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FEATURED Q&A

How Well Is E-Commerce Clicking in Latin America?

Q E-commerce sales in Latin America grew to $43 billion last year, nearly double the amount from 2009, Carolina Forero, Visa's e-commerce director in Latin America said at a recent conference in Santiago. What has led to the increases in online sales? What factors could hold back e-commerce growth moving ahead? Do Latin America's gains in e-commerce compare well to other parts of the world? Will e-commerce growth rates decline in the face of falling economic growth rates in the region?

A Adriana Norena, managing director of Google Argentina and Spanish-speaking Latin America: "Considering that Latin America's Internet growth has recently been the fastest in the world, its huge strides in e-commerce adoption come as no surprise. Strong economic conditions, improved Internet access, an increase in online Spanish or Portuguese retail content, increased security, diverse payment methods and a vast upswing in mobile Internet usage have created a favorable environment. As early technology adopters and shopping enthusiasts, Latin Americans are receptive to online advertising and savvy about consulting online product reviews, prices and social media. As of 2011, Forrester Research expected Brazil's e-commerce sales to rise 178 percent between 2010 and 2016. Latin America's population will inevitably continue coming online, especially from mobile devices. Latin America already has more mobile phone subscribers than Western Europe. While global economic uncertainty may moderate the recent record growth of Latin American markets, e-commerce expansion will necessarily continue, especially as shopping and payment tools become ever more convenient and gains in productivity and efficiency become apparent. Despite its growth, e-commerce is nascent in Latin America and needs more players. Just over

Continued on page 4

Ernesto Makes Landfall With Hurricane-Force Winds

Ernesto barreled into Mexico's Yucatán Peninsula early this morning with sustained winds of 85 miles per hour. The storm forced some evacuations. Ernesto is expected to pass over the southern Gulf of Mexico and make landfall again near Veracruz. See brief on page 2.

Image: U.S. National Hurricane Center.

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NEWS BRIEFS

Ernesto Makes Landfall in Mexico

Hurricane Ernesto reached Mexico's Yucatán Peninsula early Wednesday, the Associated Press reported. There were no early reports of damage, but today officials are expected to be better able to assess how much destruction might have occurred overnight. Ernesto hit with sustained winds of 85 miles per hour. Officials moved more than 1,300 tourists to Chetumal, the capital of Quintana Roo state, from resorts in Mahuahal, Balacar and other coastal spots that were expected to see heavier rain and wind, according to the AP.

Argentina to Seize Printer at Center of Probe Involving VP

The administration of Argentine President Cristina Fernández de Kirchner announced plans Tuesday for a government takeover of the **Company of South American Values**, the printing firm that has been at the center of a criminal case involving Vice President Amado Boudou and the nation's tax chief, the Associated Press reported. A judge is considering whether to charge Boudou, tax chief Ricardo Etchegaray and several others with influence peddling, illegal enrichment, tax evasion and money laundering, according to the AP. Fernández has defended her cabinet officials in the case.

Peru Exports Fall For Third Straight Month

Peru's exports fell 14 percent in June to $3.6 billion, Reuters reported Tuesday. The drop is the third straight monthly decline in exports, said Trade Minister José Luis Silva. In the first half of this year, exports rose just 0.2 percent more than the same period last year, to $21.84 billion.

Political News

Brazil Sends 9,000 Troops to Borders in Anti-Crime Operation

Brazil's government has dispatched 9,000 troops to its borders with Argentina, Paraguay, Uruguay and Bolivia as part of an anti-crime operation, the Defense Ministry announced Tuesday, the Associated Press reported. The two-week operation, which started Monday, involves the army, navy and air force and is part of the government's efforts to curb the flow of weapons, drugs and other contraband into Brazil. "Our main objective is to prevent Brazilian airspace from being used for illegal activities like drug trafficking and contraband," said Air Force Brigadier João Geraldo Ferreira Malta. The military is conducting surveillance operations using planes, drones and helicopters to intercept aircraft entering Brazil illegally and also to support troops on the ground, he added. Troops stationed near Brazil's border with Bolivia will seek to curb the inflow of drugs from the landlocked nation, which sends an estimated 92 percent of its cocaine to Brazil. Troops also will focus on the so-called "Tri-Border" area, where Brazil, Argentina and Paraguay meet. The area has long been a hotbed of illicit activity, including weapons trafficking, counterfeiting and smuggling. Brazil seized more than two tons of narcotics in similar operations earlier this year.

Economic News

Peru's Banking Regulator Eyes Higher Loan Provision Requirements

Peru's banking regulator has told the country's lenders that they must shield themselves against higher levels of risk by boosting provisions for bad loans as they increase lending to lower-income borrowers, Reuters reported Tuesday, citing the regulator's adjunct superintendent. The regulator, known as SBS, under the new draft regulation would tighten requirements for provisions that in some cases are already tighter than similar rules in the United States and Europe. The regulator has given banks until Oct. 15 to respond to the regulator's statement. They will have to comply by July 2015. The higher requirements for provisions are an effort to proactively "prevent a risk," the adjunct superintendent told Reuters. Some Peruvian banks have said they are already being more cautious with provisions as they seek to attract borrowers, some of whom have never had access to loans. Peru's poverty rate is approximately 27 percent. On Monday, Peru's **Credicorp** said it boosted loan provisions in the second quarter by 84 percent, to $110.9 million. The country's largest financial holding company reported a 1.3 percent year-on-year decline in net income, to $171.9 million in the quarter. Credicorp's decision to boost provisions is part of "our conservative provisioning policy, which accompanies our incursion efforts in lower income segments," said the bank. In the April-through-June period, Credicorp increased its loan portfolio to $19.2 billion, an 18.7 percent year-on-year increase. In addition, **Intercorp Financial Services**, the owner of Peru's fourth-largest bank, **Interbank**, recently reported that it had increased its provisions for bad loans by 37 percent, to $94 million. The central bank's president, Julio Velarde, said earlier this year that Peru and neighboring countries been more relatively stringent about protecting the banking system against bad loans. "In general, in Latin America we have already met rules that they are requiring Europe and the United States to meet in 2018—precisely because we have been more prudent," Velarde told Reuters in May.

Velarde

File Photo: TV Perú.

Company News

Nippon Steel Building Plant in Mexico to Supply Auto Industry

Japan's **Nippon Steel**, along with several Japanese partners, are planning to construct a steel plant in Mexico's central

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Guanajuato state in order to supply the country's automobile industry, EFE reported Tuesday, citing a report in Japanese daily business newspaper *Nikkei*. The joint venture aims to begin production at the plant in the middle of next year and employ approximately 200 people. The facility will be able to produce about 24,000 tons of steel parts annually, said Nippon Steel. "Nippon Steel, **Sumitomo Pipe & Tube**, **Sumitomo Corporation**, and **Metal One** have long discussed entry into the Mexican market with a view to capturing demand for automotive steel pipes/tubes in this country," the company said in a statement, EFE reported. "The joint-venture company is scheduled to begin production in June 2013 and will supply products to Japanese, North American and European automakers and

Nippon said it is expecting a "rapid expansion of demand" for steel as auto production in Mexico increases.

auto parts manufacturers in Mexico." Japanese vehicle manufacturers, including **Honda Motor Co.** and **Nissan Motor Co.** have boosted investment and production in Mexico in recent years. The plant, which is to be located in the town of Silao, will also provide parts to U.S.-based **General Motors** and Germany's **Volkswagen**. Nippon added that it is expecting a "rapid expansion of demand" for steel as auto production in Mexico increases. Some 2.6 million automobiles were manufactured in Mexico last year, the company said. Nippon Steel will have a stake of 55 percent in the plant while its partners in the joint venture will own the remainder. The plant will manufacture pipes, mainly for vehicles' steering, exhaust and fuel systems. It will also produce parts for motorcycles. Raw materials for the plant will come from Japan and the United States, said Nippon. Last month, Metal One, a **Mitsubishi** unit, said it would construct a sheet-steel plant in Mexico's central Hidalgo state.

Human Capital

A Look at Education in Latin America by the Dialogue's Jeffrey Puryear

Latin Countries Outpacing Peers in Education Advances

WASHINGTON—A recent Harvard University study found that Chile and Brazil are among the three countries that have raised student learning at the fastest rate between 1995 and 2011 (Latvia was the third). Each improved three times faster than the average of the 49 countries included in the study. Colombia was also among the top 10, improving at twice the average. This is encouraging news for education reformers, suggesting that sustained efforts to raise student learning are beginning to pay off.

To be sure, results in Chile, Brazil and Colombia are still woefully unacceptable. Each country's students score in the bottom third worldwide on the OECD's PISA exam. However, they appear to be improving faster than most others.

How to explain their progress is less clear. All three countries have worked hard to increase learning, experimenting with many different reform measures. And they started from a very low base, making it easier to get results from relatively simple and inexpensive fixes. Here are some other possible explanations:

All have managed to grow their economies and reduce poverty over the past two decades, making it easier for poor children to concentrate on school. In each, presidents have made education a top priority, appointing and supporting talented ministers. In Brazil and Colombia, first-rate ministers have served for eight years, giving them time to learn the job and consolidate their strategies. All have favored whole-system reform over piecemeal measures and kept changes largely intact from one administration to the next.

The three countries have emphasized measuring results (particularly learning) and sharing that information widely—with parents, politicians and the press. Each administers achievement tests to all students rather than just to a sample, making it easy to compare progress. All participate regularly in global student achievement tests, and they have adopted policies aimed at attracting more talented teachers and rewarding good teaching. Chile has been the leader, significantly raising salaries, assessing teacher performance and experimenting with merit pay. Brazil has instituted bonus pay, raised the education levels of its teachers and improved in-service training.

All have experimented with competition and accountability (although in very different ways). Chile stands out with a robust system of publicly funded, privately managed voucher schools that lets many parents choose the school their children attend. Colombia has established a much smaller system of concessionary schools in which successful private schools contract to manage public schools and meet clear performance standards. Brazil has concentrated on creating a competitive climate by measuring and comparing publicly the results achieved by states, municipalities and individual schools. Each has taken steps to make education funding more equitable. For example, Brazil established a funding floor that reduced differences in funding between poor and rich states. Chile instituted a differentiated voucher system that pays schools up to 50 percent more for each disadvantaged student they teach.

Perhaps most importantly, all three countries have made education a national issue, creating a sense of urgency that has energized public opinion and pressured politicians and schools for results. The big question now is whether each country will figure out how to keep progress going until they reach acceptable levels of learning.

Jeffrey Puryear is vice president for social policy at the Inter-American Dialogue and co-director of the Partnership for Educational Revitalization in the Americas (PREAL).

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Featured Q&A

Continued from page 1

0.80 percent of the region's GDP is derived from e-commerce, as compared to 4.7 percent in the United States. Regional businesses are only beginning to take advantage of online opportunities, and international companies need to tailor retail and ad content to Latin American audiences. As people spend more time online, the Internet is clearly playing a growing role in consumer choices and lifestyles. It is now up to companies to produce high quality user experiences that keep customers coming back."

A Wally Swain, senior vice president for emerging markets at The Yankee Group in Bogotá: "There are three main issues holding back e-commerce in Latin American markets: credit card penetration, reliable cross country overnight delivery and trust. There first two are basic to an effective e-commerce operation for somewhat obvious reasons. Payment-card penetration is gradually getting better especially through deployment of debit cards for paying salaries, but the huge informal economy sets a limit. Lack of trust, however, is the single biggest obstacle, especially in the generation with adequate disposable income. E-commerce will be slow in Latin America until enough word-of-mouth builds that it works and the goods arrive on time."

A Richard Child, CEO of Mattrix Group in Mountain Village, Colo.: "The growth is the result of a number of factors. Banks and payment-related entities have made important investments in new technology and also in e-commerce applications and platforms. Also, there have been significant changes in consumer protection law as well as disclosure requirements. Further, many U.S.-based e-commerce merchants are now transacting with and shipping goods to certain Latin American and Caribbean countries, generating competition and increasing consumer awareness regarding the benefits of e-commerce based transactions.

> "E-commerce is still concentrated among large merchants, and more than 50 percent of Latin America's e-commerce is in Brazil."
>
> — ***Richard Child***

However, e-commerce is still concentrated among large merchants and more than 50 percent of Latin America's e-commerce is in Brazil, according to an *América Economía* report in June 2010. Efforts by the Intentional Finance Corporation and others to support medium and small merchants in entering the e-commerce arena will most likely facilitate their participation, and the entrance of companies such as Pay-Pal will very likely lead to the redefinition of certain business practices and models."

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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