USMCA and the Need for a “Second Story” of Mexican Wages and Household Incomes

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ABSTRACT

The current trade war and tensions with the US pose many challenges for Mexico, but at the same time they provide both an *impetus* and a strategic *opportunity* to make progress on the longstanding and interwoven problems of low wages, poverty and slow economic growth. The impetus comes from the clear need to reduce the country’s excessive dependence on exports to the US. Paradoxically, the strategic opportunity arises in the coming review of the United States-Mexico-Canada Agreement (USMCA). The failure of Mexican wages to converge upward toward US wages is a strong political irritant and will be a prominent issue on the agenda of US negotiators. Raising Mexican wages may be one of the few issues on which there is a convergence of views based on the self-interest of both countries. Mexico’s current economic blueprint, Plan Mexico, is based on building domestic *supply* and reducing imports, but it lacks measures to increase domestic *demand.* It can address this imbalance by raising labor incomes, which still suffer from the legacy of decades of wage repression. Despite the increase in *minimum* wages since 2019, the share of gross domestic product (GDP) that goes to households as labor income is one of the lowest in the world. The paper offers concrete and feasible policies to raise labor incomes, increase domestic demand and gradually reduce the excessive dependence on exports to the US. These policies include steps to consolidate the role of the minimum wage in poverty alleviation; measures to convert the export sector from a laggard to a leader in wage growth; steps to strengthen state institutions to ensure that workers have

government support when seeking their share of value-added and national income; steps to ensure that investors respect Mexican labor rights in exchange for the incentives built into Plan Mexico; and strengthening the role of the USMCA's labor mechanism to backstop Mexico's efforts.

Key Words: Mexican wages; domestic demand; Plan Mexico; USMCA; trade and labor

Key Concepts: labor income and domestic consumption; transition from export-led to wage-led growth; economic policy space; cross-border labor issues

INTRODUCTION

From the 1980s until 2018, Mexico followed an economic strategy of export-led growth based on low wages. The strategy achieved strong growth in exports but failed to lift the growth of the overall economy and led to stubbornly high levels of poverty and inequality. The administrations of Andrés Manuel López Obrador and Claudia Sheinbaum Pardo shifted the wage strategy to focus on poverty alleviation through minimum wage increases. Their accomplishments in that sphere have been impressive.

That said, the impact of earlier neoliberal policies has left poverty and inequality at unacceptably high levels. Despite the strong increases in minimum wages, average wages have grown slowly. The Mexican economy is still heavily dependent on exports and vulnerable to external shocks and unpredictable constraints like those generated by current trade tensions with the US. Overall economic growth and job creation continue to lag and most Mexican workers continue to work in the low-paid informal sector.

Mexico needs to make further progress on improving labor incomes and social equity and should build on the policy of raising minimum wages. To use a favored metaphor of President Sheinbaum, those increases built the "first story" of improved household incomes and poverty alleviation. Building a "second story" will require raising wages more broadly and increasing the very low share of national gross domestic product (GDP) that currently goes to households in the form of wages. As an upper-middle-income country with a population of 132 million, Mexico has the potential to build domestic consumption into an autonomous source of economic stability and growth.

Taking steps to shift policy in this direction is particularly appropriate at this time, when access to the US market is an increasing source of instability and risk. Doing so now would have an added and perhaps surprising advantage. The US politics surrounding the United States-Mexico-Canada Agreement (USMCA) reflect bipartisan and public perceptions that Mexico's low wages and their failure to converge upward are a continuing source of US job loss and unfair competition. These issues shaped the negotiation of the USMCA in 2018-2019 and will figure strongly in the 2026 review of the USMCA. Steps Mexico could take now to increase wages, particularly in export sectors, would find a receptive environment. It is one of the few policy lanes in which US and Mexican public interests align. And in this context, the opposition by some Mexican elites to increasing workers' share of the economy can be countered by the need to ensure the continuation of the USMCA.

This paper explores a range of policies to increase Mexican labor incomes that align with the broad goals of President Sheinbaum's economic strategy Plan Mexico, which include the objectives to "create well-paying jobs in manufacturing and service sectors" and "reduce poverty and inequality."[1] The

[1] Plan Mexico. https://www.planmexico.gob.mx/.

paper helps fill in the Plan's lack of detail on how to do so by proposing specific and realistic policies to increase labor and household incomes, expand domestic demand and gradually rebalance the economy away from its excessive reliance on US export demand.

The paper proceeds as follows. Section II reviews the dramatic minimum wage increases of the last seven years. It summarizes the positive effects on poverty and cites evidence of benign impacts on inflation and employment. Section III turns to the deep challenges that continue to face Mexican workers, households and the national economy in terms of poverty, inequality and a low labor share of income. To provide historical and international context, it compares the evolution of wages in Mexico to that of regional and peer economies. Section IV turns to specific policies to address the continuing shortfalls in labor income that reinforce Mexico's precarious reliance on export demand. It proposes an array of policies to consolidate the "first story" of improved labor incomes for low-income households and construct a "second story" with policies to increase incomes for a broader swath of workers that can cumulatively expand domestic consumption demand as a driver of the Mexican economy. Section V concludes with a discussion of the strategic considerations that suggest the present moment provides a propitious opportunity to make progress on these historical challenges.

BUILDING THE "FIRST STORY" OF IMPROVED LABOR INCOMES

Increasing the Minimum Wage

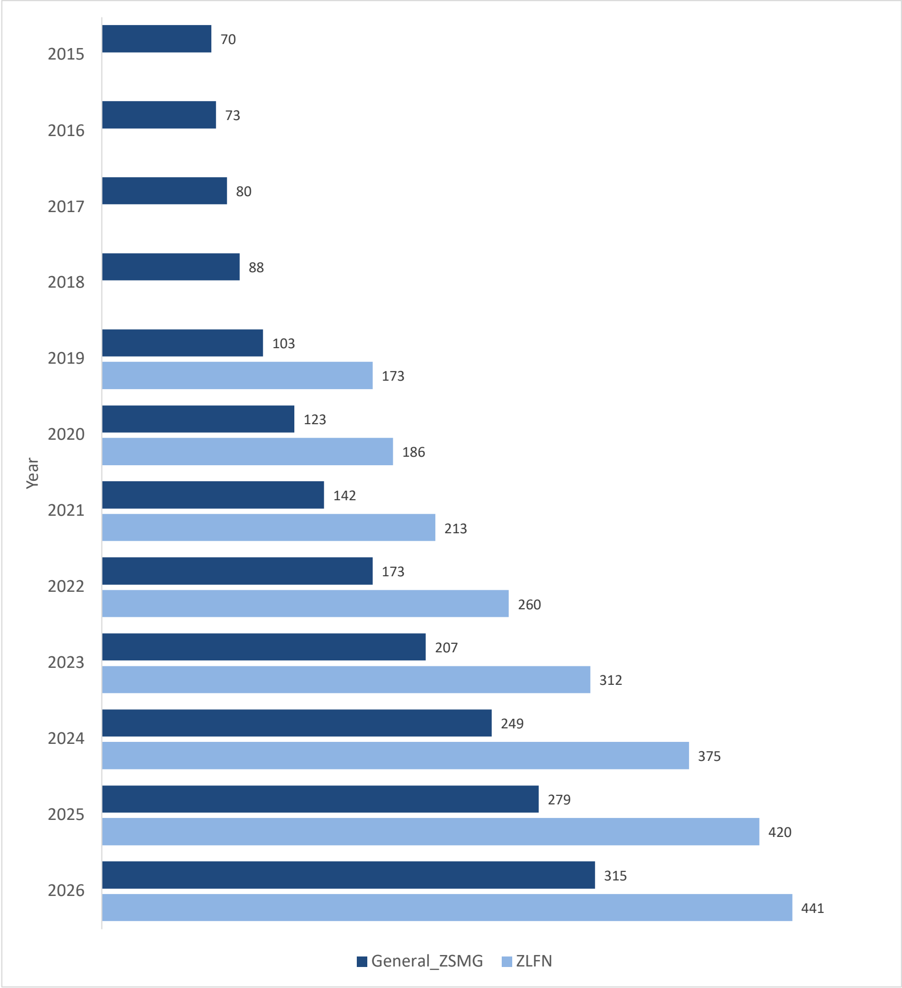
One of the first steps taken by the administration of President López Obrador when he assumed office in late 2018 was to reverse Mexico's decades-long policy of wage repression. Previous administrations had followed a neoliberal approach of maintaining low labor costs as a central component of an export-oriented strategy. A key policy instrument during that period was the extreme repression of the minimum wage. From 1980 to 1995, the minimum wage lost 66 percent of its purchasing power, then largely stagnated for two decades (Moreno-Brid and Garry 2015). The López Obrador administration, by contrast, emphasized social inclusion and poverty alleviation and swiftly began to restore the purchasing power of the minimum wage, raising the general minimum wage by 16 percent and doubling the minimum wage applicable to the northern border region in January 2019.[2] Minimum wages were then increased by a further 20 percent in 2020, 15 percent in 2021, 23 percent in 2022, 20 percent in 2023, 20 percent in 2024, 12 percent in 2025 and 13 percent in 2026 (Figure 1). Even accounting for the fact that Mexico, like many countries, experienced high inflation in the post-pandemic period, the real (inflation-adjusted) minimum wage has more than doubled at the national level and tripled in the northern border region since 2018, according to the Comisión Nacional de los Salarios Mínimos (CONASAMI 2025c).

Impact of the Increases

The minimum wage has substantial impact in that it is the actual wage paid to more than one-third of Mexican workers (CONASAMI 2025a). Its impact was expanded by a sweeping reform in 2021 to limit subcontracting, which had grown over the years as formal sector employers evaded the obligation to register workers for social security coverage and other legal protections, in effect creating informal jobs in the formal sector. The subcontracting reform resulted in 2.9 million workers being transferred to formal employment with entitlement to the minimum wage and social security benefits (IMSS 2022; Moreno-Contreras and van Gameren 2025).

[2] The northern border region, Zona Libre de la Frontera Norte (ZLFN), has a higher cost of living than the country in general, referred to as the Zona del Salario Mínimo General (ZSMG).

Figure 1: Evolution of the Minimum Wage, Pesos per Day, 2015-2026



Source: Author's elaboration based on CONASAMI 2025c.

These and other social policy changes had substantial positive impacts in reducing poverty. During the six-year term of López Obrador, 13.4 million people were lifted out of poverty and the poverty rate fell from 42 percent to 29.6 percent of the population, according to the Instituto Nacional de Estadística y Geografía (INEGI 2025a). The increase in the minimum wage between 2018 and 2024 was responsible for lifting 6.6 million people out of poverty, with increases in pensions and other social programs contributing the rest of the reduction (CONASAMI 2025c; Munguía and Gomez Lovera 2023). The minimum wage increases embodied the López Obrador philosophy that "for the good of all, the poor come first."

More to be Done

The construction of the foundational "first story" is not yet complete. The minimum wage does not yet provide an income sufficient to lift a household out of poverty in most parts of the country, with 34.3 percent of the population living in working poverty (INEGI 2025b). Nor does the current minimum wage meet the Mexican constitution's requirement that "the minimum wage must be sufficient to satisfy the normal material, social and cultural needs of the head of a family and to provide for the obligatory education of the children."[3] CONASAMI has proposed and President Sheinbaum has endorsed the goal that by 2030 the general minimum wage should cover 2.5 basic consumption baskets (CONASAMI 2025d).[4] A typical Mexican household has two working people and two dependents, so if both workers earn that proposed wage, the basic food and housing needs of the four would be met, with an additional amount for savings, health, education and well-being (Munguía 2025). Reaching this goal is projected to require further increases in the general minimum wage of about 12 percent each year through 2030 (Duran 2025).

No Adverse Impacts

It is worth noting that the robust increases in minimum wages did not lead to job losses or increased inflation, contrary to the microeconomic labor market model that predicts such effects and the claims of those opposed to the increases. Numerous studies using robust econometric techniques conclude that there was no statistically significant impact on employment levels (Campos-Vazquez and Esquivel 2021; Munguía and Gomez Lovera 2023; Campos-Vazquez and Esquivel 2022). Among the reasons why the actual empirical results differed from the predictions of the orthodox model is the fact that the model ignores the impact of higher minimum wages on demand, as low-income households spend their increased income and in response firms expand their supply and hire in order to do so. With regard to inflation, the doubling of the minimum wage in the northern border region in 2019 led to a small increase in prices that was more than offset by the increased purchasing power of low-wage workers. A simultaneous decrease in the value-added tax rate offset the small price increase for high-wage workers (Calderón et al. 2023). The overall effect of the policy was to increase the purchasing power of all workers with a small *decrease* in inflation (Campos-Vazquez and Esquivel 2020).

PROFOUND CHALLENGES REMAIN—FOR HOUSEHOLDS AND THE NATIONAL ECONOMY

While recognizing the impressive progress that has been made on minimum wages, it must be acknowledged that deep challenges continue to face Mexican workers, households and the national economy in terms of poverty, inequality and the extremely low share of the nation's total income that goes to labor. The decades-long pursuit of exports based on low wages left a legacy of income poverty and low labor share that continues to constrain domestic consumption and reinforces the hyper-dependence of the Mexican economy on external demand through exports. The scale of these deficits can be illustrated through a few relevant metrics.

Poverty

Poverty remains high, as noted above. A total of 38.5 million Mexicans lived in poverty at the end of 2024, of which seven million were in extreme poverty (INEGI 2025a). According to INEGI and CONASAMI, about a third of the population live in households with workers whose wages are not sufficient to lift the household out of poverty (INEGI 2025b; CONASAMI 2025b).

[3] Mexican Constitution Title VI Article 123.

[4] The basic consumption basket covers the food, housing and other basic needs of one person based on the National Household Income and Expenditure Survey (ENIGH).

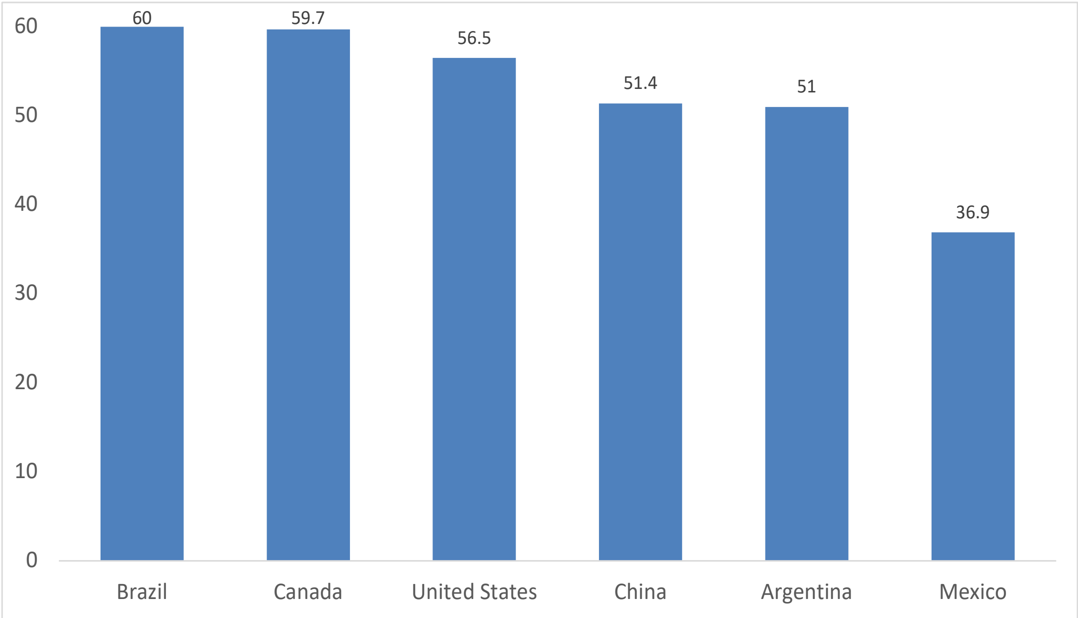
Low Labor Income Share

The labor income share is the share of GDP that goes to workers as compensation for their labor.[5] Known as the functional distribution of national income, it is an important metric to understand an economy at the macroeconomic level. Mexico has one of the lowest labor shares in the world and one of the highest shares going to owners of capital as profit. Figure 2 shows the labor share in Mexico and that of other regional economies and China according to International Labor Organization (ILO) estimates. The Organization for Economic Cooperation and Development (OECD) puts the Mexican labor share even lower, at 29.7 percent (OECD 2026b).

The labor share reflects how national income is divided by market forces, before government taxes and social transfers are taken into account. Social transfer programs can increase household incomes and Mexico has made some progress in this area using fiscal resources. However, transfers would have to occur at a much higher order of magnitude to offset the extremely low labor share and Mexico's current low tax take would make that impossible.

A low labor share means that low household incomes limit domestic consumption and increase reliance on the other components of a national economy, namely private investment, export demand and public spending (Marquez 2022).[6] With regard to investment, despite the high share of Mexican GDP going to owners of capital, high profits have not led to robust domestic investment by the private sector. Even with the nearshoring investment of recent years, the share of private investment in Mexico's GDP, at 22 percent, is well below the average of 28 percent in other upper-middle-income

Figure 2: Labor Income Share as a Percent of GDP, Mexico and Selected Countries



Source: Author's elaboration based on ILO 2025.

[5] The labor share can be measured in different ways, depending on how income from self-employment is attributed to labor or capital. In this paper the ILO approach is used because it adjusts for consistency across countries and reflects contemporary consensus among labor statisticians about measurement practices. For a succinct discussion of the issues see ILO *Global Wage Report 2016/17*, p.16.

[6] For an exploration of the inter-relationship of the components and their impacts on productivity, informality and capital accumulation see Ibarra and Ros (2019).

economies (World Bank n.d.). This is in part due to the weakness of domestic demand, reinforcing a vicious cycle. And while public investment has improved in recent years, it remains below the average in other emerging markets and in Latin America (OECD 2024). External demand through exports has not been sufficient to offset these domestic sources of weakness in the Mexican economy, leaving the country in a low-growth equilibrium. The current policies of the US, its main trading partner, and the overall geoeconomic situation suggest that external demand will not grow strongly for the foreseeable future and instead will be a source of continued weak growth and increased risk.

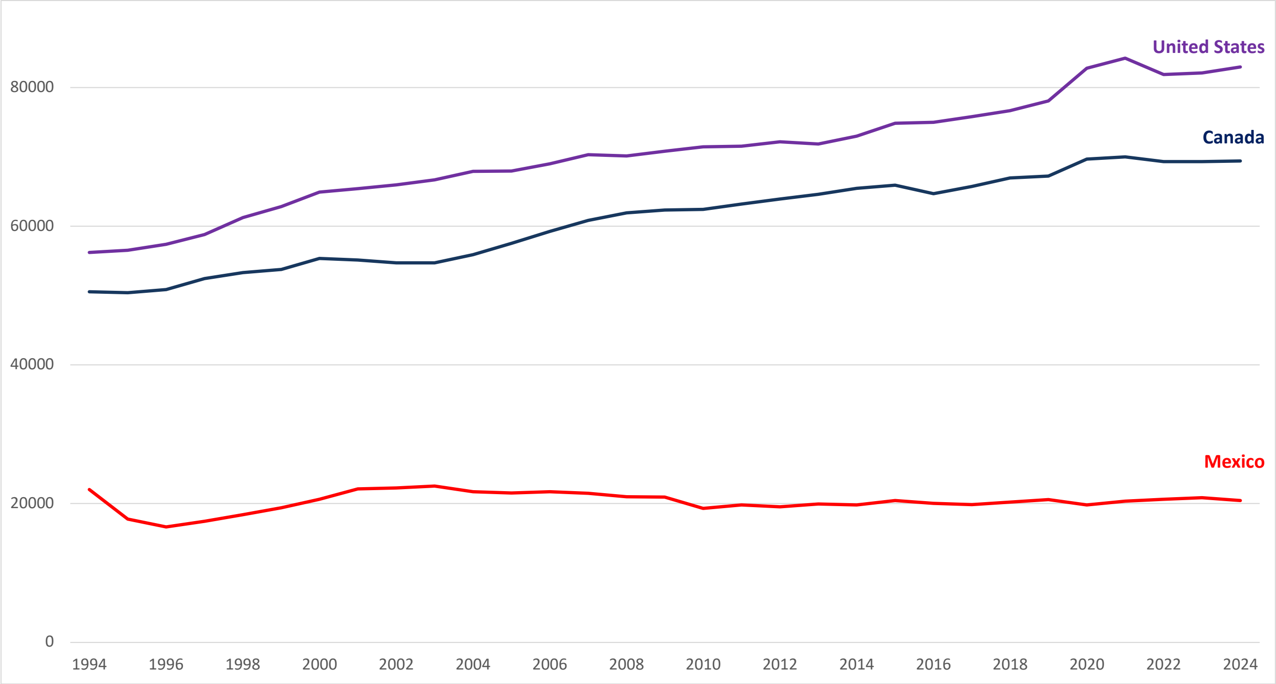
Slow Growth of Average Wages

The important progress on minimum wages and legislated constraints on subcontracting discussed above contributed to a modest increase in the labor share, from about 32 percent in 2018 to 36.9 percent in 2025, according to ILO estimates (ILO 2025). However, *average* wages have grown much more slowly than minimum wages. The overall average base wage increased from 500 real (inflation-adjusted) pesos per day in January 2019 to 633.33 real pesos per day as of September 2025, an increase of 26.7 percent over the period.[7] In comparison, the cumulative growth of the minimum wage was 111.9 percent in the ZSMG and 198.9 percent in the ZLFN over the same period.

The growth of average real wages in Mexico lags that of other G20 upper-middle-income peer economies such as Brazil, China, Indonesia and Turkey (ILO 2024). The slow growth of real wages explains the failure of Mexican wages to converge upward toward levels in the US and Canada, a major source of political tensions in the North American economy (Figure 3).

Why have average wages grown so slowly despite the strong increase in minimum wages? There are many factors that constrain overall wage growth in Mexico.

Figure 3: Average Annual Wages in North America at Constant Prices, 1994-2024



Source: Author's elaboration based on OECD 2026a.

[7] Average base salary for social security contributions (STPS and CONASAMI 2025).

Monopsonistic Labor Markets

A significant and pervasive constraint is the concentrated control by employers of local labor markets, known as monopsony. When one or a few employers dominate hiring, they can keep wages below the value that workers contribute to the product or service and can capture a disproportionate share of value added and any gains in productivity. Numerous studies have found that labor markets in Mexico are highly concentrated. According to a recent analysis, this "gives companies asymmetric power to determine wage levels. The degree of concentration is so extreme that profits for companies in Mexico are extraordinarily high compared to the rest of the world" (Munguía 2025). The analysis maps the degree of concentration in local labor markets across the country and notes that in most municipalities workers face only a few potential employers. Labor markets are concentrated in many areas where export-oriented firms are located. Concentration in labor markets not only depresses wages but also decreases employment creation, according to theoretical models. A simulation for Mexico cited in the previously mentioned analysis shows that for a ten percent increase in concentration, total employment falls 4.75 percent, youth employment falls 5.54 percent and female employment falls 5.10 percent.

Informality

The high share of informality in the Mexican economy is also a factor in weak overall wage growth. The minimum wage is legally binding for all workers, but enforcement in the informal sector is weaker than in the formal sector.

Informality is a complex phenomenon with multiple causes, including the concentrated character of most local labor markets noted above (Fentanes and Levy 2024). Due to the multiple drivers it is difficult to isolate the impact of informality on overall wages (Alcaraz et al. 2015).

Weak Bargaining Institutions

Additional institutional factors contribute to asymmetry between the bargaining power of employers and workers that keeps overall wage growth weak and the labor share low. These include the fact that only 12.8 percent of workers were affiliated with a union in 2024 (INEGI 2024). Many of the unions that do exist negotiate what are called employer protection contracts, involving collusion with employers to repress wages and to oppose workers' efforts to join more representative independent unions (Martínez 2025a; Martínez 2025b; Bensusàn et al. 2022). Combatting the decades-old problem of corrupted labor relations was a major motive for the historic 2019 labor law reform. Nonetheless, gaps in the law and weak enforcement have allowed employers to continue to constrain wage growth, including through protection contracts. This is reflected in the high number of cases filed under the USMCA's labor dispute settlement mechanism, the Rapid Response Labor Mechanism (RRLM), discussed further in Section IV (USTR n.d.).

BUILDING THE "SECOND STORY" BY INCREASING WAGES AND THE LABOR SHARE

As an upper-middle-income country with a population of 132 million, Mexico has the heft to shift away from the export-led growth model. Indeed, both the risk of getting stuck in the middle-income trap and risks due to dependence on US export demand suggest that this shift is overdue.

In order to expand domestic consumption demand as a major driver of its economy, Mexico should adopt policies to increase labor incomes for a broader swath of workers and households. This section offers an array of proposals for policies that the government could deploy. Proposals A and B discuss direct government action to increase and support wages, with A focused on consolidating the growth of the country-wide minimum wage and B focused on raising wages in export sectors. Proposal C discusses institutional and legal reforms needed to increase the bargaining power of workers to offset decades of policies that increased employers' power and the monopsony in many local labor markets. Proposal D suggests measures related to specific aspects of Plan Mexico. Proposal E discusses potential reforms to the USMCA's Rapid Response Labor Mechanism that could reinforce Mexico's efforts.

A. Continue and Consolidate the Growth of Minimum Wages

As noted above, President Sheinbaum has endorsed the goal that by 2030 the general minimum wage should cover 2.5 basic consumption baskets, and this is also one of the 18 goals of Plan Mexico. Reaching this goal is estimated to require increases to the general minimum wage of about 12 percent each year through 2030. This commitment should be seen as the *minimum* level of ambition necessary in order to eliminate working poverty.

An international comparison again provides a relevant illustration. China embarked on an ambitious policy to raise wages beginning in 2003, through increases to its minimum wages that pushed up wages in the next higher wage tiers.[8] From 2002 to 2013, real median monthly wages more than tripled (World Bank and DRC 2022; Cai and Du 2011). Chinese manufacturing wages were about half the level of Mexican wages in 2002 but by 2018 they were 40 percent higher. The wage policy was an important contributor to China's historic elimination of extreme poverty in 2021 and a dramatic reduction in overall poverty (World Bank and DRC 2022). Although discourse on China often focuses on the country's supply side and exports, the wage policies have helped to build an enormous domestic market and reduce China's trade-to-GDP ratio from 64 percent in 2006 to 37 percent in 2024.[9] By contrast, Mexico's trade-to-GDP ratio in 2024 was 74 percent.

The increase in Mexican minimum wages has been underway for eight years, a much shorter period than the Chinese wage push. As noted above, the Mexican minimum wage does not yet provide an income sufficient to lift a household out of poverty in most parts of the country and a third of Mexico's population still lives in working poverty, so much more progress is needed. Moreover, the purchasing power of the general minimum wage at the end of 2025 was still 30.8 percent below its level in 1976 (CONASAMI 2025e).[10] The construction of the foundational "first story" is not yet complete.

Anticipating the arguments against continued growth in minimum wages, it is important to recall that numerous studies show that the minimum wage increases Mexico has adopted since 2019 have not reduced employment or increased inflation (Campos-Vazquez and Esquivel 2021; Munguía and Gomez Lovera 2023; Campos-Vazquez and Esquivel 2022; Calderón et al. 2023; Campos-Vazquez and Esquivel 2020). This echoes the results of empirical studies across many countries that find the impact of minimum wage increases on employment to be small and either slightly positive or slightly negative, dependent on institutional and local factors, with meta-analyses showing that the most precise studies find employment effects clustering near zero (Belman and Wolfson 2014; OECD 2006; Neumark and Munguía 2021). CONASAMI has developed considerable analytical capacity in recent years and can closely track the impacts of future increases.

[8] Comparable real wage data for Mexico, China and other G20 countries has been tracked by the ILO since 2006. It demonstrates that for the last two decades, wage growth in China has accounted for a major share, sometimes half or more, of *total* global wage growth. See ILO *Global Wage Report 2024-25*, Figures 3.1 and 3.4.

[9] Trade to GDP is measured as the total of exports and imports divided by GDP. See Our World in Data based on World Bank database, https://ourworldindata.org/grapher/trade-as-share-of-gdp.

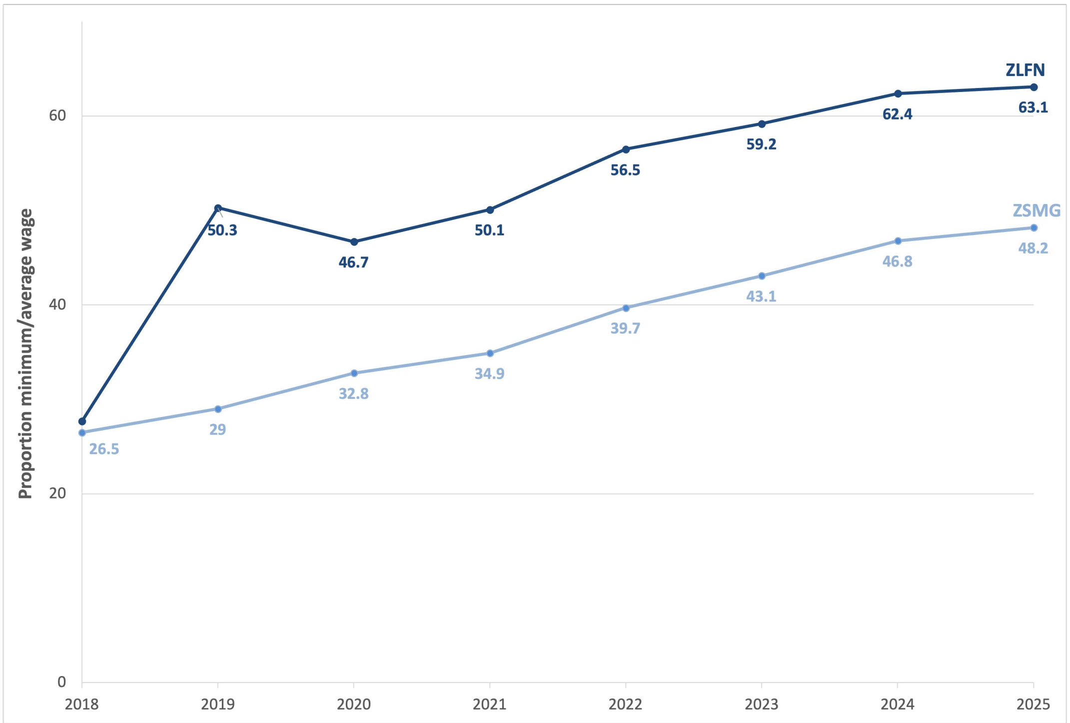
[10] The minimum wage in the ZLFN regained the purchasing power it enjoyed in December 1976 just this year.

A number of studies have found a positive productivity effect of minimum wage increases, which would be desirable in the Mexican context of slow productivity growth. Microeconomic studies have found that employers adjust to minimum wage increases through multiple channels, such as better management practices and employee training to offset the increased wage cost, and they can benefit from reduced employee turnover and increased motivation (Rizov et al. 2016; Schmitt 2013). At the macroeconomic level there is evidence of re-composition or "sorting" effects, in which less productive firms go out of business and are replaced by more productive firms that capture the orders (and often the employees) of the inefficient firms, raising the overall productivity level of a sector or region and increasing the aggregate efficiency of the economy (Mayneris et al. 2014; Bassanini and Venn 2008).

B. Create New Wage Policies for Export Sectors

Turning to construction of the "second story" of labor incomes in Mexico, policies are needed to address the constraints on *average* wage growth discussed above. Figure 4 shows that minimum wages have now reached 63.1 percent of average wages in the northern border zone and 48.2 percent in the rest of the country, demonstrating the sharp lag in growth of average wages compared to minimum wages. Even where workers are represented by unions, negotiated wage growth has lagged. For example, as of September 2025, the year-to-date real (inflation-adjusted) increase in minimum wages stood at 9.4 percent, while negotiated real wages increased only 3.4 percent for the same period.[11]

Figure 4: Minimum Wage Relative to Average Wage in ZLFN and ZSMG, 2018-2025



Source: Author's elaboration based on CONASAMI, public data from IMSS as of December of previous year.

[11] The figure is for negotiated wages in the federal jurisdiction, which includes most export industries. Negotiated wage increases in local jurisdiction were 5 percent through July 2025, the latest data available (STPS and CONASAMI 2025).

A promising arena for government action to address the relative stagnation of average wages can be found in the export sectors of the economy, particularly in the manufacturing export sector. Medium and high-technology products constitute more than two-thirds of Mexico's total exports and total factor productivity (TFP) in these sectors is significantly higher than in most of the economy (Iacovone et al. 2022). The integration of Mexican firms in export-oriented supply chains is high in auto assembly, auto parts, aerospace parts, semiconductors, electronics and some other sectors that require state-of-the-art production technology.[12] Despite using the same technology in Mexico as in factories in the US and Canada producing similar products, Mexican workers' wages remain a fraction of those in their northern counterparts, while employers have captured a disproportionate share of the value-added. The failure of Mexican wages to converge upward, as seen in Figure 3, has been a strong irritant in the trade relationship and in domestic opposition to the USMCA in those countries.

The dualism of the Mexican economy—with high-productivity, high-profit firms mainly in the export sector and lower-productivity small and medium firms mainly focused on the domestic market—provides a strong rationale for higher minimum wage requirements for export sectors.

Mexico could add to the two current levels of minimum wages (general and northern border region) an additional level of higher minimums applicable to exporting firms in each region.[13] For example, it could require that no worker in exporting firms in the region covered by the general minimum wage be paid a wage less than 2.5 times the basic consumption basket. As discussed above, this is the goal for the country as a whole by 2030. Given the higher productivity and profitability in export sectors, there is a strong logic to ask such firms to lead in wage growth by achieving that goal sooner than other firms. The general minimum wage covers about two basic consumption baskets after the January 2026 increase (CONASAMI 2025f). For exporting firms to reach 2.5 baskets now implies an increase of about 21 percent compared to the minimum wage applicable to non-exporting firms. The goal would be to eliminate working poverty in firms that are integrated into North American supply chains without waiting five more years. The minimum wage for exporting firms should then rise proportionally with the increases in the general minimum wage each year, to reach a level of at least three basic consumption baskets by 2030 and establish a consistent policy of export-led wage growth.

In the northern border region (ZLFN), where the minimum wage is higher than in other parts of the country, the 2026 minimum wage covers about 2.9 basic consumption baskets.[14] There is a high concentration of exporting firms in the ZLFN and the proposed policy change would set a requirement that workers in such firms not be paid less than 3.5 basic consumption baskets, implying a 21 percent increase over the ZLFN minimum wage. The minimum wage for exporting firms in the ZLFN should then rise in steps to cover at least four basic consumption baskets by 2030.

It is worth noting that many localities that have a strong presence of exporting firms also have monopsonistic labor markets. This suggests that many exporting firms have been able to hold down wages through anti-competitive behavior in local labor markets and provides an additional justification for government intervention to correct the distortion.

Beyond the minimum wage, the government should also require that all employees of exporting firms must be formally employed, that is, registered with the Mexican Institute of Social Security (Instituto Mexicano del Seguro Social, IMSS) and covered by all formal sector benefits.

[12] These are also considered strategic sectors in Plan Mexico.

[13] Mexico also has a Professional Minimum Wage System (SSMP) covering 61 professions, which have not been increased to the same extent as the general minimum wage increases. In January 2026 they were increased by 5 to 13 percent, depending on the zone (CONASAMI 2025f).

[14] As noted above, the higher ZFLN minimum wage is based on the higher cost of living in the northern border region.

C. Strengthen Workers' Bargaining Power and Offset Monopsony in Labor Markets Through Legal and Institutional Reforms

As noted in Section III above, weaknesses in Mexican institutions reinforce the pronounced asymmetry between the bargaining power of employers and workers. The 2019 reforms to the Federal Labor Law, the 2021 reforms on subcontracting and other reforms were meant to address some of these deficiencies and efforts have been made to build the capacity of the government to protect workers' rights and better balance the interests of employers and workers. However, many gaps persist that weaken worker bargaining power, slow wage growth and depress the labor share. This section addresses gaps in the labor law that require further legislative action and then turns to measures to address continuing state capacity constraints that lead to weak enforcement.

1. Further Legal Reforms are Needed to Achieve a Coherent Labor Law System

After six years' experience with the 2019 reforms, a number of gaps or ambiguities in the labor law have become apparent.

First, the failure of the government to impose sanctions when workers' rights to form unions and bargain collectively are violated has been widely noted as a fundamental weakness in the Mexican labor justice system (Martínez 2024; IMLEB 2025). Imposing sanctions on violators is meant not only to punish the violator but to deter other firms from violating the law. It is an essential component of any effective system of enforcement because it creates the incentive for voluntary compliance. The failure to sanction means that the government has not established a credible deterrent to labor rights violations and they remain widespread, as noted above. The failure has been attributed in part to a lack of clarity in the law about the authority of government agencies to impose such penalties (Laureles 2024).

Recognition of the significance of this gap led the Chamber of Deputies to adopt a bill adding provisions to the labor law to empower the Federal Center for Conciliation and Labor Registration (CFCRL) to impose such sanctions.[15] The bill included a number of important steps to clarify authorities and correct gaps in the law.[16] The deputies approved the bill in 2024, but the legislation stalled in the Senate. In October 2025 a new bill addressing sanctions was introduced in the Senate that moved in the opposite direction on some points, such as stripping existing authorities from the CFCRL and eliminating sanctions for unions that violate workers' rights. The Senate was debating that bill at the time of writing. Beyond the negative impact of the lack of sanctions on Mexican workers' rights and the failure to create deterrence for firms, it is also an issue between Mexico and the US in the context of the USMCA, which explicitly requires that the CFCRL have sanctioning authority (USMCA 2020).

A second important gap in the labor law is the absence of an obligation for employers to bargain in good faith with the union selected by workers. Instead, the law relies on the right to strike as the only leverage to gain a collective bargaining agreement. The lack of a legal obligation for employers to bargain in good faith is particularly harmful in Mexico because of the disproportionate power of monopsonistic employers. An enforceable obligation to bargain in good faith should be added to the law.

[15] See "Initiative to Reform and Add Various Provisions of the Federal Labor Law, Regarding Penalties for Conduct Contrary to Freedom of Association, in Charge of Representative Manuel de Jesús Baldenebro Arredondo, of the Morena Parliamentary Group," November 22, 2023, http://sil.gobernacion.gob.mx/portal; and "Positive opinion on the Initiative with Draft Decree that reforms and adds various provisions of the Federal Labor Law," February 8, 2024, https://sil.gobernacion.gob.mx/Archivos/Documentos/2024/02/asun_4710729_20240228_1709071394.pdf.

[16] The Chamber bill should be improved with respect to the range of possible sanctions specified in Article 1004 – D. The range should be substantially increased so that potential penalties are sufficiently dissuasive to potential violators, in line with good regulatory practice.

A third legal lacuna is found in the lack of an explicit prohibition against blacklisting of workers who support a union by other firms in a local labor market due to that support. In the event workers are discharged for union activity, or when a firm engages in layoffs, if other firms refuse to hire union supporters there is a strong chilling effect on any future organizing efforts. This is particularly pronounced in monopsonistic local labor markets. The law should prohibit the practice and provide effective remedies and sufficiently dissuasive sanctions in such cases.

Legal reforms may also be needed to address disagreement over the jurisdiction of federal and state entities and inconsistent rulings between federal and state-level institutions and courts. A fine-tuning of the law and regulations could facilitate more timely and effective enforcement.

2. Government Labor Institutions Need to be Strengthened and Funded

After the 2019 labor law reform, and in light of the labor requirements of the USMCA, the government took important steps to create the new independent body, the CFCRL, for oversight of freedom of association and collective bargaining rights and procedures, and to establish labor courts for adjudication of labor disputes. The institutions were gradually established over the past five years and are now functioning. However, the budget for the CFCRL was reduced by 32.5 percent in 2025, significantly constraining its capacity (Gobierno de México 2024; Martínez 2024b). Although the 2026 budget restores the previous level of funding, many observers are concerned that the agency is under-staffed and under-resourced (Voz Laboral 2025; IMLEB 2025). A majority of staff positions are temporary and the pay is lower than in comparable Mexican institutions. In addition to quantity, the quality of staff should be upgraded through intensive training and pay should be increased to attract and retain qualified staff.

The Secretariat of Labor and Social Welfare (STPS) is also under-staffed in terms of standard rules-of-thumb for adequate numbers of labor inspectors, who are critical to ensuring compliance with minimum wages and subcontracting and other laws. There are 1.1 labor inspectors for every 100,000 employees in Mexico, compared to a global average of 5.8 inspectors per 100,000 workers and an average of 4.1 per 100,000 in upper-middle-income countries (Intersecta et al. 2025; de la Rosa 2025). Beyond the shortfall at the federal level, many state labor bodies suffer from extreme staffing shortages and some do not have any labor inspectors.

The combination of gaps in the law and insufficient enforcement by CFCRL, STPS, labor courts and state-level agencies has allowed employers to persist in anti-union activity and collusion with corrupt unions (Martínez 2025a; Martínez 2025b; Bensusàn et al. 2022). This in turn facilitates continued wage repression and helps explain the weak growth of median and average wages in contrast to the growth in legally mandated minimum wages. Independent unions and new unions that have emerged with the benefit of the 2019 labor law reform have achieved double digit wage increases in a number of cases, whereas traditional employer protection unions have not sought proportional increases when the minimum wage increased. Instead, they offer “labor peace,” meaning continued protection of employers’ interests in keeping wages low and profits high.

As noted above, in 45 cases Mexican workers and unions have turned to the USMCA’s Rapid Response Labor Mechanism (RRLM) for remedy when their rights to freedom of association and collective bargaining were denied by employers (USTR n.d.). In many cases, they also sought action by Mexican authorities but found the response insufficient to remedy the violations. The labor laws and institutions of Mexico should be the first resort for workers who believe they have been denied their rights, with RRLM as a second resort when an employer defies the efforts of the Mexican authorities to achieve remedy (Martínez 2024a; 2024b). The frequent recourse by Mexican workers to the RRLM is a further indication of gaps in Mexico’s enforcement of the legal rights of workers and unions.

Building state capacity to effectively monitor, inspect, remedy and punish violations of labor laws is an essential step to establish rule of law in the labor market and create sufficient deterrence to achieve voluntary compliance. The lack of this capacity in Mexico is a major factor allowing repression of wages and other labor rights and as such is an ongoing irritant in the trade relationship with the US.

D. Build Compliance with Labor Laws and Wages into Plan Mexico

Plan Mexico's emphasis on attracting foreign and domestic investment includes generous tax incentives for firms to invest in specific industries and regions, extending a program established in 2023 (Gobierno de México 2023). The Plan includes creation of 15 "economic development hubs" around the country, in sectors including automotive, aeronautics, agribusiness, pharmaceuticals, electronics and semiconductors, energy, chemicals and petrochemicals and consumer goods.

The government should require investors to formally commit to compliance with all terms of the labor law, including freedom of association and good faith collective bargaining, as a condition for receiving the incentives, with ongoing monitoring to ensure compliance. Correction of the deficits in labor inspection, enforcement and deterrence discussed above will be essential to ensure that the investments create the formal, quality jobs that are a stated goal of Plan Mexico.

As another part of Plan Mexico, the government has recently imposed substantial tariffs on a number of products to protect domestic firms from foreign competition, in order to increase domestic production and reduce reliance on imports. Experience in other countries shows that such protection can contribute to domestic goals under some circumstances (Furceri et al. 2022; Rios 2025). But such tariffs can also lead to job loss in other firms and protected firms may simply capture the benefits in the form of higher profits rather than creating jobs. It will be important to require the firms that benefit from such protection to comply with wage and other labor laws and to monitor them to ensure that they contribute to employment gains and wage growth, rather than simply increasing profits.

E. Leverage the RRLM to Reinforce Mexican Government Efforts to Ensure Compliance with Labor Rights

The RRLM was added to the USMCA in 2019 by labor advocates in the US Congress as a condition for ratification of the USMCA (Bensusán and Middlebrook 2020a). The mechanism provides for accelerated review of cases where Mexican workers or unions believe their rights to freedom of association and collective bargaining have been violated by an employer at a specific workplace. The firm level approach recognizes that, in the private sector, it is the employing firm that directly denies the workers' rights and benefits from the denial of rights. As noted, 45 cases have been raised under the mechanism.

The continuation and strengthening of the mechanism during the 2026 USMCA review has been publicly endorsed by the Trump administration's US Trade Representative as well as by Democrats in the US Congress and will likely constitute an important aspect of the upcoming negotiation (US Senate Finance Committee 2025; Congresswoman Rosa DeLauro 2025; Martínez 2025c). In Mexico there is a wide range of views on the RRLM, from criticism by parts of the business community to strong support from parts of the labor movement and labor advocates. The Mexican government can position itself well in the negotiation by being open to proposals to strengthen the mechanism in ways that eliminate the delays that have been encountered, expedite resolution of cases and ensure effective remediation. The objective would be to align the incentives and disincentives facing firms with the public interest in respect for labor rights (Polaski 2025). Ultimately, the goal should be to use the RRLM as a backstop while Mexico builds its own state capacity to ensure compliance with labor laws, improve the bargaining power of workers and increase wages.

CONCLUSION: A STRATEGIC MOMENT TO BUILD THE "SECOND STORY"

The current trade and geopolitical tensions pose many challenges for Mexico and the Sheinbaum administration. At the same time, the present moment provides both an impetus and an opportunity to make progress on the issues addressed in this paper.

The impetus, as noted, comes from the need to reduce the country's excessive dependence on exports to the US to sustain its economy, given the constraints the US has already imposed and the profound uncertainty going forward. It is widely agreed that Mexico needs to diversify its economy, but the focus has been on diversifying the destination for exports. While desirable, such diversification will be difficult in the short- to medium-term, as countries the world over strive to do the same in the face of US tariffs. A more profound diversification of the economy can be achieved by gradually increasing domestic demand. The size of the country's population and the stage of its economic development suggest that domestic consumption can become a major driver of the economy, but this is constrained by low wages and the extremely low labor share of GDP. The policies discussed in this paper offer specific, concrete and feasible ways to relax that constraint and gradually shift the economy to rely more on domestic demand through rising labor incomes. Such a shift would expand the country's policy autonomy and economic sovereignty.

The opportunity arises in the review of the USMCA, where addressing the failure of Mexican wages to converge toward US wages will be prominent on the agenda of US negotiators. The Trump administration and many others see low Mexican manufacturing wages as a major reason for continuing US job loss. This offers Mexico a strategic opportunity to pursue wage growth, not only for its own benefit, but to find common ground with the US in the review. Raising Mexican wages may be one of the few issues on which there is a convergence of views based on the self-interest of both countries. In this context the expected opposition by Mexican employers to increasing workers' bargaining power and raising the labor share of the economy can be countered by the need to ensure the continuation of the USMCA, a higher-order priority for many of them. This dynamic was utilized by President López Obrador to secure passage in 2019 of the Federal Labor Law reform, which had stalled in the legislature (Bensusán and Middlebrook 2020b). The Sheinbaum administration can use the same logic to achieve meaningful progress on labor incomes, building the "second story."

Mexico's profound needs for further poverty alleviation, higher wages, more effective labor justice and stronger domestic demand require bold steps. The proposals discussed in this paper, particularly in combination, could make a significant contribution to these goals. The present moment creates both an urgency to make progress and a propitious opportunity to do so.

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