



**MCCARREY  
LAW  
GROUP**

## **FORMING A MAQUILADORA MADE SIMPLE**

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Maquiladoras are special tax advantaged entities which were created pursuant to Mexican law to facilitate the development of a strong export economy. Maquiladoras are able to import raw or unfinished goods for the purpose of processing, manufacturing or assembly and when products are shipped from Mexico for final assembly, packaging or distribution in destination markets, Mexico levies duties only on the non-NAFTA value added in Mexico.

The term "maquiladora" is derived from the Spanish word referring to the amount of milled corn that a miller would be paid by a farmer for grinding the farmer's oats into meal. The number of maquiladoras has undergone considerable growth during the past couple of years in contrast to the previous five years where many maquiladoras and related jobs moved to China or in some instances India due to cheaper labor costs. There are now more than 2,800 maquiladora factories in Mexico and it appears that the loss of jobs and businesses to Asia has been stemmed.

Maquiladoras were originally created as a way of providing jobs to Mexican citizens, while at the same time providing transnational companies with access to a stable work market having lower labor costs as well as proximity to the United States. Initially, maquiladoras were located almost exclusively along Mexico's northern border, but can now be found throughout the entire Republic. About one-third of Mexico's foreign investment, or about \$20 billion annually, flows through this industry and more than one million people are employed by the maquiladoras. More than 50,000 new jobs are created each year by this sector and the entire industry is valued in excess of \$121 billion. By far, more maquiladoras are located in Tijuana than any other location in Mexico.

While previously, the textile industry accounted for a substantial portion of the maquiladoras, new industries are now taking advantage of the many benefits of manufacturing in Mexico using this unique structure. For example, five years ago there were no aeronautical maquiladora plants while today, there are 110 such companies exporting more than \$0.5 billion a year.

Maquiladoras may be 100% owned by either foreigners or Mexicans or may be owned by joint venture partners that are both foreign nationals as well as Mexicans. Late in 2006, new rules were implemented to consolidate and simplify governmental reporting and compliance for the industry. If you are considering creating a maquiladora to take advantage of the many benefits this form of business brings or if you have questions about how a maquiladora might benefit you, please contact us.