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Comparative Experience of Trade Relationships between Mexico and China

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Abstract: Mexico and China established diplomatic relations in 1972 and since the 1990s, Mexico and China have both made progresses in their foreign trade. Expansion of their trade volumes and overseas markets, the overlapping parts of their exporting products and markets have been being enlarged. This paper analyses the trade relationship between Mexico and China in the context of the economic openness enacted by both nations, also analyses the current trade relations between Mexico and China, presenting similarities and logical relation along with the results of their commercial policies and specific business practices.

Keywords: Mexico; China; Foreign Trade

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INTRODUCTION

Mexico and China established diplomatic relations in 1972 and a strategic partnership in 2003. Mexico and China relations enjoyed steady progress in 2010. Friendship and mutually beneficial cooperation between the two sides were strengthened across the board. Since the 1980s, Mexico and China almost simultaneously began to implement policies of economic liberalization and open trade. These phenomen occurred as a result of changes in the international economic system and in the socio-economic structures of each country and the perspectives of their leaders, rooted in ideology and based on domestic political conditions. By the 1990s, China and Mexico have both made progress in their foreign trade in the background of the global integration and the regional consolidation, which makes them outstanding in the developing economies.

The expansion of their trade volumes and overseas markets, the overlapping parts Mexico's and China's exporting products and markets have been being enlarged, for sure in some extend a fierce competition exists between the two nations. Some scholars turned to the competitive or complementary trade relation between Mexico and China and made relevant empirical analyses on it. Soler (2003) finds that China has deteriorated Mexico's export more or less. By comparing the trade competitiveness indices among China, other Asian economies and Latin American countries, Lidoy et al (2004) believe that there's significant rivalry between Mexico and China. Bernard et al (2004) make comparison between China and other US' main import origins, and argue that the exports similarity between Mexico and China is relatively higher. Peters (2005) suggests that China, after its accession into the World Trade Organization (WTO), has affected Mexico's position in the US market due to their similar resource endowments and export-oriented policies. Jia (2005) investigates the competitiveness and complementariness in Sino-Latin America trade and find there is much resemblance in the exports of the pre-mentioned two countries. Liu (2007) reports the competitive industries between the two nations through empirical studies.

However, trade disputes between Mexico and China will be raised and resolved in multilateral dialogues, as an example; in June 2013, the presidents of Mexico and China agreed to broaden relations between their countries and expand trade ties, including opening the Chinese market to imports of Mexican tequila and pork. After meeting privately both presidents, Mexico's Enrique Pena Nieto and China's Xi Jinping said they are transforming the relationship into a ''strategic partnership'' and taking steps to move toward balancing their trade, which now is heavily in favour of China. The leaders signed a dozen memorandums of understanding and cooperation agreements in areas including energy, mining, education and infrastructure. ''Today, we are giving way to a new relationship, a new phase of the relationship,'' Pena Nieto said in a joint statement. Xi said China wanted better relations with Mexico, which he called ''a great friend and a great partner in the Latin American region.'' The Mexican President Pena Nieto said the new agreements are aimed at balancing trade between the two nations and also seek to increase Chinese investment in Mexico. He said Mexico hopes to become a ''platform'' for Chinese companies to trade with other nations in the region. This paper analyses the trade relationship between Mexico and China in the context of the economic openness enacted by both nations, also analyses the current trade relations between Mexico and China, presenting similarities and logical relation along with the results of their commercial policies and specific business practices.

MEXICAN AND CHINESE ECONOMIC OPENNESS

Ever since the 1980s, Mexico and China have been implementing extensive economic liberalization policies that are somewhat similar in essence but possess very different characteristics. Both countries began their opening processes because of historical, political, economic and social asymmetries. Moreover, the future prospects of the nations and the objectives of their leaders at that time were very different. Accordingly, “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).

Actually, Mexico’s economy is clearly not complementary to China economy, but from a standing start they would have to be seen as being in direct competition and in many ways similarly structured. While 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 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 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).

China began its economic opening process 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 geopolitical balance (especially China–US–USSR). 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 time, 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 during 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). 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.

China reforms began in the agricultural sector, reversing the process of collectivization during the Maoist era. After that, the 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. Nevertheless, 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).

In the meantime, 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.

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 behavior of Mexico's and China'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 Mexico and China (2001 - 2010)

	Mexico							China					
	2001–2005	2006	2007	2008	2009	2010		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 (in billion USD at current value)	1,722	2,713	3,499	4,521	4,991	5,879
GDP (annual growth %)	1.4	5.2	3.3	1.5	-6.1	5.5	GDP (annual growth %)	9.6	12.7	14.2	9.6	9.2	10.3
GDP per capita (in current USD)	7,077	9,137	9,840	10,307	8,217	9,580	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)	10,620	13,510	14,410	15,120	14,200	15,010	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)	23	26	26	27	22		Gross capital formation (% GDP)	40	43	42	44	48	
Total reserves (incl. gold) (in billion USD at current value)	58.6	76.3	87.2	95.3	99.9		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)	23.243	20.103	29.083	24.913	14.462		FDI, net inflows (BoP, in billion USD at current value)	54.938	78.095	138.413	147.791	78.193	

Source: World Bank 2011; UNCTAD 2011.

The highly asymmetrical economic structure between Mexico and China is the result of large differences in the strategies implemented by both nations' policies of liberalization and economic openness. Furthermore, differences in political system, economic structure, and the national objectives of the two nations' leaders have led to different outcomes and constitute the background of current trade disputes between Mexico and China.

MEXICO'S FOREIGN TRADE

For several Mexican presidential administrations, foreign trade has been defined by a policy of diversification. 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). Mexican economy is particularly vulnerable to external factors, especially to the economic behavior of the United States, given the highly integrated nature of its manufacturing sector with that of its northern neighbor 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). In Table 2, 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.

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. 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.

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 2). 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. Mexico'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).

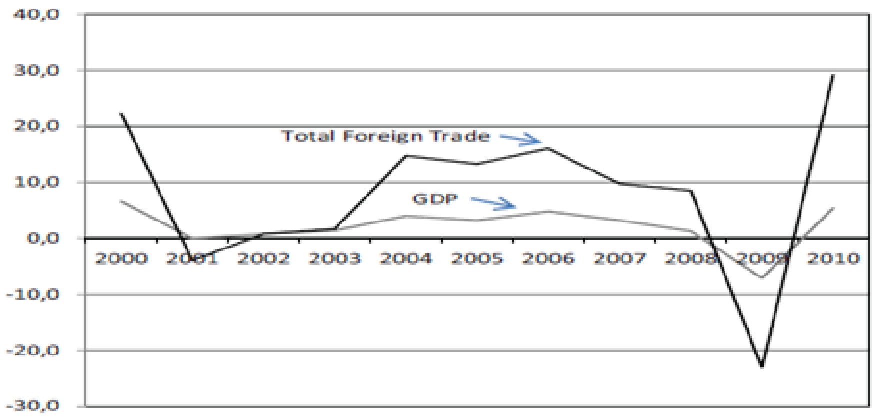
Table 2: Mexico's Foreign Trade, 1993 - 2010 (in billion USD)

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. In Figure 1, 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 1: Mexico: Relation between GDP and FDI, 2000-2010 (in Percent)



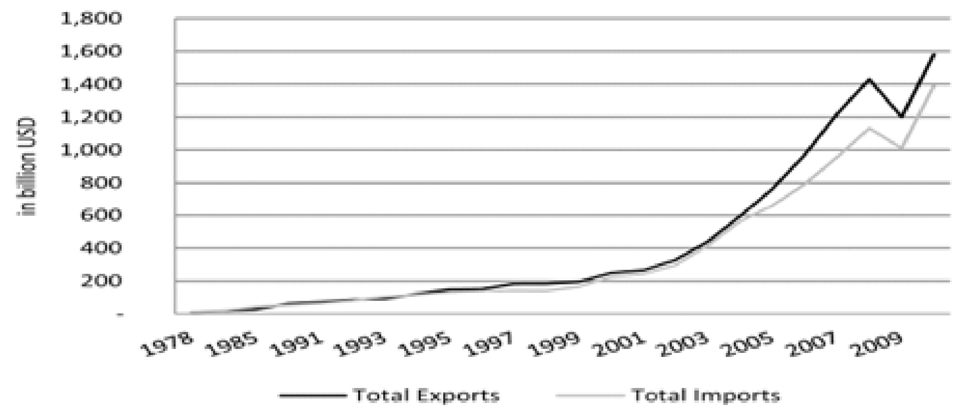
Source: United Nations 2009; Secretaría de Economía 2011.

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. China's foreign trade has dramatically changed the country's relationships with its trading partners, as a product of internal political conditions and its relationship with the international system. 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. 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 2).

Figure 2: China's Foreign Trade, 1978 - 2010



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

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 3, 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 3: 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.

TRADE RELATIONSHIPS BETWEEN MEXICO AND CHINA

Trade relations between Mexico and China started with the reestablishment 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 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.

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 4. 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).

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 5. 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).

CONCLUSIONS

Mexican and Chinese Economic Openness processes 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 century's, 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. 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.

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. Both countries need to find new formulas of cooperation, including bilateral trade and commercial relations with the rest of the world.

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