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FEATURED Q&A

What's the Outlook for E-Commerce in Mexico?

Q A recent study by A.T. Kearney estimated the growth of e-commerce in Mexico at 32 percent last year, to \$6.6 billion. However, the country's main Internet trade group, the Mexican Internet Association, says that only one-fifth of Internet users there make purchases online. What is behind the varying perspectives on e-commerce growth in Mexico? What is holding e-commerce back from greater growth in the country, and what is the sector's outlook over the coming years?

A Javier Vallaura, director of business development at allpago international: "Most of Mexico's e-commerce has been developed around the tourism industry, with airlines and travel agencies as the main innovators. But why has only the travel industry been successful in e-commerce in Mexico? It comes down to challenges in payments and logistics, but the potential is there. Most of the first wave of e-commerce was based on brick-and-mortar shops that used the Internet as a new sales channel. Key to fulfillment was the delivery of products to buyers. This is still a challenge in Mexico for two main reasons. First, the development of urban freight in the main metropolitan areas has been problematic because the institutional framework is a patchwork developed by different bodies. Second, Mexico is a big country with a low population density, and reaching out to every corner of the land requires an investment that

demand hasn't yet justified. Global players like Amazon have announced that they will enter Mexico this year and are focusing on major cities where demand is high enough to justify the development of a logistics network. Furthermore, the second wave of e-commerce, based on the sale of digital products and services, hasn't encountered a logistics challenge. Mobile and Internet infrastructure has been developed in Mexico, and this has helped the development of this area of e-commerce. Credit and debit cards have proven the most con-

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Bachelet Names New Cabinet, Sacks Finance & Interior Chiefs

Chilean President Michelle Bachelet, pictured Monday, named a new cabinet in an attempt to move past political scandals and falling approval ratings. In the shakeup, Bachelet named new finance and interior ministers. See story on page 2.

Photo: Chilean Government.

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NEWS BRIEFS

Guyana Awaits Election Results After Peaceful Election

Voters in Guyana cast ballots Monday in an election that police described as peaceful, BBC News reported. Results are not expected until Wednesday in the election in which President Donald Ramotar of the People's Progressive Party is facing off against David Granger, who represents a five-party opposition coalition. A win by Ramotar would mark his second term in office and the sixth straight term for his party.

Chinese Premier to Visit South America Next Week

Chinese Premier Li Keqiang will visit Latin America next week on a four-nation tour, during which it is expected that major deals will be announced, Reuters reported. China's Foreign Ministry said Monday that Li will visit Brazil, Colombia, Peru and Chile from May 18 to May 26. Chinese leaders' visits are often accompanied by major deals in resource-rich nations such as Brazil and Chile, and earlier this year, China said it will invest \$250 billion in Latin America over the next decade.

Bolivian Court Authorizes Extradition of Humala Advisor

A Bolivian court on Monday authorized the extradition to Peru of Martín Belaunde, a campaign advisor to Peruvian President Ollanta Humala during his failed 2006 presidential bid who is wanted for his role in an alleged corruption scandal, Reuters reported. Belaunde fled to Bolivia last year to avoid charges of graft and unlawful association, and Peruvian prosecutors have said he belongs to a criminal network linked to public officials. Belaunde denies the charges and says he is the victim of political persecution.

Political News

Bachelet Forms New Cabinet, Sacks Finance and Interior Ministers

Chilean President Michelle Bachelet, who has been grappling with political scandal and falling approval ratings, on Monday dismissed her finance and interior ministers as she formed a new cabinet, Agence France-Presse reported. "Today, it's time to give new impetus to the quality of our

“Today, it's time to give new impetus to the quality of our government.”

— Michelle Bachelet

government," said Bachelet, AFP reported. Bachelet named economist Rodrigo Valdes as her new finance minister, replacing Alberto Arenas. She also named former Defense Minister Jorge Burgos as interior minister, replacing Rodrigo Peñailillo. Arenas' removal marked the first time since Chile's return to democracy in 1990 that a Chilean finance minister had been dismissed mid-term, Reuters reported. Economists applauded Bachelet's decision to name Valdes finance minister. He is the chairman of state-controlled bank **Banco del Estado** and has also had positions at **Barclays** and **BTG Pactual**, Reuters reported. He also was a deputy director of the International Monetary Fund and has a doctorate in economics from the Massachusetts Institute of Technology. "The figure of Rodrigo Valdes is certainly going to be most likely perceived as a market-friendly new minister, who could perhaps instill a renewed sense of confidence in the outlook for the economy," Tiago Severo, a Latin America economist at **Goldman Sachs**, told Reuters. Arenas had been at odds with Chile's business community after the government's implementation of a tax reform that was unpopular. As the new finance minister,

Valdes is not expected to make significant changes to Bachelet's economic agenda and will have to grapple with an anemic economy that has been beset by weak business and consumer confidence as well as a 1.9 percent rate of growth last year, a five-year low. And Peñailillo has been a close ally of Bachelet and formerly served as her chief of staff. Peñailillo had been tainted, however, by media reports connecting him to a company in the middle of a campaign finance scandal. He also had been blamed for not containing a loan scandal involving the president's son that surfaced when she was on vacation, AFP reported. Bachelet also reassigned four of her 23 ministers to other positions, AFP reported. The Chilean president said that she would keep Foreign Minister Heraldo Muñoz in his position.

France's Hollande Meets With Castros During Cuba Visit

French President François Hollande, the first French president to visit Cuba in more than a century, arrived in Havana on Sunday and met Monday with current President Raúl Castro and former leader Fidel Castro, BBC News reported. Hollande is the first Western leader to visit the island nation since the historic announcement by Raúl Castro and U.S.



Hollande (center) arrived Sunday in Havana.

Photo: French Government.

President Barack Obama in December that the former foes would move to establish normal diplomatic relations. On Monday in a speech at the University of Havana, Hollande urged the United States to overturn "the measures that have damaged Cuba's development" in a reference to the U.S. embargo, according to Voice of

America. Hollande traveled to Cuba with a large contingent of French businessmen eager to expand the nations' trade ties, and he signed a series of trade and educational agreements with Cuba. "I come to Cuba with great emotion because it is the first time that a president of the French Republic has come to Cuba," Hollande said after arriving at Havana's José Martí International Airport, where he was greeted by Cuba's Deputy Foreign Minister Rogelio Sierra, Agence France-Presse reported. No French president has visited Cuba since 1898, when it gained independence. France has taken a lead in the European Union's efforts to improve relations with Cuba, and the French president's visit is an effort to boost E.U. and French interests on the island. After the visit to Cuba, Hollande travels to Haiti today.

Economic News

Belize Considers Allowing Offshore Oil Drilling

Belize is considering new offshore drilling regulations that would open almost all of the Central American nation's territorial waters to oil and gas exploration, which has prompted criticism from environmental groups, the Associated Press

“They've declared open season on almost 99 percent of Belize's marine area.”

— *Janelle Chanona*

reported Friday. Belize currently has a moratorium on offshore drilling, but a new draft proposal released recently by the Ministry of Energy would allow drilling almost everywhere, even around the Great Blue Hole, a 124-meter sinkhole that is a popular diving destination, U.S. based ocean conservation and advocacy organization Oceana said. "They've declared open season on almost 99 percent of Belize's marine area," said Janelle

Featured Q&A

Continued from page 1

venient payment method for e-commerce. The penetration of credit cards in Mexico is particularly low, and while debit cards have a much wider reach, issuers have limited their use because of concerns about fraud, and some are not allowed to process online payments. New players, like allpago, are modernizing the payment industry in Mexico and provide necessary security standards. As a consequence, issuers are allowing more cardholders to use their debit cards on the Internet. Mexico has strong potential in e-commerce, and the sector can only grow. New improvements in payments and logistics—driven by entrants like allpago, Amazon and Inditex—confirm the interest in the market and its improved prospects."

A **Nicolás Mariscal, member of the Advisor board and chairman of Grupo Marhnos in Mexico City:** "I think Mexico will eventually manage to expand e-commerce in accordance with its potential. It is an exponentially growing market, but the characteristics of Mexico are very particular: it has approximately 55 million people living in poverty and many regions that still lack Internet service and cell phone coverage. However, those who have the economic profile to realize these types of transactions represent an attractive market to conquer, and for this, their trust must be gained. This last factor is crucial for e-commerce in Mexico—confidence that their personal information and financial identity won't be plagiarized or misused; confidence that the product will arrive on time and

intact, or even options to pick it up at a pre-selected time and location; confidence that if it is not what was expected, it can be returned and the client will recover their money. Where is the added value of Internet shopping for a Mexican? That is the question that any company that bets on e-commerce in Mexico must answer and demonstrate."

A **David Bernardo, founder of e-commerce consulting company and service provider LITS e-business and professor of e-commerce and digital marketing at the Monterrey Institute of Technology and Higher Education:** "E-commerce in Mexico is finally growing and will grow much more. Why? A few critical aspects: Amazon is entering the market, and so are Alibaba and eBay (maybe one of them will buy a local player). The dormant giant local retailers in Mexico have woken up and are finally investing seriously. Walmart started a few years ago with positive results and is preparing for further growth. Brazil had a boom of investment in e-commerce and digital startups and funding five years ago. The saturation of the market combined with the declining economy made funds start to look to the second-largest and more investor-friendly market, which is Mexico. Also, the Mexican government has made more than \$200 million available for venture capital, and several international funds are entering the market. Infrastructure, although not perfect, is already sufficient for delivering a positive client experience. The low credit-card penetration is being replaced by

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Chanona, Oceana's vice president for Belize. "That includes seven World Heritage sites, that includes marine protected areas ... and it is unacceptable." The proposal is still in the draft stages, and the government has previously said it is open to revising it based on feedback. Past oil drilling campaigns in Belize's waters have yielded no productive wells, and there is no evidence that there are viable reserves in the area. Lower oil prices over the last

year have also dampened investor enthusiasm for unproven and unconventional fields in Latin America. **Princess Petroleum** is currently the only company with an oil exploration concession in Belize, for both onshore and offshore areas, *The Maritime Executive* reported, citing local media. It abandoned offshore drilling and has not started onshore drilling, and its concession expires in October.

Featured Q&A*Continued from page 3*

several other payment methods, such as cash on delivery and payment at convenience stores. These improvements and new companies will educate the consumer to buy more online. The main

the next years, you can expect: a fight for human talent and expertise, a fight between the large international players, small Mexican retailers either consolidating or closing, and U.S. and European

“Infrastructure, although not perfect, is already sufficient for delivering a positive client experience.”

— David Bernardo

challenge is human resources. At our school, ebusinessacademy.mx, we are preparing more than 500 people per year, but we estimate that the market needs over 5,000. International experts, while valuable, don't fully understand the specificities of the local market and often make serious mistakes (as an example, user experience should be partially different in Mexico compared to the United States). The varying perspectives between A.T. Kearney and AMIPCI are due to the methodology or lack of proper methodology by the different organizations. For

companies and funds looking at the market seriously and making large investments. Mexico is going to be one of the highest growth e-commerce markets in the world during the next couple of years. If companies are planning to enter, they should do it sooner rather than later, or they might miss the train.”

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.

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