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FEATURED Q&A

Would a Global Minimum Tax on Corporations Work?



A global minimum corporate tax would mean as much as \$1.5 billion in additional revenue for Mexico, the country's deputy finance minister, Gabriel Yorio, said earlier this month. // File Photo: Mexican Government.

Q Mexico could raise \$1.5 billion in revenue if a global minimum corporate tax rate of 15 percent comes into effect, Deputy Finance Minister Gabriel Yorio said this month without specifying a time frame. His comments came after the Organization of Economic Cooperation and Development, or OECD, announced that 130 countries had agreed on that rate for a global corporate tax. What are the most significant components of the latest agreement on a global corporate tax? Which Latin American and Caribbean countries are likely to be most affected by the suggested taxing system, and what are the proposal's benefits and drawbacks? What does the 15-percent corporate tax mean for companies investing and operating in the region?

A Grace Perez-Navarro, deputy director of the OECD's Center for Tax Policy and Administration: "Earlier this month, 132 countries and jurisdictions, representing more than 90 percent of global GDP, joined the statement establishing a new, historic framework for international tax reform. This framework will address two problems with the current international tax rules, which are more than 100 years old. First, multinational enterprises (MNEs) are only obliged to pay tax in foreign markets where they have a physical presence, which made sense in the past, when business revolved around factories, warehouses and physical goods. Second, there is the long-standing issue of tax avoidance through profit shifting. The OECD estimates corporate tax avoidance costs anywhere from \$100 billion-\$240 billion annually, or from 4-10 percent of global corporate income tax revenues.

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Protests Mar Funeral of Slain Haitian President

Hundreds of protesters clashed with police Friday as mourners laid to rest assassinated President Jovenel Moïse.

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Sinovac Evaluating Sites for Vaccine Plant in Chile

Chinese vaccine manufacturer Sinovac is evaluating potential sites, including in Santiago and Chile's northern desert, for a vaccine manufacturing facility.

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POLITICAL

López Obrador Wants Cuba Named World Heritage Site

Mexican President Andrés Manuel López Obrador called for Cuba to be named a World Heritage site and also said the Organization of American States should be replaced with a different body "that is truly autonomous, not anybody's lackey."

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López Obrador // File Photo: Mexican Government.

POLITICAL NEWS

Violent Protests Mar Funeral of Slain Haitian President

Hundreds of protesters clashed with police Friday outside the funeral of assassinated Haitian President Jovenel Moïse, NPR reported. Shots erupted outside the funeral in Cap-Haïtien, and tear gas and black smoke wafted into the area where Moïse's widow Martine and other mourners had gathered to lay Moïse to rest. Chants from the protesters at times overpowered the remarks of religious leaders speaking at the ceremony. There were no immediate reports of injuries, CNBC reported. A U.S. delegation that was attending the funeral departed Haiti early after the gunshots broke out and authorities began carrying out crowd-control measures, according to White House Press Secretary Jen Psaki. Protesters shouted at Haitian officials arriving for the funeral, with demonstrators accusing them of responsibility for Moïse's killing, Reuters reported. The delegation, led by U.S. Ambassador to the United Nations Linda Thomas-Greenfield, returned safely to the United States, CNBC reported. Before leaving Haiti, however, Thomas-Greenfield was able to meet with Haitian leaders at the funeral, including newly inaugurated Prime Minister Ariel Henry and Claude Joseph, who had led the country in the days following Moïse's assassination on July 7. The U.S. delegation also included House Foreign Affairs Committee Chairman Gregory Meeks (D-N.Y.), Rep. Jeff Fortenberry (R-Neb.) and Juan Gonzalez, the National Security Council's senior director for the Western Hemisphere. Daniel Foote, the Biden administration's special envoy to Haiti, and U.S. Ambassador to Haiti Michele Sison were also part of the delegation, CNBC reported. Upon the group's arrival in Haiti, Thomas-Greenfield expressed U.S. solidarity with the Haitian people and condolences to Martine Moïse. "Our delegation is here to bring a message to the Haitian people: You deserve democracy, stability, security and prosperity, and we stand with you in this time of crisis," she said, CNBC reported.

Martine Moïse, her arm in a sling after she was wounded in the attack on her husband, arrived at the funeral to protesters' cries of "Justice! Justice!" She climbed a set of stairs toward the late president's coffin, which was draped with a Haitian flag, NPR reported. She placed her left arm on the coffin and then brought her hand to her heart. Her three children stood at her side, and her eyes welled with tears.

López Obrador Wants World Heritage Designation for Cuba

Mexican President Andrés Manuel López Obrador on Saturday called Cuba "an example of resistance" to U.S. influence and suggested the entire Caribbean nation should be declared a World Heritage site because of it, El Universal reported. Though the United Nations uses the World Heritage designation to honor historical sites, according to the AP, López Obrador proposed it in praising Cuba's ability to resist what he called U.S. hostility since 1959, the Associated Press reported. "Cuba, the country that for more than half a century has asserted its independence, politically confronting the United States," López Obrador said during an event at the Chapultepec Castle commemorating the 238th birthday of Simón Bolívar, who led the liberation of South America from Spanish rule in the early 1800s, El Universal reported. "We may or may not agree with the Cuban Revolution and with its government, but resisting 62 years without submission, it is quite a feat," he added. The leftist Mexican president did not mention recent nationwide protests in Cuba, the largest in decades, that were violently repressed by the Communist government. López Obrador has in the past called for an end to U.S. sanctions that limit trade with Cuba. At the same event, López Obrador also called for replacing the Organization of American States with "a body that is truly autonomous, not anybody's lackey," the AP reported. Mexico has publicly disagreed with the Organization of American States over the body's role in the political situation in countries such as Bolivia.

NEWS BRIEFS

Tens of Thousands Protest to Demand Bolsonaro's Impeachment Over Covid

Tens of thousands of Brazilians swarmed the streets on Saturday in the fourth weekend of planned protests calling for the impeachment of President Jair Bolsonaro over his handling of the Covid-19 pandemic, Agence France-Presse reported. Marches were planned in 400 cities and towns across Brazil, mostly by leftist political parties, labor unions and social groups that oppose Bolsonaro. The president is under investigation for alleged negligence in managing Covid-19, which has killed more than 550,000 people in Brazil, the second-highest death rate in the world after the United States.

Guatemalan Anti-Graft Prosecutor Flees Country Following His Firing

Anti-corruption prosecutor Juan Francisco Sandoval fled Guatemala late on Friday hours after Attorney General Consuelo Porras fired him and accused him of unspecified "abuses," the Associated Press reported. The former head of the Special Prosecutor's Office Against Impunity, Sandoval said he was removed because of his probing of top officials in the administration of President Alejandro Giammattei. Several U.S. State Department officials spoke out against Sandoval's firing on social media.

Argentine Investment Fund Becomes Major Buyer of Company Debt

Argentina's largest pension fund, which is part of the Anses state pension manager, is becoming the country's largest buyer of long-term company debt, Bloomberg News reported Friday. Anses' fund manager unit has purchased as much as 80 percent of recent dollar-linked debt by YPF, Pan American Energy and a unit of Albanesi, the news service reported, citing unnamed people with knowledge of the matter.

Nicaraguan Agents Arrest Seventh Presidential Hopeful

Nicaraguan authorities on Saturday placed under house arrest opposition leader Noel Vidaurre, the seventh presidential hopeful to be detained in recent weeks, the Associated Press reported. With Vidaurre's arrest, nearly all potential candidates challenging President Daniel Ortega in the Nov. 7 elections have been detained. Political commentator Jaime Arellano was also placed under house arrest on Saturday after criticizing a speech by Ortega. Vidaurre, one of the potential contenders of the Citizens for Liberty alliance, is accused of "undermining the sovereignty" of the country under a treason law that the Ortega-controlled National Assembly passed last December, Agence France-Presse reported. Citizens for Liberty recently announced it had picked Óscar Sovalbarro as its candidate. It was not clear if Sovalbarro had accepted the nomination. Ortega's government over the past two months has cracked down against opponents, detaining 28 opposition figures, including seven presidential contenders, journalists and opposition activists. Presidential candidates can register from July 28 to August 2. The speaker of Nicaragua's assembly, Gustavo Porras, confirmed last week that Ortega will be the ruling Sandinista National Liberation Front's candidate in the November vote. Ortega was first elected president in 1984 and ruled until 1990 before returning to power in 2007. He has since won two successive re-elections, AFP reported.

BUSINESS NEWS

China's Sinovac Evaluating Sites for Vaccine Plant in Chile

China's Sinovac is evaluating potential sites for the construction of a vaccine manufacturing

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The agreed statement provides the following two-pillar solution to these problems: Pillar One would update the international tax rules by giving market jurisdictions new taxing rights over the largest and most profitable MNEs, whether or not there is a physical presence. This amounts to new taxing rights over approximately \$100 billion, and Pillar Two provides a minimum tax on corporate profit of at least 15 percent. Pillar Two is expected to generate more than \$150 billion in new tax revenues globally and put an end to tax havens. The two-pillar solution will help Latin American economies by providing greater taxing rights over the largest MNEs and by putting a floor on tax competition so that they don't lose revenue and investment to low-tax jurisdictions. The minimum tax will mean that using offshore structures and transactions in low-tax jurisdictions to try to reduce corporate income taxes will have limited impact because the minimum tax of at least 15 percent will apply."

A Eugenio Grageda, senior counsel at Holland & Knight: "July's G20 accord paves the way for an agreement, but negotiations must continue at the OECD and Inclusive Framework level. There are still fundamentally different positions, an immense amount of complexity and frustration by multinationals. For example, developed countries criticize the unrealistic allocation of profit to market countries based on distribution without considering risks, research and development factors, as well as the lack of economic rationale as to which industries are in or out of scope. For developing countries to benefit under Pillar One, the nexus threshold should

plant in Chile, officials of the South American country said Friday, Reuters reported. Chile has depended heavily on Sinovac's Covid-19 vaccine. The country also helped to lead trials last year of Sinovac's vaccine against the disease. Earlier this month, a group of Sinovac executives visited potential locations for the plant

be small, and the formula should be easy to apply. If the OECD follows the U.S. higher threshold proposal, the benefits may not be as expected for developing countries. With the United States and BRIC countries becoming bigger markets, both could benefit from the U.S. proposal to widen the scope of Pil-

“**The adoption of a minimum tax should be part of countries' sovereignty, but the OECD should issue guidance...**”

— Eugenio Grageda

lar One to all businesses; European countries could be the big losers. The benefits of Pillar Two for developing countries will depend on the ordering of the measures it is comprised of. As of now, the income inclusion rule, creating shareholder level taxation, will be triggered before the undertaxed payments rule, which denies a deduction or withholding at source. In this order, developed countries will have prevalence over source states, which are more likely to benefit from the undertaxed payments rule. Based on recent agreements on a 15 percent rate, it is also likely to see many low-tax countries imposing 15 percent taxes on multinationals as a defense mechanism of their primary right to tax. The means to do that could be 1.) by applying the same minimum tax equally to all entities; 2.) in the form of a tax applicable only to in-scope multinationals; or 3.) as a tax whose application could be conditioned upon a tax by the parent country.

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in Santiago and also in Chile's northern desert region, the wire service reported. "This is an investment that could be made very quickly and that would make the plant ... operational in the first quarter next year," Economy Minister Lucas Palacios told reporters after a visit to a potential site near Antofagasta.

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However, many of these jurisdictions could have constitutional limits applying a tax that is discriminatory only against certain multinationals. On Pillar Two, there is no need for bilateral or multilateral international coordination. The adoption of a minimum tax should be part of countries' sovereignty, but the OECD should issue guidance as to what kind of tax could be implemented to avoid disputes and double taxation."

A José Antonio Ocampo, chair of the Independent Commission for the Reform of International Corporate Taxation (ICRICT):

"The 15 percent minimum tax rate is a step forward in terms of international cooperation, but it is too low, and indeed close to the rates in tax havens such as Switzerland and Ireland. For Latin American countries, which had an average corporate tax rate of 26 percent in 2020, a minimum rate at that level is unlikely to lead to a significant reduction in profit shifting toward tax havens. Furthermore, at the global level, OECD estimates that it would generate \$150 billion. This is just about 60 percent of the \$240 billion lost under the current system, according to the OECD. It would be better to follow the lead of the United States when it proposed a minimum tax rate of 21 percent. The potential benefits for Latin American

countries are very limited. The E.U. Tax Observatory estimates that Mexico and Brazil stand to gain an additional \$600 million and \$1.1 billion, respectively, compared to \$1.1 billion and \$4 billion with a 21 percent rate. The other pillar of the agreement, which allows all countries where multinationals

“The potential benefits for Latin American countries are very limited.”

— José Antonio Ocampo

operate to share in their global profits, is even worse. It would apply only to very large firms: those with global turnover above 20 billion euros and with global profit margins of at least 10 percent of revenue—only about 100. Furthermore, only between 20 percent and 30 percent of their so-called 'residual' profits exceeding that 10 percent would be subject to taxation in the countries where they operate. This would yield only about \$10 billion globally, with minute additional resources for developing countries."

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

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