

## Chapitre 19/Chapter 19

### Les maquiladoras : entre continentalisation et mondialisation/Integration in North America : Regional or Global?

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#### **Introduction.**

The term maquiladora, often shortened as maquila, has become emblematic of the combination of economic and social phenomena generally known as globalization. Even though these words are reasonably common, we need to provide working definitions for both globalization and maquiladoras. First, a quick, provisional, definition of maquiladoras: The in-bond assembly plants, to use the official language, are, roughly speaking, industrial joint-ventures between the United States and Mexico, in which the capital and the top management are American and the workforce is Mexican. This combination of production factors in which a rich, dominant country masterminds a complex operation that will generate profits for itself and wages for the workers in the poorer country is based on a strikingly non-symmetrical relationship. Now, in a few words, let us turn to the characteristics of the so-called globalized economy.

Anti-globalization forces, especially the labor unions, denounce this type of phenomenon, explaining that the profits are generated by shifting industrial production to peripheral economies. In a globalized economic system, workers in the central economies see stable well-remunerated jobs gradually vanish, and find themselves either on the dole or in a critical bargaining position -leading to the casualization of labor-. Yet this loss fails to materialize in the shape of better wages and working conditions for those employed in the peripheral economies. The general picture is that, by putting workers North and South of the border in competition for jobs, those who hold capital are in a position to reclaim a bigger share of the profits.

For a number of specialists, the maquiladoras seem to provide an archetypal illustration of the way the globalized economy has started to function. The Spanish term maquiladora in itself is emblematic because of its etymology (it comes from the verb maquilar, a colloquial word from Arabic origin, which means accepting work for less than the going wage). It could therefore be tempting to state that this specific type of Mexican assembly plant paved the way for the emerging model of dependency between North and South. The objective of this paper is to reassess the exact relevance of the maquiladora structure and concept in the more general context of a globalization theory. In order to do this, we shall concentrate on three points:

1. the legal and historical conditions in which the maquiladoras came to exist
2. the geographical specificity of the phenomenon
3. the paradoxical link between maquiladoras and protectionism
- 4.

#### **I.**

##### **The legal framework for maquiladoras: two sovereign states.**

One of the most common and interesting notions concerning globalization is the fact that it is a phenomenon that by-passes national legislations, gradually erodes the nation-states' sovereignty and encourages competitive deregulation. To a certain extent, even the concept of nationality becomes blurred, a fact the very term trans-national

corporations clearly shows. If we pay attention to the historical conditions under which the maquiladoras emerged, though, it is clear that the framework is practically a bilateral agreement between the United States and Mexico.

The maquiladora program has a distant predecessor in the bracero agreements of the Second World War which allowed farm laborers (bracero in Spanish) to work in the United States at a time when the war effort and the drafting of US citizens into the Armed Forces created a shortage of labor. The founding act of the maquiladoras dates back from 1965 when the Mexican government approved a system sponsored by both the Ministry of Trade and that of Industry allowing loopholes in an otherwise very strict system of protection and state supervision. Mexico, under the iron grip of the firmly entrenched PRI (Party of the Institutional Revolution / Partido de la Revolución Institucional), was then one of the most protectionist states in the world, and a major advocate of the import-substitution doctrine. The very limited program initially aimed at developing a very thin strip of territory south of the border by allowing American assembly plants to use the pool of local workers. The impact of these legal dispositions remained marginal for years in a Mexican economy dominated by the PRI political and economic elite (caciques). The legal provisions gradually extended the benefits of the system to other parts of the Mexican territory in 1972. The Mexican legislation slowly evolved in 1977, concerning national content provisions, and major decrees were issued in 1983 and 1989 to create better conditions for the non-maquiladora suppliers of the sector. These legal provisions are significant, but have to be contrasted with the mainstream Mexican legislation, which makes sure that non-Mexicans -and one would be tempted to add non-PRI members- cannot control Mexican companies. Article 27 of the Mexican Constitution makes it illegal for a foreign investor to hold a majority stake in a Mexican company, a safeguard confirmed and made even more stringent by the very restrictive 1973 law on foreign investment (Full title: Ley para Promover la Inversion Mexicana y Regular la Inversion Extranjera).

Seen from the American side, one should remember that the whole maquiladora system rests on a loophole in the US customs code. We shall provide the reader with concrete examples in our third part, but at this stage of the presentation, let us simply remind the reader that the US definitely levies customs duties on maquiladora products when they cross the border, only these duties are calculated on the Mexican added value, and not on the total value of the product.

To conclude on this first point, we have to say that it would take a lot of imagination to defend the idea that the maquiladora system flourished in a context of wild deregulation and massive erosion of national sovereignty. The maquiladora years can be situated strictly speaking between 1965 and the onset of the North American Free Trade Agreement negotiations with the US and Canada after 1990. In the long history of the PRI, in office as early as 1929 until the recent election of Vicente Fox, these maquiladora years correspond to a period of very firm control of the Mexican economy by the ruling oligarchy. The maquiladoras can even, presumably, be described as part of the PRI leaders' regional strategy, whose interests happened to coincide with that of US firms.

## **II.**

### **Geographic specificity: the Border zone.**

Another defining feature often associated with globalization is the fact that it is based, to put it simply, on the abolition of distance. Concretely, workers in rich countries, for instance, have to compete with developing world people half a world away, who are ready to accept lower wages and less social protection so that the cost of transport will not be a problem for the manufacturer. Global trans-national companies, in the new paradigm, will become enigmatic non-structures, a very loose coalition of facilities scattered around the planet. This description does not fit the maquiladoras even though the geographic transformation induced by the implantation of the industry is genuinely far-reaching. The maquiladoras have created dramatic migration flows inside Mexico

towards the region situated near the border with the US. In 1980, the border zone already has a population of 2.6m people. Over the 80s decade, the maquiladora industry really takes off, so that around 1990 the total population reaches 3.3m (Magraw; 633) with roughly 400,000 directly employed in one of the 1739 officially registered maquiladoras (EPA figures). The first effect of the phenomenon, as we see, is to create very dense concentrations of population near the border. Large amounts of wealth are created in the process so that in 1995, roughly 40% of Mexican exports come from the maquiladoras (Gourlie; 423). By the mid-80s, this industry has become the second source of foreign earnings just behind the oil industry (Voigt; 323 note 1). Yet, this wealth does not materialize in terms of better living standards for the local population. The border zone, north and south of the border, becomes heavily polluted, especially in the now infamous colonias, unincorporated shanty towns where workers, often recent immigrants from the South, find temporary shelter.

The new geography is also characterized by the emergence of the so-called twin cities straddling the border, with one half of the conurbation in the US, with leafy suburbs housing, among others, the relatively affluent managers and technicians who sometimes commute to work in Mexico, and on the Mexican side, an erratic urban sprawl housing the Mexican labor force and their families. The Environment Protection Agency has described 14 such conurbations starting with the first one near the Pacific namely Tijuana, Baja California, and San Diego, CA and ending in Texas with the twin city of Matamoros, Tamaulipas, and Brownsville, TX.

To sum up the dramatic effect of the maquiladoras on geography, we could say that it is diametrically opposed to what is generally considered a feature of globalization. First the border, far from becoming an irrelevant abstraction becomes the central axis of the region, which is physically entirely redrawn around it. Second, proximity remains or becomes a crucial factor for production. Workers are physically as close as possible to the central zone, and the goods travel a minimum number of miles between the US father company and the Mexican assembly plant. US jobs are not "exported" to faraway countries, but offered to next-door Mexican workers, which makes it hard to speak of an economy "going global." If geographic dispersion and blurred borders are to be kept as defining globalization, one has to admit that the maquiladora structure does not fit the description. (Now let us focus on the third and last point of the presentation, i.e. protectionism and free trade)

### **III.**

#### **Protectionism as a basis for the maquiladoras.**

One of the underlying forces of globalization, it is widely assumed, is the fact that the free trade ideology has gradually triumphed. Some anti-globalization militants will go so far as to consider that the GATT succeeded by the World Trade Organization (WTO) is in charge of enforcing free trade and international deregulation. We consider that the maquiladora system was, to a large extent, not only disconnected from the GATT initiatives but adversely affected by them. In fact, the maquiladoras were specifically designed to function in a protectionist environment which may sound paradoxical, if one does not consider the major difference in treatment between consumer goods and producer goods.

#### **Table A : Consumer goods and protection (elementary comparison)**

USA: 10% duty Mexico: 30% duty

(1)  $100 > 130$  the US product is too expensive

(2)  $110 < 100$  the Mexican product is too expensive

In the conventional protectionist framework, consumer goods produced abroad reach the final consumer after incorporating the tariff in its price, which prices it out of the market. It is crucial to understand that this scenario does not directly concern maquiladoras because the goods produced in the industry are destined exclusively for the American

consumer. In the case of American consumer goods transformed by Mexican workers, the strict enforcement of protectionist laws yields a result that is also extremely dissuasive in the case of a moderately labor-intensive production.

**Table B :** Producer goods transformed in Mexico (protectionist scenario)

USA: 10% duty Mexico: 30% duty

- (1)  $100 + 130$  US producer goods go to Mexico
- (2)  $130 + 70 = 200$  Mexican value added by workers
- (3)  $220 - 200$  US consumer price dissuasive

In this scenario, resorting to Mexican workers makes sense only if the cost of US labor exceeds 120 (i.e. 220 minus 100), which drastically limits the range of possibilities. The maquiladora system modifies the situation because of the conjunction of two legal mechanisms, one in Mexico the bond and one in the US the tax exemption on American value.

**Table C :** the maquiladora loopholes

USA: 10% duty Mexico: 30% duty

- (1)  $100 + 100 + 30$  a bond worth 30 is deposited with Mexican customs
- (2)  $100 + 70 + 30 = 200$  Mexican value added by workers
- (3)  $177 + 30 - 100 + 70 + 30$  US customs only tax Mexican value (i.e. 70)
- (4) 177 US company gets a refund of 30 after exporting

Line 1 shows that the Mexican customs duty will not be durably incorporated into the cost of the final product since the sum is only a deposit kept by the Mexican authorities as long as the US goods are on Mexican soil (line 4). The bond mechanism can be summed up by the notion that US goods can enter Mexico on a tax-free basis provided they are to be transformed by Mexican workers but finally consumed, after (re)exportation to the US, by Americans. Symmetrically, line 3 shows how a loophole in the American tax code allows goods to enter the US with the benefit of partial exemption on its American value. By combining these two mechanisms, the cost of the final product once on the American market is kept to a minimum, which allows the US parent firm to make a profit and the Mexican plants to sell its work force abroad.

The remarkable and perhaps surprising feature of this system is that it is compatible with the principles of protectionism. The US, in theory, can dissuade its neighbor and provider of workforce to resort to unfair practices like dumping, the main danger here being less the underpricing of the labor force than what is generally termed environmental or social dumping. Seen from Mexico, the protectionist structure remains largely unaffected because the Mexican consumer products are still insulated from US competition by high tariff walls. The Mexican authorities seem to have achieved thus two contradictory objectives: maximizing the protection of their domestic consumer market at the same time as competing with the US on a very specific field: the labor market where Mexico had what is traditionally described as a competitive advantage. The aim of this section of the paper is not to approve or disapprove the way the PRI-dominated Mexican authorities have orchestrated the transformation of large sections of their national workforce into an international commodity put at the disposal of large US corporation. Basically, this third and final part of our presentation tries to explore and hopefully clarify the idea that the maquiladoras are deeply rooted in the logic of protectionism, and therefore should not be hastily annexed to the concept of globalization.

**Conclusion: a valuable but limited concept.**

The maquiladoras definitely constitute an experiment in US-Mexican relations, with the specific historical, legal, economic and even geographic conditions that this paper briefly points out. This experience definitely paves the way for a deeper integration of both countries, an integration that can unquestionably be called regional, but not necessarily transposable to the rest of the world economy.

It is also obvious that the North American Free Trade Agreement, which came into force at the beginning of 1994 draws on the experience of maquiladoras by generalizing the

possibility of combining, on the one hand, inexpensive Mexican workers and, on the other, American sometimes Canadian capital, technology and management. Like the maquiladora system *stricto sensu*, the NAFTA belongs to the globalization era because what it calls "international trade" mainly consist of the intra-firm trade of producer goods. But there is a crucial element of discontinuity between the maquiladoras and NAFTA because the latter opens the Mexican consumer market to US products (after a transitional period like in most trade agreements). Therefore, comments that have been formulated about the maquiladoras cannot be transposed to NAFTA without precaution, and it is debatable to lump the two periods together as one experiment leading to a regional form of globalization.

In an attempt to offer a general conclusion to this discussion, we could distinguish between historical and conceptual approaches of the word maquiladora. As a concrete framework for US-Mexican economic relations, the maquiladoras were basically a bilateral and continental form of creating joint-ventures, helping Mexico to break away gradually from its purely protectionist philosophy. Yet, conceptually, it would probably be excessive to use the term without reference to the very specific conditions of its emergence. In other words, the maquiladora can safely be used as a limited concept, an illustration of the changing nature of international economic relations, and a chapter in the history of protectionism or even globalization. Any attempt to promote the maquiladora beyond this level, in our opinion, would imply an oversimplification, and possibly a misconception of the real nature of this phenomenon.