

# LATIN AMERICA GETS

# WIRED

**In just two years, the region has become the Internet world's Next Big Thing. It promises a gold rush and sweeping social and economic change**

By **SANDY M. FERNANDEZ**

**O**FF THE COAST OF VENEZUELA, three 120-m ships are laying down kilometers of high-speed fiber-optic cable strong enough to carry 600,000 calls

simultaneously. In a high mountain town outside Cuzco, Peru, a co-op of native farmers has found a way to get more than 10 times the local price for its potato crop—by selling to a New York City organic-food chain it found on the Internet. In the streets of São Paulo, fashionable women have taken to carrying around white West Highland terriers, the mascot of a free Internet-service provider called iG that—like the pups—has skyrocketed in popularity.

These are just a few of the signs of an Internet culture blossoming in Latin America, unevenly, in patchwork fashion, but in an accelerating rush. In

just two years, the region has become the Internet world's Next Big Thing. Though it still suffers from low connectivity rates compared with the U.S.—only about 2% of Latin America's 500

million people are online, while more than half of all Americans are—telecommunications analysts say it is the fastest-growing market in the world. They predict the networked region will reach anywhere from 29.6 million to 43 million regular Internet users by 2003. These users will be spending as much

as \$8 billion for online purchases—numbers that have entrepreneurs and investors rushing to wire the region and reap those rewards.

To those familiar with the power of the Internet, the information revolution it brought to the U.S. is a mere ripple next to the tsunami it could cause in





THOMAS MULLER FOR TIME



**FRUITFUL USE** Ashaninka Indians in Peru sell produce via a public Internet kiosk

Latin America, a region fractured geographically, culturally, economically and socially. Of course, Latin America still holds serious practical challenges to Internet growth. While 7 of every 10 Americans have a phone line, only 1 in 10 Latin Americans does, and most waited months or even years to get it. The average monthly income in the region hovers around \$350, while the price of computers and Internet service remains equal to or higher than it is in the U.S. Eighty percent of Web content is still in English. And any e-commerce site trying to spread across the region still faces a snarl of cross-border tariffs and delivery problems.

But the challenges pale next to the effect that the Internet rush could have on everyday life. For companies, it could slash costs, boost efficiency and broaden markets spectacularly. For governments, it could help burn through centuries' worth of encrusted bureaucracy and cronyism, as well as prove a boon to overtaxed education

systems. And for ordinary Latin Americans, the effect could be an empowerment and social mobility never seen before.

**I**T HAS CERTAINLY MADE A DIFFERENCE in Marco Antonio Mamani's life. Two years ago, Mamani, 33, was a jewelry craftsman in Cuzco "selling what I could on a plastic sheet by the central square." Then a notice for a seminar on e-commerce by the Peruvian Science Network (RCP), a nonprofit organization that has launched more than 500 public Internet centers across the country, piqued his interest. Taking advantage of RCP's free technical assistance and low use rates, Mamani set up a site hawking his jewelry online. Today he is a cyberentrepreneur: nearly 80% of the \$800 he makes each month is earned on the Internet, and he is "concentrating on international sales." The clerks at the local post office and courier service know him on sight. "There are not too many people like me in

Cuzco, sending packages to Kuala Lumpur."

In some ways, Mamani, 33, is an average Latin Internet user. Most are male. Most use a computer chiefly for business purposes. Many get online not from home but from work, school or public machines like those available at Internet cafés and at sites like RCP's. Most are relatively young.

But in a couple of important ways, Mamani is unusual. As a Peruvian, he is outside the main markets of Mexico, Argentina, Chile and Brazil, which together account for more than 75% of Latin American Web users (Brazil alone has 55% of them). And while the money he makes is enough to support his wife and three children, it does not place him anywhere near what Latin American marketers call "Class A or Class B"—the wealthy or at least upper-middle class that makes up the bulk of online traffic.

Mamani aside, the Latin American Internet has a relatively restricted clientele because it takes a lot more money to Net

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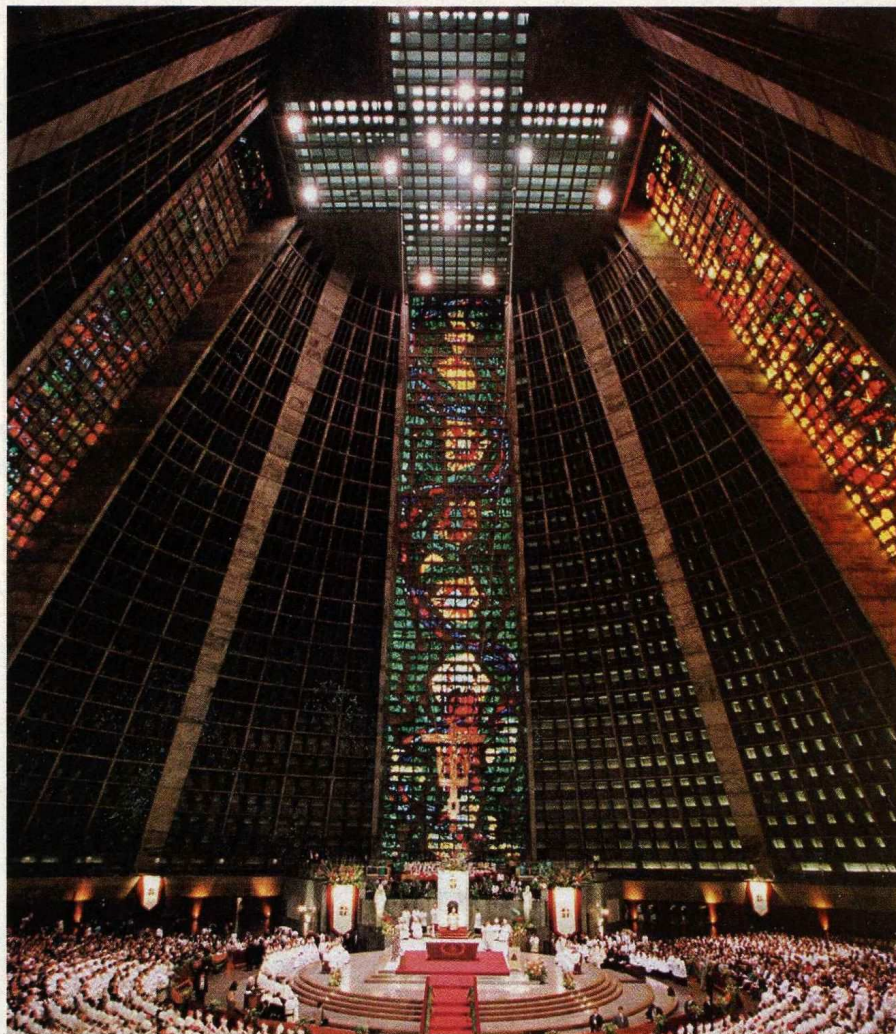
surf in the region than it does in the U.S. Internet service providers (ISPs) charge access fees as high as \$50 a month, and calls on traditional phone lines, which are mostly metered rather than per use, remain expensive. Across Latin America, these costs add up: depending on the long-distance configuration, 20 hours of Web surfing can cost a single user between \$20 and \$300. Throw in at least \$700 for a computer with a modem, and the information revolution is for many still a dream.

It is easy to see why these figures have many governments, development agencies and human-rights organizations worrying about a growing "digital divide" in Latin America between those with money and access to information and those with neither. To span that chasm, Latin governments are embarked on a number of initiatives to help citizens join the wired world. These include projects like the one funded by the Mexican state of Aguascalientes and the Inter-American Development Bank, which placed computers in all public secondary schools in the state and wired more than half of them to the World Wide Web.

The Internet business community believes the market will naturally reach down to include the middle class and some of those below, whether governments help or not. "The poor will have access," says Roberto Wilson, partner at the Rio-based private-equity firm CVC/Opportunity Equity Partners, because "the working poor consume." Many entrepreneurs and analysts point to the example of television in Brazil, where, despite extreme poverty, more than 80% of households own a set. "This is not a rich country, but things really penetrate," says Alvaro de Castro, director of business development at Web incubator Visualcom and author of two books on e-commerce in Brazil. "In every favela there are satellite dishes. It will be the same thing with the Internet."

A major step toward the future came last December when a wave of ISPs began offering completely free access. Today Brazilians can choose from a number of free ISPs, including one, Catolico.com.br, owned by a Roman Catholic diocese. Another free ISP, iG.com.br, expected a television-ad blitz to bring in 60,000 applicants over three months. Instead, the company got 940,000 in eight weeks. "The consumers were more ready for this than we were," says iG vice president Matinas Suzuki.

Free access has spread to Argentina and three major cities in Mexico, with Chile, Colombia, Ecuador, Peru and a few smaller markets, plus the rest of Mexico,



GREGG NEWTON-REUTERS

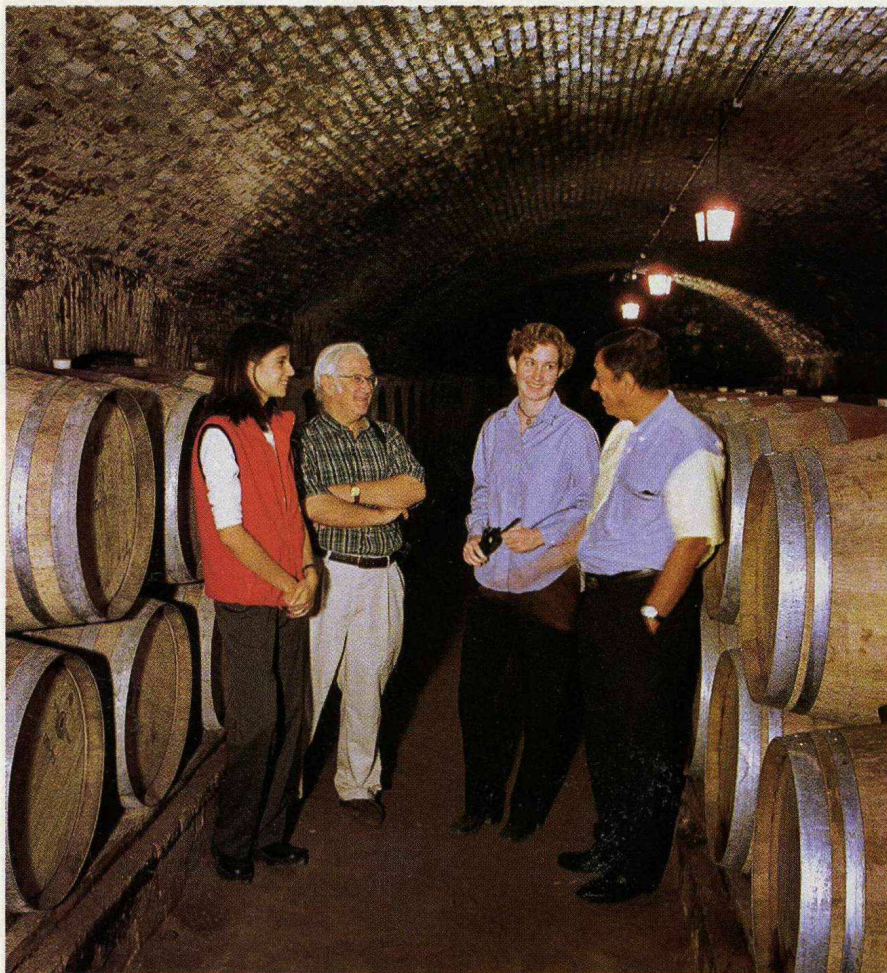
[WWW.CATOLICO.COM.BR](http://WWW.CATOLICO.COM.BR) The ISP's free, and 10% of every purchase from the site goes into church coffers



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due next year. Meanwhile, large infrastructure projects are in the works that will expand the region's ability to meet almost any demand. Global Crossing, an international telecommunications company, is building a \$2 billion fiber-optic network that will encircle and crisscross South America, connecting to existing superfast cable lines to Europe, the U.S. and Asia by 2001. The lines will improve connectivity in the region tenfold. Starting this May the Americas II cable system will connect Brazil, the Caribbean and South America's northeast corner to the U.S. A region-wide \$1.5 billion Telefónica system will be operational in 2003.

**I**N PANAMA, SWEDISH-PANAMANIAN Entrepreneur Nils Petterson is set to open @Altec Cyber Park, Latin America's first hosting provider, which will be able to store 600,000 different sites on its 10,000 servers. For the first time, Latin Americans won't have to waste precious minutes reaching computers in Europe or the U.S. for websites stored there. Access, says Petterson, will be 300 times faster and 50 times cheaper. Both these projects are helping build an Internet backbone that speeds up data transfer and brings down the cost of metered calls. New satellite and cable technologies will also help.

Latin America's 4% household penetration of personal computers is seeming less relevant every day. This year, for example, TV set-top boxes that, for \$100 to \$200 each, can turn a television set into a computer screen, are due to appear in Brazil. Wireless broadband expansion will also turn Brazil's ubiquitous cell phones into tiny screens. "Latin Americans have been early and avid adopters of technology," says Antonio Bonchristiano, CEO of the e-commerce company Submarino.com. "The key to growth is the cost of a Web device."

With Internet use spreading virally, businesses are racing to keep up. The results are uneven. "A year and a half ago, no one had an e-mail address on his business card," says José Gatti, manager of the Rio de Janeiro print and design firm Agilita. "Today I'd estimate that between 40% and 50% have it." But that does not guarantee what Visualcom's Castro calls a "culture of the Internet." "Even small companies have a Web page, but in many cases they just have it to be cool, and that's it," he says. "You go into any store and ask the people there, 'What is your website?' and they don't know." According to Luciana Caran, owner of the online travel company Gateone.com.br, it also

“ IN EVERY FAVELA THERE ARE SATELLITE DISHES

doesn't mean your customers will be up on e-commerce. "Most of the time, a prospect only wants to know if he is getting a good deal with his actual travel agency," she says. "Sometimes they even say that in the e-mail!"

But that is bound to change, especially as governments realize that their own future involves adapting to the Net. Take income tax collection. In Brazil for the past five years, it has been available online, and last year an astounding 85% of the 11.5 million Brazilians who pay federal income taxes filed electronically. The government's software allows them to link to banks and sets up an automatic-payment plan, saving the federal government about \$500 million in processing costs each year. "It's been a huge success," says program supervisor Luis Carlos Rocha de Oliveira.

Several countries—Brazil and Mexico in particular—have experimented successfully with TV-based education. Now they are translating it to the Net. Last October an initiative led by the Cisneros Group, Venezuela's leading media company, used donated computer equipment, televisions, transmission time and satellite dishes to wire 1,800 teachers from seven countries to live broadcasts of continuing-education classes held at the Monterrey Institute of Technology and Advanced Studies in Mexico. The teachers watched from their schools and sent e-mail questions that the professor would open during pauses in the broadcast and then address live.

The most impressive social changes may still be down the pike. In 1999 Mexico began installing a national crime database in police stations. For the first time law-enforcement officers can access a reservoir of data from other Mexican states, which is vital for the suppression of crime. The federal government has also launched Compranet, a site through which companies will be able to place bids for government contracts online. The

transparency of the system is meant to combat the rampant cronyism and corruption that often mar bidding and almost guarantee poor work for high prices on government projects.

But the biggest changes can be the most subtle. In the Science Museum near São Paulo's municipal market, street kids who used to drop by to use bathrooms or get a drink of water became intrigued at seeing groups of schoolchildren gathered at the museum's Internet-connected computers. They wanted to try, but they didn't know how to read or write, or how

to share or wait their turn. To remedy this, two social workers began Project Clicar, daily classes leavened by Web surfing and e-mailing. Suddenly, lives changed. "We have kids here who have no formal education but can sit down with you and discuss the era of silent film," says social worker Maria Cecilia Toloza. Just imagine the magic that the Web will work in the future.

—Reported by *Viétnika Batres and Ronald Buchanan/Mexico City, Andrew Downie/Rio de Janeiro, Cristobal Edwards/Santiago, Christina Hoag/Caracas, Jane Holligan/Lima and Elizabeth Love and Uki Goñi/Buenos Aires*



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Antonio Bonchristiano heads  
the e-commerce retailer

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S. IT WILL BE THE SAME WITH THE INTERNET.