

# The impact of China on Mexico-USA Relations: Economic Evolution and Strategic Possibilities

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## Summary

The “triangular” relationships between China, Mexico and the USA are complicated. Over the last three decades, China’s growing presence in the world has been both rapid and profound, which has had a significant impact on the world in many aspects. These aspects have affected the relationships between China and the USA, China and Mexico and the USA and Mexico. There are some debates and doubts on whether the Chinese re-emergence has had a positive or negative effect on the relationship between Mexico and the USA. To answer this question, we will analyze the Chinese impact on Mexico-US relations by providing an overview of the three countries; examining the bilateral ties, to see their impact on the scheme of NAFTA and the impact of China; and finally, by discussing the future prospects of the relationship. The analysis is aimed towards assessing the role of China in Mexico-US relations. In addition, the paper seeks to determine whether there is a possibility for controlling the risks of the interdependence of these three countries, as well as to create what the Chinese might call a “win-win-win” triangular relationship.

**Keywords:** Chinese impact, US-Mexico Relations, Economic evolution, Strategic future.

**Classification JEL:** F14, F15.

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## **I. Introduction**

In recent years, the United States of America (USA), Mexico and the People's Republic of China (PRC) have conducted a series of actions to strengthen their respective models of economic development, particularly with respect to their external relationships. These three countries have undertaken a series of reforms in order to adapt to the more competitive international arena and competition among them.

Mexico and the United States have a long trading tradition, encouraged by the Free Trade Agreement signed in 1992 and put into effect in 1994. Twenty years later, many of the expectations generated in the two countries have not been met: economic growth, employment growth, increasing wages of workers and the lack of effective leadership in the industrial sector. These objectives have been challenged by the emergence of Chinese exports into the global economy, and its inevitable relationship with both countries. As a result, changes in the commerce between the NAFTA partners, and greater Chinese presence in the region have created a different landscape.

In this paper, we formulate the following hypothesis: the process of the commercial integration between Mexico and the USA may not be negatively affected by the presence of China in the long term. Mexico and the USA are continuing to intensify their integration on a larger scale, which means that it requires that both countries improve their links in the traditional goods and services sectors, and also increase the use of high technology.

The objectives of this paper are: 1) to show the evolution of trade of the three countries; 2) to analyze the economic relations of China-Mexico-USA; 3) to illustrate the process of integration among those countries and 4) to reflect on the perspectives for the future of the relationship among the three countries.

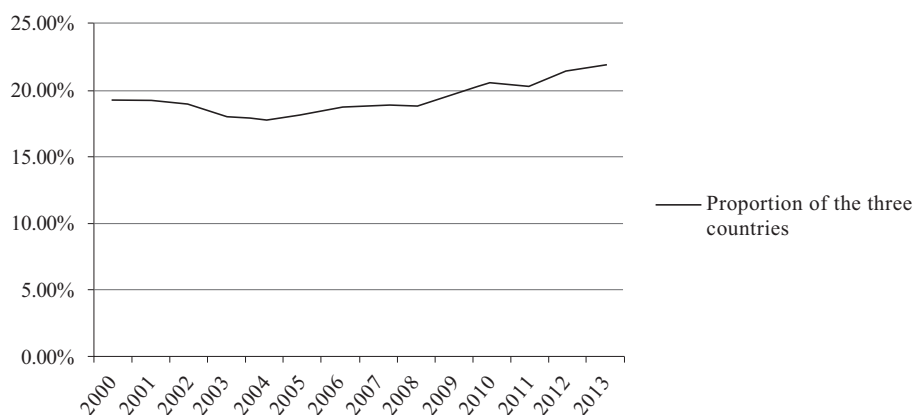
The questions that guide the paper are as follows: Could Mexico and the USA accept that China has become a part of the new economic process in the region of North America? Has China affected the trade volume between Mexico and the USA? Can China help in making North America more competitive?

We will respond to these questions from several points: firstly, we will begin with a background that provides an overview of the three countries, both individually and together; then we will analyze the bilateral ties, to see their impact on NAFTA and how China is affecting that agreement. Finally, we will analyze the future prospects of the relationship, arguing that it is necessary that NAFTA member countries reconsider the importance of China in global trade and investment, in order to really assess the impact of China on the US-Mexico relationship.

## II. Background

Mexico, China and United States are some of the major participants in international trade. Table 1 and Figure 1 show that the proportion of the total amount of commerce of Mexico, China and United States in the world increased from 17.82% (2004) to 21.89% (2013). This trend is expanding, which means that almost 1/5 of the international commerce is carried out by these three countries and that the relationships among them are very important to the stability of the international economy.

**Figura 1**  
**Share of total amount trade of Mexico, China and USA in the world**



Source: United Nations Conference on Trade and Development (UNCTAD): <<http://unctadstat.unctad.org>>.

**Table 1**  
**Exports and imports of goods and services of China, Mexico and USA,**  
**Annual, 2000-2013 (Millions of US Dollars)**

| Year | China   | Mexico  | USA       | World      | Proportion of the three countries (%) |
|------|---------|---------|-----------|------------|---------------------------------------|
| 2000 | 279,561 | 179,876 | 1,073,922 | 7,940,643  | 19.31%                                |
| 2001 | 299,409 | 171,481 | 1,009,286 | 7,682,321  | 19.27%                                |
| 2002 | 365,396 | 173,786 | 983,093   | 8,018,001  | 18.99%                                |
| 2003 | 485,030 | 177,383 | 1,025,508 | 9,352,836  | 18.05%                                |
| 2004 | 658,396 | 201,955 | 1,165,415 | 11,365,459 | 17.82%                                |

*Continúa...*

| <i>Year</i> | <i>China</i> | <i>Mexico</i> | <i>USA</i> | <i>World</i> | <i>Proportion of the three countries (%)</i> |
|-------------|--------------|---------------|------------|--------------|--|
| 2005        | 836,888      | 230,299       | 1,289,175  | 12,925,674   | 18.23%                                       |
| 2006        | 1,061,688    | 266,146       | 1,461,906  | 14,877,488   | 18.75%                                       |
| 2007        | 1,342,266    | 289,442       | 1,654,833  | 17,336,226   | 18.96%                                       |
| 2008        | 1,581,810    | 309,461       | 1,843,024  | 19,845,088   | 18.82%                                       |
| 2009        | 1,329,476    | 244,824       | 1,581,029  | 15,924,040   | 19.81%                                       |
| 2010        | 1,742,165    | 314,235       | 1,846,427  | 18,968,720   | 20.58%                                       |
| 2011        | 2,076,422    | 365,582       | 2,115,007  | 22,438,886   | 20.31%                                       |
| 2012        | 2,251,430    | 387,146       | 2,212,731  | 22,662,355   | 21.41%                                       |
| 2013        | 2,428,245    | 400,586       | 2,275,758  | 23,316,288   | 21.89%                                       |

Source: United Nation Conference on Trade And Development (UNCTAD): <<http://unctadstat.unctad.org>>.

Table 1 also shows that in 2012 China surpassed the USA as the most important trading country in the world. Since 2001, when China entered the World Trade Organization (WTO), the country has greatly modified its commercial policy to adapt to the world and to gain more markets.

Today the relationships of Mexico, China and United States can be considered “triangular” in some sense; therefore its character can be understood in terms of the way that Mexico-US interactions, China-US interactions, and Mexico-China interactions are related and affect each other (R. Evan Ellis, 2013). The “triangular” relationships among China-Mexico-USA are complex. China’s engagement with the world over the last three decades has been rapid and has had a significant impact on international trade, investment, and the overall economic climate. It has also raised military and security concerns. Other areas of impact are energy, culture, and language, including the effect of encouraging people to study Mandarin (Kevin, 2013). These influences have affected the relationship between the three countries and have raised debates and doubts on whether the Chinese re-emergence is positive or negative for the relationship of Mexico and the USA.

### **III. Whether the Chinese re-emergence is positive or negative for the relation of Mexico-USA**

Is the Chinese re-emergence a positive or negative influence with respect to the relationship of Mexico with the USA? To answer this question, we should analyze the relations among these three countries to evaluate the Chinese impact on U.S-Mexico relations.

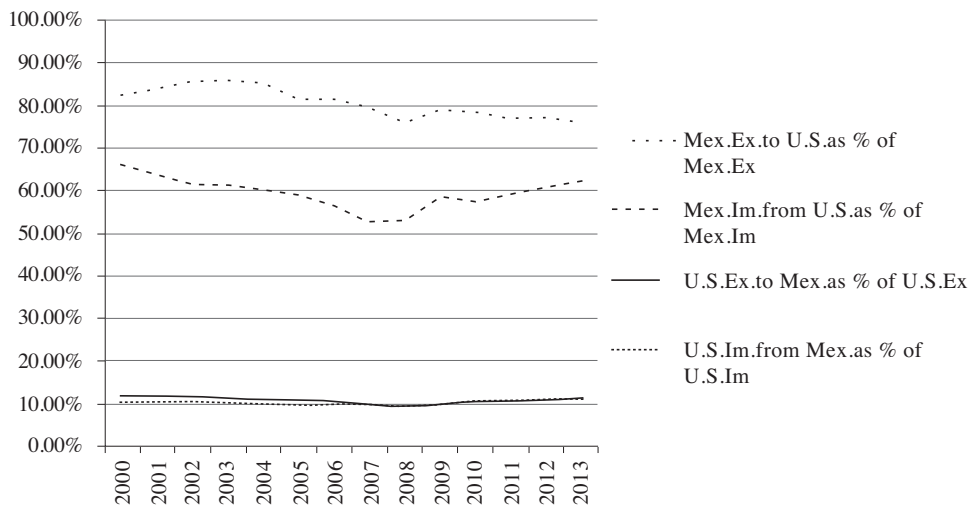
#### *1. The Chinese impact on U.S.-Mexico economic and trade relations*

Within the framework of NAFTA, the economic and commercial relationships between the United States and Mexico are greatly asymmetrical. Mexico relies heavily on the

United States as an export market, but this reliance has diminished recently since China has become a member of the World Trade Organization (WTO), increased its trade with the USA and signed several free trade agreements with Chile, Central American Countries, Singapore, etc.

The status given by NAFTA to Mexico has not been “particular” since many other countries, including many Caribbean countries, have received the same status. The percentage of Mexico’s total exports to the United States decreased from 82.42% in 2000 to 76% in 2013 (see Figure 2). In addition, its share of the U.S. market has lost ground since 2003, when China surpassed Mexico as the second-leading supplier of U.S. imports. Also, the United States is losing some of the market share of Mexico’s import market. Between 2000 and 2007, the U.S. share of Mexico’s imports decreased from 66.25% to 52.64%, afterwards, it gradually increased, reaching 62.04% in 2013. China is Mexico’s second-leading source of imports. In recent years, with the transferring of much of the manufacturing industry of the United States to China, the assembly industry of Mexico has also been negatively affected with the result of increasing unemployment. (M. Angeles Villarreal, 2014)

**Figure 2**  
**Market Share as Percentage of Total Trade: Mexico and the United States**

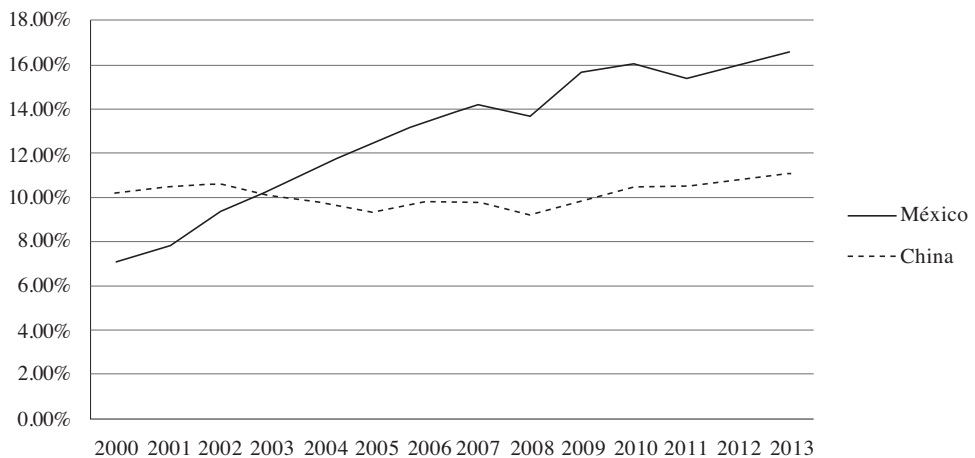


Source: Bureau of Economic Analysis of USA: <<http://www.bea.gov>>, United Nations Conference on Trade and Development: <<http://unctadstat.unctad.org>>.

However, these trends have to be understood in the following context. Even though China has influenced the trade relationship between the United States and Mexico, the Chinese presence is not the only factor responsible for the trade changes in the North American region. In the first place, although there is economic competition between China and Mexico, the structure of Mexican exports to the United States is different with respect to that of China with the United States. The Mexican export structure consists of electronics goods, telecommunications, transportation equipment, autos, auto parts, and accessories, etc., while that of China is related to labor-intensive industries. Therefore, Mexico and China are not competitors in all of the export fields. Secondly, in aspects of transportation costs, labor quality and intellectual rights protection, Mexico has a dominant position over China. Thirdly, the Chinese exports primarily consist of consumer goods, which have made an impression of a market overflowing with products “Made in China”.

Moreover, NAFTA has encouraged the expansion of Mexican exports. As a result, some export shares of the US market have shifted from China to Mexico (See Figure 3). Therefore, it is important to underline that Mexican and Chinese exports

**Figure 3**  
**Shifting shares. Mexico’s share of the U.S. import market for goods and services suffered after China joined the World Trade Organization, but has been climbing in recent years as China’s has begun to fall (Share of U.S. imports)**



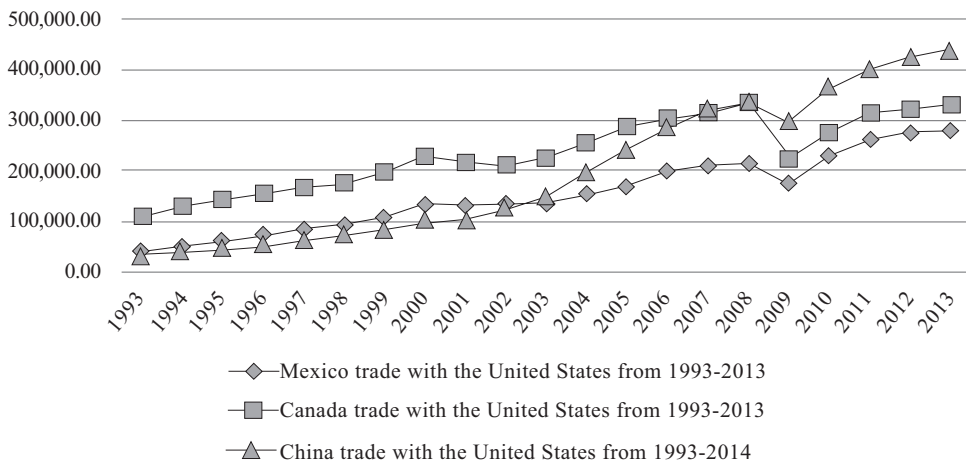
Source: Bureau of Economic Analysis of USA: <<http://www.bea.gov>> United Nations Conference on Trade and Development: <<http://unctadstat.unctad.org>>.

to the United States increased simultaneously; however in some activities Mexico's exports have increased more rapidly and in others China's exports has grown faster. For instance, the exports of televisions and video equipment, motor engines and assembled cars from Mexico had a greater increase in their share of the US market than Chinese exports in that activity, between 2002 and 2012 (Mendoza, 2013). Hence, to some extent, between Mexico and China, there is a relationship of competition, but the opportunity is equal for all competitors. (Herman Kamil, 2013)

## 2. The Chinese impact on the North American Free Trade Zone

China has been considered as an "uninvited guest" of NAFTA by some scholars. According to the Figure 4, between 1993 and 2000, the integration of NAFTA increased, however since 2001, the economic and trade relations between Mexico and United States have been affected because of the competition from China. The trade gains of China have threatened the process of integration of the NAFTA economies. As a consequence, it is considered that the members of NAFTA should strengthen their coordination efforts for promoting trade dialog and economic and trade interactions with China (Alfred Schipke, 2005).

**Figure 4**  
**Expansion of Exports from China, Mexico and Canada to the United States since NAFTA**

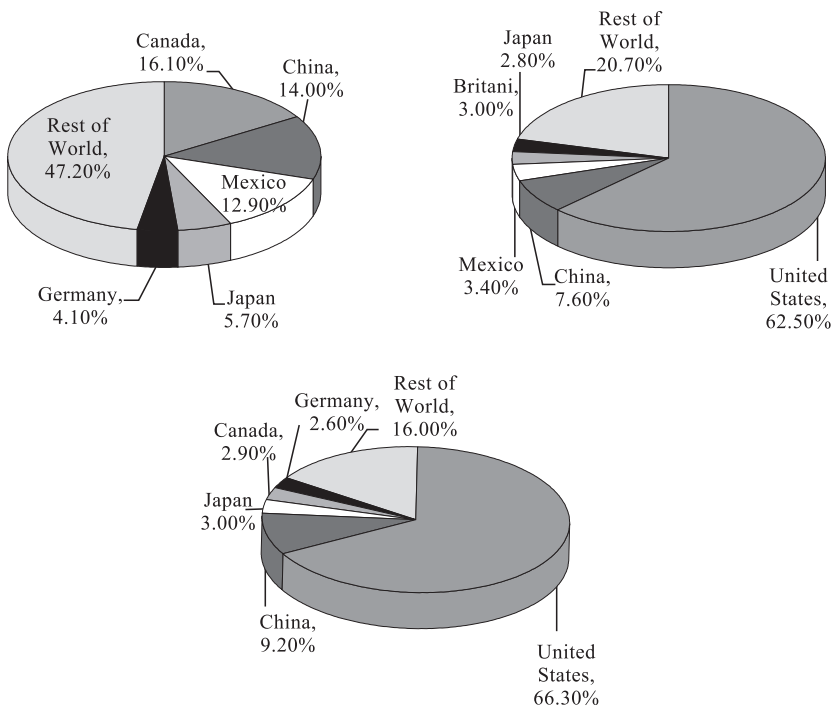


Source: U.S. International Trade Commission's Interactive Tariff and Trade Data Web, at <<http://dataweb.usitc.gov>>.

United States Census Bureau, at <<http://www.census.gov>>.

However, it is important to mention that the Chinese impact on the economic and trade relations of NAFTA, considering the region as a whole, have been exaggerated. In reality, it can be argued that the impact of China has been limited. From figure 5, we can see that China is an important partner of the three countries, with shares of 14%, 7.6% and 9.2% in the United States, Canada and Mexico markets, respectively. On the other hand, the members of NAFTA still represent the largest share of trade with each other. In the case of the United States, its two NAFTA partners had a combined share of 29% of the market; for Canada, 65.9% and for Mexico 69.2%. When comparing the Chinese export shares in each of the three countries that make up NAFTA, it is clear that they are still much lower than the export shares within the region.

**Figure 5**  
**Three-way Street. Merchandise trade by main trading partners, 2012**



United States Canada Mexico

Source: US Department of Commerce: <<http://www.commerce.gov>> Statistics Canada:

<<http://www.statcan.gc.ca>>.

IMF: <<http://www.imf.org>>.



Additionally, with respect to the visions of the future and development of NAFTA, some conflicts among the three NAFTA members have arisen. The United States, Mexico and Canada have different prospects for development within NAFTA, limiting the consolidation and the economic integration of the members of this agreement. Therefore, the main obstacles to integration are not only caused by outside factors, such as the emergence of China in the NAFTA trade, but they include aspects related to the differences between the member countries.

### *3. The Chinese impact on the geo-politics of Latin America and NAFTA*

Some scholars have deemed that the Chinese commercial expansion Latin America is based on nationalistic intentions and political motivation. Chinese investment in the Latin American countries has concentrated on natural resources such as energy, which is manipulated by the large state-owned enterprises. Chinese imports from Latin America are also mainly primary raw materials, while its exports are manufactured goods. This pattern of trade is, to some extent, a strategic measure made by China in the Latin-American countries, which have historically been highly dependent on US manufacturing exports. Additionally, as the second largest economy of Latin-America, Mexico is geographically located in North America and close to the Caribbean, while its culture belongs to Latin America. As a result, Mexico has a great influence on the whole Latin American region. In this perspective, Mexico could also fulfill the role of a bridge to develop the relationship between China and the Central America countries, given that some countries of that region do not have diplomatic relations with China. It is possible that the intention of China to be close to Mexico could be related to political considerations.

The close political and economic relationship between the USA and Mexico could be affected by the improvement of the relationship between China and Mexico. The association of Mexico and the USA is still the most important Mexican bilateral relationship. Actually, the “Americanization” of Mexico is very deep. For historical reasons and geographical proximity, the attitude of citizens of Mexico towards the USA is one of “love and hate coexisting”. In addition, because the United States is so economically developed, Mexico’s economic dependence on that country is not related to the right-wing or left-wing politics in the USA.

Nevertheless, because of the excessive dependence on the US economy, Mexico is likely to look for other countries in Latin America and in the Trans-Pacific countries, such as Japan and China, in order to explore diverse diplomatic relationships to balance the overwhelming impact of the USA. Besides, in the age of globalization, it’s impossible that the relationship of Mexico and the USA could

remain totally exclusive from third party influences. In the long run, Mexico should actively develop an economic and trade relationship with countries outside North America, to find a wider range of opportunities. From the standpoint of geo-politics, the impact of China on the Latin-American area is still limited and far from challenging the status of the United States. As mentioned previously, after NAFTA was established, the share of imports of the United States in many areas is still greater in Mexico than in China. In addition, there is not a unified criterion of the country members about the future development of NAFTA. Latin American countries are actively developing relations with China on consideration of balancing the influence of the United States, but the factor which can really change the regional power structure in the region is the establishment of regional agreements and not external factors (China Center for Contemporary World Studies, 2012).

The rapid development of Chinese trade has made China an important variable in the present international economy. Thus, many actors within the international society have talked about the so called “China factor” or “China impact”, which has exaggerated the real situation. Firstly, the development of China has happened under the present international system and rules. Therefore, if there were no “reform and opening-up” policy and without the participation of state-owned enterprises, the Chinese economic expansion would not have happened in the past 20 years. Thirdly, the development of China is mainly conceived of as a domestic objective for increasing the living standard of the Chinese people, without a strategic aim. Finally, for other countries, the development of China means opportunity as well as challenge. In fact, there are more opportunities than challenges.

Through the above analysis, we find that China can play a positive role in Mexico-USA relations and these three countries are interdependent. Among these three countries, there is a clarified strategic position, the requirement for a greater political involvement, effectiveness of cooperation, and the need for policy consistency. Therefore, it is possible to control the risks from this interdependence, as well as to create what the Chinese might call a “win-win-win” triangular relationship.

#### **IV. Perspectives of the relations between China-USA and China-Mexico**

##### *1, China and United States: New Model of Major-Country Relationship*

Some particular characteristics of the relationship between China and the US are helpful for a stable development of their relationships. Firstly, it is important to underline that these two countries are competitors but not enemies. In fact, their

economic interdependency exceeds the typical economic interaction between countries. What is different today, with respect to the past relationship between these two countries, is that both the US and China have witnessed the destruction of the two world wars. Therefore, they can understand how important is to restrict the belligerent behaviors of each other. (Chen ZhiMin, 2013)

Both countries have coordinated positions and have cooperated in such areas as the Korean nuclear issues, Iranian nuclear issues, antiterrorism and non-proliferation of nuclear weapons. They have also reached mutual consensus on maintaining peace and stability between China and Taiwan. China is the largest developing country, while the United States is the largest developed economy in the world. Hence, China and the United States must deepen their communication and understanding, and enhance consensus and confidence. Friendly relations between the two countries will not only benefit them but also will promote world peace.

It is possible to establish a framework to prevent competing relations from transforming these two countries into enemies. The approach is called the new model of major-country relationship, which considered that the relations between big countries should be developed on the basis of mutual respect, mutual benefit and a win-win outcome, as well as a new method to solve conflicts between a developing country and a developed country.

## *2. China and Mexico: Comprehensive strategic partnership*

Among these three interactions, the bilateral interactions of Mexico-USA and China-USA are more interdependent than that of Mexico-China. With respect to foreign direct investment (FDI), the bilateral FDI of Mexico and China is still not very significant. From 2007-2013, the total FDI of China in Mexico was only \$200.1 million while the total FDI of Mexico in China was only \$60.79 million (Table 2).

With respect to bilateral trade, since 2003, China has become Mexico's second largest trading partner and the amount of trade has increased yearly. However, the trade amount between Mexico and China is far less than that of Mexico-USA and China-USA; in particular Mexico's exports to China are comparatively minor (Table 3). An important reason for this is that the development of relations between China and Mexico is still in its initial stages and it is the evidence that the Chinese impact on the relation of Mexico-USA is limited. (Wu Chunsi, 2013)

**Table 2**  
**Comparison of fdi among U.S.A, Mexico & China from 2007-2012**  
**(Millones of U.S. Dollars)**

| <i>Year</i> | <i>FDI of China<br/>in USA</i> | <i>FDI of USA<br/>in China</i> | <i>FDI of China<br/>in Mexico</i> | <i>FDI of Mexico<br/>in China</i> | <i>FDI of USA<br/>in Mexico</i> | <i>FDI of Mexico<br/>in USA</i> |
|-------------|--------------------------------|--------------------------------|-----------------------------------|-----------------------------------|---------------------------------|---------------------------------|
| 2007        | 584                            | 29,710                         | 14.5                              | 5.6                               | 91,046                          | 8,478                           |
| 2008        | 1,105                          | 53,927                         | 13.1                              | 3.8                               | 87,443                          | 8,420                           |
| 2009        | 1,624                          | 54,069                         | 33.7                              | 0.91                              | 84,047                          | 11,111                          |
| 2010        | 3,300                          | 58,996                         | 14.5                              | 15.25                             | 85,751                          | 10,970                          |
| 2011        | 3,598                          | 53,661                         | 22.4                              | 4.53                              | 85,599                          | 12,500                          |
| 2012        | 6,943                          | 53,740                         | 82.8                              | 14.9                              | 98,377                          | 14,458                          |
| 2013        | 8,073                          | 61,534                         | 19.1                              | 15.8                              | 101,454                         | 17,610                          |

Source: Bureau of Economic Analysis of USA: <<http://www.bea.gov>>, Secretaría de Economía de Mexico <<http://www.economia.gob.mx>>. National Bureau of Statistics of China: <<http://data.stats.gov.cn>>.

**Table 3**  
**Bilateral Trade from 2000-2013**  
**(Millions of US Dollars)**

| <i>Year</i> | <i>USA-China</i>                   |                                  | <i>Mexico-USA</i>                   |                                   | <i>China-Mexico</i>                |                                  |
|-------------|------------------------------------|----------------------------------|-------------------------------------|-----------------------------------|------------------------------------|----------------------------------|
|             | <i>Import goods<br/>from China</i> | <i>Export goods<br/>to China</i> | <i>Import goods<br/>from Mexico</i> | <i>Export goods<br/>to Mexico</i> | <i>Import goods<br/>from China</i> | <i>Export goods<br/>to China</i> |
| 2000        | 100,231                            | 16,365                           | 137,058                             | 111,296                           | 2,880                              | 310                              |
| 2001        | 102,570                            | 19,396                           | 132,709                             | 101,326                           | 4,027                              | 385                              |
| 2002        | 125,498                            | 22,317                           | 136,327                             | 97,474                            | 6,274                              | 654                              |
| 2003        | 152,974                            | 28,646                           | 140,005                             | 97,467                            | 9,401                              | 974                              |
| 2004        | 197,456                            | 34,833                           | 158,599                             | 110,837                           | 14,374                             | 986                              |
| 2005        | 244,699                            | 41,874                           | 173,771                             | 120,444                           | 17,696                             | 1,136                            |
| 2006        | 289,246                            | 54,813                           | 202,122                             | 133,998                           | 24,438                             | 1,688                            |
| 2007        | 322,975                            | 64,313                           | 215,122                             | 136,167                           | 29,744                             | 1,895                            |
| 2008        | 339,581                            | 71,346                           | 220,506                             | 151,610                           | 34,690                             | 2,045                            |
| 2009        | 297,872                            | 70,636                           | 179,638                             | 129,214                           | 32,529                             | 2,208                            |
| 2010        | 366,126                            | 93,059                           | 232,804                             | 163,723                           | 45,608                             | 4,183                            |
| 2011        | 400,632                            | 105,445                          | 267,364                             | 198,622                           | 52,248                             | 5,964                            |
| 2012        | 426,799                            | 111,789                          | 283,155                             | 216,426                           | 56,936                             | 5,721                            |
| 2013        | 441,616                            | 122,838                          | 286,697                             | 226,760                           | 61,320                             | 6,470                            |

Source: Ministry of Commerce of People's Republic of China: <<http://www.mofcom.gov.cn>> Secretaría de Economía de Mexico <<http://www.economia.gob.mx>>. Bureau of Economic Analysis of USA: <<http://www.bea.gov>>.

Last year, the President of China, Xi Jinping was invited to Mexico and he met with President Enrique Peña Nieto. As a result, the relationship between China and Mexico has been upgraded to “Comprehensive strategic partnership”, which

encompasses different economic, political and social aspects, and it is likely that these two countries will strengthen their cooperation and coordination.

This upgrade has a special significance to China and Mexico. Both of the countries are emerging market countries and are facing the same or similar economic and social challenges. Both governments are committed to promoting the rapid development of their economies, particularly in decreasing poverty and reducing economic inequality to enhance the living standard of the population.

Additionally, both countries have played important roles on the international stage. They are devoted to multilateralism and to the strengthening of the dialogue and negotiation in multilateral mechanisms such as the UN, G20, and APEC. Being emerging market countries with rapid development, the impact of China and Mexico on international economic development will continue to increase. The improvement of the relationship could encourage greater cooperation and the exploration of additional common interests.

Viewed from a superficial standpoint, China and Mexico are the main suppliers of industrial products to developed countries such as the United States. These two countries seem to be competitors and it may look like it is difficult for them to fully cooperate. In fact, they share many common objectives such as the search for more international administrative authority. Additionally, China and Mexico have been able to develop a successful model of the cooperation between emerging market countries.

In early 2014, when the Ambassador of China, Qiu Xiaoqi, gave a presentation in the UNAM, he pointed out four aspects to deepen the bilateral relationship: First, to create a better environment for cooperation through further reforms; second, to grasp and explore more areas for potential cooperation, such as in the fields of energy, construction, telecom, etc; third, to solve problems, such as the imbalance of trade and the difficulty of obtaining a Mexican visa, and finally, to advance mutual understanding and friendship. As a result of the reforms and the strengthening of bilateral cooperation, the people of the two countries will gain real benefits and will generate greater achievements (Qiu Xiaoqi, 2014).

The foreseeable perspectives indicate that the factors underlying the interdependence that forms the China-Mexico-US “triangle” are to continue. As for the US-Mexico relationship, the two countries will continue to be bound tightly by economic interdependence, geography, and human connections. At the same time, while the structure of the US-China trade has changed, the overall level of commercial interchange between them shows an increasing trend. These stylized facts suggest that it is in the interest of each of the three countries to identify common ground where conflicts can be minimized and shared gains can be achieved.

## V. General Conclusion

Relations between Mexico, China and the USA, have not been entirely smooth. Regardless, they have deepened their economic relations so much that NAFTA trade has been affected by the increasing Chinese trade within the regional trading block, even though the Chinese economy is not a member of NAFTA. The importance of China has encouraged both Mexico and the USA to revise their free trade strategy to coexist with the economy of China. However, the increasing trade and economic integration is still far from solving the major economic and social problems of those countries.

The three countries are facing a complex international and regional environment that requires them to consider what China has done to maintain its global relevance and benefit from trade liberalization. In the medium term, we can still see a deepening relationship among the three countries; after a decade of China's membership in the WTO, the USA still has leadership in Mexico and China. Additionally, the USA continues to generate conditions to avoid losing economic competitiveness and to benefit from the new economic relationship that has been built up among the three countries, as well as to offset China's market power and its global and bilateral economic influence.

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