

Goods for Processing in Mexico

Prepared by the National Institute of Statistics and Geography (INEGI) of Mexico

I. The ‘Maquiladora’ Industry Program and Its Usefulness to Identify Goods for Processing until 2006¹

1. This Program consisted of enterprises that, with the authorization of Mexico’s Secretariat of Economy, temporarily imported goods for manufacturing, assembly or repair with the intention of subsequently exporting them. These enterprises were exempt from the payment of duties and taxes if their finished products were sold abroad.

2. The regulation of this industry began in the mid-1960s with the Policy for the Industrialization of the Northern Border and the purposes were promoting foreign direct investment, developing the manufacturing industry and creating employment. From the beginning, the activities of these enterprises were strictly controlled and the Government of Mexico had particular interest measuring the impact of the industry in the national economy. The regulation was defined by:

- (a) Customs Law;
- (b) Foreign Trade Law;
- (c) Operation Rules for foreign trade transactions;
- (d) Specific Decrees for the regulation of economic activities oriented to exports of goods.

3. When an enterprise was admitted to the regulation of the ‘Maquiladora’ Industry Program (authorized by the Government of Mexico) there was no restriction on where it could establish itself. These enterprises were therefore spread across the country, with the majority located in the north of Mexico, where they took advantage of the proximity of the United States. Then ‘Maquiladora’ enterprises were not situated only in free trade zones.

4. Depending on the economic activity of the enterprise and what the enterprise requested, the Mexican authorities determined which goods in terms of their Harmonized System (HS) codes could be imported and exported. Any change in the registered and approved items was reported to the authorities for re-approval under new HS codes.

5. There was a link between the temporary imports and subsequent exports under the inward processing customs procedure. Specific customs records for ‘Maquiladora’ transactions made it possible to trace the information on the goods temporarily imported and the corresponding manufactured, assembled or repaired goods at export. It is important to note that goods produced by

¹ This section is based on the Mexican practice presented by INEGI in the meeting of the Expert Group on International Merchandise Trade Statistics held at the United Nations headquarters in 2007. The work was also published in the Supplement to the Compilers Manual of International Merchandise Trade Statistics (United Nations, New York, 2008).

the 'Maquiladora' industry could leave Mexico without any restriction on their destination. If a maquiladora enterprise sold part of its production to the domestic market, it had to pay duties and taxes and declare the transaction at customs under the specific procedure of clearance for sale in the domestic market.

6. Processing under the 'Maquiladora' Industry Program led in most cases to a substantial transformation of the imported goods. The transactions could show this by a change in the HS codes of the imported and exported goods.

7. It was assumed that all goods temporarily imported by the 'Maquiladora' enterprises were goods for processing and therefore these kind of enterprises were delivering *manufacturing services on inputs owned by others*. Likewise the change of ownership was only recognized when the enterprise paid duties and taxes on the imported goods to sell the finished products to the domestic market. As mentioned these transactions were identified by specific customs records.

II. The IMMEX Program and the current problems to identify goods for processing

8. The 'Maquiladora' Industry regulation finished in November 2006 when the Secretariat of Economy implemented the Program of Manufacturing, 'Maquiladora' and Export Services (IMMEX), which is integrated with enterprises from the 'Maquiladora' Industry Program and enterprises from the Program of Temporary Import for Manufacturing Export called PITEX. It is important to mention that PITEX was created since 1990 and it was focused to the domestic manufacturers in order to promote their production for export market through the exemption of duties and taxes to the temporary imports.

9. After years the enterprises under PITEX Program increased their processes of *manufacturing services on inputs owned by others*, and then goods for processing were not only associated to the 'Maquiladora' Industry Program. In practice PITEX acquired very similar characteristics to 'Maquiladora' Industry Program, because the companies under PITEX regulation were producing goods for the export market like the 'Maquiladora' enterprises taking advantage of their productive capacity for the domestic market. In other words PITEX was also linked to goods for processing.

10. Taking into account the characteristics described above IMMEX Program brings together companies oriented to the export of manufactured goods with and without ownership on the imported inputs as well as companies manufacturing for the domestic market.

11. The characteristics of the current IMMEX Program are similar to the previous 'Maquiladora' Industry Program, even though the regulation of IMMEX is broader than the previous Programs because it also involves services. The IMMEX Program allows to enterprises the temporary imports of goods that are used in the manufacturing or services sectors for the production, processing or repair of foreign goods and exported afterwards or the provision of export services without payment of duties and taxes.

12. Companies under IMMEX Program are required to return the goods that enter the country. If they decide to sell them in the domestic market, it is necessary to pay duties and taxes on the same basis as the 'Maquiladora' Industry Program, which existed until November 2006.

13. Under IMMEX Program it is not possible to distinguish which exports are related to goods for processing because there is no code in the customs declarations showing the change of ownership between residents and non-residents.

14. The main assumption in the past and the practical solution to identify goods for processing was that all ‘Maquiladora’ enterprises received this kind of goods through their temporary imports; however from a statistical perspective it is not possible to keep this assumption because in addition to the *manufacturing services on inputs owned by others*, IMMEX nowadays involves companies oriented to the exports which are producing with their own inputs and enterprises that combine both. In this sense the implementation of IMMEX further complicates the distinction of change of ownership and consequently the identification of goods for processing.

III. The sources for the statistics on goods for processing²

15. The sources for the statistics on goods for processing until 2006 were the customs records used for the merchandise trade statistics and the monthly survey of the ‘Maquiladora’ Industry realized by the National Institute of Statistics and Geography (INEGI).

16. It was mandatory for the ‘Maquiladora’ enterprises to respond to a survey that asked about employment and salaries, purchases and consumption of goods and services as well as the value added of exports. The value added of exports corresponded with the processing fee since it was including the wages and salaries, domestic expenses and profits. The 2006 statistics showed that there were almost 3,000 ‘Maquiladora’ enterprises employing 1.2 million persons and the total value of processing fees was USD \$24 billion.

17. With the start of the IMMEX Program in November 2006 the survey of the ‘Maquiladora’ Industry disappeared and the customs records changed in order to bring together the transactions of the companies from the previous PITEC and ‘Maquiladora’ Industry Programs. Therefore there was not information to distinguish the goods for processing and calculate the *manufacturing services on inputs owned by others*.

18. However, taking into account the importance of IMMEX, INEGI started in 2007 a monthly survey in the companies within this Program. The figures about IMMEX based on the survey shows that there are 6,200 enterprises employing 2.2 million persons in 2012.

19. So far there is no specific information on the value added of export due to the difficulty to calculate it because as mentioned IMMEX Program involves different kind of enterprises, production processes and foreign trade transactions. For this reason INEGI is taking advantage from a recent project about the statistics on merchandise trade by enterprise characteristics. It includes linkage of customs records with surveys in the whole manufacturing industry (including IMMEX companies) in order to get relevant information of the enterprises related to the export market.

20. Finally it is important to emphasize that the figures on foreign trade will be based on the transactions of all involved enterprises beyond the IMMEX Program with the aim to provide a complete picture of trade and analyzing how to distinguish the goods for processing.

² The methodological criteria on International Merchandise Trade Statistics in Mexico are defined by the Specialized Technical Committee on Foreign Trade Statistics consisting of the General Customs Administration, the Central Bank, the Secretariat of Economy and INEGI. Since 1991 Mexico has included the goods traded by the ‘Maquiladora’ enterprises valued on a gross basis. Exports include the value of the goods temporarily imported for manufacturing or assembly plus the processing fee. Goods for repair are excluded from the merchandise trade statistics through the distinction and specific consultation with the enterprises.