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FEATURED Q&A

Will Chile's Pension Withdrawals Cause Long-Term Pain?

Chilean President Sebastián Piñera approved a measure to allow pension account holders to withdraw money from their accounts for a second time. // File Photo: Chilean Government.

Q Chilean President Sebastián Piñera this month signed legislation to allow savers to tap an additional 10 percent from their pension funds, the second withdrawal approved this year amid the economic turmoil brought on by the Covid-19 pandemic. Piñera's government has been vocal about its disagreement with pension withdrawals, but it introduced the bill in order to counter the opposition's own proposal. What are the merits and downsides of the latest legislation, along with its long-term effects on the pension system? What political dynamics are at play, and can the Piñera administration consider this a win? What does the new law mean for citizens and businesses?

A Carolina Goic Boroevic, senator and former presidential candidate in Chile: "The first thing to note is that we now have a second withdrawal due to the inability of President Piñera's government to provide an effective and timely response to the needs of the people who have been affected by the pandemic. Nobody considers the second withdrawal a good measure because the relief is being financed with the workers' pensions savings. But there are no other options. This is not a triumph for anyone, and less so for the government, which presented the proposal at the last minute only to cover up its political defeat in the Chamber of Deputies, with votes from its own coalition. Moreover, all this occurs amid a substantive discussion about the pension system, in which, as part of the opposition, we presented a good proposal months ago. The government has not yet commented on it."

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TODAY'S NEWS

ECONOMIC

Mexico Approves 15% Increase in Minimum Wage

Mexico's National Wage Commission approved a 15 percent increase in the daily minimum wage, raising it to 141.70 pesos, or $7.15. It is the third minimum wage increase since late 2018, when President Andrés Manuel López Obrador took office.

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BUSINESS

PDVSA Starts Offloading Oil From Tanker

Venezuelan state oil company PDVSA has started transferring oil from an idled tanker that sparked fears of a disaster after it was seen listing to one side.

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POLITICAL

IDB Directing $1 Bn to Region for Covid Vaccines

The Inter-American Development Bank, led by Mauricio Claver-Carone, is directing $1 billion to help Latin American and Caribbean nations acquire and distribute Covid-19 vaccines.

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Claver-Carone // File Photo: Inter-American Development Bank.

POLITICAL NEWS

IDB Directing $1 Bn to Latin America for Covid Vaccines

The Inter-American Development Bank announced Wednesday that it is directing $1 billion to help Latin American and Caribbean countries acquire and distribute vaccines for Covid-19. The IDB said the new allocation will complement $1.2 billion in resources that it has already committed to the region this year, in addition to money committed for next year, to aid the region with testing, contact tracing and better clinical management of patients who have Covid-19. "We are expanding our support to help Latin American and Caribbean countries ensure timely access to safe and effective Covid-19 vaccines," IDB President Mauricio Claver-Carone said in a statement. "The coming months will be critical to altering the course of the pandemic and supporting the recovery of our region, which is why we are being bold and proactive." The funding will be used for buying doses of the vaccines through multilateral efforts, such as the World Health Organization's COVAX facility, the IDB said. It added that money will also be used to strengthen institutions to help countries develop effective mechanisms for deploying the vaccines and investment to build capacity for immunizations, as well as pay for operational costs. The IDB added that it will work closely with other institutions, such as the Pan American Health Organization. In related news, Brazil's health ministry announced Wednesday that it will begin vaccinations in February, CNN reported. Brazil's health regulatory agency, ANVISA, has not yet authorized the use of any Covid-19 vaccine in the country. However, the health ministry said it has negotiated deals for more than 300 million doses to be delivered next year. Since the beginning of the pandemic, Brazil has registered more than seven million confirmed cases of Covid-19, the third highest in the world after the United States and India, according to Johns Hopkins University. The Brazil also has more than 183,000 confirmed deaths from the disease, second only to the United States, which has more than 307,000 confirmed deaths. Elsewhere, Chile's health regulator approved the emergency use of the Covid-19 vaccine produced by Pfizer and BioNTech, and the first doses could be administered there by Christmas, Reuters reported. Also, Ecuador's health authorities approved the Pfizer/BioNTech vaccine, and officials there hope to have the first 50,000 doses of the vaccine delivered in January. [Editor's note: See the Advisor's **interview** on vaccine nationalism with Arachu Castro of Tulane University.]

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A **Kathleen C. Barclay, former president of the American Chamber of Commerce in Chile:** "The withdrawal of a second 10 percent of private pension savings will provide an immediate boost to the economy, estimated at 1 percent of GDP due to increases in private consumption. The impact is expected to be less than with the first withdrawal as, first, many have already exhausted their savings and, second, individuals remaining in the system tend to belong to higher-income groups less likely to spend on consumption. One important downside of the legislation is that roughly four million of the 11 million contributors will no longer have savings in the private system. Two groups are particularly affected: 1.) 18 percent of those over the age of 50, who will have no remaining pension balance and a limited time horizon to restore their savings and 2.) younger people who will have eliminated or reduced savings at an early age, making the need to increase future savings greater to obtain adequate pensions. This measure is short-term consumption driven and will have a negative impact on longer-term investment, making it harder to return to the medium-term growth trajectory needed to face the increased

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NEWS BRIEFS

Mexican President to Nominate Moctezuma as Next Ambassador to U.S.

Mexican President Andrés Manuel López Obrador said Wednesday that he is tapping his education secretary, Esteban Moctezuma, as the country's next ambassador to the United States, the Associated Press reported. Moctezuma once ran the charitable foundation of business magnate Ricardo Salinas Pliego, who is seen as having strong ties to López Obrador. If confirmed by Mexico's Senate, Moctezuma would replace current Mexican Ambassador to the United States Martha Bárcena, who is retiring.

Uruguay to Close Borders Next Week to Noncommercial Traffic

Uruguay will temporarily close its borders next week to noncommercial traffic, and the government has called on citizens to limit holiday gatherings as the South American nation sees a surge in Covid-19 cases, Reuters reported today. The borders will remain closed from Dec. 21 to Jan. 10, except for cargo transportation, the government said. On Wednesday, Uruguay recorded 476 new confirmed cases of the novel coronavirus and four deaths, and the virus reached all of the country's provinces for the first time since the pandemic began.

Mexico's Credit, Debit Card Settlements a Near Monopoly: Regulators

Mexican regulators said Wednesday that the country's credit and debit card settlements are almost a monopoly, issuing a recommendation that leading banks be forced to sell off their ownership share in the two companies that handle the settlement processes, the Associated Press reported Wednesday. Although many banks issue cards in Mexico, only two firms actually process and settle the transactions.

ECONOMIC NEWS

Mexico Approves 15% Increase in Minimum Wage

Mexico's National Minimum Wage Commission on Wednesday approved a 15 percent hike in the country's daily minimum wage, raising it from 123.22 pesos to 141.70 pesos, or $7.15, El País reported. In the northern region, where many U.S. companies are based, the minimum wage was increased to 213.39 pesos from 185.56 pesos currently. It is the third minimum wage increase since the end of 2018, when President Andrés Manuel López Obrador took office. Mexico's minimum wage went up by 16 percent in 2019, and another 20 percent this year, the biggest hike in the last four decades, according to the newspaper. By next year, the minimum wage will have risen 60 percent since López Obrador's term began in December 2018, when the minimum salaries were 88.36 pesos, Reuters reported. López Obrador says Mexican wages are extremely low by international standards. According to the Mexican government, after the latest hike, Mexico will rank 76 out of 135 in wages. The business community has voiced concerns about the increases, including worries over unemployment. "I fear [the salary rise] will result in the loss of formal jobs," said Alonso Cervera, a Credit Suisse economist, the wire service reported. Mexico's unemployment rate fell 4.7 percent in October from 5.1 percent the previous month, but it was higher than the 3.6 percent registered in the same month last year, according to Trading Economics.

BUSINESS NEWS

Venezuela's PDVSA Begins Unloading Oil From Listing Tanker

Venezuelan state oil company PDVSA has started unloading oil from a stricken tanker that was seen listing to one side, raising alarm about a potential environmental disaster, Bloomberg News reported Wednesday. PDVSA started transferring oil from the FSA Nabarima on Tuesday, according to two people who were unnamed because they were discussing internal matters, the news service reported. The oil is being transferred to a barge, and it will then be placed onto a smaller crude oil tanker, the sources said. The vessel is located in the Gulf of Paria, between Venezuela and Trinidad and Tobago. The operation to unload it is expected to take as long as two months. Images of the tanker listing to one side sparked concerns in October, though a delegation from Trinidad and Tobago found that it was not in danger of capsizing. Still, environmental groups warned that if the vessel overturned, it would be a disaster. Tracking data showed two Venezuelan-flagged vessels and a Panamanian vessel near the tanker, according to The Maritime Executive.

THE DIALOGUE CONTINUES

Is Mexico's López Obrador Making the Right Labor Reforms?

Q Mexican President Andrés Manuel López Obrador on Nov. 12 sent Congress legislation to prohibit the subcontracting of jobs by private companies without prior government authorization. López Obrador said the measure is needed because the practice has been used to commit tax fraud and deny workers their benefits. To what extent does subcontracting, or job outsourcing, hurt Mexican workers, and should lawmakers approve López Obrador's prohibition of it? Which sectors would be most affected by a ban on subcontracting? What role will labor laws play in Mexico's economic recovery, and what other regulatory changes should the country's policymakers consider next?

A Alejandro González, counsel, and Larry B. Pascal, partner, at Haynes and Boone: "Subcontracting for the purpose of avoiding tax or labor obligations hurts society and workers and is a legitimate policy goal to address. By the same token, Mexico has historically suffered from a large informal labor sector, and the Covid-19 pandemic has only aggravated the crisis. Hence, Mexican policymakers should strike the proper balance and seek to achieve a labor reform that enables Mexican businesses to be responsive to market trends, while still requiring the private sector to meet its tax and labor obligations. Under the López Obrador administration, Mexico, as part of the USMCA, has already adopted legislation implementing its labor commitments under the agreement, including promoting the ability to organize workers. Any additional labor reform should balance these above-mentioned twin policy objectives and allow Mexico to capitalize fully on the opportunities presented under the USMCA and the return of supply lines from Asia-Pacific back to North America. An actual outright ban on subcontracting is unlikely, as a new concept of 'specialized service providers' is likely to emerge. Nevertheless, much additional detail will have to be added (and is likely being negotiated between the government, the private sector and labor organizations). Numerous key sectors such as the energy, manufacturing and tourism/transportation sectors could be negatively affected if the proper balance is not struck. Mexico should continue to strive to promote investment, enhance transparency and reduce unnecessary bureaucracy, while still advancing the legitimate goals of society and workers."

EDITOR'S NOTE: The comment above is a continuation of the Q&A published in the Dec. 3 issue of the Advisor.

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social demands. From a political standpoint, the second 10 percent withdrawal was less negative than the first due to the Piñera government's initiative to collect taxes on withdrawals by higher-income individuals. While an improvement from legislation presented by the opposition, it reflects the failure of Chile's political class for well over a decade to address the underlying need to reform the pension system. The Piñera government has filed a case with the Constitutional Court to prevent further withdrawals initiated by the legislature. The outcome of the case is pending."

A **Guillermo Holzmann, professor at the University of Valparaíso and CEO of Analytyka Consulting:** "From a political analysis standpoint, the second withdrawal of 10 percent of workers' pension funds has several important nuances to consider. The first is that this 'help' to cope with the socioeconomic impact of Covid-19 comes from each worker's individual savings; it does not come from the state. The second is that its approval means installing a de facto parliamentarism within a hyper-presidential system, breaking traditions and bringing forth constitutionality issues that the government is trying to resolve through the Constitutional Court. Third is that the debate has transformed into an ideological breakdown regarding the future of the system and its financing, considering that after this second withdrawal more than four million workers will be left without savings for their future pensions. Fourth is that the economic effect has been positive to the extent that it allows the injection of liquidity into the market, favoring commercial activity. Fifth is that it means taking $34 billion out of the stock and financial system, with an impact of 2.8 percent of GDP, according to the central bank. Sixth is that the withdrawal favors groups that already have savings in the system, but it leaves out a growing percentage of those in the informal economy. And seventh is that, for the government, it implies a loss of leadership ability, despite wanting to regain political space in the Constitutional Court. The conclusion, in strategic terms, is that citizens will demand replacement of individual savings and a transformation of the pension system, which will translate into a requirement of the constituent process that is to begin in April of next year."

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

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