

THE FUTURE OF NORTH AMERICA- CHINA RELATIONS

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North America made strides toward integration once NAFTA took effect in 1994, but China's 2001 entry into the World Trade Organization (WTO) challenged that progress. Regional trade as a percentage of North America's total trade fell from a high of 46.4% in 2000 to 39.8% in 2017—lower than at the beginning of NAFTA. Much of the interregional trade lost was instead diverted to China.² In these years, much of the North American momentum that had been present in the 1990s and early 2000s was lost. In place of an integrated North American approach, three

China.⁴ Further, the increased regional content requirements for cars were intended to divert some supply chains away from the People's Republic of China (PRC) and back into the region.⁵ But these USMCA inroads were done more for the sake of antagonizing China than for promoting North American integration.

The coronavirus crisis has cast doubt on supply chain integration with China, in particular global dependence on Chinese medical inputs and supplies. In the rush, North American countries were lucky that the outbreak hit them just as China resumed production, and they were thus able to procure medical supplies. However, in the long run, the experience may encourage governments and companies to make supply chains more local to mitigate the disruption to manufacturing caused by contagious diseases, especially as China continues to pursue its COVID-19 strategy, putting entire cities in lockdown to prevent the virus from spreading. Two years into the pandemic, China continues to disrupt trade, and the supply chain it feeds, by shutting down important ports like Ningbo and the continued threat of further disruptions. This, coupled with bottlenecks in U.S. ports, will force North American manufacturers to invest in new supply chains closer to home.

On the other side of the relationship, China does not view North America as a region but looks at each country separately. In a way, it is reasonable in the sense that North America's integration has been limited and in many ways may remain so in the foreseeable future. But dismissing a regional perspective on the relationship with China is ~~slighted~~. Even though China has developed a unique relationship with each of the North American countries, its relations with the U.S. will undoubtedly determine those with Canada and Mexico. In this sense, the existence of a North American market has shaped each country's responses to China. In the

relation is the new normal. From an era of “constructive engagement” that began under the Clinton administration,⁷ China has moved to the category of “strategic adversary” in the eyes of the U.S.

China survived the downturn of the 2008 financial crisis better than much of the rest of the world (albeit at a cost of increasing credit lending, deferring adjustment costs to the future). Two years later, China surpassed Japan as the world's second largest economy.⁹ The economic crisis critically undermined Chinese confidence in an American world order and was encouraged greater assertiveness of Chinese foreign policy. According to the U.S. Treasury Secretary Hank Paulson, Chinese Vice Premier Wang Qishan told him that China no longer saw the U.S. as the country to learn from and follow.¹⁰

Despite claims that China was opening, the reality was that it remained a closed domestic market, even to important sources of foreign direct investment (FDI) and financial services. Payment processing companies like

behind Canada and Mexico¹⁵ Chinese FDI to the U.S. reached a peak of \$46 billion by 2016. And before U.S-China frictions, China was still considered a top place to invest due to its expanding market. This came, partially, at a cost to regional relations. The U.S. started importing

reached one of its lowest points in August 2019, when Trump called Xi Jinping an "enemy," and "ordered" American companies to leave the country.²¹

The effects of the trade war have been increasingly tense. Neither country thinks the other side is negotiating in good faith. China changed draft agreements, causing suspicions on the U.S. side. The U.S., on the other hand, does not appear to understand key nuances in China's system of government, for instance, that the Chinese government would ensure greater internal compliance with the terms of a trade deal using administrative and regulatory measures rather than enacting laws through its rubber stamp parliament.²² Companies that had issues with the Chinese market became more vocal in the U.S. narrative on business with China: China is a country that protects domestic copycats and treats foreign companies unfairly, while the U.S. government sits idly on the sidelines. Additionally, accusations of currency manipulation became prominent. The Trump administration's policies and the trade war only intensified the perception of risk. The Biden administration's addition of new Chinese companies to the Commerce Department's Entity List, as well as new launched CFIUS reviews to past investments in the United States by Chinese companies further mined the business relationship between both countries. The U.S. business community feels that China has eaten its lunch by regulating to favor domestic companies, whereas by contrast, Chinese companies face fewer barriers in U.S. markets. China has lost its label of "reliable place to invest" because of Trump's tariffs. Meanwhile, the U.S. has gained little from the tariffs. The trade war has diverted investment, supply chains, and jobs without directing them to the U.S., all this coming at a cost to American consumers and businesses especially in agriculture.²³

This conflict escalated in May 2019 when the U.S. Commerce Department put Huawei on its “Entity List,” which would ban U.S. companies from selling components to Huawei or its affiliates and essentially bankrupt it—albeit with several exemptions for American companies that would lessen the impact.²⁵ This measure was partially retracted as trade negotiations continued, but the U.S. has continued to pressure allies, including the U.K. and Germany, against collaborating with Huawei. The U.S. then followed by putting Chinese tech companies, including IFlyTek, SenseTime, Hikvision, and more, on the Entity List to human rights violations, creating a new reason for placing companies on the Entity List. Furthermore, the U.S. required semiconductor companies that use U.S.-made machinery to apply for licenses from the Commerce Department to sell to China. This move aims to sound the death knell for Huawei and other tech companies.

U.S. technology companies such as Intel, Qualcomm, and Apple of which managed to replicate their success in China—are in the crossfire between the two countries’ peripheral issues. Intel and Qualcomm have faced questions about national security and the placing of their major Chinese clients in the Entity List. Apple has been affected because of the tariffs and the Chinese government constantly threatening to use it as a bargaining chip with Huawei. IP espionage, as well as overreach to espionage, including keeping tabs on U.S. scientists of Chinese descent, have also become a lightning rod for these issues.²⁶

China-Mexico

Sino-Mexican relations have been historically the shallowest of the three North American countries. The main cause of this is that China and Mexico are economic competitors, particularly in textiles, electronics, and machinery for the U.S. market.²⁷ Before China acceded to the WTO, there was relatively little discussion of trade among the two countries, but China surpassed Japan as Mexico's second largest trade partner in 2003.²⁸ This trade relationship has tripled since then, with Mexico importing mainly phones, semiconductors, and computers from the PRC. Still, half of Mexico’s imports and three quarters of its exports are with the United States, compared to a

Ding Yi, "Huawei Adds More Self-Made Chips to Smartphones to Cut Reliance on U.S. Tech," January 13, 2020, <https://www.caixinglobal.com/2020-01-13/huawei-adds-more-self-made-chips-to-smartphones-to-cut-reliance-on-us-101503448.html>

²⁵ Douglas Fuller and Paul Triolo, "The ripple effects of a complete ban on Huawei access to U.S. tech will be huge," SupChina, May 21, 2019, <https://supchina.com/2019/05/21/ripple-effects-of-a-complete-ban-on-huawei-access-to-u-s-tech-will-be-huge/>

²⁶ Bill Chappell, "Acclaimed Harvard Scientist Is Arrested, Accused Of Lying About Ties To China," NPR, January 28, 2020, <https://www.npr.org/2020/01/28/800442646/acclaimed-harvard-scientist-is-arrested-accused-of-lying-about-ties-to-china>; Hvistendahl, Mara, The Scientist and the Spy: A True Story of China, the FBI, and Industrial Espionage,

investment stock and flow.³⁵ The investment environment is further complicated because the U.S. has explicitly asked the Mexican government and private sector to not accept Chinese investment in strategic sectors.³⁶ To focus on domestic issues and avoid conflict with the Trump administration, AMLO has been keen to appease U.S. demands.³⁷ To focus on domestic issues and avoid conflict with the Trump administration, AMLO was keen to appease U.S. demands. In addition to following the Trump administration's desires by blocking Central American migrants headed north, Mexico is also likely to follow to some extent the United States' wishes in its relations with China.

Even before AMLO and Trump, expectations that Chinese investments would transform Mexico's infrastructure have rarely been met.³⁸ Mexican interest in such investments may be driven less by interest in deepening relations, and more by the competitive prices offered by Chinese firms.³⁹ Most recently, China's ambassador to Mexico announced that China had invested \$600 million in AMLO's pet project, the Dos Bocas refinery.⁴⁰ Adding to the confusion, AMLO's Secretary of Energy quickly refuted this claim, saying that the project was completely financed by the Mexican government.⁴¹ This mishap, more than anything, could be the current government wanting to maintain its promised nationalization of Pemex, as well as Mexico trying to avoid confrontations with its northern neighbor. In April 2020, Mexico announced that the China Communications Construction Company would be part of a consortium to build another pet project, the Mayan Train in southern Mexico.

be helpful to consider how its neighbors can cooperate to make that happen. Further, as China has

climate change, and the current global pandemic, will become increasingly important. In these cases, as well as in those where China poses a challenge to the region, rebuilding diplomatic relations will be key. Presenting the three countries as a unified block could also help gain influence and friends. This would also help the U.S. rebuild its diplomatic relationships with countries it has alienated. Mexico and Canada can serve as mediators where relations have turned tense, or where the U.S. has lost credibility.

The coronavirus may prove to be a critical juncture, not only because of the immense crisis has created but because competing narratives of leadership between the U.S. and China may impact the U.S.'s credibility.⁶⁵ How the U.S. and China's relationship evolves during the response to the coronavirus crisis may create a precedent for how cooperation, or lack thereof, will develop in the future, especially with regard to the climate crisis. The nature of U.S.-China relations will also influence whether Canada and Mexico will look toward each other and the U.S. for a coordinated response or hedge between the U.S. and China. The next steps will involve the scramble over vaccines—if the three North American countries can coordinate on this end and become immune to COVID-19 at a similar time, this will allow more space to strengthen ties amongst the three countries.

Ultimately, a North American strategy will largely depend on political will, although the COVID-19 recession may create an opportunity for integration and realignment. The U.S.'s standing with its neighbors will be key in its recovery. However, the first signals from the Biden Administration have not been one of cooperation, but rather a continuation of President Trump's America First policy, particularly as pertains to the subsidies for electric vehicles manufactured in the United States. These actions from the United States keep sending the same message that it is not a reliable partner, forcing Canada and Mexico to keep its options open with regards to China and not burn any bridges.

Conclusion

The future of North America's relationship with China will be complex. Relations are more tense than they have been in decades, particularly with the United States and Canada. Serious economic and security interests are at play, including trade wars, tech competition, and Arctic exploration. At the same time, there are world issues that will require cooperation with China. These include climate change, pandemics, and trade. To best address these issues, the three countries need to develop more pathways for cooperation. But it doesn't look like that is going to be the case. The United States and Mexico have become more inward-looking, and outside of renegotiating the USMCA, little effort has been made to strengthen the region.

The Biden Administration has the opportunity to strengthen its relationships with North American allies to create a strategy that further integrates the three countries in a way where all three are better positioned with regards to China. While the general direction of North American relations is not likely to shift, there are opportunities for a shared—and smart—approach. By going back to diplomacy and replenishing the State Department, the U.S. will be better equipped

⁶⁵ David Gitter, Sandy Lu and Brock Erdahl, "China Will Do Anything to Deflect Coronavirus Blame," Foreign Policy, March 30, 2020, <https://foreignpolicy.com/2020/03/30/beijing-coronavirus-response-seewhat-sticks-propaganda-blame-ccp-xi-jinping/>.

to challenge China effectively. The rise of China will as the country's increasing assertiveness, will continue to be a centrifugal force in international relations. This is not something that North American countries can change. However, b is 0(an)-4(0(ch(o)-.ta.a.26)114(g)6(s)-5(s)1(i)-o(as)-5(se