# THE *MAQUILADORA* INDUSTRY ON MEXICO'S NORTHERN BORDER: IMPACTS ON WAGE AND INTERNATIONAL LABOR MOBILITY

## *A INDÚSTRIA MAQUILADORA NA FRONTEIRA NORTE DO MÉXICO: IMPACTOS NA RENDA E NA MOBILIDADE INTERNACIONAL DO TRABALHO*

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**ABSTRACT**

This paper analyzes the consolidation process of the *maquiladora* industry in Mexico's northern border, in the context of expanding Global Value Chains (GVC) and Foreign Direct Investment (FDI) as forms of lowering production costs. Based on arrangements like the North American Free Trade Agreement (NAFTA) as an institutional background, we show the growing presence of Multinational Corporations (MNCs) in Mexico and the expansion of *maquiladoras* as a national export-led model, mainly composed by manufactures. Through socioeconomic data analysis, we demonstrate two aspects concerning the evolution of *maquiladora* industry in Mexico. First, job creation is based on inferior wage levels with low improvement throughout history, which may interfere on the social reproduction of the labor force. Second, this tendency is followed by a rise in undocumented immigration to the United States, which led to a tighter and more onerous institutional response in border control as an attempt to contain the migratory flows.

**Keywords:** NAFTA, *Maquiladoras*, Labor Flexibility, Mexico, Border Control.

**RESUMO**

Este artigo trata do processo de consolidação da indústria *maquiladora* na fronteira norte do México, no contexto global de expansão das Cadeias Globais de Valor e do Investimento Direto Externo (IDE) como formas de realização produtiva de baixo custo. A partir de arranjos institucionais como o North American Free Trade Agreement (NAFTA), cresce a presença das Multinacionais (MNCs) no México e as *maquiladoras* se expandem como modelo produtivo nacional voltado à exportação de manufaturas. Por meio da análise de indicadores socioeconômicos, demonstramos dois aspectos em relação à evolução da indústria *maquiladora* no México. A maior parte dos empregos gerados possuem um nível inferior de renda e parca melhoria ao longo da história, interferindo na reprodução social da força de trabalho. Esta tendência é acompanhada pelo aumento de imigrações não documentadas aos Estados Unidos, o que gera uma resposta institucional mais rígida e onerosa no controle de fronteira para conter os fluxos migratórios.

**Palavras-Chave:** NAFTA, *Maquiladoras*, Flexibilidade do Trabalho, México, Controle de Fronteira.

**JEL CLASSIFICATION:** F02, F21, J21, J31.

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## 1. INTRODUCTION

As the capitalist economy becomes more globalized and its accumulation pattern mainly concentrated on the financial form[3] of capital, we observe an institutional process of regulation concerning different forms of investment in Mexico. After the 1980s, when the unfolding aspects of the neoliberal[4] model becomes tangible in the Mexican economy, institutional arrangements take place in order to facilitate the circulation of foreign capital. The official economic model proposed by the International Monetary Fund (IMF) was applied under regional arrangements and national economic adjustment, conditions based on finance aid plans for the Debt Crisis in Latin America. During this time, mechanisms like foreign direct investment (FDI) and outsourcing[5] expanded the presence of multinational corporations (MNCs) in economies with lower-cost conditions for production and operation, like the Mexican economy. Through this process of economic opening in Latin America, the MNCs had the possibility to establish manufacturing plants in the offshore assembly chains, working as perfect assets for financial investment due to favorable tax conditions and low-cost production (KHABAROVA, 2009, p. 17).

A decade after the adjustment plans in Latin America, it is possible to analyze the changing patterns in trade and labor for this region, as well as the social features of this process. In the context of the 1990s, the offshore mechanism led to an increase in FDI in economies like India, China and Mexico, usually low-wage labor and export-oriented economies. According to Suwandi et. al. (2019, p. 3) these countries are the main destination for FDI, representing 52% of the global FDI in 2013. The Mexican case calls for a closer look, as this changing process in national production has highlighted the economic asymmetries in the Global Value Chains[6] (GVC), especially because its neighbor country holds most of the capital operations of the MNCs in Mexico.

In times of high capital mobility and the supply of low-cost labor in strategic areas, the outsourcing appears as a profitable practice for MNCs, which led to the establishment of input plants in countries like Mexico, creating whole cities for low-added value production as a part of the production process. In fact, the Mexican case is the greatest example of outsourcing regarding US corporations, not only because of the expressive amount of FDI inflows to Mexico, but also due to the signing and ratification of an institutional agreement on these economic flows and new mechanisms of production in this context. The advantageous logistics and the flexible conditions consolidated within the North American Free Trade Agreement (NAFTA)

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[3] The original definition of this term is provided by Hilferding (1985, p. 32), referring to a fusion between commercial capital and banking capital. Some authors developed the same category as the main capital form in a flexible accumulation pattern, like Alves (2011, p. 407), Foster (2007, p. 5) and Duménil, Levy (2004, p. 15).

[4] We understand this concept in the terms expressed by Duménil and Levy (2005, p. 11), meaning the market ideology of free markets and limited intervention by state institutions. This general definition includes the freedom to buy and sell goods, to employ and fire employees, to acquire and merge companies and to consolidate activities that relate to capital investments. This model aims at market stability and the maximization of profits. Concerning the international development of this ideology, the authors point to a process of removing barriers to the global flow of capitals and goods.

[5] We understand the outsourcing in its international form, also addressed as offshore outsourcing and related to Global Value Chains (GVC). According to Starosta (2010, p. 553), outsourcing is a segmenting mechanism that permits lower costs in the production process, influencing production prices as understood in the Labor Theory of Value. The production price as defined by the cost of inputs (labor force, means of production and taxation) plus the normal profits of capital (general rate) can be potentially lowered by first-mover outsourcing firms and still be regulated by in-house manufacturing. The author argues that outsourcing is a form of relocation in the valorization process, politically mediated in the global economy and affecting the general cost of production and capital advancement.

[6] Suwandi et al., (2019, p. 6) identifies this process as the global supply chains, where the MNCs control the profits from the central economies, while segmenting parts of the production in economies with lower costs on labor and raw materials.

led to a reshaping in Mexico's economic model, consolidating an export-led model, officially implemented by the maquiladora industry (DELGADO-WISE, COVARRUBIAS, 2007, p. 658).

As we have observed, NAFTA also entailed changes regarding labor in Mexico: unstable work contracts were growing under the practice of outsourcing, expressing the centrality of the workforce for lowering production costs in the Global Value Chains (GVC). The International Labor Organization (2015, p. 132) affirms the jobs related to the GVC had an expressive increase in the past decades "both in absolute terms and as a share of total jobs", almost doubling during the period of 1995 to 2013. The expansion of flexible labor contracts, through mechanisms such as outsourcing, is related to the presence of MNC assembly plants, which aims to reduce costs through cheaper contracts in terms of wage and securities.

Part of the international production system, the *maquiladoras* integrate the GVC, by facilitating government support, fiscal incentives and low-cost labor contracts. They are based on intra-firm trade and subcontracting mechanisms, consisting in a strategy to lower costs by segmenting the production to free trade areas, attaining the fiscal benefits and keeping the cost of labor low in strategic areas. The establishment of *maquiladoras* along the border areas (Mex-US) presents a strategic advantage for US MNCs, as they lower logistic costs and allow for the absorption of the Industrial Reserve Army (IRA)[7] of potential immigrants in the border area (DELGADO-WISE, COVARRUBIAS, 2007, p. 659; SUWANDI, et al., 2019, p. 10).

In the context of NAFTA, the Mexican government has the role of "improving" and legitimizing US and Canadian outsourced production, and this had increased the activity of *maquiladoras*, in the Mexican outsourcing areas. Industrial plants existing since 1964 and mainly located in border areas, Mexican *maquiladoras* are designated to produce and export part of production process held by MNCs, mainly US corporations. In the past ten years, *maquiladoras* have become a huge production model in Mexico, especially in the automotive sector – including automotive parts – with the presence of companies like Chevrolet, Nissan, Honda, Mazda and Renault[8] (COSTA, AYANG, 2016, p. 115).

From this scenario, we aim to focus on the present object of this article: The composition of labor in the border *maquiladoras* in Mexico and its historical evolution expressed via data analysis. We intend to analyze the object in two main aspects concerning the labor force: the general conditions of wage and its evolution; the relation between the labor force contingent and the restrictions on immigration held by NAFTA and US government arrangements. In order to achieve these objectives, this paper is divided in two sections followed by final considerations. The first provides a historical panorama of the *maquiladoras* in Mexico and their growth under NAFTA, presenting social data about the labor contingent and wage for the *maquiladora* industry in Mexico. The second section analyzes the immigration policies entailed in NAFTA and US government policies, relating them to the growing labor population closer to the border and serving as potential immigrants.

Methodologically, the available data concerning our object and its different aspects is drawn from the Organization for Economic Cooperation and Development (OECD) and

[7] In the second part of Marx's Capital (1985, p. 234), when arguing about the mechanisms to keep capital's cycle profitable, the author develops this category that basically consists in an unemployed labor force contingent that serves not only as a source of low-cost production, but also as a pressure mechanism against the wages of employed workers. Bringing this debate to the current context, Foster (2011, p. 1) shifts this category to an international perspective, developing the Global Reserve Army of Labor (GRAL) to point out the role of low-cost labor contingents in global supply chains.

[8] It is important to add that the latter three corporations are not originally from the USA but have fragmented their ownership and are mainly held by US capital investors.

the National Institute of Geography and Statistics (INEGI- Mexico). These statistics guide the analysis on both economic and political responses to the existence of *maquiladoras* on the border and a wide contingent of working population in this area. Nevertheless, the discussion concerning our object would not be complete without a theoretical basis, so we intend to articulate the main aspects of the reality shown through statistical data to the scientific categories developed under the Labor Theory of Value and its contemporary interpreters, such as Foster (2007, 2011) and Osorio (2018).

In the conclusion, we highlight how the new labor arrangement established between Mexican workers and US corporations contributes to the deepening of Mexican economic dependency in two ways. First, it makes the Mexican economy more susceptible to capital flight and job loss in a context of crises in the international market, as data on FDI and wages during and after the 2008 economic crisis has shown. Second, unequal exchange[9] has widened, reproduced under NAFTA and assured by a low added value industry, with low wage improvement throughout the years. This process is based on a wage gap between central and peripheral economies like the USA and Mexico, which contributes to a persistent employment inequality once subcontracted jobs are unstable and the labor force is widely available. According to ILO:

> the ongoing transformation in the employment relationship is having important economic and social repercussions. It contributes to the growing divergence between labor incomes and productivity, with the latter growing faster than wages in much of the world. […] Taken together, this divergence in productivity and wages suggests that the proportion of value added going to wages declines over time, leading to lower wage shares and higher income inequality (ILO, 2015, p. 13).

In both ways, the economic and social asymmetry remains a main aspect of the institutional arrangements celebrated between Mexico and the United States. We address this relation as a growing asymmetrical interdependence, because instead of creating stable employments and promoting a dynamic economic cycle inside Mexico, the *maquiladora* model represents a production outflow, not only because of the lower wage shares, but also because its higher vulnerability to international crisis in the global market. In other words, the *maquiladora* model deepens the Mexican national strategy of an export-led model that does not contribute to reducing its economic dependency from the USA and the global economy as a whole (DELGADO-WISE, COVARRUBIAS, 2007, p. 661; KHABAROVA, 2009, p. 20).

Moreover, we argue the expansion of the *maquiladora* in the border was consolidated under unstable employment conditions, low wage jobs and a growing population of workers along the border, so this created a pressure for work-related immigration, bringing up the immigration issue to the top of the US domestic agenda. The formation of urban conglomerates in the border zones and the precarious work conditions in these areas are directly related to a rise in the migratory flows to the USA and the subsequent rigid regulation of these flows by border control as an escape mechanism. This social feature reflects the asymmetrical conditions of wage between Mexican and US workers, which has called the attention of border control, creating new enforcement operations and demanding higher public spending to prevent illegal crossings to the USA (ACKERMAN, 2011, p. 42).

[9] According to Osorio (2018, p. 184), unequal exchange is a central category in order to understand the global economic patterns and the role-played by Latin American economies in the capital realization cycle. This category is based on two main aspects of "Dependent Capitalism": the economic specialization in low-added value production for selling in external markets, like commodities and luxury goods; and the existence of a specific labor force, "super-exploited" and underpaid, that guarantees the profit rate for foreign capital. Finally, as addressed by the author, Mexico is one of the most expressive examples for this mechanism.

## 2. NAFTA AND THE EXPANSION OF THE *MAQUILADORA* INDUSTRY IN MEXICO

As we discussed in the introductory section, the changing patterns of capital accumulation – consolidated in the Neoliberal Era – brought new conditions for trade flows between Mexico and the USA, consequently affecting the capital-labor balance both domestically and internationally. In Marx's terms (1985, p. 234), the dynamic relation between capital and labor can be expressed by a constant adjustment of the work force, following the:

> […] productive conditions in each of the different forms of capital investment which, in the agriculture sector, is characterized by the natural conditions of production, while in manufacturing and most of the extractive sector these vary according with the social development of the production process.

The more flexible the forms of capital investment – including the production in "closer or distant markets" - the more dynamic the labor force and its social organization will be in order to adjust to the market's needs. The author is specifically referring to the Industrial Reserve Army, when he explains the mechanisms used to increase capital profits in the circulation process and its impact on the relation between capital income and labor's wages. In this particular context, the production process in Mexico is marked by a growing practice of outsourcing, mainly focused on the manufacturing sector and powered by Foreign Direct Investment (FDI).

Since 1970, we observe a higher flexibility in capital circulation cycles worldwide, a process in which Multinational Corporations (MNC) control substantial shares of the manufacturing industry, in order to fulfill the circulation needs of a concentrated capital mass. These corporations have been playing an important role in promoting productive flexibilization as an economic model in Mexico under several trade agreements on liberalization and tax exemptions. This very same process was consolidated as a mechanism for seeking economic advantages in less developed countries, supported by trade arrangements between economies with distinct production structures, as is the case of Mexico and the USA (FOSTER et al., 2007, p. 5).

In fact, as pointed out by Villareal (2012, p. 6), an expressive part of the trade between the USA and Mexico occurs under manufacturer production sharing. In other words, the expansion of bilateral trade has resulted in the consolidation of vertical supply relations along the US-Mexico border. This relation is supported by institutional arrangements, such as NAFTA. Through this arrangement, the MNCs have promoted the internationalization of investment flows and have segmented the production process in different countries, investing in mechanisms like outsourcing, FDI and the acquisition of subsidiary plants (KHABAROVA, 2009, p. 23).

In the past ten years, we certainly observe a diversification of MNC capital activities, reflecting the concentrated capital mass and the monopoly shares carried by these groups in the search for new profitable ventures. Most of these corporations aim for profitable investments and conditions for a lower cost production, mainly offered by countries with high interest rates and low-cost labor contracts, like Mexico. From 1970 to 2005, Multinational corporations operating in Mexico grew from 7.000 (with 30 million employed workers) to 72.000 (operating with 980.000 subsidiaries and 96 million employed workers), consolidating the production segmentation in Mexico. As we can see, the growing presence of industrial plants under the *maquiladora* system entailed the creation of millions of jobs, mainly involving low wage and skill levels. In one side of this dynamic relation, we place the MNCs, representing the foreign capital from the USA and, on the other, the availability of an Industrial Reserve Army in Mexico, impacting the labor-value counterbalance. (POCHMANN, 2000, p. 4).

An IRA in countries like Mexico offers inferior and more unstable conditions of employment than what is observed in the country where the corporation has its headquarters. That is the main way of reducing production spending — by establishing low cost and flexible contracts. In other words, outsourcing consists in a displacement of low-added value production from developed to underdeveloped economies, while the most sophisticated employment remains in economies with higher income *per capita.* Foster et. al. (2011, p. 1) address this process through the concept of Global Reserve Army of Labor, reflecting the global mobility of capital and the asymmetrical economic relations in a globalized market.

In this conjuncture, in the next subsection we will analyze the growing expansion of the *maquiladora* industry in Mexico, relating this process to the multinational corporations that have become more expressive after NAFTA's consolidation. The growing presence of these corporations through outsourcing plants has transformed the *maquiladoras* into a huge conglomerate, concentrating workers in low wage positions and precarious conditions. The flexibility of labor contracts reflects the changing nature of employment since 1970, which has unstable ties, unharnessed indemnities and loss of job security[10]. We subdivide this section in two brief subsections. One concerning the role of US corporations and NAFTA's institutional arrangement in the expansion of *maquiladoras*. The second will present a brief overview about the *maquiladora* industry in Mexico and its implications for wages for the working population in the border areas. The establishment of NAFTA not only entails the legal institutionalization of US corporations in Mexico, but also influences an agenda of population control in the border area, where the *maquiladoras* are mainly concentrated (ANGUIANO-TÉLLEZ, TREJO, 2007, p. 42).

## 2.1 NAFTA and the consolidation of outsourcing in Mexico

The example of the flexible contract that we highlight in this work is a kind of subcontracting, known as outsourcing in its international form. An advantageous solution to multinational corporations, outsourcing consists in the establishment of industrial plants focused on a particular stage of production, located in a country other than that of the corporate headquarters. This establishment occurs by reusing obsolete machinery from dismantled plants in the investor country, a movement which started in 1960 and became expressive throughout the years (CECEÑA, 2009, p. 41).

It is important to highlight that outsourcing was legitimized by the Mexican government, as a promise of expanding industrial plants and promoting "economic development" in Mexico through job creation. By the end of the Second World War, Mexico had established an agenda for national industrialization in cooperation with US companies, not only by deepening the import/export relations but also by giving them tax exemptions to build subsidiaries in Mexico. The so-called economic integration between Mexico and the USA is not a recent fact, and, in the last 20 years, new activities have become prominent between these economies, showing a flexible diversification for economic integration. As mentioned above, agreements were established as way of regulating and legitimizing all these new kinds of investment, so we bring NAFTA as an example of this process (CECEÑA, 2009, p. 42).

The deepening internationalization of the Mexican economy precedes the signing of NAFTA. It began around 1985, when Mexico faced a stagflation crisis and became heavily

[10] According to the ILO report (2015) on the changing nature of employment, contracts like outsourcing and subcontracting are classified as unstable labor contracts. The report also concluded a general decrease in the job security and other rights tied to labor contracts, especially in the unstable ones.

indebted like other countries in Latin America. After abandoning a policy of import-substitution based on internal industrialization, the Mexican economic model then became centered around petroleum exports. This made the economy more vulnerable to the international flow of capitals, with greater dependency on international demand for commodities and petrodollars. After the 1973 oil crisis, the Mexican economy was in profound debt and had to rearrange its strategies to adjust its internal economic dynamic. This adjustment would not come naturally, but rather under the neoliberal influence of the International Monetary Fund (IMF): the economic opening was placed in the agenda as a strategy to attract foreign capital and improve internal industrialization. Furthermore, some changes in the production structure had already taken place. Activities involving foreign investment were growing fast and the *maquiladora* industry was expanded as a national economic strategy, since it was very attractive to foreign capital due to tax exemptions and other facilities (ORTIZ WADGYMAR, 1983, p. 44; KHABAROVA, 2009, p. 17).

The formal talks for regularization of foreign economic activities in Mexico also began in the same period. Around 1990, the Mexican government already had a formal agenda to sign the North American Free Trade Agreement (NAFTA), legitimizing the economic opening in order to receive foreign capital, especially from the USA. So, as pointed out by Esquivel and Rodriguez-López, (2003, p. 547), "In December of 1992 the three countries signed NAFTA, which was then scheduled to come into effect on January 1 of 1994. It is important to stress that NAFTA was the first asymmetric free trade agreement in terms of the income levels of the participating countries."

In this conjuncture, capital exports from the USA to Mexico grew quickly. Modalities like FDI were legitimized as a new form of investment, mainly directed to the manufacturing and services[11] sector. Investing in the manufacturing sector was a low-cost strategy, once the obsolete machinery from MNCs could be used for initial plants and the IRA served as a source of flexible labor[12]. In other words, the conditions of production in Mexico suited the expansion of the manufacturing and services sector, considering the use of unskilled labor as a basis of this expansion process. In addition, manufacturing growth has occurred at the industry-wide level, and it has been particularly important in the textile and basic metals industries (ESQUIVEL, RODRIGUEZ-LÓPEZ, 2003, p. 550).

Even before 1990, outsourcing was integrated into a national strategy to expand the manufacturing sector and once NAFTA was consolidated, several foreign facilities for capital investments led to the adoption of a new export model, holding the promise of job creation for the Mexican industry. Ten years later, the manufacturing sector is still the main destination for capitals operated under the Foreign Direct Investment (FDI) form, with emphasis on the sub-sectors of food products, rubber and petroleum products and automotive equipment. Table 1 presents the composition of FDI in Mexico for selected sectors, in the period of 2006 to 2010:

[11] The composition of capital investments in the service sector is given by three main sub-sectors: Financial Intermediation, Financial Intermediation (except pension and funding) and monetary intermediation, which in the year of 2006, represented respectively 23.1%, 23.6% and 22.6% and 66% as aggregate percentages of the total investment in the services sector. The financial aspect gained relevance under the NAFTA adjustment, as the rise in foreign operations demanded different intermediate activities (OECD, 2012, p. 180).

[12] We understand the Labor Flexibility in the terms put forth by Bresciani (1997, p. 89): "Labor flexibility can be seen in its correlation with automation and different contract regimes", also involving changes in the organization of the production process and strategic dimensions.

**TABLE 1 – FOREIGN DIRECT INVESTMENT INFLOWS: MEXICAN MANUFACTURING SECTOR (MILLION US DOLLARS, 2006-2010)**

| *Manufacturing subsectors* | *2006* | *2007* | *2008* | *2009* | *2010* |
|---|---|---|---|---|---|
| Food products | 1909 | 1373.5 | 1545.9 | 1013.2 | 6884.7 |
| Textile and wood | 599 | 463.1 | 519.4 | 459.9 | 356.2 |
| Petroleum, chemical and rubber products | 2055 | 2961.6 | 1249.1 | 8.7 | 365.3 |
| Metal and mechanical products | 1324 | 4715 | 1078.8 | 267 | 557.6 |
| Office Machinery | 868 | 641.8 | 480.3 | 1141.4 | 1082.1 |
| Mothor vehicles and equipment | 1729 | 2021.2 | 1332.2 | 1361.1 | 902.4 |
| **TOTAL** | **9971** | **13555.8** | **7793.8** | **5619.20** | **11412.8** |

Source: OECD Start, 2012.

Despite the growing investment on the automotive industry, one essential sector gained prominence in the last decade: the export of metal and mechanical products, mainly integrated to the Global Value Chains (GVC) as a trade strategy and integration agenda. This aspect is reinforced after NAFTA, gaining importance over the industry of petroleum, chemical and rubber products. The manufacturing model proposed under *maquiladoras* shifted this sector upward as the main destination for FDI in Mexico, which shows, in fact, the deepening of the export-led model through new industries beyond commodities. As observed in Table 1, we can also identify impacts on investments after the 2008 crisis, what represents the economic susceptibility of the export-led model and its subjection to capital flights during recession times. Even though the taxation conditions offered by the Mexican *maquiladora* industry are attractive, this does not inhibit capital volatility for this sector, once the Mexican government has no autonomy to redistribute or relocate foreign capital in order to internally manage the crisis (KHABAROVA, 2009, p. 23).

Nevertheless, the Mexican government had an important role in opening the economy to foreign capitals by adjusting policies to promote privatization and deregulation. This not only attracted US capital, but also allowed for new investment strategies from US corporations. The new agenda under NAFTA was settled by several negotiations between the Mexican government and US corporations, which can explain the focus on the *maquiladora* project as a profitable outsourcing strategy. These corporations – especially the automotive producers – started to create competitive strategies by encouraging the flexibility of labor as a way to improve efficiency in the international market. Through these strategies, corporations like Ford, General Motors, Auto Mex and Chrysler now dominate the automotive sector in Mexico, by adding flexible and low-cost conditions of production (KHABAROVA, 2009, p. 25).

In this scenario, the *maquiladora* model delivers the flexible strategy, working not only as a source of cheap labor, but also as a tax-free zone:

> During the second half of the 1990s, the Mexican industry of "*maquiladora*", where corporations had 100 per cent of market access, faced essential number of lay-offs stemming from the lack of demand for labor. In 2001, unemployment in this sector was exacerbated by the fall in the US demand for Mexican exports. Mexican 'maquila' program approved the participation of foreign capital that in the export-processing zones offered to firms tax-free operations. This program was very profitable in the trade agreement as the free flow of capital, raw materials and wages gained a clearer shape. Far-reaching liberalisation provided the contractual basis for US corporations to

> export components of product for assembly and import higher value added for the final procession, the tax for which was charged only with respect to the additional value, and not to the final product (KHABAROVA, 2009, p. 20, 21).

In the context of NAFTA, the *maquiladora* program was dynamically shaped to create the most convenient structure to attract US capitals even in periods of economic instability. In the *maquiladora*s, the tax exemption for manufactured goods followed a progression until their total extinction: the taxation reduction represented 5% in its first agreement, achieving 55% in 1994, and 100% in 2003. Furthermore, establishing the *maquiladoras* in the border area reflects a low-cost strategy for logistics, which required an institutional agenda to deal with labor force concentration in these areas. This topic will be briefly discussed in the next section (ESPOSITO, 2013, p. 51).

## 2.2 The Maquiladora industry in an Era of Flexible Labor

The *maquiladora* model started as an industrialization program in 1964, mostly concentrated on manufacturing of parts to be exported for the production of a final good, in order to incentivize and legally allow foreign companies to manufacture goods in Mexico. This strategy was motivated by three main aspects. First, Mexico's capacity to attract and generate capitals through flexible conditions of productivity. Second, the creation of low-skilled jobs to employ the expressive amount of non-qualified and unemployed workers, categorized here as the IRA. Finally, the *maquiladora* – and NAFTA itself – could turn the import of inputs into a cheaper process, once the costs are reduced through the segmentation of the production process. In sum, the design of the *maquiladora* industry was mainly created for multinational corporations and does not have strong links with domestic consumption. This renewed strategy can be addressed as an export-led model for labor in process of consolidation (CARRILLO, 2007, p. 670; DELGADO-WISE, COVARRUBIAS, 2007, p. 658).

Regarding the legal establishment of *maquiladora*s, we add that national and international institutions had played an important role in creating the legal instruments to allow the entrance of US capitals into Mexico. This process influenced the relation between US companies and Mexican manufacturing industries, also by letting the first ones import all raw materials, equipment and machinery to produce final goods. Back in the 1960s, the Mexican government started to develop an exported-oriented industrialization program (*Programa de Industrialización Fronteriza* – PIF), permitting US capital to enter the economy in different ways. By that time, the automotive industry was the main activity of US corporations, and they started to build industrial plants in the border area. Throughout the years, the *maquila* program was expanded to strategic regions in Mexico (Central area), which brought a deeper internationalization of production forces in the following decades. In this period, we observe a rise in multinational corporations and subsidiaries migrating to Mexico and, during the next two decades, the outsourcing of activities became the main mechanism of MNCs to increase revenues, reducing costs by segmenting and subcontracting activities to third parts or subsidiaries (DELGADO-WISE, COVARRUBIAS, 2007, p. 272).

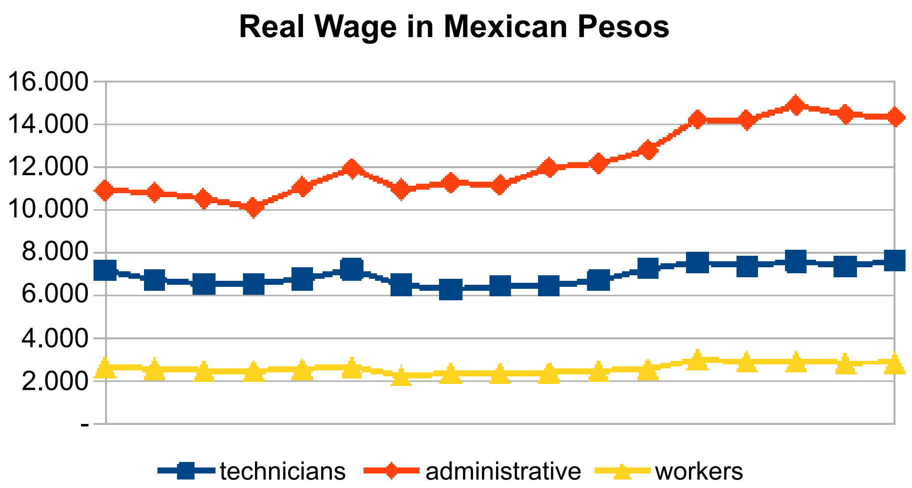
Ten years after the signing of NAFTA, the *maquiladora* plants were operating under more than 300 different companies, some concentrated in the border area, some plants in the central states. The bigger plants are located in the states of Baja California, Chihuahua, Sonora and Tamaulipas, the last one being a strategic area for mineral resources. By this time, the *maquiladora*s employed 1.2 million workers, wherein 78% of them were allocated in the manufacturing sector. Most industrial plants do not have any links with the national industry, representing 95% percent of the national production while generating 55% of all manufacturing exports in the Mexican economy (CARRILLO, 2007, p. 669).

The subsidiary industries also improve their performance within the Mexican territory: in the first year of NAFTA, 25 of these companies were among the 160 biggest companies in Mexico. Ten years later, they were 45, representing 16% of employment in the whole country. According to the National Institute of Statistics and Geography (INEGI- Mexico), there are approximately 3,000 multinational companies in Mexico, and the *maquiladora*s are linked to 20% of these. Moreover, the total presence of foreign capital in different economic sectors – including US capital – is very expressive, representing 50% of the economic activity in Mexico. Within these sectors, there are crucially strategic activities like mining, automotive production, machinery and textiles. The greatest part of these capitals come from the USA, with a second biggest participation by French capital (ESPOSITO, 2013, p. 50; INEGI, 2005).

On the labor aspects of the *maquiladora* industry, the Mexican Institute of Geography and Statistics (INEGI) shows that from 1990 to 2006 (last available series) the number of workers in the *maquiladora* industry grew from 424 thousand to 1.17 million, a commonly used data for arguing in favor of *maquiladora*s as a job generation strategy. As we pointed out before, however, these jobs are often related to lower wages and less skilled spots. If we observe the different categories of employment in the *maquiladora* industry, we can affirm that the majority of workers are employed in unskilled jobs. The same indicator shows that from this total of workers in 2006, only 156 thousand are employed as technicians and just 101 thousand in administrative activities (INEGI, 2020; ESQUIVEL, RODRIGUEZ-LÓPEZ, 2003, p. 553).

Furthermore, the inequalities are expressive when observing the wage difference between manual workers and technical/administrative workers. As we can see in the Chart 1, showing the evolution of wages for manual workers, technicians and administrative personnel in the period of 1990 to 2006, there is a relative stability of wage for the first ones and a relative growth for the last ones.

**CHART 1 – *MAQUILADORA* EXPORTING INDUSTRY STATISTICS: EVOLUTION ON REAL WAGE FOR DIFFERENT JOBS – 1990 TO 2006 – MEXICAN PESOS**




Self- elaborated chart based on data available at INEGI Mexico. Methodological observations: First month of the year (01) as a basis for each year.

In fact, the chart demonstrates the widening of the wage gap between skilled and non-skilled jobs for the *maquiladora* industry. This confirms the hypothesis presented by the International Labor Organization's (ILO) report on job patterns for the past 20 years

(2015, p. 14), ascertaining not only the expansion of flexible labor contracts (outsourcing included) attached to less secure employment relations, but also the widening of the wage gap between this type of contract and other standard jobs. In other words, the growing inequality in wage in the last 20 years reveals that, besides the extant wage inequality between “developed” economies and Mexico, the expansion of outsourcing contracts through the *maquiladora* model is mainly based on low paid jobs and low skilled contracts. Thus, this model had no significant impact on wage improvement in Mexico, which can affect the dynamic of the national market throughout the production cycles.

From a wider perspective, the wage gap is a global dynamic that reflects wage inequality not only between skilled and unskilled jobs, but between different economies on the global market, as in the example of the USA and Mexico. That is to say the “low cost production” strategy held by MNCs in Mexican *maquiladoras* is mainly driven by the relative labor cost compared to the conditions found where the company is based. If we take a closer look at average annual wage evolution between the US and Mexico, we can observe an expressive gap, with the maintenance of low wage levels in Mexico accompanied by a slight increase in the wage levels for the USA, especially after 2014:

**TABLE 2 – AVERAGE ANNUAL WAGE 2000-2019, SELECTED COUNTRIES (US DOLLARS)**

| *Year* | *Mexico* | *Unites States* |
|---|---|---|
| 2000 | 16742 | 54 264 |
| 2001 | 17714 | 55 104 |
| 2002 | 17643 | 55 537 |
| 2003 | 17954 | 56 219 |
| 2004 | 18043 | 57 263 |
| 2005 | 18169 | 57 331 |
| 2006 | 18141 | 58 240 |
| 2007 | 18209 | 59 399 |
| 2008 | 18052 | 59 200 |
| 2009 | 18199 | 59 678 |
| 2010 | 17050 | 60 248 |
| 2011 | 17203 | 60 330 |
| 2012 | 16895 | 60 826 |
| 2013 | 16909 | 60 542 |
| 2014 | 16888 | 61 447 |
| 2015 | 17102 | 62 982 |
| 2016 | 16981 | 63 079 |
| 2017 | 16984 | 63 734 |
| 2018 | 17181 | 64 397 |
| 2019 | 17594 | 65 836 |

Source: OECD Stat, 2020.
Available at https://doi.org/10.1787/lfs-data-en.

Despite the expressive difference in wage levels, which reflects the economic asymmetries between Mexico and the United States and their different roles in the global market, we can affirm that the wage gap is not diminishing in the 20-year period. Moreover, we can observe a timid growth in wage for US workers (except for the years 2008 and 2013), while the Mexican growth is initially stable until the 2008 crisis, after which it becomes lower and with an unstable recovery. At least in the wage aspect, the NAFTA arrangement was not able to create a positive impact for Mexico under the *maquiladora* model, which may unfold other social consequences for the workers in their ability to reproduce their social needs.

Furthermore, as pointed out by Osorio (2018, p. 188) while referring to the *maquiladora* industry, the wages are inferior and cannot guarantee the physical reproduction of the labor force. In this process, foreign capital pays the labor force below the absolute bare minimum necessary for dignified living, based on its nationally determined value in a less developed economy and guarantees the profit maximization by the realization of production in a more developed economy. This uneven exchange terms unfolds into additional social problems for the Mexican workers and for the whole trans-border trade area.

In addition, Kopinak (2003, p. 321) affirms that the lower wages embedded in the *maquiladora* model did not seem to improve throughout the years. This factor, combined with a growing labor force at the Northern border, can reinforce the need of Mexicans to search for better wage conditions in the USA. With a similar approach, Hanson and Spilimbergo (1999, p. 1337) affirm that the relatively high wages in the USA, compared to Mexican wages, create an extra pressure for work-related immigration, which is also a result of the continuous volatility of the Mexican currency and the consequent wage depreciation. This may be related to an increase on the undocumented immigration flows as affirms Kopinak (2003) and Ackerman (2011), Which will be discussed in the next section.

This section presented some economic aspects about the *maquiladora* program, showing how it was developed as a specific export model. According to Carrillo (2007, p. 672), it remains a way of exporting manufacturing based on the labor-intensive and low wage production as a source of competition. With weak linkages to national market, the *maquiladora* contributes to the transnationalization of the industrial apparatus and relatively simple assembly of low-added value. In fact, we can affirm that the promise of eradicating unemployment in Mexico, proposed under NAFTA, is not followed by the generation of stable and well-paid jobs, which can lead to a social depreciation of working conditions and, consequently, the workers' capacity to reproduce their socially established needs. In addition, the social impacts of the *maquiladora* industry are beyond capital's control and may affect not only the economic cycles but also the population flows at the edge of the border.

As we mentioned above, the concentration of the labor force at the border was accompanied by immigration policies, aiming to control the undocumented labor flow migrating to the USA that was seeking better working conditions. In the NAFTA agreement, immigration control was placed on the agenda, and the more the *maquiladora* industry grew, the more stringent these measures became. Finally, labor immigration from Mexico to the USA is a complex phenomenon caused by numerous aspects, and we do not intend to affirm that the *maquiladora* industry is its primary cause. In this problematic, we only want to highlight the potential links between the border industries and the labor force flow in the same areas, and that will be discussed in the next section.

## 3. BORDER ENFORCEMENT POLICIES AND THE GLOBAL RESERVE ARMY OF LABOR

As we discussed in the last section, the main aspects brought by the *maquiladora* industry in Mexico are the drainage of productive capital to the USA and the consequent depreciation of working wages for this sector. The economic development promised by NAFTA arrangements was limited by an export-led model, based on a type of industry that guarantees the creation of value by an underpaid labor force and its realization back in the USA, where the production can be profitably realized[13]. Suwandi et al., (2019, p. 6) summarizes this very process and addresses the existent relation between capital mobility and the limits to labor mobility:

> This enormous gulf between global North and global South arises from a system that allows for the free international mobility of capital, while tightly restricting the international mobility of labor. The result is to hold wages down in the periphery and to make possible the enormous siphoning off of economic surplus from the countries of the South.

While the process of depreciation in *maquiladora* wages is a fact and reflects a regional structure of uneven exchange, the aspect of labor mobility is a controversial issue for the region, in both social and economic matters. Regarding this relation between labor and capital in a flexible accumulation pattern, Foster (2011, p. 1) stresses an opposition between the capital mobility and the restraining on labor, assured by state institutions. In fact, the institutional response will show a growing concern with restrictive policies on immigration. Nevertheless, the effectiveness of border enforcement policies would be the most stable scenario for the capital offshore investors as well as for the institutions of Department of Homeland Security. However, the depreciated wage conditions for the border workers resulted in a growing immigration flow that is partly motivated by work. This aspect is highlighted by Kopinak (2003, p. 331) and supported by Ackerman (2011, p. 50), who links the temporal evolution in the *maquiladora* industry to a gradual process of restrictions in border control. It is important to add that this institutional response is just one of the multiple variables of this social crisis catalyzed by the *maquiladora* industry and may not be capable of restraining Mexican workers' social objective for better working conditions.

As we argue, according to the Labor Theory of Value, this process shows that the social forces are not static and the dialectical relation between capital and labor is permeated by contradictions and different historical agents, like state institutions[14]. In this context, we highlight the relation of MNCs mainly controlled by US capital and Mexican workers regarding the *maquiladora* industry, although other aspects influence the social establishment of these new conditions of production, exemplified by the institutional arrangements in NAFTA. Through this neoliberal adjustment, it is clear that the Mexican and the American governments reconfigure their strategies in order to attend to the socioeconomic requirements of maintaining the dynamic in the *maquiladora* industry. One of these social requirements is the regulation

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[13] Osorio (2018, p. 188) describes this process as an aspect of the uneven exchange between 'developed' economies and Mexico, which reflects how outsourcing is a profitable strategy for reducing labor costs.

[14] According to Marx (1985, p. 86) concrete reality is constantly permeated by a dynamic relation between labor and capital, based on the social aspects of production and represented here by workers – and its political associations – and the capital holders – represented here by the MNCs and their material mechanisms for social intervention. As also developed by Cox (2013, p. 151), state institutions play a significant role in maintaining the material conditions for capital's hegemony under political arrangements that comprehend states as important role players in the international market.

of the working population next to the border, which is directly linked to immigration issues (ACKERMAN, 2011, p. 43).

According to Ackerman (2011, p. 44), the current policies for immigration shows clear signs of contradiction between US economic interests and the tendencies unleashed by market internationalization. The author affirms that US institutions are “trying to block a tendency that transcends it, yet the transcending is happening anyway (through increased economic interaction and undocumented immigration, for example)”. Based on that, this section will analyze the institutional response of Border Control for the crisis in immigration, aggravated by the depreciating wage conditions on the border *maquiladoras*. We will present official data regarding budget evolution, number of border agents, and different technologies used to prevent undocumented crossings. In addition, we also intend to analyze the historical evolution of undocumented immigration flows in order to state aspects of labor mobility for the border region in both economies.

### 3.1 Anti-immigration policies and operations

Since the signing of NAFTA, several actions have been taken by the US government to regulate and patrol the border areas demanding a national strategy and higher public spending. In the first years of operation back in 1924, the border control department hired no more than 450 agents, reaching a number of 4139 agents when NAFTA was signed. After this period, the number of agents has increased to more than 11,000 in 2006, which indicates the placement of immigration issue as a consistent strategy. Still in the same year, the US House of Representatives approved the construction of detention centers to keep undocumented immigrants awaiting deportation, whose population reached 4,000 by the time of construction (ANGUIANO-TÉLLEZ, TREJO, 2007, p. 38).

According to the US Department of Homeland Security (DHS) – established in 2003 together with Immigration and Customs Enforcement (ICE) – in the period of 1990 to 2019, the annual budget for border patrol increased more than tenfold, expanding from a 263-million-dollar budget in the first year to an expressive 4.7 billion dollars by the end of the period. As we can see, not only has the spending on border control increased, but new specific departments were created in order to regulate the immigration flows, which also involved new spending as is the case with ICE, designed to run the enforcement and deportation operations. In addition, different technologies and strategies were developed to reinforce the border crossing points, especially by land, as affirms Anguiano-Téllez and Trejo (2007, p. 38):

> Likewise, in the 1990’s decade there were unusual dispositions and extraordinary methods of control and vigilance in this border, among them the construction of 86.5 miles of walls along the 1951 miles that mark the border with Mexico and that were edified in the specific zones of the areas that are commonly used by the migrants to suddenly cross the border, they were also built with high intensity lightning, telescopes with infrared sights and thermal and movement detectors, as well as non-piloted airplanes with sophisticated computer and video systems that can move across inhospitable regions in order to locate people and transmit precise information and images on the location of the trespassers to ground vehicles.

As pointed out above, the building of a physical barrier on the border was among these contention strategies, so, in 2006, more than a thousand kilometers (650 miles) were covered by walls, built in strategic locations of the border. By the end of that same year, the US Senate voted on the expansion of the border wall, approving the construction of an extra

1126 kilometers of walls and 800 surveillance towers, with sensors for movement detection in a 7 km perimeter. This strategy is currently part of the US political agenda, once several actions have been taken to extend the wall along the border, as we can observe in 2018 with the creation of a Homeland Security Fund to finance the building of new physical barriers in the states of Texas, Arizona and North Carolina. This fund was initially estimated in 5 billion dollars, according to a National Security report available on the White House's official website, which represents a growing public concern with the undocumented crossings. The budget for the border wall is currently a matter of disputes in the US government and represents a major strategy for Donald Trump's agenda (ANGUIANO-TELLÉZ, TREJO, 2007, p. 38; US National Security, 2018).

Furthermore, several operations took place as task forces, which reflects the militarization of the border and the creation of coordinated strategies in order to inhibit the migratory flows. Patrol agents have now become licensed to carry weapons, legally working with a military status. The first major operation was called Gatekeeper, inaugurated in 1994 with the signing of NAFTA. This operation coordinated infrared technologies with air patrol and the building of a fence, creating physical barriers to block land crossings. As other examples of coordinated institutional responses, we have the following operations: Hold the line (1993), Safeguard (1995), Rio Grande (1997) and Arizona Border Control Initiative (2004) (ACKERMAN, 2011, p. 42; ANGUIANO-TELLÉZ, TREJO, 2007, p. 39).

## 3.2 Undocumented immigrants in the USA

Despite the growing response to control the immigration flows along the border, we can observe a dynamic increase on the number of undocumented immigrants as reports the Executive Summary of Immigration and Naturalization Service (INS, 2003, p. 2). By the beginning of 2000, about 7 million undocumented immigrants resided in the United States, up from 5 million in 1996. The state of California had the greatest number of immigrants, representing 32% of the national total in 2000. There was also an increase of this population in the states of Texas, Illinois, Arizona, Georgia and North Carolina. Even though Operation Gatekeeper took place in California as the main crossing point, the increase of this population in this state shows a lack of effectiveness in controlling the immigrant flows. In addition, by 1990 the Mexican border state of Baja California contained one of the biggest *maquiladora* areas, holding more than a thousand plants already before 1990 (NORRIS, JENNER, 1987, p. 28).

In a more recent study, published in 2018, DHS presented the estimated number of undocumented immigrants living in the US from 2010 to 2015, showing a relative stability followed by a timid increase of this population. In 2010, the number was 11.6 million, increasing to 12 million in the last available data for 2015. Another important data is the percentage of Mexicans in the total number of undocumented immigrants: it represented 58% in 1990, 69% in 2000 and the last available data for 2015 shows that Mexican immigrants represented 55% of the total undocumented immigrants living in the USA. Finally, in the last available data, California remains the state with most immigrants, holding 25% of the total, although we observe a slight redirecting on migratory flows to the state of Texas (16% of the total in 2015) (DHS, 2018, p. 2).

As discussed above, the increase in border enforcement's annual spending is not followed by a diminished flow of undocumented immigrants from Mexico to the USA. Concerning this aspect, we address a contradiction in the relation presented by Foster (2011, p. 1) and Harvey (2007, p. 48) of labor immobility versus free capital mobility. That is to say, the dialectic relation between capital and labor is dynamic and so are its social features: the recent efforts for border control shows a tendency of strict regulation of labor mobility, contrasting with a stronger pressure for wage improvement by the labor force. These workers, employed or not, are susceptible to work-related immigration, as affirms Anguiano-Téllez and Trejo (2007, p. 49) in an empirical report on the main routes for undocumented crossings and their relation with the *maquiladora* workers as potential immigrants.

## 4. CONCLUSIONS

After analyzing the data on the *maquiladora* industry on Mexico's northern border, articulating it to the categories developed under the Labor Theory of Value, we address below the main findings of this paper. In addition, we understand that the main issues presented here can be discussed through different aspects and exemplified with different relations. In our methodological effort, we aimed to address the global expansion of the neoliberal model, tangible in institutional arrangements like NAFTA, and its relation to the economic rearrangement of Mexico's industrial model. The social effects of this process can be expressed in a myriad of interrelated aspects, so we have chosen to emphasize the impacts on wage because this variable can indicate patterns for the market's internal and cross border dynamic.

The growth in the *maquiladora* industry occurred under a national strategy for Mexico since 1964, consolidating itself as a main industrial model after 1990 and especially after the signing of NAFTA. This new industry intensifies the Mexican economic orientation to an export-led model, reaffirming Mexico's presence in the global economy through the Global Value Chains (GVC), with exports of low-added value manufactured goods under the outsourcing model. After several economic rearrangements consolidated under NAFTA, we observe a growth and expansion in the *maquiladora* industry, especially by the border, which had become a strategic sector for national employment and trade, together with the commodity production.

In fact, we can affirm that the promise of eradicating unemployment in Mexico, proposed by NAFTA, has not been followed by the generation of stable and well-paid jobs; rather, it has led to a social downgrading of wage conditions and, consequently, of workers' capacity to reproduce their social needs. In addition, the social impacts of the *maquiladora* industry are beyond capital's control and may affect not only the economic cycles but also the population flows at the edge of the border. This problematic reflects the asymmetrical economic conditions in Mexico compared to the United States, because instead of creating stable employment and promoting a dynamic economic cycle internally, the *maquiladora* model represents a production outflow and consequent transfer of value from Mexico to the United States. This process makes the Mexican economy mainly concentrated in an export-led model rather than creating a dynamic domestic economy (OSORIO, 2018, p. 188; KHABAROVA, 2009, p. 17).

The transfer of value occurs not only under capital repatriation, but also through expropriation of labor-value, considering the low-cost jobs in the *maquiladoras* and the insufficient wage improvement for this sector, as shown in Chart 1. This transfer mechanism is addressed by Osorio (2018, p. 180) as uneven exchange terms, and consists in one of the main aspects for the economic integration concerning dependent and central economies. Back to the wage gap issue: its widening confirms the thesis presented by the International Labor Organization's (ILO) report about global work patterns in the past 20 years (2015, p. 14). There has been an expansion of flexible labor contracts (part-time and outsourcing) attached to less secure employment relations. And this has occurred alongside the widening of the wage gap between unstable contracts and stable ones. In other words, the growing inequality in wage in the last 20 years reveals that, in addition to the wage inequality between "developed" economies and dependent ones, the expansion of unstable contracts is strictly related to the consolidation of low skilled jobs as the main and cheapest form of production (OSORIO, 2018, p. 186).

One way or another, Mexican Labor-Value is being expropriated under the expansion of the *maquiladora* model and despite the unfolding social aspects that affect population control in the USA. This scenario represents a depreciation of working wages and production surplus for the Mexican economy. Thus, the production model developed in Mexico under the NAFTA arrangement did not promote an organic industrial sector that could bear technological potential and improve wages throughout the years. Instead, they contributed to a greater dependency on foreign capital and exports, involving the creation of unstable jobs and a higher susceptibility to crisis in the international market (KOPINAK, 2003, p. 321; OSORIO, 2018, p. 187).

The relatively lower wages and the consolidation of urban conglomerates in the border area, raised to attend the demands of a growing *maquiladora* industry, reinforced the need of Mexicans to search for better working conditions in the USA, which resulted in a gradual rise in undocumented immigration flows. Despite the response of the US government, in taking different actions and increasing spending to contain the migratory flows, its growth is undeniable. This, in turn, brought new questions about institutional efficiency regarding labor mobility (KOPINAK, 2003, p. 324; ACKERMAN, 2011, p. 48).

Finally, this study does not close the possible social effects of the *maquiladora* industry for Mexican workers in the national market or even as an immigrant labor force in the USA. The two main aspects of the present object of study regarded the wage evolution and the rise in undocumented immigration, consolidated with the *maquiladora* production model. This relation between wage and labor mobility can be addressed in different ways and calls for further investigation of the immigrant labor composition and the wage effects for the immigrants residing in the USA. This different object of study is under analysis by authors like Hanson and Spilimbergo (1999) and Mattoo et al., (2005), and may contribute toward a broader understanding of wage effects on the Mexican immigrants illegally working in the USA as well as for the American workers.

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Recebido em: 31/08/2020

Aceito para publicação em: 02/09/2021