Wilson Center

The Triangular Balance:
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The outbreak of the trade war between China and the United States launched a debate on issues ranging from how

Ideally, Mexico and the United States should have an understanding—if not outright cooperation—on how Beijing should be approached, and ideally, a joint position should spring naturally from the two neighbors. Yet, the reality is much more complex, especially since Chinese companies have started to invest in Mexico, and although the amount is still a slight fraction of the foreign direct investment (FDI) inflows that Mexico receives every year, the expectation is that such investments will increase in number and in quality, which has caused concern (and some incendiary remarks) from the United States.

The issue is further complicated because, should the United States attempt to coerce Mexico into adopting a specific position towards China, the result could be the exact opposite of what Washington wishes to accomplish. Indeed, it is wrong to assume that Washington can fully shape Mexico's policy towards China. Mexico is deeply protective of its own foreign policy[6], and there are legitimate reasons that Mexico could argue for defending its relationship with Beijing, independently from Washington.

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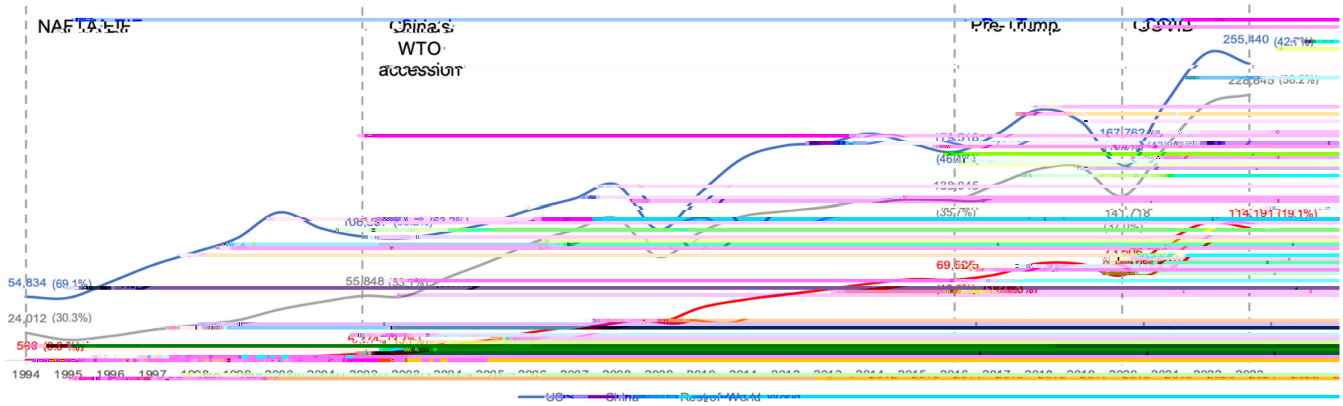
Since NAFTA's implementation in 1994, Mexico's imports from China have consistently risen, going from $6.2 billion in 2002- the year China joined the World Trade Organization (WTO)- to $114.1 billion in 2023. Consequently, China has swiftly gained a significant share of the Mexican market, reaching over 19% in 2023. This growth corresponds with a decline of over 20 percentage points in the US share of the Mexican market during the same period—it is worth noting that China became the US' main supplier in this same period.

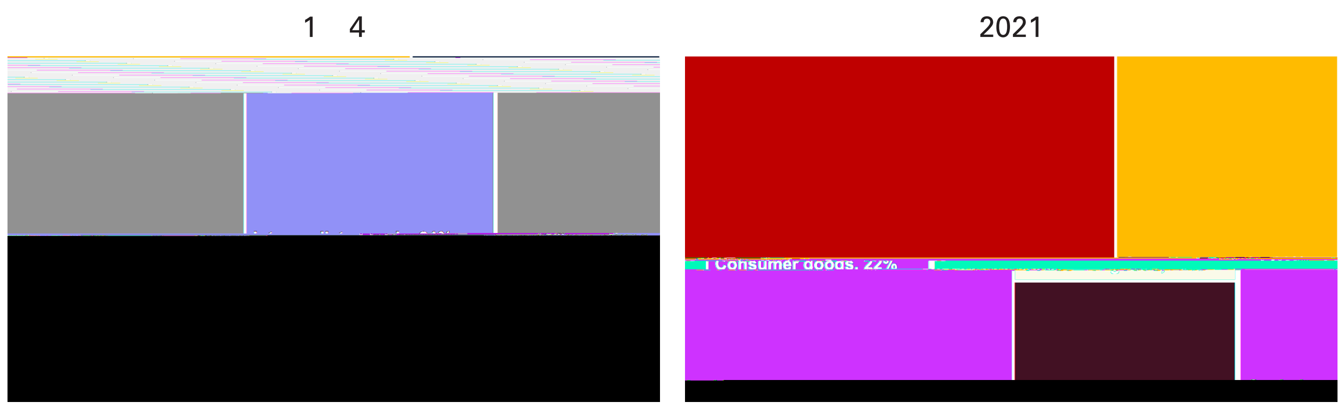
Figure 1: Imports into Mexico and market share growth



Market share is indicated in parentheses. Source: Banxico, 2024.

More importantly, Mexico began importing intermediate and capital goods from China, instead of just importing massive amounts of goods for consumption. This is relevant because it indicates that China started to export products with more value added, inserting itself in the Mexican manufacturing production, and by extension, into the United States market.

Figure 2: Mexican imports coming from China by type of good



Source: World Bank, 2024.

China’s presence in North America grew rapidly and was by no means an accident, nor did it happen unnoticed. Rather, its presence grew, particularly regarding imports, as the trade policies in both the US and Mexico favored the articulation of North American supply chains with Chinese inputs, establishing relatively low tariffs and benefiting from China’s accession to the WTO.

The origins of this trend go back to when Mexico, who was a relatively minor trading partner for the United States, negotiated NAFTA in 1994. Due to the removal of tariffs that this agreement provided, Mexico became one of the top three largest suppliers of the United States, displacing countries such as Japan and Germany, only behind Canada, as shown in Figure 3.

Figure 3: Top five US Suppliers

Source: Statista & World Integrated Trade Solutions, 2024

The objective of NAFTA was to create regional supply chains that galvanized the region’s competitive advantages and promoted investments in North America[8]. For Mexico, it also meant the possibility to deepen its economic dependency with the United States, breaking the volatility that the country experienced during the 1980s.

However, China quickly surpassed Mexico and Canada in the United States import market, despite not having any free trade agreement and the logistical and geographical costs associated. This scenario caused strong reactions and, at least for the past ten years, it became a focal point in the development of US trade policy.

Arguably, the defining issue of the first half of the 21st century centered on how China and the United States would conduct their relationship, which has swung from friendliness to open hostility in the past three decades. The United States efforts to contain China's rise started with the George W. Bush administration, which criticized the attempt of President Clinton to seek a partnership with China, instead of openly competing against it[9].

Similarly, President Barack Obama repeatedly stated that the Transpacific Partnership (TPP) negotiations were Washington's strategy for guaranteeing that the trade rulebook would be written by the United States and its partners, and not by China

Moreover, the United States and Mexico increased tariffs on Chinese goods, although Washington used domestic legislation (Section 301[15]) to specifically target Beijing, while Mexico increased its Most Favored Nation (MFN) tariffs twice[16], covering Chinese goods, but also affecting goods from third countries such as Brazil, South Korea or Turkey. Mexico, the United States, and Canada have pledged to consider more policy options to address concerns about China. Although it does not reference China directly, trade authorities at the Fourth USMCA Free Trade Commission Meeting,

> "… *agreed to jointly expand their collaboration on issues related to non-market policies and practices of other countries, which undermine the Agreement and harm US, Canadian, and Mexican workers, including in the automotive and other sectors."*[17].

It remains to be seen what such collaboration may entail, and how far the USMCA countries are willing to coordinate its policies towards China, but the fact that their commitment is reflected in an official trilateral document is undoubtedly relevant. The 2026 review can provide a window of opportunity for any decisions or actions that countries wish to implement in this regard.

On FDI screening, the US has more tools available than Mexico. Mexico's Ministry of the Economy is tasked by the Foreign Investment Law to keep a registry of foreign companies starting operations in the country, but it does not have any mandate to assess national security risks or similar concerns, as does the Committee on Foreign Investment in the United States (CFIUS). Yet, in December 2023, US Treasury Secretary Janet Yellen visited Mexico to meet with Mexico's Secretary of Public Finance (SHCP), Rogelio Ramirez de la O, and both *"signed a Memorandum of Intent (MOI) to affirm the importance of foreign investment screening in protecting national security and express their desire to establish a bilateral working group for regular exchanges of information about how investment screening can best protect national security".* Bilateral efforts to construct more robust cooperation on investment screening is key, though it will need to be deepened in the near future, even if these efforts are carried out by only a handful of specialized agencies.

In the US, Congress has created specific committees to monitor the country's policies towards China, and they have designed complementary measures. The Select Committee on the Strategic Competition between the United States and the Chinese Communist Party (CCP) of the US Congress is bipartisan body aimed at developing a plan of action to address potential CCP threats to the US. It issued a comprehensive report in December 2023[18] suggesting a strategy for economic and technological competition with China, which consists of several policy recommendations.

Some of the outstanding findings and recommendations include (i) China's economic system is incompatible with WTO rules and the United States should remove the Permanent Normal Trade Relations (PNTR) status granted to it; (ii) the US should renew the former China-specific Safeguard Mechanism; (iii) promote research and development in emerging technologies in sectors such as commercial space ventures, autonomous vehicles, and hydrogen technologies, among others.

Mexico, on the other hand, has not established similar committees on these issues. In both the Chamber of Deputies and in the Senate, there are commissions that study and assess general issues that could be important to Mexico's relationship with China, but there are no specific committees solely focused on evaluating policies *against*

China. Several members of Mexico's private sector are openly against any rapprochement towards Beijing[19], given that this has led to a lost opportunity to access China's domestic market[20].

This set of mixed messages sent by high-level Mexican officials makes it difficult to understand Mexico's position towards China. The Secretary of the Economy[21] and the Secretary of Hacienda[22] have taken policy decisions that suggest a disapproval of certain business practices by Chinese companies. However, these policies co-exist with open invitations to Chinese companies to invest in the country and with courtesy calls with Chinese officials. President Lopez Obrador met with Chinese officials[23] and president-elect Sheinbaum met with the Chinese ambassador to Mexico almost immediately after her electoral victory, who presented her with a letter from President Xi Jinping[24].

In conclusion, the United States has established a confrontational relationship with China—at times openly and sometimes with more nuances, but nonetheless confrontational. Washington's stance towards China has influenced the proceedings and activities of a myriad of stakeholders[25], and it is unlikely that such environment will see significant changes in years to come.

Mexico has not developed a clear position vis-à-vis Beijing, in either sense (friendly or confrontational), but has so far maintained the *status-quo* to protect its interests, and how shown little interest in modifying its bilateral relationship with China. A few Mexican policy decisions—increases in tariffs and restrictions on the exploitation of certain critical materials—are fully aligned with what Washington is already implementing, but a significant reframing of the relationship has yet to occur.

Rather, the debate in Mexico is focused on how to reap the benefits from maintaining a close relationship with China without antagonizing its top trading partner, the United States[26], a strategy that is reflected in the mixed signals previously mentioned. Nevertheless, the discussions in Mexico regarding China are consistently influenced by the political climate in the United States. It is undeniable that the US' perspectives on Mexico, China, and Mexico's stance (or lack thereof) towards China may intensify as the US election approaches.

The 2024 US presidential elections will serve as a referendum on America's role in the world, including its foreign policy towards Russia, Israel, Palestine, and China. In fact, America's policy towards China is poised to take center stage during the electoral cycle[27]. The complex relationship between the two world powers, characterized by economic interdependence and strategic competition, has become a focal point for debate among candidates and voters alike, with more US citizens considering China as the US' most important enemy[28].

The presidential candidates are under pressure to articulate clear and decisive policies towards Beijing. Both Joe Biden and Donald Trump seem to compete on who can propose the most radical policies towards China. While it is unlikely that the results of the November elections will significantly change Washington's position towards China, the winning candidate will set the tone for the future of the US-China bilateral relationship.

The question of how to address US competition with China has become deeply intertwined with domestic concerns such as job creation, national security, trade, and investment. Therefore, it is not unrealistic to imagine that US policies towards China will naturally affect Mexico, as it plays an important role in the region. Given Mexico's substantial economic dependence on the United States, particularly on exports, such a stance could emerge as a prominent feature of campaign rhetoric. Both US presidential candidates will promise to safeguard US economic interests and preserve US hegemony in the Western Hemisphere by constraining Mexico's ties with China, an issue that may resonate with certain voters.

There is ample evidence of how this rhetoric could present itself: from Trump stating that he would tax Chinese cars exported from Mexico[29] (although there are currently no Chinese automakers producing cars in Mexico) to USTR Ambassador Tai suggesting that China will be a fundamental issue in the 2026 USMCA review process[30].

The intricate web of trade relationships between Mexico and the United States makes the issue more complex. Aside from Mexico being the largest US trading partner, Washington could consider other measures to compel

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The USMCA features a unique clause that initiates a review process every six years following its implementation. However, the USMCA does not provide specifics on how this review should be conducted. Article 34.7, Paragraph 2 of the USMCA specifies that on the sixth anniversary of the Agreement's entry into force, the Commission will undertake a "joint review," considering any "recommendations for action" submitted by any Party. These recommendations need to be presented to the Commission at least one month before the review.

There are no guidelines outlining the steps involved in the review process, or how the three countries should agree on the review rules, or who the participants should be. Similarly, there is no direction for the Commission on which recommendations to accept and which to reject, other than the lines included in the 2024 Fourth Meeting of the Free Trade Commission.

As the first USMCA review approaches, it is expected that the China question will become more pressing, and as

This language has never been tested, given that no USMCA country has launched negotiations with a non-market country, but it is worth remembering that China applied for membership in the Comprehensive and Progressive Transpacific Partnership (CPTPP), the agreement enforced by the TPP after the United States withdrew in 2017, and to which Mexico and Canada are signatories.

Therefore, it is not difficult to imagine that the United States would propose to expand the spirit of Article 32.10 to other latitudes. For example, it could be suggested that in order to enter the US market duty-free, in addition to meeting the applicable rules of origin and fulfil all other related requirements, it would be necessary to demonstrate

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