Latin America in 2019: A Year of Disruption?

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"Disruption", a much bandied about term during the last several years, is a hallmark of the first quarter of the 21st century. A worldwide phenomenon, it is characterized by a break from the norm and manifested in both positive and negative forms, such as 3D printing and blockchain on the one hand and the dramatic increase in populism and trade protectionism on the other.

Our neighbors to the South have certainly not been immune from the forces of disruption. The election of a right-wing populist as president of Brazil and a left-wing one in Mexico, trade conflicts, illegal immigration from and within the region, drug violence and environmental degradation are disrupting societies in the Western Hemisphere. At the same time disruption is bringing about health and scientific breakthroughs of benefit to all social classes, a reduction in poverty, and greater citizen engagement.

The most sweeping impacts of disruption have clearly been in business. Take transportation. Uber began operating in Mexico's capital in 2013 with 20 drivers. At the start of 2019, close to 500,000 drivers and 12 million customers use Uber each month - 15% of adult Mexicans. The success of Uber in Mexico and across Latin America's largest markets is not an aberration. Today, Latin America is the world's fastest growing region for other disruptive business models like Airbnb, Coursera and Netflix.

Latin America's oligopolies are ripe for disruption, particularly media and education.

Televisa and TV Azteca in Mexico and Globo in Brazil dominate traditional TV, limiting programing options. Little wonder that Netflix thrives in both countries. In 2017, Mexicans watched more Netflix content per user than any other of Netflix's 190 worldwide markets. In fact, five out of the top ten Netflix binge watching countries in the world are found in Latin America: Peru (3rd), Chile (5th), Brazil (6th), and Argentina (7th).

As for education, public education in Latin America, which receives more funding (as a % of GDP) than most of Asia, consistently produces lackluster results with students scoring well below their global peers on international PISA and other tests. The region has proven a promising market for on-line educators. Coursera, the world's largest player in the Massive Open Online Course (MOOC) market reported in 2017 that their enrollment grew faster from LatAm countries than any region around the world. Online education firms such as Miríada X and Telefónica from Spain, Kroton from Brazil and Open English and Pearson are some of the disruptive leaders in the educational space at all levels of learning.

Disruption succeeds by exploiting Latin America's economic weaknesses. Statistically low unemployment in Latin America belies the 20-30% under-employment of the workforce. Rigid and costly labor laws force up to 50% of employers to operate informally, denying their staff legislated benefits. Unsurprisingly, gig-economy business models that offer flexible employment are met with enthusiasm. Long before Uber, multi-level marketing firms like Avon, Amway and Herbalife achieved massive success in Latin America by empowering the most under-employed demographic: women.

On the positive side, disruption will deliver a new level of competitiveness and transparency to Latin American economies as it upends retailing, logistics, tourism, healthcare and the car rental industry, among others. For example, taxi drivers who infamously evaded income tax in the past are now replaced by tax compliant Uber drivers, to the delight of honest technocrats working in government. For decades, LatAm governments failed to modernize and formalize large portions of their service economies. Now, cellphone apps and bold entrepreneurs will get the job done.

But disruption in Latin America also has its downsides. Replacing thousands of cab companies with Uber and a few copycats may create new employment for under-utilized drivers but also destroys a middle-income merchant class of cab company owners. Software driven disruptive service models can polarize income levels by bankrupting inefficient small business owners. If Latin America's impressive adoption of disruptive business models continues unchecked, hundreds of thousands of small companies will close, replaced by (often foreign owned) new business models. That is bound to have political repercussions in a region with few resources or experience for retraining its workforce. Just as globalization and automation led to politically explosive layoffs in North America and Europe, some anticipate an equally polemic reaction to service sector disruption coming next to emerging markets, starting with Latin America.

The 2019 outlook worldwide is one of volatility and disruption—both positive and negative. The impacts transcend the macro level and directly affect the business sector. In our own backyard, as has proven the case time and time again, the countries, sectors, and companies in Latin America that embrace change will thrive. Those that choose to ignore or fight the forces of disruption will wind up with the short end of the stick.

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