

The Maquiladoras

The Maquila Industry: Most multinational corporations rely on cheap labor and low manufacturing costs provided by nations such as Mexico, and other countries in Latin and Central America. The maquiladora is a twin plant that operates at low cost in Mexico. The maquiladora usually makes parts for assembly in manufacturing plants in the United States

Making Money: The basic concept behind a maquiladora is that a U.S. or European company relocates one or several of its manufacturing plants to low-cost country. A maquiladora operates at very low costs in those places where the currency is weaker than the dollar. For instance, many twin plants were located around South East Asia, in places such as Hong Kong, Taiwan, and Korea, until these nation's economies increased the value of their currency. The less a currency is worth, the more relative value the dollar has. Since Mexico's peso is relatively weak, companies can trade their dollars for pesos with which they pay workers and expenses. The products they manufacture, however, are sold for dollars, increasing profits by huge margins whenever the local currency falls.

The Basic Law: Cheap Labor - The minimum wage in Mexico was about \$0.50 per hour. The recent peso devaluation, however, has made labor even cheaper for foreign corporations. Since the peso devaluation's in early 1995, for instance, the daily minimum wage in US dollars has slid from about \$4.50 to about \$2.80. As the peso slides in value, labor becomes cheaper. Workers have demanded wage increases because their costs have not changed. The U.S. parent companies, however, rely on foreign exchange rates to set the price of labor, and consequently, the drop in wages reflects U.S. corporate economic interests.

History of the Maquiladora Program: Until 1965, the Bracero Program brought cheap Mexican laborers into the U.S. agricultural business. The Border Industrialization Program replaced the Bracero program in 1965, and began the trend of twin plants along the U.S.-Mexico border. This program allowed the importing of raw materials and equipment without tariffs for the purpose of setting up manufacturing plants which would then export components to factories in the United States, where they were assembled into final products. The Border Industrialization Program was renamed to the Maquiladora Program. During the late 1960's and early 1970's, Mexico tried to protect domestic industries. After the early 1980's devaluation's, the Mexican de la Madrid government joined the GATT in 1986 and began to encourage foreign companies to locate in Mexico.

From 1983 to 1988, the industry boomed, employment grew at 20% annually. A period of slow growth followed due to the recession in the United States. Since maquiladoras manufacture parts and components for U.S. and foreign industries, recessions abroad cause unemployment in the maquiladora industry.

Growth of the Maquila Industry: The maquiladora industry in Mexico employs nearly 500,000 workers in over 2100 plants located both along the Mexico-U.S. border, and in the interior states. It generates approximately \$5.5 billion dollars in foreign exchange. Maquiladoras employed 23% of Mexico's total manufacturing labor force in 1993 (compared to 8.5% in 1982). The largest maquiladora regions are El-Paso-Ciudad Juarez (132,000 workers in 254 plants), San Diego-Tijuana (77,000 workers in 554 plants), and Brownsville-Matamoros (38,000 workers in 96 plants).

Problems: The basic issue in the maquiladora industry is the exploitation of cheap labor. The working conditions are often unsafe, and dangerous to workers. Workers are not compensated adequately for their labor, and frequently are fired for their attempts to unionize. Only the government-approved (PRI controlled) labor union, the CMT, is legal. Underground unions such as the Frente Autentico del Trabajadores (Authentic Workers Front) are illegal. Additional problems include the frequent expiration of union-contracts (without timely extensions), and sexual harassment in the workplace. Maquiladoras also pollute the environment and pose environmental hazards to the people who live in surrounding environments.

Name _____ Date _____ Period _____

MAQUILADORAS READING – REFLECTION QUESTIONS

1. What is a Maquiladora?
2. How can you describe the way a multinational corporation uses the Maquila Industry?
3. How do foreign recessions and depressions affect the Maquiladora industry?
4. What was the Maquiladora program called originally?
5. What cities have the largest Maquiladoras and how many workers are there?

NAFTA: Money Makes the World Go Round?

Have you ever thought about making money? I have a friend who, when she was 7, wanted to start a lemonade stand. Her mom wanted to teach her the value of a dollar and told her that to sell lemonade she would have to buy the lemons and pay for the sugar. Well, soon my friend figured out that if she sold water and the wild onions from her yard instead, she wouldn't have to pay her mom for the supplies. This way, any money she made from her sales was strictly profit. That's pretty good business sense even for a 7 year-old. Determining where you'll get your goods and services, how you'll pay for labor, and to whom you'll sell your product may be simple when you're just talking about a lemonade stand. But now, American companies cross borders and mix in politics to help create the "*global economy*."

There are many ways in which countries do business with one another. Using taxes on imported goods and services (called tariffs), governments and large corporations affect their economies, employ their citizens and establish partnerships with other countries.

In the 1970s before NAFTA, Mexico opened up its trade with the United States, which made it easier for foreign businessmen to use Mexican workers, who cost less than those in the U.S.A. Foreign businessmen also used the environmental laws of Mexico, which are looser than American laws. By moving its factory to Mexico, an American company pays lower wages because the minimum wage in Mexico is lower than in the U.S. They can then offer lower prices to shoppers.

But all is not as good as it may sound. Both Mexico and the U.S.A. felt some negative effects of these early free trade agreements. Workers in the U.S.A. lost their jobs as factories began moving south. American corporations were buying out Mexican-owned businesses because they could no longer compete. Mexican workers had to move north to the border to find work. As a result, many Mexican citizens have grown poorer and poorer (having to accept lower wages), while American corporations continue to grow richer and more powerful.

In 1994, the United States, Mexico and Canada enacted the North American Free Trade Agreement (NAFTA), one such "partnership" that opened up trade between these three countries. With NAFTA, the tariffs (and other trade barriers) have gradually been taken away since 1994 with a goal of no tariffs by 2008. It sounds simple, but the effects on employment, culture, the environment and the future of the global economy are huge.

NAFTA seems to be encouraging these trends. This has been especially true for the companies that make clothes. For example, businesses headed to Mexico and shut down factories in El Paso, Texas. That means that many Americans lose their jobs, but working conditions sometimes also get worse in Mexico. The companies that go to Mexico do not always have humane factory environments or fair wages. According to an expert, most have safety equipment for their workers. Most companies do meet the wage standards set by the Mexican government, even though they pay less than in America. But there are many companies who do not follow the regulations. As a result, workers sometimes suffer while the leaders of the big companies get richer.

By taking U.S. jobs to another country, corporations can take advantage of not only the cheap labor, but also of the environment. While NAFTA has "side agreements" that are supposed to provide environmental standards, they rarely get placed in effect. Since NAFTA, many U.S. lumber companies have entered Mexico for logging. In the Mexican state of Guerrero, 40% (a little under half) of the forests have been clear-cut in the last decade. It seems that profit is valued above everything else.

Adapted from <http://www.ustrek.org/odyssey/semester2/042101kids/042101jennaftakids.html>

NAFTA READING – REFLECTION QUESTIONS

1. What does the acronym “NAFTA” stand for?
2. What is a “tariff”?
3. Why do companies move their businesses to Mexico?
4. What are some benefits (good things) about NAFTA?
5. What are some drawbacks (bad things) about NAFTA?