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FEATURED Q&A

Should Countries Suspend Taxes on Digital Equipment?



Some private-sector groups say governments should suspend taxes on mobile phones and other devices in order to promote economic recovery from the Covid-19 pandemic. // File Photo: Maxim Ilyahov via Unsplash.

Q Some private-sector groups in Jamaica, including the country's chamber of commerce, have called on the government to temporarily suspend taxes on digital and mobile equipment in order to promote economic recovery. Should governments in Latin America and the Caribbean take such actions in order to help the region's economies recover from the coronavirus crisis? Are mobile devices too expensive, given how they are becoming increasingly necessary for work and education? Should technology companies make their equipment less expensive for poor segments of the population as a form of corporate social responsibility?

A Maria F. Valdés, coordinator of tax issues at Friedrich-Ebert-Stiftung in Colombia: "Latin America is one of the most connected regions of the developing world. However, the digital divide remains huge as Internet density in rural areas is lower than in urban areas and as far fewer women and poor communities have access to smartphones as compared to men and rich segments of society as many of these products are too expensive. All actions that could reduce this gap, including the temporary suspension of taxes on digital and mobile equipment, are very welcome. I doubt the potential of these measures to reactivate the economy, but it is a plausible idea to create more justice. However, it is important to mention that a suspension of sales taxes would not guarantee that companies will reduce prices for customers. It depends on the ability of each firm to pass along the tax to its consumers, which depends on its market power. In some countries, the cell phone market may be competitive enough to

Continued on page 3

TODAY'S NEWS

POLITICAL

Protesters Set Fire to Congress Building in Guatemala City

Protests broke out in Guatemala after Congress cut funding for health and education at the same time lawmakers increased stipends for their own meals.

Page 2

ECONOMIC

Chile's Piñera to Seek Court Action Over Pension Withdrawal Bill

Chilean President Sebastián Piñera wants the Constitutional Court to halt an effort by lawmakers to allow a second withdrawal from private pensions.

Page 3

POLITICAL

Biden Reportedly Tapping Blinken as Sec'y of State

Presumptive U.S. President-elect Joe Biden is reportedly tapping Antony Blinken, a close foreign policy advisor, as his nominee for secretary of state.

Page 2



Blinken // File Photo: U.S. State Department.

POLITICAL NEWS

Protesters Set Fire to Congress Building in Guatemala City

Protests broke out in Guatemala City on Saturday, with demonstrators setting the congressional building on fire, following the approval of a bill that would cut the health and education budgets while boosting lawmakers' meal stipends, The New York Times reported. The legislation, passed last week, came amid devastation from two back-to-back hurricanes that have displaced thousands of people, wrecked homes and destroyed critical infrastructure. Sparking anger, immediate demonstrations, which also included peaceful marches in Guatemala City's central plaza, broke out across the country. One group of protesters broke the windows of the Congress building and set it on fire, which firefighters quickly put out, according to local newspapers. Police officers used tear gas on demonstrators. President Alejandro Giammattei denounced the arson incident on Twitter. "We cannot permit public and private property to be vandalized," he said, adding that those responsible for the "criminal acts" would "be punished with the full force of the law," The New York Times reported. Early today, lawmakers announced that the process for the budget to go on to the president for review had been halted, Prensa Libre reported. Congress' president, Allan Rodríguez, said that although the bill was constitutional, lawmakers decided to suspend the process with the aim of maintaining the country's governability and peace.

Brazilians Protest Fatal Beating of Black Man in Porto Alegre

Brazilians took to the streets in protest over the weekend after video footage surfaced of a Black man being beaten to death by two private security guards outside a Carrefour supermarket in the southern city of Porto Alegre, Folha

de S.Paulo reported. João Alberto Silveira Freitas, a 40-year old welder, died of asphyxiation after two security guards outside the grocery store pinned him down and repeatedly punched him last Thursday, the eve of Brazil's Black Awareness Day, The Wall Street Journal reported. Protests broke out outside Carrefour

More than 2,000 people protested on Friday outside the store where Freitas was killed.

stores in São Paulo and Rio de Janeiro, as well in southern and northeastern cities of Brazil, with more than 2,000 people gathering on Friday outside the store where Freitas was killed. "João's violent death ... is an act that shows the diverse aspects of racism and inequalities to be found in Brazil's social structure," the country office of the United Nations said in a statement. "Millions of Black Brazilians continue to be victims of racism, racial discrimination and intolerance, including in the most cruel and violent ways," it added. Nearly 74 percent of murder victims in Brazil are Black, even though Black and mixed-race Brazilians are just more than half of the total population, according to nongovernmental research group Brazilian Forum on Public Safety.

ECONOMIC NEWS

Chile's Piñera to Seek Court's Intervention on Pensions Measure

Chilean President Sebastián Piñera said Sunday that his government will seek the Constitutional Court's intervention to halt an attempt by the opposition to allow Chileans to withdraw a second installment of money from their private pension funds, Reuters reported. The opposition measure presents a "grave risk" to Chileans' future pensions, offers

NEWS BRIEFS

Biden Reportedly Taps Blinken as Nominee for Secretary of State

Presumptive U.S. President-elect Joe Biden has tapped Antony Blinken, one of his close and longtime foreign policy advisors, as his secretary of state, as the former vice president seeks to prioritize foreign policy as a major cornerstone of his administration, The Washington Post reported. Blinken is considered a centrist, though he has also supported interventionist positions in the past. U.S. President Donald Trump's campaign has been unsuccessfully seeking to overturn the election results, and Trump has not conceded to Biden.

Honduras' President Calls for International Aid After Hurricanes

Honduran President Juan Orlando Hernández called for urgent international aid as the death toll of Hurricane Iota continues to rise, reaching at least 40 across Central America and Colombia, with most deaths recorded in Nicaragua and Honduras, Reuters reported. "We are in a situation of great calamity, and we need the world to help us rebuild our country," Hernández said in a news conference last Thursday. Iota struck areas that were still reeling from the aftermath of tropical storm Eta less than two weeks earlier. [Editor's note: See related [Q&A](#) in the Nov. 16 issue of the Latin America Advisor.]

Luis Robles of BBVA Mexico Dies at 60

Luis Robles, the former chairman of the board of BBVA Mexico, died Thursday in Mexico City at the age of 60, BBVA Mexico said in a tweet. Robles led the board of the Spanish bank's Mexican unit from 2012 to 2018 and previously was BBVA Mexico's vice chairman. Robles also led Mexico's banking association, ABM, from 2014 to 2017.

a tax-free windfall to people with relatively high incomes and involves costs that only the country's executive branch can determine, said Piñera. "All authorities, and especially the president of the republic, have to be sensitive to the needs of citizens, and also responsible over the decisions they take and their future consequences," the president's office said in a statement, Reuters reported. Lawmakers in



Piñera // File Photo: Chilean Government.

July approved a measure to allow pension holders to withdraw as much as 10 percent of their accounts, saying the move was needed to help Chileans weather the economic fallout of the Covid-19 pandemic. Piñera opposed the move, but ultimately signed it into law. The move led to approximately \$17 billion in withdrawals, the Financial Times reported. A majority of Chile's lower house has already given its approval to a second measure to allow account holders to withdraw another 10 percent. The Senate could vote on the measure as early as this week, Reuters reported. If Congress passes the second pension withdrawal bill, Piñera could refuse to sign it, but that move could spark public anger, Reuters reported. The president's approval rating was just 16 percent in a recent survey by Cadem. Meantime, Pamela Jiles, a leftist legislator who proposed the second pension withdrawal measure, has a 65 percent approval rating and is now seen as a potential presidential candidate ahead of next year's election. In addition to seeking action by the Constitutional Court, Piñera has introduced legislation that would allow a limited number of people to make a second pension fund withdrawal, Reuters reported. [Editor's note: See related [Q&A](#) on Chile in the Aug. 10 issue of the Latin America Advisor.]

FEATURED Q&A / Continued from page 1

guarantee a reduction in their prices, but not in others. There are other nontax measures that countries can and should take, such as providing digital devices. Mobile equipment companies should also contribute by including reduction of the digital divide in their corporate social responsibility objectives. Reducing the digital divide is essential to overcoming this social and economic crisis, as various international organizations, such as ECLAC, have indicated."

A **Marcelo Bergman, director of the Center for Latin American Studies on Insecurity and Violence at Universidad Nacional de Tres de Febrero in Buenos Aires:** "It is said that good taxation is the art of extracting revenues from society without hurting job creation. If so, the initiative to suspend taxation on digital and mobile devices to ease the effects of the pandemic is challenging. On the one hand, if done properly, reducing or eliminating taxes could create incentives for investment and thus more jobs and better salaries. On the other hand, these are good collectable taxes because they are usually collected by a few large corporations that control a service that customers end up paying, meaning less tax evasion. Getting rid of these taxes will reduce tax revenues for states that are in dire need of resources in order to stimulate the recovery of stagnated economies. Classic taxation textbooks recommend balancing rates, expected revenues and the economic impact of each tax. Thus, if rates are currently very high, it will be wise to look favorably at reducing taxes. However, if tax revenues are significant and are a pillar that supports social policies, lower revenues will hurt economic recovery. As a general rule, it is wise for countries to make sure that if there is a tax reduction, the expected revenues do not go overseas or into private savings, but rather are spent by people and corporations on investment and consumption. In short, widely used digital and mobile devices are attractive targets

for tax collectors. They should be reduced if rates are too high, if the revenues are not used for fiscal stimulus or if individuals' and firms' tax savings are used to stimulate the economy."

A **Kari Ballot-Lena, director of digital policy and regulation at TMG:** "The Covid-19 crisis sharply has revealed a modern truth: digital and mobile devices are crucial in today's world. Mobile devices have become the primary way to access the Internet, especially in developing countries. During the pandemic, those without access to mobile Internet-capable devices particularly suffer from extended lockdowns and ongoing stay-at-home policies. They are prevented from essential connectivity, whether working remotely, searching for new jobs, attending online school, accessing telehealth resources or communicating with loved ones in quarantine. Furthermore, without affordable mobile devices, lower-income populations are at the greatest risk of slipping further behind the digital divide. Governments play a key role in the issue of affordability—eliminating taxes on devices moves beyond merely accelerating economic recovery. Connected citizens benefit from educational and health care opportunities that can reduce the duration and severity of the pandemic. In recognizing that mobile devices are necessities rather than luxury goods, governments throughout the LAC region can more quickly improve socioeconomic outcomes by removing excise taxes and higher VATs on mobile devices. Industry players, including manufacturers and operators, have facilitated uptake by introducing greater segmentation of models at various price points. Entry-level smartphones are increasingly available in the LAC region for less than \$100, with devices under \$50 coming to market. With the pandemic halting production, smartphone shipments dropped in 2020, restricting supply during a period of increased demand. Eliminating customs duties, VATs and other taxes on

Continued on page 4

FEATURED Q&A / Continued from page 3

mobile devices will further help offset higher prices during this crisis.”

A **Ashley Friedman, senior director of policy at the Information Technology Industry Council:** “The Covid-19 pandemic has resulted in a significant increase in demand for Internet and mobile data services, as well as the devices and technologies that enable distance education, remote work, e-commerce, telehealth and digital government services. Policies that make information and communications technology, or ICT, products and services more accessible, more affordable and more ubiquitous will enable a faster and more robust recovery. The tech industry has been committed to playing a constructive role in responding to and helping to mitigate the spread of the virus around the world, offering free platforms that can help teachers connect with students, guidance on how to support a team of employees remotely and other tools and resources for communities, educators, employers and governments. These initiatives must be matched by government-led efforts to accelerate broadband deployment and access to technology, including but not limited to the facilitation of cross-border data flows and the elimination of trade barriers for productivity-enhancing ICT products.”

A **Carlos Vargas Alencastre, CEO of Vargas Alencastre, García & Asociados:** “The governments of Latin America and the Caribbean are going through one of the worst economic crises, due to the spread of Covid-19, so they should take certain measures to help reactivate the economies of the region. An ideal measure for this is the temporary suspension of taxes on technological and mobile equipment, since this would generate a greater increase in the consumption chain with respect to this equipment, which due to the current circumstances has increased

its demand as it has become indispensable. While mobile connectivity facilitates digital inclusion and socioeconomic development, several Latin American countries apply excessive taxes to this sector, which according to reports by the GSM Association, make it difficult for consumers to access them. However, countries such as Colombia and Ecuador have been working on this, even before the health crisis, with a VAT exemption for inexpensive smartphones or reduction of import duties on these devices, respectively. Mobile devices have increased in value, due to the increased demand for them today, which has been boosted by social isolation measures meant to fight Covid-19. Nevertheless, different governments in Latin America have made massive purchases to distribute to the most vulnerable socioeconomic sectors in their jurisdictions. Technology with its current indispensability should be considered an inclusive factor, so companies should try to make it accessible to all through agreements with the governments of the different countries in the region.”

A **Reuven S. Avi-Yonah, Irwin I. Cohn Professor of Law and director of the International Tax LLM Program at the University of Michigan:** “I think the basic question has little to do with Covid. Given the importance of this technology to economic growth, I do think there is a good case for subsidizing it in Latin America and the Caribbean on a more permanent basis, and the big tech companies should offer devices on a discounted basis as a matter of corporate social responsibility. They are among the most profitable companies in the world and enjoy monopolistic status, so they can definitely afford to do this.”

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

LATIN AMERICA ADVISOR is published every business day by the Inter-American Dialogue, Copyright © 2020

Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Anastasia Chacón González
Reporter & Associate Editor
achacon@thedialogue.org

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Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

www.thedialogue.org

ISSN 2163-7962

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