Latin America's outlook rests on Asia, technology, security

You don't need to be an IMF economist to conclude that Florida's top trading partner, Brazil, is going through a very difficult time. Just visit malls at Aventura, Dadeland and Sawgrass Mills and you will note a lot less Portuguese being spoken.


Jerry Haar

Fewer visitors and investors from Brazil and less US exports destined for that nation are bad news for South Florida. Mired in debt, inflation, corruption, a continuing decline in both its currency and demand for its commodity exports from a slowing Chinese economy, Brazil is on the ropes.

As for the rest of Latin America, their economic performance has been underwhelming. Economic growth was a mere 1% in 2014 and will drop to 0.9% this year, with 2% the estimated target for 2016.

The Miami Customs District, accustomed to yearly upticks in trade, has witnessed declines for the last 30 months, and 2016 will probably see a slight drop as well. This is especially disturbing since the overwhelming majority of our trade is north-south – no European countries are among our top trading partners.

Not everything is gloom-and-doom, of course. There are bright spots in the region as well, such as Mexico, Colombia and Panama.

Additionally, for doing business in and with the region, conditions at the sector, industry and firm level are far more important than the macro economy. Returning to the Brazil example, world-class multinationals like Embraer, Odebrecht, Weg, Marco Polo and Natura will successfully overcome even the most challenging conditions.

The Writer

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As 2015 comes to a close, it behooves us to keep an eye on a number of important issues that impact or will impact the Latin American region:

1. **Competitiveness.** The region continues to be saddled by red tape, poor infrastructure, poor education, and a scarcity of affordable credit and efficient and transparent legal and administrative systems. These conditions severely hamper both domestic and export-oriented businesses and shave one percentage point or more off growth rates.

2. **Technology**. The increasing accessibility and affordability of technology is improving the industrial competitiveness of selected industries and firms, helping them cope with, if not overcome, the barriers cited above. This trend is also benefitting small businesses, creating a cadre of tech savvy young people, fueling hundreds of start-ups.

3. **Asia (mainly China).** China's trade with Latin America ballooned 20 fold from $12 billion in 2000 to $264 billion in 2014, mainly via the region's commodity exports. The resulting currency appreciation boosted consumer spending and added to government coffers but severely hurt the region's manufacturing sector. China's two-year economic contraction will continue to damper Latin America's commodity exports, but Chinese infrastructure projects in the region will continue, and the trade and investment relationship will remain strong.

4. **The middle class.** The engine of consumer-driven growth, the burgeoning members of the middle class are bold and aggressive in using their credit cards for purchasing goods and services, be they retail, services, travel or aspirational purchases – often beyond their means to service consumer debt.

5. **Governance.** Political tensions and in some cases strife characterize Brazil, Argentina and Venezuela. In addition to issues of stability, the middle class is increasingly frustrated with poor public services, bad governance, and corruption. Last year's demonstrations in big cities in Brazil are a case in point. The middle class, with their economic needs having been met, are demanding more – namely, good government.

6. **Security.** Crime continues to plague the region, mainly in Central America and in the big cities in Mexico and South America. Much of this is drug-related and involves inter-gang warfare. Police forces are poorly trained and poorly equipped and fall prey to corruption.

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7. **Investment in the U.S.** Whether seeking opportunity or security (economic or personal), inbound investment is increasing. South Florida continues to be the destination of choice, be it a second or third home or investment in commercial real estate and small businesses and start-ups. This will continue unabated, with Brazil, Argentina, Colombia, Venezuela and Mexico being the prime investors.

As with most emerging markets, the inverse of Sir Isaac Newton's Third Law of Motion holds true: whatever goes down must come back up. Geography, culture, economics and destiny, in fact, join South Florida at the hip to our neighbors to the South. Keeping an eye on the key trends indicated above will allow us to prepare for the tough times and benefit from the good times.

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