Macro Vision

March 20, 2025

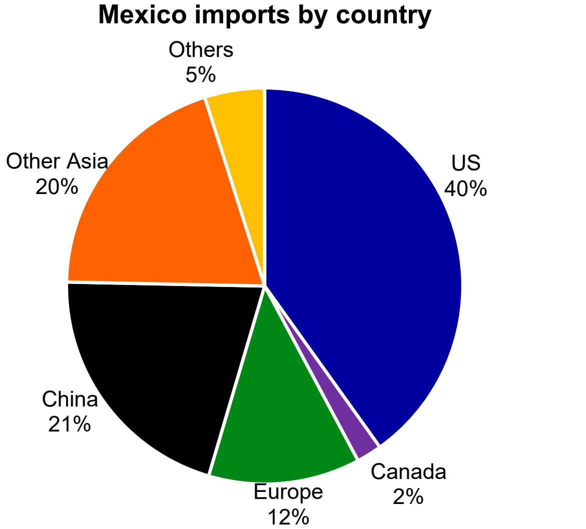
MEXICO – bilateral relationship with China amid USMCA (re)negotiations

- This study analyzes the trade and investment relationship between Mexico and China. From 2017 to 2024, Chinese imports to Mexico increased by close to 80% (reaching nearly 20% in share), while Chinese FDI in Mexico increased by more than 400% in the same period, although still low in total participation (at the margin running close to 2% of total FDI).
- Mexico recently announced that it is considering imposing tariffs on Chinese imports to avoid US duties. With the ongoing tariff threats triggering an early renegotiation of USMCA, Mexico appears committed to, if necessary, sacrifice some of its bilateral relationship with China to preserve the free-trade deal with its most significant partner. The US accounts for 80% of Mexico's total exports, 40% of total imports, and 45% of total FDI.

Mexico-China trade relationship

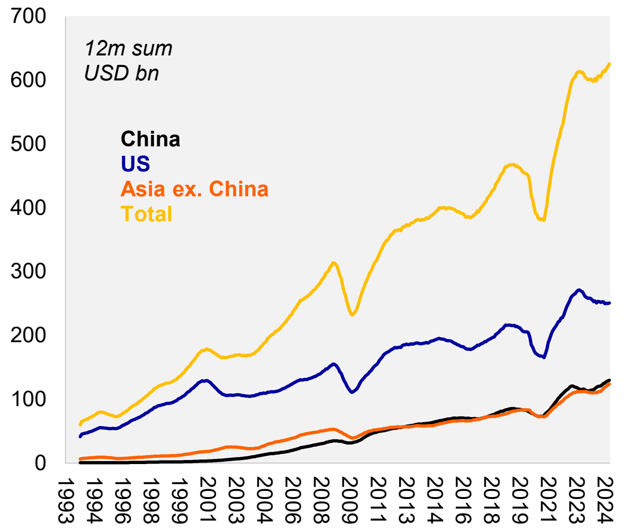
Mexico has had a goods trade deficit with China since 1993, which widened after 2001 with China's entry into the WTO. China accounted for 21% of the total imported goods by Mexico in 2024, compared to 40% from the US, only 2% from Canada, and 12% from Europe. Other Asian economies, such as Korea, India, Japan, Taiwan, and Malaysia, accounted for 13%, leaving 7% from other Asian economies (20% total Asia ex-China).

In 2024, China accounted for 21% of total imports (vs 42% for the US and Canada) …



Source: Banxico, Itaú

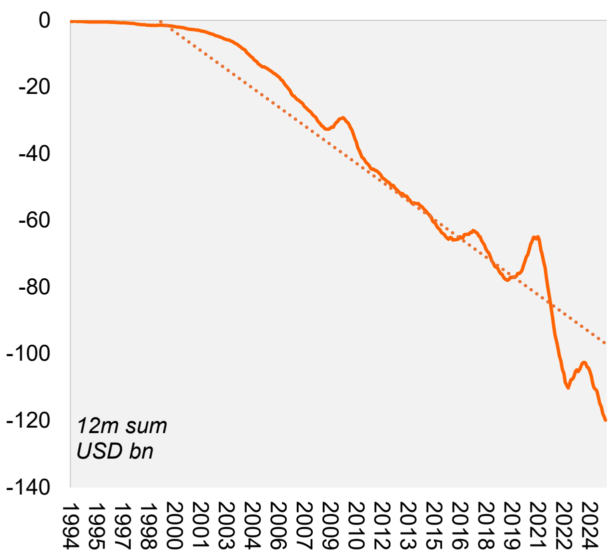
Growing by close to 80% since 2017 (compared to 29% from the US)



Source: Banxico, Itaú

Mexico recorded a USD 120 billion trade deficit with China in 2024. The main imported products were machinery, transportation materials, and base metals, which were also the main categories of exports to China, although in smaller quantities. Since the end of 2017, there has been an almost 30% increase in machinery inputs, particularly in electrical transformers, electrical appliances, and printed circuits.

Trade deficit with China has intensified since 2017



Source: Banxico, Itau.

Most of the Chinese imported goods are destined for final consumption in Mexico, with imports of cars and apparel increasing substantially since 2017, by close to 150% and 170%, respectively. This trend can be attributed to the opening of new Chinese marketplaces and the entry of new competitors into the Mexican market after the COVID-19 pandemic, as well as a strong peso until mid-2024 and VAT exemptions for products under USD 50, which translated into more imported goods.

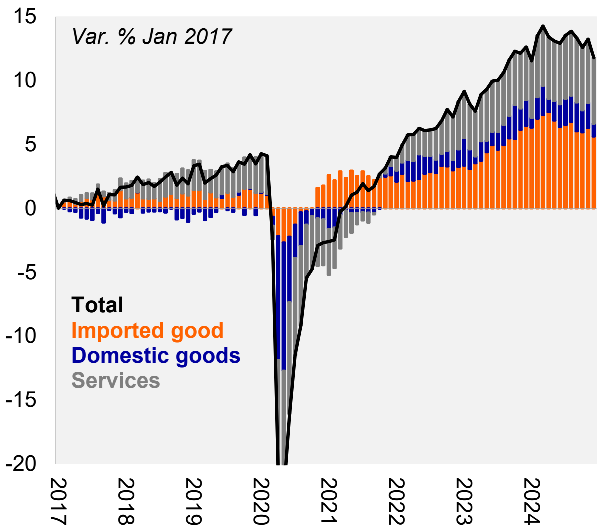
Large trade deficit with China in machinery and transportation materials (including cars)

Trade balance in 2024 - USD Bn

	Exports	Imports	Trade balance
All products	**9.9**	**129.8**	**-119.9**
Machinery	1.5	68.8	-67.4
Transportation material	0.8	14.1	-13.3
Base metals	0.7	8.2	-7.6
Other	0.0	6.3	-6.3
Plastic goods	0.1	6.2	-6.1
Textiles	0.0	5.4	-5.4
Miscellaneous goods	0.0	4.7	-4.7
Special operations	0.0	4.6	-4.6
Chemical products	0.1	4.1	-3.9
Optical instruments	0.3	2.9	-2.6
Stone manufactures	0.0	1.1	-1.1
Wood pulp	0.0	0.9	-0.9
Manufacturing of leather	0.0	0.7	-0.7
Live animals	0.1	0.4	-0.3
Vegetables	0.1	0.4	-0.3
Products of the food industry	0.1	0.4	-0.2
Pearls	0.0	0.1	-0.1
Mineral products	5.9	0.4	5.5

Source: Banxico. Itau.

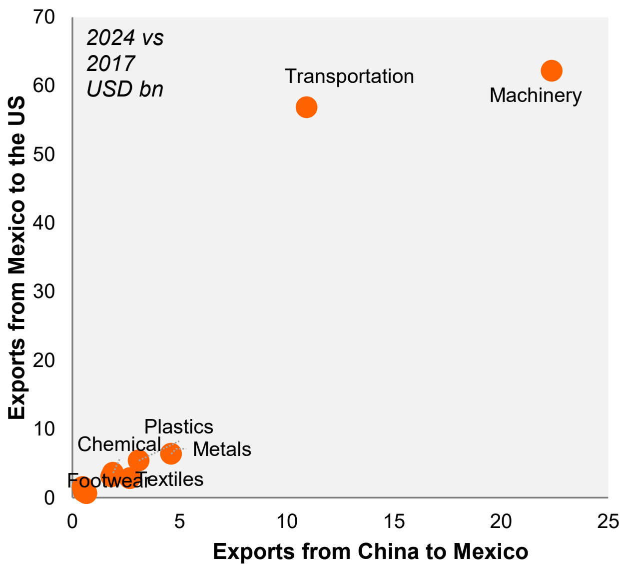
Consumption of imported goods has increased significantly since 2021, especially those from China



Source: INEGI, Itaú

The US has expressed concerns about a triangular trade relationship between China, Mexico, and the US, in which China leverages Mexico's duty-free access to the US to bypass existing US restrictions on Chinese exports (see chart below). This is particularly true for the manufacturing industry in the context of the USMCA rules of origin (more details here).

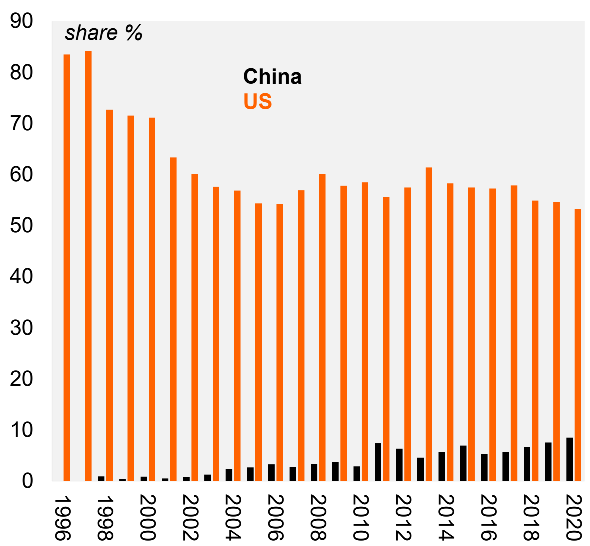
Trade with the US and China



Source: Banxico, Itau.

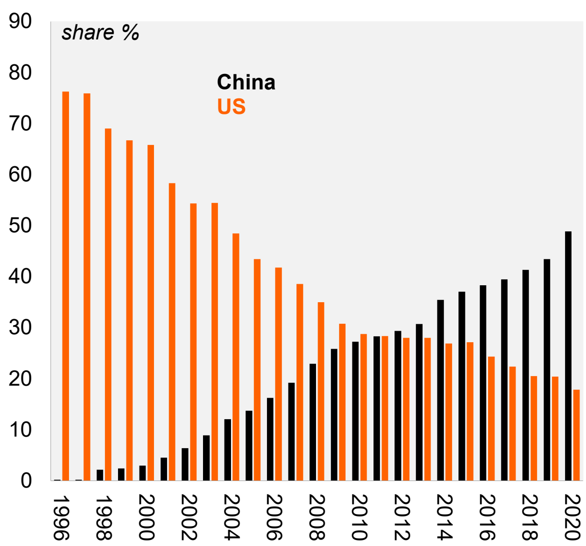
Within Mexico's manufacturing exports, the Chinese share of imported intermediate products has increased in recent years. The total share went from 22.1% in 2017 to 28.3% in 2020[1], although still lower than the US, which has decreased recently, from 39.5% in 2017 to 35.0% in 2020. Importantly, imports from China accounted for around a quarter of Mexico's exports to the US, with the largest increase in imports from China being final consumer goods for the Mexican market.

Imported inputs from China have increased significantly…



Source: OCDE, Itaú

…mainly in the manufacturing industry, such as electrical equipment



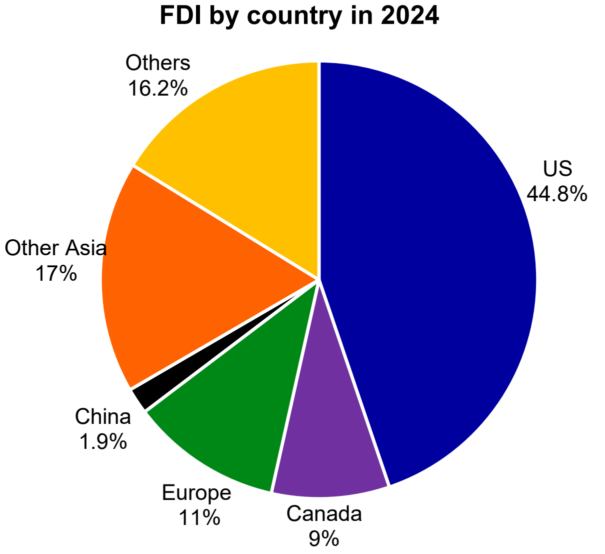
Source: OCDE, Itaú

Mexico-China FDI relationship

Regarding Foreign Direct Investment (FDI) to Mexico, the total amount was USD 36.8 billion in 2024, with 44.8% coming from the US and only 1.9% from China. Despite the low share, Chinese FDI has been growing rapidly in the past few years.

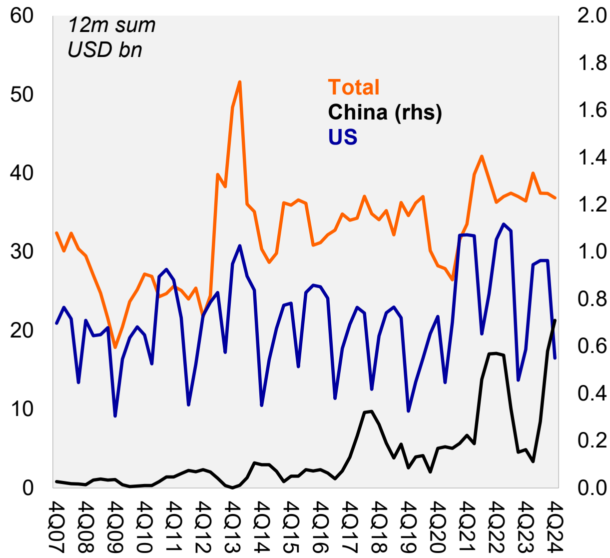
[1] Latest data available from ODCE TIVA.

China accounts for only 1.9% of all FDI (vs 44.8% from the US) …



Source: Secretaría de Economia, Itaú

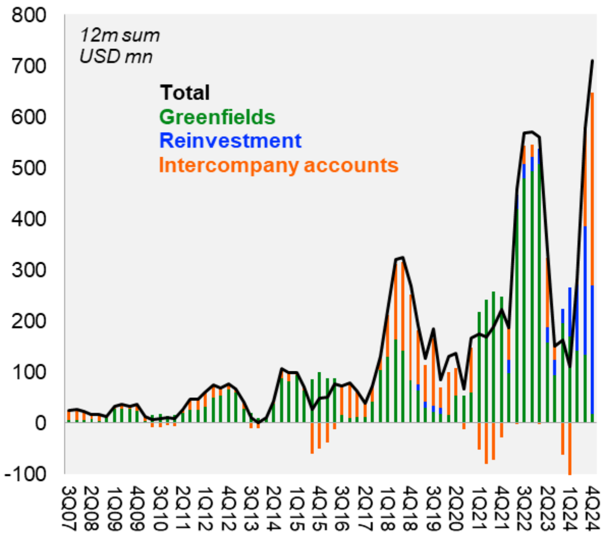
But has been increasing over time



Source: Secretaría de Economia, Itaú

Looking at the breakdown of Chinese FDI to Mexico, the most relevant flows at the margin are coming from greenfield projects and reinvestments due to higher returns and the recently acquired knowledge of the Mexican market, given the increase in total participation. This is particularly true in the manufacturing sector, in industries such as transportation equipment, computers, communication, and other electronic equipment.

China's FDI into Mexico



Source: Ministry of economy, Itaú.

Conclusion

This study analyzes the trade and investment relationship between Mexico and China. From 2017 to 2024, Chinese imported goods increased by close to 80%, while Chinese FDI increased by more than 400% in the same period, although still low in total participation (at the margin running close to 2% of total FDI). Although China is a relevant trading partner (20% of total imports and 2% of total exports), FDI flows are relatively small.

Mexico recently announced that it is considering imposing tariffs on Chinese imports to avoid US duties amid ongoing negotiations with the US. This proposal comes after the *Plan Mexico*, which focuses on import substitution, and last year's announcement of a differentiated tax rate for marketplaces from countries without a trade agreement with Mexico, namely China. Taxing Asian imported goods has supported government revenues, as seen in 2024 with higher-than-expected import tax revenues (30.7% YoY), partially offsetting the contraction in oil revenues (-15.1% YoY). In this regard, the chief economist of the Ministry of Finance, Rodrigo Mariscal, recently stated that revenues may increase from higher import taxes and efficiency measures in 2025, with his calculations reaching approximately 0.8% of GDP more than what was approved by Congress.

A renegotiation of the USMCA free trade deal has virtually already started. We maintain our view that the US administration's tariff threats are a mechanism to gain leverage in advance of the free-trade renegotiation process, as well as to push Mexico to meet other demands on border security/control, flows of fentanyl, immigration, and possible inflows of inputs originating from China to the US. We believe that Mexico is inclined to concede to US demands to maintain the USMCA agreement and is demonstrating coordination between government and private entities towards this goal.

Given the ongoing tariff threats triggering an early USMCA renegotiation, Mexico seems committed to, if necessary, sacrifice some of its bilateral relationship with China to preserve the free-trade deal with its most relevant partner (the US accounts for 80% of Mexico's total exports, 40% of total imports, and 45% of total FDI).

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