

Industrial Policy and the Domestic Content of Mexico's Maquila Exports: A long-run perspective

Topic:

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This paper studies the domestic value added content of exports by Mexico's maquiladora (export-processing) firms during the period from 1981 to 2006. Initially the government viewed maquiladoras as mere providers of employment. This view and subsequent industrial policies shifted with the increasing outward orientation of Mexico in the late 1980s. The government started to promote the sourcing of intermediates from upstream Mexican firms and the technological upgrading within maquiladora firms. We combine a recently released input-output table for maquiladora industries with detailed longitudinal data on value added, gross exports, employment by skill type, and domestic and imported intermediate inputs to study whether observed patterns are related to changes in industrial policy. We find substantial differences in the domestic value added content of exports across industries and over time. The domestic content is typically higher in labor-intensive goods manufacturers, such as textiles, compared to capital-intensive industries such as transport and electronic goods manufacturing. Over time, productivity and the share of skilled workers in maquiladoras improved only modestly. A long-run decline in aggregate domestic value added embodied in maquila exports, from 31 percent in 1981 to 21 percent in 2006, is largely explained by the falling domestic content within electrical machinery product manufacturing. The decline in domestic content appears mainly related to internal and external shocks and not to changes in the regulatory environment.