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The Crisis and Its Effect On Mexico's Textile and Apparel Industry

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The crisis and its effect on Mexico's textile and apparel industry

Maquila Solidarity Network
October 2009

The economic model that Mexico has relied on to compete in the international market for decades – low wages, weak or non-existent unions, and lax environmental and labour protections – has reaped few advantages and is now exhausted. The current crisis is an opportunity to come to terms with this reality and to begin building a new model based on responsible competitiveness and decent work.

■ *Graciela Bensusan, Mexico labour rights expert, August 20, 2009*

Mexico's economy plunged 10.3 per cent in the second quarter, its deepest contraction on record as withering exports forced factories to slash production and cut jobs ... With a downturn in the United States choking off demand for its manufacturing goods, Mexico is on track for its most severe recession since the 1930s. The economy is expected to shrink about 7 per cent this year.

■ *Globe and Mail, August 21, 2009*

Mexico's economy and the depth of the crisis

- Mexico's GDP dropped by 9.2% in the first six months of 2009. GDP fell by 8.2% in the first quarter (Jan – March), and 10.3% in the second quarter (April – June), the worst decline in Mexico in 75 years and among the worst seen worldwide in 2009. (INEGI)¹
- Total manufacturing showed the sharpest decline of all economic sectors: 13.8% in the first quarter and 16.4% in the second. (INEGI)
- Mexico lost a total of 655,600 jobs in all sectors in the first six months of 2009; for every 10 of these jobs lost, seven were from the manufacturing sector. (CNIV)²

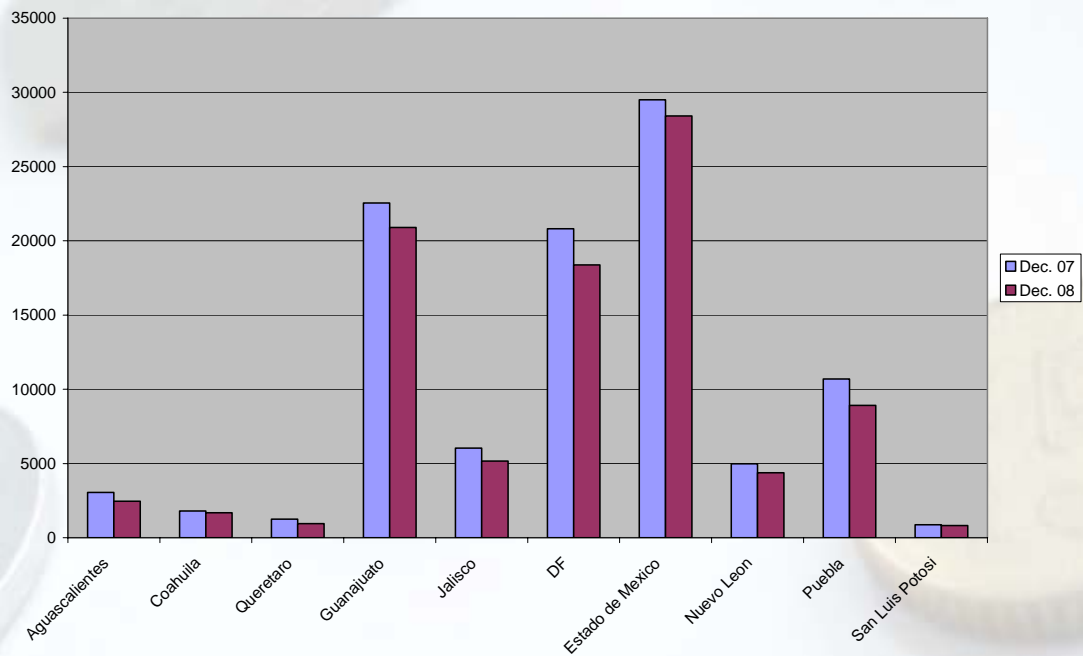
The Mexican textile, apparel and leather industry

- The textile, apparel and leather sector represents 4.8% of total manufacturing GDP and accounts for 2.6% of total manufacturing exports.
- This sector generates approximately 300,000 direct jobs in Mexico, which accounts for approximately 2% of national employment and 8% of total manufacturing jobs.
- Out of all manufacturing jobs, the textile, apparel and leather industry is the largest employer of women, accounting for about 70% of jobs for women in manufacturing.
- Key states for textile and garment production continue to be State of Mexico, the Federal District, Puebla, and Guanajuato, both in terms of contribution to GDP and employment.

¹ Instituto Nacional de Estadística y Geografía (INEGI) – Mexico's National Institute for Statistics and Geography.

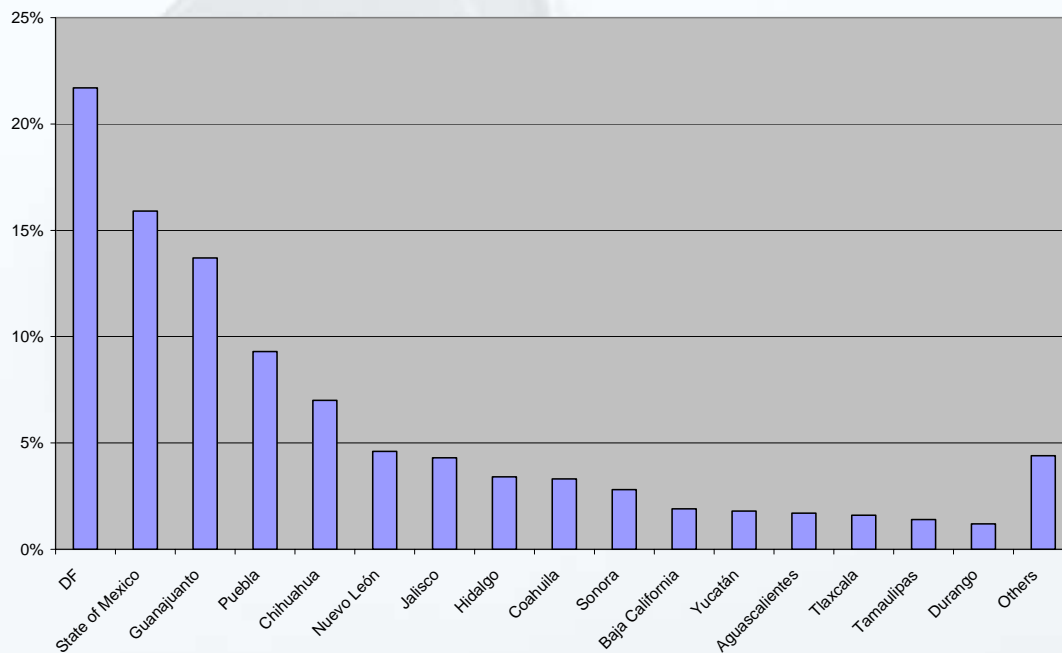
² Mexican National Apparel Chamber. Where not indicated differently, statistics quoted in this document are from CNIV.

Personnel employed in the Textile, Apparel and Leather sector for key states



Source: INEGI

State Contribution to Total National Textile, Apparel and Leather Sector GDP (as %) Dec.08

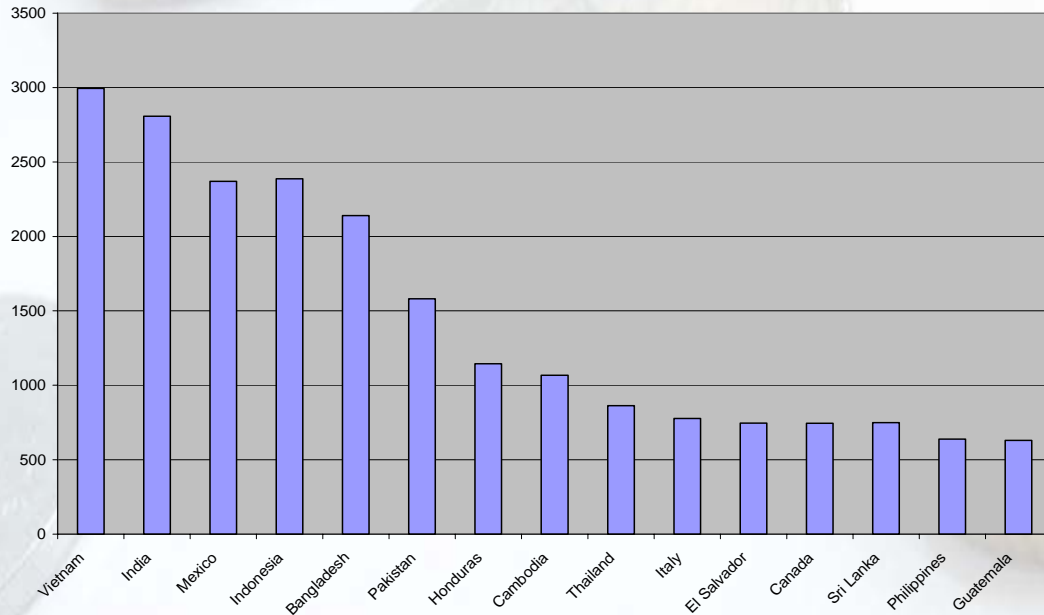


Source: INEGI

Despite its relatively small share of total national exports, Mexico's textile, apparel and leather sector continues to be a major player internationally, particularly as an exporter to the US market.

- In Latin America, Mexico is the largest exporter of apparel to the US market.
- Mexico is the fourth largest exporter of apparel and textiles by value to the US market, representing about 5% of total US imports for 2009 (July year-to-date).³

US TEXTILE AND APPAREL IMPORTS - July YTD 2009 (in millions of US\$)



Source: OTEXA

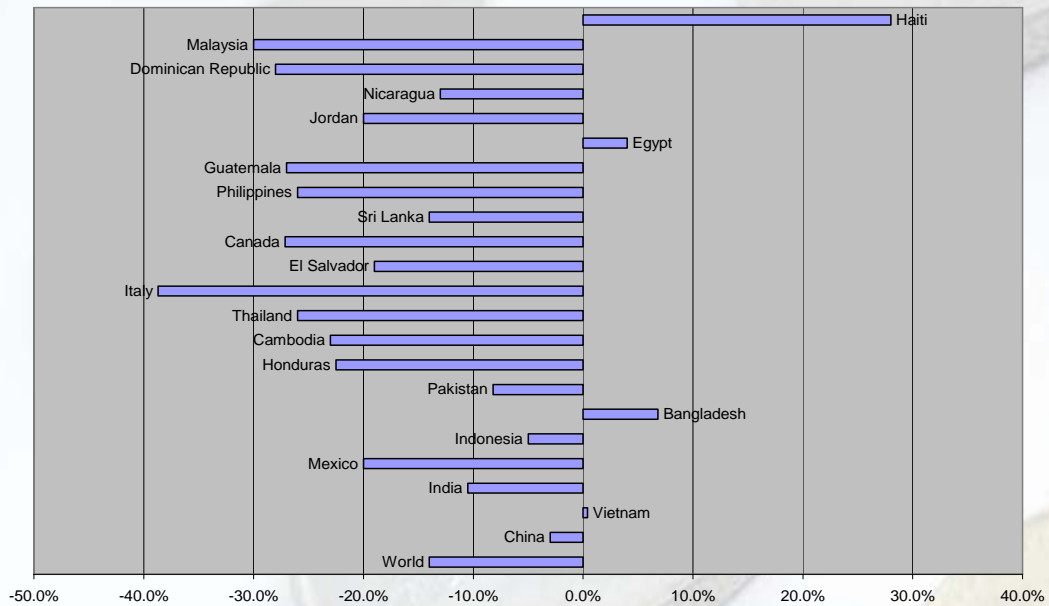
Note: The largest source of US apparel imports is China, with a value of US\$16,564 million in imports for July 2009, however, China was excluded in order not to skew graph.

The crisis and the impact on the apparel and textile sector

- World textile and apparel exports to US dropped about 14% in July 2009 (year-to-date) compared to 2008. (OTEXA)
- Mexico experienced one of the sharpest declines in textile and apparel exports to the US, dropping 20% in 2009 from 2008 (July year-to-date). See chart on p.4. (OTEXA)
- In April 2009, 68,000 jobs had been lost and 666 businesses closed in the textile, apparel and leather sector, compared to April of 2008.

³ US Department of Commerce's Office of Textiles and Apparel (OTEXA), July 2009.

**% CHANGE IN TOTAL APPAREL AND TEXTILE IMPORTS TO US (\$ value) FOR 2009
COMPARED TO 2008 (July YTD) Source: OTEXA**



Report from the ground

Local labour rights groups report that since the crisis hit Mexico, workers are seeing:

- an increase in production for the national market, along with declining orders from international brands;
- an increase in precarious employment conditions, production slowdowns (*paros tecnicos*) and the withholding of salaries;
- extended working hours and intensified production to make up for decreased personnel after layoffs;
- closures; and
- an increased reliance on the informal sector, either as a source of work for the unemployed or as a way of complementing income for workers that have seen their wages decreased through the use of *paros tecnicos*.

Mexican federal government response to the crisis

In early 2009, the Federal Government announced the National Accord in support of the Family Economy and Employment (*Acuerdo Nacional en favor de la Economía Familiar y el Empleo*) as its response to the economic crisis.

Among the 25 measures that make up the plan are:⁴

- an increase in infrastructure spending;
- an expansion of the temporary work program (a program which pays workers minimum wage to undertake public works projects in periods of emergency or low labour demand);
- increased credit availability and support for small and medium businesses;
- an extension of certain social programs for the unemployed;
- a freeze on nominal energy prices; and

⁴ For more information on the Accord and a full description of the measures, see: http://www.presidencia.gob.mx/infografias/2009/enero/070109_economia_empleo/index.html

- a special program entitled Program for the Preservation of Work (*Programa para la preservación del empleo*) that was used as an incentive for companies to use technical work stoppages (*paros tecnicos*) rather than laying off workers or closing factories.

In total this fiscal stimulus package is to account for 1.6% of GDP.

The Program for the Preservation of Work was later expanded to cover additional sectors, including auto assembly, auto-parts and electronics sectors, however, apparel and textile factories were never eligible for support.

The *paros tecnicos* program was criticized because few companies were eligible, and it was reported that funds were late to arrive, were often held by managers and were not distributed to workers.

As well, the overall government response to the crisis has been criticized for not providing enough support for workers on the ground or for other vulnerable groups disproportionately affected by the crisis.