

Ten Years of NAFTA The New Labor Market Part 1

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Globalization and the national processes of economic modernization, faithfully accompanied by so-called liberal policies, have brought about profound changes in many nations, particularly in their labor markets.

Let us look at the three great issues in Mexican society in the last two decades and particularly the last ten years

since the North American Free Trade Agreement (NAFTA) came into effect: a) sustained growth in the maquiladora sector; b) growth of the economy and informal employment; and c) the eruption of migration to the United States and Canada. In this first article, I will examine the first two points.

It is true that these three elements are an “escape valve,” as the governor of Mexico’s central bank has said, both for the labor market and for the economy as a whole. However, they should

not be seen as a real way out for the economic and social problems plaguing Mexico, which require profound, consistent—not momentary or circumstantial—solutions.

THE MAQUILADORA SECTOR

The Miguel de la Madrid administration (1982-1988) opened up the borders and made sweeping reforms to facilitate the establishment of maquiladora

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TABLE 1
EMPLOYEES IN MAQUILADORA PLANTS BY JOB CATEGORY 1994-2003

YEAR	NUMBER OF COMPANIES	TOTAL EMPLOYEES	PRODUCTION WORKERS		TECHNICIANS	CLERICAL WORKERS
			MEN	WOMEN		
1994	2,085	583,044	192,991	284,041	64,656	41,357
1995	2,130	648,263	217,557	314,172	71,098	45,436
1996	2,411	753,708	257,575	359,042	82,795	54,296
1997	2,717	903,528	312,457	422,892	103,855	64,324
1998	2,983	1,014,006	357,905	465,656	118,516	71,929
1999	3,297	1,143,240	408,432	514,444	138,246	82,119
2000	3,590	1,291,232	468,695	576,706	153,392	92,439
2001	3,684	1,198,942	432,340	524,929	149,583	92,009
2002	3,251	1,071,209	389,435	463,149	136,278	82,348
2003	3,245	1,063,827	386,418	455,034	137,295	85,008

Note: When new regulations came into effect, a considerable number of companies were removed from the maquiladora program according to a review by the Ministry of the Economy. As a result of this review, the Maquila Industry series were adjusted as for 2001.

Source: Estadística de la Industria Maquiladora de Exportación, INEGI; Vicente Fox, *Tercer Informe de Gobierno*, 1 September 2003, Appendix, pp. 227 and 347; INEGI, *Encuesta Nacional de Empleo Urbano*, Press Bulletin, 21 January 2004, pp. 1-7; STPS, "Estadísticas laborales, personal ocupado en plantas maquiladoras por posición en el trabajo," www.stps.gob.mx/index2.htm; 21 January 2004.

plants. A new economic sector emerged in Mexico and grew steadily. By 1980, the maquiladora plants employed 119,000 people; by 1985, 202,000. In 1986, 890 maquiladora plants employed 250,000 people; by 1988, 1,396 factories employed 369,000.

By 1990, in the second year of Carlos Salinas de Gortari's term (1988-1994), the number of plants had soared to 1,703, with 446,000 employees, and at the end of his term, in 1994, there were 2,085 plants with 583,000 workers.

In 1997, the third year of Ernesto Zedillo's term (1994-2000), the country boasted 2,717 maquiladoras with 903,000 employees. By the end of his term in 2000, there were 3,590, with 1,291,000 workers. This was the high-

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est employment level in the sector; after that the maquiladora plants began to decline.

In 2001, there were 3,684 plants, but the number of employees dropped to 1,198,000; and in 2002, 433 plants went out of business and the number of workers dropped to 1,071,000.

Halfway through Vicente Fox's administration (2000-2006), the figures had also dropped: 3,245 plants employed 1,063,000 people, 250,000 fewer than the highest point (see table 1).

The government and companies argued that this happened because of

the U.S. economy's 2001-2003 slump, which hit Mexico disastrously given its high level of exports north.

About 300 maquiladora plants closed. It is also said that this is due to Mexico's high labor costs and that the plants ran away to Central America and China, where they are lower.

Both companies and the government also argued that they closed because Mexico has not made the structural reforms in finance, energy and labor relations that have repeatedly been presented to the legislature but not passed.

TABLE 2
EMPLOYMENT AND UNEMPLOYMENT IN MEXICO
(1980, 1990 AND 2000)

	1980	1990	2000
TOTAL POPULATION	69.6 million	81.2 million	97.4 million
Population 12 years and over	45.1 million	55.9 million	69.2 million
Work force	21.2 million	24.0 million	34.1 million
Employed	21.2 million	23.4 million	33.7 million
Unemployed	669 thousand	660 thousand	424 thousand
Open unemployment rate	0.3%	2.6%	2.0%
Number affiliated to IMSS or ISSSTE	6.5 million	10.2 million	13.0 million
Business owners	1.2 million	1.5 million	854 thousand
% Owners/Work force	5.6%	6.2%	2.5%

Source: INEGI, *XII Censo General de Población y Vivienda, 2000*, www.inegi.gob.mx/; Javier Aguilar García, "Estadísticas económicas de México, 1980-2000," mimeographed paper published by the UNAM Institute for Social Research, 2001; Javier Aguilar García, *La población trabajadora y sindicalizada en México en el periodo de la globalización* (Mexico City: Fondo de Cultura Económica/IIS-UNAM, 2001).

A large part of free trade policy contained in NAFTA is encountering problems for growth in different economic sectors. Thus, it is showing its drawbacks and weaknesses in the maquiladora sector.

However, from another standpoint, we could add that the maquiladora plants ran away because they do not trust the government, because they see no concrete, definite plan to clearly promote economic growth, a plan going beyond official rhetoric. A large part of free trade policy contained in NAFTA is encountering problems for growth in different economic sectors. Thus, free-trade policy is also showing its drawbacks and weaknesses in the maquiladora export sector. There is no doubt, however, of the sector's impact on the Mexican labor market.

Maquiladora Labor Market Outline

Some of the outstanding characteristics of labor in Mexican maquiladoras include:

- a) The feminization of its work force. In 1994, the industry employed 193,000 men and 284,000 women; by 2000, the figures had jumped to 469,000 and 577,000 respectively. In 2003, despite the drop in the number of plants and unemployment, women continued to be a majority with

386,000 men and 455,000 women employees.

- b) A high number of technicians. In 1994, maquiladoras employed 65,000 technicians; in 1997, 104,000; and in 2000, 153,000. However, from 2001 to 2003, the number dropped from 149,000 to 137,000.
- c) Growing number of employees in administrative positions. In 1994, 41,000 people had clerical jobs, the figure grew to 64,000 in 1997; and reached its highest point, 92,000, in the year 2000. By 2003 it went down to 85,000 jobs while there were one million production workers.
- d) Flexible labor relations. Creating flexibility means the absence

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of legal, respected collective bargaining agreements; low wages; long work days; job insecurity; the lack of health and safety services; lack of benefits like access to the Mexican Social Security Institute (IMSS). What we find here is sweetheart contracts and unions docile enough to join the “official union confederations” like the Workers Confederation of Mexico (CTM), the Revolutionary Confederation of Workers and Peasants (CROC), the Mexican Regional Workers Confederation (CROM), etc.

Many workers switch constantly from company to company, first of all because often

they are not directly hired by the maquiladoras themselves, but by sub-contractors. Secondly, many only work a short time to save enough money to go to the United States. This rotation increases the maquiladoras’ contempt for workers’ collective and individual rights.

- e) Low national input in production or assembly. Only approximately 2 percent of inputs are of Mexican origin.
- f) Special considerations for maquiladora plants given by both Institutional Revolutionary Party (1982-2000) and National Action Party (2000-2006) administrations, including cheap or even free

land; cheap electricity and gas; tax breaks for several years; low cost access to highways and railroad lines and telecommunications, etc.

In broad strokes, this is the maquiladora sector, which was practically non-existent in the 1970s, NAFTA’s clearest and most concrete contribution to the Mexican economy, but above all the most distinct expression of free-trade policy. However, despite the problems in the sector, there is no doubt that it has become one of the main “safety valves” for the formal economy, since part of Mexico’s unemployed have poured into it.

INFORMAL EMPLOYMENT

The informal economy and employment have grown in all of the country’s largest cities and in all areas: agricul-

	1980	1990	2000
Work force	21.2 million	24.0 million	34.1 million
People affiliated to IMSS or ISSSTE	6.5 million	10.2 million	13.0 million
Owners	1.2 million	1.5 million	854 thousand
People affiliated to IMSS or ISSSTE plus owners	7.7 million	11.7 million	13.8 million

Source: INEGI, *XII Censo General de Población y Vivienda, 2000*, www.inegi.gob.mx/; Javier Aguilar García, “Estadísticas económicas de México, 1980-2000,” mimeographed paper published by the UNAM Institute for Social Research, 2001; Javier Aguilar García, *La población trabajadora y sindicalizada en México en el periodo de la globalización* (Mexico City: Fondo de Cultura Económica/IS-UNAM, 2001).

TABLE 4
THE INFORMAL SECTOR IN MEXICO
(1980, 1990 AND 2000)

	1980	1990	2000
Work force	21.2 million	24.0 million	34.1 million
Minus the unemployed	669 thousand	660 thousand	424 thousand
Equals	20,531,000	23,340,000	33,676,000
Minus those with jobs and owners	7.7 million	11.7 million	13.8 million
Result = Informal sector and underemployed	12.8 million	11.6 million	19.8 million

Source: INEGI, *XII Censo General de Población y Vivienda, 2000*, www.inegi.gob.mx/; Javier Aguilar García, "Estadísticas económicas de México, 1980-2000," mimeographed paper published by the UNAM Institute for Social Research, 2001; Javier Aguilar García, *La población trabajadora y sindicalizada en México en el periodo de la globalización* (Mexico City: Fondo de Cultura Económica/IIS-UNAM, 2001).

The informal sector has grown in all of Mexico's largest cities and in all areas because of downsizing in the public sector, blindly fostered free trade, a lack of fresh investment and low economic growth.

ture, industry and services, particularly informal sales.

It is difficult to pin down numerically, but studies indicate that it is growing steadily and enormously.¹

For Mexicans who have lost their jobs and are part of the potential work force, informal unemployment has become the lesser of two evils which allows them to survive, albeit precariously, in the country's deplorable labor market.

Informal employment has been synonymous with precarious employment; those with no other option—men, women, young people, adults and seniors—risk their very physical safety by working in the street.

Figures on informal employment vary from one source to another. According to National Statistics Institute (INEGI) figures, 11,180,000 people were employed in the informal sector in 2000. However, *Estudios Políticos* (Political Studies), a magazine published by the UNAM's School of Political and Social Sciences, puts the figure at 19.8 million Mexicans, or 58.1 percent of the work force.²

Estimating Mexico's Informal Work Force

To estimate the size of the informal work force, researchers must look at

official statistics from, among others, the National Statistics Institute (INEGI), presidential reports, the IMSS rolls, State Workers Institute for Social Security and Services (ISSSTE) records and Labor Ministry information. For these institutions, the informal work force is difficult to quantify and evaluate, and therefore, their efforts to deal with it are small and get correspondingly meager results.

Their main argument is that this population does not work in fixed places, does not pay fees and taxes, etc., and therefore the government does not have the resources to do a census and provide consistent information about the universe of several million Mexicans dedicated to craft production, small-scale retail sales, piecework in homes and other inappropriate locations, small agricultural production, field work without contracts, etc. All

of this is not enough for the government to consider these people worthy of registering in a census of informal labor.

For the Mexican government, the category “informal” hides part of the active population that international statistics would classify as unemployed since, according to Mexican statistics, unemployment practically does not exist: in 2000, for example, unemployment was listed as 2 percent nationwide.³

According to INEGI, in 2000, 424,000 Mexicans were completely unemployed out of a total active population of 40 million. Isn't this surprising? If this information were correct, our country could be considered one of the few nations of the world with full employment.

How does the government measure unemployment? It does a quarterly survey asking people if they worked at least two days in the previous week, without verifying anything more about the nature of the work done, the working conditions or the legal status of the job. Anyone who states that he/she has worked at least two days is considered employed.

Based on official surveys, then, the government can say that unemployment is extremely low (2 percent in 2000). This same instrument determines that informal employment is extremely low or does not exist at all. In this way, the government eliminates two entire sectors: the unemployed and those with informal employment.

A Proposal for Calculating Informal Employment

We should remember that a large part of the informal population is made up

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of those who have no contract, no job security, no benefits and no health coverage. If they accept working under these conditions it is because they have no alternative and need some kind of income to survive. Therefore, I proposed a procedure using the same official sources making it possible to measure this sector.

The results were that in 1980, there were 12.8 million Mexicans in the informal sector; in 1990, 11.6 million; in 2000, 19.8 million. How did I get these figures? Using a simple procedure:

- a) I started with the 1980, 1990 and 2000 calculations of the work force.
- b) I subtracted from that number those classified as bosses or owners since I considered that this group does have access to health services and economic benefits (among other things, they resort to banks and their companies themselves for benefits).
- c) Then I subtracted the number of people affiliated to the IMSS and ISSSTE from the active population (the IMSS and ISSSTE rolls include people working for companies that give them access to most benefits such as a contract, job security, health coverage and retirement).
- d) Finally, I also subtracted the completely unemployed, using INEGI and Labor Ministry figures gathered from censuses and employment surveys.

Let us look at the example of the figures for the year 2000:

- a) The work force, or economically active population, was calculated at 34.1 million people. From this, we subtract the number of owners (854,000), leaving 33,246,000.
- b) From this number, we subtract the 13 million people signed up with the IMSS or ISSSTE, for a total of 20,246,000.
- c) Finally, we subtract the unemployed, or 424,000, for a total of 19.8 million people who are not owners, have no social security coverage and are not fully unemployed.

These 19.8 million people are the informal sector. This means that they carry out some kind of activity and work in very precarious conditions. Their income is low, usually below the legal minimum; their work day is very long; they lack hygiene and safety conditions; neither companies nor social security institutions provide health care for them; they have no days off or vacations; they have no individual contracts or collective bargaining agreements; and they have no job security. They are continually rotating from one business to another, from one activity to another, seeking better incomes, a better work day, always subject to management's rules, whether the business be small, medium-sized or large, domestic or foreign-owned.

Since these Mexicans represent 58.1 percent of the 34.1 million people in the work force, policies to deal with their situation are urgently needed (see tables 2, 3 and 4).

Unions have done studies about the growth of the informal economy. In 2001, the CTM put out a document called "Perspectivas laborales y nivel de ingreso en México" (Labor Perspectives and Income Levels in Mexico), emphasizing how bad the lack of job creation was and the worrying increase in informal employment, which the document put at 66 percent of the work force, or 26,448,000 people.⁴

The INEGI considers the employment rate in the non-structured sector, reported in the quarterly national employment survey, as the main indicator of informal employment. This rate includes people working in non-agricultural micro-companies, mainly working out of their homes, with no name or legal standing. They are not registered with the authorities or business associations and offer no contract or social security benefits.

In accordance with this definition, 10.6 million people were employed in the informal sector in 2002 and 10.7 million in the first quarter of 2003.⁵ However, other publications put employment in the informal sector at 23,713,000 in 2003.⁶

Statistics aside, the surprising thing is the lack of political will to create projects for decent employment. On the contrary, the current National Action Party administration wants to turn the informal sector of the economy into a potential source of tax revenues. An analysis by the Tax Administration Service (SAT) entitled "Tamaño del sector informal y su potencial de recaudación" (Size of the Informal Sec-

tor and Its Potential as a Source of Revenue) states that the highest earning informal sector should be incorporated into the formal economy, that is, "since the aim is increasing tax revenues, it makes no sense to try to indiscriminately incorporate the informal sector." This means that it should only be done in big cities, where the main potential for collecting taxes is.⁷

The federal government is beginning to see the informal sector as a source of tax income. Not so the leaders of the Confederation of Industrial Chambers (Concamin), the Owners' Confederation of Mexico (Coparmex) and the Mexican Institute of Financial Executives (IMEF), who have criticized the government for betting on the informal sector continuing to exist. They say this only increases the crisis of the IMSS and limits the stability of public finances, potential growth and competitiveness.⁸

More than fixing blame, businessmen and government should foster policies that do not depend on the U.S. economy. That is to say, we cannot wait for it to improve and quietly anticipate its effects on the Mexican economy.

The limited view that only cheap labor will allow businessmen to keep afloat in the national and international market must also be overcome, because, in the end, the social and political cost will be very high.

Until today, the government views the informal sector favorably since it has reduced the pressure on the formal sector. On the other hand, it does not accept the idea that the informal sector has grown because of recently implemented policies of down-sizing the public sector, blindly fostering free trade, a lack of fresh investment in agriculture and industry and the low economic growth of the last 20 years.⁹

It should be remembered that in the mid-1970s, the informal sector was very small. But in the 1980s, as the economic model changed, informal activities and participants grew rapidly while formal activity stagnated.

Under these conditions, the basic question is whether the future of Mexico and Latin America will hold only informal unemployment and increased poverty. For the time being, we should recognize that the informal economy has been a determining factor for staving off the outbreak of social unrest in our country. ■■■

NOTES

¹ Javier Aguilar García, "¿Existe una política para desarrollar el empleo en México?" *Estudios Políticos. Revista de la Coordinación en Ciencia Política* (FCPYS-UNAM), no. 32 (Mexico City), January-April 2003, pp. 191-218.

² *Ibid.*, pp. 216-218.

³ For the first half of 2004, the INEGI acknowledged unemployment rates of between 3.5 and 3.8 percent, still incredibly low in relation to other countries. [Editor's Note.]

⁴ "Irrecuperables los empleos perdidos: CTM," *El Financiero* (Mexico City), 18 June 2001.

⁵ *Reforma* (Mexico City), 22 May 2003, p. A-1; <http://www.inegi.gob.mx/inegi/default.asp> and <http://www.stps.gob.mx/>

⁶ Ángel Hernández, "El desempleo de mal en peor," *Vértigo* no. 32, 28 September 2003, pp. 34-36.

⁷ Orquídea Soto, "Evalúan el impacto de la informalidad," *El Universal* (Mexico City), 19 February 2004, at http://www.eluniversal.com.mx/pls/impreso/noticia_busqueda.html?id_notas=38460&tabla=finanzas_h

⁸ *La Jornada* (Mexico City), 19 August 2003, p. 24 at <http://www.jornada.unam.mx/2003/feb03/030219/045n2soc.php?origen=soc-jus.html>

⁹ About the drop in investments, see Ministry of the Economy and Bank of Mexico figures in *El Universal*, 21 February 2004, p. A-21 at http://www.eluniversal.com.mx/pls/impreso/web_historico