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FEATURED Q&A

Is Internet Usage in the Region Lagging Despite Economic Growth?

Q Asia's share of worldwide Internet users rose 2 percent to 44 percent in 2011 from the year prior, according to data from Sweden-based Pingdom. Asia outnumbered all other continents, while the number of Latin America and Caribbean Internet users—which made up 10 percent of Internet users worldwide in 2011—stayed relatively flat last year, according to the report. Why do Latin America and the Caribbean—despite several years of economic growth—appear to lag behind other parts of the world in increasing their share of Internet users? How big of a priority should more Internet usage be for Latin American and Caribbean governments and businesses? Where within Latin America and the Caribbean is Internet usage strongest and in which markets does more attention need to be paid to increase access?

A Adrean Scheid Rothkopf, senior director of government relations for Latin America and the Caribbean at Research In Motion/BlackBerry: "While the growth of Internet users in Latin America and the Caribbean has recently accelerated and projections suggest the decade ahead will be transformational for the region, the reasons for comparatively slow growth in the past remain causes for concern. These reasons vary by country, but include widespread poverty, limited bandwidth, other infrastructure inadequacies, high taxes on telecommunications services and devices and slow and burdensome regulatory requirements. That said, there is widespread recognition that overcoming these hurdles is essential for the region's economic growth. According to an Inter-American Development Bank study, it is estimated that a 10 percent rise in the market penetration of broadband services increases gross domestic product 3.2 percent on average and boosts productivity by 2.6 percent. However, if meaningful

Continued on page 3

U.S., Mexico Sign Accord for Oil, Gas Drilling in Gulf

U.S. and Mexican officials agreed to cooperate on oil and gas drilling in the Gulf of Mexico. Involved were U.S. Secretary of State Hillary Clinton and Interior Secretary Ken Salazar, and Mexican President Felipe Calderón and Foreign Minister Patricia Espinosa (L-R) See brief on page 2.

Photo: Mexican Government.

Inside This Issue

FEATURED Q&A: Is Internet Usage in the Region Lagging Despite Economic Growth? 1

Nine Guards Admit to Aiding Escapes Amid Mexico Prison Massacre 2

Colombia's Government Planning Tax System Overhaul 2

Ecuadorean Court Rejects Order to Freeze Chevron Ruling.....2

U.S., Mexico Sign Energy Cooperation Agreement 2

Chile, Peru Border Crossing Closed For Mine Removal.....2

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NEWS BRIEFS

U.S., Mexico Sign Energy Cooperation Agreement

Mexican Foreign Minister Patricia Espinosa and U.S. Secretary of State Hillary Clinton on Monday signed an agreement on how to regulate oil and gas drilling along the two countries' border in the Gulf of Mexico, the Associated Press reported. Mexican President Felipe Calderón, who was present at the signing, said the agreement establishes clear rules and emphasized that operations would be done "with full respect to the environment." Clinton said the agreement would "ensure safe, efficient, responsible exploration of the oil and gas reservoirs in the Gulf of Mexico."

Chile, Peru Border Crossing Closed For Mine Removal

Torrential rains in Chile and Peru unearthed at least four land mines left over from a 1970s conflict between the countries and washed them onto a highway, leading authorities to close the border Monday, the BBC reported. Officials detonated four of the explosive devices, but worried that the water could expose more mines. The heavier-than-usual summer rains have also displaced people and destroyed homes and crops in the region.

Abraaj Buying Aureos to Help Expand Latin America Business

The Middle East's **Abraaj Capital** has agreed to buy London-based **Aureos Capital** in an effort to expand its investments in Latin America and Africa, Bloomberg News reported Monday. The new combined firm will oversee investments totaling $7.5 billion in more than 30 emerging markets, Abraaj's chief executive officer, Mustafa Abdel Wadood told reporters in Dubai.

Political News

Nine Guards Admit to Aiding Escapes Amid Mexico Prison Massacre

Nine guards at a prison in northern Mexico have confessed to helping members of the Zetas drug cartel escape just before other members of the drug gang massacred 44 rival inmates over the weekend, the Associated Press reported Monday, citing a state official. As many as 18 guards at the Apodaca prison in Nuevo León state were detained after being accused of helping 30 Zetas members escape. They escaped just before a riot broke out early Sunday in which 44 members of the Gulf cartel were fatally stabbed and bludgeoned. The number of people imprisoned in Mexico has soared nearly 50 percent since 2000. However, the government has not built any new prisons since President Felipe Calderón began his offensive against cartels after taking office in December 2006. The government has renovated three state prisons to house federal prisoners. Sunday's massacre helped illustrate the corruption that analysts say has beset some of the country's prisons. "The Mexican prison system has collapsed," Raúl Benitez, a professor at Mexico's National Autonomous University, told the AP. "The prisons in some states are controlled by organized crime." Because Mexico has only six federal prisons, the government sends most of its convicts to serve their sentences in state prisons. About 29,000 of the country's 47,000 federal inmates are jailed in state prisons. Federal officials say corruption on the state level is to blame for problems at prisons. "The constant element has been corruption in the control processes," the federal prison system's assistant secretary, Patricio Patiño, told the AP. However, state officials counter that they do not have the resources to adequately confine powerful cartel members.

Calderón

File Photo: Mexican Government.

Economic News

Colombia's Government Planning Tax System Overhaul

The government of Colombian President Juan Manuel Santos is planning an overhaul of the country's tax code to eliminate loopholes that officials say have unfairly benefitted some companies and middle-class wage earners, Dow Jones reported Monday. Workers earning minimum wage have been paying an effective tax rate of approximately 11 percent while middle-class workers pay about half that, Finance Minister Juan Carlos Echeverry told the news service in an interview. Echeverry added that the reform also aims to make corporate taxes more fair. The tax system overhaul would require congressional approval. "We are targeting the whole system," he said.

> "We are targeting the whole system."
>
> — ***Finance Minister Juan Carlos Echeverry***

Company News

Ecuadorean Court Rejects Order to Freeze Chevron Ruling

An Ecuadorean court on Monday rejected an order from an international arbitration panel to freeze enforcement of an $18 billion ruling against **Chevron** in a long-running pollution case, Reuters reported. A panel of The Hague's Permanent Court of Arbitration ordered Ecuador last week to suspend enforcement of the ruling, which was handed down a year ago. The court did, however, refer an appeal from the U.S.-based oil major to Ecuador's Supreme Court. Plaintiffs accuse **Texaco**, which Chevron acquired in 2001, of polluting the jungle, but Chevron maintains it has cleaned the waste pits for which it was responsible.

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Featured Q&A

Continued from page 1

changes are to be achieved, it is critical that policymakers recognize a fundamental change that is taking place in global Internet usage. Increasingly, businesses, governments and consumers require instant access to the Internet and are tapping its vast resources via mobile devices. Cisco has estimated that by 2016 there will be over 10 billion mobile devices—including smartphones and tablets—in use worldwide. While the region has lagged the world in smartphone penetration, this is clearly changing—IDC reports that in 2011, 17 percent of cell phone shipments to the region were smartphones. To expand access to the Internet, the region will have to improve infrastructure, make regulatory and tax changes that will encourage the kind of competition that is essential to bringing prices down and speed up the transition to digital TV and use the digital dividend for mobile purposes. While this will clearly be more difficult in some of the region's poorer countries, it should be recognized that few economic development tools have proven more revolutionary or widely accessible than the cell phone, a device which over the past 10 years has surged from 16 percent penetration to over 84 percent. Indeed, it is far more likely that the first Internet access many of the region's poorest residents will have will be on a smartphone or other mobile device."

> "The total amount of users may not have grown, but they have become much more sophisticated and much more frequent users."
>
> — *Wally Swain*

A Wally Swain, senior vice president for emerging markets at The Yankee Group in Bogotá: "The word 'users' is a slippery one, especially in an emerging markets context. We tend to think of an 'Internet user' as someone hunched over a desktop in their home or typing into a laptop in a coffee shop or airport lounge. But for many Latin Americans, being an Internet user has meant access at a neighborhood café. Another significant proportion of Latin Americans are Internet users but at their university, in a public library (especially here in Bogotá) or at work. The classic developed markets connection between being an Internet user and having your own device simply hasn't held. The gap between a flat year-over-year increase in Internet users and the reality of improving Internet usage is explained by the conversion of existing Internet café users to Internet personal device users. The drivers have been lower prices for laptops, tablets and especially smartphones. The total amount of users may not have grown, but they have become much more sophisticated and much more frequent users. Still, this is not an excuse to be smug. The Internet still does not touch broad sectors of Latin American society, especially in rural areas, secondary cities and the lowest economic sectors of urban areas. Government investments in broadband backbone networks are critical here. But education is also extremely important. Even in the United States, there is a significant percentage of Internet non-users. Their primary reason for non-usage is they don't think the Internet has any value for them. That probably means no one has shown them what they can do with it."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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