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Chinese Investment in Mexico: The Contemporary Context and Challenges

Enrique Dussel Peters

Public, private, and academic institutions, in Mexico and bilaterally with China, ordinarily can facilitate long-range planning, rectify information gaps, and correct misunderstandings. But a dearth of such institutions has hindered the growth of Chinese outward foreign direct investment (COFDI) in Mexico and spurred negative reactions against it, further dampening Chinese investments. Structural trade imbalances, coupled with Mexican fears about the Chinese economic challenge, poison the political atmosphere in Mexico and between Mexico and China, also impeding COFDI. Besides exploring these problems, I provide background information on the bilateral political relationship, the features of COFDI generally and details of several Chinese investment projects in Mexico, and the two countries' trade links. I offer some proposals designed to create a better foundation for the growth of COFDI in Mexico, a priority of both countries. **Keywords:** *China, Mexico, China outward foreign direct investment, China–Latin America trade.*

Mexico and China have a centuries-long relationship. Even so, only since the last decade of the twentieth century has the relationship achieved a new level of intensity, reflected in the breadth and depth of the two countries' political, institutional, and economic interactions. The new relationship is a function of China's emergence as a major global actor and a set of political measures and economic agreements that came into existence after the 1970s that allowed for dramatic increases in trade in the 1990s. Following this first trade-based stage of development, China started to send massive amounts of capital abroad in the form of foreign direct investment (FDI). As a result, since the breakout of the global financial crisis in 2007–2008, China has become an

increasingly important source of FDI for Latin America and the Caribbean (LAC) and, to a smaller extent, Mexico. In recent years, the two countries, under the administrations of Chinese President Xi Jinping and Mexican President Enrique Peña Nieto, have given significant attention to the possibilities for increased Chinese outward FDI (COFDI) in Mexico.

In this article I analyze the political economy of COFDI in Mexico to illuminate how political variables and economic factors (specifically, structural trade imbalances) with political salience have affected the growth and dynamics of Chinese investments in Mexico. Some of my key findings are that an absence of sufficient public, private, and academic institutions that can facilitate long-range planning, rectify information gaps, and correct misunderstandings has hindered the growth of COFDI in Mexico and prompted negative reactions against COFDI, which, in turn, have dampened COFDI further. I demonstrate, too, that structural imbalances in Mexico's trade with China coupled with Mexican fears about the Chinese economic challenge are poisoning the domestic political atmosphere in Mexico and between Mexico and China, furthering impeding the growth of COFDI.

This article consists of five sections. The first supplies an overview of FDI and China, focusing on the drivers and special features of COFDI. The second analyzes Mexico's stance toward Asia, Mexican-Chinese political relations, and the two countries' trade relations to paint a picture of the investment backdrop to COFDI in Mexico. The third section provides information on the main features of COFDI in Mexico and also examines several prominent failed Chinese investments in Mexico. The fourth details a number of challenges facing COFDI in Mexico. The last section integrates my main findings and contains various policy proposals that have the potential to advance the bilateral investment relationship.

Features of FDI Relating to China and COFDI in LAC

I begin by providing background that enables us to understand the features of COFDI and also helps to illuminate the forces that are

driving China's massive outward FDI and its investment in LAC. A fact worth highlighting is that China has become the second largest recipient of FDI globally since the 1990s, following the United States. Initially, China focused on inward FDI, making it a critical part of the country's long-term development strategy since it afforded a mechanism for the country to integrate with and learn from transnational corporations (TNCs) in sectors such as clothing and textiles, electronics, and auto parts and automobiles (World Bank and Development Research Center 2012; Wu 2005). Inward FDI, though, has reached a saturation level in China as a result of the increasing dynamism of the domestic economy vis-à-vis foreign TNCs. Table 1 shows that FDI flows into China achieved their highest levels in terms of gross fixed capital formation (GFCF) and as a percentage of gross domestic product (GDP) during 1995–2000.

Despite all the media attention given to COFDI, it really became relevant in terms of GDP and GFCF only after the 2007–2008 global finance crisis, a fact that has not been sufficiently appreciated either globally or in China. Indeed, in absolute terms, annual COFDI barely topped $20 billion before 2007 and reached $100 billion only after 2013, making China the third largest source of OFDI worldwide after the United States and Japan. China's FDI grew even more so after 2007. Before 2007, the OFDI/FDI ratio was below 30 percent. After 2012, though, the ratio soared above 70 percent. Before too long, it is expected that the coefficient will top 100 percent, which means that China will become a net exporter of direct investment.

The aforementioned two developments are a function of a second feature of COFDI that warrants attention: the increasing transnationalization of Chinese firms beyond trade and the imperative for them to acquire firms globally and establish a physical presence in foreign countries. In addition, the surge of OFDI and FDI demonstrates the success of Chinese central government efforts to create incentives for and actively push Chinese firms to invest in foreign countries for strategic reasons such as acquiring raw materials and energy as well as high technology. High technology is required both for China's increasing shift to the domestic market and for accelerating the upgrading of services and

Table 1 Main Aggregate Characteristics of China's FDI and OFDI, 1980–2013

	1980	1990	1995	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
FDI Flows into China (US$ millions)	57	3,487	37,521	40,715	72,406	72,715	83,521	108,312	95,000	114,734	123,985	121,080	123,911
Share over the world (flows)	0.105	1.68	10.95	2.91	7.38	4.97	4.23	5.96	7.81	8.14	7.51	8.96	8.53
Share over gross fixed capital formation (flows)	0.06	3.45	15.00	9.96	7.68	7.99	6.59	6.11	5.88	4.14	4.23	3.71	3.14
Share over GDP (flows)	0.02	0.86	4.96	3.41	3.17	2.61	2.39	2.39	1.87	1.93	1.70	1.45	1.33
Share over trade of goods and services (flows)	0.3	6.08	25.48	14.56	8.65	6.85	6.22	6.85	7.15	6.59	5.97	5.38	5.1
Share over FDI stock /GDP (percentage)	0.35	5.12	13.36	16.21	11.91	10.50	9.36	8.31	9.27	9.88	9.73	9.96	10.27
OFDI Flows (US$ millions)	0	830	2,000	916	12,261	21,160	22,469	52,150	56,530	68,811	74,654	87,804	101,000
Share over FDI (flows)	0.00	23.80	5.33	2.25	16.93	29.10	26.90	48.15	59.51	59.97	60.21	72.52	81.51
Share over the world (flows)	0.00	0.34	0.55	0.07	1.36	1.48	1.17	2.79	4.95	4.69	4.36	6.52	7.16
Share over gross fixed capital formation (flows)	0.00	0.82	0.80	0.22	1.35	1.92	1.64	2.83	2.46	2.54	2.24	2.28	--
Share over GDP (flows)	0.00	0.21	0.26	0.08	0.54	0.76	0.76	1.23	1.12	1.16	1.04	1.04	1.08
Share over trade of goods and services (flows)	0.00	1.78	1.48	0.37	1.72	2.48	2.56	4.53	5.08	4.52	3.03	4.34.	4.60
Share over FDI stock GDP (percentage)	0.00	1.10	2.35	2.33	2.51	2.69	3.37	4.06	4.85	5.33	5.81	6.13	6.58

Source: Author's elaboration based on UNCTAD (2014) and MOFCOM (2014).

increasingly sophisticated segments of high-technology value-added chains (Lin 2013; Nolan 2015; Zhang et al. 2010).

A third feature of COFDI deserving discussion is that China's public sector plays an omnipresent role in the economy, unlike any other country among the world's top twenty-five capital exporters (Dussel Peters 2013). In the specific case of COFDI, the government has established a group of "institutional filters" to promote, limit, or prohibit COFDI. At the general level, China's Go Global strategies since 2000, specific catalogs to guide OFDI sectorally (i.e., in terms of industries), and "positive lists" that make clear from the get-go that certain countries, sectors, and projects are authorized for investment all are critical to understanding massive COFDI since 2007–2008 (Dussel Peters 2013).[1] Looking more specifically, we see the National Development Reform Commission (NDRC) and the ministry of commerce (MOFCOM), at the central and local levels, evaluating investment projects according to specific guiding criteria. For its part, the ministry of finance (MOF) provides special funds and adopts special taxation policies that support OFDI. The Export-Import Bank of China (EIBC), China Export and Credit Insurance Corporation (SINOSURE), the State-Owned Assets and Administration Commission (SASAC), and the State Administration of Foreign Exchange (SAFE) are institutional filters that implement general and national development strategies. Indeed, these institutions play critical roles in selecting projects. No other top FDI exporting countries have similar mechanisms to tailor FDI to long-term development goals (Dussel Peters 2013, 2014b; Globerman 2015).

A fourth feature of COFDI is that responsible public institutions in China seem to give inadequate attention to studying the successes and failures of COFDI policies, strategies, and tactics. This fact contrasts starkly with the degree of attention given to inward FDI. Indeed, the evidence suggests that state-owned enterprises do not learn from their mistakes or the mistakes of other Chinese firms, a situation that has led to financial losses, poor decisionmaking, and corruption. The fall of the Moammar Gaddafi government in Libya in 2011, which forced China to evacuate more than 35,000 workers and caused several billion dollars in investment losses, is a powerful example of insufficient

preparation and limited knowledge of the host countries. Another is Venezuela, where massive Chinese investments and loans have generated considerable discussion about the risks facing Chinese OFDI, but with scant efforts so far to evaluate COFDI instruments, projects, and experiences on a country-by-country basis (Gallagher, Irwin, and Koleski 2013; Sun 2015).

Turning to the features of COFDI in LAC, my analysis (Dussel Peters 2014b) of ten Chinese firms in five countries offers a number of additional observations. First, while it is true that most COFDI goes into minerals, oil and gas, and agricultural sectors such as soya, noteworthy Chinese investments have also been made in manufacturing and telecommunications by Chinese firms, for example in Uruguay. Second, COFDI is qualitatively different from the OFDI of other countries not just because of its pervasive association with the public sector, but also because of its newness. In most cases, it started arriving after the mid-1990s. Third, in contrast to other instances of poor preparation mentioned above, COFDI in LAC seems to reflect an impressive ability to learn from other troubled and failed Chinese investments and learn new internalization paths. With respect to the former, examples include Chinalco's learning from the woes of Shougang in Peru (Fairlie 2014), as well as GML's forming a strategic partnership in Mexico (Dussel Peters 2014b). As for internalization, companies such as China National Offshore Oil Corporation and Sinopec in Argentina, and State Grid and Lenovo in Brazil (de Freitas Barbosa, Tepasse, and Neves Biancalana 2014) have adopted techniques to integrate rapidly into new markets through massive greenfield investments and particularly mergers and acquisitions.

Yet clearly many Chinese firms are behind their more seasoned foreign peers that have several decades of experience in LAC. In Mexico, for example, Huawei experienced substantial problems complying with North American Free Trade Agreement (NAFTA) rules of origin, which was a necessity for it to gain rights to export to the region as a whole. Huawei's difficult relationship with the federal public sector regarding the integration of all required Chinese engineers also resulted in the transfer of its North American activities and about 500 jobs, which initially were in Mexico, to Panama in 2015.

The Economic and Political Backdrop to COFDI in Mexico

Mexico's Late Turn to China

Understanding Mexico's stance toward Asia, political relations between Mexico and China, and their bilateral economic relations are important for gaining a sense of the investment environment backdrop confronting Chinese investors in Mexico.

Mexico's bilateral ties with the People's Republic of China (PRC) are long-standing and compare quite favorably with other countries in LAC and European countries. In fact, Mexico was one of the first LAC countries to initiate diplomatic relations with the PRC, recognizing Beijing in February 1972. In addition, throughout the 1970s, Mexico's political relations with China, both bilateral and multilateral (e.g., in the United Nations and the Group of 77, which championed a New International Economic Order), were strategically important (Anguiano Roch 2010, 2012; Jiménez Macías 2012). Paradoxically, from that time until the 1990s, broad and deep political interactions were not accompanied by meaningful economic relations (Dussel Peters 2014a).

Notably, although Mexico's economic relationship with Asia and China has steadily grown, only recently has the Mexican government begun to consider an explicit strategy toward Asia and China. Indeed, a number of analyses of Mexico's trade and FDI in the 2000s did not include Asia explicitly (Giugale, Lafourcade, and Nguyen 2001). Yet within the core policy of a liberalization strategy that Mexico embraced at the end of the 1980s and still embraces, Mexico (albeit with a few exceptions) has given Asia serious consideration as an important strategic partner, especially in terms of "diversification of its economic ties" (Mexico 2013, 148). Beyond this, Mexico has begun to view Asia as part of its globalization process and as a source of opportunities beyond NAFTA (Dussel Peters 2014a; Fernández de Castro and Díaz Leal 2007), though the Trans-Pacific Partnership (TPP) will also present a number of opportunities for Mexico (Acevedo and Zabludovsky 2012; Leycegui 2012).

In terms of specifics, while Mexico formally participates in many Asian forums such as Asia-Pacific Economic Cooperation,

the Association of Southeast Asian Nations, the Forum for East Asia–Latin America Cooperation, and the Pacific Council for Economic Cooperation (Dussel Peters 2014a), only since 2013 has the Plan Nacional de Desarrollo, 2013–2018 (National Development Plan) listed "lines of action" with specific goals and strategic objectives for Asia, including China and India (Mexico 2013, 148). This said, Mexico has maintained extensive political relations with China in several multilateral forums such as the aforementioned United Nations and the G-20 group of advanced economies. However, unlike many other countries since the beginning of the twenty-first century, Mexico has not been able to improve its relationship with China (Navarrete 2012).

Turning to economic relations, China has been Mexico's second largest trading partner (after the United States) since 2003. The rapid growth of trade with China—the average annual growth rate of imports and exports during 2000–2014 was 27.3 percent and 29.7 percent, respectively, versus 6.9 percent and 6.6 percent, respectively for Mexico's total imports and exports—resulted in the China trade soaring from less than 1 percent of Mexico's total trade prior to 2000 to 9.1 percent by 2014. Four issues surrounding Mexico's trade with China have emerged. One is Mexico's huge trade deficit with China, which reached $60.3 billion in 2014. That same year, the import/export coefficient with China was eleven to one. A second issue is the significant disequilibria in the structure of trade between the countries.[2] To illustrate, China accounts for 16.6 percent of Mexican exports, while Mexico only accounts for 1.5 percent of China's exports. By comparison, the US share of Mexico's total trade has declined substantially, from above 81 percent in 1999 to below 65 percent since 2008. Another issue is that most Chinese imports (above 91 percent) consist of intermediate and capital goods.

A fourth issue is the technological composition of Mexico's exports to China. Over the last decade, Mexico has been able to increase significantly the technological levels of its production and trade (the share of medium- and high-technology products in total exports increased from below 50 percent in the 1990s to 58 percent in 2013). In the case of China, however, data for 2013 show that medium- and high-technology products accounted for

only 36 percent of exports versus 74 percent of imports. These statistics make clear that technology trade with China reflects massive differences in value-added and technology. On a positive note, given that most of the imports from China are intermediate and capital goods, they do help transform Mexico's manufacturing sector and improve its competitiveness (Dussel Peters and Ortiz Velásquez 2015).

Since 2004, the qualitatively new trade relationship between Mexico and China has induced the two countries to create a group of institutions that can nurture the bilateral relationship and provide opportunities for resolving differences. Examples include the Binational Mexico-China Commission and High-Level Group. These institutions deal with issues such as statistics, illegal trade, air transportation, education, tourism, immigration, mining, trade, and investment. After 2013, both countries elevated their relationship to a "strategic integral association." Particularly relevant is the Agreement for the Promotion and Reciprocal Protection of Investments (APPRI), signed between China and Mexico in 2008, that mutually guarantees investments, an important step forward in generating certainty for investors.

Tensions in the Relationship

Given the progress and foundation just described, the bilateral relationship underwent a surprising deterioration between 2009 and 2012. According to some, this was the worst period of bilateral political ties since the establishment of diplomatic relations in 1972. There were various reasons for the deterioration. One was the emergence of trade tensions flowing from the commercialization of the Mexico-China relationship bilaterally and increasing competition in the US market. Mexico was the last country among thirty-six to negotiate bilaterally with Beijing about China's membership in the World Trade Organization (WTO), which finally accepted China in 2001. Pursuant to their accession discussions, China accepted a six-year period in which several hundred Chinese imports to Mexico paid tariffs above 1,000 percent. After this period expired, Mexico insisted on and China accepted an additional adjustment period running from 2008 to 2011. While all

Chinese imports to Mexico have paid the most-favored-nation tariff since 2011, the period from 2008 to 2011 was replete with tensions and accusations from both sides.

A second driver of frictions was increasing gaps between booming trade and the adequacy of institutions in trade and investment. As I have demonstrated elsewhere (Dussel Peters 2014a), public, private, and academic institutions in Mexico—similar to circumstances in the rest of LAC—are extremely weak in understanding China in terms of trade and investments, not to mention China's political system and history.

Between 2013 and 2014, the two countries made significant progress in overcoming their bilateral tensions due to the personal interest and commitments of both presidents, Enrique Peña Nieto and Xi Jinping. As a result, the bilateral agenda was transformed into a dynamic one for the first time in several decades. One theme the two governments have stressed is increasing Chinese investments in Mexico (Dussel Peters 2014b; Qiu 2014; Yang 2012). On the Mexican side, the finance ministry (Secretaría de Hacienda y Crédito Público) has been in charge of the implementation of this strategy, which relates to the two countries' having a "strategic integral association" since 2013.

Post–November 2014, however, the bilateral relationship fell to a new low as a result of two failed Chinese investments, discussed more extensively below. These are the Dragon Mart regional exhibition center project in Cancún and the highly publicized plan for a Chinese high-speed train from Mexico City to Querétaro. As shown below, these tensions persist, causing a significant deterioration in the bilateral relationship. The initial enthusiasm shown by and warmth between both presidents has vanished.

China's OFDI in Mexico, 2000–2014

Figures and Trends

Any analysis of FDI, including China's OFDI, should start by acknowledging challenges associated with measuring it, including

the fact of different methodological options, each with its own rationales and treatment of the country of origin, that result in registration issues.[3] For instance, one can measure FDI macroeconomically by drawing on balance of payments data. Alternatively, one can measure it in terms of the recipient or host country, or according to firm-level information on mergers and acquisitions or greenfield investments. Given these diverse options, FDI statistics often reflect substantial differences. Evaluating COFDI in Mexico depends on statistics that vary depending on the level of analysis used, particularly when comparing public data from the ministry of economics and firm-level information.

Between 1999 and 2014, Mexico received, on average, almost $25 billion of FDI annually, with the trend's shifting upward to new levels over the last decade. Illustrating this, the annual average for 2010 to 2014 moved up to $27.6 billion. According to official data, between 2000 and 2015, 49.7 percent of Mexico's inward FDI consisted of "new investments," 27.5 percent consisted of "reinvestments of utilities," and 22.7 percent consisted of "intrafirm transfers" (Secretaría de Economía 2015).

Table 2 gives a breakdown of Mexico's inward FDI by country. Worth highlighting is that the top five sources of Mexico's FDI, particularly the United States, play the most critical role. They accounted for 81.3 and 46.6 percent, respectively, of Mexico's FDI during 1999–2014. China's share in that period increased in absolute terms from levels close to zero to double digits since 2000. However, accumulated COFDI from 1999 to 2014 was $364 million, or only 0.1 percent of Mexico's total FDI. In recent years, there has been no clear tendency. Indeed, during the period 2012 to 2014 Mexico's annual inward FDI from China fell from $83 million to $19 million and then increased again to $70 million. The efforts by the respective governments to boost Chinese FDI into Mexico have not, so far, yielded concrete results.

Table 3 offers various breakdowns of Chinese OFDI for 1999 to 2014. It shows that 69.2 percent of Chinese investment in Mexico consists of new investments, with "intrafirm accounting/transfers" constituting nearly all the remainder. Mining, commerce, and manufacturing account for more than two-thirds of Chinese

Table 2 Mexico: FDI Inflows by Country of Origin, 1999-2014

	1999	2000	2005	2010	2011	2012	2013	2014	1999–2014
Total FDI (US$ millions)									
Mexico	13,940	18,303	24,734	26,083	23,476	18,951	44,627	22,795	384,122
China	5	11	15	14	22	83	19	70	364
Total FDI (share percentage over total)									
Mexico	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Top 5	32.9	103.6	79.3	88.5	79.2	64.7	54.0	65.8	81.3
1 United States	14.0	72.1	47.8	26.8	51.1	49.8	29.4	28.1	46.6
2 Spain	7.5	11.6	7.0	16.1	14.7	–4.5	0.0	19.0	12.9
3 Holland	7.8	14.7	16.2	35.4	11.9	7.7	11.8	6.8	13.2
4 Canada	5.0	3.7	2.8	7.5	6.0	9.3	10.0	10.7	6.2
5 United Kingdom	–1.3	1.6	5.5	2.7	–4.4	2.4	2.8	1.1	2.4
China	0.036	0.059	0.062	0.056	0.096	0.437	0.043	0.307	0.095

Source: Author's elaboration based on Secretaría de Economia (2015).

Table 3 FDI from China by Type and Sector, 1999–2014

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	1999–2014
Total (US$ millions)	5.0	10.7	2.4	-1.7	25.6	12.0	15.3	24.1	14.5	13.2	33.8	14.5	22.4	82.8	19.1	70.0	363.6
New investments	2.8	9.4	1.9	-2.4	12.5	2.6	12.5	5.1	6.3	9.0	26.5	9.8	24.3	69.6	7.6	54.0	251.6
Reinvestments of utilities	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	1.3	0.0	1.2
Intrafirm accounting/transfers	2.2	1.3	0.4	0.7	13.1	9.4	2.8	19.0	8.2	4.2	7.2	4.9	-1.9	13.2	10.2	16.0	110.8
By Sector of Destination (US$ millions)	5.0	10.7	2.4	-1.7	25.6	12.0	15.3	24.1	14.5	13.2	33.8	14.5	22.4	82.8	19.1	70.0	363.6
11 Agriculture	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
21 Mining	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.5	0.0	4.0	5.8	18.4	61.8	1.7	0.0	97.3
31–33 Manufacturing industries	4.1	9.0	0.5	-4.3	4.7	7.0	12.0	1.4	4.0	0.8	2.6	0.9	0.8	7.0	7.4	17.9	75.9
43, 46 Commerce	0.7	1.6	1.8	1.3	2.2	1.5	2.7	17.1	4.0	0.7	23.2	3.3	2.6	4.3	8.9	0.8	76.8
52 Financial services and insurances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.2	50.4	50.7
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Total (share of total)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
New investments	56.5	87.9	77.7	137.6	48.9	21.5	81.9	21.3	43.5	68.4	78.6	67.4	108.4	84.1	39.8	77.1	69.2
Reinvestments of utilities	0.0	0.0	4.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-1.5	0.0	0.0	6.7	0.0	0.3
Intrafirm accounting/transfers	43.5	12.1	17.6	-37.6	51.1	78.5	18.1	78.7	56.5	31.6	21.4	34.1	-8.4	15.9	53.5	22.9	30.5
By Sector of Destination (share of total)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
11 Agriculture	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
21 Mining	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	37.6	0.4	11.8	40.4	82.2	74.6	8.9	0.0	26.8
31–33 Manufacturing industries	82.1	83.9	21.0	249.7	18.5	58.5	78.1	5.9	27.9	6.2	7.6	6.4	3.7	8.5	39.0	25.6	20.9
43, 46 Commerce	14.6	15.0	76.8	-76.5	8.7	12.6	17.8	71.0	27.8	5.4	68.6	22.7	11.6	5.1	46.5	1.1	21.1
52 Financial services and insurances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.0	1.0	72.0	13.9
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0

Source: Author's elaboration based on Secretaría de Economía (2015).

OFDI to Mexico for the period. Manufacturing has become an increasingly larger share of total COFDI in Mexico since 2013.

Table 4 paints a portrait of the geographic distribution of Chinese OFDI in Mexico and reveals that it is heavily concentrated. Mexico City alone hosts 52.3 percent of total Chinese FDI. The Mexican provinces thus collect a minor share of Chinese FDI.

At the firm level, Table 5 lists the main Chinese investments in Mexico. Interestingly, and contrary to most Chinese OFDI in the world and in LAC, in Mexico it is mainly oriented toward manufacturing and services, such as infrastructure/ports (Hutchinson Ports), telecommunications, and manufacturing plants such as Minth, Lenovo, Golden Dragon, and Sinatex. In fact, Chinese OFDI in manufacturing and services accounts for more than two-thirds of total Chinese OFDI in Mexico—rather surprising when compared with other LAC countries, where Chinese FDI is mostly concentrated in energy and raw materials (Dussel Peters 2014b).

Three Chinese Projects

I now turn to an examination of three projects that have injected new tensions in the bilateral relationship (Dussel Peters and Ortiz Velásquez 2015). The Dragon Mart exhibition center for Chinese goods in Cancún, with links to Mexico and Central America, was conceived in 2007. It was presented to local and federal authorities in 2011. Entailing an investment of around $180 million (only 10 percent was Chinese capital), a group of local institutions authorized the project in 2013. The next year, however, federal officials canceled the project for insufficiently complying with environmental laws. Throughout the period, the wrongly named "Chinese project" received very harsh criticism from a variety of social, political, and business groups. The criticism went far beyond the bounds of the project and turned into a free-for-all about censuring China and critically discussing Chinese labor, environmental, and human rights issues.

The much anticipated, but eventually aborted, 200-kilometer Chinese high-speed train project had a much stronger effect on the bilateral relationship. By way of background, public bidding procedures were published in August 2014. Most participants com-

Table 4 Mexico: FDI Flows from China by Recipient Province, 1999–2014

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	1999–2014
Total (US$ millions)	5.0	10.7	2.4	-1.7	25.6	12.0	15.3	24.1	14.5	13.2	33.8	14.5	22.4	82.8	19.1	70.0	363.6
Distrito Federal	1.0	0.5	1.4	2.0	9.6	3.6	3.0	23.0	13.3	-1.3	29.6	4.7	2.3	26.3	5.5	65.6	190.1
Jalisco	0.0	0.3	0.0	0.1	0.0	0.2	0.1	0.2	0.1	2.1	-0.2	-0.3	-0.3	0.1	3.5	2.3	8.3
Total (share of total)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Distrito Federal	20.5	4.3	60.1	-113.8	37.3	29.8	19.9	95.4	91.7	-9.9	87.8	32.4	10.2	31.7	28.9	93.8	52.3
Jalisco	0.1	2.9	0.5	-3.4	0.0	1.3	1.0	0.8	0.9	16.2	-0.5	-2.1	-1.2	0.1	18.1	3.3	2.3

Source: Author's elaboration based on Secretaría de Economía (2015).

Table 5 Mexico: Largest China Investments in Mexico, 2000–2014 (accumulated)

	Year	Firm	Sector	Chinese Firm	US$ millions
1	2009	Hutchinson Ports Holdings	Infrastructure/ports	Hutchinson Ports Holdings	220
2	2008	Tyler Resources	Mining	Jinchuan Group	21.4
3	2008	Sinatex AS de CV	Textiles	China Hengtian Group Corp	57
4	2009	Golden Dragon	Copper tubes	ı Dragon Precise Copper Tube	50
5	2007	Lenovo Group	Computers	Lenovo Group	40
6	2004	International Sources	Garments/textiles	Li & Fung Limited	27
7	2006	Huaxi Group	Mining	Huaxi Group	25
8	2000	Huawei Technologies	Telecom	Huawei Technologies	50
9	2013	Minth	Autoparts	Minth Group	25
Total					515.4

Sources: Author's elaboration based on Thomson-Reuters (2015).

plained that they could not bid because there was too little time to comply with the bid's sophisticated requirements. In the end, Mexico's secretary of communication and transportation received only one bid, from a joint venture composed of China Railway Construction Corporation (CRCC) and four Mexican firms, notably including Grupo Higa. This group eventually won the bidding process in early November. Three days after winning the bid and just a few days before President Peña Nieto was to make an official visit to China, Mexico canceled the project as a result of corruption and a conflict of interest with Higa Group at the highest level of the Mexican executive branch. Nevertheless, the Mexican government opened public bidding again in January 2015. Yet, two weeks later, as a result of the collapse of international oil prices (oil is a major source of revenue for Mexico) and subsequent fiscal strains, the government definitively canceled the new bidding process. Chinese Premier Li Keqiang openly questioned this decision. On top of this, up until May 2015, CRCC was requesting compensation for the costs it had incurred to make its bid (Dussel Peters and Ortiz Velásquez 2015).

Beyond these two well-known episodes, another troubled investment is the Chicoasén power station project. In January 2015, China's Sinohydro won a public bidding worth around $400 million to construct a hydroelectric power station (Chicoasén II) in the province of Chiapas. Since then, however, the project has met resistance from the local population as well as from trade unions, and the project has been delayed. Additional environmental problems that might further delay the project cannot be ruled out.

China is highly disappointed about the investment difficulties it is encountering despite President Peña Nieto's oft-stated receptivity to COFDI. From Beijing's vantage point, the three cases show that Mexico lacks an ability to understand and/or create a welcoming environment for COFDI. The concern is valid, but it also should be said that the experience of these Chinese firms shows that they have to prepare better to bring their investments to fruition. This is a matter not only of meeting financial and technical requirements but also of being attuned to and respectful of domestic political, social, and environmental rules, especially in

the case of large-scale projects. China will have to become more transparent and demonstrate a willingness to negotiate with relevant local and national groups.

Challenges Facing COFDI in Mexico

A number of challenges will affect the potential for COFDI in Mexico to increase meaningfully. Some of these challenges will be a direct impediment to the growth of COFDI, while others will present indirect impediments by, for example, adversely shaping the political environment for COFDI.

One issue is the poor institutional environment. While the post-2004 period witnessed the establishment of a number of institutions, the reality is that public, private, and academic institutions in Mexico focusing on China are quite new, poor, or both. This is not logical given the increasing weight of China worldwide and in Mexico. Nevertheless, the gap is increasing between the deficiencies of existing institutions and the two countries' booming economic exchange. Institutional weakness hardly reflects the expectations of the integral strategic relationship that both nations launched with much fanfare in 2013. It results in continuous tensions because it hinders the development of a long-term strategy to advance bilateral relations generally and investments specifically. Instead of long-term projects, the two countries are stuck with small projects such as Dragon Mart and the joint venture of CRCC with several Mexican firms, leading some observers to question the significance of the bilateral relationship.

Related to weak institutions and the lack of adequate preparation is the very recent establishment of Chinese firms in Mexico. Mexicans have limited knowledge of Chinese firms, including their political, social, and legal features. For their part, Chinese firms lack knowledge about Mexico. This mutual ignorance, in turn, generates considerable uncertainty and unrealistic expectations. For example, Chinese firms expect Mexico's public sector to support their activities in a fashion similar to what happens in China. When positive support fails to appear, Chinese draw the conclusion that Mexico's public sector is against a par-

ticular firm. On the Mexican side, there are very few institutions that can support the specific demands of the new Chinese firms. The expertise about China in institutions such as the foreign ministry and the ministry of economics is extremely limited, and Mexico's legislature has no particular motivation to support these and other institutions to become more knowledgeable about China. Such a setting encourages massive misunderstandings and facilitates the failure of Chinese investments in Mexico.

Beyond these obstacles, Mexico has not adopted any detailed trade or investment strategy or set of priorities toward China for the short, medium, or long run. Although Mexican businesses and academics have already developed such a framework (Agendasia 2012), the Mexican public sector has not adopted and implemented it. The lack of systematic strategizing toward China is contrary to what we witness in the case of US and EU strategic planning.

Another issue that may deter increased COFDI in Mexico, especially in promising areas such as clean energy generation, oil, and telecommunications, is Chinese investor anxiety about security. They express worries about organized crime, kidnapping, and insecurity regarding the transportation of goods (Bao 2015).

Turning to more general issues, it is important to appreciate that China currently poses a massive challenge to Mexico's export-oriented industrialization and its long-term position within NAFTA. One wonders if Mexico can continue to rely on cheap labor and energy. In terms of labor cost, China can argue that labor will be much cheaper there than in LAC for decades to come, given the vast labor pools in China's rural areas west of the coastal cities as well as in Vietnam and other Asian countries. If China does not depart from its development strategy of the past two decades, an open question is what room China will leave for LAC in the near future. The China challenge is relevant not only for Mexico but also for LAC as a whole regarding specific value-added sectors such as telecommunications, electronics, auto parts, and yarn/textiles/garments (Dussel Peters and Gallagher 2013; see also Guilhon Albuquerque and Lima in this issue). All of this creates anxiety on the Mexican side about China and Chinese firms.

Moreover, the structure of the trade relationship between Mexico and China is not sustainable economically or politically because it has generated significant social and local pressures in a variety of Mexican states over the last decade. To reiterate some of the key facts, in 2014, the Mexico-China import-export relationship was 11:1 (that is, China accounted for 16.6 percent of Mexican imports but only 1.5 percent of its exports) while Mexico ran a $60.3 billion trade deficit with China. While most Chinese imports are intermediate and capital goods that can greatly benefit Mexican firms given the cost competitiveness of the inputs, Mexico seems a long way away from rectifying its massive structural imbalances with China. Not surprisingly in light of the trade figures, analysts, businesses, and labor groups see China as a threat to Mexico and Mexican jobs. The widespread negative reaction to the Dragon Mart project, reflected in mass media coverage, is indicative of a broader negative sentiment that Chinese firms need to acknowledge if more COFDI is to flow into Mexico.

A final (prospective) background issue meriting brief mention is Mexico's plan to become a member of the TPP and the Pacific Alliance, which may affect its relationship with China. China has openly criticized and distanced itself from TPP. Still, it is not clear if China would be more open to the Pacific Alliance proposal in the short and medium run.

Conclusion and Policy Recommendations

The Mexico-China economic relationship has shown considerable progress since diplomatic relations were established in 1972, with massive increases in trade witnessed after the early 1990s. There have been positive political developments too, such as the aforementioned initiation of a Binational Mexico-China Commission and the creation of a strategic integral association. However, the bilateral economic relationship still reflects considerable imbalances and unmet expectations. For example, with respect to the former, over the last few decades, Mexico has been able to increase significantly the technological level of its total trade,

with the share of medium- and high-technology products in its total exports increasing from levels below 50 percent in the 1990s to 58 percent by 2013. In the case of its trade with China, however, in 2013, medium- and high-technology products accounted for only 36 percent of its exports versus 74 percent of its imports. In short, technology in trade with China accounts for massive differences in value-added and technology.

Looking at COFDI in Mexico, even though administration in both the Mexican and Chinese governments has focused since 2013 on boosting Chinese investments in Mexico, the figures have hardly budged. As of 2014, COFDI in Mexico accounted for less than $365 million or 0.09 percent of Mexico's accumulated FDI during 1999–2014. Moreover, we have not witnessed any increasing trend over the last five years. Both countries' administrations have failed in their respective strategies. There are a number of reasons for the low levels of COFDI. One is the failure of the two countries to create and support a matrix of institutions that can nurture and expand booming economic exchanges. The absence of such institutions has resulted in a series of errors, misunderstandings, and constant tensions. Another reason is the two countries' unbalanced trade, which has spilled over into the political and, in turn, investment relationship. A third is Chinese companies' failure to obtain adequate knowledge of project requirements and the local investment environment.

The creation of new institutions and greater support for existing ones could spawn better and more detailed analysis of the features and needs of Chinese investors in Mexico, which could help to overcome tensions. Beyond this, public, private, and academic institutions need to develop a group of joint projects between Mexico and China, to be shared with potentially interested firms in China, that would shed light on the particularities of Mexico.[4] Clearly, given Mexico's financing limitations, it would welcome the involvement of China's financial institutions in facilitating these projects. Finally, institutions should work to decrease Mexican political and social anxieties in general and concerns about COFDI specifically. The long-run relationship between Mexico and China will only be harmonious if both work to generate harmonious conditions in the short run.

My study offers a number of findings concerning the political economy of COFDI in Mexico. First, it indicates that COFDI does not have a life of its own. Despite all the powerful drivers pushing COFDI toward and pulling it into Mexico, a proper institutional environment is needed for it to flourish. Second, negative economic interactions can dampen potentially positive economics and thus the positive political spillovers. In the Mexico-China COFDI case, we see the unbalanced trade relationship and the China economic challenge having an adverse effect on investment and political relations. Third, COFDI itself can provoke a direct negative reaction if done in a poor way, which, in turn, gives birth to an atmosphere that limits higher levels of Chinese investment.

Notes

Enrique Dussel Peters is professor at the Graduate School of Economics, Universidad Nacional Autónoma de México, and coordinator of its Center for Chinese-Mexican Studies. He is a consultant to several Mexican and international institutions. His main research is in economic development, political economy, industrial organization, trade theory, and the evolution of industrial, trade, and regional patterns in Latin America and Mexico. He can be reached at dussel@unam.mx.

1. In contrast to positive lists are negative lists that prohibit FDI in certain sectors, while allowing for FDI in all other sectors.

2. The Mexico-China trade structure has been discussed and analyzed in detail over the last twenty years by the Centro de Estudios China-México (Center for Chinese-Mexican Studies, or CECHIMEX) with information disaggregated according to the Harmonized Tariff System, as well as for specific segments of value-added chains such as electronics, auto parts/automobiles, and yarn/textile/garments. In addition, the Academic Network of Latin America and the Caribbean (Red ALC-China) has recently published a group of articles on COFDI in Latin America.

3. Regarding the country of origin or registration issue, the following example may be helpful. A Chinese firm such as Huawei could invest in Mexico directly, through a subsidiary in the United States or the Cayman Islands, or even through a third financial firm related neither to China nor to Huawei. Using registration data, in the first case the investment would appear as *Chinese* OFDI. In the second, it would be considered *US* OFDI. In the third case, the nationality could be any country and one not even obviously related to Huawei. For a detailed discussion on the issue, see OECD (2008) and Ortiz Velásquez (2016).

4. In these efforts, it will be critical to contemplate projects relating to specific products and value-added chain processes as it is not sufficient to examine general sectors. Possibilities include electronics, telecommunications, auto parts, and automobiles. Chinese investors also might want to consider investments in food and beverages that could be exported to China.

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