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Chinese Investment in Mexico: Trade Wars, Nearshoring, and Place-Based Policies

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Chinese Investment in Mexico: Trade Wars, Nearshoring, and Place-Based Policies*

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Abstract

This paper investigates the impact of the first Trump administration's (2016-2022) US-China Trade War on the sectoral composition and geographic allocation of Chinese foreign direct investment (FDI) in Mexico. Leveraging a novel dataset of Chinese investment projects (2001-2024) and exploiting product-level variation in US tariff exposure, we implement a difference-in-differences design to identify causal effects. The analysis reveals three key findings. First, Chinese firms responded to increased US tariffs by relocating production to Mexico (i.e., nearshoring), with sectors more exposed to the Trade War (that is, receiving larger tariff hikes) having significantly higher Chinese FDI inflows. Second, these effects emerge with a lag of approximately three to five years following tariff imposition. Third, place-based policies significantly influenced the geography of Chinese investment: Mexico's Zona Libre de la Frontera Norte program altered the relative attractiveness for Chinese FDI of the affected regions compared to others. The findings highlight how global trade disputes interact with place-based policies to shape investment patterns, offering lessons for developing economies seeking to attract nearshoring FDI while balancing employment and regional development objectives.

Keywords: Foreign Direct Investment, Trade War, Nearshoring, Mexico, China, Place-based Policy

JEL Classification: F13, F14, F21, F23, O19, P33

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1. Introduction

The intensification of US–China trade tensions since 2018 has substantially altered patterns of global investment and production. The United States imposed tariffs of up to 25 percent on roughly $250 billion of Chinese imports, creating powerful incentives for Chinese firms to shift production toward third countries with preferential access to US markets. These elevated tariff levels have remained in effect through 2019–2024, sustaining their influence on cross-border investment flows and the reorganization of global supply chains.

This paper investigates the impact of the first Trump administration's (2016-2022) US-China Trade War on the sectoral composition and allocation of Chinese foreign direct investment (FDI) in Mexico. Mexico, with its geographic proximity to the United States and membership in the USMCA trade agreement, emerged as a prime destination for nearshoring. We focus on two complementary dimensions of this investment: the sectoral reallocation of investment toward products most affected by US tariffs, and the spatial distribution of these investments across Mexican states in response to domestic policy interventions. While these interventions were undertaken at the federal level, we leverage the fact that they had differential impact in different subnational jurisdictions.

Building on insights from multiple strands of scholarship, we advance three hypotheses. First, drawing on the literature on firms' location decisions (Helpman, Melitz, and Yeaple 2004; Tintelnot 2017), we hypothesize that Chinese firms increased their export-platform FDI in Mexico to retain access to the US market while limiting the effect of trade barriers. Specifically, we expect Chinese firms to increase their investments in Mexico following the US-China Trade War, with larger increases in products more exposed to the increases in US tariffs to Chinese goods (Hypothesis 1: Nearshoring). Second, given the complexity of FDI decisions and policy uncertainty during the first Trump administration, we expect investment responses to emerge with significant temporal lags, materializing primarily after policy permanence became clear under the Biden administration (Hypothesis 2: Delayed Response Pattern). Third, considering the role of labor-cost differentials for multinational location decisions (Konings and Murphy 2006; Muendler and Becker 2010), we expect that Chinese investments will avoid Mexican regions where domestic policy changes raised labor costs, even when combined with tax reductions (Hypothesis 3: Spatial Selectivity).

We test these hypotheses using a difference-in-differences research design that exploits product-level variation in US tariffs imposed during the Trade War, in combination with a novel dataset of Chinese investment projects in Mexico spanning the period 2001–2024. Mexico is a particularly strong case for testing our hypotheses because it combines structural, institutional, and policy conditions that closely align with the mechanisms we seek to evaluate. Its geographic proximity to the United States and preferential access to its market under the USMCA make it one of the main beneficiaries of trade diversion effects stemming from the US–China Trade War, creating strong incentives for firms to relocate production. At the same time, Mexico's federal structure produces meaningful subnational heterogeneity in tax regimes, labor regulations, and investment promotion strategies, offering an ideal setting to observe how global shocks interact with domestic institutional diversity. Finally, the introduction of territorially targeted policies, such as the Zona Libre de la Frontera Norte, provides a quasi-experimental environment to assess how place-based incentives condition the spatial distribution of foreign direct investment. These features make Mexico uniquely suited for empirically testing our propositions.

Our empirical analysis yields three key findings. First, products facing larger US tariffs experienced significantly larger increases in Chinese FDI flows, with a one percentage-point increase in US tariffs leading to approximately 6.7 and 8.2-8.9 percent higher Chinese investment amounts at the project and industry level, respectively. Second, these effects operated through both extensive and intensive margins—increases in both the number of investment projects and average amounts invested—with effects materializing three to five years after initial tariff implementation. Third, while most Chinese investments concentrated in US-border states, Mexico's Zona Libre de la Frontera Norte (ZLFN) program actually reduced Chinese investment inflows, as substantial minimum wage increases outweighed value-added and income taxes reductions for export-oriented manufacturers. These findings offer robust empirical support for the nearshoring hypothesis while illuminating how domestic policy choices shape the distribution of benefits from trade-induced investment diversion.

Our results contribute to three bodies of literature: trade war effects on global production networks, the determinants of export-platform FDI location decisions, and the role of place-based policies on the geography of foreign direct investments. The temporal patterns we document have important implications for understanding investment responses to trade policy uncertainty. Our findings illustrate that while trade policy changes can shift investment flows to third countries, certain place-based policies may inadvertently alter the attractiveness of regions to export-oriented investments. These contrasting outcomes provide valuable lessons for host countries designing policies to effectively capture benefits from global production reorganization and recent geopolitical tensions.

The remainder of the paper is organized as follows. The next section places our paper in the literature and describes the theoretical framework behind our empirical work. Section 3 introduces our data and shows the recent evolution of Chinese investment in Mexico at the national and subnational levels. Section 4 describes the empirical strategy and the results using variation in product-level tariffs during the US-China Trade War. Section 5 presents our results for the ZLFN program. Section 6 discusses the policy implications of our work and concludes.

2. Theoretical Framework

2.1. Trade Wars and Nearshoring

The relationship between trade policy and FDI has long been central to international economics research. Classic theories suggest that when trade barriers increase between two countries, firms may respond by establishing foreign production facilities to serve markets that become inaccessible through exports (Helpman, Melitz, and Yeaple 2004). This "tariff-jumping" motive for FDI provides the theoretical foundation for understanding investment diversion during trade disputes. In many cases, such diversion takes the form of export platform FDI, where firms invest in a third country not to serve its domestic market, but to use it as a base for exporting to other destinations (Tintelnot 2017) –a strategy that can also reflect nearshoring when the destination country is geographically proximate to final consumers.[1] Building on this framework, Chinese firms facing higher US tariffs have incentives to establish Mexican operations that can serve the US market while avoiding the negative effects of tariffs (Huang et al. 2023; Jiao et al. 2024) and reducing policy uncertainty (Benguria et al. 2022).[2] We expect the magnitude of this incentive to vary by tariff intensity, creating testable predictions about sectoral investment patterns.

More broadly, the concept of nearshoring—the relocation of production activities to countries that are geographically proximate to final markets—has gained prominence as firms seek to reduce supply chain risks, improve responsiveness to demand fluctuations, and navigate geopolitical changes. These trends have been accelerated by the COVID-19 pandemic and subsequent supply chain disruptions, with many firms reassessing the costs and benefits of geographically dispersed production networks. Recent research has documented various drivers of nearshoring decisions, including rising labor costs in traditional manufacturing centers, increased transportation costs, and growing concerns about supply chain resilience (Gereffi 2014, 2025). In practice, nearshoring often leads to export platform FDI, particularly when a proximate country like Mexico offers favorable trade access to key markets.

[1] To see how free trade agreements such as the USMCA can affect the attractiveness of a member country like Mexico as a location of FDI from source countries outside the free trade area, see Levy Yeyati, Stein and Daude (2003).

[2] Relatedly, Vortherms and Zhang (2024) document larger exit rates for US firms in China in industries more exposed to the Trade War.

Changes in tariffs can also lead to a shift in trade patterns in third markets, something that has been documented in the context of the first Trump administration's US-China Trade War. For instance, Fajgelbaum and Khandelwal (2022), Fajgelbaum et al. (2024), and Freund et al. (2024) demonstrate significant trade diversion effects, with US imports shifting toward countries like Mexico and Vietnam after the imposition of tariffs to Chinese goods. However, the investment dimension of this reallocation has received less attention, particularly at the subnational level where policy variation can shape the geography of foreign investments.[3]

Drawing in this body of literature, our first hypothesis is that Chinese firms strategically increased their foreign direct investment in Mexico following the US-China Trade War, with larger increases in sectors facing higher US tariffs (Hypothesis 1: Nearshoring).[4]

2.2. Temporal Dynamics of FDI

Another important dimension of the analysis concerns the temporal dynamics of investment responses to policy changes and uncertainty. The permanence of US tariffs remained unclear during the first Trump administration, creating uncertainty about whether trade measures would persist beyond the 2020 presidential election. The Biden administration's decision in January 2021 to maintain Trump-era trade policy toward Chinese goods provided crucial signal about policy permanence, reducing uncertainty for potential investors.

Economic theory suggests that investment decisions by firms are highly sensitive to uncertainty because of their sunk costs and irreversibility (Dixit & Pindyck 1994; Caballero, Engel, & Haltiwanger 1995). FDI projects, in particular, involve lengthy processes of site selection, regulatory approvals, contract negotiations, and supply-chain reorganization, often requiring several years to materialize, which can reduce the responsiveness of investors to demand shocks, including changes in trade policy (Bloom et al. 2007). Political cycles amplify this timing: firms frequently delay commitments during periods of political

[3] In a related paper, Schulze and Xin (2025) show that the US-China Trade War led to increased Chinese FDI in Vietnam. In addition to our focus on Mexico, our paper is distinct to them in two important dimensions: First, our empirical work leverages variation in tariffs at the product level and, therefore, we identify effects by comparing products not countries, which improves the internal validity of our estimates. Second, we also leverage geographic variation, in particular, the implementation of the ZLFN, to study the role of place-based policies in shaping the spatial distribution of Chinese FDI.

[4] Historical precedent supports Mexico's role as a nearshoring destination. Paus and Gallagher (2008) document how foreign investors have previously used Mexico as a manufacturing platform, something that partially changed after China's entry into the WTO (Gallagher, Moreno-Brid, and Porzecanski 2008). An important example of these dynamics can be seen in the automotive sector, including more recently in electric vehicles (Cross and Ebner 2020, Martinez and Terrazas-Santamaria 2024).

uncertainty, such as during the 2020 US presidential election, preferring to wait until policy trajectories are clearer (Gulen & Ion 2016).

These factors help explain why investment responses to the US-China Trade War were unlikely to be immediate. Instead, we expect the most pronounced increases in Chinese FDI to Mexico to appear a few years after the initial tariff changes, once policy continuity became evident and adjustments were completed. Evidence from other contexts, such as the delay in the adjustments made by European firms after the 2018-2019 trade tensions and the supply-chain disruptions during the COVID-19 pandemic supports this interpretation (EIB 2025).

Our second hypothesis then addresses these temporal dynamics: Given the complexity of FDI decisions, policy uncertainty about tariff permanence following the first Trump administration, and typical investment lumpiness, Chinese FDI responses should exhibit delayed effects, with the strongest investment flows materializing after president Biden´s inauguration. (Hypothesis 2: Delayed Response Pattern).

2.3. Subnational Policy Variation and FDI Location

A growing body of research examines how subnational policy variation influences FDI location decisions within countries (Samford & Gomez 2014; Garriga 2022, Giraudy et. al 2024). This literature builds on the insight that multinational corporations face location choices not just across countries, but also among regions within countries that may offer different policy incentives, factor costs, and institutional environments.

For instance, Garriga's (2022) analysis of partisan effects on FDI across Mexican states provides important evidence that subnational political characteristics, such as left-leaning state governments, significantly influence foreign investment patterns. Similarly, recent work by Giraudy, Urdinez, and Freites (2024) shows that multilevel partisan alignment between national and subnational governments affects Chinese extractive investments in Latin America, revealing the importance of political coordination across government levels.

Federal systems are generally more likely than unitary systems to exhibit regional variation in policy incentives, factor costs, and institutional environments relevant to investors. This variation stems from the considerable autonomy that subnational governments often wield over key areas such as economic development policy, taxation, and labor regulation (Samford 2022). In addition to this decentralized policymaking authority, national governments in federal countries may also implement territorially targeted policies that affect specific regions (i.e., place-based policies). Together, these dynamics generate substantial interregional heterogeneity, offering foreign investors the opportunity to direct FDI in subnational units where incentives are maximized.

Drawing on this literature, we examine the impact of place-based policies on the spatial distribution of Chinese investment. Our analysis focuses on a specific place-based policy, Mexico's ZLFN program, a regional development initiative launched in January 2019, during the López Obrador administration (2018-2024). The ZLFN was implemented in 43 municipalities along the US-Mexico border and combined three core policy instruments that exerted divergent effects on production costs. Specifically, the program reduced the value-added tax (VAT) from 16% to 8% and lowered the corporate income tax (ISR) from 30% to 20%. However, the ISR reduction was not automatic; it required firms—particularly new entrants—to apply for and obtain approval from the Ministry of Finance (*Hacienda*). At the same time, the program mandated significant increases in the minimum wage, substantially reshaping the labor cost structure for manufacturing firms. Together, these measures created a complex policy environment with both incentives and disincentives for investment, offering a valuable setting for analyzing how targeted fiscal and labor policies influence the locational choices of foreign investors, including those from China.

The minimum wage component represents the most dramatic policy change in the ZLFN program. When initially implemented in 2019, the border minimum wage was set at 176 Mexican pesos per day compared to 88 pesos in the rest of Mexico. The minimum wage had been uniform across the country at 80 pesos per day in 2018. However, the most significant changes occurred subsequently: by 2024, the border minimum wage reached 420 pesos per day compared to 278 pesos in the rest of the country, creating a 51% premium. The 425% increase in minimum wage for the border municipalities between 2018 and 2024 contrasts with a rate of inflation of just 33.9% for the same period, resulting in very significant increases in the minimum wage in real terms. These substantially higher wages, justified by the higher costs of living in border municipalities, created a significant cost disadvantage for labor-intensive manufacturing operations.

The geographic coverage of the ZLFN creates important variation even within border states (Calderón et al. 2023). Major industrial cities like Tijuana, in Baja California, and Ciudad Juárez, in Chihuahua, are included in the ZLFN, while other significant manufacturing centers like Monterrey in Nuevo León and Saltillo in Coahuila are located in border states but outside the ZLFN municipalities. This geographic variation is crucial for understanding nearshoring location decisions: firms seeking proximity to the US market for logistical advantages might strategically locate in non-ZLFN municipalities within border states to capture transportation benefits while avoiding higher labor costs.

Even though the theoretical prediction for the ZLFN's effect on Chinese investment is ambiguous, we conjecture this policy reduced export-oriented foreign investments. This prediction emerges from the asymmetric impact of the policy components on different types of firms. The tax benefits primarily favor domestic-market oriented firms since VAT reductions are irrelevant for exporters, who do not pay VAT on exports and typically do not pay VAT on inputs due to other programs (for example, the IMMEX). While the ISR reduction provides some benefit to firms, this advantage must be weighed against substantially higher labor costs that affect all operations regardless of market orientation, but that have been shown are of particular importance for multinational in emerging economies (Konings and Murphy 2006; Muendler and Becker 2010). For Chinese firms pursuing nearshoring strategies, the cost-benefit calculus is particularly unfavorable. Since these firms are primarily interested in Mexico as an export platform to serve the US market, the VAT reduction is mostly irrelevant. Similarly, there was uncertainty about the income tax's permanence. In contrast, the minimum wage increases represent substantial cost increases for labor-intensive manufacturing operations, particularly as wage levels escalated through 2024 making the minimum wage binding.

Thus, our third hypothesis concerns the geographic and sectoral distribution of investment flows: Chinese firms strategically concentrated their nearshoring investments to avoid Mexican border municipalities where the ZLFN program's minimum wage increases outweighed tax reduction benefits for export-oriented manufacturers (Hypothesis 3: Spatial Selectivity).

3. Data for Analysis and Stylized Facts

3.1. Data

We developed a novel dataset tracking Chinese foreign direct investment patterns in Mexico from 2001 to 2024. This comprehensive database adopts the OECD definition of FDI, which assumes a long-term relationship between the direct investor and the investment enterprise, requiring at least 10 percent ownership to establish "a significant degree of influence" over enterprise management.

The dataset followed a rigorous data collection methodology that involved analyzing each project using primary and secondary sources to confirm the amount, purpose, location (including geo-coordinates), and local partners for each investment (Urdinez & Myers 2025). To be confirmed, each project had to go through a double-blind review process among project assistants, who verified location, amount, date, and investors, where the information was triangulated with other databases such as Mergr, FdiMarkets, Dussel Peters (2025) and China Global Investment Tracker (Scissors 2011) as well as qualitative data from magazines and newspapers specialized in economic news in Mexico.

The compilation process concluded with an extensive peer-review involving country partners and other experts to ensure accuracy and completeness. The construction of a database on Chinese investments in Mexico proved tremendously difficult because many

Chinese companies create subsidiaries with fictitious names to pass as domestic investments or investments from other countries. We are confident that the investments we have identified are Chinese, but there is a risk of underreporting due to this reason.

The dataset includes greenfield investments, mergers and acquisitions, and joint ventures, focusing exclusively on operationalized projects to ensure methodological rigor and data reliability. While announced projects without secured financing could provide insights into investment intentions, their inclusion would risk overstating actual Chinese economic presence (Scissors, 2024). Our approach prioritizes confirmed capital flows, though we acknowledge that analyzing project announcements versus materialization rates could offer valuable perspectives on sectoral patterns related to trade tensions (Kratz et al., 2020).

Our dataset's total of $21.3 billion across 194 projects converges remarkably with other rigorous academic sources, particularly the Monitor of Chinese OFDI in Latin America and the Caribbean (Dussel Peters, 2024), which reports $22.47 billion for Mexico during 2000-2023 with 166 transactions. This convergence validates our methodological approach and demonstrates consistency with the most comprehensive alternative academic database tracking Chinese investment in the region.

Our figures diverge dramatically from official statistics: Mexico's Secretaría de Economía reports only $2.96 billion in accumulated Chinese FDI since 1999 (SE, 2024), while China's Statistical Bulletin of Outward FDI documents merely $1.3 billion in stock accumulated through 2021 (MOFCOM, 2022). The spatial distribution of Chinese FDI also varies across sources: data from the Secretaría de Economía identify Mexico City as the principal destination of historic Chinese investment (34.9 percent of the total), whereas our dataset points instead to Nuevo León (27.4 percent). These discrepancies reflect fundamental methodological limitations in official statistics rather than data accuracy issues, as official systems register only the immediate origin of capital flows, not the ultimate beneficial owner.

To illustrate this phenomenon with a concrete example: China Communications Construction Company (CCCC), a Chinese state-owned enterprise, acquired 30% of Portuguese construction firm Mota-Engil in 2020, subsequently winning a $700 million contract for Mexico's Tren Maya infrastructure project through Mota-Engil Latin America B.V., registered in the Netherlands (Youkee 2020; Forvis Mazars 2013). In official statistics, this appears as European investment, while our methodology correctly identifies it as Chinese-controlled capital. Similarly, Hisense's $260 million manufacturing facility in Rosarito entered through a complex corporate structure involving Hong Kong entities, diluting its Chinese origin in official statistics (El Ceo, 2023). These examples highlight the systematic triangulation of Chinese investments through third countries that official statistics fail to capture (ECLAC, 2025).

The methodological superiority of academic tracking systems like ours lies in identifying investments by their operational reality rather than legal financial structure. While official statistics follow IMF Balance of Payments standards that record the immediate investor nationality (IMF, 2022), our methodology tracks the ultimate beneficial owner and final operational destination, consistent with OECD recommendations for excluding Special Purpose Entities (OECD, 2023). This distinction is crucial for Chinese investments, where between 50-90% of global flows are channeled through offshore financial centers before reaching their operational destinations (Scissors, 2024; Rhodium Group, 2023).

We can further illustrate this methodological distinction with prominent cases from our database: First, Hofusan Industrial Park (Nuevo León): While officially registered through a Singaporean entity, this $250 million development is operationally a joint venture between China's Holley Group and Mexico's Fusan Investment (Prodensa, 2024). Second, Giant Motors Latinoamérica (Hidalgo), structured as 50% financed by Mexico's Grupo Inbursa with the remaining investment coming through a Cayman Islands structure controlled by China's FAW Group, this arrangement allows production of Chinese JAC vehicles in Mexico without appearing as Chinese investment in official records (El Universal, 2021). Third, CNOOC in petroleum exploration: Operating through two Netherlands-registered companies (CNOOC Netherlands B.V.), this Chinese state-owned enterprise maintained over 7 billion pesos in Mexican bank accounts while exploring Gulf of Mexico fields, yet appeared in official statistics as Dutch investment (Damgaard et al 2024; Forvis Mazars 2013).

The 2024 BBVA-AMPIP Industrial Parks Survey provides compelling field validation of our approach: it documents 34 new Chinese companies physically establishing operations in Mexican industrial parks during 2023 alone, with projected capital requirements of $510-1,020 million based on typical manufacturing project scales (BBVA Research & AMPIP, 2024). This operational evidence far exceeds the $232 million officially reported by China for all of 2021, confirming that our methodology captures the economic reality that official statistics fragment across multiple jurisdictions due to complex corporate structures.

Importantly, our dataset also includes detailed information on the municipality and main product (8-digit HS code) for each project, enabling precise analysis of both geographic and sectoral patterns. For instance, we can track Minth's strategic expansion across Mexico's automotive corridor: their 2010 investment established a factory in Aguascalientes municipality producing vehicle body parts and accessories (HS code

87082999), while their 2017 investment created an aluminum plant in the same municipality focusing on aluminum automotive components (HS code 76169999).

Similarly, Minghua de México's 2016 investment demonstrates the precision of our municipal-level tracking: the company established a plastics manufacturing plant specifically in Villa de Reyes municipality, San Luis Potosí, producing precision plastic components for automotive applications (HS code 39173999). This granular data—capturing both the exact municipality and the 8-digit HS classification—enables us to map precise industrial clusters and identify how Chinese firms are positioning themselves within specific segments of Mexico's automotive supply chain, rather than simply noting broad sectoral categories like 'manufacturing' or state-level locations.

3.2. Stylized Facts

As seen in Figure 1, the temporal distribution of Chinese FDI in our data reveals a clear acceleration of investments during and after the US-China Trade War period,[5] with the most dramatic surge occurring in 2023-2024 when 64 projects (33% of all Chinese investments) were implemented, representing $6.3 billion in investment value. This delayed response pattern supports our prediction about temporal lags in investment decisions. Projects classified as potentially benefiting from nearshoring increased dramatically from 15% in the pre-2018 period to 84% in 2018-2024, with 100 such projects representing $11.3 billion or 53% of total investment (see Figure 2, panel (a)).[6] We also find that most of the increase in Chinese investments during the end of our study period took place in municipalities outside the ZLFN region (see Figure 2, panel (b)).

Figure 3 illustrates the geographic concentration of Chinese investments, revealing strategic location decisions that align with proximity to US markets. The northern Mexican states of Baja California, Chihuahua, Coahuila, and Nuevo León concentrate 38% of Chinese projects, with Nuevo León leading with 34 total projects representing $5.8 billion in investment, followed by Coahuila with 21 projects worth $1.9 billion. This northern concentration becomes even more pronounced in the post-2018 period, with 67% of investment flowing to northern states compared to 45% in the pre-trade war period (see Figure 4).

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[5] The spike in investments in 2020 shown in Figure 1 is largely explained by three large investment projects: Lizhong ($2.6 billion), China Communications Construction ($655 million), and Huawei ($500 million). To ensure that our empirical results from the next sections are not disproportionately influenced by outliers, we conduct analyses at both the extensive and intensive margins of investment, as well as specifications using the inverse hyperbolic sine investments. Our findings remain robust in each of these approaches, indicating that the results are not driven by very large projects.

[6] We classify as nearshoring those projects whose main product was targeted by the increase in US tariffs to Chinese goods between 2018 and 2019.

4. Trade War and Chinese Investments

In this section, we study the effect of the first Trump administration's US-China Trade War on investments by Chinese firms in Mexico. Specifically, we leverage plausibly exogenous variation in the US tariffs on imports from China to estimate the changes in Chinese investments in products differentially exposed to the trade dispute, which allows us to test Hypotheses 1 and 2 outlined above. To preview our findings, the Trade War led to an increase in Chinese FDI inflows into Mexico toward the end of our study period, particularly in products that experienced the largest tariff hikes. These effects take place at both the extensive and intensive margin of investments, that is, in both the number of investments and the amount invested.

4.1 Empirical Strategy

Using project-level data (i.e., unique investment instances), we start by estimating the following difference-in-differences (DID) specification:

$$y_{ijt} = \beta\, I(t > 2017)\, \Delta\tau_j + \gamma\, \Delta\tau_j + \alpha_t + \varepsilon_{ijt}, \tag{1}$$

where y_{ijt} is the amount invested (in logs) by firm i producing product j in year t, with j being 8-digit HS codes, $I(\cdot)$ is an indicator function that equals 1 from year 2018 onwards, $\Delta\tau_j$ is the percent change in the US tariffs applied to Chinese imports of product j as a result of the Trade War, α_t are time fixed effects (FE), and ε_{ijt} are the unobservables allowed to be correlated at the 4-digit HS level. We also estimate specifications in which we replace $\Delta\tau_j$ by a dummy equal to one if product j experienced any increase in tariffs during the US-China Trade War. The coefficient of interest is β, which measures how the average change in the Chinese FDI after the Trade War compares between products more or less exposed to the increase in US tariffs. Notice that equation (1) identifies a relative effect (according to differential tariff exposure) and, therefore, we are not able to recover in this regression the aggregate impact on investments of the Trade War (Caliendo & Parro 2024).

As standard in DID designs, there are two underlying assumptions behind specification (1): First, the evolution of the Chinese FDI in products facing differential changes in US tariffs would have been similar in the counterfactual without the Trade War, this is, that there are parallel trends for products irrespective of their Trade War tariff hikes (Angrist & Pischke 2008). In the context of this paper, the previous assumption requires that, on the one hand, changes in US trade policy are not endogenous to Chinese firms' investment decisions in Mexico, this is, that US tariffs to imports from China are not set strategically to limit the reallocation of Chinese FDI to third countries like Mexico and, on the other hand, that investments in industries with different exposures to the Trade War had similar trends before the policy dispute. Second, there are no anticipation effects in the investments (Roth et al. 2023), which in our case implies that Chinese investors were not able to anticipate the timing and impacts of the Trade War or that any anticipatory behavior did not change investment decisions significantly. Even though both assumptions are plausible, we provide suggestive evidence of no pre-trends below.

Given the reallocations of US imports toward countries like Mexico after the US-China Trade War (Utar et al. 2023; Fajgelbaum et al. 2024; Freund et al. 2024), our expectation is that the changes in US tariffs targeting goods from China should have led to a rise in Chinese investments inflows into Mexico in product more exposed to the tariff hikes. The rationale is that higher tariffs on US imports from China make it relatively more profitable for Chinese firms to establish subsidiaries in third countries, like Mexico, to serve directly or indirectly the US market. By doing so, these firms can reduce the negative effects of higher tariffs (Huang et al. 2023; Jiao et al. 2024) and benefit from lower policy uncertainty relative to continued production in China (Benguria et al. 2024), effectively making use of these locations as export platforms (Tintelnot 2017; Flaaen et al. 2020).

To test for pre-trends and dynamic effects, we also estimate an event-study specification with the following form:

$$y_{ijt} = \sum_p \beta_p \, I(t = p) \, \Delta\tau_j + \gamma \, \Delta\tau_j + \alpha_t + \varepsilon_{ijt}, \qquad (2)$$

where p is a set of years (or periods) before and after the Trade War, in particular, we consider four periods before (2013 or earlier, 2014, 2015, and 2016) and six periods after (2018, 2019, 2020, 2021, 2022, and 2023 or later), with the reference period being the year 2017, just before the first increase in US tariffs to imports from China.[7] The rest of the variables were defined above. The coefficient of interest in this case is β_p, which measures how the difference in Chinese FDI between years p and 2017 compares between products with varying exposures to the tariff changes during the Trade War. For periods before the policy change, these coefficients are informative of pre-trends and anticipation effects in Chinese investments in the more exposed products. For periods after the Trade War, these coefficients capture the dynamic effect of the changes in tariffs, which we expect to be important given the lumpiness of investments found in the literature (Caballero, Engel, & Haltiwanger 1995) and the uncertainty and impacts from the COVID-19 pandemic. Since the trade policy changes implemented during the first Trump administration could have

[7] Given the absence of observed Chinese investments in products not affected by the Trade War in 2024, we are unable to estimate separate coefficients for that year. Accordingly, in our project-level empirical analysis (that is, in equations (1) and (2)), we estimate a joint coefficient for the years 2023 and 2024.

been reversed by the subsequent administration, investors may have also faced uncertainty about the tariffs themselves.

As mentioned earlier, equations (1) and (2) are estimated at the project level. That is, each observation is a Chinese FDI project in Mexico, which implies that we are only using information related to the projects that were actually undertaken.[8] Thus, we are not able to capture, for example, why investments happen in some sectors and not in others. To better capture compositional effects, we aggregate the data to the 4-digit HS level (i.e., heading level). Thus, we can run regressions where the unit of observation is the heading-year. This allows us to include observations in which there was no Chinese FDI. We are then able to estimate the following two-way FE specification:

$$Y_{ht} = \beta\, I(t > 2017)\, \Delta\tau_h + \alpha_h + \alpha_t + \varepsilon_{ht}, \tag{3}$$

where Y_{ht} is the outcome of interest (number of projects, total amount invested, etc.) in heading h in year t, $\Delta\tau_h$ is the average change in the tariffs imposed by the US to imports from China during the Trade War for heading h, α_h are heading FE, and the rest of the variables are the same as before. To compute the change in tariffs at the heading level, we use as weights US imports from China within each heading in 2016 and 2017, just before the policy change, with the import and tariff data obtained from Fajgelbaum et al. (2019). The coefficient of interest in this case is β, which measures how the average change in the outcome of interest after the Trade War compares between headings heterogeneously exposed to the increases in US tariffs. As established before, (3) implicitly assumes parallel trends between headings heterogeneously exposed to the Trade War and no anticipation effects.

Using the heading-level data, we also estimate an event-study specification similar to (2) as follows:

$$Y_{ht} = \sum\nolimits_p \beta_p\, I(t = p)\, \Delta\tau_h + \alpha_h + \alpha_t + \varepsilon_{ht}, \tag{4}$$

with β_p being the effect of the change in tariffs resulting from the Trade War between period p and 2017. Given the level of aggregation of the data, we are able to estimate effects for four periods before (2013 or earlier, 2014, 2015, and 2016) and seven periods after the Trade War (i.e., 2018, 2019, 2020, 2021, 2022, 2023, and 2024). In a similar way as our analysis at the project level, we use the coefficients in (4) for periods before the

[8] Note that if the Trade War led to an increase in the number of projects (i.e., affected the extensive margin), this may introduce selection bias in our project-level regressions. In particular, the set of observed projects post-treatment may differ systematically in unobserved characteristics from those that would have occurred in the absence of the Trade War, affecting our inferences at the project level.

Trade War to test for pre-trends and anticipations effects. The coefficients for periods after the policy change in (4) allow us to document dynamic effects.

4.2. Results

4.2.1. Project-level results

We start our empirical analysis estimating equation (1) with project-level data. Table 1 reports estimates for several specifications, each with a more stringent set of controls: column (1) shows the results with only the change in tariffs ($\Delta\tau_j$) and year FE as controls, columns (2) and (3) add industry and region FE, and columns (3) and (4) add linear trends for each industry and region separately. Including FE and linear trends for industries and regions control for systematic differences in the levels and growth of investments along these two dimensions (for example, investments might be larger or growing faster in precision plastic components for the auto industry, compared to other industries). Conservatively, we cluster the standard errors at the four-digit HS level to allow for correlation in the error terms of closely related products (Abadie et al. 2023).

As seen in Table 1, we do not find any average effects of the changes in US tariffs during the Trade War on Chinese FDI in Mexico, with the coefficient of interest being small and statistically insignificant in all cases, a result that is robust to alternative combinations of FE and linear trends. As shown in Appendix Table A1, replacing the actual change in tariffs by a dummy equal to one if the product experienced any change in tariffs during the US-China Trade War yields similar results.

The results in Table 1, however, may obscure how Chinese investment responses to US tariffs varied over time during the post-Trade War period, which is likely given that investment decisions tend to be lumpy and irregular. Specifically, investments may respond slowly to trade policy changes, meaning tariff effects on investor behavior could emerge years after the policy shift. This delayed response is especially important to consider since investors during the first Trump administration may have expected subsequent administrations to reverse the tariff increases.

Figure 5 shows the results of estimating equation (2), in which we allow the effect of US tariffs on Chinese investments to vary flexibly for periods before and after the trade dispute. In this Figure, we report the point estimates for each year with their respective 95% confidence intervals, with the omitted category being the year 2017 (just before the Trade War). We do not find evidence of pre-trends or anticipation effects, with the coefficients for all periods before 2017 being small and statistically insignificant at conventional levels.[9] However, we do find strong and statistically significant effects of the changes in tariffs on Chinese investments in the last period of our analysis (2023 and 2024), which suggests that investments from China took several years to react to the changes in trade policy, something consistent with the initial uncertainty regarding the permanence of the tariffs, the lumpiness of investments, and the slow recovery from the COVID-19 pandemic. In terms of magnitude, we find that a one percentage-point increase in US tariffs to Chinese imports led to increases in the average amount invested by Chinese firms in Mexico of around 6.7 percent, a sizable and economically significant effect suggesting strong reallocation of investments from China toward Mexico in the most exposed industries. The strong and lagged effects of the US tariffs on investments are consistent with our Hypotheses 1 and 2.

Table A2 in the appendix reports the results for different specifications of equation (2). While Figure 5 presents the result of the most stringent specification (including industry and region fixed effects and industry and region linear trends), the results are robust to every one of the specifications in this Table. Again, these results do not change –and perhaps are even strengthened—when the magnitude of tariff hikes are replaced by a dummy capturing whether tariff increased in a certain industry (see Table A3).

4.2.2. Heading-level results

Specifications (1) and (2) estimate the effect of US tariffs on FDI originated in China but, since all observations correspond to actual investments, we can only look at the intensive margin (what explains the amount invested per project) but not the extensive margin (what explains where there is an investment). To study the joint effect on the number of projects and the amount invested, i.e., the extensive and intensive margins of investments, we estimate equation (3) using data at the four-digit HS (heading) level. The results can be found in Table 2. In particular, we show the estimates for four dependent variables: A dummy if there was at least one Chinese investment project in that heading-year in column (1), the actual number of projects in column (2), and the amount invested in both levels (millions of US dollars) and transformed with the inverse hyperbolic sine (i.h.s.) function in columns (3) and (4), respectively. To deal with the zeros in the investment projects, the results in column (3) use the Poison Pseudo Maximum Likelihood (PPML) estimator proposed by Silva & Tenreyro (2006), a commonly used method in the Trade and FDI literatures. The estimates in column (4) follow the suggestions in Bellemare & Wichman (2020) and use the inverse hyperbolic sine (i.h.s.) tranformation of the

[9] While the coefficient for 2014 is indeed large, it is imprecisely estimated, as the number of projects in these early years were small.

investments.[10] All specifications control for year and heading FE. We cluster the standard errors at the heading level to allow for correlation between observations of the same heading over time.[11]

As seen in Table 2, we find positive although small and not statistically significant effects of the changes in US tariffs on the extensive margin of investments, this is, on the dummy if there was at least one investment project (column (1)) or the actual number of investments (column (2)).[12] However, we do find effects on the intensive margin using both PPML and the inverse hyperbolic sine transformation. In particular, our point estimates suggest that a one percentage-point increase in the US tariffs to imports from China during the Trade War led to, on average, a 2.6-5.3 percent increase in the Chinese FDI in Mexico. Notice also that the fact that the coefficients for the intensive and extensive margins are positive rationalizes our results in Table 1 using project-level data, in which we estimate null effects for the amount invested *per project*: The increase in the number of projects (extensive margin) counteracts the increase in the *total* amount invested (intensive margin).

The results for the event study using heading-level data can be found in Figure 6. We report the estimates for the number of investment projects (panel (a)) and the inverse hyperbolic sine investments (panel (b)). The results for other outcomes are available in Table A4 in the Appendix. As before, we report the coefficients for periods before and after the Trade War and the 95% confidence intervals. Consistent with our findings so far, we do not find evidence of pre-trends or anticipation effects, which lends confidence to our identification strategy. For the periods after the Trade War, though, we find that the changes in US tariffs led to statistically significant increases in the extensive and intensive margins in 2023 and 2024.[13] These effects are also economically significant, particularly for the intensive margin: A one percentage-point increase in the US tariffs to imports from China led to, on average, an 8.2 (8.9) percent increase in the Chinese investments in Mexico in 2023 (2024). Again, these patterns are consistent with our Hypotheses regarding the sectoral and dynamic response of investments to tariff changes.

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[10] The inverse hyperbolic sine transformation is $\ln[x + (x^2 + 1)^{0.5}]$, where x is the investments in millions of US dollars. Notice that this function is defined when there are no investments (x equals zero) and, therefore, it does not have the limitations of using logs.
[11] The number of headings in these regressions corresponds to headings with at least one investment in our study period.
[12] As described above, the change in tariffs at the heading level corresponds to an average of the changes at the 10-digit HS level using US imports from China as weights. In Table A5 and A6 in the Appendix, we report the results for specifications (3) and (4) using a simple average of the 10-digit tariffs instead, with the estimates being quantitatively similar and slightly stronger to those reported in the main text. We also obtained similar results using all US imports in the weights (results available upon request).
[13] In the case of the extensive margin for 2023, as seen in Table A4, the coefficient is significant at 10%.

Notice that our analysis so far abstracts from the retaliatory tariffs imposed by China to the United States during the Trade War, which may be important for Chinese firms using US inputs when producing goods for the exporting market. Tables A7 and A8 in the Appendix report the results of estimating specifications (3) and (4) adding the retaliatory tariffs as controls, respectively. As can be seen there, although less precisely estimated, we find quantitatively similar effects of the US tariffs on the Chinese investments in Mexico, with large and statistically significant effects on the extensive and intensive margins in 2023 and 2024. These results are consistent with the differences in the targeting of the US and Chinese retaliatory tariffs, with the former including a wide set of products and the latter being politically targeted (Fetzer and Schwarz 2022).[14,15]

In summary, the empirical analysis in this section suggest that the US-China Trade War led to a reallocation of the Chinese FDI in Mexico toward products and headings that experienced the largest increases in US tariffs. These findings align with Hypothesis 1, suggesting that Chinese investors are increasingly leveraging Mexico as an export platform to access the U.S. market, motivated by reduced tariff exposure and diminished policy uncertainty. The lagged response is consistent with the lumpiness of investments and the uncertainty in US trade policy (Hypothesis 2). More broadly, the results provide empirical support for the nearshoring narrative, in which geopolitical tensions and rising protectionism incentivize firms to relocate production or investment to countries that offer geographic proximity and preferential market access to the United States (Fajgelbaum & Khandelwal 2022). Mexico's integration into North American supply chains appears to have positioned it as a key destination in this reconfiguration of investment flows.

5. Place-Based Policies and the Location of Chinese FDI

We now turn to the question of *where* within Mexico these investments were located. Specifically, we study how domestic policies shape the geography of foreign investment. Our focus is the ZLFN program, a large-scale place-based policy implemented in January 2019 that combined reductions in the VAT and ISR and a substantial increase in the minimum wage in municipalities along the northern border. Our results provide suggestive evidence that municipalities in the ZLFN received comparatively less Chinese FDI. This

[14] Beijing targeted products related to politically influential sectors, or states that were important to president Trump´s coalition. For example, it imposed 25% tariffs on soybeans, a product for which China is the largest market, seeking to hit midwestern farmers in states such as Iowa, Illinois and Indiana, a key republican constituency with strong lobby capabilities. Similarly, it also targeted US pork products, important for North Carolina, a key swing state, and bourbon, a key product for the state of Kentucky, which at the time was the home state of the Senate Majority Leader.

[15] In our analysis, we also abstract from the US tariffs to Mexico and the Mexican retaliatory tariffs, which follows from the fact that both set of tariffs were rolled back in May 2019 and that the size, coverage, and impact of these tariffs were much more limited (Utar et al. 2023).

pattern is consistent with the interpretation that the increase in labor costs, particularly relevant for export-oriented manufacturing, outweighed the benefits from lower consumption and corporate income taxes for foreign investors targeting the US market (Hypothesis 3).

5.1. Empirical Strategy

To estimate the effect of the ZLFN on investments, we start by estimating the following DID specification:

$$Y_{kt} = \beta\, I(t > 2018)\, B_k + \alpha_k + \alpha_{rt} + \varepsilon_{kt}, \tag{5}$$

where k indexes the interaction between state and border, more precisely, we define k such that for non-border states the location is equal to the state and for border states there are two observations, one for border municipalities (as defined in the ZLFN decree) and another for non-border municipalities.[16] Y_{kt} is the outcome of interest (number of projects, total amount invested, etc.) in location k in year t, B_k is a dummy equal to one for locations along the border with the United States, α_k and α_{rt} are location and region-by-time FE, and the rest of the variables are the same as before. We cluster the standard errors at the location level, which is the geographic level at which the policy takes place. The coefficient of interest is β, which measures how the average change in Chinese FDI after the start of the ZLFN program compares between locations along the border with the United States and in the rest of the country. As discussed for the case of the US-China Trade War, (5) assumes parallel trends between locations along and off the US border and no anticipation effects.

To test for pre-trends and dynamic effects, we also estimate an event-study specification as follows:

$$Y_{kt} = \sum\nolimits_p \beta_p\, I(t \in p)\, B_k + \alpha_k + \alpha_{rt} + \varepsilon_{kt}, \tag{6}$$

where p is a set of periods before and after the ZLFN program. Given that there are six border states, which limits the precision and power of our estimates, we reduced the number of parameters to estimate by only considering one period before the program (all years before 2015) and two three-year periods after the program (2019-2021 and 2022-2024), with the years between 2016 and 2018 serving as comparison. The rest of the variables were defined above. The coefficient of interest in this case is β_p, which measures

[16] Following this definition, there are 37 locations in total, 26 for non-border states and 11 for border states (two observations for the states of Sonora, Chihuahua, Coahuila de Zaragoza, Nuevo León, and Tamaulipas, and one for Baja California where all municipalities are considered to be along the border for the purposes of the ZLFN policy).

how the change in Chinese FDI between p and 2016-2018 compares for locations along and off the US border. Although less granular and precise than our analysis in the previous section, we can document pre-trends with the periods before the ZLFN program. With the post-treatment periods, we can explore dynamic effects by estimating differential effects for the COVID-19 years (a period during which the minimum wages might not yet have been binding) and the latest years in our study period, where we found effects with the tariff changes during the Trade War.

5.2. Results

Our estimates of the effect of the ZLFN program on Chinese investments in Mexico are reported in Table 3. Panel A presents the results from the DID specification (5), while Panel B shows the results for the event-study specification in (6). We report results for three dependent variables: A dummy if there was at least one Chinese investment project in the jurisdiction in column (1), the actual number of projects in column (2), and the inverse hyperbolic sine (i.h.s.) investments in columns (3).[17] In addition to location and region-by-year fixed effects, all specifications include state-specific linear trends to account for systematic patterns in the investments at the state level. We cluster our standard errors at the location level to allow for serial correlation in the unobservables within geographical units.

As reported in Panel A of the Table, we find suggestive evidence that the ZLFN program led to a reduction in the Chinese FDI in border municipalities, with large and statistically significant negative effects for the number of investment projects and the inverse hyperbolic sine investments. Panel B indicates that these effects materialize in the latest years of the sample, again underscoring the delayed response of foreign investment to policy changes, and the fact that, even with the minimum wage differential began in 2019, the ZLFN minimum wage may not have been binding until the latter years. Importantly, we find no evidence of pre-trends in any of the outcomes, which supports the parallel trends assumption behind our estimates. Overall, these findings highlight the role of place-based policies in influencing the geographic distribution of foreign direct investment, with patterns consistent with our Hypothesis 3.

6. Conclusion and Policy Implications

This study provides comprehensive evidence that the US-China Trade War significantly influenced Chinese foreign direct investment patterns in Mexico, with effects operating through sectoral reallocation toward tariff-affected products. Our findings demonstrate

[17] We do not report results for the PPML estimator given that we lost a considerable number of observations in that case due to the fixed effects in (5) and (6).

that Chinese firms shifted production to Mexico as an export platform for maintaining access to the US market while reducing their exposure to geopolitical tensions, with investment effects materializing several years after initial policy implementation.

The analysis reveals several important insights for both theoretical understanding and policy design. Theoretically, our results provide strong support for models of nearshoring during trade disputes while highlighting the importance of temporal dynamics in investment responses. The 3-5 year lag between tariff implementation and peak investment effects underscores the need for long-term perspectives in evaluating trade policy impacts.

From a policy perspective, our findings illustrate both the opportunities and challenges that nearshoring creates for host countries. Mexico's success in attracting Chinese investment demonstrates the potential benefits of maintaining open investment policies and leveraging comparative advantages and trade agreements. However, our separate analysis of the ZLFN program reveals how domestic policy choices can influence the geographic distribution of foreign investment within countries, showing that certain place-based policies may inadvertently reduce export-oriented investments even when broader economic conditions favor nearshoring.

Our research also contributes to broader debates about the effectiveness of trade policy in an era of globally integrated production networks. The evidence that Chinese firms reacted to US tariffs by increasing production in Mexico suggests that unilateral trade policies may have limited effectiveness when alternative production locations are readily available. This finding has important implications for ongoing discussions about supply chain resilience, friend-shoring, and the use of economic tools for geopolitical purposes.

The geographic patterns we document have also important implications for regional development in Mexico and for policymakers in other emerging economies attracting foreign investment. While Chinese FDI inflows can generate employment opportunities, technology transfer, and integration into global value chains, our findings highlight that domestic policy can shape who benefits and where. In the case of the ZLFN program, well-intentioned measures to boost local wages inadvertently reduced export-oriented investment in affected municipalities, shifting potential job creation to other regions. More broadly, our results suggest that place-based policies can act as either complements or constraints to global investment diversion, influencing not only the volume but also the spatial distribution of the gains from nearshoring.

Several avenues for future research emerge from our analysis. First, extending the temporal scope of analysis as more post-trade war data becomes available will provide insights into the durability of nearshoring effects and potential changes in investment patterns as US-China tensions continue to evolve. Second, additional analysis of other host countries could reveal whether the patterns we identify in Mexico generalize to other nearshoring destinations. Finally, firm-level analysis could provide deeper insights into the decision-making processes that drive investment location choices during trade disputes.

As US-China tensions continue to grow and other countries grapple with similar challenges of managing great power competition, the lessons from Mexico's experience with Chinese nearshoring will become increasingly relevant for policymakers worldwide. Our study provides an empirical foundation for understanding these dynamics and designing policies that can effectively navigate the complex intersection of trade policy, investment flows, and geopolitical competition.

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Tables

Table 1: Chinese FDI and changes in tariffs: Project-level difference-in-differences specifications

VARIABLES	(1) Investment	(2) Investment	(3) Investment	(4) Investment	(5) Investment
$I(t > 2017) \times \Delta\tau_j$	0.008	0.006	-0.001	-0.005	0.000
	(0.019)	(0.017)	(0.019)	(0.020)	(0.021)
Observations	168	168	168	168	168
R-squared	0.108	0.123	0.209	0.241	0.252
Year FE	YES	YES	YES	YES	YES
Industry FE	NO	YES	YES	YES	YES
Region FE	NO	NO	YES	YES	YES
Industry trends	NO	NO	NO	YES	YES
Region trends	NO	NO	NO	NO	YES

Note: The dependent variable is the amount invested in millions of US dollars by Chinese firms in Mexico (in logs). The independent variable of interest is the interaction between a dummy for the years when the US-China Trade War took place, $I(t > 2017)$, and the change in US tariffs for Chinese goods during the trade dispute, $\Delta\tau_j$. All columns report the results of estimating equation (1). Columns differ in the FE and linear trends considered. Industry has four categories (ICT, energy, manufacturing, and other) and region has six (northeast, northwest, north central, south central, west, southwest, and east/southeast). Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table 2: Chinese FDI and changes in tariffs: Heading-level difference-in-differences specifications

VARIABLES	(1) Projects>0	(2) Projects	(3) Investment	(4) i.h.s. inv.
$I(t > 2017) \times \Delta\tau_h$	0.004	0.007	0.053*	0.026**
	(0.003)	(0.004)	(0.031)	(0.013)
Observations	1,159	1,159	1,121	1,159
# headings	61	61	61	61
R-squared	0.205	0.287	-	0.206
Year FE	YES	YES	YES	YES
Heading FE	YES	YES	YES	YES
Method	OLS	OLS	PPML	OLS

Note: The dependent variables are a dummy if there is at least one investment by Chinese firms in Mexico in column (1), the number of investment projects in column (2), and the amount invested in levels (millions of US dollars) and transformed with the inverse hyperbolic sine (i.h.s.) function in (3) and (4), respectively. The independent variable of interest is the interaction between a dummy for the years when the US-China Trade War took place, $I(t > 2017)$, and the change in US tariffs for Chinese imports during the trade dispute at the heading level, $\Delta\tau_h$. The change in tariffs at the heading level corresponds to the average of the tariffs at the 10-digit HS level using US imports from China as weights. All columns report the results of estimating equation (3). The coefficients in (1), (2), and (4) are estimated using OLS and in (3) using PPML. Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

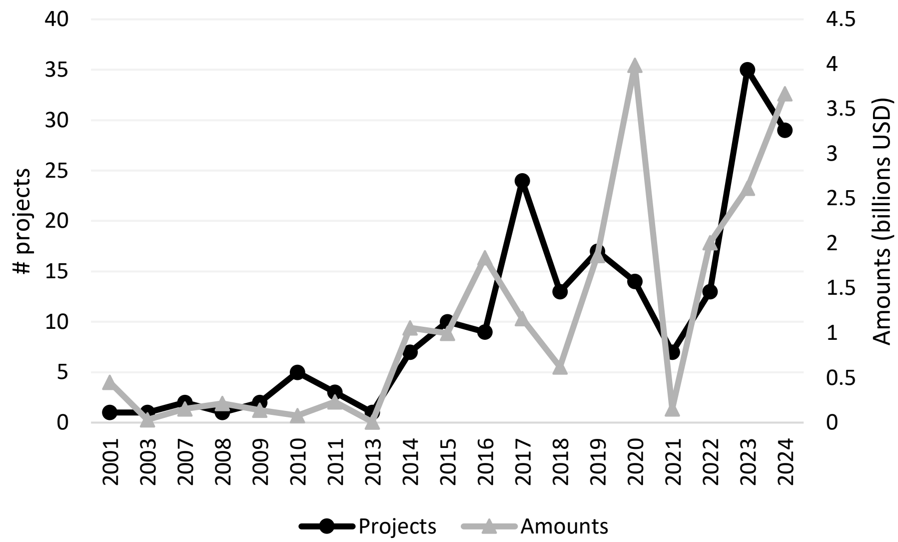
Table 3: Chinese FDI in border municipalities

VARIABLES	(1) Projects>0	(2) Projects	(3) i.h.s. inv.
A. Differences-in-differences results			
$I(t > 2018) \times B_k$	-0.214	-1.103*	-1.692*
	(0.132)	(0.596)	(0.908)
Observations	703	703	703
R-squared	0.457	0.557	0.480
B. Event-study results			
$I(t < 2016) \times B_k$	-0.002	0.177	0.178
	(0.118)	(0.251)	(0.633)
$I(t \in \{19,20,21\}) \times B_k$	-0.173	-0.321	-1.334
	(0.144)	(0.327)	(0.846)
$I(t \in \{22,23,24\}) \times B_k$	-0.261	-1.721*	-1.854
	(0.155)	(0.922)	(1.148)
Observations	703	703	703
R-squared	0.458	0.580	0.481
Year-by-region FE	YES	YES	YES
State-by-border FE	YES	YES	YES
State trends	YES	YES	YES
Method	OLS	OLS	OLS

Note: The dependent variables are a dummy if there is at least one investment by Chinese firms in Mexico in column (1), the number of investment projects in column (2), and the inverse hyperbolic sine (i.h.s.) investment in (3). Panel A has the results for the difference-in-differences specification in (5). Panel B has the estimates for the event-study specification in (6). Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

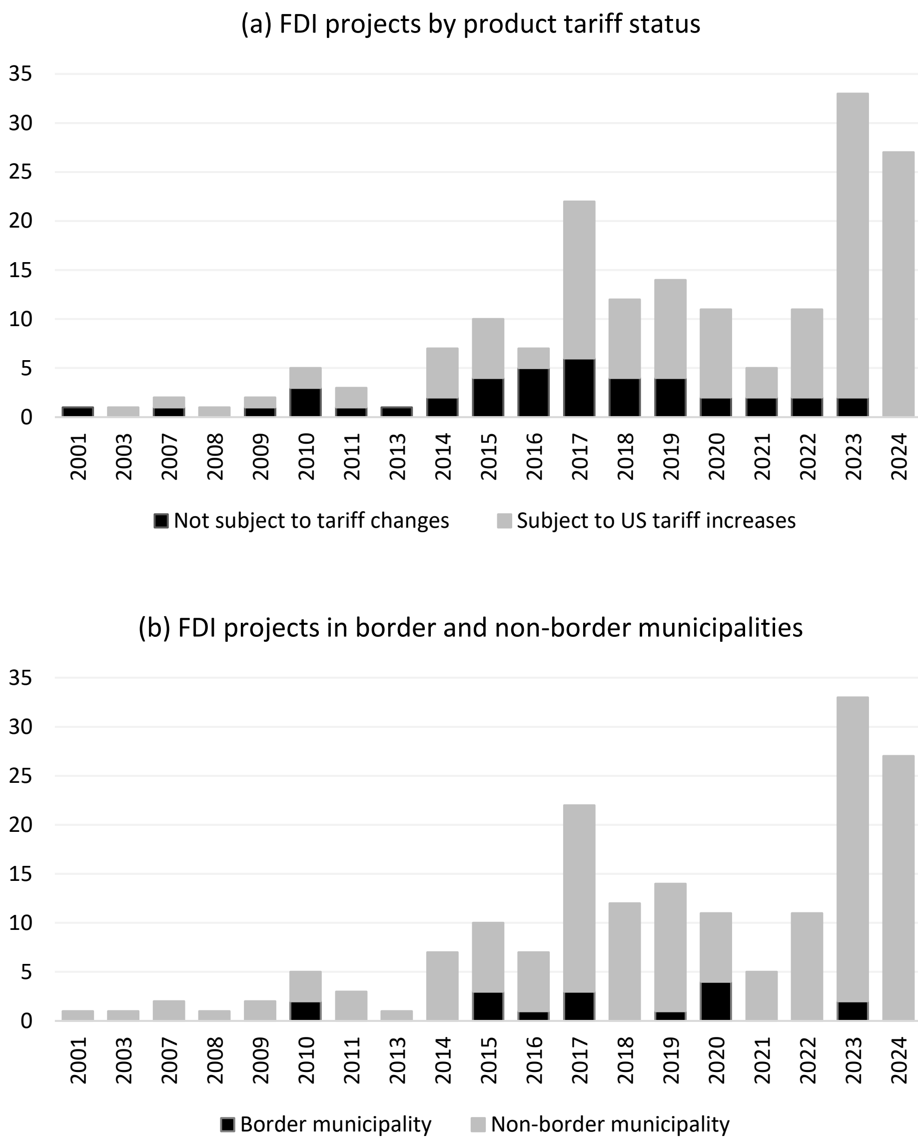
Figures

Figure 1: Number of projects and amount invested by Chinese investors in Mexico



Note: This figure plots the evolution of the number of projects (left axis) and amount invested (right axis) by Chinese firms in Mexico during 2001-2024.

Figure 2: Evolution of the number of Chinese projects exposed and not to the US-China Trade War and to the ZLFN program



Note: This figure plots the evolution of the number of projects by Chinese firms in Mexico between 2001 and 2024. In Panel (a), we differentiate between projects that experienced an increase in US tariffs to Chinese goods. In Panel (b), we split the project between those inside and outside the ZNLF region.

Figure 3: Chinese investment projects by state in Mexico

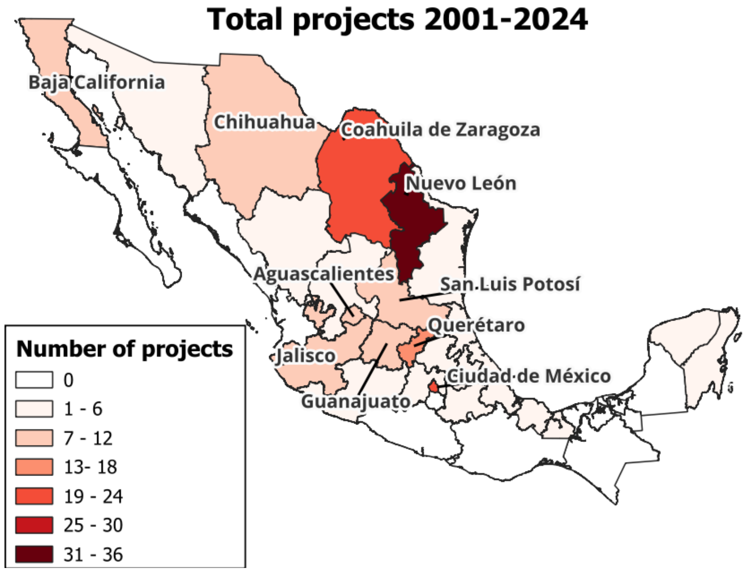


Figure 4: Chinese investment projects by state in Mexico before and after 2017

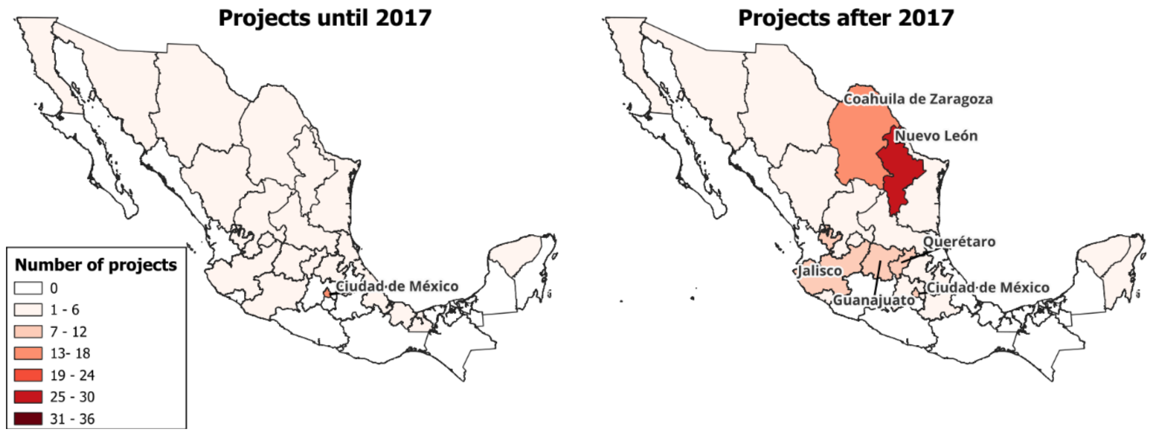
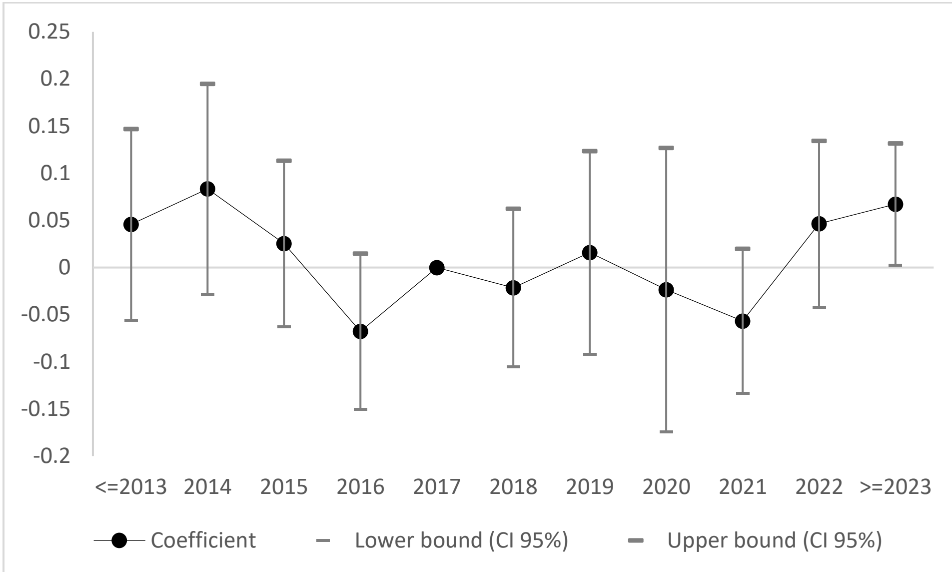
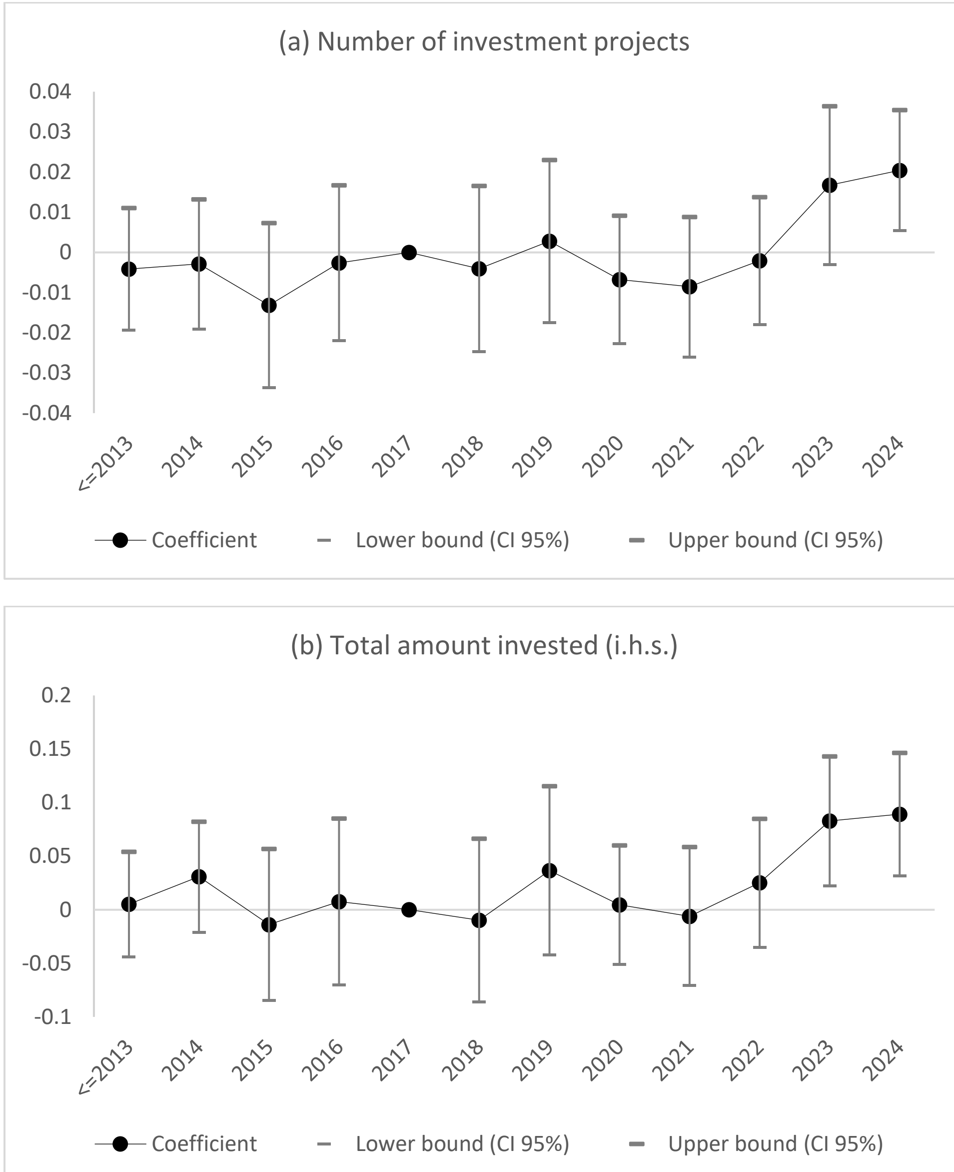


Figure 5: Chinese FDI and changes in tariffs: Project-level event study



Note: This figure plots the difference in the evolution of the Chinese FDI between products with varying exposures to the US-China Trade War, with the exposure corresponding to the change in US tariffs to Chinese goods. The coefficients come from estimating equation (2) and include industry and region fixed effects and linear trends. The ranges around the coefficients are the 95% confidence intervals computed using standard errors clustered at the four-digit HS (heading) level. See Table A2 in the Appendix for the full regression results and alternative specifications.

Figure 6: Chinese FDI and changes in tariffs: Heading-level event study



Note: This figure plots the difference in the evolution of the outcome variable of interest between four-digit HS codes (headings) with varying exposures to the US-China Trade War, with panel (a) having the results for the number of Chinese investment projects and panel (b) the amount invested (inverse hyperbolic sine transformation). The coefficients come from estimating equation (4) and include industry and region FE and linear trends. The ranges around the coefficients are the 95% confidence intervals computed using standard errors clustered at the heading level. See Table A4 in the Appendix for the full regression results.

Appendix

Table A1: Chinese FDI and exposure to US-China Trade War: Project-level difference-in-differences specifications

VARIABLES	(1) Investment	(2) Investment	(3) Investment	(4) Investment	(5) Investment
$I(t > 2017) \times TW_j$	0.278	0.164	0.033	-0.121	0.042
	(0.632)	(0.606)	(0.645)	(0.675)	(0.715)
Observations	168	168	168	168	168
R-squared	0.111	0.125	0.211	0.245	0.254
Year FE	YES	YES	YES	YES	YES
Industry FE	NO	YES	YES	YES	YES
Region FE	NO	NO	YES	YES	YES
Industry trends	NO	NO	NO	YES	YES
Region trends	NO	NO	NO	NO	YES

Note: The dependent variable is the amount invested in millions of US dollars by Chinese firms in Mexico (in logs). The independent variable of interest is the interaction between a dummy for the years when the US-China Trade War took place, $I(t > 2017)$, and a dummy for products that experienced any change in US tariffs for Chinese goods during the trade dispute, TW_j. All columns report the results of estimating equation (1). Columns differ in the FE and linear trends considered. Industry has four categories (ICT, energy, manufacturing, and other) and region has six (northeast, northwest, north central, south central, west, southwest, and east/southeast). Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table A2: Chinese FDI and changes in tariffs: Project-level event-study results

VARIABLES	(1) Investment	(2) Investment	(3) Investment	(4) Investment	(5) Investment
$I(t \leq 2013) \times \Delta\tau_j$	-0.009	-0.003	0.008	0.047	0.046
	(0.043)	(0.044)	(0.046)	(0.048)	(0.051)
$I(t = 2014) \times \Delta\tau_j$	0.085	0.081	0.088*	0.083	0.083
	(0.051)	(0.051)	(0.046)	(0.057)	(0.056)
$I(t = 2015) \times \Delta\tau_j$	0.050	0.047	0.044	0.034	0.026
	(0.038)	(0.040)	(0.043)	(0.042)	(0.044)
$I(t = 2016) \times \Delta\tau_j$	-0.059*	-0.059	-0.053	-0.066	-0.068
	(0.033)	(0.036)	(0.042)	(0.040)	(0.041)
$I(t = 2018) \times \Delta\tau_j$	-0.018	-0.015	-0.017	-0.020	-0.021
	(0.034)	(0.033)	(0.039)	(0.040)	(0.042)
$I(t = 2019) \times \Delta\tau_j$	0.010	0.006	0.016	0.016	0.016
	(0.045)	(0.046)	(0.051)	(0.051)	(0.054)
$I(t = 2020) \times \Delta\tau_j$	-0.014	-0.017	-0.027	-0.028	-0.024
	(0.067)	(0.070)	(0.074)	(0.075)	(0.075)
$I(t = 2021) \times \Delta\tau_j$	-0.060	-0.065	-0.065	-0.054	-0.057
	(0.042)	(0.044)	(0.039)	(0.036)	(0.038)
$I(t = 2022) \times \Delta\tau_j$	0.042	0.038	0.037	0.044	0.046
	(0.034)	(0.035)	(0.039)	(0.042)	(0.044)
$I(t \geq 2023) \times \Delta\tau_j$	0.085***	0.086***	0.069**	0.053*	0.067**
	(0.028)	(0.029)	(0.032)	(0.031)	(0.032)
Observations	168	168	168	168	168
R-squared	0.199	0.211	0.281	0.306	0.320
Year FE	YES	YES	YES	YES	YES
Industry FE	NO	YES	YES	YES	YES
Region FE	NO	NO	YES	YES	YES
Industry trends	NO	NO	NO	YES	YES
Region trends	NO	NO	NO	NO	YES

Note: The dependent variable is the amount invested by Chinese firms in Mexico (in logs). All columns report the results of estimating equation (2). Columns differ in the FE and linear trends considered. Industry has four categories (ICT, energy, manufacturing, and other) and region has six (northeast, northwest, north central, south central, west, southwest, and east/southeast). Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table A3: Chinese FDI and exposure to US-China Trade War: Project-level event-study results

VARIABLES	(1) Investment	(2) Investment	(3) Investment	(4) Investment	(5) Investment
$I(t \leq 2013) \times TW_j$	-0.222	-0.036	0.360	1.039	0.958
	(1.084)	(1.085)	(1.237)	(1.276)	(1.353)
$I(t = 2014) \times TW_j$	1.820	1.862	2.204	2.048	1.979
	(1.570)	(1.586)	(1.460)	(1.647)	(1.510)
$I(t = 2015) \times TW_j$	1.752	1.601	1.623	1.367	1.233
	(1.092)	(1.178)	(1.249)	(1.297)	(1.337)
$I(t = 2016) \times TW_j$	-1.569	-1.650	-1.459	-1.751	-1.731
	(0.945)	(1.000)	(1.115)	(1.099)	(1.137)
$I(t = 2018) \times TW_j$	-0.491	-0.418	-0.274	-0.328	-0.342
	(1.066)	(1.034)	(1.234)	(1.258)	(1.330)
$I(t = 2019) \times TW_j$	0.131	-0.079	0.266	0.237	0.280
	(1.443)	(1.521)	(1.599)	(1.606)	(1.673)
$I(t = 2020) \times TW_j$	0.277	0.163	-0.245	-0.183	-0.029
	(2.207)	(2.242)	(2.420)	(2.407)	(2.417)
$I(t = 2021) \times TW_j$	-1.328	-1.477	-1.334	-1.162	-1.229
	(1.229)	(1.262)	(1.218)	(1.140)	(1.190)
$I(t = 2022) \times TW_j$	1.114	0.978	1.292	1.405	1.384
	(1.061)	(1.072)	(1.187)	(1.234)	(1.303)
$I(t \geq 2023) \times TW_j$	3.397***	3.495***	3.029**	2.502**	3.168**
	(0.813)	(1.047)	(1.240)	(1.241)	(1.454)
Observations	168	168	168	168	168
R-squared	0.203	0.216	0.285	0.308	0.321
Year FE	YES	YES	YES	YES	YES
Industry FE	NO	YES	YES	YES	YES
Region FE	NO	NO	YES	YES	YES
Industry trends	NO	NO	NO	YES	YES
Region trends	NO	NO	NO	NO	YES

Note: The dependent variable is the amount invested by Chinese firms in Mexico (in logs). All columns report the results of estimating equation (2) replacing $\Delta\tau_j$ by a dummy equal to one for products that experienced any change in US tariffs for Chinese goods during the trade dispute (TW_j). Columns differ in the FE and linear trends considered. Industry has four categories (ICT, energy, manufacturing, and other) and region has six (northeast, northwest, north central, south central, west, southwest, and east/southeast). Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table A4: Chinese FDI and changes in tariffs: Heading-level event-study results

VARIABLES	(1) Projects>0	(2) Projects	(3) Investment	(4) i.h.s. inv.
$I(t \leq 2013) \times \Delta\tau_h$	0.003	-0.004	-0.109**	0.005
	(0.005)	(0.008)	(0.046)	(0.025)
$I(t = 2014) \times \Delta\tau_h$	0.004	-0.003	0.069*	0.031
	(0.006)	(0.008)	(0.040)	(0.026)
$I(t = 2015) \times \Delta\tau_h$	-0.006	-0.013	0.040	-0.014
	(0.008)	(0.010)	(0.049)	(0.035)
$I(t = 2016) \times \Delta\tau_h$	0.003	-0.003	0.014	0.008
	(0.008)	(0.010)	(0.062)	(0.039)
$I(t = 2018) \times \Delta\tau_h$	-0.000	-0.004	-0.085	-0.010
	(0.008)	(0.010)	(0.056)	(0.038)
$I(t = 2019) \times \Delta\tau_h$	0.009	0.003	0.011	0.037
	(0.007)	(0.010)	(0.072)	(0.039)
$I(t = 2020) \times \Delta\tau_h$	-0.002	-0.007	0.064	0.005
	(0.006)	(0.008)	(0.051)	(0.028)
$I(t = 2021) \times \Delta\tau_h$	-0.002	-0.009	-0.076	-0.006
	(0.007)	(0.009)	(0.061)	(0.032)
$I(t = 2022) \times \Delta\tau_h$	0.004	-0.002	0.076	0.025
	(0.007)	(0.008)	(0.047)	(0.030)
$I(t = 2023) \times \Delta\tau_h$	0.014*	0.017*	0.066*	0.083***
	(0.008)	(0.010)	(0.039)	(0.030)
$I(t = 2024) \times \Delta\tau_h$	0.018***	0.020***	0.088**	0.089***
	(0.006)	(0.008)	(0.039)	(0.029)
Observations	1,159	1,159	1,121	1,159
# headings	61	61	61	61
R-squared	0.230	0.308	-	0.230
Time FE	YES	YES	YES	YES
Heading FE	YES	YES	YES	YES
Method	OLS	OLS	PPML	OLS

Note: The dependent variables are a dummy if there is at least one investment by Chinese firms in Mexico in column (1), the number of investment projects in column (2), and the amount invested in levels and transformed with the inverse hyperbolic sine (i.h.s.) function in (3) and (4), respectively. The change in tariffs at the heading level ($\Delta\tau_h$) corresponds to the average of the tariffs at the 10-digit HS level using US imports from China as weights. All columns report the results of estimating equation (4). The coefficients in (1), (2), and (4) are estimated using OLS and in (3) using PPML. Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table A5: Chinese FDI and simple average of changes in tariffs: Heading-level difference-in-differences specifications

VARIABLES	(1) Projects>0	(2) Projects	(3) Investment	(4) i.h.s. inv.
$I(t > 2017) \times \Delta\tau_h$	0.005*	0.007*	0.065*	0.029**
	(0.003)	(0.004)	(0.034)	(0.012)
Observations	1,159	1,159	1,121	1,159
# headings	61	61	61	61
R-squared	0.205	0.287	-	0.206
Year FE	YES	YES	YES	YES
Heading FE	YES	YES	YES	YES
Method	OLS	OLS	PPML	OLS

Note: The dependent variables are a dummy if there is at least one investment by Chinese firms in Mexico in column (1), the number of investment projects in column (2), and the amount invested in levels and transformed with the inverse hyperbolic sine (i.h.s.) function in (3) and (4), respectively. The independent variable of interest is the interaction between a dummy for the years when the US-China Trade War took place, $I(t > 2017)$, and the change in US tariffs for Chinese imports during the trade dispute at the heading level, $\Delta\tau_h$. The change in tariffs at the heading level corresponds to the simple average of the tariffs at the 10-digit HS level. All columns report the results of estimating equation (3). The coefficients in (1), (2), and (4) are estimated using OLS and in (3) using PPML. Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table A6: Chinese FDI and simple average of changes in tariffs: Heading-level event-study results

VARIABLES	(1) Projects>0	(2) Projects	(3) Investment	(4) i.h.s. inv.
$I(t \leq 2013) \times \Delta\tau_h$	0.002	-0.004	-0.112**	0.006
	(0.006)	(0.008)	(0.051)	(0.026)
$I(t = 2014) \times \Delta\tau_h$	0.003	-0.003	0.062	0.030
	(0.007)	(0.008)	(0.049)	(0.028)
$I(t = 2015) \times \Delta\tau_h$	-0.005	-0.011	0.080	-0.001
	(0.009)	(0.010)	(0.059)	(0.036)
$I(t = 2016) \times \Delta\tau_h$	0.002	-0.003	0.019	0.004
	(0.008)	(0.010)	(0.073)	(0.042)
$I(t = 2018) \times \Delta\tau_h$	0.000	-0.004	-0.080	-0.004
	(0.008)	(0.011)	(0.060)	(0.040)
$I(t = 2019) \times \Delta\tau_h$	0.009	0.003	0.029	0.039
	(0.008)	(0.011)	(0.082)	(0.041)
$I(t = 2020) \times \Delta\tau_h$	-0.001	-0.005	0.096	0.013
	(0.007)	(0.008)	(0.067)	(0.029)
$I(t = 2021) \times \Delta\tau_h$	-0.003	-0.009	-0.082	-0.008
	(0.008)	(0.009)	(0.066)	(0.036)
$I(t = 2022) \times \Delta\tau_h$	0.005	0.000	0.115*	0.033
	(0.007)	(0.008)	(0.061)	(0.032)
$I(t = 2023) \times \Delta\tau_h$	0.012	0.016	0.095**	0.083**
	(0.008)	(0.010)	(0.043)	(0.032)
$I(t = 2024) \times \Delta\tau_h$	0.018***	0.020**	0.092**	0.091***
	(0.006)	(0.008)	(0.042)	(0.030)
Observations	1,159	1,159	1,121	1,159
# headings	61	61	61	61
R-squared	0.224	0.304	-	0.226
Time FE	YES	YES	YES	YES
Heading FE	YES	YES	YES	YES
Method	OLS	OLS	PPML	OLS

Note: The dependent variables are a dummy if there is at least one investment by Chinese firms in Mexico in column (1), the number of investment projects in column (2), and the amount invested in levels and transformed with the inverse hyperbolic sine (i.h.s.) function in (3) and (4), respectively. The change in tariffs at the heading level ($\Delta\tau_h$) corresponds to the simple average of the tariffs at the 10-digit HS level. All columns report the results of estimating equation (4). The coefficients in (1), (2), and (4) are estimated using OLS and in (3) using PPML. Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table A7: Chinese FDI and changes in tariffs: Heading-level difference-in-differences specifications controlling for the Chinese retaliatory tariffs

VARIABLES	(1) Projects>0	(2) Projects	(3) Investments	(4) i.h.s. inv.
$I(t > 2017) \times \Delta\tau_h$	0.003	0.009	0.028	0.024
	(0.004)	(0.006)	(0.032)	(0.018)
Observations	1,159	1,159	1,121	1,159
R-squared	0.205	0.288	-	0.206
Year FE	YES	YES	YES	YES
Heading FE	YES	YES	YES	YES
Retaliatory tariffs	YES	YES	YES	YES
Method	OLS	OLS	PPML	OLS

Note: The dependent variables are a dummy if there is at least one investment by Chinese firms in Mexico in column (1), the number of investment projects in column (2), and the amount invested in levels (millions of US dollars) and transformed with the inverse hyperbolic sine (i.h.s.) function in (3) and (4), respectively. The independent variable of interest is the interaction between a dummy for the years when the US-China Trade War took place, $I(t > 2017)$, and the change in US tariffs for Chinese imports during the trade dispute at the heading level, $\Delta\tau_h$. The change in tariffs at the heading level corresponds to the average of the tariffs at the 10-digit HS level using US imports from China as weights. All columns report the results of estimating equation (3) adding the Chinese retaliatory tariffs during the Trade War (not reported). The coefficients in (1), (2), and (4) are estimated using OLS and in (3) using PPML. Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.

Table A8: Chinese FDI and changes in tariffs: Heading-level event-study results controlling for the Chinese retaliatory tariffs

VARIABLES	(1) Projects>0	(2) Projects	(3) Investments	(4) i.h.s. inv.
$I(t \leq 2013) \times \Delta\tau_h$	0.007	-0.001	-0.098**	0.022
	(0.006)	(0.010)	(0.041)	(0.027)
$I(t = 2014) \times \Delta\tau_h$	0.009	0.001	0.106**	0.057**
	(0.007)	(0.010)	(0.052)	(0.028)
$I(t = 2015) \times \Delta\tau_h$	0.000	-0.008	0.047	0.009
	(0.010)	(0.013)	(0.053)	(0.043)
$I(t = 2016) \times \Delta\tau_h$	0.010	0.002	0.058	0.040
	(0.008)	(0.012)	(0.068)	(0.039)
$I(t = 2018) \times \Delta\tau_h$	0.006	0.005	-0.047	0.017
	(0.008)	(0.010)	(0.054)	(0.040)
$I(t = 2019) \times \Delta\tau_h$	0.012	0.007	0.008	0.045
	(0.008)	(0.010)	(0.076)	(0.044)
$I(t = 2020) \times \Delta\tau_h$	-0.001	-0.006	0.066	0.000
	(0.008)	(0.010)	(0.058)	(0.037)
$I(t = 2021) \times \Delta\tau_h$	0.004	-0.004	0.008	0.023
	(0.007)	(0.010)	(0.069)	(0.030)
$I(t = 2022) \times \Delta\tau_h$	0.005	-0.001	0.083	0.032
	(0.008)	(0.010)	(0.056)	(0.037)
$I(t = 2023) \times \Delta\tau_h$	0.019**	0.023*	0.077	0.101***
	(0.008)	(0.012)	(0.048)	(0.038)
$I(t = 2024) \times \Delta\tau_h$	0.022***	0.029***	0.090**	0.109***
	(0.007)	(0.010)	(0.042)	(0.034)
Observations	1,159	1,159	1,121	1,159
R-squared	0.240	0.315	-	0.240
Year FE	YES	YES	YES	YES
Heading FE	YES	YES	YES	YES
Retaliatory tariffs	YES	YES	YES	YES
Method	OLS	OLS	PPML	OLS

Note: The dependent variables are a dummy if there is at least one investment by Chinese firms in Mexico in column (1), the number of investment projects in column (2), and the amount invested in levels and transformed with the inverse hyperbolic sine (i.h.s.) function in (3) and (4), respectively. The change in tariffs at the heading level ($\Delta\tau_h$) corresponds to the average of the tariffs at the 10-digit HS level using US imports from China as weights. All columns report the results of estimating equation (4) adding the Chinese retaliatory tariffs interacted with time dummies as controls (not reported). The coefficients in (1), (2), and (4) are estimated using OLS and in (3) using PPML. Standard errors clustered at four-digit HS level in parentheses. *** p<0.01, ** p<0.05, * p<0.1.