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LADB Staff

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Chinese Companies Open Maquiladora Plants in Mexico
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In a strange twist, nearly two-dozen Chinese companies have started to establish maquiladora operations in Mexican territory, reversing a trend in which some Mexican operations were moving to China. As recently as 2002, Mexican officials were raising strong concerns about the flight of maquiladora operations to China to take advantage of cheap labor, lower taxes, and other incentives offered by the Chinese government (see SourceMex, 2002-07-17 and 2002-11-13).

During the past two years, Chinese manufacturers of cellular telephones, televisions, textiles, and automobile parts have started to transfer some of their assembly operations to states in northern Mexico to take advantage of the reduced US tariffs available under the North American Free Trade Agreement (NAFTA). China's aggressive expansion into international investments coincides with its recent entry into the World Trade Organization (WTO). Mexico reluctantly endorsed China's membership in the trade organization after months of grueling negotiations (see SourceMex, 2001-08-09 and 2001-09-19).

Mexican maquiladora industry supportive
Mexico's maquiladora industry is now urging the Fox government to create incentives that will benefit China and other countries with maquiladora operations in Mexico. This includes a push to reduce import taxes for some components used in the final assembly. The Secretaria de Economia (SE) is in the process of review tariffs on components from 105 countries that currently lack a free-trade agreement with Mexico. "We have to make use of our geographic advantage and encourage investment in many sectors," said Enrique Castro Septien, president of the Consejo Nacional de la Industria Maquiladora de Exportacion (CNIME).

Castro would not reveal the names of the Chinese companies operating in Mexico but said they have operations primarily in Chihuahua, Tamaulipas, and Baja California states, creating close to 4,000 jobs in the three states. Some Chinese companies are also considering establishing operations in southeastern Mexico, said Castro. "[The Chinese] investment levels are still small, but we already have somewhere between 20 and 25 companies in Mexico," said Castro. Castro said China's decision to become involved in direct investment in Mexico could prove beneficial for the Mexican partners of the Chinese enterprises. "We have to see this as an opportunity to participate in the Asian markets," said the CNIME president.

The CNIME's enthusiasm for Chinese investment in Mexico masks other problems in bilateral economic relations, such as the continued influx of Chinese contraband into Mexico (see SourceMex, 2003-05-14, 2004-01-14 and 2004-12-08). China has also displaced Mexico in the US market, particularly in sales of textiles and apparel (see SourceMex, 2005-04-06). The Chinese-affiliated companies comprise a tiny fraction of the 2,817 maquiladora plants operating in Mexico. US-based firms still account for the vast majority of all assembly plant operations.

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Maquiladora exports projected at record level in 2005

The CNIME projects exports from the maquiladora sector to reach a record US$90 billion in 2005, up from about US$86 billion in 2004 and US$77 billion in 2003. The increased exports from the maquiladora sector are expected to contribute to higher overall exports for Mexico. The government statistics agency (Instituto Mexicano de Estadística, Geografía e Informática, INEGI) said Mexico's total exports in January-July amounted to US$117 billion, 11% higher than a year ago. The sharp rise in exports was accompanied by a spike in imports, which amounted to US$120.3 billion in January-July, resulting in a trade deficit of more than US$3 billion. The deficit is up about 34% from the same seven-month period in 2004, said INEGI.

The hidden weakness in the export statistics, says the business sector, is the continued dependence on sales to the US. "Mexico has been unable to remain competitive because 80% of our exports are still destined for the US," said a recent study published by the Centro de Estudios Economicos del Sector Privado (CEESP). Furthermore, the encouraging export statistics for the maquiladora sector mask the continued reliance on imported parts to assemble the final product.

In January-May of this year, foreign suppliers accounted for US$21.9 billion of the components used by the maquiladora sector. In contrast, Mexican suppliers accounted for only 3.4% of maquiladora components, a marginal improvement from 2% in 1994 (see SourceMex, 1994-03-02). "In the 30 years that the maquiladora industry has existed in our country, we have proven incapable of developing the type of companies that supply the assembly plants," said Castro.

The Mexican maquiladora sector is also wary about the Central American Free Trade Agreement (CAFTA), which the US ratified in July (see NotiCen, 2005-08-04). The Mexican maquiladora crisis in 2002 not only saw operations moving to China, but also to Central American countries (see SourceMex, 2002-07-17). CNIME officials said Central American countries not only offer cheaper labor but also better incentives to investors. CNIME vice president Tomas Mena said the Mexican maquiladora sector would have to diversify to compete with Central America. This would include producing high-value items such as airplane parts, said Mena. [Sources: Consejo Nacional de la Industria Maquiladora de Exportacion (www.cnime.org.mx); El Financiero, 08/02/05; La Cronica de Hoy, The Herald-Mexico City, La Jornada, El Universal, 08/18/05; El Economista, 08/17/05, 08/23/05; El Sol de Tehuacan, 08/23/05]