

## MAQUILADORA ZONES

Complementary legislation in Mexico and the United States allows raw materials and components to be imported duty free in-bond and then re-exported to the US with duty applicable only to the Mexican value-added. The original program restricted sales within Mexico to a small proportion of substandard units. The *maquiladora*, in-bond manufacturing, zones are concentrated in the border states, but are also located in areas such as Jalisco and Aguascalientes that are strategically located for exporting industries.

Monterrey's *maquiladora* zones are home to many large-scale multinational enterprises. But under the North American Free Trade Agreement (NAFTA), the *maquiladora* program will gradually become irrelevant. Beginning in 1994, they could sell 55 percent of their previous year's exports within the country. The percentage will be increased by 5 percent annually until it reaches 85 percent in 2000; the restriction will be eliminated entirely in 2001. As duties are phased out under NAFTA, the American side of the arrangement will also become redundant.

Most *maquiladora* plants are already integrating into the local economy. Some of them are helping Mexican companies to develop the capabilities to become suppliers. In addition to meeting quality control standards, Mexican firms need to learn to use CAD/CAM technologies for receiving designs and specifications, electronic data interchange (EDI) systems for order-taking and just-in-time (JIT) delivery systems.

These new opportunities for Mexican companies are creating market opportunities for Canadian firms which can form joint ventures to help them modernize.

The major industries of Nuevo León include steel, glass, cement, plastics, beverages, and chemicals. But there is also a diversified light manufacturing industry with many high-technology operations.

Production is dominated by large *grupos*, Mexico's industrial giants, including *Alfa, Axa, Cemex, Cydsa, Femsa, Imsa, Lamosa, Maseca, Metalsa, Protexa, Pulsar, Ramírez, Villacero, Visa* and *Vitro*. These are mostly family-based conglomerates. They developed in a highly protected environment, where government regulation stifled domestic competition and high tariffs and other barriers kept out foreign competitors. But for the most part, they anticipated the implications of the economic reforms that began in the early 1980s. They supported *la apertura*, the Mexican government's sweeping reforms, and adapted to take advantage of them. By the time Mexico joined the General Agreement on Tariffs and Trade (GATT) in 1986, many of them had already adopted modern business methods and an export orientation.

The presence of big diversified *grupos*, combined with a pattern of subcontracting, have resulted in a relatively large number of medium-sized firms. About 41 percent of all establishments in Greater Monterrey have 51 or more employees. In Guadalajara, a comparable industrialized city, firms of this size account for only 32 percent of the total. Nonetheless, enterprises with five or fewer employees still make up 38 percent of Monterrey's businesses.

Many foreign companies have established plants in the region, including Ford, Chrysler, Caterpillar, Union Carbide, John Deere and Emerson Electric. According to state officials, there are 200 foreign companies in Nuevo León, of which 130 are American and 3 are from Canada.

The region's diversified industrial base provides good opportunities for subcontracting, which means that a wide range of products can be manufactured locally. This is demonstrated by the fact that Nuevo León's 92 *maquiladora*, in-bond manufacturing, operations purchase about one-quarter of their assembly components within the state. This compares with 2 percent nationally, and 10 percent in the industrialized state of Jalisco. This structure has also fostered the growth of small- to medium-sized enterprises (SMEs), which are often good candidates as joint venture partners. Companies located in the region are eager to use the most advanced technologies, and in some cases they have exchanged their own innovations for use in other countries. The Nuevo León state government sponsors a shelter program that reduces the risk that small foreign companies experience while entering the local market.