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FEATURED Q&A

How Would a Minimum Wage Hike Affect Mexico?

Business leaders are pushing for a raise in Mexico's minimum wage. Workers at a factory in Tamaulipas State are pictured above. // File Photo: State of Tamaulipas.

Q The Mexican Employers' Federation, or Coparmex, has called for Mexico's minimum wage to be raised by about 80 cents, to the equivalent of about $5 per day. The country's minimum wage is the lowest among OECD countries, and in Latin America it is above only those of Venezuela and Nicaragua, according to Coparmex. Why is Mexico's minimum wage so low? How would a minimum wage hike affect the country's economy, and how much political will exists to raise it? How might a minimum wage hike in Mexico affect the renegotiation of the North American Free Trade Agreement, or NAFTA?

A Rogelio Ramírez de la O, president of Ecanal in Mexico City: "The minimum wage in Mexico is low because it was used as an anchor for anti-inflation policy for about 30 years. It is also a benchmark for other prices, such as government fines and contractual obligations. Containing its rises during the 1980s and 1990s, when inflation was high, meant that the real unit had to depreciate. For this reason, employers raised the wages they pay to their employees to higher levels, but the minimum continued to be a benchmark, especially at low levels of income and small business. Thus, the increase proposed by Coparmex, the employers' union, is idealistic, insofar as it would lead the government to change a long-established policy and probably increase inflationary pressure. Thus, the economic section of the government and the central bank would most likely oppose such a hike. Unions will have little or no say, as union bosses are part of the government political coalition and they would just follow instructions. As of today, a sharp

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U.S. Should Slap Sanctions on Venezuelan Oil: Macri

The United States should increase sanctions on Venezuela by imposing an embargo on imports of the country's oil, said Argentine President Mauricio Macri.

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Itaú's Argentina Unit Spending $30 Million on Digital Banking

The Brazil-based bank is making the investment in its Argentine unit in an effort to target millennials.

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Mexico Quake Rebuilding Will Cost $2.5 Billion: Peña Nieto

Most of the money for the rebuilding following a pair of deadly earthquakes in September will come from the government, said President Enrique Peña Nieto.

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Peña Nieto // Photo: Mexican Government.

ECONOMIC NEWS

Mexico Quake Rebuilding Will Cost $2.5 Bn: Peña Nieto

Reconstruction following a pair of deadly earthquakes that hit Mexico in September will cost some $2.5 billion, President Enrique Peña Nieto said Tuesday, Agence France-Presse reported. The earthquakes totally or partially destroyed 184,000 homes, said Peña Nieto, adding that the disasters also affected 14,000 businesses and 16,000 schools. Most of the money for the rebuilding will come from the government, said Peña Nieto. It will be "a reconstruction that the government estimates will demand an investment of 48 billion pesos. One tenth of these resources will be provided by the private sector," he said at a public event. The first of the major earthquakes hit off the coastline of Chiapas State with a magnitude of 8.2 and resulted in nearly 100 deaths. It was the strongest earthquake to hit Mexico in a century. The second major quake struck Sept. 19 near Mexico City with a magnitude of 7.1 and left 369 people dead. That earthquake hit on the 32nd anniversary of the devastating 1985 Mexico City earthquake that killed more than 10,000 people. This year's earthquakes caused extensive damage to schools, hospitals, roads and other infrastructure. Mexico City also has made changes to its emergency announcement service, in order to warn residents of earthquakes through their smartphones, the Associated Press reported Tuesday. Users of the free "911 CDMX" program will receive messages for any earthquake that is strong enough to cause damage in the capital city, said Mayor Miguel Ángel Mancera. The government's Command, Control Computing, Communications and Contact center, known as C5, developed the program, which is available for iOS and Android operating systems. Officials do not plan to test the system on residents' smartphones so as not to cause unnecessary concern, Mancera told reporters. "We are not interested in having anyone hear it who does not know the context in which it is being presented," he said. Mexico City already has a system of loudspeakers that warn residents when earthquakes are detected.

POLITICAL NEWS

U.S. Commerce Sec'y Linked to Businesses Related to PDVSA

U.S. Commerce Secretary Wilbur Ross has a stake in multi-million-dollar businesses related to Venezuelan state oil company PDVSA despite U.S. sanctions on Venezuela, Newsweek reported Monday, citing the Paradise Papers data leak. Ross retains an interest in shipping company Navigator Holdings, which is incorporated in the Marshall Islands and has a close relationship with Russian energy company Sibur, which is run by the son-in-law of Russian President Vladimir Putin, according to the leak. Navigator receives millions of dollars annually for providing shipping services to PDVSA. A spokesman for Ross told The New York Times that Sibur is not subject to sanctions and that Ross "recuses himself from any matters focused on transoceanic shipping vessels."

BUSINESS NEWS

Itaú's Argentina Unit Spending $30 Million on Digital Banking

The Argentine subsidiary of Brazil's Banco Itaú is making a $30 million investment over the next three years in enhanced digital banking services aimed at the millennial generation, daily newspaper Clarín reported Tuesday. The new service, called Bankennials, involves the launch of an Itaú Argentina app and an associated marketing campaign. The bank's media spending around the campaign will consume more than 35 percent of the total annual marketing budget, TotalMedios reported, with 28 percent of that amount designated

NEWS BRIEFS

U.S. Should Slap Sanctions on Venezuelan Oil: Macri

The administration of U.S. President Donald Trump should impose a full embargo on Venezuelan oil exports to the United States, Argentine President Mauricio Macri told the Financial Times in an interview published today. The move would have broad support in Latin America, said Macri. "I think we should go for a full oil embargo," he said.

Ecuador Pressing Tax Fraud Charges Against Odebrecht

Ecuador's government announced Tuesday it will press tax fraud charges against Brazilian construction firm Odebrecht, Agence France-Presse reported. The company, which is embroiled in corruption scandals at home and in several other countries, is accused of failing to declare $120 million of revenue in Ecuador between 2012 and 2016, chief prosecutor Carlos Baca said. Odebrecht has also been accused of paying Ecuadorean officials around $33 million in bribes over the past 10 years. Ecuadorean Vice President Jorge Glas was forced from office earlier this year and is currently detained on suspicion of accepting some of the bribe money. He has denied the allegations.

Brazil's Energy Ministry Drafting Bills for Privatization of Eletrobras

Brazil's Energy Ministry plans to send drafts of three bills within the next 10 days to President Michel Temer that lay out the model for the privatization of state-run power utility Eletrobras, Reuters reported Tuesday. Paulo Pedrosa, Brazil's deputy energy minister, told the wire service that the first of the bills, dealing with the sale of distributors owned by Eletrobras, could be sent as early as today. [Editor's note: See related Q&A in the Sept. 22 edition of the Energy Advisor.]

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rise would improve incomes of 7.9 million people, which, according to INEGI, earn the minimum wage. But, at the same time, wages of another 13.8 million earning up to twice the minimum wage would have to rise too, an outcome that the government and business want to avoid. A sharp rise in wages would help Mexico in the NAFTA renegotiation because it would show political will to abandon the 30-year policy of staking competitiveness on low wages. But, because of the enormous difference in absolute levels of wages between Mexico and its two North American partners, it would still be too low for unqualified free trade."

A **David Ross, global fund manager at La Financière de l'Echiquier in Paris:** "The size of Mexico's informal economy, which some estimate at 50-60 percent of the workforce, is a large reason for Mexico's low minimum wage. For many in the formal economy, a minimum wage increase would have minimal impact, as we have been seeing many employers increasing employee compensation to trained workers in order to reduce turnover and improve productivity. In contrast, for the informal economy, increasing the minimum wage increases the incentives to avoid the formal economy, counter to current policy goals. An ambition for all should be to increase Mexico's formal economy. A large cause of Mexico's small tax base, where tax collection amounts to less than 10 percent of GDP, is the untaxed, unregulated informal labor market; increasing participation in the formal economy would help in this regard. Increasing the formal economy would be positive for the workforce, not only in terms of receiving workplace protections, but also in having the documented income to be able to access credit to obtain consumer loans or mortgages. Finally, expanding Mexico's formal economy would benefit the United States as it would create the economic incentives to decrease the flow of flexible, low-skilled workers across the border. All of these factors argue against raising the minimum wage in Mexico until the formal economy is more established. However, with the NAFTA negotiations focused on auto sector jobs, the political pressure will be high to raise the minimum wage in order to satisfy U.S. demands on lowering the wage differential between the countries."

A **Alfredo Coutiño, director for Latin America at Moody's Analytics:** "Mexico's minimum wage has a long tradition of accumulated lags, mainly because of the economy's incapacity to generate enough jobs to accommodate the additional labor force. The persistent excess of job seekers has been an important factor keeping wages depressed for decades. Another factor contributing to low wages is the policy rule implemented during the decades of galloping inflation in the 1970s and 1980s, and still in place, establishing that wages should increase according to the gains in productivity. Since productivity has been stagnant in at least the past two decades, increases in wages have been generally offset by inflation. The problem with that policy rule is that it is valid only in countries where wages are in equilibrium, but not in cases where wages are largely lagged. The fact, that the organization of employers (Coparmex) is the one proposing significant increases in wages is an official recognition that the minimum wage is far below equilibrium. Another myth behind the resistance to increase wages, beyond productivity gains, is the idea that significant wage hikes produce inflation. The fact is that wage increases are the consequence of high inflation, not the other way around. If wages were going to be compensated for the accumulated lags, the economy would benefit, since it would boost private consumption and growth. Any jump in inflation would be once-and-for all, and will be mostly transitory. If wages reach equilibrium, then the policy rule can be validly applied. Likewise, if wages were

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for digital media and social networks. The theme of the service is that users can enter the bank without going into the branch. Around 10 million Argentines access banks digitally, according to comScore data, with nearly four million of those using a mobile platform to do so. While Itaú is one of the largest banks operating in Latin America, Argentina's banking sector is highly fragmented, with 78 banks and financial companies operating there, and only two banks with a loan market share of more than 10 percent, Santiago Gallo, director for Latin American Financial Institutions at Fitch Ratings, told the Advisor. [Editor's note: See **Q&A** on Argentina's banking sector in the June 15-28 edition of the Dialogue's biweekly Financial Services Advisor.]

HSBC's Canada Unit Head Concerned About NAFTA Talks

The head of HSBC's Canadian unit on Tuesday said she is concerned about the NAFTA renegotiations and is preparing for how the bank will deal with the possible outcomes of the talks, Reuters reported Tuesday. "The discussions around the free-trade agreement I would say right now are concerning," HSBC Canada Chief Executive Sandra Stuart told Reuters. "We've done an analysis of our book. We know where we are sensitive in terms of the NAFTA agreement, and customers know their sensitivities as well." U.S. President Donald Trump has repeatedly threatened to withdraw from the free-trade agreement with Mexico and Canada if the three countries cannot strike a better deal for the United States. His negotiating team has made divisive proposals on red-line issues for Mexican and Canadian negotiators, including plans to establish rules of origin for NAFTA goods that would set minimum levels of U.S. content for vehicles and the termination of the so-called Chapter 19 dispute mechanism. Stuart said she still expected that a deal would be reached on NAFTA and was comfortable with the level of HSBC's exposure to businesses that could be affected by the deal.

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allowed to move freely, then the government would not have to provide subsidies to public prices and tariffs. The closer the wages get to equilibrium the less frictions can be expected in NAFTA renegotiations."

A **Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City:** "Article 90 of the Mexican labor law stipulates that the minimum wage should be enough to fulfill the head of the family's normal material needs. At present, the daily minimum wage in Mexico is the equivalent of about $4.20 for an eight-hour workday. The increase that Coparmex, the Mexican employers' confederation, is proposing comes to almost $5 for an eight-hour workday, which, if approved, would still be a meager salary. On a global perspective, over the past 30 years, the minimum wage increase has remained below inflation levels while depleting the public's purchasing power. Savings and corporate investment, along with stimulating consumption, are indispensable parts of a healthy economy. Mexico needs to find ways to increase its productivity, but not at the expense of low salaries, since these conditions increase the gaps of economic inequality among the population. For example, according to the Mexican Chamber of the Construction Industry, or CMIC, the logistical costs of products in Mexico are three times greater than those of products in the United States due to the quality of infrastructure. The issue of salaries during the NAFTA negotiations is complex, and despite any possible wage increases, the wages will continue to be significantly lower in Mexico, where the cost of living is considerably lower."

> **"Mexico needs to find ways to increase its productivity, but not at the expense of low salaries."**
> **— Nicolás Mariscal**

A **Wolfram F. Schaffler Gonzalez, director of the Texas Center for Border Economic and Enterprise Development at Texas A&M International University:** "Elevating Mexican workers' wages is one of the NAFTA renegotiation topics where two of the three nations agree. Canada and the United States want Mexico to increase its wages as a part of the new trade agreement, but Mexico differs, arguing that it is an internal decision that is not on the table. Nobody knows for sure how many Mexicans really earn the daily minimum wage. Estimates are between 1.3 million and 7 million, depending on who you ask, while another estimated 20 million workers earn twice the daily minimum wage. When the daily minimum wage increases, the percentage is usually applied across the board to almost all salary levels of Mexico's 54 million workers. Worth noting is that export-related jobs in Mexico are estimated to earn 30 percent above the rest. The difference between Mexico's minimum wages and those of Canada and the United States is so high that it is impossible to level them out (or even to bring them close). If political will exists (and business organizations agree), then increasing the daily minimum wage in Mexico can be done in increments, so there is no inflationary impact, or loss in productivity or jobs. One possibility is that if a 25-year 'sunset clause' is incorporated into NAFTA 2.0 (instead of the five years the United States is proposing) that time could be set to elevate Mexico's daily minimum wage as much as possible, so North American competitiveness in the global economy continues to benefit all three countries."

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at **gkuleta@thedialogue.org**.

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