

Chapter 2

Sino-Mexican Economic and Trade Relations

Abstract Firstly, this chapter reviews Sino-Mexican trade and economic relations since the mid-16th century, that can be divided into four stages. The first stage is before the normalization of diplomatic relations between Mexico and the PRC, the second stage ends before China becomes a member of the WTO, the third stage is from the start of China's WTO entry to the world financial crisis in 2008, and finally, the last stage is from then on to the present. We also consider the challenges China brings to Mexico in the biggest Mexican foreign market—the U.S. market. Secondly, we present some potential challenges in the economic cooperation between China and Mexico. We illustrate the internal obstacles in China, including concerns on the quality of Chinese made products, responsibility of Chinese companies in protecting the environment, Chinese investment in sensitive sectors and worries about China's recent economic down turn, etc., which may hinder China's investment in Mexico. Finally, we summarize the contributions of the book and provide some policy suggestions.

Keywords Sino-Mexican • Trade relations • Challenges • Cooperation • Internal and external factors

2.1 Four Stages of Development

The development of Sino-Mexican trade relations can be divided into four stages. The first stage is before 1973. Commerce between China and Mexico was opened up by the Spanish in the mid-16th century. The Spanish merchant's conveyance (Manila Galleons) reached the Philippines in the east. Over there, they exchanged gemstone and silver that they exploited from Mexico and South America with Chinese silk and porcelain; then, they shipped the goods back to Acapulco, Mexico (Duiker and Spielvogel 2009). Chinese immigrants first arrived in 1875 as contract workers, constructing the railway connecting Mexico City and El Paso. Some of them stayed in Mexico after finishing their work. The first trade agreement between China and Mexico was signed on December 14, 1899, by the ambassador of the

Qing government in the U.S., Mr. Wu Tingfang, and the Ambassador of Mexico in the U.S., Mr. Asbilos, signing the *Treaty of Amity and Commerce* (Zhang 1992). According to the *Archivo General de la Administración*, in 1904, there were only 8000 Chinese inhabitants living in Mexico; in the 1930s, it increased to 40,000.

After the founding of the PRC in 1949, the Republic of China (Taiwan) maintained its foreign relations with Mexico until the beginning of the 1970s. Then, Luis Echeverría, President of Mexico (1970–1976), shifted foreign policy by enhancing relations with “third world” countries. On February 14, 1972, China and Mexico established diplomatic relations. The first Mexican Ambassador to China, Eugenio Anguiano Roch, presented the credentials on Aug. 5th, 1972, to the PRC’s Chairman, Mao Zedong, and officially established foreign relations.¹ In 1973, Mexico officially abrogated its foreign relations with Taiwan; since then, it has recognized that there is only one China, namely, the PRC. There are several reasons for the normalization of relations between China and Mexico. First, China was near the end of the “Cultural Revolution;” as such, all neglected matters had yet to be dealt with. Second, China had been politically and economically restrained by the U.S. and its allies due to the Korean war; it needed to get rid of diplomatic and economic isolation by improving its foreign relations with other countries. Third, and most importantly, the leaders of both countries sensed the importance of improving bilateral ties. Last, but not the least, the U.S. and China saw opportunities to improve their relations after the worsening of relations between China and the Union of Soviet Socialist Republics (USSR), further allowing Mexico and China with an opportunity to improve their relations.

After the establishment of foreign relations, the trade relations between the two countries advanced rapidly. The trade volume increased from 13 million U.S. dollars in 1972 to 2350 million in 1991. Moreover, Mexico’s deficit with China increased rapidly. According to the WTO (2008), every dollar Mexico earned from China is equivalent to \$16.97 earned from the U.S. in 2008. Further, the structures of the export products between China and Mexico are quite different. Mexico’s exports are mainly concentrated in metallic ores at primary processing stages (36.78%), boilers, and machinery, while China’s exports are much more diversified in intermediate and final consumer goods.

2.2 Transitional Agreement on Trade Regimes

The rise in Chinese exports threatened the domestic-import-competing sectors in Mexico, hardened by the combined impact of the peso overvaluation and Mexico’s trade liberalization after the ISI policy. Between 1993 and 1994, Mexico initiated

¹From the interview of Professor Eugenio Anguiano Roch in *Centro Investigación y Docencia Economía* (CIDE), who is the former ambassador of Mexico to China during the periods of 1973–1978 and 1985–1990.

AD investigation on a wide range of Chinese products covering almost 3000 items and every tariff heading, such as footwear, textiles, garments, hand tools, and toys.

Such measures had two effects: the decreased imports from China helped to lighten the trade imbalance, so as to mitigate the macroeconomic imbalance and protect the domestic manufacturing industries. At the time, China had neither GATT membership nor market-economy status, which made the initiation of AD investigation on China easier. Some Chinese imports were charged with AD duties as high as 1.105% (such as on shirts). There were several causes for such a phenomenon. First, Chinese manufacturers seldom responded to callings for AD investigations from Mexico. Second, as China was not yet a member of the WTO, the “best information available” provided by Mexican manufacturers was used to calculate the dumping margin, which encouraged the use of AD as an administrative trade remedy measure.

Mexico was the last country to accept China’s WTO accession; Annex 7 of China’s Protocol of Accession in 2001 requires that all measures incompatible with WTO principles be “eliminated gradually or treated in accordance with the conditions and terms mutually agreed.” After six years following China’s accession, such measures should be eliminated by Mexico. As a result, Mexico’s WTO representative announced that Mexico would initiate a review on the measures that conflicted with WTO obligations, as China’s WTO status was fully justified. However, domestic manufacturers opposed such an action.

During the following six years, Mexican manufacturers failed to adjust for the competition from Chinese imports. The Mexican government sought to renegotiate with Chinese counterparts for an extension of adjustment, and signed the *Transitional Agreement on Trade Remedies* on December 11, 2008, which allowed AD protection to remain on 204 designated sensitive goods for another four years. In exchange, Mexico offered to eliminate over half of its measures, accounting for 953 tariff lines.

In 2006, the trade volume between China and Mexico reached 9.29 billion U.S. dollars; by then, China had become Mexico’s second largest trade partner. Moreover, Mexico turned out to be the largest export destination of China in Central and South America. Mexican exports to China were centralized into three categories: (1) ores, slag, and ash, such as copper, lead, and zinc; (2) refined copper and alloys, unwrought; and (3) parts of nuclear reactors, boilers, and machinery. The above mentioned categories account for almost 40% of Mexico’s exports to China.

The cumulative Chinese FDI in Mexico amounted for 73 billion U.S. dollars from 1999 to 2008, according to the Mexican Ministry of Economy (or 0.4% of the total FDI Mexico received), which is seven times as much as Mexico’s investment in China. In addition, Chinese investment in Mexico concentrated in the manufacturing sectors, such as automobile parts and electronics chains; conversely, Mexico’s FDI in China mainly focused on food production.

2.3 Role of the U.S. in Sino-Mexican Trade Relations

The U.S. is Mexico's major export destination; Mexican exports to the U.S. reached nearly 90% of its total exports in several years, including 1999, 2000, 2003, and 2004. As such, China can be neglected when comparing its exports to the U.S. Among all of Mexico's exports to the world, China accounts for no more than 1%. Nevertheless, Mexican exports to China, as a share of its total exports, are growing. In fact, from 1996 to 2010, Mexico's exports to China grew nearly 7 times larger.

Relatively speaking, Mexico's imports are more diversified than its exports. And Mexico is decreasing its import share from the U.S., while its import share from other countries is increasing. Among these countries, China's participation has increased considerably, from 0.85% in 1996 to 15.13% in 2010. Meanwhile, the U.S.'s share dropped from 75.67% in 1996 to 48.25% in 2010.

Mexico has had trade deficits vis-à-vis the world. Since 1997, China has been a major contributor to its trade deficit. The Sino-Mexican trade imbalance represents 59.3% of Mexico's total trade deficit during 1996–2010. By 2010, its trade deficit with China was even higher than the total Mexican trade deficit with the rest of the world, calculated in nominal dollar terms. To put it into another way, Mexico's total trade deficit increased by 1.6 times from 1997 to 2010, when its trade deficit with China grew by 37 times. Further, by 2010, the volume of Mexico's trade imbalance with China was 1.3 times as much as its trade imbalance with the rest of the world. Such imbalance was partly compensated by the constant trade surplus that Mexico had vis-à-vis the U.S.

For China, the U.S. is much more important as a trade partner than Mexico. China's export share to the U.S. fluctuated between 17 and 22% of its total exports from 1998 to 2006. Chinese exports to Mexico as a percentage of its total exports is small, though it increased from 0.15% of the total exports in 1996 to 1.13% in 2010.

After 2004, the Chinese trade surplus increased rapidly; from 1996 to 2004, it fluctuated between 20 and 30 billion U.S. dollars, and the volume in 2008 tripled that of 2004. Since 1996, the Chinese annual trade surplus with both the U.S. and Mexico has continued to increase, but the trend was ended by the financial crisis in 2008. This indicates that the financial crisis had both huge consequences on China's economic growth.

The share of U.S. exports to Mexico is much larger than that to China. In 1996, the volume of U.S.'s exports to Mexico was five times as much as its exports to China, which indicates that Mexico is a more important market for the U.S., despite China's economic size being much larger. In 2010, its export share to Mexico almost doubled that to China. Nevertheless, the former share started to decline after 2004, while the latter share has been increasing. From 1996 to 2010, U.S. exports to China increased from 1.92 to 7.19% of its total sales to the world. Its export share to Mexico increased from 9.11% in 1996 to 14.07% in 2002, and started to decline after that.

The U.S. share of imports from China was lower than that from Mexico before 2002. However, it increased greatly during the last 15 years. In 2010, 19.47% of U.S. imports were from China, which tripled that in 1996 (6.65%). The share of U.S. imports from Mexico fluctuated between 9 and 12% during the same period. Since 2001, the growth rate of Chinese exports to the U.S. surpassed that of Mexico; Chinese annual average growth rate increased to 23%, as opposed to 8.7% for Mexico. Further, in the middle of 2003, China replaced Mexico as the biggest supplier to the U.S. market.

The U.S. has huge trade deficits with both China and Mexico, but the former was almost three to four times larger than the latter. Due to the financial crisis in 2008, the U.S. trade deficit with the world dropped by almost 37% from 2008 to 2010, however, its trade deficit with China and Mexico only declined by 17 and 26% respectively.

An important phenomenon is that large volumes of Chinese exports to Mexico are re-exported to the U.S., after some simple repackaging or assembling. Table 2.1 illustrates the value added China exports to the U.S. via Mexico, due to NAFTA and also the global production chain. This is an important issue, which is closely related to one of our main research results—Mexico's AD on intermediate imports is lower than on consumption goods from China, which will be examined in detail in Chap. 5.

Table 2.1 Chinese exports to the U.S. via Mexico (millions of USD)

Year	Value added from China embodied in Mexico's exports to the world	Value added from China embodied in Mexico's exports to the U.S.	Mexico's EX (U.S./total) (%)
2000	585.516	516.172	88.16
2001	227.176	195.6033	86.10
2002	272.541	233.906	85.82
2003	707.779	621.039	87.74
2004	1493.642	1323.228	88.59
2005	1895.812	1521.740	80.27
2006	2626.970	2120.773	80.73
2007	3089.948	2651.866	85.82
2008	3533.071	2998.380	84.87
2009	3307.439	2718.116	82.18
2010	4966.722	3976.955	80.07
2011	5886.498	4629.305	78.64

Note The data is calculated according to the value-added tracing method developed by Wang et al. (2014)

2.4 Challenges and Policy Suggestions for Sino-Mexican Relations

2.4.1 Challenges on the Mexican Side

Trade protection is still a major challenge in Sino-Mexican economic relations. Given that all countries are on a global value chain (GVC), protectionism is harmful for the AD target countries, as well as the manufacturing sectors of the initiating countries. In order to strengthen Sino-Mexican trade relations in the future, it is important to understand how this challenge is created and look for the potential opportunities to tackle this challenge.

AD is the most frequently used administered protection measure in Mexico, although Mexico granted all countries, including China, voluntary MFN treatment, regardless of WTO membership. To the general public, AD gives a sense of justice, making it easy to implement. AD may also avoid placing the blame on domestic firms for a lack of competitiveness. Compared to safeguard (SG), AD is subject to fewer stringent conditions, and the threshold of implementing AD is much lower than that of SG. Further, it is not necessary to compensate for the affected export country after implementation, since the targets of AD practices are companies, while the targets of SG practices are countries.

There are still difficulties in deepening Sino-Mexico economic relations: first, Mexico has close ties with the U.S. and Canada via the NAFTA, and there is a high level of opposition through curious bureaucratic and industrial interests; second, unfavorable images are introduced on television and by politicians, in addition to a wide distrust amongst people in Mexico against China. However, things are improving. According to the Latin American Public Opinions Project, 47% of Mexican participants in a survey considered China's rise a threat in 2006. This dropped to 32% in 2008, probably due to the impacts of the Beijing Olympic Games. Third, physical distance, language barriers and cultural unfamiliarity pose big problems. Thus, lowering transaction costs and increasing language and cultural familiarity will improve trust and encourage both FDI and trade.

In addition, due to the connectedness of the global value chain, the two countries can further advance their cooperation. First, expanding the imports of intermediate and capital goods from China will increase the competitiveness of Mexico's manufactured products in both the domestic and foreign markets, since Chinese exports of manufacturing inputs are an important element in the international supply chain. Our research results show that AD initiations on intermediate and capital goods will inevitably increase the production costs of Mexico's domestic manufacturers. Second, Mexico has the advantage of geographical nearness to the U.S. market and advantage of low wages. Thus, it is wise for Mexico to take advantage of the rising labor costs in China, and to receive those investments that are pursuing alternative destinations for assembly, whose final products are bounded for the U.S., especially in the labor-intensive sectors such as automobiles and clothing. We suggest that Mexico cut the red tape further and strengthen reforms

that foster competition, improving the business environment and building infrastructure. Third, it is time for Mexico to abandon its single-market strategy and diversify its export destinations; this surely will be helpful, particularly under economic crises and slowdowns in the U.S.

2.4.2 Challenges on the Chinese Side

On the Chinese side, the main challenges are, but not limited to, the cooling down of China's economic growth, the product quality of Chinese consumer goods, the responsibility of Chinese companies in protecting the environment, and Chinese investment in sensitive sectors, etc.

Economic "Cooling Down" China's GDP growth rate was 6.9% in 2015. The Chinese government acknowledged the slow growth of the economy which could be attributed to its attempt to shift the economic system away from reliance on investment and exports. China's economic downturn might affect Mexico through a decrease in demand, via primarily a decrease in the price of essential export goods. Mexico's trade deficit with China is already very high; moreover, China and Mexico are competing directly and intensively in some sectors, such as automobile parts and computers. The two countries are at almost the same stages of development with similar industrial structures. Further, Chinese businessmen are usually unfamiliar with Mexican business styles, and unfamiliar with Latin American culture. Due to the surge of Chinese exports to Latin America since 2000, there are insufficient Portuguese and Spanish speakers in China. At the present, the trade volume between China and Mexico is roughly 50 billion USD per year, or about the same level of that between China and France.

Product Quality There seems to be common concern about the poor quality of Chinese made food, clothes and shoes, and piracy or counterfeiting is also an issue. In particular, the enforcement of food safety standards in China is a big concern, like the case of expired meat being supplied to fast food chains across the country. Given China's new role as an exporter of food products, there is increased global attention on cases of food safety scandals such as the case of melamine milk scandal in 2008. Building credibility in the minds of the consumers is probably the most daunting task that the government in China and Chinese businesses have to face both domestically and overseas.

Investment Trust There have been cases of suspicions over projects and investments, especially those related to infrastructure between China and its Latin American counterparts. These suspicions have led to the cancellation of some major agreements; a recent case being the annulment of the China Railway Construction Corporation agreement by the Mexican government, for construction of the high speed rail between Queretaro and Mexico City. According to a publication in the newspaper *Jornada*, the fall-through of this huge project has led many top executives to believe that the Chinese government intends to rethink its strategies on all its investments activities in Mexico. Various reasons contributed to the cancellation

of the project including questions on the purpose of China's investments, negative views towards China's responsibility on the local environment, especially from resource industries such as mining and agriculture, worries about China's presence in the consumer goods markets and expanding influence in the region in general, etc. The in-pouring of Chinese goods makes locals feel a sort of "take over" of Mexico's toy, textile, shoes, office supplies and other consumer goods industry (Hearn 2012: 125–126, 132). The management style of Chinese firms also gives locals a sense of secrecy, given that most of Chinese FDI in Mexico is done by SOEs.

Sustainable investment Chinese companies generally comply with Mexican environmental laws, though they display varied environmental performance and labor conditions. Various Chinese industries have started drawing their own environmental and social rules; especially in sensitive sectors of the economy like transportation, construction, water resources and so on. For instance, the Environmental Impact Assessment (EIA) regulation that took effect in 2003, helped to tackle key issues of the social and environmental impacts of economic activities.

China's state-controlled enterprises form the main drivers of Chinese investments abroad. Chinese regulatory body has created guidelines to help investment projects facilitate sustainable development in the host countries, in terms of their social and environmental impacts and foster healthy collaborations. The authorized structural settings for social safeguards and environmental protection in the financial sector are enhanced essentially through the Green Credit Guidelines released by the China Banking Regulatory Commission in 2012. These demand that Chinese banking institutions ensure that their international projects adhere to international standards, provide assistance to a low-carbon and recycling ecological system, prevent ecological and social dangers in environmental protection, human resettlement, safety, energy consumption, air pollution, land, overall health, and climate change.

Cooperation in currency swap Our research later in Chap. 5 shows that the peak of AD actions from Mexico is related to economic cyclical, when the exchange rates fluctuate often. It might be a good option for both countries to establish a currency swap system when facing fluctuations of other currencies, especially the U.S. dollar, through which further confrontation in trade can be avoided.

Language and culture exchange Realizing the significance of culture familiarity and language, Mexico developed a plan to finance master and doctoral students for internships in China, studying the Chinese language and researching technology transfer, as well as bilateral trade opportunities. In 2007, the Autonomous National University of Mexico announced an identical plan, as did the Tecnológico of Monterrey with state-level financing. In Tijuana and Mexicali, Baja California state government operates via regional Chinese associations to reduce language and culture barriers as well as to encourage trade. The Chinese side also sets up Confucius Institutes to teach Chinese language and culture.

Sino-Mexican bilateral institutions In the near future, both countries can join forces in setting up bilateral institutions, along the lines of the board of the executive office proposed by Peters (2009). The goal is for it to function as a medium of

information exchange, conduct analysis as well as write proposals for the government. Trade and financial subjects would be the focus, along with others such as international politics, culture, science, R&D cooperation, sports, tourism, labor and migration issues, sectoral and even “inter-sectoral” issues.

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