

Maquiladora Revival...?

An analysis by Crossborder Business Associates
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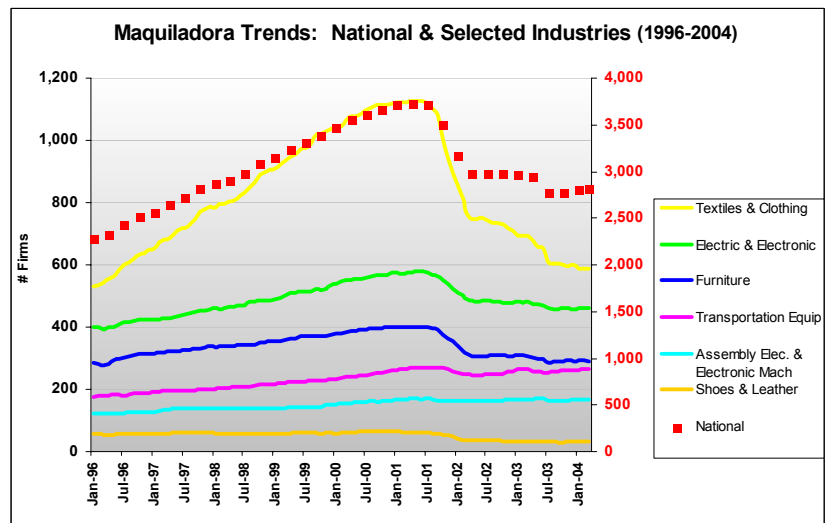


For several years, speculation has been rampant about the ability of Mexico's maquiladora industry to survive and continue its contribution to the country's economic development. A confluence of factors that hit the industry during 2000 and 2001 dealt the several major blows: taxation uncertainty, NAFTA's Article 303 (which threatened "elimination" of duty-free status for non-NAFTA components), the U.S. economic recession, and wage inflation in northern Mexican labor markets (especially for unskilled labor) – all of these damaged the image and prospects for the industry. Growing global pressures from emerging industrial centers like China have only contributed to many predictions about the demise of maquiladoras.

But, with the apparent end of the U.S. recession, are we also seeing a revival in the maquiladora industry? Early data from 2004 would argue an emphatic "yes". In fact, an initial analysis of First Quarter 2004 data gives several strong indications that **the maquiladora industry is already in the midst of a moderate turnaround**. National maquiladora employment has stabilized – fluctuating around the 1.06 million employment level (+/- 20,000 positions) for the past two years. Although the number of firms has not increased significantly above its low point, the number of employees per firm is increasing – indicating some consolidation and growth for those companies that made it through recent industry disruptions.

Sectoral Improvements?

Certain sectors – including electric & electronic accessories, assembly of electric and electronic machinery, chemical products, and furniture – all had positive employment increases since March 2003. These sectoral improvements are important, since 85% of maquiladora employment losses (about 220,000 positions) occurred in only five industry sectors: electric/electronic accessories, textiles & clothing, assembly of electric/electronic equipment, furniture, and toys/sporting goods. Notably, four of these have had employment stability or growth in the last twelve months. Also, one sector – transportation equipment – is poised to surpass its October 2000 employment levels, although long-term declines in textiles and footwear/leather manufacturers are still likely to continue.



Near-Term Prospects?

Given that the late-2000 drop in maquiladora industry employment corresponds directly to the pre-recession peak of the U.S. economy, it is significant to note that the Institute for Supply Management (formerly, the National Association of Purchasing Managers) reported that May's manufacturing index had its 12th month of continued growth. This points to likely increases in maquiladora production for mid-2004 and beyond.

If this weren't positive enough, even more data indicates better prospects for maquiladoras: increased bilateral trade. In fact, total U.S.-Mexico trade for the first four months of 2004 were 11% higher than the previous year, to more than \$84 billion dollars – reaching trade levels not seen since mid-2000. In fact, **more imports entered the U.S. from Mexico in March 2004 (\$13.5 billion) than any previous month on record**. With much of our bilateral trade tied to the maquiladora industry, these trends bode well.

Additional signs that the maquiladora labor market is improving can be seen in the growth of the *average number of hours worked per employee* (up between 2%-11% over the last 12 months). As *hours worked* increases, pressure is put on firms to hire more employees. This situation is further evidenced by a sight not often seen in the last 2 years: large numbers of maquiladoras with the signs "*Solicita Personal*" ("help wanted"). Even in major maquiladora cities like Tijuana and Ciudad Juárez, moderate increases in both the *number of firms* and *employment* have been seen in the last two quarters, with further expansions likely given public announcements from firms like JVC, Plantronics, and Kyocera.

The point: a report from our firm analyzing these trends estimates that **maquiladora employment has already likely surpassed the 1.1 million mark** (last seen in October 2001) – a prediction which Crossborder Business Associates will verify with the release of INEGI data in late-August. Will maquiladora employment return to its October 2000 high of 1.35 million? The answer: "yes". When? While that still remains to be seen, it is clear that sector-driven growth and the continued integration of the NAFTA economies are reviving what was until only recently considered to be an "endangered" industry: the maquiladora.

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