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IMPACT OF FREE TRADE AGREEMENT FOR TRADE CREATION AND DIVERSION: A CASE STUDY OF PAKISTAN

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Abstract

This article explores patterns of trade creation and diversion impact by Pakistan's trade agreements at the six-digit level on the top 20 tradedproducts. With free trade agreement (FTA) partners, we compare the net change in trade creation and diversion. Pakistan's FTA partners generate US\$2.35 billion in exports, according to our figures. Both FTAs benefit net exports in this situation. However, when net exports to FTA partners rise, there is a US\$138 million export diversion in the top 20 items with all FTA countries. Similarly, the FTA has increased exports between these trade partners by US\$ 580 million.Pakistan has succeeded in producing exports in half of its export-oriented industries on average; nevertheless, heavily subsidised industries display either export diversion or a net reduction with FTA partners. Once the FTAs were implemented, exports and import to China increased significantly, whereas exports to the other two FTA partners did not increase much. Based on these data, we urge that the export subsidy structure be changed. Fiscal incentives granted to large export-oriented firms in their entirety resulted in no significant economic gains for the country.Rather, the government should allocate export incentives and subsidies torecognised export-generating businesses, such as the surgical instruments sector, which is categorised as a cottage industry and seems to be the sole subsidised industry that exports and is seeing net

export growth. Prioritize the expansion of this sector by giving additional incentives to area enterprises to build vertical and horizontal links.

1. Introduction:

Over the previous few decades, trade liberalisation has been regarded as a way to promote trade and investment. Trade liberalisation is a matter of attention and priority in Asia. South Asian nations have increasingly integrated into the global economy, however development has been sluggish in comparison to other Asian countries. Since 1988, when Pakistan adopted the first IMF Structural Adjustment Program, Pakistan's trade policy has gradually steadily liberalised.Pakistan was obliged to lower import tariffs and abolish numerous subsidies in 1995 in order to comply with the WTO (World Trade Organization). However, the mechanism designed to promote global trade has undergone a transformation. Pakistan signed 16 FTAs, up from zero in 2004. Although policymakers in developing countries are eager to sign FTAs, the effect of such agreements on increasing trade among FTA partners is far more complex than expected. The rising trade imbalance has demanded additional import taxes and federal excise charges on consumer products, as well as bilateral and international trade agreements. But these incentives seldom result in significant increases in export growth (Ahmed, Hamid & Mahmud, 2013).The following summaries illustrate Pakistan's behaviour toward countries with which it has signed free trade agreements bilaterally.

Bilateral Trade with China: The EHP began on January 1, 2006. This programme evolved into the bilateral free trade agreement in November 2006. Both countries signed provisions on goods and investments in 2006, and on services in 2009. Pakistan granted China market access in 11 sectors and 107 subsectors, and vice versa. As of 2012, Stage I of the FTA has changed rates on 35.6% of duty lines, while Stage II changed rates on 19.9% of tax lines at a 5 percent levy pace or less. From 2006-07 to 2017-18, Chinese export to Pakistan increased from \$3.5 billion to \$15.7 billion.Stage II of the CPFTA was signed in April 2019 while PM Imran Khan's China visit, granting Pakistan tax-free market access for 313 tax lines. Authorities claim Pakistan has a nearly advantageous position in the newly concluded FTA stage II compared to the 2006 accord. For protection against rising Chinese imports, the government has enhanced the Safeguard Mechanism.

Bilateral trade with Malaysia: In 2005, Pakistan and Malaysia discussed closer economic ties. In 2005, talks for a comprehensive free trade deal began. The two economies agreed on a bilateral Early Harvest Program (EHP) in October 2005, which took effect in January 2006. This effort assisted in the creation of free trade agreement that took effect on January 1, 2008. Malaysia-Pakistan FTA included economic cooperation, goods & services trade, investment, and intellectual property rights. Despite the expanded Free Trade Agreement, Pakistan's trade deficit with Malaysia persists. Malaysia's trade balance has changed.

Bilateral Trade with Sri Lanka: This framework was agreed upon in August 2002. There are 206 duty-free tariff lines in Pakistan's FTA and 102 duty-free tariff lines in Sri Lanka's. 10,000 metric tonnes tea and 12,000 metric tonnes betel leaves were allowed duty-free. Economists say the Pakistan-Sri Lanka FTA will be huge. It is estimated that 83 million dollars worth of cotton, garments and textiles, and cement will be exported to Sri Lanka by 2020. Sri Lankan exports to Pakistan could double. The graph below illustrates Pakistan-Sri Lanka trade. shows Pakistan's trade with Sri Lanka.

Table 1.1 Show the bilateral trade between Pakistan-China, Malaysia and Sri Lanka

	China				Malaysia		Sri Lanka		
					-				US\$ 000
Years	Export	Import	BOT	Export	Import	BOT	Export	Import	BOT
2003	259,637	957,331	(697,694)	93960	601,245	(507,285)	83,529	43,248	40,281
2004	287,017	1,139,816	(852,799)	82920	59 <mark>5</mark> ,476	(512,556)	96,779	47,833	48,946
2005	435,682	2,349,395	(,,913,713)	66614	731,358	(<mark>6</mark> 64,744)	153,662	59,177	94,485
2006	506,642	2,914,926	(2,408,284)	60971	765,848	(<mark>7</mark> 04,877)	177,595	70,973	106,622
2007	613,759	4,164,230	(5,550,471)	81334	1,15 <mark>7,5</mark> 05	(1 <mark>,0</mark> 76,171)	208,573	59,789	148,784
2008	726,711	4,738,055	(4,011,344)	138068	1,69 <mark>3,66</mark> 4	(1, 5 55,596)	216,720	66,216	150,504
2009	997,854	3,779,769	(2,781,915)	158256	1,60 <mark>8,44</mark> 5	(<mark>1,4</mark> 50,189)	216,963	55,790	161,173
2010	1,435,944	5,247,713	(3,811,769)	145585	2,054,747	(1,909,162)	283,870	53,369	230,501
2011	1,678,959	6,470,653	(4,791,694)	243054	2,727,991	(2,484,937)	347,722	61,130	286,592
2012	2,619,944	6,687,566	(4,067,622)	233479	2,13 <mark>1,98</mark> 4	(1, 8 98,505)	300,904	83,413	217,491
2013	2,652,223	6,626,323	(3,974,100)	204464	1,91 <mark>9,73</mark> 7	(1, 7 15,273)	316,382	63,524	252,858
2014	2,252,900	9,588,418	(7,335,518)	233925	1,28 <mark>0,0</mark> 78	(1 <mark>,0</mark> 46,153)	266,147	62,971	203,176
2015	1,934,926	11,019,005	(9,084,079)	186226	91 <mark>0,</mark> 959	(<mark>7</mark> 24,733)	260,015	72,256	187,759
2016	1,590,858	13,680,153	(12,089,295)	151746	944,632	(<mark>7</mark> 92,886)	237,183	76,689	160,494
2017	1,510,410	15,404,325	(13,893,915)	129266	1,102,497	(9 73,231)	269,334	103,492	165,842
2018	1,829,435	14,599,749	(12,770,314)	158487	1,164,333	(1 <mark>,0</mark> 05,846)	356,750	105,360	251,390
2019	2,042,893	12,423,997	(10,381,104)	232781	95 <mark>6,</mark> 870	(724,089)	323,868	64,940	258,928
2020	1,867,039	12,486,525	(10,619,486)	232978	1,08 <mark>5,5</mark> 83	(8 52,605)	253,711	71,244	182,467
Source: International Trade Center									

(Laird Frankel and Wei (1995), Magee (2008), In addition to & Yeats.), andAkhter and Ghani (2011) had studied the problems of trade divergence and trade development via free trade agreements. By calculating the welfare changes to producers and consumers and (Caliendo and Parro 2015) have studied the general equilibrium impacts of trade formation and diversion in the context of the global economy. The complexity of computable general equilibrium models, which results in their nontransparent nature, is a significant drawback. When simulating an economic system, you must make a variety of decisions that have an impact on the outcome. It can be difficult to defend such decisions, and concerns emerge as to how such decisions can be related to policy changes in the first place (Magee, 2016; Sorgho, 2016).

The remainder of this study is organised as follows: Section 2 reviews the pertinent literature and makes recommendations regarding the approach taken here. Section 3 contains a description of the data and methodology. Section 4 summarises and discusses the findings, while Section 5 summarises and discusses the policy implications. Bilateral Trade with China, Malaysia and Sri Lanka

2. Literature Review.

(Ahmad et al., 2013; Pursell et al., 2011) try to find the impact of liberalising trade regimes on the economic, social, and production systems, mostly favouring consumers. The primary objective of this study is to examine Pakistan's economic and investment relationships with other South Asian countries. In terms of multilateralism and expanding regionalism, the study will examine Pakistan's role to the success of SAFTA.

(Irshad et al., 2016)examine the FTA with ASEAN is a wonderful chance for Pakistan to gain from cooperation in industries including agriculture, education, tourism, and human resource development. Pakistan and ASEAN nations have same goals for the region's peace, growth, and prosperity; thus, it would be ideal if both could collaborate on a wider range to mutually benefit.

(Ashfaq 2017) the impact of the Pakistan-Turkey FTA on different sectors of the two economies using the GTAP. (Personal et al., 2017) findings show that Turkey gains more from the FTA than Pakistan. While trade liberalisation benefits both nations, it may harm Pakistan's economy. There is also huge potential for bilateral trade in textiles and chemicals.

In the study (Hussain et al., n.d.), research about the Pakistan-Malaysia Free Trade Agreement (PFAI) has led to an increase in the amount of goods exported by Pakistan. This

increase in exports helps to increase the country's GDP growth, trade balance, and wellbeing. The authors believe that Pakistan should adopt a long-term strategy centred on these businesses and distribute resources efficiently.

(Alam et al., 2018)Alam examines the impact of Pakistan's FTA with China on SAARC trade with India, Sri Lanka, the Maldives, Bhutan, and Bangladesh. Using the variables imports, exports, and trade volume, the analysis uses cross-country data from 1972 to 2017. According to the study(Alam et al.,), Trade agreements with SAARC members have increased Pakistan's exports and imports. But Pakistan's imports outnumber its exports to China and India.

(Bown et al., 2020)has examined the worldwide semiconductor industry. It explains how the US employed a complicated legal system of export restrictions to preserve key telecommunications infrastructure during the present conflict with China. To block Huawei, a Fortune 500 firm, US software and hardware exports were weaponized.

(Ali, 2021)examines the advantages of both nations' businessmen selling products in China and Pakistan during the second phase of the Free Trade Agreement (FTA). In CPFTA-l, China has allowed Pakistan to import 783 duty-free goods at zero percent tariffs. With CPFTA-ll, Pakistani producers and merchants would be allowed to export 313 new goods to China duty-free. This study contains the latest international trade statistics for China and Pakistan, including tariffs.

Few studies have studied the economic prospects for Pakistan's economy as a result of the signing of a free trade zone agreement between Pakistan and an established trading partner nation. According to the research findings, Pakistan may gain an edge in policymaking if it adopts the research findings into its practises.

3. Data and methodology

This research study evaluates the data by applying Software for Market Analysis and Restrictions on Trade (SMART) using World Integrated Trade Solution (WITS). For the simulation of an FTA, SMART makes use of the following data. It recognises just one import demand elasticity for a product, not one for each national variation of that item.

The basic model

The import demand function for product I produced in nation k in the importing country j may be written as $M_{ijk} = F(Y_j, P_{ij}, P_{ik}) - - 1$ The export supply function for commodity I for producer/exporting nation k may be stated as follows: $X_{ijk} = F(P_{ijk}) - - 2$ The following identity connects the expressions (1) and (2): $M_{ijk} = X_{ijk---}$ 3In a free trade system, import prices are equal to export prices plus transportation and insurance costs, plus any tariff or non-tariff distortion applied to the commodity. Thus: $P_{ijk} = P_{ijk}(l + t_{ijk}) - - 4$ It is also evident that the following are the export income produced by k: $R_{ikj} = X_{ijkj} - -5$

Trade creation: Reducing/eliminating tariff or non-tariff distortions increases demand for the exporting country's commodity i in country j. The basic model of expressions (1) to (4) can be used to create the fundamental formula for trade creation (5). 1st, using equation (4), compute the total disparity between local and international prices.

$$dP_{ijk} = P_{ijk}. dt_{ijk} + (l + t_{ijk}). dP_{ikj} - - 6$$

Now, the standard equation for import demand elasticity in relation to domestic prices may be rearranged as follows:

$$\frac{\mathrm{dM}_{ijk}}{\mathrm{M}_{ijk}} = \mathrm{E}_{\mathrm{m}} \cdot \left(\frac{\mathrm{dP}_{ijk}}{\mathrm{P}_{ijk}}\right) - -7$$

Substituting expressions (4) and (6) into expression (7) results in the following:

$$\frac{\mathrm{d}M_{ijk}}{M_{ijk}} = \mathrm{E}_{\mathrm{m}} \cdot \left(\frac{\mathrm{d}t_{ijk}}{\left(l+t_{ijk}\right)} + \frac{\mathrm{d}P_{ijk}}{P_{ikj}}\right) - - - 8$$

The traditional equation for export supply elasticity in relation to world prices may be rewritten as follows:

$$\frac{\mathrm{d}P_{ijk}}{P_{ikj}} = \frac{\left(\frac{\mathrm{d}X_{ijk}}{X_{ikj}}\right)}{E_{x}} - - -9$$

As a result of expression (3), the following expression seems to betrue:

$$\frac{\mathrm{dM}_{ijk}}{\mathrm{M}_{ijk}} = \frac{\mathrm{dX}_{ijk}}{\mathrm{X}_{ikj}} - -10$$

The expression that may be used to calculate the trade creation impact is produced by substituting expression (10) into (9) and the result into (8). This is the same as exporting nation k's rise in commodity i exports to country j, according to expression (3). The following is a phrase describing the process of generating new business:

$$TC_{ijk} = M_{ijk} \cdot E_m \cdot \frac{dt_{ijk}}{\left(\left(l + t_{ijk}\right) \cdot 1 \cdot \left(\frac{E_m}{E_x}\right)\right)} - - - - - 11$$

Exporting countries tend to sell more. A source is preferred over others in trade diversion. Unfair treatment of foreign suppliers may affect the fairness of imports. If the replacement supplier's elasticity is unknown. The trade diversion formula is:

$$TD_{ijk} = TC_{ijk} \left(\frac{Mn_{ij}}{V_{ij}}\right) - - -12$$

This formulation assumes "the substitutability of a developing country product and a comparable product manufactured in a non-beneficiary, i.e., non-preference-receiving country, should be comparable".

With explicit values for the elasticity of substitution: If explicit values for substitution elasticity between goods from different sources are available, the preceding method is superfluous. If no market penetration data are available, the elasticity of substitution must be assumed and conduct simulations across a range of reasonable estimates. The substitution elasticity of demand is the percentage change in relative shares associated with a 1% change in relative prices. Therefore:

$$E_{s} = \frac{\frac{d\left(\frac{\sum M_{ijk}}{\sum M_{ijK}}\right)}{\left(\frac{\sum M_{ijK}}{P_{ijK}}\right)}}{\frac{d\left(\frac{P_{ijk}}{P_{ijK}}\right)}{\left(\frac{P_{ijk}}{P_{ijK}}\right)}} - - - - 13$$

If k represents imports from one (group) of foreign suppliers, and K represents imports from another (group) of foreign suppliers, and the summing is only across country groups k or K (j).

For a change in imports from one country - or trade diversion gain or loss - due to a commercial policy change, the following expression can be obtained. The elasticity of substitution measures the change in relative share of alternative suppliers.

$$TD_{ijk} = \frac{M_{ijk}}{\sum M_{ijk}} \cdot \frac{\left(\sum M_{ijk} \cdot \sum M_{ijK} E_s \frac{d\left(\frac{\sum M_{ijk}}{\sum M_{ijK}}\right)}{\left(\frac{P_{ijk}}{\sum M_{ijK}} + \sum M_{ijK} + \sum M_{ijk} \cdot E_s \frac{d\left(\frac{\sum M_{ijk}}{\sum M_{ijK}}\right)}{\left(\frac{P_{ijk}}{P_{ijK}}\right)}\right)} - - - - 14$$

The word in expression (15) for relative price movement is defined in terms of tariff movements or non-tariff distortions. They can be used to produce different results for various categories of exporting countries. If one group's findings are totaled, the total may be divided among other groups.

The total trade effect: The net trade effect is simply the sum of trade creation and trade diversion. We may average the findings across product categories and supplier sources.Supplier groupings can be calculated for individual items or across product categories. Finally, data for groupings of suppliers can be totaled for individual items or across product categories.

4. Result:

Table 4.1 Show the overall Trade relation between Pakistan and FTA relevant countries

Partner Name	(China	Mala	aysia	Sri Lanka		
Tariff Year	2003	2019	2003	2019	2003	2019	
Trade Lines (HS6 level)	3197	5438	1133	2084	311	616	
Minimum Rate (%)	5	0	5	0	4	0	
Maximum Rate (%)	709.16	1512.41	150	100	709.16	327.69	
Imports Value (\$ 000)	956,308	12,386,180	601,142	954,938	43,237	64,147	
Export Value (\$ 000)	259,637	2,042,893	93,960	232,781	83,529	323,868	
World Integrated Trade Solution (WITS)							
International Trade Center (Trade Map)							

In the table above, I would like to show how exports, imports, and total trade have changed over time, both before and after free trade agreements. When comparing Pakistan and its trading partners, it has been observed that the number of HS6 trade lines has increased to double. As a result of this rise, trade in China rose by 70%, from 3197 to 5438 units, while commerce in Malaysia increased by 84 percent in trade line it became from 1133 to 2084 units, and trade in Sri Lanka increased by almost 100%, from 311 to 616 units.

Product Code	Imports	New Tariff Revenue	Consumer Surplus			
			US\$ 000			
071310	59,840	1792.182	0			
090240	480,990.66	52,622.92	0.14			
120110	755,089.38	22,652.68	0			
120510	366,069.47	10,982.08	0			
270112	1,155,384.38	34,661.10	0			
270900	3,908,363.75	117,250.90	0			
271111	3,265,191.50	97,241.78	0			
271119	288,148.47	6,952.57	0			
300490	341,559.69	48,122.13	0.63			
310530	456,917.28	13,690.98	0.37			
390110	309,793.28	33,380.73	0.21			
390210	479,144.56	50,168.18	0.30			
520100	708,504.88	21,255.12	0.00			
720441	612,303.06	18,363.86	0			
720449	870,209.00	79,797.69	0.08			
720839	450,402.31	69,782.71	0.02			
722530	250,027.70	77.64	0			
850239	214,649.91	249.10	0			
850423	283,140.06	44,921.19	60.36			
851712	1,018,191.56	108,576.50	18.88			
854140	355,402.06	315.11	0			
Top 20 Import @ HS6 level	16,629,323.42	960,460.30	33.52			
SMART use in World Integrated Trade Solution (WITS) World Bank						

Table 4.2 Impact of	of Trade Agreemen	t on Top 20 Im	ports in Pakistan
Tuble 4.2 Impact	/ ITaue rigitement	t on Top 20 mm	por to mir amoun

Imports have changed as a result of the implementation of the Free Trade Agreements with China, Malaysia, and Sri Lanka, as shown in the data in the preceding table. According to the Pakistani government, there will be no significant impact on agricultural commodity imports. Additionally, the inelasticity of the price of petroleum products has no effect on imports of petroleum-based products. It has been observed to increase the number of pharmaceutical goods imported under the Harmonized Tariff Schedules (HS 300490 and 310530).

While in China, the vast majority of in relocations were classified under the HS85 trade line classification system. This diagram depicts the process of importing mobile phones and telephone sets (H-850239, 850423, 851712, 85024140) into the country. As previously stated, the majority of these products are sourced from Chinese manufacturers and suppliers. The Free Trade Agreement has enabled Pakistan to generate a significant amount of revenue in

this sector, which is primarily in the form of tax collection. An increase in consumer surplus has resulted as a result of global trade liberalisation.

Table 4.3 Show	impact o	f Pre an	d post	FTA	the	trade	Creation	and	Trade	Diversion
effect										

Trading	ading Pre- Post- Change in Tra		Trade	Trade	Trade	
Partner and	FTA	FTA	Export	Creation	Diversion	Total
HS6	Export	Exports	Revenue	Effect	Effect	Effect
						US\$ 000
071310	132.81	132.83	0.02	0.01	0.01	0.02
090240	2,686.29	2,687.70	1.41	0.82	0.58	1.41
270112	14.41	14.41	-	3.77	7.32	11.08
310530	301,179. 80	301,200. 60	20.86	12.47	8.40	20.86
390110	2,901.53	2,906.32	4.79	1.87	2.92	4.78
390210	3,902.04	3,908.81	6.77	2.83	3.95	6.77
520100	420.34	420.39	0.05	0.05	-	0.04
720441	89.46	89.46	_	-	-	-
720449	1,199.19	1,200.16	0.97	0.28	0.69	0.97
720839	584.64	585.28	0.64	0.11	0.53	0.64
722530	249,321. 90	249,321. 90	-	-	-	-
850239	206,346. 60	206,346. 60	-	-	-	-
850423	282,964. 60	283,344. 00	379.40	379.04	0.35	379.40
851712	599,382. 00	599,668. 90	286.89	176.87	110.02	286.89
854140	339,828. 80	339,828. 80	-	-	-	-
China	2,002,16 8.	2,002,88 1	712.88	578.12	134.76	712.88
271111	23,798.7 5	23,798.7 5	-	-	-	-
300490	1,214.19	1,216.23	2.04	0.68	1.35	2.04
390110	742.70	742.96	0.26	0.11	0.16	0.26
390210	160.47	160.53	0.06	0.03	0.04	0.06
720441	84.99	84.99	-	-	-	-
720449	2,388.31	2,390.23	1.93	0.56	1.37	1.93
851712	39.27	39.31	0.04	0.02	0.02	0.04
854140	5,069.62	5,069.62	-	-	-	-
Malaysia	33,498.2 9	33,502.6 1	4.32	1.39	2.93	4.32
90240	324.45	325.23	0.78	0.45	0.32	0.78
720449	33.28	33.28	-	-	-	-
Sri Lanka	357.73	358.51	0.78	0.45	0.32	0.78
Source: Calculated by SMART by using dataof World Integrated Trade Solution (WITS)						

The impact on exports of changes in tariffs on Pakistan's major export commodities to countries with free trade agreements is seen in Table 4.3. Pakistan will benefit from a free trade agreement along the wireless devices i.e. mobile, accessories and the products which are dominated by the electrical equipment and associated industries. Whereas, despite unrestricted access to Malaysia and Sri Lanka, Pakistan is unable to profit from these markets and expand its export base.

In second part of table 4.3 trade creation and trade diversion between Pakistan and other countries. In agricultural product Pakistan is unable to get benefit to create or divert export toward countries which have signed FTA.In the export diversion industries, the net change in exports to FTA partners was US \$ 718 million, shifting the overall net increase in exports to US \$ 138 million through the top twenty trade products at the level HS6. exports and the gross / net decrease is \$ 2 billion. This represents about one pc of Pakistan's total annual commodity exports, implying that the benefits of free trade agreements were very small and did not take into account the increased growth in exports even though all partners in the free trade agreement, that of liberation, belong to the region constant and in accordance with the gravitational model, is expected to result in higher levels of bilateral trade.

5. Conclusion and Policy Recommendation

Pakistan has inked a slew of bilateral and regional trade treaties in an effort to boost exports. Officials may be unconcerned about whether exports are increasing or merely being directed away from non-member nations. The purpose of this article was to differentiate between increases in gross exports and increases in net exports as a result of free trade agreements. It is feasible to assess if the increased number of free trade agreements (FTAs) resulted in additional exports or merely redirected exports away from non-FTA partners.

According to the World Bank, Pakistan's trade agreements benefit the country since ten industries are growing while ten others are contracting. In 33 industries, net exports to FTA partners decreased, raising questions about the deal's long-term viability. With the exception of medical equipment, all five export-oriented businesses experienced export diversion. This includes the textile industry, which remains the largest recipient of export subsidies. Textiles and leather fared the worst, followed by supporting sectors such as sugar and sports goods, whose exports continued to decline or were redirected. Pakistan has signed numbers of bilateral and regional trade agreements in order to increase exports. Officials may not care if exports increase or decrease. To distinguish between the rise of gross and net exports as a result of free trade agreements. This indicates that the increasing number of free trade agreements either increased exports or shifted exports away from non-FTA partners.

The 33 industries that have been identified as experiencing a decline in net exports FTA partners are those that deserve significant consideration from government policymakers. Unless the issues that have contributed to this reduction in exports are addressed, including these businesses in free trade agreements will provide no benefits. Trade negotiations should not be limited to large industry groupings, just as they should not be restricted to only major business groups. More inclusive policies are required because many small businesses have proved their ability to export, but huge corporations may be naturally export diversified. Prior to negotiating new free trade agreements, it is necessary to analyse existing ones and incorporate concessions for export-generating corporations among those offered to other industries. Furthermore, we show that the absolute fiscal incentives granted to large export-oriented enterprises provided no meaningful economic benefits to the country. Rather, the government should direct export incentives and subsidies to sectors recognised as export-

generating but receiving little attention in earlier export promotion attempts, such as manufacturing and agriculture.Furthermore, the surgical instruments sector, located in Sialkot and categorised as a cottage industry, seems to be the sole subsidised industry that exports and has seen net export growth. Prioritize this sector's growth by giving special incentives, such as the establishment of a commercial district for the current Sialkot industrial cluster, in order to improve vertical and horizontal links between regional companies.

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Annex.1

Product Code HS- 6	Product Detail Description
071310	Peas (Pisum sativum) clear
090240	Other black tea (fermented) and other partly fermented tea clear

270112	Bituminous coal clear
300490	Other clear
210520	Diammonium hydrogen orthophosphate (diammonium phosphate)
510550	clear
390110	Polyethylene having a specific gravity of less than 0,94clear
390210	Polypropylene clear
520100	Cotton, not carded or combed clear
720441	Turnings, shavings, chips, milling waste, sawdust, filings, trimmings,
/20441	and stampings, whether or not in bundles clear
720449	Other clear
720839	(1996-) Of a thickness of less than 3 mm clear
722530	Other, not further worked than hot-rolled, in coils clear
850239	(1996-) Other clear
850423	Having a power handling capacity exceeding 10000 kVA clear
951710	(2007-) Telephones for cellular networks or for other wireless
831/12	networks clear
	Photosensitive semiconductor devices, including photovoltaic cells
854140	whether assembled in modules or made up into panels; light-emitting
	diodes (LED)