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Chinese Companies "Nearshoring in Mexico," Making Washington Unhappy

Key Takeaways

- **The flow of trade from China to Mexico has surged in recent years and Chinese manufacturers are opening new facilities in Mexico at a rapid pace.** China is Mexico's fastest-growing source of inbound foreign investment, underscoring Mexico's strategic importance to China's global trade and investment strategy.
- **Chinese firms increasingly aim to leverage Mexico as a hub for re-export, allowing Chinese goods to circumvent U.S. tariffs and trade restrictions on products imported directly from China.** As impediments to direct U.S.-China trade have expanded, in 2023 Mexico became the United States' top trading partner—a position held by China for two decades.
- **This trend is attracting negative attention from U.S. lawmakers, who are speaking out against China utilizing Mexico even as required renegotiations of the U.S.-Mexico-Canada Agreement (USMCA) approach in 2026.** U.S. policymakers have called for increased tariffs and stricter 'rules of origin' to slow down the expansion of Chinese transplants in Mexico. Such policies could add to Washington-Mexico political troubles and lead to new compliance burdens for U.S. companies that produce in Mexico, among other business impacts.

Chinese Manufacturers Look to Mexico

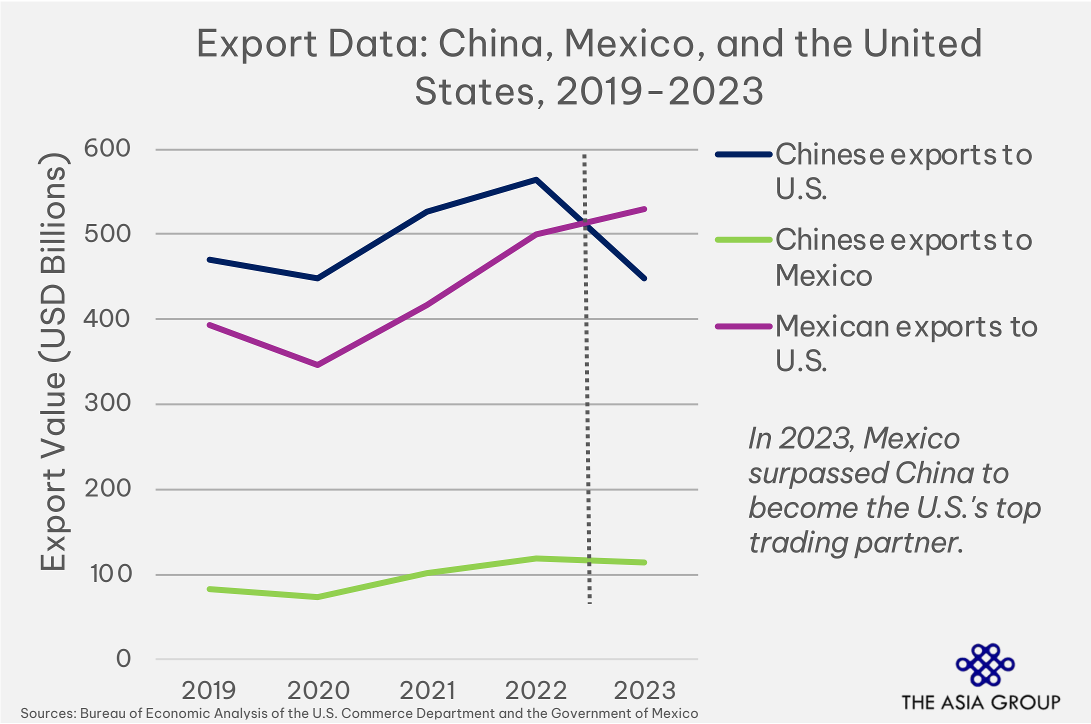
Chinese firms view Mexico as a compelling investment destination in North America. Foreign direct investment (FDI) flows from China into Mexico represent Mexico's fastest-growing source of inbound industrial capital. In 2022, China's annual FDI into Mexico reached a record high and was almost four times the total in 2015. These most recent numbers also do not account for a wave of large investment deals signed in the past two to three years, some in the billions of dollars, that will be reflected in official data over the coming years.

Annual Flows of Foreign Direct Investment from China to Mexico, 2019-2023			
	FDI Inflow to Mexico (in USD millions)	Percentage growth over previous year	
2019	85.6	-	-
2020	168	96%	
2021	235	40%	
2022	570	143%	
2023	159	-72%	
2024 (as of June)	235	48%	
Source: Government of Mexico			

Manufacturers from China setting up shop in Mexico seek to benefit from Mexico's geographic proximity to the United States and its inclusion in the USMCA. FDI from China largely targets manufacturing in Mexico, with a growing portion flowing to Mexican states that border the United States. In the first quarter of 2024 alone, a record 41 Chinese manufacturing and logistics projects in Mexico were announced. One city, Nuevo León - only 140 miles from the U.S.-Mexico border – garnered nearly half of Mexico's net investment inflows from China in 2023. Chinese manufacturers in Mexico – like U.S. and Canadian firms that 'nearshore' in Mexico – seek to benefit from lower labor costs and government incentives.

Recent Notable Chinese Investments in Mexico			
Date	**Investor**	**Value**	**Industry**
Oct-23	Lingong Machinery Group	USD 5 bln	Manufacturing (Heavy Equipment)
Oct-23	Trina Solar	USD 1 bln	Energy (Solar)
Oct-23	Ningbo Tuopu Group	USD 700 mln	Transport (Autos)
Mar-23	Ningbo Xusheng Group	USD 276 mln	Manufacturing (Auto-parts)
Aug-22	Man Wah	USD 200 mln	Manufacturing (Furniture)

Chinese investment in Mexico also helps meet demand in the U.S. market, even as the United States is shifting away from direct imports from China. As U.S.-China trade relations cool, Mexico has emerged as a pivotal trade conduit. U.S. imports from Mexico rose by 18.9 percent year-over-year in 2022 and 4.6 percent in 2023. This contrasts with U.S. imports from China, which increased 6.3 percent in 2022 and then saw a precipitous fall in 2023, decreasing 20.3 percent to USD 427.2 billion. Meanwhile, the volume of trade flows from China to Mexico has grown rapidly in recent years. In January 2024, for example, container exports from China to Mexico increased by 60 percent over the same month in 2023. These imports from China are often transformed into both finished and semi-finished goods that enter the U.S. market, many labeled 'Made in Mexico'.



Washington's Growing Concerns

U.S. lawmakers in both the House and Senate have publicly stated their intention to try to prevent Chinese companies from circumventing U.S. tariffs via Mexico. Some examples include:

- In September 2024, twenty Democratic lawmakers wrote a letter to Mexican President Claudia Sheinbaum **asking Mexico to establish a national review to address national security concerns posed by connected vehicles produced by Chinese automakers in Mexico**. The lawmakers also requested that a delegation from Mexico visit the United States by early 2025 to discuss cooperation in this area.

- Also in September 2024, Senator Marco Rubio (R-FL) introduced the **Stopping Adversarial Tariff Evasion Act** to prevent Chinese companies from 'country hopping' to evade tariffs and flood the U.S. market. The proposed bill would require clarification of the country of origin of certain articles imported into the U.S.

- In February 2024, U.S. Senator Josh Hawley (R-Mo.) released the **Protecting American Autoworkers from China Act,** recommending higher tariffs on all imported autos from Chinese manufacturers. If this legislation passed, it would increase President Joe Biden's 100 percent tariffs on all auto imports from Chinese carmakers to 125 percent, "irrespective of where the car is manufactured."

Despite these concerns, under current law the U.S. government has only limited tools to address China's circumvention of U.S. tariffs through Mexico. Convincing the Mexican government to take voluntary actions against Chinese FDI will be challenging, absent any *quid pro quo* from the United States. Economic officials in Mexico, including Economy Secretary Marcelo Ebrard, have made clear that Mexico is looking to accelerate nearshoring and reduce its dependence on imports to benefit Mexico's economy through stronger domestic supply chains.

It appears that there will be negotiations between U.S. and Mexican officials in the coming years on these matters. The agenda for such talks may include:

- **Foreign Investment Screening:** The United States may push harder for Mexico to develop a joint foreign investment screening framework to prevent Chinese FDI in Mexico that is inconsistent with U.S. investment restrictions. Mexico lacks a counterpart to the U.S. Committee on Foreign Investment, but the two sides have established a U.S.-Mexico bilateral working group focused on foreign investment screening. This initiative will have considerable work ahead if it is to address gaps in the investment regime confronting Chinese companies.

- **Rules of Origin:** Likely with greater effect, the United States will also press for stricter rules of origin in the USMCA to try to prevent an influx of China-related imports from Mexico and protect the U.S. auto industry. USMCA rules of origin require 75 percent of a vehicle's content to come from North America and that a certain percentage of a vehicle be built by workers earning at least USD 16 an hour. Mexico has seen growing interest from Chinese automakers to establish manufacturing facilities that would satisfy current USMCA rules of origin if their production becomes local to Mexico. The United States will likely seek rules that disallow Chinese transplants from satisfying the 75 percent requirement.

- **Increased Tariffs:** In July, the United States and Mexico acted against China's circumvention of tariffs for steel and aluminum imports that come through Mexico. The action imposes Section 232 tariffs on (1) U.S. imports of steel via Mexico that is melted/poured outside of North America (25 percent), and on (2) imports of aluminum via Mexico that contains metal that is smelt or cast in China (10 percent). As part of this action, Mexican authorities will require importers to provide information about where their steel products are sourced. While Mexican officials were open to acting on steel and aluminum due to established domestic players, they may be hesitant in other areas with substantial FDI potential, such as EVs and manufacturing.

Key Watchpoints

Political dynamics in the United States, Mexico, and Canada over the next two years will shape how successful the U.S. government will be in swaying its USMCA partners to take a tougher approach toward China.

- **USMCA Negotiations:** USMCA is up for review in July 2026, with consultations set to begin in the second half of 2025. During this time, all sides will be able to propose adjustments. Rules written in 2018 for USMCA fail to address the wave of Chinese global exports in certain supply chains that has occurred in recent years. As a result, 2026 negotiations are expected to be more complex than when the USMCA replaced the North American Free Trade Agreement (NAFTA).
    - **Adding measures to USMCA to deter Chinese investment and exports will require unanimous agreement between all three countries, which will be a challenge for the United States to achieve.** In a May 2024 meeting to discuss USMCA, the three countries agreed to work on "issues related to non-market policies and practices of other countries, which undermine the Agreement and harm U.S., Canadian, and Mexican workers, including in the automotive and other sectors." As negotiations grow nearer, U.S. lawmakers are expected to increase calls for addressing Chinese exports evading tariffs through Mexico.

- **Leadership Changes:** The United States, Mexico, and Canada will each experience leadership changes by 2026, which increases uncertainty as to what the renegotiation dynamic will be like.
    - **Canada:** Parliamentary elections are set for October 2025 which could lead to a new Prime Minister before the 2026 negotiations.
    - **Mexico**: Mexico recently elected its first female president, Claudia Sheinbaum, who took office on October 1. Sheinbaum said at the September U.S.-Mexico CEO Dialogue that "[O]ur idea is to keep the deal with few changes."
    - **United States:** The November 2024 U.S. election will have a significant impact on the tone of future USMCA negotiations. A Harris Administration is more likely to focus on stricter rules regarding labor. A Trump Administration seems poised to take a more aggressive approach toward pressuring Mexico (and Canada) to adopt more restrictive measures targeting "non-market economies" in USMCA. Trump has also pledged to unilaterally apply tariffs on Chinese EVs made in Mexico.

This report was prepared by Sam Ide and Brandy Darling.