Country Report

MARKET REPORT: MEXICO

A study of Mexico-Pakistan trade relations and Top Potential Items for Export to the Mexican market

Shahan Arshad
RESEARCH ASSOCIATE
TRADE DEVELOPMENT AUTHORITY OF PAKISTAN

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

EXECUTIVE SUMMARY

Mexico is a business friendly country with enormous trade potential. Its imports amounted to USD 420bn in 2017. Pakistan's exports to Mexico amount to USD 101mn, ranking Pakistan as the 58th largest trading partner of the country (Pakistan Bureau of Statistics, 2018). During 2018, Silk, synthetic textiles and ready-made garments (RMG) exhibited the greatest increase in exports due to surging demand in Mexico.

			USD '000
	2017-18	2016-17	Variance
Art silk & synthetic tex.	11,965	5,131	6,834
Ready-made garments	14,207	11,338	2,869
Surgical goods, medical	5,799	5,119	680

The highest exports to Mexico were **woven fabrics of cotton**, **denim**, **inflatable balls**, **surgical instruments** and **trousers of cotton**.

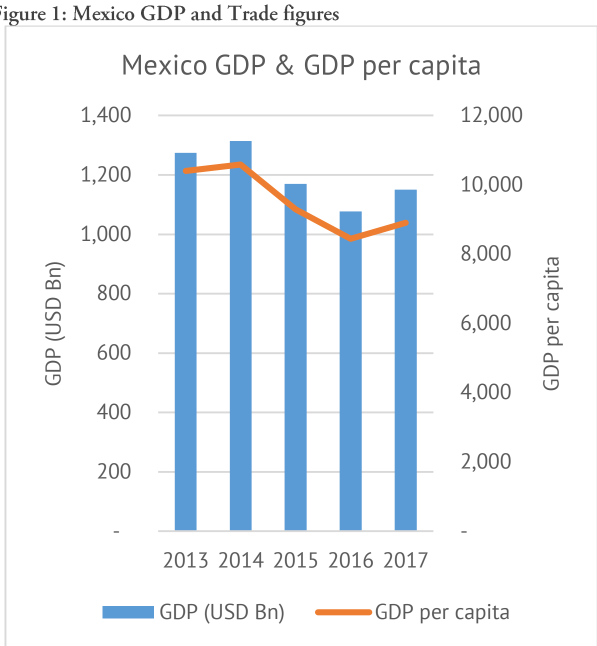
While the aforementioned items are the highest exported products to Mexico, analysis indicates that the markets for surgical instruments (HS 901890), suspension systems including shock absorbers for large vehicles (HS 870880), parts and accessories for large vehicles excluding bumpers and safety belts (HS 870829) and inflatable balls (HS 950662) are much larger and the key to increasing Pakistan's exports to Mexico lies in exploring the export potential of these items. While Mexico is very conducive towards trade with other countries, the crucial component of increasing trade with Mexico appears to be its trade agreements. Mexico's largest trading partners appears to be countries with which it has trade agreements in force, for example, NAFTA. Mexico has a total of 10 FTAs with 45 countries, 32 Reciprocal investment promotions agreements with 33 countries, and 9 trade agreements within the framework of the Latin American Integration Association (ALADI) (ProMexico, 2018). Trade agreements help make exports cheaper by reducing import duties and keeping duties payable constant during economic swings. This makes the exporters from signatory parties more preferable than the exporters with which Mexico does not have any trade agreements.

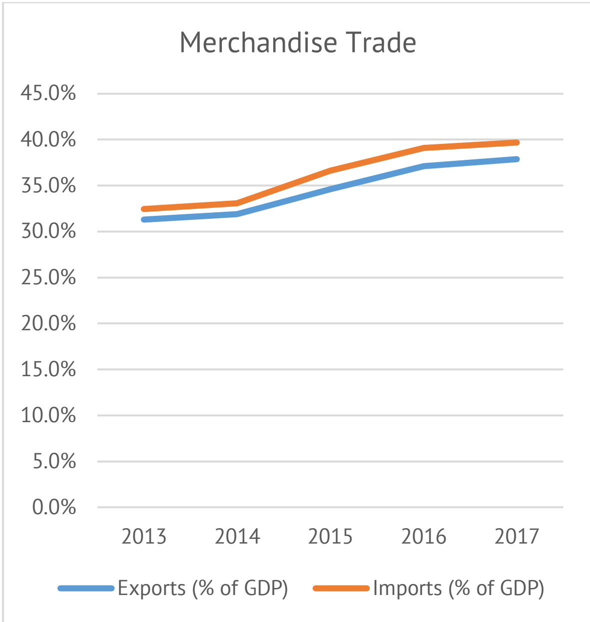
This report also recommends increasing the use of e-commerce platforms such as PriceOye.pk, Alibaba or daraz.pk (which is a subsidiary of Alibaba), as a strategy to increase exports to Mexico. Exporters from other countries such as Vietnam, India and Thailand are already exploring this strategy and have their own country-specific channels on Alibaba dedicated to selling goods from their respective countries. Pakistani exporters should look towards the possibility of using e-commerce platforms, either international or local, to sell their wares as this will lead to cost reduction including many of the expenses such as booking the stall space, travelling expenses, accommodation etc.

COUNTRY PROFILE

Mexico lies south of USA in the continent of North America. The country borders the Caribbean Sea and the Gulf of Mexico, situated between Belize and the United States. The country is also bounded by North Pacific Ocean on the west side, lying between Guatemala and the United States. Mexico's population is 127.5 million according to World Bank. Spanish is the primary language. The country's currency is the Mexican peso, which is equivalent to 0.054 US dollars. Mexico's 2017 GDP was USD 1.1trn and inflation was 2.82% for the corresponding period. GDP per capita was USD 8,903.

Figure 1: Mexico GDP and Trade figures

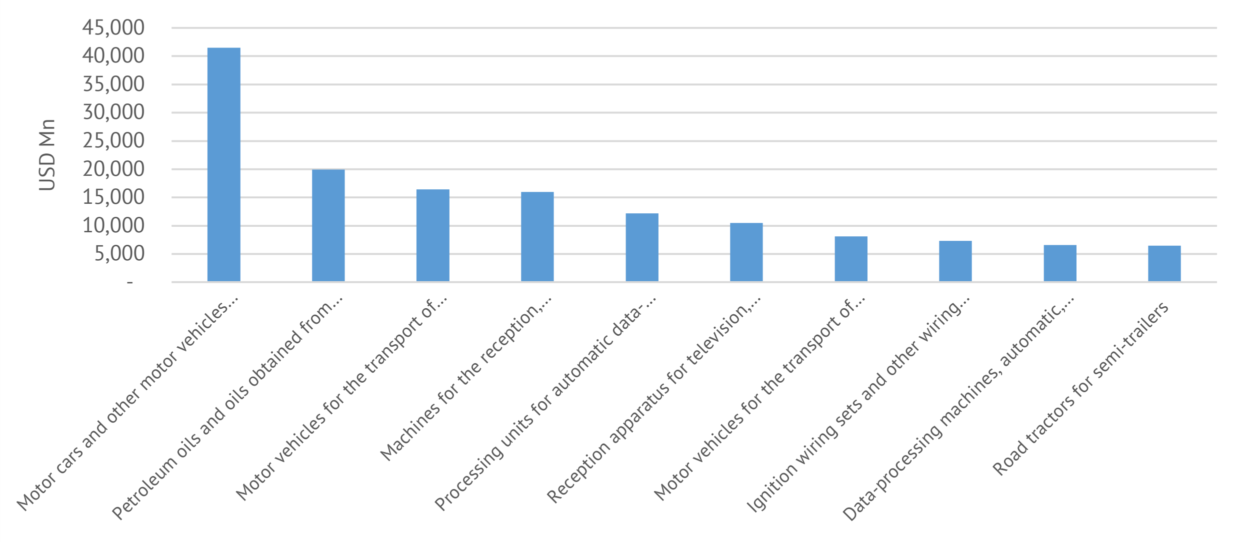




Exports stood at 38% of GDP while imports were 40% of GDP. Mexico's GDP is 15th largest in the world. The country is geared towards the manufacturing sector since the North American Free Trade Agreement (NAFTA) was signed in 1994. While Mexico's GDP per capita is higher than Pakistan's, income inequality is high leading to varied income distribution among the populace.

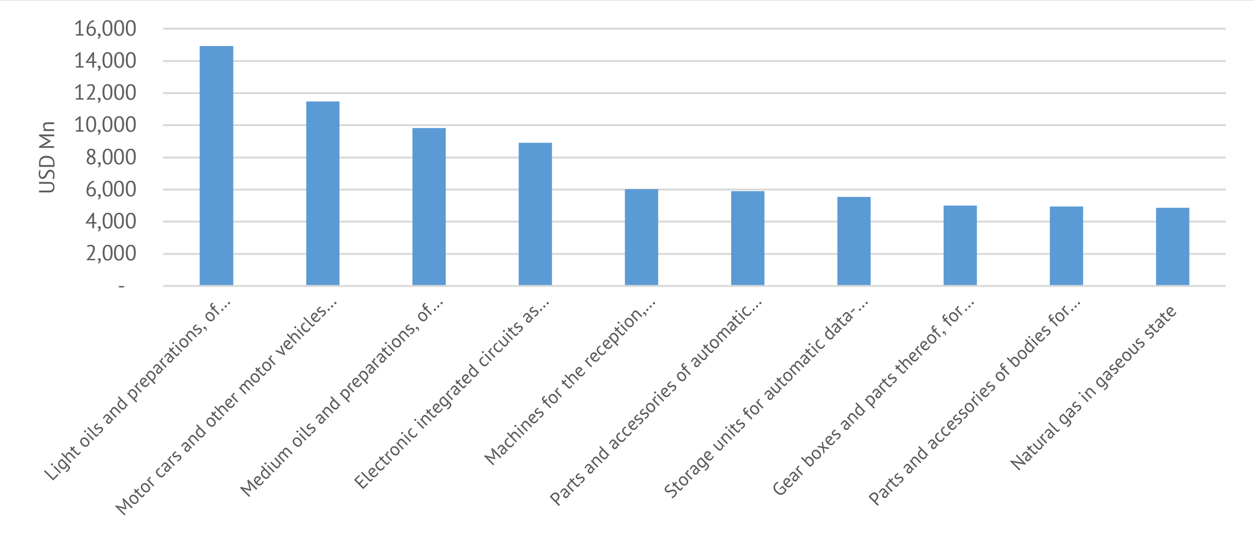
Mexico's total exports amounted to USD 409bn in 2017. Major export items include motor cars, petroleum oils, specialized machines for voice and image recognition, computer processing units, reception apparatus for TV and various other electrical equipment.

Figure 2: Mexico major export items



Mexico's total imports in 2017 amounted to USD 420bn. Major imports include petroleum, motor cars, integrated circuits and other electronic equipment.

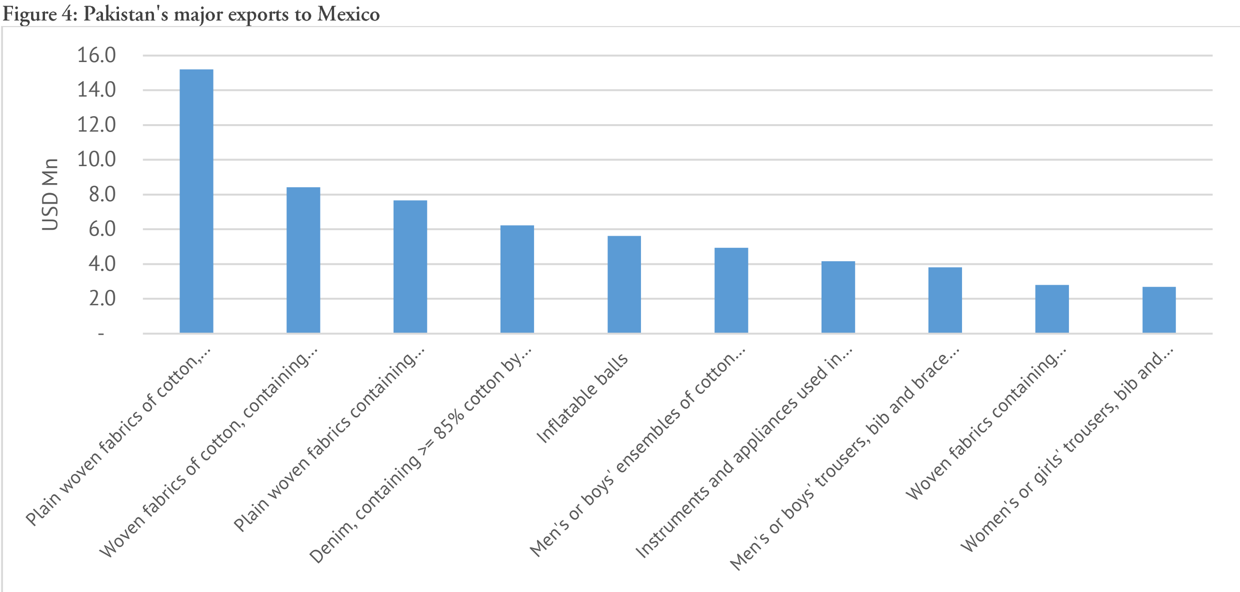
Figure 3: Mexico major import items



PAKISTAN'S MAJOR EXPORTS TO MEXICO

Pakistan's total exports to Mexico amounted to USD 92mn in 2017. Major exports to Mexico consist of **woven fabrics of cotton**, **denim**, **inflatable balls**, **surgical instruments** and **trousers of cotton** which amount to USD 61mn indicating that more than two thirds of Pakistan's exports to Mexico are concentrated in the below mentioned top 10 items.

Figure 4: Pakistan's major exports to Mexico



EXPORT PRODUCTS DYNAMICS MATRIX

The Export Products Dynamics (EPD) Matrix is an analysis tool that divides exports into 4 categories:

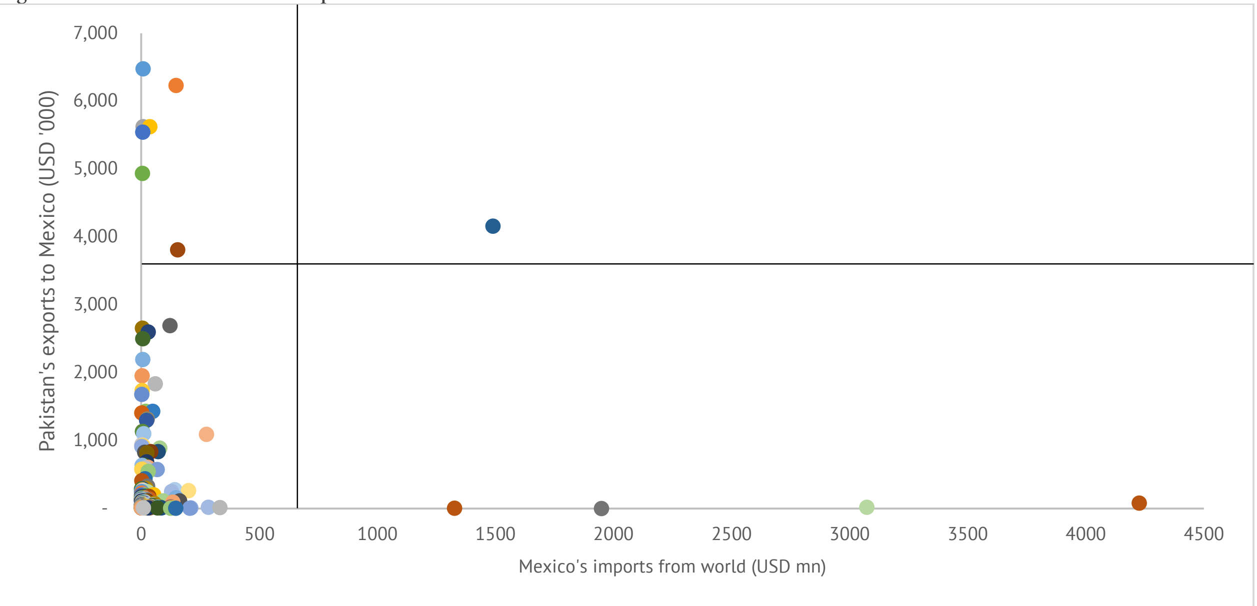
Figure 5: Export Products Dynamics Matrix

(Source: Estherhuizen, 2006)

By taking Mexico's imports from the world on the x-axis and Pakistan's exports to Mexico on the y-axis, we can plot the exports of different Pakistani products and see their performance in relation to their demand in the Mexican market. Consequently, items which are high in demand among Mexican imports and high in Pakistan's exports to Mexico are called rising stars. Items which are high among Pakistan's exports to Mexico but low among Mexico's imports are falling stars. Items which are high in demand among Mexico's imports but have a low share in Pakistan's exports to Mexico are labeled lost opportunities and therefore every effort should be made to boost them up to the rising stars category by branding, marketing and more trade fairs featuring such products. Items which are low among Mexico's imports and low among Pakistan's exports to Mexico are labeled retreat. While trade fairs and promotional activities may push such items into the falling stars category, they will still not be able to move into the rising stars category due to low demand in the Mexican market.

Using the EPD matrix tool, the top 200 products that Pakistan exported to the Mexican market were plotted to see how they fared. The results are given in Figure 6.

Figure 6: EPD Matrix of Pakistan's exports to Mexico



LOST OPPORTUNITIES

As evident from the EPD matrix, **HS 870829 parts and accessories for tractors and large vehicles** constitute a USD 4.2bn import market in Mexico, of which Pakistan's exports have been a paltry USD 80,000 over the past 3 years (2015: USD 60,000; 2016: USD 89,000; 2017: USD 90,000). Pakistan's exports of **HS 870829 parts and accessories for tractors and large vehicles** to the world amount to USD 1.5mn indicating a lost potential for Pakistan in terms of high value exports.

Other high value export items from the same chapter include **HS 870899 parts and accessories for tractors and large vehicles** and **HS 870880 suspension systems including shock absorbers for tractors and large vehicles**, both of which amount to USD 3bn and USD 1.3bn among Mexico's imports respectively. Parts of tractors and large vehicles appear to comprise a large portion of Mexico's imports. Pakistan's exports of these identified items amount to USD 17,000 and USD 3,000 respectively indicating the fact that these are "lost opportunities" for Pakistan as Pakistan's focus is not on these exports even though they are high value exports. Pakistan's exports of **HS 870899 parts and accessories for tractors and large vehicles** and **HS 870880 suspension**

systems including shock absorbers for tractors and large vehicles to the world have averaged USD 8mn and USD 80,000 respectively over the past 3 years.

The Mexican market for **HS 732690 Articles of iron or steel n.e.s** amounts to USD 2bn whereas Pakistan's exports to Mexico of the said item is only USD 1,000. Pakistan's exports to the world of this item averaged USD 3.7mn over the past 3 years, majority of which was exported to USA, China and Germany. However, given the fact that Mexico's imports of **HS 732690 Articles of iron or steel n.e.s** is higher, Pakistan's focus on exports of this item to USA, China and Germany seems a bit odd, prima facie. The high amount of imports of **HS 732690 Articles of iron or steel n.e.s by Mexico** and Pakistan's low exports of this item places it amongst the Lost Opportunities for Pakistan to tap into the high value Mexican market.

RISING STARS

Mexico's imports of **HS 901890 Surgical Instruments and appliances n.e.s** amount to USD 1.5bn while Pakistan's exports of this item to Mexico averaged USD 4mn over the past 3 years indicating this item as a 'Rising Star'. Further efforts should be made by Pakistan to tap into this market and capture additional market share by implementing more trade fairs and exhibitions of surgical instruments. Additional marketing and branding activities by Pakistan will also help improve exports of these high value **HS 901890 Surgical instruments and appliances**.

FALLING STARS

Items such as woven cotton fabrics, denim, men's cotton ensembles and men's cotton trousers come under the Falling Stars category. While Pakistan's exports of these items are high compared to the rest of the export basket to Mexico, Mexico's own imports of these items is low revealing the fact that Pakistan is competing in the lower value import markets of Mexico. Items which fall in this category include **HS 511112 cotton woven fabrics** of which Mexico imports USD 7mn while Pakistan's exports amount to USD 6mn; **HS 520942 cotton denim** of which Mexico imports USD 146mn while Pakistan exports USD 6mn of this item; **HS 521011plain woven fabrics of cotton** of which Mexico imports USD 7mn while Pakistan exports USD 5.6mn. **HS 620322 men's cotton ensembles** of which Mexico imports USD 5.25mn whereas Pakistan's exports amount to USD 5mn. **HS 620342 men's cotton trousers and shorts** of which Mexico imports amount to USD 153mn whereas Pakistan's exports amount to USD 3.8mn.

The majority of Pakistan's exports still fall in the 'Retreat' segment due to low imports by Mexico for these products. Further details are given in Appendix 1.

POTENTIAL ITEMS

Using the EPD matrix, the following items were identified as having potential to increase Pakistan's exports as they have high demand in Mexico and Mexico's imports of these items from the world are well over USD 1bn.

1. HS 901890 Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.
2. HS 870880 suspension systems including shock absorbers for tractors and large vehicles.
3. HS 870829 parts and accessories for tractors and large vehicles.
4. HS 950662 Inflatable balls.

HS 901890 SURGICAL INSTRUMENTS

Market Share & ECI

The market size for **surgical instruments** in Mexico is USD 1.5bn, representing 3% of world's imports for this product. This makes Mexico's ranking in world imports at 10th position. Pakistan's exports of surgical instruments amounted to USD 5.5mn in 2017 representing a market share of 0.36%. This places **HS 901890 Surgical Instruments** as a 'Rising Star' for Pakistan's exports to Mexico as mentioned earlier in the EPD matrix.

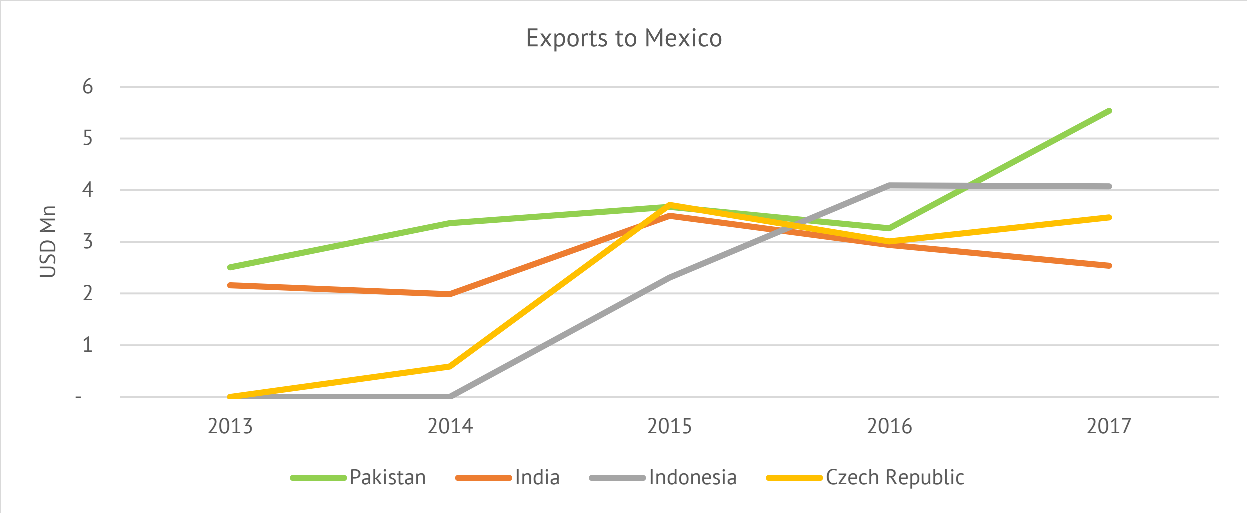
Analysis of ECI reveals Pakistan's ranking is 26th amongst various suppliers of surgical instruments to Mexico. Competition is high among supply of surgical instruments due to the lucrative nature of the market. Pakistan's exports of surgical instruments to Mexico increased by 120% over the past 5 years. The greatest increase in supply of surgical instruments was witnessed by Indonesia and Czech Republic, from nil to USD 4mn and USD 3.5mn respectively, due to increase in FDI in surgical instruments' sector in the aforementioned countries.

Pakistan and India witnessed slower growth in supply of surgical instruments as compared to Indonesia and Czech Republic due to lack of foreign investment and marketing activities.

Table 1: Export Competitiveness Index for HS 901890 Surgical Instruments

	Mexico Imports from Countries (USD Mn)		ECI		Rank	
	2013	**2017**	**2013**	**2017**	**2013**	**2017**
United States of America	961.94	1,346.92	0.921	1.000	1	1
Germany	63.41	62.39	0.142	0.114	5	5
Singapore	19.51	12.31	0.510	0.270	2	2
Pakistan	2.51	5.54	0.003	0.005	25	26
Indonesia	-	4.07	-	0.003	47	30
Czech Republic	-	3.47	-	0.041	47	8
India	2.16	2.54	0.001	0.001	29	36

Figure 7: HS 901890 Surgical Instruments Exports to Mexico 2013-17



Indonesia and Czech Republic showed exponential growth over the past 5 years while the growth of India tapered off over the corresponding period. While Pakistan has a substantial surgical instruments manufacturing industry, it has failed to exploit the Mexican market due to lack of focus towards the country's markets and lack of marketing activities. It is advisable that Pakistan should conduct more trade fairs and exhibitions promoting surgical instruments in Mexico.

Strategy: Indonesia

Indonesia's exports of surgical instruments amounted to USD 86mn in 2017. Mexico ranks 3rd among its customers of surgical instruments. Indonesia has benefited from FDI in the sector and relocation of production bases of MNCs from China to Indonesia. Most of the instruments exported by Indonesia consist of low end items such as gloves, catheters, scalpels, syringes, cannulas etc. Indonesia benefits from a favorable exchange rate. 1 USD is equivalent to 14,900 Indonesian rupiah. Indonesia's main benefit comes from its regional agreements i.e. ASEAN agreement which facilitates raw material movement as well as technology and personnel transfer easily among the ASEAN countries.

Strategy: Czech Republic

Mexico's FTA with the European Union results in 0% applied tariffs for EU member nations. As a consequence of this, Czech Republic enjoys nil tariff on its exports of surgical instruments. This has resulted in growth of surgical instruments exports by Czech Republic from nil in 2013 to USD 3.5mn in 2017, an exponential increase of 247% over the past 5 years. Czech Republic have focused on targeted products such as cotton, gauzes, bandages, surgery tools, hospital furniture, bedsheets, microscopes and stomatology tools. Several Czech manufacturers also merge with German companies to utilize the brand image of 'German efficiency'. Czech manufacturers have been able to use effective branding including LINET, MEDIN, VAMED, KOVONAX and Variel which are well known surgical instruments manufacturers in the West (CzechTrade, 2018).

Table 2: Additional information for export of HS 901890 Surgical instruments

Additional Information			
Pakistan	India	Indonesia	Czech Republic
Distance (km)			
21,916	20,197	16,243	17,951
Non-tariff requirements			
14	14	14	14
Tariff			
5.63%	5.63%	5.63%	0%
			(UNCTAD, 2018)

Non-tariff requirements

There are a total of 14 non-tariff requirements in relation to HS 901890. Their details are provided in the table below.

Table 3: Non-tariff measures for HS 901890

UNCTAD, TRAINS NTMs database through Integrated Trade Intelligence Portal (I-TIP)				
14 measures				
Measures:	Sanitary and Phytosanitary [SPS] [A], Technical Barriers to Trade [TBT] [B], Pre-shipment inspection [INSP] [C], Contingent trade protective measures [CTPM] [D], Quantity control measures [QC] [E], Price control measures [PC] [F], Other measures [OTH] [G,H,I,J,K,L,M,N,O], Export-related measures [EXP] [P]			
Country imposing:	Mexico			
Product(s):	HS codes: 901890			
Country imposing	**Partner affected**	**Requirements**	**Phase**	**Measures**
Mexico	All Members	Export-related measures	In force	2
Mexico	All Members	Sanitary and Phytosanitary	In force	3
Mexico	All Members	Technical Barriers to Trade	In force	9

HS 870880 SUSPENSION SYSTEMS INCLUDING SHOCK ABSORBERS FOR TRACTORS AND LARGE VEHICLES

Market Share & ECI

Mexico's market size for **HS 870880 suspension systems including shock absorbers for tractors and large vehicles** is USD 1.2bn, representing 7.7% of world's imports for this product. This makes Mexico ranking in world's imports at 3rd position. Pakistan's exports of products under this HS category were worth USD 10,000 in 2016, indicating a market share of 0.001%. This places **HS 870880 suspension systems including shock absorbers for tractors and large vehicles** as a 'Lost Opportunity' for Pakistan as identified in the EPD matrix earlier.

Given the size of imports by Mexico, there exists considerable potential for growth in this sector. Pakistan's total exports to the world of this item are worth USD 63,000 and the majority of Pakistan's exports of this item seem to directed towards USA whose own major suppliers are Mexico, Canada and China. **Pakistan's AUP** was the lowest among all suppliers of this product at USD 3,333 per ton (International Trade Center, 2018). Several other major suppliers of this item to Mexico, sold at much higher rates including USA whose AUP was approximately USD 9,000 per ton, China at USD 4,000 per ton and Germany at USD 7500 per ton.

Analysis of ECI revealed Pakistan's ranking to be 36th in the Mexican market. Pakistan's competitors such as Thailand, India and Malaysia, have already recognized the potential of

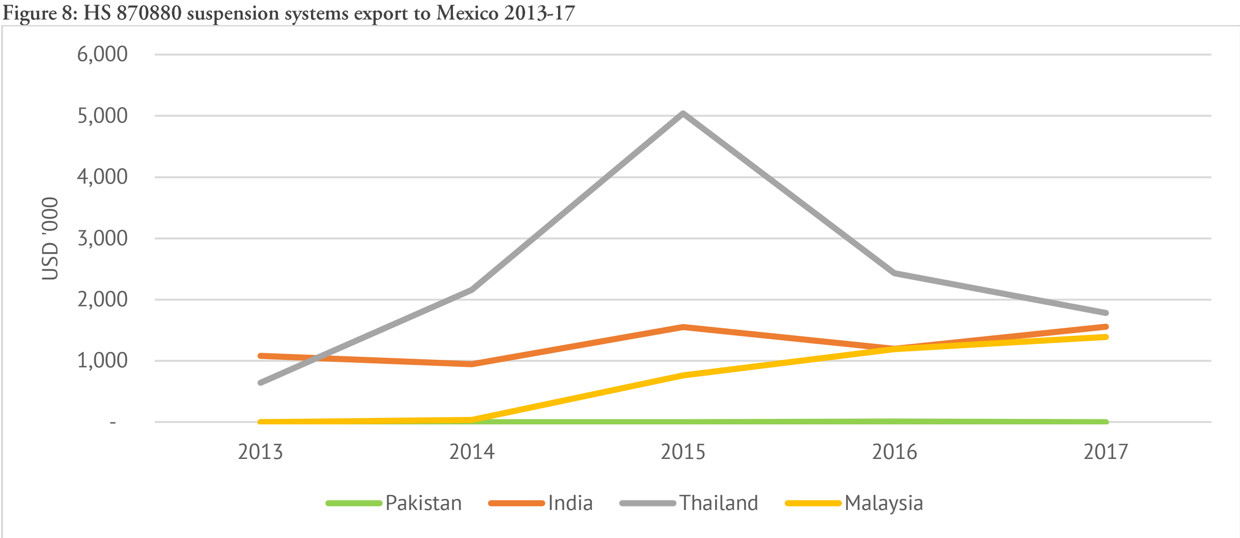
suspension systems market in Mexico and have been exporting to the country for a longer period of time. While the majority of exports of **suspension systems** come from countries with FTAs with Mexico such as USA, China, Germany and Japan, other smaller players such as Thailand, India and Malaysia have been able to create a niche market for themselves.

Table 4: Export Competitiveness Index for HS 901890 Surgical instruments

	Mexico Imports from Countries (USD Mn)		ECI		Rank	
	2013	**2016**	**2013**	**2016**	**2013**	**2016**
United States of America	758.78	746.48	1.000	1.000	1	1
China	57.00	86.30	0.046	0.071	7	7
Germany	71.05	61.84	0.231	0.204	2	2
Thailand	0.65	2.43	0.002	0.009	17	15
India	1.08	1.20	0.001	0.001	19	25
Malaysia	-	1.19	-	0.009	28	16
Turkey	0.22	0.59	0.001	0.002	22	22
Pakistan	-	0.01	-	0.000	28	36

This suggests that there exists a potential for Pakistan to do the same. Given the high value of imports by Mexico, Pakistan should not neglect this market and look to develop its exports of **suspension systems** further. Thailand's exports of suspension systems amounted to USD 2.43mn in 2016, India exported USD 1.2mn worth of this item while Malaysia's exports increased from nil in 2013 to USD 1.2mn in 2016. Pakistan's exports of suspension systems to Mexico has been erratic. It is advisable that Pakistan should look to Mexico as a high value potential customer for **HS 870880 suspension systems for tractors and large vehicles** and further develop its expertise in manufacture of this item in a similar fashion as Japan did during the 1950s. Doing so will result in enhanced diversification of Pakistan's export basket and the capture of markets such as Mexico where this product is in high demand.

Figure 8: HS 870880 suspension systems export to Mexico 2013-17



Among Pakistan's competitors, Thailand and Malaysia exhibited the highest growth rate. India's AUP was USD 4,920 per ton while Thailand's AUP was USD 8,941 per ton. Malaysia's AUP was USD 6,000 per ton while Pakistan's AUP was the lowest at USD 3,333 per ton giving Pakistan a competitive edge in unit pricing if Pakistan chooses to further develop its exports of this item (International Trade Center, 2018).

Strategy: Thailand

Thailand's total exports of suspension systems and shock absorbers for large vehicles amounted to USD 179mn during 2017, out of which exports to Mexico amounted to USD 1.8mn. Thailand's exports of this item peaked in 2015 when exports reached over USD 5mn due to low AUP at USD 7,572 per ton. Most of the raw materials used to make suspensions and shock absorbers are imported mostly from China, Japan, USA and Malaysia including tools, rubber gaskets, articles of iron and steel, vulcanized rubber, plates, sheets, foils etc of plastic and various other instruments. The assembly is done in Thailand and the finished product is exported to Mexico where these shock absorbers are used in the manufacture of cars which are then further exported to USA, thus completing the global value chain. Thailand is able to import raw materials cheap due to its FTAs with China and with Japan as part of the ASEAN-Japan FTA (Asian Development Bank, 2018).

Strategy: India

India's exports of suspension systems and shock absorbers for large vehicles amounted to USD 112mn during 2017, out of which exports to Mexico amounted to USD 1.6mn. Many of the shock absorber manufacturers are located in the Maharashtra state. India has the advantage of strong backward and forward linkages as local and international demand is high for various car parts including suspension systems and shock absorbers. Raw materials for manufacture of suspensions and shock absorbers are imported mostly from China, Japan, USA and Germany. India also has made several investments in Mexico worth USD 2bn (Embasssy of India, 2017).

Strategy: Malaysia

Malaysia's exports of suspension systems and shock absorbers for large vehicles amounted to USD 24mn during 2017, out of which exports to Mexico amounted to USD 1.4mn; an impressive growth considering its exports of this item to Mexico were nil in 2013. The majority of raw material are procured from China, USA, Japan and Germany. With value addition, the product is exported to Mexico where it is used in assembly of cars which are further exported to USA thereby completing the Global Value Chain (GVC).

Table 5: Additional information for export of HS 870880 suspension systems

Additional Information			
Pakistan	India	Thailand	Malaysia
Distance (km)			
21,916	20,197	16,904	17,229
Non-tariff requirements			
0	0	0	0
Tariff			
3.08%	3.08%	3.08%	3.08%
			(UNCTAD, 2018)

Tariffs

Tariffs for **HS 870880 Suspension systems including shock absorbers for tractors and large vehicles** amount to 3.08% of the invoice amount (International Trade Center, 2018).

Non-tariff requirements

Apart from the low AUP, another incentive for Pakistan is the zero non-tariff requirements for export of **HS 870880 Suspension systems including shock absorbers for tractors and large vehicles** to Mexico (UNCTAD, 2018).

HS 870829 PARTS & ACCESSORIES FOR TRACTORS & LARGE VEHICLES, EXCLUDING BUMPERS & SAFETY BELTS

Market Share & ECI

Table 6: Export Competitiveness Index for HS 870829 parts & accessories for tractors & large vehicles

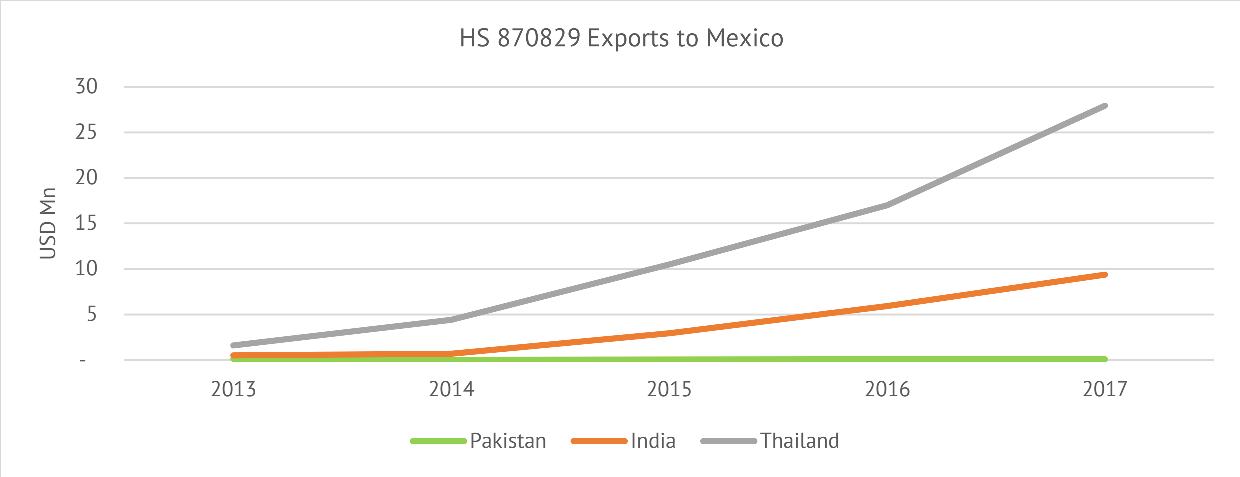
	Mexico Imports from Countries (USD Mn)		ECI		Rank	
	2013	**2017**	**2013**	**2017**	**2013**	**2017**
United States of America	3,194.58	3,279.29	1.000	1.000	1	1
China	93.21	206.41	0.018	0.039	13	10
Japan	199.71	200.19	0.109	0.109	3	6
Thailand	1.60	27.92	0.001	0.024	28	11
India	0.52	9.37	0.000	0.002	37	27
Indonesia	0.35	0.77	0.000	0.000	36	35
Malaysia	1.38	0.66	0.002	0.001	24	30
Pakistan	0.14	0.09	0.000	0.000	39	42

Mexico's market for imports of **HS 870829 Parts and Accessories for Tractors and Large Vehicles, excluding bumpers and safety belts** is worth USD 4.4bn representing 6.7% of the world's imports of this product. Its ranking in world imports is 4th. Pakistan's exports of this item are worth USD 0.09mn indicating a market share of 0.002%. This indicates a market with great potential which Pakistan has not properly tapped into yet. **HS 870829 Parts and Accessories for Tractors and Large Vehicles, excluding bumpers and safety belts** is classified as a 'Lost Opportunity' for Pakistan in the EPD matrix.

Pakistan's exports of **parts and accessories for tractors and large vehicles** declined from USD 0.14mn in 2013 to USD 0.06mn in 2015. Exports of this item rebounded slightly to USD 0.09mn in 2017, but the low export values suggest that this item is often overlooked by Pakistan while exporting other items to Mexico. Pakistan's total exports of **HS 870829 Parts and Accessories for Tractors and Large Vehicles, excluding bumpers and safety belts** to the world amount to USD 1.5mn. The majority of Pakistan's exports of this item is towards countries such as USA (USD 238mn) and Thailand (USD 124mn). Thailand's exports of **HS 870829 Parts and Accessories for Tractors and Large Vehicles, excluding bumpers and safety belts** to Mexico amounted to USD 28mn in 2017 indicating the fact that Thailand, along with Japan, is one of the top suppliers of this item from the Asian region.

India also recognized the high value potential of this item in the Mexican market and increased its exports from USD 0.52mn in 2013 to USD 9.5mn in 2017.

Figure 9: HS 870829 parts for tractors and large vehicles exports to Mexico 2013-17



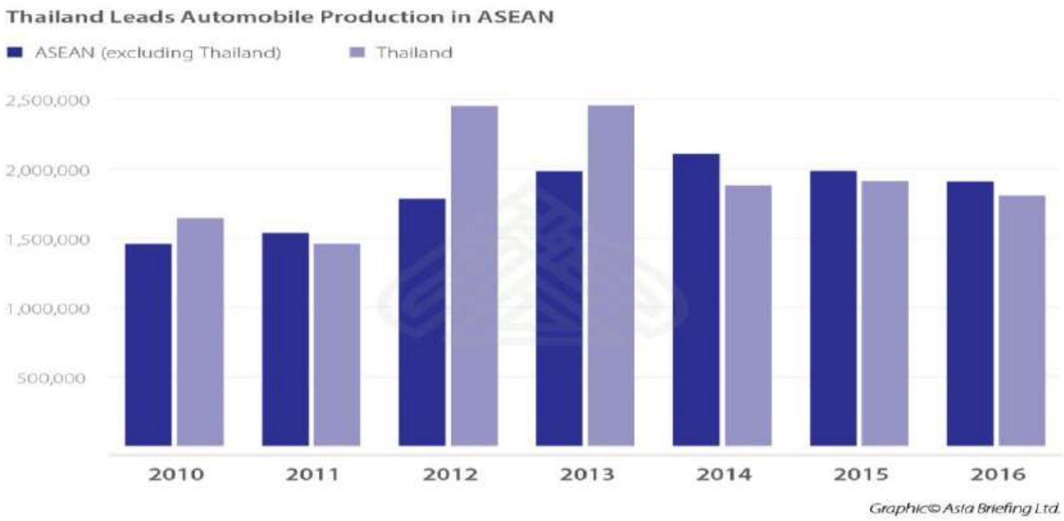
Pakistan's exports of **HS 870829 Parts and Accessories for Tractors and Large Vehicles, excluding bumpers and safety belts** remained stagnant over the past 2 years as evident from the graph in Figure 9. Meanwhile exports of India and Thailand increased exponentially over the corresponding period.

Strategy: India

India's strategic advantage is its low AUP offered to Mexico as given in Table 7. India's exports of parts and accessories for large vehicles amounted to USD 106mn during 2017, out of which exports to Mexico amounted to USD 9mn. Many of the manufacturers are located in the Maharashtra state. India has the advantage of strong backward and forward linkages as local and international demand is high for various car parts including suspension systems and shock absorbers. Raw materials for manufacture of suspensions and shock absorbers are imported mostly from China, Japan, USA and Germany. India also has made several investments in Mexico worth USD 2bn (Embasssy of India, 2017).

Strategy: Thailand

Thailand's exports of parts and accessories for large vehicles amounted to USD 1.2bn out of which exports to Mexico amounted to USD 28mn. Mexico was Thailand's 15th largest customer for supply of parts and accessories for large vehicles including mudguards, seatbelts, door components and many more items used in car manufacturing. Toyota, Isuzu and Honda have established manufacturing plants in Thailand. Thailand is the world's 13th largest automotive parts exporter.



Thailand's Board of Investment invites FDI into the automotive parts manufacturing sector by giving tax and non-tax incentives. Some of the general incentives available to investors are:

- Corporate Income Tax exemption up to 8 years.
- Import duty exemption on machinery
- Import duty exemption on raw materials used in manufacturing export products
- Permit to bring skilled workers and experts to work in investment promoted activities
- Permit to own land
- Permit to remit money in foreign currency

Additional benefits exist for investments in automotive supercluster zones located in Pathum Thani, Ayutthaya, Nakhon Ratchasima, Prachin Buri, Chachoengsao, Chonburi and Rayong (ASEAN Briefing , 2018). These include additional reduction in corporate income tax with possibility to extend the CIT exemption to 15 years; reduction in personal income tax and possibility to get permanent residence permit. Thailand is a popular vacation destination and investors often visit the country for both tourism and business and often the visit for the purpose of one provides opportunity for the other.

Table 7: Additional Information for export of HS 870829 parts for tractors and large vehicles

Additional Information		
Pakistan	India	Thailand
Distance (km)		
21,916	20,197	16,905
Non-tariff requirements		
0	0	0
Tariffs		
0.8%	0.8%	0.8%
AUP (per ton)		
16,000	11,580	11,581
		(UNCTAD, 2018)

Non-tariff requirements

There are no non-tariff requirements for exports of this item to Mexico. Tariffs are also low at 0.8% making it an attractive investment for Pakistan to develop and boost its exports of this item. This will also help diversify Pakistan's export basket.

HS 950662 INFLATABLE BALLS

Market Share & ECI

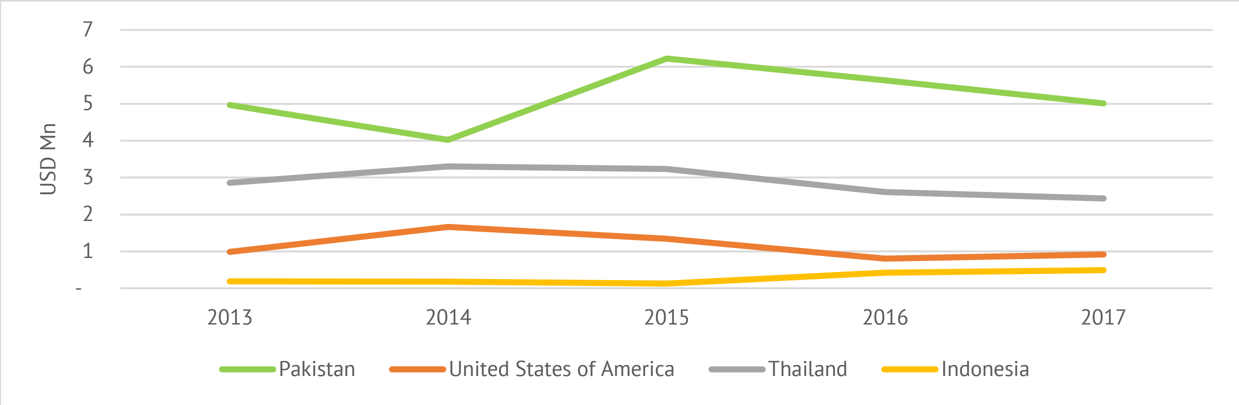
Football is a popular sport in Mexico and Pakistan's expertise in football manufacturing validates the export of **HS 950662 Inflatable balls** as a potential item for further enhancing exports in the Mexican market. Mexico's imports of **HS 950662 Inflatable balls** amount to USD 32mn, representing 2.9% of world's imports. This makes Mexico the 8th largest importer of these items. Apart from street football, Mexico also has a number of professional football clubs that use premium quality balls in their league matches. Since Pakistan is one of the top manufacturers of premium quality footballs, interested exporters can approach the procurement department personnel of such clubs in Mexico and secure contracts for supply of footballs. Detailed list of Mexico's football clubs is given in Appendix 2.

Table 8: Export Competitiveness Index for HS 950662 Inflatable balls

	Mexico Imports from Countries (USD Mn)		ECI		Rank	
	2013	**2017**	**2013**	**2017**	**2013**	**2017**
China	22.02	22.70	0.693	0.732	1 ⇨	1
Pakistan	4.97	5.01	0.438	0.471	3 ⇨	3
Thailand	2.86	2.43	0.565	0.554	2 ⇨	2
United States of America	0.99	0.92	0.060	0.060	7 ⇧	6
Indonesia	0.19	0.49	0.013	0.037	9 ⇧	7

ECI analysis indicates Pakistan's ranking as 3rd in terms of competitiveness of supply to the Mexican market. This places Pakistan in an extremely good position for supply of inflatable balls to Mexico. Pakistan's supply of inflatable balls to the world amounts to USD 157mn.

Figure 10: HS 950662 inflatable balls exports to Mexico 2013-17



The major supplier of inflatable balls to Mexico is China due to its FTA with the country. Pakistan's major competitor in supply of inflatable balls is Thailand. Thailand's supply amounts to USD 2.5mn while Pakistan's exports amount to USD 5mn. Pakistan's supply of inflatable balls has declined slightly over the past 5 years while Indonesia's supply has increased slightly from USD 0.2mn in 2013 to USD 0.5mn in 2017.

Strategy: Thailand

While Pakistan adopted the strategy of producing premium quality balls, also known as match balls in the football world, Thailand focused on the lower tier segment, manufacturing inflatable balls of lower quality. Therefore, Thailand's 'bottom of the pyramid' strategy was to focus on quantity not quality. Bottom of the pyramid strategy is a market entry strategy used to penetrate the mass market using cheaper products whose costs are lower, as opposed to targeting the premium segment where high-cost products are targeted to SEC A class consumers. Thailand was quick to adopt the machine stitched ball manufacturing strategy while Pakistan and India were making hand stitched balls. Thailand has also been able to procure raw materials easily as natural rubber is regionally grown in the Southeast Asia region. Large producers in Thailand also advertise themselves by sponsoring local events which are often attended by scouts from Mexico and Europe. The country is ranked 18th in ease of doing business and Thailand's manufacturers ensure NTB compliance. Foreign customers often view Thailand and Vietnam as a backup for Pakistan due to the relative political stability of the region.

Table 9: Additional information for export of HS 950662 inflatable balls

Additional Information		
Pakistan	India	Thailand
Distance (km)		
21,916	20,175	16,905
Non-tariff requirements		
3	3	3
Tariff		
15%	15%	15%
AUP (per unit)		
4.17	3.04	3.91
		(UNCTAD, 2018)

Non-tariff requirements

There are a total of 3 non-tariff requirements in relation to HS 950662. Their details are provided in the table below.

Table 10: Non-tariff measures for HS 950662 inflatable balls

UNCTAD, TRAINS NTMs database through Integrated Trade Intelligence Portal (I-TIP)				
3 measures				
Measures:	Sanitary and Phytosanitary [SPS] [A], Technical Barriers to Trade [TBT] [B], Pre-shipment inspection [INSP] [C], Contingent trade protective measures [CTPM] [D], Quantity control measures [QC] [E], Price control measures [PC] [F], Other measures [OTH] [G,H,I,J,K,L,M,N,O], Export-related measures [EXP] [P]			
Country imposing:	Mexico			
Product(s):	HS codes: 950662			
Country imposing	**Partner affected**	**Requirements**	**Phase**	**Measures**
Mexico	All Members	Technical Barriers to Trade	In force	3

TRADE MISSION INFORMATION

The Trade mission, also known as Commercial Counselor, is located in Colonia del Miguel Hidalgo, Mexico. The commercial counselor is responsible for trade promotional activities as well as serving as a liaison between exporters and buyers. Interested exporters can approach the Commercial Counselor for trade related inquiries, trade facilitation and visa processing, information on potential buyers as well as requests to setup meetings with buyer contacts in communication with the Commercial Counselor.

The trade mission in Mexico can be approached at the following addresses:

Embassy of Pakistan, Hegel 512, Colonia Polanco, Del Miguel Hidalgo, Mexico C.P. 11570	Ph: (5255) 5203-3636	Pakcom.mexpakcom.mex@tdap.gov.pk parepmexico@mofa.gov.com

SWOT ANALYSIS

STRENGTHS

Pakistan's strength lies in the following sectors:

- High Quality Basmati Rice
- Surgical Instruments
- Strong Textile Sector
- Sports Goods

By leveraging its strengths and positioning its brand image as the world's top quality supplier of the aforementioned items, Pakistan can place itself as the first choice for procurement of these items from buyers from all over the world.

In terms of Mexico specifically, Pakistan's strength lies rice, men's cotton ensembles, cotton yarn and cotton bedlinen. While these items are exported to Mexico in lower quantities, they rank among the top sales of Pakistan to the world. For example, Mexico's imports of cotton yarn (HS 520512) is USD 46mn while Pakistan's exports of yarn to Mexico was only USD 13,000 (International Trade Center, 2018). The following table shows the items which are Pakistan's strength but remain neglected in terms of exports to Mexico.

HS Code	Product Description	Pk exports to Mexico (USD '000)	Mexico imports from world (USD '000)
100630	Semi-milled or wholly milled rice	0	145,678
620322	Men's cotton ensembles	6825	26
520512	Cotton yarn, 232.56 to 714.29 decitex	13	46.743
630231	Cotton bedlinen	863	21,748
			(International Trade Center, 2018)

WEAKNESSES

The following weaknesses are viewed by buyers as obstacles to approaching Pakistani suppliers when procuring items such as textiles:

- Institutional Instability
- Low Value Added Products
- Low Product Diversification
- Low Use of MMF

In terms of Mexico specifically, Pakistan's weakness is directly connected to the advantages USA and Canada have due to NAFTA agreements. Majority of Mexico's trade occurs between Canada and USA due to NAFTA and geographical proximity thereby eliminating custom duties, lowering freight costs and eliminating lead time fluctuations.

OPPORTUNITIES

As identified in this report, Pakistan has the opportunity to enhance exports in the following segments to increase exports to the Mexican market:

- HS 901890 Surgical instruments
- HS 870880 suspension systems including shock absorbers for tractors and large vehicles.
- HS 870829 parts & accessories for tractors and large vehicles.
- HS 950662 inflatable balls

THREATS

Threats to exports mainly come in the form of high energy costs, fluctuating lead times which are a big concern for buyers and the emergence of strong regional competitors such as Bangladesh which takes advantage of its LDC status to increase its quota, India which has well developed linkages all over the world and low AUP, Vietnam, Malaysia, Indonesia, Thailand etc. which take advantage of low production costs and procurement from the region due to ASEAN regional agreements.

- High Energy Costs
- Fluctuating Lead Times
- High gas costs
- Law & Order situation deters buyers.
- Emergence of strong competitors
- More demand for MMF

In terms of Mexico specifically, threats are directly linked to the supply chain that Mexico is part of. For example, Pakistan's supply of suspension systems and other parts and accessories for large vehicles may be subject to demand from Mexico, which in turn is subject to the changing vehicle demands from USA. Since most of Mexico's automobiles are exported to the United States, should USA change its car production regulations, it could affect demand down the entire supply chain including Pakistan. Threats to other products such as rice come from other countries such as USA, which is the largest rice supplier to Mexico (advantage due to NAFTA), Uruguay (advantage due to geographical proximity), Thailand (advantage due to more varieties including jasmine rice) and India (due to more varieties, better branding and use of brand name 'basmati').

CONCLUSION AND RECOMMENDATIONS

The key to increasing exports to Mexico appears to be its Free Trade Agreements. Since the majority of Mexico's exports appears to be vehicles to USA and Canada, it requires sourcing of raw materials including suspension systems, shock absorbers, bumpers, safety belts etc as identified in this report. In fact, the largest import markets for supply to Mexico include car parts and accessories which Mexico requires to assemble cars. And the majority of raw materials come from China, USA, Japan and Germany which are also the world's four largest economies. Therefore, in order to increase exports to Mexico, it would be prudent to approach the country for a free trade agreement which would lower tariffs for raw materials of car parts under Chapters 87, 73, 40 and 39 and lower the required percentage for rules of origin. This will not only increase the demand for raw materials from Pakistan but will also help Pakistan become part of the GVC (Global Value Chain). India has already recognized this potential and moved to elevate their ties with Mexico from a 'privileged partnership' to a 'strategic partnership'. In order to promote trade and economic cooperation between India and Mexico, a High Level Group has been created between Mexico and India. India has also heavily invested in Mexico at USD 2bn while Mexico's investments in India amount to USD 1bn (Embasssy of India, 2017).

Making your exports cheaper

In a typical pricing model like the one in Figure 11, FTAs can potentially reduce one of the cost components – import duties.

Figure 11 FTA Advantage for Exports

An **increase in the use of e-commerce platforms** similar to China's Alibaba will result in cost savings for exporters as adoption of this practice will result in savings from several costs associated with trade fairs and exhibitions such as booking stall space, traveling costs, accommodations etc. Due to this reason, several exporters from ASEAN countries especially Vietnam and Thailand are using Alibaba's platform to sell products from Vietnam/Thailand to other countries. Although some Pakistani exporters are currently selling to other countries via online platforms, Pakistan should look to adopt this sell strategy on a larger scale. Several retailers are already using existing e-commerce platforms such as daraz.pk to sell within Pakistan. The same platforms can also be used by B2B sellers to sell their wares. Exporters have 2 options for e-commerce platforms: using existing platforms which sell to foreign buyers such as Alibaba or new Pakistani platforms. Newer Pakistani platforms, such as PriceOye.pk (started by an intelligent, budding entrepreneur nominated in Forbes 30 under 30 List), OLX and daraz.pk, would be cheaper compared to Alibaba but are not as well-known among foreign buyers as the latter. Therefore, the new local platforms are cheaper but run the risk of not having many visits from foreign buyers. Existing established platforms such as Alibaba and EBay have the advantage of being well-known among foreign buyers and several 3rd party country exporters such as those from Vietnam and Thailand are already selling via Alibaba. Thus Alibaba and EBay have the expertise of foreign selling from country to country. However, these platforms are expensive but they also have more chances of foreign buyers visiting their site and therefore the conversion rate for visits turning into sales increases for well-known established platforms. Payment is received from the customer's Visa or Mastercard.

The **products identified in this report** are in high demand in Mexico. The recommended products are backed by data from Mexico i.e. import demand of said products by Mexico is high and Pakistan's exports to Mexico for each item is in the top 200 list of items exported to that country. The corresponding tariffs, non-tariffs and importers list have also been shared for exporters convenience. To enhance exports in the Mexican market, Pakistan should look to export the items identified in this report.

Establishing cordial relations is also important to create business contracts. Sri Lanka, for example, try to invite businessmen and buyers to visit their country not just for business purposes but for tourism as well. This enables the buyers to view the country, its production processes and its market. Buyers can judge lead times and manufacturing costs by visiting the country and seeing an overview of what the country has to offer. In this regard, Pakistan should not only invite buyers but also develop its tourism industry. Make the country more appealing to foreigners like South East Asian countries have done. This will benefit Pakistan indirectly, such as future possible contracts and FDI which will help increase exports.

Pakistan also needs to implement structural changes to enhance export competitiveness. A significant portion of **Export Finance Scheme** should be made available to SMEs and new exporters. Large corporations should be encouraged to borrow from conventional sources, leaving EFS for SMEs and new exporters. The low borrowing rates would help finance the funding needs of these smaller exporters and improve overall export competitiveness.

Lead times are a big concern for foreign buyers. They want consistent lead times and Pakistan should look to upgrade their warehousing technology to improve reorder levels and keep inventory levels sufficient to cater to demand. **Improvements in warehousing technology** can lead to costs savings by maximizing available space in an optimum fashion. Other savings will include costs cut from keeping optimum inventory levels which will ensure sufficient quantity available for supply without excess inventory which leads to raising inventory holding costs. Several foreign and local companies such as TCS, Abu Dawood and other foreign firms offer warehouse upgradation on a Build Operate Transfer model.

Exporters should also be made **aware of the country's Non-tariff requirements**. Compliance with non-tariff requirements is one of the biggest roadblocks for Pakistan's exporters. Lack of knowledge of the rules and requirements for exports to the target country lead to lower than potential exports. Exporters need to be made aware of non-tariff requirements before export to the target country. This report attempts to identify the non-tariff requirements for the top in-demand products recognized in the Mexican market. The non-tariff requirements for various other products are also detailed at the UNCTAD website (https://trains.unctad.org). Potential exporters can easily view the list of required non-tariff compliance measures and can decisions accordingly. Pakistan also needs to **reduce its electricity tariffs**. The electricity tariff for Bangladesh is 7.3 cents per kilowatt hour versus Pakistan's 11 cents per kilowatt hour (Ahmed, 2017). This leads to lower production costs for Bangladesh as compared to Pakistan.

Utilizing the potential of CPEC, Pakistan should also look to **become part of the regional supply chain**. This will also help Pakistan move forward in the direction of becoming part of the global value chain. Local businesses should ask their Chinese counterparts to involve them in manufacturing parts and accessories as 3rd party contractors.

In order to increase exports, Pakistan will need to **focus on high-value RMGs** as opposed to low value RMGs and try to penetrate premium market segments. Pakistan should look to establish and cement its reputation as a superior manufacturer in surgical instruments, sports goods, medicaments, jerseys and food preparations. Pakistani industries should improve their image as being top quality suppliers, with consistent lead times and better customer service. The industries also need to position their image as innovators with improved execution, logistics and compliance with ethical standards. Pakistani business owners need to raise their core competencies in order to survive and expand. They should consider the existing system in their firms including logistics, finance, marketing, production, costs, price, and knowledge management in order to remain competitive.

To sum up, setting up an FTA with Mexico and increasing the use of e-commerce platforms backed by high quality customer service, focus on high value added products, increase of foreign visits to Pakistan and structural changes identified will lead to export competitiveness in Pakistan. In addition, for exports to Mexico, the products identified in this report are in high demand in the country; therefore, Pakistan should focus on increasing market share in these items as this will lead to higher exports towards Mexico. The identified items are reiterated below for exporters' convenience:

1. HS 901890 Surgical Instruments
2. HS 870880 Suspension systems including shock absorbers for large vehicles
3. HS 870829 parts and accessories large vehicles excluding bumpers and safety belts
4. HS 950662 Inflatable balls

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APPENDIX 1

PAKISTAN'S TOP 10 EXPORTS TO MEXICO

Products	**Pakistan's exports to Mexico 2017**
Plain woven fabrics of cotton, containing predominantly, but < 85% cotton by weight, mixed ...	13,441
Woven fabrics of cotton, containing predominantly, but < 85% cotton by weight, mixed principally ...	8,825
Plain woven fabrics containing predominantly, but < 85% polyester staple fibres by weight, ...	7,405
Men's or boys' ensembles of cotton (excluding knitted or crocheted, ski ensembles and swimwear)	6,825
Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.	5,537
Inflatable balls	5,010
Denim, containing >= 85% cotton by weight and weighing > 200 g/m^2, made of yarn of different ...	3,512
Fruits of the genus Capsicum or of the genus Pimenta, dried, neither crushed nor ground	3,387
Woven fabrics of cotton, containing predominantly, but < 85% cotton by weight, other than those ...	2,755
Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding ...	2,152
Sub Total (USD mn)	**58,849**
	(Source: International Trade Center)

APPENDIX 2

LIST OF MEXICO'S FOOTBALL CLUBS

Liga MX (Top level)
Club América
Club Atlas
Cruz Azul
C.D. Guadalajara
Club León
Lobos BUAP
C.F. Monterrey
Monarcas Morelia
Club Necaxa
C.F. Pachuca
Club Puebla
Querétaro F.C.
Santos Laguna
Tiburones Rojos de Veracruz
Tigres UANL
Club Tijuana
Deportivo Toluca F.C.
Club Universidad Nacional
Ascenso MX (2nd Tier)
Alebrijes de Oaxaca
Atlante
Atlético San Luis
Cafetaleros de Tapachula
Celaya

Cimarrones de Sonora
Correcaminos UAT
Dorados de Sinaloa
Juárez
Leones Negros UdeG
Mineros de Zacatecas
Murciélagos
Potros UAEM
Tampico Madero
Venados
Zacatepec
Liga Premier (3rd Tier)
Alacranes de Durango
Atlas
Atlético Reynosa
Dorados Fuerza UACH
Gavilanes de Matamoros
Guadalajara
León
Loros UdeC
Monarcas Morelia
Monterrey
Necaxa
Pacific
Santos Laguna
Tecos
Tepatitlán
Tepic
Tigres UANL
Tijuana
América
Cruz Azul
Cruz Azul Hidalgo
Halcones de Morelos
Inter Playa del Carmen
Irapuato
Lobos BUAP
Pachuca
Pioneros de Cancún
Querétaro
Real Zamora
Reboceros de La Piedad
Sporting Canamy
Tiburones Rojos de Veracruz
Toluca
UNAM