

Political Risk Update: December 23, 2020

- **Mexico:** Increase in minimum wage risks rise in unemployment
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Mexico: Increase in minimum wage risks rise in unemployment

Event: On December 16, the National Wage Commission approved a 15% minimum wage hike from January 1.

Outlook: Raising the minimum wage will be a popular move and should help many formal workers through the pandemic. However, it poses inflation risks and will exacerbate pressures on already struggling businesses, with related bankruptcies threatening to increase unemployment.

Analysis

President Andres Manuel Lopez Obrador (AMLO) has described past wage levels as shameful. Previous administrations tended to limit increases in the minimum wage to just above inflation, but his government has increased it by 20% this year and 16% in 2019. The new rise from January brings the minimum wage to MXN141.70 (USD7.16) per day for workers across most of Mexico, up from MXN123.22 currently. However, business groups have warned that this new hike could see 700,000 companies fail over the next

three months. The head of Coparmex, the main employers federation, has called the raise "irrational" during the pandemic and noted that more than a million small and medium-sized enterprises closed between March and July according to the government's own figures. Proposals from Coparmex for a less drastic wage increase, or a government contribution of a third of the latest rise per worker, were reportedly rejected by the AMLO administration.



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Russia: Peacekeeping in Karabakh could get messy for the Kremlin

Event: On December 18, Russia's Defence Ministry announced the first fatality among its peacekeeping troops in Nagorno-Karabakh when a soldier died while clearing mines on a road near Shusha, close to the line now separating Azerbaijani and Karabakh Armenian forces.

Outlook: The incident came as Russia appeared to be bowing to Azerbaijani pressure to accept military gains that have been after last month's peace agreement. Moscow will face difficulties in policing peace if Azerbaijan believes it is worth continuing military operations against Armenian forces to capture more land.

Analysis

Uncertainty surrounds territories south of Shusha assigned to Azerbaijan in a November 9 Russian-brokered truce. The agreement to demarcate boundaries where warring forces were actually located was upset by new fighting from December 11 around villages still held by Armenian forces inside territory granted to Azerbaijan. Russian troops moved in to separate the sides, and on December 13 the Russian defence ministry redrew its map to show its peacekeeping line looping around the villages, placing them within Armenian-controlled Karabakh. Despite this intervention, Azerbaijani forces reportedly captured some 70 Armenian combatants in a further military humiliation that increased pressure on the government in Yerevan. The Russian defence ministry then redrew its map to mark (as before) the contested villages as Azerbaijani-controlled.

Nepal: Government calls snap election as ruling party split looks inevitable

Event: Acting on the recommendation of Prime Minister KP Oli, President Bidya Devi Bhandari dissolved parliament on December 20 and announced that the next general election would be brought forward by eighteen months.

Outlook: The next election was not due until November 2022 but is now scheduled to take place in two phases on April 30 and May 10, 2021. Oli's decision to call snap polls came after some lawmakers in the ruling Nepal Communist Party (NCP) registered a no-confidence motion against him. The NCP will now very likely split into separate factions led by Oli and his party co-chair, PK Dahal ('Prachanda') as they realign their sets of supporters under their old party brands.

Analysis

Oli and Prachanda have been locked in a power struggle even since the NCP was founded in May 2018 by the merger of the two parties that they led. The dissolution of parliament is being challenged in the Supreme Court by critics who say the prime minister

should first allow attempts to form an alternative government. However, as neither group would find it easy to negotiate the formation of a new governing bloc with opposition lawmakers, the only resolution to the current crisis is new elections.

Ghana: Opposition NDC questions legislative and presidential election outcomes

Event: Provisional results from the Sene West constituency on December 17 show the main opposition National Democratic Congress (NDC) won by a margin of 16 votes out of more than 27,000 votes cast, meaning that the party is tied with the New Patriotic Party (NPP) on 137 seats apiece in the national legislature, with one NPP-leaning independent taking the final seat.

Outlook: The NDC continues to protest the results of the December 7 general elections, insisting it won some 140 parliamentary seats. A hung parliament or a slim NDC or NPP majority might prove beneficial in anti-graft terms, with controversial government projects facing greater scrutiny; a deal surrounding future gold royalties would be particularly affected. However, it is also possible that fiscal prudence could suffer as the NPP government is forced to push up public spending in order to keep both its own and NDC legislators content.

Analysis

In addition to arguing that it won the parliamentary election, the NDC is also disputing the results of the presidential election that was also held on December 7. Results from that election show President Nana Akufo-Addo of the NPP with 51.30% of the vote and NDC standard-bearer and former president John Mahama with 47.36%, a result that allows Akufo-Addo to be re-elected without the need for a second round of voting. Although the NDC has not yet started a Supreme Court challenge to either result, the party's secretary-general has reportedly defended its right to protest in the streets, and there have already been pockets of unrest over Akufo-Addo's victory.

Argentina: Unemployment and poverty continue to rise due to COVID-19

Event: Government numbers released on December 17 show that unemployment reached 11.7% in the third quarter, down from 13.1% in the second quarter but up from 9.7% in the year-earlier period.

Outlook: Reports on December 18 suggested that the Russian vaccine due to be rolled out in Argentina this week has not been approved for use within Russia for those aged 60 or above, a category which has accounted for more than 80% of COVID-related deaths in Argentina. This has prompted a political backlash against both the government and its vaccination programme. However, a failure to curb the virus will mean a further delay to any prospect for economic recovery.

Analysis

According to the Catholic University, poverty levels in the third quarter rose to 44.2% of the population, up from 40.8% one year earlier. The figures reflect the impact of COVID-19 and related lockdown measures, which shut much of the economy in the second quarter before the lifting of some restrictions in the third. Despite initial approval of its anti-COVID measures, the government is facing new criticism for its increasing dependence on the Russian Sputnik vaccine to begin its immunisation programme.

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