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**FEATURED Q&A**

# Will Argentina's Macri Push Through Labor Reforms?

Argentine President Mauricio Macri is seeking labor reforms in order to boost the country's level of foreign investment. // File Photo: Argentine Government.

**Q President Mauricio Macri is attempting to lower Argentina's high labor costs in an effort to boost foreign investment. Such efforts, though, are expected to lead to clashes with unions allied with the opposition Peronist party. What changes might have the best odds of success and public acceptance as Macri seeks to reduce labor costs? To what extent does new foreign direct investment in Argentina depend on labor reforms? What will be the economic consequences if Macri fails to push through labor reforms?**

**A Daniel Filmus, Parlasur deputy, researcher at the National Scientific and Technical Research Council (CONICET) and professor at the University of Buenos Aires:** "Mauricio Macri predicted a flood of foreign capital in Argentina if Cambiemos prevailed in the 2015 elections. Despite that triumph, the flood of investment did not happen. Then, the promise of more foreign capital came again with the settlement of Argentina's debt with the vulture funds. That still didn't lead to a flood of investment. The labor reform that the government is now proposing, which includes a reduction in contributions by businesses and the easing of working conditions, has already failed on other occasions. In the 1990s, for example, such measures generated a huge political and economic crisis, causing the highest unemployment rate in Argentina's history, close to 25 percent. The unions will not want to repeat history and will take forceful measures that will worsen the labor conflict. As the government does not have a majority in Congress and we are in an election year, it is difficult to predict that the reforms will

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Venezuela's government pulled CNNs Spanish-language service off cable systems after it reported Vice President Tareck El Aissami's alleged involvement in a passports-for-cash scheme.

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Mexico received $5.73 billion in FDI in the fourth quarter, a 17 percent increase from the same period a year earlier.

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## Ruling Party Candidate Leads Polls Ahead of Ecuador Election

Former Vice President Lenín Moreno is leading polls ahead of the election, but his lead does not appear to be enough to avoid a runoff on April 2. Moreno's nearest rival in the polls is former banker Guillermo Lasso.

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Moreno // File Photo: Moreno Campaign.

POLITICAL NEWS

# Venezuela Pulls Plug on CNN En Español

Venezuela's government on Wednesday blocked CNN's Spanish-language service from cable systems, a move that came a week after the network broadcast a report alleging that Vice President Tareck El Aissami and other officials were involved in passport fraud, The New York Times reported. CNN's English-language service remained on the air, and CNN En Español could still be viewed in Venezuela via live streaming over the Internet. The CNN report that led the government to remove it from cable systems described a passport-for-cash scheme that the network reported was being run out of Venezuela's embassy in Baghdad. The network did not say where the intelligence document that the report was based on originated. CNN did, however, attribute some of the reporting to a whistle-blower, a former legal advisor in the Venezuelan embassy in Baghdad and a former official in Miami. The network also reported that some of the Venezuelan passports and visas were provided to people with ties to Hezbollah, the Lebanese Shiite militia group. The report was broadcast several days before the U.S. Treasury slapped sanctions against El Aissami and labeled him an international drug kingpin. El Aissami has vigorously denied wrongdoing. Also on Wednesday, U.S. President Donald Trump appeared via Twitter in a photo with Lilian Tintori, the wife of imprisoned Venezuelan opposition leader Leopoldo López, calling for López's release.

ECONOMIC NEWS

# Mexico's FDI Grows in Fourth Quarter

Mexico's foreign direct investment grew in the fourth quarter from the third quarter, as well as year-over-year, despite fears that FDI would be negatively affected by the election of U.S. President Donald Trump, who opposes having companies who sell goods to the U.S. market build their factories in Mexico, The Wall Street Journal reported Wednesday. Mexico received $5.73 billion in FDI between October and December, the Economy Ministry said, jumping 17 percent from the $4.89 billion in FDI reported during the same period a year earlier, and about a third more than the $4.3 billion reported during the previous quarter the same year.

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be approved. Argentina has not competed internationally since the deterioration of working conditions and the decline in labor costs. It is characterized, however, as competitive by the high quality of its workforce, by its people's capacity to work and by its potential for research and productive innovation. However, Macri has not yet shown any positive macroeconomic indicators to attract productive capital. He has increased the fiscal deficit, inflation, unemployment and poverty. Meanwhile, the internal market has deteriorated and industrial exports have declined. In this context, labor reforms not only are uncertain to be approved, but they also would not have the result that the government has promised."

A **Megan Cook, analyst, and Juan Cruz Díaz, managing director, both at Cefeidas Group in Buenos Aires:** "Reducing labor costs is part of the government's efforts to improve productivity and competitiveness and to attract more foreign investment. However, former President Carlos Menem's attempts to push for labor reform, which generated fierce resistance from unions in the 1990s, show that passing sweeping reforms with little thought for the political support necessary for their long-term sustainability is almost impossible in Argentina. To that end, the government will seek to reach agreements on a sectoral basis with the unions that are most open to compromise. This was

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NEWS BRIEFS

## Ruling Party Candidate Leads Polls Ahead of Ecuador Election

Ruling party candidate and former Vice President Lenín Moreno is leading polls ahead of Ecuador's presidential election on Sunday, Reuters reported. Pollster Cedatos said this month that Moreno, with 32.3 percent support, was leading his closest rival, former banker Guillermo Lasso, who had 21.5 percent backing. A candidate must win more than 40 percent of the vote with a 10 percentage point margin of victory to avoid a runoff.

## Tillerson, Kelly to Visit Mexico Next Week

The Mexican Foreign Ministry said in a statement that U.S. Secretary of State Rex Tillerson and U.S. Homeland Security Secretary John Kelly will travel to Mexico City on Feb. 23 to meet with Mexican officials, the Associated Press reported Wednesday. The U.S. State Department confirmed the trip as well. The Mexican Foreign Ministry said the talks are meant to help promote respectful and close relations between the neighboring countries. The announcement comes after Mexican President Enrique Peña Nieto canceled a planned trip to the United States last month.

## Prosecutors From 15 Countries Meeting to Discuss Odebrecht Case

Prosecutors from 15 countries will convene in Brasília today and tomorrow to discuss the massive corruption probe into Brazilian construction conglomerate Odebrecht, which has spread throughout the region to other countries where the company has done business and allegedly given bribes to public officials in exchange for contracts, Agence France-Presse reported. The meeting will be headed by Brazilian Prosecutor General Rodrigo Janot.

 

Mexico's total FDI for 2016 was $26.74 billion, down 5.8 percent as compared with the $32.9 billion reported the year before. The election of Trump, who has floated the idea of a border tax on companies who move their factories to Mexico, has caused some in the industry to worry that investment to Mexico will drop, but Goldman Sachs Latin America economist Alberto Ramos said it's too soon to tell whether those concerns were overblown. "Much of the investment may have been commitments that they couldn't back out of," he said. He said the sector in Mexico most likely to be affected would be manufacturing, but that any negative effect on the economy would be offset by the increasing FDI in Mexico's oil and gas sectors.

## BUSINESS NEWS

# Siemens to Invest $200 Million in Mexico Over 10 Years

The CEO of German industrial conglomerate Siemens, Joe Kaeser, on Tuesday following a discussion with Mexican Economy Minister Ildefonso Guajardo announced that his company would invest $200 million in Mexico over the next 10 years and would create about 1,000 jobs in the country, Deutsche Welle reported Wednesday. The Siemens executive and the Mexican minister signed a memorandum of understanding that Siemens will sell oil sector equipment to Mexican state-run oil company Pemex. "[With the investment] we underscore our commitment to Mexico," Kaeser said. In addition to working with Mexico's oil sector, Siemens is also considering contracts in the country's renewables sector as the government pushes to generate half of its energy from wind and solar by 2050. The move comes amid barbs between U.S. President Donald Trump and the Mexican government over trade policy. Trump has blamed the country for deindustrializing the United States by attracting U.S. companies to build factories in Mexico, where they can pay workers lower wages than they would in the United States.

## IN FOCUS

# Possible U.S. Tax on Remittances May Drive Money Transfers Underground: Executive

**By Nicole Wasson**

WASHINGTON—A top executive at money-transfer company MoneyGram last week said the money-transfer industry is concerned that a tax on outgoing remittances from the United States, such as the one that U.S. President Donald Trump has in the past proposed as a means of financing the building of a border wall between the United States and Mexico, would undo the progress the industry has made in increasing transparency in the money-transfer sector.


**Bances** // Photo: Inter-American Dialogue.

"The industry has worked very hard over the last 15 years to really change the perception of money transfers and to build and implement policies and procedures for anti-money laundering, for anti-terrorist financing and that activity as a whole," Paul Bances, head of Latin America and the Caribbean at MoneyGram International, said Friday at the Inter-American Dialogue. Bances spoke at an event in which the Dialogue's Migration, Remittances and Development Program director, Manuel Orozco, discussed the findings of a new report on remittance flows to the region.

Bances argued that implementing a tax on remittances would only serve to dissuade people from using official channels to send money back home. "To drive money back underground kills that transparency we've been trying to build," he said. During the event, Orozco said several Latin American economies, particularly Mexico and Central American countries, are increasingly entwined with the U.S. economy via remittances, making those countries remittance-dependent.

Trump's signature campaign promise was that he would build a wall along the United States' southern border and force Mexico to pay for it. In early January, Trump said Mexico would reimburse the United States for the wall "whether it's a tax or a payment," CNN reported. The Mexican government, which has repeatedly refused to pay for such a wall, blasted the suggestion of imposing a remittance tax, and Mexican President Enrique Peña Nieto canceled a planned trip to the United States.

Trump has not publicly discussed the possibility of implementing a remittance tax since early January, however. White House Press Secretary Sean Spicer on Jan. 26 suggested that imposing a 20 percent tax on imports from Mexico is an option Trump is considering to pay for the wall. The Trump administration has not yet made a formal policy announcement as to how the wall would be financed.

On Tuesday, Republican congressmen on the House Freedom Caucus and Republican Study Committee said that if Trump wants to build a border wall using U.S. funds, then he must be willing to make spending cuts elsewhere, CNN reported.

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evidenced in the recent deal struck between the national and local governments, energy companies and labor unions to boost productivity at the Vaca Muerta shale formation, and in a deal reportedly in the works in the automotive sector. Nationally, the government has proposed a package of reforms to reduce labor costs. The government wants to change workers' compensation and internship systems as well as introduce a 'labor amnesty' program. This program would subsidize employer contributions to encourage companies to formally hire workers from the informal economy (around a third of the workforce). However, passing reforms in an election year will not be easy. While the workers' compensation changes are likely to be approved by Congress, the likelihood of other aspects of its reforms passing this year is less clear. The paritaria (salary negotiation) process has just begun and looks to be difficult as unions come under increasing pressure from their constituents to take a more oppositional stance toward the government after a difficult 2016 in which workers' purchasing power was eroded by high inflation. Compromise will also be difficult in the lead-up to the October midterm elections. A further challenge will come from labor judges, historically quite activist, who may block aspects of any reforms that are passed. That said, it is important to keep in mind that foreign investment in Argentina does not depend exclusively on the success or failure of labor reforms. Reforms could lead to increased productivity, but investors will also consider the broader macroeconomic environment and institutional stability, areas in which the Macri administration has made significant progress."

> **"Passing reforms in an election year will not be easy."**
> **— Megan Cook & Juan Cruz Díaz**

**A** **Carlos Fara, president of Carlos Fara & Asociados in Buenos Aires:** "The government seems to have rejected the strategy of a major labor reform in the short term. The first great success it had was the modification of the labor agreement for new investments for the exploitation of shale gas. The logic is: to attract new investments, specific labor conditions are negotiated with the union, which do not apply to the rest of the oil activities. So precedents are set. The same model is being promoted in other activities, such as the construction and manufacturing of automobiles. The president knows that without union consensus, there will be no possible cost reduction. In this sense, he recalls De la Rua's failed experience. Argentina is definitely an expensive country in dollars, but the government also warns companies that they will have to get used to high salaries, and that it is therefore not possible to place the whole focus on lower wages. The structure of taxes and logistical costs should also be discussed. However, the Macri administration is committed to formalizing more private employees who are now hired under the table. Finally, new legislation is being passed in Congress that attempts to lower the cost of work-related accidents. So new foreign investment will have to stick to this framework. Labor costs are high, but if the domestic market is not reactivated, there will also be no real incentive for new investments."

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

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