Labor Policy in the Maquiladoras
Changes under NAFTA[1]

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The topic of "Structural Change, Equity and Efficiency" within NAFTA refers us to the problems involved in economic integration between developed and underdeveloped countries, and thereby, to the topic of maquiladoras or international contracting out. In the North American context, structural change depends to some extent on the ability of Mexican industries to become successful contractors for U.S. and Canadian companies, as well as on the willingness of these companies to expand their operations in Mexico from simple assembly to full blown manufacturing. Equity hinges on the possibility of raising real wages paid in these contracting operations as well as on the enforcement of minimum working conditions within these binational work places. And efficiency, or the increasing competitiveness of these North America companies in the world market, is what will give coherence to NAFTA, turning three very different countries into partners joined in a common cause.

Specific incentives in NAFTA encourage the development of international contracting out: incentives for U.S. companies to convert their maquiladora operations from assembly to manufacturing; for Canadian companies to expand their incipient contracting operations in Mexico; and for Mexican companies to withstand the increasing pressure from competition from imports by contracting, through the maquiladora program or otherwise. What I plan to do is explain very briefly how these NAFTA incentives for structural change via contracting work out and then move on to the issue of equity, concentrating especially on the question of whether wages in maquiladoras

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Clothing maquiladoras pay among the lowest wages.

have been rising or falling since NAFTA. Measuring efficiency, given the lack of statistics on capital investments in the maquiladora industry, is reduced to a simple calculation of value added per worker.

Historically, the role of the maquiladora industry was to promote industrialization of Mexico's northern border by allowing the functional integration of foreign owned subsidiaries located in this region with their U.S. counterparts, but without altering traditional import substitution policy in the rest of the country, thus leaving protection of Mexican industry untouched. This bastion-at-the-border approach began to change after the 1982 crisis. As early as August 1983, a new maquiladora decree gave maquiladora suppliers and exporters the same right to temporary duty-free imports that maquiladoras had. Another December 1989 decree laid the groundwork for incorporating Mexican industry directly into maquiladora contracting networks, as well as an incipient opening of the Mexican market to maquiladora products.[2]

What NAFTA did was change U.S. protectionist measures against certain types of maquiladoras, allowing for increased imports from this industry.

The U.S. market, while apparently very open, had previously allowed duty free reimporting of U.S. goods, temporarily exported for assembly abroad, only for parts still recognizable upon their return. If transformed beyond recognition, by a manufacturing process beyond assembly, the company in Mexico would be subject to a punitive tariff, paying U.S. duties not only on value added in Mexico but also on input of U.S. origin. NAFTA constitutes an alternative to these customs rules, allowing U.S. content to return duty free regardless of whether it has been transformed or not. Thus, the principal barrier, preventing progress in the maquiladora industry by restricting it to assembly operations, has finally been lifted.[3]

This opening on the part of the U.S. had already begun in the late 1980s, in anticipation of the signing of NAFTA, when it expanded the number of maquiladora products included in the U.S. General System of Preferences (GPS). This program actually required either increased incorporation of Mexican inputs or the conversion of maquiladoras from assembly to manufacturing, in order to increase national content to at least 25 percent. Upon signing NAFTA, the seven percent of maquiladora products already covered by the U.S. GSP, along with an additional 81 percent of maquiladora goods, were immediately made duty free.[4] Even though NAFTA does not have national content requirements, at least it allows for more value to be added in Mexico, either through more sophisticated manufacturing or by sourcing there.

The point is worth stressing because it is what may finally allow some semblance of equity in maquiladora production between Mexico and the United States. What has kept wages down is the unskilled nature of assembly work and what will bring them up to general manufacturing levels are the higher skill requirements that accompany complex industrial transformation (along with workers' ability to organize collectively). The worst aspect of maquiladora production was the assembly-only restriction that now can be circumvented.

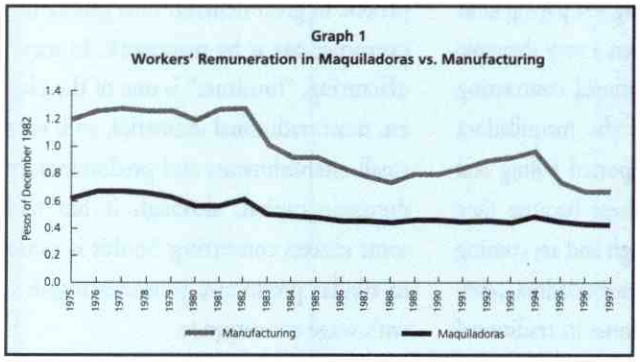
I will now move on to the empirical evidence about NAFTA's effects on maquiladoras. The maquiladora industry contracted, together with the rest of the economy in the 1994 crisis, with a negative growth rate of -1.4 percent and only a modest recovery of 2.2 percent in 1995, but has been expanding at a rate of 13 percent for the last two years (1996-97). Although these are not record highs for maquiladoras, having reached rates of 26 percent in the late 1980s, they are significant in relationship to the recession in the rest of Mexican industry.

What is breaking records is the use of Mexican intermediary goods in maquiladora operations. Up from 1.5 percent in 1994 to 2.3 percent in 1997, this is the first time maquiladoras have sourced more than two percent of their total inputs locally; in absolute terms, it means that sales have increased from 1.039445 trillion to 6.514539 trillion pesos in this period. Were the upward tendency to continue, it would justify government restructuring programs in the maquiladora industry, favorably impacting the rest of Mexican industry.

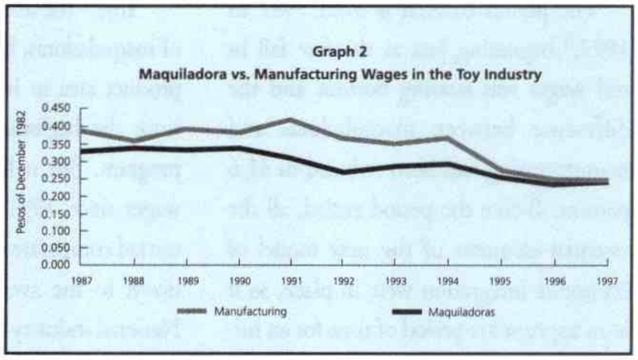
1997 ended with 2,717 maquiladora companies operating in Mexico, employing 898,786 people; however, no matter how fast maquiladora employment expands, if it does not pay decent wages it cannot be considered much of a success. To put this question in perspective, we will look at a graph based on a 23-year data series, adjusted for inflation, comparing the remuneration of direct workers[5] in the maquiladora industry to that paid in the rest of Mexican manufacturing (see Graph 1).

The graph shows an initial difference of 47.5 percent between workers' remunerations in the two industries, which increases to 55.5 percent by 1981. This has been the basis for much criticism of labor policy in the maquiladora industry. The fact that, initially, maquiladoras paid half of what manufacturing industries paid their workers can be explained in part by the marked contrast between skills required in one and other, as well as by very different rates of unionization that, in the closed economy that the manufacturing industry enjoyed for so long, raised wages way above what was customary in the informal economy. The maquiladora industry inserted itself in the Mexican labor market at rates comparable to those of informal sectors —such as commerce, non-financial services, construction and transport.

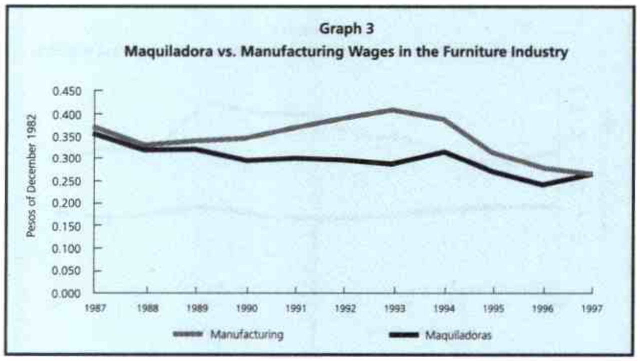
The gap between remunerations in maquiladoras and manufacturing that grew until the 1982 crisis has, since then, been reversed, gradually reducing the disparity between the two to 33.9 percent by the end of the period. There is a downward tendency in real remunerations in both industries attributable to the 1982 crisis of the import substitution model, the 1994 financial crisis, as well as the traumatic effect restructuring has had on the Mexican economy. But these factors have had a deeper impact on Mexican manufacturing, thus explaining the more pronounced fall in their remunerations, in contrast to the more benign effect restructuring is having on the maquiladoras, where the level of remunerations seems to have stabilized and, just this year, begun to move up.



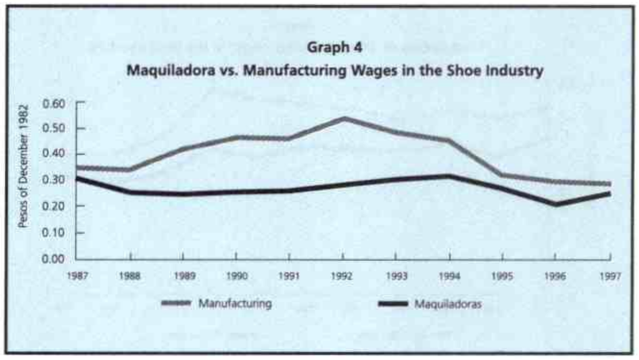
Graph 1
Workers' Remuneration in Maquiladoras vs. Manufacturing



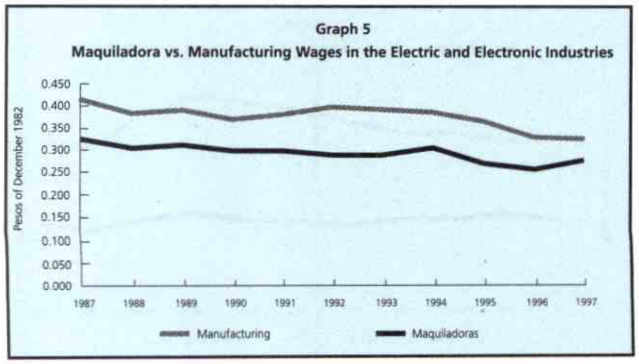
Graph 2
Maquiladora vs. Manufacturing Wages in the Toy Industry



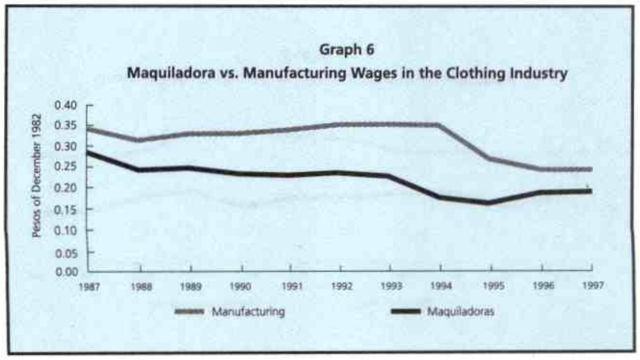
Graph 3
Maquiladora vs. Manufacturing Wages in the Furniture Industry



Graph 4
Maquiladora vs. Manufacturing Wages in the Shoe Industry



Graph 5
Maquiladora vs. Manufacturing Wages in the Electric and Electronic Industries



Graph 6
Maquiladora vs. Manufacturing Wages in the Clothing Industry

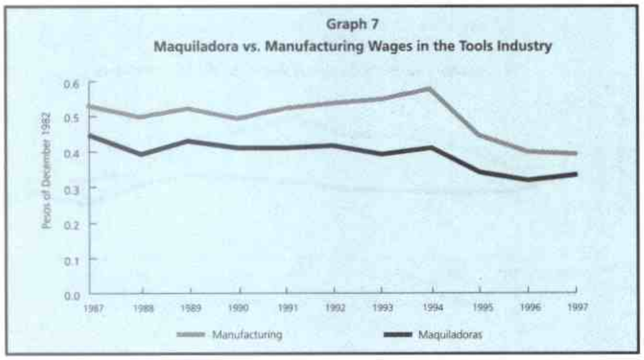
If this interpretation is correct, maquiladora wages should converge with manufacturing wages, as skill requirements in the former increase. To test this idea, I will compare the subdivisions within the maquiladora industry to similar products in the manufacturing industry: where the selection of manufacturing operations most resembles maquiladoras, that is, where the productive process is most similar in terms of the amount of assembly versus transformation, wage levels should converge.

The period covered is from 1987 to 1997,[6] beginning just as the free fall in real wages was nearing bottom and the difference between maquiladoras and manufacturing had been reduced to 41.6 percent. Before the period ended, all the essential elements of the new model of economic integration were in place, so it is an appropriate period of time for an initial reflection on the impact of economic opening on industry in Mexico.

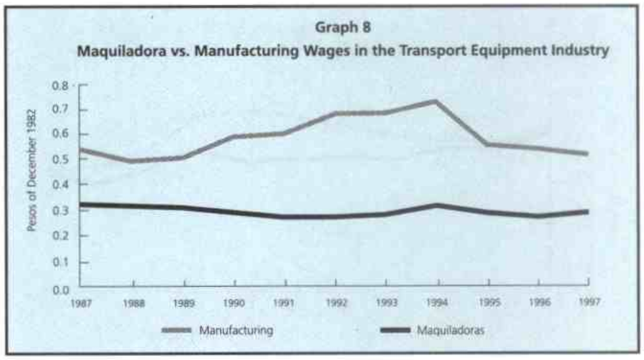
On the one hand, in the toy and furniture industries, wages in maquiladora and manufacturing operations have already converged. Somewhere in the middle are the shoe, electronics, clothing and tools industries. And, at the opposite extreme are transport, food and chemicals. I will offer just a few preliminary thoughts on each case, in a first attempt to explain the data, in order to open the discussion to the floor.

"Toys," the second highest paying kind of maquiladoras, has been a very dynamic product area in international contracting since the beginning of the maquiladora program. But it has reported falling real wages since 1991, perhaps because they started comparatively high and are coming down to the average maquiladora level. National industry continues its traditional manufacturing, seemingly unable to introduce new products or new production techniques. This product area is one of the hardest hit by import competition, registering a downward trend much before the 1994 crisis, during the entire decade. So, wages in the two industries have converged despite their differences, due to the failure of national industry to convert.

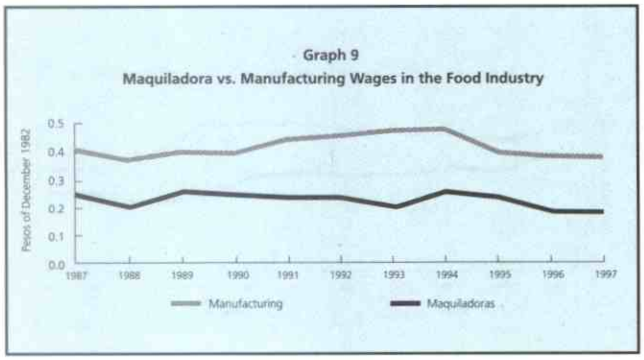
"Furniture" pays wages almost as high as "toys." Unlike the rest of the maquiladora industry, it has a predominantly male work force, with many skilled carpenters in great demand thus generating overtime; pay is by piecework. In manufacturing, "furniture" is one of the oldest, most traditional industries, with very small establishments and predominantly domestic capital, although it has had some success converting. So this is a case of similar productive processes together with wage convergence.



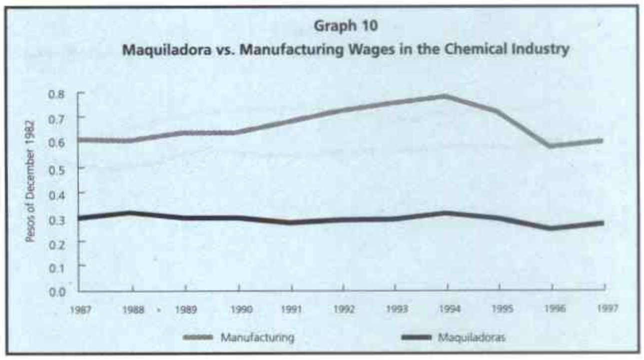
Graph 7
Maquiladora vs. Manufacturing Wages in the Tools Industry



Graph 8
Maquiladora vs. Manufacturing Wages in the Transport Equipment Industry



Graph 9
Maquiladora vs. Manufacturing Wages in the Food Industry



Graph 10
Maquiladora vs. Manufacturing Wages in the Chemical Industry

"Shoes" is the third lowest paying subsector of the maquiladora industry, although with slowly rising real wages during most of the period, but nothing compared to the dramatic ups and downs registered in manufacturing. Production is similar in both industries, as are wages.

"Electronics," despite being high tech, pays middle-range wages within the maquiladora industry; it is the classical example of de-skilling of the work force. What is interesting is the close parallel it has maintained with its manufacturing counterpart, where assembly is also the basis of production in the big electronic companies that operate with foreign capital (the rest of the sector are small national companies, producing electrical goods). The two industries seem to be moving toward convergence in their wage levels.

"Clothing," the second lowest paid maquiladora activity, has wages very close to its manufacturing counterpart, due to the similarity in both types of production. The main differences between them used to be that cloth was not cut in maquiladoras (it would have been considered manufacturing) and that maquiladoras filled contracts for large orders of standardized goods, not fashion clothing; but this has been changed by NAFTA rules. However, despite these similarities, the two industries moved in opposite directions, distancing themselves, until 1994 when the crisis brought them together again. This seems to mean that, whereas the national industry was converting and raising wages, something drastic happened in the maquiladoras (perhaps because of "submaquila" practices in lower paying areas of the country).

"Tools" is the highest paying area in maquiladoras because it uses skilled workers for repairing tools temporarily imported into Mexico. It maintains its distance from its manufacturing counterpart, where transformation requires large investments by national industry. However, since the manufacturing industry was harder hit by the 1994 crisis, they have come closer together, but will probably separate again as soon as the latter begins its recovery.

"Transport" has remained surprisingly stable in the maquiladora sector, especially when compared to changes in the manufacturing industry. It is well known that the productive process in the biggest maquiladoras and manufacturing plants is increasingly similar, based on sophisticated assembly techniques. In the smaller plants, however, there is a difference, with maquiladoras doing unsophisticated work, like polishing hubcaps, and national industry making auto parts. So it is hard to tell if the downward movement in manufacturing after the 1994 crisis will be temporary or might be the beginning of convergence. In any case, union strength in manufacturing, as compared to their virtual absence in the maquiladora industry, is a factor that should be taken into account.

"Food" is the lowest paying maquiladora sector, employing middle-aged women, mainly for sorting and packing; not only is it unskilled work but also tends to be located in more rural areas where labor costs are lower. In manufacturing, this is a modern industry, dominated by foreign investment, with about 20 percent women in its work force. These differences prevent any convergence in wage levels.

"Chemicals" in the maquiladora industry are mainly plastic injectors, although they also make soaps, detergents and a variety of other things. They are the fourth lowest paying product area in this industry. In manufacturing, "chemicals" is heterogeneous, with high technology, continuous-process plants, but also with less modern ones; it employs only 4 percent women. These differences in the productive process probably account for the lack of convergence in wage levels: both the lack of movement in maquiladoras and the very strong recovery in manufacturing. **VM**

NOTES

[1] Paper presented by Dr. Mónica Gambrill, at the International Conference on "Economic Integration and Transformation: Structural Change, Equity and Efficiency," Toronto, Canada, May 29-31, 1998.

[2] Mónica Gambrill, "El Tratado de Libre Comercio y la industria maquiladora," in Bárbara Driscoll and Mónica Gambrill, eds., *El Tratado de Libre Comercio, entre el viejo y nuevo orden* (Mexico City: UNAM/CISEUA, 1992), pp. 35-60.

[3] Mónica Gambrill, "La política salarial de las maquiladoras: mejoras posibles bajo el TLC," in *Comercio Exterior* 44 (7) (July 1995), pp. 543-549.

[4] Mónica Gambrill, "NAFTA and the Mexican Maquiladora Industry: Implications for Canada," in C. Paraskevopoulos, R. Grinspun and G. Eaton, *Economic Integration in the Americas* (Cheltenham, U.K., and Brookfield, U.S.: Edward Elgar Publishing Limited, 1996), pp. 78-87.

[5] Please note that "direct" workers are shop-floor workers, involved directly in the productive process; neither technicians nor administrative employees are included. "Remunerations" include both wages and average fringe benefits.

[6] The period starts in 1987 because, even though the *Estadística de la Industria Maquiladora* reports information on its subsectors since 1979, the *Encuesta Industrial Mensual*, the source of information on manufacturing, did not disaggregate its statistics sufficiently until it expanded its survey in 1987 in order to identify counterparts for the majority of the maquiladora subdivisions.