Faculty of Humanities and Social Sciences
Degree in International Relations

Final Degree Project

Evaluating the Beneficial Impact of Mexico – United States Relations on Mexico's Job Market

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ABSTRACT

This thesis explores the impact of the economic and trade relations between Mexico and the United States on the Mexican job market. It specifically analyses whether these bilateral interactions have resulted in beneficial employment outcomes for Mexico. By focusing on three critical variables, employment rates, wage changes, and working conditions, the study aims to provide a comprehensive evaluation of how trade agreements, particularly the North American Free Trade Agreement (NAFTA) and its successor the United States-Mexico-Canada Agreement (USMCA), have had an influence on Mexico`s labour market. Using a historical approach, this research covers the evolution of trade relations between the two countries through the pre-NAFTA era, the NAFTA era, and the current framework under the USMCA.

The theoretical framework of this thesis is grounded in the Comparative Advantage Theory and in the Dependency Theory, which help understand how trade relations between Mexico and the United States impact Mexico's job market, offering insights into how economic dependencies and specialization affect job creation and labour standards. Methodologically, the study involves an extensive literature review and the analysis of quantitative data from reputable sources to examine trends in employment, wages, and working conditions across the three periods under analysis. This approach will allow a detailed assessment of how these trade agreements have shaped the labour market in Mexico.

Findings indicate that while the NAFTA and the USMCA have led to significant increases in employment, particularly in the maquiladora and automotive sectors, the quality of these jobs has often been inadequate, with persistent low wages and poor working conditions.

Ultimately, this thesis contributes to the broader discussion on international trade and labour economics by highlighting the complex interplay between trade policies and labour market outcomes in developing countries.

Key words

Trade Agreements, Employment, Mexico and Economic Impact.

RESUMEN

Este Trabajo de Fin de Grado explora el impacto de las relaciones económicas y comerciales entre México y Estados Unidos en el mercado laboral mexicano. Analiza específicamente si estas interacciones bilaterales han resultado en beneficios para el empleo en México. Al centrarse en tres variables críticas: tasas de empleo, cambios en los salarios y condiciones laborales, el estudio tiene como objetivo proporcionar una evaluación integral de cómo los acuerdos comerciales, específicamente el Tratado de Libre Comercio de América del Norte (TLCAN) y su sucesor el Tratado entre México, Estados Unidos y Canadá (T-MEC), han influido en el mercado laboral en México. Mediante un enfoque histórico, esta investigación abarca la evolución de las relaciones comerciales entre ambos países durante la era anterior al TLCAN, la era del TLCAN y el marco actual bajo el T-MEC.

El marco teórico de esta tesis se basa en la Teoría de la Ventaja Comparativa y en la Teoría de la Dependencia, las cuales ayudan a comprender cómo las relaciones comerciales entre México y Estados Unidos afectan el mercado laboral mexicano, ofreciendo perspectivas sobre cómo las dependencias económicas y la especialización influyen en la creación de empleo y en las condiciones laborales. Metodológicamente, el estudio incluye una amplia revisión de literatura y un análisis de datos cuantitativos procedentes de fuentes fiables para analizar las tendencias en el empleo, los salarios y las condiciones laborales a lo largo de los tres periodos analizados. Este enfoque permitirá una evaluación detallada de cómo estos acuerdos comerciales han moldeado el mercado laboral en México.

Los datos indican que el TLCAN y el T-MEC han dado lugar a un aumento significativo del empleo, sobre todo en los sectores de la maquila y la automoción, pero la calidad de estos puestos de trabajo ha sido a menudo deficiente, con salarios persistentemente bajos y malas condiciones laborales.

En última instancia, esta tesis contribuye al amplio debate sobre el comercio internacional y la economía laboral al destacar la compleja interacción entre las políticas comerciales y los efectos en el mercado laboral de los países en desarrollo.

Palabras Clave

Acuerdos Comerciales, Empleo, México e Impacto Económico.

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ABBREVIATION INDEX

DHIA	Appleseed Mexico and Human Rights Integral in Action
ENA	Agricultural and Livestock Production Survey
ENE	National Employment Survey
ENOE	Encuesta Nacional de Ocupación y Empleo
ENOE	Mexican National Occupational and Employment Survey
FDI	Foreign Direct Investment
FTAs	Free Trade Agreements
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IMMEX	Industria Manufacturera, Maquiladora, Servicios de Exportación
INEGI	Instituto Nacional de Estadística, Geografía e Informática
LVC	Labour Value Content
NAALC	North American Agreement on Labor Cooperation
NAFTA	North American Free Trade Agreement
OEM	Original Equipment Manufacturer
ROO	Rules of Origin
RRM	Rapid Response Mechanism
RVC	Regional Value Content
SADER	Secretaría de Agricultura y Desarrollo Rural

SMEs	Small and Medium-sized Enterprises
STPS	Secretaría del Trabajo y Previsión Social
USMCA	United States-Mexico-Canada Agreement

1. OBJECTIVES

The complex trade and economic relations between Mexico and the United States has had a significant impact on the labour market of Mexico. Our research, titled *Evaluating the Beneficial Impact of Mexico - United States Relations on Mexico's Job Market*, will focus on this phenomenon. The objective of this study is to carry out a detailed analysis that will allow us to examine the influence of the relations between these neighbouring countries on job creation within Mexican borders. To reach a solid conclusion, we will review the variations that the following variables have experienced within Mexico's employment market: variations in the rate of employment within the labour force, in workers' wages, and in their working conditions. Our primary focus lies in identifying whether the economic and trade collaborations between these two nations has resulted in a beneficial employment situation for Mexico, or if on the contrary, it has not provided benefits to the country's job market.

In today's global landscape, both interconnectivity and economic interdependence are fundamental factors for the progress of nations. In addition to sharing an extensive border, Mexico and the United States have created a complex economic and trade network that has evolved over time, influenced by political, economic, and social factors. Trade links between both originated in the 19th century as an exchange focused on agricultural products and natural resources, which ended up leading to historical trade developments with the implementation of the North American Free Trade Agreement (NAFTA), which established a free trade area between Mexico the United States and Canada. This agreement turned out to be renegotiated and transformed into the United States-Mexico-Canada Agreement (USMCA). In this ever-evolving context and highly globalized world where the economic decisions of one nation can have a direct impact on the labour market of another country, it is essential to analyse the relations between the Unites States and Mexico. For this reason, it is crucial to analyse the employment implications, within Mexico, of the evolving relations between both nations, which will help us understand how the economic decisions of one country can affect the daily lives of workers of the neighbouring country, demonstrating the complexity and interdependence between economies.

The main objective of this Final Degree Project is to determine whether the economic and trade relations between Mexico and the United States have generated benefits for Mexico in terms of job creation or not. To achieve this, we will carry out a historical review of the evolution of the trade and economic relations between both countries. This will be followed by an in-depth study of three key variables, which will help us reach our intended conclusion. Given the limited scope of this thesis, we have chosen to analyse these three variables, as they appear to be the most representative to analyse the selected topic: evolution of the rate of employment within the labour force, wage changes, and working conditions in Mexico. The basis of our research is this analytical approach, and the following research question is the guiding thread of our work: Have Mexico - United States relations had a beneficial impact on Mexico's job market?

The insistence on specifically addressing the effects that the evolving economic and trade relations between Mexico and the United States have had on Mexico's labour market has been led by the identification of employment as a key indicator of the economic and social development of a nation. As previously clarified, the precise delimitations of our research focus on the variations of the rate of employment within the labour force, changes in their wages, and changes in their working conditions, therefore our choice of focus is adjusted to the reality of the labour market.

This study significantly contributes to the field of international relations and economics, given that it provides insights into how economic and trade relations between nations has a direct impact not only on job creation, but on employee's way of life. This is why our goal is not only to examine the economy as a whole but also to highlight the individual realities of those who make up the workforce of one of the parties involved in this bilateral relationship.

Ultimately, the aim of this thesis is not merely to present data but to provide an objective view that will allow to determine whether the economic cooperation between the United States and Mexico has had a positive impact on employment creation in Mexico, or not. This perspective not only highlights the need to continually assess the labour consequences arising from economic and trade collaborations but also advocates for the implementation of corrective measures based on the specific labour circumstances.

2. THEORETICAL FRAMEWORK

We will now address the theoretical framework of our research, where the fundamental theories that will support the issues addressed in the study will be presented. This section is essential as it provides a solid context that will facilitate the interpretation and analysis of the conclusions that we aim to reach. In this context, we will address two relevant economic theories that will serve as a reference to gain a deeper understanding of the effect that the bilateral relations between Mexico and the U.S. have had on Mexico's labour market. On the one hand, we will analyse the Comparative Advantage Theory, and on the other hand, we will examine the Dependency Theory.

2.1 Theory of Comparative Advantage

Firstly, we will explore the Comparative Advantage Theory, which is considered one of the fundamental pillars of international economics. This theory was developed by the British economist David Ricardo in 1817, building on Adam Smith's analysis of the division of labour and international trade. While Smith focused his argument on absolute advantage, Ricardo introduced the idea that trade could be beneficial for a country even if this country lacked an absolute advantage in the production of any goods, provided that it focusses on the production of goods where it presents the least disadvantage possible, or the greatest advantage possible.

According to this theory, a country can increase its economic welfare through international trade by specializing in the production and exportation of those goods and services in which it has a comparative advantage. A comparative advantage exists when a country can produce a good at a lower opportunity cost than another country. In other words, even if a country is less efficient in the production of all goods, it can benefit from trade if it specializes in the goods that it can produce most efficiently relative to others (Gobierno de México, 2014).

The key to the Theory of Comparative Advantage lies in the differentiation between absolute costs and relative costs. Absolute costs are the total resources required to produce a good, whereas relative costs compare the production costs of different goods within the same country to determine which goods are cheaper to produce relative to others. Therefore, countries should specialize in the production of goods that have lower relative costs and trade for goods that are more costly to produce domestically. This specialization allows countries to benefit from participating in international trade, despite differences in production efficiency (Santaella, 2023).

The theory suggests that countries should specialize in producing goods where they are relatively more efficient, thereby maximizing economic welfare through specialization and cooperation. By focusing on their comparative advantages, countries can enhance global efficiency in resource allocation. This collaboration also increases the variety of goods and services available to consumers and lowers prices (Bordera, 2012).

Ricardo's theory has faced criticisms and modifications. Some economists have noted that the theory assumes perfect factor mobility within countries, but not between them. Others have argued that differences in technology and the presence of economies of scale can complicate the simple predictions of classical theory. Moreover, modern concerns, such as the environmental impact of trade and economic inequality, also pose challenges to the traditional interpretation of comparative advantage (Krugman, 1991).

Despite these criticisms, the Theory of Comparative Advantage has had a significant impact on the formulation of economic and trade policies, as it challenged previous mercantilist ideas of trade by demonstrating how countries can maximize their economic welfare through specialization and cooperation (Universidad Piloto de Colombia, 2023). In contrast, the prevailing previous ideas of international trade, influenced by mercantilism, advocated for the maximum accumulation of gold and silver as the main key to national prosperity (Roldan, 2024). However, the Theory of Comparative Advantage presented an alternative and more substantiated approach to understanding and maximizing the benefits of international trade, thus challenging mercantilist notions and offering a new perspective. Policies based on this theory have promoted trade liberalization and the reduction of trade barriers, which has been fundamental in the formation of trade blocs and agreements such as the NAFTA and its successor, the USMCA.

According to this theory, each country should focus its efforts on the production and exportation of goods in which it has a comparative advantage, while importing goods where it presents a comparative disadvantage. This specialization approach allows each country to use its resources more efficiently by focusing on what each does best in terms of opportunity costs, considering the distinctive characteristics of each country and its respective market. In terms of employment, this theory establishes that economic cooperation could foster a beneficial situation for both parties. Specialization would allow a more efficient use of labour resources in both nations, possibly resulting in increased employment in sectors where each country exhibits a comparative advantage (Jiménez et al., 2007).

However, the theory acknowledges that not all workers or economic sectors will benefit equally from trade. Specialization and international trade can generate a generalized economic growth, but it may also cause disruptions in certain industries. It underscores the need for governments to take responsibility and develop policies that mitigate any negative impacts on workers affected by structural changes, as the overall benefits of international trade are intended to translate into improved general welfare for the population. These strategies focus on the reconfiguration of the workforce, which includes measures such as facilitating training opportunities and implementing relocation programs (Moreno-Brid et al., 2004).

In conclusion, David Ricardo's Theory of Comparative Advantage provides a solid conceptual framework for understanding how countries can benefit from international trade through specialization. Based on this approach, economic cooperation between Mexico and the U.S., can generate mutual benefits in terms of efficient resource allocation and, consequently, a positive impact on employment.

As mentioned before, we will also take into consideration the Dependency Theory, which argues that when there are trade relations between a highly developed country, such as the U.S., and a less developed country, such as Mexico, a situation of economic dependency may arise. This theory will be essential to assess whether Mexico has experienced a situation of economic dependency with respect to the U.S., and how this could influence Mexico's job market.

2.2 Dependency Theory

Dependency Theory was primarily developed by Latin American thinkers during the 1950s and 1960s, and it emerged as a critical response to conventional theories of modernization and economic growth, which often overlooked the historical and structural realities of developing countries. The most representative author of this theory was the Argentine Raúl Prebisch, who proposed an alternative approach to understanding the dynamics of trade relations between developed and developing countries. He proposed an economic model that described the relationship between what were defined as the core and the peripheral economies (abc, 2005).

According to Dependency Theory, the global economic system is divided into centres and peripheries, the centres are advanced economies, and the peripheries are less developed economies that depend on the former. This division is the result of a historical process of colonialism and economic manipulation that has shaped a global structure in which peripheral economies are conditioned by central economies. Peripheral countries tend to specialize in the export of raw materials with low added value, while central countries specialize in the production of high-value-added manufactured goods. This leads to an international trade structure that disproportionately benefits developed countries, allowing them to earn higher profits and reinforce their dominant position in the global economy.

Latin American thinkers expressed particular interest in Dependency Theory due to the interest in addressing the marked economic inequalities that exist between the northern and southern hemispheres (Roberts, 2023). At that time, special attention was given to the inequality experienced by Latin American countries in comparison to the rest of the world. This interest arose from seeing that, despite having been liberated from colonial relationships with their metropolises, Latin American countries still experienced a situation of socioeconomic stagnation and still faced significant challenges in advancing the process of industrialization (Montagud, 2021).

Dependency Theory has shown a close relationship with the Marxist perspective, and it considers that the current global economic situation is characterized by neocolonialism, a derivative of colonialism (Montagud, 2021). In this way, it can be said that Latin American countries have not fully freed themselves from the colonial legacy that historically limited their growth, but this has evolved over time into neocolonialism. Unlike direct occupation, which involved territorial and political control ending in economic dominance, neocolonialism operates more discreetly. Dominant countries exploit natural resources within less developed countries or their former colonies. Underdeveloped countries assume the role of suppliers of raw materials with a low added value, thus allowing the dominant countries to manufacture their goods and market them at a higher value, meaning the flow of capital goes from the poorer to the richer. Silently, neocolonialism fulfils the same function of its predecessor, colonialism, and it prolongs economic inequalities and limits the autonomous development of the affected nations (García, 2022). In the specific context of the relationship between the U.S. and Mexico, this theory is crucial to analyse the possible existence of a situation of economic dependency and its implications in terms of job creation.

The economic framework of Dependency Theory is based on the idea that less developed nations are linked to developed nations in a dependency relationship that is not limited only to the economic realm but also encompasses political and social aspects. According to this theory, despite the apparent autonomy of less developed countries over their own political decisions, the crucial decisions that deeply affect their realities are made by developed countries. These decisions tend to favour the interests and welfare of developed countries, who possess the industry and wealth, while the peripheral countries, unable to produce their own manufactured goods, are forced to supply raw materials to the industrialized nations who maintain their high economic level (Montagud, 2021).

One of the critical elements of Dependency Theory is the negative impact that a relationship of interdependence can have on job creation in the less developed country. According to this perspective, economic dependency can lead to the concentration of foreign investments in specific sectors, aligned with the needs of the dominant country's economy, which limits the diversification and development of the developing country’s local economy. This imbalance could have direct repercussions on job creation, as excessive dependence on a particular sector or market leaves the economy more exposed to external trade fluctuations, such as changes in global demand. In other words, if a country’s economic activity is focused on a single area, any adverse change in that sector could have significant consequences on a country’s labour stability. It is also important to highlight the possibility of this economic dependency relationship resulting in an unequal distribution of benefits from the bilateral relationship. The disparity in the distribution of benefits implies that most of the wealth is concentrated in the more developed nation, which directly affects the less developed country's ability to generate quality and stable employment.

In conclusion, Dependency Theory offers a critical and profound framework for analysing global economic interactions, especially the relationship between development and economic subordination. It emphasizes the importance of understanding international economic relationships not only in terms of trade exchanges but also in terms of power relations and historical dependency. This theory continues to be a vital tool for understanding how global power dynamics influence development policies and the economic trajectory of less developed nations.

3. METHODOLOGY

The methodology that will be used to carry out this thesis the most comprehensive way possible will include the following approach:

- We will conduct a thorough literature review that will serve as the foundation of this research. This will involve the examination of scholar articles, historical documents, government reports, and existing research on economic policies and trade agreements between Mexico and the U.S. A special focus will be given to the implementation of the NAFTA and its successor, the USMCA.

- We will make use of reputable sources that will provide us with the necessary quantitative data to analyse employment trends, wage changes and working conditions in Mexico. This data will allow an examination of the job market and economic indicators pre-NAFTA, during the NAFTA, and post-NAFTA, providing an understanding of the impact of trade agreements between these two countries on Mexico's job market.

The thesis will be concluded using a deductive approach derived from comprehensive research, which will culminate in a definitive conclusion. We will take into consideration the principles of the comparative advantage theory and the dependency theory to understand how the economic interactions influenced job creation and labour conditions in Mexico.

4. HISTORICAL CONTEXT OF MEXICO – UNITED STATES TRADE RELATIONS

This chapter aims to methodically analyse the complex economic and trade relations between Mexico and the U.S., which have been significantly interconnected for more than a century. We will delve into the historical evolution of these relations, particularly focusing on the eras before and after major trade agreements such as the NAFTA and the subsequent the USMCA. Through a detailed examination of each period, pre-NAFTA, during the NAFTA, and post-NAFTA, we will explore how trade policies and international treaties have sculpted the present economic landscapes of both nations. This analysis will cover the dynamics of trade flows, investments, and socio-economic impacts. Our objective is to provide a comprehensive historical review that maps out the chronological development of these trade relations and critically assesses the economic ramifications and policy shifts that have influenced employment and economic strategies in Mexico.

4.1 The Pre-NAFTA ERA: U.S. – Mexico Trade Relations Prior to 1994

Chronology of economic and trade relations

During the 19th century, the economic and trade relationships between Mexico and the U.S. were primarily concentrated along the border, involving modest exchanges of agricultural and textile goods. However, the discovery of rich natural resources in Mexico shifted these dynamics. As the U.S. experienced its industrial boom, it developed a growing interest in Mexico's key economic sectors, especially the mining and oil sectors, marking the onset of an increase in U.S. investments and influence in these areas (Keller et al., 2016).

This period of increasing economic ties coincided with significant territorial conflicts such as the U.S.-Mexican War (1846-1848), also known as the North American Invasion. The conclusion of this conflict led to Mexico ceding 55% of its territory to the U.S. under the Treaty of Guadalupe Hidalgo. This monumental loss had lasting implications for Mexico, profoundly affecting the economic and political dynamics between the two countries. The war and its outcomes set a complex foundation for bilateral relations, which were at that time characterized by mistrust and exploitation but also significant cooperation (Keller et al., 2016).

Over the ensuing decades, there were substantial U.S. investment in Mexico's mining and oil sectors, which were facilitated by the characteristic liberal economic policies under Porfirio Díaz's presidency. During his leadership, U.S. and European capital flowed into Mexico, encouraged by government incentives such as tax exemptions and subsidies aimed at fostering industrial growth. By the early 20th century, U.S. investors controlled a substantial portion of Mexico's mining industry and were making significant inroads into oil extraction. However, these economic developments led to growing concerns about foreign control, which fuelled nationalistic sentiments and calls for economic sovereignty (Keller et al., 2016).

The legacy of the U.S.-Mexican War and the economic penetration of the U.S. in Mexico have continuously shaped the trajectory of U.S.-Mexico relations, which swayed between cooperation in economic and social development and tensions because of historical resentments (Keller et al., 2016). The Mexican Revolution (1910-1917) led to significant changes, including agrarian reforms and the nationalization of key industries, such as the oil sector in 1938 under President Lazaro Cárdenas. These movements significantly reduced foreign investment, reshaping the business environment and diminishing American economic influence in Mexico (Cardenas, 1975).

As the industrial era progressed, both Mexico and the U.S. saw a marked increase in the exchange of manufactured goods and agricultural products. This relationship evolved further during and after World War II, particularly when the U.S. faced a labour shortage. In response, the Bracero Program, which was launched in 1942, allowed millions of Mexican agricultural workers to enter the U.S. This initiative not only filled gaps in the American agricultural sector but also established lasting economic and labour relationships between the two countries (Cardenas, 1975).

The Bracero Program, which lasted until 1964, saw over 4.5 million contracts signed, but the Program received criticism because of the precarious working conditions and low wages that Mexican workers had. The termination of the Bracero Program did not reduce the influx of Mexican workers; instead, it transformed their migration into a more unregulated form and brought about significant changes in U.S. immigration policies toward Mexico (Cardenas, 1975).

This shift in labour dynamics set the stage for Mexico's later economic transformations. Mexico had already embarked on a path of economic liberalisation before the start of the

NAFTA negotiations, and the debt crisis of the mid-1980s played an important role in making this transformation necessary. The government took steps to modernize the economy by relaxing investment policies and liberalizing trade barriers, transitioning from one of the world's most protected economies to an opened one (Villarreal et al., 2017). Moreover, as part of its economic strategy to open up its economy and move away from historically protectionist policies, Mexico signed the General Agreement on Tariffs and Trade (GATT) in 1986. This move made considerable advancements in free trade between Mexico and the U.S. By significantly reducing trade barriers and cutting back on import licensing requirements, Mexico transformed from a regime where nearly all imports were controlled through licensing, to a regime where only a small fraction of imports remained regulated. This made it easier to bring foreign goods into the country, and it also encouraged Mexican products to reach international markets (Wainwright, 1993).

By the time NAFTA discussions began in 1990, Mexico had already established 12 Free Trade Agreements (FTAs) involving a total of 46 countries, which indicated Mexico's significant progress in its trade liberalization efforts (Villarreal et al., 2017). Some of these FTAs involved the U.S., indicating that both countries had already engaged in several agreements to address major economic and political issues. The idea of an FTA between the U.S. and Mexico gained recognition in June 1990 when U.S. President George Bush and Mexico's President Carlos Salinas de Gortari agreed to pursue it not only to reduce tariffs, but to eventually eliminate them, aiming to increase economic growth, create new jobs, and stimulate cross-border economic activity (Segarra, 1992). These agreements were crucial to create a cooperative environment and build trust between both countries, essential to achieve the economic integration that NAFTA aimed for.

By September 1990, Canada expressed interest in joining the U.S.-Mexico FTA discussions, aiming to expand the economic benefits that it already enjoyed under its own FTA with the U.S., and to strengthen its economic ties across North America. This move was pivotal in transforming the bilateral FTA discussions into a trilateral negotiation, marking the beginning of the NAFTA discussions. By the end of 1990, and throughout 1991, the initial NAFTA negotiations took place, covering a wide range of subjects that were crucial for the success of the trilateral agreement between Mexico, the U.S. and Canada. During these early discussions, the primary objectives of the agreement were outlined (Segarra, 1992). The trilateral agreement aimed to address the economic challenges faced by all three countries, including current account deficits and large foreign debts, necessitating an export-led strategy. Additionally, the agreement sought to improve the efficiency and productivity of labour forces and industries in the three countries, to enhance their competitiveness against foreign suppliers in both the national and international markets (Cantarelli, 2017).

The trilateral trade agreement was approved by the U.S. Congress in 1991. This legislative approval was crucial for the planned economic integration to move forward (Segarra, 1992). The NAFTA was signed on August 12, 1992, and it came into effect on January 1, 1994. The agreement aimed to eliminate tariffs between the three countries over a fifteen-year period, with the objective of reshaping economic interactions in the region. The signing of the NAFTA culminated a period of significant trade liberalization efforts by Mexico and marked a new era of economic cooperation and integration across North America. This comprehensive agreement sought not only to reduce trade barriers but also to enhance the competitive positioning of all three countries in the global market (Wainwright, 1993).

Dynamics and consequences pre-NAFTA: Trade, investment and socioeconomic challenges

Goods and services trade trends

In the period leading up to NAFTA's implementation, the primary trade flows between Mexico and the U.S. consisted of agricultural products, textiles, and eventually natural resources such as oil and minerals. Mexico primarily exported silver to the U.S. This trend of trade flows between both countries continued during the 20th century (Aroca at al., 2005).

The evolution of trade in Mexico was marked by the gradual opening of its economy, especially after World War II. This period saw the introduction of policies that modernized the economy and accelerated industrialization, resulting in significant changes in the country’s trade patterns. As detailed in the previous section, tariff policies experienced considerable fluctuations during this time. Mexico went through periods of protectionism which were followed by stages of trade liberalization that began with the country's signing of the GATT. This marked the start of Mexico exporting a greater variety of manufactured goods to the U.S., including electronics and automobiles, reflecting a diversification in its economic activities (Aroca at al., 2005).

Foreign Direct Investment (FDI)

During the 19th century, following the U.S. industrial boom and the discovery of Mexico's abundant natural resources, U.S. FDI in Mexico concentrated on the oil and mining sectors, where Mexico held a comparative advantage. After World War II, there was a significant shift in U.S. FDI towards Mexico's manufacturing industries. This transition was driven by new Mexican policies focussed on industrial diversification and economic modernization. A key development was the growth of the maquiladora industry, which used low-cost Mexican labour to manufacture goods for export. This new industry significantly attached U.S. FDI, and 30% of these investments were directed towards maquiladoras (Waldkirch, 2008).

These changes in FDI patterns played a vital role in modernizing Mexico's industrial capacity and integrating its economy more closely to the U.S., laying the groundwork for future agreements like the NAFTA. The influx of U.S. FDI in Mexico transformed local industries, introduced new technologies, and spurred economic growth, helping Mexico diversify its economic activities beyond traditional sectors like oil and mining to include more dynamic industries such as automobiles and electronics (Waldkirch, 2008).

Socioeconomic Impact

The trade relations between the U.S. and Mexico prior to the implementation of the NAFTA significantly influenced Mexico's socioeconomic landscape. Increased U.S. investment in Mexico played a crucial role in the modernization of specific industries, particularly those related to resource extraction and manufacturing. While these investments drove economic growth and the development of a more modern industrial sector, they also led to uneven economic developments that pronounced the regional disparities within the country (Denata et al., 2023).

The northern states near the U.S. border, experienced significant growth in industries such as automotive and electronics manufacturing. However, the central and southern regions of the country, which attracted less investment, often lagged in industrial development and employment opportunities. Moreover, Mexico's reliance on U.S. investment and its export-oriented economic model made the country vulnerable to international market fluctuations. Economic downturns in the U.S. had direct repercussions on the Mexican economy, highlighting the risks of this dependency (Denata et al., 2023).

From a social perspective, the trade relationship and subsequent industrialization presented both challenges and opportunities. The creation of jobs in new industrial sectors facilitated a demographic shift from rural to urban areas, contributing to urbanization and changes in Mexico's society. However, this rapid urbanization made it very difficult to adequately develop urban infrastructures. Additionally, labour conditions in these new industries were frequently characterized by low wages and limited rights for workers, which fuelled social and labour disputes (Denata et al., 2023).

In response to the high level of foreign dominance that contributed to impoverished working conditions, Mexico nationalized its oil industry in 1938. This move aimed to regain control over its natural resources and reduce economic dependency, ensuring that the benefits derived from these resources primarily served the nation. While this action led to greater economic independence, it also set the stage for future tensions and disputes over resource control with the U.S. (Denata et al., 2023).

4.2 The NAFTA Era: U.S. – Mexico trade relations from 1994 to 2020

Chronology of economic and trade relations

On January 1st, 1994, the NAFTA came into effect marking the beginning of a transformative era in the economic and trade relations between Mexico, the U.S. and Canada. This ambitious treaty set forth several key objectives that were enunciated in Article 102 of the official document. The stated objectives were the following: to eliminate barriers for the trade of goods and services across borders, to promote an environment of fair competition within the free trade area, to enhance investment opportunities, to ensure robust and effective protection of intellectual property rights, to develop efficient mechanisms for the implementation and application of the agreement, and to lay the groundwork to expand trilateral, regional, and multilateral collaboration (Government of Canada, 2016).

It is important to note that NAFTA aimed to establish a free trade area, not a common market. This means that goods entering the U.S., Canada, or Mexico still had to comply with each country's respective regulations. This distinction is crucial because, unlike a common market, NAFTA did not eliminate all barriers to trade or allow the free movement of labour.

Customs officials remained operational, and imported goods had to meet national requirements concerning product standards, safety, and other regulations (Cantarelli, 2017).

To reduce trade barriers between the three participating countries, NAFTA included key provisions such as the phased elimination of tariffs on most trade commodities and the establishment of Rules of Origin (ROO). By introducing a phased elimination of tariffs, the agreement outlined a transition period of up to fifteen years to completely remove tariffs from commodities, providing industries in each country time to adapt to the competitive pressures of open markets. For trade between the U.S. and Mexico, and between Canada and Mexico, the NAFTA set a faster timeline for the elimination of tariffs, aiming for a complete removal within either five or ten years, depending on the product category. By providing a transition period for businesses and economies to adjust, the agreement aimed to mitigate potential economic disruptions (United States of America Department of Commerce, 1994). The NAFTA's implementation led to the immediate elimination of tariffs on more than half of Mexico's exports to the U.S. and on over one-third of U.S. exports to Mexico (Cantarelli, 2017).

The agreement also introduced the ROO, which were essential regulations that helped to determine which goods qualified for reduced or eliminated tariffs within the trade zone. These rules were designated to prevent transshipment, through which goods produced outside the NAFTA region were simply routed through a member country to unfairly take advantage of the trade agreement. To be considered "originating," goods had to either be wholly obtained or undergo significant transformation within the NAFTA territories. This transformation was evaluated using specific criteria. First, the product needed to meet Regional Value Content (RVC) requirements, which required that a certain percentage of the product's value come from within the NAFTA region. Second, to consider a product as originating, it had to undergo specified processing operations, which involved specific manufacturing or processing steps as detailed in the agreement. Finally, there had to be a change in the products tariff classification, meaning the product was categorized differently in the customs tariffs schedule after undergoing transformation. This ensured that only goods with substantial economic ties to the NAFTA region received preferential treatment, which prevented minimal processing of non-NAFTA goods from exploiting the agreement's benefits (Government of Canada, 2018).

The NAFTA brought substantial economic benefits. It facilitated investment flows among the member countries, and it allowed businesses to expand beyond national borders and benefit from local advantages, such as lower labour costs in Mexico and access to advanced technologies and capital markets in Canada and the U.S. (Catarelli, 2017). The agreement also led to a significant increase in U.S. imports from Mexico, stimulating Mexico's manufacturing sectors such as automobiles and electronics. This growth in trade helped modernize Mexico's industrial base, encouraged the adoption of advanced technology, and enhanced workforce skills. Furthermore, cities like Tijuana, Ciudad Juárez, and Monterrey emerged as industrial hubs due to increased foreign direct investment. The agreement led to mutual benefits, such as job creation and economic efficiency improvements (Salzinger, 2009).

Despite the above economic benefits, the agreement also presented significant challenges. The surge of Mexico’s manufacturing sector came at the expense of workers, who faced poor labour conditions, low wages, and limited union rights. This situation was exacerbated by the rapid disappearance of agricultural jobs, caused by an influx of cheap, subsidized U.S. corn, which displaced many Mexican farmers and led to an increased migration from rural to urban areas. The maquiladora sector became a major component of the Mexican economy but failed to increase workers’ wages, or to improve their working conditions. Additionally, the NAFTA's benefits were unevenly distributed, exacerbating inequality in regions with minimal foreign investment. The economic disparities meant that while some areas experienced growth and development, there were large groups within the population that remained disconnected from the benefits of free trade, which led to increased socio-economic disparities. This uneven development contributed to increased immigration pressures, as many Mexicans sought for better opportunities in the U.S. (Salzinger, 2009).

In the U.S., the implementation of the NAFTA significantly reshaped the automotive industry, particularly because of the 2008 economic crisis. U.S. companies sought lower labour costs and less stringent regulations, which is why many relocated parts of their production to Mexico, leading to a drop of 32.4% in U.S. car production, and the closure of plants in traditional industrial zones (Alvarez-Medina, 2014). This situation triggered intense political and social debates in the U.S. over the advantages and disadvantages of free trade, which initiated the discussions on the NAFTA’s effectiveness and whether it should be renegotiated or eliminated (Guisinder, 2019).

On the one hand, American critics argued that the NAFTA primarily benefited large corporations at the expense of American workers, contributing to a decline in the manufacturing base and increasing economic inequalities. They pointed out that the NAFTA led to job losses in the U.S. as companies moved their production processes to Mexico, where labour costs were lower, forcing U.S. workers to compete with poorly paid Mexican workers (Guisinder, 2019). On the other hand, free trade supporters argued that the agreement resulted in lower prices for consumers, promoted economic efficiency, and created job opportunities in high-tech and service sectors. However, the persistent concerns over job loss increased protectionist sentiments and scepticism towards the agreement in the U.S., and in response to these concerns, on May 18th, 2017, the Trump Administration officially notified Congress of its intention to renegotiate the NAFTA (Villarreal et al., 2017). The negotiations that followed, which took into account how the changes might affect the U.S. economy and its relationships with Mexico and Canada, eventually resulted in the creation of the USMCA. This new agreement sought to address labour issues and modify the ROO to distribute benefits more equitably among the member countries, focusing on updating the decades-old trade framework to reflect the current economic and social priorities (Guisinder, 2019).

Dynamics and consequences of the NAFTA: Trade, investment and socioeconomic challenges

Goods and services trade trends

The NAFTA, a period marked by significant cooperation and economic integration between the U.S. and Mexico, transformed the trade dynamics between the two countries. Since its implementation in 1994, the NAFTA has played a pivotal role in diversifying and expanding the range of products exchanged between both, encompassing advanced manufacturing items, processed agricultural goods, and a variety of financial and digital services. The agreement led to a substantial reduction in tariffs, paving the way for substantial growth in bilateral trade. According to the U.S. Department of Commerce, from 1993 to 2002, bilateral trade between Mexico and the U.S. increased by 183%, growing from $81.5 billion to $231 billion (Dieck-Assad, 2003).

Moreover, the NAFTA altered the economic landscape by enabling access to a wider selection of high-quality goods and services at more competitive prices. For instance, U.S. consumers enjoyed lower prices on cars, domestic appliances, food, etc., reflecting the agreement's success in improving consumer welfare. The elimination of most tariffs under NAFTA not only increased U.S. imports from Mexico, benefiting U.S. consumers and producers with access to cheaper inputs and goods, but also benefited U.S. exporters and

Mexican consumers by opening the Mexican market to American products (Dieck-Assad, 2003).

However, while manufacturing exports from Mexico, as officially reported, have improved rapidly since the NAFTA took effect, this growth is complex. From 1995 to 1999, the amount of extra value added to Maquiladora exports increased by 16% each year. At the same time, the total value of these exports, including imported parts, grew by 19.7% annually. However, the average value added to the exported products decreased compared to their total value. This is because Maquiladora exports contain many imported parts from the U.S. and other countries, which reduces the overall benefit to the Mexican economy. Therefore, while Mexico's export growth looks good on paper, the actual benefits are less impressive. This is even more evident when considering total imports. From 1995 to 1999, manufacturing imports from the U.S. and other countries increased by 18.5% each year, leading to a rapidly growing trade deficit for Mexico during this period (Salas et al., 2001).

Foreign Direct Investment (FDI)

During the NAFTA period, FDI in Mexico experienced a significant growth. FDI flows into Mexico between 1994 and 2005 totalled approximately $170 billion, with a substantial portion directed towards the manufacturing and services sectors (Waldkirch, 2008). The primary source of Mexico’s FDI was the U.S., which accounted for over 60% of Mexico’s total FDI during that period. Other significant contributors included developed countries from the European Union, such as the United Kingdom, Germany, Spain, and France, which collectively provided around 25% of Mexico’s total FDI (Waldkirch, 2008).

The sectoral allocation of FDI revealed specific trends. In the manufacturing sector, substantial investments were made in industries such as metals and electrical machinery, which collectively received nearly half of the manufacturing FDI. The automotive sector alone accounted for over a third of this investment. Other significant manufacturing sectors included food processing and chemicals, and the services sector, in which banking and insurance services attracted over 40% of FDI. This influx of capital in these sectors was crucial to stabilize the banking sector after having experienced financial troubles during that period. Wholesale and retail trade also saw consistent investment flows, comprising over 20% of services FDI (Waldkirch, 2008).

Overall, the evolution of FDI during the NAFTA era highlights a clear shift towards greater foreign investment in high-tech and capital-intensive sectors, fostering an increased integration of Mexico into the North American economic framework. This trend was also marked by the establishment of highly integrated cross-border supply chains, particularly in the electronics and automotive industries (Waldkirch, 2008).

Socioeconomic impact

Since its implementation, the NAFTA has had profound socioeconomic repercussions in Mexico. Despite its promise of economic growth and prosperity, the reality for many Mexicans has been different.

The NAFTA contributed to several broad economic effects, including a decline in real wages and a rise in unemployment. The agreement also led to reduced labour rights and environmental standards, which negatively impacted workers. These lowered standards often attracted foreign companies to relocate to Mexico (Carlsen, 2013). One of NAFTA's most controversial outcomes was the offshoring of jobs from the U.S. to Mexico. Offshoring refers to the practice of relocating jobs and businesses from one country to another, typically from developed countries to developing countries. Key industries, such as automotive and textiles, where labour costs are a significant factor, relocated operations to Mexico to benefit from lower wages. As a result, between 1993 and 1998, auto imports from Mexico more than doubled, increasing from $11.1 billion to $27.7 billion (Waldkirch, 2008).

This socioeconomic disruption in Mexico has also led to more organized crime and the collapse of communities, as higher poverty levels make it easier for criminals to recruit people. Furthermore, the transnational industrial corridors that were established under NAFTA, have contaminated rivers and harmed public health, with women bearing a disproportionate share of these burdens (Carlsen, 2013).

Moreover, one of the most significant impacts of NAFTA on Mexico has been the destruction of its agricultural sector. The influx of heavily subsidized U.S. corn into Mexico caused a significant drop in producer prices, making it nearly impossible for small Mexican farmers to compete and maintain their ways of life. As a result, approximately two million farmers were forced to abandon their land and seek better opportunities in industrialized cities (Carlsen, 2013).

In summary, NAFTA's socioeconomic impact on Mexico has been characterized by agricultural decline, economic stagnation, increased migration, and social disruption. These effects highlight the complexities and unintended consequences of international trade agreements, calling for more thoughtful and inclusive economic policies.

4.3 The USMCA Era: Trade Relations from 2020 to the Present

Chronology of economic and trade relations

The NAFTA, implemented in 1994, sparked extensive economic changes in North America. It facilitated substantial growth and modernization in the economies of Mexico, the U.S. and Canada. However, it also pointed out several challenges regarding economic interdependence between the parties, such as uneven benefits across different sectors and regions. These issues drove the push for a revision of the agreement, so that it could better address the evolving economic landscape (Sokov, 2022).

The transition from the NAFTA to the USMCA marked a significant evolution in North American trade relations, and it reflected the changing economic, social, and environmental priorities of the 21st century. By the end of the NAFTA, various criticisms had emerged, particularly regarding labour, leading to a strong push for renegotiation. This effort culminated in the USMCA, which came into effect in July 1st, 2020, aiming to modernize the original agreement with substantial updates to meet contemporary challenges (Sokov, 2022).

The renegotiation process involved intense discussions among the three member countries, focusing on addressing the deficiencies of the NAFTA and incorporating new provisions to reflect technological advancements and changing economic realities. Notably, the USMCA introduced stricter ROO, particularly for the automotive sector, increasing the RVC requirements and imposing new Labour Value Content (LVC) requirements, which are trade agreement criteria mandating that a certain percentage of a product’s value must originate from labour within the member countries of the agreement. For automobiles to qualify for zero tariffs, the RVC requirements were raised from 62.5% to 75%. These changes were designed to ensure a more equitable distribution of benefits and to incentivize production within North America, encouraging companies to invest more in local facilities and consequently reduce their reliance on countries with lower labour costs. These new provisions raised production costs and posed adjustment challenges for Mexican auto manufacturers (Sokov, 2022).

The new agreement also included stronger commitments to labour rights, mandating member countries to uphold laws that support freedom of association and collective bargaining. These provisions were particularly significant for Mexico, which expected to see notable improvements in labour standards and wages. For instance, the USMCA required that 40-45% of auto content had to be made by workers earning at least $16 per hour (Office of the United States Trade Representative, n.d.).

Having recognized the rapidly growing digital economy, the USMCA incorporated chapters on digital trade, ensuring the protection of cross-border data flows and personal data. It also prohibited tariffs on electronic transmissions, facilitating e-commerce and supporting businesses and consumers that depended on digital trade. These digital trade provisions were crucial for modernizing trade relations and ensuring that the agreement meets contemporary economic challenges (United States of America Department of Commerce, n.d.).

Moreover, for the first time, a North American trade agreement included a dedicated chapter to enhance the ability of Small and Medium-sized Enterprises (SMEs) to capitalize on trade opportunities. This inclusion acknowledges the crucial role that SMEs play in the regional economy and aims to provide them with greater access to the benefits of the trade agreement (Elgar, 2020).

Additionally, one of the key innovations of the in the USMCA was the inclusion of a sunset clause. This clause specified that the agreement will automatically expire 16 years after its implementation unless the member countries mutually agree on its extension. Furthermore, the clause mandates a review of the agreement every six years. During these reviews, the member countries have the opportunity to assess the effectiveness of the agreement, address emerging challenges, and make necessary adjustments to ensure that the terms remain beneficial for all parties involved. This periodic reassessment mechanism aims to enhance the flexibility and responsiveness of the agreement to evolving economic conditions and policy priorities, thereby fostering a more sustainable and adaptive trade framework (Gantz, 2020).

The implementation of the USMCA has already begun to influence the economic and trade dynamics between Mexico, the U.S. and Canada. The agreement's provisions are designed to create a more balanced and equitable trade environment, addressing some of the criticisms that led to the end of the NAFTA. The USMCA represents a more modern approach to regional trade, reflecting the interconnected and technologically advanced nature of today's global economy. There is confidence that with time, the agreements long-term effects on job creation, investment patterns, and socio-economic conditions in North America will become clearer.

Dynamics and consequences of the USMCA: Trade, investment and socioeconomic challenges

Goods and services trade trends

The USMCA builds on the foundation laid by the NAFTA, aiming to preserve the benefits of free trade while adjusting the rules to better fit the 21st century economy, including the digital sector. As previously explained, key updates of the agreement are the increase in RVC requirements for automobiles, and the incorporation of provisions to enhance digital trade. The USMCA continues the trend of eliminating trade barriers, with a renewed emphasis on fairness and reciprocity in market access. Beyond the automotive industry, the agreement's implications extend to other sectors such as technology, pharmaceuticals, and manufacturing. For instance, the agreement includes commitments to reduce non-tariff barriers and improve market access for various goods and services, reflecting a comprehensive approach to modernizing North American trade relations (United States of America Department of Commerce, n.d.).

However, there have been some concerns regarding the overall economic impact on Mexico because a reduction has been projected in the country's real GDP by about 0.8% in comparison to the country's GDP in the NAFTA era. This decline is attributed to the stringent compliance requirements and shifts in global supply chains. The new, more restrictive ROOs for automobiles impose significant adjustments on Mexico's auto sector producers, driving trade and investment diversion and increasing production costs. These changes are expected to result in a higher cost structure for Mexican industries, particularly in the automotive sector, leading to reduced economic efficiency and productivity (Ciuriak, 2021).

In addition, the USMCA's impact on other industries includes increased compliance costs and potential trade diversion. The agreement's provisions for digital trade, are beneficial because it promotes cross-border data flows and it enhances cybersecurity, but it also requires significant adjustments from Mexican businesses to align with new standards and practices (Ciuriak, 2021).

Foreign Direct Investment (FDI)

The implementation of the USMCA has led to a shift in the Mexican sectors attracting U.S. FDI. The updated agreement created a more stable and transparent environment for investors by updating the rules and regulations that had been previously established under the NAFTA. This has resulted in an increased FDI in the manufacturing, energy, and services sectors. Additionally, the USMCA promotes investment in renewable energy and infrastructure, while new digital trade provisions and intellectual property protections foster a secure environment for investments in technology and digital services (Saucedo et al., 2020).

As a result, U.S. FDI to Mexico has seen a substantial increase over the past four years. Data reported for March 2024 indicates an FDI value of $10.615 billion. Since 1999, U.S. FDI towards Mexico has fluctuated, peaking in March 2022 at an all-time high of $14.751 billion. This investment trend underscores the strong economic ties and financial flows between the U.S. and Mexico, highlighting the historical and ongoing importance of these investments in strengthening bilateral economic relationships (CEIC, 2024).

Socioeconomic Impact

The USMCA introduced specific labour protections to mitigate negative effects such as offshoring and ensure that the benefits of trade and investment were distributed more equitably. One of the key labour protections introduced was the Rapid Response Mechanism (RRM), which allowed for expedited enforcement of labour rights in specific cases where violations are alleged, ensuring that labour standards are upheld across the region. This mechanism facilitates quick investigations and remediation of labour violations at covered facilities, providing a streamlined process for addressing workers' rights issues. Additionally, the USMCA incorporates stronger labour provisions aimed at improving working conditions, ensuring the right to collective bargaining, and enhancing enforcement of labour laws across the member countries. These measures are designed to address concerns over labour rights and ensure that the economic gains from trade are more broadly shared (Ciuriak, 2021).

5. ANALYSIS OF THE IMPACT OF TRADE AGREEMENTS ON MEXICO'S JOB MARKET

As discussed in Chapter 4, the trade and economic relations between Mexico and the U.S. have been highly dynamic and they have had significant influence on Mexico's employment landscape. Understanding the employment effects of these trade agreements is crucial as employment is a fundamental indicator of a country's economic health and social development.

In this chapter, we aim to delve into the impact of these evolving relations on the Mexican labour market. To thoroughly develop this analysis, we will examine three key variables that are most representative of the employment landscape: the rate of employment within the labour force, workers' wages, and working conditions. Our objective is to analyse the changes these three variables have undergone during the three time periods covered in Chapter 4: the pre-NAFTA era (prior to 1994), the NAFTA era (1994-2020), and the USMCA era (2020-present).

The first variable, the variation in the rate of employment within the labour force in Mexico, will help us understand how employment levels have evolved in response to different economic policies and trade agreements. The second variable, worker's wages, aims to analyse the variations that this variable has experienced, and assess whether increased trade and economic integration between these two countries have translated into better living standards for Mexican workers. Finally, the third variable will examine the working conditions of the Mexican workforce, providing a comprehensive view of how labour standards have changed over time.

5.1 Variations in the rate of employment within the labour force in Mexico

The Pre – NAFTA Era (prior to 1994)

Before the implementation of the NAFTA, Mexico's employment landscape was characterized by significant challenges and fluctuations. As detailed in Chapter 4, during this period, the country experienced various economic and political shifts that transformed its economy from protectionism to liberalization. These changes directly impacted employment rates, unemployment rates, and the types of jobs that were predominant in Mexico's workforce during that time.

It is essential to acknowledge that Mexico’s labour force structure differed significantly from that of the other NAFTA participants due to its high degree of capital concentration and extensive informal sector. This structure indicates that a small number of large enterprises or wealthy individuals controlled a substantial portion of the country’s economic resources, which exacerbated the country’s economic inequality (Russell, 1992).

Between the 1970s and the 1990s, Mexico experienced a significant increase in its population. According to the National Employment Survey (ENE) conducted by the Instituto Nacional de Estadística, Geografía e Informática (INEGI) and the Secretaría del Trabajo y Previsión Social (STPS), Mexico’s population reached 86.6 million in 1993. This population growth led to an expansion of the country’s workforce, which grew to 32.8 million in 1993. Moreover, it is crucial to highlight the growing number of women that entered Mexico's workforce during this period. This shift in the labour structure was driven by a rapid decline in the country's reproductive rates and the economic necessity to support household incomes due to recurrent economic crises (Polaski, 2004). According to the ENE, in 1993, 10.4 million of the 32.8 million Mexican workers were women. The informal sector, encompassing unregulated economic activities that often lacked formal employment contracts, social security benefits, or job security, was also significant during this period. According to the ENE, in 1993, 4.5 million workers were unpaid (INEGI & STPS, 1994).

In the early 1980s, Mexico experienced high unemployment rates due to economic crises, such as the debt crisis, which severely impacted the labour market. To stabilize the economy, policies such as trade liberalization and structural adjustment programs were implemented during this period. However, these policies often led to short-term economic disruptions, further exacerbating unemployment rates (Rendón et al., 1993). As a result, underemployment and low-paid jobs grew rapidly in the early 1990s. Despite this, unemployment in urban areas remained at very low levels of 2%-3% between 1987 and 1994. However, interpreting these low unemployment rates as an indication of sufficient job opportunities in Mexico would be misleading, as labour force statistics considered anyone who had worked at least one hour in the week prior to the study as employed (Salas et al., 2001).

To further understand the changes in Mexico's labour market, it is important to focus on the specific sectors that experienced significant growth during this period, namely the agricultural sector, the manufacturing sector and the maquiladora industry.

During this period, Mexico’s workforce was predominantly concentrated in the agricultural sector. According to the ENE, agriculture employed 8.8 million people in Mexico in 1993 (INEGI & STPS, 1994). However, as the country began to industrialize, there was a noticeable shift of foreign investments towards the manufacturing and service sectors, leading to significant growth in non-agricultural employment. Analysing the ENE data from the six years preceding NAFTA's implementation reveals a clear annual increase of approximately 1.5 million employed individuals in Mexico’s service and commercial sectors (INEGI & STPS, 1994). This trend reflects the country's successful transition to industrial and service-oriented economic activities (Salas et al., 2001).

The exponential growth of the manufacturing sector, particularly in the border regions, was further accelerated by the establishment of maquiladoras, which imported components, assembled them, and exported them as finished goods. These maquiladoras became significant employers, offering jobs that were often low-wage and labour-intensive but provided an alternative to agricultural employment. These plants normally employed an industrially inexperienced labour force to perform simple assembly tasks in traditional manufacturing. Employment in maquiladoras grew rapidly, from 60,000 workers in 1975 to 420,000 in 1990. However, the pace of job creation slowed down in the early 1990s, but it accelerated again after the peso devaluation that took place in 1994 and 1995 (Salas et al., 2001).

Overall, the pre-NAFTA period was marked by a labour market in transition. By understanding the employment trends and key factors before the NAFTA, we can better appreciate the changes brought by the subsequent trade agreements and their impact on Mexico's labour market.

The NAFTA Era (1994 to 2020)

The implementation of NAFTA in 1994 significantly transformed Mexico's economic landscape, fostering an environment of increased trade and investment. Before NAFTA, Mexico's labour force stood at 32.3 million. By 2010, this number had grown to 44.6 million, suggesting substantial growth in the initial years following the agreement. However, taking into account that the country's total population reached 108.3 million in 2010, only 41.18% of Mexico’s population was employed (INEGI & STPS, 2010).

Agricultural employment suffered a notable decrease after the NAFTA's implementation. Just before the NAFTA, the agricultural sector employed 8.8 million people, but by 2002, this number decreased to 7.2 million (INEGI & STPS, 2003). Despite this decline, agricultural activities remained a significant source of employment in Mexico. In 1999, it accounted for 21% of the total labour force (Salas et al., 2001). The significant decline suffered by the agricultural sector was partly due to the effects of the trade liberalization and economic restructuring (Polaski, 2004).

Moreover, the increasing investments and focus on developing Mexico’s manufacturing sector since the implementation of the NAFTA, significantly impacted employment within it. Research indicates that during the NAFTA’s first decade, domestic employment saw a net positive impact with an increase of approximately 870,000 jobs, representing a 13.7% rise in employment. Production workers, in particular, benefited significantly, with employment in this category increasing by 32.8% (Trachtenberg, 2019).

The maquiladora industry, a key component of Mexico's manufacturing sector, experienced significant growth during the NAFTA era. This sector, focused on export-oriented assembly plants, created about 800,000 new jobs between 1994 and 2000 (Larudee, 2007). This growth was primarily driven by increased demand for Mexican exports, which were more influenced by changes in U.S. demand and relative labour costs rather than NAFTA itself. However, the maquiladora sector also faced volatility and lost around 250,000 jobs by 2003 due to economic pressures and global competition (Polaski, 2004).

The NAFTA era saw substantial growth in the automotive industry, driven by increased demand for vehicles and parts in the U.S. market. NAFTA made it easier for foreign companies to access the U.S. market, which led to many of them investing in Mexico's manufacturing sector. This surge in investment turned Mexico into a major hub for automotive production, creating many new jobs in the industry. As a result, the automotive sector became a key part of Mexico's economy, driving growth in exports and manufacturing employment. Research shows that this transformation was significantly influenced by investments from the U.S., highlighting the positive impact of NAFTA on Mexico's economy (Denata et al., 2023).

Employment in the automotive sector in Mexico grew from 112,000 jobs in 1994 to 767,000 jobs in 2016. In 1994, most automotive jobs in the NAFTA region were in the U.S., which had 82.5% of these jobs. Mexico had only 7.6% of the automotive jobs at that time. By

2016, the situation had changed significantly: Mexico's share of automotive jobs had increased to 41.8%, while the U. S's share had decreased to 51.3%, and Canada's share had decreased to 6.9%. This growth in employment is attributed to the lower production costs in Mexico, particularly due to significantly lower wages compared to those in the U.S. and Canada (Rodriguez et al., 2017).

Despite these gains, the broader picture of employment under NAFTA reveals mixed results. While job creation occurred in certain sectors, other areas experienced job losses or stagnation (Thorbecke et al., 2002). The agreement resulted in more job opportunities for low-skill workers, challenging the idea that the technological progress accompanying NAFTA would benefit high-skill workers. Furthermore, the benefits of NAFTA were not evenly distributed across Mexico. Regions with closer trade ties to NAFTA countries, particularly the northeast, northwest, and central east, saw more significant employment gains because these regions were better positioned to capitalize on new export opportunities (Trachtenberg, 2019).

Overall, the NAFTA era brought mixed outcomes for employment in Mexico. While there were significant gains in the manufacturing sector and low-skill employment, the benefits were not uniformly distributed across all sectors and regions. The agreement highlighted the need for complementary policies to address regional disparities and promote an equitable economic growth.

The USMCA Era (2020 to present)

Since the implementation of the USMCA in July 2020, Mexico has experienced substantial changes in its employment landscape. Data from the Encuesta Nacional de Ocupación y Empleo (ENOE) indicates that, in the third quarter of 2020, the country's economically active population decreased by 6.2%, with a more pronounced decline among women than men. During this period, the unemployment rate rose significantly, reaching 5.1% of the economically active population by the third quarter. This represents a 29% increase in the number of unemployed individuals compared to the previous year (INEGI, 2020).

During the following four years, the country progressed towards recovery. By May 2023 the job market seemed to have slowly recovered, with the unemployment rate decreasing to 3%. By the first quarter of 2023, the overall employment rate in Mexico rebounded to 63.8%, which is nearly 1.5% higher than employment levels in Mexico in 2019 (OECD, n.d.).

Moreover, by April 2024, employment indicators showed further improvement. The economically active population grew to 61.4 million, up from 60.6 million the previous year. The number of employed individuals increased by 902,000, reaching a total of 59.8 million (INEGI, 2024). This recovery demonstrates a strong rebound in job creation following the implementation of the USMCA.

The sectoral distribution of employment experienced notable changes during this period. The implementation of the USMCA introduced significant challenges, such as having to adapt to the stricter LVC requirements, which mandated a higher percentage of local labour in manufactured goods. This primarily impacted the automotive sector, who had to face substantial adjustments to comply with the new regulations. Although these requirements increased employment in these industries by promoting the use of more local content in production processes, they also elevated production costs, potentially affecting the country's overall competitiveness (Álvarez, 2021). Furthermore, increased FDI was directed towards the automotive sector to encourage companies to produce more components and parts within North America to meet the stricter requirements. This influx of investment, along with new investments from Chinese firms, generated new jobs and contributed to overall employment growth in Mexico (Núñez, 2022).

Since 2020, the number of employees in Mexico's manufacturing sector, particularly in the maquiladora industry, has experienced significant fluctuations. In 2020, employment in this sector decreased by 5.5% (INEGI, 2020). However, the situation began to improve rapidly in the following period. According to the Monthly Industria Manufacturera, Maquiladora y de Servicios de Exportación (IMMEX) Statistics, these sectors employed a total of 3,105,336 people by June 2021, representing an annual growth rate of 7.3% (Expansión, 2021).

Overall, the employment trends in Mexico since the implementation of the USMCA indicate a trajectory of both growth and economic recovery, particularly in key manufacturing sectors. The marked increase in the economically active population, along with substantial job creation and sector-specific employment growth, underscores the positive impact of the USMCA on Mexico's employment landscape.

5.2 Variations in wages for Mexican workers

The Pre – NAFTA Era (prior to 1994)

During the 1990s, wages in Mexico experienced a steady decrease. The minimum wage, determined through discussions between official unions, employers, and the federal government, lost nearly half of its purchasing power during that decade. While the minimum wage serves as a reference point for wage negotiations, actual wages are typically set higher in negotiated contracts. Additionally, wages in industries under federal supervision, known as contractual wages ("salarios contractuales"), experienced a significant decline (Salas et al., 2001).

Mexico's urban labour market also experienced significant structural changes due to a notable decline in regular salaried jobs. Between 1991 and 1993, the percentage of salaried employees decreased by 11.63%. In 1991, salaried workers comprised 73.9% of the labour force, as reported by the ENE (Salas et al., 2001). By 1993, this figure had dropped to 62.27% (INEGI & STPS, 1994).

As a direct consequence of the substantial decrease in regular salaried jobs, many experienced workers transitioned to self-employment, while younger workers were forced into unpaid positions, leading to an increase in informal employment activities. This structural change led to a 50% increase in self-employed workers and a doubling of workers in unpaid positions (Salas et al., 2001). The 1993 ENE reported that 41.61% of workers aged 12 to 14 held unpaid positions (INEGI & STPS, 1994). The reduction in salaried occupations affected most industries, particularly sectors like retail, food, transportation, and accommodations, which have a high presence of small businesses and involve simpler tasks, resulting in a higher proportion of self-employed and unpaid workers (Salas et al., 2001).

Wages within the manufacturing sector suffered a considerable decline during the two years prior to the NAFTA's implementation, and five years into the agreement. Wages in this sector experienced a decrease of almost 21%, and the purchasing power of the minimum wage within this sector fell by 17.9% (Salas et al., 2001).

Analysing these trends reveals that before the NAFTA, Mexico's urban labour market was marked by a reduction in salaried employment driven by economic adjustments and declining wages, including a substantial loss in the purchasing power of the minimum wage.

These changes forced many workers into self-employment or unpaid roles, particularly affecting younger workers and those in industries with a high concentration of small businesses. This change highlighted the growing challenges of the Mexican labour market approaching the implementation of NAFTA.

The NAFTA Era (1994 to 2020)

During the debates that took place in 1993 over the implementation of the NAFTA, proponents argued that the agreement would create more jobs in Mexico, which would reduce the flow of Mexican workers into the U.S. The underlying assumption was that better job opportunities at home would discourage emigration (Faux, 2003). After analysing the first four years under the NAFTA, it became clear that the anticipated economic benefits for Mexican workers were not materializing. None of the stated goals regarding worker benefits were on the path of being achieved. There was a significant disparity between the promises made by some supporters and the actual outcomes that had been seen during the initial year after the NAFTA implementation (Chatzky et al., 2020).

In the initial year of NAFTA, self-employed workers, including unpaid family workers and small business owners, saw their incomes drop dramatically. By 1998, the incomes of salaried workers had fallen by 25%, while those of the self-employed had declined by 40% (Salas et al., 2001). Furthermore, during the first two decades of NAFTA, Mexico's annual per capita growth stagnated at an average of just 1.2% (Carlsen, 2013). This period also saw real wages decline and unemployment rise. Instead of the typical rural-to-urban migration seen in developing economies, Mexico experienced an increase in its rural population due to deteriorating living and working conditions in the cities (Salas et al., 2001).

In 2012, real wages in Mexico remained almost the same as they were in 1994, showing an increase of just 2.3% over 18 years. This stagnation implies that the living standards of the vast majority of workers did not significantly improve during the NAFTA years. The 2008 and 2009 U.S. financial crises, also had an indirect impact on Mexico, leading to a 6.7% GDP decline. This downturn exacerbated challenges for Mexican workers, contributing to wage stagnation and increased underemployment (Weisbrot et al., 2014).

The official unemployment rate in Mexico gradually increased over the years. Underemployment rates increased from an annual average of 7.2% during 2005-2007 to 8.4%

in 2013. Despite stagnant wages, the Gini coefficient for household income showed a slight decline from 0.54 in 1994 to 0.49 in 2012, indicating a reduction in income inequality. However, this reduction did not translate into significant improvements in poverty rates or overall living standards for the majority of Mexican workers (Weisbrot et al., 2014).

Moreover, Mexico faced tough competition from China, particularly in the U.S. market, due to higher wages and unpredictable currency exchange rates. Labor compensation in Mexico increased from $3.05 per hour in 1996 to $6.36 per hour by 2009, while China maintained significantly lower labour costs, making it difficult for Mexican industries to compete (Weisbrot et al., 2014). This challenge was further compounded by significant job losses in Mexico’s maquiladora sector, an important part of the manufacturing industry. In the early 2000s, an estimated 200,000 maquiladora jobs moved to China, where labour costs were even lower, highlighting the vulnerability of Mexico's reliance on low-wage labour markets in a globalized economy (Faux, 2003). Moreover, the average hourly wage in the automotive industry was significantly different among the NAFTA countries. In 2016, a Mexican automotive worker earned $3.14 per hour, while a worker in the U.S. earned $28.60 per hour, and a worker in Canada earned $26.34 per hour (Rodriguez et al., 2017).

Regarding the situation of workers in Mexico's agricultural sector, the 2019 Agricultural and Livestock Production Survey (ENA), carried out by the INEGI and the Secretaría de Agricultura y Desarrollo Rural (SADER), reveals that 57.1% of the workforce involved in agricultural activities received remuneration, while a significant 25.4% consisted of unpaid family labour. During this period, workers faced several challenges, including high input costs, marketing difficulties due to low prices, and a lack of technical training. Additionally, the survey highlights that many agricultural producers are over 60 years old. This aging population, along with the other problems reported, shows the need for specific policies to support and sustain the agricultural workforce (INEGI & SADER, 2019).

Overall, NAFTA's impact on Mexican workers was characterized by stagnant wages, increased underemployment and persistent poverty. These factors combined led to the need to renegotiate the trade agreement for one that would better support economic growth and improve labour conditions.

The USMCA Era (2020 to present)

Key provisions introduced by the USMCA were focussed on the introduction of stronger labour provisions aimed at improving working conditions and workers' wages in Mexico. These provisions have had a particular impact on Mexico's manufacturing sector, which is heavily integrated with the US and Canadian markets. The agreement's requirements to establish higher labour standards and more robust enforcement mechanisms have modestly increased skilled workers' wages in the automotive industry (OECD, 2021).

Since 2020, wage trends have experienced a recovery and some structural changes. While the implementation of the USMCA has contributed to a modest positive development of workers' wages, inflation and supply chain issues have slowed wage growth, requiring ongoing policy efforts to stabilize and improve workers' wages. Enforcing the USMCA's labour provisions and implementing supportive economic policies will be crucial to substantiate and enhance wage improvements for Mexican workers (García et al., 2022).

As of 2024, the minimum wage in the automotive sector has reached approximately $20 per day in 43 municipalities across Mexico. While this increase reflects efforts to raise living standards in critical manufacturing regions, significant wage disparities persist between the agreement's participating countries, making it challenging to achieve substantial and equitable wage improvements for workers in the automotive sector (Computrabajo, 2024). From 2019 to 2022, average wages in the automotive sector increased from $2.71 to $3.17 per hour, representing an annual growth rate of about 3.8% and a cumulative increase of 11.5% over the period. The USMCA includes provisions requiring that 40-45% of a vehicle's content be made by workers earning at least $16 per hour. However, these provisions have not led to significant wage increases in Mexico (Chiatchoua et al., 2023).

In conclusion, while there have been positive developments in certain sectors, the overall wage recovery remains uneven. The modest improvements seen in the automotive sector underscore the need for continued enforcement of the USMCA's labour provisions and the implementation of supportive economic policies to achieve more substantial and equitable wage growth for Mexican workers.

5.3 Variations in working conditions for Mexican workers

The Pre – NAFTA Era (prior to 1994)

After analysing the variations of the other variables during this period, we observed that the labour market before NAFTA's implementation was characterized by significant wage disparities and a large informal sector. Due to the lack of regulations, many workers in this sector lacked basic labour rights and social protections, and even though Mexico’s labour laws and regulations were in place, they were inadequately enforced, particularly in the informal sector.

The Immigration Reform and Control Act (IRCA) of 1986 significantly impacted the labour market conditions of Mexican workers, especially migrants. Research indicates that after 1986, labour market conditions for Mexican migrants deteriorated, with significant gender disparities. Women faced more unstable and insecure employment conditions in comparison to men. This situation became even worse in 1993, when legal migration opportunities decreased (Donato et al., 2008).

Moreover, the debt crisis of 1994 and 1995 had devastating effects. The crisis disproportionately affected the poorer segments of the population and the weaker sectors of the economy. For example, in Puebla, Mexico's fourth-largest city, the crisis exacerbated the existing vulnerabilities, highlighting the employment instability, and the limited support provided by government institutions to provide solutions (Fuchs, 2001).

During this period, the government particularly focussed on the development of the maquiladora industry which offered jobs that were characterised by having low wages, being labour intensive, having poor working conditions and a lack of unionization. The maquiladora industry mainly employed women, who often faced subordination and exploitation, with their labour conditions being markedly worse compared to other sectors (Kopinak, 1995).

In summary, the pre-NAFTA period was marked by significant challenges in the labour market. Workers faced precarious employment conditions, wage inequality, and insufficient labour protections, especially in the informal sector and in the maquiladora industry. These issues underscored the need for comprehensive labour reforms and better enforcement of labour laws to improve working conditions and protect workers’ rights.

The NAFTA Era (1994 to 2020)

The implementation of the NAFTA brought significant changes to the economic landscape of Mexico, and it had notable impacts on the working conditions of Mexican workers. Within this section, we will analyse these changes from 1994 to 2020, focusing on labour standards and working conditions.

The NAFTA did not include provisions for labour, health, or environmental standards, nor did it offer substantial aid to Mexico. This lack of a social contract meant that the benefits of increased trade and investment did not extend to the broader population and studies have been able to demonstrate this. Instead, the agreement protected corporate investors, often at the expense of workers, farmers, and small-business owners (Faux, 2003). The agreement often led to a substantial decline in real wages and working conditions for significant segments of the workforce (Barkin, 2005). Foreign investment and trade liberalization did not translate into improved living conditions for many Mexican workers, particularly those in low-wage manufacturing jobs.

Side agreements, such as the North American Agreement on Labor Cooperation (NAALC), were signed with the intention of addressing labour issues by enforcing labour rights and standards across the three member countries. However, these side agreements had limited effectiveness in improving labour conditions in Mexico (Ruhnke, 2005).

Women and children were specifically at risk due to the labour conditions created by the NAFTA. The prevalence of women and children in the workforce increased, and they faced exploitative conditions. The NAALC failed to provide meaningful improvements, leaving these workers exposed to discrimination, inhumane treatment, and poor working conditions (Briones, 1999).

As previously explained, the maquiladora sector, which primarily consisted of the exportation of products from factories located in Mexico to the U.S., expanded significantly during the NAFTA era. This sector was characterized by exploitative labour practices, including long working hours, poor working conditions, and low wages. A study focusing on women working in maquiladoras found that these factories often operated as sweatshops, where workers had to deal with poor living conditions, overcrowded schools, and unpaid extra hours

(Brittsan, 2019). These conditions persisted despite the increase in employment opportunities, highlighting the disparity between job creation and job quality.

In Mexico's automotive industry, just-in-time inventory management was adopted to deliver materials and components exactly when they are needed in the production process, rather than being stored in large quantities. This method led to the formation of a large network of suppliers located near the Original Equipment Manufacturers (OEMs). By having suppliers close by and delivering materials just in time, the local workforce became more stable and experienced, as there was a consistent demand for their skills and services to keep the production process running smoothly and efficiently (Silva et al., 2021).

Moreover, the multinational companies that relocated their production processes to Mexico during this period had to comply with international standards, which required labour conditions to meet specific quality benchmarks. This compliance often led to better training and occasionally improved working conditions. However, the constant drive to enhance global competitiveness impacted labour practices and increased the focus on productivity. The emphasis on cost reduction sometimes resulted in greater pressure on workers to meet high productivity targets under lean manufacturing processes. While these strategies were designed to boost efficiency, they occasionally created challenging working conditions for the labour force (Silva et al., 2021).

In summary, while NAFTA increased employment opportunities, particularly in the maquiladora sector, it often failed to improve job quality. Real wages declined, and labour standards saw little enhancement. The adoption of just-in-time inventory management in the automotive industry did stabilize some workforces, but overall, the focus on cost reduction led to challenging conditions for many workers. Vulnerable populations, especially women and children, faced exploitation. These findings highlight the need for stronger labour protections and enforcement in future trade agreements to ensure broader economic benefits.

The USMCA Era (2020 to present)

In this section, we will examine the state of working conditions in Mexico from 2020 to the present to assess whether the USMCA has led to improvements or exacerbated existing issues in the Mexican labour market. One of the USMCA's main objectives was to enhance labour conditions for workers in the region, which implied significant changes in the way of life for Mexico's population. However, despite some positive developments in the labour market since the transition from NAFTA to USMCA, many core challenges have persisted.

Despite the improvements introduced by the USMCA, the maquiladora industry still faces substantial challenges, as poverty among its workers remains prevalent. Protecting and enhancing labour conditions in this sector is essential to maintain the attractiveness of investments in Mexico's manufacturing industry, and some states have managed to lower labour poverty rates. However, these improvements have not been significant. Additionally, the insufficient income and long working hours of parents working in the maquiladora sector contribute to the vulnerability of their children. Research by Appleseed Mexico and Human Rights Integral in Action (DHIA) indicates that many young people face addiction problems and a lack of care due to the prolonged absence of their parents (Juárez, 2024).

Moreover, working conditions in Mexico's automotive industry have seen modest improvements despite substantial growth and global prominence. Although productivity levels have remained comparable, wage disparities between Mexican workers and their counterparts in the U.S. and Canada have widened, with average hourly wages in Mexico being seven times lower than those in the U.S. by 2019. The implementation of the USMCA introduced new labour governance, mandating higher wages and better union representation. However, translating these standards into tangible benefits for Mexican workers continues to be a significant challenge (García et al., 2022).

In conclusion, while the USMCA has introduced higher labor standards, tangible benefits for workers, especially in the maquiladora and automotive sectors, remain limited. Targeted policy interventions are essential to address these persistent challenges and ensure the equitable distribution of economic gains among Mexican workers.

6. CONCLUSIONS

The research presented in this thesis lays the groundwork for a comprehensive analysis of the impact of economic and trade relations between Mexico and the U.S. on Mexico's job market. Specifically, it focuses on the pivotal trade agreements: the NAFTA and the USMCA. This analysis provides insights into how these dynamics have evolved and affected Mexican workers. By applying the Comparative Advantage Theory and Dependency Theory to Mexico-U.S. trade relations, and by examining three key variables across three periods (the pre-NAFTA Era, the NAFTA Era, and the USMCA Era), this study aims to address the central research question: Have Mexico-United States relations had a beneficial impact on Mexico's job market?

6.1 Theoretical Application

Comparative Advantage Theory

David Ricardo's Comparative Advantage Theory suggests that countries benefit economically by focusing on producing goods and services where they are most efficient, thereby supporting international trade and providing benefits to all parties involved. This theory was crucial for the formation of the NAFTA and its successor, the USMCA, as it encouraged economic efficiency and job creation through the reduction and eventual elimination of trade barriers, along with increased market access for the participating countries.

Under the NAFTA, Mexico capitalized on its comparative advantage in labour-intensive industries such as manufacturing and agriculture, to export agricultural products, low-tech goods, automobiles, and natural resources such as oil and its derivates. According to the theory, by focusing on sectors where Mexico could produce more efficiently than its trading partners, the country would experience increased employment rates and substantial economic growth. Empirical evidence that has been highlighted in Chapter 5 supports this, showing significant job creation during the NAFTA era, particularly in export-oriented manufacturing sectors such as the maquiladora and automotive industries, demonstrating the practical application of Comparative Advantage Theory.

However, Mexico's comparative advantage under the NAFTA also involved less stringent regulations and lower wages, which attracted foreign companies to relocate their production processes to Mexico. While this led to job creation, it also resulted in persistent and worsening working conditions for Mexican workers, who saw limited improvements in their wages. The Comparative Advantage Theory acknowledges that not all economic parties benefit equally from trade liberalization, and in Mexico, although employment in certain sectors did surge, the overall wage growth and improvement in working conditions was less pronounced, highlighting the mixed outcomes of Mexico's economic integration with the U.S. under the NAFTA.

These disparities in Mexico’s benefits from specialization in labour-intensive industries highlight the limitations of the theory when applying it to real-world scenarios. Existing inequalities and market flaws can prevent the benefits of trade from being shared equally, which is what eventually led to the need to renegotiate the NAFTA, resulting in the implementation of the USMCA.

The USMCA, while building on the foundation of the NAFTA, introduced stricter labour provisions and higher RVC requirements, particularly in the automotive sector. These changes aimed to promote job creation with improved wages and working conditions. By mandating that a certain percentage of auto content be made by workers earning at least $16 per hour, the USMCA aimed to address the limitations that were observed under the NAFTA framework.

Despite these efforts, so far, the tangible impacts of the USMCA on improving wages and working conditions has been limited. While some sectors have seen modest wage increases, overall wage growth has been slow, and many of the issues regarding labour conditions remain. The higher production costs associated with having to comply with the USMCA’s stricter regulations have also posed challenges for Mexican manufacturers, potentially affecting their competitiveness and ability to offer better wages.

In conclusion, while the Comparative Advantage Theory allows for a better understanding of Mexico's trajectory under the NAFTA and the USMCA, the application of the theory revealed significant challenges, and although trade liberalization under these agreements led to increased employment, the quality of jobs and wages did not see proportional improvements.

Dependency Theory

Dependency Theory presents the relationship between Mexico and the U.S. as a clear example of imbalanced economic ties between developed and developing countries, placing Mexico in a subordinate position and suggesting that its dependency on the U.S. is what has perpetuated its structural inequalities. This relationship is characterised by an overreliance on the export of raw materials and low value-added goods, and the import of high value-added products from the U.S.

Despite optimistic expectations for greater trade diversification following the formation of the well-known trade agreements, economic interdependence between Mexico and the U.S. has persisted. In fact, the liberalization of trade and its market opening have intensified Mexico's dependence on the U.S. market due to its increased demand for its goods and increased exports to the U.S. As a result, Mexico directed much of its attention towards foreign trade, which represented 88% of its GDP in 2022. At that time, 78.1% of the country's exports were directed towards the U.S., consolidating it as Mexico's main trading partner (RBC Global Connect, 2024).

Throughout the NAFTA era, this relationship of economic dependence has been demonstrated in several ways. As discussed, despite the increase in employment, many of the jobs created, particularly in the maquiladora sector, were characterized by having low wages and poor working conditions, underscoring Mexico's primary role in the trade relationship as a provider of cheap labour for the production of low-value-added goods. Furthermore, the flow of U.S. FDI helped boost Mexico's industrial activity, but it also strengthened Mexico's role as a supplier of cheap labour.

The transition to the USMCA aimed to address some of these issues by incorporating provisions to improve labour rights and wages. However, Mexico continues to face pressures from the demanding strategic interests of its trading partner, and from global market fluctuations, that reinforce Dependency Theory by highlighting Mexico's vulnerability to shifts in international markets because of its limited economic diversification and role as a provider of cheap labour and low-value-added goods.

Despite this dependence, we must acknowledge the benefits this trade relationship has provided for the Mexican economy. Though complex, it has become an essential component of Mexico's economic framework. The U.S. has helped the developing country mitigate the impact of global economic crises, and it is safe to say that without this strong connection, the Mexican economy would have faced the risk of stagflation.

6.2 Main Findings and Conclusions

Prior to the NAFTA's entry into force, Mexico's employment landscape faced significant fluctuations and challenges due to its protectionist economic policies and limited trade liberalization. During the 1980s and 1990s, economic crises, such as the debt crisis, led to high unemployment rates and a substantial decline in wages. Additionally, high inflation rates eroded nearly half of the country's minimum wage purchasing power. Simultaneously, the reduction in regular salaried jobs aggravated the issue increasing underemployment rates and informal employment, which lacked formal employment contracts and social security benefits.

During this period, Mexico's main employer was the agricultural sector. It provided jobs for millions of Mexicans, but the sector's productivity and wages remained low, contributing to widespread poverty in rural areas. Meanwhile, as the country began to shift towards liberalization, the manufacturing sector, particularly the maquiladora industry, began to grow, offering new employment opportunities and indicating a gradual transition towards industrialization. However, working conditions within this sector were poor, characterized by low wages, long hours, and inadequate labour protections.

Employment in the manufacturing sector, particularly in the maquiladora sector, continued to grow with the implementation of the NAFTA. The automotive industry also expanded rapidly and became a crucial component of Mexico's economy. However, despite these evident gains, the benefits of the NAFTA were not evenly distributed throughout the country. While the northern regions of Mexico saw significant employment growth, other areas, particularly the southern states, lagged behind. Furthermore, the quantity of jobs created was not matched by their quality, as these new positions that were offered had low wages and poor working conditions. Wage disparities between Mexican workers and their counterparts in the U.S. and Canada widened, highlighting the NAFTA's limitations in delivering equal economic benefits to all parties involved. Working conditions saw some improvements in sectors that received significant foreign investment, but the longstanding challenges persisted.

Since the implementation of the USMCA in 2020, Mexico's employment landscape has continued to evolve. The agreement introduced stricter labour provisions and higher RVC requirements to promote job creation and improve labour standards, showing stronger commitments to labour rights by supporting the freedom of association and collective bargaining. By 2023, Mexico's overall employment rate had rebounded despite experiencing several crises in the preceding years, and significant growth was particularly seen in the manufacturing sector. However, the impact of the USMCA on employment has been varied. The agreement introduced provisions aimed at reducing wage disparities and improve workers living standards, such as the RRM, which ensures quick investigations and remediation of labour violations. Despite these efforts, the tangible positive impacts have been limited so far, and the increase in production costs to effectively comply with the new USMCA provisions has further hindered potential improvements. While these stricter labour requirements have modestly improved wages and working conditions, challenges still remain.

This research has been guided by a central research question that aims to determine whether Mexico-U.S. relations have had a beneficial impact on Mexico's job market. Through the NAFTA and the USMCA, the economic and trade relations between the two countries have undoubtedly led to significant job creation and economic activity in Mexico. However, it is evident that the benefits have been unevenly distributed, with persistent issues in both wage levels and working conditions.

These trade relations have positively impacted employment rates in Mexico, particularly in the manufacturing and automotive sectors, and this has contributed to economic growth and provided employment opportunities for millions of Mexicans. However, these sectors have experienced modest wage increases and modest improvements on their working conditions, and the overall growth and improvement of these two variables has been slow. These existing disparities within the North American region highlight the limitations of the agreements in delivering equitable economic benefits.

In conclusion, while Mexico-U.S. trade relations have brought about notable increases in employment, the overall impact on Mexico's job market is mixed. The quantitative gains in employment have not been matched by qualitative improvements in wages and working conditions. The Comparative Advantage Theory shows how specialization and trade can potentially produce mutual benefits, but the Dependency Theory framework highlights how structural inequalities and economic dependencies limit these benefits. There is a need for complementary policies that effectively address these regional disparities, promote equitable economic growth, and enhance labour standards, which remains crucial to ensure that the benefits of these trade relations are widely shared across the broader Mexican workforce.

6.3 Study Limitations and Potential Areas for Future Research

Limitations of the Study

Despite the thorough research and analysis presented in this thesis, certain limitations were encountered, particularly concerning data availability and quality. While extensive data from a variety of sources was used, inconsistencies and limited coverage of some sources affected the ability to comprehensively analyse trends in specific sectors over the entire period that has been under review.

Moreover, due to the constraints on the length of this thesis, the analysis was limited to three representative variables of the labour market. Although focusing on employment rates, wages, and working conditions provided significant insights, it did not capture the full picture of the economic and social impacts. Other economic indicators such as productivity and job satisfaction could have provided a more holistic view.

Recognizing these limitations provides a clearer understanding of the scope of the research, ensuring that the conclusions are interpreted within the appropriate context. Future research could address these constraints by incorporating more diverse data sources, expanding the range of variables analysed, and applying additional theoretical frameworks to offer a more comprehensive view of the complex dynamics at play.

Potential Areas of Future Research

The ongoing evolution of the USMCA presents several potential areas for future research. The introduction of the sunset clause within the agreement’s framework, which mandates a review every six years, will make it possible to continuously monitor the effectiveness of the agreement's new mechanisms in achieving the established objectives, and will ensure that the agreement delivers tangible benefits for all parties involved. Future research could examine the influence of the evolution of the USMCA on Mexico' economic outcomes and trade policies.

Additionally, the impact of the USMCA on Mexico's labour rights and working conditions, presents another potential area for future investigation. The agreement includes stricter labour to improve this area, and it remains to be seen whether these measures will lead to significant and sustained improvements over time. Additionally, examining how these changes are perceived by workers and employers could provide valuable insights into the effectiveness of the USMCA's labour policies.

These potential areas for future research would contribute to a deeper understanding of the USMCA's effectiveness and its impact on Mexico's economy. By continually assessing the agreement's outcomes, policymakers can make informed decisions to ensure that the benefits of trade are equitably distributed and that the relationship between Mexico and its trading partners remains mutually beneficial.

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