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Trade and decent work in Mexico's manufacturing sector

by Benjamin Aleman-Castilla*

Summary

- Efforts to improve working conditions in Mexico, in particular in the manufacturing sector, have had mixed results over the past two decades. Some indicators of relevance to the Decent Work Agenda have not improved noticeably, raising misgivings about the benefits of free trade and globalization.
- In order to provide pertinent new evidence, this chapter investigates the impact of non-preferential trade liberalization¹ and of exposure to globalization on working poverty, working hours and female workforce participation in the Mexican manufacturing industries between 2003 and 2018.
- The findings suggest that manufacturing firms with greater exposure to globalization have better working conditions. However, further trade liberalization has not necessarily helped to reduce working poverty or excessive working hours, nor has it improved the representation of women in managerial positions.

Background and introduction

This chapter discusses the mixed results of Mexico's efforts to improve working conditions over the past two decades as trade liberalization and globalization policies have been implemented in the country. While there have been some successes, such as a reduction of the gender gap in labour force participation and an increase in the number of women in senior and middle management roles, other labour market outcomes are insufficient or even alarming, in particular those related to adequate earnings, working time and job stability.

Over the past decade and a half, the working poverty rate in Mexico increased by 9 percentage points, while the share of employees working more than 48 hours per week remained roughly unchanged for the overall economy but increased for the manufacturing sector. On the other hand, the share of women in senior and middle management positions increased by around 10 percentage points, suggesting that some progress has been made towards equality of opportunity and treatment in the world of work.

These trends raise questions about the benefits of free trade, and of globalization more broadly, especially because Mexico persisted in intensifying its integration into international trade during the same period by

joining new trade agreements and reducing its average non-preferential import tariff by 11 percentage points.

Gaining a better understanding of the relationship between trade and labour market outcomes is even more important given the job and income losses due to events such as the COVID-19 crisis or the war in Ukraine, which have resulted in greater poverty and inequality.

Research question and methodology

This chapter seeks to estimate the impact of trade liberalization (as reflected in tariff reductions) and exposure to globalization (measured through supply chain participation) on working poverty, working hours and female workforce participation in Mexican manufacturing industries between 2003 and 2018. It uses two complementary estimation strategies for that purpose.

First, a panel data approach is used to estimate the effect of exposure to globalization on gross daily wages per employee, daily hours worked per employee and the share of women in total employment within manufacturing firms. The data are from the Annual Industrial Survey for the years 2003–08 and the Annual Manufacturing Industry Survey for the years 2009–18.

¹ This refers to reductions in "most favoured nation" tariffs, that is, in the non-discriminatory duties that members of the World Trade Organization charge on imports that are not subject to a preferential trade agreement.

Second, a three-stage least squares procedure is used to estimate the effect of both trade liberalization and exposure to globalization on the working poverty rate, the share of employees working excessive hours, and the share of women in senior and middle management positions. Firm-level data are linked at the industry level to worker data from the National Survey of Occupation and Employment for the years 2005–20, along with trade data from the World Trade Organization for the years 2003–17.

Findings and policy considerations

The main results are consistent with the theories of trade in the presence of firm heterogeneity (or firm diversity) within an industry and with previous findings from related studies. First, within the manufacturing sector, it was found that firms that are more productive and firms with larger shares of income stemming from participation in global supply chains pay higher wages and require shorter working hours.

Second, lower import tariffs are associated with lower working poverty rates and lower prevalence of excessive working time. Meanwhile, higher export tariffs (or import tariffs charged by Mexico's main trading partners) are associated with higher shares of women in management positions, which, given the

gender pay inequalities that exist in Mexico, possibly acts as a source of competitive advantage in response to higher trade costs.

In addition, the effects of trade liberalization on working poverty and excessive working time rates vary across manufacturing and non-manufacturing industries. Finally, a higher degree of supply chain participation has contributed to a lower working poverty rate in the manufacturing sector.

These findings demonstrate that the intentions of trade policy do matter (that is, whether the aim is to promote imports or exports), and that globalization can have dissimilar effects across different economic sectors.

Accordingly, policymakers need to consider the potential impact of trade policies on the labour market, particularly with regard to wage levels, working conditions and gender equality in management positions. Policymakers should also focus on enhancing productivity, promoting supply chain participation and adopting a sector-specific approach to trade.

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► Impact of trade liberalization and globalization on decent work in Mexico's manufacturing sector

	Working poverty	Working hours	Female participation
↓ <i>import tariffs</i>	↓ <i>working poverty</i> in non-manufacturing tradable industries ↑ <i>working poverty</i> in manufacturing industries	↓ <i>excessive hours</i> in non-manufacturing tradable industries ↑ <i>excessive hours</i> in manufacturing industries	no effect on <i>female management</i>
↓ <i>export tariffs</i>	↓ <i>working poverty</i> in all tradable industries, but with a smaller effect in manufacturing	↓ <i>excessive hours</i> in all tradable industries	↓ <i>female management</i> in all tradable industries
↑ <i>share of income from supply chain participation</i>	↓ <i>working poverty</i> in manufacturing industries ↑ <i>wages</i> at the firm level	↓ <i>hours</i> in manufacturing firms	no effect on <i>women</i> or on <i>female management</i> in manufacturing

Note: *import tariffs* = trade-weighted average most favoured nation (MFN) import tariff; *export tariffs* = trade-weighted average MFN import tariff charged by Mexico's 2018 top-five trading partners (United States, European Union, Canada, China, Japan); *working poverty* = working poverty rate of employed persons; *excessive hours* = share of employees working excessive hours; *female management* = share of women in senior and middle management positions; *wages* = average gross daily wage per employee at the manufacturing firm level; *hours* = daily hours worked per employee at the manufacturing firm level; *women* = share of women in the total workforce at the manufacturing firm level.



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