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MEXICO'S BORDER INDUSTRIALIZATION PROGRAM IN PERSPECTIVE.(U)

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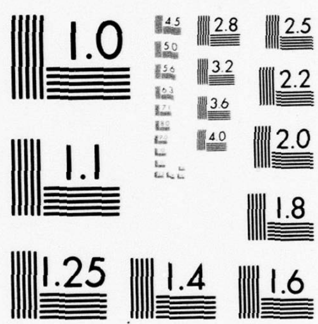

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MEXICO'S BORDER INDUSTRIALIZATION PROGRAM IN PERSPECTIVE.

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INTRODUCTION

Mexico's Border Industrialization Program permits United States manufacturing firms to own and operate subsidiary plants south of the border for the purpose of using Mexican labor to assemble products for reshipment to the United States. This program, being of a controversial nature, subjects itself to numerous questions, one of which asks who profits from such an international arrangement.

It is the purpose of this paper to present a critical analysis of the industrialization program to determine whether it is more advantageous to the economic betterment of those United States firms participating in it or whether the program contributes significantly to the economic development of industry and labor in the border region. Emphasis is on the advantages enjoyed by participating firms in comparison with the long range development and growth of industry and labor in Mexico rather than the immediate provision of employment.

The Border Industrialization Program, commonly referred to in Mexico as Maquiladoras, a term encompassing all aspects of border industry, was initiated in 1965 under regulations issued by the Ministry of Industry and Commerce for the purpose of fostering the development of Mexico's Northern Border Region. By program design, Mexico offers her abundant labor resources to United States firms who agree to establish a plant in Mexico and provide badly needed employment opportunities. Under the sanctions of the program, raw, unassembled items are shipped to the Mexican plants for assembly and returned to the United States for distribution and marketing. Manufacturing processes occurring within Mexico consist primarily of labor intensive, routine assembly line operations which cannot be profitably performed within the United States due to the high cost of American labor. It is unquestionably the low cost of the Mexican laborer, brought about by the over availability of supply, that purveys the incentive for United States industries to extend operations south of the border.

Both United States and Mexican laws facilitate the program. United States tariff laws are quite lenient in the return of American goods from across the border while the Mexican Government structures the legal framework of their program to allow the Maquiladoras to function virtually the same as if they were managing their home office in Dallas or Los Angeles.

The impact of foreign-owned industries on the economy of a country struggling in its development is normally quite provocative, but in this case, the impact is offset, at least politically if not economically, by the immediate rewards of employment. Other benefits, particularly those having a more permanent effect, are not as immediately evident and it is for this reason that questions arise as to who gains most from the program.

CHAPTER I

INITIATION OF THE BORDER INDUSTRIALIZATION PROGRAM

Mexico's Border Industrialization Program was initiated as yet another cure for the economic and political ills of the border region. As a means of eliminating some of the more severe implications of unemployment, the program was as much of a political maneuver as economic and takes its place among a sequence of forerunners designed to integrate the northern region with the tempo of the country's interior. Under the orchestration of the Diaz Ordaz government, the program was a new concept to improve the employment situation which had been exacerbated by the termination of the Bracero Program. Although the concept was new, the principles of execution were to remain constant in that "cheap" labor was again being offered to the United States, but this time, industrial laborers could remain in Mexico.

Through the Border Industrialization Program, it was conceived that by allowing United States industries to establish assembly plants along the border the high unemployment rates in border cities could be reduced. At that time, several border cities had unemployment rates estimated to be as high as 40 to 50 percent.[1] In addition to playing a numbers game with job positions, it was believed by government officials that the new program would contribute significantly to border development.

It was anticipated that the program would improve incomes and living standards, introduce modern manufacturing methods and technical skills, and increase the consumption of Mexican raw materials.[2] From a pragmatic viewpoint, it was easy to visualize that this concept would not only spur development in the north, but would, in fact, place it in consonance with the rest of the country and would train a labor force with marketable skills vital for continuing development.

It was further anticipated that the program would not be an indefinite adventure, but would function only long enough to realize stated goals. These intentions were confirmed by Industry and Commerce Secretary Torres Manzo on May 26, 1971 when he commented in Tijuana that the border industry program was a "necessary evil" needed to provide employment and training for local workers until such time as they can be absorbed by Mexican industry. He further noted that the long-term goal for the Echeverria administration was toward developing Mexican industry in the border area utilizing local raw materials and Mexican control of assembly operations. He had earlier suggested that Mexican capital should begin to play a more important role in the industry program.[3]

From Secretary Torres Manzo's comments and from numerous other projections that were made at the time, it is evident that Mexico was relying on the program not only as a means to provide immediate employment, but also as a means to boost her development efforts in the north. Perhaps the enthusiasm generated by anticipated contributions to long-range goals clouded some of the more pertinent issues involved.

One of these issues was a variance in perspectives. From a Mexican viewpoint, the program was encouraging because it offered rapid growth resulting in a significant number of jobs for the unemployed. Mexico knew that many firms were already operating assembly plants in Taiwan and Hong Kong at the time of the program's conception and that many of these would move their operations to Mexico. There were also good indications that many new firms would initiate assembly plants simply because of Mexico's close proximity to the United States.

On the other hand, manufacturing firms were viewing the program from a different perspective. Even though foreign firms were eager to take part in the program, their reasons for participating were not in unison with those of the Mexican Government's. United States industries were coming to Mexico not to provide employment as the plan called for, but simply because there was an abundance of unemployment which was holding the price of labor at an attractive level.

For United States industries, the price of labor had become the primary factor in the cost of production, and foreign competition was pressuring American firms to reduce labor costs. From their perspective, the low cost of labor was the only element of importance in Mexico, and any alteration to it was certain to create an imbalance in production costs.

Faced with the vexations of unemployment and influenced by industry's need for "cheap" labor, the Mexican Government constructed the legal framework governing the Industrialization Program.

In most cases, instead of writing new laws, it was a matter of writing exemptions to existing laws designed to curb foreign investment and financial intervention. Ownership laws were revised to allow up to 100 percent foreign ownership and control of manufacturing operations. Even the ownership of land, which is prohibited by the Constitution, is now authorized under a trusteeship arrangement and allows full control of property for up to thirty years. Customs laws now allow for the temporary importation of foreign made machinery and other essentials necessary for the manufacturing process as well as for raw materials and subassemblies all duty free. There is a provision, however, which requires the bonding of raw components to insure against the loss of import taxes should the items illegally enter the Mexican market. Immigration laws have been amended to provide special provisions for obtaining work permits for foreign technicians and managers to work in the Mexican plants.[4]

Under original initiation laws, the above provisions were applicable only to free trade ports or zones, which were within a twenty kilometer strip paralleling international boundaries and coasts, or to a bonded plant. However, new regulations adopted in October 1972 expand the legal area for operating assembly plants to include the entire country.[5] Another protective measure requires all assembled items to be exported, but again, the 1972 modifications outline procedures for obtaining permission to sell certain products on the domestic market.

Generally, border industries are bound by normal tax laws except in locations where special incentives have been offered as an attempt to lure industries to those areas. An example is the state of Sonora which offers 100 percent state tax exemption for the first ten years and 50 percent for the second ten year period of operation.[6]

Mexico's legal framework is noted for its flexibility in dealing with the Maquiladoras, and, at least for United States firms, it has been most favorable. In the majority of cases, regulations have been "stretched" to facilitate the operations of border plants. In one instance in which the Mexican Government attempted to impose a 4 percent tax on Mexican components used in export products, the Maquiladoras responded vociferously and won their case through a favorable ruling from the Mexican Supreme Court.[7]

United States laws affecting the operations of Maquiladoras are in the form of Tariff Codes regulating duties levied on products coming from the Mexican plants. Tariff Items 806.30 and 807.00 require duty to be paid only on the value added as a result of the processing performed. For border industries, this means that duties are paid almost entirely for labor costs. Item 806.30 originated as a part of the Customs Simplification Act of 1956, originally designed to encourage metal processing in Canada, and Item 807.00 had its beginnings in a 1954 Customs Court Decision.[8] In the case of the Maquiladoras, Item 807 is by far the more prominent. In 1971, $260 million worth of border industry output entered the United States under Item 807 compared with $10 million under Item 806.[9]

By the end of 1974, at the peak of its growth, the number of plants in Mexico was just over 450, employing in excess of 75,000 Mexicans.[10] Of these plants, 95 percent were located in border cities with the remainder scattered throughout the interior.

Electronics has always been the dominant industry accounting for nearly 40 percent of the plants while the clothing and apparel industry is the second largest with 27 percent. Together, these two account for 2/3 of all industries, employ 4/5 of the work force, and constitute more than 78 percent of the net value of production.[11]

Along with the increasing number of plants established and employees hired, another significant indicator of growth has been the steady rise in production output. Production has been doubling every two years and in 1974 Mexico exported $444 million worth of "added-value" to American goods. This amount represents nearly 14 percent of all of Mexico's exports and 11 percent of all United States imports under Tariff Items 806/807.[12] These statistics may appear quite impressive, and indeed they are, as Mexico has rapidly become the largest foreign assembler of United States components for re-export to the American markets.

It would be a misinterpretation of facts to believe that factors other than an abundant supply of "cheap" labor lured firms to Mexico. It would also be unfair to imply that Mexico has not gained from its program. Its rapid growth attests to its initial success and only within the last year has it begun to decline. In this case, the term growth refers to the increase in the number of physical facilities established, the number of employees hired, and the quantity of output produced rather than the permanent growth that occurs as a part of the development process.

The question arises whether Mexico has really enhanced her economic development process or created an enclave for profit seekers. A good example of profits being made is the Los Angeles Olga Company, manufacturer of foundation garments and lingerie, who in three and one half years stated earnings of $500,000 on a $40,000 investment.[13] One source reports that, in 1974 alone, $36 million in profits and other payments by Maquiladoras were taken out of Mexico.[14] The future of the program hinges on the continuity of profits which in turn is dependent on the use of "cheap" labor. Any disruption in this relationship, from whatever source, could create a serious decline in participation such as has occurred within the last year.

Beginning in late 1974, a number of firms, feeling the pressure from economic recession at home and from a recent rise in wages in Mexico, either closed their border plants altogether or moved to a source of "cheap" labor. In all, nearly forty plants have been reported as having terminated their border operations leaving thousands once again unemployed with no place to turn for jobs.[15] This unfortunate situation hardly represents the long term progression that Mexico is seeking, but instead indicates a critical reliance on United States business firms. At the same time, the reactions of the Maquiladoras tend to clarify their relationship with Mexico. It shows that United States business firms are strictly oriented toward their own economic goals and are not interested in the goals of the program or the development of the host country. This representation is not the conduct expected of a good corporate citizen nor is it conducive to the development of Mexico's industry or labor.

CHAPTER II

ADVANTAGES TO UNITED STATES BUSINESS FIRMS

Assembly operations are the most flexible element in the production process and can be moved from one source of cheap labor to another with relative ease due to their intense labor requirements and their need for only a minimum amount of technology and equipment. The shifting of labor intensive assembly operations is neither a new concept nor is it unique to Mexico's industrial program. Large multinational corporations have always been concerned with profit strategy and have taken advantage of cheap labor sources since the late 1950's and early 1960's.

The electronics industry was one of the early forerunners in shifting labor intensive operations and was first to take advantage of cheap labor in Europe, Korea and Taiwan. In 1965, with the initiation of Mexico's Border Industrialization Program, electronics was also a leader in establishing assembly plants along the border. The number of electronic participants grew rapidly, and by 1973 there were over 160 electronic assembly plants in Mexico representing nearly all major electronic firms.[1]

Motorola was among the early arrivals in the border area when it moved its Phoenix assembly plant to Nogales, Sonora. The reason for moving was an estimated $4 million a year savings in labor costs alone. An assembly worker in Phoenix was costing $5,350 per year as opposed to $1,060 for a Mexican worker.[2]

Electronics were not the only industries being tagged as "runaway shops." Apparel industries have historically fled organized labor and rising wages. As early as 1910, garment manufacturers were moving their sewing operations from the big cities in the east and hopping across the United States from one source of labor to another. Finally in 1965, they, too, crossed the Rio Grande into Mexico. Garment shops along the border have traditionally operated smaller plants normally employing less than fifty women workers.

Not only have sewing operations traditionally been small, but they have also gained a reputation for being short-lived and unstable. A survey conducted by the United States Embassy showed a rapid turnover of small sewing facilities in the cities of Mexicali and Tijuana. Between June and December of 1971, there were 37 sewing firms disbanded while 53 new ones were established. Within this exchange, it was found that many of the principals of the defunct firms were also involved in the new organizations.[3]

Many of these smaller companies engage in contract sewing for major firms, initiating their operations when the contract is obtained and disbanding it when the contract is complete. However, not all sewing plants are fly-by-nighters run by small independent companies. Many are owned and operated by large reliable firms such as Levi-Strauss, Puritan, and Kayser-Roth. These tend to be more stable and normally employ a greater number of workers.

Not all "runaway" firms displace to Mexico, but all definitely displace to areas offering cheaper labor. Examples are given in a 1970 report of the International Union of Electrical Radio and Machine Workers. The union reports that The Standard Kolman Company closed its plant in Oshkosh, Wisconsin, leaving 1100 unemployed, and moved to Mexico. Also, Warwick Electronics closed out 1600 jobs in Zion, Illinois and moved their operations to both Mexico and Japan. Bendix left 600 unemployed workers in York, Pennsylvania when they moved to Mexico while RCA, General Instrument, and Emerson displaced to Taiwan and Belgium.[4] Later many of these firms either moved their operations to Mexico or opened additional plants there.

There are numerous attractions in Mexico that lure American industries south of the border, but the advantages to be gained through the use of Mexican labor is the primary drawing card. One factor that needs no emphasis is the size and availability of the labor force. For decades, Mexico has experienced difficulties caused by the northern migration of unskilled labor. Opportunities for employment, either real or imagined, have always been better along the American border and have always attracted a large influx of unemployed.

A prospective employer has few worries about finding workers and can take his pick from an abundance of unskilled applicants. One illustration of the availability of labor is shown in a 1970 survey taken in San Luis, Sonora. Within a nine hour period, 1,989 job applications were received. Classifications of the applicants were as follows:[5]

Women 16 - 24	386
Women over 24	145
Men 16 - 24	1,171
Men over 24	203
Bilingual men women	84

The availability of skilled labor is not as plentiful, but neither is the demand as great. Native skilled personnel are not readily available in border cities, and if hired, must be recruited from the interior. The cost of skilled labor is not favorable to production costs, therefore, the requirements are small. The majority of skilled functions are either performed by American technicians temporarily located in Mexico or are managed and controlled from the American facility.

The importance of the abundant labor supply is the effect it has on wages. The supply and demand relationship working, in most instances in the absence of organized labor, has maintained wage rates at an attractive level. Minimum basic wages are established by local wage commissions in each of Mexico's one hundred eleven economic zones and normally vary from one zone to another. In some cases, according to one source, the Maquiladoras are well represented on the wage commissions by their Mexican lawyers who are also commission members.[6] Since wages account for 60-90 percent of total costs for the maquila industries, any influence that can be exerted to maintain a low minimum wage is monetarily rewarding.[7]

Included as a part of the minimum basic wages are various fringe benefits and other labor related expenses established by Mexican law. Generally, these benefits average about 50 percent of the basic wage rate.[8] In the late 1960's, minimum wages along the border ranged from \$3.52 (U.S.) to \$5.52 (U.S.) per day.[9] Currently, wages listed for Juarez, in the El Paso-Juarez Twin Plant Handbook, are \$4.65 (U.S.) per day and wages for San Luis, Sonora, according to the Yuma Chamber of Commerce, are \$9.91 (U.S.) per day.[10] San Luis is in economic zone one which includes Baja, California, and has the highest minimum wage rate in Mexico.

In the Nogales area, minimum wages have increased 86 percent in the past twenty-four months, and there is a 16 to 18 percent increase planned for January 1976. The effects of the January increase, if it transpires, may have much deeper consequences on the industrialization program than any in the past. These wage increases are manifestations of efforts to improve the plight of the Mexican worker, but have been met with mixed reactions by the Maquiladoras. The most recent increase, and perhaps the one with the greatest impact, came in October of 1974. This 22 percent rise in minimum wages seriously effected the operating costs of all maquila industries.[11] In many instances, the Maquiladoras responded by reducing the number of employees or by initiating other cost reductive measures. In other cases, the Maquiladoras terminated operations completely and moved to new locations.

Many new considerations have been generated by the increase in minimum wage rates, and comparisons are now being made with wage rates in other countries. One comparison presented by the American Chamber of Commerce of Mexico points out the fact that Mexican wages are no longer considered competitive. They show that the hourly wages along the Mexican border are currently over 15 pesos compared with equivalent labor costs in Brazil of 5.75 pesos, in Formosa of 4.00 pesos, in Ecuador 2.00 pesos, and in Thailand and India 1.25 pesos.[12] The chamber of commerce is also quick to add that many of these countries are offering very favorable fiscal incentives and tax exemptions as well as liberal immigration and customs duties to attract Maquiladoras to their countries.

Even though Mexican wages may be losing some of their attractiveness, the productivity of the Mexican worker continues to be alluring. In electronics, where competition is keenest, high quality performance and productivity is essential to maintaining a competitive edge and has proven to be very favorable in Mexico. In Electronic Control Corporation's Matamoros, Tamaulipas plant, managers claim outputs as high as 4,000 units per day per worker compared to an output of 2,500 units in their Euless, Texas plant.[13]

Managers generally agree that productivity is highest in jobs of highly repetitive operations involving long production runs. Frequent changes in assembly lines or in organization tend to reduce both quality and productivity. For example, Kayser Roth Corporation was forced to close three of their sewing plants in Mexicali during the summer of 1971 because of reduced quality and productivity. Rapid changes in designs and styles of their swimsuit products made long production runs impossible, thus, rendering their sewing operations cost excessive.[16]

High productivity can be attributed to a number of factors, the most prominent of which is a high percentage of young women employees. Managers claim that young women possess more productive dexterity and respond more quickly to training. Even with shorter training periods, Mexican women continually out-perform their American counterparts. Productivity is especially critical in electronics where labor costs make up a high percentage of the final product value.

The drive for high output does not imply that quality control is of less importance. On the contrary, quality control takes on added emphasis in labor intensive assembly operations and there is little leeway for errors. According to an interview conducted in a Tijuana plant, a North American quality control engineer maintains performance charts for each woman employed. When a young woman makes more than three errors in one day she is warned. The next time it happens she may be suspended for a day without pay or even fired.[15]

Job opportunities for women have lured thousands of young girls from the interior to compete for border industry jobs. The high availability of prospective employees has provided yet another advantage for the Maquiladoras in the form of low turnover and absentee rates. Videocraft of Laredo, Texas boasts of a turnover rate of less than 5 percent per year and absenteeism of only 1 to 2 percent. They claim they always have about fifty people waiting for job openings.[16]

Along with the advantages of abundant cheap labor, low wage rates and high productivity, the lack of strong labor unions offers still another positive factor for the labor intensive industries. In general, labor unions have made little headway in organizing maquila workers. As reported by the American embassy in June 1971, only slightly over one-half of the Maquiladoras had some form of unionization. The majority of these were along the eastern portion of the border representing only a small portion of the total border industry employees.[17] Progress made through unionization varies from state to state and is heavily dependent on the political clout of state and local leaders. Of most importance to the Maquiladoras has been the governments influence in settling labor disputes and the favoritism shown for member firms of the program.

Although on the whole, labor conflicts have not been a major problem, there are areas where labor militancy has raised its head. Most notable was in Neuvo Laredo, Tamaulipas in mid 1974 when the United States recession was perhaps having its most severe effect on the electronic industry. In several plants in this area, workers rebelled against arbitrary layoffs and the refusal of companies to pay legal indemnities. In settlement of these labor revolts, union representatives were pressured by government officials to accept something other than favorable settlements. In some cases, labor leaders were forced to agree to less than full indemnization for the layed-off employees while in other cases they had to settle for no indemnities at all.[18]

Agreements such as these are not the arbitrary decisions of local labor leaders, but are sanctioned by the Mexican Government which has the supportive strength of the PRI apparatus. In the absence of strong independent labor organizations, government influence manifests itself through the political actions of state and local officials as well as through union representatives. In the case of the maquila industries, not only does the government effectively control minimum wages through the numerous wage commissions, but also they manipulate the workings of the few labor unions to best serve what they see as being the needs of the industrialization program and the border region. From all appearances, it seems that the political needs of the government, to offer employment to the masses in return for stability, outweighs the social and economic needs of the Mexican citizen.

The most recent trend in labor negotiations is for the Mexican Government to play the dominant role in solving labor crises. Government intervention on behalf of the labor unions may have benefited the government, but it has been at the workers expense and has resulted in a deterioration of his rights and benefits. In an effort to sustain the progress and growth experienced in the early years of the program, the government has slowly chipped away the power of the labor force.

The outlook for future response by the government doesn't offer any immediate encouragement. On March 7, 1975, a symposium for the evaluation and promotion of the Maquiladoras was held in the city of Chihuahua with representatives of both the Mexican Government and the Maquiladoras attending. Immediate problems stressed by the Maquiladoras were the need for joint efforts to reduce costs and to avoid or minimize the possibility of new short-term increases in costs over which the industry has no direct control.[19]

The Maquiladoras made specific proposals to the government which in their opinion would help reduce labor costs and would perpetuate the life of the industrialization program. According to one report, the government was quick to grant additional concessions to the Maquiladoras. Under the new rules, Maquiladoras can dismiss "inefficient" workers without severance pay, and they can increase or decrease the number of personnel, the work day, the work week, and even salaries whenever the company's situation requires it. In addition, the period of time required for an employee to obtain permanent status is increased from thirty days to ninety days, thereby, allowing companies the opportunity to release temporary workers without severance pay. The Maquiladoras had asked the government to consider extending the temporary status period to one-hundred eighty days.[20]

These concessions hardly represent an interest in the development of labor unions or of a progressive labor force. It is, however, a clear indication that the government is willing to superimpose its strength over labor unions and to shift the burdens of foreign dependency further onto the workers in hopes of retaining some semblance of an industrialization program. Although it appears that the government is intent on making the program work, it is doing so with a loss to its own sovereignty and at the social and economic expense of its citizenry.

Not only are the Maquiladoras continually increasing their influence on the government, but with the granting of each new concession they are gaining more and more control of the program. The Maquiladoras are not content with their recent attainments and are busy planning future negotiations. Their future plans were outlined in a recent Maquiladora Newsletter in an announcement of a seminar to be held in Mexico City on November 17, 1975. The title of the seminar is "Dialogue with Government" and is for the purpose of discussing idealogical differences that may exist between Maquiladoras and government officials. Government reaction to suggestions coming from this seminar are not known at the present, and only time will reveal whether or not any new concessions are granted to the border firms.

Although the Maquiladoras have met little resistance from the so-called Mexican labor unions, they have not been as fortunate in gaining the understanding and approval of United States organized labor. The main cry heard from American labor unions is the loss of jobs due to the transfer of assembly operations from the United States. The practice of moving labor intensive operations to new sources of "cheap" labor has been blamed for the loss of thousands of American jobs. The United States Labor Department reports a loss of 50,000 jobs in women's apparel between 1956 and 1971 and 109,000 jobs in electronics between 1966 and 1972. Of utmost concern is the fact that most of these job losses were absorbed by low income groups with no immediate opportunities available for new employment.[21]

At least one assailant is very adamant about "runaway jobs." Thomas Hurd, president of Local 755 of the International Association of Machinists and Aerospace Workers in Chula Vista, California, asserts that most jobs would be filled by unemployed Americans if the border industry program did not exist.[22]

United States Labor further accuses the "runaway" firms of disrupting labor's bargaining position by either threatening to move their plants or by actually relocating and leaving employees jobless. Labor unions assert that these industries totally disregard the needs of labor during periods of rising living costs. Organized labor points out the fact that due to the nature of assembly functions these companies possess a degree of mobility not inherent in other firms which makes them completely irresponsive to labor's demands.[23]

Industry counters labor's attacks with a multi-pronged reprisal. They quickly avow that the real benefits of low production costs are passed to the American consumer. They also claim that cheap labor allows United States firms to be more competitive with foreign manufacturers. As to the loss of jobs, they explain that most of these jobs would have disappeared whether the companies moved or not because of production costs and competition. They point out that the border industry concept has enabled many firms to remain in business in the United States by allowing them to shift a phase of their production to Mexico. Otherwise, production costs would have priced their goods right out of the market.

An additional argument is that the program improves the competitiveness of the United States in export markets as well, thereby, strengthening the balance of payments. The United States Tariff Commission supports this argument in the conclusion of their report to the President on Sections 806.30 and 807.00 released in October 1970. They concluded that the repeal of 806/807

> "would probably result in only a modest number of jobs being returned to the United States, which likely would be more than offset by the loss of jobs among workers now producing components for export and those who further process the imported products. The net effect of repeal would be a $150-200 million deterioration in the united States balance of trade."[24]

During the course of the Tariff Commission hearings, evidence was produced showing that in a majority of cases Codes 806/807 increased opportunities for United States produced components, thus, unofficially, declaring these Tariff Codes to be within the best interests of the United States.

Organized labor identifies the tariff codes as being the primary legal factor allowing firms to profit from "cheap" labor and have directed their attacks accordingly. Currently, labor is calling for increased government control over imports and capital and for new tax laws to make foreign investment less attractive.[25] Labor has also approached the problem from a broader perspective such as the formation of an International Labor Organization to control the activities of multinational firms. The international approach has experienced limited success, and primarily, labor is concentrating its efforts on the domestic front.

Specifically, labor is asking for tax measures to halt the export of jobs and to create disincentives for production abroad. They also want Presidential authority to regulate the out flow of capital and the export of technology.[26] An initial step in this direction was taken in 1971 with the AFL-CIO sponsorship of the

Foreign Trade and Investment Act of 1972, or more commonly referred to as the Burke-Hartke bill. It was designed to hamper the movement of United States firms abroad, but lost its support and was defeated through a compromise leading to the Reform Trade Act of 1973.[27] Labor did gain some headway with the passage of the United States Trade Reform Act of 1974 which authorizes the President full discretionary powers to temporarily suspend Codes 806.30 and 807.00.[28]

Further progress for labor's position was shown with the introduction of two Anti-806/807 bills into the House of Representatives in February 1975. One of these was designed to eliminate the two codes altogether while the other was to prohibit United States Government agencies from purchasing equipment manufactured with components imported under codes 806/807.[29] The final outcome of these bills are not known at the present time.

The maquila industries can expect continued pressure from United States organized labor on both the international and the domestic scenes. Labor unions are not willing to overlook the ease with which large firms can relocate their assembly operations, nor are they receptive to the profits generated at the expense of workers. New legislation will continue to be presented in hopes of legalizing restrictions that will achieve the goals established by the unions. It can also be expected that labor will gain new supporters with each downturn in the United States economy.

Not only does the locating and operating of assembly plants in Mexico offer a number of advantages to industrial firms, but it also has a significant impact on their operation in the southwestern region of the United States. The effects of the Border Industrialization Program are felt primarily by those southwest border cities in which "twin-plant" facilities are located.

Under the "twin-plant" concept, a firm locates facilities on both sides of the border. The capital intensive aspects of production, requiring the greatest amount of skill and technology, is accomplished in the American plant while the labor intensive portion is performed in Mexico. In order to qualify under Tariff Codes 806/807, the conversion of raw materials to identifiable parts and subassemblies must be done in the United States prior to delivery to the Mexican plant. The American plant also receives assembled products from Mexico and accomplishes whatever additional processing is required.

Although the "twin-plant" concept is not limited to American border cities, a significant number of firms locate there to take maximum advantage of short-distance transportation and communication. This is perhaps best exemplified by the lack of participation of textile firms based in the eastern United States. This is due primarily to transportation costs, but can also be attributed to style and seasonal changes.[30] Likewise, those clothing firms participating tend to concentrate along the western most portion of the border nearest their home offices in San Diego or Los Angeles.

Electronic firms are situated throughout the border area as well as other parts of the United States. One reason given in explanation of their broad coverage is the fact that electronic components are not subject to frequent variations, and they can be shipped by air at a relatively low cost. It is also pointed out that the duty rates on electronic components are relatively low compared with textiles.[31]

American border cities feel the impact of border industries through the increase in employment created by their presence. It is generally accepted that, within the "twin-plant" concept, there is one job created on the American side for every three in the Mexican plant.[32] A 1970 study conducted in the principle border cities shows that border industries have a significant impact on employment.[33] (See Table 1)

TABLE 1

TWIN PLANTS LOCATED IN U.S. BORDER TOWNS AS OF OCTOBER 1973 OR SCHEDULED FOR COMPLETION IN THE NEAR FUTURE, AND TWIN PLANT EMPLOYEES (APPROXIMATE NUMBERS)

	Brownsville Texas	El Paso Texas	Laredo Texas	Eagle Pass Texas	Nogales Ariz.	Douglas Ariz.	Calexico Calif.
Plants	34	20	4	12	5	2	1
Twin Plant Employees	7,300	2,000	300	800	500	350	90
Twin Plant Employees as % of 1970 Total Employ.	50%	2%	2%	20%	20%	10%	3%

Source: From an empirical study on Nogales by Harry Wayer and M. Ross Layton

The study also concluded that the rate of unemployment in most border cities between 1960 and 1970 decreased at a rate less than the decrease for the United States as a whole.[34]

Another benefit for United States border cities comes from the return of wages paid to maquila plant employees. A State Department study reports that employees spend up to 75 percent of their incomes on the American side of the border.[35] By far, the majority of this sum is spent on consumer goods not available in

Mexico.

On the Mexican side, cities have benefited from the establishment of industrial parks to house assembly plants. Not only have these parks been an advantage to the development of the region, but they have become very popular among the Maquiladoras. New firms, who do not desire to obtain land through a trust agreement, may settle into an industrial park where nearly all administrative functions are performed and readied for them. Within industrial parks, the company need only be concerned with its production process as the hiring of employees, professional consultants, and the provision of utilities is handled by the park commission.

In some cases, industrial parks are built and owned by United States citizens. Richard Campbell, an American, owns a park in Nogales, Sonora in which he offers a potential client what he calls a "shelter plan." Under this plan he provides a test service which eliminates the need for the client to form his own Mexican company. Through local subsidiaries of the park, all essential services and coordination, such as the provision of workers and space, the administration of customs clearances, utilities and maintenance, is provided. At the end of the test period, the client may either contract for continued production while preparing his own plant or he may withdraw from the plan.[36]

The "shelter plan" allows new firms to determine whether or not its products lend themselves to border production prior to incurring the expenses of a plant. Also under the plan, a new firm can arrange for trained employees with which to begin immediate production once its own facilities are ready for production.

Once production is underway, it is highly important, due to the nature of the assembly process and the sensitivity of labor costs, to have American managers supervise plant operations. Under Mexican law, American managerial personnel, of up to 10 percent of the work force, are authorized in the plant. Admittance authority is granted under a six month temporary working visa which may be renewed three times. After each two year period, a new six month temporary visa must be obtained.[37] Under this authorization, American middle managers and skilled machine technicians supervise and maintain the labor intensive aspects of production while major technological and managerial decisions are made in the American plant. This arrangement takes on increased significance in the reduction of production costs and is normally extended to its maximum advantage.

In one example, that of the Solitron plant in Tijuana, one manager and one staff direct and provide support functions for its entire operation. A Mexican vice-manager oversees the workers and handles all paperwork and coordination with the Mexican Government while a team of American engineers supervise assembly operations. One manager directs the plant by phone and periodic visits from the home office in San Diego.[38]

Ensambladores Electronicas de Mexico, a subsidiary of Hughes Aircraft Corporation, maintains control using a more sophisticated technique. It has automated its management functions through electronic remote mechanisms, and employs only three Americans in its Mexicali plant.[39]

Not all firms go as far in Americanizing supervisory duties. Mr. George E. Sinko, general manager of Videocraft, an electronics firm in Laredo, Texas, speaks highly of his skilled Mexican employees. Within their Mexican plant, Videocraft employs six native electrical engineers and a number of general foreman. Mr. Sinko feels that in the near future he will be able to hire a Mexican as the manager of his assembly plant. He said, "its only a question of finding the right man."[40]

Videocraft is not alone in using skilled Mexican labor in place of importing American technicians. Aerometales, a subsidiary of Rockwell International, employs thirty Mexican technicians in the grinding and polishing of aluminum aircraft wing sections. Aerometales employs approximately 200 male workers which is a marked contrast to most other plants employing primarily women. Aerometales has not gone entirely to Mexican management, but employs two American advisors in its Mexicali plant.[41]

The number of firms employing Mexican technicians and managers appear to be clearly within the minority. Although the use of American experts provides an advantage to American industries, it promotes a definite disadvantage to Mexico by restricting and limiting the transfer of technology. Most developmental theories emphasize the need for external assistance in order to promote and realize progressive change. It is most unfortunate for Mexico that, within the bounds of her own industrialization program, Mexican nationals are merely puppets dancing on the managerial and technological strings of foreigners who have little concern for their future. It is sad that so few Mexicans are exposed to techniques and skills, beyond routine assembly work, that can be credited to expanding the knowledge and experience so vital to the process of development.

In general, it does not appear that Mexicanization has a role in the future plans of the Maquiladoras. As they call for a relaxation of many of the labor laws, they also ask for a revision of the temporary visas for American managers. One of the problems presented by the Maquiladoras in the March symposium was the limitation imposed by its temporary nature. In order to gain more freedom and flexibility in the management of border plants, which in the long run will also act to curb technological transfers, the Maquiladoras proposed the issuance of work permits for an indefinite period of time. They also asked for a legal change authorizing local government officials to issue new work permits on virtually an automatic basis.[42]

With the many advantages available to the Maquiladoras, there continues to be only one which will have a pronounced effect on the future of the program. The one factor that will determine the continued livelihood of the program is the same factor that lured firms to Mexico initially. That is the availability of labor at a price which is most effective in the face of competition. When this advantage is lost, firms will look elsewhere for competitive labor prices regardless of the numerous other advantages and benefits they now enjoy in Mexico.

The offering of cost effective labor through Mexico's Border Industrialization Program may have already lost some of its appeal. At least at the present time the program is experiencing very serious setbacks and repercussions which could well lead to irreparable damage. The current shock effect was produced by both an increase in wages which occurred in October 1974, and the downward trend of the American economy. Since last October, more than one-third of the maquila plant employees, some 23,000, lost their jobs. Along with the forty assembly plants that terminated operations, the loss was caused by another sixty plants that reduced their output.[43]

According to Dr. Donald W. Baerresen, now the Director of the Institute for International Trade at Texas A & I University, Laredo, some "25 to 40 percent of the American across-the-border plants have closed down, have moved to the interior or have drastically reduced their work forces and operations."[44]

No longer is the Border Industrialization Program experiencing the growth it enjoyed just a couple of years ago. It is no longer a matter of outperforming the previous years growth, but a matter of absolute survival. The future depends on whether or not industrial firms will continue to find Mexico's labor cost effective in the light of rising inflation and proposed pay increases for the coming year.

Mexico must now face the fact that other Latin American countries are also bidding for assembly industries. The simple approach of competing with American wages is past. It is not enough anymore to refer to United States wage rates to show Mexico's competitive position. The gap between these two still exists with a minimum wage in Mexico equivalent to 65 cents while it has reached $2.10 in the United States. But the problem is, at least in the eyes of the Maquiladoras, the 91 percent increase in Mexico's minimum wage since 1970. This rise makes neither the United States nor Mexico very attractive and places Mexico in competition with Haiti, El Salvador and Guatamala to name just three of the many countries with much lower wage minimums.

Other Latin American countries have already begun to make inviting offers to firms having labor intensive requirements. One of the most promising countries to experience a new boom in assembly operations is El Salvador. Among its assets is Mr. Richard Bolin, of Arthur D. Little Company, who is currently advising the El Salvador Government on its maquiladora program. Mr. Bolin was formerly the consultant to Mexico in setting up its Border Industrialization Program. According to Mr. Bolin, his interests lie where the average hourly cost per worker is lowest.[46]

For Mexico's program, only time will reveal the future course. Whether Mexico's leniency to the demands of the Maquiladoras will suffice to prolong death to the program cannot be anticipated at this time. Perhaps through Mexico's generosity, the program will survive for another year or two. Whatever the outcome, the program has been dealt a traumatic blow and will not easily recover from its effects.

CHAPTER III

ADVANTAGES TO MEXICO'S INDUSTRY AND LABOR

The accomplishment of Mexico's long range development goals has been the primary aim for the Border Industrialization Program. Although some progress has been achieved toward that end, it has been on a rather short-term basis, heavily dependent on external variables, and thus, has failed to completely meet the demands created by an expanding labor force. The development of industries and the training of a labor force is a complex and intricate undertaking when relying on indigenous resources and becomes even more sohpisticated when dependent on external sources. Not withstanding the delicacy of the situation, Mexico has enjoyed limited success during the initial decade of the program's existence, but now faces more stringent demands from an ever-increasing pool of unemployed.

With the many labor facets of assembly operations and even with the 75,000 jobs created, the industry program has fallen far short of maintaining unemployment at a manageable rate. Even in 1970, when the number of industrial plants and employment were on the upswing, there was a significant amount of unemployment in major cities along the border. The 1970 census shows Tijuana with 19.7 percent unemployment, Mexicali 18.5 percent, Nogales 42.1 percent, Cuidad Juarez 21.26 percent, Nuevo Laredo 22.9 percent, and Matamoros with 11-13 percent.[1] Unemployment is not just a phenomenon of that time frame, but is an ever-present hinderance to the border region. In fact, it is reported that between 1960 and 1970 the rate of unemployment along the border increased by approximately 87.2 percent. This trend was apparently unaltered during the early 1970's as by 1974 there were approximately 210,000 border residents unemployed.[2]

Contributions to the expanding ranks of the unemployed are traceable to factors of a growing population and to a common trend of northern migration. The border region has traditionally had an attractive appeal to immigrants and it is estimated that 31.7 percent of the border population consists of former interior residents who are lured northward by the modern influence emanating from the United States.[3]

Population growth has created an insuperable problem for Mexico. Between 1960 and 1970, the average rate of growth for the country as a whole was 38 percent. By way of adding to the problems of the border region, northern cities far surpassed the national growth average. Tijuana reported a population increase of 102 percent for the same decade while Cuidad Juarez reported a 57 percent increase.[4] By far, the majority of increase was among immigrants who envisioned improved employment opportunities along the border.

The effects of unemployment have not only manifested themselves through numerical significance, but also have evinced an imbalance in the social make up of employees. It is reported that as high as 85 percent of the total employees in maquila industries are young women between the ages of sixteen and twenty-two.[5] This fact alone has revolutionized the social etiquette of employment practices and has resulted in high unemployment among the male populace.

These employment practices have effected a new economic independence for Mexican women and have dealt a shattering blow to the traditional mores of male dominance. Other indicators exemplifying the new freedom experienced by young women is seen in the changing statistics on prostitutes and unwed mothers in Cuidad Juarez. It is reported that the number of registered prostitutes fell drastically from 9,000 to just below 500, while the number of unwed mothers soared to new heights.[6] These are only the overt manifestations which are easily identifiable without in-depth research.

The real social consequences of hiring young women is perhaps still in its embryonic state and totally unrecognizable at this point. Even the United States Embassy admits to being perplexed by the social effects of the program and sees a definite requirement for extensive research in this area. They have no real idea of what long-term social effects the employment practices may have, but offer some initial observations as possible trends.[7]

From general observations there appears to be a rapid change in the traditional relationship between parent and adult daughter, a definite increase in illegitimate births, and an increase in male frustration and delinquincy resulting from a change in the traditional male-female family roles. In general, there is a reported increase in prostitution and delinquincy resulting from a combination of heavy migration to the border area and unfulfilled job expectations. These are mere observations at best, but identify a need for a reevaluation and alignment of social and economic goals as well as requiring a solution for reducing male unemployment.

There also exists a need to study and determine what effect women's new role is having in other sectors. The role of working women, and women as primary wage earners is bound to have a changing influence on women's place in politics and economics as well as society.

The high rate of women employees stems from the tedious assembling and sewing procedures required in the dominating electronic and textile industries. Women have always been considered the optimum employee because of their dexterity and high productivity. Some firms have experimented with male employees, but have generally found them to be unsatisfactory except in the roles of supervisors and technicians.[8]

Employment is only one area in which results have fallen short of expectations. Another short fall is in the transfer of skills through employee training. The preponderance of workers are employed in strictly routine assembly work which requires very little training or skill beyond that normally inherent in the average Mexican citizen. It can hardly be assumed that any learned skill is transferred in the short training process, or that the so-called "trained" employees possess any marketable experience of real benefit to themselves or their nation. They only have employment as long as it is provided by an external source, and once that source is withdrawn, they again join the ranks of the unemployed.

Those comparatively few skilled employees obtained their skills prior to their employment and did not gain them as a result of their employment in a border industry plant. Their capabilities continue to be an asset for development purposes, but have not been significantly enhanced by their employment.

One other aspect of border industry employment that warrants consideration when attempting to determine who profits most is the effects of spillover on to the American side of the border. The effects are evident in the form of employment and purchasing power. Skilled as well as unskilled workers are naturally attracted to the higher wages available in the United States, and much of the quality labor is siphoned off to the benefit of American employers. For example, in El Paso alone there are at least 15,000 Cuidad Juarez citizens employed.[9] The productive benefits of their knowledge and skills is not being fully utilized to Mexico's advantage.

Neither does Mexico receive the advantage of maquila industry wages being sunk back into the border region's economy. It is reported that as high as 75 percent of the annual wages paid to Mexican employees is spent on the United States side of the border with the majority being for food items.[10] This income is important to the economic livelihood of American border cities. In one sense, this phenomenon is an asset to Mexico in that the American border cities, through their chambers of commerce, will continue to support the industry program in order to maintain the influx of wages.

If there are so many negative aspects effecting the labor element of the program, what, then, are some of the benefits Mexico has received? One of the primary benefits has been employment for some 75,000 Mexicans which is in accordance with stated goals. Concomitant with employment has been a rather steady increase in wages to help employees fight the rising costs of living and the ever-present inflation.

The provision of employment has produced two critical effects for the Mexican Government. Employment has become a realization for those getting jobs, and perhaps as important in this case, it has brought about a rise in expectations for thousands of other unemployed border residents. Up to this time, these two factors have played important roles for the Mexican Government. The government's nonstated goals of maintaining political stability is being supported by the creation of jobs both real and imagined. Sufficient jobs have either been provided or envisioned as available to temporarily satisfy the majority of the labor force.

Political stability is absolutely essential for the government to carry out its long range development plan and to maintain its ideological hegemony. The Mexican Government is committed to a plan of central economic direction, with the PRI making all major decisions, and cannot tolerate distractions emanating from dissident labor elements.[11] The government is, therefore, compelled to take whatever measures are necessary to achieve political stability.

The most apparent victim of the drive for stability is the repression of social and economic strides normally attained through the support of labor unions. Labor leaders, long ago co-opted by the PRI, are easily influenced by the central bureaucracy and respond accordingly as was exemplified by their role in the recent border plant layoffs. Mechanisms vital to both social and economic progress are not allowed to develop and are perceived as being counterproductive to central guidance and party ideology.[12]

From the viewpoint of maintaining political stability, the

Mexican Government has benefited. It has been successful in satisfying sufficient numbers of unemployed to maintain influence in the border region. Based on this success, the government has proceeded according to its central economic development plan.

Additional support for the government's policy comes from the Maquiladoras. Due to their cost consciousness and their total concern for "cheap" labor, they are not inspired advocates of social or economic progress. Under a different set of circumstances, foreign industries would be expected to act as a supportive external agency to foster the mechanisms of development and to share in the price of progress. But in Mexico's border program, the interest of the Maquiladoras lie with the government in maintaining the political status quo first and in fostering social and economic development second. It must be remembered that assembly industries have been fleeing the costs of development since the 1950's.

Not only do the Maquiladoras support the government, but the government is dependent on the Maquiladoras for the provision of stability producing jobs. The Maquiladoras represent a more modern version of previous border programs designed to promote stability in that region. It was only in the interest of maintaining that stability that the government was forced to bend to the demands of the Maquiladoras and to grant concessions that would sustain the interests of the job producers.

Although the Mexican Government can manipulate its nationalistic factors through co-optation and repression, it has not been successful in altering the disruptive nature of "runaway" industries. Companies can still withdraw from the program without notice, as has been amply demonstrated, and displace to new sources of labor. Frequently, the threat to withdraw is sufficient to arouse the labor force which in turn creates concern for the government and places political stability in jeopardy. In the face of proposed wage increases for the coming year, the Mexican Government must decide whether to risk inducing further repressions on the labor force by denying the increase or to accept a possible decline in employment opportunities resulting from the closing of border plants.

Another threat that the government must be concerned about, but over which it can have little influence, is the future actions of United States organized labor. Labor's drive to impair the flexibility of multinationals will not be an easy task to achieve, but is one which continues to be organized. As stated by Harry Hubbard, president of the Texas AFL-CIO, "the union group still objects to a program which involves production of goods at slave labor rates and then bringing them across the border to put on the last knob and beat the tax law."[13] Any effort to restrain the "runaway" industries is certain to be countered by big business political pressure and by support from the various chambers of commerce.

Labor's strength within assembly industries is on the rise, however, as was demonstrated in Texas and New Mexico in 1974. More than 4,000 garment workers from the Farah Clothing Company succeeded in obtaining union representation after a twenty-one month strike. Not only is representation a significant achievement, but also the fact that 85 percent of the workers are Chicanas further signifies the importance of the movement. Their success demonstrated that workers of non-American descent who are employed in labor intensive industries can initiate action to organize themselves. Their impact was widespread in that they rallied support through a nationwide boycott and achieved international backing from workers in Hong Kong, Japan, and Cuernavaca, Mexico. The AFL-CIO was also supportive of the boycott's effort. The workers carried out their demands in the midst of threats to move the sewing facilities to Mexico where there were plenty of people willing to work.[14] A repeat of this example could not be expected to occur in Mexico, but does exemplify a growing awareness of labor's position in assembly industries.

The role of the industrialization program in the development of a progressive labor force has been somewhat precarious, but no more so than its role in the development of an industrial base. Unfortunately, the nature of the assembly industry does not provide many economic ties that are of long range benefit to Mexico. In most cases, assembly plants are wholly-owned subsidiaries of American firms with only a few subcontracting companies being Mexican owned.[15] Normally, firms select Mexican names for their subsidiaries so as not to be identified with parent firms or perhaps, in some cases, to maintain a low profile for American labor unions. Generally, American companies don't like to talk about their Mexican plants for fear of irritating the unions.

The biggest drawback to industrial development is the lack of training in the areas of production and marketing. The phase of production being transferred to Mexico via assembly plants is only a small portion of a highly specialized and integrated process. In addition to technical know-how, Mexico lacks raw materials and component assemblies essential for the completion of the types of products being assembled as well as capital needed to produce them.

On top of the technological limitations are the restrictions on market access. Especially in the two major industries, electronics and apparels, marketing is a highly sophisticated process involving foreign competition and conditions in which Mexican industries are almost totally inexperienced. American markets are very unstable, as Mexico well knows, and are extremely difficult to forecast for production purposes. Considering these limitations, it is most unlikely that Mexico would be capable of promoting its own industries in these fields.

As for the expansion and continued growth of the Maquiladoras, the future is questionable due, if for no other reason, to the cost effectiveness of operations. However, should labor costs be regulated to a level acceptable to the Maquiladoras, other serious problems remain for Mexico. Not only are there social consequences from the changing role of women, but there are also significant increases in the social responsibilities of border cities. Greater demands are being placed on the cities by the ever-flowing migrants and by the needs of the industries. Some cities feel they are rapidly losing ground in their efforts to provide water, sewage and electricity as well as housing and medical care. Others feel they may have already surpassed the number of inhabitants for which they can adequately care.[16]

One aspect of the border program in which the Mexican Government was anticipating development rewards was in the expansion of spin-off industries. In some cases there have been notable success while in others very little expansion has occurred. Mexico had hoped to promote the use of its national resources, but very few Mexican raw materials or components are used. Most materials, especially in electronics, come from the United States so that maximum advantage can be gained from the tariff codes. In the case of apparels, much of the raw material comes from Japan.[17] Once again, it is a case of cost effectiveness versus development interests.

Transportation is one area in which Mexico has experienced some growth. Normally, American produced materials are moved to the border by American means where they are then transported by Mexican carriers to the assembly plants or warehouses. However, imports from third-countries are normally not shipped through Mexican ports, but are routed through San Diego or Los Angeles.[18] In the interests of reducing costs and representative of their lack of concern for Mexico's development, the Maquiladoras are also attempting to obtain concessions on transportation. In the March 1975 symposium, they asked for the issuance of special permits to allow American freight carriers to provide direct transportation service between the United States supplier and the assembly plant. It was further asked that Mexican freight regulations be revised to allow maquila plants in the interior to move their own freight through Mexican customs to their plants.[19]

Building construction has probably been the industry that has prospered most from the program. Although building costs are reported to be nearly as high as they are in the United States, there have been a number of industrial parks constructed as well as other related facilities. In many instances, industries have limited their investment to the bare essentials and have converted old cotton mills, furniture plants, and other old, unoccupied structures for use. For many of the assembly operations, little investment is required for initiating production, and nothing more than is necessary to accomplish the job is constructed.

Mexico had anticipated an increase in retail trade within the border region, but even that has not materialized as expected. In efforts to spur retail sales, tax and freight incentives were offered to border merchants willing to import goods from the interior for resale purposes.[20] Incentive measures, however, have experienced limited success and a high percentage of paid wages are still being spent on American products north of the border.

With only limited contributions to long range development goals, one may ponder why Mexico favors continuation of the program. In a realistic evaluation, it boils down to a matter of long range goals versus short range nonstated or implied goals. Although there have been no major strides toward the achievement of development objectives such as introducing modern manufacturing and technical skills or significantly increasing the number of Mexican owned firms or the use of Mexican materials, there have been major achievements in the area of implied goals such as the maintenance of political stability. By way of providing jobs, the Border Industrialization Program has been the major contributor to maintaining stability for the PRI throughout the border region.

Perhaps, in the eyes of government officials, the provision of jobs to excess labor has always been the primary objective of the program while the stated long range development goals have provided a convenient facade. With these implied stability goals in mind, it is easier to understand the government's need and intent to maintain the program.

Also from a realistic viewpoint, it is evident that Mexico has no immediate alternatives to which it can turn for the provision of employment in the border region.

What, then, should Mexico do to improve its Border Industrialization Program? Generally the Maquiladoras appear to take two different views on the action Mexico should take to eliminate the crisis she now faces. There are those advocates of concessions, calling for more liberalized and special treatment for Maquiladoras in order to assure their survival and the employment they create. Conversely, there are those who are reluctant to press for specialized treatment for fear of attracting too much attention. As one industrial park operator put it, "we must be careful about doing anything that would set the Maquiladoras apart and make them targets for criticism, justified or not."[21]

There are also those observers who see the program in light of the goals established by Mexico. Their view is that any long term survival will depend on the degree to which the Maquiladoras integrate themselves into Mexico's development plan and the degree to which Mexican industry becomes sufficiently versatile and sophisticated to supply materials and components to the Maquiladoras at a competitive price. The main problem with this line of thinking, however, is its theoretical basis. In the light of current realities, this viewpoint seems a bit idealistic. It can be estimated that it will take Mexico at least another ten years before it would have the capabilities needed to satisfy the industrial demands of the maquila plants. Achievement of this capability represents costs in time and profits which assembly industries can't afford. Considering the history of assembly plants and operations, it seems unlikely and unrealistic to expect them to share in the development costs of the host nation.

Assembly plants are there to take advantage of the underdevelopment and not to specifically participate in the development process.

For Mexico, the real advantage of keeping assembly plants active is to provide jobs for the unemployed. It is the employment of excess labor that contributes to political stability and makes the program a vital link in the PRI's political chain.

Up to this current crisis, the Mexican Government has successfully used the flexibility inherent in the border program to maintain the program's vitality. The existing framework of regulations have frequently been altered and adjusted to meet the demands of the Maquiladoras, but just how much flexibility remains in the program is a debatable issue. It may be that, with the severity of the recent withdrawals, Mexico is beginning to realize that flexibility alone is insufficient to perpetuate the program, but acts only to prolong its eventual death.

Perhaps the most propitious advantage to Mexico is the general fact that everyone involved in the program would like to see it survive. Certainly the Mexican Government would as would the Mexican labor force. The American border cities are booming as they never have before and their chambers of commerce are intent on maintaining that thrust. The Maquiladoras have prospered not only from labor prices, but also from the short distances for transportation and communication. Even though all participants benefit from some aspect of the program, and they all agree on its general concept, the realization of Mexico's long range goals is out of the question at the present. Any future achievements appear to be dependent on the willingness of all participants to compromise for the benefit of the other.

CHAPTER IV

CONCLUSION

It is evident that during the short history of the Border Industrialization Program the United States border industries have been successful in exploiting the program to obtain the factors they desire while Mexico has achieved only modest gains in the development of her industrial and labor elements. To the present time, the advantages appear to have been with the American industrial firms who have continued to prosper and gain through profits and competition while Mexico has neither reduced her unemployment rates nor spurred border development to any significant degree.

For Mexico, the Border Industrialization Program is encumbered with instability caused by its almost total dependence on external factors. The essential elements of American investments, markets, and technology are highly fluid and are manipulated by the Maquiladoras to achieve profit goals, and not to assist Mexico in carrying out her development strategy. The American industrial firms, instead of building a nucleus through which to enhance development, have taken a colonial approach in which they selfishly reap industrial profits through the advantage of "cheap" labor resources.

Unfortunately, the program is ingrained with a handicap of conflicting interests. The concerns of the Maquiladoras are totally independent of Mexico's long range interests, but are somewhat in accordance with short range interests. It can be anticipated that American firms will continue to participate as long as it remains profitable and to their advantage, but once the profit incentive is lost, it is likely that the assembly plants will be relocated so as to regain the advantage. If Mexico can achieve development under these conditions, then it is to her advantage and benefit, otherwise, she can expect little assistance from the border industries.

Because Mexico failed to achieve her development goals is not to imply that the program is a failure. In some respects, the Mexican Government is benefiting. During the last decade, the government has enjoyed a degree of political steadfastness along the border that she may not have otherwise enjoyed. Employment opportunities created through the program have provided a safety valve to what could have evolved into a potentially explosive environment fueled by excessive unemployment.

The primary obstacle to achieving Mexico's goals rests in the government's ability to satisfy both the labor force and the Maquiladoras. To maintain wages at a rate favorable to the Maquiladoras is almost certain to result in a fervor of open dissidence by the labor elements. Conversely, a move to satisfy labor could drive the Maquiladoras elsewhere and produce a serious decline in employment.

Any future adjustments to the program must deal not only with American industrial hegemony, but also with the ramifications of an expanding opposition being mounted by United States organized labor. The enactment of proposed legislation could have serious detrimental effects resulting in a complete reevaluation of the program by all concerned. Proposed restrictions would certainly disrupt the current incentives of assembly firms and could leave Mexico with virtually no means of employing the border population.

APPENDIX A

Key Items in the United States Tariff Schedules Used in the Border Program

(Metal Processing)

Item 806.30. Any article of metal (except precious metal) manufactured in the United States or subjected to a process of manufacture in the United States, if exported for further processing, and if the exported article as processed outside the United States, or the article which results from the processing outside the United States, is returned to the United States for further processing . . . (there shall be levied) . . . A duty upon the value of such processing outside the United States.

(Assembly)

Item 807.00. Articles assembled abroad in whole or in part of fabricated components, the product of the United States, which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape, or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating, and painting . . . (there shall be levied) . . . A duty upon the full value of the imported article, less the cost or value of such products of the United States.

Source: Baerresen, p. 129.

APPENDIX B

Mexican law established the following fringe benefits and labor related expenses:

A. Seventh-day pay: Workers are paid for the seventh day off at the same rate as a working day.

B. Vacations: Six working days for the first year with two extra days per year during the next three years; up to 12 days vacation. After that, two days are added to the vacation period every five years.

C. Holidays: Seven days per year.

D. Christmas Bonus: 15 days salary.

E. Social Security: This includes two fees to be paid by the employer. First, a fee covering insurance and workers' compensation for non-professional illness, maternity disability, old age, unemployment, or death. Second, a fee covering work-related professional risks.

F. Vacation Bonus: Employees on vacation are paid their daily wage plus a 25% bonus.

G. Education Tax: To support education in Mexico, companies pay a 1% payroll tax.

H. Housing: A mandatory contribution of 5% of payroll is levied for funding of the National Housing Program for employees.

I. Profit Sharing: By law a portion of net income of business must be distributed to employees. This cost can be estimated to be about 5¢ per hour.

Source: <u>El Paso-Juarez Handbook</u>, Sec. 4.10, p. 1-2.

CHAPTER I - FOOTNOTES

[1]Benjamin J. Taylor and M. E. Bond, "Mexican Border Industrialization," M.S.U. Business Topics, Spring 1968, p. 37.

[2]"Hit and Run: U.S. Runaway Shops on the Mexican Border," NACLA'S Latin America and Empire Report Vol. IX, No. 5, July-August 1975, p. 6.

[3]Department of State Airgram No. A265, American Embassy, Mexico, June 4, 1971, p. 9.

[4]El Paso - Juarez Twin Plant Handbook 1974-75, Printed by the El Paso Chamber of Commerce, Section 2, p. 1-2.

[5]Department of State Airgram No. A683, November 9, 1972, p. 1-2.

[6]Donald W. Baerresen, The Border Industrialization Program, Lexington, Mass., D. C. Heath Company, 1971, p. 19.

[7]Department of State Airgram No. A478, September 17, 1973, p. 5.

[8]John S. Evans, "Mexican Border Development and Its Impact Upon the United States," South Eastern Latin Americanist, June 1972, p. 7; also Baerresen, p. 129, see Appendix A for the complete Tariff Items.

[9]Department of State Airgram No. A388, June 30, 1972, p. 10.

[10]El Mercado De Valores, Ano XXXV, No. 25, Nacional Financiera, Mexico, S. A., June 23, 1975, p. 521.

[11]El Mercado De Valores, Ano XXXV, No. 5, February 3, 1975, p. 92.

[12]"Lure of Low Mexico Wage Fast Fading," Los Angeles Times, May 25, 1975, p. 1; also Richard L. Bolin, "The First Billion-Dollar Year," Mexican American Review, Printed by the American Chamber of Commerce of Mexico, A.C., June 1974.

[13]"A Business Boomlet on Mexico's Border," Business Week, January 22, 1972, p. 38.

[14]NACLA, p. 10.

[15]Ibid., p. 16.

CHAPTER II - FOOTNOTES

[1] NACLA, p. 13.

[2] Ibid., p. 7.

[3] Department of State Airgram No. A655, December 17, 1971, p. 2-3.

[4] Gus Tyler, "Labor's Multinational Pains," Foreign Policy No. 12, New York: National Affairs Inc., Fall 1973, p. 116.

[5] Personal letter from Dunbar S. Norton, Director of Economic and Environmental Development, Yuma County Chamber of Commerce, Yuma, Arizona, March 4, 1975.

[6] NACLA, p. 7.

[7] Baerresen, p. 27.

[8] See Appendix B for a description of these benefits.

[9] Baerresen, p. 23.

[10] El Paso - Juarez Handbook, Section 4.10 Addendum, and letter from Dunbar S. Norton.

[11] "Maquiladoras: The Road Ahead," Mexican American Review, November 1974, p. 1.

[12] Ibid., p. 10.

[13] Business Week, p. 38.

[14] Ibid.

[15] NACLA, p. 12.

[16] "Boom South of the Border Gets Bigger," Industry Week, March 4, 1974, p. 32.

[17] Department of State Airgram No. A265, p. 7.

[18] For a detailed report of labor disputes see "Nuevo Laredo: A Case Study," NACLA, p. 18.

[19]A preliminary report from the Symposium for Evaluation, Development and Promotion of the Maquila Industry in Mexico, held in the city of Chihuahua, March 7, 1975, from Albert K. Ludy, International Economist, United States-Mexico Chamber of Commerce, p. 1.

[20]NACLA, p. 21.

[21]Tyler, p. 115.

[22]"Mexican Border Workers Embittered," New York Times, May 26, 1975, p. 21.

[23]Tyler, p. 119.

[24]Department of State Airgram No. A265, p. 4.

[25]Tyler, p. 120.

[26]Ibid., p. 131.

[27]NACLA, p. 24-25.

[28]Symposium Report, p. 5.

[29]Ibid.

[30]Department of State Airgram No. A388, p. 2-3.

[31]Ibid.

[32]Evans, p. 9.

[33]Harry Wayer and M. Ross Layton, "The Border Industry Program and the Impacts of Expenditures by Mexican Border Employees on a United States Border Community: An Empirical Study of Nogales," The Annals of Regional Science, ed., Michael K. Mischaikow, Bellingham, Washington: Union Printing Company, June 1774, p. 115.

[34]Ibid.

[35]Industry Week, p. 36.

[36]Mexican American Review, November 1974, p. 6-7, and "Factory Plan Holding its Own Along Border," Monterey Peninsula Herald, August 21, 1975, p. 31.

[37]El Paso-Juarez Handbook, p. 4, Sec 4.10.

[38]NACLA, p. 7.

[39]"Spread of United States Plants to Mexico Brings a Boom and Complaints," U.S. News and World Report, March 27, 1972, p. 57.

[40] *Industry Week*, p. 36.

[41] *Mexican American Review*, November 1974, p. 7.

[42] Symposium Report, p. 4.

[43] *Los Angeles Times*, p. 1.

[44] *New York Times*, p. 21.

[45] NACLA, p. 22.

CHAPTER III - FOOTNOTES

[1]Anna-Stina Ericson, "An Analysis of Mexico's Border Industrialization Program," Monthly Labor Review 93, May 1970, p. 33.

[2]NACLA, p. 11.

[3]Ibid.

[4]Antonio Ugalde, The Urbanization Process of a Poor Mexican Neighborhood, Austin: University of Texas, 1974, p. 10.

[5]Department of State Airgram No. A265, p. 6.

[6]Mexican American Review, November 1974, p. 7.

[7]Department of State Airgram No. A388, p. 6.

[8]Ibid.

[9]El Paso-Juarez Handbook, Sec 4, p. 1.

[10]U.S. News and World Report, p. 58.

[11]See James D. Cockcroft, "Coercion and Ideology in Mexican Politics," Dependence and Underdevelopment: Latin America's Political Economy, Garden City, New York: Anchor Books, Doubleday and Company, 1972, p. 245, and Bo Anderson and James D. Cockcroft, "Control and Cooptation in Mexican Politics," Latin American Radicalism, ed. Irving Louis Horowitz, Josue de Castro and John Gerassi, New York: Vintage Books, 1969, p. 366, for a discussion of Mexico's political goals.

[12]See George C. Lodge, Engines of Change, New York: Alfred A. Knopf, 1970, and Raul Prebisch, "The System and the Social Structure of Latin America," Latin American Radicalism, p. 29, for a discussion on the mechanisms of development.

[13]"U.S. Concerns Worry That Soaring Wages In Mexico May Hurt Border-Plant Profit," The Wall Street Journal, November 21, 1975, p. 38.

[14]NACLA, p. 27.

[15]Department of State Airgram No. A265, p. 6.

[16]Department of State Airgram No. A388, p. 7.

[17] NACLA, p. 10.

[18] Ibid.

[19] Symposium Report, p. 4.

[20] Evans, p. 6.

[21] <u>Mexican American Review</u>, November 1974, p. 11.

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