

China: Challenges and Opportunities in the Trade and Investment Relationship with Mexico

*China: retos y oportunidades
en la relación comercial
y de inversión con México*

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Abstract

In this article, the authors propose an answer to the question of whether Mexico's relationship with China represents a challenge or an opportunity, and what actions our country could take to mitigate risks or enhance possible benefits of greater commercial interaction with the Asian giant. To do so, they present a general overview of the commercial relationship between the two countries and ask if nearshoring is really an area of opportunity to attract Chinese investment to Mexico.

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Resumen

En este artículo, los autores proponen una respuesta a la cuestión de si la relación de México con China representa un reto o una oportunidad, y cuáles son las acciones que nuestro país podría llevar a cabo para mitigar riesgos o potenciar posibles beneficios de una mayor interacción comercial con el gigante asiático, y para ello presentan un panorama general de la relación comercial entre ambos países y se preguntan si la relocalización es realmente una área de oportunidad para atraer inversión china a México.

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Keywords

China, United States, trade, investment, nearshoring, FTA

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Palabras clave

China, Estados Unidos, comercio, inversión, relocalización, TLC

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Introduction

After the approval by the U.N. General Assembly of resolution 2758 (xxvi) on October 25, 1971, which recognized the People's Republic of China as that nation's legitimate representative (and no longer Taiwan, as had been the case for 22 years), Mexico and the People's Republic of China announced the establishment of diplomatic relations in 1972. Since that time, Mexico has developed important diplomatic and political ties with People's China, and in the post-Mao era, numerous trade and investment ties that have steadily expanded.

Currently, we find ourselves at a stage similar to that of five decades ago, in which Mexico must define a strategy, in this case a trade policy, that allows it to protect and project its national economic interest with its two largest trading partners, the United States and China, which see themselves as rivals, without this entailing a choice of one over the other.

The natural response would be for Mexico to lean towards the former. This is understandable and “justifiable,” since Mexico's bilateral relations with the United States are supported by a strong institutional and people framework, which provides us with the space to establish agreements and to manage our differences. When good offices and diplomacy are not enough, we can always solve them through the dispute settlement mechanisms established in the United States, Mexico and Canada Agreement (USMCA), which not only provides predictability, but also equality, despite our clear asymmetries.

Mexico has an embassy and fifty consulates in the United States that daily take the pulse of the political, economic, social and cultural agenda between both nations. These offices communicate daily with their counterparts and advance the bilateral trade agenda, without major logistical or language challenges.

Another factor that makes us feel comfortable negotiating and trading with the United States is people-to-people ties. According to the Migration Policy Institute, in 2023 there were around 10.8 million immigrants in the U.S. who are originally from Mexico, representing around 24% of its immigrant population.¹

This contrasts with our commercial relationship with China, where both our institutional capacity and that of the private sector to identify business opportunities and to manage differences with the Asian country are very limited. It should be noted that Mexico is not the exception in this, since the vast majority of countries share the same challenge.

In the National Bureau of Statistics of China in 2019, no more than 2.77 million foreign nationals were registered as living in the Asian country.² In this context, our presence in the country, compared to the United States, is limited. We only have one embassy in Beijing and three consulates general, in Shanghai, Guangzhou and Hong Kong.

While China's rise and integration into the global economy has not suffered major setbacks over the past four decades, except more recently in the context of the COVID-19 pandemic, the institutional and regulatory infrastructure required to respond to this rise has clearly fallen behind. This lag is also observed in the case of the Mexico-China economic and commercial relationship. Naturally, the rise in imports from this country to Mexico has led to a discouraging outlook.

Recently, China's investment abroad, the growing number of international tourists from this country, the rapid urbanization of its society and greater

¹ Nicole Ward and Jeanne Batalova. "Frequently Requested Statistics on Immigrants and Immigration in the United States," in Migration Policy Institute, March 14, 2023, at <https://www.migrationpolicy.org/article/frequently-requested-statistics-immigrants-and-immigration-united-states/> (date of access: December 11, 2023).

² Serdar Gudykov, "How Many Foreigners Live in China," in FDI China, February 3, 2023, at <https://www.fdichina.com/blog/how-many-foreigners-live-in-china/> (date of access: December 11, 2023).

disposable income of its population would seem to offer a prospective panacea for diversification. In this context, it is worth asking ourselves whether the relationship with China represents a challenge or an opportunity, and what actions could be taken to mitigate risks or enhance the possible benefits of greater commercial interaction with the Asian giant.

General overview of Mexico-China trade and investment: An unbalanced relationship or one of mutual convenience?

From a quantitative point of view, the Mexico-China trade relationship is characterized by its severe lack of balance, due to the rapid expansion of Chinese exports to Mexico in recent decades. Between 2001, the year in which China concluded its accession to the World Trade Organization (WTO), and 2022, Mexico's trade deficit with China has increased impressively (see Graph 1). Generally speaking, over that period, the deficit grew at a rate of around 20%, resulting in a figure of -USD 107.8 billion in 2022, a year in which bilateral trade totaled around USD 130 billion.³

This is because, since China entered the WTO, it has become Mexico's principal supplier of inputs for the manufacture of products that, in turn, are exported mainly to the United States. Chinese imports have been an important link in the production chains that have allowed Mexico to increase its competitiveness in the United States, taking advantage of the North American Free Trade Agreement (NAFTA, now USMCA), while the United States has lost competitiveness in Mexico, in China's favor. While Mexico's deficit with China has deepened since the 1990s, the country enjoys a large surplus with the U.S.⁴ It is thanks to this equation that it could be stated

³ Ministry of Economy, "Foreign Trade/Commercial Information," September 25, 2019, at <https://www.gob.mx/se/acciones-y-programas/comercio-exterior-informacion-comercial?state=published> (date of access: December 11, 2023).

⁴ Roberto Morales, "México registra superávit comercial récord con EU," *El Economista*, September 7, 2022, at <https://www.eleconomista.com.mx/empresas/Mexico-alcanza-superavit-record-en-la-balanza-comercial-con-EU-20220907-0040.html> (date of access: December 11, 2023).

that the Mexico-China trade relationship has turned out to be, in some sense, one of mutual convenience.

In 2022, 76% of imports from China mainly covered intermediate goods, such as electronic telecommunications apparatus, liquid crystal devices, parts and accessories for office machines and appliances, data processing machines, and electronic microstructure circuits, among others. For their part, Mexican exports to China were concentrated in products such as copper and lead ores (and concentrates), vehicle parts and accessories, and passenger cars.

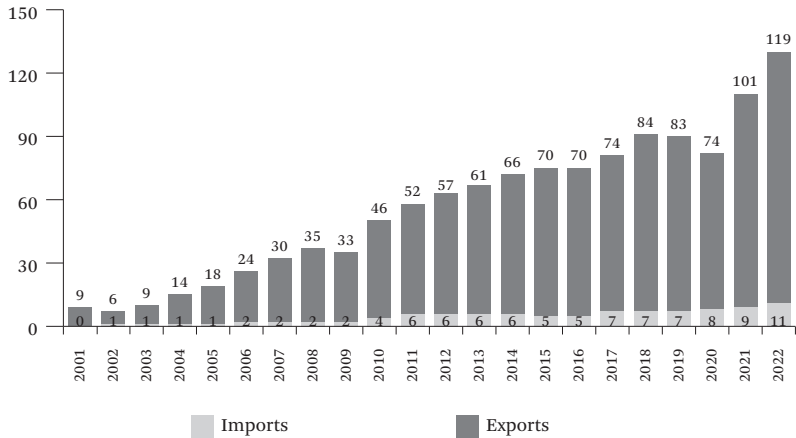
Today, China is Mexico's second largest trading partner worldwide (with 10.96% of total trade), after the United States. Likewise, the country represents the third largest destination of Mexican exports (although only with 1.89%) and the second largest source of imports (with 19.6% of the total).

Regarding investment, from 1999 to December 2022, the accumulated investment by China recorded in Mexico was USD 3.7 billion, which is equivalent to just 0.6% of the total foreign direct investment (FDI) received by Mexico. In 2022, China was Mexico's seventh largest investor, with USD 735.9 million (against USD 15 billion from the United States, the leading investor). 46% of this investment was allocated to the manufacturing sector (capital goods and technology for mining exploration; devices and equipment for renewable energies; electronics industry; aerospace). As of September 2022, Mexico registered 1463 companies with Chinese investment (see Graph 2).

Mexican investment in China, meanwhile, is fairly limited. Among the cases with manufacturing operations in the Asian country are Bimbo and Maseca in the food industry; Grupo Saltillo, Nematik and Katcon in the automotive industry, and others like Kuo in the plastics industry.⁵

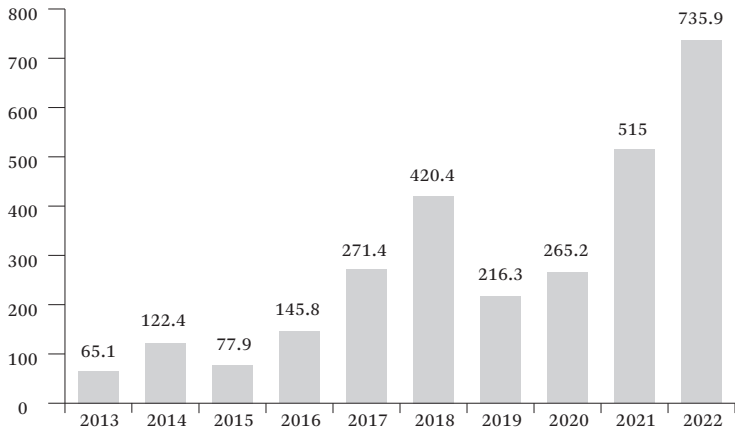
⁵ Moisés Ramírez; "Da GIS paso hacia China," *Reforma*, November 24, 2016, at <https://www.reforma.com/aplicacioneslibre/articulo/default.aspx?id=991146&md5=6b9583329b76e6f48a761e03ffda071e&ta=0dfdbac11765226904c16cb9ad1b2efe> (date of access: December 11, 2023); Truman Peng and Yiling Wang, "Newak: China's Open Business Environment Ideal for Innovation," in *iChongqing*, March 5, 2021, at <https://www.ichongqing.info/2021/03/05/nematik-chongqings-open-business-environment-ideal-for-innovation/> (date of access: December 11, 2021); Karina Almaraz, "Katcon's Unstoppable Evolution: From National Producer to Worldwide Automotive Reference," in *Comercio Exterior*, 2021, at <https://www.revistacomercioexterior.com/katcons-unstoppable-evolution-from-national-producer-to-worldwide-automotive-reference> (date of access: December 11, 2023); Kacey Culliney,

Graph 1. Foreign trade Mexico and China (billions of USD)



Source: Prepared by the authors with information from the Ministry of Economy.

Graph 2. Foreign direct investment from China to Mexico (millions of USD)



Source: Prepared by the authors with information from the Ministry of Economy.

All of this has been achieved without there being a trade agreement between the two countries. The trade relationship has been managed through “spaces for bilateral dialogue,” such as the Economic Affairs Subcommittee of the Permanent Binational Commission (hereinafter, Subcommittee), the High Level Group (GAN), the High Level Business Group (GANE), and the High Level Investment Group (GANI), all of which are government level initiatives.

The GAN and the Subcommittee are mechanisms in which the authorities responsible for regulating flows of trade and investment meet to review those aspects that they consider relevant to enhance the advantages of greater trade or manage differences. Some of the topics that have been addressed include how to enhance investment flows in the manufacturing sector, agricultural foreign trade, the exchange of statistics, etc. The dialogue, although limited, if compared to the institutional committees or working groups that derive from commitments within the framework of a free trade agreement (FTA), have a strategic importance, since they encourage the consolidation of annual meetings to review the bilateral agenda.

Likewise, the role of the GANE is equally important. Although governments participate, the main actors are Mexican or Chinese companies, who share aspects that negatively affect the development of their businesses and propose lines of action.

For Mexico, the work of both the GAN and GANE has translated into a mechanism that allows it to promote its interest in having a larger number of phytosanitary agreements for the export of agricultural products and expediting authorizations so that more agri-food export plants are certified

“Grupo Bimbo Completes Acquisition of China Baking Group Mankattan,” in FoodNavigator Latam, July 2, 2018, at <https://www.foodnavigator-latam.com/Article/2018/07/02/Grupo-Bimbo-completes-acquisition-of-China-baking-group-Mankattan> (date of access: December 11, 2023); Daniel Higa, “Gruma se consolida en Asia y celebra 10 años de su llegada al mercado chino,” in Bolsamamía, October 17, 2016, at <https://www.bolsamania.com/mexico/noticias/empresas/gruma-se-consolida-en-asia-y-celebra-10-anos-de-su-llegada-al-mercado-chino--1758568.html> (date of access: December 11, 2023); and Juan Manuel Rojas Cárdenas, “China y México: desarrollo del comercio, una inversión para el futuro,” in China Briefing, December 21, 2017, at <https://www.china-briefing.com/news/china-y-mexico-desarrollo-del-comercio-una-inversion-para-el-futuro/> (date of access: December 11, 2023).

by the Chinese health authorities. However, the trade relationship is basically governed by the rules and terms of the WTO.⁶

Without question, there is still great potential to expand, deepen and diversify Mexico's trade and investment relationship with China. For this to happen, better regulation of bilateral trade and investment flows is required, in such a way that synergies are enhanced and risks are managed. In the coming years, the global interconnectedness of the Asian country will not fall but rather increase, making the urgency of the above all the clearer.

United States-China trade and technology war: An opportunity for Mexico?

When Donald Trump came to power in the United States in January 2017, he set out to fulfill his campaign promises ("Make America Great Again"), which included his demand to rebalance the trade deficit of the United States. His greatest concern was the deficit with China, which he blamed for the economic losses of the United States since its entry into the WTO. As a result, his administration imposed a series of unilateral trade restrictions on China (under Section 201 and 301 of the Trade Act of 1974 and Section 232 of the Trade Act of 1962), violating WTO rules. The US sanctions covered a list of products that included: telecommunications equipment, industrial machinery, computers and semiconductors, clothing, vehicle parts, furniture and household appliances. In addition, the country took measures against certain Chinese companies in the telecommunications sector (such as Huawei and ZTE) by preventing them from selling components to the United States and inhibiting other American companies from doing business with them.

Despite the end of the Trump administration, the situation between the United States and China continues to face a moment of conflict. Joe Biden's government maintained restrictions on Chinese exports as part

⁶ Ministry of Economy, "México y China celebraron la X Reunión del Grupo de Trabajo de Alto Nivel," *communiqué* no. 054, September 5, 2022, at <https://www.gob.mx/se/articulos/mexico-y-china-celebraron-la-x-reunion-del-grupo-de-trabajo-de-alto-nivel-313613> (date of access: December 11, 2023).

of its “Build Back Better” program, the successor to “Make America Great Again.” Indeed, as confirmed by the Braumiller Law Group, after the review of Section 301 of the United States Trade Act (in October 2022), “however, one thing is clear—the tariffs [on China] are here to stay.”⁷

Against this backdrop of struggle between the two economic giants, there have been effects that have spread throughout international trade, causing positive and negative consequences for numerous economies. There are studies that show that, at least in the early stages of the trade war, several third countries have benefited from trade diversion, especially those closest to the contenders, given their proximity and the existence of trade agreements.⁸ These countries are located in East Asia and Southeast Asia (particularly Taiwan, Viet Nam, India and the Republic of Korea), and also Canada and Mexico, where the negative trade balance with the United States has deepened.

The countries that will gain from a prolongation of the China-U.S. trade war are expected to be those that have a relatively similar structure to China’s exports, so that when tariffs on China are raised, they can easily take advantage. In this sense, East Asia, Canada and Mexico have the potential to become new suppliers, especially in sectors such as electronics and machinery, as well as certain services.

Additionally, following the disruptions to global supply chains caused by the COVID-19 pandemic, in February 2021, President Biden published Executive Order 14017,⁹ signaling the need to maintain resilient, diverse and secure supply chains to face any possible threat. Likewise, he ordered an inter-agency effort to complete a report, the *Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth*, to identify vulnerabilities and needs in these chains. In June 2021, the report was published,

⁷ Adrienne Braumiller, “Section 301 Update: Four-Year Review, Exclusions, Litigation, and the Future of China Tariffs,” in Braumiller Law Group, October 2, 2022, at <https://www.braumillerlaw.com/four-year-review-exclusions-litigation-future-china-tariffs/> (date of access: December 11, 2023).

⁸ Alessandro Nicita, *Trade and Trade Diversion Effects of United States Tariffs*, New York, UNCTAD (UNCTAD Research Paper, 37), November 2019, pp. 5-11, at https://unctad.org/system/files/official-document/ser-rp-2019d9_en.pdf (date of access: December 11, 2023).

⁹ The White House, “Executive Order on America’s Supply Chains,” February 24, 2021, at <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/02/24/executive-order-on-americas-supply-chains/> (date of access: December 11, 2023).

which focused on the supply chain of four critical products: a) semiconductor manufacturing and advanced packaging; b) high-capacity batteries, such as those for electric vehicles; c) critical minerals and materials; and d) pharmaceutical products and active pharmaceutical ingredients.¹⁰

The COVID-19 pandemic revealed shortages in these sectors, due to high demand for medicines, semiconductors and batteries. Among the main conclusions, the report pointed out structural deficiencies in both national and international supply chains, unfair trade practices by competitors (read China), and innovation diverted to Asia. It also alleges that the U.S. industrial base has been stifled by the fact that the private sector has focused on short-term profits and not long-term investments. Among the recommendations issued, of note is “work with allies and partners to decrease vulnerabilities in global supply chains.”

In this context, in 2022 the CHIPS and Science Act was issued, which has the objective of promoting research and development (R&D) in the production of American semiconductors, ensuring the leadership of the United States in the technology that forms the basis of everything from cars to appliances to defense systems.¹¹ This law aims to ensure that the United States boosts its scientific and technological advantage by authorizing large amounts of funding, including USD 52.7 billion for research, development, manufacturing and workforce development in the semiconductor sector in the United States. These funds are also accompanied by strong barriers that ensure that beneficiaries do not build certain facilities in China and other “problem countries,” it is clear that there is an underlying objective: to limit the expansion of semiconductor manufacturing capacity in China.¹²

¹⁰ The White House, *Building Resilient Supply Chains, Revitalizing American Manufacturing, and Fostering Broad-Based Growth: 100-Day Reviews under Executive Order 14017*, Washington D.C., The White House, June 2021, at <https://www.whitehouse.gov/wp-content/uploads/2021/06/100-day-supply-chain-review-report.pdf> (date of access: December 11, 2023).

¹¹ The White House, “Factsheet: CHIPS and Science Act Will Lower Cost, Create Jobs, Strengthen Supply Chains, and Counter China,” August 9, 2022, at <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/> (date of access: December 11, 2023).

¹² See Ana Swanson, “The CHIPS Act Is about More Than Chips: Here’s what’s in It,” *The New York Times*, February 28, 2023, at <https://www.nytimes.com/2023/02/28/business/economy/chips-act-childcare.html> (date of access: December 11, 2023).

Given the above, it might be argued that the Trump administration's protectionist practices against China are being perpetuated and expanded by the Biden administration, and there are signs that this trend will continue. Additionally, there are signs that the United States intend to embark on an ambitious nearshoring process, which will take several years to complete. This trade policy of the United States towards China is explained, on the one hand, by the "anxiety" generated by the rise of a new global competitor and, on the other, by the lack of access, in its terms, to the market projected to be the largest in the world in the coming decades.

China has in some way contributed to the construction of this narrative and the unfriendly environment with developed countries globally. Various analysts agree that, although the Asian country has expanded and improved access to its market, foreign investors continue to face limited and inequitable access, if compared to the greater access that Chinese firms encounter abroad.¹³ An example of this are the restrictions in the entertainment industry in China, in addition to the limitations on quotas for the distribution of films in the Chinese market.

As highlighted above, China still has a very small number of immigrants from other countries who have integrated into the society and institutions of the Asian country. This affects the country's ability to build better understanding and trust in its relations with other countries, especially with developed economies.

Although China has 16 free trade agreements in force and another 19 are in the negotiation or study stage, it is notable that its negotiation strategy is focused on developing economies and its level of ambition does not reach the level of depth of agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and, even less so, the USMCA. In that sense, the expectations that China will substantially improve its trade relations with developed economies, particularly with the United States and the European Union, in terms of market access are not optimistic, which will contribute to the already conflictive outlook.

¹³ European Commission, "China's Restrictions on FDI are Much Stronger than in the EU and US," in EU Science Hub, at https://joint-research-centre.ec.europa.eu/jrc-mission-statement-work-programme/facts4efuture/china-challenges-and-prospects-industrial-and-innovation-powerhouse/chinas-restrictions-fdi-are-much-stronger-eu-and-us_en (date of access: December 11, 2023).

Nearshoring, an area of opportunity to attract Chinese investment to Mexico?

Simply explained, the concept of *nearshoring* implies producing close to the final consumer, while ensuring there is a supply chain permitting this production to be carried out efficiently and with lower costs and risks.¹⁴ This is a phenomenon that has been seen in a number of companies that have begun to relocate their production processes, either to their country of origin, or to closer, low-cost and competitive locations. COVID-19 appears to have acted as the catalyst that has accelerated this trend.¹⁵

According to the *2020 Kearney US Reshoring Index*, certain sectors, such as electronics, machinery, footwear, clothing and toys, began to relocate their production to other low-cost locations, mainly Viet Nam, Thailand and India. In the case of the automotive sector, Mexico has predominated.¹⁶

According to the authors of the *2021 Kearney US Reshoring Index*: “Thanks to the pandemic, trade wars and tariffs, and ongoing resulting supply chain disruptions, American companies are getting more serious about adopting expanded versions of reshoring.” Additionally, more companies are seeking to invest in manufacturing assets in the United States and Mexico.¹⁷

¹⁴ Definitions of *nearshoring* were consulted in: Ministry of Economy, *Invierte en México: tu mejor opción hoy para el largo plazo*, Mexico, Ministry of Economy, March 2023, p. 9, at https://www.economia.gob.mx/files/gobmx/ied/dossier_inversion_esp.pdf (date of access: December 11, 2023); Carlos Vargas, “Nearshoring, la nueva frontera de México,” in EGADÉ Ideas, March 29, 2023, at <https://egade.tec.mx/es/egade-ideas/opinion/nearshoring-la-nueva-frontera-de-mexico> (date of access: December 11, 2023); and “¿Qué es el nearshoring?,” in Actinver, October 31, 2023, at <https://actinver.com/que-es-nearshoring> (date of access: December 11, 2023).

¹⁵ See Irina Fan, Thomas Holzheu and Clarence Wong, *De-risking Global Supply Chains: Rebalancing to Strengthen Resilience*, Zurich, Swiss Re Institute (Sigma 6/2020), at <https://www.swissre.com/dam/jcr:cff737e5-ac7f-4d67-b0cc-6634fe378feb/sigma-6-2020-en.pdf> (date of access: December 11, 2023).

¹⁶ Brandon Blaesser, Parick Van den Bossche, and Yuri Castaño, “Global Pandemic Roils 2020 Reshoring Index; Shifting Focus from Reshoring to Right-shoring: 2020 Kearney US Reshoring Index,” in Kearney, at <https://www.kearney.com/service/operations-performance-transformation/us-reshoring-index/2020> (date of access: December 11, 2023).

¹⁷ P. Van den Bossche, Brian Ehrig, Omar Troncoso and Shay Luo, “The Tides Are Turning: 2021 Kearney US Reshoring Index,” in Kearney, April 12, 2022, at <https://www.kearney.com/industry/consumer-retail/article/-/insights/the-2021-reshoring-index-the-tides-are-turning> (date of access: December 11, 2022).

The above is confirmed in the 2022 study, which questions what would happen if the ecosystem of suppliers that China and other Asian countries have been building over the last three decades approached the United States. This is raised given that, in the study, it is perceived that, increasingly, Chinese and Asian companies are establishing manufacturing operations in Mexico.¹⁸

According to the study *Termómetro de las salidas de inversión directa 2023* these departures in the manufacturing industry have been increasing. In 2014, China's outward investment in the manufacturing sector reached USD 9.5 billion, and by 2021, it will exceed USD 26.8 billion. Regarding the number of Chinese companies in the manufacturing sector that invest abroad, it rose from 8717 companies to 9036 in the same period (see Graph 3).¹⁹

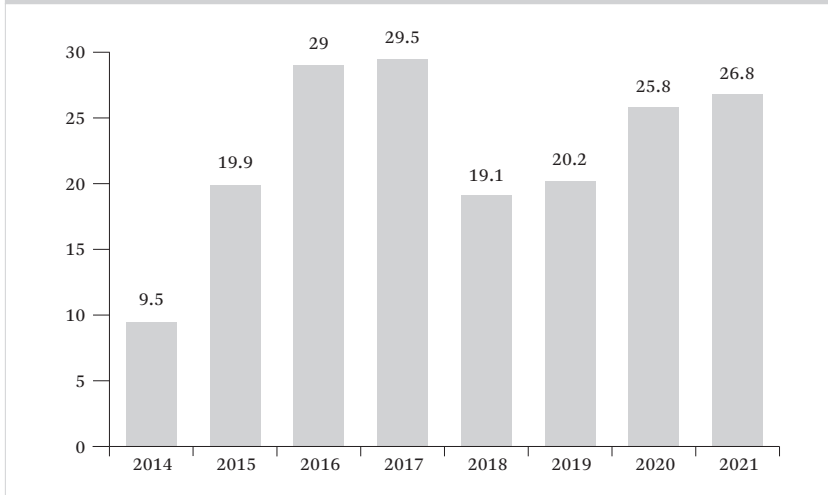
Everything indicates that offshoring is, and will continue to be, a vital element of the new, more resilient supply chains. This will represent an agile and dynamic rethinking of classic offshoring, incorporating and leveraging models where, for example, components and material supplies are offshored and automated final assembly and testing is performed in the United States. This is an evolving definition that allows manufacturers to source a portion of their materials and components from nearby locations, such as Mexico,²⁰ Central America and even Canada, without presenting their products as manufactured in the United States.

¹⁸ “Kearney Reshoring Index Remains Negative, but the Tide is Turning,” in Kearney, April 13, 2022, at https://www.kenoconsulting.com/wp-content/uploads/2023/01/Termometro-IED-China_Keno-GPerspective_2023.pdf (date of access: December 11, 2023).

¹⁹ GPerspective, *Termómetro de las salidas de inversión extranjera directa 2023*, Beijing, Keno Consulting, January 2023, at https://www.kenoconsulting.com/wp-content/uploads/2023/01/Termometro-IED-China_Keno-GPerspective_2023.pdf (date of access: December 11, 2023).

²⁰ See “Nearshoring: más de 3,000 empresas asiáticas ya se instalaron en México”, in *Forbes*, December 8, 2023, at <https://www.forbes.com.mx/nearshoring-mas-de-3000-empresas-asiaticas-ya-se-instalaron-en-mexico/> (date of access: December 11, 2023) (in which it is stated that this is a result of the phenomenon of relocation of supply chains or nearshoring, with companies of Chinese origin being the ones with the greatest presence in the country); and “Nearshoring: 40 automotrices chinas buscan instalarse en el centro de México,” in *Forbes*, December 7, 2023, at <https://www.forbes.com.mx/nearshoring-40-automotrices-chinas-buscan-instalarse-en-el-centro-de-mexico/> (date of access: December 11, 2023).

Graph 3. China's investment abroad in manufacturing industry (billions of USD)



Source: *Termómetro de las salidas de inversión extranjera directa 2023*.

In this context, it is worth noting that in the last two North American Leaders' Summits, held in 2021 and 2023, it was clear that the United States considers Mexico and Canada as key allies and partners to decrease vulnerabilities in global supply chains. A mandate has emerged from these Summits at the highest political level to strengthen the integration of North America and the region's supply chains, capitalize on the USMCA and take advantage of the restructuring of the chains.²¹ Likewise, in the meetings of the U.S.-Mexico High-Level Economic Dialogue (HLED) of 2021 and 2022, the strengthening of supply chains has been considered as a central theme

²¹ U.S. Department of State, "Information Sheet: Key results from the 2021 North American Leaders Summit," November 19, 2023, at <https://www.state.gov/translations/spanish/ficha-informativa-principales-resultados-de-la-cumbre-de-lideres-de-america-del-norte-de-2021/> (date of access: December 11, 2023); and Juan Francisco Torres Landa Ruffo and Omar Guerrero, "Principales resultados de la X Cumbre de Líderes de América del Norte," in Hogan Novells, January 16, 2023, at <https://www.engage.hoganlovells.com/knowledgeservices/news/principales-resultados-de-la-x-cumbre-de-lideres-de-america-del-norte> (date of access: December 11, 2023).

to reduce their vulnerability, make them resilient and encourage them to contribute to the competitiveness of the region.²²

These political manifestations, but above all the industrial policy of the United States embodied in the CHIPS and Science Act (mentioned above), combined with the Inflation Reduction Act of 2022, considered the most aggressive action to addressing the climate crisis in U.S. history,²³ are the elements that indicate that the United States government favors the nearshoring of supply chains to the North American region. This latest law requires investments of USD 433 billion over 10 years, from 2022 to 2031, of which USD 369 billion are for investments in energy security and climate change, including direct incentives to consumers,²⁴ which is expected to trigger the demand for electric vehicles and clean energy technologies and, consequently, an increase in investment in the region's manufacturing sector. The arrival of Tesla in Monterrey is the most recent example of this.²⁵

²² Ministry of Foreign Affairs (SRE), "Diálogo Económico de Alto Nivel entre México y Estados Unidos Hoja informativa," September 9, 2021, at <https://www.gob.mx/sre/documentos/dialogo-economico-de-alto-nivel-entre-mexico-y-estados-unidos-282329> (date of access: December 11, 2023); and United States Department of State and SRE, "2nd Annual Meeting of the United States-Mexico High-Level Economic Dialogue (HLED)," joint statement, September 12, 2022, at <https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/12/joint-statement-following-the-2022-u-s-mexico-high-level-economic-dialogue/> (date of access: December 11, 2023).

²³ The Inflation Reduction Act of 2022 is the third piece of legislation approved since the end of 2021 in the United States that seeks to improve the economic competitiveness, innovation and industrial productivity of that country, along with the Bipartisan Infrastructure and Infrastructure Act and the CHIPS and Science Act. The text and description of this Act are available at U.S. Department of Energy, at <https://espanol.epa.gov/la-ley-de-reduccion-de-la-inflacion> (date of access: December 11, 2023).

²⁴ "Key measures of the Inflation Reduction Act (IRA) on energy transition," in Repsol Foundation, March 14, 2023, at <https://openroom.fundacionrepsol.com/es/contenidos/principales-medidas-ley-ira-inflation-reduction-act-transicion-energetica/> (date of access: December 11, 2023).

²⁵ See Arturo Solís, "Inversión de Tesla en México se explica con subsidios de Estados Unidos: AMDA," in Bloomberg Línea, March 1, 2023, at <https://www.bloomberglinea.com/2023/03/01/inversion-de-tesla-en-mexico-se-explica-con-subsidios-de-estados-unidos-amda/> (date of access: December 11, 2023); and "¿Cuándo inicia operaciones la planta de Tesla en Monterrey? Esto Explica Samuel García," *El Financiero*, March 2, 2023, at <https://www.elfinanciero.com.mx/tech/2023/03/02/gigafactory-de-tesla-en-monterrey-se-construira-en-tiempo-record-dice-samuel-garcia/> (date of access: December 11, 2023).

The question is, how could Mexico take advantage of this phenomenon to strengthen its ties with China? In the same way that Chinese imports became an important link in the production chains that enabled Mexico to increase its competitiveness in the United States (taking advantage of NAFTA/USMCA), Chinese investment could do the same for the creation of backward supply chains (at Tier 2 and Tier 3 levels) that feed into the manufacturing processes of companies that relocate to Mexico. This investment, especially in small and medium-sized companies (SMES), will be vital if we want to support companies that are arriving, such as Tesla.

In this way, they would not become simple assemblers of imported inputs, but would generate a multiplier effect on local development, by consuming locally produced inputs. In this way, nearshoring could also become an opportunity to strengthen investment ties with China. Exploring that possibility would be advisable, focusing on the sectors that have already been identified by the United States: critical materials, electric batteries, medicines and medical devices, and semiconductors.

However, it would also be necessary to consider potential obstacles that could arise if the United States decided to impose restrictions on products that, being manufactured in Mexico, use inputs from Mexican companies with Chinese investment. Likewise, we would have to work hard with Chinese companies to overcome the hindrances that until today have prevented the formation of closer business ties between Mexico and China.

In any case, it is interesting that, in 2022 the Government of Mexico issued the document *Rumbo a una Política Industrial* (Heading towards an Industrial Policy),²⁶ which seeks to promote the competitiveness and productive capacity of Mexican industry and focuses on five strategic sectors: agribusiness, electromobility, medical and pharmaceutical services, creative industries, and electricity and electronics. Semiconductors are included in the last of these.

In that regard, it is worth mentioning certain voices from the Mexican business sector, who consider nearshoring to be a historic opportunity

²⁶ Ministry of Economy, "Secretaría de Economía presenta la estrategia 'Rumbo a una Política Industrial', statement no. 57, September 20, 2022, at <https://www.gob.mx/se/es/articulos/secretaria-de-economia-presenta-la-estrategia-rumbo-a-una-politica-industrial-314996> (date of access: December 11, 2023).

that demands the attention of all relevant economic actors in the country, in order to make the best use of an economic opportunity that has already begun and whose growth will depend on everyone.²⁷

Final considerations: Can Mexico formulate a trade policy that recognizes our present and future in relation to China?

Mexico and its shapers of public policy face a complex situation. China is our second largest trading partner and is projected to become the world's leading economy within a few decades, and a capital exporter at a level similar to the United States and Germany.

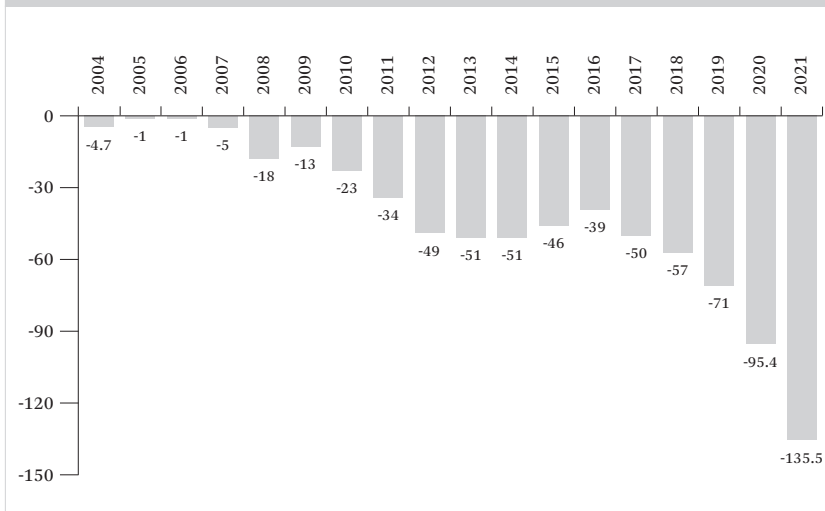
To illustrate how important it is for us to consider all our options, formulate a strategy for our relationship with China, and understand why developed economies are interested in securing robust market access to China, it is enough to look at the trend in agricultural imports from that country. Since 2004, China's agricultural balance has been in deficit to the tune of around USD 4 billion; since then, they have been unable to reverse the trend. In 2021, for the first time, its trade deficit exceeded -USD 135 billion (see Graph 4).²⁸

In its statements at least, Mexico upholds the intention of diversifying its commercial, financial, environmental and political interests in order to reduce to some extent its excessive dependence on the United States. This goal of diversification frames the China-Mexico relationship, which has been declared of a "comprehensive strategic" character at the highest level.

²⁷ Position expressed by representatives of the business sector during "Dialogues for Development" organized by UNAM and the Institute for Industrial Development and Digital Transformation. See "Sector empresarial mexicano pide apoyo al gobierno para promover el nearshoring," in Bnamericas, March 30, 2023, at <https://www.bnamericas.com/es/noticias/sector-empresarial-mexicano-pide-apoyo-al-gobierno-para-promover-el-nearshoring> (date of access: December 11, 2023); Ivette Saldaña, "México debe encabezar atracción de nearshoring: CCE," *El Universal*, March 28, 2023, at <https://www.eleconomista.com.mx/empresas/Mexico-fue-el-segundo-pais-mas-visitado-en-2021-OMT-20220329-0012.html> (date of access: December 11, 2023).

²⁸ Keno Consulting, *Termómetro del comercio exterior agropecuario de China*, Beijing, Keno Consulting, August 2022, at https://kenoconsulting.com.mx/wp-content/uploads/2022/08/Termometro-Comercio-Exterior-Agropecuario-de-China_2022.pdf (date of access: December 11, 2022).

Graph 4. China's agricultural trade deficit (billions of USD).



Source: Keno Consulting, *Termómetro del comercio exterior agropecuario de China*.

A healthy trade policy would be aimed at intensifying ties with China, while maintaining the necessary and close relationship of interdependence with the United States. Although Mexico will face both internal and external obstacles due to the confrontation between the two global powers, this should not be a factor that inhibits the objective and well-founded formulation of an independent trade policy that acknowledges this complex reality.

However, it must be considered that the renegotiation of NAFTA established that none of the parties to the agreement can negotiate with countries that are not considered “market economies” (read China) without consulting with the other partners.

Likewise, the Chinese authorities are aware that in the long term it is not sustainable to depend technologically on other countries, nor to concentrate their foreign trade in a small number of countries. For these reasons, and to diversify its risks, China is seeking to expand its trade relations through various initiatives, which range from persuading by promoting the investment and trade benefits that come with greater support for its initiatives, to providing financial incentives for its companies to invest abroad. As an example of the

above, it is observed that as soon as China decided to eliminate its *zero-COVID* policy, its authorities focused on promoting events such as the Canton Fair, the China Import and Export Fair, accepting state visits and granting funds of up to CNY 500,000 (equivalent to MXN 1 300 000) for companies to pay for feasibility or risk mitigation studies to invest abroad.²⁹

In any case, it is essential to bear in mind that the policies implemented by the United States or China described above have the main objective of promoting and protecting their national interest. In that sense, Mexico's strategy should not be to align with one or the other. Instead, it requires evaluating and defining its own policies that are adapted to the reality of the country's situation. Likewise, the country must carry out a detailed analysis of the benefits of a potential FTA with China and the challenges involved in not having a regulatory framework to resolve differences and quickly address the concerns that its industries face when negotiating with the Asian giant, as well as moving forward in opening a market that will only grow.

It is also important to consider that, although an FTA helps to provide better terms of access to a market and greater legal certainty, it is not everything. Mexico has 14 FTAs and 9 economic complementarity agreements and partial scope agreements that, at least to date, have not translated in practice into more diversified trade and investment flows. Perhaps the right question is: What can Mexico learn from the United States and China in terms of industrial policy?

That said, China's request to join the CPTPP could represent an opportunity for Mexico worth evaluating, in terms of negotiating preferential access to the future largest market in the world and, at the same time, better regulating those aspects that concern certain sectors in Mexico. Commencing a negotiation does not mean accepting the counterpart's requests in advance, but rather establishing a process of discussion that suits both parties. The members of CPTPP, including Mexico, have the advantage that China is not part of it, so the group's negotiating position is stronger than if the negotiation took place at a bilateral level.

²⁹ Beijing Commerce Bureau, "北京市财政局关于印发<北京市外经贸发展专项资金管理实施细则>的通知," in Beijing Government, August 18, 2016, at https://sw.beijing.gov.cn/zt/dwhzzt/tzgg_1918/202203/t20220328_2641126.html (date of access: December 11, 2023).