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FEATURED Q&A

Will Latin America Levy New Taxes to Cover Covid Costs?



Several countries in the region are debating tax reforms amid the economic downturns brought by the Covid-19 pandemic. // File Photo: Argentine Government.

Q Economic downturns and gaps between the rich and the poor that have been worsened by the Covid-19 pandemic have led to debate on tax reform proposals. In Latin America, countries including Argentina, Bolivia, Chile and Peru have either implemented or are considering so-called "Robin Hood" taxes, or levies that are raised on high-net-worth individuals. Meanwhile, international advocacy group Oxfam has called for a tax on corporations' "excess profits" during the coronavirus pandemic, a notion that has caught the attention of policymakers in the region, according to a BBC News report. How would such tax hikes affect Latin American countries, and do proponents have the right plans for the revenue's use? How well have wealth taxes worked in the past in Latin America? What is the outlook for corporate tax changes in the region this year, and to what degree will they be temporary or more permanent?

A Maria F. Valdés, coordinator of tax issues at Friedrich-Ebert-Stiftung in Colombia: "Latin America will face a new lost decade due to the Covid emergency. In the midst of this situation, all efforts should be made to secure a sustainable recovery that may imply an expansive policy and thus a reduction—not a hike—in taxes. However, most Latin American countries' debts are reaching unsustainable paths, and a wealth tax or an excess profits tax looks like a good alternative that allows countries to increase tax revenue without compromising low- and middle-class consumption, which is necessary for a fast and fair recovery. Many countries are indeed

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TODAY'S NEWS

POLITICAL

Brazil Reports Second Straight Day of Record Covid Deaths

Brazil's Health Ministry reported 1,910 Covid-19 deaths, a record total for the second consecutive day.

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BUSINESS

Casino Sued Over Beef Linked to Deforestation

Indigenous groups from Brazil and Colombia filed suit against French retailer Casino over its sales of beef linked to deforestation in the Amazon.

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POLITICAL

Press Groups Demand Ortega Stop Harassing Journalists

Press groups demanded that Nicaraguan President Daniel Ortega stop harassing journalists. The government has seized media properties and passed laws targeted at people it accuses of spreading alarming information.

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Ortega // File Photo: Nicaraguan Government.

POLITICAL NEWS

Brazil Reports Second Consecutive Day of Record Deaths

Brazil for the second consecutive day on Wednesday reported a record number of deaths from Covid-19 as a more contagious variant of the novel coronavirus spreads, Bloomberg News reported. The Health Ministry reported 1,910 new deaths over the previous 24 hours, pushing the country's total number of Covid-19 deaths to 259,271. The number of confirmed Covid-19 cases also rose by 71,704 in the previous 24 hours, to 10,718,630. Also on Wednesday, São Paulo Gov. João Doria announced the mandatory closure for two weeks of all nonessential businesses, including stores and gyms. The restrictions take effect Saturday and come as more than 75 percent of the state's beds in hospital intensive care units were occupied. "We are about to collapse in São Paulo and in Brazil," Doria told reporters. Patients' hospital stays are also getting longer, said João Gabbardo, the executive coordinator of São Paulo state's Covid-19 contingency center. Other Brazilian states, including Rio Grande do Sul and Pernambuco, have already tightened restrictions on movement in efforts

to curb the spread of the novel coronavirus. Brasília tightened restrictions last weekend, and Rio de Janeiro's mayor is expected to take similar action soon, O Globo reported. Brazilian President Jair Bolsonaro, who has downplayed the threat of the virus and is rarely seen wearing a face mask in public, a basic containment measure urged by health authorities around the world, criticized the lockdowns on Wednesday. "You cannot panic, like resorting once again to this stay-at-home policy. People are going to die of hunger and depression," he told a group of supporters, Agence France-Presse reported. A slow vaccine rollout and gatherings for Carnival have added to the spike in infections, Bloomberg News reported. Brazil has deployed vaccines from China's Sinovac and Britain's AstraZeneca. The government also signed a deal for 100 million doses of Pfizer's vaccine, Veja reported.

ECONOMIC NEWS

Brazil's GDP Shrinks 4.1 Percent, Sharpest Drop in Decades

Brazil's economy contracted 4.1 percent last year, its sharpest contraction since 1990,

NEWS BRIEFS

Press Groups Demand Nicaragua's Ortega Stop Harassing Journalists

Four press freedom groups, including the Committee to Protect Journalists, called Wednesday on Nicaraguan President Daniel Ortega to stop harassing journalists, the Associated Press reported. "News outlets have been forced to close and individual journalists threatened, harassed, sued, surveilled and jailed, as dozens more fled the country for their own safety," the CPJ said. Ortega's government has seized media properties and passed laws requiring prison time for people who spread information online that the government considers alarming.

El Salvador Discussing \$1.3 Billion Funding Package With IMF

El Salvador is in talks with the International Monetary Fund for some \$1.3 billion in funding, Finance Minister Alejandro Zelaya told Reuters in an interview, the wire service reported today. Zelaya said this moment was a "golden opportunity" to revive the economy, following the ruling party's overwhelming win in legislative elections last Sunday. El Salvador is seeking a 36-month extended fund facility.

Paraguay Cancels Nonemergency Surgeries in Public Hospitals

Paraguay has canceled nonemergency surgeries in all public hospitals amid a surge of Covid-19 infections that is overwhelming intensive care units, the Health Ministry announced Wednesday, the Associated Press reported. Resources from canceled surgeries will go toward fighting the pandemic, the ministry added. A pneumologist at the National Institute of Respiratory and Environmental Diseases told the AP that the country was running out of medical supplies.

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proposing wealth taxes, most of them seeking to tie the revenue to social programs to fight the social effects of the pandemic, through initiatives such as basic income schemes. Some countries in the region have long and positive experiences with taxes of this kind. Colombia, for instance, had its first wealth tax in 1923, and it has existed almost uninterrupted until today, with a revenue of more than 1 percent of GDP in its best years. The Colombian experience shows that permanent wealth taxes are no more avoidable than other taxes and collect fairly well. In terms of corporate income taxes, I do not see the excess profits tax or increas-

es in corporate income taxes being heavily discussed in the region. We could expect the tax rate to either stay the same or decrease, as has happened in recent decades."



Reuven Avi-Yonah, Irwin I. Cohn Professor of Law and director of the International Tax LLM Program at the University of

Michigan: "I think we need to distinguish between higher taxes on individual rich people and higher taxes on corporations, including an excess profits tax like the Oxfam proposal. Higher taxes on individual rich people can probably be enforced, although

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the country's statistics institute announced Wednesday, Reuters reported. Despite the sharp drop, the contraction was not as severe as analysts had earlier expected. At the beginning of the Covid-19 pandemic nearly a year ago, the World Bank had expected that Latin America's largest economy would contract 8 percent, and the International Monetary Fund expected a contraction of 9.1 percent. Stimulus programs helped to cushion the impact of the pandemic, analysts said. "We had a big fall (in activity) last year, but with the emergency aid, it was much smaller than originally predicted. It could have been much worse ... but the public finances are now very fragile," Alexandre Almeida, an economist at CM Capital in São Paulo, told Reuters. President Jair Bolsonaro said last month that the government was preparing a new round of cash transfers to millions of poor and vulnerable Brazilians. He added that any new stimulus measures would address investors' concerns about the government's finances. "Fiscal stimulus, the emergency voucher and measures to promote liquidity were crucial to cushion the blow to the Brazilian economy in 2020," Welber Barral, senior consultant at BMJ Consultores Associados and a former Brazilian foreign trade secretary, told the Advisor in a [Q&A](#) published Feb. 11. "At this moment, however, another fiscal stimulus will not have the same effect, and it would have negative consequences in the medium term," he added. Brazil's contraction last year was not as bad as other major economies in the region. Argentina's economy shrank 10 percent last year, while Mexico's contracted 8.5 percent, the Financial Times reported.

BUSINESS NEWS

Casino Sued Over Beef Sales Linked to Deforestation

Indigenous peoples from Brazil and Colombia on Wednesday filed suit against retailer Casino in a French court over the company's sales of beef linked to land grabbing and deforestation in the Amazon rain forest, campaigners

involved in the lawsuit said, Reuters reported. Casino controls Brazil's largest food retailer, Grupo Pão de Açúcar, or GPA, as well as Colombian retailer Almacenes Éxito. The company says it has actively combated deforestation by cattle ranchers in both countries, but the lawsuit claims Casino regularly bought beef from three slaughterhouses that sourced cattle from about 600 suppliers linked to deforestation. The Indigenous groups allege those sup-

THE DIALOGUE CONTINUES

Who Has the Edge Ahead of Peru's Presidential Vote?

Q **Support for Peruvian presidential candidate George Forsyth dropped nearly six percentage points over the past month amid controversy regarding the validity of his candidacy, and candidate Yonhy Lescano gained traction, La Tercera reported in February, citing recent polls. How is Peru's presidential election shaping up, and who are the candidates to watch? What are the most important factors driving voter support? To what extent are recent political crises, including lawmakers' controversial ouster of former President Martín Vizcarra last November, and a highly fragmented Congress playing a role in the race?**

A **Alfredo Torres, president of Ipsos Perú:** "The outcome of Peru's elections is more uncertain than ever. According to the most recent polls, there are five candidates with support of between 7 percent and 12 percent, and the most likely result of the April 11 election is that the election will go to a runoff. At the moment, the favorite is Yonhy Lescano, an experienced congressman from the center-left section of the Acción Popular party, which was founded by former President Fernando Belaúnde. The other eligible candidates are George Forsyth, a former soccer player and center-right mayor; Verónica Mendoza, a sociologist from Cuzco and admirer of Fidel Castro and Hugo Chávez;

Keiko Fujimori, a former congresswoman and daughter of former President Alberto Fujimori; and Rafael López Aliaga, a conservative businessman and admirer of Trump and Bolsonaro. The scenario could become even more complicated if the National Jury of Elections decides to withdraw either Forsyth or López Aliaga from the race. Both are accused of having violated strict Peruvian law. Both of them were removed from the race, a move that each of them appealed to a higher court. The court's decision must be made by March 11. Forsyth's withdrawal could favor Lescano, and López Aliaga's withdrawal could favor Fujimori. The next president of Peru will be the one who reaches the runoff with the lowest disapproval rating. For now, that's Lescano and Forsyth, and Fujimori has the highest disapproval. The only sure thing about the next Peruvian election is that a very fragmented Congress will be elected. Most likely, seven or eight political parties will reach representation, and none will have a majority. The next president will have to form alliances with at least two parties in addition to his or her own to ensure governability."

EDITOR'S NOTE: The comment above is a continuation of the [Q&A](#) published in Wednesday's issue of the Advisor.

pliers are responsible for clearing areas of at least 50,000 hectares of forest. "The demand for beef by Casino and Pão de Açúcar brings deforestation and land grabbing and violence," said Luis Eloy Terena, a member of COAIB, an organization coordinating Indigenous groups in the Brazilian Amazon, Reuters reported. Brazil has been trying to involve the private sector in protection of the Amazon. [Editor's note: See related [Q&A](#) in the Feb. 24 Advisor.]

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Latin American countries have a poor record of enforcing them against capital flight, especially to the United States. Importantly, the fact that the United States has not agreed to cooperate with the OECD's automatic exchange of information means that it would still be difficult for Latin American countries to prevent rich individuals from investing in the United States via tax havens. One would hope that the Biden administration

“Higher taxes on individual rich people can probably be enforced, although Latin American countries have a poor record of enforcing them against capital flight...”

— Reuven Avi-Yonah

do more than previous U.S. administrations to ensure that data collected, for example under the new U.S. corporate transparency act (which reveals the true owners of assets such as real estate in the United States), be shared with Latin American countries under intergovernmental agreements negotiated during the Obama administration. However, higher corporate taxes are difficult given that Latin America is not home to many large multinationals, and source-based taxation of multinationals is difficult under conditions of tax competition. Still, India has shown that a large developing country can effectively tax foreign multinationals that wish to access its market, and a large country such as Brazil can do the same.”

A **Vicente Albornoz, dean of business and economics at the Universidad de Las Américas in Quito:** “Robin Hood is a poorly

understood character. He may just be a legend, but according to folklore, his main purpose was not to rob the rich and give to the poor, but rather to rob the government to give it back to taxpayers. Just remember that the Sheriff of Nottingham was the tax collector of Prince John, a cruel ruler who used to finance his lavish lifestyle with the proceeds of an abusive tax policy. Many Latin Americans, especially the formal-sector, tax-paying type of Latin Americans, may wish for some sort of punishment for government officials who are unable to optimize public expenditures and who have created a system prone to corruption, one that ends up financing lavish lifestyles of corrupt bureaucrats. A well-understood anti-tax-collector Robin Hood may sound desirable. The main problem in many Latin American countries is that the brunt of tax collection comes from a small and shrinking formal sector that is overburdened with taxes and regulations while the economy on average pays too few taxes. All this creates an adverse scenario for revenue-enhancing tax reforms and has also created a fertile ground for extremist small-government ideologies. Additional taxes on corporations will only discourage formal investment and drive more and more investors into the murky informal sector, destroying formal jobs and creating more underpaid, noninsured and tax-evading jobs in the informal sector.”

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

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Erik Brand
Publisher
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

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

Diana Roy
Editorial Intern
droy@thedialogue.org



Michael Shifter, President
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