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# Economic Liberalization and Trade Relations between Mexico and China

Roberto HERNÁNDEZ HERNÁNDEZ

**Abstract:** This paper analyses the commercial relationship between Mexico and China in the context of the liberalization policies enacted by both countries. The policies were developed in the framework of economic globalization and worldwide strategic military power, starting from the end of the Cold War. Against this backdrop, the paper analyses the current trade relations between China and Mexico. The text emphasizes the public policy of both countries, presenting similarities and asymmetries along with the results of their commercial policies and specific business practices.

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**Keywords:** China, Mexico, liberalization, foreign trade

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## Introduction

During the 1980s, Mexico and China almost simultaneously began to implement policies of economic liberalization and open trade. These phenomena occurred not by chance, but rather as a result of the following two factors: changes in the international economic system and in the socio-economic structures of each country; the perspectives of their leaders, rooted in ideology and based on domestic political conditions.

Since last December, trade relations between Mexico and China have entered a new phase. Countervailing duties imposed by Mexico in 2001 on a large number of Chinese products have expired; from now on the operating rules of the World Trade Organization (WTO) are fully in effect, which implies that commercial disputes between Mexico and China will be raised and resolved in multilateral dialogues, particularly within this organization.

What are the main reasons for trade disputes between Mexico and China? What are the implications that these disagreements have had for the Mexican industrial and commercial sectors? How are decision-makers in both countries attempting to resolve these disputes? To answer these questions, I take into account hard data and factual arguments, using the theoretical perspective of International Political Economy (IPE) to form in-depth explanations, since IPE takes into account a number of disciplinary perspectives, mainly international relations, politics, and economics (Dent 2007: 26). Also in keeping with the IPE perspective, the document references crucial elements of Public Choice Theory and New International Division of Labour (NIDL).

It should be noted that although for methodological reasons this paper focuses on trade disputes between Mexico and China, we must not forget that there are many areas of cooperation and political understanding between the two countries that are mostly manifested in multilateral international bodies, including the United Nations. At the time of writing (February 2012), the fortieth anniversary of the establishment of Mexico's diplomatic relations with the People's Republic of China is being commemorated, and news from both countries highlights the good relations they have enjoyed since then. Those responsible for diplomacy in China and Mexico have often emphasized cooperative activities between both countries. They have also mentioned the convergence of their foreign policy principles as well as the various visits, statements and good wishes by their respective heads of state that have occurred.

The document<sup>1</sup> is divided into four sections. The first presents an overview of the economic liberalization policies undertaken by Mexico and China since the 1980s in order to give a background of both countries' trade policies. The second and third sections review the two countries' foreign trade policies. The section after that deals with the central theme of the paper, trade between Mexico and China, including subtopics such as both countries' trade with the United States; the competitiveness of Mexican and Chinese economies; and Mexico–China dialogue on trade issues. The conclusion summarizes the main points.

## Chinese and Mexican Openness and Foreign Trade: Similarities and Differences

Since the 1980s, Mexico and China have been implementing extensive economic liberalization policies that are quite similar in essence but possess very different characteristics. Although both countries have employed protectionist and liberalization policies in their contemporary histories, they began their opening processes because of historical, political, economic and social asymmetries. Also, the future prospects of the nations and the objectives of their leaders were very different. Thus, “Mexico’s globalization strategy came straight out of the Washington Consensus handbook [...] and China took a more gradual, government-managed approach to globalization” (Gallagher 2008).

The result is that today

Mexico’s economy is clearly not complementary to that of China, and indeed from a standing start they would have to be seen as being in direct competition, and in many ways similarly structured. Whereas Mexico has sought to develop domestic industries through interaction with the external market in North America, China has done the same in East Asia. Mexico established the system of *maquiladoras* for multinationals and companies from the US to take advantage of cheaper Mexican labour and less corporate regulation often accompanied by a more profitable tax and financial environment. China established (relatively) large-scale Special Economic Zones (SEZs), and then Export Processing Zones (EPZs) in major cities to import technology and to produce goods for export in much the same way as the *maquiladoras* operated. Costs of production are clearly an important determinant of

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1 The author is grateful to Lorena Velázquez for her support in updating statistical information.

the Mexico–China trade pattern and their competition. According to most estimates, labour is on average approximately three times more expensive in Mexico than in China, with higher ratios experienced in some sectors (Carrillo, Chen, and Goodman 2011).

Beijing began its process of political and economic opening in 1971 with Nixon's visit to China. The obvious reason for China's rapprochement with the US was to further the strategy of establishing a new global geo-political balance (especially China–US–USSR). The effects on the economic field were almost immediate. The modernization led by Zhou Enlai and Deng Xiaoping promoted contacts with Western countries, resulting in a strong acceleration of trade in the early 1970s. At this stage, emphasis was placed on the importation of industrial plants and modern equipment. Trade more than doubled between 1970 and 1975, reaching 13.9 billion USD in 1975. Growth in this period was approximately 9 per cent a year. As a proportion of GNP, trade grew from 1.7 per cent in 1970 to 3.9 per cent in 1975. In 1976 the atmosphere of uncertainty resulting from the death of Mao and pressure from the Gang of Four, whose members opposed reliance on foreign technology, brought another decline in trade (Kuang, Li, and Meng 2005: 119–120). After this brief period of political uncertainty, in the late 1970s China resumed its pace of modernization through economic liberalization and foreign trade. As Jiang (2008: 30) stated, China embarked on a process of economic liberalization more than a decade before the collapse of the Berlin Wall. As market forces began to play an increasingly important role in China's economic development, and as the country integrated into the global economy, the living standards of the Chinese people began to rise. China clearly understood that its economic liberalization programme depended on a peaceful and stable international environment in the post-Cold War era, in turn recognizing the need to adjust its foreign policy toward that end.

Reforms began in China in the agricultural sector, reversing the process of collectivization during the Maoist era. Later, reforms were extended to the liberalization of prices, following the process of fiscal decentralization. As part of the reforms, more independence was granted to business enterprises owned by state government. This led to the creation of various types of privately held enterprises within the service and manufacturing sectors. The banking system was also diversified, and Chinese stock markets started to develop and grow as economic reforms in China took hold.

There is a consensus that market liberalization in China has brought about both economic growth and economic polarization between social classes and between rural and urban areas. However, China is currently the world's second-largest economy, only after the United States. During the past 30 years, growth rates averaged approximately 10 per cent. In 2011 China became the world's top manufacturer, surpassing the United States. Concomitantly, China is the largest exporter and second-largest importer of goods in the world. In 2011, the country's Gross Domestic Product (GDP) (measured in terms of Purchase Power Parity, PPP) was 11.3 trillion USD, and GDP per capita (in PPP) was 8,400 USD (Central Intelligence Agency 2012).

Meanwhile, Mexico since the 1980s has alternately served as a model of market-oriented economic restructuring and a cautionary tale of the limitations associated with a market-led development strategy. It was a leader in the process of structural adjustment and economic reform that swept Latin America. The change in policy came in response to the 1982 debt crisis and the apparent "exhaustion" of the import-substitution industrialization model; successive Mexican governments shifted away from state-led, essentially inward-oriented development policies. They embraced a "new" economic model. Reformers liberalized trade, deregulated foreign direct investment (FDI) and financial markets, and aggressively privatized state-owned enterprises. The pace and breadth of the reform process made Mexico a paradigm for economic liberalization (Middlebrook and Zepeda 2003: 3).

As a result of the economic liberalization, Mexico emerged as an important exporter of manufactured goods. This, however, did not translate into economic growth; instead, the expansion of trade and foreign investment significantly increased the Mexican economy's vulnerability to external shocks. Questions have been raised about whether the country is capable of achieving sustained growth and equitable socio-economic development while employing its current economic liberalization strategy.

Facing openness and liberalization, the results have been different for Mexico and China. One of the most striking differences is the growth in GDP. According to World Bank data, while China achieved an annual average growth of about 9 per cent in the 30 years between 1981 and 2010, the corresponding increase in Mexico was 3.2 per cent. This feature is evident in Table 1, which covers the ten years from 2001 to 2010. Other important indicators that explain the differences in the be-

haviour of China’s and Mexico’s GDP are the Gross Capital Formation (which in the case of China was 80 per cent higher than Mexico’s in the decade from 2001 to 2010) and growth in FDI. Total reserves are also significant.

Table 1: Main Economic Indicators of China and Mexico (2001–2010)

	China					
	2001–2005	2006	2007	2008	2009	2010
GDP (in billion USD at current value)	1,722	2,713	3,499	4,521	4,991	5,879
GDP (annual growth %)	9.6	12.7	14.2	9.6	9.2	10.3
GDP per capita (in current USD)	1,334	2,069	2,651	3,414	3,749	4,393
Gross national income per capita PPP (in current international dollar)	3,258	4,790	5,610	6,250	6,860	7,570
Gross capital formation (% GDP)	40	43	42	44	48	
Total reserves (incl. gold, current USD) (in billion USD)	4,776	1,080.7	1,546.3	1,966.0	2,452.9	
FDI, net inflows (BoP, in billion USD at current value)	54.938	78.095	138.413	147.791	78.193	
	Mexico					
	2001–2005	2006	2007	2008	2009	2010
GDP (in billion USD at current value)	716	952	1,036	1,096	0,883	1,040
GDP (annual growth %)	1.4	5.2	3.3	1.5	-6.1	5.5
GDP per capita (in current USD)	7,077	9,137	9,840	10,307	8,217	9,580
Gross national income per capita PPP (in current international dollar)	10,620	13,510	14,410	15,120	14,200	15,010
Gross capital formation (% GDP)	23	26	26	27	22	
Total reserves (incl. gold) (in billion USD at current value)	58.6	76.3	87.2	95.3	99.9	
FDI, net inflows (BoP, in billion USD at current value)	23.243	20.103	29.083	24.913	14.462	

Source: World Bank 2011; UNCTAD 2011.

This highly asymmetrical economic structure between China and Mexico is the result of large differences in the strategies implemented by both countries' policies of liberalization and economic openness. Moreover, differences in political system, economic structure, and the national objectives of the two countries' leaders have led to different outcomes and constitute the background of current trade disputes between China and Mexico. The policies implemented by China were based on a heightened nationalism with the clearly defined goal of becoming a great power. Thus, its foreign economic relations have been steered toward that end.

Mexico, after unilaterally opening externally with poor results, has sought to protect its domestic economy from external forces. In recent years, given the situation of the international economic system, Mexico has responded with immobility in decision-making. The bureaucracy, businessmen and other interest groups (like the unions) have hindered the definition of future strategies of structural change. The liberalization process in sectors such as petrochemicals, electricity, the labour system, along with the overall reforms of the public sector, has been stopped. The overall deregulation has created significant monopolistic structures in sectors such as telecommunications and finance. The investment in technological development, productivity spill-overs and human capital formation has been insufficient. The way that the manufacturing export-oriented sector has been linked with the external economy has not led to the expansion of production chains to the rest of domestic productive sectors, in particular hindering small and medium enterprises (SMEs). A further aspect that has delayed the development of SMEs is the lack of financial resources for productive activities and high interest rate provided by the financial system (Dussel Peters 2009).

In this context, Mexico's trade relations with China have become a delicate balance between the defence of its productive power and the fulfilment of international commitments.

Particularly from the Mexican perspective there is quite [a bit of] hostility to the impact of China's economic growth under the reform programme of the last three decades. As a medium-sized manufacturing economy from the early 1990s on, Mexico [...] felt itself to be in direct competition with China [not only] for market share, but also for access to FDI and the attention of those multinational corporations [that] had previously operated in Mexico but were now following cheaper labour costs to China (Carrillo, Chen, and Goodman 2011).



On the other hand, an important commonality between the socio-economic situations of Mexico and China is the great polarization in family income. The policy of economic growth at any cost that was established by China's leaders created economic disparity, reflected in the Gini coefficient. According to the *UN Human Development Report* in 2010, China's Gini coefficient was 46.9 and Mexico's was 51.6. (A value of 0 represents absolute equality and a value of 100 represents absolute inequalities.)

## China's Foreign Trade

China's relations with the outside world have gone through long periods of opening and closing. The first 30 years of the current regime have been characterized by little or no relationship with the West, but from the late 1970s onward, an opening has characterized China's relations with the world.

In this context, China's foreign trade has dramatically changed the country's relationships with its trading partners, as a product of both internal political conditions and its relationship with the international system. In the first ten years of the socialist regime, approximately 70 per cent of trade was made with the Soviet Bloc. After the conflict with the USSR, China conducted its foreign trade through Hong Kong and began to increase its trade relations with Western Europe, Japan and Australia. During this period,

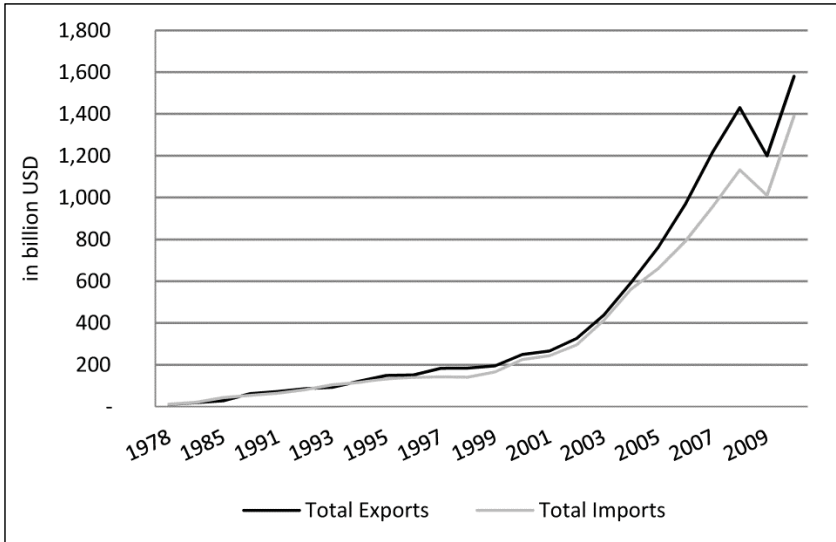
its share of world trade fell and it was cut off from foreign investment. Resources were allocated by government directives and regulation. Market forces played a negligible role. Hence, there were inefficiencies in the production process (as witnessed by the massive investment in inventories) and neglect of consumer welfare (Maddison 2007: 18).

However, over the last 20 years China has emerged as a major force in international trade, particularly in manufactured goods. Its huge markets, vast supply of low-cost labour, and growing manufacturing competence have attracted large amounts of foreign investment that have led to dramatic increases in China's exports and imports. In turn, these increases have resulted in major changes in global trade volumes and patterns (Lenz 2003).

In the last 30 years, China's foreign trade growth has been very impressive. From 1980 to 2010 it rose from 38.1 billion to 3 trillion USD, and in the past ten years averaged an annual surplus of 133 billion USD.

China’s 2010 foreign trade level of 2.97 trillion USD, was one third more than it was 2009, which had decreased from 2008 because of the global economic crisis. In 2010 Chinese exports grew by 31.1 per cent while imports increased by 38.7 per cent. The overall growth is estimated to be 34.7 per cent (Figure 1).

Figure 1: China’s Foreign Trade, 1978–2010



Source: National Bureau of Statistics, various years; *Xinhua* 2009, 2010.

China is currently the world’s largest exporter and second-largest importer of goods, with its top six trade partners (US, Japan, Hong Kong, South Korea, Taiwan, Germany) accounting for over 50 per cent of the country’s international trade. In 2010, the European Union remained China’s largest trade partner, with EU–China trade up 31.8 per cent from the year before to 479.7 billion USD. Trade with the United States rose 29.2 per cent in the same period to 385.3 billion USD, while China–Japan trade jumped 30.2 per cent during the same period to 297.8 billion USD. Trade between China and the Association of Southeast Asian Nations (ASEAN) surged 37.5 per cent to 292.8 billion USD once the free trade area between the two regions came into effect on 1 January 2010. China’s Ministry of Commerce (MOC) recently stated that foreign trade last year was

better than expected. The strong growth in foreign trade was due to the recovery in global demand, government efforts to maintain export growth and the low comparison basis of 2009 (*Xinhua* 2011).

The change in China’s production structure is reflected in its foreign trade. China’s trade expansion has been achieved almost totally in manufactured goods; 88.6 per cent of the goods it exported in 2001 were manufactures, up from 71.4 per cent in 1990 (Lenz 2003). In 2008, as shown in the table below, 94.5 per cent of its exports were manufactured goods, and only 5.5 per cent were commodities. Regarding imports, 68 per cent were manufactured goods and the remaining 32 per cent, primary commodities.

**Table 2: Total Value of Imports and Exports in China, 2004–2008 (in billion USD)**

	2004	2005	2006	2007	2008
Total value of imports and exports	1,154.6	1,421.9	1,760.4	2,173.7	2,563.3
Total exports	593.3	762.0	968.9	1,217.8	1,430.7
Primary goods	40.6	49.0	52.9	61.5	78.0
Manufactured goods	552.8	712.9	916.0	1,156.3	1,352.7
Total imports	561.2	660.0	791.5	956.0	1,132.6
Primary goods	117.3	147.7	187.1	243.1	362.4
Manufactured goods	444.0	512.2	604.3	712.9	770.2
Balance	32.1	102.0	177.5	261.8	298.1

Source: National Bureau of Statistics 2009.

On the other hand, the direction of trade has changed significantly. China has become an increasingly important partner for other Asian countries. Now China is working as a production platform for the final assembly process in the context of regional and global markets characterized by increasing importance in the exchange of intermediate industrial goods. Thereby, parts, technology and design come from abroad (including Europe and US). Once converted into consumer goods, the products are exported to the international markets. Thus, the deficit in China’s trade balance with Asia is more than offset by the surplus achieved throughout its trade relations with developed and developing countries,

including Mexico. The top export and import partners reported by official sources are shown in Table 3.

Table 3: China's Top Export and Import Destinations, 2009 (in billion USD)

Rank	Exports			Imports		
	Country	Value	%	Country	Value	%
1	United States	220.8	18.4	Japan	130.9	13.0
2	Hong Kong	166.2	13.9	South Korea	102.6	10.2
3	Japan	97.9	8.1	Taiwan	85.7	8.4
4	South Korea	53.7	8.1	United States	77.4	7.7
5	Germany	49.9	4.5	Germany	55.8	5.5
6	Netherlands	36.7	3.1	Australia	39.4	3.9
7	United Kingdom	31.3	2.6	Malaysia	32.3	3.2
8	Singapore	30.1	2.5	Brazil	28.3	2.8
9	India	29.7	2.5	Thailand	24.9	2.4
10	Australia	20.6	1.7	SaudiArabia	23.6	2.3

Source: US-China Business Council 2011.

It should be noted that this table does not show Mexico as one of the main destinations of Chinese exports. However, according to statistics from Mexico, in 2009 it ranked seventh as a destination for Chinese exports, above the United Kingdom, Singapore, India and Australia, as shown later in Table 13.

As confirmed by *People's Daily* (2011), the European Union, the United States and Japan remained China's three largest trading partners in 2010. The import and export volume of private enterprises surged faster than the country's average in 2010, with 47 per cent growth up from the previous year. Experts say China's foreign trade development reduced dependence on foreign-funded enterprises. In 2010 imports and exports reached a historical high, a strong sign that the country's trade sector has shrugged off the global economic recession.

Although China's integration into the global economy has led to global world trade, there is no doubt that some regions and countries are taking extra advantage of the opening of the Chinese market. The countries that benefit from the expansion of trade in China include exporters of capital, technology, raw materials and natural resources. Countries

that have specialized in labour-intensive exports similar to those of China will have to make significant adjustments to compete with China in the international market.

In the configuration of China's structure, FDI has been very important. Such FDI has been the product of reforms adopted by national, regional and local authorities implemented in the context of the overall openness of the economy driven by the political regime (Prasad 2004: 1). Thus, according to official data, FDI investment in China averaged 70.4 billion USD over the past ten years (from 2001 to 2010).

The political conditions that need to be met for FDI to be given in the form and the levels we now know were established starting in the late seventies by the group in power led by Deng Xiaoping. During the 1980s, FDI inflows grew steadily but remained relatively low, confined largely to joint ventures with Chinese state-owned enterprises. After the Tiananmen Square Massacre in 1989, Western and Japanese companies withheld investment in China, but the momentum was nevertheless maintained, partly by a new influx of capital from Taiwan.

During his legendary tour to the south of China in early 1992, Deng Xiaoping made important speeches that become guidelines for the development of China. Deng referred to the relationship between "revolution and reform as means to liberate the productive forces". Referring to the "one central task, two basic points" principle, he suggested planning and market forces are not the essential difference between socialism and capitalism. These speeches played a crucial role in guiding and accelerating China's reform and opening as well as its modernization process. Specifically, he encouraged national and regional authorities to authorize a further and much more massive wave of FDI, increasingly in the form of wholly owned subsidiaries of foreign companies. A further surge in FDI preceded and accompanied China's accession to the WTO in December 2001 (Ross 2007; *Chinability* 2010).

China's integration into the global economy has contributed to its sustained growth of international trade. Over the last 20 years, both exports to and imports from China have grown faster than those of any other economy in the entire world. Reflecting economic growth, China has been demanding huge volumes of products from abroad. Thus, China has contributed significantly to maintaining global economic growth, especially in recent years when other economies have stagnated or presented very low growth. China has also contributed to the strengthening of commodity prices worldwide and is currently the largest importer of

copper and steel, as well as being among one of the major importers of raw materials, including iron ore and aluminium.

We must also 1) consider the influence that China's production structure has on other economies, due to its demand for commodities and intermediate and high-technology goods, as well as 2) take into account the growing influence of regional interest on China's trade policy. In the area of domestic policy, some authors note that there is not only one perspective on how to address China's relationship with foreign powers and how Chinese bureaucratic agencies can influence the country's trade negotiations and its implementation of trade agreements).

Compared to in the past, recent bureaucratic interests have more often intruded into the decision-making process, and such bureaucratic involvement has at times slowed the process of negotiations. Protectionist ministerial interests, including not only those ministries that have traditionally enjoyed support from the Chinese state but also those charged with supervising China's emerging and infant industries, have voiced their opposition to China's offers of market liberalization. Opposition from a wide range of bureaucratic actors has therefore resulted in significant deadlock in the negotiation process.

Making predictions for Chinese behaviour based on a unitary actor assumption without considering domestic policies may be problematic. We must take into account the non-unitary aspect of China's future role in the world trade system. For those who view China as a revisionist power seeking to challenge the rules of the organization, the complication of domestic politics may paint an even bleaker picture of Chinese behaviour. In either case, the dichotomous view of China as either a benign or a malignant actor is overly simple. Instead, one has to understand the importance of domestic political forces in shaping the future trajectory of China in the world trade system (Zeng and Mertha 2007: 13-16).

## Mexico's Foreign Trade

For several Mexican presidential administrations, foreign trade has been defined by a policy of diversification. However, since the 1990s it has not had the expected results. Mexico has strengthened ties with the US, one plausible explanation for which being that Mexican foreign policy during the last few years has mainly been driven by internal factors. Mexican entrepreneurs, confronted with difficult markets in the Asia-Pacific area, which are characterized by complex distribution channels and

which receive little support from government agencies, have preferred to look northward (Faust and Franke 2005).

The main arguments entrepreneurs make, expressed through their organizations, is the lack of competitiveness in the Mexican economy and the low prices of products imported from many countries interested in signing new trade agreements. As is well known, this has prevented Mexico's progress on new agreements with countries from Asia, Oceania and even Latin America.

The Mexican economy is particularly vulnerable to external factors, especially to the economic behaviour of the United States, given the highly integrated nature of its manufacturing sector with that of its northern neighbour and given its high dependency on the US as both a destination of exports and a source of FDI. The vulnerability of Mexico in relation to changes in the global economy is reflected in the GDP reduction of 6.1 per cent in 2009 when external demand declined sharply (Table 1). As shown in Table 4, in 2009 there was a reduction of 24.26 per cent in foreign trade, which shows the high correlation between economic growth and foreign trade in Mexico. The effects of global economic changes on the Mexican economy remain a major concern for the country's ruling classes.

The current situation has deep roots in the economic policy implemented by Mexican political elites. With the objective of promoting economic growth, the government of Mexico designed and implemented a "new" economic model based on the principles of liberalism. In the late 1980s and early 1990s, policymakers put into practice a policy of unilateral trade liberalization. Through this strategy, they hoped to generate investor confidence, attract more foreign investment and create jobs.

On the import side, the government removed restrictions on trade (e.g. licenses). Two other markers of the economic liberalization policy of the Mexican government were the *maquiladora* programme established in the 1960s and the signing and implementation of NAFTA in 1994. After the signing of NAFTA, Mexico continued negotiating and signing other trade and investment preferential agreements (known as free trade agreements, FTAs) based on the traditional idea of economic diversification. Mexico's pursuit of free trade with other countries was a way to bring added benefits to the economy and to reduce economic dependence on the United States. By 2005, Mexico had signed 11 treaties with 41 countries. However, the meagre results of diversification and the costs of some losing sectors in the economy have pressured the govern-

ment of Mexico to maintain protectionist trade measures and avoid signing new trade agreements.

Existing treaties between Mexico and partner countries include ones with the United States, Canada, Chile, Bolivia, Costa Rica, Nicaragua, Uruguay, Guatemala, El Salvador, and Honduras. Mexico has also negotiated FTAs outside of the Americas, in July 2000 entering into agreements with Israel and the European Union. Mexico became the first Latin American country to have preferred access to these two markets. The Mexican government expanded its outreach to Asia in 2000 by entering into negotiations with Singapore, Korea and Japan. In 2004, Japan and Mexico signed the Economic Partnership Agreement, the first comprehensive trade agreement that Japan had ever signed with any country. This instrument has contributed to increased FDI in Mexico by Japanese industrial companies – especially in the automotive and electronics industries – which has contributed to Mexico’s trade surplus with the US (Falck Reyes 2009). One of the arguments of those in Mexico who are opposed to the signing of new trade agreements is that the great number of these instruments has failed to decrease Mexico’s dependence on trade with the United States (Villarreal 2010: 3; Falck Reyes and León-Manríquez 2010). Moreover, the impressive increase of Mexican imports from China has come despite the absence of – and opposition to – any FTA with this country.

Mexico may have other reasons for entering into FTAs besides decreasing its dependence on trade relations with the US. The slow progress of multilateral negotiations may also be contributing to the increasing interest throughout the world in regional trade blocs. Like other countries, Mexico may see smaller trade arrangements as “building blocks” for multilateral agreements.

On the other hand, given that Mexico began trade liberalization in the early 1980s, its trade with the world has risen rapidly. Mexico’s exports are increasing more rapidly than its imports. Mexico’s trade balance with all countries went from a deficit of 7.7 billion USD in 1993 to a surplus of 13.4 billion USD in 1995. Following that, Mexico had maintained a comfortable surplus until 2010, when it reported a deficit of 3.1 billion USD (Table 4).

The trade balance with the United States went from a deficit of 2.4 billion USD in 1993 to a surplus of 72.5 billion USD in 2009. Exports to the United States increased from 42.9 billion USD in 1993 to 234.6 billion USD in 2008, and then declined to 184.9 billion USD in 2009. Mex-



ico's imports from the United States increased from 45.3 billion USD in 1993 to 152.6 billion USD in 2008, and then declined to 112.4 billion USD in 2009 and 72.2 billion USD in 2010 due to the economic downturn (Villarreal 2010: 1).

Table 4: Mexico's Foreign Trade, 1993–2010 (in billion USD)

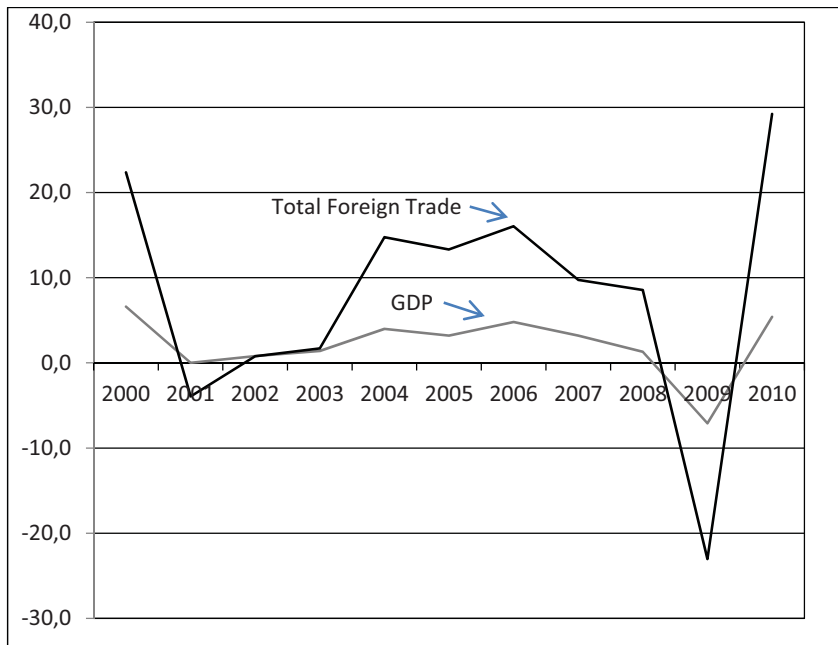
Year	Exports	Imports	Total	Balance	Total Trade Change (%)
1993	51.832	59.468	111.300	-7.636	
1994	60.817	72.347	133.164	-11.530	19.6
1995	79.541	66.162	145.702	13.379	9.4
1996	96.004	81.470	177.474	14.533	21.8
1997	110.237	99.207	209.444	11.030	18.0
1998	117.539	114.193	231.732	3.346	10.6.
1999	136.362	128.795	265.157	7.567	14.4.
2000	166.121	159.382	325.503	6.739	22.8
2001	158.780	154.934	313.713	3.846	-3.6
2002	161.046	154.099	315.145	6.947	0.5
2003	164.766	154.481	319.247	10.286	1.3
2004	187.999	178.997	366.996	9.001	15.0
2005	214.233	201.218	415.451	13.015	13.2
2006	249.925	234.777	484.702	15.148	16.7
2007	272.044	258.723	530.767	13.321	9.5
2008	292.637	289.380	582.016	3.257	9.7
2009	229.620	211.201	440.821	18.420	-24.3
2010	271.237	274.363	545.600	-3.126	23.8

Source: Secretaría de Economía and Banco de México.

In addition to the flow of imports and exports in Mexico, a very positive role has been played by the international transfer of wealth by Mexicans who are living abroad (mostly in the United States). These transfers accounted for 21.2 billion USD in 2009 and 21.3 billion USD in 2010. In 2011 Mexico entered 22.7 billion USD in remittances, a 6.68 per cent higher figure than the 21.3 billion USD collected in 2010, according to the Bank of Mexico (Banco de Mexico 2012).

Mexico’s foreign trade has performed impressively, with an average annual growth rate of 11.26 per cent from 1993 to 2010. These data contrast with the small economic growth performance over the last 30 years, whose average annual growth rate is 2.4 per cent. As shown in Figure 2, from 2000 to 2010, the situation was the same: While growth in foreign trade was 10.5 per cent, the increase in GDP was 2.5 per cent. This shows that there is no direct correlation between economic growth and foreign trade, but GDP growth also depends on other factors.

Figure 2: Mexico: Relation between GDP and FDI, 2000-2010 (in per cent)



Source: United Nations 2009; Secretaría de Economía 2011.

One of the main characteristics of Mexico’s foreign trade is its high dependence on exports to the US, especially in the last 18 years. The average annual percentage of US imports from Mexico was 84.5 per cent, from Canada 2.35 per cent and from China 0.44 per cent. In this same period, Chinese imports from Mexico rose from 0.09 per cent in 1993 to 1.35 per cent in 2010; that is, the Chinese imports from Mexico increased from 44.8 million USD in 1993 to 3.7 billion USD in 2010 (Table 5).

Mexico’s high dependence on foreign trade with other North American markets has represented a major challenge for Mexico because of the high correlation of foreign trade with Mexico’s economic growth in 2009. Exports to the United States reached a high of 80.4 per cent of Mexico’s total exports in 2010. In addition, Mexico imports most of its products from the United States – almost 50 per cent in 2010. However, the commercial relationship with the US gives Mexico a large surplus with which it can offset the deficit with other countries and regional markets.

Table 5: Mexican Exports to US, Canada and China, 1993–2010 (in billion USD)

Year	Total	United States		Canada		China	
		Value	%	Value	%	Value	%
1993	51.832	42.851	82.7	1.569	3.0	0.045	0.1
1994	60.817	51.645	84.9	1.483	2.4	0.042	0.1
1995	79.541	65.190	82.0	2.065	2.6	0.216	0.3
1996	96.004	79.781	83.1	2.237	2.3	0.204	0.2
1997	110.237	92.931	84.3	2.3055	2.1	0.142	0.1
1998	117.539	101.951	86.7	1.717	1.5	0.192	0.2
1999	136.362	118.632	87.0	3.344	2.5	0.174	0.1
2000	166.121	146.211	88.0	3,569	2.2	0.310	0.2
2001	158.780	136.446	85.9	3.268	2.1	0.385	0.2
2002	161.046	141.898	88.1	2.991	1.9	0.654	0.4
2003	164.766	144.293	87.6	3.042	1.9	0.974	0.5
2004	187.999	164.522	87.5	3.292	1.6	0.986	0.5
2005	214.233	183.563	85.7	4.235	2.0	1.136	0.5
2006	249.925	211.799	84.8	5.176	2.1	1.688	0.7
2007	272.044	223.404	82.1	6.494	2.4	1.896	0.7
2008	292.620	234.557	80.2	7.130	2.4	2.047	0.7
2009	229.620	184.879	80.5	8.375	3.7	2.216	1.0
2010 (1-11)	271.237	217.222	80.1	9.899	3.7	3.671	1.3

Source: Secretaría de Economía and Banco de México.

Mexico’s import structure is strikingly different from its export structure, since the share of US imports has been continuously declining since the 1990s (it went down from almost 70 per cent at that time to 48.1 per cent in 2010). It is in this way that Asia has come to play an increasing role in Mexico’s trade. The Chinese example is an impressive one. From 1993 to 2010, the percentage of Chinese exports to Mexico increased from 0.59 to 15.13 per cent (386.4 million USD in 1993 to 45.6 billion USD in 2010; Table 6). However, we must also consider Japan. By locating its manufacturing industry in Mexico, Japan indirectly contributes to increasing the export of manufactured products to offset Mexico’s trade balance by intra-firm trade flows to North, Central and South America (Falck Reyes and León-Manríquez 2010).

Table 6: Mexico’s Imports from US, Canada and China, 1993–2010 (in billion USD)

Year	Total	United States		Canada		China	
		Value	%	Value	%	Value	%
1993	65.367	45.295	69.3	1.175	1.8	0.386	0.6
1994	79.346	54.791	69.0	1.621	2.0	0.500	0.6
1995	72.453	53.829	74.3	1.374	1.9	0.521	0.7
1996	89.469	67.536	75.5	1.744	1.9	0.760	0.9
1997	109.808	82.002	74.7	1.968	1.8	1.247	1.1
1998	125.373	93.258	74.4	2.290	1.8	1.617	1.3
1999	141.975	105.267	74.2	2.949	2.1	1.921	1.3
2000	174.458	127.534	73.1	4.017	2.3	2.880	1.7
2001	168.396	113.767	67.6	4.235	2.5	4.027	2.4
2002	168.679	106.557	63.2	4.480	2.7	6.274	3.7
2003	170.546	105.361	61.8	4.121	2.4	9.401	5.5
2004	196.810	110.827	56.3	5.328	2.7	14.374	7.3
2005	221.820	118.547	53.4	6.169	2.8	17.696	8.0
2006	256.052	130.311	50.9	7.376	2.9	24.438	9.5
2007	283.233	140.570	49.6	7.975	2.8	29.792	10.5
2008	310.132	152.615	49.2	9.450	3.1	34.755	11.2
2009	234.385	112.434	48.0	7.304	3.1	32.529	13.3
2010	301.482	145.007	48.1	8.608	2.9	45.608	15.1

Source: Secretaría de Economía and Banco de México, various years.

The trade deficit with East Asia, and especially with China, has become highly problematic. For several years, the Mexican production and commercial sectors along with the government have expressed concerns over the subject. For Mexico to compensate the deficit with China, it is crucial that it maintain its trade relationships in NAFTA, especially with the US, which provides the trade surplus to compensate that deficit (Table 7).

Table 7: Mexico's Trade with Top Partners, 2010 (in billion USD)

	Exports	%	Imports	%	Balance
NAFTA	227.120	83.7	153.615	50.1	73.505
US	217.222	80.1	145.007	48.1	72.214
China	3.671	1.4	45.608	15.1	-41.937
Japan	1.775	0.7	15.015	5.0	-13.240
Germany	3.192	1.2	11.077	3.7	-7.885
Canada	9.899	3.6	8.608	2.9	1.291
Brazil	3.434	1.3	4.328	1.4	-0.893
Spain	3.233	1.2	3.232	1.1	0.001
Argentina	1.561	0.6	1.093	0.4	0.468
Colombia	3.353	1.2	0.795	0.3	2.558
Chile	1.729	0.6	1.952	0.7	-0.224
Venezuela	1.434	0.5	0.640	0.2	0.795
Guatemala	1.341	0.5	0.488	0.2	0.852
Netherlands	1.575	0.6	2.811	0.9	-1.236
United Kingdom	1.539	0.6	2.005	0.7	-0.466
Total	271.237	100.0	301.482	100.00	-30.245

Note: Imports CIF, exports FOB.

Source: Secretaría de Economía and Banco de México.

Over the past 30 years, Mexico has dramatically changed its international trade structure. During this period, Mexican exports have moved successfully from a reliance on oil (oil was 76 per cent of its export revenue in 1982) to a reliance on manufacturing. Oil exports now represent 14 per cent of its exports; the rest are non-oil exports (Table 8).

**Table 8: Mexico's Trade Balance 2010 (in billion USD)**

	2010
Total exports	298.36
Oil exports	41.68
Non-oil exports	256.68
Total imports	301.48
Oil imports	30.21
Non-oil imports	271.27
Total trade balance	-3.12
Oil balance	11.46
Non-oil balance	-14.59

Source: Instituto Nacional de Estadística y Geografía 2011.

In 2010, the main exports from Mexico were manufactured goods, oil, petroleum products, silver, fruits, vegetables, coffee and cotton. The main imports were metalworking machines, steel mill products, agricultural machinery, electrical equipment, car parts for assembly, repair parts for motor vehicles, aircrafts and aircraft parts. Mexico's foreign trade in terms of harmonization system codes presents the following behaviour: According to the Instituto Nacional de Estadística y Geografía, there is a high concentration of foreign trade in a few sectors. In 2010, the six main export sectors accounted for 75.9 per cent of total exports, and the six main import sectors accounted for 62.2 per cent of total imports.

## Trade between Mexico and China

Trade relations between China and Mexico started with the re-establishment of diplomatic relations in 1972. During the early years, there were some attempts to satisfy the market needs of both parties, but the institutional conditions for trading were still very difficult, so direct trade exchange remained small and their commercial value was low.

Since the 1980s, trade between Mexico and China has experienced unprecedented growth. With both countries' implementation of economic openness, their commercial relationship has changed dramatically. The engagement in the global processes of production and marketing has the two nations playing a similar and competitive role within the international division of labour. Various manufacturing sectors in Mexi-

co and China are in the middle or final stages of production processes. Hence the exchange of industrial products (intermediate and consumer goods) takes place in accordance with the interests of industrial and commercial transnational corporations. This largely explains why the solution to the trade imbalance between China and Mexico goes beyond formal relationships, including government negotiations between the two countries.

The dynamics of regional integration and the participation of both countries in multilateral institutions like the World Trade Organization and the Asia-Pacific Economic Cooperation (APEC), through which both countries acquire rights and commitments that shape their participation in the regional economies of Asia and the Americas and in the global market, have an impact on the economy. The trade and flows of capital influence the configuration of the domestic production structure, balance of payments, technology transfer, competitiveness, employment and the environment.

Since the 1990s, China and Mexico have both made outstanding progress in their foreign trade to regional and global integration. From 1990 to 2010, China boasted an annual average growth rate of 18.3 per cent and in 2010 became the world's biggest export economy with its total export of 2.97 trillion USD. Meanwhile, through an annual average increase of 11.3 per cent over the last 17 years, Mexico's foreign trade went from 99.4 billion USD in 1993 to 542.5 billion USD in 2010, ranked fifteenth in the world.

Trade between China and Mexico is characterized by its focus on a few products. China's major exports to Mexico include electrical equipment, electronic devices, audio-video equipment and spare parts, mechanical equipment and spare parts, toys, game products, optical and photographic medical equipment, and plastic products. China's imports from Mexico include base metals, minerals, electro-mechanical equipment, transportation equipment, plastic, rubber, chemical products, and leather products.

Bilateral trade between China and Mexico has other important attributes we should pay attention to. First of all, from 1996 to 2010, it was reported that trade increased 37.63 per cent annually, but the Mexican deficit has also risen 41 per cent annually, as shown in Table 10. Mexican exports to China depend heavily on auto parts (25 per cent), followed by several raw materials such as copper, ores slag, iron, steel and aluminium (accounting for 37.4 per cent in 2010). Mexican imports of electronics

and auto parts from China accounted for 69 per cent in 2010 (Tables 11 and 12). These two sectors are the main source of Mexico’s profound trade deficit with China.

Table 9: Mexico’s Trade with China, 1993–2011 (in million USD)

Year	Exports	Imports	Total Trade	Annual Change (%)	Balance	Annual Change (%)
1993	45	386	431		-342	
1994	42	500	542	25.7	-458	33.9
1995	216	521	736	35.9	-305	33.4
1996	204	760	963	30.8	-556	82.5
1997	142	1,247	1,390	44.3	-1,105	98.7
1998	192	1,617	1,809	30.2	-1,424	28.9
1999	174	1,921	2,095	15.8	-1,747	22.7
2000	310	2,880	3,190	52.2	-2,569	47.1
2001	385	4,027	4,412	38.3	-3,642	41.8
2002	654	6,274	6,928	57.0	-5,621	54.3
2003	974	9,401	10,375	49.7	-8,426	49.9
2004	986	14,374	15,360	48.0	-13,388	58.9
2005	1,136	17,696	18,832	22.6	-16,561	23.7
2006	1,688	24,438	26,126	38.7	-22,749	37.4
2007	1,896	29,792	31,688	21.3	-27,896	22.6
2008	2,047	34,755	36,801	16.1	-32,708	17.2
2009	2,216	32,529	34,745	5.6	-30,313	7.3
2010	4,198	45,608	49,805	43.3	-41,410	36.6

Source: Secretaría de Economía and Banco de México.

As shown in the table above, after total trade between China and Mexico declined from 5.6 per cent in 2009, it rose by 43.3 per cent in 2010. Mexico’s exports to China increased by 89.4 per cent from 2009 to 2010 while imports grew 40.2 per cent. This resulted in a deficit increase of 36.6 per cent. It should also be noted that thousands of vehicles sold in China, although they were not assembled in Mexico, contained Mexican auto parts. The clear example is the US vehicles exported to China, which totalled 3.39 billion USD in 2010; a large proportion of those



vehicles contained auto parts manufactured in Mexico. In 2010, Mexico was the top auto parts supplier to the US market, registering the shipment of orders totalling approximately 30 billion USD (Scott and Wething 2012).

It should be noted that there is a big difference in the trade figures reported by China and Mexico as a result of each country’s method of compiling statistical information. In 2008, Mexico reported a deficit of 39.3 billion USD, while China reported a deficit of 10.2 billion, as shown in Table 10.

Compared to Mexico’s calculations, China reported more imports of Mexican products in their national figures and a much lower level of exports to Mexico. This probably reflects the triangulation of bilateral trade through third economies (Hong Kong, Singapore and the United States) (Dussel Peters 2005a: 50-61).

Table 10: China’s Foreign Trade with Mexico, 1994–2008 (in million USD)

Year	Exports	Imports	Total	Balance
1994	201.5	93.9	295.3	107.6
1995	195.1	194.5	389.6	0.6
1996	221.1	297.2	518.3	76.1
1997	413.7	184.3	598.0	119.4
1998	836.8	689.3	147.5	147.5
1999	791.7	159.3	950.9	632.4
2000	1,335.3	488.3	1,823.5	847.0
2001	1,790.4	761.1	2,551.5	1,029.3
2002	2,863.7	1,115.0	3,978.6	1,748.7
2003	3,267.0	1,676.7	4,943.8	1,590.3
2004	4,972.8	2,139.8	7,112.6	2,832.9
2005	5,537.7	2,225.3	7,763.0	3,312.4
2006	8,823.6	2,607.1	11,430.7	6,216.5
2007	11,706.1	3,263.3	14,969.4	8,442.8
2008	13,866.5	3,690.3	17,556.7	10,176.2

Source: National Bureau of Statistics, various years.

It is a fact that the rapid expansion of China in the global market has complicated Mexico's economic and commercial circumstances. In the last 20 years, its trade deficit with China (and with the East Asia region) has increased significantly. Although this deficit has been offset by Mexico's surplus with other regions (especially with North America), it has created great uncertainty and fear in Mexican economic sectors, in particular those that have lost their domestic and foreign markets.

China's demand for agricultural goods, food and beverages has led to Mexico's growing trade deficit in the following commodities: corn, soybeans, wheat, sorghum, rice, rapeseed, and others. This is significant since China and Mexico's trade structures are very similar – with the exception of minerals and several other raw materials – but presents structural limitations to increasing trade in the sectors that experience a high demand both in China and Mexico, such as oil and grains. In the other sectors (electronics, auto parts, and increasingly automobiles), there is high potential for direct competition (Dussel Peters 1995a: 18-21).

Mexico's and China's trade structures are very similar, since the main exports of both countries are basically the same. This is the case in terms of electronics and auto parts, electrical parts and components, vehicles and mineral fuels/ petrol (Tables 11 and 12).

In 2010 electronics and auto parts alone accounted for 36.1 and 44.3 per cent of Mexican and Chinese exports, respectively. Specifically, the foreign automobile markets of China and Mexico present the following picture: In 2010 China's and Mexico's foreign trade in automobiles reached very similar figures. China's automobile trade in 2010 totalled 81.1 billion USD, while Mexico's reached 85.1 billion USD. This was because Mexico's export market in 2010 grew faster than China's, increasing 53.9 per cent from 2009 to 55.6 billion USD. Meanwhile, the Chinese export market grew 41.2 per cent in the same period, with a total value of 28 billion USD (Hong Kong's fell 6.8 per cent to 1.6 billion USD). On the other hand, China's automobile imports totalled 30.9 billion USD in 2009 and 53 billion USD in 2010, growing 71.9 per cent. By comparison, Mexico experienced a growth in its trade surplus of 44.9 per cent. To complete the picture, keep in mind that automobile exports accounted for 18.7 per cent of all of Mexico's exports in 2010. Meanwhile, Chinese automobile exports accounted for only 1.8 per cent of its total export market (WTO 2011).

It is significant to highlight that Mexican exports, as in the Chinese case, highly depend on foreign inputs and foreign firms. From 1993 to

2004, 78.02 per cent of Mexican exports depended on temporary imports that were re-exported. This trade structure reflects the low level of domestic value added onto exports and the difficulties of Mexican manufacturing in achieving a positive trade balance (Dussel Peters 1995a: 21-23).

Table 11: Mexico's Ten Leading Exporting Commodities to China, 2007–2009 (in billion USD)

HS*		Year			
		2007	2008	2009	
84	Nuclear reactor, boilers, machinery and mechanical	0.363	0.477	0.553	
74	Copper and articles thereof	0.361	0.487	0.408	
26	Ores slag and ash	0.288	0.292	0.269	
87	Vehicles other than railway or tramway rolling stock	0.212	0.181	0.209	
85	Electrical machinery and equip. and parts, telecom. equip.	0.186	0.143	0.124	
29	Organic chemicals	0.135	0.059	0.122	
72	Iron and steel	0.051	0.051	0.109	
39	Plastics and articles thereof	0.042	0.095	0.094	
76	Aluminium and articles thereof	0.041	0.010	0.045	
52	Cotton, incl. yarns and woven fabrics thereof	0.039	0.042	0.043	
	Sum	1.718	1.836	1.976	
	Total	1.895	2.047	2.216	
	Total (%)	90.6	89.7	89.2	
HS*		Total percentage			Change (%) 9 Aug.
		2007	2008	2009	
84	Nuclear reactor, boilers, machinery and mechanical	15.2	23.3	25.0	15.9
74	Copper and articles thereof	19.0	23.8	18.4	-16.2
26	Ores slag and ash	9.8	14.3	12.1	-7.9
87	Vehicles other than railway or tramway rolling stock	11.2	8.8	9.5	15.6
85	Electrical machinery and equip. and parts, telecom. equip.	19.1	7.0	5.6	-13.4

29	Organic chemicals	2.2	2.9	5.5	107.9
72	Iron and steel	2.7	2.5	4.9	114.6
39	Plastics and articles thereof	7.1	4.6	4.2	-1.3
76	Aluminium and articles thereof	1.5	0.5	2.0	369.4
52	Cotton, inc. yarns and woven fabrics thereof	2.2	2.1	2.0	1.9

Note: \* Harmonized System Codes.

Source: Global Trade Information Services, various years.

Table 12: Mexico's Ten Leading Import Commodities from China, 2007–2009 (in billion USD)

HS*		Year		
		2007	2008	2009
85	Electrical machinery and equip. and parts, telecom. equip.	12.915	15.555	15.361
84	Nuclear reactors, boilers, machinery	6.105	6.714	7.199
95	Toys, games and sports equip. parts and acces.	2.100	2.194	1.610
90	Optical, phot. medical instrum. and acces.	1.530	1.672	1.279
39	Plastics and articles thereof	0.737	0.884	0.776
73	Articles of iron or steel	0.476	0.672	0.659
98	Agric., construction, trans., electric, gas, sanitary, etc.	0.545	0.658	0.587
87	Vehicles other than railway or tramway rolling stock	0.654	0.786	0.537
29	Organic chemical	0.314	0.458	0.478
94	Furniture, bedding, cushions, lamps & lighting, etc.	0.492	0.551	0.410
	Sum	25.867	30.144	28.899
	Total	29.747	34.754	32.529
	Total (%)	87.0	87.0	87.0

HS*		Total percentage			Change (%)
		2007	2008	2009	9 Aug.
85	Electrical machinery and equip. and parts, telecom. equip.	43.42	44.76	47.2	-1.24
84	Nuclear reactors, boilers, machinery	20.53	19.32	22.1	7.23
95	Toys, games and sports equip. parts and acces.	7.06	6.31	4.95	-26.60
90	Optical, phot. medical instrum. and acces.	5.14	4.81	3.93	-23.48
39	Plastics and articles thereof	2.48	2.54	2.39	-12.2
73	Articles of iron or steel	1.6	1.93	2.03	-1.86
98	Agric., construction, trans., electric, gas, sanitary, etc.	1.83	1.89	1.81	-10.78
87	Vehicles other than railway or tramway rolling stock	2.2	2.26	1.65	-31.64
29	Organic chemical	1.06	1.32	1.47	4.39
94	Furniture, bedding, cushions, lamps & lighting, etc.	1.65	1.59	1.26	-25.63

Note: \* Harmonized System Codes.

Source: Global Trade Information Services, various years.

The unfavourable trade balance and the fear of many manufacturing sectors is a political issue in Mexico and this fear has spread through Mexican society, creating a very strong public opinion against “Chinese” products. Compared to the other Latin American countries, Mexico is the most vulnerable, with 97 per cent of its manufacturing exports – which represent 71 per cent of the national export base – under threat from China in 2009. Now, many of Mexico’s chief export industries are hanging by a thread, particularly the textile, apparel and electronics industries (Gallagher 2011).

The problem of Mexico’s trade deficit with China and by extension with East Asian countries goes beyond government strategies. The flow of goods and services often depends on the requirements of transnational corporations (TNCs). This is because the interests of global corporations may not coincide with the development policies of national economies – specifically on the production facilities, capital and transfers mobility, and intra-firm trade, which are out of the government’s control. This situation is reflected in the resettlement of factories and assembly workshops from Mexico to China, which has helped shape the terms of

trade in intermediate goods and consumer products between the countries.

One of the limitations Mexico faces in balancing its trade with China is the impossibility of selling oil or other commodities to China, as China acquires them in other Latin American countries. As noted by Zha and Breslin (2010), energy is clearly a medium- and long-range priority for China, and China has increased its interest in Latin America and the Caribbean in a search to diversify its sources.

Another important issue for Mexican–Chinese trade relations is how companies and the government of Mexico view the Chinese market and vice versa. This is reflected in the number and amount of investment in each country. According to the Business Intelligence Unit of PROMÉXICO (2010a), from 2000 to 2009 major Chinese companies that had invested in Mexico were: Huawei Technologies; Group China; Hentia Worldbest Group Co. Ltd; ZTE Corporation; Huaxi Group; Lenovo Group; Jinchuan Group; Golden Dragon Precise Copper Pipe Co.; and Hutchison Ports Holdings. In total, by the end of 2009, 563 companies with Chinese capital had been registered in Mexico. Among these companies, most engaged in commercial activities like seasonal goods, jewellery, gifts, home and office products, leather goods, water pumps, motorcycles, bicycles, power generators, medical products, machinery, equipment and spare parts, industrial machinery, and telecommunications. The investment figures are not accurate because many companies carry out their activities through subsidiaries in other countries.

The main Mexican enterprises that have invested in China are Ketcon, San Luis Corporación, Gruma, Bimbo, Softek and Grupo Alfa. The most outstanding commercial and productive relationships between Mexican and Chinese companies are premium Mexican beers represented by Group FEMSA and Modelo, and Bimbo brand baked goods. The media company Televisa reported successful cases of translation and transmission of Mexican *novelas* to China, as well as plans to produce new soap operas jointly with China International Television Corporation (CITVC). It is clear that the incursion of a few Mexican multinational companies into the Chinese market cannot reduce inequality.

Recently China's foreign affairs minister mentioned other investment projects: Lenovo Group and Jinlong Group of Henan Province, a subsidiary company of CNPC (China National Petroleum Corporation), which won the bid of a geological prospecting project of PEMEX (Mex-

ico's national oil company), with a contracted value of 140 million USD. He also mentioned the case of Sinopec Service, which together with an American company reached an agreement on the development of oil fields abandoned by PEMEX. The contract, worth 1 billion USD export credit and signed by China Development Bank and América Móvil of Mexico, was "implemented smoothly" (MFA 2010).

Another topic of great importance to China–Mexico trade relations is the action of TNCs from abroad that have large investments in both countries. It is well known that TNCs are an effective tool for configuring resources among different areas and regions in the world. TNCs are also involved in the integration of economies in developed and developing countries influencing the configuration of a new global economic system.

Looking back to the recent economic history of China and Mexico, we can assert that liberalization policy implemented by both countries in the past 30 years has been quickly integrated into the international labour system and world market. The role of transnational corporations is crucial in determining the structure of production and international trade flows. Thus, while manufacturing TNCs may lead to plants being built in China, a shift in production to Vietnam, an outsourcing to Mexico, taking a chance in Costa Rica or the Czech Republic, and developing a new application in Israel, the largest impact of the deployment of worldwide earnings is to bolster production, employment, R&D and local purchases in their domestic markets (Moran 2011).

Chinese companies have been attracting FDI by taking on the challenges of TNCs. These include branding and market positioning, as well as advanced technology and management skills. The Chinese national and transnational enterprises are continually growing in size and strength and are getting into competitive positions with foreign transnational enterprises. These circumstances have contributed to improving the capacity of the large Chinese companies, enabling them to compete in international markets.

## Trade between the United States, Mexico and China

Mexican–Chinese competition for the US market has been another source of dispute between the two countries. The accession of China into the WTO in 2001 facilitated its access to the US market, thereby displacing Mexican products. In fact, in the past 20 years China and Mexico have significantly increased their trade with the US and have

succeeded in terms of trade surplus. However, the speed of China’s participation in the US market has been far superior to that of Mexico, and many Chinese products are displacing those of Mexican origin (Gutierrez 1995; Rumbaugh and Blancher 2004).

In the last 20 years (from 1990 to 2010), the increase in Mexico’s imports and exports to the United States grew almost parallel to China’s. Mexico’s imports from the US grew at an average annual rate of 9.9 per cent, while exports to the United States grew at a rate of 11.26 per cent. Thus, Mexico’s trade surplus with the United States increased from 1.9 billion USD in 1990 to 66.3 billion USD in 2010.

Table 13: US Trade with China and Mexico, 1990–2010 (in billion USD)

	China				
	Exports	Change (%)	Imports	Change (%)	Balance
1990	4.806		15.237		10.431
1991	6.278	30.6	18.969	24.5	-12.691
1992	7.419	18.2	25.728	35.6	-18.309
1993	8.763	18.1	31.540	22.6	-22.777
1994	9.282	5.9	38.787	23.0	-29.505
1995	11.754	26.6	45.543	17.4	-33.790
1996	11.993	2.0	51.513	13.1	-39.520
1997	12.862	7.3	62.558	21.4	-49.696
1998	14.241	10.72	71.169	13.8	-56.927
1999	13.111	-7.9	81.788	14.9	-68.677
2000	16.185	23.4	100.018	22.3	-83.833
2001	19.182	18.5	102.278	2.3	-83.096
2002	22.128	16.4	125.193	22.43	-103.065
2003	28.368	28.2	152.436	21.8	-124.068
2004	34.4278	21.4	196.682	29.0	-162.254
2005	41.192	19.7	243.470	23.8	-202.278
2006	53.673	30.3	287.774	18.2	-234.101
2007	62.937	17.3	321.443	11.7	-258.506
2008	69.733	10.8	337.773	5.1	-268.040
2009	69.497	-0.3	296.374	-12.3	-226.877
2010	91.878	32.2	364.944	23.1	-273.066



Mexico					
	Exports	Change (%)	Imports	Change (%)	Balance
1990	28.279		30.157		-1.878
1991	33.277	17.7	31.130	3.2	2.148
1992	40.592	22.0	35.211	13.1	5.381
1993	41.581	2.4	39.918	13.4	1.663
1994	50.844	22.3	49.494	24.0	1.350
1995	46.292	-9.0	62.100	25.6	-15.808
1996	56.792	22.7	74.297	20.0	-17.506
1997	71.389	25.7	85.938	15.7	-14.549
1998	78.772	10.3	94.629	10.1	-15.856
1999	86.909	10.3	109.721	16.0	-22.812
2000	111.349	28.1	135.926	23.9	-24.577
2001	101.297	-9.0	131.338	-3.4	-30.041
2002	97.470	-3.8	134.616	2.5	-37.146
2003	97.412	-0.1	380.060	2.6	-40.648
2004	110.731	13.7	155.902	12.3	-45.170
2005	120.248	8.6	170.109	9.1	-49.861
2006	133.721	11.2	198.253	16.6	-64.532
2007	135.918	1.6	210.714	6.3	-74.796
2008	151.220	11.3	215.942	2.5	-64.722
2009	128.892	-14.8	176.654	-18.2	-47.762
2010	163.321	26.7	229.655	30.0	-66.334

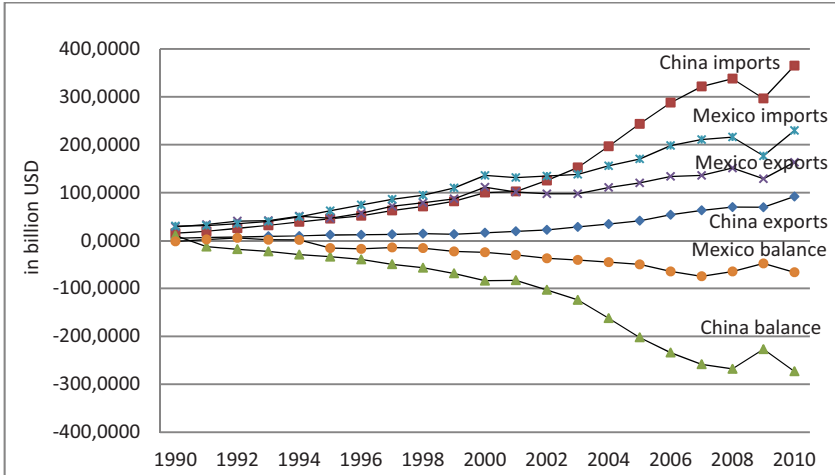
Source: United States Census Bureau (various years).

US imports from China experienced a reported average annual increase of 17.69 per cent; its exports, 16.41 per cent. This difference between imports and exports meant that the 10.4 billion USD surplus reported in 1990 became a deficit of 273.1 billion USD in 2010 (Table 13).

This information is reflected in Figure 3, which shows that in 2003 China replaced Mexico to reach second place in the US market (after Canada). The market share of the US between the two countries has remained near consistent. In the same way, one can see that the fluctuations of US imports from Mexico and China are more or less proportional. This was clearly shown by the decrease in imports from Mexico

and China during the last economic crisis of 2008/09 and the recovery in 2010. This also shows us that, even now, the economies of China and Mexico coexist to a high degree in the United States market.

Figure 3: US Trade with China and Mexico, 1990–2010



Source: United States Census Bureau, various years.

The figure shows that exports to the US, from both Mexico and China, have been successful. Thus, when calculating the growth rate for Chinese exports to the US market from 1990 to 2010, China becomes the main exporter to the US in 2007, even ahead of Canada. Until 2010 China had remained the leading exporter to the US market, although only the second-leading trading partner (14.3 per cent of total trade) after Canada (16.5 per cent). Mexico has the third-largest trade relationship with the US at 12.3 per cent (Table 14).

The fundamental reason for China’s surging ahead of Mexico in the US market is that Mexico’s approach to globalization is hands-off, whereas China’s is hands-on. China leads the US market despite it taking 18 days to ship cargo from China and no more than 18 hours from most of Mexico. NAFTA ensures that Mexico faces virtually no tariffs for exporting to the US, whereas China’s tariffs are close to 6 per cent (Galagher 2008).

Table 14: Top 15 US Trade Partners, 2010 (in billion USD)

Rank		Exports	Imports	Total Trade	% of Total Trade
	Total, all countries	1,278.1	1,912.1	3,190.2	100.0
	Total, top 15 countries	894.1	1,401.3	2,295.4	72.0
1	Canada	248.8	276.5	525.3	16.5
2	China	91.9	364.9	456.8	14.3
3	Mexico	163.3	229.7	393.0	12.3
4	Japan	60.5	120.3	180.9	5.7
5	Germany	48.2	82.7	130.9	4.1
6	United Kingdom	48.5	49.8	98.3	3.1
7	South Korea	38.8	48.9	87.7	2.7
8	France	27.0	38.6	65.6	2.1
9	Taiwan	26.0	35.9	61.9	1.9
10	Brazil	35.4	23.9	59.3	1.9
11	Netherlands	35.0	19.0	54.0	1.7
12	India	19.2	29.5	48.8	1.5
13	Singapore	29.1	17.5	46.6	1.5
14	Venezuela	10.7	32.8	43.4	1.4
15	Saudi Arabia	11.6	31.4	43.0	1.3

Source: United States Census Bureau 2010.

## Competitiveness between Mexico and China

With a policy of economic liberalization in Mexico and China, overlap of their markets is inevitable. Competition in international markets since the 1990s between both countries became stronger after China's 2001 accession to the WTO. Some key sectors of Mexico's economy considered this event a new "China threat". This threat is explained by their similar resource endowments and export-oriented policies. In general, both countries have increasingly been specializing in electronics, auto parts, toys, furniture, footwear, and in yarn/ textiles/ garments, allowing for further competition (Yue 2009; Bernard, Jensen, and Schott 2004; Dussel Peters 2005b; Liu 2007).

On the other hand, we can state that China and Mexico complement each other to a degree. Their competition has varied in different

markets: Generally speaking, China outshines Mexico in overall competitiveness. The industrial structure and of both countries creates the conditions for competitiveness between them and the overlap in the markets. The current trade policies and industry structures, due to their high export rates, create competition between China and Mexico. There is no waxing and waning relationship between China's and Mexico's aggregated market shares in the US (Yue 2009). As shown in the statistical information on the previous pages (especially in Table 14 and Figure 3), China and Mexico share space in the US and world markets. However, contrary to the most optimistic expectations that the competitive advantages of both countries would be adjusted to avoid further trade disputes, this has not happened. Conflicts between China and Mexico have increased since 2004. The leadership of each country is aware of this situation, and each has tried to solve the problems through dialogue (Nowak-Lehmann, Vollmer, and Martinez-Zarzoso 2007).

## Mexico–China Transitory Trade Agreements

In the context of trade liberalization implemented by China and Mexico, more and more Chinese products have been flowing into the Mexican market since the 1990s. Mexican businessmen were afraid of new commercial facilities that China would acquire upon entering the WTO. This situation was reflected in the reluctance of Mexico to approve of China's accession to the organization. To resolve this controversy, in September 2001, China and Mexico reached a bilateral special agreement, through which Mexico gained a six-year grace period to maintain countervailing measures on hundreds of Chinese products. The period has ended, but it was necessary in order for further negotiations to take place. According to WTO rules, in December 2007 Mexico should have removed those anti-dumping duties, but the industrial sectors in Mexico pressured the government to maintain them despite China's request to abolish anti-dumping barriers to the entry of their goods.

In November 2008, Mexico and China signed the Transitory Agreement on Trade Remedies. It excluded 749 tariff lines on Chinese products entering Mexico, and 204 tariff lines for sensitive products are protected to avoid any incidents with Mexican industry, particularly in sectors such as textiles, footwear, clothing and toys.

The new agreement will remain in effect for four years and was reached after 18 months of negotiations. Through it, 953 tariff lines are immediately eliminated while 22 per cent remain protected so that the

manufacturing sectors in Mexico can prepare for competition. Depending on the relevant sector, the measures vary between 60 per cent and 35 per cent and have a timetable to be phased out by 11 December 2011. The industry sectors covered are textiles, clothing, footwear, toys, bicycles, scooters, tools, appliances, electrical machinery, chemicals, lighters, pens, valves, ballasts (components in fluorescent lamps), locks and candles. These represent about 9.5 per cent of Mexico's manufacturing GDP (*Milenio* 2008; *Universopyme* 2008).

Nevertheless, Mexico could again sue China in the WTO. The legal basis from which Mexico has established tariff restrictions on Chinese goods is that Mexico does not consider China a market economy. Mexico, by not granting market economy status to China, is allowed to investigate subsidy allegations and impose duties.

In the decade since it joined the WTO, China has struggled to be recognized as a market economy although it regards itself as such. Using the concept of a “market-socialist economy”, China thinks of itself as a capitalist, market economy, albeit with “Chinese characteristics”. However, there are many indicators that China remains in part a command economy, since the government owns and controls the supply and prices of natural resources and public utilities. The government controls banks and insurance, lends money through the banks according to government policy and rates, and controls the currency and its value. The most important economic sectors, such as steel production, are dominated – when not exclusively monopolized – by state-owned enterprises. Through the control of money and loans and prices, the government dictates the supply and demand for the most important products and services (Feldman 2010).

## Mexico–China Dialogue on Trade Issues

In 2004 the governments of Mexico and China established a new bilateral forum to discuss and resolve the trade problems between them. The forum is called the High Level Group (HLG) and is composed of senior officials and academic advisers and led by Mexico's economy minister and China's Ministry of Commerce. The goal of the HLG is to strengthen and promote trade and investment between the nations. In general, the most important issues that have been discussed are: the recognition of China as a market economy, business information exchange, cooperation in mining, and countervailing duties. The HLG met on five occasions. The most recent meeting was held in March 2011. For Mexico, the

opportunities to cooperate with China centre on issues such as automobiles and automotive parts, food and beverages, electronics and appliances, and tourism (PROMEXICO 2010a). So far, the HLG meetings have not led to any concrete results. Dussel Peters (2011) writes about the HLG's situation, stating that

the Binational Commission [is] unable to fulfil its duty to handle critical topics such as the bilateral balance of trade, smuggling, discrepancies in statistical reporting, investment, infrastructure, tourism, and migration,

and he agrees expressly that these issues have been discussed in a non-binding manner.

However, through other channels, controversial items continue to arise. For example, after the last HLG meeting, and before restrictions imposed by Mexico on a range of Chinese imported goods were set to expire, the Mexican Ministry of the Economy sent its Chinese counterpart a letter accusing some of its companies of engaging in unfair practices to evade customs duties. The missive, signed by Mexico's economy minister, expresses "concern" over practices by Chinese companies such as declaring goods at falsely low prices, deliberately misclassifying merchandise, and shipping products via third countries. The Mexican economy minister proposed in the letter to that the High Level Group "analyse, discuss and solve the problem" in the near future (*Foxnews* 2011).

In addition to the trade figures between China and Mexico, we must take into account the value of goods entering Mexico illegally. Although the figures from Mexican producers' organizations and some politicians are very different and impossible to verify, piracy and smuggling are problems recognized by the highest authorities in China and Mexico. The main cause of this behaviour on the part of Mexican economic and political elites is the lack of foresight in dealing with competition from China. The accusations of "unfair" trade of Chinese products and even of the "danger" (to one's health) of consuming them have been a constant for several years in Mexican media. This reflects the tendency to maintain margins of protection for Mexico. Mexico's problem is that its ruling elite has implemented a radical policy of economic openness but has not developed a coherent project of integration into the global economy that includes competition from China and other international actors (Cornejo 2010: 347-368; Hearn 2010; Nájara 2010).

However, there is a significant sector of merchants throughout Mexico who are very interested in importing a lot of Chinese consumer

products at low cost, such as electrical machinery, auto parts, automobiles, textiles, household appliances and other increasingly sophisticated products.

Their success in this regard underpins a deep division within Mexico's private sector, with importers and retailers on one side of the chasm, and manufacturers of footwear, clothing, auto parts, and automobiles on the other. This basic split has impeded open debate and formulation of short-, medium-, and long-term strategies for dealing with China's growing impact (Dussel Peters 2011: 98).

The fact is that businesspeople are divided on the subject of trade with China. For some, China has brought enormous opportunities for the import of consumer goods and intermediate products that are cheaper than those offered by foreign and domestic competitors. Most, though, regard the massive influx of low-cost Chinese products as a source of disloyal competition that, together with China's poaching of Mexico's *maquiladoras* factories through tax breaks and low wages, has categorically undermined the Mexican economy (Hearn, Smart, and Hernández Hernández 2011: 139).

## The New Stage of Mexico–China Trade Relations

After ten years, Mexico's efforts to defend its domestic manufacturing industries against cheap Chinese imports have come to an end. The struggle goes back to China's admission into the WTO in 2001, which Mexico was highly reluctant to accept. In return for Mexico's vote to admit China, the two countries agreed to extend an existing Mexican programme of compensatory import duties on key sector products from China. Focusing largely on textiles, apparel and footwear, the duties ranged from over 100 per cent to over 1,000 per cent, depending on the product. The high tariffs delayed Mexico's commitments to the WTO related to China for a while. In 2007, as the expiration date neared, the Mexican government again pressed for an extension of the special agreement with China. The results were the elimination of the compensatory duties on 749 Harmonized Tariff System (HTS) product classifications and the extension of 204 remaining classifications. The tariff rates on the remaining products have been reduced annually since 2008, but currently the range is from approximately 65 to 130 per cent.

This compensatory duty scheme ended on 11 December 2011, and the Mexican government has eliminated compensatory quotas for pro-

ducts such as textiles, apparel, footwear, toys, bicycles, strollers, tools, appliances, electrical machines and apparatuses, chemicals, lighters, pencils, valves, ballasts, locks, candles and other items. Since then, Chinese products have become subject to Mexico’s General Importation and Exportation Tax Programme (TIGIE), which establishes the tariffs on products from countries with which Mexico has no special trade agreement (*Mexico Business Blog* 2011). The next table shows a sample of those tariffs.

Table 15: Mexico’s Compensatory Duty to 2011 and General Importation and Exportation Tax Program (TIGIE) to Chinese Selected Products

HTS Code	Product Type	2011 Compensatory Duty (%)	TIGIE Duty since 12 November 2011 (%)
6402.20.01	Footwear	70	30
6402.99.01	Sandals	70	30
6106.10.01	Sports shirts	80	30
6204.62.01	Pants	80	30
8504.10.01	Lighting ballasts	129	5
8509.40.01	Food blenders	65	20
8509.40.02	Juicers	65	0
8516.31.01	Hair dryers	65	15
8712.00.02	Children’s bicycles	65	15

Source: Secretaría de Economía and Banco de México.

Additionally, Mexico has the option of using WTO mechanisms to impose temporary safeguard measures while demonstrating that a branch of production has been affected by irregular business practices. One of the most sensitive areas of Mexico’s productive industry is footwear. In response to pressure from employers in this economic sector, the government stated that it will temporarily restrict the entry of Chinese footwear when it observes a “significant and sudden” increase in imports. Likewise, the government may impose a “provisional safeguard measure” 20 days after launching a probe into Chinese imports if “critical circumstances arise”, the statement added. The government, meanwhile, has also simplified the requirements for launching an investigation into unfair trade practices (*Latin American Herald Tribune* 2011).



However, despite the asymmetries and conflicts, China and Mexico are seeking ways to cooperate. The participation of the productive structures of both countries in global production chains requires new policies for trade and investment, especially in Mexico (Carrillo, Chen, and Goodman 2011).

It seems that the governments of Mexico and China are finding new ways of advancing the regularization of trade relations, taking into account their commitments to the international trading system (which monitors the WTO), and at the same time addressing the concerns of their constituencies. To that end, they started the negotiation and signing of new agreements by branch of production.

Having ended the transitional measures in December 2011, the governments of Mexico and China have begun to negotiate directly to avoid disputes in international organizations. The first case occurred on 27 March in Switzerland when senior officials from Mexico's Ministry of the Economy and China's Ministry of Commerce reached an agreement on the import and export of footwear.

The agreement, which will be in effect from 1 May 2012 until December 2014, establishes the conditions under which Mexico can import footwear from China. This will prevent the implementation of new protectionist measures that were promoted by the Chambers of Shoes of the states of Guanajuato and Jalisco and were implemented by Mexico's government in the context of WTO rules.

At the conclusion of the transitional measures imposed on imports from China, the Mexican Ministry of Economy adopted a strategy of providing information and advice to the 14 production sectors that have marketing problems with China, including the footwear industry. Mexican Secretary of Economy Bruno Ferrari, in a letter to Chinese Minister of Commerce Chen Deming, expressed the concerns of his government regarding the growing practice of unfair competition from Chinese companies. He clarified that the Mexican government does not aim to stop imports or prevent competition but to establish a level playing field and to ensure that shoes from China enter Mexico at fair prices (Albañil 2012; Medianas empresas 2012).

## Conclusions

The processes of liberalization in Mexico and China were almost simultaneous. However, these concurrent events led to very different results

due to each country's particular political and economic situation. For much of the nineteenth and twentieth centuries, direct trade between China and Mexico was almost non-existent, as Mexico was fighting for independence and internal disorder ruled in China. Direct trade relations between China and Mexico started in the 1970s with sporadic exports and imports of some commodities in small volumes. The current trade boom between the two countries began in the 1980s and was the result of the change in the trade policies of both China and Mexico. They joined the neoliberalism movement. In this new context of global exchange, Mexico–China trade relations have gone far beyond a bilateral relationship, as they now include triangular production and marketing relationships with the US; an interchange with and within North America (Roett and Paz 2008) and the East Asian region and with the world economy as a whole; partaking in the global commitments defined by international agencies; and a new international division of labour.

In short, throughout history, the trade volumes between Mexico and China have had drastic ups and down. This has been caused by domestic political factors as well as changes in the international political system.

In China, the planning system of foreign trade was gradually dismantled in the 1980s. Internal liberalization policies, openness, and participation in the global economy implemented by China's leadership can be witnessed through the participation in world trade and the receiving of FDI.

In Mexico, since the 1980s the import-substitution industrialization model was exchanged for a market-led development strategy. This implies that the ruling class shifted away from state-led, essentially inward-oriented, development policies. It liberalized trade, deregulated FDI and financial markets, and privatized state-owned companies.

The increasing role of foreign companies and international capital in key segments of the economy in both countries is reflected in their integration into global production chains. Mexico's trade relationship with China must be seen in this context.

Since the 1980s, the logic and interest of big business has played an important role in the dynamics of production in both countries. Hence, the bilateral trade relations have been characterized by the dynamics of globalization.

As I have mentioned throughout the paper, since the 1990s, China and Mexico have made progress in their foreign trade. With the expansion of their trade volumes and overseas markets, the overlapping parts

of their export products and markets have enlarged, which has brought about competition between the two nations (Yue 2009). However, it is also clear that there are opportunities for complementary production and marketing.

The commercial relationship between Mexico and China (and consequently, their production relationship) is complex and difficult. In Mexico, there are concerns in sectors of manufacturing about the role of China in world trade and especially about the trade relationship between the two countries. After the unilateral and unconditional opening of the Mexican economy, the productive sectors have been pressuring the government to preserve certain areas of the domestic market. This pressure has translated into a protectionist policy and a rejection of any new “free trade” agreements with countries in Asia, Latin America and Oceania.

With the elimination of the compensatory measures in trade with China, Mexico has complied fully with WTO rules but in the same context will continue trying to protect key sectors of its economy against Chinese imports. It is necessary to bear in mind that Mexico does not have raw materials to offer the Chinese market like other countries in Latin America do. New paths toward a mutually beneficial relationship are needed. Both countries need to find new formulas of cooperation, including bilateral trade and commercial relations with the rest of the world.

The main challenge for Mexico in this respect is not rooted in what is happening overseas but rather in redesigning its internal policy. Mexico needs to boost reforms in order to increase competitiveness. Labour costs will clearly not provide a competitive advantage, at least in the medium term. Proximity to the United States is a major strategic asset but improving efficiency is clearly a priority.

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