

Highlights of **GAO-03-891**, a report to congressional requesters

INTERNATIONAL TRADE

Mexico’s Maquiladora Decline Affects U.S.-Mexico Border Communities and Trade; Recovery Depends in Part on Mexico’s Actions

Why GAO Did This Study

Mexico’s maquiladoras have evolved into the largest component of U.S.–Mexico trade. Maquiladoras import raw materials and components for processing or assembly by Mexican labor and reexport the resulting products, primarily to the United States. Most maquiladoras are U.S. owned, and maquiladoras import most of their components from U.S. suppliers. Maquiladoras have also been an engine of growth for the U.S.–Mexico border. However, the recent decline of maquiladora operations has raised concerns about the impact on U.S. suppliers and on the economy of border communities.

Because of these concerns, GAO was asked to analyze (1) changes in maquiladora employment and production, (2) factors related to the maquiladoras’ decline, and (3) implications of recent developments for maquiladoras’ viability.

What GAO Found

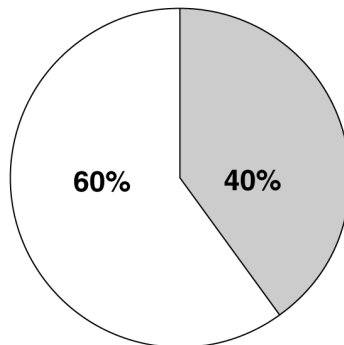
After growing rapidly during the 1990s, Mexican maquiladoras experienced a sharp decline after October 2000. By early 2002, employment in the maquiladora sector had contracted by 21 percent and production had contracted by about 30 percent. The decline was particularly severe for certain industries, such as electronics, and certain Mexican cities, such as Tijuana. The downturn was felt on the U.S. side of the border as well, as U.S. exports through U.S.-Mexico land border ports fell and U.S. employment in manufacturing and certain other trade-related sectors declined.

The cyclical downturn in the U.S. economy has been a principal factor in the decrease in maquiladora production and employment since 2000. Other factors include increased global competition, particularly from China, Central America, and the Caribbean; appreciation of the peso; changes in Mexico’s tax regime for maquiladoras; and the loss of certain tariff benefits as a result of the North American Free Trade Agreement.

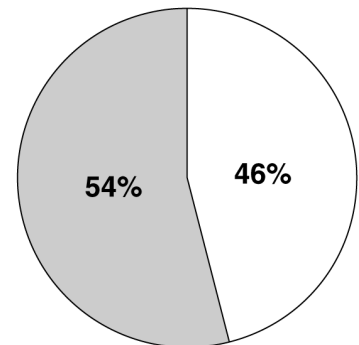
Maquiladoras face a challenging business environment, and recent difficulties have raised questions about their future viability. Maquiladoras involved in modern, complex manufacturing appear poised to meet the industry’s challenges. Still, experts agree that additional fundamental reforms by Mexico are necessary to restore maquiladoras’ competitiveness. U.S. trade and homeland security policies present further challenges for maquiladoras.

Maquiladora Component of U.S.-Mexico Trade, 2001

U.S. Exports to Mexico:
\$114 billion



Mexican Exports to United States:
\$140 billion



Legend:
 □ Non-maquiladora
 ■ Maquiladora related

Source: National Institute of Statistics, Geography and Information Technology (Instituto Nacional de Estadística, Geografía e Informática).

www.gao.gov/cgi-bin/getrpt?GAO-03-891.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347.