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Knowledge Brief

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The EU–India FTA and Pakistan's Export Competitiveness

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The recent Free Trade Agreement (FTA) between India and Europeans Union (EU) may have implications for the export competitiveness of Pakistan particularly to the European market. The deal will eliminate tariffs on nearly 99.5% of Indian exports, which will erode Pakistan tariff advantage of 9 to12% under the GSP+ scheme. Pakistan mainly relies on EU markets for exports of its labor intensive products such as textile and apparel. Similarly, Pakistan's overall exports are concentrated, both product and destination wise, while for India it's vice versa. Furthermore, Pakistan is less competitive in the EU market as compared to India, as highlighted by Revealed Comparative Advantage (RCA) and the Trade Complementarity Index (TCI) data. Regarding the structural competitiveness, Pakistan has underdeveloped trade facilitation, higher electricity tariffs, limited access to finance and weaker institutional effectiveness. Therefore, the country needs to diversify its exports and initiate structural reforms to sustain competitiveness and prevent significant export losses in the European market.

1. Introduction

European market remains one of the top export destinations for South Asian economies. Countries like Pakistan benefit from preferential market access under the EU's Generalized Scheme of Preferences Plus (GSP+). It helps to expand exports in labor-intensive sectors like textiles and apparel. However, the recent EU–India Free Trade Agreement (FTA) signed on 27 January 2026 represents a major shift in the competitive dynamic, with potential implications for Pakistan's standing in the EU market (Ahmad, 2026).

The deal was termed as the "Mother of All Agreements". After ratification, it will eliminate tariffs on about 99.5 percent of Indian exports to the EU market. This will effectively reduce the 9 to12 percent tariff advantage which Pakistan was previously enjoying under the GSP+ scheme (Ahmed & Islam, 2026; Ahmad, 2026). The scheme allows duty-free access for approximately 66% of tariff lines, crucial for its textile sector (Ratna, 2026).

The deal shows a shift from unilateral trade preferences toward competitive bilateral trade arrangements. Therefore, its economic effects are likely to emerge gradually through phased tariff reductions and increased regulatory certainty (Linscott, 2026). Similarly, it is anticipated that the short-term effects may appear modest; nevertheless, the implications could be signi-

ficant in the long term. According to a recent PIDE study, India could potentially gain between US$ 16.7 to 26.5 billion in additional exports. As a result, Pakistan may face export losses due to trade diversion effects (Qadir & Masood, 2026).

This brief discusses the potential implications of the EU–India FTA for Pakistan's export competitiveness. Firstly, it compares the trade profiles of India and Pakistan in the EU market. Secondly, sectoral competitiveness is evaluated using trade indicators like RCA and TCI. Thirdly, it assessed the trade facilitation performance and logistics efficiency in India and Pakistan. Finally, the brief shows the broader structural constraints on competitiveness that are likely to affect export outcomes under the new trade regime.

2. Pakistan vs India: Trade Footprint in the EU Market

2.1. Trade Profile in the EU Market

India's and Pakistan's export trajectories have diverged considerably in the EU market over the past two decades. India's exports to the EU have increased from US$8.1 billion in 2001 to approximately $79 billion in 2024 (See Figure 1). The rise of $71 billion during this time period highlights India's export and market diversification.

Like India, Pakistan's exports to the EU also increased 8 times. Its exports increased from US$1.9 billion to US$8.9 billion. Pakistan's exports grew primarily after the introduction of GSP+ in 2014, which improved market access for its labor intensive exports.

Figure 1: EU Trade Profile: Pakistan vs India (2001–2024)

Source: IMF, International Trade in Goods by Partner Country dataset

Despite maintaining a trade surplus with the EU, Pakistan's exports are largely concentrated in textiles and apparel. On the other hand, India's exports are very diverse, including pharmaceuticals, chemicals, machinery and engineering products.

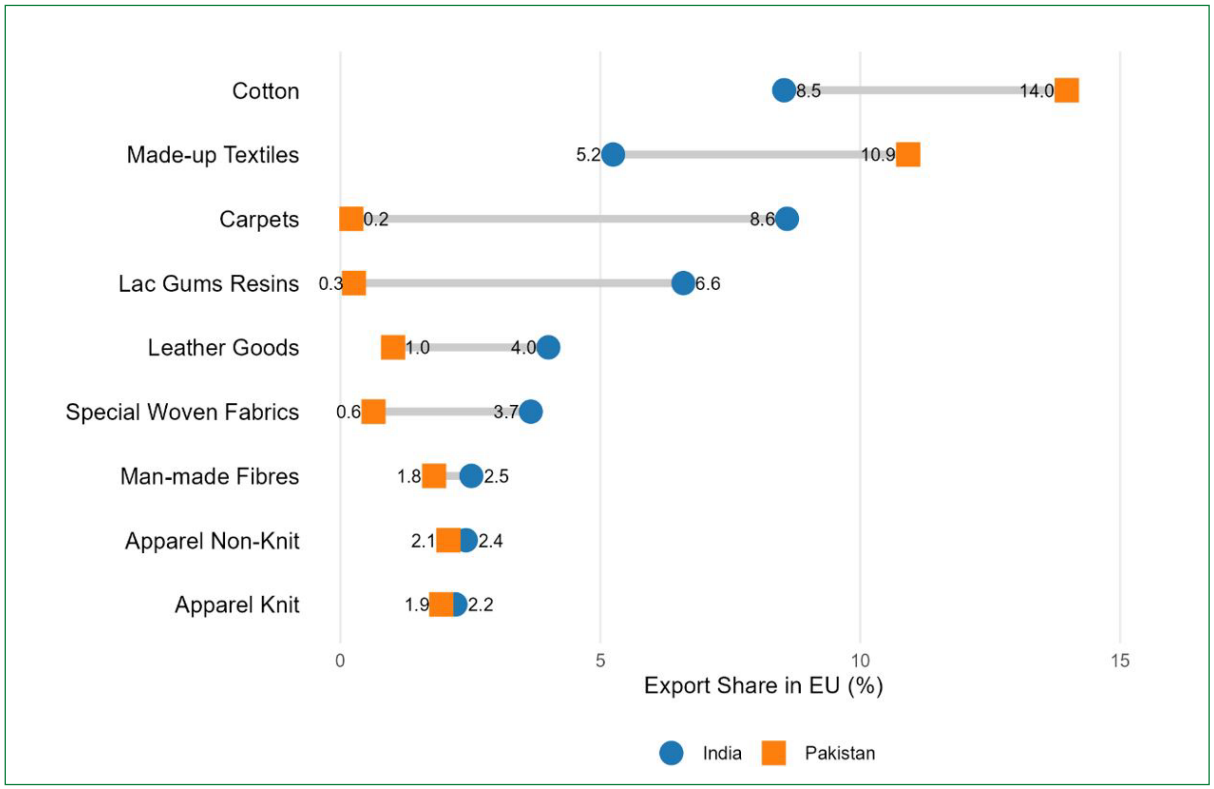
2.1. Export Structure in the EU market

In the market structure, India holds a strong presence across several textile segments of South Asian exports to Europe. Figure 2 compares Pakistan and India export shares in key product categories in the EU market.

India holds approximately 8.5 percent of the EU market for cotton products, compared with Pakistan's 14.0 percent. Similarly, in made-up textile articles, India's share is about 5.2 percent of EU imports, while Pakistan's share remains around 10.9 percent.

With the implementation of the EU–India Free Trade Agreement (FTA), tariffs on most Indian exports to the EU will be eliminated. India's competitive position in these sectors is expected to strengthen further and their exporters may expand their market share further (Trembeczki & Harb, 2026).

Figure 2: Export Share of Pakistan and India in the EU Market

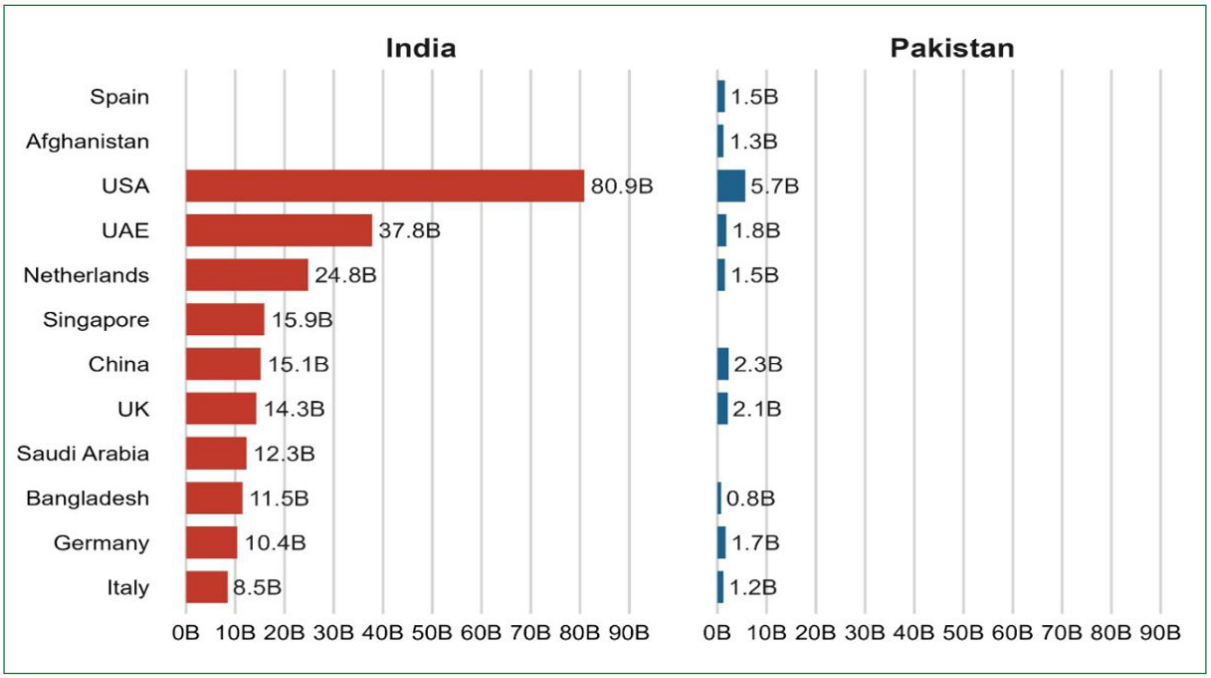


Source: Author's calculations from ITC Trade Map data.

The textile and apparel sector contributes 60 percent of Pakistan's exports. The losses of GSP+ advantage (relative to India) will intensify competitive pressure on Pakistan, as the country's exports to the EU are heavily concentrated in textiles and apparel, which India also exports. This highlights the importance of improving export diversification and value addition within the textile sector (shift from low-value to design, branding, and higher-value products) to sustain Pakistan's position in the EU market.

Figure 3 highlights that India's export destinations are more diversified across the major global markets. Its export destinations include the United States, the United Arab Emirates, China and the European Union. This diversified market structure highlights a deeper integration into global trade networks.

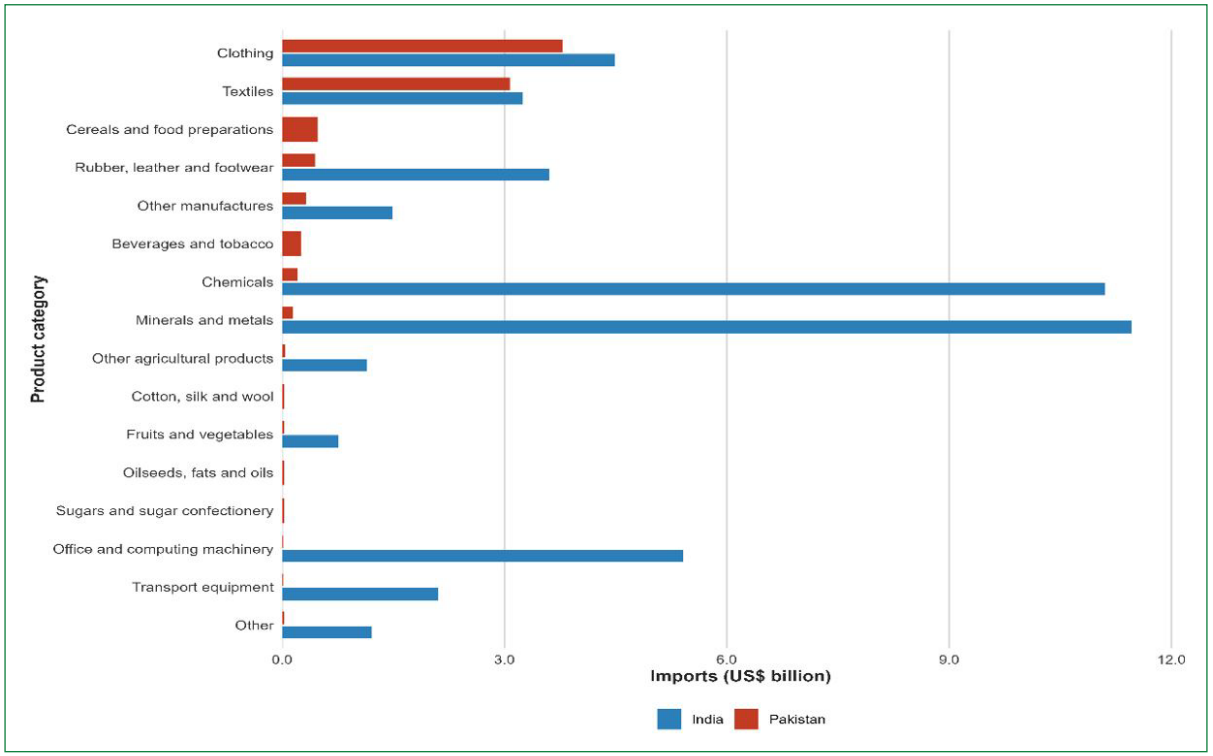
Figure 3: Top Export Destinations (2024) of India vs Pakistan



Source: IMF International Trade in Goods by Partner Country dataset

On the other hand, Pakistan's export destinations are very concentrated. The country relies on the US and the EU markets for its exports. Such reliance and concentration have increased its vulnerability to changes in EU trade policy. It reinforces the importance of improving diversification.

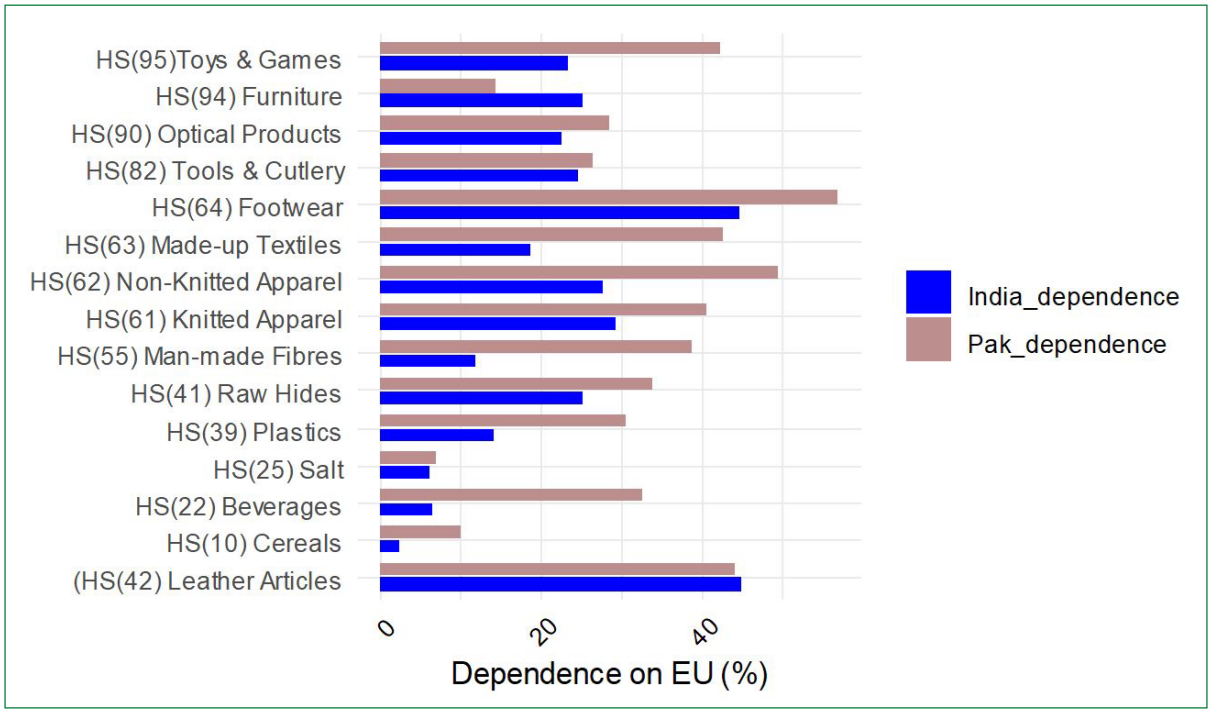
Figure 4: EU Imports from Pakistan and India



Source: World Trade Organization

Figure 4 shows that Pakistan maintains a strong presence in clothing and textile exports. However, India demonstrate greater diversification across various product categories. This diversification suggests their stronger integration into global manufacturing supply chains.

Figure 5: Pakistan and India's Dependence on the EU by Product



Source: Author's calculations from ITC Trade Map data.

The product-level export dependence on the European market shows huge structural differences between Pakistan and India (Figure 5). Dependence indicates how much a country's exports rely on a specific market, measured as a share of total exports. Pakistan depends on the European Union for its labor-intensive sectors like textiles and apparel. Below are some statistics for Pakistan's dependence:

Non-knitted apparel (HS 62): 49.3%

Made-up textile articles (HS 63): 42.5%

Knitted apparel (HS 61): 40.5%

Similarly, Pakistan shows stronger EU dependence as compared to India in sectors like footwear (56.7 percent vs. 44.5 percent), beverages (32.4 percent vs. 6.3 percent), plastics (30.6 percent vs. 13.9 percent) and man-made staple fibers (38.8% vs. 11.8%), highlighting the EU's importance as an export destination for Pakistan.

India's low dependence on the EU reflects a more diversified export market. There are certain sectors where India's dependence on the EU is higher than Pakistan's. It includes leather articles, furniture and optical and medical instruments. The above discussion indicates that the EU–India FTA could intensify competitive pressures on Pakistan's top exports.

3. Trade Indicators and Export Competitiveness

3.1. RCA and TCI

To further assess the competitive dynamics, Revealed Comparative Advantage (RCA) and the Trade Complementarity Index (TCI) can provide insights into sectoral specialization and market alignment.

Table 1 below compares the RCA values for both Pakistan and Indian exports to the EU market. The table shows a strong comparative advantage for Pakistan in cotton and apparel products of (82.42) and (74.61) respectively. These values reflect Pakistan's specialization in cotton-based textile production.

Table 1: Pakistan vs India: RCA in EU Exports by Product Category

Product	HS Code	India	Pakistan
Wool & Animal Hair	51	1.42	0.07
Cotton	52	5.97	82.42
Vegetable Fibers & Paper Yarn	53	5.88	0.28
Man-made Filaments	54	1.84	0.91
Man-made Staple Fibers	55	2.16	13.19
Wadding & Twine	56	0.97	0.17
Carpets & Floor Coverings	57	6.43	1.36
Woven/Tufted Fabric & Embroidery	58	2.92	3.76
Coated & Laminated Fabrics	59	0.5	0.17
Knitted Fabrics	60	0.1	0.62
Knitted Apparel & Accessories	61	2.24	16.92
Non-knitted Apparel & Accessories	62	2.36	14.94
Made-up Textile Articles & Rags	63	4.17	74.61
Footwear & Parts	64	1.74	1.14

Source: WITS; author's calculations. Note: RCA > 1 indicates comparative advantage; RCA < 1 indicates disadvantage.

India, on the other hand, also demonstrates comparative advantage in several textile segments, but with a more diversified structure. Its advantages include man-made fibers, carpets and textile intermediates. With the EU–India FTA removing tariff barriers, India's diversified textile and synthetic fiber industries may further expand.

To provide further insights, the Trade Complementarity Index (Table 2) is used besides RCA. TCI measures that how closely a country's export structure matches EU import demand.

Table 2: Trade Complementarity with Top EU Markets

Country	India	Pakistan
Netherlands	73.27	25.34
Germany	68.75	25.07
Italy	76.15	27.67
France	73.34	26.1
Belgium	72.17	23.42
Spain	74.61	28.65
Poland	66.31	26.8
Czech Republic	58.52	22.35
Austria	67.9	26.51
Sweden	65.55	24.69
Denmark	67.75	27.36
Portugal	72.25	28.76
Greece	73.66	26.87

Source: WITS; author's calculations. Note: TCI ranges from 0 (no complementarity) to 100 (perfect complementarity).

It is crystal clear from the table that India shows consistently higher complementarity with major EU markets, including Italy, Spain, Greece and France. This shows strong alignment between its export basket and EU demands. Contrastingly, Pakistan's export structure is showing lower complementarity, indicates that the country's products are very concentrated.

3.2. Sectoral Risk Exposure

Pakistan's most vulnerable sectors are apparel and cotton-based textiles, which dominate exports to the EU and directly compete with Indian exports. See Table 4 below.

Table 3: Sectoral Risk Exposure of Pakistan's EU Exports

Risk Level	Sector	Key Products
High Risk	Apparel	Knitted and Non-Knitted Garments
High Risk	Made-up Textiles	Home Textiles
High Risk	Cotton Textiles	Cotton Yarn and Fabrics
Moderate Risk	Synthetic Textiles	Man-Made Fiber Products
Moderate Risk	Leather	Leather Goods
Moderate Risk	Footwear	Leather Footwear
Low Risk	Surgical Instruments	Medical Devices
Low Risk	Sports Goods	Sports Equipment
Low Risk	Rice	Basmati Rice

Source: Author's compilation

The grave issue lies with the textile and apparel sector. Under the FTA, Pakistani exporters will lose their marginal price advantage, which they previously enjoyed. Before the pacts, Indian apparel exports were subject to 9–12% tariffs, providing a critical cushion that offset Pakistan's higher domestic production costs (Ahmed & Islam, 2026). The FTA renders Indian products 9% to 12% cheaper than before. It will allow Indian firms to benefit from deeper vertical integration and a strong diversified industrial base, thereby substituting for Pakistani suppliers (Ahmed & Islam, 2026; Ratna, 2026).

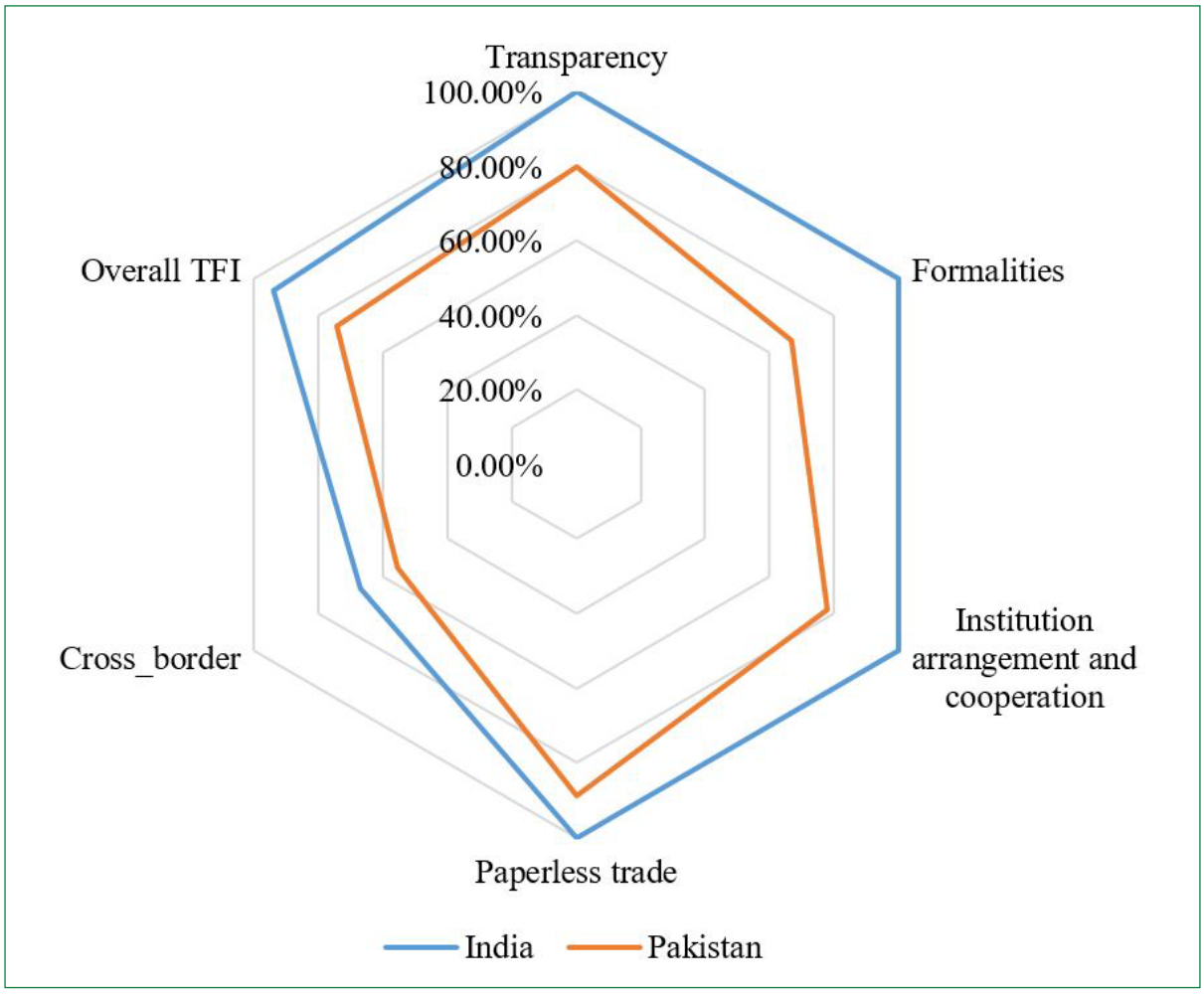
Pakistan's reliance is particularly high in categories like Cotton and Made-up Textile Articles. They are classified as "high risk" segments due to direct Indian competition under zero-tariff terms. Once the tariffs are removed, European buyers may prioritize sourcing from India for more textile and apparel due to a single and diversified market (Ratna, 2026). The social risks of such trade shift will be massive. The textile and apparel sector supports around 15 million people and provides roughly 40% of industrial employment in Pakistan. (Ahmed & Islam, 2026; Qadir & Masood, 2026). A slight erosion of EU market share could trigger concentrated employment uncertainty in major industrial clusters like Karachi, Lahore, Faisalabad and Multan.

4. Trade Facilitation and Logistics

4.1. Digital and Sustainable Trade Facilitation

Besides product specialization, trade procedures are also crucial for export competitiveness. UN Global Survey on Digital and Sustainable Trade Facilitation data reveals a clear gap in the implementation of trade facilitation measures between India and Pakistan (Figure 6).

Figure 6:Trade facilitation and paperless trade 2025



Source: UN Survey on Digital and Sustainable Trade Facilitation

Table 4: Trade facilitation and paperless trade

Indicator	India	Pakistan	Key Interpretation
Overall Trade Facilitation Score	93.55%	74.19%	India has implemented the most core trade facilitation measures, while Pakistan still faces implementation gaps.
Transparency	100%	80%	India fully implements measures such as publishing regulations online and issuing advance rulings. Pakistan has made progress, however, transparency mechanisms remain partially implemented.
Formalities (Customs Procedures)	100%	66.67%	India fully implemented customs efficiency measures, such as risk management, pre-arrival processing, post-clearance audits and expedited shipments. Pakistan lags in operational customs procedures.
Institutional Arrangements and Cooperation	100%	77.78%	India shows stronger inter-agency coordination and national trade facilitation governance frameworks.
Paperless Trade	100%	88.89%	Both countries have adopted digital trade systems. It includes electronic customs declarations and e-payments. Pakistan however, is slightly lower in implementation
Cross-Border Paperless Trade	66.67%	55.56%	India performs better in the digital trade documents exchange like customs declarations, certificates of origin and SPS certificates. Though both countries need improvement.

Source: Authors compilation from UN Survey on Digital and Sustainable Trade Facilitation

In all the indicators, India shows near complete implementation of key trade facilitation measures. However, Pakistan faces implementation gaps in customs procedures and regulatory transparency.

4.2. Logistics Performance

Logistics efficiency represents another main factor of export competitiveness. The World Bank Logistics Performance Index (LPI) indicator scores across various logistics dimensions. Table 5 presents the indicators for both India and Pakistan.

Table 5: LPI Score for India and Pakistan

Economy	Customs	Infrastructure	International Shipments	Logistics Competence and Quality	Timeliness	Tracking and Tracing
India	3.00	3.20	3.50	3.50	3.60	3.40
Pakistan	2.10	2.20	2.60	2.60	2.70	2.30

Source: World Bank, Logistics Performance Index (2023). Note: Pakistan data refers to LPI 2018 due to the absence of 2023 estimates.

In the above all logistics dimensions, India score is high. From customs efficiency to infrastructure quality and international shipments to logistics competence, shipment tracking and delivery timeliness India scores better. On infrastructure it scores 3.20 in comparison to Pakistan's 2.20 score. Similarly, India's timeliness score of 3.60 indicates that delivery schedules are being met. These differences highlight that Indian exporters may face lower administrative costs and faster border processing times. After the FTA, tariffs will reduce and Indian exporters will turn more advantageous. With relatively good logistic performance, India can respond more efficiently to EU market demand and can tap maximum benefits once the EU-India FTA comes into effect.

4.3. Structural Competitiveness Constraints

Table 6 shows the structural competitiveness indicators for India and Pakistan, often considered critical for export competitiveness.

Pakistan's competitiveness gap with India shows structural weaknesses. These gaps lie in trade facilitation, logistics systems along with energy pricing, financial access and institutional effectiveness. These weaknesses therefore lead to higher production cost and eventually creating uncertainty of exporting.

Pakistani manufacturers are bearing the increased production costs due to high electricity tariffs in sectors such as textiles and chemicals. Furthermore, firms are unable to expand its production and invest in technology due to limited credit availability and tight monetary conditions. These reasons make it difficult for the industries to upgrade their export capabilities. India stronger regulatory quality and government effectiveness provide policy predictability and a stable environment for private investment. The case is completely different in Pakistan due to policy uncertainty and weaker institutional capacity.

To address these structural issues, reforms are required across trade facilitation and logistics infrastructure. Also Stringent reforms are required in energy sector pricing, financial development and institutional governance. Improving these areas are a prerequisite for reducing trade costs and attracting investment.

Table 6: Structural Competitiveness Gap: Pakistan vs India

Competitiveness Dimension	India	Pakistan	Interpretation	Source
Trade Facilitation Implementation (%)	93.55	74.19	Faster border procedures and lower administrative trade costs	UNESCAP Global Survey on Digital and Sustainable Trade Facilitation (2023)
Logistics Performance Index	3.4	2.4	Stronger supply chain reliability and delivery timeliness	World Bank Logistics Performance Index (2023)
Electricity Tariffs (cents/kWh)	9.3	13.2	Lower industrial production costs	Bloomberg NEF Climate scope Database (2024)
Policy Interest Rate (%)	5.25	10.5	Easier access to finance for firms	Trading Economics / Central Bank Policy Rates (2025)
Domestic Credit to Private Sector (% GDP)	50.1	11.5	Greater investment capacity in manufacturing	World Bank World Development Indicators
Regulatory Quality (0–100)	53.35	42.36	Stronger policy predictability and regulatory environment	World Bank Worldwide Governance Indicators
Government Effectiveness (0–100)	59.21	39.67	More efficient public institutions	World Bank Worldwide Governance Indicators

To cut long into short, Pakistan faces some structural disadvantages, including:

- About 30% high electricity tariffs (13.2 cents/kWh vs 9.3 cents/kWh in India)
- 50% high policy interest rates (10.5% vs 5.25%)
- Lower access to private sector credit
- Weak regulatory quality and government effectiveness indicators

The aforementioned structural issues reduce the firm's competitiveness in the international market.

5. Conclusion and Policy Implications

The EU–India FTA will bring a major shift in the competitive landscape of South Asian exports to the European market. The granting of tariff-free access to India under the agreement reduces the preferential margin, which Pakistan was previously enjoying under the GSP+ scheme. Under the agreement, India will benefit from tariff reductions. Other structural factors like energy efficiency, logistics performance, and industrial productivity will further determine export performance.

Therefore, the EU–India FTA represents a turning point for Pakistan's export competitiveness. To maintain its position in the EU market, the policy makers have to prioritize the following areas

- Pakistan needs to address its structural impediments by prioritizing energy efficiency, labor productivity, trade facilitation and logistics.
- EU regulatory requirements should be fulfilled in its true letter and spirit.
- The country needs to invest in productivity, automation, and compliance with EU sustainability, labor, and standards (e.g., CBAM).
- Export and market diversification should be carried out to ensure long-term resilience in an increasingly competitive global trade environment.

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