

Latin America

Quick Facts

Official Name:

Latin America, South America

Uruguay: 3,463,000

Guyana: 751,000

Suriname: 499,000

Population: (2008)

385,742,554

Largest cities:

São Paulo, Buenos Aires, Rio de Ja-

neiro, Lima, Bogotá, Santiago

Belo Horizonte, Caracas, Porto Alegre

Largest Countries: (by population)

Brazil: 193,891,867

Colombia: 45,656,990

Argentina: 40,085,130

Peru: 29,368,000

Venezuela: 29,132,000

Chile: 17,295,000

Ecuador: 14,228,000

Bolivia: 9,182,000

Paraguay: 6,158,000

Major Languages:

Portuguese, Spanish, English, Dutch, French, Italian, Arabic, and dozens of indigenous languages

GDP (2009):

\$4.061 trillion

Overview

With a population of almost 380 million, and covering 12 percent of Earth's surface area, South America is the fourth largest continent. There are 12 nations in South America. Countries like Brazil, Venezuela, Peru, Argentina, Chile, Bolivia, Uruguay and Ecuador have grown increasingly attractive to international investors. Spanish is the predominant language spoken throughout South America, except in Brazil where Portuguese is the national language.

Latin America is comprised of Central and South America. An important trade partner, United States trade with Latin America is approximately \$134.5 billion in exports (20% of total exports).

With a large and increasingly connected population, and markets that were ever more linked to those in the north, particularly those in the United States, business leaders both in the region and around the world are anxious to see the development of Central and South American business. Despite such hopes, however, only the growth of business-to-business e-commerce was assured in the short term, while the consumer market faced more serious challenges. A number of social, political, technological, and economic factors kept the most ambitious dreams somewhat in check. Perhaps most troublesome, much of the region is beset by political instability, which in turn can lead to fluctuating currencies and precarious economies. In addition, civil unrest, particularly in Colombia, increasingly encroached upon borders in the early 2000s, threatening to lead to more widespread instability.

Complicating matters is the fact that there is little in the way of a defined "Latin American market." Rather, Central and South America are highly fragmented and every country—and often regions within countries—has to be considered on its own terms. This concept poses a great challenge to both outside investors and domestic entrepreneurs. On one hand, those seeking to reap great financial rewards in Central and South America might want to push forward to develop a pan-regional market in which they could emerge as the standard bearer. On the other hand, an individual or

company that is too aggressive risks losing sight of the nuances of the varying markets and thereby overextending its resources for diminishing returns.

REGULATORY AND TAX ISSUES.

The legal framework for e-commerce in South and Central America was fairly underdeveloped in the very early 2000s, thus inhibiting the possibilities for growth. In this vein, Latin American countries had done little, by and large, to address e-commerce taxation issues, as they were still struggling with the basic establishment of an Internet infrastructure. Central and South American governments derive their greatest share of revenue from value-added taxes, which are those levied on the sale of imported goods. When the various players involved in a transaction are all located in different countries, which often is the case with e-commerce, the assessment of a value-added tax becomes increasingly difficult.

For the most part, e-commerce taxation throughout the region is tied to the existing rules for physical-world taxation. However, the difficulty in enforcing such taxation and the resulting decline in tax revenues is expected to spur the region's governments into action to coordinate with governments elsewhere, particularly in Europe, to implement taxation schemes geared specifically toward e-commerce. A few countries that have negotiated tax treaties with the Organization for Economic Cooperation and Development (OECD) include Argentina, Brazil, Chile, and Venezuela. Additionally, several countries were working toward harmonizing some elements of their tax policies with their North American neighbors in 2001.

Many of the region's countries also retained relatively protectionist economic policies that aimed to cradle their own developing industries from foreign competition. Some countries, such as Brazil and Argentina, took large strides in opening up their markets to a more liberalized trade policy. This was attractive to foreign investors, including major North American and European Internet and telecommunications firms. According to many analysts, in a borderless Internet environment at least some degree of liberalization is necessary to attract such investment and to compete in the e-commerce world.

SOCIAL AND ECONOMIC INEQUITY.

A great deal of social and economic disparity, both within and between countries, plagued much of Central and South America, inhibiting the spread of e-commerce. Because Internet access throughout the region was so expensive and presented so many technical problems, Internet penetration hovered at around three percent in the early 2000s. Jupiter Communications placed the entire online population in Latin America at 11 million in 1999, while the most optimistic estimates for the year 2000 placed the total at 30 million users. However, Jupiter expected the total to skyrocket to 67 million by 2005, making Latin America the fastest-growing Internet population in the world. As a result, in the eyes of many e-merchants, the time was ripe to jump into the Central and South American market in order to capture the eyes of those users as they come online, thereby building early customer loyalty. According to Jupiter, one critical consideration for e-commerce was that its estimated number of Internet users referred to individuals versus households. Latin Americans were far more likely than North Americans to surf the Web at kiosks or other locations outside of the home, because PC penetration throughout the region was markedly low. As a result, those accessing the Internet were far less likely than those to the north to engage in e-commerce, since they didn't enjoy access in the privacy of their own homes.

For the most part, computer ownership in Latin America is a hobby for elites, and therefore business-to-consumer e-commerce has been fairly limited in its possibilities. This trend showed few signs of letting up in the early 2000s. However, as technologies become cheaper and information technology and telecommunications infrastructure grow more sophisticated and widespread, entrepreneurs remain hopeful that the consumer Internet market in Central and South America will ripen.

INADEQUATE INFRASTRUCTURE.

The biggest obstacle to Central and South American e-commerce in the late 1990s and early 2000s was the lack of a comprehensive telecommunications infrastructure throughout the region. This problem was beginning to be addressed, largely by outside investors eyeing the region's explosive potential, by way of new phone lines, computers, information technology, Internet service providers (ISPs), and wireless technology.

However, developing regions such as Central and South America had a key advantage over the more developed regions. North America and Western Europe pioneered the Internet infrastructure and e-commerce. However, the less developed regions benefit from the hindsight those leaders provided, and can avoid the same mistakes in the nascent stages. Moreover, the telecommunications infrastructure largely will move straight to the more sophisticated models, such as broadband, rather than try to adapt the Internet to a scarcely existing infrastructure. Indeed, Microsoft in 1999 pumped \$126 million into the Globo Cabo, a leading Brazilian television and cable company, to develop a broadband infrastructure, and other U.S. and European companies followed suit with their own deals throughout the region.

E-merchants throughout Central and South America needed to come up with alternative models to facilitate shopping and purchasing rather than simply mimicking the U.S. model. Credit card ownership was exceptionally limited, as low as 10 percent in some areas, according to Jupiter Research. To dramatize the problem, Jupiter studied one of the most upscale neighborhoods in the region's most economically developed nation, Brazil, and found that even there half of the households did not own a credit card. Thus, the overwhelmingly preferred payment method for e-merchants in North America and Europe was not feasible in Central and South America. Some solutions that have been furthered in the region were the development of alternative currencies specifically for use in Web-based transactions.

Even where users did have credit cards, they were relatively unlikely to use them over the Internet in Central and South America, where merchants generally assume little responsibility for their products—"where 'caveat emptor' is the conventional wisdom," as Brandweek put it. Security fears, big enough problems in the United States, were greatly magnified in Latin America and highlighted another challenge for e-commerce in the region: overcoming consumers' reluctance to shop online in the first place. These fears were faced in North America and Europe, and have been largely dealt with through implementation of improved encryption technologies to safeguard credit card numbers, along with the establishment of formal government-sponsored frameworks designed to address such issues. However, in Latin America the problems are far more deeply rooted, and may not be remedied by simple technological solutions.