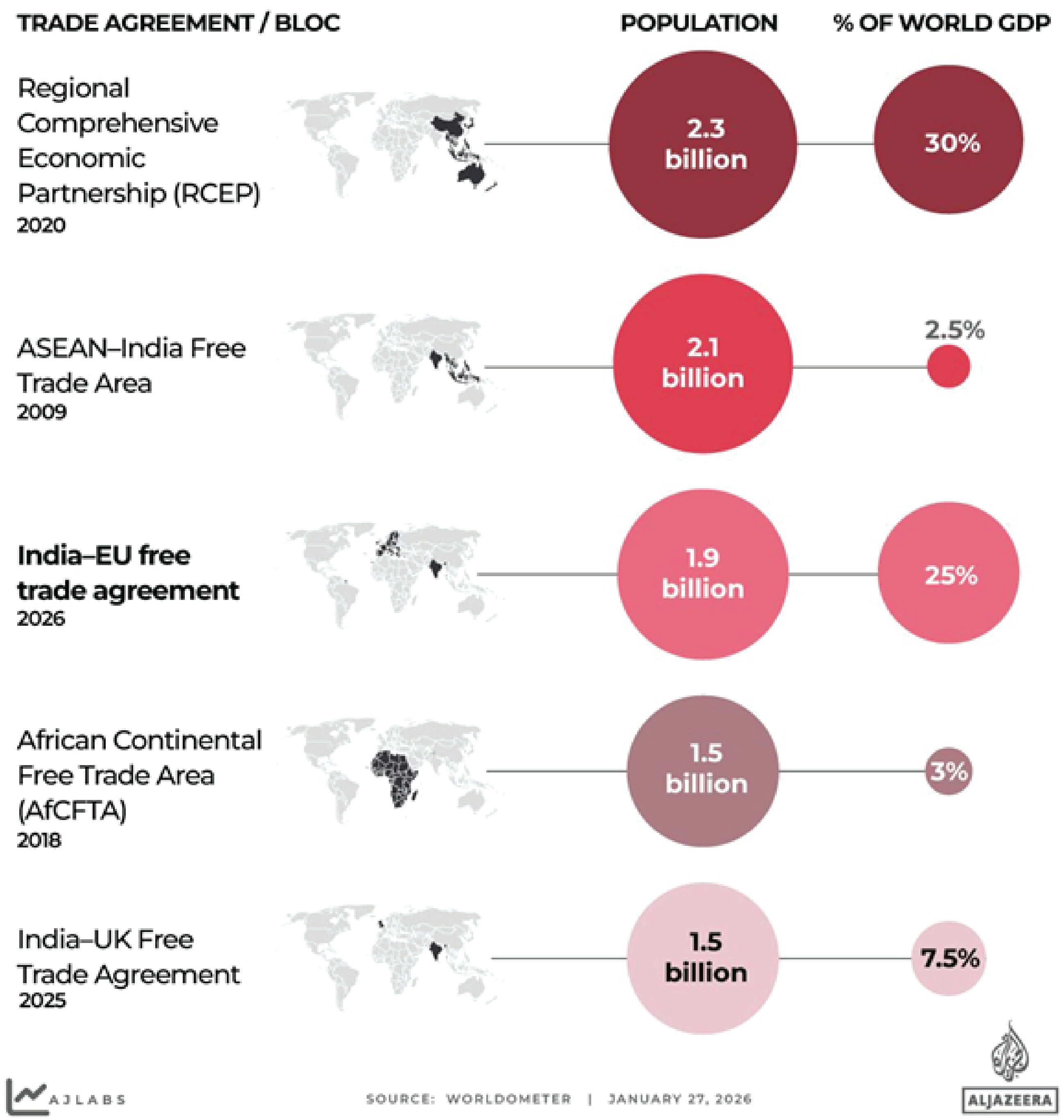
The EU's response has been to accelerate trade agreements with partners offering both commercial opportunity and strategic alignment:

- EU-Mercosur Agreement: Signed in January 2026 after 25 years of negotiations, though facing ratification hurdles in the European Parliament due to environmental controversies.

- EU-India FTA: Represents a second, arguably more straightforward pillar. India offers a deal with a large, democratic, market-oriented economy.

[2] https://www.kielinstitut.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/82e3902e-610e-46e7-9176-83e37af0d5ab-KPB202.pdf
[3] https://globaltaxnews.ey.com/news/2025-1663-us-imposes-additional-tariffs-on-india-for-buying-oil-from-russia
[4] https://privatebank.jpmorgan.com/eur/en/insights/markets-and-investing/tmt/the-greenland-gambit-a-new-turn-in-tariff-turbulence

Figure 3: Key Regional Trade Agreements and Their Share of World GDP



For India, the agreement provides resilience against external shocks at a moment of acute vulnerability. The 2025 tariff crisis demonstrated how exposed India's export-led growth model had become to American policy decisions.

By securing expanded market access for its manufacturing and service sectors, India can establish a clear upgrade path to move up the global value chain. This shift provides a strategic, market-based mechanism to reduce reliance on Chinese inputs, effectively reinforcing the "Atmanirbhar Bharat[5]" initiative through economic growth and increased self-reliance.

India's trade deficit with China reached €87 billion in 2024, its largest bilateral imbalance and a persistent concern. The FTA offers a WTO-compatible, market-driven approach to redirecting trade flows through preferential treatment of European goods.

[5] Atmanirbhar Bharat, or "Self-Reliant India," is a major economic initiative launched by Prime Minister Narendra Modi in May 2020 to build a self-sufficient nation

Market Access and Tariff Liberalization

The agreement provides unprecedented market access on both sides, with the EU eliminating tariffs on over 90% of tariff lines (99.3% by value) and India eliminating tariffs on 86% of tariff lines (96.6% by value). Overall, the tariff reductions will save around €4 billion per year[6] in duties on European products.

Table 1: Market Access and Tariff Liberalization

Metric	EU Commitment	India Commitment
Tariff lines liberalized	Over 90%	86%
Trade value covered	99.3%	96.6%
Immediate duty elimination	70.4% of India's exports (90.7% by value)	49.6% of tariff lines
Phased elimination (3-10 years)	20.3% of tariff lines	39.5% of tariff lines
TRQs	6.1% of tariff lines	3% of products

Sources: European Commission, Government of India

What India Gains: Access to the EU Market

India has secured preferential access across 97% of tariff lines, covering 99.5% of its exports by value. Key labor-intensive sectors comprising more than €33 billion of exports, currently subject to import duties between 4% and 26% will enter the EU duty-free from the agreement's entry into force:

Table 2: What India Gains: Access to the EU Market

Sector	Current EU Tariff	FTA Treatment	Indian Exports to EU (2024)
Textiles and apparel	8-12%	Zero at entry into force	€6.74 billion
		(100% of tariff lines)	
Leather and footwear	Up to 17%	Zero at entry into force (all tariff lines)	€2.20 billion
Gems and jewellery	Up to 4%	Zero at entry into force (100% of trade value)	€2.48 billion
Marine products	Up to 26%	Zero at entry into force (covering 100% of trade value)	€1.0 billion
Pharmaceuticals	Up to 11%	Mostly eliminated	Part of €23.4 billion global exports
Chemicals	Up to 12.8%	Zero on 97.5% of export basket	Part of diversified basket
Engineering goods	Up to 22%	Preferential access	€16.6 billion

Sources: European Commission, Government of India

Current EU Tariff: These are the "Most Favored Nation" (MFN) rates that are currently being applied before the FTA. Some sectors, like Marine Products (up to 26%) and Engineering Goods (up to 22%), faced prohibitive barriers that made Indian goods less competitive compared to countries like Vietnam or Bangladesh.

FTA Treatment: This column shows the "day-one" impact. For most sectors, the EU has agreed to immediate duty elimination (Zero at Entry into Force). This is a massive concession, as it covers nearly 90.7% of India's export value.

Annual Export Values: These figures (from 2024) represent the baseline trade. The goal of the FTA is to double these figures by 2030–2032.

[6] https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/india/eu-india-agreements/factsheet-eu-india-free-trade-agreement

What the EU Gains: Access to the Indian Market

India is offering 92.1% of its tariff lines, covering 97.5% of EU exports. Key provisions include:

Table 3: What the EU Gains: Access to the Indian Market

Sector	Current EU Tariff	FTA Treatment	Indian Exports to EU (2024)
Motor vehicles	70-110%	Gradually reduced to 10-40% (250,000 vehicle quota)	€1.6 billion
Auto components	15-30%	Most eliminated after 5-10 years	€10 billion
Machinery	Up to 44%	Half immediate zero, rest over up to 10 years	€16.3 billion
Chemicals	Up to 22%	Mostly zero at entry into force	€3.2 billion
Wine	Up to 150%	Reduced to 20-30% over time	€8.3 million
Spirits	Up to 150%	Reduced to 40% over time	€74 million
Beer	Up to 110%	Reduced to 50% over time	€2.2 million
Olive oil	45%	Zero over 5 years	€42.2 million
Processed foods	Up to 50%	Zero at entry into force or after staging	€1.3 billion
Medical devices	Up to 6.7%	Zero across 99.1% of trade lines	€3.4 billion

Sources: European Commission, Government of India

This table illustrates the phased liberalization of EU exports to India under a proposed FTA, revealing key strategic outcomes. India has agreed to significantly reduce historically high tariff barriers, particularly on industrial goods like machinery (€16.3 billion) and auto components (€10 billion), where EU exporters secure major market access. However, India maintains protections for politically sensitive sectors by imposing import quotas on motor vehicles and keeping final tariffs relatively high on wine and spirits. The agreement provides immediate duty-free access for chemicals and most medical devices, while a staged elimination on items like olive oil which offers domestic industry adjustment time. Overall, the deal prioritizes long-term integration in high-value manufacturing and industrial inputs.

Agricultural Safeguards

To ensure that the agreement does not disrupt domestic markets or harm local farmers, both sides have excluded their most sensitive agricultural products from tariff liberalization. The EU has fully protected its domestic producers by exempting key items such as beef, chicken meat, rice, sugar, ethanol, milk powder, bananas, and honey from any tariff reductions. In parallel, India has safeguarded its agricultural sector by excluding dairy, cereals, poultry, soya meal, and a range of other sensitive fruits and vegetables from the scope of the agreement. These reciprocal exemptions ensure that while the FTA opens new opportunities for trade, it does not come at the expense of vulnerable farming communities on either side.

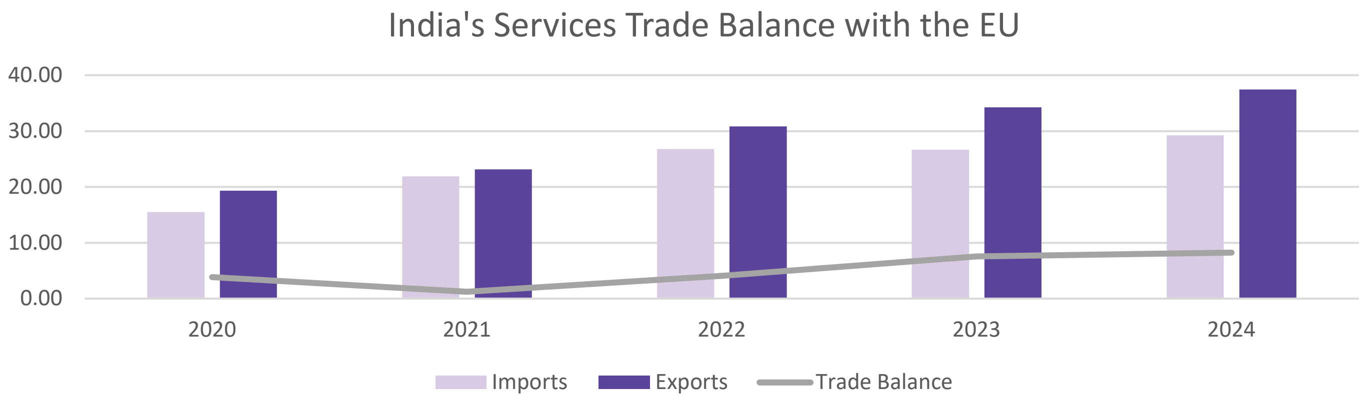
Examples of Indian Protected Products:
Dairy and Poultry


Examples of EU Protected Products:
Bananas and Sweet corn


Services Trade: The Growth Engine

Trade in services between India and EU reached €59.8 billion in 2024 (EU exports €26 billion, imports €33.8 billion). The agreement significantly expands opportunities, with rules grounded in WTO GATS but incorporating numerous improvements.

Figure 4: India's Services Trade Balance with the EU



Source: Eurostat

Professional Mobility: Powering India's Talent Across Europe

One of the most underappreciated aspects of the agreement is the comprehensive mobility framework for professionals. The agreement establishes an assured regime for temporary entry and stays:

Table 4: Professional Mobility

Metric	Scope	Sectors Covered
Business Visitors	Short-term visits for business purposes	All sectors
Intra-Corporate Transferees (ICTs)	Employees of Indian corporates established in EU (plus spouses/dependents)	All services sectors
Contractual Service Suppliers (CSS)	Employees providing services under contract to EU clients	37 sub-sectors (IT, business, professional services)
Independent Professionals	Self-employed professionals providing services to EU clients	17 sub-sectors (IT, R&D, higher education)

Sources: European Commission, Government of India

Additional Mobility Provisions

- Social Security: Framework for Social Security Agreements with all EU Member States within 5 years
- Student Mobility: Conducive framework for Indian students to study and avail post-study work visas
- Traditional Medicine: In EU Member States without regulations, AYUSH practitioners can provide services using Indian professional qualifications and establish wellness centers and clinics in EU Member States.

Quantitative Impact

The Kiel Institute for the World Economy employed its KITE model to evaluate the agreement's economic effects.

Table 5: KITE model simulations

Metric	India Commitment
India value added	+0.12% (permanent annual gain)
EU value added	+0.13% (permanent annual gain)
India exports to EU	+41%
EU exports to India	+65%
China exports to India	-5.5%

Source: KITE model simulations, Kiel Institute for the World Economy

The agreement delivers modest but permanent gains to both economies. For India, a 0.12% gain represents approximately €3.9 billion annually for an economy approaching €3.3 trillion. For the EU, a 0.13% gain translates to roughly €22 billion in additional annual output for an economy of €17 trillion. These are not one-time adjustments but permanent gains that will compound over years. The asymmetry in trade expansion, 41% versus 65% reflects India's higher initial tariffs; their removal creates proportionally larger price effects for EU exporters.

The estimated 5-9% reduction in Chinese exports to India is strategically significant. India's trade deficit with China reached €87 billion in 2024, with critical sectors depending heavily on Chinese inputs: electronics, active pharmaceutical ingredients, and industrial machinery.

PAKISTAN'S CURRENT TRADE RELATIONSHIP WITH THE EU

To understand the impact of the India-EU FTA, one must first appreciate the critical importance of the EU market to Pakistan's economy.

The EU is Pakistan's third largest export destination and second-largest trading partner overall. Total bilateral trade stands at approximately €12 billion in 2025. Pakistan's exports to the EU reached €8.69 billion in 2025.

Figure 5: Pakistan's Goods Trade Balance with the EU

Source: Eurostat

Table 6: Pakistan's top 25 Exports to EU in 2024

Product Code and Label	Value in Euro Million (2024)	CAGR (2019-2024)
620342 Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excl. knitted or crocheted, underpants and swimwear)	874.35	-6.80%
630231 Bedlinen of cotton (excl. printed, knitted or crocheted)	514.33	-2.10%
620462 Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excl. knitted or crocheted, panties and swimwear)	442.70	-6.40%
630260 Toilet linen and kitchen linen, of terry towelling or similar terry fabrics of cotton (excl. floorcloths, polishing cloths, dishcloths and dusters)	420.36	1.50%
630221 Printed bedlinen of cotton (excl. knitted or crocheted)	418.34	-1.60%
611020 Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excl. wadded waistcoats)	401.36	3.30%
100620 Husked or brown rice	258.30	19.70%
630210 Bedlinen, knitted or crocheted	242.25	4.20%
611595 Full-length or knee-length stockings, socks and other hosiery, incl. footwear without applied soles, of cotton, knitted or crocheted (excl. graduated compression hosiery, pantyhose and tights, women's full-length or knee-length stockings, measuring per single yarn < 67 decitex, and hosiery for babies)	190.96	9.90%
220710 Undenatured ethyl alcohol, of actual alcoholic strength of >= 80%	170.17	28.40%
610910 T-shirts, singlets and other vests of cotton, knitted or crocheted	169.26	-9.10%
100630 Semi-milled or wholly milled rice, whether or not polished or glazed	167.97	25.00%
610462 Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excl. panties and swimwear)	149.85	14.10%
630232 Bedlinen of man-made fibres (excl. printed, knitted or crocheted)	142.95	0.80%
610342 Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excl. swimwear and underpants)	129.70	6.50%
420310 Articles of apparel, of leather or composition leather (excl. clothing accessories, footware and headgear and parts thereof, and goods of chapter 95, e.g. shin guards, fencing masks)	124.56	-0.50%

Product Code and Label	Value in Euro Million (2024)	CAGR (2019-2024)
420329 Gloves, mittens and mitts, of leather or composition leather (excl. special sports gloves)	102.56	-2.00%
611030 Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excl. wadded waistcoats)	90.68	4.00%
630222 Printed bedlinen of man-made fibres (excl. knitted or crocheted)	87.84	8.30%
390761 Poly"ethylene terephthalate", in primary forms, having a viscosity number of >= 78 ml/g	76.72	39.70%
520812 Plain woven fabrics of cotton, containing >= 85% cotton by weight and weighing > 100 g to 200 g/m², unbleached	75.94	3.00%
610463 Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres, knitted or crocheted (excl. panties and swimwear)	59.16	12.70%
620343 Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres (excl. knitted or crocheted, underpants and swimwear)	58.56	12.60%
611610 Gloves, mittens and mitts, impregnated, coated or covered with plastics or rubber, knitted or crocheted	56.89	15.10%
630291 Toilet linen and kitchen linen of cotton (excl. of terry fabrics, floorcloths, polishing cloths, dishcloths and dusters)	55.91	7.10%

Source: Eurostat

Pakistan's exports to the EU are heavily concentrated in textiles and clothing ($6.29 billion). This concentration makes the sector uniquely vulnerable to shifts in EU trade policy.

Since 2014, Pakistan has benefited from the EU's GSP+ scheme, which grants duty-free access to approximately 66% of its tariff lines. This preferential access has been credited with driving a 108% increase in Pakistani textile exports to Europe. Crucially, while Pakistan exports around $6.29 billion worth of textiles annually to the EU duty-free, India exports a similar value ($6.74 billion) but previously faced tariffs of 9–12%.

Items covered under the GSP Plus Scheme

Chapter 84—machinery, mechanical appliances, nuclear reactors, boilers, and parts thereof—has the highest number of items granted GSP Plus benefits, according to an analysis of over 5,000 tariff lines that are eligible under the program. Chapters 29 (Organic Chemicals) and 85 (Electrical Machinery and Equipment) contain the second and third most products that qualify under GSP Plus. The GSP Plus program also includes more than 400 plus cumulative tariff lines under Chapter 90, which covers optical, photographic, cinematographic, measuring, checking, precision, medical or surgical tools and apparatus, Chapter 52, which covers cotton, and Chapter 61, which covers knitted or crocheted articles of apparel and clothing accessories also have lines covered under the GSP Plus regime. [7]

The agreement delivers modest but permanent gains to both economies. For India, a 0.12% gain represents approximately €3.9 billion annually for an economy approaching €3.3 trillion. For the EU, a 0.13% gain translates to roughly €22 billion in additional annual output for an economy of €17 trillion. These are not one-time adjustments but permanent gains that will compound over years. The asymmetry in trade expansion, 41% versus 65% reflects India's higher initial tariffs; their removal creates proportionally larger price effects for EU exporters.

The estimated 5-9% reduction in Chinese exports to India is strategically significant. India's trade deficit with China reached €87 billion in 2024, with critical sectors depending heavily on Chinese inputs: electronics, active pharmaceutical ingredients, and industrial machinery.

[7] https://www.pbc.org.pk/wp-content/uploads/Risks-to-Pakistans-Market-Access-to-the-EU.pdf

MEASURING PAKISTAN'S COMPETITIVENESS

The table shows the top 25 products in which Pakistan has advantage over India. The table does not take into account textile products (HS 50-63).

Table 7: Top 25 Pakistan Exports with advantage over Indian Exports in the EU Market

HS Code and Label	PK Export to EU	PK CAGR (2019-2024)	IND Exports to EU	IND CAGR (2019-2024)	PK's Advantage
	Euro Millions				
100620 Husked or brown rice 220710 Undenatured ethyl alcohol, of actual	258.30	19.70%	74.22	24.80%	184.08
alcoholic strength of >= 80%	170.17	28.40%	0.02	-39.90%	170.16
950662 Inflatable balls	93.17	21.60%	4.53	-0.10%	88.64
390761 Poly"ethylene terephthalate", in primary forms, having a viscosity number of >= 78 ml/g	76.72	39.70%	1.09	-7.30%	75.63
390319 Polystyrene, in primary forms (excl. expansible)	31.88	56.80%	5.85	-4.50%	26.03
420321 Specially designed gloves for use in sport, of leather or composition leather	18.65	8.30%	0.95	-5.40%	17.70
050400 Guts, bladders and stomachs of animals (other than fish), whole and pieces thereof, fresh, chilled, frozen, salted, in brine, dried or smoked	19.75	18.90%	2.89	18.60%	16.86
220720 Denatured ethyl alcohol and other spirits of any strength	16.63	14.50%	0.00	N/A*	16.63
200939 Single citrus fruit juice, unfermented, Brix value > 20 at 20°C, whether or not containing added sugar or other sweetening matter (excl.	16.23	4.40%	0.02	-26.90%	16.21
containing spirit, mixtures, orange juice and grapefruit juice)	14.26	106.5%	0.00	N/A*	14.26
382600 Biodiesel and mixtures thereof, not containing or containing < 70 % by weight of petroleum oils or oils obtained from bituminous minerals	14.76	11.90%	0.86	-8.20%	13.90
392620 Articles of apparel and clothing accessories produced by the stitching or sticking together of plastic sheeting, incl. gloves, mittens and mitts (excl. goods of 9619)	102.56	-2.00%	91.49	-3.40%	11.06
420329 Gloves, mittens and mitts, of leather or composition leather (excl. special sports gloves) 170310 Cane molasses resulting from the extraction or refining of sugar	12.32	17.80%	2.48	11.80%	9.83
401519 Gloves, mittens and mitts, of vulcanised rubber (excl. surgical gloves)	9.77	22.30%	0.64	18.30%	9.14
821420 Manicure or pedicure sets and instruments, incl. nail files, of base metal (excl. ordinary . . .	8.62	6.10%	1.33	-2.60%	7.29

HS Code and Label	PK Export to EU	PK CAGR (2019-2024)	IND Exports to EU	IND CAGR (2019-2024)	PK's Advantage
	Euro Millions				
340111 Soap and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes, and paper, wadding, felt and nonwovens, impregnated, coated or covered with soap or detergent, for toilet use, incl. medicated products	8.72	4.50%	1.49	-3.10%	7.22
080410 Fresh or dried dates	6.96	4.10%	0.10	-20.20%	6.86
250100 Salts, incl. table salt and denatured salt, and pure sodium chloride, whether or not in aqueous solution or containing added anti-caking or free-flowing agents; sea water	11.29	31.50%	4.64	0.90%	6.64
950659 Badminton and similar rackets, whether or not strung (other than tennis rackets and table-tennis . . .	6.55	10.60%	0.03	-3.10%	6.51
200911 Frozen orange juice, unfermented, whether or not containing added sugar or other sweetening matter (excl. containing spirit)	5.34	29.20%	0.00	N/A*	5.34
252620 Natural steatite and talc, crushed or powdered	16.26	14.30%	11.80	9.00%	4.45
950669 Balls (excl. inflatable, tennis balls, golf					
balls, and table-tennis balls)	7.85	1.90%	3.41	-3.10%	4.44
252921 Fluorspar containing by weight <= 97%					
calcium fluoride	4.26	18.40%	0.00	N/A*	4.26
080450 Fresh or dried guavas, mangoes and					
mangosteens	8.88	6.40%	5.57	9.60%	3.31
170230 Glucose in solid form and glucose syrup, not containing added flavouring or colouring matter and not containing fructose or containing in the dry state, < 20% by weight of fructose	3.49	-5.30%	0.55	-5.90%	2.95

Source: Eurostat

Pakistan's export edge over India in the non-textile EU market is defined by Rice, Alcohol, and Sports Goods. While the top three products contribute the bulk of the advantage, Pakistan has built a diversified portfolio of intermediate goods (plastics, talc) and niche agricultural products (dates, guts) that create a resilient export basket. The most intense competition occurs in the mid-tier leather and fruit sectors, where the export values are closer.

These are products where Pakistan is not only leading but is pulling further ahead. India's exports are shrinking, giving Pakistan a safe moat: Polystyrene (390319), PET (390761), Inflatable Balls (950662), Plastic Apparel (392620) & Leather Sports Gloves (420321)

These are areas where Pakistan leads, but India is also showing positive growth. Pakistan must run fast just to stay ahead: Husked Rice (100620), Animal Guts (050400), Mangoes (080450).

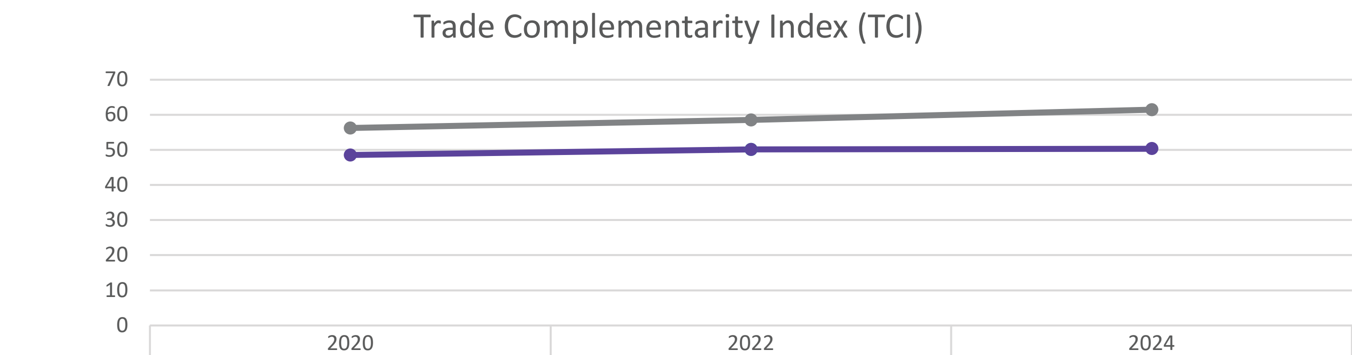
It is important to note here that India recently "graduated" (lost preferences) in sectors like Plastics and Rubber because its trade volume became too large.[8] This explains why Pakistan's advantage in PET (HS 390761) and Rubber Gloves (HS 401519) remains so high—India was being penalized by higher "Standard GSP" duties or full tariffs.

[8] "Graduation" is a mechanism within the EU's GSP program. It's not a punishment, but a rule that says: once a country becomes too competitive in a specific product sector, it no longer needs preferential treatment

Trade Complementarity Index (TCI)

The Trade Complementarity Index (TCI) measures the degree to which a country's export profile matches the import profile of its trading partner. A score closer to 100 suggests a perfect match (high potential for trade), while a score closer to 0 suggests no correlation.

Figure 6: Trade Complementarity Index (TCI)



	2020	2022	2024
Pakistan	48.5	50.1	50.3
India	56.2	58.5	61.4

Pakistan's high dependence on textiles keeps the TCI lower than India's more diversified basket. India's export basket to the EU is now 40% non-agricultural/non-textile, whereas Pakistan remains 75%+ textile-centric.

Textile Sector

The textile sector is the backbone of Pakistan's exports to the European Union, accounting for approximately 76% of the country's total exports to the bloc (approx. $6.29 billion in 2024). Historically, Pakistan's primary competitive edge over India has been its GSP+ status, which provided duty-free access to the EU while Indian textiles faced tariffs of 8% to 12%.

Table 8: Impact on Pakistan's Textile Sector

Feature	Pakistan (GSP+ Status)	India (Under New FTA)	Impact on Pakistan
Tariff Rate	0% (Preferential)	0% (Duty-Free)	Neutralization: Pakistan loses its historical 10–12% price cushion.
Tariff Line Coverage	66% of tariff lines	100% of tariff lines	Coverage Gap: India enjoys broader zero-rated access across all apparel categories.
Market Share Forecast	Predicted 15% decrease	Predicted Increase	Revenue at Risk: Estimated export loss of $1.5 billion as orders shift.
Supply Chain Edge	Cotton-heavy / Fragmented	Vertically Integrated	Structural Risk: Buyers favor India's scale and synthetic fiber (MMF) capability.

The table below shows the top 20 products in which Pakistan has an advantage over India in the Textiles category.

Table 9: Top 20 Pakistan Textile Exports with advantage over Indian Textile Exports in the EU Market

HS Code and Label	PK Exports to EU	IND Exports to EU	PK's Advantage
	Euro Millions		
620342 Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excl. knitted or crocheted, underpants and swimwear)	874.35	155.76	718.59
630231 Bedlinen of cotton (excl. printed, knitted or crocheted)	514.33	55.03	459.30
630221 Printed bedlinen of cotton (excl. knitted or crocheted)	418.34	35.10	383.24
620462 Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excl. knitted or crocheted, panties and swimwear)	442.70	90.72	351.98
630260 Toilet linen and kitchen linen, of terry towelling or similar terry fabrics of cotton (excl. floorcloths, polishing cloths, dishcloths and dusters)	420.36	141.36	279.00
630210 Bedlinen, knitted or crocheted	242.25	4.19	238.06
611595 Full-length or knee-length stockings, socks and other hosiery, incl. footwear without applied soles, of cotton, knitted or crocheted (excl. graduated compression hosiery, pantyhose and tights, women's full-length or knee-length stockings, measuring per single yarn < 67 decitex, and hosiery for babies)	190.96	12.52	178.44
611020 Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excl. wadded waistcoats)	401.36	233.74	167.62
630232 Bedlinen of man-made fibres (excl. printed, knitted or crocheted)	142.95	4.50	138.45
630222 Printed bedlinen of man-made fibres (excl. knitted or crocheted)	87.84	8.53	79.31
610342 Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excl. swimwear and underpants)	129.70	55.35	74.35
520812 Plain woven fabrics of cotton, containing >= 85% cotton by weight and weighing > 100 g to 200 g/m², unbleached	75.94	7.47	68.46
611030 Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excl. wadded waistcoats)	90.68	32.93	57.75
610343 Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres, knitted or crocheted (excl. swimwear and underpants)	51.13	3.47	47.67
630239 Bedlinen of textile materials (excl. of cotton and man-made fibres, printed, knitted or crocheted)	42.13	2.16	39.97
611610 Gloves, mittens and mitts, impregnated, coated or covered with plastics or rubber, knitted or crocheted	56.89	17.14	39.75
520819 Woven fabrics of cotton, containing >= 85% cotton by weight and weighing <= 200 g/m², unbleached (excl. those in three-thread or four-thread twill, incl. cross twill, and plain woven fabrics)	49.57	10.59	38.97

HS Code and Label	PK Exports to EU	IND Exports to EU	PK's Advantage
	Euro Millions		
610220 Women's or girls' overcoats, car coats, capes, cloaks, anoraks, incl. ski jackets, windcheaters, wind-jackets and similar articles of cotton, knitted or crocheted (excl. suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib and brace overalls)	38.35	5.23	33.12
610120 Overcoats, car coats, capes, cloaks, anoraks, incl. ski jackets, windcheaters, wind-jackets and similar articles of cotton, for men or boys, knitted or crocheted (excl. suits, ensembles, jackets, blazers, bib and brace overalls and trousers)	35.80	3.05	32.75
610463 Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres, knitted or crocheted (excl. panties and swimwear)	59.16	26.66	32.50

Source: Eurostat

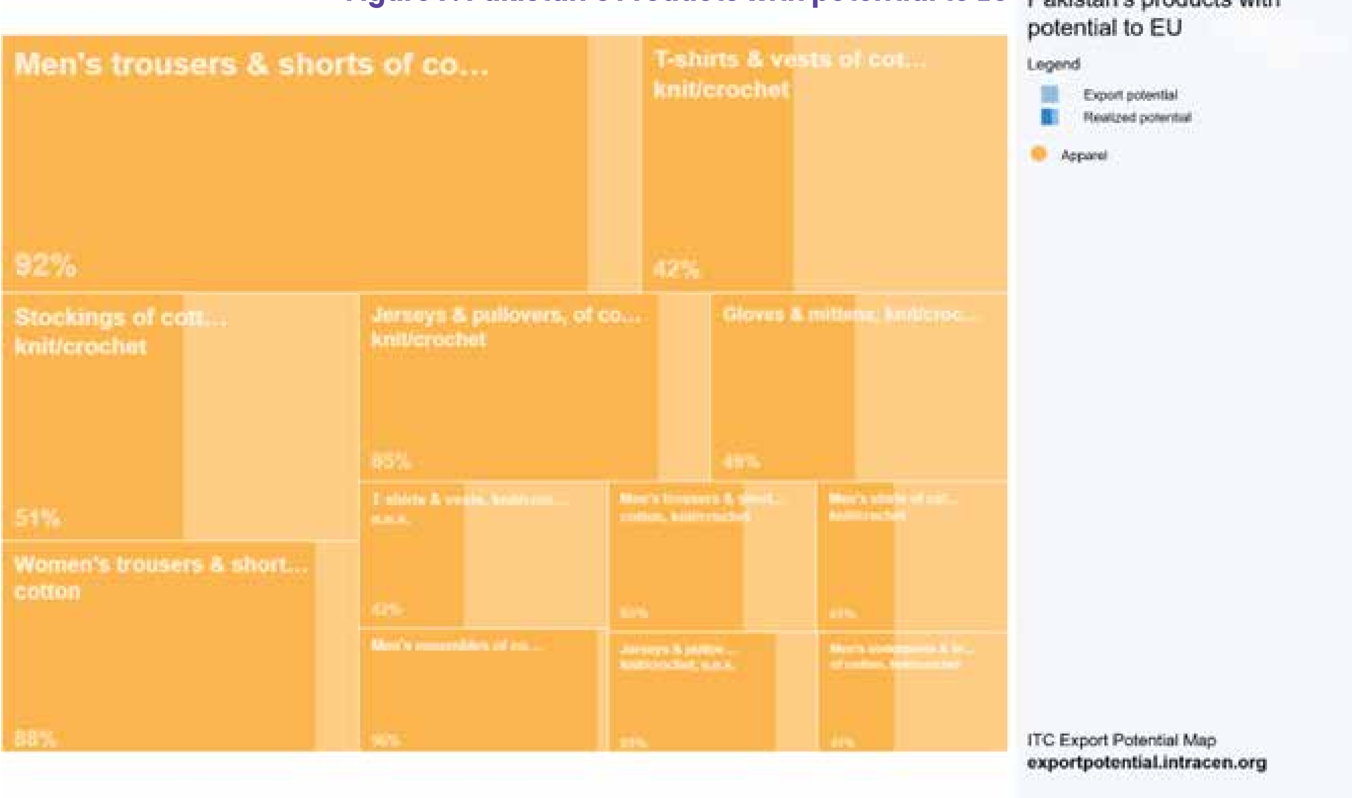
Pakistan's lead in Bedlinen (HS 6302) is nearly absolute. For instance, in Knitted Bedlinen (630210), Pakistan exports 57 times more than India. In Synthetic Bedlinen (630232), the ratio is 31 times.

India is currently a minor player in the EU's home textile segment compared to Pakistan. Even with 0% duty, India would need massive structural shifts to match Pakistan's specialized production lines for bed and toilet linen.

16 out of the top 20 products are explicitly Cotton-based. Since India is the world's second-largest cotton producer, the removal of tariffs allows India to leverage its domestic raw material base to undercut Pakistani prices in these specific categories.

The figure below shows the export potential of Pakistani products in the textile category to the EU.

Figure 7: Pakistan's Products with potential to EU



The ITC Export Potential Map reveals that Pakistan's apparel strategy is performing well in its most dominant categories, with Men's Ensembles (96% realized), Men's Trousers (92% realized), and Women's Trousers (88% realized) showing almost no remaining room for volume-based growth. This saturation makes the sector exceptionally vulnerable to the India-EU FTA, as Indian exporters now enjoy the same 0% duty access and can aggressively target these high-realized segments where Pakistan has no room left to expand. To mitigate this risk, Pakistan must pivot toward "under-realized" niches such as Cotton T-shirts and Vests, which currently sit at only 42% of their export potential, offering a critical buffer for diversification as the competitive landscape shifts in 2026.

Industrial Electricity Tariffs

Between 2023 and 2025, Pakistan's textile sector faced a period of severe de-industrialization, with over 150 factories closing permanently due to electricity tariffs that peaked at a staggering 11.9 cents/kWh. This made Pakistan's power some of the most expensive in the region, forcing many mills to operate at only 30-50% capacity or shut down entirely. However, as of February 2026, the government has implemented a critical "survival" reform, reducing industrial energy charges by up to PKR 4.58 per unit (bringing the rate down to approximately 7.9 - 8.1 Euro cents/kWh).

Table 10: Industrial Electricity Tariffs

Metric	Rate (Euro ¢/kWh)	Context / Status
Vietnam	6.44 – 7.20	Lowest rates due to state-prioritized industrial support and diversified energy mix (Coal/Hydro/Wind).
India	7.45 – 8.90	Highly Variable: Base grid rates are moderate, but large exporters in Gujarat/Tamil Nadu use "Open Access" to hit effective costs.
Pakistan	7.88 – 8.14	New Competitive Zone: Following the Feb 2026 tariff cut (from 11.9¢ down to 7.9¢).
Bangladesh	8.64 – 9.15	Under Pressure: High reliance on imported LNG and fuel oil has pushed rates above 9.5 Euro cents, eroding their historical cost advantage.

Source: Global Petrol Prices

The "Rules of Origin" Hurdle: GSP+ vs. FTA

Rules of Origin define how much "local work" must be done on a product to claim duty-free status. For textiles, the EU generally applies the "Double Transformation" rule.

Comparative RoO Frameworks

The table below illustrates why the India-EU FTA is structurally superior to Pakistan's GSP+ framework :

https://www.globalpetrolprices.com/electricity_prices/
https://taxation-customs.ec.europa.eu/generalised-system-preferences-gsp_en

Table 11: Rules of Origin Framework

Feature	Pakistan (GSP+ Status)	India (Under 2026 FTA)	Strategic Impact
Primary Requirement	Double Transformation (Yarn > Fabric > Garment)	Double Transformation (Standard)	Both must process from the yarn stage to qualify.
Cumulation Rules	Regional (SAARC) only. Limited and administratively complex.	Extended / Full Cumulation. Can count EU-origin materials as "local."	India can use high-tech EU fabrics/yarns to make garments and still export them to the EU at 0% duty.
Certification Process	REX System	Modernized Portal +	Lower "red tape" and faster customs clearing via the new digital verification portal for India
Tolerance (De Minimis)	(Self-certification) 10% by weight	Importer's Knowledge 15% by value/weight	Allows more flexibility to use non-originating (e.g., Chinese) specialty trims or fibers for India

Source: European Commission

Why This Matters for Pakistan

1. The Synthetic (MMF) Gap: Pakistan's textile industry is cotton-heavy. To move into high-value Man-Made Fibers (MMF), Pakistan often needs to import yarn or fabric from China. Under GSP+ "Double Transformation" rules, a garment made from Chinese fabric does not qualify for 0% duty.

2. India's Vertical Integration: India produces its own high-quality synthetic yarns and fabrics at scale. They can meet the "Double Transformation" requirement internally much easier than Pakistan.

3. The "EU-Sourcing" Loop: Under the new FTA, Indian manufacturers can import premium technical textiles or luxury yarns from Italy or Germany, turn them into finished products in India, and send them back to the EU at 0% duty. Pakistan cannot easily do this under GSP+ without complex "bilateral cumulation" approvals.

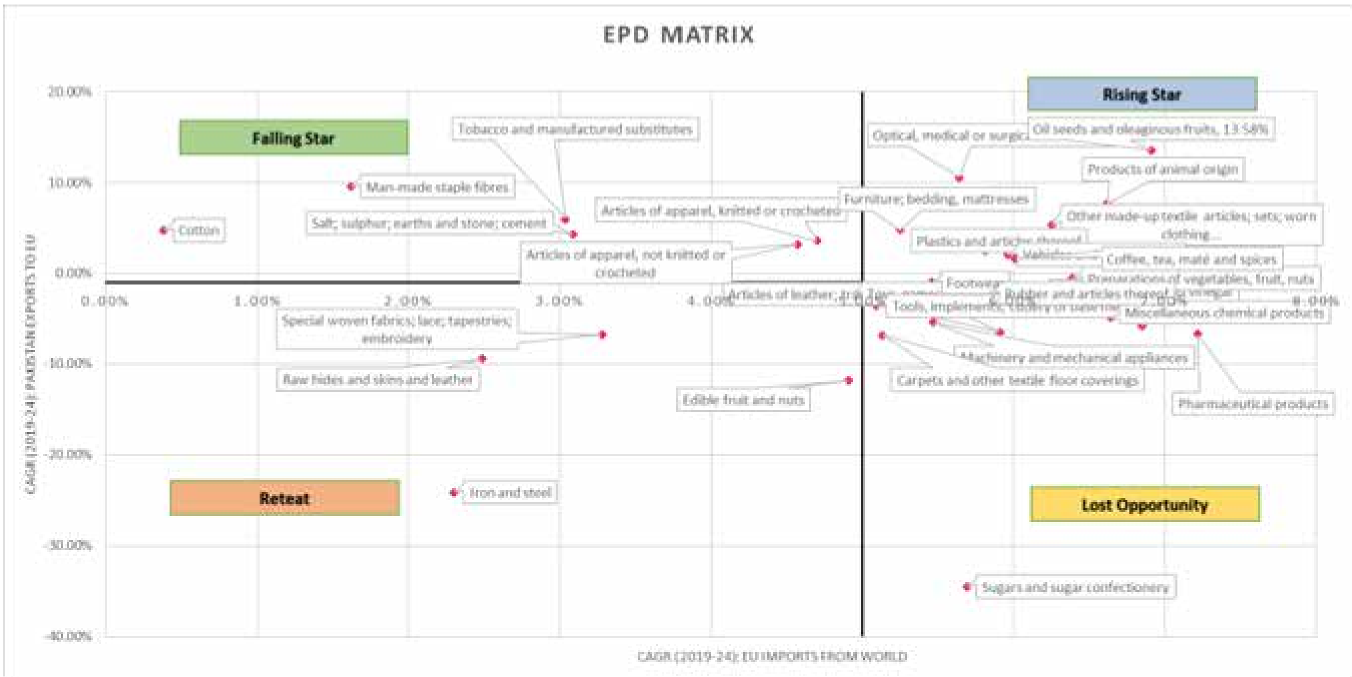
EXPORT PORTFOLIO DIVERSIFICATION (EPD)

The Export Portfolio Diversification (EPD) Matrix is a tool used to evaluate the performance and potential of export products across different markets. The EPD Matrix below represent the analysis of the products with import value greater than €10 million on the HS-02 Level.

Horizontal axis represents CAGR (2019-2024) of the imports of EU from the world, and vertical axis represents CAGR (2019-2024) of the imports of EU from Pakistan.

Items which are in the upper right quadrant are called Rising Stars. Items which are high in the EU's imports from Pakistan but low among overall EU's imports are Falling Stars. Items which are high in demand among EU's imports but have a low share in imports from Pakistan are labeled Lost Opportunities. Retreat includes products with lower growth or declining performance.

Figure 8: Export Portfolio Diversification Matrix



Data Source: Author's own calculation based on data taken from Eurostat

Rising Stars

Table 12: Rising Star Segment: Top Exports from Pakistan to EU

Product code	Product label	CAGR (2019 -24): EU Imports from World	CAGR (2019 -24): EU Imports from Pakistan	Pakistan's Market Share in EU (2024)
63	Other made-up textile articles; sets; worn clothing...	6.25%	5.36%	10.92%
10	Cereals	6.85%	-5.80%	1.60%
42	Articles of leather; travel goods, handbags	5.91%	-6.47%	1.01%
39	Plastics and articles thereof	5.81%	2.53%	0.06%
90	Optical, medical or surgical instruments	5.64%	10.55%	0.06%
64	Footwear	5.46%	-0.98%	0.15%
20	Preparations of vegetables, fruit, nuts	6.39%	-0.54%	0.12%
94	Furniture; bedding, mattresses	5.25%	4.83%	0.04%
12	Oil seeds and oleaginous fruits	6.91%	13.58%	0.09%
5	Products of animal origin	6.62%	7.73%	0.53%
87	Vehicles and parts thereof	5.96%	2.08%	0.02%
9	Coffee, tea, maté and spices	6.01%	1.63%	0.04%

Retreat

Table 13: Retreat Segment: Top Exports from Pakistan to EU

Product code	Product label	CAGR (2019 -24): EU Imports from World	CAGR (2019 -24): EU Imports from Pakistan	Pakistan's Market Share in EU (2024)
72	Iron and steel	2.30%	-24.13%	0.01%
41	Raw hides and skins and leather	2.49%	-9.45%	0.86%
8	Edible fruit and nuts	4.91%	-11.81%	0.03%
58	Special woven fabrics; lace; tapestries; embroidery	3.28%	-6.73%	0.64%

Falling Star

Table 14: Falling Star Segment: Top Exports from Pakistan to EU

Product code	Product label	CAGR (2019 -24): EU Imports from World	CAGR (2019 -24): EU Imports from Pakistan	Pakistan's Market Share in EU (2024)
24	Tobacco and manufactured substitutes	3.04%	5.98%	0.24%
55	Man-made staple fibres	1.62%	9.57%	1.80%
52	Cotton	0.38%	4.75%	13.97%
25	Salt; sulphur; earths and stone; cement	3.09%	4.27%	0.22%
61	Articles of apparel, knitted or crocheted	4.70%	3.60%	1.94%
62	Articles of apparel, not knitted or crocheted	4.57%	3.22%	2.07%

Lost Opportunity

Table 15: Lost Opportunity: Top Exports from Pakistan to EU

Product code	Product label	CAGR (2019 -24): EU Imports from World	CAGR (2019 -24): EU Imports from Pakistan	Pakistan's Market Share in EU (2024)
57	Carpets and other textile floor coverings	5.13%	-6.80%	0.21%
30	Pharmaceutical products	7.22%	-6.63%	0.02%
17	Sugars and sugar confectionery	5.69%	-34.53%	0.09%
84	Machinery and mechanical appliances	5.47%	-5.32%	0.01%
82	Tools, implements, cutlery of base metal	5.09%	-3.58%	0.08%
38	Miscellaneous chemical products	6.64%	-4.84%	0.01%
40	Rubber and articles thereof	5.84%	-2.21%	0.01%
10	Cereals	6.85%	-5.80%	1.60%
22	Beverages, spirits and vinegar	6.17%	-1.93%	0.22%

Quadrant Analysis

1. Rising Stars (High EU Growth / High Pakistan Growth)
This quadrant represents the ideal intersection of global demand and Pakistani competitiveness.

- Key Products: The most notable Rising Star is "Other made-up textile articles" (HS 63), which boasts a high Pakistan market share (10.92%) and positive growth in both EU demand (6.25%) and Pakistani supply (5.36%). This is a critical sector for Pakistan to defend and invest in.

- Other Performers: "Optical, medical instruments" (HS 90) and "Products of animal origin" (HS 05) show impressive Pakistani export growth (10.55% and 7.73% respectively), outperforming EU demand growth. These are niche areas where Pakistan is gaining a competitive edge.

- Strategic Focus: These items should be the top priority for trade promotion and investment, as they are currently aligned with market trends.

2. Lost Opportunities (High EU Growth / Low Pakistan Growth)
This quadrant indicates a critical area of underperformance. These products are in high demand in the EU, but Pakistan is failing to capitalize, evidenced by negative CAGR in exports to the EU.

- Key Products: Major industrial sectors like "Pharmaceuticals" (HS 30), "Machinery" (HS 84), and "Cereals" (HS 10) fall into this category. Despite strong EU demand growth (5-7%), Pakistani exports are declining sharply (e.g., -34.5% for sugars, -6.63% for pharmaceuticals).

- Strategic Focus: This quadrant highlights a structural issue. Pakistan needs to investigate why it cannot compete in these high-growth markets; whether due to non-tariff barriers, quality standards, or lack of production capacity.

3. Falling Stars (Low EU Growth / High Pakistan Growth)
These are traditional strongholds where Pakistan is increasing its export presence, but the overall EU market is stagnant or growing slowly.

- Key Products: This quadrant is dominated by textiles. "Cotton" (HS 52) is the standout here, with a 13.98% market share, though EU demand growth is flat (0.38%). Similarly, "Man-made staple fibres" (HS 55) and apparel items (HS 61, 62) show positive Pakistani growth in a slow-growing market.

- Strategic Focus: These are Pakistan's "cash cows." While not high-growth, they provide stable revenue and high market share. The strategy here should be efficiency, quality improvement, and defending market share against competitors.

4. Retreat (Low EU Growth / Low Pakistan Growth)
These products are declining in both global relevance and Pakistani competitiveness.

- Key Products: "Iron and steel" (HS 72) shows a drastic decline in Pakistani exports (-24.13%) despite flat global demand. Traditional sectors like "Raw hides" (HS 41) and "Edible fruit" (HS 08) are also retreating.

RISKS FOR PAKISTAN OF A POSSIBLE WITHDRAWAL OF THE EU'S GSP PLUS SCHEME

Possible Impact of EU's GSP Plus Withdrawal on Pakistan's Exports to the EU

Pakistan has successfully utilized the GSP+ status for over 12 years (2014–2026), seeing textile exports to the EU surge by over 108% in that period. While the EU Parliament voted in late 2023 to extend the current scheme until December 31, 2027, this does not guarantee Pakistan's entry into the Next GSP Cycle (2028–2037). If Pakistan fails to qualify for the next GSP+ cycle, or if the status is withdrawn due to non-compliance, the country would likely revert to the Standard GSP scheme. As a "Lower-Middle Income" country (with a 2024 per-capita income of approximately €1,264.41[11]), Pakistan would still be eligible for partial preferences, but the overall impact would be devastating.

The upcoming program introduces a more rigorous compliance framework. In addition to the original 27 international conventions, the EU has proposed an expansion to 32 conventions, adding: the Convention on the Rights of the Child on the Involvement of Children in Armed Conflict (2000), the Convention on the Rights of Persons with Disabilities (2007), the Convention on Labor Inspection No. 81 (1947), the Convention on Tripartite Consultations No. 144 (1976), the Paris Agreement on Climate Change (2015), and the United Nations Convention against Transnational Organized Crime (2000).

As of early 2026, Pakistan remains under enhanced monitoring. While the EU welcomed legislative progress in 2025 regarding torture prevention and minority rights, the temporary suspension of tariff preferences for Pakistani ethanol in June 2025 (due to EU market disruptions) serves as a reminder that preferential access is not unconditional.

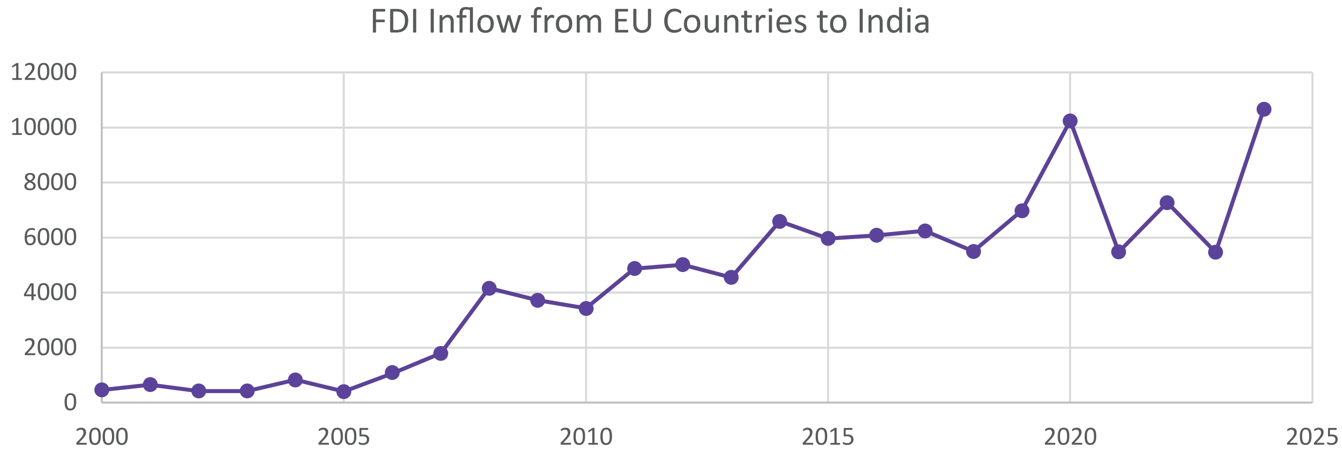
While the finalized India-EU Free Trade Agreement is a landmark shift in regional trade dynamics, it does not pose an immediate threat to Pakistan's established market share in Europe. Pakistan continues to benefit from its GSP+ status, which provides zero-duty access for nearly 90% of its exports, ensuring that its price competitiveness remains intact during India's multi-year phased tariff reduction. Furthermore, Pakistan's export relationship with the EU is built on a foundation of long-term confidence and trust, where European brands have developed deep, decades-long sourcing partnerships with Pakistani manufacturers. These relationships are anchored in a proven track record of reliability, specialized craftsmanship in value-added textiles, and a shared commitment. Rather than a sudden displacement, the FTA serves as a catalyst for Pakistan to accelerate its shift toward high-standard, sustainable manufacturing, leveraging its current "first-mover" advantage in duty-free trade to solidify its role as a stable and indispensable partner for the European market. Rather than viewing the FTA as an imminent threat, there is a prevailing sense that it serves as a catalyst for introspection—motivating Pakistan to enhance its own productivity, value-addition, and compliance standards to ensure its footprint in Europe remains not just secure, but competitive in the long run.

Competitiveness and Investment: Pakistan's Dual Challenge

The implementation of the India-EU Free Trade Agreement (FTA) is poised to fundamentally alter the competitive landscape of South Asia, creating a significant dual challenge for Pakistan. The first challenge is the immediate and direct diversion of trade. The second, potentially more consequential in the long term, is the diversion of foreign investment and the marginalization of Pakistan from emerging global supply chains. This dynamic manifests in two interconnected threats: the diversion of Foreign Direct Investment (FDI) away from Pakistan toward India, and the solidification of a "Factory Europe" effect that integrates Indian industry into EU-centric supply chains while leaving Pakistani exporters on the periphery. Currently, 6,000 European companies operate in India – a figure that is set to increase under the new agreement.

[11] World Bank

Figure 9: FDI Inflow from EU Countries to India (Euro Millions)



Source: Government of India

According to sector-wise data on FDI equity inflow from the EU (2000–2024), the Services Sector ranked first, capturing over 15% of the total investment. The Computer Software & Hardware and Automobile Industry sectors followed, comprising roughly 11% and 8% of the inflow, respectively.

Table 16: Sector wise distribution of FDI inflow from EU to India (2000 - 2024)

Rank	Sector	Euro Billion	% of FDI equity inflow
1	Services Sector	16.5	15.29
2	Computer Software & Hardware	11.6	10.76
3	Automobile Industry	8.4	7.83
4	Trading	6.5	6.08
5	Chemicals (Other Than Fertilizers)	5.6	5.23
	Total of Above	48.9	45.19

Source: Government of India

Diversion of Foreign Direct Investment (FDI)

This new reality creates a powerful incentive for investment diversion for several key reasons:

- The "Larger Market" Pull: Investors are attracted to scale and growth potential. HSBC analysts highlight that the FTA unlocks significant unrealized potential, with the International Trade Centre estimating that 50% of India's export potential to the EU remains untapped. The explicit goal of the agreement is to double bilateral trade within five years. This ambition, backed by a stable, rules-based framework, provides a level of predictability and confidence that Pakistan, with its reliance on the more precarious GSP+, cannot match.

- Investor Sentiment and Policy Stability: The FTA serves as a powerful signal to the global investment community. European ambassadors have explicitly stated that the agreement should be viewed "through the lens of investments" and as a framework for "engaging with one another" to develop integrated industrial ecosystems. Germany's ambassador to India confirmed that European firms are already "preparing for a post-ratification phase, with strong interest from German companies looking to expand manufacturing and production capacities in India". The FTA generates positive investor sentiment, which drives new FDI, which in turn further integrates India into European supply chains, making it even more competitive.

As European and other multinationals establish or expand facilities in India to serve the EU market, Pakistan's potential to attract similar export-oriented FDI declines. The country is left relying on its existing GSP+ preference, which is now comparatively less attractive and offers no incentive for the kind of deep, long-term investment in manufacturing capacity that the India-EU partnership is fostering.

The "Factory Europe" Effect

Beyond the redirection of investment capital, the FTA is catalyzing a structural shift in the organization of production, creating what can be termed a "Factory Europe" effect. This refers to the deep integration of Indian firms into the research, development, and manufacturing supply chains of European companies. The relationship is evolving from a simple buyer-seller dynamic to one of co-manufacturing and co-innovation.

- From "Make in India" to "Make with India": The FTA is not just about tariffs; it is a comprehensive agreement covering standards, services, investment, and intellectual property. This framework facilitates technology transfers, joint ventures, and regulatory alignment. European companies are now looking to "co-produce growth" with Indian partners, integrating them into their core industrial processes. This elevates India from a mere sourcing destination to an integral part of the European industrial base. Sectors likely to benefit include engineering goods, pharmaceuticals, and automotive components, where Indian firms can become specialized suppliers within EU-centric value chains.

- Alignment with Standards and Credibility: A critical, non-tariff aspect of the FTA is that it aligns India with EU regulatory, environmental, social, and governance (ESG), and technical standards. Compliance with these stringent norms strengthens the "supply-chain credibility and investment certainty" of Indian firms. For European buyers, sourcing from India becomes a lower-risk, more seamless proposition. The product is not only tariff-free but also meets the regulatory standards of the home market.

STRATEGIC RECOMMENDATIONS FOR PAKISTAN: A ROADMAP FOR RESILIENCE

A New Direction for Pakistan's Economy

Rather than engaging in a reflexive and ultimately futile comparison with India—a nation with a market and economic scale that now operates in a different stratosphere—Pakistan must immediately pivot its strategic focus inward and toward unexplored horizons.

The recent trade deal between India and the European Union is not a judgment on Pakistan's potential. It is simply a sign that the old way of thinking no longer works. In the past, Pakistan relied on having small advantages over others in traditional markets. That approach is now outdated.

Spending time and energy worrying about India's success takes away from the work needed to build Pakistan's own economy. The real question should not be "How do we compete with India?" but rather "What can we offer the world that India cannot?"

The path forward is difficult but clear: move beyond a reliance on tariff preferences and build a genuinely competitive, diversified, and efficient export sector. This requires simultaneous action on multiple fronts—securing GSP+ beyond 2027, slashing energy costs, investing in compliance and value addition, diversifying markets, and embracing trade facilitation. The deal removes "a layer of comfort," and in a world where preferences are never guaranteed and tariffs can change quickly, "competitiveness, not fear, remains the only durable defence".

Global Demand Alignment: "The World is 74% Synthetic"

The most compelling reason is market reality. As of early 2026, man-made fibers account for approximately 74% of total global fiber consumption, while cotton's share has shrunk to less than 20%.

- Over 70% of Pakistan's textile exports are still cotton-based. By ignoring MMF, Pakistan is essentially competing for a shrinking slice of the global pie while missing out on the massive growth in high-value segments.

- Global consumers now prioritize "athleisure" (yoga pants, gym wear, performance outerwear), all of which require polyester and nylon. Cotton cannot replicate the stretch, moisture-wicking, or durability of MMF.

- Transitioning to man-made fibers breaks the "Cotton Trap" by insulating Pakistan's economy from the climate-driven volatility of unpredictable harvests and water scarcity. Unlike cotton, which remains highly vulnerable to heatwaves and floods, polyester offers a "factory-controlled" consistency in quality and production cycles. Furthermore, adopting synthetics—particularly recycled polyester—drastically reduces the textile industry's water footprint, providing a sustainable path toward meeting the country's 2030 Climate Change Act goals.

- Adopting MMF grants Pakistan entry into the Technical Textile market, shifting focus from basic fashion to high-margin functional sectors. This allows for the production of specialized goods—including medical gowns, automotive airbags, and industrial protective gear—diversifying the export portfolio and shielding the economy from the volatility of the traditional apparel market.

Secure and Leverage GSP+ as a Bridge

- Diplomatic Offensive: The government needs to launch an urgent, sustained diplomatic campaign to ensure the continuation of GSP+ status beyond 2027. This requires demonstrable and verifiable compliance with the 27 international conventions.

- Engage with EU member states that have strong textile import sectors (e.g., Germany, Spain, Italy, France) to build political support for renewal.

- Pakistan must negotiate for 'Single Transformation' in any future GSP+ revisions or FTA talks. Without this, Pakistan remains 'locked' into cotton, while India can use the FTA's flexible cumulation rules to dominate the high-growth Man-Made Fiber and Technical Textile segments.

- Pakistan must negotiate for 'Single Transformation' in any future GSP+ revisions or FTA talks. Without this, Pakistan remains 'locked' into cotton, while India can use the FTA's flexible cumulation rules to dominate the high-growth Man-Made Fiber and Technical Textile segments.

- The EU has added 5 new conventions (totaling 32) for the 2024–2034 GSP cycle, focusing on environmental and child labor standards. Pakistan must institutionalize human rights and labor monitoring at the factory level to pass the 2026 EU Monitoring Mission. Non-compliance is no longer just a legal risk; it is a direct threat to the 95% preference utilization rate.

- Pakistan needs to shift resources from "Retreat" products to categories where EU demand is growing. Instead of basic bedlinen, focus on high-performance athletic wear and medical-grade textiles.

Undertake Radical Domestic Cost Correction (Critical Short-Term Action)

- Energy Cost Reform: The single most critical reform is slashing industrial energy tariffs. The government must implement a "Level Playing Field Tariff" to permanently eliminate cross-subsidies that make Pakistani power 25-30% more expensive than regional competitors.

- Address the Cotton Crisis: Tackle the severe cotton shortfall urgently. This requires agricultural reforms, investment in high-yield seeds, and support for farmers to reduce reliance on expensive imported cotton and ensure a stable, cost-effective supply chain for textile mills.

- Improve Access to Finance: Ensure that the recent reduction in the Export Refinance Scheme (ERS) rate to 4.5% is effectively passed on to exporters and explore additional mechanisms to lower the cost of working capital.

Aggressively Boost Non-Price Competitiveness

- Compliance and Standards: Invest heavily in helping exporters meet EU sustainability, labor, and traceability standards (e.g., Carbon Border Adjustment Mechanism (CBAM) and corporate due diligence regulations). This is no longer a niche advantage but a baseline requirement for market access.

- Value Addition: Shift from exporting low-margin, bulk textiles to higher-value products through better design, finishing, branding, and shorter response times. Move up the value chain within existing product lines.

- Trade Facilitation: Reduce the "hidden tax" on exports by eliminating delays at ports, streamlining documentation, accelerating refunds, and ensuring predictable policy implementation. Reducing this friction is often cheaper and more effective than subsidizing exports.

Diversify Markets and Products as Risk Management

- Geographic Diversification: To reduce over-dependence on the EU, Pakistan must aggressively target high-growth markets including the Gulf states, Africa, ASEAN, China, and explore potential bilateral arrangements with the UK and US.

- Product Diversification: While protecting the textile sector, the government should provide targeted support to nurture other exportable sectors (leather goods, sports goods, surgical instruments, IT services) to build a more resilient and diversified export basket.

Pakistan’s Response

Following the India – EU FTA, The Government of Pakistan announced new measures in order to boost exports:

- **Electricity Tariff Reduction:** A reduction of Rs 4.04 per unit on electricity was announced.
- **Lower Wheeling Charges:** Industrial electricity transmission (wheeling) charges were reduced.
- **Cheaper Export Financing:** The export refinance scheme rate was cut from 7.5% to 4.5%.
- **Blue Passports for Exporters:** Leading exporters will receive blue passports for two years

The Rs 4.04 per unit electricity reduction and lower wheeling charges indicate that Pakistan is attempting to lower production costs for its exporters. However, Pakistan must pursue long-term structural reforms in its energy sector rather than ad-hoc subsidies and explore renewable energy partnerships to ensure sustainable, low-cost power for industry.
While the reduction of the export refinance scheme rate from 7.5% to 4.5% provides immediate relief, Pakistan should consider:

1. Creating sector-specific credit guarantee schemes for high-potential export industries:

   Commercial banks often refuse to lend to exporters, especially in new or "high-potential" sectors (like IT, engineering, or pharmaceuticals) because they view them as risky. A credit guarantee scheme acts as a government-backed safety net. Pakistan already has the SME Asaan Finance (SAAF) scheme. This concept can be extended and refined specifically for "Export to EU" sectors, requiring less fiscal outlay than a bank and providing immediate liquidity to high-growth areas.

2. Aligning financing tenors with the longer investment cycles required to compete with Indian firms accessing European markets:

Currently, most export financing in Pakistan is for working capital, typically 6 to 12 months. This helps an exporter buy raw materials to fulfill an order they already have. However, to compete in international markets, Pakistani firms need to upgrade machinery, build new factories, and invest in R&D to meet EU standards. This requires capital expenditure (CAPEX) financing for 7 to 10 years. The State Bank of Pakistan (SBP) would need to offer subsidized refinance schemes specifically for long-term CAPEX, or provide guarantees to banks to cover the maturity mismatch. It is doable, but it requires regulatory changes, not just bank policy.

The Pakistan Business Council
FOSTERING ECONOMIC GROWTH
(A Company set up under Section 42 of the Companies Ordinance 1984)

8th Floor, Dawood Centre, M.T. Khan Road,
Karachi, Pakistan

+92 21 3563 0528-29
+92 21 3563 0530

2nd Floor, 1-E (South) Jinnah Avenue,
Blue Area, Islamabad, Pakistan

+92 51 8444 008
+92 51 8444 009

www.pbc.org.pk