The implications of China’s entry into the WTO for Mexico

By Enrique Dussel Peters
http://dusselpeters.com

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EXECUTIVE SUMMARY

This paper seeks to understand the implications of China’s entry into the WTO for Mexico and the bilateral relationship between the People’s Republic of China and Mexico from the perspective of their respective economic and export strategies since the 1980s. As discussed in detail in the paper, China’s entry into the WTO is not only significant for Mexico, but also for the rest of the periphery in terms of bilateral trade, but also in third markets. Trade data and some theoretical and economic trade issues are provided for understanding the richness and potential of this relationship, as well as its challenges.

China’s entry into the WTO will affect the world market as such, i.e. China is not “another” country participating in the world market, but rather the biggest country in terms of population, currently the main destination of FDI, and the country with the world-wide highest dynamics in terms of growth and trade, as well as of foreign reserves. Thus, China’s integration into the world market after its entry into the WTO will result in new patterns of the world market affecting core and periphery.

In addition, the document analyzes China’s entry into the WTO in more general terms of development and growth and development theory. In terms of energy consumption and CO2-emission, for example, the prospect of continuous growth of GDP in China –as well as in Latin America in general and Mexico specifically- is not sustainable from an energy and ecological perspective.

China and Mexico are direct competitors in the world market and as a result of their recent productive and trade specialization. It could be argued, however, that their respective products, processes and imports and export markets are different. This is the reason why a detailed analysis of China’s and Mexico’s integration into the world market is pursued in the document.

Based on this detailed bilateral relationship, in the US-market, as well as for a specific sector (the yarn-textile-garment value-added chain), the paper elaborates on different scenarios for Mexico resulting from China’s entry into the WTO and specific policy recommendations to deepen and enhance the bilateral relationship.

The economic and trade relationship between both countries also challenges the notion that export-oriented industrialization and integration into the world market through exports is a generalized option for nations in periphery. The repercussions of these findings –particularly regarding energy-intensive growth and that countries such as China and Mexico might close the gap in terms of GDP and the required energy for doing so- with respect to sharing global costs and allowing for growth in developing countries will have to be analyzed in depth and possible solutions proposed in the near future.
INTRODUCTION

Both China and Mexico have been some of the most successful export-oriented nations in the past twenty years and a synonym for “development” in their respective regions as well as worldwide. In Latin America, Mexico’s integration into the world market since the 1980s and particularly through the North American Free Trade Agreement (NAFTA) has been also a test case for integration between nations with highly uneven socioeconomic conditions. China, on the other hand, has remained since the 1980s the nation growing the fastest in terms of GDP and GDP per capita and has become the most attractive destination in the current off-shoring process; in addition, substantial development in terms of poverty reduction and technological development has been achieved in China.

In this context, what have been the effects of China’s entry into the World Trade Organization (WTO) in 2002? China’s entry into the WTO has probably affected world trade like no other nation’s entry in terms of expectations, opportunities and threats according to different social movements, political parties, consultancies, firms, and associations, among other. As discussed later in the text, there are already several studies on this issue. However, the main contributions of this paper are twofold: to understand the strategies followed by China and Mexico and to give an overview of the new systemic effects of China on Mexico in the context of its WTO-entry in general terms as well as regarding Mexico’s development strategy and with respect to specific sectors. In addition, the paper questions the export-oriented strategy of both nations and the overall global sustainability—in ecological as well as socioeconomic terms—of such a strategy for other nations. This latter issue is being discussed as a result of the specificities of the Mexican and Chinese bilateral trade patterns, as well as with reference to third countries and markets.

As a result, the paper is divided into three sections. The first section will analyze Mexico’s and China’s strategy for integration into the world market in the last two decades and highlight similarities in terms of specialization patterns and employment challenges. While also showing substantial differences among both countries, the chapter will also discuss the effects of the competition among both countries in the world market for their respective long-term strategies. The second chapter provides a detailed analysis of the characteristics of China’s and Mexico’s integration into the world market, with an emphasis on the effects of China’s entry into the WTO in 2002. The first part of this chapter examines some of the benefits and commitments of China’s entry into the WTO, as well as its specific trade patterns. The second part of the chapter elucidates Mexico’s general trade structure and specialization patterns with the country’s main trading partners, as well as bilateral trade. The third section of this chapter will briefly analyze some of the specific new conditions and challenges that have risen since China’s entry into the WTO for Mexico in the US-market, which has become increasingly significant for both nations. The fourth section of the chapter examines the yarn-textile-garment commodity chain which is significant for understanding Mexico’s—but also Central America’s—export-orientation and world market integration since the late 1980s and the new challenges for Mexico’s socioeconomic strategy since then. The third chapter summarizes the main findings of this document and presents relevant policy issues for China-Mexico cooperation and overall “South-South” cooperation. The final chapter includes the references used in the document.

The document attempts to discuss the issue of the bilateral relationship between Mexico and China since China’s entry into the WTO in 2002. For this case-specific
information, trade data and some theoretical and economic trade issues are necessary for understanding the richness and potential of this relationship, as well as its challenges. This specific case is illustrative beyond the bilateral relationship in terms of development, particularly as analyzed in chapters 1 (and particularly the first part of chapter 1), and 3.

1. MEXICO AND CHINA: STRATEGIES FOR INTEGRATION INTO THE WORLD MARKET SINCE THE 1980s

Over the course of the 1980s, the new orthodoxy of export-oriented industrialization (EOI) was widely adopted by policymakers in Latin America. The lessons of the East Asian miracle, famously summarized by the World Bank in its 1993 report, combined with influential analyses of the “rent-seeking” pathologies associated with earlier import-substituting industrialization (ISI) regimes in Latin America (Krueger 1997), led to a categorical rejection of statist development strategies throughout much of the region and an embrace of export-oriented policies as the key to growth and development. Convinced that creating a market-friendly environment was the best way to generate foreign direct investment (FDI), policymakers eschewed targeted industrial policy in favor of a neutral or “horizontal” approach, and macroeconomic stabilization became the highest priority of governments that attached great importance to the task of getting the “macroeconomic fundamentals” right.

The argument in favor of EOI builds on the positive association between exports and economic growth or development. Contrary to ISI, EOI stresses that the world market, through exports, is the “point of reference” for any economic unit (firm, region, nation, group of nations, etc.). Exports, in general, reflect efficiency; i.e. non-exporting economic units are not efficient from this perspective. It emphasizes neutral or export-oriented production of manufactures to maximize the efficient allocation of factors of production and a specialization among nations according to their respective comparative cost advantages (Balassa 1981). Moreover, it underlines the central role of manufacturing in economies of the periphery, even though the theoretical justification for doing so has not been sufficiently developed to date. Contrary to structural restrictions or “bottlenecks” imposed by industrialization - as stressed by some ISI-authors -, this "intuitive Darwinian rationale for free trade" (Bhagwati 1991:17) argues that the degree and the structure of protection in the periphery under ISI had a significant negative impact on the allocation of resources, and subsequently on exports and overall economic structure.

Probably the strongest argument of EOI supporters against ISI’s “infant industry” protection and overall policy of state interventions is the “rent-seeking behavior” it generates. As a result of market intervention under ISI – such as import licenses, tariffs, but in general any form of market intervention – economic units in general, including firms and countries, generate perverse (or non-market conforming) results in this environment: excess capacity to obtain rents provided by the state, over utilization of ISI-instruments for development, and, in general, an economic structure aimed to “reap” the incentives provided by the state. Parallel, these mechanisms generate perverse social incentives and structures, since, in most of the cases, incentives are not taken by the initially expected groups (potential “modern/industrial” groups), but rather by “rent-seeking” and corrupt groups, which do not have an incentive to modernize/industrialize. The establishment of a rent-seeking bureaucracy is, from this perspective, one of the most significant obstacles for development (Krueger 1983, 1992, 1997).
From the perspective of EOI, East Asian countries in particular provide empirical evidence to support the contention that export performance, especially of manufactured goods within a market-oriented production system, is positively associated with economic growth (Balassa 1981; Balassa/Williamson 1990; Srinivasan 1985).

From this perspective, macroeconomic conditions for development – or the generation of a “market-friendly environment” - are at the center of economic policy. Free trade and complete openness of economies, the abolition of tariff and non-tariff barriers, anti-inflationary strategies, a minimalist state, and restrictive monetary and fiscal policies are the main macroeconomic goals of EOI. The private sector is conceived as the motor for future development and industrialization. The economic development of the East Asian newly industrialized countries (NICs) is put forward as an example of recent EOI successes, and the active role of the general agreement of tariffs and trade (GATT) and its successor WTO and multilateral agencies has increased the ideological appeal of the EOI strategy (Bhagwati 1988).

1.1. Mexico’s Socioeconomic Strategy Since the 1980s

It is in this international and national economic context that the major pillars and guidelines of liberalization strategy in Mexico since the 1980s, in contrast to ISI, have developed as follows (Aspe Armella 1993; Dussel Peters 2000; Salinas de Gortari 2000; Sojo Garza-Aldape 2005):

1. Macroeconomic stabilization was to “induce” the process of microeconomic and sectoral growth and development, i.e. all sectoral subsidies and specific policies were to be abolished in favor of neutral policies.

2. As an extension of point 1, the main priority of the government was to stabilize the macro economy. Since 1988, the government has viewed controlling inflation rates\(^1\) (or relative prices) and the fiscal deficit, as well as attracting of foreign investments – as the main financing source of the new strategy, since oil revenues and massive foreign credits were not available and/or sufficient. The macroeconomic priorities of the liberalization strategy were backed up by restrictive money and credit policies of the Mexican central bank (Banco de México).

3. The nominal and real exchange rates are a result of the control of the inflation rate (the nominal exchange rate as an anti-inflationary anchor), i.e. since the control of the inflation rate is the macroeconomic priority of the liberalization strategy, the government will not allow for devaluation, the latter resulting in increasing inflation rates because of imported inputs.

4. Supported by the reprivatization of the banking system beginning in the mid-1980s and the massive privatization of state-owned industries, the Mexican private sector is to lead Mexico’s economy out of the “lost decade” of the 1980s through exports. The massive import liberalization process, initiated at the end of 1985, was supposed to support the private manufacturing sector in order to orient it toward exports, as a result of cheaper international imports.

5. Finally, government policies toward labor unions were of utmost significance. As reflected in the respective \textit{Pactos Económicos} (or economic pacts between the public and private sectors, as well as with trade unions) since 1987, only a few (government - friendly) labor unions were deemed acceptable to negotiate inside firms and with the government, while the rest were declared illegal. This process,
which has included violent disruptions of independent labor unions, has made national wage negotiations possible in Mexico within the framework of the respective economic pacts and with the objective to control real wage growth.

Up to 2005, the Mexican government has continued, with few exceptions, with a consistent liberalization strategy (Sojo Garza-Aldape 2005). NAFTA’s implementation in 1994 is of fundamental relevance for the liberalization strategy. In a best case scenario, and allowing for a significant structural change towards exports in the Mexican economy, the Mexican economy required an outlet and welcoming market for the commodities/products resulting from Mexico’s structural change. This outlet was to be Mexico’s main trading partner, the United States. Otherwise, let us try to imagine a successful export orientation without a market to sell these commodities.3

1.2. China’s Socioeconomic Strategy Since the 1980s

From a Latin American perspective, China’s historical, political and ideological context is extremely different from Mexico’s, and the main priorities of its development strategy since the 1980s could be summarized as follows (Chow 2002; Dussel Peters 2005/a; Nolan 2004; OECD 2002; Yifu Lin et. al 2003):
1. Even until 2005, the agricultural sector has always been a politically and economically strategic sector. Contrary to most of Latin America – where modernization was synonymous with industrialization and the agricultural sector was understood as underdeveloped per se- the agricultural sector has remained of substantial political and economic weight: more than 60% of China’s population lives in rural areas and –as a result of historical experience of food shortages and massive famines during the 20th century- to date agriculture continues to be a top priority sector in the country’s economic policy. The sector is also of substantial political weight: success of the agricultural reforms also allows for deepening of reforms in other areas.

2. A pragmatic long-term vision of socioeconomic development, accompanied by instruments, mechanisms, resources, and the coordination of institutions on a local, provincial and central government level. Contrary to most Latin American countries which were subject to structural adjustment programs by the World Bank and the International Monetary Fund (IMF) since the 1980s, China implemented reforms through “transitional institutions” (Qian 2003) to allow for a reform process with incentives to generate domestic markets.

3. Since the end of the 1970s, economic policies diminished the weight of state-owned enterprises (SOEs) and collectively owned enterprises by allowing for new forms of property, particularly private and foreign property, as well as property owned by local and regional governments.

4. Parallel to 3., the central government currently still has a significant influence –and direct ownership- over large companies and industrial groups in China. Contrary to “horizontal policies” in Latin America and Mexico, China’s central government granted massive preferential credits, limited capital flows, controlled foreign exchange policies tightly, established tariff and non-tariff benefits, in many cases under monopolistic conditions, and provided access to international financial and secondary markets (OECD 2002; Perkins 2001). The influence of the central government and its active policies are massive, particularly through the state-owned banking system, agricultural and technological policies, the control of labor, as well as through focused sector and
territorial policies (Dussel Peters 2005/a; Perkins 2001). Thus, either by direct control and ownership –as in the case of the SOEs- or through incentives and policies, the public sector and the Chinese Communist Party exercises substantial weight and control over the Chinese economy (Anguiano 2004).

5. From a pragmatic perspective –and in the context of a discussion about “planned market economy” or “market socialism”- the Chinese strategy and economy has gone through different phases since the 1980s. During the 1980s, sectors such as iron and steel, textiles, transportation of equipment, and, in general, heavy industry and the chemical sector, in which the SOEs had a dominant presence, became the pillars of economic reforms and growth. Since the 1990s, however, the central government has created massive incentives (Dussel Peters 2005/a) in new technologically intensive sectors such as electronics and automobiles in which foreign firms and foreign direct investments have played an increasing role. The central government has allowed for massive incentives for export orientation through a complex tax system, instruments for developing Special Economic Zones and particular products and processes.

6. In addition to specific territorial and sector instruments, as well as policies focused towards high-tech processes and higher education, among others, macroeconomic policy has played a substantial role in economic development in China. In contrast to the experience of Latin American countries, at least two macroeconomic policies have been significant, namely the exchange rate and financing. Since the 1990s, China’s fixed exchange rate has kept its currency systematically undervalued (especially towards the US dollar) to levels up to over 30% since 2000, although the policy has been relaxed mildly in 2005. Parallel to these policies, and until 2005, the Chinese central government continued to control capital flows against the pressure of multilateral agencies such as the IMF. Domestic financing for the private sector in China (as a percentage of GDP) has reached levels close to 150% in 2003, while it accounted for only 26% in Latin America and a mere 19% in Mexico (World Bank 2005/a), i.e. firms in China have benefited massively from the (public) banking system as one of the most important central government policies in the last decades.

7. China’s entry into the World Trade Organization (WTO) in 2002 has, rather surprisingly, a qualitative weight similar to entering NAFTA for Mexico: as part of its strategy since the 1990s, it will allow for exports in the manufacturing sector (and the restructuring of its agricultural and service sectors as well as imports in agriculture and services). The issue is of substantial weight in its long-term strategy: manufacturing and urban areas are expected to be the main employment generators, while SOEs and the agriculture and service sectors are expected to shed jobs (Mengkui and Zhongyuan 2003; OECD 2002).

Thus, in both nations, exports play currently a strategic role for development, although they are a result of different development strategies and policy options until 2005. While Mexico’s overall economic policies have relied on horizontal and neutral macroeconomic policies and NAFTA, China has pursued an active and aggressive integration into world market through the utilization of a full rage of instruments and policies at the macroeconomic, sector and regional level through tax incentives and massive and focused financing. While Mexico has been substantially integrated into the US-economy since the 1990s, the Chinese economy has integrated increasingly –and its trade and foreign direct investments flows are directed to the Asian economy. Export-orientation, in both cases, represents a substantial pillar of current socioeconomic strategy. In addition, in both
nations, the availability of cheap labor power and the integration into the world market in the lower segments of value-added chains has become the foundation of exports, although upgrading processes have taken place in China and Mexico.

1.3. Mexico and China: Selected Socioeconomic Variables

As a result of prior policies, both China and Mexico have massively integrated into the world market through exports. In both cases, also, foreign direct investments (FDI) reflect the increasing role of foreign firms and capital and their integration into segments of global commodity chains. Chart 1 reflects the massive inflows of FDI to both nations for 1996-2004. However, East Asia and the Pacific, and particularly China, have been the most dynamic region for the period, accounting on average for 55.50% and 45.38% respectively of FDI to developing countries for 1996-2004. Considering cyclical movements of FDI, China’s share has increased significantly in this recent period, while those of Latin America and Mexico have fallen, accounting for less than 30% of China’s FDI in 2004.7

Chart 1
Foreign direct investments (1996-2004)

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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All developing countries</td>
<td>128.6</td>
<td>168.1</td>
<td>171.5</td>
<td>182.4</td>
<td>166.2</td>
<td>174.8</td>
<td>154</td>
<td>151.8</td>
<td>165.5</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>58.6</td>
<td>62.1</td>
<td>57.7</td>
<td>49.9</td>
<td>44.2</td>
<td>48.2</td>
<td>55.6</td>
<td>59.6</td>
<td>63.6</td>
</tr>
<tr>
<td>China</td>
<td>40.2</td>
<td>44.2</td>
<td>43.8</td>
<td>38.8</td>
<td>38.4</td>
<td>44.2</td>
<td>49.3</td>
<td>53.5</td>
<td>56</td>
</tr>
<tr>
<td>East Europe and Central Asia</td>
<td>16.4</td>
<td>22.6</td>
<td>26.1</td>
<td>28.4</td>
<td>29.2</td>
<td>31.4</td>
<td>35</td>
<td>35.6</td>
<td>37.6</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>44.2</td>
<td>66.7</td>
<td>74</td>
<td>88.2</td>
<td>78.9</td>
<td>70.2</td>
<td>45.7</td>
<td>36.5</td>
<td>42.4</td>
</tr>
<tr>
<td>Argentina</td>
<td>7</td>
<td>9.2</td>
<td>7.3</td>
<td>24</td>
<td>10.4</td>
<td>2.2</td>
<td>1</td>
<td>0.6</td>
<td>6.98</td>
</tr>
<tr>
<td>Brazil</td>
<td>11.2</td>
<td>19.7</td>
<td>31.9</td>
<td>28.6</td>
<td>32.8</td>
<td>22.5</td>
<td>16.6</td>
<td>10.1</td>
<td>15.3</td>
</tr>
<tr>
<td>Chile</td>
<td>4.8</td>
<td>5.3</td>
<td>4.6</td>
<td>8.8</td>
<td>4.9</td>
<td>4.2</td>
<td>1.9</td>
<td>3</td>
<td>5.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>9.2</td>
<td>12.8</td>
<td>12.4</td>
<td>13.2</td>
<td>16.6</td>
<td>26.8</td>
<td>14.8</td>
<td>10.8</td>
<td>14.1</td>
</tr>
</tbody>
</table>

All developing countries 100.00 100.00 100.00 100.00 100.00 100.00 100.00 100.00 100.00 100.00
East Asia and Pacific 45.57 36.94 33.64 27.36 26.59 27.57 36.10 39.26 38.43 34.14
China 31.26 26.29 25.54 21.27 23.10 25.29 32.01 35.24 33.84 27.92
East Europe and Central Asia 12.75 13.44 15.22 15.57 17.57 17.96 22.73 23.48 22.72 17.93
Latin America and Caribbean 34.37 39.68 43.15 48.36 47.47 40.16 29.68 24.04 25.62 37.38
Argentina 5.44 5.47 4.26 13.16 6.26 1.26 0.71 0.66 0.36 4.29
Brazil 8.71 11.72 18.60 15.68 19.74 12.87 10.78 6.65 9.24 12.90
Chile 3.73 3.15 2.68 4.82 2.95 2.40 1.23 1.98 3.38 2.95
Mexico 7.15 7.61 7.23 7.24 9.99 15.33 9.61 7.11 8.52 8.93

/a Estimates.

Chart 2 also shows the results in terms of export growth since the 1990s, i.e. China and Mexico accounted for some of the highest average annual growth rates of exports worldwide, of 16.2% and 11.4% for 1990-2003, respectively. Interestingly, exports as a share of GDP have also increased similarly in both nations: in the case of China, the export coefficient increased from 17.5% of GDP to 33%, while for Mexico it increased from 18.6% to 28.4% (World Bank 2005/a). Before analyzing the specific trade structures of relevant to discuss four general issues for the respective nations: First, in both nations, the female share of the total labor force has increased substantially in the last decades (see chart 3), in the case of Mexico from levels below 20% in the 1960s and 1970s to 34.43% in 2003, while it accounted for 45.05% in 2003 for China. In addition, female life expectancy has almost doubled for 1960-2003 for China. Finally, female enrollment in schools has
increased for the period, but is still well below total and male levels. For 2000, ILO (ILO 2005) analysis puts the wage differentials between male and female jobs at around 6% on average in China.

Second, the generation of employment is of critical importance in both China and Mexico and is an issue that goes beyond economic development but will affect social and political stability in both countries. In the case of China, different sources estimate that the economy will have to create between 10-13 million jobs annually as a result of an increase in the economically active population (EAP), population movements from rural to urban areas, and substantial expulsion of labor power in the agricultural and service sectors (Brooks 2004). Both nations are under substantial pressure from growing EAP: on average, China’s and Mexico’s EAP grows by 8.3 and 1.2 millions respectively based on the tendencies of 1991-2003. In the case of Mexico, some 69.8% of the annual growth in EAP found jobs in the informal sector during 1991-2003 (Dussel Peters 2004; NBSC 2005).
Third, both nations have experienced massive processes of polarization at the level of the company, branch, household and at territorial levels, i.e. the inequity and polarization has risen substantially in both countries (Nolan 2004; Qian 2003; Zheng and Hu 2004) since only a few of these companies, branches, households and territories have integrated successfully through exports, as analyzed in the next chapter. A substantial difference between Mexico and China is, however, that China’s GDP and income rose by 8.2% during 1980-2003 (numbers for GDP) while Mexico’s GDP grew only by 0.5%, i.e. while China was able to increase both income and inequality, income rose only little in Mexico while inequality increased even further.

Fourth, the respective development strategies in China and Mexico reflect a pattern of increasing energy consumption with global effects. Per head consumption of energy – measured by kg. of oil per inhabitant- shows dramatic differences internationally: energy
consumption in industrialized countries, while still growing, has slowed down since the 1970s, although their consumption levels in 2002 were still twice as high as those in Latin America and the Caribbean and almost six times as high as those of China. However, and with few exceptions, the countries in Asia, and particularly of China, present the highest growth rate of energy consumption per inhabitant: in China, the coefficient increased by 106% during 1971-2002, thus energy consumption basically doubled during that time. Based on World Bank information (WB 2005), CO$_2$ emissions per inhabitant have also increased drastically in Asia and particularly in China: in the case of China from 1.04 metric tons in 1971 to 2.21 in 2000, while the respective levels in 2000 in Latin America and in industrialized countries were 2.66 and 12.45 metric tons. Thus, energy consumption and CO$_2$ emissions in Asia and particularly in China have increased substantially in the last three decades, also as a result of export-oriented industrialization.

Graph 2 summarizes some of the earlier trends in energy consumption: all the countries selected decreased their use of energy per unit of GDP for 1975-2002, thus showing a tendency to make more efficient use of energy. The differences in 2002, however, are still significant: surprisingly the United States, South Korea and China present levels below countries such as Germany, Argentina, Brazil and Mexico. This performance is significant considering that the United States and China are currently the main consumers of energy. The increasing consumption of energy in Asia and China—with vast effects on the current international price levels of energy—questions the global possibilities of continuing such a growth and development path: compared to the energy consumption of industrialized countries, both Mexico and China have increased substantially their consumption of energy, from 19.4% and 10.9% in 1971 to 28.8% and 17.7% in 2002, respectively. Closing this gap in the consumption of energy, however, does not seem feasible from a global perspective, substantially questioning patterns of energy consumption both in the industrialized countries as well as in export-oriented countries such as Mexico and China, independent of attempts of making the use of energy more efficient.

Graph 2
Use of energy per unit of GDP (1975-2002) (México = 100)

Source: own elaboration based on WDI (2005).


2. CHINA’S ENTRY INTO THE WTO AND ITS EFFECTS ON MEXICO

This chapter is divided into four parts. The first examines the general trade structure in China by looking at its main trading partners (and particularly the US-market), as well as trade with Mexico. Only briefly, the respective issues will also be analyzed at the disaggregated level (at the 2 digit level of the Harmonized Tariff System or HTS). The second part makes a similar analysis for Mexico. The third part, and given its importance as analyzed in 2.1. and 2.2., examines in more detail Chinese and Mexican exports to the US market as a case study for understanding the deep competition between both countries. The fourth section discusses briefly a specific sector case: the yarn-textile-garment value-added commodity chain as a way to understand the new challenges posed for Mexico by China, in this case for Mexico’s domestic market.

Prior to this, however, it is relevant to summarize some of the main benefits and commitments of China’s accession into the WTO which took place on January 1, 2002 (Dussel Peters (2005/a); WTO (2001/a/b/c); Ianchovichina and Martin (2003); Rumbaugh and Blancher (2004). Arduous negotiations –requiring bilateral agreements with 37 countries before formal accession to the WTO- established detailed benefits and commitments. For China, the main benefits consist in having immediate access to markets and obtaining permanently the most-favored-nation (MFN) status. In addition, trade conflicts will be resolved multilaterally within the WTO. Strategically, China’s accession to the WTO can be understood as an integral part of a long-term strategy initiated since the 1990s in which Beijing seeks to substantially increase its global presence and thereby its regional and global power.

On the other hand, however, China made substantial commitments in order to enter into the WTO, probably more so than most other countries in joining the GATT/WTO. The main concessions include granting national status to foreign investors, the immediate implementation of Trade-Related Investment Measures (TRIMs) and Trade-Related Aspects of Intellectual Property Rights (TRIPs), massive elimination of tariffs and non-tariff barriers, restriction of subsidies, and the elimination of requirements based on company performance. In qualitative terms, however, China also committed to open its agricultural sector substantially –also as a result of the elimination of price control mechanisms, with important exceptions- and its service sectors. Finally, with Beijing’s entry into the WTO, China was formally included in the Agreement on Textiles and Clothing, whose fourth and final phase of quota liberalization concluded at the beginning of 2005.10

Lastly, and with a view to the next sections, it is significant to establish that statistics of foreign trade remain vague and have substantial flaws, particularly in the case of bilateral trade between Mexico and China. Aggregate trade data presents a substantial gap: in 2004, China reports imports from Mexico of $2.1 billion, while Mexican statistics only register $474 million, i.e. a 4.5:1 difference (Dussel Peters 2005/b).11 As a result, both parts of this chapter will use Chinese data –Chinese Customs Statistics (CCS 2005) that do not include Hong Kong data-, Mexican (BANCOMEXT 2005) and US statistics (USITC 2005) and mention in specific cases the main differences among the information sources.
2.1. China’s Trade Structure and Performance

As already discussed in Chapter 1, China’s trade performance has been extraordinary in terms of exports and imports since the 1990s and accounting for an average annual growth rate (AAGR) of 16.2% and 17.1% for 1990-2003, respectively.
Regarding China’s general trade structure and performance, several issues stand out:

1. In 2003, China’s exports and imports accounted for 5.87% (and 8.87% including Hong Kong) and 5.40% (or 8.43% including Hong Kong) of world exports and imports, respectively. Thus, China’s trade performance should not be overstated since the trade of other nations’ and country groups of nations such as the US, Germany and Japan is still higher than China’s. Most significant is, however, the dynamism of this performance in the last two decades, in addition to the fact that in the short and medium run China will overtake trade from these countries, as well as their GDP.\textsuperscript{12}
<table>
<thead>
<tr>
<th>Class 5: Close main trading partners with the United States and Mexico (1995-2004) (according to trade mode)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
</tr>
<tr>
<td>Total Exports</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total Exports</td>
</tr>
<tr>
<td>Made</td>
</tr>
<tr>
<td>Raw</td>
</tr>
<tr>
<td>38,997</td>
</tr>
<tr>
<td>9,069</td>
</tr>
<tr>
<td>14,166</td>
</tr>
<tr>
<td>6,928</td>
</tr>
<tr>
<td>2,272</td>
</tr>
<tr>
<td><strong>Exports to United States</strong></td>
</tr>
<tr>
<td>Total Exports</td>
</tr>
<tr>
<td>Made</td>
</tr>
<tr>
<td>Raw</td>
</tr>
<tr>
<td>3,443</td>
</tr>
<tr>
<td>3,690</td>
</tr>
<tr>
<td>3,373</td>
</tr>
<tr>
<td>2,178</td>
</tr>
<tr>
<td>3,347</td>
</tr>
<tr>
<td><strong>Exports to Mexico</strong></td>
</tr>
<tr>
<td>Total Exports</td>
</tr>
<tr>
<td>Made</td>
</tr>
<tr>
<td>Raw</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>11</td>
</tr>
</tbody>
</table>

Source: own elaboration based on CCI (2015)
2. In terms of China’s main trading partners, chart 4 reflects that China’s trade performance is also a result of the increasing process of Asian integration: in 2004 out of the 15 main exporters and importers, the share of Asian countries was 46.42% and 50.94%, respectively. The United States are the main destination of China’s exports with an increasing total share: from 16.61% in 1995 to 21.05% in 2004. Hong Kong and Japan are China’s main export markets after the US, and the three countries accounted for 50.47% of China’s total exports in 2004. Since the 1990s, China’s exports have diversified substantially, including those to the United States and Europe, but also to Latin America; Asia still receives most of China’s exports, but with a falling tendency. China’s imports, on the contrary, have continued to come mostly from Asian countries: accounting for more than 50%, in 2004 -- out of the 10 main import countries, 8 are Asian.

3. At the aggregated level, as chart 4 shows, China enjoys a high and increasing trade surplus with the United States, the European Union and also specific countries such as Mexico; on the other hand, the trade deficit with Asian countries, in particular Japan, Taiwan and Korea, has also increased substantially, from $16 billions in 1995 to $106 billions in 2004 for the latter three.

4. Chart 4 also shows that Latin America and Mexico play, so far, a minor but increasing role in China’s trade: none of the Latin American countries is among the 10 most important exporters or importers for China, although Argentina and particularly Brazil have increased their share of Chinese imports recently. As a result, nevertheless, Mexico’s bilateral trade with China --according to Chinese sources- increased from 0.14% of China’s total trade (exports and imports) in 1995 to 0.61% in 2004. According to the same sources, Mexico has been the most dynamic destination of China’s exports for 1995-2005 of the considered countries in the chart with an average annual growth rate of China’s exports and imports for 1995-2004 of 43.3% and 30.5%, respectively, and far above Chinese total exports and imports, of 16.6% and 17.4%, respectively.

5. Chart 5 reflects the differentiated import and export patterns of China with the US and Mexico, as well as its total trade. In general, China imports electronics (chapter 85) and auto parts (chapter 84), as well as energy (chapter 27, oil, and chapter 39, diverse plastic materials), i.e. capital goods and raw materials, parts and components. Most of these imports come from Asian countries. There is a high concentration of Chinese imports, since imports of the above mentioned main 5 chapters increased from 48.02% in 1995 to 62.37% in 2004. On the other hand, Chinese exports are increasingly not only oriented towards non-Asian countries, but also concentrated in a rather small group of chapters. As Chart 5 shows, the main 5 chapters of the Harmonized Tariff System have increased their share from 34.87% in 1995 to 53.93% in 2004 exclusively in manufacturing sectors: auto parts, electronics, yarn-textiles-garments and furniture. The United States, in 2004 China’s main export market, reflects the same export structure with a much higher degree of concentration, since the main 5 chapter increased substantially for the considered period and represented 61.33% of total exports to the US in 2004.

6. Sector trade is also significant to understand China’s trade pattern: in addition to significant exports, China’s imports have increased by a similar growth rate. However, and in terms of structures, China is currently massively importing electronic and automobile parts, capital goods for the transformation of these items,
as well as energy, and, more recently, meat, beverages, food and agricultural products. These latter items have been the most dynamic in terms of Chinese imports since 1995 and have accounted—all the first 25 chapters of the HTS that refer to agricultural goods, food and beverages—for $24 billion in 2004 and increased by 144% during 1995-2004.

7. According to Chinese statistical sources, Mexico is a significant new market for Chinese trade. On the one hand, Mexico has become one of the main export markets with an AAGR of 43.3% during 1995-2004 and accounting for 0.84% of total Chinese exports in 2004. Chinese exports have concentrated in sectors such as electronics, auto parts, yarn-textile-garments, and photographic goods, accounting for more than 55% of total exports during the period. Mexican exports to China, on the other hand, present a much higher degree of concentration in electronics, auto parts, but also in raw materials (chapters 26, 72 and 29 of the Harmonized Tariff System). As a result of these trade patterns, China enjoys an increasing trade surplus of $2,846 millions in 2004 with Mexico. No other Latin American country presents such a significant deficit with China, since other countries such as Argentina and Brazil account for substantial surplus as a result of high exports of raw materials.

China’s trade presents an interesting feature: a high and increasing share of foreign-funded firms. As graph 3 shows, they account for 55.48% of China’s total trade and in the case of exports, for example, they increased their share from 47.93% in 2000 to 54.84% in 2003. This performance is directly related to the structural change of China’s trade and in particular to the higher degree of technological development of China’s trade as a result of the involvement of transnational corporations in China.

2.2. Mexico’s Trade Structure and Performance

As already discussed, Mexico’s exports have also shown an impressive performance, with an average annual growth rate (AAGR) of 10.1% during 1995-2004. The aggregated performance already reflects two periods since the 1990s: a first one, in which exports
increased with an AAGR of 19.3% for 1993-2000, while for the period 2000-2004 exports increased with an AAGR of only 3.3% and even decreased in some years. What are the main features of Mexico’s trade structure and dynamism since the 1990s, keeping in mind the performance of China discussed in chapter 2.1.?

First, one can note a much higher degree of concentration of Mexico’s trade and particularly of its exports. Since 2000, Mexican exports to the US has accounted for more than 88% of total Mexican exports, i.e. Mexican exports to the NAFTA-region (including Canada) have increased substantially and represent more than 90% today. None of the rest of the main exporting markets accounts for more than 2% of Mexican exports. With the

### Mexico’s Main Trading Partners (1993-2004)

<table>
<thead>
<tr>
<th>Years</th>
<th>Export Shares</th>
<th>Import Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
</tr>
<tr>
<td>1994</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
</tr>
<tr>
<td>1995</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
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<td>1996</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
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<td>1997</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
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<td>1998</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
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<td>1999</td>
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<td>2000</td>
<td>United States: 42.5%</td>
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<td>2001</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
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<td>2002</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
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<tr>
<td>2003</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
</tr>
<tr>
<td>2004</td>
<td>United States: 42.5%</td>
<td>United States: 42.5%</td>
</tr>
</tbody>
</table>

exception of exports to Aruba, Mexican exports to China – Mexico’s 14th largest export - presents the highest AAGR for 1995-2004.

Second, Mexico’s import performance has been even more dynamic than its exports, with an AAGR of 11.8% for 1995-2004. In addition, Mexico’s import structure is strikingly different than its exports, since the share of US imports has declined continuously since the 1990s from almost 70% to 56.23% in 2004. It is in this context that Asia, and particularly China, has played an increasing role in Mexico’s trade: since 2003, China has become Mexico’s second largest trading partner only after the US as a result of massive exports to Mexico; out of Mexico’s 15 main importing nations 6 are from Asia and account for 20% of Mexico’s imports in 2004.

Third, Mexico’s trade structure shows a high degree of regional integration with the US economy, which is the only country that Mexico has a trade surplus with; and it has increased from levels below $3 billion in 1993 to $57 billion in 2004. Otherwise, Mexico has a trade deficit with all other regions and particularly with China, as well as with the main nations of the European Union. As a result, the US market is of critical importance for Mexico since it is not only the main export market, but also its only source of trade surplus. Fourth, and according to Mexico’s official sources, the trade relationship with its second main trading partner, China, has become highly problematic: while Mexican exports increased by an AAGR of 32.8% during 1995-2004, imports from China did by 44.7% during the same period. As a result, imports from China accounted for $14.5 billion (or 7.34% of total imports) in 2004. Thus, the Mexico-China export-import relationship was 1:31; Mexico has no higher trade deficit with any other nation.

Chart 7 shows more in detail Mexico’s trade specialization patterns in general, as well as in its trade with the US and China. This detailed picture is relevant to understand the similarities and differences with China’s trade structure and to analyze the options and potential for bilateral cooperation.

On the one hand, the chart shows the extremely high concentration of Mexico’s trade in a few chapters or sectors: in 2004 the five main export chapters accounted for 71.03% and 59.20% of Mexican exports and imports respectively, i.e. the five main chapters of Mexican exports –Mexico’s motor of growth during the period- contributed with 72.87% of the growth of total exports.

Second, Mexico’s general trade structure reflects a high similarity with Chinese exports since electronics (chapter 85) and auto parts (chapter 84) are among the main export sectors of both countries. These two chapters account for more than 40% of Mexican exports in 2004. The most substantial difference among the top trade chapters between Mexico and China is the final automobile sector (chapter 87), which accounts for 15.1% of Mexican exports (or $29 billion), while accounting for 1.99% of total Chinese exports (or $12 billion) in 2004.

Third, Mexico’s trade structure in terms of chapters is rather surprising since exports and imports seem to “match”, i.e. its exports and imports include electronics, auto parts, electronics and oil. Particularly the latter reflects Mexico’s highly underdeveloped productive and trade conditions, since it exports crude oil and imports oil-related products such as gasoline and gas.

Fourth, and critical for understanding the China-Mexico trade relationship, Mexico’s trade structure shows high imports and exports of electrical parts and components, auto parts, vehicles and mineral fuels/oil (chapters 85, 84 87 and 27 of the
HTS). In addition, and considering China’s demand in agricultural goods, food and beverages –as discussed in the prior chapter- Mexico has achieved a growing trade deficit in these chapters, which amounted –for chapters 1-25 of the HTS- to a trade deficit of $2.4 billion in 2004. This is significant, since China’s and Mexico’s trade structure is very similar and –with the exception of mineral fuels and several other raw materials- has structural limitations to increase trade in the sectors that present a high demand both in China and Mexico. In the rest of the sectors –such as electronics, auto parts, and increasingly automobiles- there is a high potential for direct competition.
<table>
<thead>
<tr>
<th>Country</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>51,852</td>
<td>78,541</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>11,778</td>
<td>20,513</td>
</tr>
<tr>
<td>85 ELECTRICAL MACHINERY AND EQUIPMENT</td>
<td>Total</td>
<td>45,075</td>
</tr>
<tr>
<td></td>
<td>11,778</td>
<td>20,513</td>
</tr>
<tr>
<td></td>
<td>11,778</td>
<td>20,513</td>
</tr>
<tr>
<td>91 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK</td>
<td>Total</td>
<td>10,493</td>
</tr>
<tr>
<td></td>
<td>10,493</td>
<td>9,200</td>
</tr>
<tr>
<td></td>
<td>10,493</td>
<td>9,200</td>
</tr>
<tr>
<td>95 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPARATUS, PARTS THEREOF</td>
<td>Total</td>
<td>1,950</td>
</tr>
<tr>
<td></td>
<td>1,950</td>
<td>2,720</td>
</tr>
<tr>
<td></td>
<td>1,950</td>
<td>2,720</td>
</tr>
<tr>
<td>96 OPTICAL, PHOTOGRAPHIC, CINEMA TOGRAPHIC MEASURING, CHECKING, Precision, MEDICAL OR DENTAL INSTRUMENTS AND APPARATUS, PARTS AND ACCESSORIES THEREOF</td>
<td>Total</td>
<td>1,604</td>
</tr>
<tr>
<td></td>
<td>1,604</td>
<td>3,093</td>
</tr>
<tr>
<td></td>
<td>1,604</td>
<td>3,093</td>
</tr>
</tbody>
</table>
| Source: various elaborations based on Eurostat (2020).
Fifth, Mexico’s bilateral trade with China shows several interesting characteristics. In addition to the impressive dynamism in trade, Chart 7 shows that 57.11% of Mexican exports depend on auto parts (chapter 84), followed by several raw materials (chapters 26, 29, 55 and 74). Mexican imports, on the other hand, reflect that electronics and auto parts accounts for 69% of Mexican imports from China. These two chapters are the main source of Mexico’s profound trade deficit with China.

Finally, it is significant to highlight that Mexican exports, as in the Chinese case, do highly depend on foreign inputs and foreign firms. In the Mexican case, 78.02% of Mexican exports during 1993-2004 depend on temporary imports to be re-exported (graph 4). The latter do not pay any income or value-added taxes, as well as tariffs. This trade structure reflects the low level of domestic value-add on of exports and the difficulties of Mexican manufacturing to allow for a positive trade balance.

\[GRAPH 4\]

\[STRUCTURE OF MEXICAN EXPORTS (1003-2004) (share over total exports)\]

2.3. Chinese and Mexican Exports in the US-Market

Both China and Mexico have increased their exports to the US market. However, what has been the dimension and dynamism of their respective export goods and do they compete or are they complementary?

Chart 8 shows the changes in the US import structure since 1990. It clearly reflects that out of the main countries that export to the US, both Mexico and China have been the most successful in placing their products, with an AAGR of 12.6% and 20.1% for 1990-2004 respectively. Out of the 10 main exporters to the US, and with the exception of Malaysia, only China and Mexico increased their share of US total imports during the period; in the case of China from 3.08% of US imports in 1990 to 13.44% in 2004 (or from 4.99% to 14.99% including Hong Kong), and in the case of Mexico from 6.01% to 10.61%. Thus, when calculating the same growth rate for Chinese imports into the US market as from 1990-2004, China will become the main trading partner of the US in 2007, even before Canada.

As Chart 8 clearly reflects, several countries have been affected by these changes. Particularly Japan has lost in absolute and relative terms, since its exports in 2004 are similar to those of 1995. Nevertheless, Mexico is one of the most striking cases for this period: while its share of US imports increased constantly during the 1990s (also as a result
of NAFTA), since 2000, Mexico’s share has declined constantly: after achieving its highest point in 2002 with 11.61% of US import, Mexican exports have lost pace even in absolute terms to account for 10.61% in 2004. Parallel to the decline of Mexico’s share of exports to the US—and simultaneous to China’s entry into the WTO in 2002- the growth of China’s share of total US imports has been impressive.

Chart 9 finally reflects the intense competition between China and Mexico in the US market. In general, both countries have increasingly specialized in electronics and auto parts, which together account for 35.65% and 37.49% of China’s and Mexico’s exports to the US in 2004. While there is a strong competition in the US market in both chapters, China has clearly outpaced Mexico since 2001-2002 in both cases; in electronics, for example, China’s exports to the US increased by an average annual growth rate of 19.6% during 2000-2004, while Mexico’s was of 1.1%. For three sectors the Chinese and Mexican export structure to the US is very differentiated: automobiles (chapter 87) is a significant export product from Mexico, while it has so far a small—but very fast increasing—share in Chinese exports; similarly Mexico exported almost $19 billions of oil to the US in 2004, while China is a net importer of oil. On the other hand, China includes among its main exporting chapters toys (chapter 95) and furniture (chapter 94); both used to be important industries and export products in Mexico.

Thus, the trade structure of Mexico and China to the US shows a high degree of similarity and thus competition; both countries, so far, have also specialized in labor-intensive products and processes: while Mexico still seems to have a higher technological level of its exporting products and processes, China is rapidly catching-up (see chapter 1). Only automobiles and oil in Mexico and more labor intensive products such as toys, furniture, footwear and the yarn-textile-garment value-added chain seem to differentiate both nations, although these Chinese labor intensive products are also among the main Mexican export products to the US.
### Chart 9
United States: main importing sectors with Mexico and China (1990-2004)
(according to trade in 2004)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Imports</strong></td>
<td>492.978</td>
<td>743.505</td>
<td>1,216.187</td>
<td>1,163.548</td>
<td>1,480.160</td>
<td>8.1</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Main 5 chapters</td>
<td>275.667</td>
<td>420.163</td>
<td>988.501</td>
<td>635.846</td>
<td>831.075</td>
<td>8.0</td>
<td>55.92</td>
<td>57.40</td>
<td>54.60</td>
<td>55.68</td>
</tr>
<tr>
<td>Rest</td>
<td>217.311</td>
<td>323.342</td>
<td>228.384</td>
<td>223.292</td>
<td>647.086</td>
<td>8.1</td>
<td>44.08</td>
<td>42.60</td>
<td>45.40</td>
<td>43.32</td>
</tr>
<tr>
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<td>68.593</td>
<td>122.000</td>
<td>100.008</td>
<td>101.172</td>
<td>199.004</td>
<td>8.1</td>
<td>15.50</td>
<td>14.87</td>
<td>15.91</td>
<td>13.83</td>
</tr>
<tr>
<td>27 MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES, MINERAL WAXES</td>
<td>65.867</td>
<td>58.493</td>
<td>121.020</td>
<td>116.087</td>
<td>194.348</td>
<td>8.3</td>
<td>12.06</td>
<td>10.77</td>
<td>9.98</td>
<td>12.31</td>
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<tr>
<td>83 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF</td>
<td>58.139</td>
<td>114.190</td>
<td>186.099</td>
<td>152.087</td>
<td>153.722</td>
<td>8.6</td>
<td>11.79</td>
<td>15.29</td>
<td>13.07</td>
<td>12.58</td>
</tr>
<tr>
<td>90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF</td>
<td>13.274</td>
<td>22.531</td>
<td>36.610</td>
<td>34.803</td>
<td>44.313</td>
<td>9.0</td>
<td>2.69</td>
<td>3.01</td>
<td>2.96</td>
<td>3.03</td>
</tr>
</tbody>
</table>

**From China**

<table>
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<tr>
<th></th>
<th>15,200</th>
<th>45,535</th>
<th>100,063</th>
<th>125,168</th>
<th>152,379</th>
<th>17.9</th>
<th>100.00</th>
<th>100.00</th>
<th>100.00</th>
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<tbody>
<tr>
<td>Main 5 chapters</td>
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<td>25,514</td>
<td>61,748</td>
<td>75,209</td>
<td>126,715</td>
<td>24.0</td>
<td>41.27</td>
<td>56.05</td>
<td>61.71</td>
<td>63.20</td>
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<tr>
<td>Rest</td>
<td>8,926</td>
<td>20,021</td>
<td>38,315</td>
<td>49,959</td>
<td>25,623</td>
<td>7.0</td>
<td>58.73</td>
<td>43.85</td>
<td>38.29</td>
<td>36.72</td>
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<td>84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF</td>
<td>472</td>
<td>3,624</td>
<td>13,404</td>
<td>20,215</td>
<td>43,783</td>
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<td>3.10</td>
<td>7.96</td>
<td>13.40</td>
<td>16.15</td>
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<td>24,404</td>
<td>39,988</td>
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<td>12.67</td>
<td>17.51</td>
<td>19.55</td>
<td>19.30</td>
</tr>
<tr>
<td>95 TOYS, GAMES AND SPORTS EQUIPMENT, PARTS AND ACCESSORIES THEREOF</td>
<td>2,422</td>
<td>6,222</td>
<td>12,382</td>
<td>14,441</td>
<td>17,219</td>
<td>16.1</td>
<td>13.86</td>
<td>13.66</td>
<td>12.37</td>
<td>11.54</td>
</tr>
<tr>
<td>94 FURNITURE, BEDDING, MATTRESSES, MATTRESS SUPPORTS, CUSHIONS AND SIMILAR STUFFED FURNISHINGS, LAMPS AND LIGHTING FITTINGS, NOT ELSEWHERE SPECIFIED OR INCLUDED</td>
<td>275</td>
<td>1,979</td>
<td>7,202</td>
<td>9,923</td>
<td>14,417</td>
<td>22.6</td>
<td>1.82</td>
<td>4.34</td>
<td>7.20</td>
<td>7.93</td>
</tr>
<tr>
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<td>5,824</td>
<td>9,195</td>
<td>10,227</td>
<td>13,348</td>
<td>15.7</td>
<td>9.72</td>
<td>12.78</td>
<td>9.19</td>
<td>8.17</td>
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**From Mexico**

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<th>61,705</th>
<th>125,911</th>
<th>124,712</th>
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<td>Rest</td>
<td>10,418</td>
<td>20,619</td>
<td>39,816</td>
<td>40,304</td>
<td>46,546</td>
<td>11.3</td>
<td>34.54</td>
<td>33.44</td>
<td>29.31</td>
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<td>85 ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF</td>
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<td>16,478</td>
<td>35,775</td>
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<td>37,327</td>
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<td>25.68</td>
<td>26.71</td>
<td>26.32</td>
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<td>87 VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK, AND PARTS AND ACCESSORIES THEREOF</td>
<td>3,616</td>
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<td>26,026</td>
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<td>84 NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF</td>
<td>2,387</td>
<td>6,224</td>
<td>17,046</td>
<td>17,806</td>
<td>20,022</td>
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<td>7.94</td>
<td>10.23</td>
<td>12.54</td>
<td>12.22</td>
</tr>
<tr>
<td>27 MINERAL FUELS, MINERAL OILS AND PRODUCTS OF THEIR DISTILLATION; BITUMINOUS SUBSTANCES, MINERAL WAXES</td>
<td>5,288</td>
<td>5,837</td>
<td>12,779</td>
<td>12,243</td>
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<td>17.53</td>
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<td>9.40</td>
<td>9.06</td>
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<tr>
<td>90 OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF</td>
<td>669</td>
<td>2,131</td>
<td>4,446</td>
<td>5,344</td>
<td>6,011</td>
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<td>2.22</td>
<td>3.45</td>
<td>3.27</td>
<td>3.07</td>
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</table>

Source: own elaboration based on USITC (2002).
2.4. A Brief Case Study: the Yarn-Textile-Garment Commodity Chain

From a Mexican perspective, the yarn-textile-garment commodity chain is most relevant since it is the most significant manufacturing sector in terms of employment, but also one of the most successful cases of export-orientation —the motor of Mexican specialization since the late 1980s (see chapter 1)— after the implementation of NAFTA in 1994. The sector, in addition, is also significant from a gender perspective: at the beginning of the 1990s the male-female employment ratio of the chain was of 3:1 but has continuously fallen to 1.3:1 in 2005 (INEGI 2005). On the other hand, the same commodity chain is also of interest and of economic weight in China since it has been —together with other sectors— at the core of China’s industrial activities since the 1970s until up to now.

Chart 10 accounts for the economic performance of the yarn-textile-garment commodity chain (YTG) since the end of the 1980s. The sector’s share in manufacturing achieved its highest level at 16% in 2000 (or 656,081 workers) and is thus more than twice as large as the electronics sector and employs more than ten times the workers in the automobile sector. Similarly, and as a large part of Mexico’s manufacturing, the YTG chain increased substantially its export-orientation since the mid-1990s with the implementation of NAFTA, and accounts for a high level of imported inputs for its production and exports.

<table>
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<tr>
<td>GDP-YTG (1988=100)</td>
<td>100.00</td>
</tr>
<tr>
<td>GDP-total economy (1988=100)</td>
<td>100.00</td>
</tr>
<tr>
<td>GDP-YTC (percentage over total economy)</td>
<td>1.09</td>
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<tr>
<td>Employment in YTG</td>
<td>409,884</td>
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<tr>
<td>Employment in YTG (1988=100)</td>
<td>100.00</td>
</tr>
<tr>
<td>Employment in total economy (1988=100)</td>
<td>100.00</td>
</tr>
<tr>
<td>Employment in YTG (percentage over total economy)</td>
<td>1.70</td>
</tr>
<tr>
<td>Wages per worker (percentage over total economy)</td>
<td>118.80</td>
</tr>
<tr>
<td>Labor productivity in YTG (1988=100)</td>
<td>100.00</td>
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<tr>
<td>Labor productivity (percentage over total economy)</td>
<td>51.85</td>
</tr>
<tr>
<td>Imports-YTG over GDP</td>
<td>--</td>
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<tr>
<td>Exports-YTG (1993=100)</td>
<td>--</td>
</tr>
<tr>
<td>Exports-total economy (1993=100)</td>
<td>--</td>
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<tr>
<td>Exports-YTG (percentage over total economy)</td>
<td>--</td>
</tr>
<tr>
<td>Exports-YTG over GDP</td>
<td>--</td>
</tr>
<tr>
<td>Trade balance / GDP in YTG (percentage)</td>
<td>--</td>
</tr>
<tr>
<td>Trade balance / GDP in total economy (percentage)</td>
<td>--</td>
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</tbody>
</table>

Source: own elaboration based on INEGI (2005).

A few qualitative issues are significant to understand the YTG commodity chain in Mexico. On the one hand —and based on calculations of the chambers in the YTG (Antún Callaba 2003; CANAINTEX 2005; CNIV 2005)— around 58% of the domestic consumption is imported illegally, either through the triangulation of goods that enter the United States temporarily to be exported to Mexico definitively as well as through openly illegal forms
Secondly, Mexico imposed anti-dumping measures against imports from China as part of China’s entry into the WTO in 2002. These measures on 1,310 items – mostly of the YTG commodity chain with anti-dumping tariffs of more than 1,000% in some cases – will be subject to the provisions of the WTO starting on January 1, 2008. What is the performance of Mexico’s YTG commodity chain, and in particular its relationship with China?

1. In terms of GDP and employment, the chain has lost substantially since the end of the 1990s; after achieving its highest point in GDP and employment, the YTG has lost almost 25% of its employment during 2000-2003. According to recent estimates (Canaintex 2005), the chain might have lost an additional 10% of employment during 2004-2005.

2. Other sources (INEGI 2005) estimate that the share in output in the chain has fallen from 4.8% of manufacturing in 2000 to 2.7% in 2005.

3. Even firms in YTG in the maquiladora industry, the sector that benefited most from NAFTA and liberalization strategies in general, has lost 30.44% of its employment during 2000-2005, while among the maquila firms in YTG some 562 out of formerly 1,127 firms had to close during the same period.

This performance is particularly a result of massive and increasing –legal and illegal– imports (USGAO 2004) in the domestic market, as well as a decreasing share in the US-market since 2000; this is important, since the US market represents 95% of Mexican exports in the chain. Summarized detailed information for the chain in the US-market shows the profound problems of Mexico’s YTG chain, and particularly since the end of the 1990s and with China’s entry into the WTO in 2002.

As with total exports from Mexico to the US, the YTG chain also reflects similar patterns. On the one hand, the period 1990-2000 and particularly since the implementation of NAFTA was of extraordinary growth, with an AAGR of 33.2%, while China’s AAGR in the same chain amounted to 10.9%. However, in the period 2000-2004, and particularly since 2002, Mexico’s exports in YTG fell with an AAGR of -4.8%, while China’s increased significantly to now 22.2%. For the first time since the 1990s, Mexico’s exports in this sector fell continuously for 4 years in a row. In contrast, China continued to increase its share. As a result, China’s YTG exports to the US increased substantially from 12.11% in 2002 to 17.36% in 2004, while the share of Mexico and Central America declined (see chart 11).
The direct competition between Mexican and Central American goods in the YTG with China since its entrance to the WTO has been discussed with some detail recently. Kyvic (2004) among others assesses that Mexico and Latin America –particularly Central America and the Dominican Republic- will be the main losers as a result of China’s entry into the WTO, estimating that China in the short-run could increase its share in the US market from 16% to 50%, while Mexico’s and Latin America’s share could fall from 10% to 3% and from 16% to 5% respectively. 20

A few issues are relevant to understand the causes of these dramatic changes that will, as estimated, profoundly affect the YTG chain in Mexico and Latin America (Bair and Dussel Peters 2005; UNCTAD 2005).

First, Mexico –as well as Central America- has specialized in the garment segment of the YTG value-chain and lacks production and design capabilities in the yarn and textile segments. This reflects a substantial weakness of their processes, since yarn and textiles are the basic inputs that allow for flexibility and price competitiveness for the final garment assembly (Dussel Peters 2004; Gereffi 1999). Graph 5 clearly elucidates this issue: while China’s exports to the US have increasingly diversified –and away from garments, with a falling share over total YTG exports from 77.82% in 1990 to 61.20% in 2004, despite substantial growth during the period - both Central America and Mexico have increased the share of the garment segment to 99.14% and 85.75% in 2004, respectively.

![Graph 5](image-url)

**GRAPH 5**


Second, the impressive growth of China’s exports in the YTG chain has continued globally and specifically to the US until the first semester of 2005, accounting for growth rates of 57.7%, while for Mexico and the Caribbean Basin Initiative (CBI) they were of –4.3% and 4.8%, respectively (OTEXA 2005). This more recent dynamism of China is occurring in all segments of the YTG chain – and in spite of the establishment of the import...
limits for certain products (USCITA 2005) and particularly in garments, before the background of an overall growth rate of China’s exports of 77.8%.

Third, the weaknesses of Mexico’s YTG chain in the US are also explicit in its domestic market: while exports have substantially increased their share over GDP (see Chart 10), so have imports. As a result, the trade balance of YTG for Mexico (which reached its highest point in 2000 with more than $2.4 billion surplus) has fallen to $851 millions in 2004 and can be expected to turn negative in the medium term. The reason for this performance is that while exports in the garment segment continue to be high, so are imports for textiles and yarn, i.e. the lack of suppliers of inputs and textiles for the full value-chain and massive imports is, without doubt, the most relevant weakness of Mexican (and Central American) industrial organization in comparison with its Asian competitors. The recently signed Central American Free Trade Agreement (CAFTA) might increase the competition between the region and Mexico, but not necessarily close this gap with Asia, particularly with China (Bair and Dussel Peters 2005).

Finally, regarding the bilateral relationship between China and Mexico, and therein specifically the YTG commodity chain, it is relevant to point out that a yet small group of Chinese firms have established a presence in Mexico, mainly in the maquiladoras, to export to the US. By March of 2005, Chinese FDI to Mexico amounted to $74 million with Chinese capital investment in 339 firms. In addition, for the period 1999-2005, some 52.7% of China’s FDI was located in manufacturing, with garment being the main sector of interest with 23.2% of total Chinese FDI. Out of the 339 firms with Chinese capital input, some 209 are in trade and 76 in manufacturing (with 21 in garment) (SE 2005). This recent trend –and similar experiences in Central America and Honduras (Dussel Peters 2004)- allows for new experiences with Chinese firms in Mexico. These nearly two-dozen Chinese companies are employing close to 4,000 workers (Hynds et. al 2005). So far, however, these firms and their effects have not been analyzed.

3. CONCLUSIONS AND POLICY RECOMMENDATIONS

This paper seeks to understand the implications of China’s entry into the WTO for Mexico and the bilateral relationship between the People’s Republic of China and Mexico from the perspective of their respective economic and export strategies since the 1980s, rather than focus on a more ideological debate on the shortcomings of China’s economy to become a market-oriented economy and a comparison with Mexico.21

From this perspective, the first section concludes that China’s and Mexico’s strategies currently are highly dependent on their export performance. As discussed, both nations have increasingly supported an export orientation, although as a result of different –even diametrically opposed- development strategies. With a different time schedule in formally integrating into the world market –in 1994 through NAFTA in the case of Mexico and in 2002 through the accession to the WTO in the case of China- both nations have decided to actively integrate into the world market through exports as one of the main pillars of their development strategy.

The latter issue is of primary conceptual and policy making relevance, since China’s successful reforms since the 1980s –with huge challenges- stands in direct opposition to the export-oriented industrialization followed by Mexico and most of Latin America since the 1980s, as discussed in chapter 1. One of the main differences among both development
strategies to integrate into the world market—and contrary to import-substituting industrialization where the domestic market was the main point of reference and development—is the degree and capability of preparation of each country to integrate into the world market. While Mexico’s integration process—based on export-oriented industrialization’s premises—took place rapidly and with little socioeconomic consensus, the Chinese case is relevant since it allowed for several decades of capacity-building of institutions and productive structures (as discussed under the concept of “transitional institutions”).

Despite the dominance of the EOI model in Latin America today, the record of market-driven, export-oriented policies in promoting developmental objectives is ambiguous. In addition to disappointing results since the 1980s and 1990s in terms of GDP growth, income distribution, employment generation and balance of payments (Stallings and Péres 2000), there is also accumulating evidence that Latin America’s performance has been negative in comparative terms with Asian countries and particularly with China. Nevertheless, and as examined, both development models have also generated polarization or increasing inequality of firms, branches, territories and workers in areas that have become integrated into global circuits benefiting from these processes, while their less fortunate counterparts confront stagnation and even decline. However, and specifically regarding the cases of Mexico and China, the latter has been able to increase overall GDP, GDP per capita and consumption even though inequality, too, continued to rise, while in the case of Mexico—and of most of Latin America—the economies, personal consumption and per capita GDP have stagnated, even fallen while inequality continues to rise.

One has to be more specific, though: China’s entry into the WTO—integration into the world market—will affect the world market as such, i.e. China is not “another” country participating in the world market, but rather the biggest country in terms of population, currently the main destination of FDI, and the country with the world-wide highest dynamics in terms of growth and trade, as well as of foreign reserves. Thus, China’s integration into the world market after its entry into the WTO will result in new patterns of the world market affecting core and periphery.

This issue is substantial in more general terms of development and growth and development theory. While deeply calling into question the mantra of export orientation as development and growth strategy per se for most of Latin America since the 1980s, it also poses serious global challenges. As discussed in the case of energy consumption and CO$_2$-emission, the prospect of continuous growth of GDP in China—as well as in Latin America in general and Mexico specifically—in order to close the gap with industrialized countries is not sustainable from an energy and ecological perspective and clearly requires a global solution (Altvater and Mahnkopf 1999).

From a more general perspective, China and Mexico are direct competitors in the world market and as a result of their recent productive and trade specialization. It could be argued, however, that their respective products, processes and imports and export markets are different. This is the reason why a detailed analysis of China’s and Mexico’s integration into the world market—through FDI, trade and characteristics of their trade—is necessary. Without a doubt, such an analysis has to be continued in more detail regarding issues such as sectors, territories, the analysis of specific socioeconomic and ecological variables such as gender, wages, income, energy-intensity and sustainability, as well as investment and
consumption patterns, among many others. In addition, this perspective also allows to assess the implications of China’s entry into the WTO for Mexico.

Chapter two presents a vast empirical and analytical framework to discuss this issue. In general terms, the chapter concludes that—while considering profound differences between both trade structures—they are increasingly participating in the same markets (primarily the United States) and also directly bilaterally. As a result, and particularly since 2002, China seems to be better prepared than Mexico—as well as other nations in Latin America and the rest of periphery—for competing with similar processes, products and in specific branches. While China and Mexico do still present substantial differences in terms of the sources of imports and destination of exports, as well as export-specialization, they already have been competing directly in Mexico’s main market, the US, and Mexico has, so far, lost substantial ground. Clearly, for Mexico, losing market shares in the domestic and the US market is not only a trade-related issue, but points to the need to rethink its overall competitiveness and development strategy. In several cases, such as the specific study on the yarn-textile-garment commodity chain, Mexico is going through a profound crisis in terms of employment and GDP. This performance, however, is not only a result of competition with Chinese products—although this is indeed the case with respect to the US market, along with other competitors in Asia and Central America,—but also of losing against other competitors in the domestic market. As a result, in the case of YTG, it has lost more than 1/3 of its employment and, unless new strategies are being implemented, this trend will. Thus, and in general, Mexico has lost against Chinese competition—and in sectors such as electronics and YTG—since 2002 and China’s entry into the WTO. As discussed for the YTG valued-added chain, but also as a result of China’s policies in other high-tech sectors and its upgrading process, it can be foreseen that China will probably continue to compete and displace Mexico—and other countries—in additional sectors such as automobiles, chemicals, software, pharmaceuticals in the near future.

Several general issues are significant.

First, the dimension of China’s economy. With 1.3 billion inhabitants China is already the biggest destination of FDI worldwide—Mexico’s FDI accounts for less than 30% of China’s—and the country will become the biggest economy in terms of GDP in the next two decades. China already has three times the exports of Mexico (and around 35 times the exports of Central America). It is significant to understand this issue, since China competes apparently “head to head” with Mexico—and Central America in specific chapters—despite the fact that for China the US market only accounts for 21.05% of its exports, in contrast to the more than 90% of Mexican exports in 2004.

Second, its effort to support an increasing technological level of exports and overall trade. As discussed in chapter 1, currently China is actively and aggressively enhancing a group of processes, products and chapters with these characteristics. This has already resulted in a significant change of China’s trade structure since the 1980s, i.e. while dominating world-wide trade in yarn-textile-garments, it currently does not account for more than 5% of total Chinese exports in 2004. These 5% of Chinese exports have substantially changed world markets and competition conditions for Mexico and Central America, among other countries.

Third, China’s entry into the WTO is not only relevant in terms of its effects in trade and its implications for countries such as Mexico, but also in terms of its domestic market. As a result of consumption growth for more than two decades, China’s domestic market is of utmost interest for transnational corporations and FDI, i.e., and contrary to
Mexico and Central America, a significant share of FDI flowing into China is in search of opportunities for supplying this growing domestic demand, and not only as an export-platform. However, and as discussed in chapter, the effects in China in terms of the commitments by entering the WTO in 2002 in the agricultural and service sector are not foreseeable so far; no country, yet, has made so far reaching commitments in sectors that might affect hundreds of millions of inhabitants.

What do these scenarios–and specifically the implications of China’s entry into the WTO–mean for Mexico, and what strategies can a country such as Mexico implement to compete with China in the short, medium and long term?

First, and as a result of the domestic discussion about the lack of competitiveness not only with China, but also other Asian and Latin American countries, Mexico should profoundly review its strategy of EOI and horizontal policies implemented since the late 1980s. The Chinese case clearly reveals that active and aggressive policies–on issues such as technology, industry, research and development (R&D), education, trade policy and incentives for FDI and national investments–might result in a better performance than neutral policies. This would require a substantial review of macro, meso and micro policies.

Second, China’s rather successful integration into the world market and Mexico’s difficulties to keep pace with this performance also questions the essence of EOI policy in Mexico, i.e. to compete in the world market with exports based on imported inputs and cheap labor power since neither Mexico–nor Central America–can offer cheap labor power as compared to Asia and China. The bilateral experience with China and in the US-market since the late 1990s offers sufficient evidence to initiate a discussion of a new development strategy based on new factors of growth and development. Clearly, increasing socioeconomic and territorial polarization is not sustainable in the medium-term in Mexico and attempting to outperform China in terms of cheap labor power is not a political and social option in Mexico today.

Third, Mexico urgently needs a discussion of future policy and development options and of its main factors of competitiveness in the world market, and not only as a result of the competition with China. Other Asian nations such as India, Indonesia, Vietnam, Malaysia, and Thailand, among others, might also increase their export-orientation and increase competition with Mexico in its domestic and in third markets. From a Mexican perspective, it is unavoidable to begin a discussion on a development strategy to integrate a nation of 105 million inhabitants into the world market differently than in the past.

In terms of the specificities of the bilateral relationship between China and Mexico, several short and medium-term policy options stand out:

1. To begin with a detailed analysis of both economies at the territorial, sector and branch level. So far, it is unavoidable to begin with a simple statistical harmonization of trade information, since discrepancies are formidable.

2. Mexican officials, the private sector, but also academics, need to increase their knowledge of China as one of the main future economic and global players. So far, the relationship between the public sectors in China and Mexico has been tense, not the least as a result of Mexico being the last nation to agree to China’s entry into the WTO. These policy makers and opinion leaders in Mexico, thus, need to accept China’s future global role as the most dynamic economy. As a result, and similar to Argentina, Brazil and Venezuela, Mexico should actively promote bilateral economic, political and technical ties, rather than entrusting Mexico’s economic future solely to the dynamics with and within NAFTA.
3. Finally, and specifically regarding bilateral issues, the following issues seem to be a priority and relevant on this matter:

a. In general, both China and Mexico should begin to increase their “South-South” knowledge, since, so far, the information on each other and interaction is extremely limited. In both countries, apparently, the relationship with countries such as the US, the European Union and Japan is a priority, while the interest and knowledge of each other is very low.

b. Mexico should begin to examine the reasons, experiences and challenges of Chinese firms in Mexico and of Mexican firms in China. While these experiences have been very recent, it is expected that they will increase substantially.

c. There is a huge potential of academic, cultural, social and economic cooperation among both countries. As a result, the Bilateral Commission between Mexico and China should intensify high level meetings to several times a year.

d. China and Mexico should also intensify their bilateral relationship in terms of global governance issues, including their role in the UN system, their cooperation on issues related to energy and ecology, as well as global financial topics. In these cases, and in the short run, it is possible that common perspective might arise.

4. Finally, both China and Mexico should be aware that the current trade relationship is politically not sustainable, i.e. if trends would continue as in the 1990s, the import-export coefficient of Mexico and China (1:31) could increase to even higher levels. This should be the beginning point of a profound discussion on a more general agenda in the framework of the Bilateral Commission China-Mexico.

To begin with such a “South-South” dialogue both nations need to open up in terms of political discussion and respective costs of cooperation. This paper attempts to summarize the discussion on the effects of China’s entry into the WTO for Latin America and specifically for Mexico and to open the debate to new fields: so far, clearly, neither Mexico nor China have paid sufficient attention to this issue, which will be of increasing importance in the short and medium term in multilateral institutions as well as in the countries themselves.

Finally, the economic and trade relationship between both countries also challenges the notion/conviction that export-oriented industrialization and integration into the world market through exports is a generalized option for nations in periphery. If it historically ever was, China has clearly changed this option for many nations. This experience should be discussed more in detail in terms of changes of the development model and options in the short, medium and long term. Changes in energy consumption patterns and emission do, in addition, pose new global challenges for development, i.e. the earth can currently not sustain that China and Latin America close the gap in terms of GDP—and the required energy for doing so—with industrialized countries. The repercussions of these findings with respect to sharing global costs and allowing for growth in developing countries will have to be analyzed in depth and possible solutions proposed in the near future.
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About the author

Enrique Dussel Peters, Professor at the Graduate School of Economics, Universidad Nacional Autónoma de México (UNAM), 1993 to present. Consultant for several Mexican and international institutions B.A. and M.A. in Political Science at the Free University of Berlin, and Ph.D. in Economics at the University of Notre Dame. Research topics: economic development, industrial organization and trade theory, NAFTA and CAFTA, evolution of industrial, trade and regional patterns in Latin America and Mexico. Publications include Polarizing Mexico: The Impact of Liberalization Strategy (Boulder/Colorado: Lynne Rienner Publishers, 2000); Claroscuros. Integración exitosa de las pequeñas y medianas empresas en México (México: CANACINTRA/CEPAL/JUS, 2001); with Luis Miguel Galindo and Eduardo Loria Díaz. Condiciones y efectos de la inversión extranjera directa y del proceso de integración regional en México durante los noventa. Una perspectiva macro, meso y micro (México: Facultad de Economía/Universidad Nacional Autónoma de México, Banco Interamericano de Desarrollo-INTAL and Plaza y Valdés, 2003); with assistance from Liu Xue Dong. Economic Opportunities and Challenges Posed by China for Mexico and Central America, German Development Institute (Bonn, 2005). Currently he is researching on the economic opportunities and challenges of China for Mexico and Central America. http://dusselpeters.com and dussel@servidor.unam.mx
Heinrich Böll Foundation

The Heinrich Böll Foundation, affiliated with the Green Party and headquartered in the Hackesche Höfe in the heart of Berlin, is a legally independent political foundation working in the spirit of intellectual openness.

The Foundation's primary objective is to support political education both within Germany and abroad, thus promoting democratic involvement, sociopolitical activism, and cross-cultural understanding.

The Foundation also provides support for art and culture, science and research, and developmental cooperation. Its activities are guided by the fundamental political values of ecology, democracy, solidarity, and non-violence.

By way of its international collaboration with a large number of project partners - currently numbering about 150 projects in almost 60 countries - the Foundation aims to strengthen ecological and civil activism on a global level, to intensify the exchange of ideas and experiences, and to keep our sensibilities alert for change. The Heinrich Böll Foundation's collaboration on sociopolitical education programs with its project partners abroad is on a long-term basis. Additional important instruments of international cooperation include visitor programs, which enhance the exchange of experiences and of political networking, as well as basic and advanced training programs for committed activists.

The Heinrich Böll Foundation has about 180 full-time employees as well as approximately 300 supporting members who provide both financial and non-material assistance.

Ralf Fücks and Barbara Unmüßig comprise the current Executive Board. Dr. Birgit Laubach is the CEO of the Foundation.

Two additional bodies of the Foundation's educational work are: the "Green Academy" and the "Feminist Institute".

The Foundation currently maintains foreign and project offices in the USA and the Arab Middle East, in Afghanistan, Bosnia-Herzegovina, Brazil, Cambodia, Croatia, the Czech Republic, El Salvador, Georgia, India, Israel, Kenya, Mexico, Nigeria, Pakistan, Poland, Russia, South Africa, Serbia, Thailand, Turkey, and an EU office in Brussels.

For 2003, the Foundation had almost 38 million € public funds at its disposal.
It would take too long in this context, and it is not the objective of the document, to develop EOI in depth, and particularly regarding the association between exports, productivity, economic growth and overall development. For such a discussion, see: Dussel Peters (2000).

As Aspe Armella (1993) stresses, lowering inflation rate was the crucial targeted variable since high inflation rates, caused in general by domestic demand, but particularly by inertial tendencies of real wages, did not allow for the reduction of the fiscal deficit during 1982-1987.

At the end of the 1980s, this was not merely a hypothetical possibility. Politicians such as Ross Perot and Patrick J. Buchanan in the United States presented strong criticisms of imports from Mexico. Stepped-up protectionism would have acted against an export orientation in Mexico and EOI in general.

For a discussion on the new challenges of unions in China—such as the China Federation of Trade Unions (ACFTU)—, see: Businessweek (2005).

In 2003 the SOEs employed more than 66 million persons (staff and workers), while the urban collective-owned employment was of almost 10 million (NBSC 2005).

In July of 2005 the People’s Central Bank decided to revalue the Yuan by 2.1%, also as a result of massive foreign exchange reserves (above 710 billion US$ in 2005) and international pressure for doing so. It is possible that the Yuan will continue with this process, although it is not expected that a substantial change will occur.

FDI into both economies has increased; in China and Mexico FDI flows accounted for 11.6% and 13.8% of gross fixed capital formation during 1998-2003 and FDI stocks for 26.5% and 35.6% of GDP in 2003 (UNCTAD 2004).

Female illiteracy in China was in 2003 19.6%, while of 6.7% for the male population; this gap was far smaller in Mexico, of 9.8% and 6.1%, respectively (ILO 2005).

According to the Gender Development Index (GDI) of the Human Development Report (UNDP 2004) both China and Mexico account for a better GDI than HDI performance: China ranks 94 and 71 regarding HDI and GDI, while Mexico 53 and 50, respectively.

There are many detailed significant issues related to China’s accession to the WTO, including the right to maintain their tariff restrictions on imported products, the monitoring of progress by the WTO, the possibility for all firms to engage in trade (and not only allowed trading companies), and the opening to foreign investments in sensible sectors such as financial services, banking, insurance, telecommunications and tourism, among others.

These huge differences are a result of usual complications in trade transactions—mainly that third countries are being used for final consumption in other countries, i.e. Mexican exports go to China through the US and are being registered as exports to the US and not China—but also substantial problems in both customs.

The case of Hong Kong has to be studied in much more detail in the future. According to Chinese official data, until 2005 China’s and Hong Kong’s trade are registered as two different units and accounts for more than $110 billions in 2004.

In 2004 Mexico was China’s 22nd and 35th most relevant market according to its exports and imports, respectively.

As discussed earlier, Chinese and Mexican statistics present substantial differences, for a discussion, see: Dussel Peters (2005/b).

A more detailed analysis would also show that Mexico’s exports in yarn-textile-garments value-added chain (see section 2.3 of this paper), as well as optical products (HTS chapter 90) and furniture (HTS chapter 94) do also coincide with Chinese most dynamic export-oriented chapters (Dussel Peters 2005/a).

The issue, as well as other, has to be analyzed in more depth. While reflecting a highly underdeveloped trade and production structure it also accounts for a high degree of intra-industrial trade (León Pacheco and Dussel Peters 2001).

This chain is comprised of 3,228 10-digit items of the Harmonized Tariff System, which can be classified into four segments: yarn, textiles, garments and others. The apparel portion of the chain is most significant in terms of international trade, accounting for 80.4% of US imports in this sector over the 1990-2004 period. While most of our discussion focuses on garments, and to a lesser extent on textile segments of the chain, it is most relevant to understand the entire structure of the chain, and the links between them for analyzing the
competitiveness of the sector in a particular region and its potential for generating opportunities for upgrading. For a full discussion of the chain and its global segments, see: Dussel Peters (2004).

19 In China the YTG chain accounts for between 13-18 million workers and in Central America around 400,000 (Dussel Peters 2005).

20 While cautioning about the assumptions of these models, in general the results have been accepted by other institutions and authors. UNCTAD (2005) in addition stresses that competition for FDI will increase as a result of the removal of quotas. Interestingly, transnational corporations from East Asia will emerge as a new important actor in the global commodity chain, in which for example firms such as Nien Hsing and Esquel Group (from Taiwan and China respectively) will have production plants in Asia, Africa and Latin America.

21 Thus, for example, authors close to the IADB such as Lora (2005) surprisingly reach the conclusion that China might become a “threat” for Latin America, but mainly as a result of the weaknesses of its banking sector and the potential global effects of its demise. As discussed in detail in this document, such an analysis is not sufficient and lacks an analysis of Latin America’s complementarity and/or competition with China in domestic and foreign markets.

22 This issue has to be analyzed in more depth in the future. As a result of interviewing more than a dozen TNCs in China –particularly in the electronics sectors- the issue became very clear: while these firms increased investments by more than 20% annually, most of the production is domestically oriented.