



# Inter-American Dialogue

## LATIN AMERICA ADVISOR

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### Featured Q&A With Our Board of Advisors

**Q State legislatures in Arizona and Georgia are considering bills which would impose a tax on money transfers sent home by immigrants. Do you think such taxes will become widespread in the US? What impact do you think taxes would have on remittance flows? How would they affect US-Mexico relations? Would Mexico retaliate? How?**

**A Guest Comment: Kai Schmitz:** "The proposed tax on remittances transferred outside the United States is an unusual suggestion. It constitutes a breach with the taxation system where taxes are levied as income tax or tax on consumption. A tax on the mere movement of funds thus establishes a new taxation mechanism. The objectives are not clear: it has been suggested that the proceeds of such a tax will be used to fund border hospitals; others see the tax as a mechanism to penalize guest workers who earn money in the US but consume it in their home countries. Funding hospitals generally seems a good cause and thus lends itself well to justify a new tax. However, public healthcare costs are not usually funded by taxing one demographic group, irrespective of whether they may be the main cause of the cost. To assess the justification of a remittance tax to fund healthcare in border regions, it is necessary to consider the contribution made by immigrants to social security and income tax-funded health

programs, and the benefits they receive as a whole. The outcome may be less clear as immigrant workers often pay contributions but do not receive any benefits as they retire in their home countries, and statistically use doctors and hospitals less frequently than the general population. Furthermore, the median age of immigrants is lower and their birth rate is higher than those of the general population, meaning that as a demographic group they have a more beneficial balance between net contributors to and net receivers of social services and health care ... Taxing remittances to penalize their consumption in a foreign country would be similar to an 'overseas holiday tax' or a tax on the pur-

*Continued on page 4*

### PHOTO OF THE DAY



Manuel Rosales, governor of the Venezuelan state of Zulia, denies supporting a movement for greater state autonomy. See related story on page 2.

*Photo: Zulia state government.*

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## NEWS BRIEFS

**Buenos Aires Lawmakers Fire Mayor Over 2004 Nightclub Fire**

A committee of Buenos Aires city deputies voted to remove Mayor Anibal Ibarra on charges of negligence and corruption for failing to enforce safety codes that might have prevented a 2004 nightclub fire that killed 194 people. Ibarra, whose term was to end next year after being re-elected in 2003 with the support of President Nestor Kirchner, called his ouster politically motivated.

**Costa Rican President-elect Arias Vows to Push FTA with US**

Shortly after Costa Rican authorities on Tuesday formally declared Oscar Arias the winner of the country's February 5 presidential election, Arias vowed to secure ratification of a free trade deal with the US. "You should not have the least doubt that in this, we will not cede," Arias said.

**Colombian Guerrillas Defect, Turn Over Arms to Government**

Seventy members of the Colombia's largest rebel group, the FARC, handed in their weapons and a light aircraft to the government on Tuesday in the biggest rebel defection since President Alvaro Uribe took office in 2002. Only 53 FARC members had handed in their weapons since 2003, in addition to thousands of far-right paramilitaries following negotiations with the Uribe government.

**Mexico's Gruma to Invest \$1 Bln in Asia Over Next Five Years**

Mexican tortilla maker **Gruma** will invest \$1 billion in Asia over the next five years, company Chairman Roberto Gonzalez said Wednesday. Gruma is also looking to buy companies in Australia and Russia, Gonzalez said.

Source: Reuters.

## Political News

**Ecuador Declares State of Emergency in Three Provinces Amid Oil Strike**

The Ecuadorean government declared a state of emergency in three provinces on Tuesday after some 4,000 contracted oil workers went on strike, Reuters reported. Enrique Proano, a spokesman for President Alfredo Palacio, said the government declared a state of emergency, which limits constitutional rights such as freedoms of association and the right to public gatherings, in the provinces of Napo, Orellana, and Sucumbios. State-owned oil company **Petroecuador** warned that production could come to a complete halt today because of the strike by the contracted workers, who complain of being paid late by the company and are demand-

*State-owned oil company Petroecuador warned that production could come to a complete halt today because of the strike by the contracted workers.*

ing full-time positions. Petroecuador produces about 200,000 barrels per day (bpd) out of Ecuador's total output of about 530,000 bpd. A leader of the contract workers said they were negotiating with Petroecuador to end the strike. The company, which is widely seen as inefficient, said it owes the subcontracting companies that hire the workers \$51 million. The strike is the latest conflict to hit Ecuador's troubled oil sector. Last month, Petroecuador was forced to temporarily halt exports after protesters seized a pumping station. In addition, the government has threatened to end its contract with the US' **Occidental Petroleum**, which it accuses of illegally transferring some oil assets in the country and violating its contract. On Monday, Palacio complained that contracts with foreign oil companies "have not been totally fair" and said the government plans to hike royalties, according to *The Miami Herald*. [Editor's note: see related Q&A in the February 21, 2006 issue of the weekly *Latin America Energy Advisor*.]

**Venezuela Sees No Link Between Zulia Autonomy Group and US**

Venezuelan federal prosecutors said a probe into a group opposed to President Hugo Chavez that is pushing for autonomy for the country's oil-rich western state of Zulia found no proof of ties with the United States, Bloomberg News reported on Tuesday. The group, "Rumbio Propio" ("Our Own Way") is pushing to hold a referendum in October that would give Zulia more control over its own affairs and economic policymaking. Venezuelan President Hugo Chavez said Sunday that both the US and Zulia state Governor Manuel Rosales, a critic of Chavez, were in contact with the group. Chavez said the US is supporting the group's secessionist movement as another challenge to his rule after a failed coup attempt in April 2002 and a failed two-month nationwide strike

in 2002-2003. Despite the findings of the probe, Attorney General Isaias Rodriguez said the government "may undertake other action in addition to a criminal investigation," including charges of high treason and conspiracy. Rodriguez said he did have information that the US ambassador to Venezuela, William Brownfield, has a close relationship with Rosales and is a frequent visitor to Zulia state, according to local daily *El Universal*. A US embassy spokeswoman said that "to the best of our knowledge," Brownfield has not met with the pro-autonomy group, Bloomberg News reported. "The ambassador meets with a wide variety of people, just like Venezuelan Ambassador Bernardo Alvarez does in the US," the spokeswoman was quoted as saying. Rosales denied any involvement in the movement and said the government's accusations are a "smoke screen" intended to draw attention from



Rosales.  
Photo: Zulia state government.

the country's other problems. "Zulia is not a peninsula, much less an island apart," said Rosales. "Zulia is Venezuela, and we're Venezuelans first." The state of Zulia accounts for about 40 percent of Venezuela's daily oil output of about 2.5 million barrels a day.

### US Denies Trying to Impose Leader of Counterterrorism Unit on Bolivia

The United States on Tuesday denied accusations by Bolivian President Evo Morales that it cut its support to a Bolivian counterterrorism unit because it could not impose the leader of the unit on his government. "The government of the United States respects Bolivia's sovereignty, and does not seek to impose candidates for leadership positions on the government of Bolivia," the US embassy in Bolivia said in a statement. The embassy said the cuts in US assistance to the unit "reflect concern over our ability to work with that particular unit." It did not provide further details. On Monday, Morales accused the United States of "blackmail, threats, and intimidation" for withdrawing \$300,000 in support for the unit after Bolivia refused to replace a commander at the US' request. Morales, who took office on January 22, has questioned continued cooperation with the US on security issues. His pledges to end a US-backed coca eradication program has raised concerns in Washington about the fate of counternarcotics efforts in the Andean country. In addition, Morales has vowed an investigation into allegations that top Bolivian military officials—without authorization—worked with US officials last year to destroy 28 Chinese shoulder-launched missiles owned by the Bolivian Army. In its statement, the US embassy said it would "continue to seek constructive dialogue with the government of Bolivia, including the Bolivian Armed Forces, on a wide range of issues of mutual concern," adding that "decisions taken on the specific case of this Bolivian counterterrorism unit should not affect our broader relationship." The US is providing Bolivia an estimated \$1.782 million in military aid, including training and equipment, for fiscal year 2006, according to budget documents posted on the State

## The Dialogue Continues

*A continuation of the February 27, 2006 Q&A*

**Q** Argentina's Congress has voted to change the composition of a council that nominates federal judges in a move critics say gives President Nestor Kirchner and his allies too much sway over the judicial system. What impact do you think the change will have? Will it significantly undermine investor confidence in the rule of law in Argentina?

**A** **Guest Comment: Rosendo Fraga:** "Kirchner's political objective institutionally-speaking, with the reform of the Council of Magistrates, is the 'accumulation of power.' If indeed Senator [Christina] Kirchner's bill reducing the Council, which nominates judges and acts in their removal, from 20 to 13 aims for greater efficiency and lower spending, it also allows the executive to advance toward control of the judiciary, because it does not maintain proportionality among the politicians, academics, lawyers, and judges that compose it.

The number of politicians are not reduced and as a consequence they have a greater proportion with which they can impede any decision adverse to the executive. Kirchner's experience during his 12 years as governor of Santa Cruz, showed him moving against judicial independence instead of consolidating it. This bill clearly inserts itself into the same tendency of Kirchner as governor. As to the Court, he changed its adverse composition—as all the governments in Argentina have done in the last 60 years, with the exceptions of Illia and de la Rúa—and appointed a more friendly one than before, which is clear. Today Kirchner is the constitutional president with the greatest concentration of institutional power since Peron in the 1950s."

*Rosendo Fraga is a Political Analyst at the Center for Studies for the New Majority in Buenos Aires.*

Department's Web site. It is providing an estimated \$79.2 million in aid for counter-drug efforts in the country.

## Economic News

### Latin Markets Weaken as Investors Shift to US Debt

Latin American markets weakened on Tuesday amid a shift by investors to higher-yielding US debt, Reuters reported. Stock markets in Latin America's three biggest economies—Argentina, Brazil, and Mexico—all fell. Mexico's IPC stock index declined 2.32 percent, while Brazil's Bovespa index lost 2.43 percent. Argentina's Merval index was down 2.16 percent. In Chile, the IPSA index fell 1.16 percent, while the country's peso currency

lost 1.49 percent of its value versus the dollar. Brazil's currency, the real, which according to Bloomberg News had gained 24 percent in the past 12 months, weakened nearly 1.4 percent. In early trading today, it lost an additional 1.8 percent, falling to 2.1790 per dollar, its weakest level in a month, Bloomberg News reported. Investors on Tuesday began buying US Treasuries after several days of falling prices, while yields remained near 21-month highs, according to Reuters. US debt yields are expected to stay high because of expectations that central banks in the US, Europe, and Japan will tighten monetary policy or raise short-term interest rate more than expected, Reuters reported. Despite recent economic growth and stability in Latin America, the region's stocks, currencies, and debt are still considered more risky than US investments.

**Featured Q&A***Continued from page 1*

chase of stock of foreign companies. It is to be expected that a remittance tax would drive workers' money transfers into unregulated transfer channels or to be carried across borders in cash, countering recent efforts to improve compliance and making it more difficult to account for such flows as a macroeconomic impact. Ultimately, a tax on remittances creates an additional tax burden on what is one of the poorest parts of the US population. It creates an unprecedented new source of taxes, something any citizen should be concerned about. And it will not solve the political problem of immigration, the economics of which are still not fully understood."

**A** **Guest Comment: Jose Francisco Avila:**

"Unfortunately, I do think the taxes will become widespread in the US. This opinion is based on my experience as a tax accountant, during which time I have observed the trend toward a continued decrease of federal taxation, accompanied by a compensatory increase in state and local taxation. This is truth both at the business and individual levels. Both Georgia's Illegal Immigrant Fee Act and the Arizona House of Representatives' proposed legislation, which would apply an 8 percent tax on all international money transfers, are perfect examples of this trend. Let's not forget that it was Colorado Congressman Tom Tancredo who first proposed placing a 5 percent tax on remittances after reading how individuals in the US send \$30 billion a year in remittances to Latin America. Furthermore, I find it interesting that Arizona will use the money to build a security wall along its 382-mile border with Mexico. It was Congressman Tancredo who led a coalition of reform advocates in the House to pass a bill last December that would, among other things, build a security fence along portions of the US' southern border, mandate that employers verify the legal status of employees, and prevent local governments from harboring illegal

aliens. When I consider the previously mentioned taxation trends and review the proposed legislations, I can't help but think that similar legislation will become widespread. The taxes will continue to strain the relationship between the two neighbors, since this is yet another of the many attacks against Mexico's citizens. Verbal attacks on Mexico have been non-stop over the past two years, as demonstrated by comments by individuals like Tancredo and CNN's Lou Dobbs. Mexico has threatened legal action if the legislation in Georgia and Arizona becomes law. Mexico's foreign ministry has said taxing remittances from undocumented workers is unfair and discriminates against Mexicans and against Hispanics in general."

**A** **Board Comment: Beatrice Rangel:**

"Should this legislation pass in Arizona and Georgia and then become widespread in the US, we would be witnessing a bad case of collective schizophrenia. On the one hand, US citizens seem to desire a reduction in migratory flows and a reduction of poverty in the Hemisphere; on the other, they are supporting policies that would increase migratory inflows and deepen poverty. Indeed, such taxes would reduce disposable income to the families of remittance senders. This would create an incentive to family members in home countries to join the migrants. It will further incentivize illegal aliens that come to build a little capital and go back to stay for longer periods of time so as to meet their savings goals."

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**Kai Schmitz** is Executive Vice President and Chief Operating Officer at *MicroFinance International Corp.*

**Jose Francisco Avila** is President of the *New Horizon Investment Club.*

**Beatrice Rangel** is a member of the *Advisor board and President and CEO of AMLA Consulting.*

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