INTER-AMERICAN DIALOGUE'S
LATIN AMERICA ADVISOR

BOARD OF ADVISORS

Diego Arria
Director,
Columbus Group

Genaro Arriagada
Nonresident Senior Fellow,
Inter-American Dialogue

Joyce Chang
Global Head of Emerging Markets Research, JPMorgan Chase & Co.

W. Bowman Cutter
Former Partner,
E.M. Warburg Pincus

Dirk Donath
Managing Director,
Eton Park Capital Management

Jane Eddy
Managing Director,
Corporate & Govt. Ratings Group,
Standard & Poor's

Marlene Fernández
Corporate Vice President for Government Relations,
Arcos Dorados

Jason Hafemeister
Vice President,
Allen F. Johnson & Associates

Peter Hakim
President Emeritus,
Inter-American Dialogue

Donna Hrinak
President,
Boeing Brazil

Jon Huenemann
Vice President,
U.S. & Int'l Affairs,
Philip Morris Int'l

James R. Jones
Co-chair,
Manatt Jones Global Strategies LLC

John Maisto
Director,
U.S. Education Finance Group

Nicolás Mariscal
Chairman,
Grupo Marhnos

Thomas F. McLarty III
President,
McLarty Associates

Carlos Paz-Soldan
Partner,
DTB Associates, LLP

Beatrice Rangel
Director,
AMLA Consulting LLC

José Antonio Ríos
Chief Executive Officer,
Vadium Technology Inc.

Gustavo Roosen
Chairman of the Board,
Envases Venezolanos

Andrés Rozental
President,
Rozental & Asociados and Senior Fellow,
Brookings Institution

Everett Santos
President,
DALEC LLC

Shelly Shetty
Head, Latin America Sovereign Ratings,
Fitch Inc.

FEATURED Q&A

What Is the Outlook for Social Media in Latin America?

Q Twitter announced last month that it is opening an office in Brazil, where it has attracted 40 million users, behind only the United States. The company joins Google and Facebook with offices in São Paulo, as major companies recognize both the country and the region's potential in the social media market. What is the growth outlook for the sector? How can companies take advantage of the region's high rate of social media usage, which exceeds the global average? What trends are forecast for the short- and medium-term future?

A Cate Ambrose, president and executive director of the Latin American Venture Capital Association: "As U.S. social media platforms move aggressively into Brazil and other Latin American countries, they will have to adapt to the idiosyncrasies of local markets. Facebook had to overcome a formidable domestic competitor in the Brazilian market, Orkut, before ultimately emerging as Brazil's largest social media network. Most importantly, Twitter, Google and Facebook will have to build local teams comprised of a mix of young Latin Americans who have lived or studied in the United States or Europe, and Americans who have cultural ties to the region. There is a clear generational shift underway across Latin America, and in Brazil in particular this is contributing to a much more open and outward looking perspective among the country's youth and a better entrepreneurial ecosystem. At the same time, over the last three years LAVCA has seen U.S. venture capital investors enter into Brazil and Latin America in order to tap demand from a rapidly expanding base of domestic consumers. Just as private equity firms are investing in brick and mortar businesses in healthcare, education, retailing, financial services and a wide range of consumer products and services, venture capital firms are backing Internet startups in the same sectors, including

Continued on page 3

Argentina Will Control Falklands in 20 Years: Timerman

During a visit to London, Argentine Foreign Minister Héctor Timerman predicted that the South American country will control the Falkland Islands within 20 years. Last year marked the 30th anniversary of Britain's defeat of Argentina in the Falklands War. See story on page 2.

File Photo: Argentine Government.

Inside This Issue

FEATURED Q&A: What Is the Outlook for Social Media in Latin America?.....1

Authorities Reportedly Nearing Arrests of Acapulco Rape Gang.....2

Rousseff Planning to Scrap Taxes on Staple Foods in Bid to Curb Inflation.....2

Argentina Will Control Falklands Within 20 Years: Timerman.....2

Brazil's Copyright Agency Strips Apple of iPhone Trademark.....2

Brookfield Asset Management Unit Faces Bribery Charges in Brazil.....3

Copyright © 2013, Inter-American Dialogue

NEWS BRIEFS

Argentina Will Control Falklands Within 20 Years: Timerman

Argentina will control the Falkland Islands within 20 years, Argentine Foreign Minister Héctor Timerman predicted Tuesday during a visit to London, BBC News reported. In an interview with British newspapers the *Guardian* and *Independent*, Timerman said Britain has "occupied" the Falklands for "access to oil and natural resources." Elected representatives of the Falklands confronted Timerman in the House of Commons lobby, but the foreign minister refused to talk to them or accept a letter from them on the islands' future.

Brazil's Copyright Agency Strips Apple of iPhone Trademark

Brazil's copyright agency has decided to strip **Apple** of the right to use its iPhone trademark and granted it to a local company that registered it first, Reuters reported Tuesday. Manaus-based **Gradiente Eletrônica**, a consumer electronics maker and marketer now operating as **IGB Eletrônica**, registered the "iphone" name in 2000, according to the report, seven years before Apple launched its product. Apple can challenge the ruling.

Investor Accuses YPF of Making False Statements Before IPO

Argentine oil company **YPF** has been sued by an investor accusing it of making false statements before its March 2011 public offering, Bloomberg News reported Tuesday. Michigan's Monroe County Employees Retirement System says the company failed to disclose the risk of nationalization. Spain's **Repsol**, which lost its majority stake in YPF as a result of last April's government takeover, is also a target of the suit.

Political News

Authorities Reportedly Nearing Arrests of Acapulco Rape Gang

Authorities in Mexico have information that will lead to the culprits in the vicious rapes of six Spanish tourists in Acapulco, the Associated Press reported Tuesday. In the attack, which happened at a beach house on the outskirts of the Pacific resort city, five attackers tied up six men and then sexually assaulted the six Spanish women. The assailants did not rape a Mexican woman in the group, telling her she was spared because of her nationality. The started at about 2 a.m. Monday, and the victims were only able to report it to authorities five hours later. "Fortunately, we have strong evidence to lead us to those responsible for this reprehensible act," Martha Garzón Guzmán, Guerrero's state attorney general, told Radio Formula. Acapulco, which attracted celebrities to its beaches in the 1950s and 1960s, has more recently been beset by extortions and killings by drug gangs. However, tourists have rarely become the victims of the city's violence. Acapulco Mayor Luis Walton said Monday's attack did not seem to be linked to a drug gang. "From what the attorney general has told me, I don't think this was organized crime," he said, the AP reported. "But that will have to be investigated, we don't know." Mexico's foreign ministry expressed regret for the incident in a statement. "Up to now, the investigations are being carried out by local authorities and they will be the ones to provide information," the ministry added. Spain's foreign ministry already had issued a travel advisory, warning Spaniards that Acapulco was a "risk zone" in Mexico. "In Acapulco, organized crime gangs have carried out violence, though up to now that has not affected tourists or the areas they visit," the advisory states. "At any rate, heightened caution is advised." Last week, Mexico's tourism secretary, Claudia Ruiz Massieu, attended the International Tourism Fair in Madrid to launch a campaign depicting Mexico as a safe vacation destination.

> "Fortunately, we have strong evidence to lead us to those responsible for this reprehensible act."
>
> *— Martha Garzón Guzmán*

Economic News

Rousseff Planning to Scrap Taxes on Staple Foods in Bid to Curb Inflation

Brazilian President Dilma Rousseff said Tuesday she plans to scrap all federal taxes on a basket of staple foods in an effort to slow inflation, Bloomberg News reported. "We are studying a total cut of federal taxes on the basic foods basket," Rousseff said in a local radio interview. "We will cut those taxes." The statement comes on the heels of news Monday that Argentina reached a deal with supermarkets to freeze prices for two months in an effort to curb its spiraling rate of inflation. Compared to Argentina, which some private economists estimate has a 30 percent inflation rate, Brazil's consumer prices have advanced to 6.02 percent through mid-January, although that rate exceeds the central bank's 4.5 percent target for the past 29 months. Brazil's government is trying to control prices without raising interest rates, which could dampen economic growth. Cutting all federal taxes on food could cost the government $2.6 billion each year in revenue, Bloomberg News reported. But globally, food prices remain high and could increase further in 2013, according to analysis by **QNB Group**, *World Grain* reported this week. The "grains" component of the Global Food Price Index, produced by the United Nations Food and Agriculture Organization, has hovered close to record

Rousseff

File Photo: Brazilian Government.

Copyright © 2013, Inter-American Dialogue

levels, and meat prices are also close to historic highs, in part because of the cost of grains for animal feed.

Chile's Economy Grew More Than Forecast in December

Chile's economy posted 4.7 percent growth in December as compared to the same month a year earlier, topping analysts' estimates in the retail and service industries, Bloomberg News reported Tuesday, citing the central bank. In a recent Bloomberg survey, the median analysts' forecast was for growth of 3.7 percent in the final month of 2012. The economy rose 1.2 percent in December compared to November as measured by Chile's Imacec index, a proxy for gross domestic product, the central bank said. The growth figure for December brought the country's economic expansion for the year to 5.6 percent, according to Bloomberg's calculations. Domestic demand and investment helped to fuel growth, driving up imports and retail sales, even amid weakening export growth and anemic industrial production. "The recent pattern of growth driven by domestic demand had resulted in a widening of the current account deficit which, as previously noted, if it continued and expanded, could become a factor of greater external vulnerability," the central bank said in the minutes of its January meeting. The bank has kept its benchmark interest rate at 5 percent for 12 consecutive monthly meetings. In the third quarter, Chile's GDP expanded 5.7 percent year-on-year. A 13 percent gain in investment and a 6.4 percent increase in private consumption drove the third-quarter growth. [Editor's note: See Q&A on Chile's economy in Tuesday's *Advisor*.]

Chile's domestic demand and investment have helped to fuel growth.

Company News

Brookfield Asset Management Unit Faces Bribery Charges in Brazil

A subsidiary of **Brookfield Asset Management** has been slapped with a civil suit in Brazil alleging that the unit engaged in bribery in order to secure construction permits, *The Wall Street Journal* reported Tuesday. Marcelo Camargo Milani, the state prosecutor for São Paulo, told the newspaper that he filed the lawsuit against 10 defendants, including two of the subsidiary's top executives and a former employee. "Brookfield has created a high system of bribery in order to obtain approval for its projects quickly and with irregularities," said Milani. A Brookfield spokesman said the allegations originate with the unit's CFO, who was fired in 2010. "These are unproven allegations made by a former employee," said the spokesman. "We don't believe Brookfield did anything wrong and we are cooperating with authorities." The prosecutor is seeking $15 million in fines and a ban on the subsidiary receiving any more public contracts.

Featured Q&A

Continued from page 1

online education, retailing, travel agencies and banking. Many of these businesses incorporate social networks as a key part of building online communities of customers. The startups are launched by a mix of Latin American and U.S. entrepreneurs, and financed by co-investments from local venture capital firms and Silicon Valley investors entering the region."

A Alberto Arebalos, independent communications consultant: "When I joined Google in June of 2007 as director of corporate communications in Latin America, the company only had offices in Brazil and two small operations in Mexico and Argentina. When I left in April 2012, it had offices in São Paulo, Buenos Aires, Mexico, Santiago, Lima, Bogotá and a small but growing regional operation out of Miami. Yes, Latin America is growing and growing fast, not only in the social media arena but in what is the engine that powers all these companies: online advertising. As a lot of people are sharing, surfing, playing and learning online, thousands of companies recognize that in order to reach consumers they have to advertise on the Internet and that is leading to growth in the entire online advertising business. Latin America is far from the more developed markets, where online advertising is north of 20 percent of the total advertising budget. Latin America is close to 7 or 8 percent, but it is growing quickly, and is poised to double in the next five years, a huge opportunity. However, Latin American companies still are leaving more than $2 billion on the table annually by not advertising on the Internet and losing potential sales. But that will change as more people of all ages gain access to the Internet. Online advertising is the money engine for Facebook, Google, Twitter and many others, and as the whole industry is growing, we will see more offices opening and more investment in the region from such companies."

> "Latin America is far from the more developed markets, where online advertising is north of 20 percent of the total advertising budget."
>
> — *Alberto Arebalos*

A Carlos Jiménez, president of TendenciasDigitales.com in Caracas: "Latin America has proven to be a very active region in terms of social media. More

Continued on page 4

Copyright © 2013, Inter-American Dialogue

Featured Q&A

Continued from page 3

than 90 percent of users (more than 200 million) visit Web 2.0 sites and the penetration rate for social networks like Facebook is more than twice the world average. For any company that claims to have an important role in global social media, Latin America is definitely a key region, not only for its intensity of use, but also for growth opportunities. However, it is a risk to see the region as a homogenous unit, as there are very important differences. The first occurs in Internet penetration, with some countries exceeding 50 percent (Chile, Argentina and Uruguay), and others barely reaching 20 percent (Bolivia, Nicaragua and Honduras). And that's not the only discrepancy. The quality and cost of Internet connections are also very different among countries. In some countries, like Chile and Argentina, as well as in Puerto Rico, connection speeds are competitive in the global context. In other countries, such as Guatemala, El Salvador and Bolivia, it is very difficult to develop the Internet without making investments in infrastructure. Brazil, where most of these large companies have been established, is definitely the big market in Latin America, numerically speaking, but it's certainly a very different market than the rest. I believe that a world class company has to establish a presence in Latin America, but it is imperative to understand the differences among countries and establish strategies at sub-regional levels based on user behaviors, needs and opportunities."

> "For any company that claims to have an important role in global social media, Latin America is definitely a key region."
>
> — ***Carlos Jiménez***

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

WHAT'S KEEPING YOU UP AT NIGHT?

The **Latin America Advisor** gets **answers** to the **questions** that informed executives are asking, every business day, so that you can rest easy.

Prospective subscribers can email freetrial@thedialogue.org for complimentary preview access.

Latin America Advisor
is published every business day by the Inter-American Dialogue, Copyright © 2013

Erik Brand
General Manager, Publishing
ebrand@thedialogue.org

Gene Kuleta
Editor
gkuleta@thedialogue.org

Inter-American Dialogue

Michael Shifter, President
Peter Hakim, President Emeritus
Genaro Arriagada, Nonresident Senior Fellow
Sergio Bitar, Nonresident Senior Fellow
Joan Caivano, Director, Special Projects
Maria Darie, Director, Finance & Administration
Mary Ellen Flather, Senior Director of Strategy and Development
Claudio Loser, Senior Fellow
Nora Lustig, Nonresident Senior Fellow
Margaret Myers, Director, China and Latin America Program
Manuel Orozco, Director, Remittances and Development Program
Tamara Ortega Goodspeed, Senior Associate, Education
Jeffrey Puryear, Vice President, Social Policy

Latin America Advisor is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at:
1211 Connecticut Avenue NW, Suite 510
Washington, DC 20036
Phone: 202-822-9002 Fax: 202-822-9553
www.thedialogue.org ISSN 2163-7962

Subscription Inquiries are welcomed at freetrial@thedialogue.org

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.

Copyright © 2013, Inter-American Dialogue