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Maquiladoras Work Around Obstacles and Ramp Up Expansions

TRADE: Proximity to U.S. Markets Gives Mexico Plants an Edge Over Asia

■ By MARTY GRAHAM

Maquiladoras, the Mexican manufacturing wing of many U.S. and foreign corporations, aren't hurting anywhere near as badly as most other industries — and a few are even growing.

"There doesn't appear to be a significant decline in employment or in the number of establishments," said professor James Gerber, the director of Latin American Studies at San Diego State University. "The Instituto Nacional de Estadística y Geografía statistics show their employment numbers are higher than they were in 2007 and about the same as 2009."

Since 2007, just 40 of the then-630 maquiladoras in the California-Baja California, Mexico, region have sent workers home and shut the doors, according to Mexican census numbers. While the number of maquilas is down to 590, some of them are expanding and ramping up production. Kyocera Solar Inc. and ABC Aluminum Solutions both report growth and more to come.

That despite significant crime, including Mexico's standing behind Pakistan as No. 2 in the world for kidnappings, as ranked by Control Risks Ltd., the United Kingdom-based firm that Lloyd's of London relies on for kidnap-and-ransom expertise, along with civil wars or unrest in several states on any given day.

Potential for Expansion

Dale Robinson, president of Made in Mexico Inc., a firm that helps companies set up and run maquilas in Baja, says that the terrible economy since 2008 has definitely hindered growth. But he is cautiously optimistic that there will be growth this year, particularly in the medical manufacturing field.

He is also seeing growing interest from Chinese businesses that want to acquire Baja factories. And, he said, few companies are repelled by Mexico's reputation for instability and violence.

"The media portrays Tijuana and Baja's crime problems in overblown terms," Robinson said. "The maquila industry hasn't been the target of drug lords who are preying on each other — we all know there are places in every major city where you shouldn't go — that doesn't paint an accurate picture of the region."

Ciudad Juarez, with its reported murders and kidnappings, is another story, Robinson acknowledges. But random violence or violence targeted at people outside the drug wars in Baja is relatively rare, he says.

Gerber said that the threat of executive kidnapping remains real, but that companies have taken steps, including training and insurance protection against such events, to minimize risk.

"They all have taken safety precautions, varied routines and routes to work, for example, and they don't want to talk about it," he said.

Cheaper labor elsewhere, mainly in Asia, was also expected to take a toll on the maquilas, which employ 1.5 million people nationally (about 53 percent women) and about 142,000 in the San Diego/Tijuana region, an increase of a few thousand from 135,000 last year.

Advantages to Locating in Mexico

But not that much work headed to China, according to Gerber.

"Three things keep companies in Mexico," he said. "Better control over the product, just-in-time inventory and the cost and delays in shipping things from farther distances."

Maquilas make sense for products that need hands-on supervision or frequent tweaking from headquarters.

"We are talking to a company in South Carolina that has 10 people making trips back and forth to China for product control," Robinson said. "They are tired of the expense and tired of the trip itself. It's only fun the first time."

Getting products from the factory in China to the market takes longer and is becoming more costly.

"The apparel manufacturing industry (in Mexico) has been hurt by cheaper Chinese production, but the auto



Sarahi M. Caballero

An inspection engineer tests one of ABC Aluminum Solutions' products for measurement and finish quality.

parts industry has not, because they are bulky and the delay in shipping them matters," Gerber said.

Instead, Chinese companies are buying Tijuana operations to manufacture for the U.S. market, Robinson said.

They are not alone.

"Our company has helped to set up companies from New Zealand and Iceland," he said. "The medical industry is growing there."

Tijuana Plant Addition

In May, ABC Aluminum Solutions added 12,000 square feet of building space to its existing 60-acre-plus Tijuana plant, where the company produces both custom and home industry products. There are a variety of processes and finishes, including anodizing and painting, that the company applies to products to achieve important qualities and the demand for services and products runs high.

"This is a very difficult time for many companies in our industry, but our family-run business has grown significantly over the last decade, and we continue to experience year-over-year revenue increases," said ABC Aluminum President and Chief Executive Officer Wadih Kuri. "ABC Aluminum's enlarged manufacturing facilities will help us meet our customers' needs in this ever-

changing market."

The location is being developed because of its proximity to the U.S. market where ABC Aluminum is seeing increasing demand. The high-quality work force and close proximity to the market are essential to the decision.

The collapse of consumerism has hurt the most, according to Hans Stadelbauer, president of Border Assembly Inc., which helps companies set up and run maquiladoras in Baja. The company is based in San Diego with offices in Los Angeles and Tijuana.

"We are very dependent on the U.S. economy, on consumer demand and it's not going too well," he said. "It has begun to get a little better but we are holding our breath."

Producing at Full Capacity

But not all consumerism is gone. Tax incentives and recent drops in costs for raw materials have Kyocera Solar planning for big demand for solar panels. The company has already expanded its six-year-old plant in 2009, and plans to double its staff in the next year.

"We are producing three shifts at full capacity," said Cecilia Aguillon, Kyocera's director of market development and government relations. "We can't make enough."

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