

Nuevo León's informal economy: the revenue statistics don't tell you about

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Up until 2021's second trimester, Mexico's GDP—the sum of the 32 federal states' own GDP that constitute the country—was valued at an estimated 311,457 million US dollars, making it the 15th largest economy in the world. While this is basic knowledge for any Mexican high school student, it should be added that states do not possess an equally distributed national GDP partition and that it does not account precisely for every single economic activity. Worldwide, there are several economic activities which are not formally registered by any government institution and whose income is not regulated by any national income index either. The rising number of these so-called “underground” activities in the past 40 years across the world has demanded multinational efforts to come up with strategies to better understand and reduce this phenomenon, leading to the birth of the concept of informal economy.

Among the various income sources for any given country's economy, one of these results from informal activities which, due to its irregular and uncertain status, can only be estimated in government economic reports. Take a look at Nuevo

León, Mexico's industry-leading state with the third largest state GDP: 7.6% of its national counterpart. Just 10 years ago, around one out of four regiomontanos carried out some form of informal economic activity. In other words, almost 25% of Nuevo León's GDP in 2011 was in fact estimated given the lack of economic information to perform accurate measurements. Macroeconomic inaccuracy issues are only one set of consequences informal economic activities may trigger over States' development agendas if they are not properly registered by their governments. It is due to these reasons that this article will focus on presenting the informal economic sector, its causes and effects on the targeted economy, with Nuevo León, Mexico as the selected case study to better visualize the subsequent arguments.

Globalization arrived in Latin America around the 1990s and gave access to a larger range of market options for already established companies and individual entrepreneurs to sell their products. The economic policies that came with it, however, did not offer any favorable conditions for unemployed individuals to execute a

professional, formal economic activity. As a result, poverty, educational backwardness, and technological underdevelopment forced these people to look for other immediate income sources requiring little or no education. Mexico's main national statistics institution, INEGI, points out three main economic sectors whose informal economic activities have represented more than half of the estimated informal revenue within the Mexican economy since 2003: construction, industrial manufacturing, and retail trade. This is a crucial point considering that 56% of Nuevo León's GDP comes precisely from manufacturing, commerce, and construction. Adding the most recent economic informality index statistic as of 2021's second trimester of 37.7%, the state's GDP being equivalent to 23.7 billion USD, gives out a grand total of almost 9 billion USD whose origin cannot be but speculated, such as unauthorized car wash services, alms collection, piracy content producers, irregular bricklayer jobs, among several other activities.

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As observed, the informal economy has a negative effect on official statistics' trustiness as well as that of the government. From there, another notorious consequence triggered by this type of economy is the State's need to focus on constantly combating these types of activities in order to guarantee both a more formalized economy within their territory, and





opportunities for former irregular workers to professionalize their practices and become eligible for governments' grants and aids. For instance, only between May and July 2019 in Nuevo León's capital city, Monterrey, 1,515 fines were delivered to informal retailers who lacked the necessary authorizations to perform their commercial activities in public roads. However, the absence of regularity of these supervisions along with factors such as the economic impact caused by the COVID-19 pandemic increased informal commerce 61% in relation with the achieved reduced percentage back in 2019. This brief example ultimately comes to demonstrate an important policy making principle: without regular updates on any given socio-economic policy, results will be dependent on unpredictable external factors, such as a global pandemic or an economic crisis. Reducing informal economic activity in Nuevo León has also become such an important challenge in recent years that it is often seen as one of the main promises from candidates looking for a public service position. Local politician Francisco Cienfuegos promised that, if chosen as Monterrey's 2021 - 2024 mayor, he would guarantee the transition from a large portion of the existing informal workers and businesses towards their corresponding formal counterpart.

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When it comes to the informal economy, it does not only take a toll on Nuevo

León's government. It naturally (and largely) affects the people themselves and forces them to stand up and defend the few revenue sources they possess from State's policies that paradoxically attempt to improve their entrepreneurial status in the long run. In the midst of the COVID-19 pandemic in May 2020, hundreds of merchants walked across several of Monterrey's main streets and expressed their disagreement towards the several health measurements that prevented them from selling their products. One of the informal merchants stated how May was their second month deprived from their only economic activities and just how much that was affecting their living conditions. Testimonies like this one come to show that for the informal workers, it is not about rejecting government strategies, but about the fact that they cannot afford such a large waiting period until they can recover their commercial regularity. A new set of possibilities must be then thought of by public authorities to solve the issue. On June 6th, 2021, the people of Nuevo León went out on election day and chose citizen Samuel García to become the state's governor until 2027. Based on the points previously discussed in this article, Mr. García and his team have as an urgent task to propose solutions to the informal economy affair while guaranteeing economic stability of those who will undergo these transitions. A collective effort between individuals and the state of Nuevo León will then be needed to keep those policies running effectively and achieve a systematic reduction of informal economic activities in exchange for properly regulated and validated professions.

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