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## FEATURED Q&A

# Will a Minimum Wage Increase Spur Mexico's Economy?



Mexican President Andrés Manuel López Obrador said the 20-percent hike in the minimum wage is the largest such increase in more than four decades, but the minimum wage will still remain under \$1 a day. // File Photo: Mexican Government.

**Q The government of Mexican President Andrés Manuel López Obrador on Dec. 16 agreed to raise the country's minimum wage by 20 percent, the wage's second major increase this year. Nearly 11 million workers are earning a minimum wage in Mexico, where López Obrador has vowed to fight poverty. To what extent will the minimum wage hike affect Mexico's workers and the country's economy? How much pressure will the minimum wage increase put on inflation? How will businesses be affected?**

**A Jonathan Heath, deputy governor at the Bank of Mexico:**  
"While it is true that nearly 11 million workers are earning a minimum wage in Mexico, most of those work in the informal economy, where the minimum wage is not binding. Roughly 57 percent of all workers have jobs either in the informal sector, in households or in situations where they do not perceive benefits established by law, such as social security, pensions, paid vacations and the guarantee of earning at least a minimum wage. This means that the 20-percent increase will only apply to a small proportion of the 11 million workers. Mexico's minimum wage is among the lowest in the Western Hemisphere. The 20-percent increase will still leave it far below most countries. The final effect on inflation will depend mostly on how much the increase will pressure wage increases for the rest of the workers. Given that the economy is facing a large negative output gap, it is very likely that medium wages will not register strong real increases, minimizing the overall impact on inflation. The central bank estimates that the final effect will

Continued on page 4

## TODAY'S NEWS

### POLITICAL

## U.S. Sending Team to Bolivia to Discuss Aid

The team, organized by the U.S. Agency for International Development, or USAID, will meet with Bolivia's interim government to discuss aid ahead of the country's May 3 presidential election.

Page 2

### BUSINESS

## Apache, Total Find 'Significant' Oil Deposits off Coast of Suriname

Analysts said the discovery could increase the valuation of the project jointly owned by the two companies by more than \$1 billion.

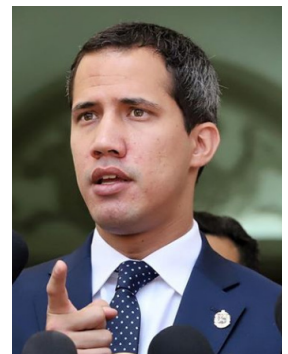
Page 3

### POLITICAL

## Opposition Storms Venezuela Assembly to Swear in Guaidó

Opposition legislators pushed past government troops to enter Venezuela's National Assembly to swear in Juan Guaidó for another term as the body's leader.

Page 2



Guaidó // File Photo: Facebook page of Juan Guaidó.

## POLITICAL NEWS

## Opposition Storms Venezuelan Assembly to Swear in Guaidó

Opposition members of Venezuela's National Assembly on Tuesday rammed their way past government-allied soldiers and into the Assembly to swear in their leader, Juan Guaidó, for another term as the body's president. "In the name of those who have no voice, the mothers who weep, the political prisoners; in the name of Venezuela, I swear to fulfill the duties of acting president," Guaidó said as he took the oath of office, the Los Angeles Times reported. Guaidó, whom the United States and dozens of other countries recognize as Venezuela's legitimate president and National Assembly leader, was poised to be re-elected as the Assembly's leader on Sunday but was forcibly prevented from entering the opposition-led Assembly by soldiers who had surrounded the building. Politicians loyal to President Nicolás Maduro swore in their own leader, Luis Parra, prompting opposition members to assemble later at an opposition newspaper office to re-elect Guaidó to the position. On Tuesday, opposition politicians, who have 100 of the 167 seats in the National Assembly, barged through the Assembly building's ornate wooden doors while Parra and his allies were holding their legislative session. Lights were soon cut in the Assembly, and Guaidó was sworn in as the Assembly's leader by the light of television cameras, The Wall Street Journal reported. Soon after, Guaidó and his allies left the building, allowing government troops to re-establish control. "They're not going to stop us," said Guaidó's deputy, Juan Guanipa, The Wall Street Journal reported. "We have a grand responsibility with this country. Soon we'll be able to say Venezuela is a free country, a democracy, a country that will rebuild." In a blow to Guaidó and Venezuela's opposition, Argentina's new center-left government said Tuesday that the country would no longer recognize him as Venezuela's president and that it had revoked the credentials of Guaidó's envoy in Buenos Aires,

Reuters reported. Argentine President Alberto Fernández's administration sent a letter to the envoy, Elisa Trotta Gamus, to say that her "special mission" in Argentina had been terminated, the wire service reported. Under conservative then-President Mauricio Macri, Argentina had recognized Guaidó last year as Venezuela's president, but that policy has changed under Fernández, who took office last month. Trotta "was under the special mission format that the previous administration had given her, not as a formal ambassador of Venezuela," an Argentine Foreign Ministry spokesman said. "We do not recognize Guaidó as president, but as a leader of the opposition, and based on that, we consider that there is no special representation mission." [Editor's note: See [Q&A](#) about Venezuela in Tuesday's Advisor.]

## ECONOMIC NEWS

## Mexico's Government to Build 2,700 Bank of Well-Being Branches

The construction of 2,700 branches of Mexico's state-owned Bank of Well-Being have been approved, Mexican President Andrés Manuel López Obrador announced, Mexico News Daily reported Tuesday. The so-called "bank of the poor" would have the largest network of branches in the country if the government's plan is successful. Half of the branches will be constructed this year, and the other 1,350 will follow in 2021, the president said, adding that military engineers will build the new banks for a total cost of 10 billion pesos, or around \$529 million. The government will pay for it with "end of the year savings," he said, Notimex reported. The bank already has 538 existing branches, formerly of federal savings bank Bansefi. Even so, the number falls short of the 13,000 branches López Obrador had promised last month. The new banks' locations will be Mexico's "most isolated, most marginalized communities," where the "poorest people" live, López Obrador said. The branches will provide banking services to recipients of financial

## NEWS BRIEFS

## U.S. Sending Team to Bolivia to Discuss Aid

The administration of U.S. President Donald Trump is sending an assessment team to Bolivia this week to discuss the possibility of foreign aid to the Andean nation following the resignation in November of leftist President Evo Morales, the Associated Press reported today, citing two unnamed sources. The team, organized by USAID, will meet with Bolivia's interim government to discuss assistance in the presidential election scheduled for May 3, as well as longer-term areas of cooperation. The mission has not yet been formally announced.

## Power Outages Continue in Puerto Rico Following Strong Earthquake

Power outages across Puerto Rico continued into a second day today after the worst earthquake in more than a century struck the U.S. territory, Reuters reported. Tuesday's 6.4 magnitude earthquake took the island's largest power plant offline, flattened homes and killed at least one person. Schools remained closed today, and all public employees except for police officers and health care workers were told to stay home as engineers checked the soundness of buildings that remained standing.

## Spirit Airlines Announces New Nonstop Routes From Florida to Colombia

Budget airline Spirit on Tuesday announced new nonstop routes between Fort Lauderdale, Fla., and the northern Colombian cities of Bucaramanga and Barranquilla, USA Today reported. Flights to and from Fort Lauderdale will begin in April. Spirit says the latest additions make it the U.S. airline with most nonstop flights to Colombia. It has 10 routes between Fort Lauderdale and Orlando, Fla., to seven Colombian cities, including Bogotá, Medellín, Armenia and Cali.

support from the government, including the elderly, disabled people, scholarship holders and Mexicans employed by the state-run tree-planting program, “Sembrando Vida” and the “Youth Building the Future” apprenticeship scheme, the president added, Mexico News Daily reported.

## BUSINESS NEWS

### Tokio Marine, Caixa Partnering to Offer Insurance in Brazil

Japan-based Tokio Marine Holdings is planning to form a joint venture with Brazil's Caixa Seguridade, the insurance unit of Caixa Econômica Federal, to offer homeowners' insurance, Insurance Business Asia reported today. Tokio Marine is investing 39.5 billion yen (\$370 million) in the partnership, which will offer fire insurance policies that will be paired with insurance to pay off the policyholder's mortgage in the event of their death. The companies say they want to become the market leader in this segment of the insurance market. Tokio Marine will hold 50.01 percent of the venture, and the deal includes a 20-year agreement for bancassurance, according to the report. The Tokyo-based insurer has sought to tap Brazil's insurance market amid rising disaster payouts in Japan. Caixa currently holds approximately 70 percent of Brazil's mortgage market. It previously offered home loan insurance through a venture with France's CNP Assurances.

### Apache, Total Find ‘Significant’ Oil Deposits in Suriname

Houston-based Apache and France's Total have discovered “significant” deposits of oil off the coast of Suriname, the companies announced Tuesday, spurring investor excitement that it could be the region's second large find in recent years following ExxonMobil's discovery of oil deposits offshore Guyana, The Wall

## THE DIALOGUE CONTINUES

### Who Is Winning the Battle For Control of Brazil's Amazon?

**Q** France and a group of Brazilian states are planning a partnership to help protect the Amazon rain forest, said Waldez Góes, the governor of Brazil's Amapá state and the leader of a consortium of nine states in Brazil's Amazon region. The deal, which would establish a mechanism to allow foreign countries to directly contribute to state-level projects to preserve the Amazon, bypasses Brazil's federal government. President Jair Bolsonaro's environmental policies have come under criticism this year following a jump in Amazon wildfires in August. Are the Brazilian states taking the right approach in working directly with France and other countries, and to what extent will the partnership succeed? What are the risks of establishing an arrangement that circumvents Brazil's federal government? What types of projects will the money go to, and what else can be done at the state level to preserve the Amazon rain forest?

**A** Adriana Ramos, coordinator of the policy and law program at the Socioenvironmental Institute in Brazil: “It is legitimate for Brazilian states to seek international cooperation to support their policies against deforestation, especially considering federal policies that include blocking the Amazon Fund,

which is an important source of support for states' policies. Although the responsibility for deforestation control lies at the state level, the federal government should coordinate policies against deforestation and the actions on federal lands, such as indigenous territories and conservation units. There is still little information on what is being considered under the states' proposal. It is important to note that most of the successful strategies to reduce deforestation and promote the sustainable use of the forests were based on initiatives developed by local communities and civil society organizations. The enforcement of environmental legislation should be a precondition for any state to receive resources with the aim of promoting forest conservation and sustainable use. Strengthening state environmental agencies is also a key approach to be considered. The states can also play an important role in supporting local communities in managing their territories and even in guaranteeing territorial rights for communities such as the quilombolas.”

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**EDITOR'S NOTE:** The comment above is a continuation of the Q&A published in the Dec. 20 issue of the Advisor.

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Street Journal reported. Apache said in a statement with few details that it had found oil in two of the areas it had been testing. “Data indicates the potential for prolific oil wells,” Apache CEO John Christmann said in the statement. Analysts said the discovery could result in an increase of more than \$1 billion in the valuation of the project, according to the report. Apache's shares shot up 25 percent on Tuesday on the news, putting them on track for their largest gain since 1973. The company's share price had declined in December when

it released a progress report that included no details on whether or not it had found oil in Suriname. Total shares fell slightly on Tuesday. The two companies each own a 50 percent stake in the block where the well was drilled, after Total bought it last month, the Financial Times reported. “We are optimistic about the large remaining potential of the area still to be discovered and will test several other prospects on the same block,” said Kevin McLachlan, senior vice president for exploration at Total, the Financial Times reported.

## FEATURED Q&amp;A / Continued from page 1

be at most 30 to 40 basis points, with a high probability that it will be much less. While it is unlikely that the final effect on businesses will be significant, there are a few sectors in the economy that will experience certain difficulty, such as restaurants, which pay a minimum wage to waiters, who in turn complement their wages with tips.”

**A** **Greg Ahlgren, partner at Diaz, Reus & Targ:** “López Obrador’s economic policies are beset by challenges on many fronts, and there are no simple solutions. While the improvement of the purchasing power of Mexican families is a laudable and necessary long-term policy objective, the achievement of household income growth

“**Mexico’s minimum wage hike will almost certainly produce a higher rate of inflation for 2020, but that is not the only anticipated effect.”**

— Greg Ahlgren

must be aligned with post-NAFTA plans for maintaining Mexico’s global competitive position. Mexico’s minimum wage hike will almost certainly produce a higher rate of inflation for 2020, but that is not the only anticipated effect. Ultimately, the wage hike can be expected to increase the incentives for operating in the informal economy. So, although López Obrador has generally sought to shrink Mexico’s informal economy and thereby increase tax revenues, the wage hike may be something of a wash in terms of tax revenues, as some employers and workers will eventually migrate into the realm of informality.”

**A** **Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City:** “Mexico’s government decided to raise national minimum wage by 20 percent even at the risk of spurring inflation and reducing the room for interest rate cuts. Even though the hike is almost seven times the current annual inflation rate of 2.85 percent (as of November), it is still less than \$1 an hour. This is the second increase in one year. This measure puts considerable pressure on inflation, and interest rates will not decrease very much. The central bank has to remain prudent, given a higher rate of core inflation. Perhaps this measure will not harm the economy that much, as the previous hike did not stoke inflation; it has actually fallen from 4.8 percent to the aforementioned number. Nonetheless, the cumulative effect of these back-to-back wage increases will definitely affect prices and will force the central bank to elongate the frequency of interest rate cuts. Certainly, salaries should cover the minimum needs of every Mexican, but solutions should not distort the labor market or disincentivize hiring or opening vacancies. Businesses may struggle with this hike, as profits have not thrived amid the country’s stagnant economy. Increasing the minimum wage might actually push employers to shrink their work force if payrolls suddenly increase without the corresponding net gains. Accompanying actions should take into consideration businesses’ concerns and needs in order to provide the incentives to absorb new costs with no severe repercussions on profits or shared value.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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