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Snapshots of the publication

Integrating trade and decent work

Volume 1 – Has trade led to better jobs?

Findings based on the ILO's Decent Work Indicators

4 Trade and decent work in Mexico's automobile sector: The road travelled and the uncharted territory ahead

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Summary

- The launching of the North American Free Trade Agreement (NAFTA) granted Mexico uniquely privileged access to the domestic markets of Canada and the United States. Since then, Mexico's exports of manufactured goods have boomed, especially those produced by its automobile industry. In 2020, NAFTA was replaced by the United States–Mexico–Canada Agreement (USMCA), which has deepened the aforementioned trading relationship. However, the automotive industry's impressive performance in export markets has not been accompanied by a comparable dynamism in employment, neither in terms of the number of jobs created nor in terms of progress towards decent work.

- Although it is playing a growing role in global value chains (GVCs), the Mexican automobile industry has remained a sort of enclave, with rather weak relations with other domestic producers. This explains, to a certain extent, why the export boost was unable to propel other domestic industries into a more robust growth trajectory.

- A key message from this chapter is that trade liberalization and increasing export orientation do not, by themselves, guarantee that an industry – or the economy as a whole – will advance towards full and productive employment. Indeed, in the absence of active industrial policies, greater participation in GVCs or in the exporting of final goods may occur without strengthening an industry's links to the domestic economy. In addition, decent work will not become a reality in Mexico unless it is prioritized in the country's development agenda.

Background and introduction

Since the mid-1980s, the main pillars of Mexico's export-led growth have been trade liberalization and the State's withdrawal from economic affairs. A key moment in this process was the launching, in 1994, of NAFTA together with Canada and the United States. This trade agreement helped to trigger an export boom for Mexico's manufactures. In particular, the automotive industry has become a relevant player in global sales of final vehicles, albeit selling mainly to the United States. Since the implementation of NAFTA, Mexico has become the sixth-largest producer of motor vehicles, surpassed only by China, the United States, Japan and Germany – but very close to the production level of India. Despite this extraordinary export drive, the strategy adopted failed to put the Mexican economy on a path of high output and employment growth.

This chapter presents the first study of Mexico's automotive industry that examines the relationship between exports (final goods and those related to GVCs) and decent work as defined by the ILO. The analysis covers the period 2005–19, also taking in the revamping of NAFTA into the USMCA and the recent labour reform in Mexico. Indeed, the negotiations leading to the USMCA called for the modernization of Mexico's labour law system and for a substantial increase in wages in the automobile industry.

Research question and methodology

The purpose of this chapter is to shed light on the contrast between Mexico's external success – in terms of export dynamism, with a distinction made between final good exports and GVC-related ones – and its internal shortcomings over the past two decades (2005–19).

The analysis focuses on the automobile industry, using input–output techniques and "trade in value-added" matrices. It constructs a set of indicators to measure employment access, working conditions and gender inequality, following the ILO manual entitled *Decent Work Indicators: Guidelines for Producers and Users of Statistical and Legal Framework Indicators*, and drawing on the available official statistics. Performance indicators are measured in terms of exports of final vehicles and auto parts (direct and indirect), backward and forward linkages, and trade in value-added, among other aspects.

Findings and policy considerations

The automobile industry has become the second most important employer in Mexico´s manufacturing sector. It is also now Mexico's most dynamic exporting sector, both in final goods (fully assembled motor vehicles) and in terms of its increasing participation in GVCs. As far as employment is concerned, the industry has low informality rates and a low prevalence of temporary employment, even though the share of permanent workers has decreased since 1996 (see the table below). Wages are, on average, higher than in other domestic manufacturing activities.

Despite the fact that the gender pay gap in the automotive industry has narrowed somewhat and the female share of employment has increased by 2 per cent, the average income of women is just a quarter of that of men. Moreover, women make up barely one third of the industry's workforce. In that sense, progress on gender equality has been modest. In addition, there has been a process of wage contraction, whereby working poverty has increased, as has the share of employees with low pay. At the same time, the group of workers with a higher income has also shrunk. This is related to the fact that trade liberalization of the Mexican transport equipment industry has been based on activities with low value-added generation. As a result, although Mexico as a producer of automobiles is nowadays more relevant in GVCs thanks to trade agreements, its automotive industry has scant power to stimulate high growth in the economy.

A main policy recommendation is that, independently of USMCA pressures, if decent work is to become a reality in Mexico, it should be included as a key priority in the Government´s development agenda, which entails putting in place the necessary regulatory tools and resources. Strengthening the Federal Government's institutional capacity for labour inspection in compliance with international labour standards is a must. Major efforts are also required from the Ministry of Labour and Social Security to attune employers' and workers' organizations and broader civil society to the enormous social, economic and political benefits of making decent work the rule rather than the exception.

Finally, an ambitious industrial policy is needed, one aimed at strengthening the Mexican economy's innovation and development capacities and at increasing domestic backward and forward linkages and value-added generation in its export sectors, all compatible with the creation of decent work.

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▶ **Change in selected decent work indicators in the Mexican automotive industry, 1996–2019**

Performance 1996–2019	
Informal employment	✓
Working poverty rate	✗
Employees with low pay rate	✗
Permanent workers (% total)	✗
Female share of employment	✓
Gender pay scale	✓

Source: Authors' calculations based on Mexican Instituto Nacional de Estadística y Geografía (INEGI), National Employment and Occupation Survey (ENOE) and the National Council for the Evaluation of Social Development Policy (CONEVAL).
Note: A green circle denotes improvement in an indicator between 1996 and 2019, while a red circle denotes deterioration.

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