

Baja Reshapes And Transforms Its Maquiladora Industry

*A focus on manufacturing, transportation
and capital intensive operations*

By Flavio Olivieri

The maquiladora industry is dead” was the outcry of many back in 2001, when employment in the sector was collapsing as the U.S. economic slowdown continued. You could hear the “Great Sucking Sound” all the way to China. But since then, Baja California export manufacturing, commonly known as the maquiladora industry, has proven resilient through an evolution of innovation, technology and quality processes. Leading the way are visionary professionals such as Alejandro Bustamante of Plantronics, John Riley of BC Manufacturing and Humberto Inzunza of SN Logistics.



BC Manufacturing is seeking to be the first Mexican aerospace company to win Bilateral Aviation Safety Agreement certification from the FAA.

More than recovering economically from the loss of 70,000-plus jobs between 2001 and 2002, maquiladora operators have made a fundamental shift in what they do and how they do it. Adding value is the new mantra. That has brought together government and business leaders to retain and bring in more technologically advanced industries and production processes. The number of establishments has hardly recovered from its fall from 1,280 in January 2001 to 850 in September 2003. The value of goods by the region’s 900 maquiladoras operating today has increased 45 percent in five years.

Technology and Innovation

Among the success stories is PLAMEX, the Mexican affiliate of Santa Cruz-based Plantronics Inc., a world leader in communications headsets. PLAMEX has grown from 1,700 employees in 2002 to more than 3,800 employees in 2006. Its expansion is the result of investing in technology and innovation to create a world-class manufacturing plant.

Alejandro Bustamante, president of PLAMEX, led the company through its transformation. In February 2006 his efforts were recognized when President Vicente Fox presented the plant Mexico’s National Technology award. That honor came two years after PLAMEX had received Mexico’s National Quality award. It made PLAMEX the first and only business ever to win both awards. Other honors PLAMEX received in a 12-month period included the International Asia Pacific Quality Award, the 2005 Ibero American Quality Award and the International Gold Crown.

The Importance Of Strategic Focus

Maquiladora executives say that besides doing things better, it is also what you do and where you focus your growth. Economic development professionals, Baja state government and industry professionals have developed a statewide strategy to concentrate on industries that add the highest value. The resulting Industry Cluster Working Groups include the established consumer electronics sector and new ones such as automotive, biomedical devices and aerospace. Non-maquila sectors include software, marine biotechnology, wine and furniture.

Already Baja California is a leader in the Mexican aerospace industry. Of the nation's 124 aerospace firms, 42 are in Baja. Of those, 20 are in Tijuana, 15 in Mexicali, four in Tecate and three in Ensenada. Combined they generate more than 12,500 jobs.

One company taking advantage of the focus in aerospace is BC Manufacturing. The company is led by John Riley, a 30-year veteran. BCM was the first company in Mexico approved for seeking BASA-TSO certification, a designation only three Mexican companies have qualified to receive. The Bilateral Aviation Safety Agreement is the U.S. system for certifying international vendors to FAA standards. Only two other countries, Canada and Germany, have the BASA certification. Mexico will be the third once the certification process, begun in 1994, concludes.

"The fundamental shift we see is a move from labor intensive to capital intensive operations," says Riley. He provides "shelter" services that help companies cut costs and improve their global competitiveness through near-shore outsourced manufacturing, assembly, fulfillment and HR services. Riley views his customers as operating partners. "We provide our partners with value added services and strategies to reduce their operating costs and corporate tax liability," he says.

Land, Sea And Air Logistics

Maquiladora officials also are helping manufacturing businesses start and improve their competitiveness in the international market. Humberto Inzunza, executive director of S.N.L. Logistics, is coordinating an industry working group called the Baja California Logistics Cluster. Its goal is to promote public policy and private sector investment in infrastructure to bring in materials and export products more efficiently. The effort is bringing together customs brokers, transportation companies, warehousing, refurbishing and processing companies to offer third party logistics as an outsourced solution for supply chain management.

To meet demand, more than 30 percent of industrial space in Tijuana is being converted to distribution and warehousing. "We see Tijuana as a future distribution hub," says Inzunza. "We are coordinating initiatives between the federal government and private companies to create critical infrastructure."

The vision of Inzunza and the logistics cluster is to integrate strategies for aerial, maritime, road and rail transportation.

Current infrastructure projects include a 148-acre air cargo distribution and multi-modal center in the Tijuana Airport, a possible FedEx air cargo hub between Ensenada and Tecate and a deep-sea port south of Ensenada at Punta Colonet with railway connections to Mexicali and Tecate. Additionally, state government in Baja California is concluding three urban roads (rings) that will circumvent the city traffic of Ensenada, Mexicali and Tijuana.

Inzunza says a key is the development of multimodal terminals that will enable the transfer of containerized cargo from maritime to road to rail transportation.

Linking With San Diego

Another fundamental change is closer ties to San Diego, says Kenn Morris, president of Crossborder Business Associates. The business was founded more than 10 years ago as a border market research and consulting firm that dealt with maquiladoras, border consumers and policy. "I expect to see a lot more California businesses realizing that there are some ways to increase their global competitiveness by growing operations both in the U.S. and in Baja California," says Morris. "To me, that's one of the only ways we'll be able to keep San Diego and California competitive."

Morris says that from San Diego's perspective, three key points are critical to understanding the importance and the trends in Baja California's manufacturing sector over the last five years. First, the sector has rebounded from the low point in 2002, with Tijuana and Tecate companies employing more than 175,000 people in manufacturing and Mexicali, another 50,000. San Diego has about 100,000 manufacturing jobs. Morris notes that not only will the Tijuana region add another 50,000 manufacturing jobs within the next six to eight years, but more of those jobs will be in higher value-added sectors such as medical devices, semiconductors, automotive and aerospace. Morris expansions by Honeywell, Kyocera and Toyota as well as investment from China.

For Morris, the best way to describe what is happening in Baja California comes from a biomedical device company in San Diego County that once told him: "Baja may not be able to compete based on labor cost, but the total cost to get your product to market is what really counts." In that case, inventory holding costs were much less using just-in-time manufacturing options in Baja California that let them turn an order into a product in their customer's hands within 72 hours.

"You just can't do that in China," Morris says. "You also have to consider other costs and risks, like your ability to enforce intellectual property rights in Mexico, your ability to get U.S.-based manufacturing or engineering staff there and back in a day when there are production problems and the much easier communications you have due to a common time zone and lots of English-speaking staff."