MEXICO BECOMES THE LARGEST IMPORT PARTNER OF THE US
—US COUNTERING CHINA'S INFLUENCE THROUGH THIS "BACK DOOR"—

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SUMMARY

- US imports analyzed by country show that the value of imports from Mexico surpassed shipments from China in 2023. Imports from China, especially items subject to additional China tariffs, have declined, indicating that the additional tariffs have had a significant impact.
- The main reason for the increase in US imports from Mexico is the expansion of domestic production in Mexico, and the increase in imports to the US via Mexico from China and other countries has accounted for only some of the growth. Increased direct investment in Mexico by the US and other countries as part of the nearshoring movement, as well as increased investment from China, seems to have supported the expansion of domestic production in Mexico.
- All of the US presidential candidates have expressed concern about China's growing influence in Mexico. It should be noted that stricter rules of origin under the US-Mexico-Canada Agreement, new import restrictions, and other such measures may be considered going forward.

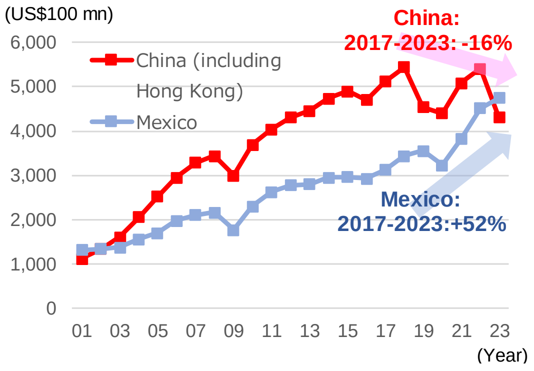
1. CHANGING TREND OF US IMPORTS

1-1. Breakdown of changes in US imports

In 2023, the value of US imports from Mexico exceeded that from China for the first time since China joined the WTO (December 2001). The upward trend in imports from Mexico has accelerated since 2017, with imports marking a 52% jump during the six-year period from 2017 to 2023. Meanwhile, imports from China declined 16% during the same period (Figure 1). Between 2017 and 2023, total imports to the US increased by approximately 32%, but in order of growth contribution by major trading partner, Mexico saw its contribution rise by nearly 7 percentage points[1], while China's declined by more than 3 percentage points (Figure 2).

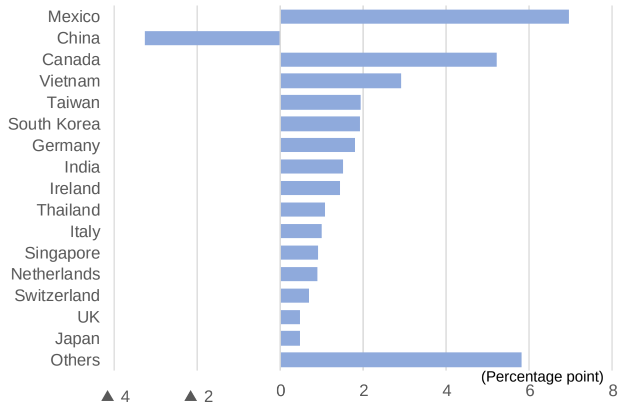
[1] US imports from Mexico increased 52% during the period from 2017 to 2023. Of the increase, automobiles and automotive parts accounted for 15 percentage points, machinery and parts 9 percentage points, and electrical machinery and parts 8 percentage points.

Figure 1: Trend of US imports from Mexico and China (value basis)



Source: Compiled by MGSSI based on US Census Bureau data

Figure 2: Contribution to growth in US imports by major trading partner country



Source: Compiled by MGSSI based on US Census Bureau data

1-2. Decline in import value of tariff-imposed items from China

One major policy change concerning the US and China that occurred during this period, when US imports from China reached a plateau and started to decline, is the increase in tariffs on Chinese imports to the US from 2018 onward, initiated by the administration under then-President Donald Trump. The Trump administration ultimately imposed additional tariffs of 25% on a total of US$250 billion in Chinese imports between July 2018 and May 2019, after conducting a review under Section 301 of the Trade Act of 1974 (Figure 3). In addition, in September 2019, an additional 15% tariff was levied on US$111.4 billion in imports. Although the 15% additional tariff was subsequently reduced to 7.5% following the February 2020 US-China Phase One economic and trade agreement, additional tariffs are still being imposed on China at the time of writing.

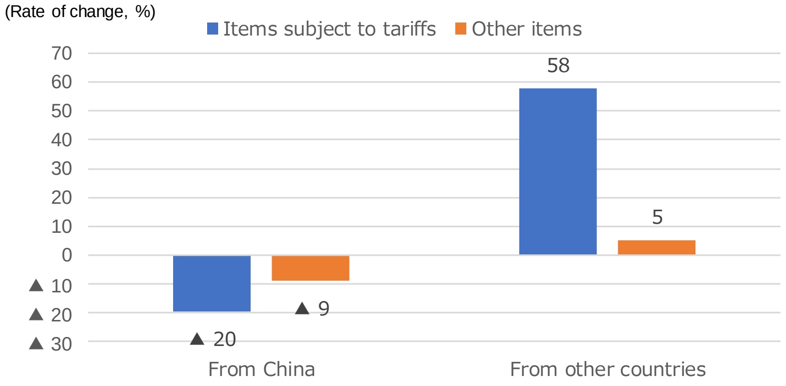
US imports of Chinese items on which additional tariffs were levied fell 20% on a value basis between 2017 and 2023. Also, the imports of items exempt from additional tariffs have been decreasing. Meanwhile, imports from the rest of the world, other than China, have increased in both categories, but especially imports of items for which China became subject to additional tariffs (Figure 4). The changes in imports of tariff-imposed items and imports of other items indicate that the additional tariffs on Chinese imports were a factor behind the decline in US imports from China, and that the decline was offset by imports from other countries and by the expansion of production in the US.

Figure 3. Schedule of imposition of additional China tariffs

Key dates	Outline of implementation	Additional tariff rate	Items subject to additional tariffs and value of imports from China
2018/7/6	Imposition of the first round of additional tariffs (List 1)	25%	818 items worth US$34 billion imported from China
2018/8/23	Imposition of the second round of additional tariffs (List 2)	25%	279 items worth US$16 billion imported from China
2018/9/24	Imposition of the third round of additional tariffs (List 3)	10%	5,745 items worth US$200 billion imported from China
2019/5/10	Rate for third round of additional tariffs raised to 25%	10%→25%	5,745 items worth US$200 billion imported from China
2019/9/1	Began imposing additional tariffs (15%) on a portion of the fourth round of additional tariffs (List 4A)	15%	3,243 items worth US$111.4 billion imported from China
2020/2/14	Additional tariff rate on List 4A items halved from 15% to 7.5%	15%→7.5%	3,243 items worth US$111.4 billion imported from China

Note: For List 4A, exclusions were announced for the period from March to September 2020
Source: Compiled by MGSSI based on JETRO data

Figure 4: Changes in the value of US imports of items from China subject to tariffs and other items (percent change from 2017 to 2023)



Note: Regarding the value of US imports from China and imports from the rest of the world for items with 10-digit HTS codes, items with the same first 8 digits were tallied and organized to correspond with the 8-digit HS codes for additional tariffs on China published by the USITC.
Source: Compiled by MGSSI based on US International Trade Commission (USITC) and International Trade Commission (ITC) data

2. REASONS BEHIND GROWTH OF MEXICO'S EXPORTS TO THE US

2-1. Immediately after the imposition of additional tariffs on China, the increase in Mexico's domestic value-added exports contributed greatly to the growth in Mexican exports to the US

This section focuses on Mexico, which marked the biggest percentage increase in the share of growth in US imports out of all US trading partners. For the purposes of this report, Mexico's exports to the US are categorized into (1) domestic value-added, which is the result of increased production in Mexico, and (2) foreign value-added, which is the result of increased imports of intermediate goods[2] from other countries, and the extent to which each contributed to the expansion of Mexico's exports to the US is calculated. (Regarding value-added trade, see the Appendix.)

First, Mexico's exports to the US increased by 13% between 2017 and 2019[3]. When breaking this down into increases in domestic valued-added and foreign value-added exports, the increase in domestic value-added exports was responsible for 10 percentage points of the 13% growth (Figure 5). In addition, when the increase in foreign value-added exports is reviewed by major countries and regions, such as the US, China, and the EU, the increase attributable to imports of intermediate goods from China and the US account for nearly 80% of the total increase. In other words, the increase in exports from Mexico to the US since US tariffs were levied on China, including the substitution of Mexican exports for Chinese exports to the US, has been largely due to an increase in domestic value-added exports, or mainly domestic production. It also shows that the increase in imports to Mexico from China and the US (which would also include the circumventing imports from China to avoid the additional US tariffs on China) contributed only to a certain extent to the increase.

2-2. Increased production in Mexico also contributing to growth of US imports from Mexico

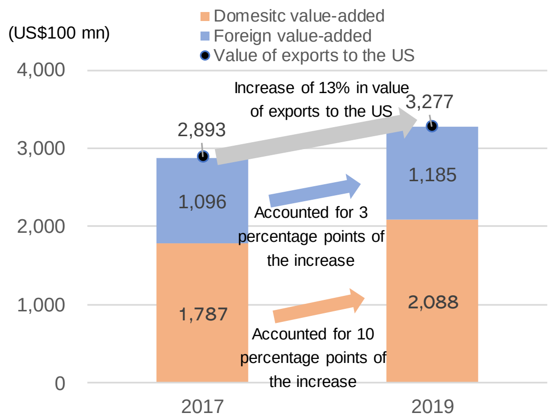
Due to data limitations, value-added trade statistics only confirm the situation through 2019. To confirm the situation to date, a review was conducted on how Mexico's trade transactions have changed based on traditional trade statistics, focusing on items subject to additional tariffs. First, for items subject to additional China tariffs,

[2] Intermediate goods are goods and services that are input during the production process, such as raw materials, utilities, and indirect costs. It refers to goods and services other than final goods.

[3] OECD TiVA data was used to analyze value-added trade, but the data was only published through 2020, and since global trade volumes fell sharply in 2020 due to the COVID-19 pandemic, an analysis was conducted using data for the early years of tariff imposition up through 2019.

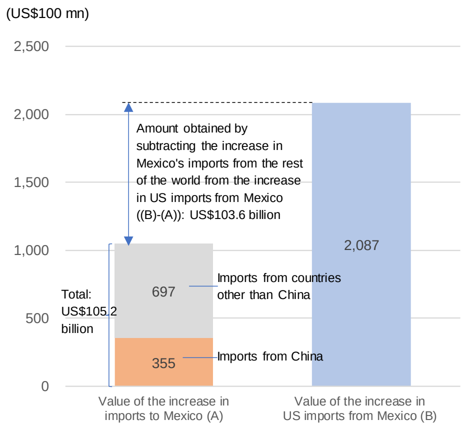
the value of the increase in US imports of such items from Mexico amounted to US$208.7 billion from 2017 to 2023. During the same period, Mexico's imports from China increased by US$35.5 billion and its imports from countries other than China grew by US$69.7 billion (Figure 6).

Figure 5: Breakdown of domestic value-added and foreign value-added exports and growth in exports to the US



Source: Compiled by MGSSI based OECD TiVa data

Figure 6: Trade transactions of items subject to additional China tariffs



Note: US imports were classified using the 8-digit HS code and Mexican imports using the 6-digit HS code.
Source: Compiled by MGSSI based on USITC and ITC data

The increase in the value of US imports from Mexico is much larger than the increase in the value of Mexico's imports (including some circumventing imports). In light of these results, it is likely that the increase in Mexican domestic production and other factors is contributing even now to pushing up US imports from Mexico, as can be similarly confirmed by value-added trade statistics.

3. INWARD DIRECT INVESTMENT TO MEXICO ON EXPANSION TREND

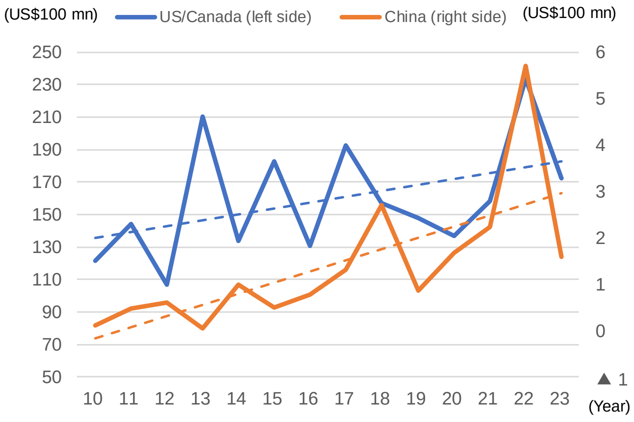
3-1. Trend of rising FDI in Mexico

In the previous section, it was confirmed that the increase in US imports from Mexico immediately after the imposition of tariffs on China was largely due to the expansion of Mexican domestic production. Next, we take a look at trends in inward foreign direct investment (FDI) to Mexico, as such investment is thought to contribute significantly to the expansion of domestic production.

First, looking at Mexico's FDI trends, the amount of investment in Mexico has been increasing every year except for 2020-2021 when COVID-19 had a big impact. By country, the largest share of FDI is from the US, with member countries of the US-Mexico-Canada Agreement (USMCA) collectively accounting for approximately 50% of FDI in Mexico in 2023. Notable in the trend of this gradual increase (with the exception of special periods such as during the COVID-19 pandemic and in 2023, which was a pre-presidential election year), is the growing movement of nearshoring. In addition, although China’s share of FDI in Mexico was only about 1% in 2023, this figure is also trending upwards (Figure 7).

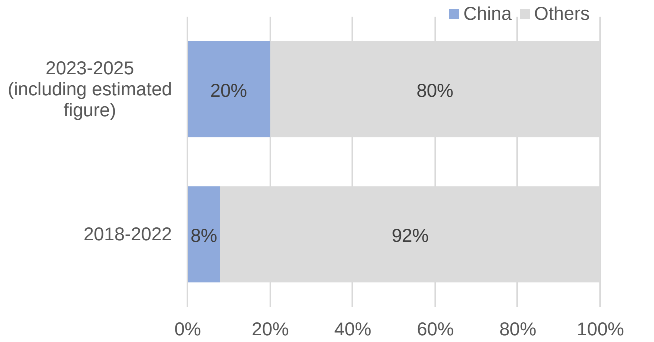
Although past FDI statistics show that Chinese companies have not had a significant presence in the country, their presence is expected to grow in the future as companies expand into Mexico. According to the Mexican Association of Industrial Parks (Asociacion Mexicana de Parques Industriales Privados, AMPIP), which is well-informed of trends regarding industrial parks, 830 foreign companies set up operations in Mexico between 2018 and 2022 in the industrial parks it surveyed. Of these, Chinese companies accounted for just 6% of the total, but when looking at companies that have already entered or plan to enter the market for the period from 2023 to 2025, Chinese companies represent 20% of the total (Figure 8). According to news reports, Chinese developers are building industrial parks in Mexico to host Chinese companies. In the Hofsuan Industrial Park near the US border in northeastern Mexico, the number of Chinese companies operating in 2022 was 10, but this number is expected to grow to 35 by the end of 2024.

Figure 7: Trend of FDI in Mexico



Note: The dashed lines indicate the investment trends for 2010 to 2023.
Source: Compiled by MGSSI based on data of the Ministry of Economy

Figure 8: Chinese companies as a percentage of occupants in industrial parks



Source: Compiled by MGSSI based on materials of BBVA Research based on the data of the Mexican Association of Industrial Parks (AMPIP)

3-2. Mexico moving to discourage investment and imports from China

Meanwhile, the Mexican government has recently started to discourage investment and imports from China. Specifically, in August 2023, the government imposed temporary additional tariffs of 5-25% on imports of 392 items from countries that do not have free trade agreements with Mexico, including China. In addition, the Mexican government has been cautious about allowing more Chinese investment, such as refusing to offer incentives such as low-cost public land and tax breaks for local production of electric vehicles (EV) by Chinese companies.

One of the reasons behind these moves appears to be consideration for the growing pressure from the US. For example, some US government officials and members of Congress have expressed concern about China's growing influence in Mexico and the need to introduce additional tariffs against Mexico.

4. GOVERNMENT RESPONSE AND FUTURE DIRECTION

The Biden administration reached an agreement with Mexico in December 2023 on the exchange of information and best practices in coordination with the US Committee on Foreign Investment in the United States (CFIUS). The agreement was reached to prevent Chinese companies from investing in North American companies and entering the US supply chain through the "back door" of Mexico, and it provides a direction for cooperation between the two governments to avoid circumventing imports. In addition, the Biden administration announced in July 2024 that in order to prevent the circumvention of Chinese steel and aluminum imports through Mexico, such products will be subject to tariffs when imported from Mexico unless it is proven that they were produced in North America. Vice President Kamala Harris, a presidential candidate for the 2024 election, is expected to basically follow the Biden administration's stance on trade policy if elected president.

Donald Trump, on the other hand, has expressed concern during his presidential election campaign about the recent increase in automobile imports from Mexico and has said he would impose a 100% tariff on imports of cars manufactured by Chinese companies[4]. In his speech to accept the Republican Party's nomination for president, he also stated that he would restrict exports to the US through tariffs and other measures, and indirectly prevent the construction of large-scale automobile plants in Mexico and China[5].

[4] Based on a speech given by Donald Trump in Ohio in March 2024. The transcript can be accessed here: https://www.rev.com/blog/transcripts/donald-trump-speaks-at-rally-in-ohio

[5] Based on Donald Trump's presidential nomination acceptance speech given in July 2024. The transcript can be accessed here: https://www.nbcchicago.com/2024-rnc-republican-national-convention-milwaukee/watch-or-read-trumps-full-speech-at-the-rnc-we-will-have-an-incredible-victory/3495214/

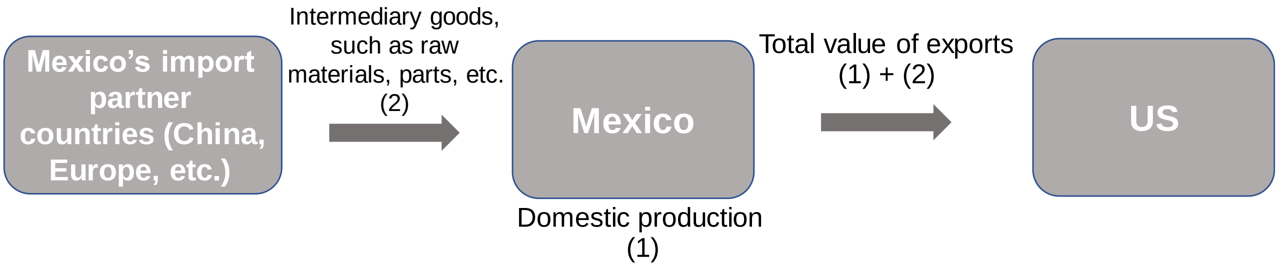
Thus, both Democrats and Republicans are wary of increased auto imports from Mexico and increased Chinese investment in Mexico. Given these words and actions, it is possible that the implementation of stricter rules of origin[6] and labor provisions[7] will be seriously considered in a review of the USMCA in the future.

Also, the US government may consider a broader response to issues that cannot be addressed under the USMCA framework alone, such as the issue of Chinese companies investing in other countries and exporting to the US. Former Assistant U.S. Trade Representative (USTR) Wendy Cutler mentioned at a May 2024 event that she was interested in introducing “import restriction measures based on the nationality of the supplier.” It remains to be seen how the new import restriction measures will be implemented by the USTR and the US Department of Commerce.

APPENDIX: DOMESTIC VALUE-ADDED AND FOREIGN VALUE-ADDED EXPORTS

When looking at trade transactions between one country (Country A) and another (Country B), it is usual to look at changes in the total value of transactions, such as the value of exports and imports. However, in the case of “an increase in exports from Country A,” if much of the value added is (1) produced in Country A, it means that production in Country A is increasing; if the value added is (2) produced in Country B or another third country, it means that the division of labor between those countries is increasing. To clearly distinguish the difference between (1) and (2), efforts are made to identify and measure in which country the value added was generated, thus yielding trade data supplemental to the standard trade statistics. This report is based on the OECD's International Input-Output (ICIO) table (2016-2020), which categorizes and calculates the value added to items exported from Mexico to the US in terms of categories (1) and (2).

Figure 9: Conceptual diagram of value-added trade



※Breakdown of total value of exports
(1) Value added as a result of production in the home country (domestic value added)
(2) Import of intermediary goods, such as raw materials and parts, from import trade partner countries (value added from imports)

Source: Compiled by MGSSI based on various materials

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[6] Rules of origin are rules for identifying the origin of certain products. Tariff elimination or reduction is implemented when certain rules are met.

[7] The USMCA includes a labor clause to ensure workers' rights. Specifically, it mandates that international standards for the protection of workers’ rights are not violated and requires that goods produced by forced labor are not imported. The provision is intended to address wage disparities among the countries that are members of the agreement and to improve labor standards, particularly for Mexican workers. Improving labor standards and wages in Mexico could reduce the incentive for companies to relocate production to Mexico purely for cost savings. For the US to protect jobs and maintain the superiority of its products, there is the possibility that it may move to further tighten these standards in a future review of the agreement.