

# MAQUILADORA

**WHAT IS A MAQUILADORA?** Maquiladora or Maquila is a Spanish word meaning “to perform a task for another” Today maquiladora refers to a Mexican corporation wholly or predominantly owned by foreigners, which imports parts or raw materials and assembled and finishes products for export to the U.S.. or other foreign country of Mexico market. A foreign corporation wishing to reduce manufacturing costs in order to become more competitive in a global economy, may achieve this goal by setting up a maquiladora or shelter operation in Mexico. A maquiladora or maquila is a plant in Mexico that obtains a maquiladora permit from the Mexican government to import raw materials duty free into Mexico for manufacturing, assembly, repair or other processing. The maquiladora program was created in 1965 with the Border Industrialization Program. It was designed to generate employment, foreign investment, and stimulate industry in Mexico. The program was part of a worldwide movement known as global production sharing. With the passage of the North American free trade agreement {NAFTA} in 1994, U.S. companies have rushed to Mexican border towns to comply and avoid high tariffs.

**HOW DO THEY WORK?** A maquiladora typically performs assembly or manufacturing operations. Components are imported duty free to Mexico, and the maquiladora performs the assembly to complete the work. The finished product is then exported out of Mexico. A maquiladora works best for labor-intensive manufacturers. Such businesses range from electronics manufacturers to pet products, medical equipment, sporting goods, apparel, cable assembly and toy makers. The essence of the maquiladora system is to reduce labor overhead. That’s why in more than 40 years since maquiladoras were introduced, there are more than 3,500 companies, including but not limited to Sony, Ford, General Electric, General Motors that have Maquila Operations in Mexico.

**HOW MANY U.S. COMPANIES OPERATE MAQUILADORAS?** Approximately 90 percent of maquilas trace their parentage to U.S. firms.

**HOW DO MAQUILADORAS BENEFIT U.S. COMPANIES?** The primary advantage for a U.S. company to operate a maquila is the lower cost of labor in Mexico. Wages range from 10% to 15% of comparable rates in the U.S.

**WHAT ARE THE EFFECTS ON THE ECONOMIES OF THE UNITED STATES AND MEXICO?** The maquila sector is Mexico’s number two source of jobs. There is no question that the growth of the maquila industry has been responsible for the growth of Mexico’s middle class and Mexico’s ability to recover from the 1994 peso devaluation. In the United States, the maquila industry has allowed U.S. businesses to remain competitive with Asian {China, South Korea, Malaysia} companies offering the same goods for less. Without the maquila industry, many U.S. companies would have lost the battle against Asian imports and had to close. Instead, shifting production to Mexico, allows A U.S company stay competitive and expand market share.