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Mexico's Trade Relationship with China in the Context of the United States–China Trade war

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Abstract

The Mexico–China economic relationship is highly asymmetric, although the amount of total trade between the two countries has grown rapidly in the last ten years. Chinese exports to Mexico have grown exponentially and have diversified into different economic sectors. In contrast, Mexican exports to China have also grown but at a much slower pace and the pattern shows more concentration in fewer products. Paradoxically, in the context of the United States–China trade war, the Mexican economy has benefitted from the increase in tariffs that the United States has imposed on Chinese products. In 2019, for the first time, Mexico displaced China as a main trade partner of the United States. In this context, this article analyses the current economic relationship of Mexico with China and the United States in a triangular scheme, the impact of the United States–Mexico–Canada Agreement on the China–Mexico relationship, and Mexico's trade relationship with both economies in the context of the trade war.

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Keywords

Mexico, China, United States, trade, trade war

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Introduction

In the last ten years, Mexico's trade with China has increased rapidly. In 2019, trade between the two countries reached USD 100 billion, the trade balance, however, is not equitable for both countries. From total bilateral trade, Mexico recorded exports to the Chinese market worth USD 7.1 billion in 2019, while Chinese exports to the Mexican market were USD 93 billion in the same year. The asymmetric trade relationship has been accentuated since the beginning of 2000 and the forecast indicates that this trend is likely to continue in the medium term. In the dynamics of the commercial relationship between the two countries, one variable becomes increasingly important for both countries: trade with the United States.

In the context of the United States–China trade war and the increase in tariffs between the two countries, Mexico has become the main trading partner of the United States, displacing China to second place. In 2019, by the first time, Mexico surpassed China in trade with the United States, reaching a historic commercial exchange of USD 614 billion. The amount exceeds by 9.95 per cent of the commercial flow of USD 558 billion between China and the United States (United States Census Bureau, 2020a, 2020b). On a parallel path, exports from China to Mexico continue to increase exponentially. Taking into consideration these facts, the objective of this article is to analyse (with a focus on the last ten years) the different variables that contribute to the asymmetry of the Mexico–China trade relationship, the current trade relationship of Mexico with the United States, and the impact that the United States–China trade war has had on trade between the three countries.

The hypothesis of the investigation suggests that the current Mexican trade policy and the negotiation and signing of the United States–Mexico–Canada Agreement (USMCA) have prioritised the commercial relationship with the United States as the agreement is designed to guarantee the economic interests of the United States in a global context of the trade war. In this triangular trade exchange scheme, Mexico benefits by rising exports to the United States, but there are also disadvantages by increasing asymmetric interdependence on the US market and facing a growing trade deficit with China. Paradoxically, at least in the short term, Mexico has benefitted from the trade war. This situation is attributed mainly to exogenous factors such as the increase in tariffs and the consequent reduction of Chinese exports to the US market. This situation, however, is not sustainable for Mexico in the long term, in the absence of a strategy on the part of Mexico to size and redesign its commercial relationship with China, the trade war may be over and the short-term external benefits for Mexico may disappear.

To analyse the impact of the USMCA and the trade war in Mexico's trade, we analyse the main categories of exports and imports from 2010 to 2019, additionally, we highlight the period 2019–2020 that is the beginning of the United States–China trade war and the main policies involved in the process. The ratification of the USMCA and the new terms of the agreement are also analysed to present some conclusions of the main objectives of the agreement and its current impact in Mexico.

Mexico's Current Trade Relation with China: The Existing Literature, Obstacles, and Challenges

The dynamics of Mexico's trade with China and the main problems that arise from the asymmetry of the relationship have been analysed in the existing literature from different perspectives and emphasising obstacles, trends, and challenges for Mexico. We can distinguish three main analytical trends: (1) lack of complementarity of the Mexico–China trade and Mexico's high dependency on the US market, (2) wrong management of Mexico's trade policy with China and (3) the perception (from Mexico) of threat from China's competition.

Within the first analytical trend, Carrillo et al. (2011) point out that the lack of complementarity in the commercial relationship between both countries is an important variable to consider as, in most sectors of the trade relationship, China is a direct competitor with Mexico. Hernández (2012) emphasises the serious disadvantage that the huge trade deficit represents for Mexico in its relationship with China – he argues that this is a central aspect that determines the trade pattern between both countries and hinders a relationship with more equitable terms. In this context, Mexico's trade relationship with the United States is crucial since the trade deficit that Mexico has with China is offset in some way by the trade surplus that Mexico has with the United States.

Gallagher and Dussel (2013) suggest that Mexico's trade deficit with China is a direct “threat” not only in the domestic market but also in the US market. Sugita et al. (2019) consider that the increase in exports from China to the United States, enhanced by trade liberalisation, has forced increasing competition not only in the US market but also in Mexico, a situation which may cause greater pressure for the Mexican exports. This problem is discussed by Wei (2019) who points out that Mexico's reluctance and distrust towards China have to do with the displacement of industrial goods exports to the US market. Mexican exports are displaced by Chinese manufactures and this causes tensions due to the transfer of companies to China and job losses in Mexico.

Montoya et al. (2019) suggest central aspects that do not allow a more balanced relationship between Mexico and China, not only commercially, but also politically. The authors point out that in the case of Mexico, a core variable is the geopolitical interest of the United States on Mexican territory mainly due to the historical interrelation between both countries and a 3,000 km border that facilitates commercial and socio-cultural exchange. According to the authors, currently, Mexico continues to be an area of influence of the United States.

Bernal-Meza (2016) considers that there are structural factors that enhance a relationship of increasing dependence between Latin American countries and China. The author points out that the centre–periphery scheme shows how China is replacing Latin American manufactured exports in third markets bringing greater dependence on the driving core economies. This dependence scheme may be applied to the relationship between Mexico and China as there is a direct competition of both countries in the US market.

This argument is reinforced in the work of Gélvez and Gachúz (2020) who point out that China's economic and political motivations in Latin America indicate that the cooperative relationship has been changing from a South–South to a North–South framework and this is mainly due to the evolution of China from a developing country to a global emerging power.

González et al. (2015a, 2015b) consider that the Mexico–China relationship must be understood in a certain sense, under a “triangular” approach. This approach considers the Mexico–United States relations, the China–United States relations, and Mexico–China relations, all these interactions have an interrelated impact. This argument is relevant for our analysis as the impact of the trade war in Mexico is the result of a triangular scheme where the three economies are interrelated.

The second analytical trend: wrong management of Mexico’s trade policy suggests that Mexico’s trade policies and lack of institutional support of exports to China are obstacles for a better understanding of both countries and enhance asymmetrical trade terms in the bilateral relationship.

From the domestic perspective, and taking into account the policies implemented in Mexico in the last two governments, Hearn (2015) considers that the problem in the asymmetry of the Mexico–China relationship should not focus only on the competition with China, but on various domestic factors in Mexico that include wrong management of economic policies in the export sector that promote development above all of a small group of elite firms that are assisted and promoted to export to China and other countries.

Chen and Goodman (2019) argue that there are additional problems to characterise the Mexico–China trade relationship more comprehensively. According to the authors, public opinion in both countries is a relevant indicator that explains the mutual lack of knowledge of the parties. The authors cite for example an investigation of The Chinese Academy of Social Sciences that shows that a quarter of the population in China does not know that Mexico is a Latin American country. The authors argue that in general, there is a lack of interest on the part of the media and academia in each country to close this gap of mutual ignorance.

Cornejo (2019) points out that the structural problem in the Mexico–China bilateral relationship has to do with the existing asymmetries in the two countries. Although in China there are large investments in science, technology, and development, in Mexico, these areas lag behind compared with China.

Manríquez and Tzili (2015) argue that the problem of the China–Mexico bilateral relationship goes beyond the commercial imbalance. There are also internal factors in the organisation and decision-making in Mexico where there have been situations that show a lack of knowledge about the economic, political, and cultural context of China, which influence the appointment of officials and diplomats with little or no knowledge or experience in some important representations in China.

González et al. (2015a) make a differentiation of the several stages through which the Mexico–China relationship has passed. Fluctuations and changes have been reported, including different perspectives and differences in the political plane. The authors, however, argue that (in the contemporary stage of the relationship), a relaunch of the relationship is necessary, where bilateral distancing, differences, project cancellations, etc., should be left behind and a new Mexican national strategy towards China should be developed and implemented.

Dussel (2016) points out that an additional problem in the bilateral relationship is the lack of a medium- and long-term strategy with China, even with the exponential increase in trade between the two countries and the participation of Mexico in various important

forums in Asia. It was only with the National Development Plan 2013–2018 that the Mexican government proposed action lines with specific objectives for China and India. The problem remains in the current Mexico's six-year term National Development Plan (2019–2024) since it mentions trade policy with the United States but disregards trade diversification and the need to assess and re-evaluate the relationship with China (Plan Nacional de Desarrollo 2019–2024).

Tzili (2018) argues that there are structural problems in Mexico that need to be solved to increase competitiveness on a global stage. These include moving up global value chains and increase public investment in education, science, and technology.

The third analytical trend indicates that there is still a wrong perception of threat from Mexico regarding China's exports and trade. Niu (2015) underlines that there is a perception of a "Chinese threat" or "Chinese imperialism" in the China–Latin America relationship and this is associated with issues that have to do with concerns about environmental matters and job losses. According to the author, it is logical to assume that this type of perception exists when there is a growing commercial relationship with a country the size of China.

Myers and Wise (2016) point out that other factors influence the impression of mistrust between Mexico and China and this has to do with Mexico's trade policy in international trade forums, especially in the World Trade Organization, where Mexico has led campaigns against China's anti-dumping policies, which directly influences the perception of the Chinese government and companies about Mexico.

Dell et al. (2019) emphasise that the asymmetry in the China–Mexico relationship also has impacts on the social dynamics in Mexico and perception of social threat level also affects the bilateral relationship and enhances mistrust. The authors point out that the job losses in the Mexican manufacturing sector induced by competition with China increase cocaine trafficking and violence, particularly in regions with international drug trafficking networks.

The different analytical trends stated above are relevant for the analysis and understanding of Mexico's current trade relationship with China in the context of the United States–China trade war. Our contribution, however, has a focus on the triangular trade exchange scheme Mexico–China–United States and the impact that the USMCA has on this relationship.

Mexico's Trade with China: Current Trends

Exports from Mexico to China have increased steadily. Figure 1 shows the export trend in the last ten years, going from USD 2,207 million in 2009 and reaching USD 7,136 million in 2019. In 2015, there was a marked decrease in exports from USD 5,964 million to USD 4,873 million. In 2020, even with the coronavirus disease 2019 (COVID-19) crisis Mexico exported products to the Chinese market worth USD 7,203 million.

Mexican exports to China by product show a pattern of incipient diversification. In Table 1, we can see that exports of raw materials (metallic minerals, mineral fuels, mineral oils, and products of their distillation) continue to be important but there are

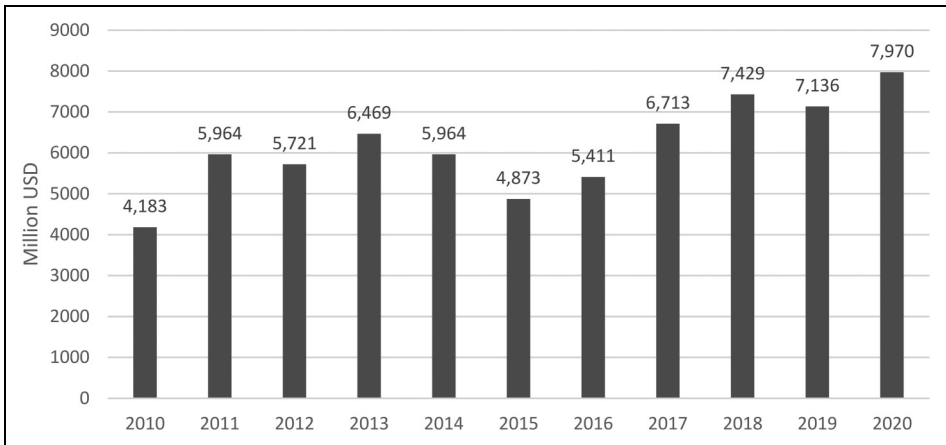


Figure 1. Mexico's Exports to China (2010–2020) (Million USD).

Source: Own elaboration with data from Secretaría de Economía (2020a, 2020b), OEC: The Observatory of Economic Complexity (2020) and United States Trade Representative (2020).

other groups of products that are considerably increasing their participation, for example, machines, electrical material and their parts, automobiles, tractors, auto parts, and accessories. Others, such as instruments and appliances for optics, photography, medical–surgical, etc., are also increasing their participation considerably. This pattern shows that Mexican exports may have the potential to further diversify and increase their market share in China.

Even with this incipient diversification and total growth of exports, there is a universe of products with significant export potential in Mexico that still do not receive the support and attention of the Mexican government and Mexican companies to enter the Chinese market. The Mexican ambassador to China points out in this regard that

We have to somehow undertake strategies to promote a greater share of Mexican exports to China [...] We are talking about fruits, vegetables, juices, meat, seafood and fish, alcoholic beverages, but also construction materials, chemical products, synthetic fibers, plastics, leather and skins, electrical and electronic components, mining and others. (Lozano, 2020)

The Secretary of Economy, Graciela Márquez, has also highlighted the opportunities that the country has for investments of Chinese origin and points out the role of the petrochemical industry as another sector that has potential for new investments

Mexico is fertile territory for Chinese capital [...] the ratification of the T-MEC reactivates that interest. But it is not only in terms of exports but also in the Mexican market itself [...] the petrochemical industry may be of interest to Chinese investors. (Lozano, 2020)

Table I. Main Mexico's Exports to China by Product (2011–2019) (Percentage of the Total).

Products	2011	2012	2013	2014	2015	2016	2017	2018	2019
Fish and crustaceans, molluscs and other invertebrates	0.7	0.3	0.3	0.1	0.1	0.1	0.3	0.9	2.3
Metalliferous minerals, slags and ashes	26	30.9	28.1	24.1	22.9	26.3	27.9	33.5	39.1
Machines, and metallic artifacts and parts	2.7	4.9	3.8	4.0	7.5	8.5	6.0	7.3	6.6
Machines, apparatus and electrical material and their parts	5.8	14.0	10.3	7.4	9.5	14.0	17.1	10.1	9.5
Automobiles, tractors, sppedes; parts & accesories	14.9	16.3	24.9	36.5	29.3	21.6	18.5	21.1	18.7
Instruments and appliances for optics, photography, medical surgical	0.6	1.2	1.1	1.2	1.9	1.9	1.7	1.6	2.7

Sources: Own elaboration with data from Secretaría de Economía (2020), OEC: The Observatory of Economic Complexity (2020) and United States Trade Representative (2020).

Ley and Suárez (2020) consider that another relevant issue that may represent an obstacle to the exports to China from Latin America is the issue of tariff and non-tariff that may apply to certain products. It is, therefore, imperative to determine

which tariff and nontariff measures will apply to the product upon entering the Chinese market, and whether the import is possible. Acquire tariff-related information based on the respective tariff item number and country of origin. Nontariff requirements may include necessary certifications and modes of transport allowed for imports. (Ley and Suárez, 2020: 5)

The sustained growth of Mexican exports to China is not enough yet to achieve a key role in the Chinese imports market. Mexico currently occupies thirty-first place among the main suppliers of exports to China. This represents 0.6 per cent of the total (Morales, 2019). From the perspective of Mexico, the picture is very different as China represents its second trading partner, only after the United States.

In a complex context of the trade war and the COVID-19 crisis, world exports to China could be affected sharply in 2021. Preliminary studies by United Nations Conference on Trade and Development indicate that “world exports to China could collapse by up to 46% in 2020. This reduction may end up impacting economies that export energy products, minerals, and grains to the Asian giant” (USLA, 2020). This situation represents a difficult outlook for Mexico in its attempt to increase its participation in the Chinese market.

China's Exports to Mexico

Exports from China to Mexico have also grown steadily in the last ten years and have significantly diversified but exports of manufacturing products stand out. Table 2 shows that machines, apparatus, and electrical material and their parts are the most important export products from China to Mexico. Compared with the Mexican exports to China, however, the amount and growth rate of Chinese exports to Mexico is much higher.

In 2019, the commercial exchange between Mexico and China reached a value of USD 100 billion. However, there is a wide disparity between Chinese and Mexican exports. The value of Chinese exports to Mexico in that year reached USD 93 billion while Mexico exported products to the Chinese market worth USD 7,136 million.

As a result of the enormous asymmetry in the amount of exports from both countries, Mexico's trade balance with China reports a huge deficit. In Figure 2, we can see how the deficit has increased since 2010 and that it is mainly attributed to the exponential growth of Chinese exports to Mexico.

There is one factor that may influence partially this outcome: some imports from China to Mexico are being re-exported to the US market (Tzili, 2018: 89). Mendoza Cota (2018) suggests also that Mexico's deficit with China may be the result of a growing triangular intra industry.

There are several recommendations that Mexico could implement in terms of trade policy, probably one of the most important is to identify supply chains in China and

Table 2. Main China's Exports to Mexico by Product (2011–2019) (Percentage of the Total).

Product	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Plastic and its manufactures	2.2	2.1	2.3	2.3	2.4	2.5	2.5	2.8	2.7	2.9
machines and metallic artifacts; and parts	23.3	23.7	23.9	23.5	22.9	22.3	22.9	21.5	22.1	22.7
Machines, apparatus and electrical material and their parts	47.7	44.4	43.5	43.5	42.5	41.2	41.9	41.1	40.7	37.9
Automobiles, tractors, sppedes; parts & accessories	1.8	1.9	2.3	2.5	3.0	3.3	3.1	4.1	4.6	4.9
Instruments and appliances for optics, photography; medical surgical	4.5	4.4	3.6	4.9	3.8	4.1	4.6	4.2	3.5	4.4
Toys, games and articles for recreation or sports	2.9	2.5	2.3	2.2	2.2	2.1	2.0	2.1	1.9	2.0

Source: Own elaboration with data from Secretaría de Economía (2020), OEC: The Observatory of Economic Complexity (2020), United States Trade Representative (2020), and CECHIMEX (2020).

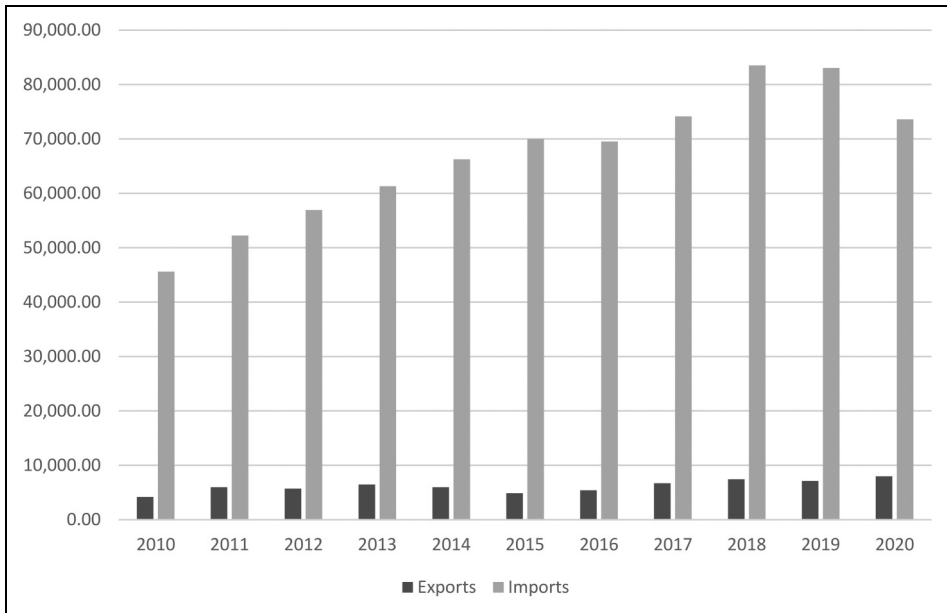


Figure 2. Mexico's Trade Balance with China (2010–2019) (Million USD).

Source: Own elaboration based on data from INEGI (2020) and Secretaría de Economía (2020a, 2020b).

the United States and enter into new schemes of triangulation as a supplier. To do so, several sectors offer new opportunities for manufacturing countries such as Mexico. Based on an analysis of official Chinese documents, Ley and Suárez (2020) consider that ten particular sectors of interest stand out as opportunities:

next-generation information technology, high-end controlled machine tools, and robots, aerospace, and aviation equipment, ocean engineering equipment and high-end vessels, high-end rail transportation equipment, energy-saving cars and new energy cars, electrical equipment, farming machines, new materials, bio-medicine, and high-end medical equipment. (p. 5)

Identification of new supply chains and potential triangulation schemes Mexico–United States–China may bring new opportunities for the Mexican manufacturing sector and may help to reduce the trade deficit that the country has with China.

Mexico's Trade With the United States: Current Trends

Mexico's trade with the United States shows not only a deep integration but also a marked dependence on Mexican exports to the United States. According to data from the United States Trade Representative (2020), trade with Mexico totalled an estimated

USD 614.5 billion in 2019. Mexican exports totalled USD 358.1 billion and the US imports were USD 256.4 billion; the Mexico–United States trade accounted for 14.8 per cent of total US international trade and Mexico had a 101.7 billion trade surplus (United States Trade Representative, 2020).

There is, however, an important issue in analysing Mexico's trade surplus with the United States: intra-firm trade or re-exports. In regional trade exchanges, it is a common situation for goods to be shipped through regional hubs without further processing before final shipment to their ultimate destination. Intra-firm trade is present constantly in the bilateral trade of Mexico and the United States. Additionally, a large part of Mexico's exports come from US companies established in Mexico that take advantage of low labour cost production and low labour cost in Mexico and subsequently carry out re-exports to the United States, all as part of the same trade flow within a company.

The increase in bilateral trade has exponentially grown, particularly since the signing of the North American Free Trade Agreement (NAFTA). US exports to Mexico are up 53 per cent from 1993 (pre-NAFTA) (United States Trade Representative, 2020). Mexican exports to the United States have also diversified significantly.

Currently, the most important exports are based on the manufacturing sector. The top import categories in 2019 are as follows: vehicles (USD 93 billion), electrical machinery (USD 64 billion), machinery (USD 63 billion), and optical and medical instruments (USD 15 billion). With the signing of the USMCA, there were some changes concerning rules of origin and provisions in some sectors to avoid other countries to take advantage of the agreement (Burfisher et al., 2019: 4).

The role of the automotive industry in the industrial development of Mexico and the growth of Mexican exports is highly relevant. In 2018, Mexico ranked as the sixth-largest producer of vehicles worldwide, only behind China, the United States, Japan, India, and Germany, and has surpassed other leading countries in the sector such as South Korea, Brazil, Spain, France, Thailand, Canada, Russia, and the United Kingdom. Mainly due to its integration with the North American market forecasts indicate that the country may still climb positions in the list of the main vehicle producing and exporting countries worldwide (Gachúz and Montes, 2020).

Exports of vehicles (11 per cent of total Mexican exports), auto parts (6.7 per cent), and commercial vehicles (6.4 per cent) already far exceed crude oil exports that historically represented Mexico's main export item. The automotive industry has come to transform the structure of Mexico's trade balance with new export products and has introduced greater dynamism into the economy as a whole (Gachúz and Montes, 2020).

Agricultural exports also continue to be relevant, in 2018 they totalled USD 26 billion. Currently, Mexico is the main exporter of agricultural goods to the United States. Leading categories include fresh vegetables (USD 5.9 billion), and other fresh fruits (USD 5.8 billion).

US Exports to Mexico

Exports from the United States to Mexico have also recorded a sharp growth. In 2019, they reached USD 256.4 billion. US exports to Mexico are up 538 per cent from 1993

(pre-NAFTA). US exports to Mexico also accounted for 15.9 per cent of overall US exports in 2018 (United States Trade Representative, 2020). US exports to Mexico are diverse and that the top export categories in 2020 are machinery (USD 46 billion), electrical machinery (USD 43 billion), mineral fuels (USD 35 billion), vehicles (USD 22 billion), and plastics (USD 18 billion). Agricultural exports from the United States to Mexico are also diversified and have increased substantially in recent years. The exports of agricultural products to Mexico totalled USD 20 billion in 2020. Leading domestic export categories include: corn (USD 3.1 billion), soybeans (USD 1.8 billion), dairy products (USD 1.4 billion), pork and pork products (USD 1.3 billion), and beef and beef products (USD 1.1 billion) (United States Trade Representative, 2020).

As a result of the rapid growth of Mexican exports to the United States, Mexico’s trade surplus with its northern neighbour has increased sharply in recent years. Figure 3 shows the bilateral trade balance.

The US trade deficit with Mexico reached USD 101.7 billion in 2019. The huge trade deficit of the United States was one of the main reasons for the government of Donald Trump to promote a renegotiation of NAFTA and to establish a new trade regulation in North America with the new USMCA and the T-MEC. During the signing of the USMCA Trump called NAFTA “one of the worst trade deals” in history and he added, “Today we are finally ending the NAFTA nightmare” (Swanson and Tankersley, 2020). However, Trump’s point of view on the outcome of NAFTA in the last twenty-five years underestimates the role of intra-firm trade from US companies in Mexico. As stated by the United States Trade Representative (2020):

the international shipment of non-U.S. goods through the United States can make standard measures of bilateral trade balances potentially misleading. For example, it is common for goods to be shipped through regional trade hubs without further processing before final shipment to their ultimate destination. This can be seen in data reported by the United States’ two largest trading partners, Canada and Mexico.

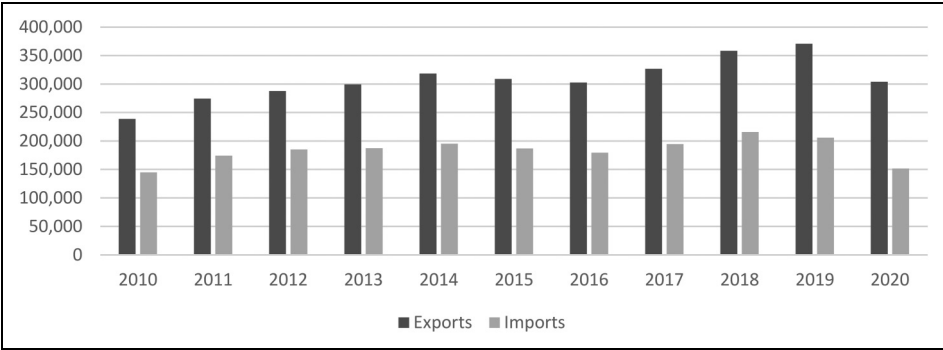


Figure 3. Mexico–United States Trade Balance (2010–2020) (Million USD).
 Source: Own elaboration based on Secretaría de Economía (2020a, 2020b) and CECHIMEX (2020).

Foreign direct investment (FDI) is also an important indicator that shows how the Mexican and the US economies are deeply integrated. The US FDI in Mexico reached USD 114.9 billion in 2018, a 4.7 per cent increase from 2017. US direct investment in Mexico is led by manufacturing, non-bank holding companies, and finance and insurance. Mexican investment in the United States also has started to grow significantly (although concentrated by Mexican multinational companies) (United States Trade Representative, 2020).

China's Trade with the United States

China's commercial exchange with the United States has grown steadily in the last ten years. Exports show a wide range of areas in which the Chinese catalogue of products has expanded in the US market mainly due to their competitive advantages in terms of cost and quality. A significant amount of these imports originates from US manufacturers who send raw materials to China for low-cost assembly and then ship them back. Intra-firm trade and re-exports of goods in these technical terms are considered imports. US goods and services trade with China totalled an estimated USD 634.8 billion in 2019. Exports were USD 163.0 billion; imports were USD 471.8 billion. The US goods and services trade deficit with China was USD 308.8 billion in 2019, even with intra-firm and re-exports, the US trade deficit with China represents a structural problem and as we see later, it was one of the main reasons to implement an increase of tariffs to Chinese exports by the government of Donald Trump (United States Trade Representative, 2020).

In Table 3, we can see that China's exports to the United States in the last ten years include a wide range of products in the industrial sector, mainly machines, equipment, and electrical equipment and their parts. The trend in exports 2010–2019 shows rapid growth and a tendency towards diversification.

In 2019, China was the United States' largest supplier of goods imports. US imports from China totalled USD 451.7 billion in 2019, down 16.2 per cent (USD 87.6 billion) from 2018, but up 52.4 per cent from 2009. The decrease in imports from China in 2019 is mainly due to the increase of tariffs to China. However, even with that trend, US goods imports from China accounted for 18.1 per cent of overall US goods imports in 2019 (United States Trade Representative, 2020).

Chinese exports to the US market are diversified, but the main import categories in 2019 were: electrical machinery (USD 125 billion); machinery (USD 92 billion); furniture and bedding (USD 27 billion); toys and sports equipment (USD 25 billion); and plastics (USD 18 billion). The agricultural sector is also an important source of US imports from China. In 2019, they totalled USD 3.6 billion, making China the United States' sixth-largest supplier of agricultural imports. The main agricultural imports are the following: processed fruit and vegetables (USD 787 million); snack foods (USD 172 million); spices (USD 170 million); fresh vegetables (USD 136 million); and tea, including herbal tea (USD 131 million) (United States Trade Representative, 2020).

Table 3. Main China's Exports to the United States by Product (2011–2019) (Million USD).

Product	2011	2012	2013	2014	2015	2016	2017	2018	2019
Plastics and its manufactures	9,464	11,585	12,169	12,746	14,050	13,466	15,768	18,385	17,093
Machines and metallic artifacts; and parts	82,032	85,922	86,588	90,796	84,388	79,535	91,429	102,785	86,464
Machines, equipment, and electrical equipment and their parts	67,979	77,443	82,747	92,063	95,502	93,341	107,119	119,418	106,141
Automobiles, tractors, sppedes; parts & accessories	8,529	9,682	10,452	12,335	13,238	13,927	15,135	18,057	14,297
Instruments and appliances for optics, photography; medical surgical	7,269	8,586	8,619	9,373	9,915	9,881	9,659	10,538	9,766
Furniture, medical-surgical furniture; bedding items; lighting fixtures, etc.	17,518	21,031	23,039	24,125	29,097	27,976	27.14	33,263	27,533
Toys, games and articles for recreation or sports	12,339	12,189	12,890	13,195	15,157	15,011	27.14	19,396	19,050

Source: Own elaboration based on Secretaría de Economía (2020), CECHIMEX (2020) and United States Trade Representative (2020).

US Exports to China

Exports from the United States to China also have recorded a rapid increase. China was the United States' third largest goods export market in 2019. US goods exports to China in 2019 were USD 106.4 billion, down 11.5 per cent (or USD 13.8 billion) from 2018. This figure is also mainly due to the increased tariffs from China on US exports. Nonetheless, US exports to China accounted for 6 per cent of overall US exports in 2019. The main exports in 2019 were: electrical machinery (USD 14 billion); machinery (USD 13 billion); aircraft (USD 10 billion); optical and medical instruments (USD 9.7 billion); and vehicles (USD 9.1 billion) (United States Trade Representative, 2020).

In Table 4, we can see the main US export products to China. Of the total exported, value-added exports such as industrial manufactures, electrical machinery components of the automotive sector, and the aeronautical industry stand out.

The agricultural sector is also important for US exports to China. In 2019, they totalled USD 14 billion. China is currently the United States' third largest agricultural export market. Some of the main agricultural exports are the following: soybeans (USD 8 billion); pork and pork products (USD 1.3 billion); cotton (USD 706 million); tree nuts (USD 606 million); and hides and skins (USD 412 million) (United States Trade Representative, 2020).

US exports of services to China were an estimated USD 56.5 billion in 2019, 0.9 per cent (or USD 523 million) less than in 2018. Leading services exports from the United States to China were in the travel, intellectual property (industrial processes and trademarks), and transport sectors (United States Trade Representative, 2020).

In summary, the US goods and services trade deficit with China was USD 308.8 billion in 2019. In Figure 4, we can observe that in the last ten years the deficit has grown sharply. This is mainly due to the exponential growth of the Chinese exports to the United States.

Investment in both countries has been growing in recent years. US FDI in China (stock) was USD 116.2 billion in 2019, a 6.3 per cent increase from 2018. It is led by manufacturing, wholesale trade, and finance and insurance. With a similar pattern, China's FDI in the United States (stock) was USD 37.7 billion in 2019, up 12.3 per cent from 2018. China's FDI in the United States is led by wholesale trade, manufacturing, and depository institutions (United States Trade Representative, 2020).

Mexico in the Context of the United States–China Trade war

During the administration of Barack Obama, there were several clashes concerning trade policy between the United States and China. Those clashes were the prelude of containment trade policies by the United States to curb the growth of its trade deficit. The design and planning of the Trans-Pacific Partnership Agreement (TPP) and Obama's Pivot to Asia implied the implementation of a series of economic and geopolitical measures that showed a new facet in the foreign policy of the United States with respect to

Table 4. Main United States Exports to China by Product (2011–2019) (Million USD).

Product	2011	2012	2013	2014	2015	2016	2017	2018	2019
Seeds and oleaginous fruits, miscellaneous seeds and fruits, industrial plants, straws and forage	12,895	15,695	13,743	16,809	13,034	14,420	14,580	7,685	7,198
Plastic and its manufactures	6,679	6,332	6,329	6,802	6,295	6,080	6,976	7,083	6,245
Nuclear reactors, cladding, machines and metallic artifacts; and parts	15,556	14,654	15,476	16,751	15,806	14,536	16,522	18,322	17,361
Machines, equipment and electrical equipment and their parts	13,898	14,305	22,832	21,548	19,866	16,721	17,589	19,780	20,228
Automobiles, tractors, speeds; parts & accessories	6,663	8,153	10,751	14,166	13,198	13,968	15,089	12,641	10,683
Aircraft, space vehicles and their parts	5,492	7,590	13,579	15,516	17,622	13,236	14,860	16,508	7,128
Instruments and appliances for optics, photography; medical surgical	8,324	10,062	11,104	11,384	11,322	11,108	11,779	13,189	12,349

Source: Own elaboration based on Secretaría de Economía (2020), CECHIMEX (2020), and United States Trade Representative (2020).

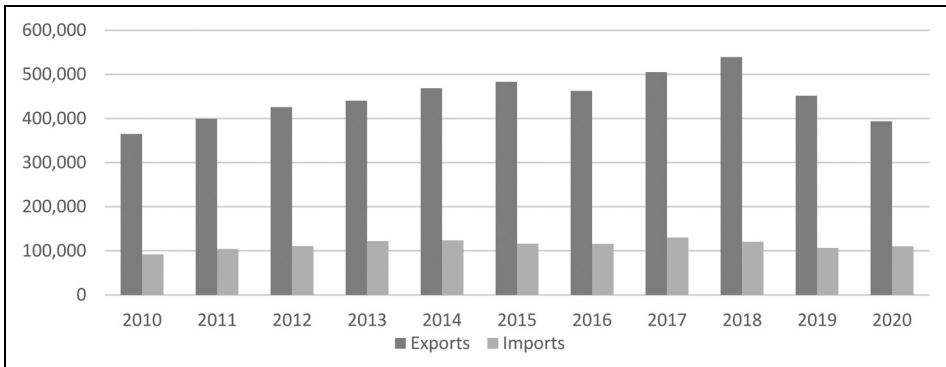


Figure 4. China Exports and Imports to the United States (2010–2020) (Million USD).

Source: CECHIMEX (2020); Secretaria de Economía (2020a, 2020b) and United States Census Bureau (2020a, 2020b).

China. When the TPP was finalised in 2015, Obama said “TPP allows America – and not countries like China – to write the rules of the road in the 21st century” (Ford, 2017).

In his election campaign for the presidency, Donald Trump made it clear that his intention was to intensify the containment policy towards China. In February 2018, Trump announced that the United States would increase tariffs on steel and aluminium imports from some specific countries. In March of the same year, the intentions were realised and increases of 25 per cent in steel imports and 10 per cent in aluminium imports were announced, including Chinese imports. In response, the Chinese government also announced an increase in tariffs on the same products. Subsequently, the Trump administration announced the imposition of tariffs of 25 per cent on USD 50 billion of imports from China that were classified as goods or merchandise with unfair trade practices.

The trade war escalated when the US administration introduced additional tariffs in September 2018 to cover USD 200 billion of Chinese imports, to which China retaliated by imposing tariffs on imports from the United States worth an additional USD 60 billion. Although these tariffs were initially due to rise from 10 per cent to 25 per cent in January 2019, in early December 2018, the parties agreed to a truce to stop any other increase in tariffs. This truce was held until June 2019 when the United States went ahead with the plan of increasing tariffs from 10 per cent to 25 per cent. China then responded by raising the tariffs on US exports to China (most of them already with raised tariffs). The trade war further escalated in September 2019 when the United States imposed 15 per cent tariffs on most of the Chinese products (USD 300 billion) that were not covered yet with increased tariffs. Beijing hit back with tariffs ranging from 5 per cent to 25 per cent on US goods covering more than USD 60 billion of US exports (Timmons, 2020).

Finally, On 13 December 2019, Trump announced a trade deal between the United States and China. It was signed on 15 January 2020. The pact (phase 1, 2020–2021) is intended to open Chinese markets to more American companies, increase farm and

energy exports and increase protection of intellectual property. China has committed to buy an additional USD 200 billion worth of US goods and services by 2021 and is expected to ease some of the tariffs it has placed on US products (Swanson and Rapoport, 2020).

Tensions have arisen in 2020 over a wide range of issues, mainly the origins and strategy to contain the COVID-19 pandemic, but also other topics such as China's new national security law for Hong Kong, sanctions by the United States against Chinese companies for the violation of human rights in Xinjiang, and finally the possible restriction of Chinese apps in the United States (Tik Tok and WeChat) for national security reasons (Harper, 2020). Recently, the Trump administration also penalised Chinese academics and closed Beijing's consulate in Houston. Beijing has responded by closing the US consulate in Chengdu and sanctioning some members of the US Congress (Shalal et al. 2020).

The US trade deficit with China reached USD 315.1 billion in 2012 and rose to USD 367.3 billion by 2015 before dropping to USD 346.8 billion the next year. By 2018, it had increased to USD 419.5 billion, before falling to USD 345.6 billion in 2019. The decrease of the trade deficit in 2019 shows clearly how trade war has had an impact on the bilateral trade between the United States and China. As the tariffs on Chinese exports to the US market have increased, the Chinese exports to the United States have been reducing rapidly.

The United States–China Economic and Trade Agreement entered into force on 14 February 2020, however, uncertainty continues as the rules are still unclear and trade diversion may occur (Chowdhry and Felbermayr, 2020: 6).

The effects of the trade war have impacted also third countries, including Mexico. The generalised increase in tariffs for Chinese exports has had a progressive tendency for US companies to seek alternatives in other countries to buy manufactures and raw materials that previously came from China. According to recent analyses, Mexico is a beneficiary since it is a natural destination for US companies to import inputs and manufactures and this could have a direct impact on its gross domestic product growth (Posma, 2020). It has been also argued that the pandemics could severely affect China as the world's leading manufacturer (Rapoza, 2020).

The COVID-19 pandemic crisis is an additional issue that will impact on the performance of the economies of the United States and China. Some studies indicate that China could be even more affected than the United States, even though it seems the opposite. US companies are looking for alternatives to replace exports from China and the COVID-19 outbreak is further promoting this displacement of Chinese exports. Vladimir Signorelli, head of Bretton Woods Research, a macro investment research firm states in that sense that

The new coronavirus Covid-19 will end up being the final curtain on China's nearly 30-year role as the world's leading manufacturer [...] China's economy is getting hit much harder by the coronavirus outbreak than markets currently recognize. Wall Street appeared to be the last to realize this last week. (Rapoza, 2020)

US multinational companies are not the only ones who can seek different manufacturing destinations to adapt to the new conditions of the trade war. Companies from China (and other countries) could also benefit from the competitive advantages of Mexico as an exporting country. According to Webber (2019)

Asian companies could also use Mexico as an export platform to reach the US. Even if they do not comply with the rules of origin required to be able to export duty-free under NAFTA, Chinese companies exporting out of Mexico would pay significantly lower tariffs than the punitive 25 per cent they would face when exporting from China.

There are also other advantages of Mexico as an exporting country that are related to geographical and logistics factors, this helps to improve the positioning of Mexico as a new alternative to export to the United States. Posma (2020) argues,

Mexico's favorable geographic location next to the world's largest market and access to both the Atlantic and Pacific enables the country to trade with the entire world within short time-frames and at competitive costs. Mexico has an 80 per cent logistics time advantage and a 75 per cent logistics cost advantage over China when shipping to the US.

Other sources agree that the outcome of the United States' trade war with China will bring positive results for Mexico, especially with the new trend of US companies to dramatically reduce their imports from China and to replace them with imports from other countries. Mexico could benefit with more than USD 26,000 million from exports diverted from China to Mexico (BBC, 2019).

In 2019, the forecasts finally were fulfilled and for the first time in history, Mexico surpassed China in trade with the United States, reaching a historic exchange of USD 614 billion covering imports and exports in 2019. The amount exceeds by 9.95 per cent the commercial flow between China and the United States (United States Trade Representative, 2020).

The benefits of Mexico with the United States–China trade war, however, may not last long. Without a government strategy to take advantage of the external context and to promote the development of the export sector, the benefits could be only temporary (Makichuk, 2020).

On the part of the US government, there is still uncertainty about the López Obrador government and its strategy to attract FDI. The US ambassador to Mexico, Christopher Landau, has expressed concern about the possibility that Mexico may miss the opportunity that opens what he considered a “little rebalancing” in terms of exports (Carreño, 2020).

The mistrust and uncertainty of international markets due to a lack of strategy to attract FDI is an important factor to consider for companies seeking to replace imports from China in Mexico. Gantz (2020) considers in this sense that Mexico could implement a better foreign investment policy.

The López Obrador government also faces criticism for its alignment with Trump's government policies. A strong alignment with the Trump government is observed in recent trade agreements signed by Mexico that include a series of commitments that guarantee the irrevocable participation of Mexico in the commercial strategy of the United States. The USMCA, for example, implies important risks in terms of sovereignty and greater dependence, especially in reference to clause 32.10. Cafruny (2020) considers in this sense that "Canada and Mexico are effectively prohibited from signing bilateral agreements with 'non-market' economies."

Additionally, the USMCA has other implications in specific areas, while it opens opportunities in some sectors such as digital commerce, it is more restrictive and implies much more protectionist measures, especially with the implementation of even stricter rules of origin. This situation could bring additional problems especially with Chinese investments in Mexico in the automotive sector: "USMCA, while opening the possibility of further regional integration in areas such as digital commerce, is more restrictive than NAFTA in other sectors, such as the automotive sector" (Aguirre et al., 2020).

Additionally, the USMCA has other implications in specific sectors. Although it opens opportunities in some sectors such as digital commerce, it is more restrictive and implies much more protectionist measures, especially with the implementation of even stricter rules of origin than in NAFTA. This could bring additional problems especially with Chinese investments in Mexico in the automotive sector.

Dussel (2018) considers that the USMCA, due to its implications in trade policy in future agreements, becomes de facto "an anti-China regional bloc," the first of these characteristics at the international level and consistent with Trump's geostrategic vision.

The new USMCA scheme does not provide a framework for equitable trade terms, but rather accentuates economic disparities between members and further accentuates the dependence of Mexico and Canada on the United States. Ciuriak (2019) points out in this regard that "We have moved from an agreement aimed at North American integration [...] to a hub-and-spoke relationship between client states and a regional hegemon."

Leiroz (2020) agrees that Mexico is taking part in the trade war and perhaps this does not represent an advantage for Mexico in the long term: "Mexico is not abdicating its relations with China to develop its economy through protectionist policies, but it is adhering to American protectionism and taking sides in a trade war in which it should not participate."

It is important to mention that not all the indicators of the trade war will bring benefits to Mexico, for instance, the devaluation of the Mexican peso and the reduction of income generated by oil imports: "The trade war between the two nations devalued the Mexican peso by 3.7%" (Infobae, 2019).

Furthermore, Mexico must take important measures to ensure that the benefits in the short term from the trade war can be reflected on the expansion of Mexican exports with products of greater added value and more diversification. As argued by Montaña (2019), "Mexico should give its products added value, either through technological or price differentiation, so that this growth is sustainable."

Conclusions

In 2019, Mexico was the largest trading partner with the United States USD 614.5 billion in total. That year the US goods trade deficit with Mexico was USD 101.4 billion. The context of the trade war and the US trade policies to increase tariffs to Chinese exports may partly explain the increase of Mexican exports to the United States and the displacement of China as the United States second largest trade partner.

In April 2020, however, China once again displaced Mexico as the main trading partner of the United States. The main reason has been attributed to the lack of dynamism in bilateral trade between the US and Mexico in the context of the COVID-19 pandemic and the economic crisis in the United States (Roberts, 2020). This shift in the international trade of the United States (even when it has been influenced by exogenous factors) shows how the benefits of the trade war for Mexico are temporary. It also shows the vulnerability of the Mexican export market and the urgent need for a medium- and long-term strategy to face the growing trade deficit with China.

The empirical findings of this article show that two structural problems in Mexico's foreign policy have been reinforced by the implementation of the USMCA: lack of complementarity of the Mexico–China trade, and Mexico's high dependency on the US market. In this context, the challenges for Mexico are numerous. The new triangular commercial exchange of the USMCA implies the increase of dependency on the US market and hinders trade relationship with China in the medium and long term. This could have serious repercussions on the growing Mexican trade deficit with China and may bring more complications to enhance exports to China. The government of López Obrador should re-evaluate the possible effects of clause 32.10 and the alignment of the trade policy with the United States, even in the context of the implementation of the USMCA. In the last ten years, Mexican exports to the United States are on average 80 per cent of total Mexican exports. This high concentration of exports fuels vulnerability to economic disruptions in the United States and also generates uncertainty in international markets outside North America.

An additional structural problem of the productive sector in Mexico is the lack of added value in Mexican exports. This is a problem that has persisted since the beginning of the manufacturing industry in the country. Mexico has not succeeded in developing an innovation centre and continues to rely on static comparative advantages such as low cost of labour and proximity to the US market. This model of industrial development is not sustainable in the long term.

Another current challenge for Mexico is the lack of diversification of FDI, which reports a high dependence on the United States and although there are significant exceptions, investment in Mexico, in terms of its origin, is still highly concentrated on North America. The inability to withstand the effects of a hostile environment in terms of economic competition is the result of the lack of diversification and vulnerability of the Mexican economy. Modifying this trend is one of the main challenges for Mexico. A more diversified FDI would reduce vulnerability and dependence on investments in the productive sector. In this sense, China's FDI in Mexico

opens up new horizons for the development of the export sector. FDI from China should be encouraged through government policies aimed at increasing the competitiveness of the industrial sector in Mexico. Additionally, Mexico should promote and enhance the creation of joint ventures between companies from China and Mexico in industrial sectors that require additional incentives to achieve growth.

There are also some opportunities for Mexico in the context of a trade war. Due to the very high rules of origin in some sectors, some companies are considering to set in Mexico and comply with USMCA regulations. The effect of reshoring of American and Canadian companies from China to Mexico is a tendency that could increase in the medium and long term.

The recently announced investment in Section 1 of the *Mayan Train project* by Mota-Engil México in agreement with China Communications Construction Company Ltd, Grupo Cosh S.A. de C.V. Eyasa, S. de R.L de C.V, and Gavil Ingeniería S.A. (Infobae, 2020) proves that Chinese capitals are looking for alliance opportunities in Mexico that could be strengthened under a government strategy aimed at sectors that require FDI and technology transfer. Additionally, in November 2020, The Metro Collective Transportation System (STC) awarded the Chinese company CRRC Zhuzhou Locomotive a service provision contract for nineteen years for the comprehensive modernisation of Line 1 for USD 1,500 million (De la Rosa, 2020).

Another area that has great potential for Chinese investment in Mexico is the automotive sector. Mexico has positioned itself as the sixth-largest producer of vehicles worldwide and although investment in this area is concentrated on companies from the United States, Europe, and Japan, China's investment in the automotive sector offers a whole range of possibilities to enhance the development of the sector. The expansion of the Chinese automotive industry in Mexico encourages competition with other multinational companies and contributes to the existence of greater availability of models, brands, and price segments in the Mexican automotive market. China's FDI in the automotive industry in Mexico could increase the production capacity of the sector in Mexico and boost the sector's exports. Mexico has become one of the main manufacturing centres for the production, export, and sales of vehicles at an international level, even though the country does not have domestic automotive brands of mass production and the industry depends on the presence and performance of multinational companies (Gachúz and Montes, 2020).


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