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FEATURED Q&A

What Forces Are Driving Mexico's Labor Market?



Mexico's unemployment rate declined in October to 3.3 percent. Factory workers in Mexico's Jalisco state are pictured. // File Photo: Mexican Government.

Q Mexico's unemployment rate fell to 3.3 percent in October, down from 3.95 percent in the same month last year, state statistics institute INEGI reported Nov. 29. The country's number of unemployed people in the economically active population declined by 324,000 year-on-year in October to just under two million, however, and 5.3 million adults of working age remained outside the active labor force. What factors have led Mexico's unemployment rate to decline, and will the trend continue? Which sectors of Mexico's economy are seeing the highest and lowest levels of unemployment? How well are the Mexican government's policies aiding people in finding formal employment?

A Tequila Brooks, attorney and former labor law advisor to the North American Commission on Labor Cooperation Secretariat: "Because of the complexity and high level of informality of the Mexican labor market, the unemployment rate figure does not always capture the actual levels of employment and unemployment in the economy. This is also true in the United States and other economies. The drop in the unemployment rate from 3.95 percent to 3.3 percent from October 2021 to October 2022 is significant because it reflects positive trends in the Mexican economy and job market—including recovery from the pandemic. It is estimated that Mexico lost 1.19 million formal jobs during the early months of the pandemic. As reported by Mexico Now, the Mexican Social Security Institute (IMSS) indicates that those jobs were recovered by October 2021, with an additional one million formal jobs added to the economy as of November 2022.

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Bolsonaro Backers Attack Police Headquarters

Supporters of outgoing Brazilian President Jair Bolsonaro attacked the country's federal police headquarters late Monday. Law enforcement pushed them back before any could breach the building.

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Petroecuador Recovers 90% of Production After Outage

Ecuadorian state oil company Petroecuador said it recovered 90 percent of its output after a power outage affected hundreds of its wells.

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POLITICAL

Peruvian Judge Orders Castillo to Remain in Custody

A Peruvian Supreme Court judge on Tuesday ordered former President Pedro Castillo to remain in custody following his removal from office and arrest last week.

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Castillo // File Photo: Peruvian Government.

POLITICAL NEWS

Peruvian Judge Orders Castillo to Remain in Custody

A Peruvian Supreme Court judge on Tuesday denied an appeal by former President Pedro Castillo, ordering him to remain in custody, as prosecutors build a case against him following his unsuccessful attempt last week to dissolve Congress and rule by decree, the Associated Press reported. Castillo's announcement that he was dissolving the legislative body was "not a mere act of speech, but the concrete expression of a will to alter the constitutional system and the configuration of public powers," said Judge César San Martín Castro, the AP reported. In Tuesday's court hearing, Castillo argued that he is being "unjustly and arbitrarily detained" and thanked his supporters for their "effort and fight" since his arrest on Dec. 7. Evidence suggests that authorities intercepted Castillo that day as he was headed to the Mexican Embassy in Lima in order to request asylum, the judge said. Castillo was arrested shortly after Congress ousted him in an overwhelming vote and swore in his vice president, Dina Boluarte, as president. The judge's ruling could further inflame pro-Castillo protests that have been occurring over the past several days in some parts of Peru. At least seven people have been killed in the protests, with four of the deaths happening in Andahuaylas, a remote Andean community that is a Castillo stronghold. "I will never renounce or abandon this popular cause that has brought me here," Castillo said Tuesday. In an apparent reference to the violent protests, he said the military and police should "lay down their arms and stop killing people thirsty for justice," the AP reported. On Tuesday, Peru's defense minister said the armed forces would take control of key infrastructure in order to protect it, Reuters reported. Significant political reforms are needed in Peru in order to stabilize the country's politics, Julio Carrión, associate professor of political science and international relations at the University of Delaware, told the Advisor in a

Q&A published Dec. 9. "A deep political reform is needed and should include a return to bicameralism, congressional re-election, a more balanced relationship between the legislature and the executive branch, and a new electoral law," said Carrión. "I am skeptical this Congress will have the willingness or aptitude to manage this reform, or that Boluarte will have the political capital and vision to fight for it," he added. Also on Tuesday, Boluarte said she would call the leftist presidents of Mexico, Bolivia, Colombia and Argentina after their governments issued a joint statement the previous day calling for the protection of Castillo's rights and calling him "a victim of undemocratic harassment," Reuters reported. Mexican President Andrés Manuel López Obrador on Tuesday morning at his regular news conference said Castillo had won a free election and that his removal was undemocratic. "The will of the people who elected [Castillo] should be respected," said López Obrador. He said his government would continue recognizing Castillo as Peru's president, adding "relations are on hold to see what happens." However, Boluarte has said that Castillo's removal was lawful and that Peru still considered its relations with the four countries that signed the statement intact. "Diplomatic relations remain the same with these brother nations," she said.

Bolsonaro Backers Attack Brazil's Police Headquarters

Supporters of outgoing Brazilian President Jair Bolsonaro late Monday attacked the headquarters of the country's federal police in Brasília, the Associated Press reported. Law enforcement quelled the attack before any rioters could breach the headquarters, the wire service reported. The incident followed weeks of protests that have happened since Bolsonaro lost the country's runoff election on Oct. 30 to Luiz Inácio Lula da Silva. Some Bolsonaro supporters have called on Brazil's military to prevent Lula from taking office on Jan. 1. The attack at the police headquarters happened hours after Brazil certified Lula's victory. Bolsonaro has not

NEWS BRIEFS

U.S. Navy Hospital Ship Suspends Services in Haiti After 19 Fell Overboard

A U.S. Navy hospital ship operating in southwest Haiti has suspended medical services after a heavy swell led 19 people to fall overboard, officials said Tuesday, the Associated Press reported. Everyone was pulled back onto the USNS Comfort. Two people were injured but are expected to recover. According to meteorologists, the swell will last at least until the end of the week, and officials are considering ways to continue operating the mission safely.

Streets in Argentina Erupt in Celebration as Team Reaches World Cup Final

Revelers poured onto the streets of Buenos Aires on Tuesday as the country's national soccer team defeated Croatia's team by a score of 3-0, earning it a spot in the World Cup final, the Associated Press reported. Streets in the Argentine capital turned into parties as fans waved flags from their cars and others leapt and sang while wearing the Lionel Messi-led team's blue-and-white jersey. Argentina will play either France or Morocco in the final. Those two teams face off today.

Dominican Republic-Based EGE Haina Signs Deal for Power Project

Dominican Republic-based power producer Empresa Generadora de Electricidad Haina, or EGE Haina signed a 25-year concession agreement with the local national energy commission for a 90-megawatt peak project, Renewables Now reported today. The construction of the Esperanza photovoltaic farm located in Valverde province will need an investment of some \$94 million, EGE Haina said on Monday. The plant is expected to generate 200,000 megawatt hours per year, enough to satisfy the power demand of approximately 83,000 local households.

urged his supporters to fight the result, though he has also done little to stop them. Lula faces a tough challenge when he takes office, Elena Lazarou, an associate fellow at Chatham House, told the Advisor in a [Q&A](#) published Dec. 6. “He will inherit a politically polarized country and an economy which by most credible predictions is likely to slow down in 2023; these two dimensions destructively reinforce each other,” she said.

BUSINESS NEWS

Petroecuador Has Recovered 90% of Output After Outage

Ecuadorian state-owned oil company Petroecuador has recovered 90 percent of its production after a majority of its oil wells were affected by a power outage, the company said on Tuesday, Reuters reported. Hundreds of its oil wells ceased to function on Sunday in the oil company’s most productive area of the Amazon, after a surge in a power line caused a blackout, but the wells have since returned to normal activity. “The loss of 55,439 barrels was recovered almost in its entirety when most of the wells returned to production,” the oil company said in a statement. “The effective work carried out by technical teams managed to recover 90 percent of the affected production in a single day,” it added. Petroecuador’s production had reached 385,029 barrels per day (bpd) before the blackout, according to the Energy and Non-Renewable Natural Resources Regulatory Agency. A similar incident occurred last month in the company’s ITT block, mainly located inside Yasuní National Park in the Amazon rain forest, whose operation has led to resistance from Indigenous communities. Since taking office in May 2021, President Guillermo Lasso has promised to ramp up the country’s oil production, and Ecuador’s budget for 2023 plans for an estimated production of 188 million barrels of oil, or an increase of 35,000 bpd. [Editor’s note: see related [Q&A](#) in the Dec. 2 issue of the weekly Energy Advisor.]

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Jobs have increased in transportation and communications. While the trend in job growth and recovery of the labor market since the pandemic is positive, job growth in the informal sector has outpaced that of the formal sector. More than 55 percent of Mexico’s economically active population works in the informal labor sector—as much as 80 percent in the southern region of the country. Women’s labor market participation has decreased since the pandemic—informality, lack of benefits, poor quality jobs and low wages still affect women. The pandemic interrupted Mexico’s efforts to transition more workers from informal to formal jobs. Macroeconomic stability, a more stable job market, more transparent collective agreements and recent labor reforms—not to mention programs to subsidize youth employment, partnership with the ILO and improved social dialogue—should contribute positively to these efforts now that the labor market is recovering from the pandemic.”

A **Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School:** “Unemployment figures are somewhat complicated in Mexico for one reason: half of the labor force works in the informal sector. If people lose their jobs in the formal sector and start selling trinkets on the street corner, that person is employed—with a drastic pay cut. As a result, Mexico’s official unemployment rate rarely goes into double digits. Even the economic crisis of 1993-1994 did not produce a double-digit number. Neither did the Covid-induced crisis. As a result, most economists do not take unemployment rate figures in Mexico very seriously. In addition, there were measurement problems. In 1983, INEGI introduced Encuesta Nacional de Empleo Urbano (ENEU). In 2005, it introduced a new survey, the Encuesta Nacional de Ocupación y Empleo (ENOE). The sub-population changed so much that they

are not comparable. Some sectors (like agriculture) provide seasonal employment. The rise and fall in employment in agriculture tells us little about long-term trends. There are some clear trends in post-pandemic Mexico. Youth employment rebounded, but it remains higher than the rest of the working-age population. The proportion of young people who neither study nor work (commonly called ‘ninis’—‘ni estudia ni trabaja’) continues to stay stubbornly at 25 percent. It is unclear whether the government program of offering money to study made any inroads for the ninis. In the past six months, formal sector jobs have increased a robust 3.8 percent—better than the overall growth in employment. If this result holds up in the longer run, that would be a good sign.”

A **Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City:** “The decline in Mexico’s unemployment rate is positive news for the country. Nevertheless, those numbers don’t take into account the informal sector of the economy, which employs 31.6 million people, 55.8 percent of the work force during 2021, according to INEGI. From 2020—the start of the pandemic—to 2021, 2.16 million Mexicans joined the informal economy. We are bouncing back from the lows caused in part by Covid-19. The Mexican Social Security Institute reached a new all-time high in affiliations, with 21.7 million people, of which around 86 percent are permanent jobs. According to the same institute, the transportation and communication sectors had the strongest growth, adding 6.9 percent of new jobs, followed by construction, with 5.3 percent. The construction industry is a case in point. It has been one of the most affected sectors of the economy during the last few years. Although it has rebounded, it is also expected to reach its 2019 levels by 2025, according to several estimates. We need to boost programs focused on re-training our work force, as several European

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countries do, notably Scandinavian nations. With 1.6 million vacant jobs and not enough trained people to fill them, such a program would be a good start in aiding Mexicans to find formal employment.”

A **Alejandro Estefan, assistant professor of development economics at the University of Notre Dame:** “The third-quarter decline in the unemployment rate reflects a continued recovery of global economic activity and the Mexican labor market, in particular, following the impact of the Covid-19 pandemic, with most of the increase in the employment rates accruing to an expansion in the service and manufacturing sectors of the economy. While encouraging, this trend masks a substantial risk of entering a recession associated with global inflationary pressures and a tightening of monetary policy worldwide. Substantially higher interest rates in Mexico and the United States could weaken domestic consumption, access to credit and investment and also affect the export manufacturing and tourism sectors. These forces, in turn, may slow the ongoing labor market recovery. Beyond fluctuations in unemployment associated with the business cycle, structural unemployment remains high in the country’s southern regions, including the states of Oaxaca and Chiapas, which have historically

experienced the country’s highest poverty levels. Furthermore, labor informality rates of up to 75 percent for low-income regions and workers with low educational attainment are a first-order concern for policymakers. Informality serves as a buffer for unemployment but constitutes a severe problem from

“**Structural unemployment remains high in the country’s southern regions...**”

– Alejandro Estefan

a fiscal perspective, as informal workers do not pay labor income taxes, and from an economic development perspective, as informal workers do not enjoy access to health care insurance. Both of these issues desperately require education quality improvements, better infrastructure, favorable legal and fiscal conditions to facilitate private investment, and market access for local entrepreneurs to enable long-term employment growth. These issues are likely to be resolved only with comprehensive educational and fiscal reforms.”

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What's Keeping You Up at Night?

LATIN AMERICA ADVISOR

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