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## Mexico Encourages Maquiladora Plants to Use More Domestic Components

by LADB Staff

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In late October, the Trade Secretariat (SECOFI) announced a series of steps to promote an increase in the use of domestic components in the final product assembled at maquiladora plants. The steps, published in the federal register (Diario Oficial) on Oct. 23, designate suppliers of maquiladora plants as "submaquilas," allowing them to enjoy tax breaks and other favorable treatment normally granted to maquiladora plants. According to the government statistics agency Instituto Nacional de Estadísticas, Geografía e Informática (INEGI), only 1.5% of the components used by maquiladora plants in 1995 came from Mexican suppliers.

Under the changes proposed by SECOFI, any Mexican company that supplies components or other materials used by a maquiladora plant would be designated as an "indirect exporter" or "submaquila" operation. This would qualify that supplier for tax breaks and other incentives normally reserved for the full maquiladora operations. SECOFI also proposed mechanisms to enhance the role of the maquiladora industry in the Mexican economy, such as a reduction in regulatory paperwork and the creation of incentives for maquiladora plants to increase exports and boost employment levels. According to INEGI, the number of jobs in the maquiladora industry has increased significantly over the past several months, compensating for the slow job creation in the general economy.

INEGI statistics showed that 770,000 workers were employed in maquiladora plants as of August, an increase of 20% from the same month in 1995. Statistics from the national maquiladora industry chamber (Camara Nacional de la Industria Maquiladora de Exportacion, CNIME) reinforce the INEGI report. According to CNIME, maquiladora plants created 50,000 new jobs in January-August 1996, largely because of a 20% jump in exports from maquiladora facilities to the US and other countries. Industry insiders differ on the impact of SECOFI's incentive measures. For example, maquiladora executives interviewed by the daily business newspaper El Economista said SECOFI's plan has great possibilities, but the impact of the program will not become apparent in the near term. The executives said there is currently little or no incentive to acquire products from Mexican suppliers, since these same products are available at a very cheap price from the parent company.

One of these executives, Victor Campos, director of Hudson Co. in Baja California state, said there are very few domestic companies in northern Mexico that are able to supply maquiladora operations. According to INEGI statistics, roughly 86.8% of the maquiladora jobs are concentrated in the four states of Chihuahua, Baja California, Tamaulipas, and Coahuila, all of which border the US. Even in those cases where a Mexican company can offer parts or components at a lower price, said Campos, the products are usually of inferior quality than those imported from the parent company. According to Campos, a high percentage of the products that Mexican companies sell to maquiladora plants are not normally used in the production process but are items such as packaging materials and maintenance equipment.

On the other hand, Campos noted great potential for Mexican companies to increase their sales to the maquiladora plants located in the interior of the country, especially those that specialize in assembly of electronic products. Pablo Figueras, president of the supply development council (Consejo de Desarrolladores de Proveedores de Mexico), presented a more optimistic view. According to Figueras, the potential exists for Mexican companies to increase their role as suppliers for the maquiladora sector, especially to companies that are not based in the US. Figueras said companies based in Asian countries such as Taiwan and Singapore have asked their maquiladora subsidiaries in Mexico to find ways to reduce operating costs, which includes finding local suppliers. With the right incentives, said Figueras, domestic manufacturers could increase sales to maquiladora plants by between 50% and 60% annually.

Figueras said his organization has launched a program, with the help of SECOFI, to match potential suppliers with maquiladora plants. To date, his organization has identified more than 3,200 domestic companies with the potential to provide supplies and materials to maquiladora plants. Some critics argue that the lack of domestic participation in the maquiladora sector reflects a larger problem in Mexico, whereby government policies have done little to help local producers either to increase their participation in the export sector or to compete with foreign imports.

According to Francisco Suarez Avila, for example, who chairs the finance committee (Comision de Hacienda) in the Chamber of Deputies, the Mexican government made serious mistakes in the late 1980s, when market-opening policies were developed without accompanying measures to build up the domestic manufacturing industry. "The market-opening and a lack of a defined industrial policy contributed to the demise of many small and medium- sized businesses, leading to the near elimination of many productive sectors," said Suarez. (Sources: La Jornada, 10/15/96; Excelsior, 10/03/96, 10/17/96; 10/24/96; El Economista, 10/23/96, 10/28/96; The News, 10/03/96, 10/09/96, 10/23/96, 10/29/96)

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