# Conference "Building the future of work and trade"

**Organizers: The International Labour Organization (ILO) Employment and Research departments, the ILO Country Office for Mexico and Cuba and the European Commission.**

**12 October 2021**

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# Some economic history of Mexico´s trade and market reforms

Since the mid-1980s Mexico has been the poster child of trade liberalization and retrenchment of the State from economic affairs. In 1994 NAFTA was launched securing Mexico as an export platform to North America, attract investment and lock-in market reforms
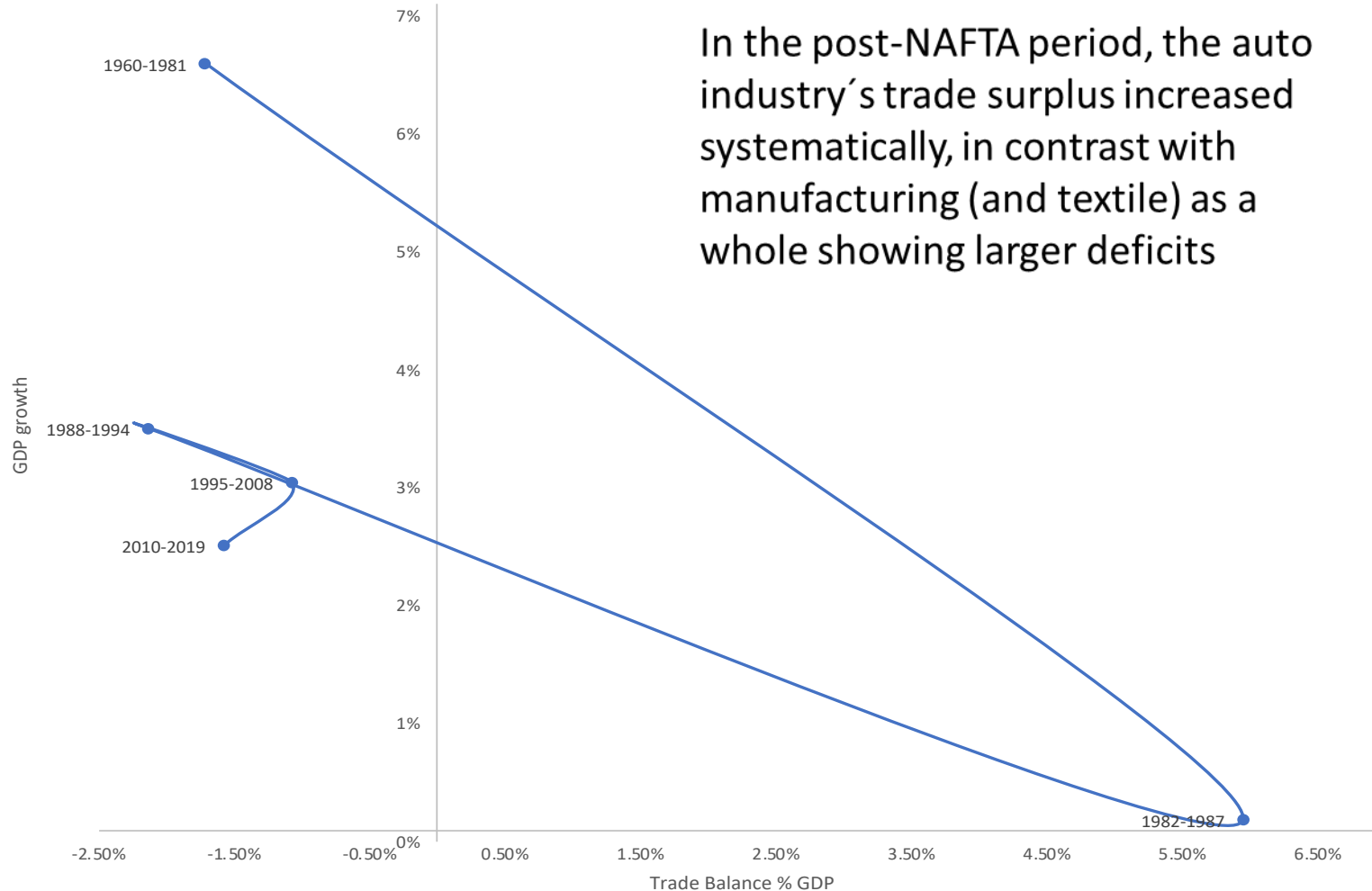
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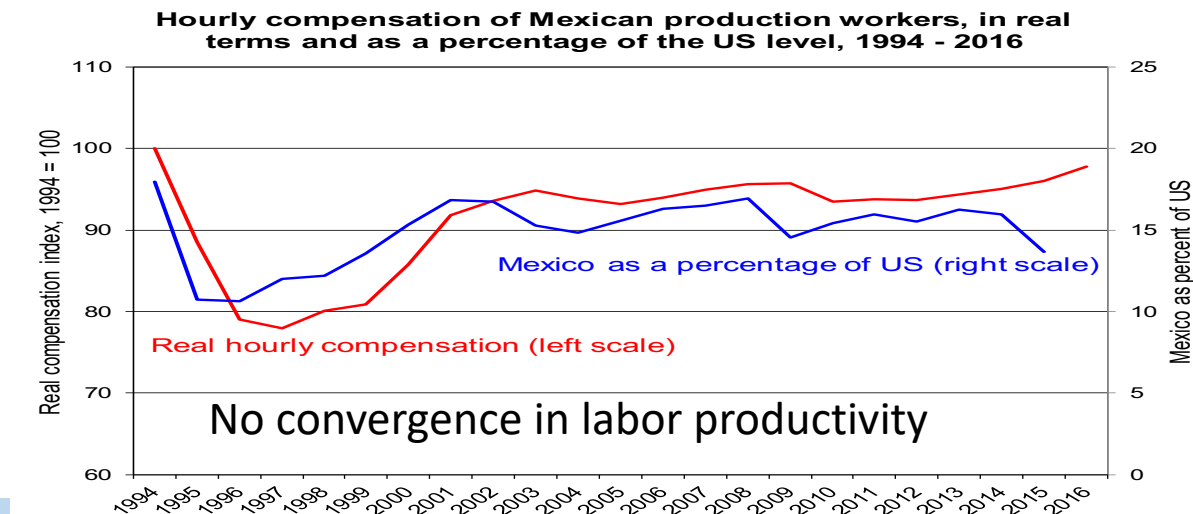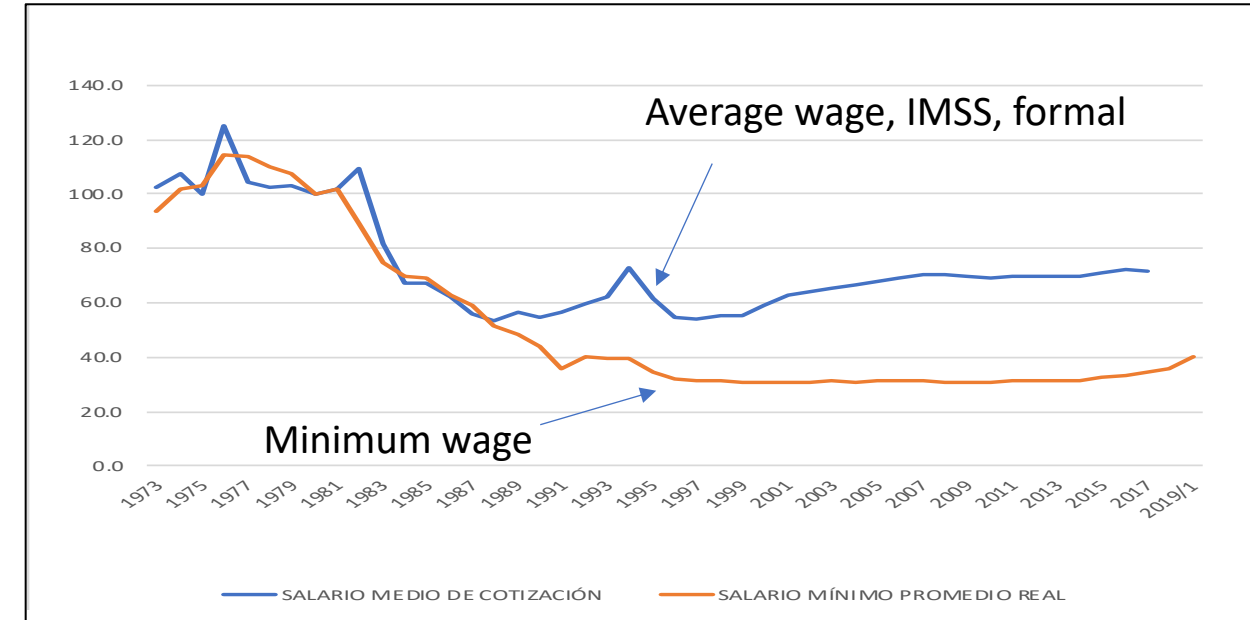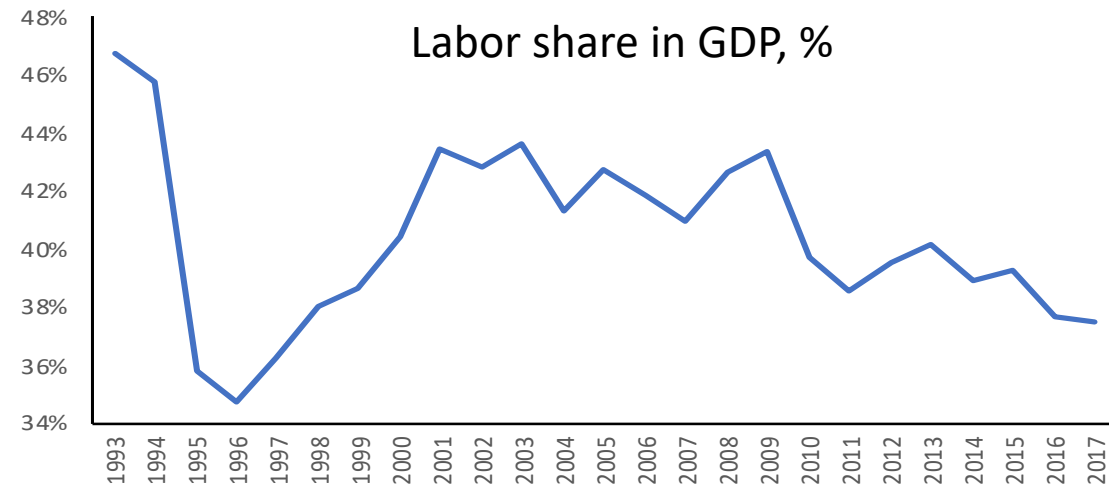Universidad Nacional Autónoma de México

# Since the 1990s Mexico´s exports of manufactures soared but the economy´s growth weakened

## GDP growth annual averages and trade balance (% GDP)



In the post-NAFTA period, the auto industry´s trade surplus increased systematically, in contrast with manufacturing (and textile) as a whole showing larger deficits

- The retrenchment of public investment as a share of GDP was not fully compensated by the rise in private one. Total investment never climbed back to 25% of GDP ,and now is below 18%

- Since 1994, Mexico´s exports of manufactures soared. Investment (foreign and local) in Mexico´s auto industry flourished; not so in the textile industry

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# Soaring exports did not significantly improve Mexico´s labor market: nor its labor´s share or real wages and no catch-up with the US.



Labor share in GDP, %



Hourly compensation of Mexican production workers, in real terms and as a percentage of the US level, 1994 - 2016

Mexico as a percentage of US (right scale)

Real hourly compensation (left scale)

No convergence in labor productivity



Average wage, IMSS, formal

Minimum wage

SALARIO MEDIO DE COTIZACIÓN          SALARIO MÍNIMO PROMEDIO REAL

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4

# The pandemic brought havoc in ouput (-8.5% in 2020) and in the labor market: number of formal jobs monthly created, workers below poverty line, average wages, etc.



Formal jobs created or destroyed per month

-344 526

-555 247

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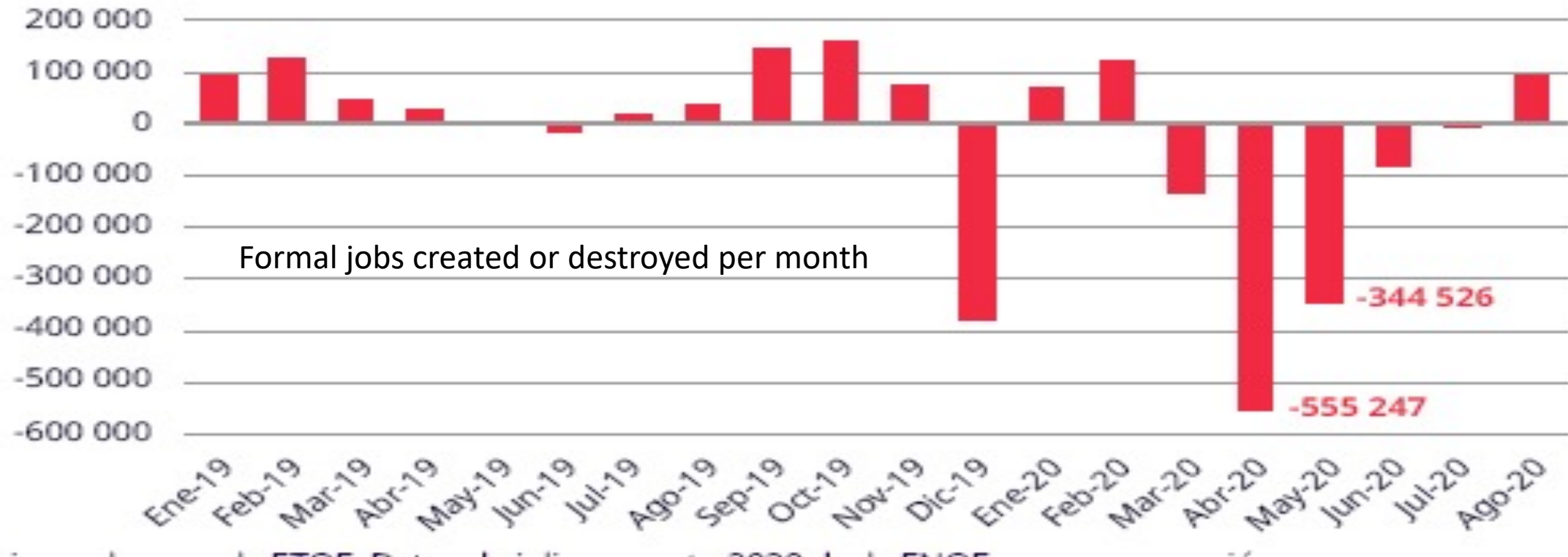
**What about Decent Jobs? How did they evolve since trade liberalization?**

**Key questions of the ILO/EC project from a long-term perspective and to assess the outlook post-pandemic. To respond them, we studied Mexico´s performance in GVCS in trade and labor in textiles and the automotive industries.**

**Mind you, the current government set the creation of Decent Jobs as a priority of its 2019-24 Development Plan**

# Welcome to our Project´s part of Show and Tell, actually (Calculate) Show and Tell

- **Two contributions of the methodology: focus on Trade in Value Added in GVC and Decent Jobs in selected indicators of**

- Network representation of value-added flows and indicators of Mexico's role in GVC, with i) **input-output methods** to calculate direct and indirect job creation in domestic production, "traditional trade" and GVC activities, and ii) **numerous surveys of labor conditions** with data that allowed to build time series of indicators of Decent Jobs .
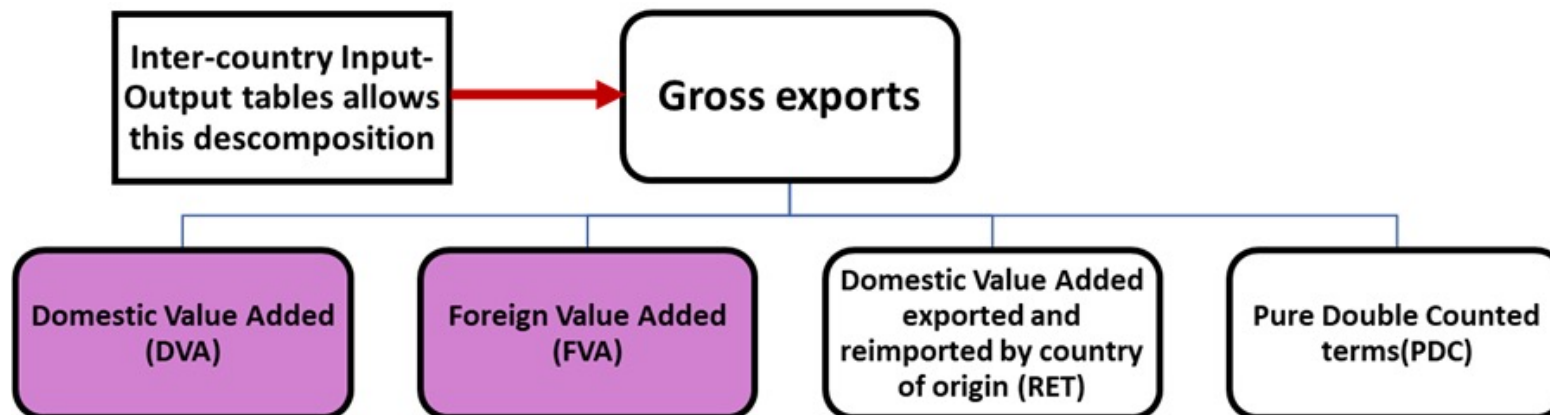
# Methodology



- With these indicators we can measure global value chains trade (intermediate exports) and "traditional trade" (final goods exports). This is a necessary step to evaluate how countries, in this case Mexico, participates in GVC.

- This decomposition makes it possible to identify the value added in each of these components across countries / sectors for a specific period and thus show the global network of the value of export.

- The global value network highlights the characteristics and extension of the relationships between the actors that participate in this network and make it possible to analyze the relative importance of each country with respect to the whole network.

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# Some technical jingoisms for trade in value added

## Concept used

- Domestic Value Added incorporated in Exports ($DVA$)
- Foreign Value Added in exports ($FVA$)
- Domestic Value Added incorporated in third countries' Exports ($DVA_{GVC}$)

## Data

- World Input Output Database 2014 Release (1995-2011).
- 1996, 2001, 2008 and 2011 Tables
- Info on persons engaged WIOD Socio- Economic Accounts

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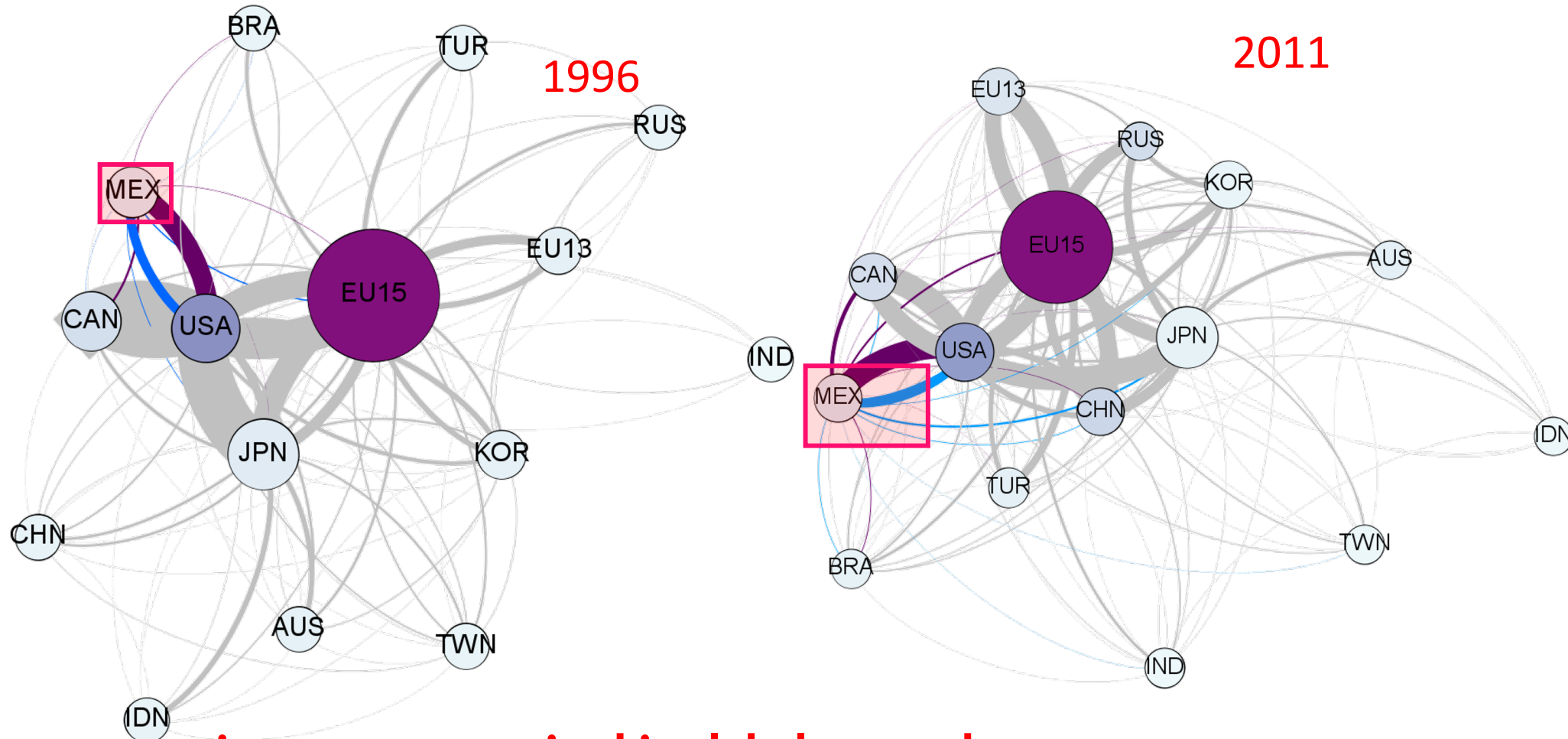Universidad Nacional Autónoma de México

# Transport Equipment: Domestic value-added in exports global network

Nodes' color:
DVA exported

Nodes' size:
Incoming DVA (FVA)

Links' thickness:
DVA exchanged
between countries.

Mexico's case:
outgoing links: purple
incoming links: blue



1996

2011

**Mexico became a more important actor in this global network**

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# Textile industry: Domestic value added in exports global network

**Nodes' color:**
**DVA exported**

**Nodes' size:**
**Incoming DVA (FVA)**

**Links' thickness:**
**DVA exchanged between countries.**

**Mexico's case:**
**outgoing links: purple**
**incoming links: blue**



1996

2011
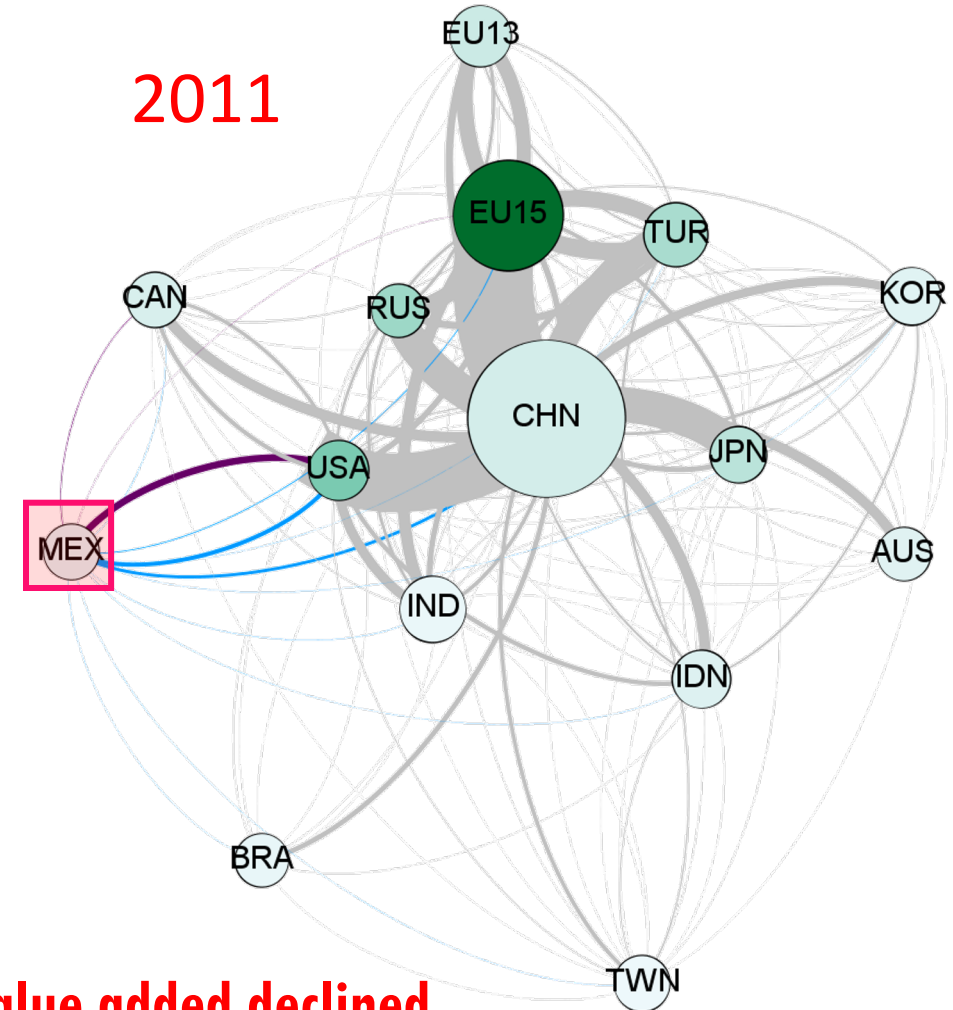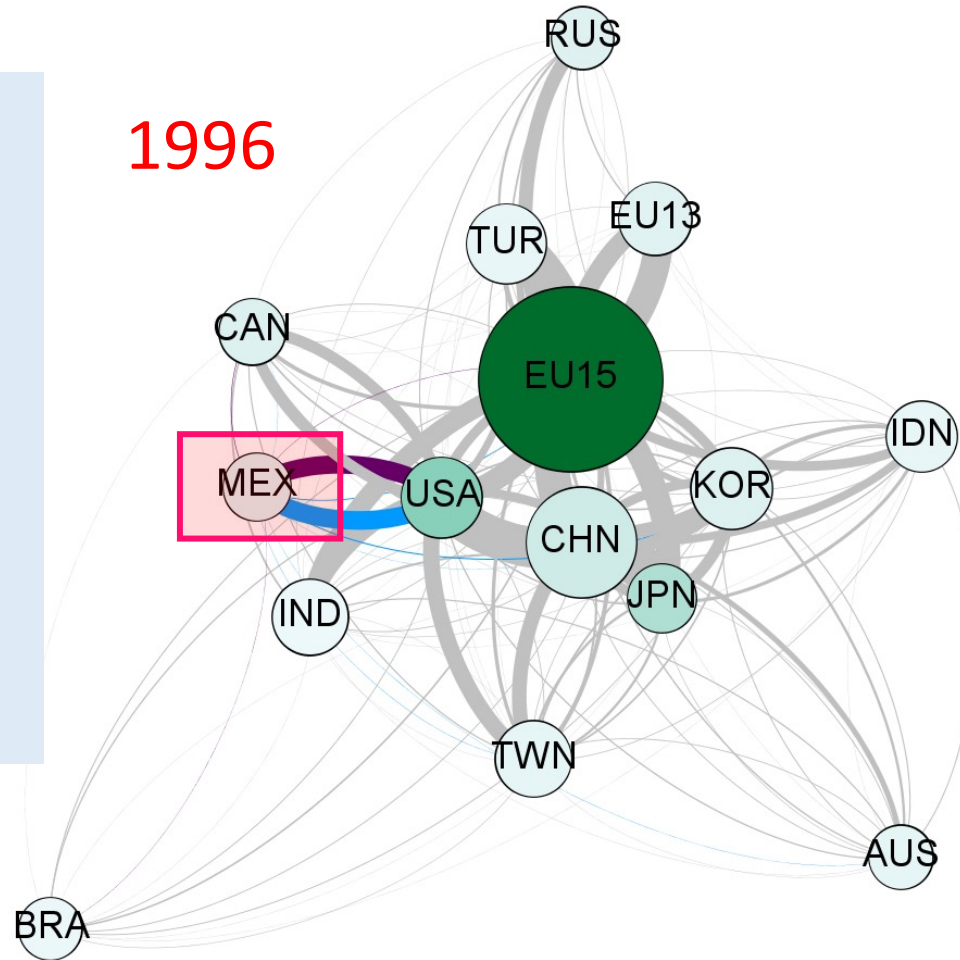
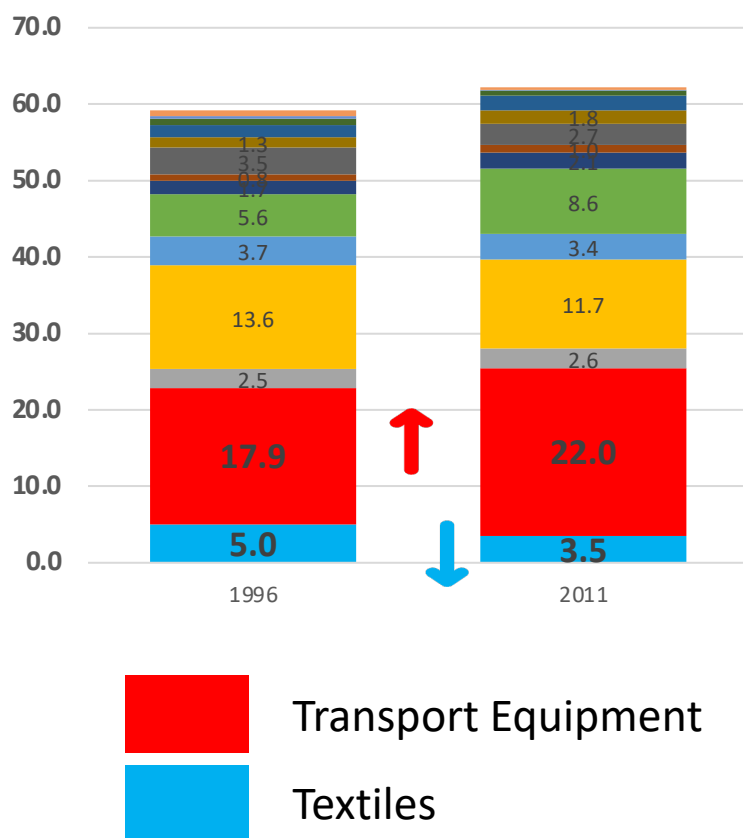**Mexico´s relevance in the textiles global network in trade in value added declined**
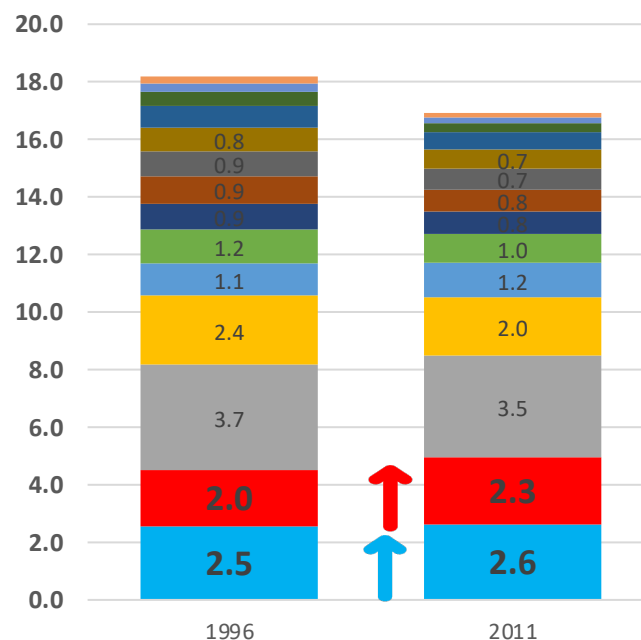
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11

# What about the domestic value added in exports and employment in Mexico´s industry 1996 and 2011 (percentages)

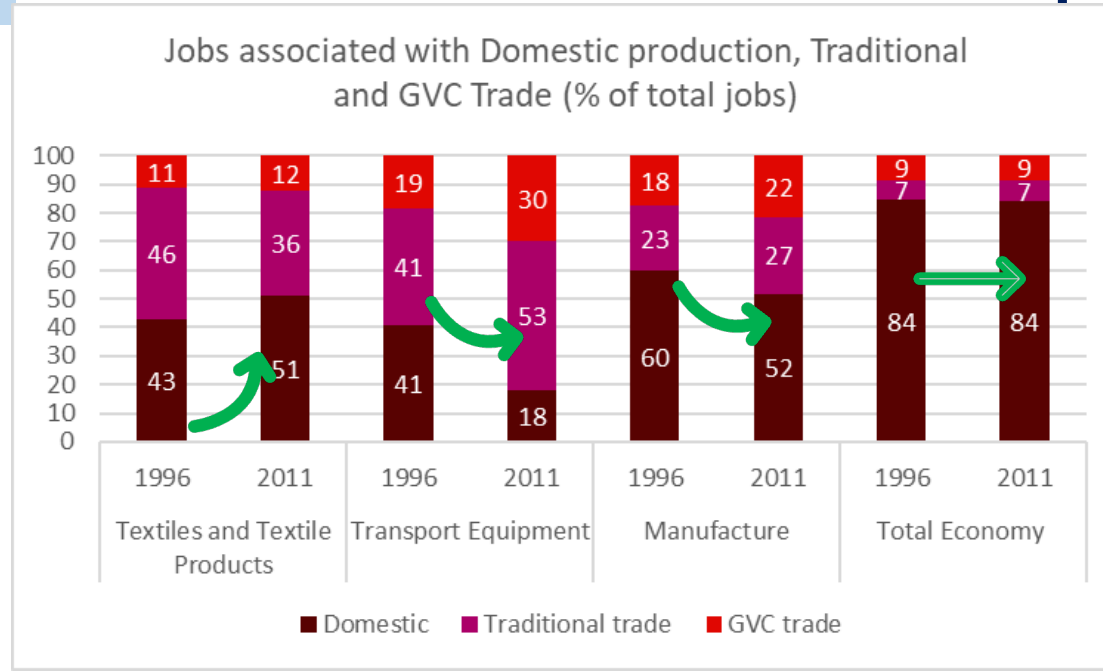**Industry has a large share of total DVA**



**Not so much in employment**



Transport equipment is a main contributor to the generation of DVA in Manufactures (22% of total), not so much in employment (2.3% of total)

Textiles´ contribution to employment is the second largest in industry (2.6%), but its share of DVA is among the lowest (3.5%), and declined.

Legend:
- Transport Equipment
- Textiles

# Jobs/employment related to domestic market, to traditional and to GVC trade

- The equation $\widehat{E}B\widehat{Y} = \widehat{E}L\widehat{Y}^D + \widehat{E}L\widehat{Y}^F + \widehat{E}LA^FB\widehat{Y}$ identifies, for each country-sector, three types of jobs associated with production activities:

1. $\widehat{E}L\widehat{Y}^D$: Employment used to produce and consume goods domestically, in which there is no cross-border trade.

2. $\widehat{E}L\widehat{Y}^F$: Employment incorporated into exports of final goods. This domestic factor content crosses national borders only for consumption (of goods and services, as well as capital) in the other country. We classify these as jobs generated in "traditional" trade.

3. $\widehat{E}LA^FB\widehat{Y}$: Employment included in exports/imports of intermediate goods and services. Production activities in different countries use this value, exported from the origin country, to produce their exports. Hence, the jobs created in this category are part of the interchange of production between countries or GVC activities.

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# Jobs related to domestic market, to traditional and to GVC trade have different stories in the Textile and in the Transport Equipment industries



Jobs associated with Domestic production, Traditional and GVC Trade (% of total jobs)



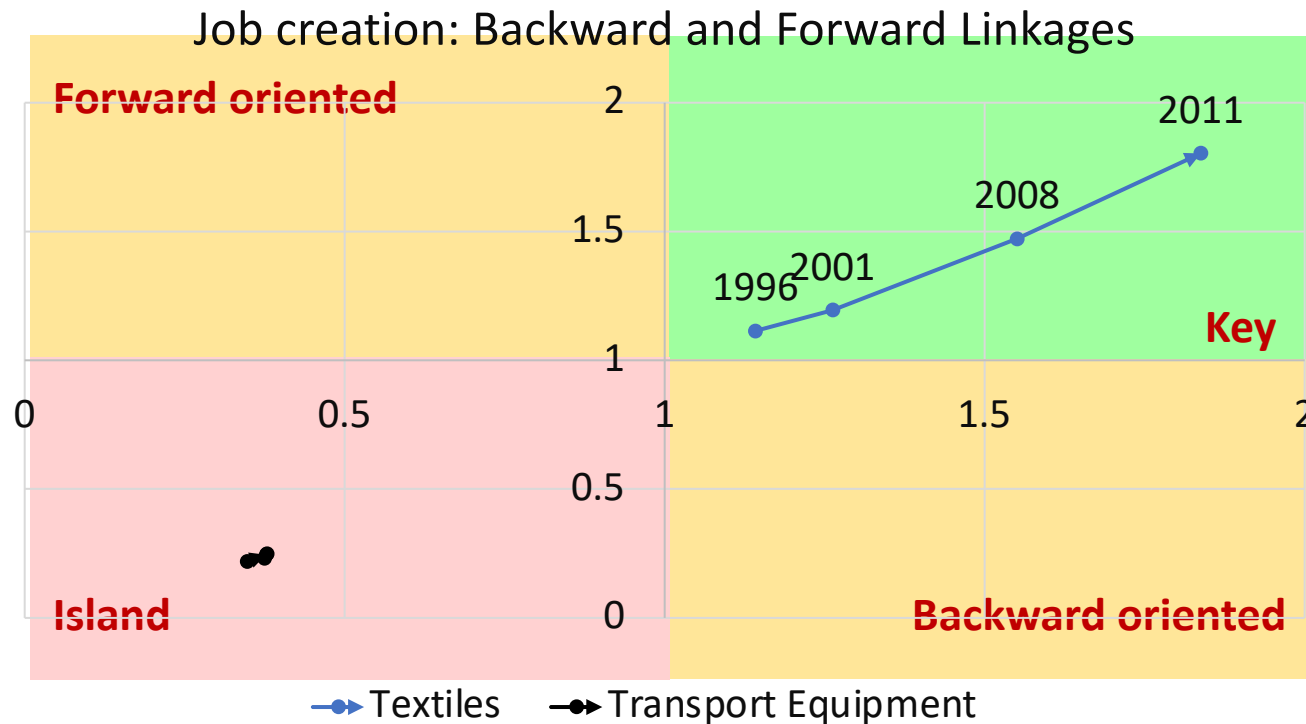Percentage of jobs created outside the industry (% of total jobs)

- In 2011, **51%** of jobs are associated with **domestic production** in the Textiles industry, (**increasing** from 43% in 1996). **83%** of Transport Equipment's jobs are related to trade (30% to GVCs).
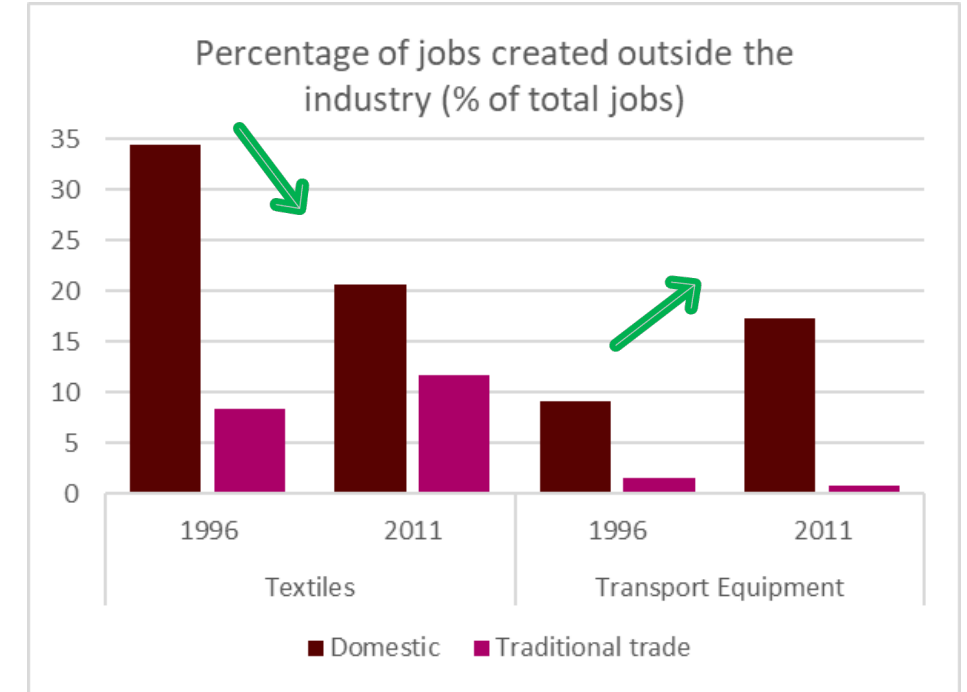
- The percentage of jobs "used" in textile domestic production from other sectors decreased from 34% to 21%, but still is larger than that of Transport Equipment which grew from 9 to 17%.

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# Acute contrast in backward and forward employment linkages between Textiles and Transport Equipment, México 1996-2011

Job creation: Backward and Forward Linkages

Forward oriented

Island

Backward oriented

Key

2011
2008
1996 2001

Textiles    Transport Equipment

- Transport Equipment is an "island"; with scant employment linkages with other industries

- Textiles is in the "key" quadrant; i.e. relative to the Mexican economy it is an activity in which linkages with other industries are central in the generation of employment.

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# Beautiful (we hope) graphs of trade and employment in Mexico´s auto and textile industries.
# What was these industries´ performance on the Decent Jobs front?

**Believe us, the estimation of Decent Work indicators was a time and energy consuming, most enjoyable activity and pioneering contribution to understand the Mexican case.**

- It is a first of its type study in the analysis of Trade and Decent Work in Mexico with long-time series at industrial level, based on ILO's methodological manual and on a previous work in similar direction carried out in 2013.

- We used multiple databases: INEGI, IMSS and STPS, focusing on two industries. Great! Thanks to Secretary of Labor!

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Through the VAEMG database was possible to found which economic activities are the main exporters.

With the use of this information, we were able to identify the economic activities associated with the Automotive and Textile industries.
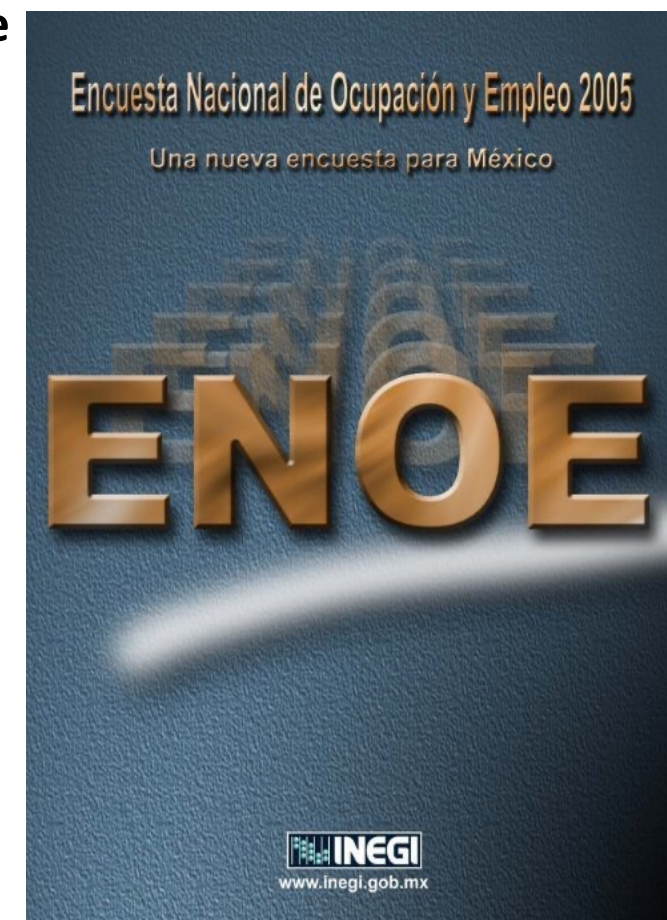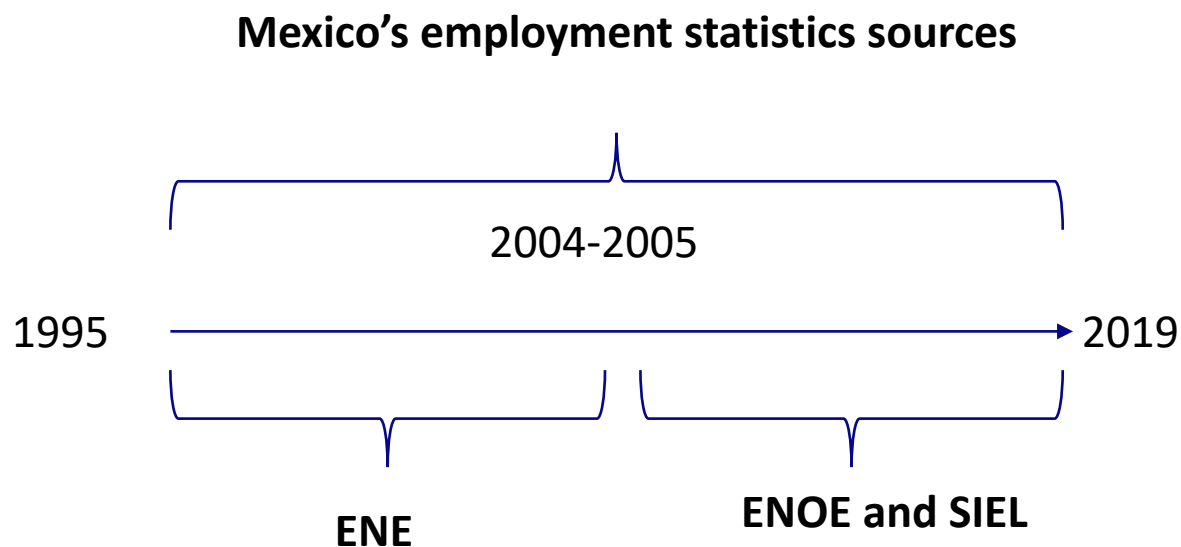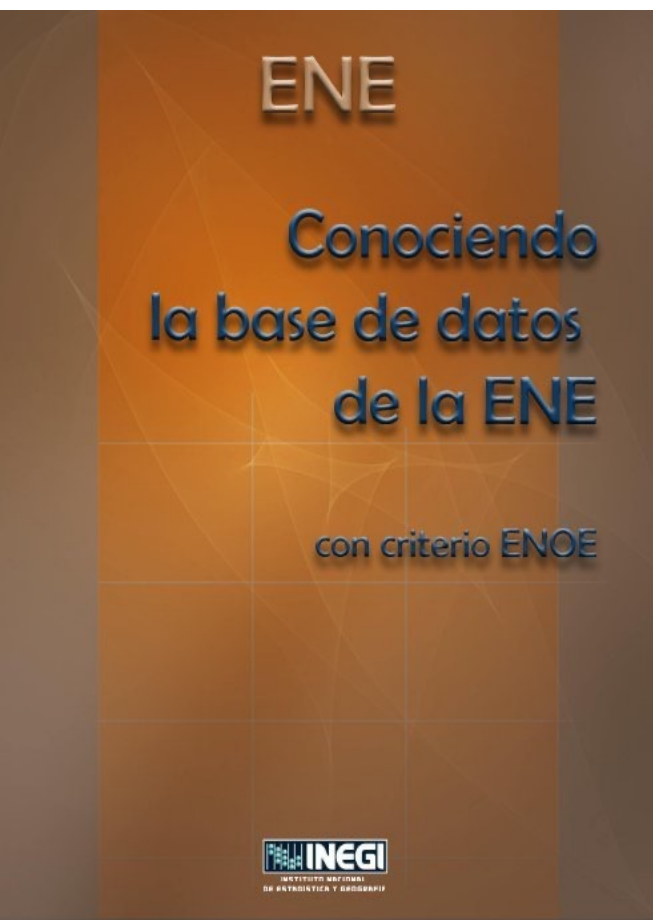
# Employment surveys available in Mexico

**A long time data series was constructed based on the information contained in ENE, ENOE and SIEL.**

**Mexico's employment statistics sources**

2004-2005

1995 ———————————————→ 2019

ENE

ENOE and SIEL

# Mexico: Automotive Industry by economic activities

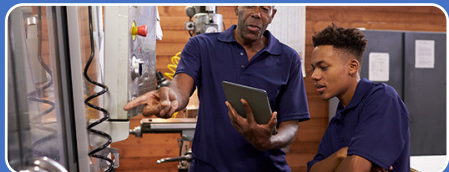| Automotive | |
|---|---|
| SNA | NAICS |
| 5601 "Motor vehicles. Excludes tractors"<br>5701 "Bodies and trailers for motor vehicles"<br><br>5711 "Engines and their parts"<br><br><br>5712 "Parts for the transmission system"<br><br>5713 "Parts for suspension system"<br><br>5714 "Parts for the break system"<br><br>5715 "Parts for the electrical system"<br><br>5716 "Other parts and accessories"<br><br>5801 "Construction and repair of boats and their equipment"<br><br>5811 "Construction and repair of railway equipment and parts"<br><br>5821 "Motorycles, bicycles and other pedal vehicles"<br><br>5822 "Other transport material" | 3361 "Motor Vehicle Manufacturing"<br>3362 "Motor Body and Trailer Manufacturing"<br><br>3363 "Motor Vehicle Parts Manufacturing"<br><br><br>3369 "Other Transportation Equipment Manufacturing" |

# Mexico: Textile industry by economic activities

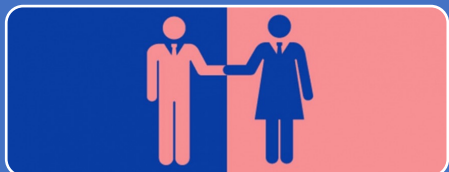| Textiles | | | |
|---|---|---|---|
| SNA | | | NAICS |
| 313 | 314 | 315 | |
| 2411 "Soft fibre yarn" | 2431 "Soft finer fabrics A.P.*" | 2701 "Stockings and socks" | 3131 "Fiber, Yarn and Thread Mills" |
| 2421 "Sewing thread" | 2502 "Henequen spinning, weaving and twisting" | 2702 "Sweaters A.P.*" | 3132 "Fabric Mills" |
| 2422 "Stamens" | 2511 "Preparation, spinning and weavng of other hard fibers A.P*." | 2703 "Fabrics and other knitwear, including underwear and outerwear" | 3133 "Textile and Fabric Furnishings Mills" |
| 2431 "Soft fibre fabrics A.P*" | 2601 "Waterproofed and upholstered fabrcs" | 2711 "Outerwear for men, except shirts and uniforms. A.P.*" | 3141 "Textil Furnishing Mills" |
| 2432 "Wool fabrics and mixtures" | 2611 "Felt, interlinings and other fabrics made from recycled products" | 2712 "Confection shirts A.P.*" | 3149 "Other Textile Product Mills" |
| 2433 "Finishing of yarns and soft fibre fabrics" | 2512 "Carpets, rugs and the like A.P.*" | 2713 "Outerwear for women, except uniforms A.P." | 3151 "Apparel Knittng Mills" |
| | | 2714 "Outerwear for boys and girls, except uniforms A.P.*" | 3152 "Cut and Sew Apparel Manufacturing" |
| | | 2715 "Uniforms" | 3159 "Apparel Accessories and Other Apparel Manufacturing" |
| 2501 "Henequen preparation" | 2641 "Lined with buttons, fraying, pleats, etc. A.P.*" | 2716 "Other outerwear A.P.*" | |
| 2502 "Henequen spinning, weaving and twisting" | 2642 "Sheets, tablecloths, bedspreads, towels and the like A.P*" | 2717 "Non-knit underwear, including bras, girdles and the like" | |
| 2511 "Preparation, spinning and weaving of other hard fibres A.P*." | 2643 "Other items made of textiles A.P*" | 2721 "Other textile-based clothing. A.P*" | |
| | | 2722 "Palm hats and other hard fibres. A.P." | |
| 2601 "Waterproofed and upholstered fabrics" | | | |
| 2611 "Felt, interlinings and other fabrics made from recycled products" | | | |
| 2621 "Narrow lace, ribbons and fabrics" | | | |
| 2631 "Cotton and absorbent cloths, bandages, diapers and the like" | | | |
| 2703 "Fabrics and other knitwear, including underwear and outwear" | | | |

# FOUR AXIS OF DECENT WORK INDICATORS

1. Employment Access

2. Employment Security

3. Equal Opportunity and Treatment in Employment

4. Social Dialogue

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# 1. EMPLOYMENT ACCESS

| Performance 1996 vs 2019 | Automotive | Textile |
|---|:---:|:---:|
| **Insufficient Income** | ✅ | ✅ |
| **Precarious employment** | ❌ | ❌ |
| **Employed with formal contracts** | ❌ | ❌ |
| **Informal Employment** | ✅ | ❌ |
| **Waged Labour** | ✅ | ✅ |

The improvements in insufficient income and in waged labor are really marginal

# 2. EMPLOYMENT SECURITY

| Performance 1996-2019 | National | Automotive | Textile |
|---|:---:|:---:|:---:|
| **Labour injuries of total insured workers** | ✅ | ✅ | ✅ |
| **Permanent workers relative to total employment** | ✅ | ✅ | ✅ |

- At the national and these industries´ level the percentage of insured workers injured in their jobs decreased. There was an increase in the share of permanent workers in total employment

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# 3. Equal Opportunity and Treatment in Employment

| Performance 1996-2019 | National | Automotive | Textile |
|---|---|---|---|
| Unemployment by gender | ✅ | | |
| Female share of employment | ✅ | ✅ | ✅ |
| Gender wage Gap | ❌ | ✅ | ❌ |

- In both industries female participation increased; in the textile industry from 60% to 64% , in the auto industry from 28% to 37% .

- At the national level and in the Auto Industry the gender wage gap was cut down, , not so in the textile industry

# 4. SOCIAL DIALOGUE

| Performance 1996-2019 | National | Automotive | Textile |
|---|:---:|:---:|:---:|
| **Summons to strikes** | ✅ | ❌ | ✅ |
| **Strikes** | ✅ | ❌ | ✅ |
| **Collective Bargaining Agreements** | ❌ | ❌ | ❌ |

At the national level, and in both industries the figures show poor Social Dialogue due to on the one hand the weak trade unions and, on the other hand ,the State Policy not in favor of Democracy in the shop floor.
The decline of collective bargaining and of strikes reflects the policy at that time called Pax Laboris, which had as its main objective to contain all open conflict in the Labor market

# Main conclusions and recommendations

**Being Mexico a semi-industrialized economy, the importance of exports in the value-added generation process would lead to much better working conditions, to Decent Jobs.**

## This was not proven by our data

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| Textile Industry | Automotive Industry |
|---|---|
| • It experienced a reduction in the number of commercial partners and, most important, in the magnitude of value-added traded with them.<br><br>• The impulse of its domestic activities allowed it to remain an essential source of employment in Mexico. It performed relatively well in activities related to domestic production of textiles. | • It exports more value-added than it imports. Paradoxically, such a spectacular role as a generator of value-added value in Mexico´s export activity in GVCs was not reflected in terms of job creation.<br><br>• Employment creation by the automotive industry in Mexico remains heavily dependent on the evolution of its exports of final products. |

Mexico has still a minor presence globally on domestic value-added in manufacturing exports, with the exception of its trade with the United States.  Its role in GVCs is more as a recipient of value-added generated abroad, and much less as a source of value-added to be exported.

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# Key results

- Mexico's successful trade performance in the GVCs in automotive and somewhat less- textiles has not led so far to progress towards Decent Work.

- Employment Access. Both industries recorded little or virtually no progress

- Employment Security. Both industries do show some advance

- Equal Opportunity. On reducing the female/male wage gap, some progress was made in the automotive industry, but the situation worsened in textiles.

- Social Dialogue. The indicators show a weakening in collective bargaining nationally as well as in these two industries.

**And now, where do we in Mexico go from here on Decent Work?**

**Complex question given very many new factors: New Labor Reform, new minimum wage policy, outsourcing  ban, USMCA, COVID-19 and its aftermath in production processes and in K/L ratios**

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# Well, not easy to forecast

- New Labor Reform and USMCA contain important measures, roles and regulations on work, and a more active role for the State in the labor market.

- But the pandemic severely impacted Mexico´s labor. Too soon to know what the new normal will be.  If the economy keeps stuck in a trap of slow long-term growth, Decent Jobs in Mexico will remain more a dream than a reality.

- There is need of a social pact for an agenda of robust, inclusive and sustainable development with Decent Jobs. If not now, when?

- In any case, the ILO/EC project´s emphasis on Decent Job and trade has been welcome by authorities at the Secretary of Labor and at the Secretary of Economic Affairs, and the National Institute of Statistics.

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# What's next?

Input-Output analysis

- New input-output tables allow a more recent analysis of jobs generated in traditional and GVC trade activities (2005-2019).

- Using the INEGI KLEMS database, we can deduce female and male employment according to three schooling levels.

Decent work indicators

- Incorporating more indicators disaggregated by gender, covering 2005-19.

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**12 October 2021**

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# Methodology to calculate Decent Work indicators, according to ILO's guidelines.

## Axis 1 Employment Access Indicators

- **Labour Force Participation Rate**

$$\left(\frac{(\text{Number of employed} + \text{Number of unemployed})}{\text{Total number of the working age population}}\right)$$

- **Unemployment Rate**

$$\left(\frac{\text{Number of unemployed}}{\text{Total number of persons in the labour force}}\right) X\ 100$$

- **General Pressure Rate**

$$\left(\frac{\text{Number of persons unemployed} + \text{Number of persons employed in pursuit of another job}}{\text{Economically Active Population}}\right)$$

- **Underemployment Rate**

$$\left(\frac{\text{Number of persons underemployed}}{\text{Total number of employed}}\right) X\ 100$$

- **Precarious employment rate**

$$\left(\frac{\text{Number in precarious employment}}{\text{Total number of employed}}\right) X\ 100$$

- **Informal Employment Rate** $\left(\frac{\text{Number in informal employment}}{\text{Total number of employed}}\right) \times 100$

- **Insufficient Income Indicator**

$$\left(\frac{\text{Number of employed with up two minimum wages}}{(\text{Total number of employed})}\right) X\ 100$$

- **Wage Labour Rate**

$$\left(\frac{\text{Number of employeed with salary earnings}}{(\text{Total number of employed})}\right) X\ 100$$

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# Methodology to calculate Decent Work indicators, according to ILO's guidelines.

## Axis 3. Equal Opportunity and Treatment in Employment

- **Unemployment Ratio by gender**

$$\frac{Unemployed\ women\ rate}{Unemployed\ men\ rate}$$

- **Gender wage Gap**

$$\left(\frac{Women\ earning\ more\ than\ 3\ minimum\ wages}{Men\ earning\ more\ than\ 3\ minimum\ wages}\right)$$

- **Female share of employment**

$$\left(\frac{Women\ employed}{Women\ in\ age\ of\ work}\right)$$

## Axis 2. Employment Security

- **Labour injuries as percent of total insured workers**

- $$\frac{Number\ of\ accidents\ during\ work}{Insured\ employees\ in\ IMSS}$$

- **Permanent workers as percent of the employed population**

- $$\frac{Number\ of\ permanent\ workers\ insured\ in\ IMSS}{Employed\ population}$$

## Axis 4. Social Dialogue

- **Summons**

Number of summons

- **Strikes**

Number of strikes

- **Collective Bargaining Agreements (CBA)**

Number of CBA's

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# 1. EMPLOYMENT ACCESS

| Indicator | Employment Access | | | | | |
|---|---|---|---|---|---|---|
| | National | | Automotive | | Textile | |
| | 1996 | 2019 | 1996 | 2019 | 1996 | 2019 |
| **Labour Force Participation Rate** | 57.9% | **60.11%** | | | | |
| **Unemployment Rate** | 5.26% | 5.28% | | | | |
| **General Pressure Rate** | 8.68% | **6.21%** | | | | |
| **Underemployment Rate** | 7.98% | **7.53%** | | | | |
| **Insufficient Income Indicator** | 51.10% | 51.53% | 53.28% | **53.05%** | 73.75% | **73.31%** |
| **Precarious employment rate** | 23.99% | 30.50% | 5.54% | 14.22% | 29.44% | 42.21% |
| **Employed with formal contracts** | 25.50% | 22.84% | 82.02% | **63.93%** | 29.93% | **22%** |
| **Informal Employment Rate** | 67.50% | **56.49%** | 4.33% | **2.13%** | 58.87% | 62.76% |
| **Waged Labour Rate** | 53.40% | **68.05%** | 99.10% | **99.66%** | 53.62% | **60.36%** |

- The figures in yellow shows an improvement in the indicators. The indicators corresponds to the ILO's criteria. Definitions and Methodology of calculation can be found in the appendix.
- The textile industry shows worse indicators than the Auto Industry in terms of the Employment Access. Both industries show an improvement in the period of study, except the indicator of precarious employment.

# 2. Equal Opportunity and Treatment in Employment

| Indicator | National | | Automotive | | Textile | |
|---|---|---|---|---|---|---|
| | **National** | | **Automotive** | | **Textile** | |
| | 1996 | 2019 | 1996 | 2019 | 1996 | 2019 |
| Unemployment rate by gender | 0.77 | 1.02 | | | | |
| Female share of employment | 34.26% | 39.10% | 28% | 36.86% | 60% | 64% |
| Gender wage Gap | 0.35 | 0.67 | 0.16 | 0.36 | 0.52 | 0.39 |

*Equal Opportunity and treatment in employment*

- The figures in yellow shows an improvement in the indicators. The indicators corresponds to the ILO's criteria. Definitions and Methodology for the calculation of each indicator can be found in the appendix.

- In both industries female participation increased; in the textile industry from a much higher level.

- At the national level and in the Auto Industry there was an increase in the proportion of women earning more than three minimum wages. It is worrying that in the Textile Industry this was the opposite, because –as the figures show- it is a highly feminized activity relative to the whole economy

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# 3. EMPLOYMENT SECURITY

| Indicator | Employment Security | | | | | |
|---|---|---|---|---|---|---|
| | National | | Automotive | | Textile | |
| | 2008 | 2016 | 2008 | 2016 | 2008 | 2016 |
| Labour Injuries as percent of total insured workers | 2.9% | 2.3% | 1.9% | 1.1% | 1.9% | 1.4% |
| Permanent workers as percent of total employed | 28.0% | 31.0% | 65.5% | 70.3% | 36.1% | 44.6% |

- The figures in yellow shows the improvement in the indicators. The indicators corresponds to the ILO's criteria. Definitions and Methodology for the calculation of each indicator can be found in the appendix.

- Both (national and industrial level) the percentage of insured workers injured in their jobs decreased. The other improvement is an increase in the share of permanent workers

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# 4. SOCIAL DIALOGUE

| Indicator | National | | Automotive (as % of National) | | Textile (as % of National) | |
|---|---|---|---|---|---|---|
| | 1996 | 2019 | 1996 | 2019 | 1996 | 2019 |
| Summons to strikes | 7,621 | 7,095 | 2% | 3% | 7% | 3% |
| Strikes | 40 | 7 | 8% | 22% | 14% | 0% |
| Collective Bargaining Agreements | 4,411 | 2,110 | 4% | 2% | 3% | 2% |

- At the national level, and in both industries the figures show a very poor Social Dialogue, which reveals on the one hand the weak situation of trade unions and, on the other hand the State Policy not in favor of Democracy in the shop floor.

- The decline of collective bargaining and of strikes reflects the policy at that time called Pax Laboris, which had as its main objective to contain all open conflict in the country.

International Labour Organization

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