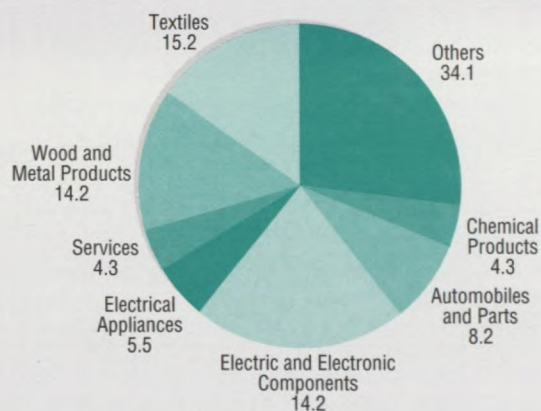


The great success of the *maquiladoras* convinced the Mexican government to extend the program's provisions to the broader Mexican economy. *Maquiladoras* are now scattered throughout the country, although the greatest concentration is still along the country's northern border with the United States.

Originally based in textiles, the *maquiladoras* have diversified into such areas as consumer electronics and transportation equipment (see Figure 1.11). Although labour-intensive production continues to be the trademark of a *maquiladora*, they are now becoming more technologically sophisticated. *Maquiladoras* are generally engaged in assembly activities, combining inexpensive Mexican labour and material with foreign technology, components and capital. The competitive wages and proximity to the U.S. border, together with competitive Mexican exchange rates, have allowed Mexico to compete directly and successfully with Southeast Asia for investment, particularly in manufacturing facilities.

Figure 1.11
Composition of Maquiladora Industry by Main Activities, September 1990
 (in percent)



Source: Conference Board of Canada, June 1992.

There are three types of *maquiladora*:

1. **Subsidiary:** a wholly-owned subsidiary of a foreign company, allowing for the greatest possible degree of control and operational flexibility for the foreign investor. A majority of the more than 2,000 *maquiladoras* operating in Mexico are subsidiaries.
2. **Shelter Program:** a Mexican-owned operation which shelters its foreign investors from the ordinary risks of

ownership. The foreign customer provides the raw materials, machinery and equipment. The Mexican concern exists solely to manufacture or assemble the goods for the foreign investor. By this means, the foreign investor acquires control over the *maquiladora* operation while maintaining a low level of exposure in Mexico. This is the fastest growing segment of the industry and is the most popular type for small to medium-sized manufacturers.

3. **Contract Operations:** manufacturing is contracted out to a Mexican company that is already in operation, thus avoiding the costs involved in setting up either the shelter or the subsidiary. Both the foreign firm and the Mexican contractor set the prices, quantities of production and the dates and locations for delivery.

When establishing a new enterprise as a *maquiladora*, the appropriate permits must be obtained from the Secretary for Foreign Relations (*Secretaría de Relaciones Exteriores*) and the Secretariat for Commerce and Industrial Promotion (*Secretaría de Comercio y Fomento Industrial, SECOFI*). The details of the proposed *maquila* program must be spelled out, including a description of the manufacturing process as well as the resulting product or service. A list of the goods intended to be imported temporarily into Mexico must be included.

The *maquiladora* industry is covered by a set of laws which govern items such as:

- the type of raw materials, tools and equipment that can be temporarily imported;
- how long the goods can stay in Mexico;
- how waste and scrap is to be treated;
- maintenance of accounting records; and
- labour and environmental rules.

In view of the importance of this sector to the Mexican economy, SECOFI passed a Decree for the Development and Operation of the *Maquila* Industry in 1989. The Decree simplified some of the regulations and procedures, making the arrangement even more attractive to the foreign investor. It also improved access to Mexico's domestic market both for sourcing and sales. Manufacturers are now allowed to sell up to 50 percent of total production within Mexico itself.

The rapid expansion of the *maquiladoras* has placed considerable stress on the environment. The Mexican government has awakened to the ecological danger. An integrated environmental plan for the Mexico-U.S. border area has been developed by SEDUE, Mexico's Secretariat