

# *A Short History of the Maquiladora Industry*

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*The maquila Program was initiated in 1965 during the Diaz Ordaz presidency as a means of attracting foreign investment, increasing exports, and fostering industrialization along the U.S.-Mexico border. At the outset, the foreign-owned maquiladoras were only granted limited privileges. However, the 1981 economic crisis and subsequent need for foreign investment made maquiladoras quite attractive to the Mexican government, and controls were lessened. Today, maquiladoras are one of Mexico's primary sources of domestic production, exports, and employment, and they continue to attract foreign investment from the United States, Canada, Europe, and Japan.*

*A maquiladora plant temporarily imports raw materials, parts or components (including the equipment and machinery necessary for processing) into Mexico for manufacturing, processing and assembly. The finished or semi-finished products are then exported out of Mexico, to the country of origin or to a third country. While the imported materials are in Mexico no tariffs are paid.*

*The maquiladoras legal framework has gone through many modifications during the years. The most recent decree has been in effect since June 2, 1998, as amended on November 13, 1998. The decree abrogated the October 1996 decree provisions, which were anti-NAFTA, at least in spirit if not in letter, and which also may have violated the Mexican Constitution. The new decree is quite favorable to the Maquiladora industry. The new regulations in the foreign investment law do not greatly affect the Maquiladora industry. The new Maquiladora Decree reduces reporting requirements. It eliminates some of the Ministry of Commerce and Industrial Development (SECOFI) decision-making ability that existed in the October 1996 decree.*

*Before the signing of the North America Free Trade Agreement (NAFTA), all the production that was generated in the Mexican plants had to return to the country of origin or had to go to a third country. The signing of NAFTA made a two-phase change to the Maquiladora program. The first phase, started January 1, 1994 and will end December 31, 2000. Under this first phase maquiladoras continue to benefit from the waiver of Mexican import duties on raw materials while also benefiting from the preferential duty rates on those products that satisfy NAFTA rules of origin. During the second phase, duties on raw materials that originate in a non-NAFTA country will increase. However, tariffs on products that are generated in Non-NAFTA countries have not seen the increases that were originally anticipated. In fact, the Mexican government has already published certain reductions on certain items originating from non-NAFTA countries. This effort from the Mexican government is targeted at not losing foreign investment in maquiladoras from non-NAFTA countries.*

*In 1994, maquiladoras were allowed to sell up to 55 percent of the value of their annual export sales from the preceding year. Each year thereafter, said percentage increased by an additional 5 percent per year. This increase will terminate at the end of the year 2000, at which time the maquiladora's will face no limits regarding domestic sales.*

*Originally, maquiladoras were attractive to U.S. enterprises as a source of low-cost labor and reduced tariff access to U.S. markets. Since 1987 the maquiladora industry has experimented an average growth of seventeen percent per year. During 1997 it reached a milestone of exports by Mexico over \$ 40 billion dollars and generated over one million direct jobs in Mexico. Maquiladoras should no longer be referred to as the border industry since only 63% of the plants are in border cities. The rest of the plants are either in northern tier states or in other parts of the country. It has become more of a nationwide program, whereas originally it was a border program. In spite of the direct benefits maquiladoras have given Mexico, maquiladoras have also provided foreign companies access to the Mexican market, previously one of the most closed markets in the world.*

*Since 1985, the number of maquiladoras has increased 17 percent per year, from 785 plants employing 218,000 employees to over 2,400 plants employing 650,000 employees in 1996. In 1991 the maquiladoras generated over \$ 1.5 billion a year in exports and in 1996 that figure rose to over \$ 31 billion. Maquiladoras located across the US-Mexico border, add substantially to the business activity on the U.S. side of the border. In the McAllen - Edinburg - Mission area it is estimated that the maquiladora facilities contribute 14,000 jobs, generating \$ 283.4 million in annual retail sales and \$ 1.3 billion in annual total expenditures. About 1 of every 10 area jobs can be linked to maquiladora operations.*

*Mexico's adoption of the Foreign Investment Law and the North American Free Trade Agreement opened the doors to foreign direct investment. Business opportunities for the foreign investor in Mexico are better than they have ever been. Current forecasts through the year 2002 are anticipating double-digit growth in the United States. That means, maquiladora growth averaging 13-15% a year. Most baselines forecasts show the U.S. economy growing at rates of 2% or better, which is an important growth plateau for maquiladora industry, since this industry is heavily dependent on the U.S. economy.*

*As long as the U.S. Gross Domestic Product (GDP) is up 2% or more in a given year, the maquiladora industry grows, and tends to grow in double digits. Which means that the maquiladora program is and will be an essential part of the intertwined bicultural bilateral economy that is the Rio Grande Valley dynamic economy of today.*

*This publication is designed to provide information regarding the subject matter covered and is not to be considered as legal advise by the authors.*

*This article was prepared by Hector Coronado de Anda, a shareholder at the law firm of Martin & Drought, P.C. Martin & Drought, P.C. employs both U.S. and Mexican attorneys in their offices to better represent U.S. persons, companies and their subsidiaries in Mexico and to represent Mexicans in the U.S. Martin & Drought, P.C. has been specializing in maquiladora work for the past 25 years. For more information please call Lic. Hector Coronado de Anda at (956) 686-2348.*