

In 1974, two years after Mexico became the fourth Latin American country to establish diplomatic relations with the People's Republic of China (after Cuba, Chile, and Peru), its first ambassador to Beijing, Eugenio Anguiano Roch, was working hard to build trust. An exhibition of Aztec artifacts, meticulously coordinated by Anguiano, had drawn interest at museums in Beijing and Shanghai. Selected episodes of Mexican TV soap operas, first screened at the embassy and later released on public television, had generated enthusiastic curiosity among the Chinese public. The breakthrough, though, was a Mexican movie about the 1938 nationalization of Mexico's oil industry under President Lázaro Cárdenas (1934–40). Anguiano recalls: "They loved it! The Communist Party organized enormous crowds of thousands of people. Chinese audiences had never seen Mexican movies, and this one fit perfectly with their political thinking at the time. They began to see us as comrades!" (interview, June 9, 2010).

Forty years later the comradeship has, as Marx might say, melted into air. In 2014 Mexico reported that its bilateral trade with China had grown to the impressive sum of \$72.24 billion, but also that it sustained a bilateral deficit of \$60.28 billion (United Nations Commodity Trade Statistics Database 2015). Mexico's oil sector still provokes animated discussions in Beijing, but rather than praising Mexico's defense of its sovereignty, Chinese officials bemoan the ongoing impediments to deregulation in

Mexico. Xu Shicheng, a senior Latin America analyst from the Chinese Academy of Social Sciences, argues that Chinese investment would boost Mexican oil sales to China, thereby reducing the chronic trade imbalance (interview, November 23, 2009). This is an uncertain prospect even under Mexico's promarket President Enrique Peña Nieto, a member of the Partido Revolucionario Institucional (Institutional Revolutionary Party, or PRI) who took office in December 2012. One year into his term, Peña Nieto secured the necessary two-thirds of congressional votes (353 votes to 134) to amend article 27 of the 1917 constitution, which proclaimed governmental ownership of minerals and energy resources. Despite its historical significance, this maneuver will not abrogate a 1939 decree guaranteeing the sole stewardship of the state enterprise *Petróleos Mexicanos* (PEMEX) over untapped oil reserves (Ely 1961, 10).

Peña Nieto's oil reforms permit private contracts for exploration, drilling, and reservation of subterranean oil, which remain government property until extraction. Multinational companies such as Exxon Mobil, Chevron, Royal Dutch Shell, and ConocoPhillips will have priority access, thanks to the 2013 U.S.-Mexico Transboundary Hydrocarbons Agreement. The Mexican government favors these established firms over emerging Chinese rivals, for both conventional and shale activities (S. Hall 2013). Xu's proposed injection of Chinese finance is still a long way from reality.

With oil cooperation yet to bear fruit and efforts to collaborate in copper mining, automobile production, and information technology repeatedly delayed, Sino-Mexican relations have little traction. As the rest of Latin America scrambles to balance competition from Chinese consumer products by exporting ever-larger quantities of natural resources, Mexico has yet to formulate a China strategy. "Compared to the other Latin American countries," writes Roberto Hernández Hernández, "Mexico is the most vulnerable, with 97 percent of its manufacturing exports—which represent 71 percent of the national export base—under threat from China" (2012, 76). The problem is as much cultural as economic, underpinned by a history of overreliance on the United States and of intense ambivalence toward China. It is also political, owing to a steadfast skepticism of state-guided industrial policies among Mexico's political and economic elites since the early 1980s (Cypher and Delgado 2010, 86).

Despite its hands-off approach, the Mexican government has provided federal funding, tax concessions, and personal advocacy to selected sectors. As discussed below, large enterprises in the automotive and agriculture industries have been recent beneficiaries and have used this support to develop new products and build partnerships in China. There has also been some input from state-level governments, such as funding for universities to establish internship programs that build Mexicans' familiarity with the Chinese market. In these cases, government support has generated new partnerships, fomented cooperation, and strengthened bilateral trust.

The problem with these instances of successful public-private engagement is that they are rare. Mexican analysts lament the track record of the federal government, particularly the Ministry of the Economy and its foreign trade division, ProMéxico, in withholding its support from vulnerable sectors. Industries from handicrafts to textiles have struggled both at home and overseas owing to their poor access to finance and official advocacy and their inability to upgrade. As Chinese manufactured goods displace Mexican products in national and foreign markets, sectoral advocacy groups such as the *Cámara Nacional de la Industria del Vestido* (National Chamber of the Clothing Industry, or CNIV) and the *Confederación de Cámaras Industriales* (Confederation of Industrial Chambers, or CONCAMIN) have spearheaded calls for the government to take firmer measures to mitigate the so-called China threat. Reluctant to commit to assertive industrial policies but eager to placate voters, politicians have resorted to trade barriers on Chinese products. This has provided short-term respite but—as discussed below—has also encouraged smuggling and informal retail, undermining the prospects for trust between state and society in Mexico, within the Mexican economy, and between Mexico and China.

Although they are rare and overly focused on big business, instances of synergy between the Mexican public and private sectors offer useful insights into Sino-Mexican relations. They suggest the need, articulated by the economist José Luis Calva, for more systematic policies of national economic empowerment: “it is necessary to launch a genuine industrial policy characterized by long-term strategic planning, which includes support mechanisms for sectoral development, without undermining horizontal mechanisms of general economic development” (2012, 19).

Developing modes of cooperation that simultaneously cultivate vertical public-private synergies and horizontal commercial linkages is key to Mexico's formulation of a China strategy. For the time being, though, this process has been derailed by a political riddle: what comes first—trust or policy?

TRUST AND POLICY: CHICKEN AND EGG

China's impact is felt from the big business of Mexican industrial manufacturing to the small kiosks of the nation's rampant informal sector. The emerging superpower encroached on traditional handicrafts in the early 2000s, then on textiles and shoes in the middle of the decade, and is now provoking trepidation in the automotive industry (Dussel Peters and Ortiz Velázquez 2012, 22–24). The consequences of China's rise became clear between 2001 and 2003, when the export-oriented manufacturing sector saw the loss of over 25,000 jobs—many through the transfer of maquiladoras to China—and when China displaced Mexico as the second largest exporter to the U.S. market. The informal sector is woven closely into these indicators, as 60 percent of clothing sold in Mexico is thought to consist of contraband, most of which is from China (Mayoral Jiménez 2011; Rodríguez 2011). By themselves, top-down directives from the state will not overcome the much-heralded China threat, but neither will unsupported initiatives from the private sector and civil society. Solutions will more likely emerge from a framework of engagement between the two. However, a contentious question must first be answered: can industrial policies set in motion a virtuous circle of economic growth and trust, or does state intervention inevitably throw the circle into a tailspin?

The latter view has reigned supreme in Mexico ever since the presidency of Miguel de la Madrid (1982–88). His administration sought to rebuild the credibility of the PRI in the face of the enormous foreign debt accrued through social programs and infrastructure spending during Mexico's oil boom (1976–81). The boom had begun with the discovery of the Cantarell oil field, but it ended just as abruptly when the U.S. Federal Reserve increased interest rates to stem domestic inflation, prompting capital flight from Mexico and other indebted nations. As Calva explains, “instead of correcting the failures of macroeconomic management and

redefining the industrial strategy . . . the new governing group opted to apply an adjustment program of severe macroeconomic contraction and to dismantle industrial policy” (2012, 15). De la Madrid oversaw Mexico’s 1986 accession to the General Agreement on Trade and Tariffs, but there was also a decline in real wages by 30 percent, a rise in unemployment to 25 percent, and a spike in inflation to 159 percent (United Nations Development Program 1990, 35).

Mexico’s deteriorating situation prior to the 1988 election saw the PRI facing possible defeat for the first time since its founding in 1929. Challenged by the left-leaning Frente Democrático Nacional—led by Cuauhtémoc Cárdenas, son of the legendary President Lázaro Cárdenas—the PRI’s candidate Carlos Salinas de Gortari (1988–94) prevailed after the suspicious malfunction of a newly installed electronic voting system. Continuing de la Madrid’s hands-off economic policy, Salinas negotiated Mexico’s entry into the North American Free Trade Agreement (NAFTA), but his fervent pursuit of privatization generated popular discomfort with the country’s conservative adherence to the Washington Consensus. Salinas’s minister of commerce and industrial development, Jaime Serra Puche, epitomized this approach, famously stating that “the best industrial policy is no industrial policy” (quoted in Boltvinik 2003, 387).

Appointed by Salinas to direct the Ministry of Finance (Secretaría de Hacienda), Pedro Aspe assured citizens that free market economics was working in Mexico except for one detail: the country’s population of eighty-five million people was fourteen million too many. Some interpreted this as an insinuation that 15 percent of Mexicans—the number living below the poverty line at the time—were an economic burden and would do everybody a favor if they left. However, as Alexandra Délano has shown, the Salinas administration generally tried to “delink” migration from trade and investment to strengthen Mexico’s negotiating position vis-à-vis the United States (2011, 139). Telling citizens that his government would “export goods, not people” (quoted in García Zamora 2009, 79), Salinas tried to keep migration off the NAFTA agenda to avoid having to trade Mexican oil for U.S. immigration permits. U.S. demand for labor was growing at the time, propelled by a combination of decreasing fertility and economic growth. Encouraged by a U.S. Immigration and Naturalization Service amnesty for 2.3 million undocumented Mexicans, legal emigration from Mexico to the United States reached a historic an-

nual peak of 946,167 in 1991, slightly fewer than the estimated number of illegal entries the same year (Durand, Massey, and Zenteno 2001; U.S. Immigration and Naturalization Service 2002, 27).

Among NAFTA's side effects for Mexico were the loss of jobs in traditional agriculture and a resulting displacement of rural workers, creating a pool of economic emigrants. Their resettlement in the United States would pay off for Mexico: remittances grew from \$2.5 billion in 1990 to a high of \$26 billion in 2007 prior to the global financial crisis (Ilf 2009; Mark Lopez, Livingstone, and Kochhar 2009, 9; Zamora 2005, 4). Despite its deleterious impact on social integration and national pride, emigration is a convenient alternative to industrial policy for the Mexican government: it involves neither investment nor political risk.

Mexico's so-called lost decade under de la Madrid and Salinas generated ambivalent reactions to the country's free market trajectory both among citizens and in the PRI, resulting in the nomination of Luis Donaldo Colosio as the party's candidate in the 1994 elections. Early in his campaign Colosio enjoyed the support of Salinas and the party machine, but he soon showed progressive leanings, proposing new state industrial investments and social programs to be financed with property taxes. Colosio's increasing advocacy of a "redistributive" state, his support for assertive industrial policies, and his conciliatory stance on the Zapatista insurgency suggested that as president he would depart from the Salinas model (Marquez 1994). These gestures, summarized in his public statement that Mexico was "hungry and thirsty for justice," augmented his popularity, but they may have ultimately gone too far. During a campaign rally on March 24, 1994, Colosio was assassinated, the first Mexican politician of such status to meet a violent end since 1928.

Whether or not the gunman acted alone is still unknown. The opposition alleged that he was linked to Salinas, who encouraged his protégé Ernesto Zedillo (1994–2000) to campaign for office on the platform of continuity with the country's free market trajectory. Unfortunately for Zedillo, continuity brought with it the repercussions of the preceding months. Within days of his victory, foreign investors nervous about the potentially destabilizing impact of Colosio's murder and an invigorated Zapatista uprising in Chiapas withdrew portfolio capital and sold foreign debt instruments they had bought on unrealistically favorable terms under Salinas. To compensate for the central bank's dwindling foreign

reserves, Zedillo, a Yale-trained economist, reversed several macroeconomic policies inherited from Salinas, such as a commitment to minimizing inflation by pegging the peso's exchange rate to the U.S. dollar. During Zedillo's first year in office, the free-floating peso lost 55 percent of its value (from 3.4 pesos per dollar in December 1994 to 7.6 pesos per dollar in December 1995), bringing on a rapid increase in the price of goods and services. Zedillo attempted—with some success—to offset rising living costs by implementing the *progres*a program of cash subsidies to Mexico's poorest households, 2.5 million of which had registered in the initiative by 2000 (Bate 2004).

The crisis had a negative impact on other Latin American economies (a process termed the “tequila effect”), leading President Bill Clinton's administration to negotiate a bailout for Mexico's banking sector in 1995. Critics argue that this maneuver served mainly to protect the capital—both financial and social—of the U.S. investment bank Goldman Sachs, whose former cochairman Robert Rubin had become Clinton's treasury secretary. A financial analyst explained it this way: “Goldman Sachs has steered billions of dollars of its clients' money into Mexico. The bank's clients, partners and reputation all stand to suffer large losses in Mexico unless a successful bailout can be engineered. Heavy losses could encourage lawsuits from disgruntled clients” (Wheat 1995). Zedillo's policies were economically coherent, but their reliance on U.S. investment and his unequivocal commitment to NAFTA were a continuing source of disillusion for advocates of industrial diversification.

The latter would find no respite under Mexico's next leader (and former president of Coca-Cola Mexico) Vicente Fox (2000–2006). The first non-PRI president in seventy-one years, Fox promised Mexican auto and textile manufacturers that his incoming Partido Acción Nacional (National Action Party, or PAN) would secure them a greater share of the U.S. market under NAFTA. His pursuit of closer economic integration between Mexico and the United States reflected his commitment to Washington's push for market reforms across Latin America. This liberal-democratic orientation also characterized his broader foreign policy, which became clear when, in 2002, Mexico voted with the United States for the first time against Cuba at the UN Human Rights Commission. Fidel Castro described Mexico's decision as evidence of Fox's subservience to U.S. interests, and to prove it Castro released the transcript of his

telephone conversation with Fox a month earlier. The transcript revealed that Castro had abruptly left the 2002 UN Summit on Development Financing in Monterrey because Fox had asked him to, and that despite the Mexican government's insistence to the contrary, the request had come from George W. Bush. Fox's political embarrassment drew attention to a broader divergence of Mexican and Cuban political ideology, the former marked by an intensifying commitment to U.S.-led market liberalization and the latter by an enduring devotion to socialist planning.

Fox's promise to take advantage of the opportunities presented by NAFTA was a credible pursuit, but its regrettable corollary was a further narrowing of Mexico's productive capacities to manufacturing industries dependent on specific niches in the U.S. market. Less fortunate still was the subjection of these industries to intensifying competition with China. In 2001 China joined the World Trade Organization, and by 2002 Chinese exports to the United States had surpassed those of Mexico, causing the loss of over 672,000 Mexican jobs across twelve industrial sectors. The export-processing maquiladora sector was particularly hard hit: by 2003 Sony, NEC (Nippon Electric Company), VTech, and Kodak, together with 85 percent of shoe manufacturers in Mexico, closed their Mexican operations and moved to China (Comisión Económica para América Latina 2004; Domínguez et al. 2006, 38–39). Textile producers were similarly affected, and even the auto parts sector registered growing Chinese competition in the U.S. market (Álvarez Medina 2007; Watkins 2013). All the while, Mexico's annual trade deficit with China was growing to enormous proportions: from \$2.6 billion in 2000 to \$22.8 billion by the end of Fox's administration in 2006 (United Nations Commodity Trade Statistics Database 2015). Between 2000 and 2009, Mexico exhibited an extreme degree of export competition with China (figure 2.1).

China's impact revealed the need for Mexico to upgrade and diversify its industrial sector, but instead of guiding manufacturers through this process, the Fox administration simply advised them to divert production away from competing sectors. Fox hoped that by creating the Mexico-China Bi-National Commission in 2004, key problems could be delineated and addressed in the private sector, but the commission's most noteworthy finding was that Mexico's chronic trade imbalance with China resulted largely from inadequate state support to industry and lack

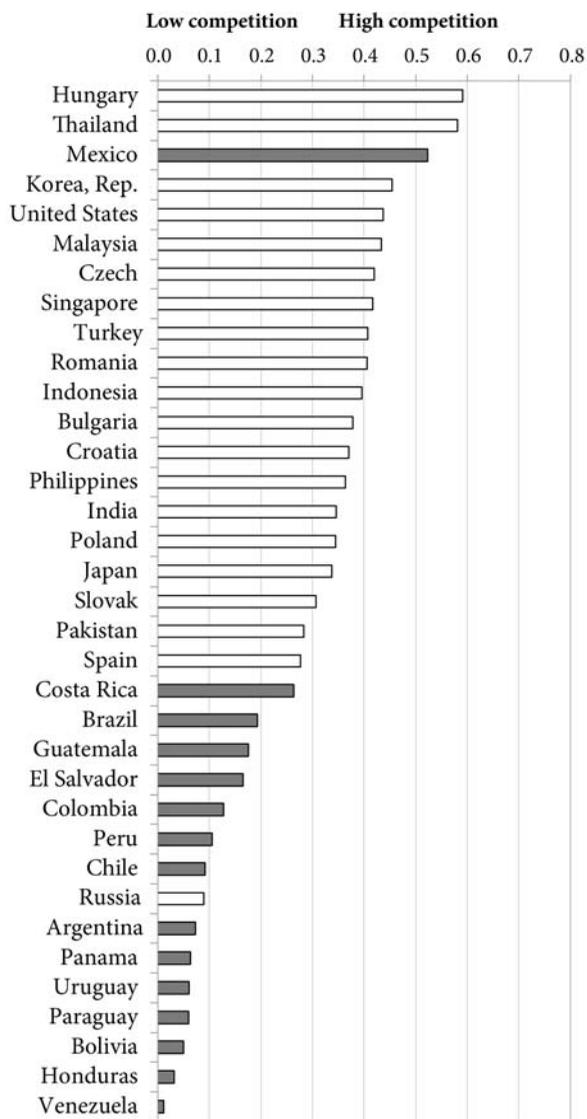


FIGURE 2.1 Selected countries' export competition with China, 2000–2009: Average coefficients of specialization and conformity (Latin American countries shaded). Source: Santiso and Avendaño 2011, 79.

of dialogue with the Chinese government. Rather than address these issues, Fox focused on building domestic credibility by aligning himself with angry Mexican manufacturers, attributing the blame for Mexico's predicament to unfair competition from China. His political discourse targeted the lack of civic values in China, which he said had produced an authoritarian labor system, low wages, and anticompetitive exports (León-Manríquez 2011, 168–69). More assertive industrial guidance from the Mexican government was not on the agenda, much less collaboration with Chinese authorities. Seeking popular support for his conservative PAN in the coming elections, Fox cautioned voters about the ideological track record of the opposition PRI, which he said had deceived Mexicans “as if we were vile Chinese when they were selling their grandiose ideas, populism and demagoguery” (quoted in Canseco 2006).

Serving as Mexico's president from 2006–12, Felipe Calderón was elected by a razor-thin margin to succeed Fox for the PAN, prompting millions to protest in the streets that he had stolen the election. Calderón demonstrated a more conciliatory approach to China early in his tenure, signing seven agreements in Beijing in 2008 and assuring Mexican manufacturers that cooperation with China would create new opportunities for inter-industry collaboration. Just as the bilateral relationship seemed to be improving, in April 2009 the first cases of swine flu (AH1N1) were announced in Mexico. With memories of the 2003 outbreak of severe acute respiratory syndrome (SARS) fresh in the minds of Chinese officials, their government immediately quarantined more than fifty healthy Mexican citizens without consulting Mexico City. In a veiled criticism of China, Calderón stated in a televised intervention that “some countries and places are taking repressive and discriminatory measures because of ignorance and disinformation” (quoted in Branigan, Borger, and Tuckman 2009).

Swine flu could not have struck at a worse time for Mexico. The impact of the global financial crisis, after a series of optimistic evaluations by the Mexican government, was by then becoming painfully evident. In February 2008, Minister of Finance Agustín Carstens had distinguished the crisis from previous downturns, stating that for Mexico it signified “a slight cold and not pneumonia as before” (*El Universal* 2008). Optimistic that the crisis would soon recede, the Mexican Ministry of Finance predicted growth of 3 percent in gross domestic product (GDP) for 2009

(Secretaría de Hacienda y Crédito Público 2009, 13). To mitigate the impact, Calderón announced a stimulus package in October to finance the construction of a new refinery for the state oil company PEMEX, a special program to support small and medium-sized enterprises (SMEs), and further deregulation of trade (Calderón 2008). These measures, combined with the Finance Ministry's forecast, seemed to validate the "slight cold" thesis.

But the global financial crisis turned out to be more akin to pneumonia, manifested in shrinking oil prices, declining exports to the United States, diminishing remittances from U.S.-based Mexican workers, and a contraction of domestic demand. In January 2009 the Ministry of Finance downgraded its growth estimate to 0 percent, imposing emergency measures that included a freeze in the prices of gasoline and electricity and credit disbursements of some \$150 million for industries hit by credit restrictions. In mid-2009 the World Bank forecasted that Mexican growth would plunge to -6 percent, while the International Monetary Fund predicted -7.3 percent. The economy ultimately registered growth of -6.5 percent, the worst contraction since the so-called tequila crisis of 1994-95, and arguably the most serious since the 1920s. Overly confident in the health of their economy, Calderón's ministers had implemented the much-touted stimulus measures only half-heartedly at best, and of Mexico's 106 million citizens, the number in poverty soared from 14 to 20 million (Cortés 2009).

While governments around the world fended off the global financial crisis with assertive countercyclical strategies and stimulus packages, Mexico's official response was characteristically hands-off. Some federal funds were employed to prevent further devaluation of the peso against the dollar, but the country's reserves, which in July 2008 approached \$87 billion, remained virtually untouched. In November 2009 the prominent economist Joseph Stiglitz stated that Mexico's performance in handling the crisis had been among the worst in the world, adding that the Calderón administration had not adequately supported the capacities of SMEs to engage in international trade (Lombera 2009). Stiglitz suggested that Mexico consider new pathways to revitalization, such as government investment in technology, education, and infrastructure. In response, Ernesto Cordero, minister of social development (and later minister of finance), declared: "I believe that Stiglitz does not know in

detail the countercyclical policies implemented by the Mexican government; he does not know the reality of Mexican public finances. I think he should read a little more about Mexico” (quoted in Ramos Pérez 2009). Apparently overlooking Stiglitz’s observation that “the only real source of growth is in Asia,” Mexico’s response to the crisis was in keeping with history: wait for the United States to recover. In 1990, 70.2 percent of Mexican exports went to the United States, and by 2009 the figure had increased to 80.7 percent (Economic Commission for Latin America and the Caribbean 2010).

Integration with the United States has favored some sectors of the Mexican economy, such as the automotive industry, but it has also narrowed the nation’s industrial base and produced an overconcentration of within-sector output since the mid-1980s (Organisation for Economic Co-Operation and Development 2009, 104). The country’s twelve free trade agreements (with forty-four countries, including the European Union and Japan) harbor the potential to reverse this trend, but a macroeconomic strategy for generating exports, rewarding up-and-coming companies, and incentivizing the diversification of trade has yet to be articulated. As José Luis León-Manríquez puts it,

In contrast to China and other East Asian countries, the expression “industrial policy” has become almost taboo in the discourse of Mexican economic officials, even in the midst of a recalcitrant economic crisis that saw national GDP plunge to –6.55 percent by the end of 2009. Mexico’s development banking, led by Nacional Financiera (NAFINSA), appears to be heading toward extinction; commercial banking does not support large industrial and exporting projects; investments in applied research and development by Mexican firms are virtually nil; and subsidies to production in the secondary sector have long exhibited levels below the average in member countries of the Organization for Economic Cooperation and Development. (2011, 170)

As Mexico’s trade deficit with China grows, vote-conscious politicians have come under pressure to formulate a response. Following a series of street protests in the early 2000s demanding protection from the so-called China threat, the Ministry of the Economy agreed to maintain commercial tariffs on products imported from China. This quelled the anger of the textile, toy, electronics, and other labor-intensive sectors,

but it did not resolve the underlying problems of overreliance on the U.S. market and poor competitiveness.

Rejecting the argument that their problems result from excessive state protection, industry advocates ask why the subsidies, tax breaks, seed funding, and diplomatic support that have sustained the competitiveness of big business are not extended to them (Cámara Nacional de la Industria Textil 2006; Dussel Peters 2011a, 98). Their grievances resonate with the World Economic Forum's *Global Competitiveness Report 2011–2012*, which lists “access to financing” as one of the most serious problems facing businesses in Mexico, alongside violence and corruption (2012, 258). To make matters worse, what gains in efficiency have been achieved in recent years have resulted largely from the downsizing of the labor force (Calva 2012, 18–19). According to a survey by Vanderbilt University's Latin American Public Opinion Project, 40 percent of Mexican households had a member who lost his or her job between 2009 and 2010, the highest figure in Latin America (Parás García, López Olmedo, and Vargas 2011, 25). The survey also found that 65 percent of Mexicans do not trust their political parties to govern, and that this distrust is associated “primarily with the management of the economic crisis and government budgets” (2011, 110).

Distrust permeates Mexican political culture, limiting citizens' willingness to engage in collective action. A 2014 study by Mexico's National Electoral Institute found that 73 percent of citizens did not trust “most people” and that less than one in ten respondents had ever signed a petition. According to the report, widespread suspicion of politicians, political parties, police, and judges constitutes a profound “distrust and disconnect among citizens, and between the population and the government” (Saldierna 2014). This environment of weak horizontal and vertical trust reflects the civic apathy produced by seven decades of de facto one-party rule and corruption in the twentieth century (Morris 2001; Morris and Klesner 2010, 1259–60). The trend is fortified by a series of more recent electoral disputes, such as the infamous computer malfunction of 1988 that installed Salinas as president, the 1994 assassination of Colosio, and the allegations of fraud that tainted Calderón's 2006 victory.

The prevailing “distrust and disconnect” has been deepened by the continuing diffusion of criminal violence under the Peña Nieto administration. The alleged June 2014 execution of twenty-two criminal gang

members by Mexican police in a warehouse in Ttatlaya, Mexico State, has deepened public perceptions of impunity for corrupt officers. The case is complicated by conflicting accounts, including by three women apparently rescued from the warehouse and subsequently accused of being members of the gang. The protracted trial has provoked allegations of government corruption on the one hand, and street protests in Mexico City for the human rights of the twenty-five accused police officers on the other hand (*La Jornada* 2015).

Even more damaging to the government's credibility is the September 2014 disappearance and murder of forty-three students from a rural teachers' college in Ayotzinapa, in Guerrero State. An official investigation has found that the students were detained by police in the nearby city of Iguala while protesting preferential government funding for urban colleges. An operative of the Guerreros Unidos crime syndicate states that Iguala police handed the students over to him, and believing they were involved in a rival gang, he ordered their incineration in a municipal landfill. Iguala's mayor and his wife fled after the incident but were apprehended in Mexico City, while the Iguala chief of police remains at large. The governor of Guerrero subsequently resigned in the face of mounting accusations of collusion between crime syndicates, police, and government agencies. As Ángel Calderon writes, "the killing fundamentally shakes the pillars of trust between individuals and institutions and highlights lack of accountability in the lines of command" (2015).

Public trust in government has been further shaken by Peña Nieto's personal indiscretion. Following a 2013 interview with the president's wife, Angélica Rivera, in the glossy magazine *Hola*, journalists found that she was in the process of buying a \$7 million mansion (dubbed the Casa Blanca, or White House) from a subsidiary of the public works contractor Grupo Higa. In 2014 another of the company's subsidiaries was contracted to build the Mexico City–Querétaro high-speed rail link as part of a Chinese-led consortium. The conflict of interest became a liability in September 2014, when Peña Nieto visited New York to assume the presidency of the Alliance for Open Government, promising to "ensure that transparency and accountability are daily practices among all government offices and bureaus of member countries" (quoted in Reséndiz 2014). Facing allegations that he had not declared the purchase of the mansion as required by law, in November 2014 the president can-

celebrated the high-speed rail contract over concerns that the selection of the Chinese-led group did not demonstrate “absolute clarity, legitimacy and transparency” (quoted in Webber and Mitchell 2014).

The Casa Blanca debacle damaged Peña Nieto’s credibility at home and in China, since the \$3.6 billion high-speed rail project depended on \$2.9 billion from the China Railway Construction Corporation (85 percent of which would have been financed by the Chinese government’s Export-Import Bank). Days after he rescinded the contract, Peña Nieto visited Beijing for the Asia-Pacific Economic Cooperation summit, where Premier Li Keqiang implored him to treat Chinese companies “fairly” (quoted in *Global Times* 2014). Mexico’s director of rail transport, Pablo Suárez Coello, anticipated a new tender application led by China Railway within weeks, but in February 2015 the Mexican government shelved the project, together with other public works, owing to the falling price of oil (Tan 2015).

The Peña Nieto administration has attempted to rebuild public trust mainly through economic reforms. The president describes his goal of attracting \$250 billion of private capital into the oil sector as “the centerpiece” of his tenure, and as *Bloomberg* reports, foreign investors appear to believe it:

Investors anticipate that President Enrique Peña Nieto will deliver on his promises for economic growth. Their conviction stems from the constitutional changes pushed through by the 48-year-old president. . . . In his first two years in office, Peña Nieto pushed through the biggest economic overhaul since the North American Free Trade Agreement took effect in 1994. The government estimates that allowing companies including Exxon Corp. and Chevron Corp. to produce crude [oil] on their own for the first time since the 1930s will help lift annual growth to above 5 percent, a level not seen since 2010, by the end of Peña Nieto’s six-year term in 2018. (Bain and Martin 2014)

The achievement of these goals would enhance the PRI’s stature as a party governing with a comprehensive industrial plan ranging from trade tariffs to structural reform, but optimism has been tempered by the declining price of oil. Investors are unlikely to plunge into the energy sector unless the price recovers, an uncertain prospect as shale gas production increases in the United States, Europe, and Australia. When the oil

price fell below \$50 per barrel in early 2015, PEMEX canceled contracts in Campeche, one of its most important production zones, leaving 10,000 subcontractors out of work. The government simultaneously announced that it would cut spending by \$8.57 billion owing to oil's poor long-term outlook. Carstens, now governor of Mexico's central bank, told legislators: "We no longer have those revenues, especially when it appears that the drop [in oil prices] is pretty durable and we can say it is going to be a question of years, not months" (quoted in EFE 2015). One month later the Mexican president bucked concerns over the future of oil, travelling to London to accept a \$1 billion loan from U.K. Export Finance to purchase British oil technology. Questions about presidential integrity followed Peña Nieto to Buckingham Palace as Mexican social media circulated photographs of his wife and daughter "on tour" in London wearing a \$3,000 gown and a \$7,000 dress, and of his wife carrying a \$7,000 handbag ("Indigna en redes" 2015).

The only solace Mexico can derive from the declining price of oil is the cheaper energy it affords manufacturers, whose total production costs in 2014 were 5 percent below those of China (Sirkin, Zinser, and Rose 2014). Hopes of bringing back industries that abandoned Mexico for China during the PAN's tenure (2000–2012) are becoming more realistic, especially given the inflation of Chinese wages by more than 400 percent since 2004.

The Peña Nieto administration's reforms have focused on macroeconomic conditions and foreign investment, but they also have important implications for small businesses. This is evident in the 2014 budget, which pledged to work with lenders to loosen credit for small enterprises, noting that lending in Mexico amounts to only 16 percent of GDP (compared to 50 percent in most of Latin America). The government has also promised to reduce the inordinate cost of mobile phone services, one of the most pernicious daily barriers to the success of small businesses. To this end, the government has ordered Carlos Slim's América Móvil telecommunications monopoly to divest so that smaller firms might introduce lower-cost services into the market. A potentially less popular measure is a 2014 tax (of one peso per liter) on drinks with high sugar content, generating much-needed revenue for government programs but increasing the price of this Mexican staple by 14 percent. Peña Nieto's budget also envisions a 10 percent tax on personal profits from stock sales and dividends, while sparing food and medicine from an anti-

pated value-added tax because, he said, this would hurt Mexican families (Cattan and Martin 2013).

Tax reform is long overdue in Mexico, both because of the narrow taxation base and because evasion has seen the government's tax take decline to the lowest among the thirty-four members of the Organisation for Economic Co-Operation and Development. In 2014 the Mexican Tax Administration Service responded by initiating investigations into seven large multinational firms in the automotive, mining, and retail sectors. This has generated popular approval for the government but may fall short of formal audits into ingrained evasion practices, such as shifting profits to countries with lower taxes. Nevertheless, the above measures constitute tentative steps toward a more diverse economy that is less reliant on large enterprises and more likely to generate economic activity at the grass roots.

Broader opportunities for small businesses are critical for generating public trust in government, for—as Kenneth Newton puts it—“the relationship is likely to be reciprocal . . . winners tend to be trusting” (2001, 207; also see Armony 2004, 28; Freitag 2003). Mexico demonstrates better than most countries that collective action and the trust it generates are strongest in sectors that benefit from political and economic conditions. “Big business in Mexico,” writes Ben Schneider, “invests far more time and money in voluntary encompassing associations than do the business sectors in other countries in the region” (2002, 78). For instance, major industry associations like the Consejo Coordinador Empresarial (Council for Business Coordination, or CCE) and its affiliate the Consejo Mexicano de Hombres de Negocios (Mexican Council of Businessmen, or CMHN) maintain symbiotic relationships with government institutions and funding bodies like the National Council of Science and Technology. Consensus and trust among the members of these associations have advanced their ability to influence policies and win state support, from tax breaks to subsidies for research and development. For Mexico's political and economic elites, targeted industrial policies and trust have reinforced each other. It remains to be seen whether or not Peña Nieto's policies will extend the radius of this virtuous circle beyond elite enterprises to smaller actors.

As Chinese exports encroach on Mexican markets in progressively higher value-adding sectors, including automobiles, economic diversi-

fictionation will become increasingly necessary. The next section illustrates why customs duties on Chinese products are no substitute for industrial policy. On the contrary, tariffs have encouraged the expansion of smuggling, eroding rather than fomenting trust among the state, businesses, and citizens.

IMPORTING FROM CHINA: EVADING THE GREAT WALL OF MEXICO

Until the mid-1980s Mexico stood out as an industrialization success story. Despite its limited export capacity, 85 percent of its foreign sales were manufactured goods such as textiles, household appliances, and automobile parts. While consolidating this industrial agenda in the 1970s, President Luis Echevarría developed cordial relations with the Chinese government, supporting its position on Taiwan and making Mexico China's leading trade partner in Latin America. But at that time China was laying the institutional foundations that would underpin its transition to market socialism, a transition whose enormous commercial output has now undercut Mexico's industrial achievements.

Mexican newspapers have made much of the dangers posed by untrustworthy Chinese products such as disintegrating automobile tires; contaminated pet food; seafood containing high levels of antibiotics to prevent infections from the industrial waste of China's eastern shores; and toothpaste and cough medicine containing lethal quantities of diethylene glycol, a cheap substitute for glycerine. An article reprinted in the Mexican newspaper *El Mural* concludes: "There was a time when the words 'made in China' evoked an immediate perception of 'bad quality.' These days many North Americans and Europeans perceive 'danger'" (Martin 2007). Chinese media have responded by accusing commercial competitors of overreporting such incidents to spread distrust of Chinese products and fuel perceptions of a China threat (French 2007).

Almost all Mexican industries, from traditional handicrafts and textiles to the export-oriented assembly sectors, have complained to the Mexican government about the lack of protection against the flood of low-priced products arriving from China and the loss of employment due to low wages in Chinese factories (Páramo 2008). To quell public anger, Calderón declared at the 2007 General Assembly of the CNIV: "it is necessary to take action to reduce the notable unjust disadvantages that are

crippling the textile industry vis-à-vis those of other countries, particularly China” (quoted in *Epoch Times* 2007). In a country where 55 percent of people described China’s economic development as a threat—the highest figure in Latin America, according to the Pew Research Center (2007)—Calderón’s statement resonated with concerns within and beyond the textile sector. His call for action, though, was never developed into a coherent strategy. Instead, the Mexican government adopted a politically safe solution: commercial tariffs on products imported from China.

Trade barriers have not significantly staved off Chinese competition; nor have they fomented horizontal cooperation between Mexican businesses or vertical cooperation with the state. On the contrary, they have eroded trust between state and society as basic manufacturing industries, offered little support to advance and upgrade, have fallen further behind foreign competitors. Furthermore, tariffs on Chinese products have fueled the growth of the informal sector by providing a disincentive to declare trade.

Mexican protectionism against Chinese products became politically controversial with China’s 2001 entry into the World Trade Organization. Unable to derail China’s bid to join the group, Mexico negotiated a six-year grace period during which import tariffs would apply in 953 product categories, allowing its national industries time to upgrade their technologies, enhance efficiency, develop new strategies for inserting themselves into global production chains, and generally become more competitive. As the expiration date approached in November 2007, Mexican manufacturers successfully lobbied the Ministry of the Economy to seek an extension. The 2007 Transition Trade Agreement on Compensatory Fees established a period of four more years for Mexican industrial sectors likely to be affected by the elimination of the tariffs. Duties had previously ranged from 100 percent to 1,105 percent; under the agreement they would be 60–360 percent in the first year and 35–250 percent in the last (Hernández Hernández 2012, 83–84).

When the four-year extension expired in December 2011, tariffs in the 204 most sensitive sectors (such as clothing, shoes, bicycles, and baby strollers) were reduced to 35 percent. Although this figure was still fifty-nine times greater than Mexico’s average general import duty, CONCAMIN opposed the tariff’s reduction and the government’s plan to progressively phase it out. According to CONCAMIN, for every two manufactured

products exported by Mexico, ten were entering the country from China, and consequently, by 2011 between 900,000 and a million workers had lost their jobs (*El Mural* 2011). Together with other sectoral advocates, CONCAMIN continued to lobby the Ministry of the Economy to reinstate tariffs at their previous levels.

Industry pressure prevailed in August 2014, when Peña Nieto's minister of finance, Luis Videgaray, announced a new tax on imported footwear and potentially other items, based on benchmark value (estimated market price) rather than declared customs value. Videgaray argued that the tax, levied at 25–30 percent, would correct the previous government's negligence: "We [the previous government] eliminated benchmark prices and decided unilaterally to begin reducing tariffs, and for industry, from the perspective of industrial policy, that essentially amounted to wishing them good luck" (quoted in *EFE* 2014). The minister's attempt to improve the "luck" of embattled manufacturers may temporarily alleviate their anxiety about Chinese imports, but if history is any guide, tariffs will not overcome their competitive woes.

One negative but logical consequence of Mexico's successive barriers against Chinese imports is that suppliers and retailers have found creative ways to circumvent them. According to the 2007 Inquiry into Antidumping Quotas against Imports of Chinese Origin, undertaken by the Mexican consultancy IQOM Trade Intelligence, Mexican firms have habitually arranged legal loopholes and exceptions to antidumping quotas for their Chinese suppliers (M. García 2007). Interviews I conducted between 2008 and 2014 indicated that illegal methods are even more common, particularly bribery of customs officials. It is well known, for instance, that shipping containers entering the ports of Manzanillo and Lázaro Cárdenas frequently pass through customs without their contents ever being reviewed.

A related practice known as technical smuggling involves the classification of goods under an incorrect harmonized tariff schedule code that receives a smaller tax. Informally known as the *salto arrancelario* (tariff jump), this enables new T-shirts to enter Mexico as used T-shirts, petroleum engines as diesel engines, and so on. Textile products such as suits, underwear, and curtains are falsely classified as containing no cotton or other inputs that are also produced in Mexico. Should they choose to inspect a shipping container, customs officials often lack the necessary

training to discern an item's true composition or function. An erroneous approval by customs agents—whether honest or subsidized—can therefore be explained to meticulous supervisors, if necessary, as an *error de dedo* (literally, an error of the finger). Technical smuggling first emerged as a serious concern between 2003 and 2005, when the Ministry of the Economy recorded that imported textiles classified as used clothing increased from 6,500 to 17,500 tons (Dussel Peters 2009, 304). Customs officials acknowledge the problem but argue that they cannot overcome it because most of these products arrive from China, where they have no authority to conduct investigations (López 2006b).

Another form of tariff avoidance underlying Sino-Mexican commerce is illegal transshipment, known in Mexico as *triangulación* (triangulation). Chinese exports enter the United States, Guatemala, and Belize free of duty as temporary imports destined for a third country. While the merchandise is held in storage, criminal accomplices acting as inspectors replace “made in China” shipping papers and package labels on the merchandise with documents stating “made in USA.” Under NAFTA these products then enter Mexico free of duty. They are sold in street markets around the country at prices that are impossibly low for products genuinely manufactured in the United States. The yarn-textile-garment chain has been particularly hard hit by triangulation, and studies show that between 2006 and 2011, 60–65 percent of Mexican retail in clothing consisted of illegal imports from China (Dussel Peters 2009, 304; I. Rodríguez 2011). As Mexico's ambassador to China from 2001 to 2006, Sergio Ley witnessed the diplomatic fallout firsthand: “When I was working in Beijing, a Mexican official gave a public speech here in Mexico City, declaring that China was responsible for the influx of contraband. Today this is still the dominant perception. But a Chinese friend of mine told me, ‘How can we be responsible? We don't control Mexican customs!’ He was absolutely right, and I'll tell you the real culprit: the enormous quotas against Chinese products, which are higher than the Great Wall! With these quotas it becomes logical to ‘pagar la mordida’ [literally, pay the bite—meaning to offer a bribe]” (interview, June 15, 2010).

Ley has good reason to oppose tariffs on imports from China. As chairman of the Asia-Pacific section of the Mexican Business Council for Foreign Trade, Investment and Technology, he dedicates himself to promoting Sino-Mexican trade. His family, of Chinese origin, owns sev-

eral baseball teams and the successful Casa Ley department store chain, which retails the popular Ley brand of jeans. Although Casa Ley is known to import from China, and although Sergio and his brother are widely known as Los Chinos Ley for their Chinese heritage, these connections have not damaged their sales. “The important thing,” Sergio insists, “is that we have the lowest prices.”

The same can be said of imported Chinese products generally, which retail not only in stores like Casa Ley but also in informal street markets. Studies conducted in 2012 found that 53 percent of Mexicans aged 16–25 habitually purchase contraband, and that the informal sector constituted 15 percent of GDP that year (“La economía informal representa 15% del PIB” 2012). Statistics from the Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography) suggest that informality is likely to be more widespread: between 2007 and 2012, 7.2 million Mexicans entered the workforce and 2.4 million jobs (including both permanent and temporary jobs) were created, implying that only a third of new workers entered formal employment (figures cited in Dussel Peters and Ortiz Velázquez 2012, 15). Labor Minister Alfonso Navarrete has acknowledged that some 60 percent of Mexicans do not pay taxes and have no social security benefits, and that economic opportunities at the grassroots are critical for turning the situation around: “If there are no real incentives to make it attractive for informal workers to turn formal . . . it’s difficult to get this group to migrate” (quoted in Hughes 2013). A popular Mexican saying confirms the point: “For every ten people who lose their jobs, eight will go to the informal sector.”

Mexico’s most famous outlet for unregistered consumer goods is Tepito, an expansive informal marketplace on the eastern perimeter of Mexico City’s historic center (discussed in chapter 4). Customers are drawn to the district by its famous slogan: “dress yourself for 100 pesos [approximately \$8].” One of Tepito’s innumerable suppliers is Ángel, a twenty-three-year-old from Harbin, north of Beijing, who has a master’s in business administration and moved to Mexico City in 2009 to join his older sister. In 2003 she had opened a women’s clothing store, but over the next two years it was robbed three times. On each occasion the police ignored her reports, leading her to abandon her legitimate business for underground trading in counterfeit shoes, jackets, and handbags from China. Soon after arriving in Mexico, Ángel established a new product

line of Chinese-made watches and office equipment. Unlike his sister, he chose to import items that are not also produced in Mexico and that therefore have relatively small tariffs. According to Ángel,

In five days I can get any brand of watch you want shipped over by UPS [United Parcel Service]. My suppliers in China write lower prices on the papers to reduce the tariff, but even without their help the tariff is smaller than for jackets and shoes. Jackets are charged [a tariff of] 50 percent in Mexico because they make jackets here, but only around 15 percent in Guatemala, so my sister ships them by boat [from China to Guatemala] and sends a van to pick them up. People working at the Guatemala border are easy to bribe, so getting the products into Mexico is easy. Most of our customers are Mexicans who sell the products in street plazas and markets like Tepito, and in Guadalajara. . . . It's dangerous. Even when my sister started [her legally registered business] the police couldn't be trusted. We're Chinese, and if there's a problem we can't rely on the police, so we call the Chinese embassy instead. (interview, June 17, 2010)

The niche that Ángel and his sister fill results from the high import tariffs on products that compete with those made in Mexico, combined with easy access to inexpensive alternatives from China. Employing a range of strategies to circumvent these tariffs, Ángel and his associates operate outside the law. The fact that they turn to the Chinese embassy rather than the police for protection indicates their precarious and marginal status in Mexico. This is to be expected considering the illicit nature of their trade, but it was a lack of trust in the police on the part of Ángel's sister that led her (and by extension him) into the black market to begin with. Distrust of official authorities is common in Mexico's Chinese communities, whose members typically turn to ethnic associations and informal support structures rather than the police when their businesses are robbed or vandalized (see chapter 4). The result for Ángel has been diversion away from registered forms of Sino-Mexican exchange and assimilation into a tight-knit underground network of smugglers.

The case of Ángel bears out Michael Woolcock's observation that tightly integrated illicit networks with thin linkages to the public sphere impede inclusive development and broader societal cohesion (1998, 172–77). When such instances of what Woolcock calls “integration without

linkage” grow to the extent that Mexico’s informal sector has, the capacity of governments to enforce the rule of law and for societies to “get ahead collectively”—in Albert Hirschman’s (1984) sense—is powerfully undermined. Instead, reliance on “informal institutions” (O’Donnell 2006) engender what Alejandro Portes calls “downward leveling norms” (1998, 15) that ingrain expectations of illegality and preclude the formation of extragroup relationships (Hilgers 2008). The only viable pathway to vertical cooperation under these conditions is to draw government officials into covert networks, as has recently been alleged in Mexico City’s historic center (see chapter 4).

Weak state-society ties also undermine the formation of horizontal cooperation at the grass roots. As unchecked rival networks vie for political and geographic hegemony, loyalties become sharply defined and trust is limited to immediate associates. It is a far cry from the “spontaneous sociability” that conservative theorists argue should flourish as the state scales back its interventions to unleash society’s entrepreneurial initiative (Fukuyama 1995, 27).

Vertical disengagement in Mexico since the 1980s has impeded legally compliant forms of cooperation not only among informal networks, but also among registered small businesses. The latter have had to fend for themselves, often in bitter competition with each other, envious of the support reserved for a narrow band of large enterprises. Outside of major representative bodies like the CCE and CMHN, private-sector coordination, cooperation, and trust are remote prospects in this fragmented context, and consequently, so is Mexico’s ability to compete with China. The problem is deepened by excessive import tariffs, which may have generated short-term political capital for officials seeking the trust (and votes) of workers, but have not empowered national industries to explore new markets, develop technologies, and expand formal employment. Despite these difficult circumstances, as the next section shows, there have been cases of successful cooperation between the public and private sectors, and they offer useful lessons for improving Sino-Mexican relations.

EXPORTING TO CHINA: IN SEARCH OF PUBLIC-PRIVATE BALANCE

In November 2013 the Confederation of Chinese Associations of Mexico (CACHIMEX) sponsored the fifth annual Expo China trade fair. Held in

the city of San Luis Potosí, the fair hosted some fifty Mexican companies alongside their counterparts from China, Peru, and Vietnam. Hoping to extend their reach into Chinese markets, participants secured export contracts for Mexican fruits, vegetables, and shellfish. Since Expo China's establishment in Mexico City in 2009, its organizers have presented it as an initiative that serves Mexican interests. According to CACHIMEX's Secretary General Jimmy Li, "by promoting exports to China we hope to reduce the perception that our fairs are all about bringing 'made in China' products into Mexico" (interview, June 11, 2010).

Ricardo Chang, public relations manager for CACHIMEX, says he wants to distance Expo China from accusations that Chinese businesses are perpetrating a trans-Pacific invasion of cheap textiles, shoes, toys, and steel products, voiced on Mexican websites like "Pinche Chinos" (Damn Chinese) and "Ten Reasons Not to Buy Chinese Products This Christmas." Using Expo China to import Chinese products would only deepen this perception and, according to Chang, undermine the long-term networking strategy of Chinese exporters: "Chinese manufacturers have become interested in the Expo, but not to sell their products. What they want is to raise awareness of Chinese brands and build distribution networks. Just look what they sent to the last Expo: buses made by Yutong and a submarine! No one's going to buy these things, but they might be impressed by them and start to trust their makers. In the end CACHIMEX is about building international networks, and that means building confidence in products" (interview, May 27, 2014).

Politicians and business executives have been reluctant to endorse events like Expo China for fear of popular criticism. Although Chang has found the PRI more receptive than the PAN to working with CACHIMEX, "it's still an uphill battle . . . some local governments now let us use their logos, but not much more than that" (interview, May 27, 2014). Expo China's vertical ties to government are therefore weak, a predicament that the economist Enrique Dussel Peters believes has undermined its ability to advance Mexican interests: "The Mexican government—and even the Chinese government—won't get involved because it's too sensitive, so Expo China is run 100 percent by the business community. This won't work because it results in a focus on importing over exporting and leaves no space for policy strategies that could turn this around" (interview, June 16, 2010). For Li, the first step to turning the situation around

is simple: “We’d like some high-ranking officials to come to the opening ceremony and cut a ribbon or something” (interview, June 11, 2010).

Endorsement from above will be critical if Expo China and similar trade fairs are ever to place more than fruit, vegetables, and shellfish in Chinese markets. Expo China’s organizers believe that Mexico would find ready consumers in China for everything from tequila and abalone to ground-up rubber from used tires, but owing to a lack of official sponsorship, national suppliers are either unaware of the event or have little faith in its legitimacy. Sponsorship would help build public confidence and encourage new domestic linkages between Mexican producers and exporters. In Li’s words, “culture and commerce are like two hands of the same person . . . as we say in China, first make friends, and then do business” (interview, June 11, 2010). While the Ministry of the Economy’s Fondo para Pequeñas y Medianas Empresas (Small and Medium Enterprise Fund) has financed the participation of several Mexican companies in an Expo-related marketing mission to Chengdu and Fuzhou, the annual event has been set back by “the lack of government support for selling to China” (Tai 2012, 367, 370).

Expo China is not unique in the lack of support it receives. As noted above, SMEs have little access to subsidies and tax breaks and have therefore been unable to compete in domestic markets or through Mexico’s twelve free trade agreements (León-Manríquez 2011, 169–70). Although SMEs comprise 52 percent of GDP and 72 percent of formal employment, they contribute almost nothing to Mexico’s exports (“Importancia de las Pymes” 2011). For a country that scores well on the World Economic Forum’s indices of market size (11th out of 142 countries), time required to start a small business (35th), and gross national savings (40th), Mexico’s ranking of 92nd in ease of access to loans is an aberration (World Economic Forum 2011, 259). Such scant financial support for SMEs is far from ideal in a global environment that rewards the diversification of exports, particularly for a country whose output does not include a heavy concentration of primary products.

The Organisation for Economic Co-Operation and Development recommends that Mexico adopt a long-term approach to export competitiveness by investing in education and technical training (2009, 114–16; also see Santiso and Avendaño 2011, 88). The federal government has been slow to follow this advice, but in 2005 nine state governments

jointly formed the Program for Mexico-China Business Formation under the Asociación de Secretarios de Desarrollo Económico (Association of Mexican Secretaries of Economic Development, or AMSDE) to fund Mexican students at the master's and doctoral levels to undertake internships in China, learn Chinese, and research opportunities for technology transfer and bilateral trade. Eloy Vargas Arreola, former secretary of economic development of the state of Michoacán, argued that the initiative was a critical factor in building familiarity with China and overcoming the existing commercial imbalance (Wu 2006). Having sent over 200 students to China, the AMSDE program was suspended in 2008 amid reports that grants had been awarded to friends and relatives of politicians and influential businesspeople with little interest in advancing bilateral cooperation.

The China-Mexico Research Center (CECHIMEX) at the National Autonomous University of Mexico has established a more successful grant program. Funded by Mexico City's government, the program placed 46 students in Chinese internship and research programs between 2007 and 2015. As well as studying the development of technical linkages between Chinese universities and industrial parks, grantees have designed strategies for boosting Chinese tourism to Mexico, establishing a high-level Spanish-Mandarin interpretation service, harmonizing Mexican and Chinese professional and academic qualifications, convening a bilateral commission on agricultural biotechnology, and duplicating a Chinese plastic injection molding facility in Mexico City (Trápaga Delfín, Dussel Peters, and Martínez 2012). The Asia Pacific Institute of the Tecnológico de Monterrey has also leveraged state-level funding to develop a strategic plan for China, working with its permanent staff members in Beijing and Shanghai to coordinate activities with the Mexican embassy in China. Over 500 students have passed through its programs in Beijing, Shanghai, Guangzhou, and Harbin, where the Tecnológico offers placements in engineering, international relations, business, and language through student visits to embassies, factories, and work centers.

Despite these achievements, state funding has sometimes been awarded to advance political agendas instead of genuine outcomes. One program in Hangzhou hosts eighty Mexican government-funded students annually to live together in an on-campus residence hall, where their level of interaction with Chinese society—even academic society—

is very low. Familiarity with Chinese culture is apparently not an objective of the local coordinator (a former Mexican bureaucrat whose program has never been formally audited), who has set up a taco restaurant at the gates of the university. Interviewees in Mexico and China reported that such programs are not unusual; while they ostensibly focus on language and business training, they function largely as propaganda for Mexican politicians eager to convince their electorates that they are dealing with the so-called China threat. As a former student of one such program put it, "I think it's good that the Mexican government is trying to do something about China, but I feel very angry that the money is so often misused, and with no consequences!" (interview, November 3, 2007).

Mexico's state-sponsored travel grants have generated information and opportunities for national exporters, but the political scientist Laura Rubio of the Instituto Tecnológico Autónomo de México (Autonomous Technological Institute of Mexico) notes a lack of follow-through once initial strategies have been drawn up. One student, she reports, designed a project to export tequila to China and soon identified a Mexican provider and a Chinese buyer and distributor. Chinese consumers responded enthusiastically, but the Mexican provider was unable to meet their demand. The project soon collapsed because the provider, having secured phytosanitary certification from Chinese customs, was unable to secure seed investment to expand production and develop partnerships with other Mexican producers. As Rubio notes, "it's precisely the kind of company the government should support" (personal communication, October 8, 2010).

These cases illustrate the considerable potential of state-backed educational and research programs to advance cultural and commercial engagement with China. Implementation, though, has been undermined by a lack of strategic and financial follow-through. Frustrated by this state of affairs, in 2008 Dussel Peters founded the Mexico-China Working Group, which has published a set of twenty-nine proposals for commercial engagement with China. The Working Group recommends that the Ministry of the Economy and its international division, ProMéxico, urgently "undertake an exhaustive campaign" to promote the export of Mexican primary products, auto parts, electronics, food, and drink to China; attract Chinese tourists to Mexico; and secure Chinese investment in the mining, infrastructure, alternative energy, textile, and automotive sectors

(quoted in Dussel Peters 2011b, 5). The reluctance of Mexican political and commercial elites to engage with China is reflected in poor investment figures: according to the Economic Commission for Latin America and the Caribbean, between 1990 and 2011 Chinese firms invested \$19.7 billion in Brazil, \$9.2 billion in Argentina, and \$718 million in Costa Rica, but only \$132 million in Mexico (Mingramm 2012, 101).

The Working Group also calls on ProMéxico to reopen its offices in Shanghai and Hong Kong, and on the Ministry of the Economy's under-secretary of SMEs to ensure that Mexican products appear in Chinese trade fairs (Dussel Peters 2011b, 6–7). Furthermore, it suggests fully reinstating Mexico's tourism office in China (which was closed in 2010 to cut costs and reopened in 2011 with only one staff member) to increase Mexico's share of China's fifty million annual outbound tourists from its current base of 0.1 percent, and running a series of educational courses in the Mexican Ministries of Foreign Affairs and Migration to "improve knowledge about China and its culture, and especially to eradicate prejudices" (Dussel Peters 2011b, 6).¹ These recommendations have since been elaborated into the *Agenda Estratégica México-China* (Mexico-China strategic agenda), a compilation of over eighty proposals presented to President Peña Nieto under the auspices of the newly formed think tank AgendAsia (AgendAsia 2012).

State support will be a critical factor in Mexico's ability to compete with China, but as Mexican business consultant Rafael Valdez Mingramm has argued, national companies must also become more proactive: "The responsibility does not lie exclusively with the state. The Mexican private sector also needs to modify its agenda with China, to look beyond particular or group interests, and take advantage of our country's wide range of offerings and comparative advantages. . . . All that's needed is to stop focusing exclusively on the North American market and reestablish the strategic relationship that we constructed with China over the past 500 years" (2012, 103 and 105).

Mexican firms that have done well in China are large enterprises with global reach. A good example is Nematik, the world's leading producer of aluminum engine blocks, cylinder heads, and transmission parts for automotive applications. The company has close to fifteen thousand employees in thirteen countries, including China, and has established research and development partnerships and joint ventures with a range of

original equipment manufacturers (OEMs) (Santiso and Avendaño 2011, 83). A key factor in Nemark's success has been the establishment since 2000 of overseas factories, in anticipation of Chinese competition, to fill specific niches in the automotive chain. Although these niches do not occupy the highest value-adding segments of the production process, Nemark has demonstrated design and technology innovation through its lightweight aluminum engine blocks, or monoblocks, which are suitable for a range of OEMs. Exporting to China since 1995, Nemark does not control the production process, but it is one of only a handful of Latin American companies working in close partnership with long-term clients like Ford, General Motors, Chrysler, Hyundai, and BMW. It is also one of the few Latin American firms to invest heavily in China, acquiring a plant from Fiat-Teksid in Nanjing in 2007 for \$18.1 million and constructing a new facility in Chongqing in 2012 for \$42 million to service its China-based customers (Dussel Peters 2012, 10).

Nemark stands out as an exceptional example of private initiative, but it also demonstrates the importance of long-term strategic support from the state. The company would probably not exist at all had the Mexican government not awarded its parent company, Alfa Group, 12 billion pesos (\$480 million) in 1981 to get it through the oil crisis. Five federal decrees between the 1960s and the signing of NAFTA in 1994 ensured the health of the automotive sector, and a series of tax breaks and research grants has since supported Nemark's expansion. Alfa Group is a prominent member of CMHN, and in 2007 Nemark was the primary beneficiary of an investment of 142 million pesos (\$13 million) awarded jointly by the state government of Nuevo León and the National Council of Science and Technology (P. González 2007). Foreign governments have also provided Nemark with concessions to generate jobs in their territories, such as a \$3 million tax break to establish an engine block production plant in Windsor, Ontario, in 2010 (Macaluso 2010). Similarly, energy and land use incentives provided by the Chongqing city government were critical in attracting Nemark's investment (Dussel Peters, personal communication, December 27, 2012).

High-level diplomatic support from Mexican officials has been important in securing outcomes for Nemark and other large-scale operations. Patricia Espinosa, Mexico's secretary of foreign affairs, demonstrated

this when she visited Beijing to meet Chinese President Xi Jinping and Foreign Minister Yang Jiechi in 2012. Reflecting the Calderón administration's more conciliatory approach to China, her personal advocacy overcame five years of impasse to secure official Chinese endorsement of Mexican pork imports (Bermúdez Liévano 2012). However, as anybody who has worked in China knows, cooperation is forged over time, and Espinosa's efforts will not produce economic outcomes without diplomatic follow-up. The current challenge is to steer pork and other Mexican products such as beef, poultry, mangos, and avocados through China's inevitably political quarantine regime. By 2014 Chinese inspectors had assessed and approved six of nine pork processing facilities in Mexico, and further delays will be averted only through a combination of high-level advocacy and improved coordination between private-sector producers and government trade representatives.

China's growth has created new opportunities for large Mexican firms like Nematik, but it is also generating unforeseen competition for the automobile, agriculture, and manufacturing sectors, particularly in the U.S. market. For the time being, federal assistance is supporting the viability of Mexico's automotive and agriculture sectors, but the future of manufacturing and small business is more precarious. Over the past decade, numerous studies have advocated measures that the government should adopt to strengthen the long-term competitiveness of these sectors. It remains to be seen if these studies are reaching and influencing the relevant officials in the Peña Nieto administration.

CONCLUSION

Strategies for building the competitiveness of Mexican businesses have been slow to emerge, in part because of overreliance on the U.S. market (deepened by NAFTA), and in part because "the expression 'industrial policy' has become almost taboo in the discourse of Mexican economic officials" (León-Manríquez 2011, 170). As discussed above, conservative thinkers have provided a rationale for this policy orientation, arguing that intrusive regulations, reporting requirements, and unnecessary costs incurred by state intervention undermine the trust necessary for economic cooperation and growth. The recent history of Mexico's trade relations

with China does not support the view that intervention is a “substitute for trust” (Fukuyama 1995, 27); on the contrary, instances of targeted state support have stimulated a range of partnerships and associations.

In the absence of a coherent industrial policy, import tariffs have become an ad hoc response to Chinese competition. While the political mileage generated by trade barriers cannot last forever, there is strong popular support for maintaining them, as demonstrated by the protests of industry groups discussed above.

As a substitute for more sophisticated and proactive measures, import tariffs have generated opportunities for informal traders. Tax evasion and smuggling are too difficult to resist for thousands of people like Ángel, the Tepito supplier whose illicit dealings and tight networks demonstrate the toll that “integration without linkage” takes on social cohesion, the rule of law, and trust. The informal sector will grow further unless opportunities at the grass roots entice people like Ángel into registered, tax-paying occupations. Assertive industrial policies may therefore be Mexico’s best defense against the black market, especially since the influx of Chinese manufactured goods shows no sign of slowing down. The fact that the otherwise conservative Peña Nieto administration should publicly identify a need to diversify the Mexican economy through credit and tax breaks for small businesses indicates its awareness that inadequate formal opportunities are driving the black market’s growth.

There is a growing consensus that genuine solutions to the Sino-Mexican trade imbalance could be achieved through greater efforts from the Ministry of the Economy, ProMéxico, and other state institutions whose mandates include coordinating and promoting trade and development. These efforts could focus on establishing vertical synergies for industrial upgrading through public-private partnerships and encouraging horizontal linkages among suppliers, exporters, and importers. Without these connections, small entrepreneurs who have identified and begun to exploit niches for Mexican products in the Chinese market, as was the case with tequila, have been unable to acquire start-up grants, logistical support, and official endorsement. The Expo China trade fair, founded in 2009 to promote exchange between Mexican and Chinese small businesses, is well placed as a hub for such connections. Its organizers lament, though, that politicians and businesspeople have been too wary of criticism on the sensitive issue of Chinese competition to endorse and

promote their efforts. In the absence of sponsorship, Mexican producers and exporters have remained unaware that they could use Expo China to develop partnerships with each other and potential Chinese customers.

In spite of Mexico's competitive woes, there have been several illuminating examples of success. The automotive parts producer Nemark has identified niches for its specialized engine blocks in China, which since 2009 has produced and consumed more automobiles than any other country. Nemark's exemplary performance is underpinned by a combination of private business acumen and government support in the form of research and development funding and incentives. Such awards would yield more broadly shared benefits if extended across Mexican businesses, particularly to SMEs. Results have also been achieved for Mexican farmers, who can take comfort in China's April 2012 commitment to opening markets initially to large-scale pork producers and potentially also to smaller beef, poultry, fruit, and vegetable suppliers. Markets do not open by themselves, but rather as a result of assertive high-level diplomatic engagement and personal advocacy, in this case under the leadership of Espinosa.

At the level of small businesses, state governments have been more active than federal institutions in building relationships and pursuing emerging opportunities. The Mexico City government, for instance, has provided research grants enabling CECHIMEX to establish a systematic program of student placements in internships in China. The project has generated detailed proposals, publicly available on the CECHIMEX website, for building commercial partnerships and familiarity with the Chinese market. This and the other cases analyzed in this chapter suggest that Mexico's problems with China will not be solved simply through more government, but they may diminish through more sophisticated and assertive policies of domestic and foreign engagement.

Chapter 4 will describe another positive case of vertical synergy, driven by the state government of Baja California—where, despite potentially debilitating anti-Chinese popular sentiments, local officials have developed trusting relationships with the resident Chinese community. Long-term cooperation built on legislation to facilitate commerce and migration has enabled a range of initiatives, from registered street markets to high-level visits from Chinese trade and investment delegations. Before examining microlevel developments in Mexico, we first return to

Cuba, where the Chinese diasporic community has also come to perform an important diplomatic function between China and Cuba. The capacity of governments to build nationally beneficial relations with China depends not only on vertical state-society relationships, but also on robust horizontal linkages in civil society and the private sector. The activities of members of the Chinese diaspora illuminate the formation of such horizontal linkages, and how their effectiveness is integrally tied to the delicate project of building vertical trust with the state.