Mexico faces economic tug of war between US and China

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Mexico is attempting an economic balancing act between the United States and China, but without success.

Due to US attempts to sanction China and "nearshore" production, Mexico has surpassed China as Washington's top trading partner. Mexico is now also the US's second largest export market. The US is the largest source of foreign direct investment (FDI) in Mexico, accounting for roughly 40 percent of the total of US$36 billion in 2022, and is increasing its investments.

By way of example, in February, Amazon's computing services subsidiary Amazon Web Services announced that it will invest $5 billion in an infrastructure cluster in the central Mexican state of Querétaro. The investment is higher than the $4.5 billion Tesla previously pledged to invest in its factory near Monterrey in the northeastern Mexican state of Nuevo León, the state with the highest total gross production.

But even as the Mexican and American economies further integrate, China has reacted to the 2023 fall of US imports from China of over 25 percent by focusing on Mexico. China has become Mexico's fastest-growing foreign investor, more than quadrupling its investment in the last four years. In the northeastern state of Nuevo León, Chinese corporations are now responsible for over a third of foreign investment.

In another example, 12 Chinese-owned companies currently operate in one small central Mexican state, Aguascalientes, providing more than 4,000 jobs in the auto, textile, service and clean energy sectors.

Chinese Tier 1 supplier Xinquan Automotive, which manufactures car interiors for luxury brands. recently announced a $100 million investment in its Aguascalientes plant. Xinquan opened its facility in Aguascalientes in 2021 with an initial investment of $40 million and capacity to produce 600,000 luxury car parts annually. This is the second time the company has decided to increase investment, after a previous $30 million expansion a year ago.

Mexico currently imports about nine times as much as it exports to China. After Russia, Mexico is the second largest recipient of Chinese cars, which are increasingly popular in Mexico.

The Mexican auto industry produced more than 922,000 cars from January to March, but 90 percent are exported; only the remaining 10 percent are sold domestically. Since that is not enough to supply the domestic market, 60 percent of cars are imported.

But just as investments from the world's two largest economies boomed, Mexico in August decided to increase tariffs between 5 and 25 percent on a total of 392 products from countries with which it does not share a free trade agreement, including China. This will impact around 90 percent of Chinese exports to Mexico and remain in effect until July 2025.

This is plainly a response to persistent and intense American pressure.

The intention of Chinese companies to open vehicle assembly plants in Mexico has particularly alarmed lawmakers in the United States, who view China's investments as an attempt to take advantage of Mexico's permissive trade compact with the US and Canada and thereby avoid the impact of US tariffs on China.

We are told that China will attempt to enter the US market by skirting Washington's trade sanctions through slapping a "made in Mexico sticker" on parts and products assembled in Mexico.

There are widespread warnings that Chinese vehicles built in Mexico, which would qualify for government credits to consumers, will “flood” the US market.

It is likely that quality electric vehicles from China, such as those produced by electric vehicle (EV) giant BYD, that retail at a considerably lower price than US vehicles, would be popular.

Particularly hysterical is the current claim that the Chinese Communist Party will be collecting data on US citizens through tracking devices in “smart vehicles.”

The Biden administration has said it will investigate such cars, citing potential national security risks. The Commerce Department is in fact issuing a notice of a proposed rule making that will launch an investigation into “national security risks” posed by such vehicles from China and other countries considered hostile.

American imperialism, in league with its Canadian minion, seeks a fortress North America against China, and even Europe, in its march to war. Forcing Mexico to align itself with this aggression is seen as key to its success.

In order to maintain its close relationship with the US, still the country’s closest security “partner,” currency lender and largest foreign direct investor, Mexico will capitulate, as it has in kowtowing to US demands for crackdowns on immigrants.

At a North American summit in 2021, Mexican President Andrés Manuel López Obrador (AMLO) called for “stopping China,” making clear his alignment with the US-led war drive against Beijing.

His administration is moving to cancel the lithium concessions of Chinese lithium giant Ganfeng, forcing the Chinese company to indefinitely postpone its plan to start mining the battery metal in Mexico.

The US-Mexico-Canada trade accord, which was signed by López Obrador, Donald Trump and Justin Trudeau, not only increased the minimum components of vehicles that must be produced within the region but prohibits the signing of trade agreements with “non-market” economies, a classification aimed against China.

Despite the populist AMLO’s occasional nationalistic bluster, Mexico’s government will fall into line, in service to its own billionaires, and ultimately the American ruling oligarchy.

The American and Mexican working classes have no interest whatsoever in the plans of their respective ruling classes. In the final analysis, their fundamental interest lies in uniting, together with the working class internationally, to overthrow capitalism and end its mad drive to destruction.