China’s Prospects in Mexico Under Claudia Sheinbaum

R. Evan Ellis • Fall 2024

Claudia Sheinbaum during her presidential victory speech on June 2, 2024. (Photo: EneasMx)

As the People’s Republic of China (PRC) expanded its engagement with the countries of the Western Hemisphere during the past three decades, Mexico’s integration with the US economy, its comparative distance from and structural competition with the PRC economy, and Mexico’s close cooperation with the United States on security issues under the governments of Felipe Calderon and Enrique Pena Nieto, limited the projection of a “threatening” PRC presence and influence in Mexico. Or at least the perception of it in Washington.

China’s Little-Noticed Deep Roots in Mexico

In reality, the PRC and its commercial agents have long had a substantial political and commercial presence in Mexico. Mexico was the fourth country in the hemisphere to establish diplomatic relations with the PRC, doing so in February 1971. It was one of the first in the region be recognized by the PRC as a “Strategic Partner,” with the Chinese foreign ministry conferring the title on Mexico in 2003, subsequently upgrading the relationship to “Comprehensive Strategic Partner” in May 2017.

With respect to trade, with China's acceptance into the World Trade Organization (WTO) in 2001, according to the International Monetary Fund, PRC bilateral trade with Mexico grew from $4.55 billion that year, to $136.74 billion by 2022, a thirty-fold increase. That trade has consistently been dramatically in China's favor, with the $4.27 billion in PRC exports to Mexico 15 times greater than its $281.8 million in imports from Mexico in 2001, and still 11.5 times its $125.8 billion in exports to Mexico in 2022. This was still 11.5 times greater than its $10.9 billion in imports from Mexico that year, contributing to the perception among many Mexicans of the PRC as more of a competitor than a benefactor.

With respect to PRC investment and other involvement in Mexico, in the period from 2000 through the end of 2023, Chinese Overseas Foreign Direct Investment (OFDI) in Mexico totaled $22.5 billion through 166 recorded major transactions. This represented 12% of the total $193.2 billion invested in Latin America and the Caribbean by PRC-based firms through 625 transactions during the period. Although most of those investments came after 2015, investments by PRC-based companies in the country began much earlier.

Beginning in 2001 with a concession to operate port terminal in Veracruz, the Hong Kong-based shipping firm Hutchison Whampoa won the right to operate several of Mexico's largest ports on both the Atlantic and Pacific coasts in close proximity to the United States, ultimately operating seven facilities. These were located not only in Veracruz, but also in Ensenada, Manzanillo, Lazaro Cardenas. In addition, they included a land port in Hidalgo.

Both the Chinese telecommunication company Huawei and the computer company Lenovo established major facilities and sales networks in the country during the same early period, and gradually moved from a position of competitor to that of a partner and supplier, to Mexico's key telecommunications companies, including the conglomerate America Movil.

Over the past 20 years, Chinese manufacturers in the garment, auto parts, and other sectors, quietly set up factories in the country, taking advantage of Mexico's privileged access to the US market under NAFTA. They began with modest initiatives such as the Sinatex garment factory in Ciudad Obregon and a plant in Coahuila for manufacturing metal tubes owned by Golden Dragon Precise Copper Tube Group, and an auto parts manufacturing facility in Veracruz by the Chinese automaker Foton.

When Mexico opened up its oil sector during the Pena Nieto term of office (including an important auction of exploration and drilling rights in 2016). The China National Offshore Oil Corporation (CNOOC) paid a premium to establish a presence in the Perdido basin of the Gulf of Mexico. Unfortunately for CNOOC, the field did not turn out to have commercially viable quantities of oil.

In intellectual terms, at the beginning of the second decade of the 21st century, Mexico had more Confucius Institutes than any other Latin American country. There were five by 2009 when most other countries had only one or two, although Mexico has added only one new one in the 15 years that followed. Mexico established what is today one of the region's most respected China-Latin America studies centers, CECHIMEX. Still, despite such a legacy, Mexican academics and businesspersons continued to lament the inability of their government to effectively promote the country's own interests in, or with, the PRC.

The Legacy of Chinese Problems in Mexico

As the PRC presence continued to expand throughout the region, skepticism and resistance toward China in Mexico was arguably more notable than in many other parts of the region. From the days of the Mexican Revolution and before, the Chinese had been regarded as culturally "other" and competitors. The legacy of violence against Chinese immigrants at the beginning of the century, including during the Mexican Revolution, by those who saw them as competing for scarce local jobs, is carried forth today. It can be seen in those who feared that cheap Chinese imports would undermine Mexican manufacturing, both within the country and in third markets such as the United States.

The Mexico-China relationship has been fraught with difficulties, tied not only to structural competition and a legacy of cultural mistrust, but also to politics. Examples include the harsh PRC government reaction when then-President Felipe Calderon received Tibet's Dali Lama in 2011, the legal fight in Mexico over "Dragon Mart," a major Chinese wholesale/retail complex in Quintana Roo, ultimately stopped by a legal action by the Mexican government in January 2015, and the cancellation of a Chinese bullet train project between Mexico City and Queretaro by the Pena Nieto administration that same year. In July 2018, the Pena Nieto administration also suspended work on the Chicosen II hydroelectric project, in which China's Sinohydro was the key contractor, following years of conflicts between the Chinese company and workers and the local community on the project.

China's Restrained Advance

Under Mexican President Andres Manuel Lopez Obrador (AMLO), China's position and its potential for future expansion grew significantly, although it was simultaneously restrained to some degree by the nationalistic policies of his administration.

In the port sector, Chinese companies explored an investment in a new Pacific-coast port in Nayarit. Yet during the same period, the AMLO government threatened to take away Hutchison's concession to operate its terminal in Veracruz. China Construction Communication Corporation (CCCC), along with the Portugal-based construction firm Mota-Engil (in which CCCC acquired a 30% stake in 2020), won the bid for phase one of the President's signature $7.5 billion, 1,500-kilometer Maya tourist train across the south of the country. China's Zhuzhou Locomotive, a Subsidiary of China Railway, won a $1.6 billion contract to modernize Line 1 of the metro of Mexico City, where President-elect Claudia

Sheinbaum was mayor. Driven by such opportunities, in 2021, China Railway announced plans to build a factory in Mexico for the railcars it was selling to the country.

Although these major projects positioned PRC-based companies for an expanded role in Mexico's construction and logistics sector, Chinese opportunities were restrained by AMLO's difficulties in taking construction sector projects forward in the context of pushback on environmental and other issues, and his lack of success in invoking "national security" authorities to expedite them.

Lithium: In August 2021, the Chinese mining giant Ganfeng acquired the rights to the Bacanora lithium deposit for $391 million. But it was stymied in its development by AMLO's April 2022 decision to nationalize the sector, precipitating a conflict that ultimately led to the state to attempt to revoke its license.

Renewable Energy: China's State Power Industrial Corporation (SPIC) acquired Zuma Energy in November 2020, obtaining the rights to 800 MW of wind and photovoltaic energy generation assets across four Mexican states. In 2023, SPIC expanded its presence through Zuma's acquisition of 3 solar parks in the state of Chihuahua, adding an additional 213 MW of generation capacity to its portfolio. Nonetheless, SPIC's option to expand its work in the Mexican electricity sector more broadly was arguably restricted by AMLO's privileging of the Federal Electricity Commission (CFE) over the private sector in selling electricity to the national grid.

In the same fashion, China's ability to expand its holdings in Mexico's petroleum sector was constrained by AMLOs prioritizing the state oil company PEMEX over the private sector, including suspending new petroleum auctions.

Technology-intensive Sectors: In 2021, computer manufacturer Lenovo made a major expansion of its presence in Mexico at its "Gigafactory" in Monterrey. Under AMLO, Chinese telecom companies substantially expanded their presence. This included Huawei's expansion of its cloud services infrastructure and playing a key role as component provider as the country rolled out 5G networks. The Chinese security systems company Hikvision also substantially expanded its presence in both the commercial and residential surveillance markets with the 2022 acquisition of Syscom, Mexico's largest security systems distributor. Even the Chinese ride-sharing company Didi substantially increased its presence in Mexico under AMLO, capturing 56% of the Mexican market by late 2022.

Supply Chains

The most substantial advance in the PRC commercial presence in Mexico was ironically driven by the increased tension between the US and the PRC, combined with the interruption of international supply chains through Russia's invasion of Ukraine and the attack by Houthi rebels on ships transiting the Red Sea. This combination of events drove companies focused on the US market to move supply chains out of the PRC to sites closer to the US, including Mexico.

A major effect of such "nearshoring" was to push Chinese suppliers in large numbers to invest in facilities in Mexico, as they sought to preserve their access to the US market under USMCA as "Mexican" companies. Between 2019 and 2023, the acreage of commercial real estate owned by Chinese firms in Mexico increased by a factor of five, with a tripling of the number of tenants of Chinese origin. In the first 11 months of 2023, Chinese companies announced 19 major investments in Mexico, totaling $8.14 billion, second only to the United States.

In the international relations domain, China's advance was arguably limited by AMLO's focus on the United States and Latin American politics rather than broader global issues. In contrast to his more conservative predecessors, AMLO never visited the PRC, nor hosted the Chinese President Xi Jinping in Mexico, only meeting him in San Francisco at the 2023 APEC Leaders Summit.

Opportunities for the PRC

The July 2 election of AMLO's handpicked successor, Claudia Sheinbaum, by a margin of more than 30 points over her closest rival, Xochitl Galvez, promises to simultaneously bring more competence to Mexican public administration and a better working relationship with the United States in some areas. But it also has accelerated an advance of Mexico-China relations that is likely to profoundly deepen discomfort in Washington.

Ironically, much of this expansion is likely to come as the biproduct of Sheinbaum's demonstrated capabilities as a competent administrator with a more internationalist orientation than her mentor and predecessor. Implementation of her agenda, and as a biproduct, the likely advance of China, will be facilitated by her party MORENA's control of 2/3 of the Chamber of Deputies and almost 2/3 of the Senate. That political capital will permit her to take forward infrastructure projects and other initiatives, including changing laws and constitutional provisions that stand in the way. This is in contrast to AMLO, whose initiatives were often blocked or limited by the Mexican courts.

Complementing Sheinbaum's political capital in the legislature, MORENA's expanded dominance at the state level, now controlling 24 of Mexico's 32 governorships, will give her enormous latitude to ensure successful implementation of her policies at the local level, including green energy, infrastructure and nearshoring projects involving Chinese companies.

Infrastructure

During the campaign, Sheinbaum emphasized her commitment to facilitating greater nearshoring investment through the construction of public infrastructure to support warehousing and manufacturing facilities and other activities. To the extent she succeeds in doing so, she will accelerate the movement of PRC-based companies into the country in pursuit of such opportunities.

To the extent that Sheinbaum proves a more effective administrator than AMLO, with the backing of the MORENA legislative supermajority to circumvent legal obstacles, Sheinbaum may increase the pace of key infrastructure projects. This will be advantageous to Chinese firms, which have accumulated a strong position in the country to win them. These include later phases of the Maya train project, new roads, ports and airports, and commercial development of the strategically important trans-seismic corridor, which connects Mexico's coasts across Isthmus of Tehuantepec, from Coatzacoalcos, Veracruz on the Atlantic to Port Salinas Cruz, Oaxaca, on the Pacific coast.

Energy: Sheinbaum's enthusiasm for renewable energy and her administrative competence is likely to facilitate a more private-sector-friendly, if still state-led, approach in which already well-positioned Chinese companies such as Zuma, using Chinese finance and Chinese products such as Photovoltaic panels that already dominate the sector, to take forward major projects.

Lithium: If Sheinbaum applies a more nuanced approach to state leadership than did her predecessor, it could reopen the opportunity for Ganfeng to develop Bacanora, perhaps in partnership with the Mexican government. As has occurred in other countries in the region, the expressed interest of PRC-based carmaker BYD in setting up a large electric vehicle production facility in Mexico will give added impetus for a deal giving Ganfeng the right to extract and refine the lithium used to supply the batteries for the carmaker and other Chinese electric vehicle companies in Mexico.

Digital: Policy enhancements under Sheinbaum, reflecting a better understanding of the market and technical imperatives of the sector, could accelerate the implementation of cloud computing, 5G and Internet of things (IoT) infrastructure that Huawei and other PRC-based companies dominate.

Space: Sheinbaum, with her technical orientation, could facilitate an expanded profile for the Mexican Space Agency, established in 2010, in ways that position it to work more closely with its Chinese counterparts, as the PRC has done with other Latin American governments.

Security: It is likely that Sheinbaum will continue to restrict engagement by the PRC to participation in Mexico's Independence Day parade, military education and training exchanges, and other relatively minor institutional engagements, in deference to sensitivities of the US. But that will depend in part, on the future relationship between the US government and the Sheinbaum administration, and the degree to which the US indicates to Mexico that expanded military cooperation with the PRC is a redline issue.

Conclusion

For the US, it will be important to maintain an ongoing, frank dialogue with the Sheinbaum administration, respectful of Mexico's sovereignty, to help prevent Mexico's likely improvement in public administration from opening the door to an expansion of PRC presence harmful to both Mexican and US interests. The question of Chinese companies seeking to disguise themselves as Mexican ones to preserve access to the US markets will be particularly important in this regard, as the July 2026 review of the US-Mexico-Canada free trade agreement (USMCA) approaches.

As throughout history, Mexico's contiguity with the United States gives each nation an inherent interest in the conditions, policies, and foreign relations of the other that goes beyond the topics of migration, drugs, and arms that currently dominate the discourse. The question is not whether the two countries can, or should, coordinate on the issue of China, but rather, how to conduct that necessary coordination in the most effective fashion respectful of the sovereignty and interests of both.

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