China and the New Triangular

Relationships in the Americas

China and the Future of US-Mexico Relations

Editors: Enrique Dussel Peters
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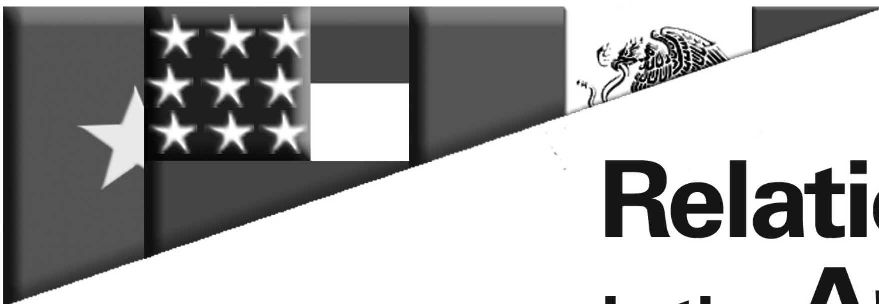

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Contents

Foreword

The emergence of China in the last part of the 20th century –or "reemergence" from a historical perspective- is having multiple impacts on a global scale. This gradual acknowledgement – given the impressive pace of economic development in the last decades- has resulted in an increasing gap between the latter trend with institutional development and academic analysis.The traditional form of analyzing these impacts has been either domestically –i.e. within China– or bilaterally, i.e. the effect of China on other countries or groups of countries. Domestically, the socioeconomic changes within China since its revolution in 1949, and after the reforms of the 1970s, in terms of production, employment, wages, migration, urbanization, trade, politics, culture, among other topics, have been studied in detail both in China and internationally. Bilaterally in Latin America and in the Caribbean, for example, there has been increasing literature on the effects of China on trade, employment, agriculture, environment, investments, specific segments of value-added chains, and particularly on bilateral diplomatic and political relationships.

China's "come back", however, is not only limited to these impacts. Until very recently, and as reviewed in the respective articles of this book, there have been few analyses or initial attempts at understanding how China's new status is affecting bilateral relationships elsewhere. The main topic of this book, then, is the triangular relationship between Mexico, the United States, and China, and specifically how China's increasing presence in Latin America and the Caribbean is affecting the historic and dynamic relationship between Mexico and the United States. This triangular relationship is substantially interdisciplinary and has, at least in the beginning, begun to affect trade, investments, and the political relationship between the United States and Mexico. This book attempts to identify in which concrete terms China has begun to affect the bilateral relationship between Mexico and the United States. Contrary to other recent initial analyses on this issue, we base our study on this question in order to examine the triangular relationship in detail from an economic and political perspective. In the future, this triangular relationship will necessarily have to weigh more heavily in other fields of research. However, as we shall see below, China is profoundly changing bilateral and inter-American relationships, specifically between the US and Mexico, resulting in important implications for the future.

It is important to understand that these new forms of triangular relationships –based on China's increasing presence both regionally and globally- must be discussed and researched in detail in the future, not only in the form of an academic debate, but as part of a process that will have wide policy repercussions in all of the countries involved, not just in Latin America and the Caribbean. This is the case, for example, in most of Asia - for countries like Japan, Vietnam, Korea, India, and the Philippines, among others - and their relationships not only with the United States and China, but with other countries as well. Finally, these new triangular relationships go beyond inter-Asian triangular relations with China (i.e. China's impact on the Argentina-Brazil relationship, as well as the Mexico-Venezuela relationship).

From this perspective, the book presents analyses from China, Mexico, and the United States on China's impact on the economic and political relationship between Mexico and the US. The authors will discuss emerging tensions and policy approaches to trilateral engagement from two general perspectives: a. economy, trade, and investment, and b. policy, with the objective of highlighting the massive effects that China is having on the Mexico-US relationship. Thus, there is no need for general introductions of each country (Mexico, China, and the US). Instead, we will focus directly, from the beginning, on their bilateral and triangular relationships.

This book contains eight chapters. The first chapter of Section I, written by Kevin P. Gallagher and Enrique Dussel Peters, discusses the extent to which China is affecting bilateral trade between Mexico and the United States. Based on aggregate and detailed import and export flows of the twenty most important products, the analysis concludes that China is becoming NAFTA's "fourth member", given that it has integrated itself into practically all of the region's major trade items in the last decade. The authors find that China is quickly outcompeting Mexico in the US market, as well as outcompeting the US in Mexico: they identify 52 sectors in which China had increased its role until 2011, and in which both Mexico and the US are significant trading partners. Mexico is losing market share in the United States in those same 52 sectors, which collectively represent 49 percent of all of Mexico's exports to the U.S. The "threat analysis", based on bilateral and trilateral analyses, highlights China's significant entrance into NAFTA and substantial displacement in the region. The impact in terms of competitiveness and job loss remains to be measured.

The analysis of Ping Wang highlights that in the Mexico-US-China triangular trade relationship, the United States is the key player. While China's presence has increased, the United States remains a critical influence on both Mexico and China. Furthermore, the author suggests that China's rise and emergence in terms of trade and investments in LAC, and specifically in regards to this triangular relationship, will slow increasingly in the future, considering its specialization in industrial commodities and products, rising wages in China, and the high number of multinational corporations involved in Chinese exports. For Ping Wang, the politically and historically subordinated role of Mexico with the United States, in contrast to China's increasing regional and global status, is a basis for understanding future scenarios in which the Mexico-United States relationship is more stable in comparison to that of China and the United States (where the US, for example, views China as a threat).

The contribution of Ralph Watkins focuses on Mexican and Chinese exports to the United States until 2011, highlighting several significant outcomes. On one hand, a detailed analysis of US imports shows that as a result of numerous factors such as rising wages and the appreciation of the RMB, a group of Asian countries is displacing labor-intensive processes in China, thus having a positive effect on Mexico after several years of ground lost to China in the US market. However, most of China's exports to the US in the last decade have shifted from other Asian suppliers – and not from the NAFTA region- which is relevant to understanding future trade scenarios in this triangular relationship. In addition, competition between Mexico and China seems to be limited, since Mexico's exports are characterized by a high weight and volume to value ratio as a result of Mexico's comparative advantage in transportation costs.

Section II of the book includes four articles. The first, by Adrian H. Hearn, stresses from an ethnographic perspective that Mexico has, so far, not prepared sufficiently for the increasing influence of China, with the federal government particularly to blame. Ignorance and fear regarding the "Chinese threat" remains strong in Mexico, in the media as well as the private sector. A group of factors, such as illegal trans-shipment or "triangulation", falsification of import documents, bribery, and massive displacement of Mexican production by Chinese imports, among others, has generated significant tension in the bilateral relationship between Mexico and China. Hearn therefore promotes the implementation of instruments of institutional cooperation among the three countries.

Chunsi Wu begins her analysis based on the importance and sensitivity of the Mexico-United States relationship in terms of issues such as migration, trade, investments, and regional security, which are fundamental for both countries in the short, medium, and long-term. Given the inevitability of "newcomers" into this relationship and into NAFTA, she recognizes that both countries are "wary" of other actors in the region such as China. As Mexico-China ties are the most tenuous in this triangular relationship, Wu argues for enhanced cooperation and a long-term relationship between the three countries based on initiatives from both China and Mexico.

Hongbo Sun examines this triangular relationship in detail, emphasizing the Mexico-China experience over the last decades. The article differentiates the economic, political, and multilateral experiences between China and Mexico, and speaks as to the reasons why this relationship has deteriorated until today. Despite strong political ties in the 1970s between the two nations, economic asymmetries, voting discrepancies between Mexico, the United States, and China in the UN General Assembly, significant differences in their vision of IMF and World Bank reform, and trade disputes are relevant to understanding the increasing distance between Mexico and China. The AH1N1 crisis in 2009 and the visit of the Dalai Lama to Mexico in 2011, among other issues, have only increased bilateral tensions. Sun suggests a group of proposals for the new Chinese and Mexican governments to move beyond historical limitations in order to improve the triangular relationship.

Evan Ellis begins with a brief discussion on the "triangular" concept and its implications. Based on a rather surprising scrutiny of the US in the Mexico-China relationship, Ellis suggests that for Mexico, the triangular nature of the Mexico-US-PRC implies, on one hand, China as a major economic partner, competitor, and potential market, while on the other hand being "tied" to the US (from a geographical, economic, and political perspective). Ellis examines several of these interdependencies –from trade and investment to crime and security - in order to anticipate increasing tensions in two areas: the management of NAFTA and the combat of trans-Pacific crime.

In the Section III, Ariel C. Armony presents a balanced discussion of the concept of the triangular relationship, and considers some of its uses as a tool to examine increasingly complex US-Mexico-China interactions. Armony reviews the most important factors shaping triangular relationships and adds a note of caution against deterministic and/or simplistic interpretations of these three-way connections. His argument for a comprehensive and multi-level analysis of the interstate links that constitute a triangular relationship includes a look at Mexico's elite and public perceptions of China. The nonstrategic nature of the US-Mexico-China triangle presents important opportunities for the three parties, especially for Mexico. However, Armony explains that the emergence of new trade blocs such as the Trans-Pacific Partnership (TPP) and the Pacific Alliance demands attention to new triangular relations linking Latin America, the United States, and Asia. He also discusses the limitations of a triangular approach for addressing the future of NAFTA-China relations. This concluding chapter integrates key notions advanced by the contributors and connects them as part of current debates on the new global ties shaping Latin America in the twenty-first century.

This book provides an interesting contribution to the concept of the triangular relationship, and promotes a more in-depth and detailed analysis in the future regarding the characteristics of and the potential benefits and conflicts within the US-Mexico-China relationship, as the influence of China will doubtlessly continue to increase.

This project's incorporation of Chinese perspectives into its research agenda would not have been possible without the support of Open Society Foundations, which provided travel grants for a May 2012 workshop organized by Hearn and Dussel Peters for the LASA Section for Asia and the Americas, hosted by Harley Shaiken at the University of California-Berkeley Center for Latin American Studies.

We finally wish to thank Mac Layne, who was in charge of editing the articles in this book. This project is a "triangular relationship" itself in many ways, considering the effort and support of each of the authors. Not only do we have experts and analysis from China, Mexico, and the United States represented herein, but we have been able to count on the support of three different institutions –the Centro de Estudios China-México (CECHIMEX) from the School of Economics at the Universidad Nacional Autónoma de México (UNAM), the Center for Latin American Studies at the University of California in Berkeley, and the Center for Latin American Studies at the University of Miami. All three centers have a long and diverse history, and have each decided that this new triangular relationship is an important case study that will have lasting effects in the future for Latin America and the Caribbean and other regions as well.

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Section I
Economy, Trade and Investments

China´s Economic Effects on the U.S.-Mexico Trade Relationship. Towards a New Triangular Relationship?

Kevin P. Gallagher and Enrique Dussel Peters

Introduction

China's engagement with the world over the last three decades has been both rapid and profound. There is not a single socioeconomic issue on which China has not had a significant impact, from trade, investment, and the overall economic climate to military and security concerns, as well as energy, culture, the push to learn Mandarin, and many others. The effects of China's burgeoning relationship with the United States and Mexico have been profound, and have triggered significant debate and discussions in the respective countries. China has been particularly interested in developing a holistic and long-term strategy with the United States and Mexico. The debate over China in the U.S. has centered primarily on trade, investment, and national security, while Mexico's concerns have been largely economic in nature.

This paper analyzes the extent to which China's rise has posed a threat to U.S.-Mexico trade relations, as well as to NAFTA (North American Free Trade Agreement). Considering, then, the long and profound economic and trade integration between Mexico and the U.S., has Chinese intervention enhanced North American integration, or has it become a threat to NAFTA in both Mexico and the United States? How does trade with the United States and Mexico shape China's interactions with these nations? Can this be considered a "triangular relationship" –i.e. one between China, Mexico, and the United States?

This brief document is divided into three parts. After the present introduction, the second section presents a quantitative analysis examining the extent to which China is penetrating import markets in Mexico and the U.S. relative to trade between the NAFTA signatories. The analysis will focus exclusively on trade relations between Mexico and the U.S. and the relevance of China in this context. The final section will summarize our main findings and make suggestions regarding further research and policy.

In general, the literature on trade triangulation between Mexico, the United States, and China is relatively new and emphasizes bilateral relationships, i.e. Mexico-China, U.S-China, etc.[1] Beginning with the pioneering work of Watkins (2002), a group of authors (Bittencourt et. al 2012; Jenkins and Dussel Peters 2009) along with Gallagher and Porzecanski (2011) have discussed the case of the U.S. market and how China has affected Mexican exports to the U.S. Aside from an increasing number of case studies on specific value-added chains, there is very little analysis on the impact that China is having on Mexican imports and its subsequent effects in the United States. The most relevant results of this literature have focused on trade and on the competition between Mexico and China in U.S. markets, concluding that: a. until 2006, Mexico's exports to the U.S. were declining rapidly as a result of direct competition with China, particularly in sectors of high labor intensity (Bittencourt et. al 2012; Gallagher and Porzecanski 2010), with differences in exchange rates and industrial policies also affecting these trends, and b. based on estimations of shift-and-share analysis, export-similarity indices, and unit value of exports until 2006, Dussel Peters (2009) showed a relative similarity between the exports of Mexico and China to the U.S. in terms of yarn textiles and electronics [2], but also in regards to chemical, iron, and steel products (Bittencourt et. al 2012), and particularly through lower unit values. [3]

1. Is China the Cause of NAFTA's Trade Disintegration?

In this section, we examine the extent to which China is penetrating markets in the United States and Mexico, with a particular focus on the latter. This section of the paper has four sub-parts. First, we briefly outline U.S.-Mexico-China trade trends from a historical perspective. Second, we examine the extent to which Mexico is competing with China in U.S. import markets. Third, we analyze the extent to which the U.S. is competing with China in Mexican markets. Finally, we examine a subset of 52 sectors in Mexico where the United States is losing market share to China, while Mexico is losing market share in the U.S. in those very same sectors.

1 Ellis (2012) makes an interesting attempt at briefly discussing the literature on "triangular relationships" from a very broad and interdisciplinary perspective, which includes policy, military, cultural, and socioeconomic issues. He also discusses the respective actors in and problems with the "triangle concept". For a literature review on Latin America's bilateral relations with China, see: Dussel Peters (2009) and Bittencourt et al. 2012.

2 "It is expected that autoparts and automobiles will be the next chains in which competition will increase in the next years" (Dussel Peters 2009:376).

3 The analysis of Bittencourt et al. 2012 includes a detailed analysis for Argentina, Brazil, Mexico, and Uruguay and their competition with China in different markets; Brazil and Mexico have suffered the heaviest losses against China in Latin American markets.

1.1. General Trade Trends

By 2011, China became a critical trading partner for the NAFTA region - second only to the region's cumulative trade. Table 1 shows that China's trade with Mexico and the United States increased after its integration into the World Trade Organization in 2001. In the case of the U.S., China was still the nation's fourth largest trading partner in 2002, and has since displaced both Japan and Mexico to become second only to Canada. In the case of Mexico, since 2003 China has displaced countries such as Spain, Germany, the Republic of Korea, and Canada to become Mexico's second largest trading partner.

Table 1

Mexico and US Top Five Trading Partners (1993-2011)

MEXICO					
1993	USA	Japan	Germany	Canada	Spain
1994	USA	Japan	Germany	Canada	Spain
1995	USA	Japan	Canada	Germany	Spain
1996	USA	Japan	Canada	Germany	Brazil
1997	USA	Japan	Germany	Canada	Spain
1998	USA	Germany	Japan	Canada	Spain
1999	USA	Germany	Japan	Canada	Rep. of Korea
2000	USA	Canada	Japan	Germany	Rep. of Korea
2001	USA	Japan	Germany	Canada	China
2002	USA	Japan	Canada	Germany	China
2003	USA	China	Japan	Germany	Canada
2004	USA	China	Japan	Germany	Canada
2005	USA	China	Japan	Germany	Canada
2006	USA	China	Japan	Canada	Germany
2007	USA	China	Japan	Germany	Canada
2008	USA	China	Japan	Germany	Canada
2009	USA	China	Canada	Japan	Germany
2010	USA	China	Canada	Japan	Germany
2011	USA	China	Canada	Japan	Germany
UNITED STATES					
1993	Canada	Japan	Mexico	United Kingdom	Germany
1994	Canada	Japan	Mexico	United Kingdom	Germany
1995	Canada	Japan	Mexico	Germany	China
1996	Canada	Japan	Mexico	China	Germany
1997	Canada	Japan	Mexico	China	United Kingdom
1998	Canada	Japan	Mexico	China	Germany
1999	Canada	Mexico	Japan	China	Germany
2000	Canada	Mexico	Japan	China	Germany
2001	Canada	Mexico	Japan	China	Germany
2002	Canada	Mexico	Japan	China	Germany
2003	Canada	Mexico	China	Japan	Germany
2004	Canada	Mexico	China	Japan	Germany
2005	Canada	China	Mexico	Japan	Germany
2006	Canada	China	Mexico	Japan	Germany
2007	Canada	China	Mexico	Japan	Germany
2008	Canada	China	Mexico	Japan	Germany
2009	Canada	China	Mexico	Japan	Germany
2010	Canada	China	Mexico	Japan	Germany
2011	Canada	China	Mexico	Japan	Germany

Source own ellaboration based on UN Comtrade (July 2012)

Table 2 presents more detailed information on the levels of trade between the U.S., Mexico, and China. Since the 1990s, both Mexico and China have been competing for U.S. market share in low-skill manufacturing exports. However, there are several issues worth noting. First, Mexico was very successful in exporting to the U.S. beginning with the signing of NAFTA in 1994 up until China's integration into the WTO in 2001, showing an average annual growth rate (AAGR) of 14.9% - identical to that of China during the same period. Second, from 2001 to 2011 (see Table 2), China continued to exhibit a very dynamic AAGR of 14.3% in its exports to the U.S., while Mexico's AAGR fell to 7.2%, almost half of that of China. Thus, since the 1990s, we observe two clear trends: significant Mexican integration with NAFTA from NAFTA's origins until 2001, and rapid Chinese growth from 2001 onward. As a result, Mexico's export share over U.S. imports has remained constant for the period 2002-2011, while China's has increased from levels below 10% to 18.44% in 2011.

From a Mexican perspective, trade dynamics have also shifted substantially since the 1990s, considering that the U.S. has been Mexico's primary trading partner from the first recorded data in the 20th century. Therefore, at least two issues stand out for this time period. First, since the 1990s we have seen the most significant decline of U.S. export share over total Mexican imports, from levels above 75% in the 1990s to levels below 50% since 2007. The second issue, related closely to the first, is that Asia, and particularly China, is the cause of the decline of U.S. exports over Mexican imports. Chinese exports over total Mexican imports, for example, increased from levels below 1% in the 1990s to 14.89% in 2011.

Table 2

The Trade Triangle Mexico-US-China (1980-2011) (In $ US-million)

Year	U.S. Exports to Mexico	U.S. Imports from Mexico	Chinese Exports to U.S.	Chinese Export to Mexico	Total U.S. Imports	Total Mexican Imports	Mexican Exports to U.S. over total U.S. imports (share)	Chinese Exports to U.S. over total U.S. imports (share)	U.S. Exports to Mexico over total Mexican Imports (share)	Chinese Exports to Mexico over total Mexican Imports (share)
1980		12,774	1,161		252,997		5.05	0.46		
1981		14,013	2,062		273,352		5.13	0.75		
1982		15,770	2,502		254,862		6.19	0.98		
1983		17,019	2,477		269,859		6.31	0.92		
1984		18,267	3,381		341,177		5.35	0.99		
1985		19,360	4,222		361,396		5.36	1.17		
1986	10,426	17,546	5,243	53	387,054	14,751	4.53	1.35	70.68	0.36
1987	8,252	20,523	6,910	47	424,037	12,758	4.84	1.63	64.68	0.37
1988	13,043	23,544	9,270	109	460,260	19,557	5.12	2.01	66.69	0.56
1989	15,554	27,540	12,839	161	493,006	22,789	5.59	2.60	68.25	0.71
1990	19,848	30,770	16,261	234	517,524	29,560	5.95	3.14	67.15	0.79
1991	24,652	31,772	20,276	142	508,944	38,073	6.24	3.98	64.75	0.37
1992	45,721	35,865	27,450	402	553,496	61,924	6.48	4.96	73.83	0.65
1993	48,321	40,721	33,673	454	603,154	65,272	6.75	5.58	74.03	0.70
1994	54,813	50,334	41,346	499	689,030	79,335	7.30	6.00	69.09	0.63
1995	53,973	62,746	48,506	520	770,821	72,453	8.14	6.29	74.49	0.72
1996	67,615	74,108	54,396	760	817,627	89,355	9.06	6.65	75.67	0.85
1997	83,214	87,120	65,812	1,289	898,025	111,983	9.70	7.33	74.31	1.15
1998	93,307	96,075	75,095	1,615	944,350	125,324	10.17	7.95	74.45	1.29
1999	105,376	111,067	87,775	1,920	1,059,220	141,956	10.49	8.29	74.23	1.35
2000	127,690	137,448	107,615	2,878	1,258,080	179,404	10.93	8.55	71.17	1.60
2001	114,060	132,775	109,380	4,027	1,180,074	168,377	11.25	9.27	67.74	2.39
2002	106,900	136,142	133,484	6,274	1,202,284	168,651	11.32	11.10	63.39	3.72
2003	105,723	139,700	163,250	9,400	1,305,092	170,546	10.70	12.51	61.99	5.51
2004	111,263	157,821	210,517	14,373	1,525,269	196,809	10.35	13.80	56.53	7.30
2005	118,973	172,481	259,829	17,696	1,732,321	221,819	9.96	15.00	53.64	7.98
2006	130,810	200,500	305,779	24,438	1,918,997	256,086	10.45	15.93	51.08	9.54
2007	139,931	212,878	340,107	29,744	2,017,121	281,927	10.55	16.86	49.63	10.55
2008	151,746	218,066	356,305	34,690	2,164,834	308,583	10.07	16.46	49.18	11.24
2009	112,789	178,322	309,530	32,529	1,601,896	234,385	11.13	19.32	48.12	13.88
2010	145,450	231,920	382,954	45,608	1,966,497	301,482	11.79	19.47	48.25	15.13
2011	174,878	265,347	417,303	52,248	2,262,586	350,842	11.73	18.44	49.85	14.89

Growth rates										
1980-2011	9.5	10.3	20.9	24.9	7.3	10.8				
1994-2001	11.0	14.9	14.9	34.7	8.0	11.3				
2001-2011	4.4	7.2	14.3	29.2	6.7	7.6				

Source own ellaboration based on UN Comtrade (July 2012)

1.2. A More Detailed Analysis

Thus, China has effectively become NAFTA's "fourth" member, due to increasing trade with the region as a whole, as well as with each of its members. The dynamism and depth of China's trade explosion has clearly led to a decrease regarding intra-NAFTA trade since 2001.[4] What then, viewed from the more detailed perspective of the SITC (Standard International Trade Classification), are the main characteristics of China's trade with the U.S. and Mexico?

Here, five reflections are relevant to our analysis. First, Table 3 shows the top twenty Mexican exports to the U.S. in 2011, as well as the top twenty U.S. exports to Mexico. Despite the wide array of traded goods, it is important to note that for both countries, manufactured goods are at the core of their respective exports. Table 4, however, shows substantial differences between U.S. and Mexican trade with China, despite the fact that the top twenty imports from both nations have increased their share over total trade. In the case of Mexico, for example, Table 4 demonstrates a substantial decrease in its top imported goods from the U.S. – from levels above 82% at the end of the 1990s to levels below 60% since 2006 – while China's top twenty products exported to Mexico have increased substantially, yet still remain at very low levels (12.62% in 2011). Both trends indicate that Mexico's trade has diversified importantly in the last ten years, particularly as a result of trade with Asia and China.

From the U.S. perspective, its top twenty imported goods from Mexico and China show similar levels - 17.37% and 15.37%, respectively. However, while Mexico too has shown similar levels over the last ten years, China's coefficient has increased significantly, from levels below 4% before 1997 to levels above 10% after 2004.

Table 3. **Mexico and U.S.: Top 20 Exports (2011)**

		U.S. Top 20 Exports to Mexico (2011)		Mexico's Top 20 Exports to the U.S. (2011)
1	334	Petroleum products, refined	333	Crude petroleum and oils obtained from bituminous minerals
2	784	Motor vehicle parts and accessories, nes	781	Passenger motor vehicles (excluding buses)
3	583	Polymerization and copolymerization products	761	Television receivers
4	713	Internal combustion piston engines, and parts thereof, nes	784	Motor vehicle parts and accessories, nes
5	772	Electrical apparatus for making and breaking electrical circuits	752	Automatic data processing machines and units thereof
6	893	Articles, nes of plastic materials	764	Telecommunication equipment, nes; parts and accessories, nes
7	764	Telecommunication equipment, nes; parts and accessories, nes	782	Lorries and special purposes motor vehicles
8	341	Gas, natural and manufactured	773	Equipment for distribution of electricity
9	749	Non-electric parts and accessories of machinery, nes	931	Special transactions, commodity not classified according to class
10	699	Manufactures of base metal, nes	713	Internal combustion piston engines, and parts thereof, nes
11	781	Passenger motor vehicles (excluding buses)	772	Electrical apparatus for making and breaking electrical circuits
12	511	Hydrocarbons, nes, and derivatives	971	Gold, non-monetary (excluding gold ores and concentrates)
13	773	Equipment for distribution of electricity	778	Electrical machinery and apparatus, nes
14	011	Meat and edible meat offal, fresh, chilled or frozen	821	Furniture and parts thereof
15	778	Electrical machinery and apparatus, nes	054	Vegetables, fresh or simply preserved; roots and tubers, nes
16	044	Maize, unmilled	872	Medical instruments and appliances, nes
17	743	Pumps, compressors; centrifuges; filtering apparatus; etc, parts	334	Petroleum products, refined
18	582	Condensation, polycondensation and polyaddition products	783	Road motor vehicles, nes
19	674	Universals, plates, and sheets, of iron or steel	775	Household type equipment, nes
20	874	Measuring, checking, analysis, controlling instruments, nes, parts	681	Silver, platinum and other metals of the platinum group
1	S2-776	Thermionic, microcircuits, transistors, valves, etc	S2-781	Passenger motor vehicles (excluding buses)
2	S2-784	Motor vehicle parts and accessories, nes	S2-333	Crude petroleum and oils obtained from bituminous minerals
3	S2-772	Electrical apparatus for making and breaking electrical circuits	S2-764	Telecommunication equipment, nes; parts and accessories, nes
4	S2-699	Manufactures of base metal, nes	S2-752	Automatic data processing machines and units thereof
5	S2-893	Articles, nes of plastic materials	S2-931	Special transactions, commodity not classified according to class
6	S2-778	Electrical machinery and apparatus, nes	S2-773	Equipment for distribution of electricity
7	S2-764	Telecommunication equipment, nes; parts and accessories, nes	S2-782	Lorries and special purposes motor vehicles
8	S2-773	Equipment for distribution of electricity	S2-784	Motor vehicle parts and accessories, nes
9	S2-583	Polymerization and copolymerization products	S2-761	Television receivers
10	S2-713	Internal combustion piston engines, and parts thereof, nes	S2-772	Electrical apparatus for making and breaking electrical circuits
11	S2-781	Passenger motor vehicles (excluding buses)	S2-821	Furniture and parts thereof
12	S2-334	Petroleum products, refined	S2-778	Electrical machinery and apparatus, nes
13	S2-749	Non-electric parts and accessories of machinery, nes	S2-713	Internal combustion piston engines, and parts thereof, nes

4. In terms of intra-industry trade between the U.S. and Mexico, see: Cárdenas and Dussel Peters (2011).

14	S2-752	Automatic data processing machines and units thereof	S2-842	Men's and boys' outerwear, textile fabrics not knitted or crocheted
15	S2-874	Measuring, checking, analysis, controlling instruments, nes, parts	S2-759	Parts, nes of and accessories for machines of headings 751 or 752
16	S2-642	Paper and paperboard, precut, and articles of paper or paperboard	S2-843	Womens, girls, infants outerwear, textile, not knitted or crocheted
17	S2-771	Electric power machinery, and parts thereof, nes	S2-771	Electric power machinery, and parts thereof, nes
18	S2-759	Parts, nes of and accessories for machines of headings 751 or 752	S2-874	Measuring, checking, analysis, controlling instruments, nes, parts
19	S2-728	Other machinery, equipment, for specialized industries; parts nes	S2-716	Rotating electric plant and parts thereof, nes
20	S2-931	Special transactions, commodity not classified according to class	S2-762	Radio-broadcast receivers

Source: Own ellaboration based on UN Comtrade (July 2012).

Table 4.

Mexico and U.S.: Top 20 imported products from Mexico and the US

	Top 20 Mexican Imports from the U.S. (2011)		Top 20 U.S. Imports from Mexico (2011)	
	China %	USA%	China %	Mexico%
1980			0.13%	6.99%
1981			0.27%	7.17%
1982			0.59%	9.55%
1983			0.43%	9.93%
1984			0.50%	8.47%
1985			0.75%	8.62%
1986	0.35%	75.05%	0.57%	6.42%
1987	0.25%	65.77%	0.53%	6.93%
1988	0.31%	68.27%	0.76%	7.40%
1989	0.44%	76.28%	0.95%	8.10%
1990	0.60%	74.10%	1.10%	8.63%
1991	0.07%	69.95%	1.40%	9.21%
1992	0.51%	81.74%	1.75%	9.67%
1993	0.54%	82.41%	1.92%	10.16%
1994	0.31%	77.88%	2.44%	11.11%
1995	0.37%	81.62%	2.83%	12.52%
1996	0.39%	82.63%	2.96%	14.05%
1997	0.59%	81.49%	3.35%	14.88%
1998	0.55%	82.20%	4.06%	15.65%
1999	0.60%	80.97%	4.47%	15.46%
2000	0.72%	78.70%	4.93%	16.12%
2001	1.25%	74.44%	5.51%	17.11%
2002	1.88%	71.96%	7.13%	17.04%
2003	2.75%	70.18%	8.79%	16.15%
2004	4.74%	64.65%	10.51%	15.44%
2005	5.88%	60.69%	11.56%	14.49%
2006	7.66%	57.11%	12.28%	15.62%
2007	7.67%	56.22%	12.81%	15.96%
2008	9.55%	54.01%	12.15%	14.82%
2009	12.84%	52.19%	16.21%	17.33%
2010	13.53%	54.02%	16.19%	17.92%
2011	12.62%	57.54%	15.37%	17.37%

Source: Own ellaboration based on UN Comtrade (July 2012).

1.3. Is China a Threat to U.S. and Mexican Trade?

Viewed from a more specific and sectorial level, are we able to pinpoint the extent to which Chinese firms are outcompeting their Mexican and U.S. counterparts? To answer this question, we draw on an established methodology conceived by Lall and Weiss (2005). Lall and Weiss examine the evolution of both Chinese and Latin American and Caribbean (LAC) export shares in the global and U.S. markets by searching for evidence of increased Chinese competition in terms of products which are indicators of both increased penetration of Chinese exports and decreased penetration of LAC exports.

As shown in Table 5, Lall and Weiss define instances in which China's market share is rising and that of LAC is decreasing in the U.S. market as a "direct threat". In other words, when LAC trade is directly threatened by China. Similarly, they define instances in which both China's and LAC's shares are increasing, while China's share is increasing at a more rapid rate, as a "partial threat" from China.

Table 5 shows the results calculated by using the Lall and Weiss methodology. For these calculations, we first look at trade in 2000, the year before China entered the global economy. We then examine the market share in 118 sectors in both the United States and Mexico in 2000 and again in 2011 in order to calculate the percentage point change in market share during that period. Again, when market share for the U.S. or Mexico decreases in a sector where that of China increases, it is called a "direct threat". When U.S. or Mexican market share increases but at a slower rate than that of China, this is deemed a "partial threat".

Table 5

Definition of Threat According to Lall and Weiss

		Rising	Falling
	Rising	A. No threat	C. Reverse threat
Other countries' export market shares		Both countries have rising market shares and the other is gaining more than China.	No competitive threat from China. The threat is reversed, from the other country to China.
		B. Partial threat	
		Both are gaining market share but China is gaining faster than the other country	
	Falling	D. Direct threat	E. Mutual withdrawal: no threat
		China gains market share and the other country loses; this may indicate causal connection unless the other country was losing market share in the absence of Chinese influence.	Both countries lose market share in export markets to other competitors.

Source: based on Lall and Weiss (2005)

Table 6 indicates, according to this methodology, the increasing level of competition with China between the U.S. and Mexico in their respective markets during the period 2000-2011. In the case of the Mexico, over 95% of manufacturing exports and 56% of total exports to the U.S. where under "threat" from China in 2011 – a trend that has increased since 2000. In fact, the majority of the competition between Mexico and China in the U.S. market falls under the category of "direct threat", i.e. regarding products in which Mexico loses market share and China gains. In the case of the U.S., this dynamic has been even more profound: in the year 2000 only 36.82% of U.S. manufacturing exports to Mexico were under threat from China. By 2011, this coefficient increased to 74.45%. In contrast to Mexico, products under "partial threat", i.e. those in which both China and the U.S. are gaining market share but China is gaining faster than the U.S., are much more widespread (see Table 6).

Table 6

Mexico and US: China "Threat" (as a percentage of their respective trade) (2000-2011)

		Direct	Partial	Total
U.S.				
	As % of Mexico's Manufacturing Imports in 2000 As % of Mexico's Total Imports in 2000	51.77 41.71	0.90 0.73	52.67 42.43
U.S				
	As % of Mexico's Manufacturing Imports in 2009 As % of Mexico's Total Imports in 2009	95.58 61.82	0.23 0.15	95.81 61.97
U.S.				
	As % of Mexico's Manufacturing Imports in 2011 As % of Mexico's Total Imports in 2011	94.72 56.36	0.50 0.30	95.22 56.65
Mexico				
	As % of U.S. Manufacturing Imports in 2000 As % of U.S. Total Imports in 2000	3.67 2.88	33.15 26.00	36.82 28.88
Mexico				
	As % of U.S. Manufacturing Imports in 2009 As % of U.S. Total Imports in 2009	52.19 36.28	29.04 20.18	81.23 56.46
Mexico				
	As % of U.S. Manufacturing Imports in 2011 As % of U.S. All Imports in 2011	46.20 31.17	28.25 19.06	74.45 50.22

Source: Own ellaboration based on UN Comtrade (July 2012).

Table 7 highlights some of the issues mentioned earlier and, in particular, those specific items under "direct threat" from China in both the U.S. and Mexico. All of these products include manufactured goods, without exception. In several cases, the effects of Chinese competition have been very severe. In the case of "Telecommunication equipment; parts and accessories", Mexico lost a market share of 6.41% from 2000-2011, while Chinese exports grew by 35.63%. This means that by 2011, China had a dominant market share of 46.25% over total U.S. imports, while Mexico's market share in 2011 was only 13.94%. As a result, from 2000-2011 Mexico lost more than $4.2 billion in potential exports based on its market share in the year 2000.

Table 7

United States and Mexico: Characteristics of Traded items under threat from China (2000-2011)

Commodities	US Exports to Mexico Share in 2000	US Exports to Mexico Share in 2011	Percent Point Change in U.S. Exports to Mexico (2000 - 2011)	Chinese Exports to Mexico Share in 2000	Chinese Exports to Mexico Share in 2011	Percentage Point Change in Chinese Exports to Mexico (2000 - 2011)	Mexican Exports to U.S. Share in 2000	Mexican Exports to U.S. Share in 2011	Percentage Point Change in Mexican Exports to U.S. (2000 - 2011)	Chinese Exports to U.S. Share in 2000	Chinese Exports to U.S. Share in 2011	Percentage Point Change in Chinese Exports to U.S. (2000 - 2011)	Change in trade balance between U.S. and Mexico (2000-2011)	2000 Mexican Exports
Synthetic fibres suitable for spinning	68.14%	55.66%	-12.48	0.13%	11.86%	11.73	15.53%	1.89%	-13.63	2.54%	24.40%	21.86	121,841,211	69,573,322
Synthetic fibres suitable for spinning	68.14%	55.66%	-12.48	0.13%	11.86%	11.73	15.53%	1.89%	-13.63	2.54%	24.40%	21.86	121,841,211	69,573,322
Other man-made fibres suitable for spinning, and waste	80.70%	63.14%	-17.56	0.03%	15.64%	15.62	9.38%	2.58%	-6.80	0.70%	21.65%	20.95	-3,373,255	3,498,303
Alcohols, phenols etc, and their derivatives	62.55%	57.43%	-5.12	1.19%	2.19%	1.00	2.28%	0.68%	-1.60	1.65%	3.46%	1.81	371,813,484	41,909,646
Soap, cleansing and polishing preparations	81.03%	70.78%	-10.25	0.14%	2.25%	2.10	26.07%	18.65%	-7.42	1.67%	11.96%	10.29	38,255,481	214,689,726
Regenerated cellulose; derivatives of cellulose; vulcanized fibre	65.00%	43.63%	-21.37	0.05%	3.12%	3.07	2.90%	2.59%	-0.31	0.49%	14.44%	13.95	-10,510,349	7,982,731
Other artificial resins and plastic materials	85.91%	58.21%	-27.70	0.25%	5.52%	5.27	1.96%	1.26%	-0.69	3.95%	6.45%	2.50	51,022,651	3,622,975
Miscellaneous chemical products, nes	78.38%	67.08%	-11.30	0.15%	2.55%	2.40	3.19%	2.85%	-0.34	2.55%	10.15%	7.60	883,728,895	126,275,324
Manufactures of leather or of composition leather, nes; etc	93.15%	68.08%	-25.06	1.34%	15.91%	14.58	17.15%	6.54%	-10.61	28.84%	64.18%	35.34	-115,689,997	107,502,777
Furskins, tanned or dressed; pieces of furskin, tanned or dressed	80.26%	17.11%	-63.15	0.00%	28.30%	28.30	2.50%	1.20%	-1.30	5.61%	12.60%	6.98	-1,396,657	$762,366
Textile yarn	75.41%	53.90%	-21.50	0.37%	9.16%	8.79	13.92%	13.02%	-0.91	1.68%	16.67%	15.00	-45,844,932	320,132,121
Cotton fabrics, woven (not including narrow or special fabrics)	87.17%	66.82%	-20.35	2.57%	15.16%	12.59	8.86%	2.52%	-6.34	10.78%	29.27%	18.49	-422,263,339	160,602,438
Fabrics, woven, of man-made fibres (not narrow or special fabrics)	65.99%	56.37%	-9.62	3.11%	18.63%	15.52	4.57%	3.56%	-1.01	6.08%	25.46%	19.38	-463,846,804	70,157,717
Knitted or crocheted fabrics (including tubular, etc, fabrics)	81.88%	62.30%	-19.58	2.98%	23.30%	20.32	8.21%	2.25%	-5.96	0.73%	37.40%	36.68	63,529,252	88,356,507
Tulle, lace, embroidery, ribbons, trimmings and other small wares	90.06%	53.55%	-36.50	0.84%	12.32%	11.48	10.68%	6.17%	-4.50	8.88%	32.79%	23.91	-159,225,036	53,615,714
Made-up articles, wholly or chiefly of textile materials, nes	87.20%	35.07%	-52.13	0.63%	33.85%	33.22	14.20%	5.57%	-8.63	24.37%	52.92%	28.54	-39,811,550	685,535,392
Floor coverings, etc	90.57%	74.56%	-16.01	0.51%	6.14%	5.62	0.85%	0.57%	-0.27	15.09%	25.06%	9.97	-28,454,430	13,511,422
Pottery	9.93%	0.47%	-9.46	30.03%	82.72%	52.70	3.44%	2.26%	-1.18	49.03%	69.24%	20.21	29,545,034	69,643,564
Universals, plates, and sheets, of iron or steel	61.32%	51.64%	-9.68	0.63%	1.86%	1.22	9.52%	7.91%	-1.61	1.78%	11.90%	10.12	1,008,669,304	415,799,814
Tube, pipes and fittings, of iron or steel	69.58%	50.79%	-18.79	0.56%	13.22%	12.65	7.57%	6.91%	-0.67	6.48%	11.81%	5.33	-119,887,718	235,236,483
Nails, screws, nuts, bolts, rivets, etc, of iron, steel or copper	84.42%	54.96%	-29.46	0.40%	9.66%	9.26	2.29%	1.38%	-0.91	9.48%	25.14%	15.66	30,592,716	68,605,341
Household equipment of base metal, nes	48.10%	17.18%	-30.92	10.52%	45.28%	34.76	13.78%	9.93%	-3.85	35.03%	64.42%	29.38	-189,021,351	525,637,749
Manufactures of base metal, nes	89.67%	58.38%	-31.29	0.70%	13.00%	12.30	17.09%	15.18%	-1.91	14.46%	35.16%	20.70	-2,699,145,848	1,521,583,126
Rotating electric plant and parts thereof, nes	61.94%	43.23%	-18.71	1.99%	17.13%	15.14	32.31%	24.51%	-7.80	6.77%	19.41%	12.64	-740,017,637	1,907,460,699
Food-processing machines (non-domestic) and parts thereof, nes	39.10%	30.65%	-8.45	0.02%	4.85%	4.83	2.88%	2.46%	-0.42	1.41%	6.85%	5.45	-9,618,547	14,878,691
Non-electric parts and accessories of machinery, nes	74.31%	49.27%	-25.04	0.80%	11.02%	10.21	13.10%	9.90%	-3.19	4.53%	20.50%	15.97	206,468,254	1,553,872,723
Office machines	60.77%	8.12%	-52.65	12.86%	53.54%	40.68	9.12%	0.56%	-8.56	29.44%	67.11%	37.67	158,524,758	274,082,084
Parts, nes of and accessories for machines of headings 751 or 752	70.33%	8.18%	-62.15	4.74%	72.07%	67.34	7.05%	2.68%	-4.37	11.71%	45.39%	33.68	629,289,277	2,404,341,059
Television receivers	88.43%	54.87%	-33.55	2.72%	32.12%	29.41	62.60%	54.22%	-8.38	2.57%	29.97%	27.40	-9,602,480,143	4,582,913,467
Gramophones, dictating machines and other sound recorders	53.27%	9.01%	-44.26	7.78%	55.34%	47.56	5.25%	0.87%	-4.39	22.35%	48.42%	26.07	323,593,350	622,364,717
Telecommunication equipment, nes; parts and accessories, nes	59.19%	15.90%	-43.30	1.72%	49.49%	47.77	20.35%	13.94%	-6.41	10.61%	46.25%	35.63	-4,208,220,750	9,169,843,349
Electric power machinery, and parts thereof, nes	74.61%	21.53%	-53.08	7.45%	48.57%	41.12	24.22%	16.94%	-7.29	22.28%	37.18%	14.90	-1,033,118,959	2,106,685,204
Equipment for distribution of electricity	90.37%	64.28%	-26.09	1.29%	17.19%	15.91	61.33%	47.80%	-13.53	9.55%	21.29%	11.74	-1,827,669,689	5,517,170,381
Electro-medical and radiological equipment	59.63%	47.26%	-12.37	0.18%	11.97%	11.79	6.57%	5.71%	-0.86	1.53%	9.66%	8.13	-196,136,122	213,261,862
Thermionic, microcircuits, transistors, valves, etc	81.14%	9.55%	-71.58	0.51%	11.29%	10.78	3.69%	2.87%	-0.83	1.61%	16.09%	14.49	-9,170,899,614	1,831,944,903
Passenger motor vehicles (excluding buses)	65.70%	45.36%	-20.34	0.00%	0.13%	0.13	14.27%	12.35%	-1.92	0.00%	0.05%	0.05	894,730,367	15,859,645,400
Cycles, scooters, motorized or not; invalid carriages	20.63%	12.90%	-7.73	17.27%	57.86%	40.59	2.40%	2.24%	-0.15	19.43%	30.66%	11.23	13,293,762	102,006,459
Railway vehicles and associated equipment	92.01%	67.59%	-24.42	0.02%	6.04%	6.02	29.67%	12.32%	-17.34	1.62%	21.73%	20.11	673,981,229	517,007,088
Furniture and parts thereof	79.91%	48.56%	-31.35	1.70%	23.34%	21.64	15.61%	14.77%	-0.84	25.41%	50.11%	24.69	-1,964,822,976	3,237,798,516
Travel goods, handbags etc, of leather, plastics, textile, others	31.28%	6.26%	-25.02	48.46%	70.15%	21.69	2.94%	0.66%	-2.28	50.14%	75.41%	25.27	62,064,984	140,420,581
Men's and boys' outerwear, textile fabrics not knitted or crocheted	73.60%	24.14%	-49.46	0.98%	10.29%	9.31	22.41%	16.26%	-6.14	9.50%	30.20%	20.70	253,905,475	2,498,053,787
Womens, girls, infants outerwear, textile, not knitted or crocheted	80.69%	9.31%	-71.39	0.61%	6.10%	5.50	12.97%	2.43%	-10.54	15.64%	47.81%	32.16	1,299,212,389	2,143,998,977
Outerwear knitted or crocheted, not elastic nor rubberized	83.55%	15.61%	-67.94	0.30%	8.55%	8.25	9.94%	2.02%	-7.92	9.92%	41.21%	31.28	362,760,812	1,779,484,082
Under-garments, knitted or crocheted	89.18%	13.55%	-75.63	0.36%	3.09%	2.73	18.71%	4.98%	-13.74	3.14%	24.98%	21.84	518,855,964	1,860,695,169
Clothing accessories, of textile fabrics, nes	91.72%	36.33%	-55.39	0.30%	21.53%	21.23	11.04%	4.63%	-6.41	19.06%	52.61%	33.55	-254,027,091	204,386,305
Articles of apparel, clothing accessories, non-textile, headgear	69.34%	13.59%	-55.75	6.72%	48.66%	41.94	2.05%	1.22%	-0.83	43.91%	52.06%	8.15	-31,461,225	114,747,017
Footwear	9.66%	1.16%	-8.50	4.03%	17.28%	13.25	1.89%	1.44%	-0.45	62.93%	74.06%	11.13	-48,022,475	288,475,488
Meters and counters, nes	83.94%	70.99%	-12.96	0.74%	6.58%	5.85	73.46%	68.42%	-5.04	1.64%	9.19%	7.56	-484,093,726	591,446,026
Measuring, checking, analysis, controlling instruments, nes, parts	79.48%	51.39%	-28.08	0.36%	7.03%	6.67	15.36%	11.85%	-3.51	3.55%	11.10%	7.56	-485,917,814	2,041,624,059
Photographic and cinematographic supplies	79.87%	70.23%	-9.65	0.25%	2.55%	2.30	10.78%	3.96%	-6.82	1.22%	1.93%	0.71	79,642,047	286,094,868
Baby carriages, toys, games and sporting goods	44.34%	15.20%	-29.14	37.13%	66.48%	29.35	3.13%	2.22%	-0.91	65.05%	80.79%	15.75	11,398,635	677,872,136
Gold, silver ware, jewelry and articles of precious materials, nes	76.36%	65.02%	-11.34	6.73%	9.79%	3.06	2.79%	2.70%	-0.09	10.14%	27.18%	17.04	143,372,556	183,812,002

Source: Own ellaboration based on UN Comtrade (July 2012).

Table 8 shows the dynamism and level of China's threat to U.S. exports in the Mexican market for the period 1993-2011 based on the general analysis and methodology shown in Table 6. In this case, we see that the U.S. share of Mexican imports fell by 56%, while Mexico's share of U.S. imports only increased by 5%. China's share of Mexican imports, on the other hand, increased by 56.38%. As a result, the change in the trade balance between Mexico and the U.S. was -$8.7 billion. Other sectors, such as electric power machinery and telecommunications equipment, have also been deeply affected as a result of China's increasing share in both the Mexican and U.S. markets.

Table 8

China Threat in Mexican and U.S. Markets

Commodities	Change in U.S. Exports to Mexico (1993 - 2000)	Change in Chinese Exports to Mexico (1993 - 2000)	Change in Mexican Exports to U.S. (1993 - 2000)	Change in trade balance between U.S. and Mexico (1993 - 2000)	Commodities	Change in U.S. Exports to Mexico (2000 - 2009)	Change in Chinese Exports to Mexico (2000 - 2009)	Change in Mexican Exports to U.S. (2000 - 2009)	Change in trade balance between U.S. and Mexico (2000 - 2009)	Commodities	Change in U.S. Exports to Mexico (2000 - 2011)	Change in Chinese Exports to Mexico (2000 - 2011)	Change in Mexican Exports to U.S. (2000 - 2011)	Change in trade balance between U.S. and Mexico (2000 - 2011)
Pottery	-47.25%	28.72%	1.41%	-58,348,692	Parts, nes of and accessories for machines of headings 751 or 752	-60.34%	53.41%	-4.84%	671,882,743	Parts, nes of and accessories for machines of headings 751 or 752	-62.15%	67.34%	-4.37%	629,289,277
Travel goods, handbags etc, of leather, plastics, textile, others	-29.17%	42.03%	0.52%	-67,168,705	Automatic data processing machines and units thereof	-50.52%	47.18%	0.86%	-1,839,677,700	Automatic data processing machines and units thereof	-55.99%	56.38%	5.05%	-8,659,535,040
Baby carriages, toys, games and sporting goods	-28.39%	32.46%	0.22%	-315,311,936	Gramophones, dictating machines and other sound recorders	-42.24%	53.40%	-4.49%	327,218,718	Optical instruments and apparatus	-58.62%	47.98%	1.36%	-210,719,161
Pig and sponge iron, spiegeleisen, etc, and ferro-alloys	-38.26%	20.46%	-0.68%	-15,187,638	Articles of apparel, clothing accessories, non-textile, headgear	-57.17%	38.12%	-0.73%	-27,928,402	Articles of apparel, clothing accessories, non-textile, headgear	-55.75%	41.94%	-0.83%	-31,461,225
Photographic apparatus and equipment, nes	-20.32%	27.33%	4.50%	-280,785,675	Optical instruments and apparatus	-58.15%	34.08%	1.14%	-204,465,174	Electric power machinery, and parts thereof, nes	-53.08%	41.12%	-7.29%	-1,033,118,959
Ingots and other primary forms, of iron or steel	-47.30%	0.01%	6.16%	-461,893,692	Electric power machinery, and parts thereof, nes	-51.50%	36.69%	-7.01%	-698,454,109	Office machines	-52.65%	40.68%	-8.56%	158,524,758
Ships, boats and floating structures	-45.92%	0.23%	0.07%	-5,696,661	Office machines	-51.13%	34.99%	-8.07%	124,904,956	Gramophones, dictating machines and other sound recorders	-44.26%	47.56%	-4.39%	323,593,350
Fertilizers, manufactured	-43.56%	0.96%	-0.71%	12,086,033	Telecommunication equipment, nes; parts and accessories, nes	-43.63%	36.99%	-2.49%	-4,899,166,796	Furskins, tanned or dressed; pieces of furskin, tanned or dressed	-63.15%	28.30%	-1.30%	-1,396,657
Gramophones, dictating machines and other sound recorders	-24.43%	7.56%	-1.22%	-371,619,559	Thermionic, microcircuits, transistors, valves, etc	-68.62%	9.66%	0.30%	-9,179,067,270	Telecommunication equipment, nes; parts and accessories, nes	-43.30%	47.77%	-6.41%	-4,208,220,750
Watches and clocks	-13.98%	16.04%	1.02%	-50,506,554	Sanitary, plumbing, heating, lighting fixtures and fittings, nes	-38.33%	35.24%	2.83%	-366,969,308	Made-up articles, wholly or chiefly of textile materials, nes	-52.13%	33.22%	-8.63%	-39,811,550
Partial Threat:														
Radio-broadcast receivers	2.53%	23.97%	11.16%	-964,292,075	Wire products (excluding insulated electrical wire); fencing grills	3.45%	4.99%	-1.86%	68,072,058	Textile fabrics, woven, other than cotton or man-made fibres	3.76%	15.19%	-0.64%	23,648,330
Textile fabrics, woven, other than cotton or man-made fibres	1.24%	2.38%	6.04%	-13,053,595						Textile and leather machinery, and parts thereof, nes	1.40%	6.64%	16.82%	-693,671,454
Wire products (excluding insulated electrical wire); fencing grills	1.60%	2.64%	8.76%	-39,788,268						Radio-broadcast receivers	1.24%	1.88%	-7.58%	961,154,119
Under garments of textile fabrics, not knitted or crocheted	1.09%	1.57%	3.85%	-168,717,610										
Manufactures of leather or of composition leather, nes; etc	0.27%	0.54%	3.96%	200,823,301										
Structures and parts, nes, of iron, steel or aluminium	2.93%	3.19%	4.05%	-132,635,691										

Source: Own ellaboration based on UN Comtrade (July 2012).

Finally, based on the concepts of Table 6, Table 9 presents a more detailed analysis of China's threat to Mexican exports to the U.S. market from 1993-2011 during three distinct periods: 1993-2000, 2000-2009 and 2000-2011. Cases such as trade between the three countries in "automatic data processing machines" show just how quickly these processes have taken place: in only eleven years (2000-2011) Mexico's share in the U.S. market decreased by 8.6%, while China's increased by 37.7%. Furthermore, in terms of items indicating a "partial threat", such as pottery, we see dramatic differences in export dynamism to the U.S. For instance, Mexican exports of "automatic data processing machines" increased by 5.1% from 2000-2011, but China's exports of these same products increased by 56.2% during that same period.

Table 9

TOP MEXICAN EXPORTS UNDER THREAT FROM CHINA IN THE U.S. MARKETS

Commodities	Change in Mexican Exports to U.S. (1993 - 2000)	Change in Chinese Exports to U.S. (1993 - 2000)	Commodities	Change in Mexican Exports to U.S. (2000-2009)	Change in Chinese Exports to U.S. (2000-2009)	Commodities	Change in Mexican Exports to U.S. (2000-2011)	Change in Chinese Exports to U.S. (2000-2011)
Direct Threat:								
Trailers, and other vehicles, not motorized, nes	-10.45%	36.09%	Television receivers	-11.3%	35.2%	Office machines	-8.6%	37.7%
Household equipment of base metal, nes	-3.42%	20.86%	Womens, girls, infants outerwear, textile, not knitted or crocheted	-9.9%	33.4%	Manufactures of leather or of composition leather, nes; etc	-10.6%	35.3%
Articles of apparel, clothing accessories, non-textile, headgear	-0.69%	18.04%	Manufactures of leather or of composition leather, nes; etc	-7.6%	32.1%	Womens, girls, infants outerwear, textile, not knitted or crocheted	-10.5%	32.2%
Electric power machinery, and parts thereof, nes	-2.63%	15.76%	Outerwear knitted or crocheted, not elastic nor rubberized	-7.6%	29.5%	Knitted or crocheted fabrics (including tubular, etc, fabrics)	-6.0%	36.7%
Gramophones, dictating machines and other sound recorders	-1.22%	17.15%	Gramophones, dictating machines and other sound recorders	-4.5%	31.3%	Telecommunication equipment, nes; parts and accessories, nes	-6.4%	35.6%
Steam boilers and auxiliary plant; and parts thereof, nes	-4.47%	3.09%	Clothing accessories, of textile fabrics, nes	-5.7%	29.5%	Clothing accessories, of textile fabrics, nes	-6.4%	33.6%
Regenerated cellulose; derivatives of cellulose; vulcanized fibre	-4.19%	0.42%	Made-up articles, wholly or chiefly of textile materials, nes	-8.0%	26.1%	Outerwear knitted or crocheted, not elastic nor rubberized	-7.9%	31.3%
Carboxylic acids, and their derivatives	-0.05%	2.40%	Office machines	-8.1%	25.8%	Parts, nes of and accessories for machines of headings 751 or 752	-4.4%	33.7%
Alcohols, phenols etc, and their derivatives	-2.35%	0.00%	Under-garments, knitted or crocheted	-13.1%	20.4%	Railway vehicles and associated equipment	-17.3%	20.1%
Fertilizers, manufactured	-0.71%	0.30%	Household equipment of base metal, nes	-3.8%	29.6%	Made-up articles, wholly or chiefly of textile materials, nes	-8.6%	28.5%
Partial Threat:								
Pottery	1.41%	27.11%	Automatic data processing machines and units thereof	0.9%	50.7%	Automatic data processing machines and units thereof	5.1%	56.2%
Baby carriages, toys, games and sporting goods	0.22%	25.46%	Office and stationary supplies, nes	2.3%	29.6%	Electrical machinery and apparatus, nes	0.1%	24.8%
Sanitary, plumbing, heating, lighting fixtures and fittings, nes	2.97%	27.93%	Other non-electric machinery, tools and mechanical apparatus, nes	1.1%	20.8%	Office and stationary supplies, nes	3.2%	27.1%
Footwear	0.51%	20.99%	Electrical machinery and apparatus, nes	1.4%	20.7%	Structures and parts, nes, of iron, steel or aluminium	5.3%	26.0%
Cutlery	5.54%	23.50%	Tools for use in the hand or in machines	0.2%	18.2%	Glassware	4.3%	23.6%
Office machines	6.41%	23.35%	Musical instruments, parts and accessories thereof	0.7%	18.5%	Musical instruments, parts and accessories thereof	1.6%	19.4%
Furniture and parts thereof	2.45%	16.89%	Glassware	3.2%	20.3%	Other non-electric machinery, tools and mechanical apparatus, nes	1.4%	19.0%
Household type equipment, nes	2.51%	14.24%	Paper and paper manufacture machinery, and parts thereof, nes	0.1%	15.5%	Pesticides, disinfectants	0.3%	17.3%
Manufactures of leather or of composition leather, nes; etc	3.96%	14.75%	Structures and parts, nes, of iron, steel or aluminium	4.6%	19.9%	Tools for use in the hand or in machines	0.6%	17.0%
Explosives and pyrotechnic products	0.87%	10.88%	Heating and cooling equipment and parts thereof, nes	2.0%	16.8%	Paper and paperboard, precut, and articles of paper or paperboard	1.2%	17.5%

Source: Own ellaboration based on UN Comtrade (July 2012).

2. Summary and Policy Alternatives

This paper highlights the reality that China has indeed integrated itself into North America in a process beginning in 2001 with China's adherence to the World Trade Organization. Before 2001, both Mexico and the U.S. were increasing and deepening trade relations and regional specializations within the parameters of NAFTA. Since 2001, however, this process has reversed as a result of China's massive trade volume with both the U.S. and Mexico.

The analysis presented herein shows that China's rapidly developing trade relationship with both Mexico and the U.S. has had significant effects on each country's respective trade dynamics. For instance, today China is the second largest trading partner for both Mexico and the United States, falling behind only the total intra-NAFTA trade volume. As we have seen from our examination of the top twenty products imported by Mexico from the U.S. and China, the structure of trade in the region is shifting significantly: for Mexico, its export share in the U.S. market has fallen sharply, contrary to the trade growth of Asia, and particularly of China. As discussed previously, from 2000-2011 both the U.S. and Mexico endured substantial losses in their respective export markets in the NAFTA region, particularly in regards to the manufacturing sector and in products such as telecommunications equipment, electric power machinery, passenger motor vehicles, and clothing accessories and garments, among many others.

NAFTA, since its origins, has passed through two distinct phases. During the first phase (1994-2000), the region was deeply integrated as a result of trade, investment, and rules of origin in specific industrial sectors such as autoparts-automobiles (AA) and yarn-textile-garments (YTG). In this first phase, NAFTA evolved in accordance with some of the predictions and estimations that we discuss in the literature survey. The region as a whole grew in terms of GDP, trade, investment, employment, and wages, among other variables, while intra-industry trade increased substantially. While some of the "gaps" between the U.S. and Mexico were slowly closing, however, this was only true for a small portion of Mexico's highly polarized socioeconomic and territorial structure. In other words, even in Mexican sectors highly integrated with NAFTA, the integration process did not allow for the promotion of backward and forward linkages in Mexico. In the second phase (2000-…), NAFTA has shown a deterioration of this process of integration in terms of investment and intra-industrial trade, among other variables. During this time period, both Mexico and the United States have been on the losing end of competitions with third-party countries, a topic only discussed somewhat in debates on NAFTA (see the survey in part two of this paper).

The first section of this paper argues that since China's entry into the WTO in 2001 and up to 2011, we find that China is outcompeting Mexico in the U.S. market, and is further beginning to compete with the United States in the Mexican market. In fact, we have identified 52 sectors in Mexico in which the U.S. is losing market share and China is gaining, thus appearing to allow Mexico to make efficiency gains and become more competitive in U.S. markets. However, Mexico is losing market share in the United States in those same 52 sectors, which represent 49 percent of all of Mexico's exports to the U.S.

The second section of this document examines in detail the features of both phases. The trade analysis clearly shows how Mexico's share over total U.S. imports increased from 2001-2004 – second only to Canada – and was subsequently displaced by China. In Mexico's case, while the U.S. has historically been its primary trading partner, U.S. share over total Mexican imports fell from levels above 75% in the first five years after NAFTA to a share below 50% since 2009. As shown by multiple calculations, in both cases China is the determining factor behind this process of disintegration. China's share in Mexico's top twenty exports to the U.S., as well as its share in U.S. exports to Mexico, increased substantially since 2000. Regarding the top twenty U.S. exports to Mexico, U.S. share over Mexican total exports fell from 72 percent to 41.54 percent during the period 2000-2009, while China's share jumped from 1.09 percent to 17.83 percent. Furthermore, China's "threat" to Mexican and U.S. markets – as calculated using Lall and Weiss's methodology – is substantial, affecting 96 percent of U.S. manufacturing exports to Mexico and 81 percent of Mexico's manufacturing exports to the U.S. Finally, we examine the "triple threat", in terms of sectors in which the U.S. is losing market share to China in the Mexican market and Mexico is losing market share to China in the U.S. market.

As a result of this trade analysis and the recent "triangular relationship", we find that China is rapidly outcompeting Mexico in the U.S. market, as well as the United States in the Mexican market. Trade falling under the category of "direct threat" suggests that these trends will continue in the future.

Several policy recommendations result from this analysis. First, solely bilateral negotiations, i.e. between just the U.S. and China or just Mexico and China, are not sufficient given the quick and profound shifts in trade occurring in the NAFTA region. Thus, long-term NAFTA-China trade negotiations seem to not only be plausible, but inevitable, given the comprehensive production and trade integration between Mexico and the U.S. Second, NAFTA countries require additional policies and incentives to encourage competitiveness in the region, particularly regarding the manufacturing sector. Behind the substantial trade losses since the year 2000 are million of jobs. If the governments of the United States and Mexico are sincere in their aim to maintain and increase high-quality jobs, manufacturing will play a critical role. Coordination of policies in these areas within NAFTA – from industrial and innovation policies to research and development – should be promoted actively not only at the national level, but at the regional level as well.

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The Impacts of China´s Peaceful Influence on U.S.-Mexican Relations. A Triangular Perspective

Ping Wang

1. Brief Literature Review

The past two decades have seen the rapid development of emerging economies, such as BRICS (Brazil, Russia, India, China, and South Africa), which has led to "a shift in global wealth" (OECD 2010) and a rebalancing of economic powers. With the implementation of market-oriented reforms beginning in the late 1970s, the rapid pace of China's economic growth has been unprecedented. China has achieved spectacular and sustained development in the last two decades and has been regarded as the most dynamic engine of growth in the global economy as well as the driver of economic recovery (ECLAC 2011). Robert Devlin notes that the global economic output percentage of developing countries has increased rapidly. China's contribution to this output has been significant and will become more important in the future (Devlin 2008:124). One-fourth of the global economic growth in the last five years has been attributed to China. In 2010, China surpassed Japan to become the world's second largest economy only after the United States (WB 2013).

The success of China's economic reforms catapulted it from the periphery to a more central role in the world economy and thrust the country into the global public spotlight. Based on China's economic achievements, the International Monetary Fund (IMF) forecasts that China's GDP, measured in terms of purchasing power parity (PPP), will exceed that of the United States by 2016 (ECLAC 2011).

China has also become more active in international organizations in recent years, and has become a major player in the international political arena. The factors leading to China becoming a more active participant in international organizations are primarily due to its import and export trade as well as its foreign direct investment (FDI), which has been guided by the policies in its "Going Global Strategy". Taken as a whole, China is becoming one of the most important and influential actors in the global economy.

In this context, China's rapid growth has had significant impacts on the countries of Latin America, both positive and negative. China has become a key trading partner for many Latin American countries and has played an increasingly important role in both Latin American imports and exports. In 2010, the trade volume between China and Latin America and the Caribbean reached unprecedented levels. As the Economic Commission for Latin America and the Caribbean (ECLAC) assessed in a recent report, "The exports to China grew by 51% in 2010, almost double the rate of the region's total and the interregional export growth. Its imports from China grew by 48%, 15 and 20 percentage points higher than the growth of imports from the United States and the European Union, respectively" (ECLAC 2011:14). Latin American exports to China increased at a rate five times faster than that of its exports to the world overall from 2006 to 2010. Among the Latin American countries, Brazil, Chile, Mexico, Argentina, Venezuela, and Peru are China's major trade partners. Peru and Mercosur countries (except Paraguay) are constantly expanding exports to China.

However, in comparison with other Latin American countries, the economic growth of China has had a much more negative effect on Mexico, not only in regards to the Mexican domestic market, but in the U.S. market as well. In 2003, China became the second main exporter to the US, and taking Mexico´s place since then. Relations between China, Mexico and the United States have since been intertwined, with both the United States and Mexico regarding China as a "threat" or a "concern" to their interests. Many news programs, articles, books, and official documents regarding China's effects on Mexico, no matter how positive or negative, have been published over the recent years (Dussel Peters 2005; Jilberto and Hogenboom 2010; Ratliff 2009; Roett and Paz 2008; Steinberg Williams 2008; Varella Mollick and Wvalle-Vázquez 2006; Zepeda, Wise and Gallagher 2009). The goal of this paper is to focus on China's impacts on U.S.-Mexican relations from a Chinese perspective. In order to analyze the triangular relationship between China, the United States, and Mexico, the bilateral relations between them are absolutely essential to the comprehension of certain contemporary realities, since none of these nations exist in a vacuum. Each one is situated in a domestic as well as an international context, of which bilateral relationships form an integral part.

2. China-Mexico Relations: Complementary and Competitive Partner

China has had a long and amicable relationship with Mexico. This year marks the 40th anniversary of the establishment of diplomatic relations between the two countries. From China's point of view, Mexico is a strategic political partner. Mexico, however, sees China as its greatest economic competitor.

a. Achievements of Chinese-Mexican Economic Ties and Trade

Economic ties between China and Mexico have greatly improved, given that Mexico is one of the largest Latin American countries.

From 2000 to 2009, China went from being the 19th largest importer of Mexican goods to the 7th, while going from 7th place to 2nd in terms of exports to Mexico (ECLAC 2011). By 2011, total trade between China and Mexico has increased significantly, and bilateral trade volume has reached 42.1 billion USD – a 19% increase compared to the previous year (MOFCOM 2011). Most importantly, China has become the third largest export destination of Mexican goods. Chinese imports from Mexico increased from 0.09% in 1993 to 1.35% in 2010. In dollar amounts, Chinese imports from Mexico increased from 44.8 million USD in 1993 to 3.7 billion in 2010 (Hernández Hernández 2012:65). During the one-year period from 2010 to 2011, Chinese imports from Mexico increased 54.8%, while Mexican imports from China grew 16% (see Table 1).

Additionally, China's economic growth has had positive impacts on Mexico in other aspects as well:

(1) The huge demand for raw materials driven by Chinese industrialization and urbanization has increased their price on the global market, benefitting Mexico and other resource-rich Latin American countries.

(2) The incremental appreciation of the Chinese yuan may have a "spillover effect", which to a certain extent would contribute to the reduction of external debts and help Mexico and other Latin American countries achieve macroeconomic stability, given that China's yuan has become so strong that Chinese goods may not be the bargain they once were. Such currency dynamics are not the case between the U.S. and Mexico, however. As the dollar weakened, the Mexican peso's value dropped as well. Therefore, while the yuan was becoming stronger and the dollar becoming weaker, the peso's value dropped accordingly, making Mexico a viable alternative to China in terms of trade.

Table 1: **Mexico's Exports to its Top Ten Partners in 2011 (Millions of USD)**

Country/region	Amount From 2010	Percentage Increase	Proportion of Total Exports
Total	259,321	19.7	100
U.S.	204,400	17.7	78.8
Canada	8,060	2.5	3.1
China	4,243	54.8	1.6
Colombia	4,210	57.8	1.6
Spain	3,417	32.3	1.3
Brazil	3,304	22.9	1.3
Germany	3,244	22.8	1.3
Holland	1,700	23.7	0.7
Japan	1,667	17.4	0.6
Chile	1,552	8.40	0.6

Source: MOFCOM (2011).

Table 2: **Mexico's Imports from its Top Ten Partners in 2011 (Millions of USD)**

Country/region	Amount From 2010	Percentage Increase	Proportion of Total Imports
Total	259,918	18.8	100.0
U.S.	129,885	23.2	50.0
China	37,844	16.0	14.6
Japan	11,922	8.5	4.6
Korea	10,212	9.4	3.9
Germany	9,725	19.4	3.7
Canada	6,926	11.7	2.7
Taiwan	4,236	2.8	1.6
Malaysia	4,179	7.4	1.6
Italy	3,701	29.3	1.4
Brazil	3,447	9.1	1.3

Source: MOFCOM (2011).

Table 2 shows that China has become the second largest source of Mexican imports. China makes up 14.6% of Mexico's total imports, although the rate of increase only ranks sixth out of the ten countries listed. There is no evidence, however, to show that Mexico is one of the primary destinations of Chinese exports (Hernández Hernández 2011:59). Although China's increasing economic power offers many opportunities to strengthen both its political and economic relationship with Mexico, this is by no means a completely win-win situation. The burgeoning economic relationship between the two nations has in fact proven to be a competitive one as well.

b. Disputes between China and Mexico

The following issues have become major concerns, and even "fears", among Mexican economic sectors, and in particular for those that stand to lose their domestic and foreign markets: First, we see from Table 1 and Table 2 that the Chinese market has been explored very little by Mexico, and that China continues to absorb a very small share- just 0.5%- of its total imports from Mexico. Thus, Mexico has not gained much ground as destination of their exports and resulted in a high trade deficit with China, although its deficit has been offset by Mexico's surplus with the other regions, especially with the United States. According to statistical information from China's Ministry of Commerce, Mexico's trade deficit with China from January to September of 2011 reached 33.6 billion USD. In other words, the amount of Mexican imports from China was nine times that of its exports to China.

Secondly, Mexico has been seen as failing to attract Chinese FDI in Latin America. An ECLAC report indicates that Mexico has attracted almost no Chinese capital, even though Chinese FDI in the region surged in 2010 (see Table 3). Furthermore, researchers have found that Mexico's ability to attract international FDI and stock has trailed behind China since the year 2000 (Gereffi 2009:40).

Table 3: **Chinese FDI in Selected Latin American and Caribbean Economies (Millions of Dollars)**

Country	Confirmed 1990-2009	Investment 2010	Announced Investment Starting in 2011
Argentina	143	5,550	3,530
Brazil	255	9,563	9,870
Colombia	1,677	3	…
Costa Rica	13	5	700
Ecuador	1,619	41	…
Guyana	1,000	…	…
Mexico	127	5	…

Source: ECLAC (2011:21).

Thirdly, Mexico has fallen behind China regarding the export of manufactured products to the United States. Since 2001, the advantages granted to Mexico by NAFTA have gradually diminished, due in large part to China's entry into the World Trade Organization as well as agreements it has made with the United States. In 2003, Chinese-Mexican competition became fiercer than ever before when China replaced Mexico as the number-two source of imports to the United States (after Canada), while Mexico occupied the position Japan had filled two years earlier. Since then, the continued increase of Chinese imports to the U.S. has created an ever larger gap between China and Mexico in the U.S. market (Hogenboom 2010:59). According to some estimates, over half of Mexican exports to the United States are "under threat" from Chinese exports. Furthermore, 82% of Mexico's exports of so-called "high-tech" goods, which represent 40% of the country's total exports, are threatened by Chinese competition.

Thus, the trade deficit and the "fear" felt by many manufacturing sectors not only represent a serious economic issue in Mexico, but also a political one. This "fear" has spread throughout Mexican society, creating a hostile public perception of Chinese products. China has become the target of much criticism from Mexico, given the particular effects of China's economic growth on the country. Antonio Ortiz Mena, director of Mexico's CIDE research center, summarized the feelings of negativity that have long dominated Mexico's perception of China, stating simply that "China is a threat" (Ratliff 2009). Barbara Stallings points out that,

"In Mexico, Chinese competition through low wages is posing a major threat both in the export market and at home. A number of Mexico's assembly plants have packed up and moved to China to take advantage of lower costs. Cheap exports are flooding the Mexican market itself and threatening the existence of local firms. And Mexico is losing out in the U.S. market, where China has now displaced it as the second largest supplier." (Stallings 2009:253)

Even ECLAC maintains that China's growth has not only had a negative impact on Mexico's trade, but also on trade growth overall between Latin America and the Caribbean and China over the last decade (ECLAC 2011:17). Some experts have even gone so far as to refer to Mexico as the biggest loser in Latin America (González 2008).

c. Identifying the reasons behind disputes between China and Mexico

As a matter of fact, Chinese competition with Mexican products in Mexico's domestic market, as well as in the export market to the United States, started with China's entry into the WTO as the most favored nation in 2001. From that point on, Mexico's GDP and exports have decreased, as well as its inward FDI (Hogenboom 2010:58).

Various academic studies have been done in an attempt to explain these negative effects, as well as to propose methods of dealing with them.

Mexican economist Enrique Dussel Peters, Director of the Center for Chinese-Mexican Studies at UNAM, identifies two main causes of Mexico's economic woes in its relationship with China: the first is a result of China's cheap labor force, and the second is attractiveness of China to foreign investors, due in large part to the size of its internal market (Dussel Peters 2005/b). A recent World Bank study states that "Mexico is the only country" in the Latin American/Caribbean region "whose comparative advantage had been moving in the same direction as the Chinese economy" (Lederman, Olarreaga and Perry 2009:7). In other words, Mexican trade structure shows a pattern of specialization very similar to that of China - built largely around electronics and auto parts (Jenkins and Dussel Peters 2009:22). Theoretically speaking, the commonalities of their trade structures should create direct competition between the two nations. However, Tables 4 and 5 show that mineral products represent the greatest percentage of Mexican exports to China, accounting for 47.1% of its total exports to China in 2011. Furthermore, electrical machines and electronics accounted for 68.1% of Mexico's imports from China from January to September of 2011 (see Table 6 and Table 7, Category 16, including chapters 84-85), making this the primary cause of trade deficit between Mexico and China.

We can identify from both Mexico and China's general trade structure that Mexican exports and imports seem to "match", i.e. its exports and imports both involve electronics. This reflects Mexico's underdeveloped conditions of production and trade, given that it exports fewer electrical machines to China than it imports.

Table 4: **Mexico's Five Main Exports to China (Chapter), Jan. –Sept. 2011 (Millions of Dollars)**

HS Code	Commodity	Value	Same Period Last Year	Percent Increase from Last Year	Total Percent
26	mine ore	1,145	715	60.2%	27.0%
27	mineral fuels	847	268	215.8%	20%
87	auto and parts	673	488	38.1%	15.9%
74	copper	500	433	15.5%	11.8%
85	electrical machinery, Electronics, audio & Video equipment	252	233	8.4%	6.0%

Source: MOFCOM (2011).

Table 5: **Mexico's Five Main Imports from China (Chapter), Jan-Sept. 2011 (Millions of Dollars)**

HS Code	Commodity	Value	Same Period Last Year	Increase from Last Year	Total Percent
85	electrical machinery, Electronics, audio & Video equipment	16,599	15,549	6.8%	43.9%
84	atomic pile, boiler	9,158	7,738	18.4%	24.2%
90	optics, medical equipment	1,680	1,438	16.8%	4.4%
76	aluminum, and Aluminum products	952	143	567.8%	2.5%
39	plastics and Plastic products	865	758	14.1%	2.3%

Source: MOFCOM (2011).

Table 6: **Mexico's Main Exports to China (Category), Jan.-Sept. 2011 (Millions of Dollars)**

Category	Chapter	Commodity	Value	Same Period Last Year	Increase from Last Year	Total
5	25-27	Mineral	1,997	987	102.3%	47.1%
17	86-89	Transportation equipment	674	488	38.1%	15.9%
15	72-83	Base metals	41	498	28.6%	15.1%
16	84-85	Electrical machines	372	383	-2.8%	8.8%
6	28-38	Chemical products	222	155	43.3%	5.2%

Source: MOFCOM (2011).

Table 7: **Mexico's Main Imports from China (Category), Jan.-Sept. 2011 (Millions of Dollars)**

Category	Chapter	Commodity	Value	Same Period Last Year	Increase from Last Year	Total
16	84-85	Electrical machinery	25,757	23,286	10.6%	68.1%
15	72-83	Base minerals	2,345	1,248	87.8%	6.2%
18	90-92	Optics, clocks Medical equip.	1,770	1,503	17.7%	4.7%
20	94-96	Furniture, toys	1,515	1,389	9.0%	4.0%
7	39-40	Plastics, rubber	1,362	1,124	21.2%	3.6%

Source: MOFCOM (2011).

Mexico's maquiladora sector is also a point of interest, with 97% of Mexico's manufacturing exports - which represent 71% of the national export base - under threat from China in 2009 (Hernández Hernández 2012:76). Francisco E. González has researched China's negative effects on Mexican manufacturing industries (particularly the textile, apparel, and electronics industries), and has suggested that basing the promotion of textile and apparel maquiladoras on the preferential access granted by U.S. trade law rather than on solid comparative advantages could accentuate rigidities over time, which might hurt competitiveness for Mexico (González 2008:158). Barbara Hogenboom further argues that China's membership in the WTO reduced the NAFTA-based preferential advantages of Mexico in the United States, and there has been a very negative "China effect" on Mexico's export manufacturing due to the similarities between China and Mexico's technological trade development (Hogenboom 2010). But, no matter if the Mexican public or private sectors, they do not take account of the potential Chinese challenges, as Enrique Dussel Peters points out (Dussel Peters 2007).

A significant barrier to Mexico's economic development has been created by the enactment of policies that are not present in China. Since the 1980s, China and Mexico have both implemented liberalization policies, following an export-oriented development strategy. In essence, Mexican policies have been based on the principles of neo-liberalism, placing particular importance on the free market. China, on the other hand, has made use of mixed policies that combine free market principles and state control, or as some scholars have described, "state capitalism" (Wu 2012). For example, China has stressed the attraction of FDI by means of setting up special economic zones in order to obtain foreign capital and investments in advanced technology, while at the same time attempting to reduce its dependence on externally funded enterprises. On the contrary, Mexico has been defined by a policy of diversification by signing free trade agreements with forty different countries, while setting up maquiladoras around the country as a national industrial policy meant to attract foreign capital, especially from companies based in the United States.

Clearly, Mexico and China have seen different results, the most striking of which are the increases to China's GDP and FDI, which indicate China's superior capability of maintaining a higher growth rate than what has been demonstrated in Mexico. It is also clear that Mexico's policy of diversification has not yet solved its problems with China, and unlike other Latin American countries, Mexico has not shown a tendency to strengthen cooperative efforts with China, "even if the Mexican government officials say this, but actually tend to be skeptical about China's intentions" (Ratliff 2009:11). Instead of attempting to rectify its economic issues in a proactive manner, Mexico uses its surplus trade with the U.S. to offset its deficit with China and other countries. Thus, more than simply failing to decrease its dependence on the United States, Mexico has actually deepened economic ties with the U.S. and has become very vulnerable to external shocks, especially where the United States is concerned. This was exemplified in the global financial crisis of 2008. What is more, the maquiladora industrial policy has multi-nationalized, rather than liberalized, the Mexican economy. Numerous national resources have fallen into the hands of multinational companies, to the extent that the major sectors are now controlled and monopolized either by foreign multinationals or by a select few private Mexican companies, such as Telecom. Consequently, this economic situation reflects the reality that Mexico is out of its own government's control.

3. U.S.-Mexican Relations: Kinship Neighbors and Integrated Partners

Across their shared 3,000-mile border, Mexico has had a long history of bilateral economic and political relations with the United States. It has been linked even more closely after the United States signed NAFTA in 1994, with the intention of securing strategic interests and special advantages from multi-national integration and an ideological commitment to the free-market model (Zepeda, Wise and Gallagher 2009:9). Theoretically, Mexico should boast the most favorable economic conditions out of all of the Latin American countries. Why then was Mexico replaced by China as the primary exporter to the United States, even though Mexico faces virtually no tariffs on exports to the U.S. (not to mention low shipping costs) while China's tariffs are close to 6% with much higher costs of shipping?

NAFTA has been a critical turning point in the history of the relationship between the U.S. and Mexico, and since its implementation in 1994, the two countries have entered into a new era of bilateral relations. Mexico has been truly integrated with the United States in economic terms as well as in social and political issues. Mexico's trade with the United States and Canada has tripled since NAFTA was enacted in 1994. It does indeed afford Mexico preferential access to the U.S. economy, and has led to an increase in trade with and foreign investment from U.S. It has even effectively controlled Mexico's inflation. From a regional standpoint, NAFTA promotes an even closer bilateral relationship between Mexico and the United States by enhancing the existing trade partnership in ways that benefit companies on both sides of the border (and even companies based in other parts of the world). According to the United States Census Bureau, Mexico has held a much larger proportion of the U.S. market than China (USCB 2012).

Dith the change in U.S. foreign policy after September 11, 2001, issues such as illegal immigration, border security, and drug trafficking are now regarded as some of the most serious concerns relating to U.S. national security. These issues have consequently become the foundation of future relations between the United States and Mexico since Felipe Calderón was elected as president. Therefore, these common issues have led to an expansion of U.S.-Mexican relations from a focus on economics and trade to a more integrated connection regarding the realms of politics and security. In this context, Mexico can be seen as an important political ally to the United States in Latin America.

China's entrance into the WTO in 2001 facilitated its access to the U.S. market. Mexico was reluctant to approve China's participation in the WTO given the threat of Chinese competition. Mexico therefore reached a special agreement with China, in which Mexico was granted a six-year grace period to maintain countervailing measures on hundreds of Chinese products. However, the speed of China's integration into the U.S. market has been far greater than that of Mexico since 2003, and has led to China replacing Mexico as second exporter to the US.[1]

1 Detailed figures on US trade with China and Mexico from 1990 to 2010 can be found in Hernández Hernández (2012).

It should also be noted that any change in trade patterns with the United States would be very significant to Mexico's overall economy. Since Mexico is highly dependent on the United States, to such an extent that the U.S. is not only the largest exporter to Mexico, but its largest importer as well (MOFCOM 2011), the global financial crisis of 2008 especially highlighted the potential perils of such economic dependence for Mexico. Indeed, evidence suggests that if a country like Mexico becomes highly dependent on the United States, its economy consequently becomes very vulnerable, which reinforces the sensitivity of Mexican economic sectors to the economic development of the United States. For example, in 2008 and 2009, the Mexican economy was significantly affected by the recession in the United States. Annual per capita GDP growth during those two years was extremely low (-0.1% in 2008 and -7.4% in 2009), causing Mexico to be more vulnerable than ever. By October of 2009, the Mexican economy had shrunk by about 7%. The Congressional Research Service (CRS) reports that Mexico experienced the deepest recession in Latin America following the crisis (Villarreal 2012). In this sense, then, any significant advantage gained through NAFTA appears to have been erased.

Some scholars have suggested that NAFTA be revised. They argue that NAFTA gives preference to low-wage industries, allocating resources to these sectors in order to diversify exports. While Mexico may have a comparative advantage in those sectors in regards to the United States, its low-wage industries do not provide an advantage over China. Researchers claim that NAFTA has in fact contributed to serious economic inequality and social ailments since being implemented (Zepeda, Wise and Gallagher 2009).

In my view, it is normal for conflicts or problems to exist between the United States and Mexico. However, their cooperative relationship is still the defining aspect of the dynamic between the two nations, and NAFTA will still be meaningful for Mexico in the future. Mexico's geo-economic proximity to the United States continues to be its comparative advantage over other nations. NAFTA has been acting as the systematic mechanism for U.S.-Mexican cooperation in economic and trade terms, and it may continue to play a critical role in bilateral cooperation concerning drug, border, and security issues. However, the Mexican government must not rely too heavily on NAFTA and use it as a substitute for its own national economic development strategy. Rather, Mexico needs to implement its own development strategy in this new context, while continuing to take into account NAFTA policies, in order to better serve its core domestic interests.

4. Conclusion: The United States as the Key Player in the China-U.S.-Mexico Triangular Relationship

If one simply looks at China's trade surplus with the United States and Mexico, one would assume that China plays a very influential role in the triangular relations between these three nations. However, as the Chinese saying goes, there is no diplomacy for a weak country, implying that developing nations inherently assume a submissive role in relations with economic superpowers. In this sense then, economic power becomes the most important factor in the context of international diplomatic relations. Applied to the framework of the trilateral relationship between China, the United States, and Mexico, this theory clearly assumes the existence of one key player.

There is no doubt that the United States is a superpower, not only among these three countries, but also in the world. Although the International Monetary Fund predicts that China will surpass the U.S. in 2016 to become the world's largest economy, the fact remains that China is still a developing country and only one of the regional powers in Asia, unlike the United States, which is a leading global superpower. The economic performance of the United States remains very impressive. Even though the economy of the U.S. was significantly affected by the international financial crisis, and is still in the process of recovering from an economic recession, the United States finds itself even now in a "unipolar moment" of unchallenged superiority. Therefore, although China is referred to as the second largest economy in the world, such accolades would be dampened if China's situation were viewed comparatively, as a whole, with the United States. It is clear that China's economic status has been increasing in terms of purchasing power parity (PPP), which is the correct unit of measurement when examining the cost of living. However, "the traditional measure of GDP, calculated in dollars at current exchange rates, [indicates] that the U.S. economy remains nearly six times the size of China's" (Stallings 2008:241). Furthermore, it is widely known that competitiveness indicates the level of a country's productivity. According to a report by the World Economic Forum, the U.S. is ranked much higher than both China and Mexico (China: 26th and Mexico: 58th), even though "the U.S. continues its decline for the third year in a row, falling one more place to fifth position" (WEF 2011).

All of the above-mentioned data indicates that the United States continues to be a prevailing superpower in the world – a particularly relevant fact for both China and Mexico. As for these two nations, both are developing countries, both are listed among the middle-income countries, and their economic performance and GDP per capita are much lower than that of the U.S. However, when we compare China and Mexico to each other, we see that both countries are in the process of modernization, although comparatively speaking, Mexico's per capita GDP is 2.3 times higher than that of China.

As the most powerful country in the triangular relationship, the United States has become the most important trade partner for both China and Mexico, as well as a key player in other facets of their relationship:

(1). For China, the United States is its most important economic partner, a status which is supported by the fact that the U.S. is the second largest export destination for China's manufacturing products, following only behind Asia as a whole. What is more, China is the most significant shareholder of U.S. stock, and both countries enjoy a close, mutually beneficial relationship in terms of their economies, their militaries, and their cultural and interpersonal exchange. To a certain extent, China and the U.S. are mutually dependent on each other.

However, it is worth noting that the United States holds the upper hand in terms of the bilateral relationship between the two nations. Superficially speaking, China's swift economic growth has greatly strengthened its economy, hence the reason it has been regarded as "world-class economic power" (Smith 2008:215). However, the "commodity boom" is unlikely to last forever (He 2012:31). China's "manufacturing road" to modernity has become rocky and uncertain for a number of reason: The first is related to increasing labor costs in China, not only compared to what they were before, but also in terms of neighboring countries such as Vietnam and India. According to AlixPartner Consultancy, compensation costs in East Asia – a region that includes China but excludes Japan – rose from 32% of U.S. wages in 2002 to 43% in 2007. And since wages have been increasing at a rate of 8% to 9% a year, taxes have been increasing as well. East Asia's overall costs have doubtlessly escalated even more during the last two years (Devonshire-Ellis 2011). The effects of wage increase in China have been exemplified by American companies like Adidas leaving China in response to escalated labor costs. What this ultimately means for China is a gradual loss of its comparative advantage as the lowest-cost producer in the manufacturing sector – a status that it has maintained for decades.

Secondly, United States-based multinational companies (MNCs) are crucial in determining the structure of the global production system, labor mobilization, and international trade flow. China, as the final assembler of goods produced by the MNCs, has enticed such companies with low costs of labor. This has incentivized many MNCs in the manufacturing sector to build accessory plants in China, which now account for over 60% of China's exports.[2] Consequently, MNCs receive a large percentage of these export profits, calling into question the true trade surplus that China has with the U.S. and Mexico. In other words, the United States, as a primary base for MNC-operations, will be a determining factor regarding China's future economic performance if China continues to follow its manufacturing road.

Last but not least, China is currently facing numerous domestic problems, such as: (1) a rich government with poor citizens, suggesting that the benefits of economic growth have not been enjoyed by a significant portion of the population; (2) rampant social inequality; and (3) inefficiency of state-owned enterprises, incomplete economic reform, and a semi-market and semi-command economic system. Chinese economist Wu Jinglian has argued that China's future will be decided based on whether the country advances to a law-based market economy or reverts back to a command economy and state capitalism (Wu 2012). The aforementioned factors have impeded China's economic development, supporting the contention that "China's economic clout and status should not be exaggerated" (Roett and Paz 2008:9). In short, it is necessary for China to explore a new model of development - that is, from an export-driven model to one based on innovation - in order to sustain its economic growth.

(2). Mexico, on the other hand, has maintained close economic and political ties with the United States, allowing the U.S. to assume a position from which it has the ability to impact almost every aspect of the bilateral relationship between the two nations.

Although some conflicts and disputes exist between Mexico and the United States, the relationship between the two nations is largely one based on cooperation. Unlike China, Mexico has remained ideologically aligned with the United States, by virtue of which it has gained the trust of the U.S. and has laid a solid foundation upon which a strategic relationship can been built. This relationship, however, remains unbalanced. As the dominant party, the United States has enjoyed unrivaled supremacy not only its relationship with Mexico, but in the entire Western Hemisphere. Mexico, on the other hand, has assumed a subordinate role in the relationship for many years. Despite Mexico's efforts to diversify its economy and strengthen foreign relations, it remains tightly bound to the U.S. and deeply dependent on imports of capital and technology from the United States. Mexico has even adopted many of the same social problems of its northern neighbor.

Another point worth mentioning is that throughout history, Mexico has made the United States a priority in terms of its trading partners. The U.S. government, however, while treating Mexico as an important ally, has not made Mexico a priority in the same way. After creating the Trans-Pacific Partnership (TPP), a series of announcements from the Obama administration during the fall of 2011 to early 2012 indicated that the United States would be "going back to Asia-Pacific" by expanding and intensifying its already significant role in that region, particularly

2 The result of some scholars on China-US trade shows that trade is not measured accurately. For details see: Gerber (2012); Johnson and Noguera (2012); and Rassweiler (2009).

in the south. As part of a U.S. global strategy, the Obama administration intends to make Asia-Pacific a priority in terms of U.S. military planning, foreign policy, and economic policy, prompted primarily by China's increasing influence both in the region and in the world. Some experts argue that the Obama administration has adopted a two-pronged approach to China: "reaffirming and strengthening cooperative ties while simultaneously establishing a strong and credible American presence across Asia to encourage constructive Chinese behavior and to provide confidence to regional leaders who wish to resist potential Chinese regional hegemony" (Manyin 2012) implying that the United States views China as a serious economic and political rival, as well as a real threat to U.S. supremacy.

Mexico is neither a member of the TPP nor is it included in the U.S. "going back to Asia-Pacific" strategy, apparently indicating that Mexico has been neglected by the United States. In actuality, however, the United States continues to regard Mexico as an important ally in Latin America as well as in other international contexts. We must remember also that as much as China's economic growth has influenced the United States to place such strong emphasis on Asia-Pacific, China's increasing military power has also led to a very pointed interest in the region on behalf of the United States. It is apparent, then, that the United States sees China as both a politico-economic rival as well as a major economic partner.

China's rapid economic development and the increasing importance of its role in the global economy and the international political arena have had clear impacts on both Mexico and the United States. As a result, both the U.S. and Mexico see China as a "threat". The Obama administration regards China not only as a cooperative partner in terms of economic and political affairs, but also as a potentially serious threat to the position of the U.S. as the sole world superpower. Mexico sees China as a fierce economic competitor, both domestically and abroad, even though the real economic threat to the Mexican maquiladora industry comes from MNCs. Finally, it should be noted that China's political and economic emergence would not affect U.S.-Mexican relations in the slightest. The United States is a priority for Mexico, and Mexico will continue to use this comparative advantage to compete with China in the foreseeable future. Exploration of new methods of sustaining bilateral cooperation is crucial if conflicts and disputes are to be avoided in both Chinese-Mexican and Chinese-U.S. relations in the future.

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Meeting the China Challenge to Manufacturing in Mexico

Ralph Watkins

1. Factors Influencing Competition between Mexico and China in the Export of Manufactured Goods to the U.S. Market

How serious is the China challenge to manufacturing in North America? Some parties claim China is largely to blame for the decline in U.S. manufacturing jobs during 2000-11. Several analysts have attributed the downturn in U.S. manufacturing employment to the undervaluation of the Chinese currency (NYT 2009) and unfair trade practices, in addition to low labor costs. With the pending demise of North American manufacturing reported in the popular press, many have questioned whether manufacturing in Mexico remained a viable alternative to importing from China for companies under pressure to reduce their costs and pricing in the North American market.

This chapter attempts to place the China challenge in perspective by comparing trends in U.S. imports from China and Mexico. For several industries, the use of assembly plants in Mexico continues to play an important role in successfully meeting the challenge of China to North American industrial competitiveness. This chapter examines factors influencing the relatively competitive positions of products from China and Mexico in the U.S. market, and the cross-border integration of manufacturing in the United States and Mexico. Analysis presented in this chapter follows up on research published in July 2002 (Watkins 2002) and June 2007 (Watkins 2007/a/b).[1]

National political boundaries in North America are becoming less relevant in defining U.S., Canadian, and Mexican manufacturing industries. The economic health of producers in each country has become increasingly intertwined as companies continue to rationalize production in the region, basing plant locations on availability and cost of inputs (such as labor, raw materials, energy, and capital), the structure and depth of the supply chain, and proximity to markets.[2] Rising costs in any of the three countries generally has the effect of reducing the competitiveness of North American manufacturing as a whole.

By partnering with assembly plants in Mexico, U.S. manufacturers are able to maintain shares of the North American market that might otherwise be lost to imports, particularly from China and other low-cost suppliers in Asia. Keeping production in North America provides a regional market for components and other industrial inputs originating in the United States and creates manufacturing jobs in Mexico. Over half of all inputs used by export-oriented manufacturing plants in Mexico come from the United States (De la Cruz, Koopman, Wang, and Wei 2011; Koopman, Wang, and Wei 2008). By contrast, U.S.-origin content accounts for less than 5 percent of goods produced in export processing plants in China. Also, workers employed by assembly plants in Mexico are much more likely to purchase U.S.-made goods than factory workers in China (Miroff, and Booth 2012). Despite a population that is less than one-tenth that of China, customers in Mexico purchased 12 percent of total U.S. exports in 2011 ($160 billion), while only 7 percent ($97 billion) of U.S. exports went to China (USITC 2012).

U.S. producers have been losing market share to low-cost imports from Asia for over 50 years: first to Japan, then to the Four Tigers (Hong Kong, Korea, Singapore, and Taiwan), and finally to China. With the opening of China to foreign investment in the 1990's, companies from around the globe flocked to China not just for low-cost labor, but also to partner with local manufactures to supply the anticipated expansion of the domestic market in China. With the transfer of manufacturing technology to China, producers in China were able to diversify their export portfolios, improve quality of their products, and move up the technology ladder.

At the turn of the century some companies with assembly plants in Mexico shifted operations to China in hope of supplying growing markets in Asia as well as exporting back to North America, while other firms closed or downsized their North American operations because of competition with companies that had shifted production or sourcing to China. During 2000-05, China's share of total U.S. imports increased from 8.3 percent to 14.6 percent, while Mexico's

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1 Examples of additional research on the challenges imports from China present to manufacturers in North America include, in chronological order of publication: Serant (2003); Berges and White (2003); Fishman (2005); Rosen (2003); The Economist (2003); Haywood (2005); Sahling, and Finley (2005); Dussel Peters 2005); Jenkins, and Dussel Peters (2009); Author, Dorn, and Hanson (2012); D´Aveni, Karabell (2012), and Prestowitz (2012).

2 For a discussion of the relationship between intra-industry trade and the synchronization of the business cycles in the United States and Mexico, see Canas and Coronado (2004). See also power point presentations by Bill Gilmer (2009) and Vargo (2009).

share slipped from 11.2 percent to 10.2 percent (table 1a and figures 1, 2, and 5), striking concern among some U.S. border communities with strong ties to maquiladora operations in Mexico that "everything is going to China."[3]

Table 1a

U.S. imports from leading suppliers, 2000-2005

Billion U.S. dollars							Percent	
Supplier	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Change 2000/05**	**Share in 2005**
China	100	102	125	152	196	243	143.0	14.6
EU-27	226	226	231	252	281	309	36.7	18.6
Canada	229	217	211	224	256	288	25.8	17.3
Mexico	135	131	134	137	155	169	25.2	10.2
Japan	146	126	121	118	130	138	-5.5	8.3
All other	369	331	333	367	442	515	39.6	31.0
Total	1,205	1,133	1,155	1,250	1,460	1,662	37.9	100.0
Share of total imports (percent)								
China	8.3	9.0	10.8	12.2	13.4	14.6	n.m.	n.m.
Mexico	11.2	11.6	11.6	11.0	10.6	10.2	n.m.	n.m.

Source: USITC DataWeb and Official Statistics of the U.S. Department of Commerce.

Table 1b

U.S. imports from leading suppliers, 2006-2011

Billion U.S. dollars							Percent	
Supplier	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Change 2000/05**	**Share in 2011**
China	287	323	338	296	364	398	38.7	18.2
EU-27	331	352	364	278	315	361	9.1	16.5
Canada	303	313	335	225	276	316	4.3	14.4
Mexico	197	210	216	176	229	263	33.5	12.0
Japan	148	145	139	96	120	128	-13.5	5.8
All other	579	600	698	478	595	721	24.5	33.0
Total	1,845	1,943	2,090	1,549	1,899	2,187	18.5	100.0
Total	1,205	1,133	1,155	1,250	1,460	1,662	37.9	100.0
Share of total imports (percent)								
China	15.6	16.6	16.2	19.1	19.2	18.2	n.m.	n.m.
Mexico	10.7	10.8	10.3	11.4	12.1	12.0	n.m.	n.m.

Source: USITC DataWeb and Official Statistics of the U.S. Department of Commerce.

3 See: Malkin (2002). Two of the highest profile companies to shift production from Mexico to Asia in 2002 were Royal Philips Electronics (Netherlands) and Canon Inc. (Japan). Philips closed its PC monitor plant in Juarez, shifting production to an existing Philips plant in Suzhou, China, resulting in a loss of 900 jobs in Juarez. Canon closed its ink-jet printer plant in Tijuana, shifting production to Thailand and Vietnam (not China!), and laying off 700 workers in Tijuana.

Despite much hand wringing at mid-decade regarding the competitiveness of manufacturing in North America, Mexico was able to maintain its position in the U.S. market relative to other suppliers, increasing its share of total U.S. imports in 2011 to 12.0 percent, even as China's share advanced to 18.2 percent (table 1b and figures 3, 4, and 6). This chapter will examine the factors that have enabled Mexico to maintain its share of the U.S. import market despite intense competition from China.

Figure 1.

U.S. imports from leading suppliers, 2000-2005

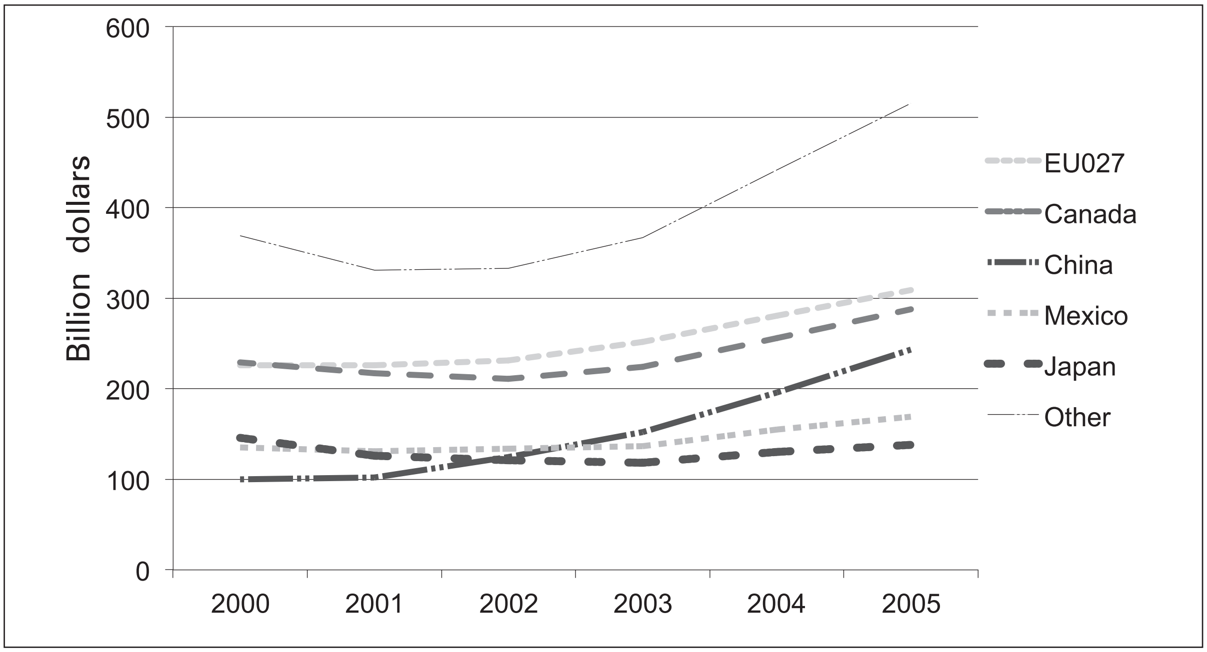


Figure 2.

U.S. imports from China and Mexico, 2000-05 (billon dollars).

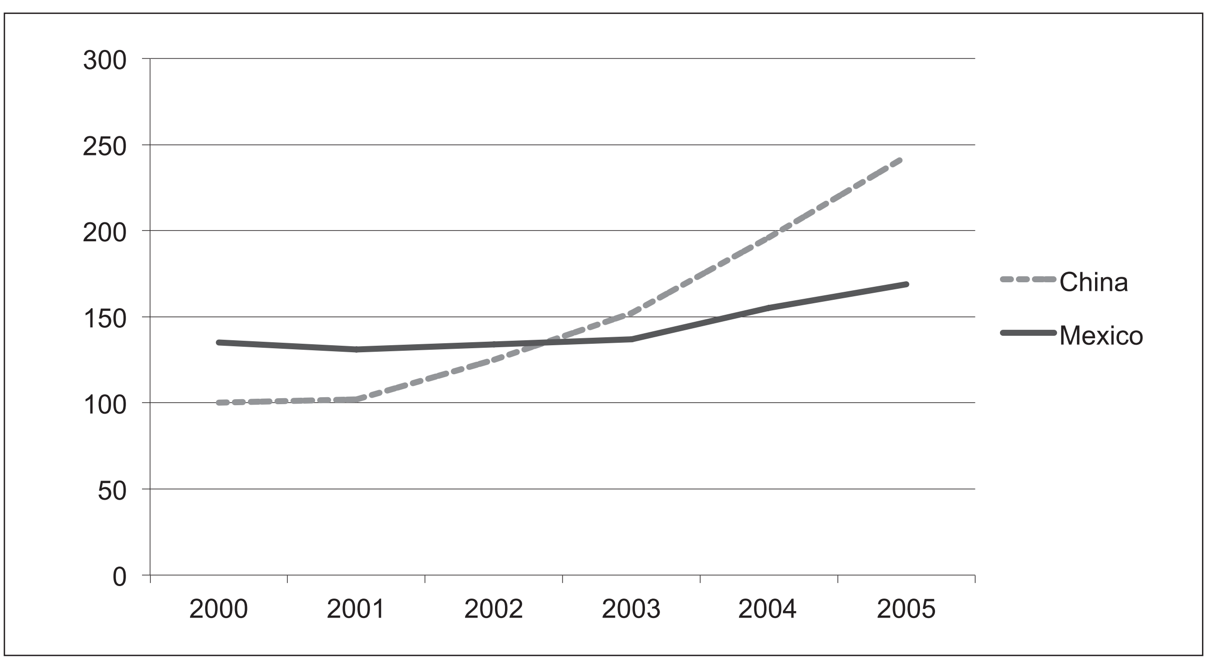


Figure 3.
U.S. imports from leading suppliers, 2006-2011

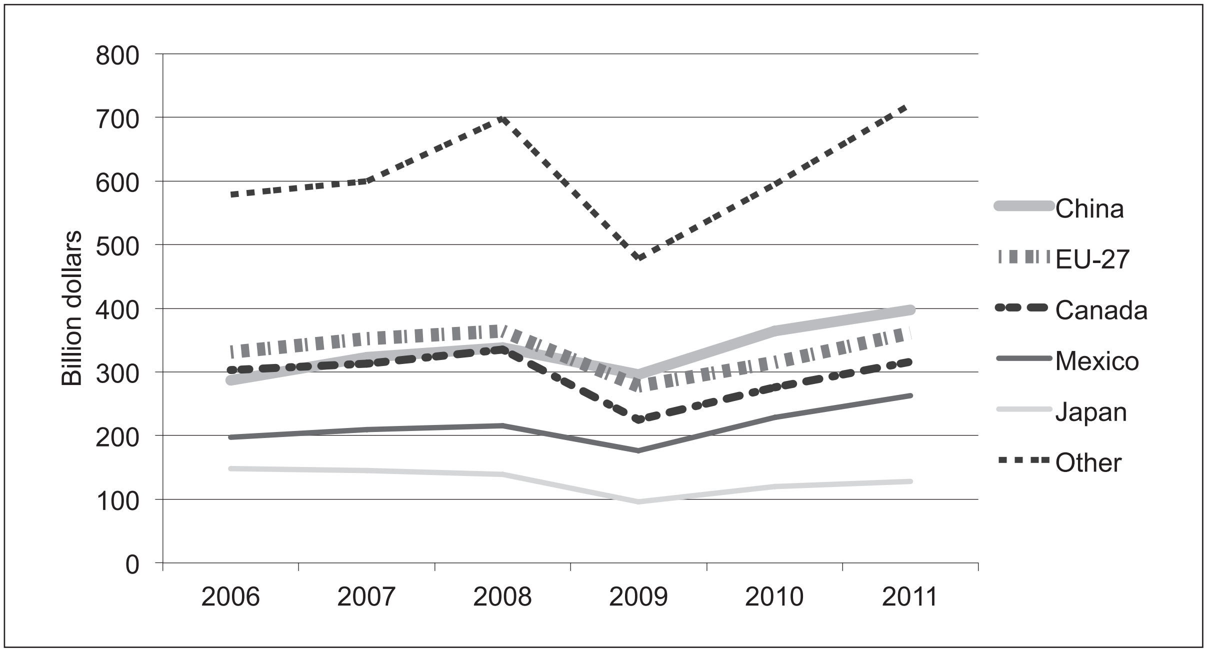


Figure 4.
U.S. imports from China and Mexico, 2006-11

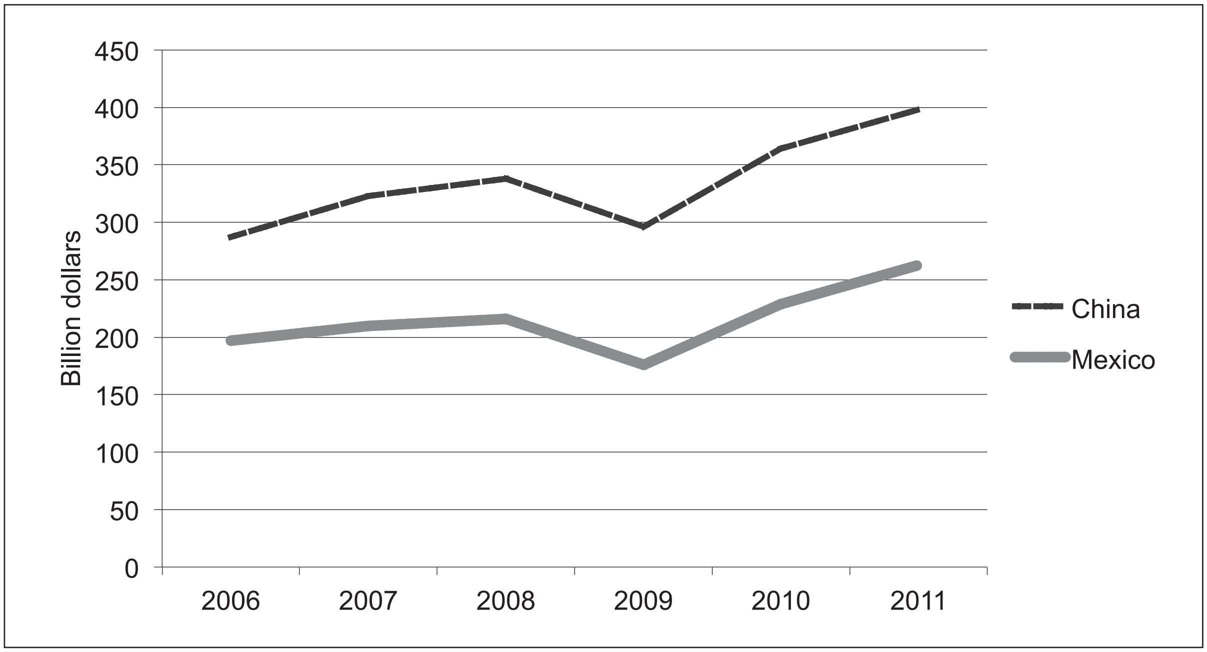


Figure 5.
Ratio of imports from China and Mexico to total U.S. imports, 2000-05

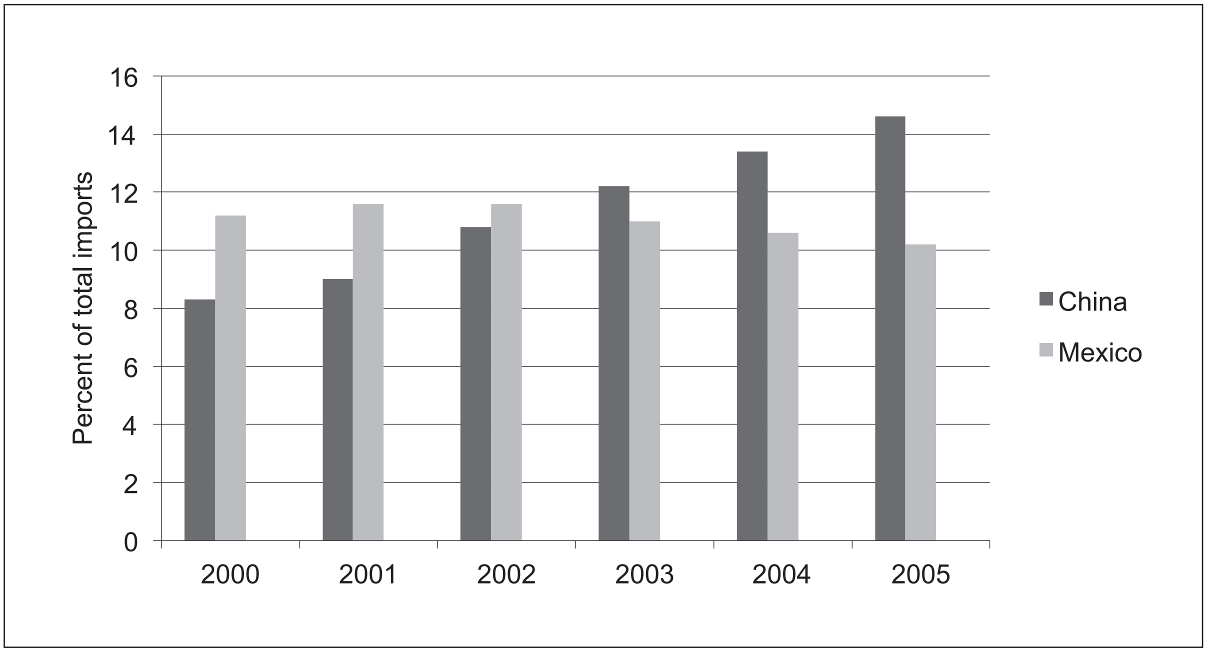
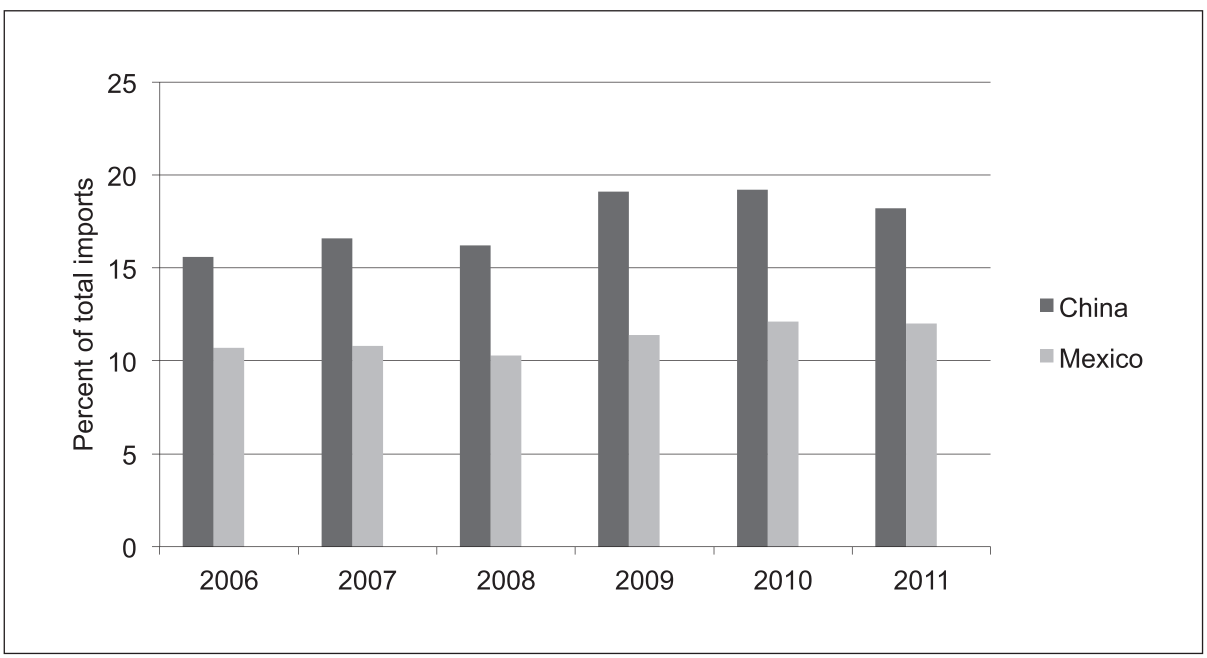


Figure 6.
Ratio of imports from China and Mexico to total U.S. imports, 2006-11



2. Integration of Manufacturing Between the United States and Mexico

Two of the key elements contributing to the competitiveness of the manufacturing sector in Mexico are (1) proximity of Mexican assembly plants to partner companies on the U.S. side of the border that supply the assembly plants with industrial inputs, further process Mexican-made subassemblies, and market final goods; and (2) the history of cross-border integration of manufacturing in North America.[4] The manufacturing industries in Mexico and Brazil were forced to expand into new product sectors during World War II to replace goods previously imported from the United States and Europe as manufacturing and resources there were redirected to the war effort. Following the war, both countries implemented import substituting development policies to protect infant industries that were born during the war.

In Mexico, for many products, foreign companies were required to perform final assembly in Mexico to be able to sell the goods in the Mexican market. Automobiles and computer equipment were among the products affected by these rules. Mexico also established export performance requirements for certain products, including automobiles. Auto manufacturers were required to export a specified share of their Mexican production to offset the value of the foreign-made parts they imported to assemble vehicles in Mexico. In order to achieve economies of scale in their Mexican operations, some computer equipment manufacturers produced more equipment in Mexico than could be sold in Mexico, with the remaining production exported to the United States and other foreign markets. Companies complying with Mexico's import substitution policies created opportunities for Mexican suppliers of industrial inputs (such as glass, steel, wire, and components) and services (such as construction, communications, legal, and logistics).

Mexico established the Border Industrialization Program (soon re-named the Maquiladora Program) on January 1, 1965. The program was initially intended to encourage foreign investment that would provide jobs for Mexican agricultural workers who were forced to leave the United States following the expiration of the Bracero Program on December 31, 1964. The Maquiladora Program permitted the duty-free entry into Mexico of components used for the assembly of goods for export markets. Foreign investors under the program were initially restricted to a 10 kilometer strip south of the U.S.-Mexico border. Those rules were eventually relaxed and maquiladoras can now be located almost anywhere in Mexico. The Maquiladora Directive was eventually amended to allow maquiladoras to sell a portion of their production into the domestic market in Mexico, provided that duties were paid on the value of imported components and other manufacturing inputs used to make the goods that were sold in the Mexican market. Amendments to the Maquiladora Directive created the Program for the Temporary Importation of Parts Used to Manufacture Exports (PITEX), which permitted companies that were manufacturing in Mexico to service the Mexican market to import parts free of duty provided that the parts were used to manufacture goods that would be exported. After the North American Trade Agreement (NAFTA) entered into force on January 1, 1995, the benefits of the Maquiladora and PITEX programs became almost identical and the programs were merged under the Maquiladora Manufacturing and Exports Services Program (IMMEX) in December 2007.

The Maquiladora and PITEX Programs complemented the U.S. production-sharing tariff provisions, which were codified in 1963 as Tariff Schedules of the United States (TSUS) items 806.30 (metal processing) and 807.00 (foreign assembly).[5] The latter provision exempts from duty the value of U.S.-made components contained in assembled goods imported into the United States.

U.S. investors were slow to respond to the incentives of the Maquiladora Program. The first company to register as a maquiladora was a coupon sorting operation. Finally, in 1968, RCA began assembling color televisions in Ciudad Juarez. Soon afterwards, Mattel started assembling toys and dolls in Tijuana and Mexicali; electronics companies established assembly operations in Tijuana, Mexicali, Nogales, and Juarez; and apparel sewing operations were established in nearly every population center on the Mexican side of the border.

Nevertheless, growth in the maquiladora sector failed to match expectations of the program's authors.[6] During the first 15 years of the Maquiladora Program, the value of the Mexican peso was tied to the U.S. dollar. As the value of the dollar increased relative to other currencies, so did the peso, decreasing the international competitiveness of goods made in Mexico. Although the gap between labor compensation in the United States and

4 Many economists have published research findings about the cross-border integration of manufacturing in North America and the development of the maquiladora/manufacturing sector in Mexico. Examples of such research, in chronological order by publication date, include: Baerresen (1971); Shaiken and Herzenberg (1988); Echeverri-Carroll (1988); USITC (1988, 1990); Prestowitz, Cohen, Morici, and Tonelson (1991); U.S. Congress (1992); Easton (1997); Echeverri-Carroll (1999); KSACA (1999); Millman (1999); USITC (1999); McNay, and Polly (2000); Bair and Gereffi (2001); GAO (2003); Canas and Coronado (2004); Tafoya and Watkins (2005); CFR (2005); Pastor (2005); Brown (2008); Haugh, Jamin, and Rocha (2008); Vargo (2009); Selee (2010); Villarreal (2011); Wilson (2011), and Rodríguez (2012).

5 TSUS items 806.30 and 807.00 became U.S. Harmonized Tariff Schedule (HTS) subheadings 9802.00.60 and 9802.00.80, respectively, when the TSUS was converted to the HTS in 1989.

6 Richard Bolin, Director, Director, World Export Processing Zones Association, interview with Walter Trezevant and Ralph Watkins, U.S. International Trade Commission, in Flagstaff, AZ, April 1987.

Mexico remained stable during the period, assembly in Mexico became more expensive relative to assembly in other low-labor-cost countries. Restrictions on where maquiladoras could be located in Mexico and their access to the domestic market were also disincentives for foreign investment in the sector.

Incentives for investing in the maquiladora sector improved dramatically in the 1980s. Plummeting world petroleum prices following the release of the hostages in Iran decreased Mexico's oil revenues, making it difficult for Mexico to repay its international debts. The administration of President Miguel de la Madrid untied the value of the peso to the dollar, leading to a 50-percent decline in the currency's value. That effectively doubled the price of imports into Mexico, but made Mexican labor much less expensive for foreign investors. Mexico also implemented financial and regulatory reforms necessary to join GATT, and reduced duties on most imports from 100 percent to 20 percent. Changes to the Maquiladora Decree permitted assembly plants to be located almost anywhere in Mexico, allowed maquiladoras to sell to each other, and authorized sales to the domestic market. These reforms made Mexico a much more attractive place to do business and led to a surge in investment in Mexico, particularly in the automotive sector in which U.S. companies were struggling to reduce manufacturing costs to compete more effectively with imports from Japan.

While some U.S. industries saw their domestic market shares shrink in the face of competition from the Four Tigers in the 1970s and 80s and then to China in the 1990s and many U.S. producers shut their factories and became importers (shoes, luggage, toys, games, sporting goods, and bicycles), other industries turned to assembly in Mexico to preserve production in North America (televisions, appliances, and a myriad of intermediate goods in the machinery and equipment sector). Those industries (in addition to the automotive and computer equipment producers) and U.S. exporters of agricultural products were the driving forces behind NAFTA.

By the time NAFTA entered into force in 1995, full cross-border integration of the North American auto industry was well on its way, with leading Canadian auto parts companies already investing in Mexico. Television receivers were being assembled in 13 plants in Mexican border cities. Leading companies from Asia, Europe, and the United States were assembling semiconductors and other parts for the telecommunications and computer equipment sectors in Guadalajara (Wilson 1992). By the time NAFTA negotiations were complete, the U.S. trade-weighted average rate of duty applied to goods from Mexico was down to 1.7 percent, while Mexico's trade-weighted average rate of duty on goods entering from the United States was only 7 percent. With bilateral tariffs already low, especially for manufactured goods, the most important impacts of NAFTA were to lock in duty-free access, liberalize trade and textiles and apparel, phase out quotas on agricultural products, provide legal protections for foreign investors, and extend free trade to certain services (USITC 1999).

Textiles and apparel were the manufacturing sectors most affected by NAFTA, as U.S. investors established knitting and weaving mills and fabric cutting operations in Mexico soon after the agreement entered into force. NAFTA's investment protections were instrumental in giving U.S., Korean, and Japanese producers confidence to invest in factories in the industrial heart of Mexico that would supply major household appliances to the United States, Mexico, and Mexico's free-trade partners in Central America (USITC 1999).

Mexico quickly followed up on NAFTA to sign free trade agreements with Japan and the European Union. Those agreements contributed to the additional investments by Japanese and European companies, particularly in the automotive and appliance sectors and the manufacture of intermediate goods for a host of industrial applications.

The North American partnership is now well established (Wilson 2011). In 2011, Mexico accounted for 12 percent of U.S. imports and 13 percent of U.S. exports. Currently, 89 percent of Mexico's exports of manufactured goods that incorporate imported inputs go to the United States.

Although the United States accounted for 51 percent of the imported components used in Mexican manufacturing in 2006, that share was down from 81 percent in 2000, as inputs from the United States were replaced by parts from Asia and Europe, often going to the assembly plants operated by companies based in Japan, Korea, Taiwan, and Germany. Many of these assembly plants were established in Mexico by companies based in Asia and Europe to take advantage of duty-free access to the North American market under NAFTA. By servicing the U.S. market from Mexico instead of Asia or Europe, these companies are more likely to use U.S.-made components than if the companies exported to the United States directly from Asia or Europe. Leading products assembled in Mexico by companies based in Asia and Europe include motor vehicles and parts, computer and telecommunications equipment, flat-screen televisions, and major household appliances.

3. How Serious is the China Challenge to Manufacturing in Mexico?

Many in the U.S. Congress and media accuse China of being a leading cause of the downturn in U.S. manufacturing during the recessions of 2002 and 2009, and have proposed legislation designed to mitigate the influences of

China's "unfair" policies on U.S. industry[7]. In the first of the decade's two recessions, U.S. manufacturers' shipments declined by 7.5 percent during 2000-02 (table 2a) and the economy lost 2.5 million

Table 2a

U.S. producers' shipments of manufactured goods, total imports from China and Mexico, 2000-2005

Category	2000	2001	2002	2003	2004	2005	Change 2000/05 (percent)
U.S. producers' shipments ($billion)	4,209	3,970	3,892	3,999	4,374	4,681	11.2
U.S. imports from China ($billion)	100	102	125	152	196	243	143.0
U.S. imports from Mexico ($billion)	135	131	134	137	155	169	25.2
Ratio of imports from China to U.S. producers' shipments (%)	2.4	2.6	3.2	3.8	4.5	5.2	Not meaningful
Ratio of imports from Mexico to U.S. producers' shipments (%)	3.2	3.3	3.4	3.4	3.5	3.6	n.m.

Source: USITC DataWeb and Official Statistics of the U.S. Department of Commerce.

Table 2b

U.S. producers' shipments of manufactured goods, total imports from China and Mexico, 2006-2011

Category	2006	2007	2008	2009	2010	2011	Change 2006/11 (percent)
U.S. producers' shipments ($billion)	4,940	5,081	5,183	4,610	4,820	5,358	8.4
U.S. imports from China ($billion)	287	323	338	296	364	398	38.7
U.S. imports from Mexico ($billion)	197	210	216	176	229	263	33.5
Ratio of imports from China to U.S. producers' shipments (%)	5.8	6.4	6.5	6.4	7.6	7.4	Not meaningful
Ratio of imports from Mexico to U.S. producers' shipments (%)	4.0	4.1	4.2	3.8	4.8	4.9	n.m.

Source: USITC DataWeb and Official Statistics of the U.S. Department of Commerce.

Manufacturing jobs.[8] Mexico, with an economy roughly one tenth that of the United States, experienced a comparable downturn in manufacturing as the maquiladora industry lost 288,000 jobs between October 2000 and March of 2002 (GAO 2003):

145,000 in the electronics sector	(1/2 of the total)
71,000 in apparel sewing	(1/4)
32,000 in auto parts assembly	(1/8)

7 For example, Senator Debbie Stabenow (D-Michigan) and Congressman Tim Ryan (D-Ohio) introduced the Currency Reform for Fair Trade Act (S. 1027 and H.R. 2378) on May 13, 2009, "to amend title VII of the Tariff Act of 1930 to clarify that fundamental exchange-rate misalignment by any foreign nation is actionable under United States countervailing and antidumping duty laws." "A New China Currency Bill," Washington Trade Daily, Volume 18, No. 96, May 14, 2009. Robert Reich has countered that legislation raising barriers to imports to China would likely persuade producers in China to shift their manufacturing operations to other low-labor-cost countries in Asia and such legislation would have little positive effect on U.S. jobs (Reich 2010).

8 According to the U.S. Bureau of Labor Statistics.

Several authors on both sides of the border blamed China for the loss of manufacturing jobs during the recession.[9] While the loss of jobs was lamentable, was China really to blame? Although U.S. imports from China did increase by $25 billion during 2000-02, U.S. imports from Japan fell by an equal value, and total U.S. imports declined by $50 billion (table 1a). The value of U.S. manufacturers' shipments shrank by $317 billion during this period (table 2a). Blaming China for the job losses seems off point.

What were the more significant causes of the recession and job losses? Kristin Forbes, a member of the President's Council of Economic Advisors, attributed the loss of 2.7 million U.S. manufacturing jobs in the United States between February 2001 and February 2004 to unusual weakness in U.S. business investment and exports during the period. Overspending on investments in the late 1990s "prevented a quick bounce-back after the recession ended. The wait for recovery was stretched out even further by uncertainty generated by the accounting scandals, 9/11 and the Iraq War. Exports… were a drag on growth, partly due to slow growth among our trading partners. Amplifying job loss was the very strong growth in manufacturing productivity."[10] Ms. Forbes noted that millions of manufacturing jobs had been lost in China because of improved productivity there as well.

A report by the Congressional Budget Office (CBO) on February 13, 2004 identified the most important causes of the loss in manufacturing jobs in 2001 and 2002 as declining demand for manufactured goods, increasing productivity, and outsourcing (domestic and foreign) of services that were formerly counted as manufacturing jobs (McClausland 2004).

Does this mean we should not worry about imports from China? During 2000-05, U.S. imports from China more than doubled, while the value of U.S. manufacturers' shipments increased by 11 percent (table 2a and figures 2 and 7). Although the ratio of imports from China to manufacturers' shipments was only 5 percent in 2005 (figure 8), the trend line seemed ominous.

However, over the next six years, the growth in U.S. imports from China slowed to 38 percent and the ratio of imports from China to U.S. manufacturers' shipment rose to just 7 percent, as U.S. manufacturers' shipments increased by 8 percent (table 2b and figures 3, 4, and 7).

By contrast, the growth rate in U.S. imports from Mexico increased from 25 percent in the first six-year period to 34 percent in the second, nearly matching the growth rate in imports from China. While China's share of total U.S. imports climbed from 8 percent to 18 percent during the full 12-year period of 2000-11, Mexico was able to maintain its position relative to all suppliers of imports to the U.S. market, increasing its share from 11 percent to 12 percent (tables 1a and 1b and figures 5 and 6).

On paper, Japan is the country that has had the most difficulty competing with China in the U.S. market. Japan's share of total U.S. imports was cut in half during 2000-11, dropping from 12 percent to 6 percent (tables 1a and 1b). Research indicates, however, that a significant share of the value of U.S. imports of high-technology goods from China is accounted for by key components and other value-added from Japan.[11]

9 Robert Scott (2005), for example, asserted that the U.S. trade deficit with China during 1989-2003 displaced 1.5 million U.S. jobs (see also Malkin 2002).

10 Ms. Forbes made her remarks in a keynote address to a December 3, 2004, conference sponsored by the Federal Reserve Bank of Dallas (Gilmer, Phillips, Canas, and Coronado 2004:5).

11 For a discussion of the foreign content of China's exports of manufactured goods and the value added in China, see: Koopman, Wang, and Wei (2008). These authors noted that domestic content accounts for only 45 percent of China's exports and 34 percent of Mexico's exports. See also Koopman, Wang, and Wei (2009).

Figure 7.

U.S. producers' shipments and imports from China, 2000-11

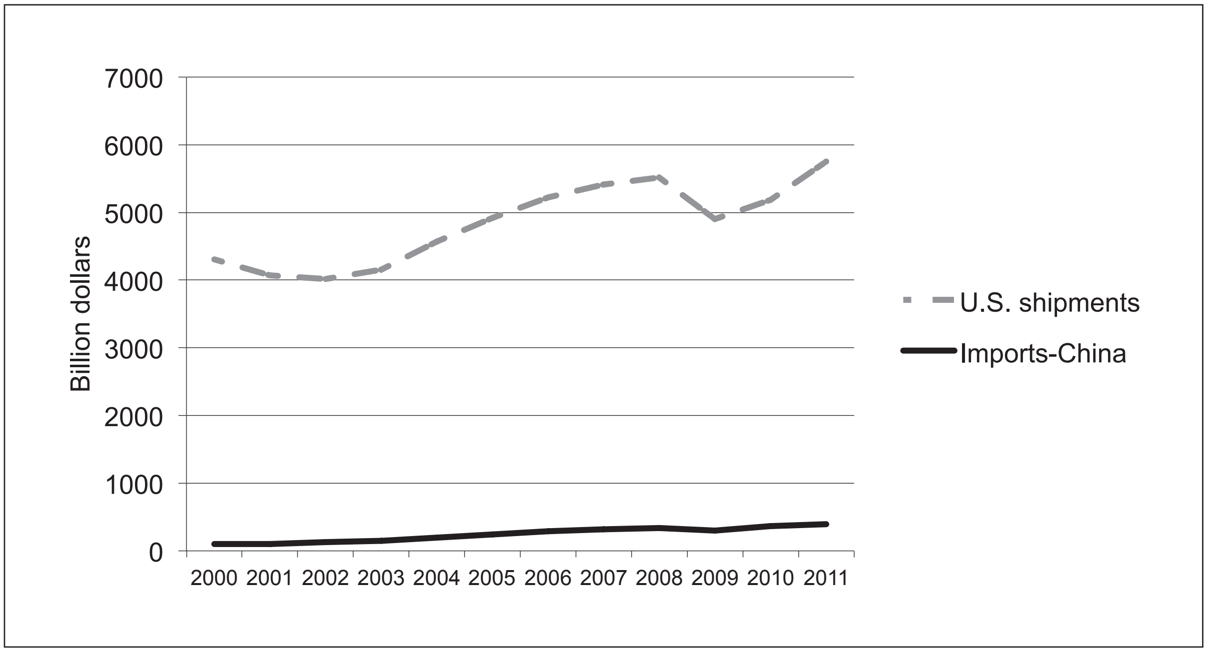
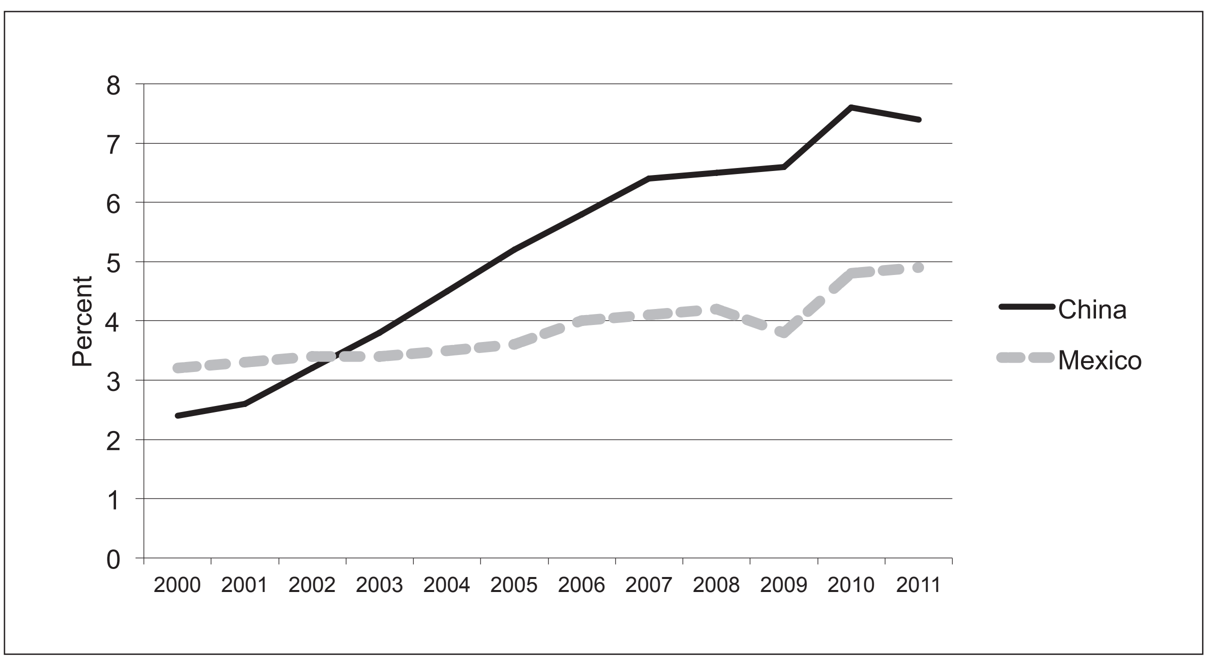


Figure 8.

Ratio of imports from China and Mexico to U.S. producers' shipments, 2000-11



4. How does Mexico Compete with China?

The following are key factors enabling Mexico to maintain its share of the U.S. market, despite intense competition from China:

1. Lower transportation costs.
2. Less time from manufacture to market.
3. Easier communication and supervision of production.
4. Greater flexibility for changes in production.
5. More transparent government regulations.
6. Better protection of intellectual property.

Table 3 and figures 9 and 10 compare the leading U.S. imports from Mexico and China in 2011. Motor vehicles and auto parts accounted for nearly one quarter of U.S. imports from Mexico, but only 4 percent of imports from China. Computer and telecom equipment accounted for over one quarter of U.S. imports from China.

Mexico is most competitive relative to China in products with the following characteristics:

a. High ratio of weight to value:
   (1) Motor vehicles
   (2) Large screen televisions
   (3) Major household appliances

b. Quality (rather than price) intensive:
   (1) Medical goods
   (2) Process control instruments
   (3) Precision metal working

c. Are inputs for industries that require just-in-time delivery, customized production, or require frequent design changes—such as auto parts

d. Protection in intellectual property is important

Felipe Canales of BAS-Tech Group contrasted the competitive advantages of Mexico and China succinctly in a recent interview. Mexico has the advantage for mid-volume customized products such as the “3As”: automotive, appliances, and aerospace. China’s strength is in high volume products, such as the “3Cs”: communications, computers, and consumer goods (Canales, Myers, and Rozental 2012).

Table 3

Leading U.S. imports from Mexico and China in 2011

Mexico			China		
Category	Value	Share of total	Category	Value	Share of total
	Billion dollars	Percent		Billion dollars	Percent
Crude petroleum	40.1	15.3	Computers and parts	75.4	18.9
Motor vehicle parts	31.3	11.9	Textiles and apparel	44.8	11.2
Motor vehicles	30.8	11.7	Telephone equipment	37.3	9.4
Agricultural products	17.1	6.5	Chemicals and related products	25.6	6.4
Televisions & video monitors	14.9	5.7	Toys, dolls, games, and sporting goods	21.0	5.7

Computers and parts	14.8	5.6	Footwear	16.5	4.1
Telephone equipment	11.0	4.2	Consumer electronics (except televisions)	15.0	3.8
Gold, silver, and other precious metals	9.5	3.6	Furniture	13.8	3.5
Chemicals and related products	8.4	3.2	Televisions and video monitors	11.6	2.9
Textiles and apparel	5.9	2.2	Household appliances	8.8	2.2
Medical goods	5.6	2.1	Motor vehicle parts	8.7	2.2
Electrical circuit apparatus	5.5	2.1	Forest products	7.3	1.8
Household appliances	5.3	2.0	Luggage and handbags	6.7	1.7
Refined petroleum products	4.3	1.6	Agricultural products	6.5	1.6
Measuring, testing, & controlling instruments	3.8	1.4	Semiconductors	6.0	1.5
Air-conditioning equipment	3.4	1.3	Miscellaneous base metal products	5.2	1.3
Electrical motors	2.8	1.1	Lamps and lighting fittings	4.3	1.1
Steel	2.2	0.8	Air-conditioning equipment	3.8	1.0
Electrical transformers	2.0	0.8	Electrical transformers	3.2	0.8
Consumer electronics (except televisions)	1.5	0.6	Electrical circuit apparatus	3.1	0.8
All other	42.3	16.1	All other	73.7	18.5
Total	262.7	100.0	Total	398.3	100.0

Source: USITC DataWeb and official statistics of the U.S. Department of Commerce.

The tabulation below provides a slightly more nuanced view of the leading U.S. imports from Mexico and China. The categories highlighted in yellow indicate products from categories listed in table 3 that are leading exports to the United States from both Mexico and China. However, that does not mean that there is significant head-to-head competition between Mexico and China in those product categories. For example, while both countries export auto parts to the United States, the parts imported from Mexico are chiefly used in the assembly of finished vehicles in the United States, whereas auto parts from China tend to be replacement parts. Mexico is the leading supplier of flat screen televisions to the United States, whereas China is the leading supplier of computer and other video monitors. Mexico exports hard drives and other computer equipment to the United States, whereas China exports notebook computers. Mexico exports telephone switching equipment to the United States, whereas China assembles and exports cell phones. Mexico is the leading supplier of major household appliances (washers, dryers, and refrigerators) to the United States, whereas China is the leading supplier of countertop appliances. Even in the apparel sector, U.S. imports from Mexico tend to be concentrated in pull-overs (less sewing) and blue jeans (relatively heavy) while imports from China tend to require more sewing (taking advantage of lower cost labor) or made from higher quality, more expensive fabric not available in Mexico, justifying the higher transportation costs associated with exporting from China rather than Mexico.

Figure 9. **Sector share of U.S. imports from Mexico, 2011**

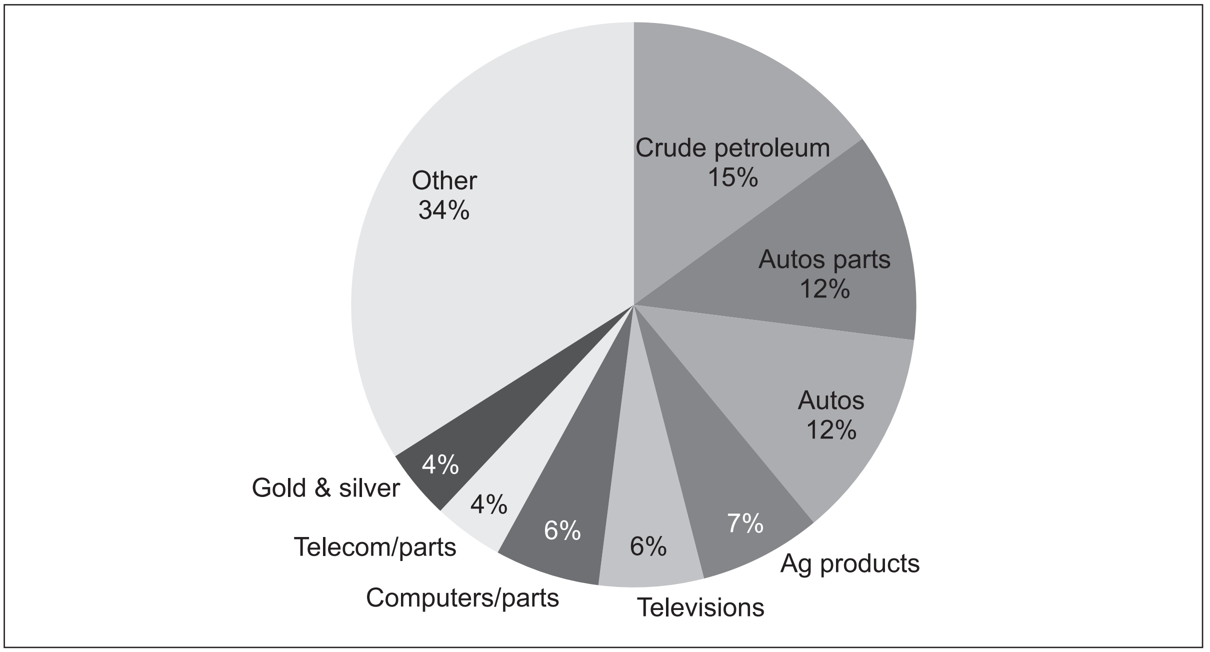


Figure 10. **Sector share of U.S. imports from China, 2011**

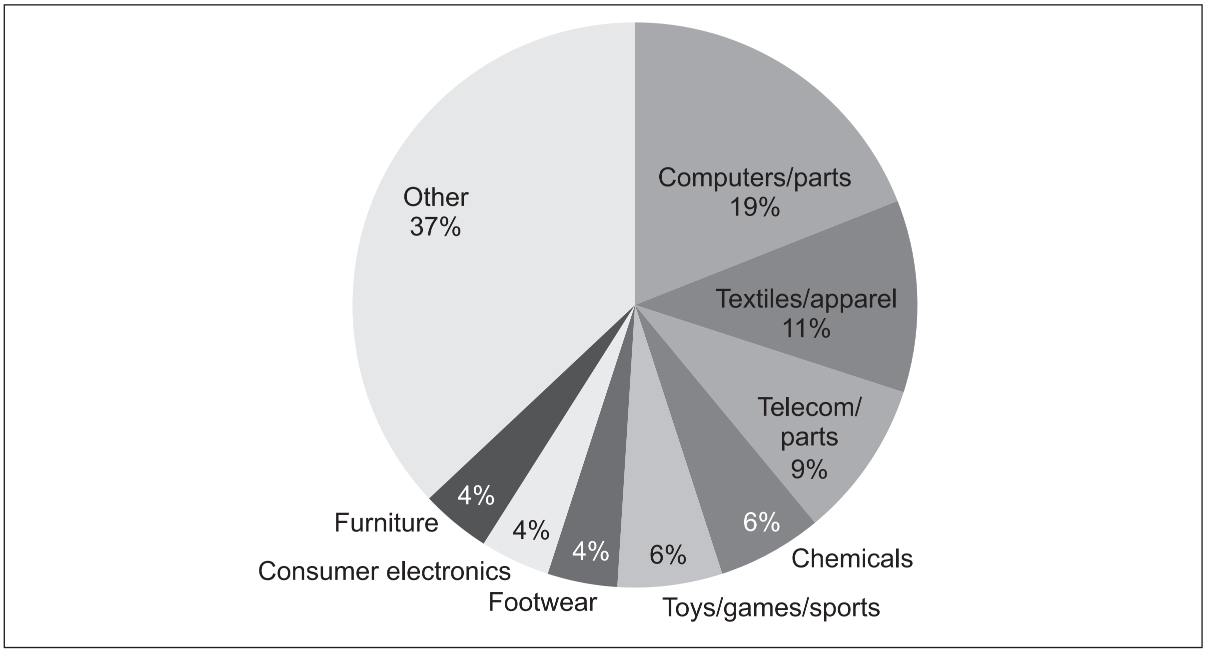


Table 4. **Leading U.S. imports of manufactured goods from Mexico and China**

Mexico	China
Motor vehicles and parts	Notebook computers and printers
Flat screen televisions	Apparel
Computer equipment	Cell phones
Telecommunications equipment	Toys and video games
Chemicals	Footwear
Apparel	Consumer electronics (except televisions)
Medical goods	Furniture
Electric circuit apparatus	Computer and video monitors
Household appliances (major)	Household appliances (counter-top)
Measuring, testing, & controlling inst.	Auto parts

Source: table 3.

5. What Does the Future Hold for Competition Between Mexico and China in the U.S. market?
Several factors are increasing the costs of importing from China:

1. Rising value of the yuan (Schneider 2012).
2. Rising labor costs in the industrialized coastal regions of China.
3. Rising costs of imported inputs used in assembly plants in China.
4. Growth of demand by China's middle class.
5. Increasing costs to ship finished goods to North America.

Some goods are very labor-intensive to manufacture and, as costs increase in China, their production may shift to lower labor-cost countries such as Vietnam, Cambodia, and Indonesia.[12] For some other products, while production may not shift from China to Mexico, goods made in Mexico are becoming more competitive in the U.S. market as costs in China rise and sourcing may shift to Mexico (Lahart and Orlik 2012).

Table 4 identifies 25 product categories for which China supplied over one-half of U.S. imports in 2011. Collectively, in those 25 categories, China accounted for 65 percent of total U.S. imports in 2011 (figure 11). By contrast, imports from Mexico accounted for just 9 percent. When people exclaim, "Everything is made in China!" they are thinking about products in those 25 categories.

But what about the other 225 product categories used by industry analysts at the U.S. International Trade Commission? Those 225 categories accounted for 88 percent of total U.S. imports in 2011. Imports from Mexico in those collective categories exceeded imports from China, with imports from Mexico accounting for 12.4 percent of U.S. imports in those categories and imports from China accounting for 12.0 percent (table 5 and figure 12).

12 Examples of research about the slow-down in China's manufacturing sector include, in chronological order by date of publication: "The Shakeout Continues in Chinese Manufacturing," Knowledge@Wharton; Roach (2009); Yinug (2009); Guao and N´Diaye (2009).

Table 5

U.S. import categories for which China supplied over one half of total U.S. imports in 2011

Category	U.S. imports in 2011			China's share of total	Mexico's share of total
	China	Mexico	Total imports		
	Millions of U.S. dollars			Percent	
Umbrellas	470.9	1.3	498.4	94.5	0.3
Toys and games	17,057.7	464.3	19,973.5	85.4	2.3
Costume jewelry	1,422.2	9.4	1,799.4	79.0	0.5
Table flatware, related products	435.7	1.6	560.1	77.8	0.3
Luggage and handbags	6,684.7	62.3	8,893.1	75.2	0.7
Footwear	16,677.2	371.3	22,559.4	73.9	1.6
Brooms and brushes	1,111.1	100.7	1,561.3	71.2	6.4
Ceramic household articles	1,029.2	36.0	1,486.7	69.2	2.4
Portable electric hand tools	1,817.4	518.6	2,648.4	68.6	19.6
Sporting goods	3,919.4	167.6	5,725.1	68.5	2.9
Cooking & kitchen ware	1,810.1	51.8	2,675.9	67.6	1.9
Lamps & lighting fittings	4,315.4	1,036.8	6,422.8	67.2	16.1
Certain other leather goods	394.6	27.6	610.9	64.6	4.5
Computers and parts	75,391.5	14,757.0	121,300.4	62.2	12.2
Radio & TV broadcast equipment	1,725.8	267.1	2,895.2	59.6	9.2
Electric lamps (bulbs), and flashlights	1,600.0	235.3	2,809.5	56.9	8.4
Furniture	13,806.1	1,321.3	24,659.1	56.0	5.4
Tools & tool handles of wood	102.3	1.3	184.5	55.4	0.7
Home furnishings	4,901.2	334.9	9,208.0	53.2	3.6
Bicycles	978.1	6.5	1847.9	52.9	0.4
Miscellaneous textile products	3,454.4	823.0	6,609.2	52.3	12.5
Miscellaneous electrical equip.	3,561.2	686.6	6,841.1	52.1	10.0
Metal & ceramic sanitary ware	629.7	337.6	1,213.8	51.9	27.8
Certain builders' hardware	1,993.9	628.1	3,848.3	51.8	16.3
Office machines	794.6	38.8	1,579.1	50.3	2.5
Subtotal	166,084.4	22,286.8	254,570.0	65.2	8.8
All other	232,382.4	240,384.2	1,932,381.0	12.0	12.4
Total	398,466.8	262,671.0	2,186,951.0	18.2	12.0

Source: Compiled by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Contrary to popular perceptions, the bulk of North American manufacturing did not go to China. Although many U.S. manufacturers established production facilities in China to supply the existing and hoped-for market there, and other U.S. companies contracted out manufacturing of labor-intensive articles to low-cost producers in China in order to maintain or expand their market shares in the United States, much of the growth in U.S. imports from China in the last two decades came from a shift of production from Hong Kong, Taiwan, and Japan to China rather than from the United States to China.

As demonstrated in tables 2a and 2b and figure 7, U.S. producers' shipments of manufactured goods grew by 27 percent during 2000-2012. For many U.S. companies, partnerships with assembly plants in Mexico for the supply of intermediate and final goods has helped these companies remain competitive with non-North American suppliers to the U.S. market. NAFTA has played an important role in facilitating these partnerships. The ability of the North American manufacturing industry to remain competitive depends on commitments from all three NAFTA partners to invest in infrastructure, education, and research, facilitate access to markets and credit for small- and medium-sized business, implement reforms that will make it easier to do business while protecting the rights of stakeholders, and enforce intellectual property rights.[13]

Figure 11. **Shares of 25 labor-intensive U.S. import categories (225 billion) accounted for by China (65%) and Mexico (9%)**

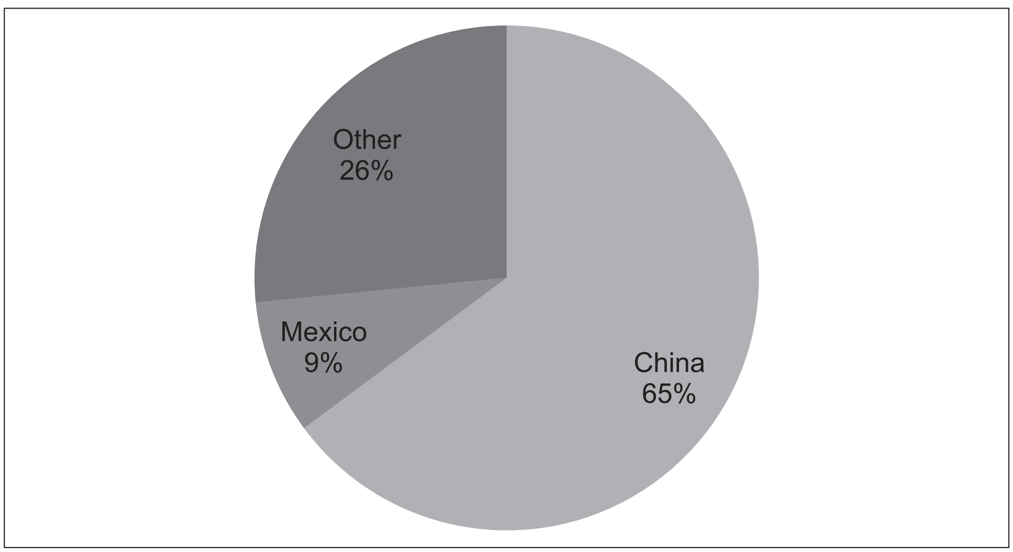
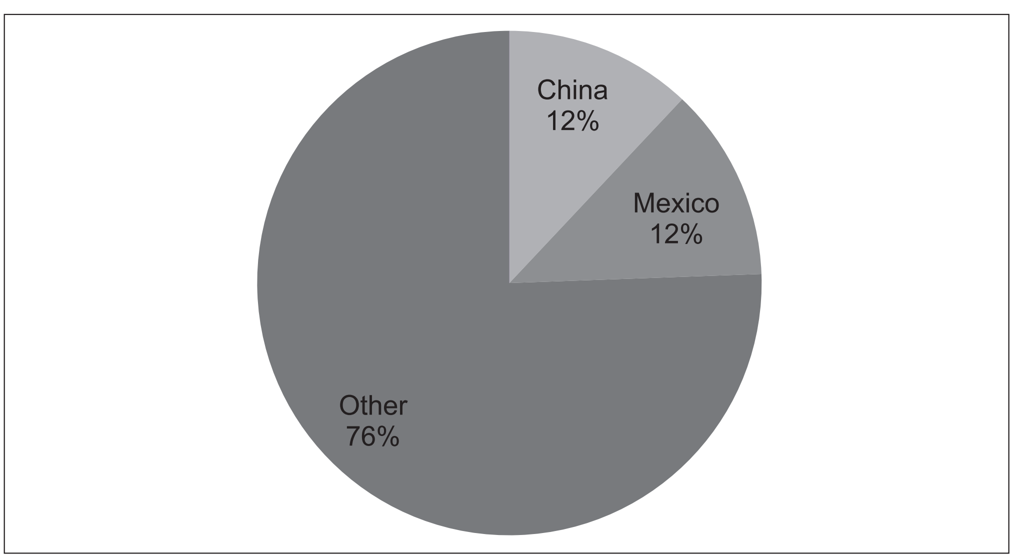


Figure 12. **Shares of 225 other U.S. import categories ($1.9 trillion) accounted for by China (12%) and Mexico (12%), 2011**



13 For discussion of common goals for North America's future, see: WWICS (2009).

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Section II

Policy

The Mexico-China-U.S. Triangle: An Ethnographic Perspective

Adrian H. Hearn

Introduction

Interactions between Mexico, China, and the United States can in some respects be described as “triangular”: China competes with Mexico for customers in the United States, Mexico harbours potential as a base for Chinese manufacturing with a view to the U.S. market, and the United States has an interest in dampening China’s economic impact in Mexico because Mexico is the destination of 13 percent of U.S. exports and significant investments from U.S. automakers. Despite this three-way dynamic, a shortcoming of the “triangle” thesis is that it portrays each of the supposed points as a unitary actor engaged, for analytic purposes, in a single set of relationships (Carrillo et al. 2011, Gonzalez Vicente 2012). It is more realistic to understand each “point” of a given triangle as a hub of multiple outward (and inward) relationships pursued by state, market, and civil society actors. To draw attention to this dynamic the chapter examines the perceptions of five Mexican and Chinese-Mexican individuals involved in fomenting business ties with China, particularly at the level of small and medium sized enterprises (SMEs).

SMEs comprise 52 percent of Mexico’s GDP and 72 percent of formal employment, but they are a long way from filling their export potentials (Jiménez 2011). Indeed, Mexico suffers Latin America’s deepest trade deficit with China, reporting in 2011 that bilateral commerce exceeded $58 billion, but that $46 billion of this flowed in China’s favour (UN Comtrade 2012). The main reason for this is that Mexico, unlike its South American neighbours, does not export significant quantities of natural resources to China. Instead, Mexico relies on the U.S. market as a destination for automobiles and auto parts (which comprised 30 percent of Mexico’s total exports and 24 percent of U.S. imports from Mexico in 2011) (Watkins 2012). Mexican public opinion toward China reflects the economic imbalance: according to a poll by Pew Global (2007), 55 percent of respondents described China’s economic development as a threat—the highest figure in Latin America.

The study involved six months of research in Tijuana and Mexicali in the state of Baja California (between 2008 and 2011), and four months in Mexico City (between 2010 and 2012). The University of Baja California in Tijuana and the Centre for China-Mexico Studies (CECHIMEX) at the National Autonomous University of Mexico (UNAM) in Mexico City served as institutional platforms to consult with local researchers and conduct interviews. 68 individuals were interviewed, 33 of whom (18 in Mexicali and Tijuana, and 15 in Mexico City) identified themselves as ethnic Chinese.

The first section discusses Mexican perceptions of China and the resident Chinese community, and notes how these perceptions diverge from Mexican views of the much larger (and growing) number of resident U.S. citizens. It is followed by three quotes that provide a basis for examining Mexican approaches to industrial policy, trade tariffs, and the informal sector, spheres of activity that reflect Mexico’s close economic ties to the United States. Two further quotes concern a China-oriented trade fair in Mexico City, and the attempts of a Chinese association in the Northern State of Baja California to balance imports and exports to China. The chapter concludes that Mexican small businesses could play a more active role in developing export-oriented Chinese partnerships. To do so, though, they will first need to develop partnerships closer to home, especially with their own government.

1. Threat Perceptions

Mexicans often speak of an “invasion” of cheap Chinese electronics, textiles, shoes, toys, and - to the offense of many - statues of Mexico’s patron saint the Vírgen de Guadalupe. The tension is evident in the press: a U.S. news article reprinted in the national paper Mural concludes that, “There was a time when the words ‘made in China’ evoked an immediate perception of ‘bad quality’. These days many North Americans and Europeans perceive ‘danger’” (Martin 2007). Reports of copyright infringement and “disloyal” trade practices have provoked Chinese media to respond by accusing commercial competitors of over-reporting such incidents to spread distrust of Chinese products and fuel perceptions of a “China threat” (French 2007). Chinese people and their descendants resident in Mexico have also made the headlines, one article reporting that Chinese immigrants are culturally programmed to work through family networks and guanxi rather than formal economic structures: "[Chinese Mexicans] are reserved, because their culture forces them to be . . . they are determined to generate their own sources of employment" (González Alvarado 2008; López 2009). Such perceptions are also visible on Internet sites like "Pinches Chinos" [Damn Chinese], and "Ten reasons not to buy Chinese products this Christmas." These and other media have directed blame for the bilateral trade imbalance toward the Chinese community resident in Mexico.

According to its 2010 census, Mexico is home to 6,655 Chinese-born individuals (the 12th largest foreign group), while the Chinese embassy counts 20,000 Mexicans of Chinese origin. Unofficial figures from community leaders are larger: the city of Tijuana is reportedly home to 25,000 Chinese immigrants and descendants, and Mexicali an additional 35,000. Even these larger figures imply a small populace compared to the number of U.S. expatriates in Mexico: 738,103 according to the 2010 census (the largest foreign group). With unregistered U.S. citizens taken into account, the number is thought to be approximately 1 million. This is to be expected in light of U.S.-Mexico trade, which in 2011 amounted to almost $460 billion (eight times that of China) (UN Comtrade 2012).

Commercial ties are one reason for the large number of U.S. expatriates in Mexico; another concerns the ageing U.S. population: in 2005 some 250,000 U.S. senior citizens were living in gated villages on Mexico's Pacific coast, where Spanish is barely spoken and "you can't really tell you're in Mexico" (The Economist 2011). These communities are growing, and the Mexican government reportedly hopes to attract some 5 million U.S. retirees by 2025 (Oppenheimer 2010). This objective reveals a sharp divergence of public attitudes toward U.S. and Chinese migrants, though the reasons for this extend beyond trade integration and even historical familiarity. As a student at the Autonomous University of Baja California in Tijuana put it, "Even though we hate the gringos, we wish we could be like them. It bothers us that they look down on us, so we pass this feeling on, especially to the Chinese" (interview, 31 October 2008).

Chinese migrants to Mexico have long endured difficult conditions. The first large group of migrant workers arrived in 1864, contracted from the United States to build railroads between the cities of El Paso, Chihuahua, and Juárez; and to expand the rail network in the 1880s to the cities of Sonora, Tampico, and Tamaulipas. By the mid 1890s, 1,800 workers had been contracted from Macao and Hong Kong to work in Mexican agriculture, but nearly half died from disease and extreme working conditions.

Deeply embedded in Chinese-Mexican historical lore is the arrival of the first group of Chinese people in the Valley of Mexicali in 1908. Abandoning the copper mines of Sonora in search of opportunities in Mexicali, 160 Chinese sailed across the Gulf of California to San Felipe, and were advised to walk the remaining 194 kilometers (121 miles) across the state of Baja California to their destination. After three days in 125 degrees Fahrenheit (52 degrees Celsius), they became disoriented in the desert without a compass, and began to die of thirst and exhaustion, leaving only a handful to reach the township of Mexicali. The desert where they perished came to be widely known as the Sierra de los Chinos, or El Chinero by locals, who report that those willing to visit this place of tragedy and sorrow have found coins and other objects abandoned by the Chinese pioneers. According to the former director of the Chinese Association of Mexicali, Eduardo Auyón Gerardo, "when clouds gather over El Chinero, you can still hear their voices screaming for water" (interview, 7 October 2008).

As discussed below, by 2011 Auyón and his community had established a range of commercial partnerships with China. The challenge he and other entrepreneurs face is to make these partnerships work in mutually beneficial ways for both countries. How, then, can the connections and business skills of Chinese entrepreneurs living in Mexico be leveraged to promote not only Chinese exports to Mexico, but also Mexican exports to China? It is instructive to consider local perceptions of this problem and its political context.

2. Five Voices

> *Quote 1: "The problem is that Mexico has had no industrial policy since the early 1980s. The Cold War ended 25 years ago, and NAFTA was signed 18 years ago, and still our government has no concrete plan that looks beyond the United States. Instead it has fallen mainly to academic researchers to come up with a strategy for managing our economic relations with China."* - Enrique Dussel Peters, director of the Centre for China-Mexico Studies (CECHIMEX) at the National Autonomous University of Mexico (UNAM). Interview, 29 May 2012.

Enrique laments that ever since the presidency of Miguel de la Madrid (1982-1988), the Mexican government has not done enough to guide national enterprises toward competitiveness. De la Madrid sought to rebuild the credibility of the Revolutionary Institutional Party (Partido Revolucionario Institucional, or PRI) in the face of an enormous foreign debt accrued through prior social programs and infrastructure spending, and the collapse of the price of oil in 1981. He oversaw Mexico's 1986 accession to the General Agreement on Trade and Tariffs (GATT), but also a decline in real wages by 30 percent, a rise in unemployment to 25 percent, and the growth of inflation to 159 percent (UNDP 1990:35).

Continuing de la Madrid's hands-off economic policy, President Carlos Salinas de Gortari (1988-1994) negotiated Mexico's entry into the North American Free Trade Agreement (NAFTA), but his fervent pursuit of privatization generated popular discomfort with the country's conservative adherence to (and deeper reliance on) Washington. Salinas's Minister of Commerce and Industrial Development, Jaime Serra Puche, epitomised this approach, famously stating that, "the best industrial policy is no industrial policy" (Boltvinik 2003:387). This mantra guided Mexico's subsequent three leaders, Ernesto Zedillo (1994-2000), Vicente Fox (2000-2006), and Felipe Calderón (2006-2012), and will almost certainly characterise the mandate of Enrique Peña Nieto, who will take office for the PRI in December 2012.

The OECD (2009:114-116) recommends that Mexico adopt a long-term approach to export competitiveness by investing in education and technical training (Santiso and Avendaño 2011:88). The federal government has been slow to follow this advice, but nine state governments fund Mexican masters and doctoral students to undertake research projects in China. Harnessing this funding since 2007, Enrique has placed students in Chinese internships to identify avenues of bilateral cooperation. According to a 2012 CECHIMEX report, this has enabled the formulation of strategies for boosting Chinese tourism to Mexico, establishing a high-level Spanish-Mandarin interpretation service, harmonizing Mexican and Chinese professional and academic qualifications, convening a bilateral commission on agricultural biotechnology, duplicating a Chinese plastic injection moulding facility in Mexico City, and emulating Chinese technical linkages between universities and industrial parks (Trápaga Delfín and Dussel Peters et al 2012).

One student recently designed a project to export tequila to China, and soon identified a Mexican provider and a Chinese buyer and distributor. As the plan went into operation Chinese consumers responded enthusiastically, but the Mexican provider was unable to meet their demand. The project soon collapsed because the provider was unable to secure seed investment to expand production and develop partnerships with other Mexican producers. The World Economic Forum's Global Competitiveness Report 2011-2012 lists "access to financing" among the most problematic factors for doing business in Mexico, alongside violence and corruption (WEF 2012:258). In the absence of logistical and financial support, exporting to China is a remote prospect for most Mexican businesses, but as Quote 2 indicates, importing from China is simpler—legally and otherwise.

> *Quote 2: "When I was working in Beijing, a Mexican official gave a public speech here in Mexico City, declaring that China was responsible for the influx of contraband. Today this is still the dominant perception. But a Chinese friend of mine told me, 'How can we be responsible? We don't control Mexican customs!' He was absolutely right, and I'll tell you the real culprit: the enormous quotas against Chinese products. With these quotas it becomes logical to 'pagar la mordida' [literally 'pay the bite', or offer a bribe]."* – Sergio Ley, ambassador to China (2001-2006). Interview, 15 June 2010.

As Chairman of the Asia Pacific Business Section of the Mexican Business Council for Foreign Trade, Investment and Technology (COMCE), Ley now dedicates himself to promoting Sino-Mexican trade. His family, of Chinese origin, owns the successful "Casa Ley" supermarket chain, which targets low-income consumers, as well as several baseball teams and the popular Ley brand of jeans. Although a proportion of the products sold in Casa Ley supermarkets are imported from China, and although Sergio and his brother are widely known as "Los Chinos Ley" for their Chinese heritage, these connections have not damaged their sales. "The important thing," he insists, "is that we have the lowest prices."

The same can be said of imported Chinese products generally, provoking Mexican competitors to lobby their government for protection ever since China's 2001 entry into the World Trade Organization. Unable to derail China's bid for accession, Mexico negotiated a six-year grace period during which import tariffs would apply in 953 product categories, allowing national businesses time to upgrade their technologies, develop new strategies for inserting themselves into global production chains, and generally become more competitive. As the expiration date approached in November 2007, Mexican manufacturers successfully lobbied the Ministry of the Economy to seek an extension. The 2007 Transition Trade Agreement on Compensatory Fees established a period of four more years for Mexican industrial sectors likely to be affected by the elimination of the tariffs. Duties had previously ranged from 100 to 1,105 percent, but under the agreement they would range from 60 to 360 percent in the first year, and between 35 to 250 percent in the last (Hernández Hernández 2012:83-84).

When the four-year extension expired in December 2011, tariffs in the 204 most sensitive sectors (clothing, shoes, bicycles, baby strollers, etc.) were reduced to 35 percent, a figure still 59 times greater than Mexico's average general import duty. Opposing this adjustment, the Confederation of Industrial Chambers (CONCAMIN) argues that for every two manufactured products exported by Mexico ten enter from China, and that consequently, between 900,000 and one million workers have lost their jobs (Mural 2011:4). Together with other labour associations and government allies, CONCAMIN continues to lobby the Ministry of the Economy to re-instate tariffs at the earlier 2011 levels. Displaced by China in 2002 as the second largest supplier to the United States, Mexican exporters view tariffs as a legitimate tool for clawing their way back to competitiveness in a market they have come to depend on.

As Sergio Ley points out, one negative consequence of Mexico's successive barriers against Chinese imports is that suppliers and retailers have found creative ways to circumvent them. According to the 2007 Inquiry into Antidumping Quotas Against Imports of Chinese Origin, Mexican firms often arrange legal loopholes and exceptions to antidumping quotas for their Chinese suppliers (García 2007). As discussed below, illegal methods are even more common.

> *Quote 3: "What brand of watch do you want? If I don't have it here I can get it copied and shipped over in five days. My suppliers in China write lower prices on the papers to reduce the tariff, but even without their help the tariff is smaller than for jackets and shoes. Jackets are charged 50 percent in Mexico because they make jackets here…Most of our customers are Mexicans who sell the products in street plazas and markets like Tepito, and in Guadalajara."* – Ángel, importer of Chinese products in Mexico City. Interview, 17 June 2010.

Tepito, on the Eastern perimeter of Mexico City's Historic Centre, is Mexico's most famous market for unregistered consumer goods. Customers are drawn to the district by its commercial catchphrase: "dress yourself for 100 pesos [approximately $8]". When it emerged in the mid 1970s, Tepito was a small assembly of bartering stalls called tianguis, where one could exchange clothing, food, live animals, and practically anything else. It now operates in cash, and increasingly in counterfeit consumer products imported from China. Tepito has grown to more than 75 blocks, and some 150,000 people are dedicated to vending in the district (Mondragón 2006:1).

Most of the goods sold in Tepito are smuggled directly into Mexico from China, or else into Belize or Guatemala and then into Mexico courtesy of unscrupulous customs agents. They also enter through a practice called "triangulation", in which "made in USA" labels are attached to goods while held in U.S. ports in transit between China and Mexico. They can then enter Mexico duty free under NAFTA. A third technique, known as "technical smuggling", involves the incorrect classification of imported goods under the harmonised trade system (HTS). Like Ángel's price markdowns, this reduces the tax they accrue. Mexican customs officials acknowledge these problems, but defend themselves by arguing that they have no authority to conduct investigations in China to verify the origin or true function of incorrectly labelled products (López 2006:2). The yarn-textile-garment chain has been particularly hard hit, with studies showing that between 2006 and 2011, illegally imported Chinese items constituted 60 to 65 percent of all clothing sold in Mexico (Dussel Peters 2009:304; Rodríguez 2011).

Ángel demonstrates the underground alternatives that have sprung up in the absence of a cost-effective channel for conducting registered bilateral trade. He acknowledges the illegality of his activities, but like Sergio Ley, sees them in the context of excessive trade tariffs. The future of Mexico's tariff regime is uncertain, but it has become clear that tariffs by themselves will not solve Mexico's competitive woes. More genuine solutions are beginning to emerge, such as small private initiatives seeking to place Mexican products in the Chinese market. A key challenge for such initiatives, as the next quote suggests, is to convince the Ministry of the Economy to support them.

> *Quote 4: "By promoting exports to China we hope to reduce the perception that our trade fairs are all about bringing 'made in China' products into Mexico. We'd like some high-ranking officials to come to the opening ceremony and cut a ribbon or something. I suppose I can't blame them personally [for declining invitations] considering [President] Calderón's attitude to China."* – Jimmy Li, Secretary General of the Confederation of Chinese Associations of Mexico (CACHIMEX) and co-organiser of the annual Expo-China trade fair in Mexico City. Interview, 11 June 2010.

In November 2011 CACHIMEX hosted the third annual "Expo China" trade fair at the World Trade Centre in Mexico City. Bringing together over 100 Mexican SMEs alongside counterparts from China, Peru, Russia, Thailand, and Vietnam, the fair opened new channels for exporting Mexican fruits, vegetables and scrap metals to China. Senior government and private sector representatives have declined Li's invitations to endorse Expo China because, he thinks, they are wary of associating themselves with “the China threat.” The event is, consequently, attended almost exclusively by ethnic Chinese people.

The Chinese diaspora in Mexico has at its disposal an extensive network of importers and exporters in Mexico, China, and the United States, but without official support and locally sensitive policy initiatives they cannot get exporting activities off the ground (Hearn 2012). Endorsement from above will be critical if Expo China and similar trade fairs are ever to place more than fruit, vegetables, and scrap metal in Chinese markets. Li notes that Mexico would find ready consumers in China for everything from tequila and abalone to ground rubber, but national suppliers are either unaware of the event or have little faith in its legitimacy. Official sponsorship would help build this confidence and encourage new domestic linkages between Mexican producers and exporters, since in Li’s words, “Culture and commerce are like two hands of the same person…as we say in China, first make friends and then do business.”

Although the Expo has suffered a “lack of government support for selling to China”, the Ministry of the Economy’s Fondo PYME (SME Fund) has committed to financing the participation of several Mexican SMEs in an Expo-related marketing mission to Chengdu and Fuzhou (Tai 2012:367, 370). The final quote notes that face-to-face contact of this sort is critical for opening commercial channels.

> *Quote 5: “In 2005 when Hu Jintao came to Mexico I met him personally, and the Mexican government started to see our community as a bridge to China. All of this has come together over the past year since we created the Chamber of Chinese Enterprises of the Northwest [in 2010]. The Chamber takes advantage of the relationships we’ve built up with the Baja California state government and businesses in the area to export Mexican food and other products to China. Each year we organise trade expeditions to the Fair of Canton so that Mexican businesspeople can find customers for their products.”* – Eduardo Auyón Gerardo, former President of the Chinese Association of Mexicali. Interview, 19 December 2011.

Born in Guangdong of a Chinese father and Mexican mother, Auyón studied art in Macao and moved to Mexicali in 1960 to join his brother. He established himself as a talented painter of traditional Chinese themes, such as his trademark “celestial horses,” and worked his way to the executive ranks of Baja California’s School of Fine Arts. Among Auyón’s students were the school’s former director and the secretary of education of Baja California, people he later drew on to support artistic exchanges with China, such as a visit by forty members of the Chinese Opera and a series of visual art expositions in the 1980s. “These relationships,” he explained, “gave me a platform for making contacts in China…I have blood from both countries, and I’ve always wanted to be a bridge between them.”

From 1990 until 2006 Auyón served as president of the Chinese Association of Mexicali. Early in his tenure he convinced the Baja California government to sponsor festivals, parades, and marketplaces organised by local Chinese associations. These initial activities have since matured into broader public-private partnerships. For instance, Auyón was instrumental in the 2010 establishment of the Chamber of Chinese Enterprises of the Northwest, which draws on government promotion, commercial incentives, and legal approvals to connect 4,000 small entrepreneurs across the state of Baja California. One of the Chamber’s activities is to arrange visits four times each year to Beijing, Shanghai, and Guangzhou for businesspeople (mostly of Chinese descent) from Baja California, San Diego, and Los Angeles. Comprised of forty to fifty people, these expeditions visit important historical and cultural sites, but their primary focus is the Fair of Canton. Sponsored by the government of Guangdong and the Chinese Ministry of Commerce, the fair is China’s largest trade convention, bringing together thousands of small and large businesses. Each year the fair has a theme, from medicine to interior design, around which Auyón designs his trips.

The Chamber also arranges visas and marketing for visiting Chinese executives, and introduces suppliers to exporters and importers on both sides of the Pacific. “Last year,” explains Auyón, “we arranged for slightly over 100 Chinese businesspeople we had met at the Fair of Canton to visit trade expos that we organised in Mexico. We are not a government organisation, but we work through the Chinese consul in Tijuana and the Mexican Embassy in Beijing to arrange the visas.” Providing a stable nexus for bilateral trade, together with the related advertising, matchmaking, and visas have made Auyón a key node of contact for entrepreneurs from both sides.

Auyón’s pursuits have fomented linkages, cooperation, and trust between the Baja California state government and the Chinese community, and opened new channels for Mexican exports. Mexicali’s mayor, Rodolfo Valdéz Gutiérrez, has recognised Baja California’s Chinese community as “a motor of the local economy”, and the state-level delegate of the National Institute of Migration (INAMI), Javier Reynoso Nuño, has worked with local Chinese associations to simplify the process of visa acquisition for members’ relatives (Crónica 2008:5; Mejía 2008:1). These developments demonstrate that when official support has been forthcoming, the Chinese diaspora community has embraced the chance not only to import from China, but also to export from Mexico.

3. Conclusions

There is no easy road to the Chinese market for Mexican small businesses. Except in Baja California, those interested in forging linkages with Chinese trade partners have not been able to attract the support of federal or state authorities. The reasons for this are many. According to Enrique Dussel Peters (Quote 1) Mexico has historically relied on the U.S. market, a relationship whose codification in NAFTA has deepened scepticism of alternative economic policies. In the words of Mexican political scientist José Luis León-Manríquez, “the expression ‘industrial policy’ has become almost taboo in the discourse of Mexican economic officials” (León-Manríquez 2011:170).

A further problem besetting Mexican small businesses in their pursuit of Chinese markets is the concern of public and private sector leaders that any support they give will draw criticism from voters and consumers. To the dismay of trade activists like Jimmy Li (Quote 4), national producers and exporters have therefore remained unaware and unconnected to events like the annual Expo China trade fair. While the media has fuelled popular perceptions of a “China threat”, the problem ultimately stems from insufficient political will to reduce the bilateral trade deficit.

Import tariffs may soften the bite of Chinese competition in some sectors and generate political capital for embattled politicians, but they will not provide a long-term solution to the deficit. Labour unions and industry associations opposed the 2007 and 2011 reduction of tariffs on Chinese products to their current level of 35 percent in the most important sectors, and continue to advocate the reinstatement of the earlier levels. Their concerns are understandable in light of the scarce financial and technical support they receive to enable restructuring and competitiveness, but as Sergio Ley (Quote 2) argued, trade barriers have brought their own problems. These range from legal loopholes to a raft of illegal tariff avoidance mechanisms. The informal sector has long been a thorn in the side of the Mexican taxman, but the influx of unregistered Chinese consumer goods extends beyond simple corruption in the customs house into more complex classificatory violations such as “technical smuggling” and “triangulation” through the United States. Falsifying import documents is the preferred practice of Ángel (Quote 3), who relies on personal contacts and suppliers in China for quick turnaround on customised orders from street vendors in Tepito and Guadalajara.

Chinese communities in Mexico, as Ángel demonstrates, have extensive business contacts in China that could play an important role in building legitimate bilateral commerce. To harness and formalise these human connections will require courage from Mexican officials, but also a commitment from overseas Chinese communities to build relationships outside of their existing networks. This has been a key achievement of Eduardo Auyón Gerardo (Quote 5), who has placed considerable emphasis on forging cooperation with the Baja California state government. Long-term relationships, backed by legal steps to facilitate local commerce and migration, have enabled Auyón and his community to advance initiatives ranging from street markets to high-level visits from Chinese trade and investment delegations.

The examples presented above suggest that top-down directives from the state cannot by themselves overcome the much-heralded “China threat”, but also that attempts to do so from the private sector and civil society require greater support. Solutions will most likely emerge from a framework of engagement between public and private actors. This will entail a commitment from policymakers (particularly within the Ministry of the Economy) to assist SMEs enter the Chinese market, and more proactive strategies from SMEs and entrepreneurs for engaging the people and institutions capable of helping them. In addition to the Ministry of the Economy, the latter should also include the U.S. International Trade Commission and the U.S. customs service, which respectively harbour research expertise and law enforcement capacities directly relevant to the future of Mexican exporters. Relationships like these offer the best hope of leveraging practical benefits from the China-Mexico-U.S. triangle.

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U.S.-Mexico-China Relations in the Context of Regional Cooperation: A Chinese Perspective*

Chunsi Wu

Introduction

In the trilateral relations between China, the United States, and Mexico, the latter two countries are highly sensitive to the role that China plays in North America. This psychological phenomenon to some degree may reflect the importance of geographical distance on international relations. As neighbors in North America, the U.S. and Mexico each tend to be easily affected when aspects of their relationship turn sour. Thus, it is reasonable for these two countries to be wary of other actors appearing in the region, given that outside influences might further complicate their bilateral relations and make them more difficult to control.

This mindset, though understandable, is neither beneficial to the United States, to Mexico, nor to newcomers to North and Latin America. In the age of globalization, it is inevitable for more and more external actors to become involved in regional affairs. If the U.S. and Mexico attempt to resist the flow of globalization, the only real consequence will be to preclude potentially beneficial development opportunities. Therefore, this paper argues that China, the United States, and Mexico can greatly benefit from promoting policy coordination and collaboration in the context of regional cooperation. China has no intention of harming the economic interests of either the United States or Mexico, nor does it seek to challenge the political order in Latin America. China simply wants to become involved in the development of Latin America and to foster amicable relationships in the region. Assuming an objective recognition of China's role in Latin America, these three countries may begin to cooperate more actively with one other and achieve an all-win outcome in regards to their trilateral relationship.

1. China-Mexico Relations and Regional Cooperation

The end of the Cold War and East-West confrontation ushered in an environment conducive to economic globalization. Globalization is the defining feature of our current age. Countries have connected with each other more closely than ever before, and the cross-border flow of capital, goods, and personnel has become an integral part of modern life. When adjusting to the tide of globalization, some countries make special arrangements in their region so that their interests can be better served. Regional cooperation is used to manage and even control the flows of capital, goods, and personnel in any given region, yet the hindrance of cross-border flows of production elements does not seem to be a goal of such cooperation. Regional cooperation is not meant to resist globalization. It is simply an instrument developed by countries to aid in adjusting to the globalization process. It would be wrong to use regional cooperation as a synonym for exclusiveness, as there is no reason that regional cooperation should prevent the formation of new international partnerships.

Regional cooperation – in this case in the form of the North American free trade zone – can substantially influence relations between the United States, Mexico, and China. The North American free trade zone was established in the 1990s, and is composed of the United States, Canada, and Mexico. Each country's economy complements the others, given that each is in a different economic stage and has its own unique advantages. The U.S., Mexico, and Canada together form a solid market, conducive to the production of manufactured goods and energy. As a major supplier of manufactured goods, Mexico benefits a great deal from this type of cooperation. However, North America is not isolated from the global economy. With the establishment of the World Trade Organization (WTO) on January 1, 1995, the United States - as a global superpower and the largest economic body in the world – can no longer constrain itself to a regional market. It is almost inevitable for North American countries to come into contact with actors from other parts of the world.

Some countries may find that their shares in regional markets are diminishing with the arrival of outside countries prompted by the framework of the WTO, yet the presence and influence of external countries may bring new opportunities to these regions. For example, in regards to the relationship between China and Mexico, the two countries may compete to some degree in terms of exporting to the United States. However, Chinese-Mexican relations go far beyond exporting to the U.S. market. As an emerging power and a representative of a region enjoying robust economic development, China now means more to Mexico economically than does the United States.

* The arguments here are the personal views of the author.

Firstly, the adjustment of China's economic structure may help to change the false impression of Chinese-Mexican trade relations and allow Mexico to further pursue interests in economic cooperation with China. In regards to Chinese-Mexican relations, the common perception is that the two countries compete with each other in the U.S. market due to the fact that their exports are very similar. However, this may not necessarily be the case, as some scholars have pointed out that the competition between China and Mexico has been exaggerated, and in fact the two nations complement each other in more aspects than in which they compete (Xie 2005). Moreover, China does not want to become involved in trade conflicts with other developing countries, given that it is trying to change the mode of its economic development and update its export structure. With a stronger focus on bolstering its domestic market and supplying more high-value products to the world, China hopes that it can further coordinate its own production with Mexico and other developing countries. In addition, China is able to provide Mexico with new markets and investors. It would be erroneous, therefore, to simply define Chinese-Mexican economic relations in terms of competition for the US market. China's increasing engagement with Mexico and Latin America has the potential to positively impact numerous aspects of these transnational relations.

Furthermore, China's involvement in North and Latin America can also help Mexico to reduce certain negative outcomes resulting from North American cooperation. Generally speaking, the North American Free Trade Agreement (NAFTA) is a beneficial arrangement for each of its three signatories (The U.S., Mexico, and Canada), but this does not imply seamless cooperation between them.[1] In the case of Mexico, the country benefits from exporting manufactured goods to the U.S., as well as receiving capital in the form of U.S. investments, but suffers where bilateral agricultural interests are involved. Even more harmful to U.S.-Mexico relations is the exercise of U.S. political influence. As Mexico's economy becomes increasingly dependent upon the U.S. market, the United States has more political leverage over Mexico, creating some uncomfortable situations for Mexico on the international stage. For example, during the administration of President Vicente Fox, in order to further develop its relations with the United States, Mexico was forced to distance itself from left-wing Latin American governments that have traditionally been its close allies, such as Cuba and Venezuela (Chen 2007). The gesture assuaged the United States to some extent, but ultimately Mexico's influence in Latin America decreased and the critical problems between Mexico and the U.S. regarding immigration and drugs were not resolved. Indeed, Mexico's over-dependence on the U.S. market has been a political disadvantage in its relations with its northern neighbor. Mexico needs outside players to balance the influence of the United States. In this context, diversifying economic cooperation with China and other countries would be beneficial for Mexico.

Thirdly, China can also act as a bridge that Mexico can use to engage with other East Asian countries. East Asia is a region that has been attracting global attentions due to its strong economic performance. The region has not only maintained a high growth rate, but it also has a vast market with great potential, with over one billion people in the region entering into a so-called "middle class". Therefore, the U.S. is increasing its investment in and shifting its attention to Asia - actions that would benefit Mexico as well. However, it appears that Mexico has not found an effective way to develop cooperative relations in East Asia. The U.S., for example, does not seem overly eager to involve Mexico in the Trans-Pacific Partnership (TPP). Mexico therefore must depend on itself to step into the western region of the Pacific, making it even more crucial for Mexico to strengthen its relations with East Asian countries. China, as a major player in East Asia, has extensive economic and trade relations with other countries in the region, and could help Mexico put its foot in the door, so to speak. China and Mexico, therefore, have the potential to help each other achieve intra-regional cooperation.

On the whole, China and Mexico have numerous common interests that can help to promote cooperation between the two nations in the age of globalization. There are undeniable differences between them, but nothing that cannot be managed on the basis of mutual respect and concession. The two countries need to recognize their importance in the context of regional and global cooperation and make joint efforts to construct and maintain a healthy and mutually beneficial relationship.

2. US-China Relations in Regional Cooperation

Given the concerns of the United States over China's role in Latin America, especially from a perspective of geopolitical competition, the U.S. may in fact have individual interests in keeping close ties with both Mexico and China.

Firstly, economic cooperation with China is irreversible and, more importantly, beneficial to the United States. After the normalization of the China-U.S. relationship, economic relations between the two nations developed rapidly. In the past 40 years, China-U.S. trade volumes have increased from USD 2.5 billion to about USD 450 bil-

1 For the analysis of the US, Mexican, and Canadian interests in NAFTA, see: Qiu (2002).

lion by 2011. Both China and the U.S. are now each other's second largest trade partners. In addition, in the past ten years China has become the export market with the highest growth rate for the United States. Although the U.S. has complained about its trade deficit with China, the United States has a very keen interest in its stake in the Chinese market. The United States does not want to weaken its economic relations with China, but rather readjust the dynamic of China-U.S. economic cooperation.

In past decades, China and the U.S. have developed various forms of economic cooperation, in which China supplies low-price, high-quality goods to the U.S. market while the United States transfers its manufacturing process to countries with lower human labor costs in order to entice China to buy its treasury bonds. However, the 2008 financial crisis alerted the two countries to the fact that their mode of economic cooperation was no longer sustainable. For the United States, high levels of consumption cannot be maintained while its domestic saving rate remains low. The U.S. instead wants to revive its manufacturing industry and build up its economy on a more solid foundation. China also recognizes that over-dependence on foreign trade is unhealthy for its economy. China therefore wants to update its economic development model by reducing energy consumption, increasing production value, and encouraging the growth of its domestic market.

Thus, cooperation between China and the United States is undergoing a transition. In the process, uncertainties and conflicts will undoubtedly emerge, as we are seeing currently. In the long run, however, the two countries have no choice but to cooperate with each other, given that their interests are so deeply intertwined that no one side can afford a confrontation with the other. For Mexico, the transition of China-U.S. economic relations might also present opportunities for growth. The three countries can use this moment to review and re-design the dynamics of their trilateral cooperation.

Secondly, although the U.S. pays close attention to China's engagement with Latin American countries, it knows that China does not really have the capability to challenge the position of the United States on the American continent.

It is true that Chinese-Latin American relations have developed rapidly over the past ten years, especially in regards to three aspects: Firstly, China has established connections with the entire American continent, not only developing economic relations with the major powers in the region, but also strengthening its cooperation with many medium-sized countries as well as regional organizations. Some countries in the region, however, do not maintain diplomatic relations with Mainland China, and do with Taiwan. Secondly, China has begun to pursue universal cooperation with Latin American nations, with more and more dimensions emerging in its various relationships including tourism, cultural exchange, security issues, climate change, etc. Thirdly, topics of interest between China and Latin American countries have gone beyond the bilateral and regional levels, with these nations exchanging views on the world order and global affairs. Thus, China believes that its relationship with Latin America has "strategic importance."[2] Certain Chinese scholars have pointed out that the Chinese-Latin American relationship has exhibited unprecedented growth in the new century (Zheng and Sun 2009).

China's increasing reinforcement of its relationship with Latin American countries, however, does not imply any intention to enter into geopolitical competition with the United States. Economic development is the primary goal of China's cooperation with Latin American countries. Indeed, China wants to expand its exchange with Latin American countries to include other areas such as education, culture, politics, security, etc., given China's belief that one-dimensional relationships are both unhealthy and unsustainable. Chinese-Latin American economic cooperation needs to be both complemented and supported by diplomacy in other areas. Therefore, from the Chinese perspective, developing comprehensive relationships with Latin American countries has little to do with strategic or military competition.

In fact, China's engagement with Latin American countries in the realm of security is quite limited, compared with their other economic and political partnerships. The Chinese military has just begun to interact with its Latin American counterparts. There have been no regular or institutional arrangements between the Chinese and Latin American militaries, let alone any joint actions between them. Thus, the reality of the Chinese-Latin American military relationship is not that it has been developing too much or too quickly. On the contrary, the question becomes how this facet of the relationship can catch up with the rapid growth observed in other areas. What this implies is that China is not pursuing strategic competition with the United States in Latin America. If the U.S. is to be concerned about anything, it should be the potentially catalytic effects on Latin American economic growth caused by China's presence in the region.

In the 21st century, Latin America appears to have entered into a new period of transition. Neo-liberal economic reform in the 1990s resulted in heavy losses for some Latin American countries and impelled the region to explore new paths of development. Paralleling this new development in the economic sphere, the political

2 See Chinese President Hu Jintao's speech to the Peruvian Congress on November 20, 2008 (Hu 2008).

landscape in Latin America began to change as well. Neo-leftist parties began to take power in some major countries, and the inter-regional relations and cooperation began to readjust in accordance with the new political and economic environment. In this context, many Latin American countries adopted policies in order to distance themselves from the United States, which has made the U.S. even more sensitive to cooperative engagement between Latin American countries and powers external to the region. Needless to say, this has negatively effected the perception that the United States has on China's role in the region.

Thirdly, the U.S. is revamping its comparative advantages over other regional powers. Since the end of World War II, the United States has been the major power in world affairs, but at times the U.S. has had to work hard to maintain its dominance. For example, during the Cold War, the United States regarded the Soviet Union as a mayor threat and created global alliances to counteract the position of the Soviets. After the end of Cold War, the U.S. switched its attention from ideological confrontation to new global challenges such as the proliferation of weapons of mass destruction (WMDs) and terrorism, attempting to mobilize global forces to combat these problems. In the process of countering terrorism, however, the U.S. began to recognize that it had spread its strategic resources too thinly. After controlling the threat of terrorism to a certain extent, the United States began to readjust its strategic focus, placing the revitalization of its economy as top priority while simultaneously setting its sights on Asia.

When the U.S. re-focused its attention to Asia, it found that the balance of power in the region had tilted in favor of China. During the first eight years of the 21st century, regional cooperation in East Asia developed rapidly. China, via ASEAN (Association of Southeast Asian Nations)+1 and ASEAN+3, strengthened its economic cooperation with the member nations. China and the ASEAN countries established a free trade zone covering an area populated by 1.9 billion people on January 1, 2010. It is expected that the free trade zone will become the third largest in the world, following the Europe Union and NAFTA. In addition to cooperation with Southeast Asian countries, China has also developed relationships with its northern and eastern neighbors. Relations between China and Russia, for instance, have remained stable, given that the two countries basically hold similar positions on numerous global issues. Their collaboration in the Shanghai Cooperation Organization (SCO) has been the cause of much attention paid by the United States. Besides Russia, China is closely involved with two important allies of the U.S. in East Asia: Japan and the Republic of Korea (ROK). These two countries along with China held their first trilateral summit in 2008. Free trade zones have also been established between China, Japan, and ROK.

The United States feels even greater pressure from China now that it is faced with this emerging situation in East Asia. The U.S. therefore has tried to reestablish the balance of power in the region. For instance, the U.S. has taken full advantage of disputes between China and other countries in the region, including disagreements over how to handle North Korea, territorial conflicts in the South China Sea, and contentious issues surrounding the Diaoyu Islands, in order to strategically isolate China from potential allies. China's relations with many countries in East Asia have in fact deteriorated over the last two years. What is more, the United States, by encouraging its East Asian allies to take on more military responsibilities, manipulated tensions over security-related issues in the region in order to consolidate and strengthen its alliances. On one hand, such measures pander to the desires of hard-line U.S. allies so that they will follow U.S. policies to an even greater extent. On the other hand, encouraging military responsibilities in other nations can also reduce the security burdens of the U.S., which is especially important given the nation's current financial difficulties. Finally, and most importantly, the United States has attempted to restructure the regional dynamics to which it pertains so that its leadership will continue to be supported and recognized. The Obama administration has taken a different approach than the Bush Administration in this matter. Not only did the U.S. under Obama participate in the East Asia Summit, it actively pushed for the creation of the Trans-Pacific Partnership, through which the U.S. intends to regulate Asia-Pacific economic cooperation via the standards and rules it sets, while at the same time diminishing the economic influence of China in the region.

Therefore, U.S. policies on China take into account two contrasting views of their bilateral relations. On one hand, U.S. interests are intertwined so deeply with those of China in almost every aspect that neither nation wants to confront the other when problems arise. On the other hand, the United States wants to regulate and constrain China's behavior according to U.S. standards, given that the two countries have expressed divergent interests on many issues. Furthermore, the complex dynamic of China-U.S. relations should also be considered in the context of China-U.S.-Mexico cooperation in regional affairs.

3. Observations on China-U.S.-Mexico Cooperation

Based on the analyses above, we can point to three important features in the relationship between China, Mexico, and the United States. Firstly, relations between China and Mexico are the most tenuous of the three. Mexico is very close with the United States and the two countries are interdependent on one another. It is true that the U.S. is the stronger nation economically, but the lives of American citizens are deeply influenced by their government's relationship with Mexico on numerous issues, including trade, immigration, border security, etc.

In China-U.S. relations, interdependence exists as well. The two countries may have many divergent interests, yet those they have in common are so deeply interconnected that neither nation has the desire to confront the other when problems arise. In comparison to the two aforementioned relationships, the development of relations between China and Mexico is still in its initial stages. Restrained by geographic distance, language, and other factors, the exchange between China and Mexico only exists in certain business, diplomatic, and academic circles. China-Mexico relations, therefore, are doubtlessly the most tenuous in the trilateral relationship between the U.S., Mexico, and China.

Secondly, the U.S. is the only country out of the three that plays critical roles in regions on either side of the Pacific. Indeed, President Barack Obama claimed that he is the first Pacific President of the United States. It is clear that the U.S. wants to put greater emphasis on the Asia-Pacific region, but does that mean that the U.S. wants to promote exchange and interconnection between the Asian and the American portions of the Pacific? From an economic point of view this may be the case, given that closer cooperation between Asian and American countries will create an expansive market, bring about more economic opportunities, and further advance the distributions of resources between the regions. This is not the case, however, when viewed from a political perspective. By U.S. standards, the country is at a relatively weak point in its history. Currently, the most significant concern to the United States is the rapid development of potential challengers, and it is hard to image that the U.S. will create many opportunities for regional powers like China and Mexico to grow closer. For the U.S., the ideal option would be to constrain regional powers into operating within the international order that it has established. Therefore, from a U.S. perspective, U.S.-Mexico-China relations are centered on the bilateral relationship between the U.S. and Mexico.

From the above analysis, then, it is clear that the third feature of China-Mexico-U.S. relations is that the trilateral connections between the three nations are relatively limited. Of course, there are some instances that have involved all three countries. For example, China faced joint complaints in the WTO from the U.S. and Mexico in 2007 regarding Chinese industrial subsidies. Previously, Mexico had also directed a complaint to the United States regarding China's textile exports to the U.S. market. On a more positive note, in 2006, China, the U.S., and Mexico held meetings in China to discuss the best way to implement and reinforce cooperation among them under the framework set by NAFTA. And in the same year, the three countries examined the possibility of opening a sea route for China's exports to the U.S. via Mexico. Moreover, the three countries may be afforded even more opportunities in the future to advance trilateral cooperation by virtue of globally significant issues such as climate change. Therefore, there are areas in which the three countries can interact and cooperate with one other, but in general trilateral interactions are, somewhat ironically, not the main feature of the relationship between them. Basically, the three nations interact through three sets of bilateral relations, among which those between China and Mexico are the weakest.

After understanding the most salient features of China-Mexico-U.S. relations, as well as their development in terms of globalization and regional cooperation, I believe that in order to build and maintain a stable and healthy relationship among the three countries, it is crucial to promote a stronger relationship between China and Mexico. These two nations are not only important in the Pacific, but also in world affairs as emerging powers. Increased Chinese-Mexican cooperation will balance the power dynamics of the trilateral interactions of which they are both a part.

In order to improve Chinese-Mexican cooperation, China must strengthen its efforts in various areas. Firstly, building a mutually beneficial economic relationship is the central pillar to developing relations between China and Mexico. As presented above, both China and Mexico have taken numerous measures to coordinate their policies, and trade disputes between them are not as serious as one might imagine. However, this has not been sufficient. In accordance with the "strategic importance" view of China-Mexico relations, China must create a larger blueprint for its economic cooperation with Mexico. Moreover, China should encourage its academic and research communities to communicate with their counterparts in Mexico to plan proposals for bilateral cooperation. Through measures like this, China and Mexico may come to agree on more points vital to their sustained cooperation, and make joint efforts to move forward in the same direction.

Secondly, China must pay more attention to interpersonal relations between the two countries. Without healthy social relations between the two nations, strengthening Chinese-Mexican economic and political cooperation will only go so far. In fact, more and more Chinese citizens and companies are coming to Mexico and other countries in Latin America. In the long run, it is these people who will create closer ties between China, Mexico, and Latin America as a whole. At the current stage, however, they need the government's help to make them more familiar with and comfortable in Mexico and Latin America.

Finally, China should further expand its dialogue and cooperation with Mexico on regional and global affairs. It would be wrong to define the relationship between China and Mexico solely in economic terms, or to view them as below-average countries. While both countries are still developing, they do in fact influence regional and global affairs. Therefore, China and Mexico should be encouraged to consider their cooperative relationship from a regional and global perspective. In this way, they will be able to facilitate a profound exchange of ideas regarding the regional and global changes they would like to see in the future. Indeed, with a common vision for the future, the two countries may find it easier to cooperate with one another in the long run.

On the whole, when China increases its participation in the development of Latin America, China will find more opportunities to collaborate on both U.S. and Mexican interests in the region. To avoid conflicts and reduce suspicions, China has taken many measures to coordinate its policies with those of the United States and Mexico, but those efforts are not sufficient. China must further improve its relationship with Mexico and the U.S. in the context of regional cooperation – an area worthy of continued study.

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The Strategic Partnership Between China and Mexico: A Multilateral Perspective

Hongbo Sun

Introduction

On February 14, 2012, the People's Republic of China and Mexico celebrated the 40th anniversary of their establishment of diplomatic relations. Furthermore, nearly a decade has passed since China and Mexico founded their strategic partnership in 2003. Confucius once said that at forty years old, he no longer had any doubts in his life. Can this saying be applied to the relationship between China and Mexico? Chinese public perception may not believe so, as the benefits of the relationship between the two nations have been widely underestimated.

In recent years, the Center for Chinese-Mexican Studies (CECHIMEX) at UNAM has published a large number of articles, working papers and books on this bilateral relationship, from multiple perspectives. The Mexico-China Working Group has suggested a policy agenda with a series of 29 proposals, including the creation of the Mexico-China Foundation as a way to improve relations between the two nations (Dussel Peters 2011). According to former Mexican ambassadors, China's influence on Mexican foreign policy has been decreasing. Mexico, therefore, must rebuild and maintain diplomatic relations with China in order to implement a long-term economic and political strategy (Anguiano Roch and Ley López 2012). The future of a strategic Sino-Mexican partnership must begin with a realistic approach to understanding the roles of the two countries on the world stage (Navarrete 2012).

If China and Mexico had an untold story, it would refer to two dimensions of relationship change. The first refers to a bilateral weakening of diplomatic relations in comparison to the Chinese-Mexican dynamic of the 1970s and 1980s. The second dimension refers to Mexico's waning influence in the changing landscape of Chinese-Latin American relations in comparison to South American countries.

1. Chinese-Mexican Strategic Relations: A Historical Perspective

According to official diplomatic archives from the 1950s and 1960s, now declassified by the Chinese Ministry of Foreign Affairs, Mexico was the first Latin American country to informally express a desire to establish diplomatic relations with the new China via embassies in Poland, the Soviet Union, and Hungary[1].

While political signals sent to China by Mexico were weak, Chinese leaders actively responded to them. Mexico had been interested in the benefits of establishing diplomatic ties with China for quite some time, particularly in the realm of trade.

On January 21, 1959, when Mao Zedong met with former Mexican President Lázaro Cárdenas, he told Cárdenas:

"We are very interested in Latin America. Latin America has a large population. Economically, our countries are very similar. Only the superpowers intimidate us. The United States, Britain, France, and others do not yet want to treat us as equals. They do not believe we are capable of achieving what they have…Through the joint efforts of several countries, we can finally catch up with them…

We believe that what is happening in Cuba is very important. Asians should support their struggle against the United States…If Mexico also does a good thing, your people are to do good things for our common benefit. The Cuban revolution serves our mutual interest, even though we have no close ties with Cuba…"[2]

Mexico voted to support China's return to the United Nations in October of 1971. In February of 1972, Mexico formally established a diplomatic relationship with China, becoming the fourth Latin American country to have done so. In the 1970s, China and Mexico joined forces to defend the interests of Third World countries.

After China implemented its economic reform and open-door policy, guided by the strategic mind of Deng Xiaoping during the 1980s and 1990s, China began emphasizing the development of economic and trade cooperation with Mexico.

1 The diplomatic archives of the Chinese Ministry of Foreign Affairs: Official authorization for the invitation of the Mexican parliamentary delegation to visit China, File Number 111-00156-02 (1), Date: 10/24/1959 - 11/5/1959

2 The diplomatic archives of the Chinese Ministry of Foreign Affairs: Transcript of the dialogue between Mao Ze Dong and former Mexican President Lázaro Cárdenas, File Number 111-00156-01 (1), Date: 1/21/1959.

In the 21st century, the ties between China and Mexico have been institutionalized through the establishment of several mechanisms, and the frequency of mutual visits at the ministerial level has helped to consolidate the bilateral relationship. The two nations have implemented several important mechanisms in order to promote dialogue and cooperation, such as the strategic partnership, the Permanent Bi-national Commission, strategic dialogue, and the Congress Dialogue Forum (Table 1). It is essential that both sides adopt a forward-thinking approach in order to meet the expectations of this strategic partnership by defining specific lines of joint action.

Table 1: Institutional Mechanisms Promoting Chinese-Mexican Cooperation

Year	Mechanism Framework	Working Agenda
1975	The Joint Commission on Trade and Economic Cooperation	Promotion of trade and mutual exchange. The tenth meeting was held in 1998.
1978	The Joint Committee on Cultural and Educational Cooperation	Promotion of cultural activity through student and academic exchange. The eighth meeting was held in 2003.
1993	The Political Consultation Mechanism	The eleventh consultation on bilateral, regional, and international affairs was held in 2011.
2003	Strategic Partnership	
2004	The Permanent Bi-national Commission, including five working groups covering politics, economics, trade, technology, agriculture, education, culture, tourism, and social development.	The fifth meeting in 2012, Two Joint Action Programs (2006~2010 and 2011~2015).
2008	The Strategic Dialogue	The first dialogue was held in 2009, the second in 2011.
2010	The Congress Dialogue	The second dialogue was held in May 2012.

Source: The Ministry of Foreign Affairs of P.R.C and the Mexican Embassy in China.

2. The Chinese-Mexican Strategic Partnership: Asymmetrical Facts

The relationship between China and Mexico seems to have become less pronounced within the greater landscape of Chinese-Latin American relations. This change is characterized by several asymmetrical trends on the bilateral, regional, and global level.

A. The Bilateral Level: An Asymmetrical Relationship

1. Historical Asymmetry

China and Mexico have historically enjoyed privileged positions in the Third World block. After returning to the UN in 1971, China supported Mexico's proposal for a new international economic order in the Third World.

From 2001 to 2005, the relationship between China and Mexico developed both steadily and rapidly. Former Mexican President Vicente Fox visited China twice in 2001, the two countries established a strategic partnership in 2003, and three Chinese political leaders visited Mexico in 2005, a landmark event in the relationship between the two nations. In 2008, Mexican President Felipe Calderon paid a political visit to Beijing.

However, over the subsequent years, such political activity between China and Mexico has diminished. From 2001 to 2011, China and Mexico signed 39 agreements, 17 of which were signed in 2005 - more than the total number of bilateral agreements reached from 2006 to 2011[3]. In contrast, China and Brazil signed 26 bilateral agreements from 2009 to 2011[4].

2. Field Asymmetry

3 The Chinese Ministry of Foreign Affairs, http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/bmz/1206_25/sbgx/.
4 The Chinese Ministry of Foreign Affairs, http://www.fmprc.gov.cn/chn/pds/gjhdq/gj/nmz/1206_1/sbgx/.

The economic relationship between China and Mexico sees more activity than the political realm. International companies and small to medium-sized private firms are the main vehicles of trade growth, while domestic state-owned enterprises participate less in important investment projects than is seen in South America.

However, increased political alienation between China and Mexico would undoubtedly be detrimental to continued economic success between the two nations. A joint effort to create a harmonious political relationship, therefore, is required to maintain economic cooperation.

3. Driving Force Asymmetry

The bilateral relationship between China and Mexico has experienced a shift regarding the driving force behind both political and economic exchange over the last 40 years. Mexico's political elite was the primary vehicle for bilateral interaction during the 1970s. However, by the 1990s trade groups had taken over this role. Indeed, when we examine the ties between China and Mexico, trade volume is the primary measurable indicator of bilateral cooperation.

Nevertheless, trade groups are divided between Chinese markets and their competitors. The majority of Mexican industrial manufacturers face Chinese competition, while industrial agricultural producers are eager to tap into the Chinese food market.

Until recently, China and Mexico have not shared a common political focus, resulting in a strong political dynamic within their bilateral relationship. Fortunately, some Mexican politicians, business group, scholars and the public have come to hold a strong consciousness of Pacific and China.

4. The Regional Level: Asymmetry of Influence

In comparison to South American countries such as Brazil, Chile, Peru, etc., Mexico's influence on China appears to have decreased. After establishing strategic partnerships with Peru and Chile in 2008 and 2012, respectively, China now has six strategic partners in Latin America.

In August of 2012, China and the Latin American and Caribbean States (CELAC) Troika agreed to hold a regular foreign ministers' dialogue, the first round of which will be held in September. (Xin Hua 2012).

Mexico, as the second largest export market to the United States and its third largest trading partner overall, is a crucial actor in the Trans-Pacific Partnership (TPP). NAFTA, signed nearly 20 years ago, is another example of a transnational policy between Mexico and the U.S. Finally, in the interest of the nations on the Pacific coast of Latin America, Mexico, along with Colombia, Peru, and Chile created the Pacific Alliance in 2011.

B. The Global Level: Asymmetry of Power

Today China and Mexico coordinate and cooperate within the UN, G-20, WTO, APEC and other international organizations and mechanisms of global governance. The formation of BRICS, however, seems to have marginalized the role of Mexico as an emerging economy.

When the G8+5 Group was created in 2005, it opened a strategic window for China, Brazil, and Mexico to coordinate a multilateral position on Doha Round trade talks, as well as on global climate change. However, the G8+5 mechanism appears to have fallen short in many respects.

1. Economic Disparity

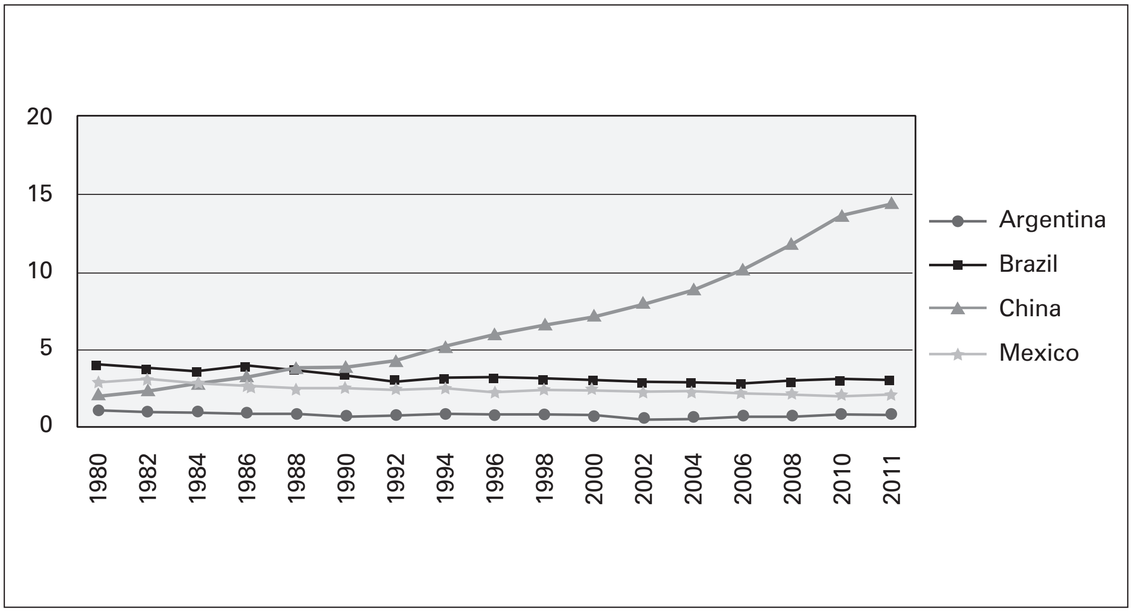
The economic disparity between China and Mexico has posed a potential challenge regarding the advancement of bilateral relations, given that the two countries have exhibited differing rates of economic growth.

According to World Bank data, China's GDP in 2011 was 7.3 trillion US dollars at current price, while Mexico's GDP was 1.2 trillion[6]. The Chinese economy quickly became the second largest in the world, while Mexico's economy remained around fourteenth place. In 1980, Mexico's total GDP (PPP) was 2.97% higher than that of China (2.19%). In 2011, China's GDP (PPP) reached 14.32% of the world's total, while Mexican percentage declined to 2.11% [7].

6 GDP was 1.2 trillion (WB 2012)

7 http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/weorept.aspx?sy=1980&ey=2015&scsm=1&ssd=1&sort=country&ds=.&br=1&c=213%2C273%2C223%2C228%2C924%2C293&s=PPPSH&grp=0&a=&pr.x=38&pr.y=14

Figure 1: **GDP (PPP) share of world total%**



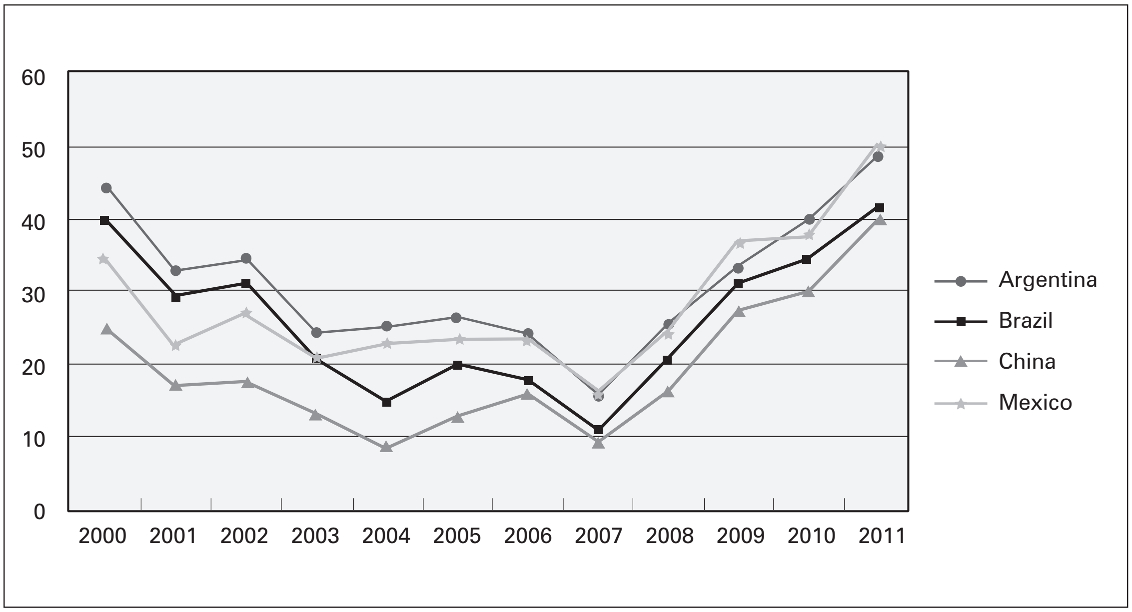
Source: The IMF Data Base.

2. Voting Agreement in the UN General Assembly

By analyzing the votes cast in the UN General Assembly, the convergence or divergence of the position of both China and Mexico on international issues can be compared.

Using voting agreement with the United States as a reference point, China had the lowest percentage of votes cast in agreement with the U.S. in 2011, with Argentina, Brazil, and Mexico all exhibiting higher identical voting patterns. China and Mexico showed higher identical voting percentages from 2000 to 2003 than either Argentina or Brazil (Figure 2). However, from 2004 to 2011, Brazil had the highest identical voting percentage along with China, demonstrating that China and Mexico had the greatest divergence in their voting patterns.

Figure 2: Identical vote percentaje with U.S. in UN General Assembly %



Source: Departments of the State of the U.S, Voting Practices in the United Nations from 2000 to 2011.

Table 2: **Important Votes in the 66th UN General Assembly, 2011**

Country	1	2	3	4	5	6	7	8	9	Agreement with U.S.
China	O	A	O	O	A	O	A	O	A	0%
Mexico	O	S	O	O	S	A	S	S	S	50%
Argentina	O	A	O	O	S	A	S	S	S	57.1%
Brazil	O	A	O	O	A	O	S	A	S	33.3%
Peru	O	A	A	A	S	A	S	S	S	80%
Venezuela	O	O	O	O	S	O	O	O	O	11.1%
Chile	O	A	O	O	S	O	S	S	S	50%
Colombia	O	S	A	A	S	A	S	S	S	51.9%

Source: Departments of the State of the U.S , Voting Practices in the United Nations 2011, April 2012, pp.19~21.

Note:
S = Same as U.S. Vote; O = Opposite of U.S. Vote; A = Abstained; X = Absent
1. Res. 6: U.S. Embargo of Cuba
2. Res. 12: Terrorist Attacks on Internationally Protected Persons
3. Res. 14: Committee on the Exercise of the Inalienable Rights of the Palestinian People
4. Res. 15: Division for Palestinian Rights of the Secretariat
5. Res. 45: United actions toward total elimination of nuclear weapons
6. Res. 76: Work of the Special Committee to Investigate Israeli Practices Affecting the Human Rights of the Palestinian People and Other Arabs of the Occupied Territories
7. Res. 174: Situation of Human Rights in the Democratic People's Republic of Korea (D.P.R.K.)
8. Res. 175: Situation of Human Rights in the Islamic Republic of Iran
9. Res. 176: Situation of human rights in the Syrian Arab Republic

Table 3: **Important Votes in the 65th UN General Assembly, 2010**

Country	1	2	3	4	5	6	7	8	9	10	11	12	13	Agreement with U.S.
China	O	O	O	A	A	S	O	S	O	O	O	O	O	18.2%
Mexico	O	O	O	S	A	S	A	O	S	S	S	O	S	54.5%
Argentina	O	O	O	S	S	S	A	O	S	S	S	O	S	58.3%
Brazil	O	O	O	S	S	S	X	O	O	A	A	O	A	33.3%
Peru	O	A	A	S	S	S	A	O	A	S	S	O	S	66.7%
Venezuela	O	O	O	S	A	S	O	O	O	O	O	O	O	16.7%
Chile	O	O	O	S	S	S	O	O	S	S	S	O	S	53.8%
Colombia	O	A	A	S	S	S	A	O	A	A	A	O	A	50%

Source: U.S. State Department, Voting Practices in the United Nations 2011, March 31, 2011, pp.15~17.

1. Res. 6: U.S. embargo of Cuba
2. Res. 13 Committee on the Exercise of the Inalienable Rights of the Palestinian People
3. Res. 14: Division for Palestinian Rights of the Secretariat
4. Res. 72: United actions toward total elimination of nuclear weapons
5. Res. 73: Hague Code of Conduct vs. Ballistic Missile Proliferation
6. Res. 91: Comprehensive Nuclear-Test-Ban Treaty
7. Res. 102: Special Committee to Investigate Israeli Practices Affecting the Human Rights of the Palestinian People and Others
8. Res. 206: Moratorium on use of the death penalty
9. Res. 224: Combating Defamation of Religions
10. Res. 225: Situation of Human Rights in the Democratic People's Republic of Korea
11. Res. 226: Situation of Human Rights in the Islamic Republic of Iran

3. Trade Disputes in the World Trade Organization

The trade disputes in the WTO between China and Mexico from 2003 to 2011 have included many important cases on a multilateral level. Chinese public perception holds that Mexico and the United States have formed an alliance in opposition to China. However, if Mexico were to adopt a strategy of aligning itself with the U.S. in trade disputes against China, how would China respond to Mexico?

From 2003 to 2011, China never brought a dispute case against Mexico in the WTO. During this period, the U.S. brought fourteen cases against China while China brought seven cases against the U.S.[8] Likewise, the United States brought six cases against Mexico while Mexico brought nine cases against the U.S.

Table 3: **Mexico's Trade Disputes Against China in the WTO**

Case Number	Received	Case Title
DS359	26 February 2007	Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments
DS388	19 December 2008	Grants, Loans and Other Incentives
DS398	21 August 2009	Measures Related to the Exportation of Various Raw Materials

Source: WTO Dispute Settlement, http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm

Table 4: **U.S. Trade Disputes Against China in the WTO**

Case Number	Received	Case Title
DS309	18 March 2004	Value-Added Tax on Integrated Circuits
DS340	30 March 2006	Measures Affecting Imports of Automobile Parts
DS358	2 February 2007	Certain Measures Granting Refunds, Reductions or Exemptions from Taxes and Other Payments
DS362	10 April 2007	Measures Affecting the Protection and Enforcement of Intellectual Property Rights
DS363	10 April 2007	Measures Affecting Trading Rights and Distribution Services for Certain Publications and Audiovisual Entertainment Products
DS373	3 March 2008	Measures Affecting Financial Information Services and Foreign Financial Information Suppliers
DS387	19 December 2008	Grants, Loans and Other Incentives
DS394	23 June 2009	Measures Related to the Exportation of Various Raw Materials
DS413	15 September 2010	Certain Measures Affecting Electronic Payment Services
DS414	15 September 2010	Countervailing and Anti-Dumping Duties on Grain Oriented Flat-rolled Electrical Steel from the United States
DS419	22 December 2010	Measures concerning wind power equipment
DS427	20 September 2011	Anti-Dumping and Countervailing Duty Measures on Broiler Products from the United States
DS431	13 March 2012	Measures Related to the Exportation of Rare Earths, Tungsten and Molybdenum
DS440	5 July 2012	Anti-Dumping and Countervailing Duties on Certain Automobiles from the United States

Source: WTO Dispute Settlement, http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm

4. The IMF Reform

According to the IMF Quota Reform agenda, China's quota share will increase from 2.98% (ninth place) Pre-Singapore to 6.39% (third place) after the Post-2010 Reform. Brazil's share will increase from 1.42% (seventeenth place) to 2.32% (tenth place). Mexico's share will also increase from 1.21% (nineteenth place) to 1.87% (fourteenth

8 http://www.wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm#results

place). (IMF 2010). China, Brazil and Mexico are among the top five countries with the greatest increases in quota shares, with increases of 2.40%, 0.53%, and 0.35%, respectively.

Table 5: **Percentage of IMF Quota and Voting Shares**

	Pre-Singapore		August 29, 2012		Post-2008 Reform		Post-2010 Reform	
	Quota	Voting	Quota	Voting	Quota	Voting	Quota	Voting
U.S.	17.380	17.023	17.69	16.75	17.670	16.727	17.407	16.479
China	2.980	2.928	4.00	3.81	3.996	3.806	6.394	6.071
Brazil	1.420	1.402	1.79	1.72	1.783	1.714	2.316	2.218
Mexico	1.210	1.96	1.52	1.47	1.521	1.467	1.869	1.796
Venezuela	1.244	1.229	1.12	1.08	1.115	1.084	0.781	0.767
Argentina	0.990	0.981	0.89	0.87	0.888	0.869	0.669	0.661
Chile	0.401	0.403	0.36	0.37	0.359	0.369	0.366	0.376
Columbia	0.362	0.366	0.33	0.34	0.325	0.336	0.429	0.435
Peru	0.299	0.304	0.27	0.28	0.268	0.282	0.280	0.294

Source: IMF, Quota and Voting Shares Before and After Implementation of Reforms Agreed Upon in 2008 and 2010. http://www.imf.org/external/np/sec/memdir/members.aspx

5. The World Bank Reform

The World Bank's reform agenda raised DTC voice to over 47% of the total IBRD voting power, by means of a Phase 2 increase of 3.1%. This reflects an aggregate 4.6% increase in DTC voting power since 2008 (WB 2010).

Table 6: **International Bank for Reconstruction and Development Subscriptions and Voting Power of Member Countries, as of August 23, 2012**

	Subscription	Percentage of Subscription	Number of Votes	Percentage of Votes
U.S	28, 118.3	16.44	281,718	15.55
China	5886.4	3.44	59,399	3.28
Brazil	3328.7	1.95	33,822	1.87
Mexico	1880.4	1.10	19,339	1.07
Venezuela	2036.1	1.19	20,896	1.15
Argentina	1791.1	1.05	18.446	1.02

Source: World Bank., http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf

Table 7: **International Bank for Reconstruction and Development (IBRD) 2010 Voting Power Realignment**

	Pre-Phase 1	Voice Reform-Phase 1	Voice Reform-Phase 2
U.S	16.36%	15.85%	15.85%
Japan	7.85%	7.62%	6.84%
China	2.78%	2.77%	4.42%
Germany	4.48%	4.35%	4.00%
France	4.30%	4.17%	3.75%
United Kingdom	4.30%	4.17%	3.75%
India	2.78%	2.77%	2.91%
Russian Federation	2.78%	2.77%	2.77%
Saudi Arabia	2.78%	2.77%	2.77%
Italy	2.78%	2.71%	2.64%
Brazil	2.07%	2.06%	2.24%
Mexico	1.18%	1.17%	1.68%
Argentina	1.12%	1.12%	1.12%
Venezuela	1.27%	1.27%	1.11%
Chile	0.44%	0.44%	0.44%
Columbia	0.41%	0.41%	0.43%
Peru	0.34%	0.35%	0.35%
Uruguay	0.19%	0.20%	0.18%

Source: World Bank Group Voice Reform: Enhancing Voice and Participation in Developing and Transition Countries in 2010 and Beyond, DC 2010-0006/1, April 25, 2010.

2. Possible Explanation and Approaches

The Sino-Mexican relationship has been affected by both internal and external factors, such as geopolitical constraints and domestic socio-economic structures.

a. Economic Approach

In academic circles devoted to Chinese-Mexican economic studies, a common perception holds that China and Mexico have engaged in fierce competition over the third market, particularly that of the United States, given the structural similarities of their maquiladora industries. In order to balance bilateral trade, China and Mexico have signed three economic agreements from 2001 to 2012.

Several economic issues stand out in Chinese-Mexican policy analysis. For one, Mexico still does not recognize China's economic status. The two countries also have not reached a consensus on the discrepancy in bilateral trade volume. Mexico argues that China's direct investment there is too scarce, yet the risk of investing in Mexico is often too high for Chinese investors. China hopes to enter into talks concerning a possible free trade agreement, while Mexican manufacturing groups are concerned with their own incompetence - an issue that had been touched upon during the second Mexican presidential election debate in June of 2012.

Table 8: **Discrepancy in Trade Volume (in millions of US dollars)**

Year		Mexican Exports	% Change	Mexican Imports	% Change	Total Trade	% Change	Mexican Balance
2000	MEX	203.59	61.14	2879.62	49.9	3083.21	50.59	-2676.03
	CN	488.26	206.56	1335.3	68.68	1823.56	91.78	-847.04
2001	MEX	281.78	38.41	4027.3	39.86	4309.08	39.76	-3745.52
	CN	761.1	55.88	1790.39	34.08	2551	39.89	-1029.29
2002	MEX	653.92	132.07	6274.39	55.8	6928.31	60.78	-5620.47
	CHN	1114.95	46.49	2264.43	26.48	3979	55.98	-1749
2003	MEX	974.37	49	9400.6	49.82	10374.97	49.75	-8426.23
	CHN	1676.71	50.38	3267.09	44.28	4943.8	24.25	-1590.38
2004	MEX	986.31	1.23	14373.85	52.9	15360.16	48.05	-13387.54
	CHN	2,139.82	27.62	4972.87	52.21	7112.69	43.87	-2833.05
2005	MEX	1135.55	15.13	17696.35	23.11	18831.9	22.6	-16560.8
	CHN	2226.02	4	5538.27	11.4	7764.28	9.16	-3312.25
2006	MEX	1690.11	48.83	24443.72	38.13	26133.83	38.77	-22753.61
	CHN	2606.87	17.1	8824.05	59.3	11430.92	47.2	-6217.18
2007	MEX	1895	12	29747	22	31639	21.1	-27851
	CHN	3260	25.1	11707	32.7	14966	30.9	-8447
2008	MEX	2047	8	34754	17	36735	16.1	-32707
	CHN	3696	13.4	13849	18.3	17545	17.2	-10153
2009	MEX	2215	8	32529	-6	34744	-5	-30314
	CHN	3852	4	12302	-11	16154	-8	-8450
2010	MEX	4200	89.5	45610	40.2	49810	43.3	-41410
	CHN	6820	66	17870	45.4	24690	52.6	11050
2011	MEX	5965	42.1	52248	14.6	58210	16.9	46283
	CHN	9387	36.03	23979	34.16	33366	34.76	14592

Source: The Mexican Embassy in China http://portal.sre.gob.mx/china/index.php?option=displaypage&Itemid=112&op=page&SubMenu=
Economic Secretariat: www.economia.gob.mx/
The Ministry of Commerce of P.R.C: http://countryreport.mofcom.gov.cn/record/index110209.asp?p_coun=墨西哥

b. Political Approach

In the political realm, the relationship between China and Mexico has yet to find a driving force able to push forward bilateral negotiations to a in recent years. It is undeniable that the frequency of mutual visits at the ministerial levels has helped to maintain and consolidate bilateral relations, yet unpleasant political events between the two nations have at times hindered this process.

The H1N1 epidemic in May of 2009 was one such event, creating tension between the two countries. The Mexican government criticized China's quarantine of 68 Mexican nationals, advising Mexican citizens not to travel to China until its government corrected the discriminatory measures (Xin Hua 2009). In September of 2011, China's government expressed strong discontent and opposition to the meeting between Mexican President Felipe Calderón and the Dalai Lama(Hin Hua 2010).

c. Geopolitical Approach

Public perception in Mexico sees the United States as an obstacle to Mexico's relations with China. The question then, is to what degree the United States has influenced the deterioration of Chinese-Mexican relations.

If we look at Brazil, we find an attitude distinctly different than that which Mexico has adopted toward China. In other words, we see that the combined factors of a large geopolitical distance and low economic dependency on the United States help to empower Brazilian policy makers to adopt a flexible yet firm diplomatic strategy with the U.S.

What then are Mexico's political options in the face of the United States and the emerging China? It is first necessary for Mexico to strengthen its relationship with the United States, and if the three partners are not involved in a zero-sum game, the key is for Mexico to clearly define its individual interests in a trilateral context.

d. Trade Groups and the Party Politics Approach

Evidence suggests that the relationship between China and Mexico came close to a breakthrough during PAN's first term of office (2001-2006) in Mexico. However, by PAN's second-term (2007-2012), Chinese-Mexican relations have not boasted any real political or economic achievements.

The challenge for policy makers is to coordinate different voices from various sectors so as not to limit the flexibility of the legislative process, which would in turn limit foreign policy options.

e. The Social Perception Perspective

The vast geographical distance between China and Mexico makes it hard for citizens of these respective countries to know each other personally. Fortunately, sectors of Mexican society such as academic circles and policy makers attach due importance to the question of China's influence. However, some scholars argue that much of the Mexican social elite hold a Euro-centric world view, whereby China and other Asian countries are still perceived in the periphery of contemporary world history.

3. The Future of a Chinese-Mexican Strategic Partnership

In the past decade, a fundamental transition has taken place. The development of Chinese-Mexican relations has exceeded the expectations of policy makers in terms of the flow of goods and people. However, Mexico has not responded with the foresight needed to create an adequate blueprint for a policy framework that takes into account this new dynamic.

Chinese policy makers have viewed Mexico from a strategic, long- term perspective in an attempt to pragmatically promote a sustained, healthy, and stable development of the strategic partnership. China has high expectations for the new Mexican administration. After Enrique Peña Nieto won the presidential election in July of 2012, the Chinese government immediately expressed approval and President Hu Jintao even sent a congratulatory letter[9]. In an exclusive press conference with the Chinese media on July 11, 2012, Enrique Peña Nieto optimistically stressed the importance of Sino-Mexican relations (China Today 2012).

(1) A Clarified Strategic Position. One important point to consider in the strategic partnership between China and Mexico is the role of the United States. There is a concern that Mexico would be marginalized in the face of a relationship between China and the United States, and even in a Chinese-Latin American relationship. What does this imply, then, for the policy options available to both China and Mexico?

The Chinese-Mexican strategic partnership also faces another dilemma: the increasing political and economic influence of South America on the international stage. China has indeed shown a more pointed interest in this region, primarily in regards to the raw materials market.

(2). The need for a higher political involvement. The politicians currently involved in the cooperative institutional mechanisms between China and Mexico pertain primarily to the ministerial level. In order to achieve more effective bilateral coordination between the two nations, these mechanisms should have the support of the Vice-Premier and Presidential levels in China and Mexico, respectively.

Fortunately, the Chinese-Mexican strategic partnership still boasts a thriving trade relationship, a solid social base, and close ministerial contacts. Nevertheless, the challenge for the future is to lack a strong political orientation.

(3). Effectiveness of cooperation. The effectiveness of bilateral cooperation should be comprehensively assessed based on past projects. Bilateral agreements often demonstrate the intention of certain policies, but

9 http://www.fmprc.gov.cn/chn/gxh/tyb/fyrbt/jzhsl/t947330.htm

it is crucial to examine their real-world effectiveness. Furthermore, both countries need to demonstrate the capacity to effectively implement and coordinate these policies.

(4). The need for policy consistency. Some argue that Mexican policies toward China have been passive and inconsistent at times. Therefore, the policy-making should be geared toward endogenous competition and complementarities in the economic field, so that the two countries can realize the win-win achievement by regulating the market forces.

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The China-Mexico-US Triangle: Trade, Security, and Complex Interdependence

R. Evan Ellis[1]

Introduction

The term "triangle" as a metaphor for the web of interrelationships between Mexico, the United States, and the People's Republic of China (PRC) is imperfect (Ellis 2012/c), yet when viewed from the perspective of the broader set of PRC and US relationships in Latin America, the Mexico-US-PRC relationship is about as "triangular" as they come.

The "triangular" character of the relationship can be understood in terms of the way that PRC-Mexico interactions, PRC-US interactions, and US-China interactions are related and affect each other, in areas ranging from trade and investment to crime and security. Such interdependencies are complex and cross the boundary between economic and non-economic matters. Certain aspects of US-Mexico security collaboration, for example, may affect the calculations of Chinese investors looking at Mexico. Separately, the ability of Chinese manufactured goods to displace Mexican ones in US and other markets not only affects Mexican jobs, but also may impact the flow of immigrants across the US border (Authers and Rosenberg 2004).

The triangular nature of the Mexico-US-PRC relationship reflects two aspects of Mexico's contemporary strategic environment: On one hand, the re-emergence of China onto the world stage in the context of globalization has made it a major economic partner, competitor, and potential market for Mexico (Liu and Liang 2013; US Department of State 2012). At the same time, Mexico remains intimately tied to the United States in geographic, economic, and human terms (IMF 2012), even though - and partly because of such interdependence - the relationship has not always been amicable.[2] Expanding China-Mexico ties thus intersect with the enduring reality that what impacts Mexico affects the United States, and vice-versa (Chao Romero 2010).

From an economic point of view, the Mexican government seeks to leverage the country's privileged access to the US market to attract Chinese investors. At the same time, it also hopes to increase exports to the PRC to diversify away from its economic dependence on that same US market.

The interdependence between Mexico, the United States, and the PRC also has an intellectual component, reflecting the historical significance of the United States as a referent to both Mexico and China. Chinese scholars, for example, compare the relative low level of Mexican affinity for the Chinese culture with the significant penetration of US culture and language in Mexico (Ellis 2011/b). Reciprocally, Mexican academics refer to the number and depth of China-studies programs in the US when lamenting the inadequacies in their own China scholarship.[3] Beyond such comparisons, the English language often serves as a bridge for business and technical communication between China and Mexico, in interactions in which the Mexicans do not speak sufficient Mandarin and the Chinese do not speak fluent Spanish (Mora 2009)

Ironically, however, the high levels of interdependence between the Mexico-US, China-Mexico, and US-China relationships have received very little attention from US policymakers. On one hand, PRC initiatives in Latin America, in general, have received a great deal of scrutiny from US policymakers. Chinese president Hu Jintao's high-profile trip to the region in November 2004 in conjunction with the Asia-Pacific Economic Forum leaders' summit spawned numerous academic and think-tank forums in the United States, and within months, hearings in both chambers of the US Congress.[4] Leaders representing both the US military and the Department of State noted that Chinese engagement with Latin America is a matter of concern that is being watched closely. In 2006, then Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon initiated annual coordination meetings with his Chinese counterpart regarding activities in Latin America, known today as the "Latin America subchapter of the US-China Strategic and Economic Dialogue" (Ellis 2011/a). Indeed, Jiang Shixue, a senior scholar and ad-

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1 The views represented are those of the author, and do not necessarily reflect those of the Center for Hemispheric Defense Studies or the U.S. Government.

2 The 1846-1848 Mexican-American War, the 1914 occupation of Veracruz by US forces, and the 1916 expedition by 10,000 US troops 350 miles into Mexico in pursuit of Pancho Villa are a few examples

3 Based on interviews with various Mexican scholars on China during 2010-2012, principally in Universidad Autónoma de México and Instituto Tecnológico de Monterrey.

4 On April 6, 2005, the Subcommittee on the Western Hemisphere of the Committee on International Relations of the US House of Representatives held a hearing on "China's Influence in the Western Hemisphere." Less than five months later, on August 24, a similar hearing was held by the Committee on Foreign Relations of the United States Senate. In addition, on June 11, 2008, the Subcommittee on the Western Hemisphere of the Committee on Foreign Affairs of the US House of Representatives held a hearing on "The New Challenge: China in the Western Hemisphere."

ministrator with the Chinese Academy of Social Sciences (CASS), referred to such attention and sensitivities as the "U.S. factor in China-Latin America relations" (Jiang 2006).

However, despite general US attention to Chinese initiatives in Latin America, there are few indications that Chinese activities in Mexico have received any more scrutiny from US policymakers than has PRC engagement with the other countries in the region. Indeed, it is striking that, given the high level of geographic proximity, as well as the economic and human connectivity between the US and Mexico, there have been virtually no public comments by US officials beyond the level of the US diplomatic country team in Mexico specifically referring to Chinese activities within Mexican borders. This essay, therefore, focuses on the strong, multiple interdependencies in the "triangular" Mexico-US-China relationship, with a focus on both casting light on important dynamics as well as recommending areas of potential collaboration relevant to policymakers and broader audiences in all three countries.

1. Mexico-US-PRC Interdependencies

The following section focuses on two specific areas in which the interdependencies between Mexico, the US, and the PRC are particularly relevant from an economic and policy standpoint: (1) trade and investment, and (2) crime and security.

Trade and Investment. The principal commercial interdependencies between Mexico, the PRC, and the US involve (1) competition between Mexico and China for sales to the US market, (2) final assembly of products in Mexico for entry into the US market under the provisions of NAFTA, and (3) the interrelationship between US-to-Mexico revenue flows from exports and remittances and Mexican purchases of Chinese products.

As established in various studies, Mexico and the PRC are frequently in competition for the US market (Dussel Peters 2005; Gallagher and Porzecanski 2010), implying that increasing purchase of Chinese manufactured goods by US consumers in recent years has, to some degree, come at the expense of Mexico-based manufacturers and Mexican jobs.

The competition for the US market, as it has played itself out in the last decade has not only involved competition between Mexican and Chinese exporters, but also decisions by foreign-owned multinational firms about where to conduct outsourcing operations.[5] When the North American Free Trade Agreement (NAFTA) was signed in December 1992, a key selling-point of the agreement for Mexican audiences, in the eyes of then Mexican President Carlos Salinas, was the prospect of attracting foreign investment to the country, with a particular interest to the access that Mexico would provide to the US market (Salinas de Gortari 2008). By the early 2000's, however, the presence of the PRC in the equation, was resulting in dynamics not fully contemplated during the debate over approval of the original agreement. With the entry of the PRC into the World Trade Organization (WTO) in 2001, multinational companies increasingly began to locate their manufacturing operations in the PRC.

Although the displacement of foreign direct investment from the Mexican maquiladora sector to China (García Herrero and Santabárbara 2005) was strongly emphasized during the early years following the PRC's accession to the WTO, by 2007, a new dynamic had begun to emerge: Chinese companies investing in Mexico, with the objective of securing access not only to the Mexican market, but also to tariff-free access to the US under the terms of NAFTA. Examples proposed auto plants by Chinese automaker FAW in Hidalgo and Geely in Leon (Dickerson 2007) a plant for the Chinese computer company Lenovo for manufacturing laptops in Monterrey, as well as a cloth manufacturing facility in Durango for the Chinese firm Sinatex (Hernández Camargo 2011).

The economic interdependence between Mexico, the US, and China via the US market was further highlighted by the PRC's January 2012 proposal to negotiate a free trade agreement with Mexico (Díaz 2011), providing incentives for Chinese (as well as other) companies to conduct final assembly operations in Mexico to export to the US market, not only to avoid tariffs under the provisions of NAFTA, but also to more effectively serve the US market due to Mexico's relative proximity.

The dynamics generated by such interdependence, however, have not been limited to trade and investment. Commercial interactions between two of the parties in the "triangle" frequently have political repercussions in the third. Mexico's disappointing economic performance during the first decade after the ratification of NAFTA, due in part to the new competition from the PRC, helped to fuel frustration in Mexico over unmet expectations of the accord with the US and Canada (Mora Legaspi 2011; García Estrada 2012). Similarly, the location of Chinese factories in the Mexican maquiladora sector prompted concerns in the US that through NAFTA, Mexico could become a "back-door" for the entry of Chinese products (CER 2012). From the Chinese perspective, US-Mexico

5 Several studies were done during this time period, focused on the question of whether, in general terms, the flow of foreign direct investment into China was coming at the expense of flows into Mexico, but their results were inconclusive.

collaboration on anti-dumping cases may be seen to have adversely impacted China's relationship with both (Vázquez, López-Portillo, and Vázquez Bravo 2008).

In addition to economic interactions between two parties producing political effects on the third, non-economic behaviors of one may impact the trade and investment relationship between the other two. It can be argued, for example, that the US demand for drugs and the flow of US-purchased firearms into Mexico has contributed to narco-violence in the north of Mexico, where Chinese and other investors have contemplated setting up operations.

Although many of the interdependencies between Mexico, the US, and the PRC revolve around the US market, there is also an important relationship between flows of export and remittance income from the US to Mexico and Mexican purchases of Chinese products.

With respect to export income, apart from the previously mentioned issue of production by PRC companies in Mexico, a portion of the profits from Mexican exports to the US, as well as the wages of the Mexican workers employed in generating such exports, ultimately go toward the purchase of Chinese consumer goods. Moreover, in the process of producing goods to export to the United States, Mexican firms incorporate intermediate goods from the PRC, with the implication that sales of Mexican products to the United States both directly and indirectly drive Mexican purchases of Chinese goods, including clothing, shoes, toys, appliances, motorcycles, cars, computers, telecommunication equipment, and intermediate products.

Beyond profits and wages, another revenue flow from the US to Mexico that impacts the purchase of Chinese goods comes in the form of remittances. In 2010, Mexicans working in the United States sent an estimated $21 billion in remittances to their families and friends in Mexico, a more significant source of income for the country than foreign tourism (Jiménez 2011).

The impact of each of the above-mentioned revenue streams on Mexican consumption of Chinese goods is distinct. Remittance and wage income goes directly to families, and is therefore arguably the most correlated with Mexican purchases of Chinese consumer goods. The Mexican production process itself, by contrast, is linked to the consumption of intermediate goods from the PRC, while the corporate earnings of exporters is tied to Mexico's purchase of Chinese capital goods.

Each of these sources of funds, in turn, is affected by the performance of the US economy. As noted previously, US economic performance impacts the exports - and consequently the earnings, wages, and intermediate product consumption - of Mexican producers. In addition, the US economy impacts remittances, but in a somewhat different fashion: during difficult economic times in the US, entry-level service sector workers, often immigrants from Mexico and elsewhere in the region, are among the first to be laid off, or to have their working hours cut back. As a consequence, economic slowdowns in the US adversely affect the earnings of Mexican immigrants, and consequently their remittances to Mexico. The purchases of Chinese goods by the families supported by these remittances, therefore, is also affected.[6]

In contrast to revenue streams related to Mexican exports, however, remittance flows are also affected by US immigration policies and enforcement technologies, with increased border controls and immigration-related legislation[7] exerting a small but measurable effect on the ability of those Mexicans who are undocumented to work in the US, and ultimately, on their decision to remain.

Although there is no reliable data on the causal relationship between such trends, there is a link between increasingly restrictive immigration laws and control technologies, border security, and the net outflow of immigrants from the United States back to Latin America, seen for the first time in 2012 (Passel, Cohn, and González-Barrera 2012) By extension, therefore, the relationship between US immigration policy and enforcement and remittance-funded purchases of Chinese products by Mexican families is also affected.

Crime and Security Interdependencies*.* Growing criminal activities linking China, Mexico, and the US are driven by many of the same factors associated with the commercial ties between the three nations, including the strategic position of Mexico with respect to PRC access to the US market. To date, such "triangular" connections have manifested themselves in two areas: human smuggling and narcotrafficking, with money laundering remaining a matter of potential concern.

With respect to human trafficking, Mexico is not only a transit country for persons migrating from Central and South America to the United States, but also for those coming from the PRC and other parts of Asia. Organized crime groups such as "Red Dragon" smuggle Chinese immigrants through a variety of different routes transit-

6 With the continuation of the US economic crisis of 2007-2008, for example, it is interesting to note that 2009 remittances were 3.5% lower than in 2008 (Jiménez 2008).

7 Examples include laws, such as the new laws and policies of the state of Arizona, featured prominently in the US and Mexican press, denying undocumented workers drivers licenses, social services, and other benefits, or involving state and local police officers in verifying their legal status. Examples of technology include the proliferating use of databases for verifying the legitimacy of social security numbers prior to conferring employment.

ing Europe and the Americas, frequently leveraging Chinese communities en route, generally with the US and Canada as final destinations.

As of mid-2012, such routes included entry through the Mexican Pacific ports of Puerto Vallarta in Jalisco, Manzanillo in Colima, and Coyoacán, in Mazatlán. In other cases, Chinese immigrants are smuggled into South America - often through Colombia, Ecuador, and Peru - and from there, via land routes through Central America[8], crossing into Mexico at entry points such as Frontera Corozal in the state of Chiapas and on to Tapachula, where there is a sizeable Chinese community. From that point, Chinese migrants reportedly follow a route that begins with a journey by train to the Atlantic coast, and then follow the coast northward through territory controlled by Los Zetas, to ultimately arrive in the United States (Ellis 2012/a/b). Still others arrive by air directly to Mexico City, where the activity of Chinese trafficking networks has been publicly reported by the Mexican Attorney General's office.

In addition to human trafficking, the supply chain for illegal drugs creates another connection between the PRC, Mexico, and the United States. Mexican cartels, such as Sinaloa and Tijuana, obtain many of their precursor chemicals from Asia including, but not limited to, essential ingredients for methamphetamines, such as ephedrine and pseudoephedrine (El Periódico de México 2011; La Prensa 2009; Ellis 2012/a; El Universal 2010). The Mexican cartel "Jalisco Nueva Generación," for example, is believed to import ephedrine from China and India to produce methamphetamines, which are ultimately sold in the United States (Noticias24 2012). Mexican authorities have made multiple seizures of such precursor chemicals arriving from China and India in recent years at Mexican commercial ports such as Lázaro Cárdenas and Michoacán (Carvallo 2012; Noticias24 2012)

Shipments of precursor chemicals have also been intercepted coming into other Latin American countries such as Peru, and have been linked to Mexican cartels such as those of Sinaloa and Tijuana (Reforma 2011), suggesting the emergence of a "global" narcotics supply chain with China, Mexico, and the US as key nodes for source chemicals, management and production, and consumption, respectively.

With respect to money laundering, the proliferation of Chinese commercial banks in the region offers new options for Mexico-based cartels to convert drug earnings generated in the United States into "legitimate" income in Mexico. The use of Chinese companies and banks is attractive due to the language barrier and a lack of close institutional relationships, making it difficult for Mexican and US authorities to follow money trails into the PRC. Although public data on such activities is difficult to come by, reports in the media provide anecdotal evidence of the problem. In March 2010, for example, the Mexican Federal Police made public a case in which a Colombian group, in their dealings with the Mexican cartel *La Familia*, had sent part of their earnings to the PRC (El Comercio 2010).

Although the use of PRC-based companies and banks for money laundering is currently in its infancy, the expansion of Chinese banking activities in Mexico, lines of credit to facilitate conversion of RNB into Mexican pesos, and increasing commercial activities that provide potential cover for illegal transactions suggest that this dimension of the "triangular" US-China-Mexico relationship will become an increasing challenge over time to law enforcement authorities.

In addition to organized crime, the US, Mexico, and the PRC impact each other in the security and defense arena in other important ways, with perceptions and sensitivities on all sides playing a significant role in the dynamic. As the People's Liberation Army (PLA) and Chinese defense contractors such as the NORINCO group look to Mexico, for example, the latter's geographic proximity to the US, coupled with the concern over alarming US policymakers by meddling in the "US backyard", has inspired caution (Ellis 2011/c). Reciprocally, the Mexican government under Felipe Calderón, conscious of US security assistance to Mexico (including the $1.6 billion received under Plan Mérida) and working to strengthen US-Mexican security cooperation, was arguably cautious in pursuing ties with the PRC which could have undermined the US-Mexico security relationship—particularly in a highly polarized presidential election year in the United States.[9]

Despite such considerations, the Mexican armed forces (SEDENA) and navy (SEMAR) each continue to work with their PLA counterparts regarding exchanges of personnel, attendance by Mexican officers in professional education courses at the PLA National Defense University in Champing, and high-level officer visits, such as the September 2010 visit by Chinese Defense Minister Liang Guanglie to both the Mexican ministry of defense (SEDENA), and ministry of the navy (SEMAR) (PDO 2010).

Finally, it is important to note that Chinese businesses such as those in Mexico's maquiladora sector are impacted by the Mexican government's efforts against transnational criminal organizations, which are in turn, to

8 Anecdotal evidence of such flows of Chinese through Central America include an incident in April 2011 in which the head of the Panamanian immigration directorate was implicated in the generation of false immigration documents for Chinese passing through the country (La Estrella 2011/a/b). An expansion in the flow of Chinese immigrants through Costa Rica has also been detected (Meléndez 2007; Nacion.com 2007).

9 At the time that this article went to press, it was not clear whether the new Mexican government of Enrique Peña-Nieto, elected in July 2012, would display similar sensitivities.

some extent, impacted by US support to the Mexican government. While Chinese firms, like others, are adversely affected by the violence that is an indirect byproduct of such efforts, they also benefit when these efforts succeed.

Other Actors and Challenges to the "Triangle." Although the interdependencies between Mexico, the US, and the PRC allow us to legitimately characterize their relationship as a "triangle," these interdependencies must also be understood in the broader Latin American and global context in which they occur.

With respect to Latin America, agreements and other interactions between the US, China, and other actors in the region impact the Mexico-US-PRC "triangle"—particularly with respect to trade. The US-Colombia free trade agreement, for example, which was ratified in May 2012, is seen in China as a possible alternative to Mexico for Chinese and other producers seeking to enter the US market (Portafolio 2011). Similar calculations exist within the nations of Central America and the Dominican Republic concerning their own free trade agreements with the US, such as CAFTA-DR, as well as the US-Panama Free Trade Agreement (ratified in October 2011) and the US-Peru Free Trade Agreement, which went into effect in 2009.

As with US commercial agreements with the rest of the region, the success or failure of Chinese initiatives in the Americas, such as FTAs with Chile, Peru, Costa Rica, and potentially Colombia (El Tiempo 2012), as well as loan-backed infrastructure projects in the Andes and the Caribbean, each impact the market logic for investments from Chinese and other firms in Mexico.

Beyond Latin America, multiple actors in addition to the PRC are important to Mexico.[10] India, for example, plays an increasingly important role in Mexico as well as in other parts of Latin America. Firms in the information technology sector such as Mittal Steel, Tata Consultancy Services (TCS), Wipro, InfoSys, and Patni, for example, play important roles in Mexico as employers, and to some degree, provide implicit alternatives to economic engagement with China that is relatively less threatening to established Mexican interests.

In addition to India, South Korea and Japan are significant commercial partners for Mexico. Japan signed an economic cooperation agreement with Mexico in 2005, since which time Japanese investment in the country has reached $8.8 billion, including projects in the automotive and pharmaceuticals sectors, and with prospects for investments in energy and high technology, among others (SCE 2012). A number of South Korean companies also have invested in manufacturing facilities in Mexico's maquiladora sector, including the electronics producers LG and Samsung, the automotive manufacturers Daewoo and Hyundai, and the steel company Posco.

Beyond bilateral relationships, multilateral forums also link the Mexico-PRC-US triangle to a broader global context. In both the June 2012 G-20 summit in Los Cabos, Mexico (China Daily 2012) and the annual leadership summits of the Asia-Pacific Economic Cooperation (APEC) forum, Mexico, the PRC, and the US were all present, although their most important interactions were arguably not with each other.

Such multilateral forums impact the "trilateral" Mexico-US-China interaction in and of itself as well. Mexico's participation in the newly created "Alliance of the Pacific", in coordination with Chile, Peru and Colombia, for example, will likely shape its economic relationship with both the PRC and the United States by standardizing trade policies and creating new export-promotion structures. Similarly, Mexico's participation in the proposed Trans-Pacific Partnership, in partnership with the US, could significantly strengthen its engagement with Asian countries beyond the PRC, while strengthening the position of the US as the leader of a redefined community of Pacific Rim nations (Oppenheimer 2012).

2. Prospects for 3-Way Cooperation

In looking toward the future, the factors underlying the interdependence that constitutes the Mexico-US-PRC "triangle" are likely to continue. While the US-Mexico relationship may improve or deteriorate, the two countries will continue to be bound together by geography, economic interdependence, and human connections, with more than 32 million persons in the US of Mexican descent (Ennis, Ríos-Vargas, and Albert 2012) and more than a million US citizens living in Mexico (BWHA 2012; Ennis, Ríos-Vargas, and Albert 2012). Similarly, while the structure or terms of US-PRC trade may change, the overall level of commercial interchange between them is only likely to expand. Such probable continuities imply that it is in the interest of each of the three members of the "triangle" to identify common ground where conflict can be minimized and shared gain can be achieved.

While it would be difficult and likely counterproductive to pursue cooperation in domains in which a close relationship between two of the partners could be perceived as threatening by the third, there are at least two areas in which Mexico, the PRC, and US could potentially work together to achieve mutual gains: improving management of triangular trade and combating trans-pacific organized crime ties.

10 For an extended discussion of the interactions between multiple external actors in Mexico and other Latin American countries, see: Ellis (2011/b).

Improved Management of Triangular Trade. NAFTA provides detailed provisions regarding the conditions under which goods produced in Mexico may enter the US without paying tariffs. Nonetheless, there is ample room for misunderstanding between NAFTA provisions governing US tax treatment of products imported from Mexico, and Mexican laws governing treatment of intermediate goods that are imported to produce products for export. China-Mexico-US working groups and other such coordination on this issue would help to highlight and resolve problem areas. Doing so would also increase confidence within the US that Mexico was not being used inappropriately by Chinese firms to avoid tariffs in the course of exporting to the US market. Such clarity would also reduce uncertainty about the tax treatment of operations in Mexico involved in importing intermediate goods from China and exporting to the United States, thus helping to attract Chinese investors.

Collaborating to Combat Trans-Pacific Organized Crime. The resources and capabilities of the Mexican federal police (SSP), the attorney general's office (PGR), and state and local authorities to combat trans-pacific criminal flows involving Chinese groups are inadequate. Difficulties include insufficient Chinese language capabilities (particularly non-Mandarin dialects) when investigating crimes involving the Mexican-Chinese community, as well as a lack of contacts and access to data when attempting to follow cases that lead to individuals or groups in mainland China.

Although US law enforcement authorities have similar weaknesses, they generally have more experience working with PRC authorities and institutions, as well as more resources to invest in those efforts. In a "three-way program," US law enforcement officials could share with their Mexican counterparts their experiences working with the Chinese, including procedures and channels of communication that the Mexicans might find useful, while helping the Chinese, as the third party at the table, to better understand and combat problems in the US-PRC and Mexico-PRC law enforcement relationships. Doing so would also facilitate the formation of new high level contacts, and foster greater confidence on all sides. Over the long run, such interactions might also give rise to new three-way programs, such as those involving language services, joint operations centers, officer exchanges, and similar measures.

3. Conclusion

Given the likely persistence of US-Mexico-PRC interdependencies in the coming years, the challenge is to anticipate the implications of new dynamics, both in the economic realm and more broadly, and to generate policies and initiatives that not only anticipate, but take advantage of, how the three will effect with each other. Doing so may open up the possibility to not only control the risks from such interdependence, but also to create what the Chinese might call a "win-win-win" relationship.

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Section III
Conclusions and Debates

Conclusions and Debates on the US-Mexico-China Relationship[1]

Ariel C. Armony

One of the most interesting features of this volume is that it opens a discussion on the variety of ways in which China influences bilateral relations in the Western Hemisphere—in this case, the relationship between Mexico and the United States. This topic has become increasingly important—and complex—as countries in Latin America diversify their relationships and enter new regional and extra-regional partnerships.

Students of international affairs have referred to triangular relationships (TR) as a tool to examine mostly "strategic triangles," namely, "a situation in which three major powers are sufficiently important to each other that a change in the relationship between any two of them has a significant impact on the interests of the third" (Chatterjee 2011:75). A "classic" strategic triangle involved the United States, China, and the Soviet Union. Today, the United States, China, and India represent a relevant strategic triangle in global affairs, given the increasing economic, political, and military power of these Asian nations.

The concept of TR is pertinent to the study of China-Latin America relations. To my knowledge, the first to examine China's new role in Latin America from the perspective of TR was Juan Gabriel Tokatlian in his contribution to the volume edited by Riordan Roett and Guadalupe Paz in 2008. Focusing on the triangle consisting of the United States, China, and Latin America at large, Tokatlian argues that this is not a strategic triangle because there are vast asymmetries in power and autonomy among the parties. The structure of hierarchies makes relations between the United States and China not contingent upon their respective ties with Latin America, and the existing system of uneven interdependencies among members does not result in a need for each party to necessarily engage the others (Tokatlian 2008:60-62).

US-Mexico relations are characterized by a high degree of interdependency, encompassing such dimensions as economic and trade integration, immigration, remittances, transnational crime, and security. However, these bilateral ties are not dependent on their respective links with China, at least for now. This situation does not mean that the concept of TR is not relevant to study China-Latin America relations. As Tokatlian notes, this nonstrategic triangle has some important benefits. One of these benefits is that a nonstrategic triangle "does not produce automatic frictions," and therefore "it is easier to identify areas for tripartite cooperation." Of course, the TR involving the United States, China, and Latin America is not free of competing features and tensions, but this triangle does create opportunities for cooperation resulting from both "choice as well as circumstance" (Tokatlian 2008:61). The chapters in this volume offer numerous insights to examine these opportunities.

The TR among the United States, China, and Mexico is not unique in Latin America. As countries in the region expand their connections with Asia, triangular relationships have become more common. Triangles including Argentina, Brazil, Chile, Venezuela, and Peru are but some of the examples of an increasingly relevant field of study that requires going beyond the analysis of bilateral relations. Also, the emergence of new trade blocs such as the Pacific Alliance (Chile, Colombia, Mexico, and Peru), in which all four members have FTAs with the United States, demands attention to a new triangular dynamic linking these countries, the United States, and Asia.

1. Understanding the US-Mexico-China Triangle

A careful reading of the chapters in the volume provides clues as to the features of the TR among the United States, Mexico, and China. The following list summarizes some of the most relevant features:

The stability of each of the bilateral ties in the triangle: the fundamental relations in the triangle are US-Mexico and US-China. These ties play a vital role for the countries involved—in particular for Mexico's relationship with the United States. One way in which China can affect the stability of US-Mexico ties is by posing a "hegemonic challenge" to the United States, that is, by "seeking peer status or attempting to become the new hegemon" (Paz 2012:19). China's consistent strategy of restraint in Latin America and the US-China institutionalized dialogue on Latin America, among other factors, suggest that China will not rise to challenge the hegemony of the United States in Latin America any time soon.[2]

1 I would like to thank Nicolás Velásquez, Nashira Chávez, and Wu Wenyuan, PhD students in the Department of International Studies at the University of Miami. Their help in completing the research and analysis for this chapter has been invaluable to me.

2 Paradoxically, it was the United States that gave China "peer status treatment" by establishing a dialogue on Latin America in 2006 (Paz 2012:23-24).

The dominant strategies of each of the parties and how these strategies evolve over time: Mexico's regional and global position is being shaped by an increasing accent on diplomatic and trade diversification. The decline in US influence and the expected reforms in the Mexican energy sector may open more room for Mexico to adjust to a growth strategy less dependent on the United States. China's rising role as a regional and global power and the new economic scenario marked by higher wages and growing concentration in industrial commodities and products are likely to affect the pace of change according to which China's "going out" strategy will develop in the near future. If Mexico and China reorient their strategies, it is likely that there will be an adjustment in the triangle's dynamic, which may result in a closer relationship between these two countries.

Transformations in the regional and global context and their impact on TR dynamics: probably the most significant factor is the creation of the Trans-Pacific Partnership (TPP), which introduces geopolitical rivalries in the triangle. TPP does not include China and it is likely to affect China's interests in Latin America and its existing trade relations with several countries in the region, including Mexico. If Beijing's suspicion materializes that TPP is a US-led strategy to resist China's regional hegemony in the Asia-Pacific, then the question is whether this major initiative may have an impact on China's relationship with Mexico.

Mutual perceptions: the potential for tripartite cooperation resulting from choice is largely dependent on the US and Mexican perceptions of China. For these two countries, China represents some type of threat, but the meaning of "threat" is very different for each of them. For Mexico, China entails a threat as an economic power, primarily because it has emerged as a serious challenger for Mexico in the US import market. For the United States, the threat posed by China in Latin America is more symbolic than real. China behaves with great care in the region and has tried not to alienate the United States. However, China's appeal has gained ground in Latin America. For instance, a 2012 survey conducted in 26 Latin American and Caribbean countries shows that, in many of these countries, the United States is barely ahead of China as a "development model" in the eyes of the average citizen (Zechmeister et al. 2013). This type of evidence suggests, at least in terms of perceptions, that China may be gaining a more solid foothold in Latin America in an environment of decreasing US influence and, possibly, increasing anti-Americanism (Seligson and Zechmeister 2013).

2. China's Threat

Whether China represents a threat to Mexico needs qualification. In their chapter, Kevin Gallagher and Enrique Dussel Peters examine the impact of China on US-Mexico trade.[3] The "landing" of China has created rapid transformations in the region's structure of trade, specifically because, as they note, "both the US and Mexico have lost substantially in their respective export markets in the NAFTA-region and particularly in the manufacturing sector" since 2000. In the analysis presented by Gallagher and Dussel Peters, the level of competition in export markets is the key determinant of a threat. In the triangle, variations in market share for the United States or Mexico in a specific sector and corresponding changes for Chinese share in those markets define whether specific exports are under "threat" from China. By becoming a "de facto member of North American integration," as Gallagher and Dussel Peters argue, China is exercising a strong impact in the US-Mexican relationship because it is "outcompeting Mexico in the US market and the US in the Mexican market." This analysis suggests that China has contributed to the erosion of NAFTA's integration process, particularly in terms of trade.

However, when assessing the US-Mexico-China TR along the dimension of trade, it is necessary to consider the role of other actors external to the triangle. This is the core of the argument advanced by Ralph Watkins in his chapter.[4] He argues that the loss of market share by Mexico and the United States in the NAFTA market is not solely explained by the expansion of China's exports to the NAFTA-region, but also by the decrease of NAFTA's imports from other Asian countries, such as Japan. In the US case, Watkins notes that the most relevant shift of production was from Hong Kong, Taiwan, and Japan to China, and not from the United States to China. Using the same logic, he anticipates that the current slow-down in China's manufacturing may accentuate the shift in labor-intensive production to Vietnam, Cambodia, and Indonesia.

Watkins's analysis also indicates that it is necessary to "drill down" into specific sectors to explore the nature of the "competition" between Mexico and China in the US market. As he shows, geography matters, as Mexico's comparative advantage in transportation costs makes it more competitive than China with regards to exports "characterized by a high weight and volume to value ratio." Though more optimistic about the role of NAFTA in facilitating US and Mexican competitive edge than Gallagher and Dussel Peters, Watkins comes to a similar conclusion: the integration of the North American side of the triangle is fundamental for the competitiveness of the

3 Kevin P. Gallagher and Enrique Dussel Peters, "China's Economic Effects on the US-Mexico Trade Relationship: Toward a New Triangular Relationship?
4 Ralph Watkins, "Meeting the China Challenge to Manufacturing in Mexico."

region's manufacturing industry.[5] Thus any policies oriented to deepen NAFTA's integration—from investment in infrastructure to enforcement of intellectual property rights—are vital for the future of these economies.

Less relevant to the US-Mexico tie is the potential political threat posed by China. As known, issues such as migration, trade, regional security, and investment define a close and complex relationship between the United States and Mexico. NAFTA represents a deep productive and trade integration between these countries. In the US-Mexico-China triangle, the US-Mexico link is a truly multi-dimensional relationship because it encompasses economic, political, social, and other issues. This is a relationship in which domestic, international, and transnational issues interconnect through immigration. Mexico is the largest source of immigrants to the United States and, in the context of vast demographic changes in the United States and the ensuing "Latino" impact on US electoral competition, an issue such as immigration has become a defining element in US domestic politics. Immigration reform in the United States will most surely affect the US-Mexico tie. Depending on the specifics of this reform, US-Mexico relations may become closer and integration may deepen.

Political relations between Mexico and China are less central but still relevant, particularly when viewed in the context of rising powers and a restructuring of alliances in international politics. Convergence/divergence in international relations (e.g., voting behavior in the UN General Assembly and new dynamics of influence in the IMF and World Bank), trade disputes (especially before the WTO), and bilateral political tensions (the H1N1 health crisis in 2009 and the 2011 visit of the Dalai Lama to Mexico) are important factors defining the Mexico-China side of the triangle.

As Sun Hongbo explains in his chapter, the divergence between Mexico and China in voting patterns in the UN General Assembly has increased since 2004.[6] If one considers votes on controversial matters (such as nuclear policy, Palestine, Korea, Iran and so on), Mexico has voted more in line with its northern neighbor than with China. While Mexico's positions in the United Nations are aligned with the US-led Western bloc, there are other areas in which Mexico is close to China. The two developing countries have benefitted from power realignment in the IMF and World Bank. They share similar concerns about South-South cooperation, energy security, and UN reform. Even though Mexico and China have had important trade frictions, Mexico initiated fewer trade disputes against China before the WTO than the United States did during the period 2003-2011.

Taken as a whole, these dimensions suggest a relationship in which Mexico stays firmly in the US sphere of influence, while maintaining its autonomy, and a pattern of interaction with China that is shaped by periodic disagreements and gaps in preferences (for example, in their respective preferences concerning mechanisms to address trade disputes). Still, the nonstrategic nature of the triangle provides both countries with the environment to find a common framework for a closer, and mutually rewarding, relationship.

3. Chinese Views

The Chinese government designated Mexico as a "strategic partner" in 2003. China has established partnerships at this level with a few other countries in Latin America, including Brazil (1993/2004), Venezuela (2001), Argentina (2003), and Peru (2008). Under the framework of China's foreign policy, strategic partnerships are conceived as long-term, stable, and comprehensive cooperative relationships between China and other countries. Strategic partnerships seek to build close links based on common interests. Partners aim to institutionalize these interests through a variety of ties, including high-level contacts, trade, and financial, cultural, military, and scientific exchanges (Ministry of Foreign Affairs PRC 2011).

From the perspective of China, a strategic partnership with Mexico is predicated as a commitment to strengthening "friendship and mutually beneficial cooperation" between the two countries. This partnership involves:

(a) High-level official visits along with exchanges and institutionalized mechanisms of political and other forms of cooperation (e.g., the China-Mexico Permanent Bi-National Commission, the 2011-2015 Joint Action Program, the Agreement on Mutual Recognition of Certificates of Studies, Diplomas, and Degrees, and the Civil Aviation Transportation Agreement);

(b) Effective, proactive and multilateral coordination and cooperation on a wide range of global issues, such as UN reform, climate change, South-South cooperation, international financial crises, and other issues affecting international and global relations;

(c) The expectation that the two countries, as significant trade partners, will work together to expand business cooperation and combine efforts against trade protectionism;

5 Gallagher and Dussel Peters, "China's Economic Effects on the US-Mexico Trade Relationship"; Watkins, "Meeting the China Challenge to Manufacturing in Mexico."

6 Hongbo Sun, "China-Mexico Strategic Partnership: A Multilateral Perspective."

(d) In addition to the political relations mentioned earlier, a commitment to increase legislative cooperation (e.g., regular meetings on the Permanent Forum on Parliamentary Dialogue between the Mexican Congress and the NPC of China);
(e) State-promoted policies to deepen exchanges and cooperation in the cultural, educational, and tourism fields (e.g., China-Mexico University Presidents Forum; official Mexican presence at the Opening Ceremony of the Shanghai World Expo);
(f) Closer military cooperation (largely defined by symbolic actions such as the presence of the three services of the PLA's guard of honor in the military parade of the Mexican Independence Bicentennial) (Ministry of Foreign Affairs PRC 2011).

While these areas of bilateral cooperation are important, they do not represent any original formula. The Chinese contributors to this volume add some interesting ideas worth discussing. They view China-Mexico ties from the perspective of TR, and from such a viewpoint they envision a fresh path for Mexico's foreign policy. From a Chinese perspective, China's landing in Latin America offers Mexico an array of opportunities. Mexico can decrease its political and economic overdependence on the United States as well as its economic vulnerability by deepening its ties with China. In other words, China can help Mexico to counterbalance the influence of the United States. China can also serve as a bridge with East Asia, helping Mexico to increase its trade with that region.

In the eyes of these Chinese scholars, Beijing's foreign policy is congruent with a multipolar vision for Latin America and Mexico. According to such a view, China is a partner of strategic importance for Mexico. However, Mexico needs to find a political focus for its relationship with China and avoid viewing their bilateral ties as a zero-sum game. One of the most compelling arguments advanced by the Chinese contributors to this volume is that Mexico is in a position to play the TR to its advantage. While Mexico views China as an economic competitor, they argue, China views Mexico as a strategic and political partner. Their analysis is framed within the Chinese official rhetoric, particularly in connection to the notion of "common development" (*gongtong fazhan*)—a phrase that "hints at complementary, comparative advantage and division of labor." It also incorporates newer notions that characterize Beijing's rhetoric, such as the promotion of "global fairness" through rising powers (BRICS and other emerging economies) (Strauss 2012:145, 154).

Viewed in the context of "global fairness," Mexico-China relations necessarily point to the issue of balance of power on a global scale. It is within this framework that Chinese observers argue that Mexico should find its own national economic development strategy in order to take advantage of the geopolitical opportunities brought about by China's landing in Latin America. As Sun Hongbo argues, Chinese policy-makers view Mexico from a long-term perspective, "expecting to promote the sustained, healthy, and stable development of the strategic partnership in a pragmatic way." Insofar as there is a match between rhetoric and concrete horizontal cooperation, China may represent "a welcome distinction to Latin American relations with the United States, which in practice have been anything but equal for many generations" (Armony and Strauss 2012:6).

4. Mexican Views: Political Elites

Mexican perceptions of China are important because, among other reasons, they are crucial for understanding the notion of a "Chinese threat." As we have learned from several of the contributions in this volume, ignorance about China feeds fear about the Chinese impact in Mexico and thus increases the perception of a threat. The media often plays an important role in fueling this type of fear (see Armony 2012). News coverage on China tends to amplify some of the negative dimensions of the Chinese presence in Latin America. In Mexico, issues such as the expansion of illegal activities associated with Chinese criminal networks and the everyday experience of encountering a flood of Chinese low-cost products in Mexico's popular markets (displacing similar Mexican products) nurture tensions and resentment among the population. Ethnographic accounts of everyday citizen interactions affirm this trend. As Adrian Hearn (2012:112) has found, resident Chinese communities in Mexico encounter "the common perception that their commercial activities are strongly bound up in ethnic favoritism, and therefore pose a threat to national interests." These fears are articulated as part of a narrative that goes back to the Great Depression, and today is driven by China's rising influence across the globe.

We can supplement this ethnographic perspective with other evidence to describe better the construction of China's image in Mexico. We have data to do so from both a top-down and bottom-up approach, that is, looking at perceptions of political elites and those of average citizens, measured through public opinion polls.

A recent survey of congressional members in Latin America[7] shows that legislators had a strong preference for the European Union (46.5%) and the United States (20.1%) as investment partners over China (14.1%). Similarly, legisla-

7 The survey was conducted during the period 2010-2013. Most of the interviews took place in 2010. See: Proyecto Elites Latinoamericanas. A previous survey was conducted during the period 2006-2010. See Amezaga 2009.

tors chose the United States (27.6%) and the EU (16.7%) as favored trade partners over China (10.1%) (Alcántara and Rivas 2013). When we look at particular countries, we see that parliamentary elites in some countries were inclined to deepen commercial relations with China. In terms of China as a trade partner, out of 13 countries, Chile was in first place (33.7%), followed by Brazil (19.4%), Argentina (19.1%), and Mexico (14.3%).

If we look in more detail at the preferences of Mexican representatives (*diputados nacionales*), their top choice for a trade partner was the United States (34.7%), followed by the European Union (22.5%). One in seven Mexican *diputados* chose China as a trade partner. In terms of their choice for investment partners, the EU (46.8%) was a clear winner, followed by the United States (20.8%). Interestingly, 14.6% of Mexican legislators were inclined to prefer China as an investor in their country in 2010, a significant increase when compared to 2006 (2.3%) (Alcántara and Rivas 2013; Amezaga 2009).

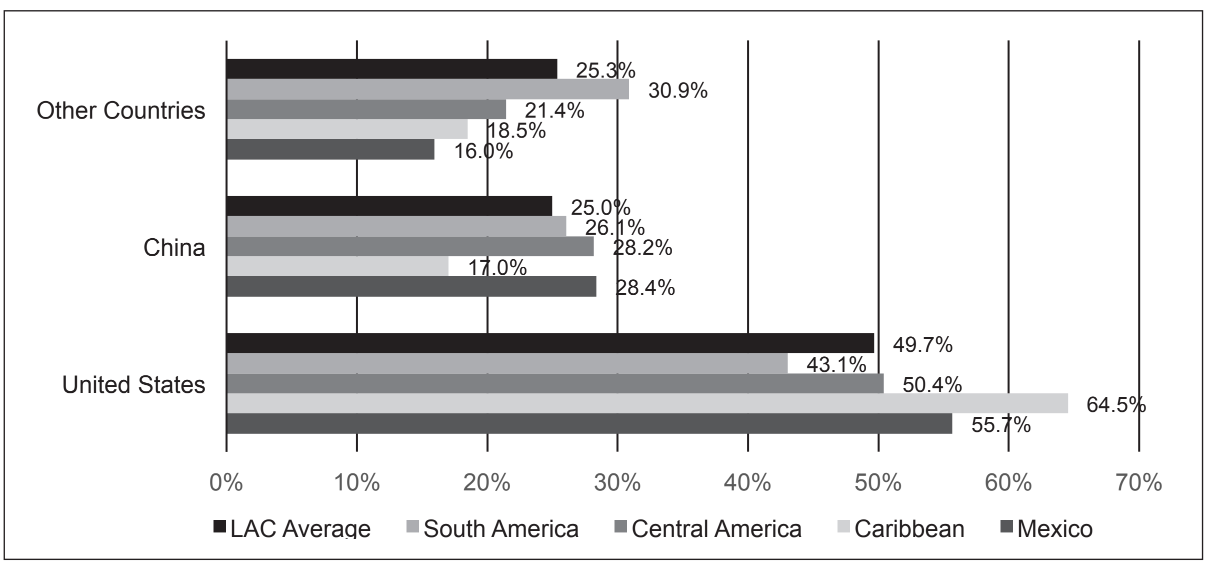
5. Mexican Views: Average Citizens

If elected representatives in Mexico are cautious, but still more positive about deepening their country's relationship with China, it is worthwhile exploring what average Mexicans think of China. Public opinion often influences the views and actions of political elites. In addition, public views on China are important to assess the climate for Chinese businesses in Mexico and prospects for closer economic and diplomatic relations between Mexico and China.

Data from a public opinion poll conducted in 26 Latin American and Caribbean countries in 2012 (AmericasBarometer 2012) offers new insights into the views of Mexicans with respect to China's presence in Latin America. As Figure 1 shows, Mexicans believe that the United States has significantly more influence in the region than China. As one would expect, the belief that the United States is the most influential country in Latin America and the Caribbean is stronger among Mexicans than among any other respondents in the region, with the exception of those living in the Caribbean. However, as Figure 2 shows, Mexicans believe that, within a decade, US influence will decline and China's influence will rise (along with the influence of other countries, mainly Brazil).

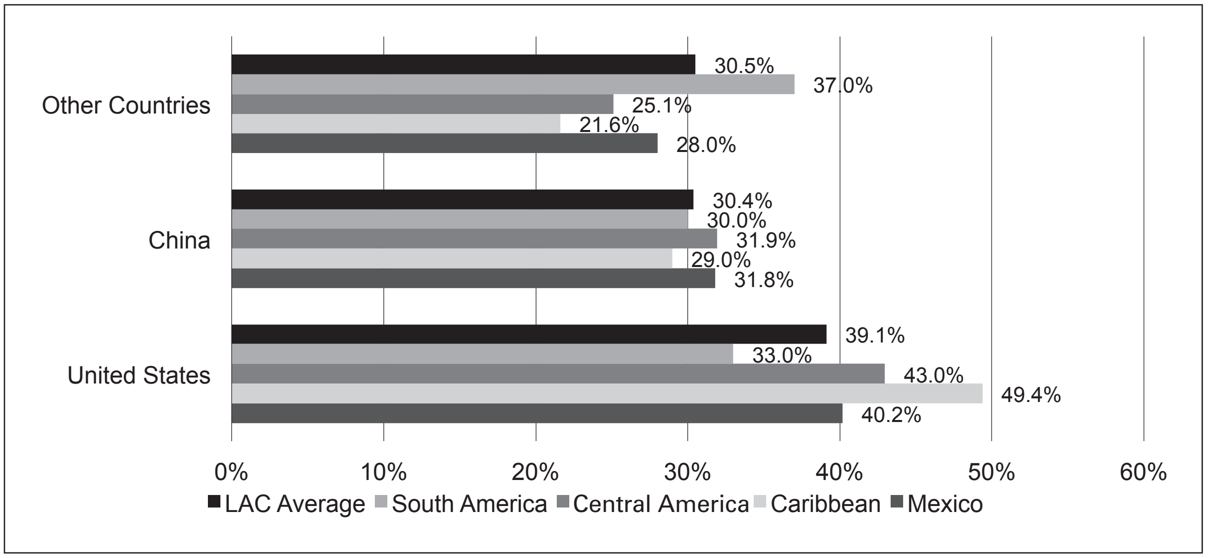
Figure 1.

Among the U.S., the PRC, or other countries, which one has the most influence in Latin America/Caribbean?



Source: AmericasBarometer 2012. Author's calculations.

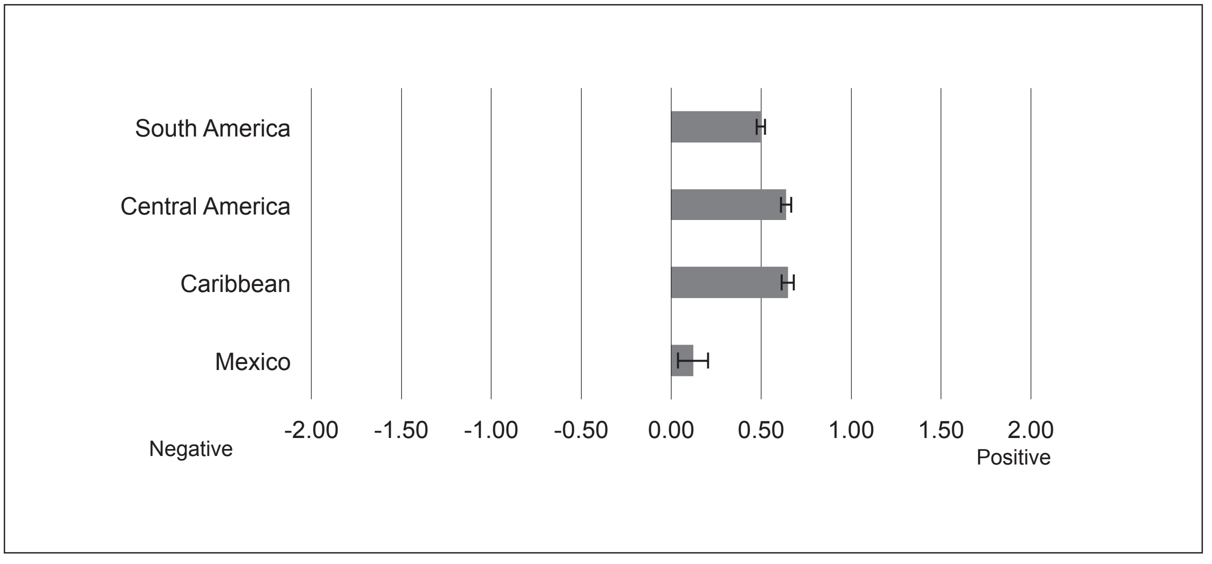
Figure 2.
Among the U.S., the PRC, or other countries, which one will have the most influence in Latin America/Caribbean within a decade?



Source: AmericasBarometer 2012. Author's calculations.

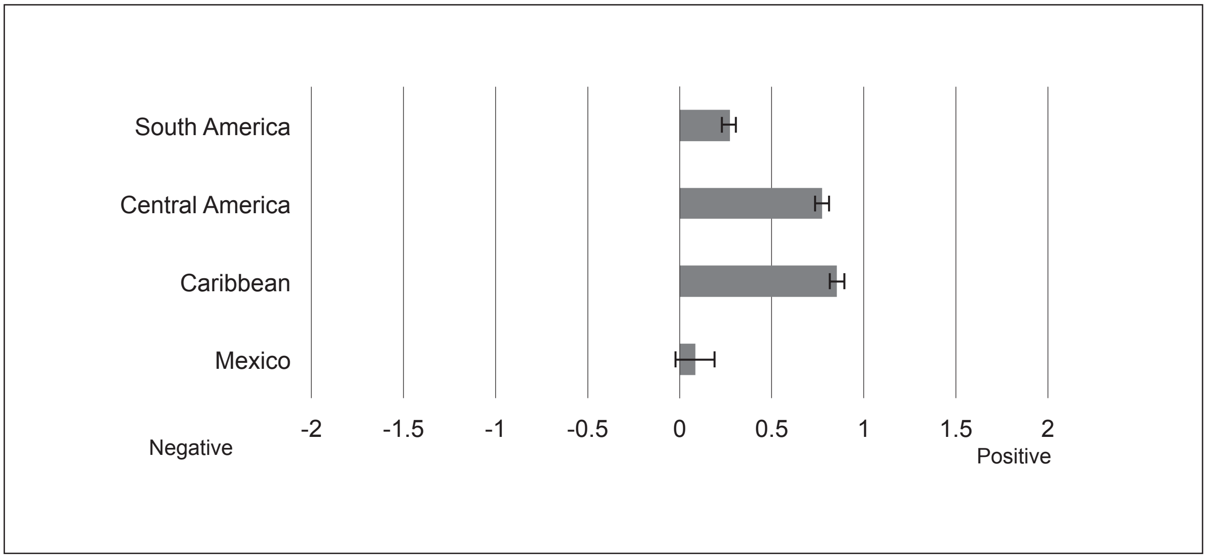
For the region as a whole, we observe important shifts in expected influence within a decade. In most countries in Latin America and the Caribbean, respondents think that China will weigh more and the US will weigh less. Mexicans think that China will have more influence in the region and that US influence will decline. According to the survey, the decline in US influence will be more pronounced than the increase in Chinese influence. When it comes to evaluate the quality of the influence of other countries, Mexicans are less keen to view the influence of China and the United States in the region as positive in comparison to the rest of Latin America (see Figures 3 and 4).

Figure 3.
Views on China's influence in Latin America/Caribbean



Source: AmericasBarometer 2012. Author's calculations.

Figure 4.
Views on U.S. influence in Latin America/Caribbean



Source: AmericasBarometer 2012. Author's calculations.

Mexicans are mostly polarized on their evaluation of China's influence in Latin America and the Caribbean (see Table 1). While China's positive influence receives more support than its negative influence among Mexicans, they stand apart from the rest of Latin Americans, whose views on China's influence are decisively positive. Solid majorities in the region and subregions (the Caribbean, Central, and South America) view China's influence as positive. Still, about a quarter of respondents see China in neutral terms. This result is important because it may indicate that this portion of the population could shift their perception of China either direction.

Table 1.
China's Influence in Latin America/Caribbean: Positive and Negative Views

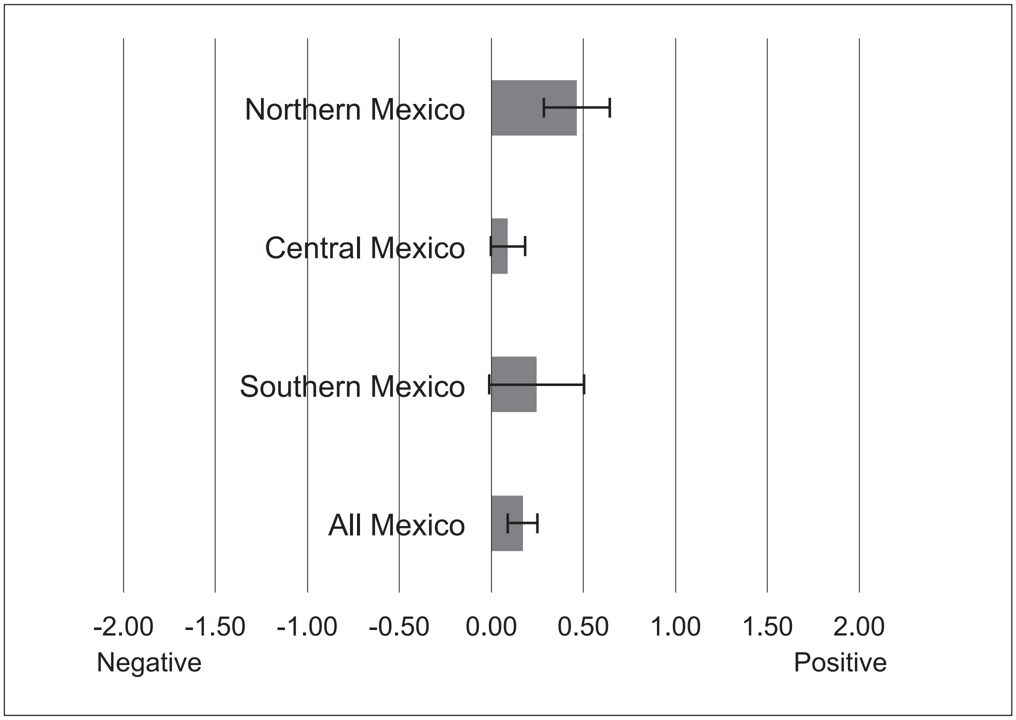
	Positive Influence	Neither positive nor negative	Negative Influence	Δ
Mexico	46.64%	21.10%	31.19%	15.44%
LAC	63.56%	23.51%	11.73%	51.83%
Central America	65.54%	23.06%	10.55%	54.99%
South America	58.28%	26.91%	13.30%	44.98%
Caribbean	74.86	15.32	8.46%	66.40%

Source AmericasBArometer 2012. Author's calculations.

This poll allows us to examine perceptions toward China within Mexico. If we examine what respondents think about China's influence in Mexico and the contribution of Chinese businesses to Mexico's economic development, we find that positive views are concentrated in northern Mexico, as Figures 5 and 6 show. These results suggest that the globalization of production, expressed primarily by the presence of the United States and China in the north of Mexico, shape the views of those living in its midst.

Figure 5.

China's Influence in Mexico: Views within Mexico

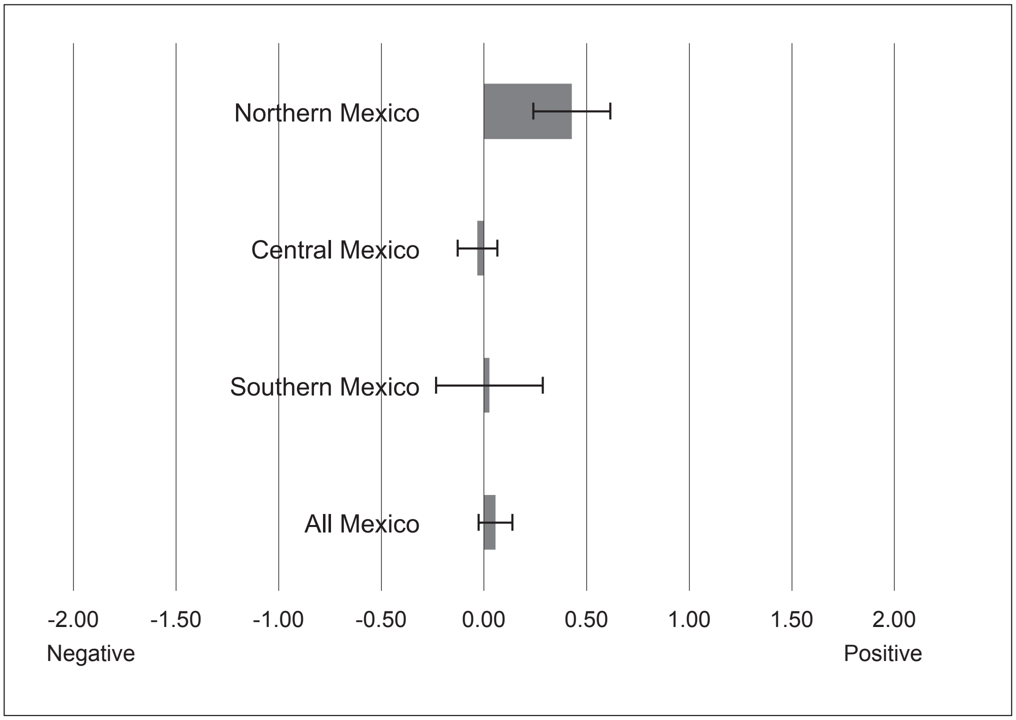


Source: AmericasBArometer 2012. Author's calculations.

The results discussed in this section are consistent with the notion that Mexicans recognize the presence of "NAFTA's uninvited guest" and accept that, within the next ten years, China's role in the region will only increase (Latinvex 2013). They view the presence of China in Latin America with mixed feelings—not much different from their perception about the United States. Mexicans feel that relations between their country and both China and the United States have become closer in the last five years (results not shown). All these findings suggest that Mexico is one of the countries in Latin America where the uncertainties of globalization will continue to shape the country's present and future. Still, these results also show that globalization is perceived differently in different places. In northern Mexico, where NAFTA transformed whole regions through industrialization, people are much more inclined to view China's landing as another force that can fuel economic growth and promote further change.

Figure 6.

Chinese Businesses' Contribution to Mexico's Economic Development: Views within Mexico



Source: AmericasBArometer 2012. Author's calculations

6. Are Close Neighbors Better than Distant Relatives?

Analysts agree that Mexico is of fundamental importance to the United States, not only in a regional context but in a global context as well. Issues such as migration, security, and energy are central to the US-Mexico agenda (Hakim 2013). These issues have decisive implications for the United States at the domestic level. At the same time, in terms of trade relations, China has become a strong presence in Mexico's international ties. Moreover, China has emerged as a de facto "fourth" member of NAFTA as a result of its integration in virtually all of the major trade sectors since the beginning of the 21st century. According to the data presented in this volume, China has increased its role in US-Mexico trade, outcompeting both countries in each other's markets. Indeed, China can be considered part of North-American integration: as Gallagher and Dussel Peters note, by 2011 the Asian country became NAFTA's second trading partner, only after intra-NAFTA-region trade.[8]

The triangle composed of China, Mexico, and the United States cannot be reduced to trade relations. It involves significant diplomatic, cultural, and geopolitical dimensions as well. This TR does not constitute a strategic triangle—for instance, we are unlikely to expect Mexico and China to join forces against the United States, or US-China alignment against Mexico—but the relationship between any two of these countries has consequences on the interests of the third.

Based on the ideas advanced in this volume, it is evident that Mexico is the country with the most opportunities to make the TR work toward its interests. This TR offers Mexico a possibility to reorganize its own international relationships, seeking to reduce its dependence on the United States (while building a stable relationship based on a new agenda, fit for the 21st century), and develop more mutually beneficial ties with China.

Whether it is under the Chinese concept of "strategic partnership" or not, it is evident that there is room for Mexico to maneuver in its relationship with China. However, as is stressed by several of the authors in this publication, it is imperative for Mexican leaders to craft a sound development path, which should include a strong industrial policy. If Mexican elected officials were to follow the preferences of their country's citizens, it is clear that China is not, as of today, a preferred development model for Mexicans: only 17.9% of Mexicans selected China as a model for the future development of their country. Still, Mexico is slightly ahead of the average for the

8 Gallagher and Dussel Peters, "China's Economic Effects on the US-Mexico Trade Relationship."

entire region (16%), and ranks 6th out of 22 countries surveyed in 2012 (Zechmeister et al. 2013).[9] These preferences suggest that Mexicans, while not interested in adopting a Chinese development model, are inclined to learn from China's successes.

Is the concept of TR the most effective framework to define a platform for Mexico's engagement with China? Several of the chapters in this volume seem to support this approach. However, we need to consider whether a strategy of bilateral negotiations (Mexico-China and Mexico-US) is most productive for Mexico. As Gallagher and Dussel Peters argue, it may be more effective for Mexico (and the United States) to shift to NAFTA-China trade negotiations.[10] The uniqueness of the Mexico-China relationship is not just that very few of Mexico's exports go to China (in contrast to other countries in the region) and that the two countries compete directly in an extensive array of products: Mexico is also unique because of its close integration with the US economy.

This dimension becomes more complex when we consider the role of TPP and the Pacific Alliance in the future of Mexico. There is significant speculation over US expectations for TPP, particularly in terms of geopolitical objectives, and the potential for tensions with China and ASEAN's Regional Comprehensive Economic Partnership (RCEP). Frictions between the United States and China may arise as each strives to shape economic cooperation in Southeast and East Asia according to its own economic goals. The outcome of this dynamic process will depend on a variety of factors, including the "consistency and quality of the TPP framework" (Yuan 2012:4). Negotiations on this multilateral FTA are complicated because they involve countries that are not only at different stages of economic development, but in different regions as well (Yuan 2012). It will be interesting to see how TPP will influence Mexico's relations with both the United States and China.

Beyond TPP, it is important to take into account the potential impact of the Pacific Alliance (Alianza del Pacífico, or AP) on Mexico's future development. AP represents the 9th economy in the world and, in Latin America, has emerged as the largest trade bloc, concentrating 55% of Latin America's total exports (Banco Bilbao Vizcaya Argentaria 2012). In terms of GDP, AP follows Mercosur ($2.1 billion and $3.3 billion respectively), and both blocs are similar in terms of GDP per capita ($12,000 and $12,649, respectively).[11] AP is conceived not only as a common market, but also as a bloc with its own agenda and economic goals, and as a platform for the free circulation of goods, services, capital, and people. With the creation of AP, member countries seek, on the one hand, to strengthen their comparative advantages for their access to the Asian markets and, on the other hand, to position themselves as a key node in the global value chain, taking advantage of their closeness to the United States and the European Union (Valenzuela-Gutierrez 2012; López and Muñoz 2012).

Experts disagree on the potential that AP offers to Mexico. Some argue that it opens a window of opportunities to diversify Mexico's trade, improving access not only to Asia but to the rest of Latin America as well. In contrast, others view AP as a poor strategic choice for Mexico and argue that Mexican leaders should focus their attention on the United States and China, which represent about two-thirds of Mexico's international trade. These voices stress that China will continue to be one of the world's most dynamic economies, regardless of its slowdown, and therefore it would be in Mexico's interest to improve its capacity to interact with China rather than diverting its attention to new partnerships (Pérez Silva 2013).

As this volume suggests, the impact of China on the US-Mexico relationship requires a triangular analysis to shed light not only on commercial relations but on other dimensions of the interaction as well. Tripartite cooperation is the most desired outcome of this new relationship, but it is important to acknowledge that the parties in the triangle espouse conflicting interests, which generate various types of frictions. Still, this triangle offers some significant opportunities, particularly for Mexico. There may be disagreements over the strategy that best captures the intersection of interests and offers a horizontal form of cooperation that benefits all parties evenly. There is little discrepancy, though, over the fact that China is a determining factor in US-Mexico relations. The evidence that we have discussed suggests that it will continue to be so in the coming years.

9 Costa Rica ranks first: 34.8% of its citizens prefer China's development model.
10 Gallagher and Dussel Peters, "China's Economic Effects on the US-Mexico Trade Relationship."
11 World Trade Organization Statistics Database and World Bank Data.

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This book advances the concept of “triangular relationships” by analyzing benefits and conflicts within US-Mexico-China relations as Chinas´ influence increases. The contributors examine this phenomenon from economic, political, and social perspectives. China´s deepening impact in the Americas suggests that triangular relationships, such as those examined in this volume, will necessarily weigh more heavily into other fields of research in the future.

This project is a “triangular relationship” itself in many ways, considering the effort and support of each of the authors. Not only do we have experts and analysis from China, Mexico, and the United States represented herein, but we have been able to count on the support of three different institutions –the Centro de Estudios China-México (CECHIMEX) from the School of Economics at the Universidad Nacional Autónoma de México (UNAM), the Center for Latin American Studies at the University of California in Berkeley, and the Center for Latin American Studies at the University of Miami.