Mattson, Corey, Marie Ayer, and Daniela Mijal Gerson. 2006. "The Maquila in Guatemala: Facts and Trends." In Beyond Border: Thinking Critically about Global Issues, ed. Paula S. Rothenberg, 481–487. New York, NY: Worth Publishers.

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The Maquila in Guatemala: Facts and Trends

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"The Maquila in Guatemala: Facts and Trends" was written by Corey Mattson, Marie Ayer, and Daniela Mijal Gerson and appears on the STITCH Website. STITCH is a network of women unionists, organizers, and activists that builds connections between Central American and U.S. women organizing for economic justice. For more information visit www.stitchonline.org

What Is a Maquila?

The use of the word maquila in Central America originates from the Arabic word makila, which referred to the amount of flour retained by the miller in compensation for grinding a farmer's corn in colonial times. Retaining some of its original meaning, today the word is associated with another kind of processing—the assembly of components for export, usually from imported parts. Although of distinct origins, the term maquila is often times used interchangeably with the word sweatshops. According to Sweatshop Watch, "Historically, the word 'sweatshop' originated in the Industrial Revolution to describe a subcontracting system in which the middleman earned profits from the margin between the amount they received for a contract and the amount they paid to the workers. The margin was said to be 'sweated' from the workers because they received minimal wages for excessive hours worked under unsanitary conditions."[1]

The maquilas of Guatemala and other developing countries are one consequence of economic globalization—the integration of the world's markets for goods and services, as well as production and finance. Products of the globalization of production, maquilas are fueled by an abundant supply of international labor, capital mobility and free trade. Since the end of WWII, the level of international economic integration has risen steadily. Policy barriers to integration (e.g. tariffs and capital controls) have been removed and economic flows have increased—creating an attractive environment for transnational corporations (TNCs) to outsource at every level of production. Accordingly, garment industry TNCs distribute their production across the globe, making their clothing in countries with the lowest labor cost and weakest regulations.

As garment industry giants move from country to country seeking the lowest labor costs and the highest profits, they exploit workers the world over. Indeed, "The very structure of the garment industry encourages the creation of sweatshops. Retailers sit at the top of the apparel pyramid, placing orders with brand-name manufacturers, who in turn use sewing contractors to assemble the garments. Contractors recruit, hire and pay the workers, who occupy the bottom level of the pyramid."[2]

A Short History of the Maquila in Guatemala

Although the first piece of legislation to promote export-oriented business was passed in the mid-1960's, the maquila sector did not become firmly established in Guatemala until the 1980's—arriving relatively late compared to other countries in Central America and the Caribbean Basin. The early attempts by the Guatemalan government to attract maquila investment (namely passing three laws between 1966 and 1982) failed to calm the fear of potential investors who were scared away by the political insecurity caused by the guerilla insurgency in the countryside and the military's counter insurgency war. Even the millions of dollars spent by the U.S. Agency for International Development (U.S.AID) to foster maquila development throughout the 1970's produced miniscule results. Due to Guatemala's deplorable human rights record, U.S.AID funding was suspended under President Carter.

With the revival of U.S. foreign assistance in 1986 the maquila industry finally took off. Specifically, the U.S.AID maquila promotion program (reinstated following the election of a civilian president) set Guatemala upon a course that AID promoters and entrepreneurs describe as "maquila led industrialization." The primary goal of the program was to cultivate a new class of maquila entrepreneurs that would eventually lead and manage the "neoliberal" revolution in the country. By 1989, general U.S. official assistance totaled more than $800 million dollars, doubling the U.S. assistance given to Guatemala in the preceding 40 years. The United States played a key role in promoting non-traditional exports as an engine for growth and industrial development and establishing the Nontraditional Products Exporters Association (AGEXPRONT) in 1982. Since then, AGEXPRONT has been promoting and assisting companies to export non-traditional products, like raspberries, flowers and clothing. The organization of this trade association has increased the strength of both domestic entrepreneurs as well as U.S. corporate interests, helping to further facilitate maquila expansion in Guatemala. USAID has continuously provided critical financial and technical assistance to the organization; in 1990, they funded over four-fifths of the organization's budget.[3]

The next few years witnessed the establishment of important legislation creating a favorable economic and legal framework for the fledgling maquila industry, gains won by U.S. AID and the newly organized entrepreneurs. Four specific laws were passed by the Guatemalan government guaranteeing certain benefits to maquila entrepreneurs: Decree 21-84 (1984); Decree 29-89 (1989—Law of Promotion and Development of Export Activities and Drawback); Decree 65-89 (1989—Free Trade Zone law); Decree 9-98 (1998—Investment Law). Together these decrees bestowed to maquila entrepreneurs a ten-year tax holiday, low customs duties, and streamlined bureaucratic procedures.

The U.S. AID program was coupled with trade benefits for Guatemala and the region under the Caribbean Basin Initiative (CBI),[4] designed by the Reagan Administration to curb political instability and Communist insurgency in the region. Under CBI, duty (or import tax) would be charged only on the "value added" to products assembled from U.S. materials. Although this duty applied to apparel imported from the region, quotas were liberalized, meaning that companies were allowed to ship more goods to the U.S. Thus, the Caribbean basin and Central America offered cheap access to the coveted U.S. market. Seeking this market access and fleeing strong labor movements and rising labor costs in their own countries, many East Asian investors set up shop in Central America. In Guatemala, the Korean Embassy facilitated a veritable boom of Korean investment in the late 1980s. Guatemala continues to have one of the highest concentrations of Korean-owned apparel plants outside of Korea. In Guatemala, almost 60% of maquilas are Korean-owned. In contrast, U.S. investment accounts for only 7% of the maquila industry in Guatemala.

This massive organizational and financial assistance, a legal framework, beneficial trade rules for accessing the U.S. market, and expectations of a future peace signing between the government and Guatemala National Revolutionary Unity (URNG), all helped to create a favorable environment for the development of the maquila industry. According to the United States Department of Commerce, the value of Guatemalan apparel imports to the United States rose from $6.4 million in 1983 to $349.6 million in 1991 to $395 billion in the year 2000. The growth of the maquila industry reinforced Guatemala's reliance on trade with the United States. The U.S. remains the country's largest and most important trading partner, supplying 34.3% of Guatemala's imports and receiving 59% of its exports in 2004.[5]

The Social and Economic Impact of the Maquila

The impact of increased maquila activity is visible throughout peripheral areas of Guatemala City, where large, new factories dot the rugged landscape and shantytowns of tin and cardboard amble up precariously steep hills. Despite the tremendous growth of maquilas in Guatemala, they have not provided the country with a sensible and humane path to industrial development. As the industry has functioned thus far, the maquila sector operates as a foreign enclave within Guatemala, an export platform for multinational corporations without significant connections to other branches of the Guatemalan economy. Maquila owners (both foreign and Guatemalan) take advantage of the low cost of labor within the country, as well as the incentives offered by the Guatemalan government and international trade rules, to cheaply and conveniently access the gigantic United States apparel market. Also, much of the increased growth of maquilas does not greatly benefit local economies through increased overall investment. Assembling imported inputs into low value goods contributes very little value to the country's economy. In fact, most of the maquila profits are repatriated to the United States or Asia. Like the small amount of corn paid to the miller for his or her service, the meager wages paid to workers are the main economic benefit to the country.

The maquila has been the birth of a new working class in Guatemala, comprised of tens of thousands of workers, many of whom have left their landless poverty in the countryside to seek their fortune in the city. According to the Apparel & Textile Exporters Commission of Guatemala (VESTEX), the Guatemalan apparel industry is comprised of 230 factories, with 73,746 sewing machines (installed capacity) and directly generates more than 116,246 jobs.[6] Approximately 80% of maquila workers are women, a significant fact given that men have historically constituted the vast majority of manufacturing workers. (As a result of the current economic crisis in the country, the number of men working in the maquilas is on the rise, as is their inclusion in work traditionally done only by women in the maquila such as sewing and cleaning. What impact this change will have on female workers remains to be seen.) More women are now working outside the home in the formal economy than ever before, but for low pay and for long hours. Presently, women maquila workers are organizing against great odds to fight the oppressive working conditions in the maquilas.

Working Conditions in the Maquilas of Guatemala

The working conditions inside maquilas are often appalling. Unventilated workrooms, unsafe workshops, verbal abuse, sexual harassment and abuse, firings for pregnancy, arbitrary dismissals and forced overtime are just some of the issues workers face in Guatemalan maquilas. Given this grim reality and the fact that conditions vary from factory to factory, most maquila workers do not work in the same plant for very long. In fact, somewhere between 10% and 30% of the maquila workforce resigns or is fired every month. Most maquila workers move from job to job, seeking the best rate for their time. Many work only long enough to save money to start their treacherous trek to the U.S.

The minimum wage as of August 2004 is Q1,190 per month (U.S. $4.95 per day)[7], which is less than the cost of the Basic Food Basket[8]—the minimum food expenses for an average family (5.38 members), calculated to be Q1,362 per month. The minimum living expenses for a family, or the Basket of Goods and Services[9] is calculated to be Q2,486.18 per month. According to the UN Mission for Guatemala, the majority of Guatemalan workers would need a 140% salary increase to reach a decent standard of living.

In addition to the stress of supporting a family on a maquila wage, many workers incur health problems due to factory conditions. Bathroom access is restricted causing kidney infections. Permission to see a doctor is often denied, allowing illness to reach a critical stage before it is treated. Respiratory problems are common due to poor ventilation. Although the legal workweek is 44 hours long, it is not uncommon to work 70 to 80 hour weeks in the maquila. This increases the number of industrial accidents and causes repetitive motion injuries. As a result, many workers do not work more than a few years in the maquila before health problems force them back into the informal economy.

Worker Solidarity

In an effort to change these conditions, maquila workers have repeatedly attempted to organize unions in Guatemala. However, this has proved to be extremely difficult. Although both the Guatemalan Constitution and Labor Code guarantee workers' freedom of association hardly any of these laws are enforced. This leaves workers extremely vulnerable to employer attacks. Unionization campaigns by workers are routinely met with retaliatory firings, psychological intimidation, the relocation of factories, and even attempted murder. The history of the union campaign at the Camisas Modernas plant, owned by Phillips Van Heusen (PVH), illustrates the obstacles to union organizing in Guatemala.

After six years of struggle, in 1997 the workers at Camisas Modernas won what was the only collective bargaining agreement in Guatemala's maquila sector at the time, helping turn the plant into a model factory where workers were paid a decent wage, received all legally-mandated benefits, and could work a normal work week of 44 hours. Unfortunately, PVH abruptly closed the factory right before Christmas, 1998 and shifted production to five different non-union plants in the area.[10]

Currently, there are only three independent maquila unions in Guatemala: SITRACHOI, SITRACIMA, and the workers at the Nobland International (NB) apparel factory, SITRANB. Both SITRACHOI and SITRACIMA formed in 2001, facing violent physical attacks for their union activity. These two unions attained collective bargaining agreements in 2003 as a result of the international pressure placed on the Guatemalan government for its failure to investigate the attacks, yet the unions remain weakened and internally divided. In the most recent organizing effort, workers at Nobland received legal recognition for their union in December, 2003. SITRANB is currently in the process of negotiating a collective bargaining agreement (August, 2004). Workers in this union have also faced intimidation, harassment, and death threats, and several international organizations are working to support their struggle and put pressure on the brands that purchase from the factory.

The Future

On December 21, 2004, all textile and apparel quotas are scheduled to be eliminated for the 148 countries of the World Trade Organization (WTO), bringing near complete free trade of textiles and apparel. In other words, "As of 2005, Central

America and Caribbean basin countries will no longer have privileged access to U.S. markets, as textile quotas across the world come to an end, trade preferences disappear, and tax incentives are abolished."[11] With the phase out of the Multi-Fiber Agreement in 2005, "China will become fully integrated into the world market, unleashing on to the market a huge productive capacity for both high and low value products, and approximately 1 billion extremely poorly paid workers."[12] With these changes in international trade rules in store, the maquila in Guatemala will be facing serious restructuring.

The changes in trading rules will somewhat alter the comparative advantage of producing countries, and competitiveness will be based on a more complex set of factors. "Apparel manufacturing will most likely be concentrated in those countries offering the lowest labor costs, most efficient production, and most developed transportation and telecommunications infrastructure. Apparel firms are also looking for countries that can produce both the raw materials, i.e., textiles, and finished garments. Countries that provide 'full-package' services—from textiles production to cutting, sewing and packaging—will be the most competitive."[13] Subsequently, Central America's traditional comparative advantage (low salaries, preferential access to the US market, and special tax incentives) will no longer sufficiently serve to attract maquila investors. Central American and Caribbean countries' biggest asset is their proximity to the U.S. market, which would allow them to specialize in high value fashion-sensitive products that are subject to change every four to six weeks in accordance with consumer trends. Perhaps Guatemala, more than any other Central American country, is well positioned to do just that. The Guatemalan business sector has been promoting "full package production" in its maquila sector, meaning that the contracting firm is supplying the client with a completely finished good, rather than simply assembling imported pieces into low value goods. Maquilas in Guatemala are creating a new comparative advantage as they are beginning to design, source, cut, sew, assemble, label, package, and ship their products. The future of the maquila sector in Guatemala depends on the success of embracing the full-package production model—catering to high value fashion sensitive clients.[14]

In order to survive, the Guatemalan maquila must continue developing the "full package production" outfit so that it is both highly flexible and capable of rapid response. Yet for workers this means even less employment stability, more forced overtime requirements, and increased intensity of work. Furthermore, many fear that even if the changes in 2005 do not actually result in massive job loss, it will cause working conditions and labor relations to spiral downwards as China and other Asian countries redefine the race to the bottom.

NOTES

1. Sweatshop Watch. http://www.sweatshopwatch.org/swatch/industry/
2. Ibid.
3. Human Rights Watch.

4. Formerly known as the Caribbean Basin Economic Recovery Act of 1984 and later amplified as the Caribbean Basin Trade Partnership Act of 2000.
5. CIA world factbook. http://www.cia.gov/cia/publications/factbook/geos/gt.html#Econ. Last updated May 11, 2004.
6. VESTEX, http://www.vestex.com.gt/htmltonuke.php?filnavn=perfilindustria_en.htm
7. El Periódico, July 30, 2004; and *Guatemala in Context*, A CEDEPCA Publication, 18th edition—June, 2004.
8. A Basic Food Basket is the measure of the cost of a family's basic dietary requirements.
9. A Basket of Goods and Services is the measure of the cost of food, health, housing, clothing, education, transportation and leisure activities.
10. US/LEAP, People of Faith Network, United Students against Sweatshops, *An Investigative Report into the Closing of a Model Maquiladora Factory in Guatemala*, June 1999. http://www.usleap.org/Maquilas/PVHCampaign/PVHreport.html
11. Clewer, Lorraine, *Big Fish, Little Fish: The World Trade Organisation and Central American Maquila Workers*, January 2002.
12. Ibid.
13. Lora Jo Foo and Nikki Fortunate Bas, Sweatshop Watch, *Free Trade's Looming Threat to the World's Garment Workers*, October 30, 2003.
14. Clewer, 2002.

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