



THE OTHER SIDE OF THE COIN

CHAPTER 2: ON CHINA



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THE OTHER SIDE OF THE COIN ON CHINA – AT A GLANCE



If all sectors performed similarly to auto parts, Mexico would have a trade surplus.

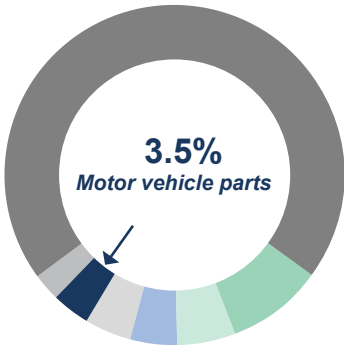
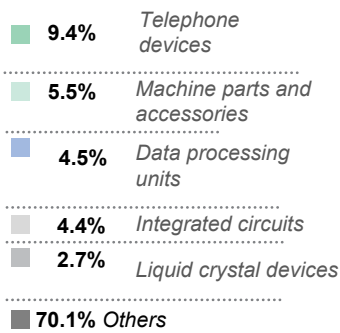
THE AUTO PARTS SECTOR ACCOUNTS FOR MORE THAN 28.2% OF MEXICAN EXPORTS, WHILE ITS IMPORTS REPRESENT ONLY 3.5%.

This positions it as the most important export sector.

MAIN PRODUCTS IMPORTED FROM CHINA

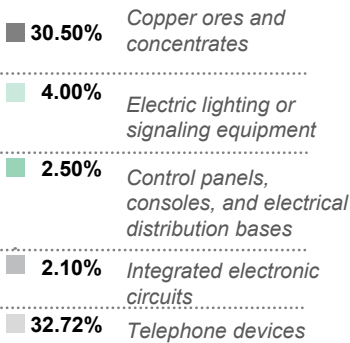
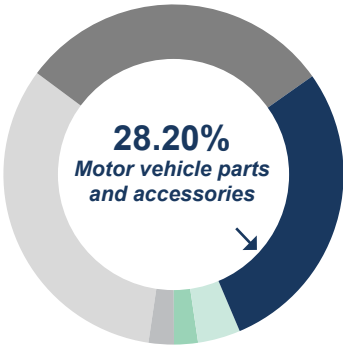
In 2022, Mexico imported \$118.7 billion USD from China.

. Percentage of total imports:



MAIN PRODUCTS EXPORTED TO CHINA

Percentage of total exports



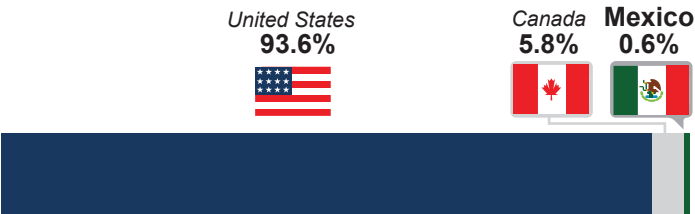
IMPORTS FROM CHINA TO NORTH AMERICA

Import share of auto parts, 2024

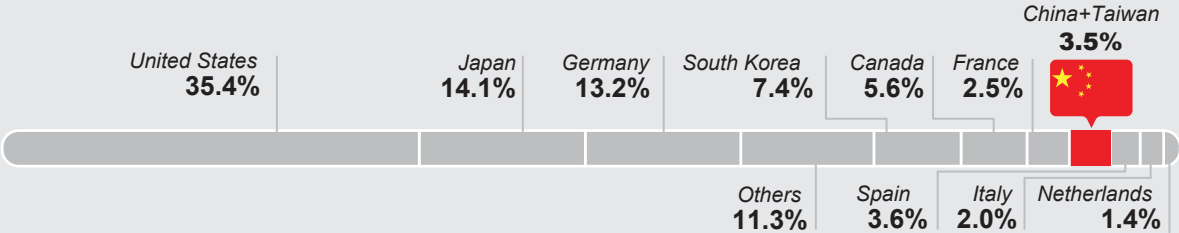


FDI FROM CHINA

2012 to 2023 in the United States, Mexico, and Canada



In Mexico, Chinese companies account for only 3.5% of the total auto parts companies.



Source: INA based on information furnished by the Secretariat of Economy, Bureau of Economic Analysis, US Department of Commerce, and Statistics Canada. S&P Global Mobility, 2025.

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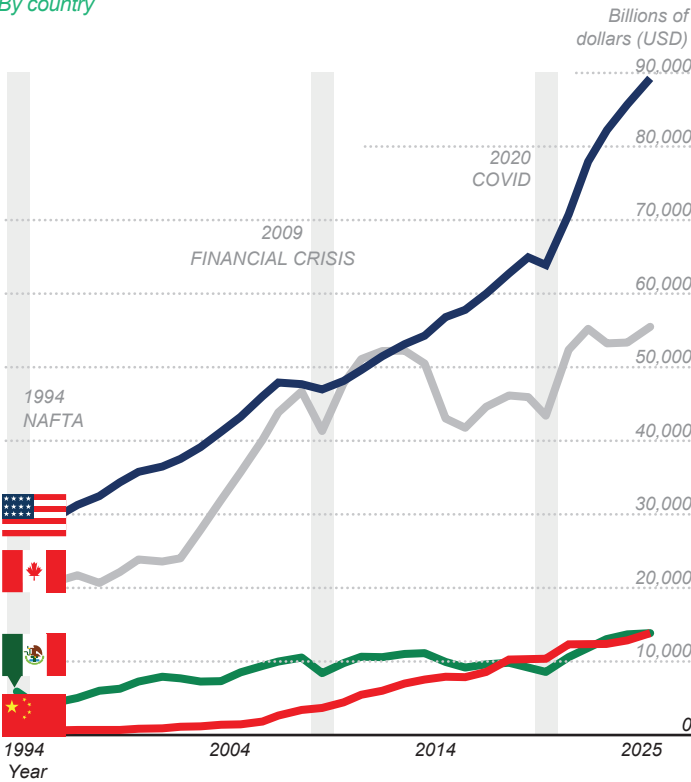
TRADE LIBERALIZATION STRENGTHENED NORTH AMERICA, BUT ASIA REDEFINES CURRENT CHALLENGES



The evolution of the United States' GDP per capita has tripled since trade liberalization with the signing of NAFTA in 1994. Mexico and Canada have followed upward trajectories, managing to double their GDP over the same period. China, with a strategy focused on trade and manufacturing, has shown the highest growth rate, surpassing Mexico in 2020 in terms of GDP per capita, though still significantly below the levels of the U.S. and Canada.

GDP PER CAPITA

By country



Trade liberalization has been a key factor in strengthening and stabilizing the automotive industry in North America, enabling U.S. companies and workers to compete more effectively with other regions of the world.

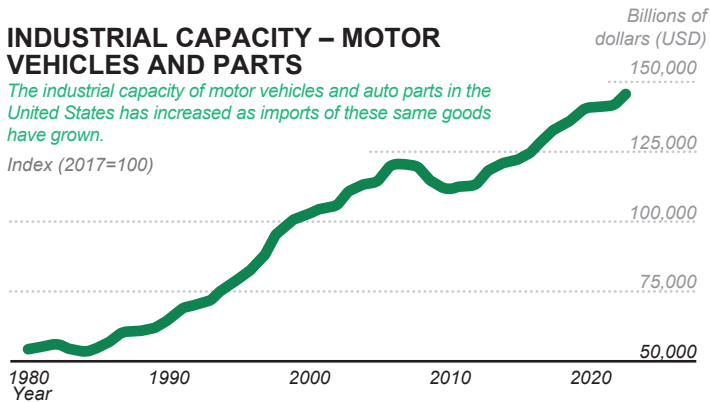
Source: INA based on information furnished by the International Monetary Fund.

Trade agreements such as NAFTA and the USMCA have reduced trade barriers, attracted foreign investment, and strengthened the competitiveness of the automotive sector in North America. Although there are negative perceptions regarding trade deficits, in the automotive sector these have coincided with an increase in U.S. manufacturing capacity and output, demonstrating that imports have complemented industrial growth. However, globalization has also driven Asia—particularly China—to become a key supplier in this chain. In light of this scenario, North America must refine its strategy to leverage regional strengths in the face of Asian competition, not only in terms of cost but also in scale and innovation. Thanks to its location, skilled labor force, and trade agreements, Mexico emerges as a strategic alternative to mitigate risks, reinforce regional supply chains, and strengthen the region's industrial autonomy.

INDUSTRIAL CAPACITY – MOTOR VEHICLES AND PARTS

The industrial capacity of motor vehicles and auto parts in the United States has increased as imports of these same goods have grown.

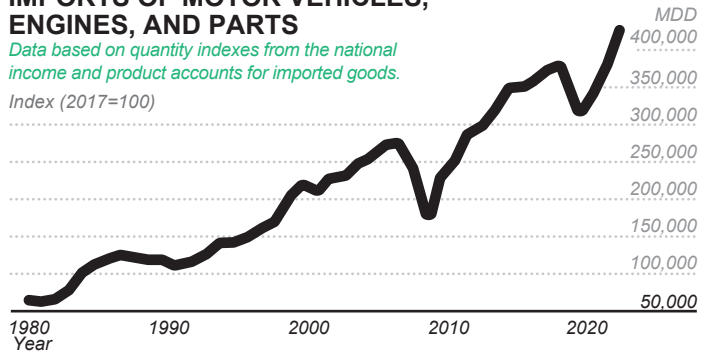
Index (2017=100)



IMPORTS OF MOTOR VEHICLES, ENGINES, AND PARTS

Data based on quantity indexes from the national income and product accounts for imported goods.

Index (2017=100)



Source: INA based on information furnished by NAICS: 3361-3. Economic data from the Federal Reserve Bank of St. Louis, and National Income and Product Accounts, Bureau of Economic Analysis.

3

MEXICO IS THE NORTH AMERICAN COUNTRY WITH THE LEAST TRADE DEPENDENCY ON ASIA



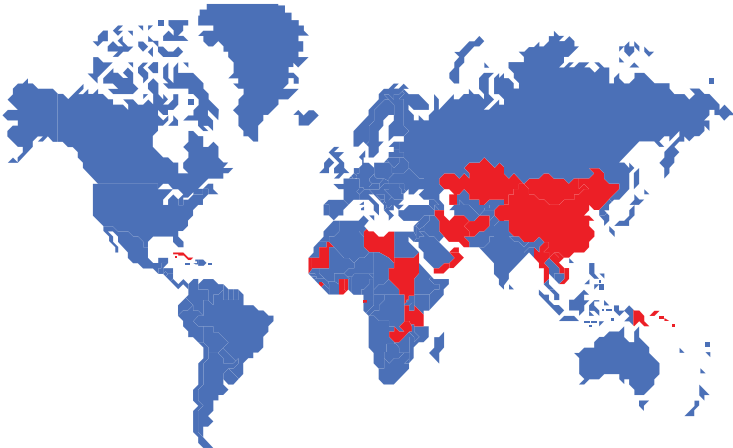
SHIFT IN GLOBAL TRADE LEADERSHIP: U.S. VS. CHINA

At the beginning of the year 2000, total U.S. trade exceeded \$2 trillion USD—more than four times the \$474 billion recorded by China at that time.

U.S. as the main trading partner

China as the main trading partner

2020



At that time, China was the main trading partner of only a few countries, including Cuba, Iran, Libya, Myanmar, Mongolia, North Korea, Oman, Sudan, Tanzania, and Vietnam.

Figures in billions of dollars

Exports

Imports



TOTAL
\$2,000

\$782

\$1,218

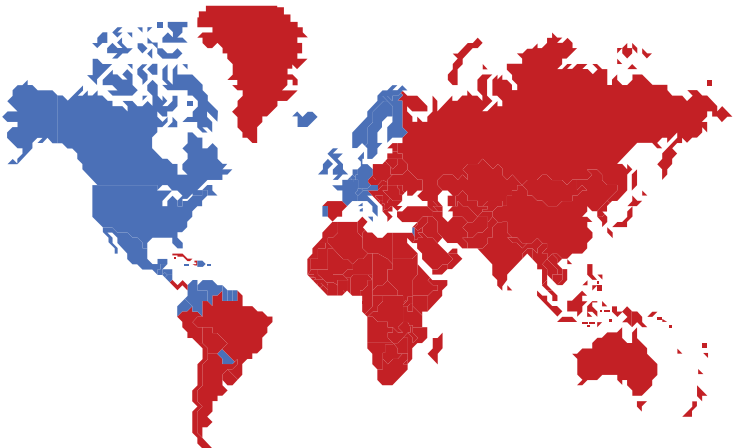


TOTAL
\$474

\$249

\$225

2024



By 2024, China's total trade value reached \$6.2 trillion USD, compared to \$5.3 trillion USD for the United States—marking a new phase in the competition for global trade leadership.

Figures in billions of dollars

Exports

Imports



TOTAL
\$5,333

\$2,065

\$3,267



TOTAL
\$6,163

\$3,575

\$2,587

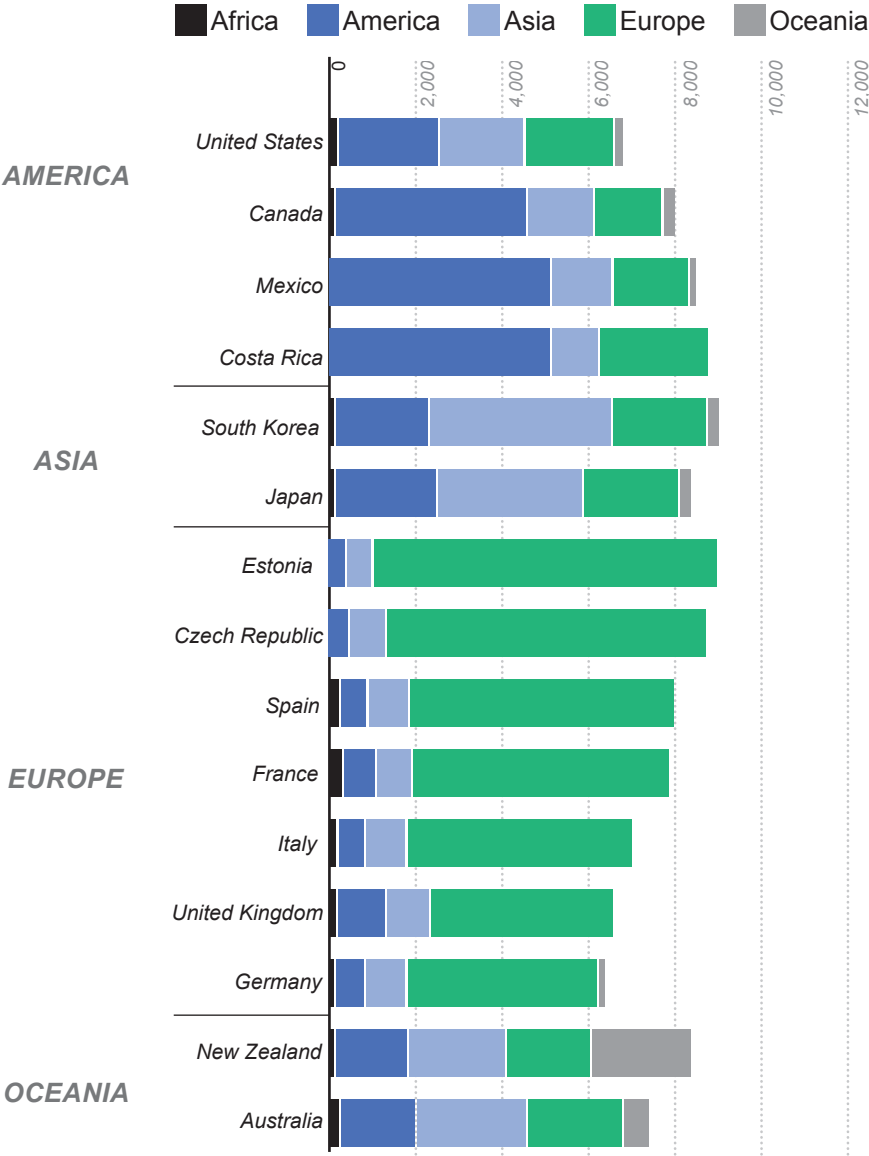
Source: INA based on information furnished by the U.S. Census Bureau and the General Administration of Customs of China.



ACCORDING TO THE OECD, MEXICO IS THE NORTH AMERICAN COUNTRY WITH THE LOWEST TRADE DEPENDENCY ON ASIA. WHILE THE UNITED STATES CONCENTRATES A HIGHER VOLUME OF IMPORTED PRODUCTS FROM ASIAN SUPPLIERS—PARTICULARLY CHINA—MEXICO MAINTAINS A MORE BALANCED TRADE STRUCTURE, PRIMARILY FOCUSED ON INTRAREGIONAL TRADE WITH THE UNITED STATES AND CANADA. IN CONTRAST, THE U.S. SHOWS THE HIGHEST LEVEL OF DEPENDENCE ON ASIA IN THE REGION, REFLECTING ITS DEEP INTERCONNECTION IN SECTORS SUCH AS ELECTRONICS, MACHINERY, AND MANUFACTURING.

REGIONAL DIMENSION OF IMPORT DEPENDENCY IN OECD COUNTRIES

Number of import dependencies for all products by exporter region, 2017 to 2019.



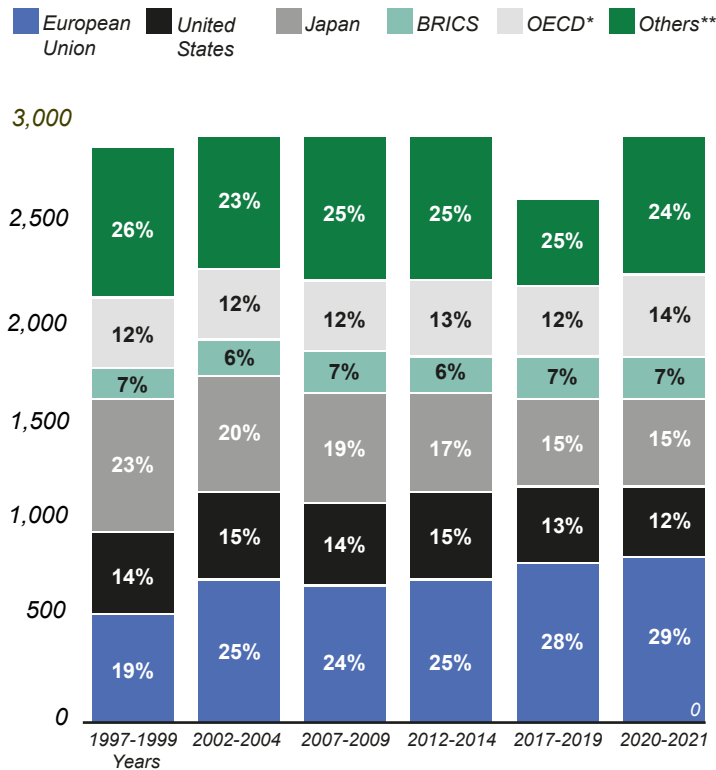
Source: INA based on information furnished by the OECD, calculations using BACI data.



In fact, the United States has reduced its importance in China's supply chains. Over the period from 1997 to 2021, the European Union has emerged as China's main strategic supplier, with steady growth leading it to account for 29% of China's dependencies in 2020–2021. This increase highlights the strong interdependence between the two economies, especially in advanced sectors such as machinery and high technology. The United States, for its part, has reduced its share in China's strategic imports, dropping from 14% to 12%.

EVOLUTION OF CHINA'S IMPORTS

Number of China's strategic import dependencies, by exporting country or region and share (%)



Source: INA based on information furnished by the OECD, calculations using BACI data (Base pour l'Analyse du Commerce International).

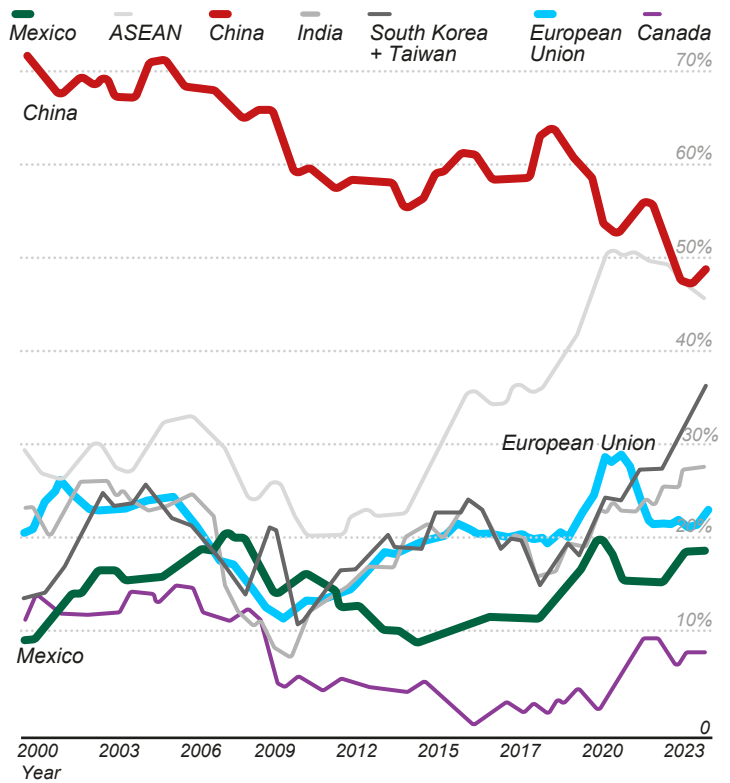
*Excluding U.S., Japan, and European Union / **Non-OECD.



China has historically been the main contributor to the United States' overall trade deficit, accounting for more than 50% during several periods. Although its share has slightly declined in recent years, China remains the country with the greatest impact on the U.S. trade imbalance.

TRADE DEFICIT

Percentage of total U.S. trade with selected trading partners



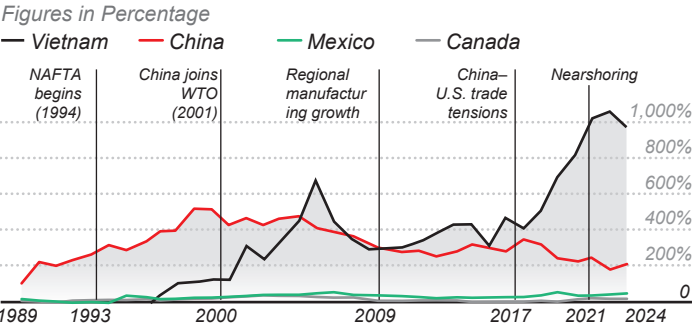
Source: INA based on information furnished by Bloomberg, 2024.

Mexico ranks among the countries with the lowest contribution to the United States' trade deficit, positioned just above Canada. Unlike regions such as Southeast Asia, the European Union, Korea, Taiwan, and India—whose share of the deficit has increased in recent years—Mexico maintains a more balanced trade relationship, characterized by the export of inputs, U.S. content, and shared value.

THE U.S. TRADE DEFICIT WITH VIETNAM IS ALMOST 20 TIMES LARGER THAN WITH MEXICO

In 2024, for every dollar exported to Vietnam, the United States imported nearly ten, resulting in a 976% trade deficit. In contrast, the deficit with Mexico was only 49.5%, highlighting a much more balanced trade relationship. Unlike Vietnam, Mexico not only imports U.S. products but also integrates them into its production processes, strengthening regional supply chains within the framework of the USMCA.

U.S. Trade Deficit by Country
2024 data accumulated through September



Source: INA based on information furnished by De la Calle Madrazo Mancera and USITC.



IMPACT OF THE IMPROPER USE OF COMPUTER EQUIPMENT TARIFF CODES ON THE FIGURES FOR U.S. IMPORTS OF MEXICAN AUTO PARTS



A DISTORTION HAS BEEN IDENTIFIED IN THE EXPORT STATISTICS OF MEXICAN AUTO PARTS, PARTICULARLY UNDER THE RECORDS GENERATED FROM PROCLAMATION 10908, RELATED TO TECHNOLOGICAL PRODUCTS—MAINLY OF CHINESE ORIGIN—THAT TRANSIT THROUGH MEXICO TO ENTER THE U.S. DUTY-FREE.



This is due to the improper use of tariff code 84.71 under the USMCA, which originally allowed the import of inputs to be integrated into industrial processes. It is now being used to classify laptops, processing units, and data storage devices, without undergoing a substantial transformation or integration into auto parts manufacturing processes.



It is important to prevent products unrelated to the automotive value chain from distorting the sector's economic and trade indicators. This review is crucial to strengthen transparency and traceability in the sector, as well as to ensure the correct application of USMCA trade instruments and maintain the industry's competitiveness.

U.S. TARIFF CODE	U.S. TARIFF DESCRIPTION	JAN-APR 2024 (USD)	JAN-APR 2025 (USD)	VARIATION
84718040	Unit suitable for physical incorporation into automatic data processing machine or unit thereof, not entered with the rest of a system	\$38,485,853	\$1,055,349,176	2,642%
84713001	Portable automatic data processing machines, not over 10 kg, consisting at least a central processing unit, keyboard and display	\$82,946,068	\$565,583,818	582%
84717040	ADP magnetic disk drive storage units, disk dia. n/ov 21 cm, not in cabinet, w/o attached external power supply, n/entered w/rest of a system	\$2,031,031	\$7,751,672	282%
84715001	Processing units other than those of subheading 8471.41 and 8471.49	\$10,157,249,379	\$21,102,023,511	108%
84717060	ADP storage units other than magnetic disk, not in cabinets for placing on a table, etc., not entered with the rest of a system	\$10,779,932	\$19,445,761	80%

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MEXICO IS THE COUNTRY WITH THE LOWEST CHINESE INVESTMENT IN NORTH AMERICA



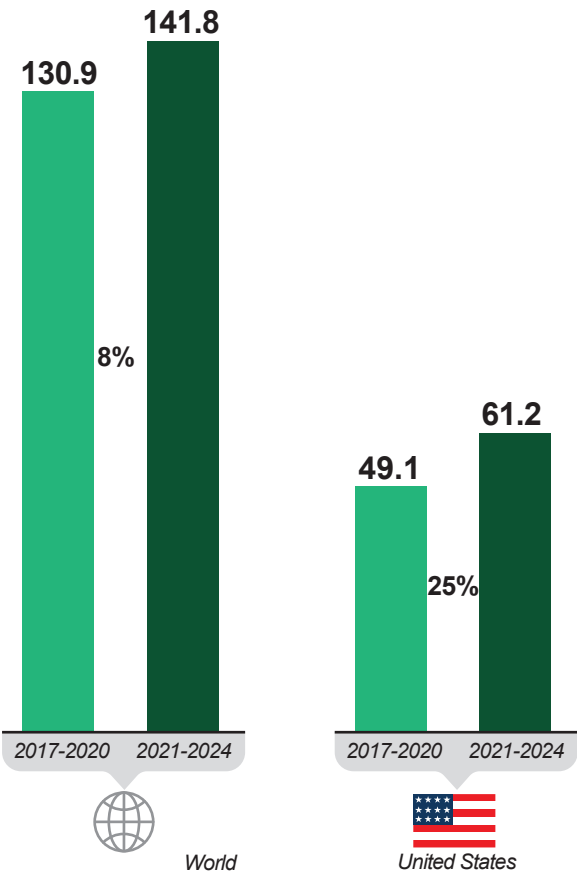
Between 2021 and 2024, foreign direct investment (FDI) from the United States to Mexico grew at a rate three times higher than investment from the rest of the world, with growth rates of 25% and 8%, respectively, compared to the 2017–2020 period.

During this same period, the United States became the main investor in Mexico, contributing \$61.2 billion USD—equivalent to 43% of the total FDI received by the country.

FDI FLOWS

From the world and the United States to Mexico

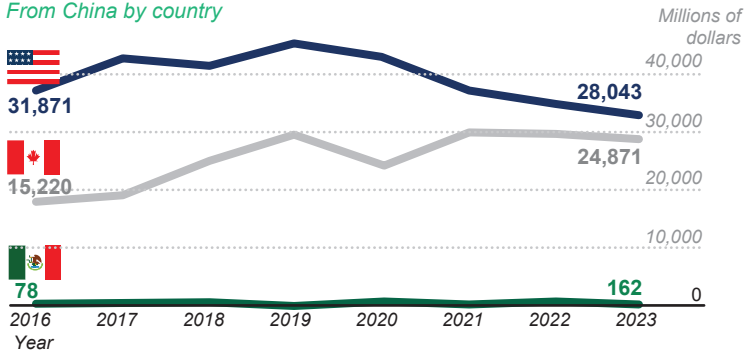
Billions of USD



China has clearly favored the United States and Canada as destinations for its investment in North America. While the U.S. remains the largest recipient in absolute terms, Mexico is the North American country that has received the least investment from China, with \$1.687 billion USD in FDI from 2016 to date.

TOTAL FDI RECEIVED

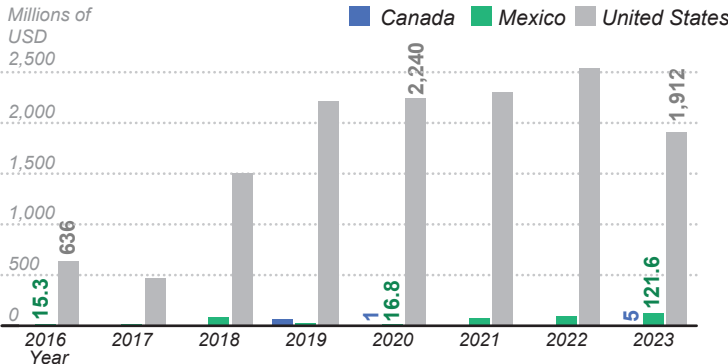
From China by country



The same trend is observed in FDI received in the auto parts sector from China.

AUTO PARTS SECTOR

FDI from China, by country



Currently, only 3.5% of companies in Mexico's auto parts sector are of Chinese origin, with 49 firms operating. In contrast, the U.S. holds 35.4% and Canada 5.6% of total participation, reflecting China's limited presence in Mexico's auto parts industry.

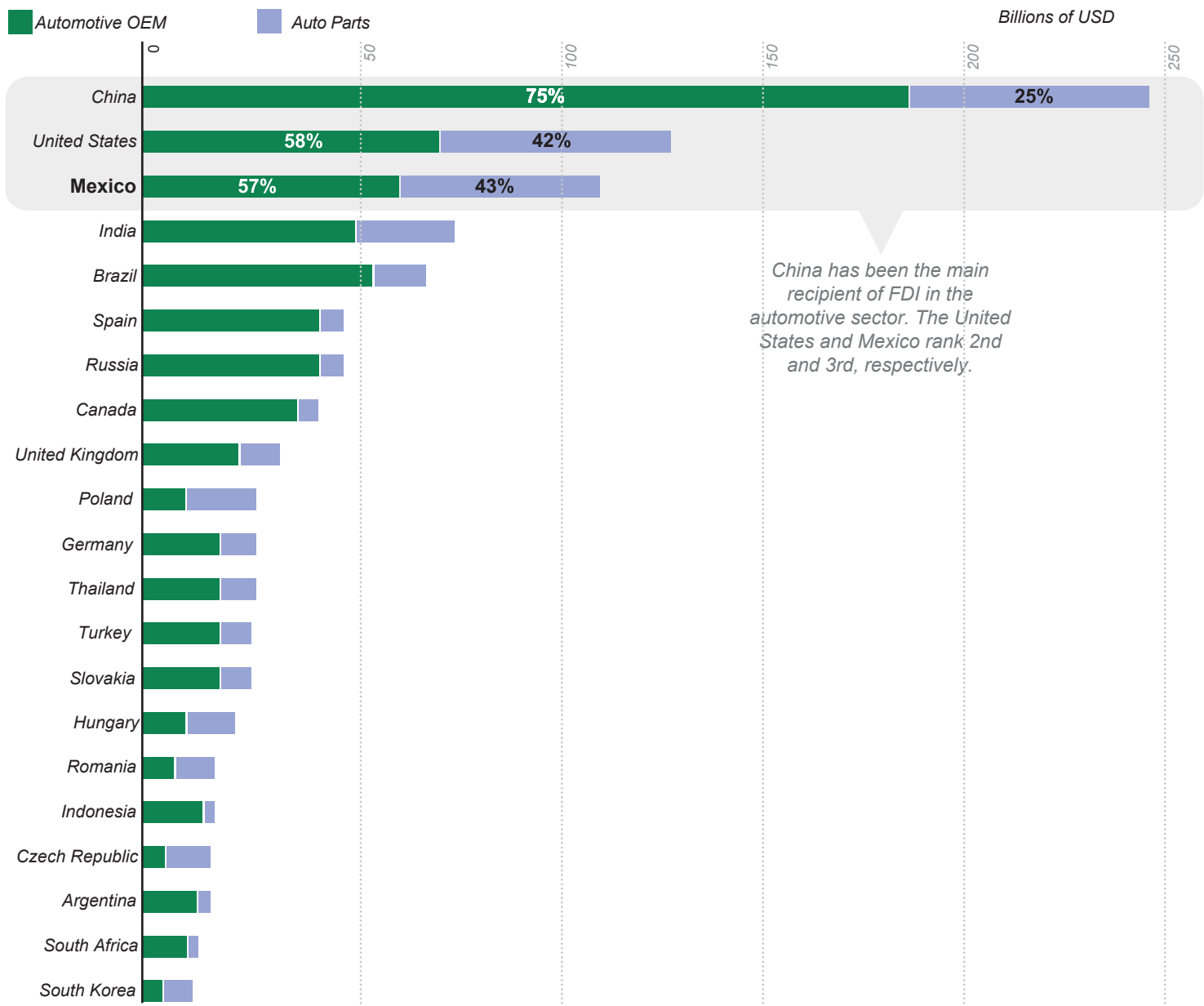
Source: INA based on information furnished by the Secretariat of Economy.

Source: INA based on information furnished by the Secretariat of Economy, Statistics Canada, and the U.S. Census Bureau.



Total FDI:
Mexico ranks third worldwide in automotive sector investment.

Data includes IED Markets groups: Automotive OEMs and auto parts components.



Source: INA based on information furnished by the OECD, calculations based on the FDI Index by the Financial Times.

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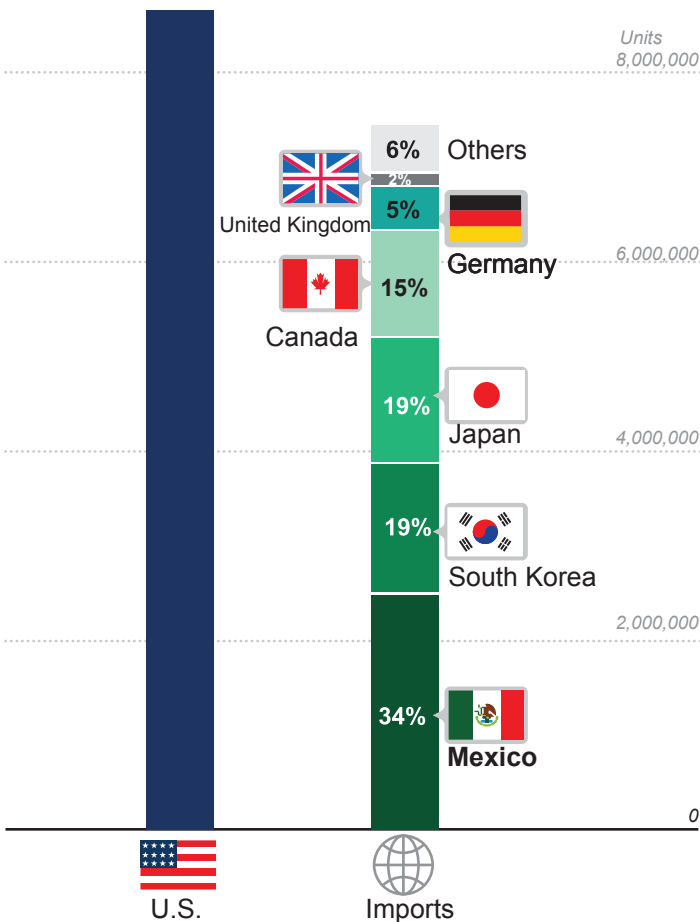
TARIFFS: DRIVERS OF PRICE INCREASES AND VEHICLE INFLATION IN THE USA



In 2024, over 16 million vehicles were sold in the U.S.; 54% of them were manufactured locally, while the remaining 46% came from abroad and could be subject to new tariffs.

LIGHT VEHICLES

Of the more than 15 million light vehicles sold in the United States in 2024, just over half were manufactured domestically. The rest were imported and may be subject to a 25% tariff starting April 3.



Tariffs can directly impact the buyer's wallet. For example, a 25% tariff on a vehicle could raise its price by up to \$3,000.

In the case of a pickup truck, the price could rise by as much as \$20,000 due to tariffs on steel, aluminum, and other key inputs.

THE ECONOMICS OF TARIFFS SHOWS DIVERGENT IMPACTS ACROSS DIFFERENT MARKET SEGMENTS

	Vehicle Cost	Price Variation	Most Affected Models
COMPACT CARS	Before 26,800	↑ 12.3%	Honda Civic VW Jetta
	After 30,100		
MID-SIZE SUV	Before 43,700	↑ 9.6%	Toyota RAV4 Ford Bronco Sport
	After 47,900		
FULL-SIZE SUV	Before 62,300	↑ 5.8%	GMC Sierra HD RAM 1500
	After 65,900		
LUXURY VEHICLES	Before 68,500	↑ 3.9%	BMW X3* Mercedes GLE*
	After 71,200		
ELECTRIC CARS	Before 55,273	↑ 11.1%	Ford Mustang Mach E Tesla Model 3*
	After 61,400		

Tariffs could have a direct effect on the price of nearly half of the vehicles sold in the country, especially impacting consumers who purchase popular models produced in North America.

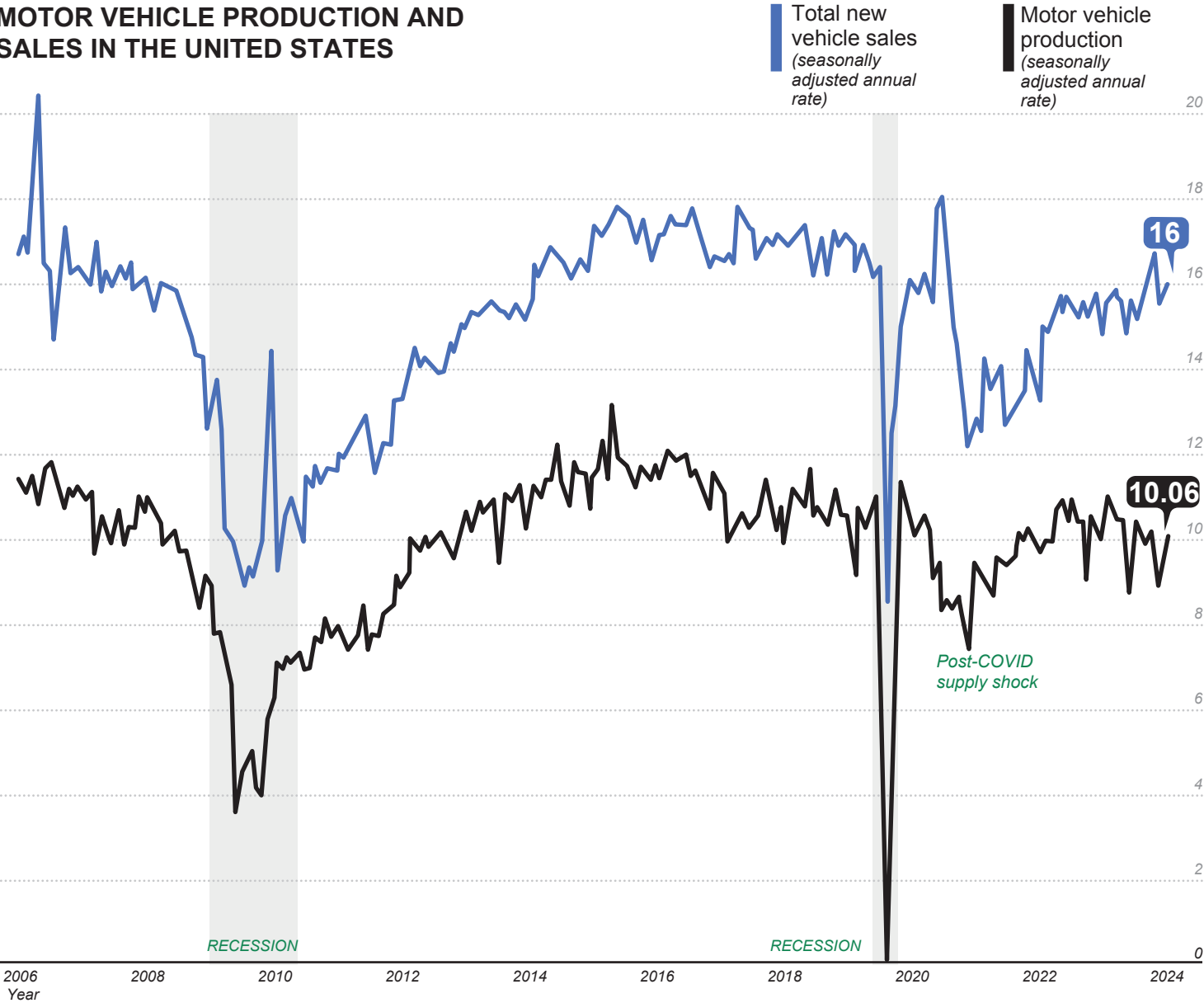
Source: INA based on information furnished by S&P Global Mobility, 2025.

Source: INA based on information furnished by Cox Automotive, JD Power, 2025.
 * Domestic, with parts manufactured abroad.



The limited domestic production capacity, combined with steady demand, could worsen the supply-demand imbalance and intensify inflationary pressures in the U.S. automotive market—potentially leading to a scenario similar to the 2008 crisis or the COVID pandemic.

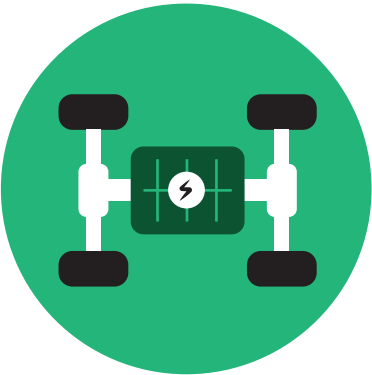
MOTOR VEHICLE PRODUCTION AND SALES IN THE UNITED STATES



Source: INA based on information furnished by the Federal Reserve, U.S. Department of Commerce, 2025.

6

CHINA LEADS BATTERY CELL PRODUCTION, ESSENTIAL FOR ELECTRIC VEHICLES



Batteries are no longer just another component; they are profoundly transforming how automobiles are manufactured, accounting for nearly 40% of a vehicle's total cost. **MASTERING THE TECHNOLOGICAL CHALLENGES ASSOCIATED WITH BATTERIES FOR ELECTRIC VEHICLES HAS BECOME ESSENTIAL FOR THE AUTOMOTIVE AND AUTO PARTS INDUSTRY.** The challenges are not limited to production—they also involve the use of new and scarce materials, as well as complex processes that were not previously part of the automotive sector.



In 2022, China accounted for 77% of the world's battery cell production capacity (893 GWh), far surpassing Poland and the U.S., which each reached only 6%. This dominance is not just in numbers: China is home to six of the top ten battery manufacturers and controls the entire supply chain—from metal extraction to electric vehicle production.

TOP 10

Production capacity

2022			2027		
1		893 GWH	1		6,197 GWH
	China				
2		73 GWH	2		908 GWH
	Poland				
3		70 GWH	3		503 GWH
	United States				
4		38 GWH	4		194 GWH
	Hungary				
5		31 GWH	5		135 GWH
	Germany				
6		16 GWH	6		112 GWH
	Sweden				
7		15 GWH	7		106 GWH
	South Korea				
8		12 GWH	8		98 GWH
	Japan				
9		6 GWH	9		89 GWH
	France				
10		3 GWH	10		80 GWH
	India				
				Mexico	

Although these countries rank among the top battery producers, a significant portion of that capacity is in the hands of Chinese companies. The global expansion of manufacturers such as CATL and BYD has resulted in a situation where, even outside of China, much of the production is controlled by Chinese capital—further reinforcing China's dominance in the global supply chain.

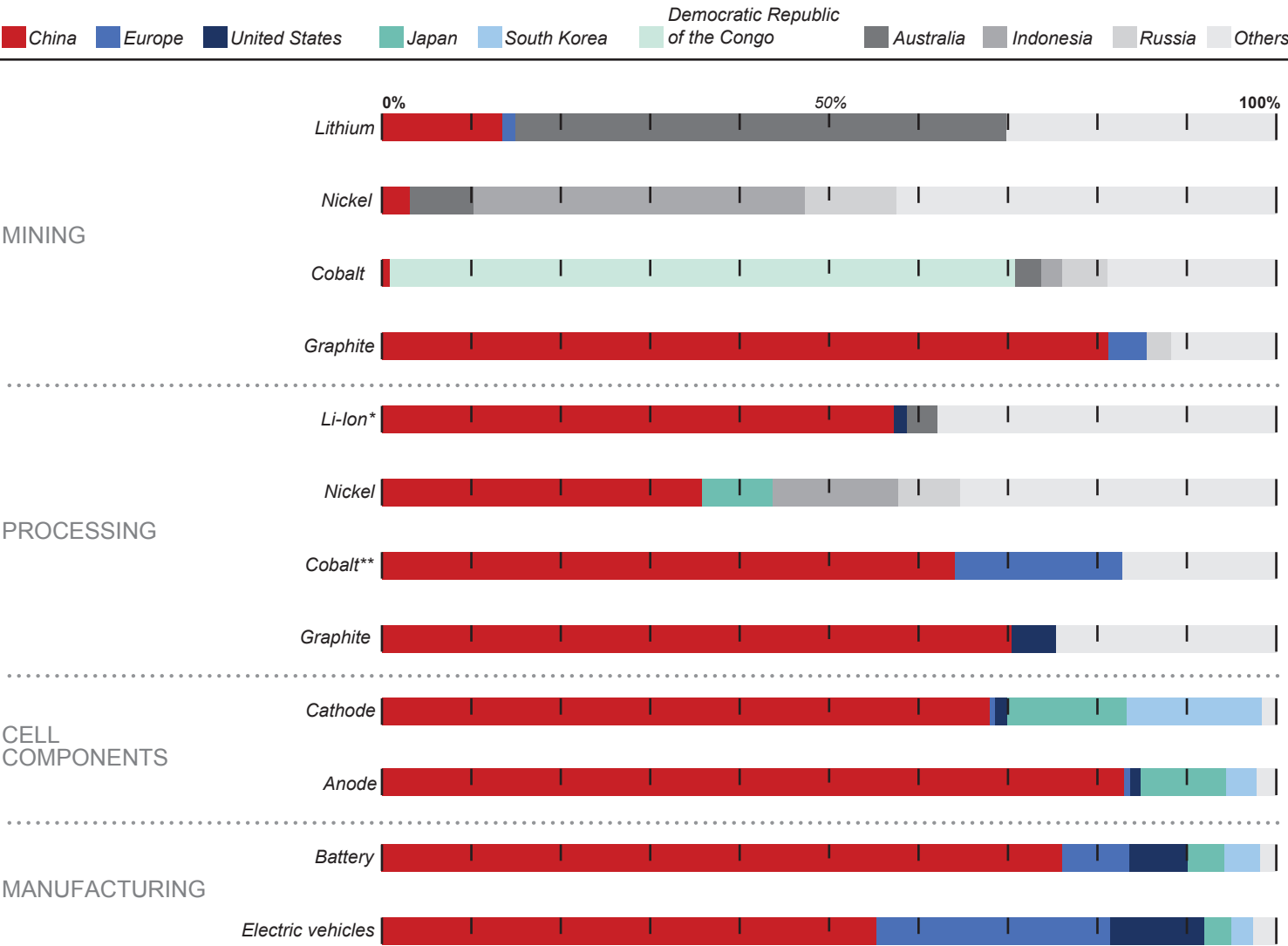
Source: INA based on information furnished by VC Elements, 2023.



By 2027, global lithium-ion battery production capacity is projected to increase eightfold over the coming years, with China maintaining its position as the leader, accounting for 69% of global capacity in 2027.

However, the United States is on track to increase its capacity more than tenfold. According to various analyses, both the U.S. and Europe would each need to invest over \$80 billion dollars to establish fully localized supply chains if they aim to begin production by 2030.

BATTERY VALUE CHAIN
Geographic distribution of value added.



Source: INA based on information furnished by the International Energy Agency and Deloitte, 2023.

* The term lithium, when used in batteries, refers to lithium-ion batteries, also known as Li-Ion batteries.
** It is documented that many companies operating in Africa depend on Chinese investment.

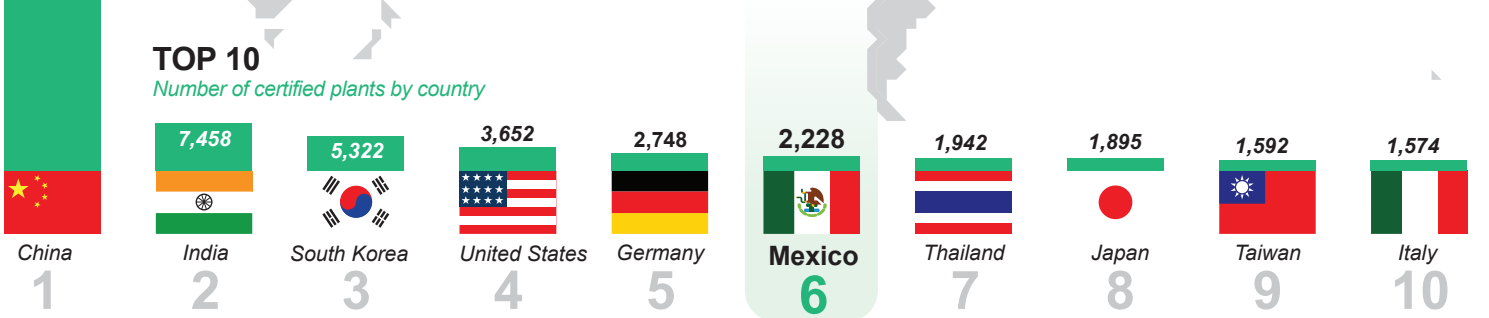
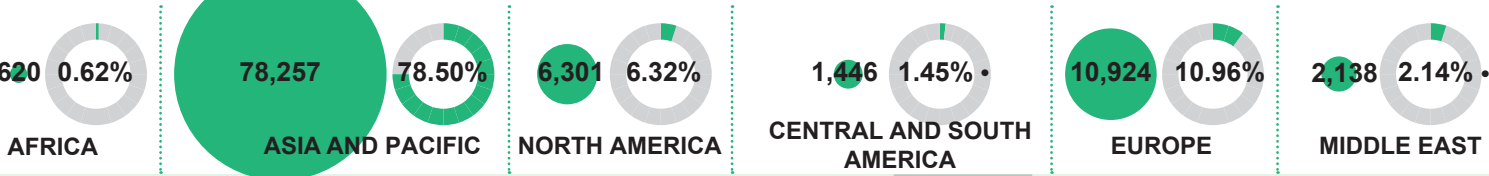
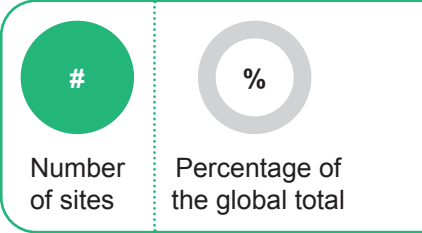
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THE CHALLENGE OF REINDUSTRIALIZATION IN THE UNITED STATES OF AMERICA



NUMBER OF IATF CERTIFIED PLANTS

IATF certification is an international quality management standard specifically for the automotive industry. Having this certification is essential to be a supplier to global automotive manufacturers. Currently, there are 16,949 certified sites worldwide. Three Asian countries top the list with the highest number of certified plants.



Source: INA based on information furnished by the International Automotive Taskforce, 2025.

CONCLUSION

Trade liberalization and regional integration have been key pillars of shared development in North America. Mexico has played a fundamental role in consolidating a strong, efficient, and resilient automotive value chain. Thanks to its geographic location, skilled workforce, and certified industry, Mexico has become an indispensable partner for the competitiveness of the sector in the United States and Canada. In a global environment where certainty and supply chain continuity are strategic assets, collaboration with Mexico is essential.

COMMITTING TO JOINT SOLUTIONS THAT RECOGNIZE EACH COUNTRY'S COMPLEMENTARY STRENGTHS WILL BE KEY TO KEEPING NORTH AMERICA A COMPETITIVE AND LEADING REGION.

Rather than fragmenting, we must build a shared vision that prioritizes economic growth and the well-being of millions of families who depend on this strategic industry—and, above all, the future of North America in this field.



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