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by K Vincent

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In what ways does existence of NAFTA alter previous maquiladora?

NAFTA basically is an abbreviation for North American Free Trade Agreement which is a trade bloc signed between United States, Canada and Mexico. This agreement was meant to remove trade barriers between the three countries so that the trade between them can be steered (pg..366). However the agreement was signed back in January 1st 1994 when United States and Mexico had already put in place the Maquiladora program which had been in existence since 1965. The Maquiladora program on the hand was a program by the Mexican government that allowed the importation of raw materials, equipment's and raw materials that were needed in the manufacturing industry across the border of the United States (pg..368). The main aim of coming up with this program was to industrialize Northern Mexico which would result to slowdown in migration to the United States through creation of job opportunities along the border.

Further still, Maquiladora can also be defined as foreign owned or sub contracted manufacturing firm that assembles imported parts for export. The program basically allows these firms to operate under specific custom regime whereby the imports to Mexico are duty free (pg..366). Therefore the Maquiladoras are governed by specific provisions of the custom law and foreign trade general rules. In this case the American companies that wished to benefit from

Maquiladora program had three options; the first one was to subcontract, two shelter operations and three direct ownership of a company that will be based in Mexico (pg..368).

Later in 1994, NAFTA came into existence which meant that the trade ground had been leveled not only for United States and Mexico only but also Canada came into play. However, the question would be in which way did NAFTA alter the previous Maquiladora program?

As defined above, Maquiladora is a program that meant foreign owned factories in Mexico. In simplest definition, a company operating in Maquiladora program imports raw materials from United States to Mexico duty free and upon reaching Mexico they raw inputs are assembled and shipped back to United States (pg..371). On the way back to United States the person or the Company shipping the products pays United States import duties that are applicable to the value added by the manufacturer in Mexico.

After the signing of the NAFTA between the three countries, it is argued that the output and the employment of Maquiladora program increased rapidly. Five years after NAFTA was signed, Maquiladora program employment increased by 86% compared to 46% of the previous 5 years before the agreement was signed (pg..371). This can be considered as a positive impact towards the vision of the Maquiladora program which had been put in place to help industrialize Mexico and curb run away poverty and reduce the high number of Mexican migrants who were migrating to United States.

On the other hand it can be argued that the signing of NAFTA discouraged the expansion of the Maquiladora. This is because when NAFTA came into existence, the imports process that was done in Mexico and entered in United States after paying the import duty was

scrapped off and this meant that export goods entered United States duty free without any consideration of Maquiladoras (pg..383). This affected the program since majority of them exporters depended on the payment for the value addition to United States. Therefore in this case NAFTA had a negative impact to the Maquiladora program.

Another impact that NAFTA had on Maquiladora program was the environmental restrictions. When the agreement was signed, environmental rules became restrict which required the companies operating from Mexico to observe strict regulations (pg..386). Cases of waste handling and treatment became a huge concern in the American market which led to decline in demand for the products produced by the firms operating under Maquiladora program. This had a negative impact to the program which also discouraged its growth and expansion.

How NAFTA works

Some of the conditions that are found in NAFTA include the elimination of the tariffs on almost half of the goods that are shipped to Mexico and also gradual elimination of other tariffs between the three countries (pg..391). this meant that the cost of consumer goods traded between the three countries became cheaper and affordable. It also inspired domestic producers among the three countries to produce more simply because the customer is wide and the manufacturer can decide to sell in any of the three countries (pg..391). A good example of how NAFTA works is about the widget brackets that are imported from Poland and used to manufacture finished wonder widgets that are shipped to Walmart retail outlets across United States.

Depending on the pricing of the wonder widget, do they qualify for NAFTA treatment?

Yes they qualify for NAFTA treatment. This is because under NAFTA, if the exporting and importing is contacted within Canada, Mexico and United States the wonder

widget is cheaper since the product is subjected to no tariff. These are some of the benefits that came with NAFTA which a leveled trading ground for all the member partners within the bloc.

The present status of NAFTA in light of Trump administration

Under Trump administration, the status of NAFTA is proposed to be changed in the following ways: The auto companies are expected to manufacture 75% of cars in all the member parties which include United States, Mexico and Canada (pg..397). The previous agreement was that only 62% and that 30% of the automobiles be manufactured by employees who are earning 16USD per hour. However, under the current propped agreement, it is expected that at least 40% of the workers be earning the \$16 per hour. In the case that any company does not fulfill this terms then the company will be subjected to Tariffs (pg..397).

Another change that will affect the current state of NAFTA is the dairy market. It is proposed that the Canada should open up its dairy market to American dairy farmers by removing its pricing strategy which is based on class 7 dairy products (pg..391). The agreement is that certain type of cheese will be sold in Mexico and United States as well.

How do economic, cultural, social and political climate in Mexico affect the business environment?

According to World Bank, Mexico is categorized among the countries where one can do business with ease. However the economic factor is highly affected by high rate of crime which has affected most of the business operations hence becoming unattractive to business owners (pg..390). politically the government is doing what it can to encourage investments within the country but its tax regime is not favorable at all for the investors. Due to rigid nature

of the Mexicans cultural behavior, it makes it hard for the labor market to grow as well as the consumer market.

Mexican form of Government

Mexico is a federal republican country that is made up of 31 states. Under the states there are districts which are like a devolved system or local government. The national government is made up of three arms which include legislature, judiciary and the executive. The government is defined in the Mexican constitution and every arm of government is recognized in the constitution meaning that every branch of the government is independent of each other (pg..390). Its operation is not more less than other western countries, Mexico polices towards trade and investment have changed over the years and this is why the country came up with maquiladora program which was aimed at industrializing the country and attract more investors. The country also agreed on NAFTA was also another major step towards ensuring that the country trade with its neighbors (pg..389). The only challenge with the Mexico when it comes to business is the tax regime which is not favorable for businesses operation. The products which can do well in Mexico are farm produce like maize and rice.

Ethical Consideration

What point of view best represents my thinking with respect to the Maquila industry and why?

From my ethical point of view, I would say that Maquila is supposed to be maintained since it represents the greater good of the entire Mexican community by providing them with opportunity to grow their economy. The program provides the community job opportunities for the workers and the community at large.

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