Florida TaxWatch Center for Competitive Florida ECONOMIC COMMENTARY #17 February/March 2007
A monthly look at Florida's Economy, made possible by Washington Mutual

North and South

Table 1
Fifteen Largest International Trade Partners in Goods: U.S. and Florida, 2005

United States (Total goods exports: $895 billion)			Florida (Total goods exports: $34 billion)	
Rank	Country	Percent of Total	Country	Percent of Total
1	Canada	23.4	Brazil	9.2
2	Mexico	13.3	Canada	8.5
3	Japan	6.1	Venezuela	6.2
4	China	4.6	Mexico	6.1
5	United Kingdom	4.3	Colombia	3.7
6	Germany	3.8	Dominican Republic	3.4
7	South Korea	3.1	United Kingdom	3.3
8	Netherlands	2.9	Chile	2.9
9	France	2.5	Argentina	2.6
10	Taiwan	2.4	Japan	2.4
11	Singapore	2.3	Bahamas	2.4
12	Belgium	2.1	Netherlands	2.4
13	Hong Kong	1.8	Germany	2.4
14	Australia	1.7	Paraguay	2.2
15	Brazil	1.7	China	2.1
Top Fifteen Percent Total:		76		60.9

Source:
U.S. Department of Commerce, U.S. Bureau of Census, Foreign Trade Division.

President Bush's recent, though long overdue, official visit to Latin America has underscored the significance of this region to the United States and in particular Florida . His visit makes it a favorable time to explore some recent developments in the region, examine some of the important linkages between the North (Florida) and our neighbors to the South (Latin America and the Caribbean – LAC for short), and to consider some of the related policy issues that are affecting Florida's economy.

Fueled by the global boom in natural resources and commodity prices, and stimulated by surging remittances from workers in the U.S., economic growth throughout much of Latin America and the Caribbean has accelerated briskly in the last few years. The World Bank reports that GDP is rising more than 5 percent per year; inflation has moderated to less than 6 percent; income per person has advanced to above $4,000; long–term debt has moderated; and the capacity to service long–term debt has improved.[1]

Stronger economic growth is clearly welcome news for our neighbors to the south, and is undoubtedly benefiting Florida's economy. However, the inherent volatility of commodity markets calls into question the sustainability of the region's growth. Booms and busts are often–observed features of commodity driven economies. Moreover, the region's economic expansion is occurring against a somewhat troubling backdrop.

One disturbing longer-term trend is the relative economic stagnation in the region. In a recent publication, the Federal Reserve Bank of Minneapolis reports that income per person in a dozen South American nations plummeted from about 28 percent of U.S. per capita income in 1950 to just 22 percent by 2000.[2]

Table 2
Florida International Trade and Trade with Latin America and the Caribbean: 2002-2005

Year	Total Exports ($ Billions)	Goods Exports ($ Billions)	Services Exports ($Billions)	LAC Percent of Total Exports
2002	35.056	24.544	10.512	52
2003	35.538	24.953	10.585	51
2004	41.343	28.982	12.361	50
2005	47.576	33.377	14.199	49.8
2006	54.135	38.544	15.591	N/A

Source:
U.S. Department of Commerce, U.S. Bureau of Census, Foreign Trade Division.
Florida Services Exports were estimated by applying the annual U.S. ratio of services exports to goods exports to Florida's goods exports.

The gap between the twelve countries, Asia and Europe has also widened. Unfortunately, these dozen nations are likely representative of LAC as a whole. Chronic, widespread inefficiency in the use of resources leading to low productivity is thought to be the proximate cause of the region's economic stagnation, according to the Minneapolis Federal report. The quantity and quality of labor, capital and technology seem more than adequate to support stronger economies. Inefficiency and low productivity appear to be closely tied to domestic and international policies which shelter and protect incumbent businesses and other organizations from global and home-based competition.

A second source of concern in LAC is what some commentators have labeled a "lurch to the left" in describing the socialist fervor in Venezuela and new governments in Ecuador, Nicaragua, and Bolivia. Regardless of intent, the grim reality is that societies that rely heavily on state–controlled, central planning to promote economic growth and well being invariably fall short. Disturbing signs are the nationalization of industries in Venezuela and Bolivia, a sense this may happen in Nicaragua and rumblings from Ecuador about suspending debt repayments.

In related veins, progress on the promising 34 nation Free Trade of the Americas Agreement (FTAA) has stalled and may be faltering primarily on trade issues regarding services, intellectual property rights and agricultural goods. The serious difficulty in resolving Mexico's hotly contested elections and uncertainties about Fidel Castro's health and succession have added to the perception of a region experiencing unusual turmoil.

Despite these troubling developments there are some signs of progress and therefore reasons for guarded optimism. For example, the number of days required to start a business in LAC, a widely used proxy for bureaucracy and red tape, has fallen from about 72 to 66 according to the World Bank. Sub–regional and bilateral free trade agreements, such as Mercosur, CAFTA, and the U.S – Dominican Republic are being implemented. Ecuador recently made its scheduled debt repayment. The new government in Nicaragua has chosen to remain in CAFTA and Fidel Castro's health could be the catalyst for genuine change in Cuba.

Geographic proximity, international trade and extensive cultural linkages make Latin America and the Caribbean especially important to Florida's economy. Florida's 2006 total exports of about $54 billion ($38 billion in goods, $15 billion in services) accounted for roughly 8.00 percent of the state's economy. Approximately half of Florida's total exports, with a value in the neighborhood of $27 billion, were with LAC. Led by Brazil, 17 of Florida's top 25 goods exports partners were countries in this region.

The two accompanying tables illustrate the importance of LAC trade to Florida's economy. The first table shows, for 2005, the top 15 goods export partners for Florida and the U.S. as well as the percent of total exports accounted for by each trade partner. Ten of the top 15 Florida trade partners (17 of the top 25) were in Latin America and the Caribbean and represented 41 percent of total goods exports. For the rest of the nation just 2 of the top 15 trade partners were in this region and trade with them accounted for less than 15 percent of total goods exports.

The second table shows Florida's total exports from 2002 – 2006 including, exports of goods, an estimate of services exports, and the percentage of goods exports made up of exports to Latin America and the Caribbean. Florida's total exports advanced from about $35 billion to more than $54 billion in the last five years, expanding an average of 11 percent per year. Goods exports increased on average by slightly more than 11 percent per year while services exports grew on average by less than 10 percent per annum. The last column of the table presents the percent of Florida's goods exports directed to Latin America and the Caribbean. The data reveal a slight but noticeable and persistent downtrend; they have fallen from 52 percent in 2002 to less than 50 percent by 2005. Goods exports from Florida since 2002, as a percent of the total, have fallen with 7 LAC nations, increased with 5, and remained the same with 5 others.

The reasons behind Florida's declining trade shares with LAC are not at all clear. Four years is not an irreversible trend, but long enough to notice. One possible cause meriting closer scrutiny is the collection of post 9–11 changes in national security and immigration policies. These changes may be having the unintended consequences of adversely affecting Florida's international trade in goods and, perhaps more importantly, people coming to Florida. Trade in goods and foreign investment is often preceded by exchanges and visits of people. Trade in services obviously requires, to a large degree, the movement of people. At this point the data are largely anecdotal, but nonetheless strongly indicate that international visitors to Florida, for business, tourism, education, health care and a range of other services are being hampered – possibly severely – by the post 9-11 changes. Dampened trade in goods would seem to follow.

Healthy and vibrant economies in Latin America and the Caribbean are vital to the citizens of these nations and especially important to Florida. Though the global commodities boom is helping the region, reducing trade barriers offers the potential for sustained economic growth. U.S. policy needs to be mindful that unintended trade barriers, including Visa policies, especially those hindering the movement of people, are not being erected in the post 9–11 environment.

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Source:
[1] www.worldbank.org/keydevelopmentdata
[2] Douglas Clement, editor. "Barriers to Growth." The Region, Federal Reserve Bank of Minneapolis. Volume 20, Number 4. December, 2006. Pages 27-29; 36-40.