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Latin America boasts best economic gains in decades

A commodity exports boom is bringing the best economic results in decades, but for how long?

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Just five years ago, Latin America's faltering economic performance, anemic export numbers and rising debt prompted some economists to voice concerns about the "lost" half decade.

But in a dramatic reversal, the region has been riding the crest of a commodities export boom for four years, enabling Latin America and Caribbean nations to achieve their best economic performances in decades.

Regional economic growth has averaged about 5 percent since 2004, and 2008 is expected to mark the fifth year of this expansion, according to the Economic Commission for Latin America and the Caribbean, a U.N. agency based in Santiago, Chile.

Not only are exports booming, but consumer purchases and investment are showing growth across the region, and poverty and unemployment rates have been falling.

In many cities, the brisk economic activity is reflected in the construction cranes that dot the urban landscape as developers build offices, condominiums and shopping plazas.

Though there are concerns in Panama City that the overheated building boom could go bust, the expansion has created jobs and added thousands of housing units from Buenos Aires to Mexico City.

"In 10 years it is amazing; the [Mexico City] skyline has changed dramatically," said Víctor Lachica, the president and CEO of Cushman Wakefield's Mexico region. "In retail [construction], we have experienced the most amazing boom ever."

Not only are stores and shopping malls being built throughout Mexico, but low-income housing construction also has grown considerably in the past six years.

Hefty export earnings from commodities such as nickel, iron ore, soybeans, copper and oil -- almost $700 billion in 2006 -- have prompted governments to boost spending on health and education, pay off foreign debts and strengthen their foreign reserves.

Talk of economic blues has been replaced by concerns that the economies could be overheating. The boom-bust cycles that plagued Latin America since the early 1980s have bred distrust, especially in the financial markets. Local and outside critics regularly warn the region could return to those tough times if commodity prices fall, sending high-flying countries such as Venezuela into a tailspin. The Economic Commission recently noted that some currencies were becoming overvalued.

But many Latin American countries have made major changes in their economies since Mexico, Brazil and Argentina became centers of global financial instability during the 1990s.

"The main economies in Latin America have been implementing structural reforms, particularly in the sense of trying to make the economies less vulnerable to external shocks," said Alfredo Coutino, senior economist for Latin America at Moody's Economy.com in West Chester, Pa.

In contrast with the past, Latin American countries have substantial trade surpluses, governments are not overspending, the foreign debt has fallen to the levels of the mid-1990s and foreign reserves are at record highs.

There is concern, however, that economic problems in the United States -- the result of the current subprime mortgage crisis and credit crunch -- will crimp growth in the region. And many insist the governments must do more to entice foreign investment.

But the depth of change can be seen in one statistic: Latin America now has a current account surplus. The current account is the broadest measure of the international trade balance, and from the 1960s until 2003, Latin America had continuous current account deficits.

Higher export earnings and lending from the Venezuelan government have allowed many of the countries in the region to repay their debts to the International Monetary Fund early and end its oversight of their economies. In a sign of the IMF's declining influence, its total loan portfolio in the region did not even reach $1 billion this year, compared to $49 billion in 2003.

"It seems that the region has learned from all the devastating crises," Coutino said.

Investment by Latin American governments and businesses has now grown to 20 percent of the region's gross domestic product -- though it still hasn't reached the level of 24 percent of GDP experienced in the 1970s and falls short of the 45 percent of GDP China is investing every year.

Despite the positive trends, business leaders say Latin America still has a lot of catching up to do.

Manuel Aragon, executive director of CLADEC, the Miami-based Conference of Latin American and Caribbean Express Companies, said the region still needs to deregulate and modernize to spur economic growth and boost business.

"Latin America is lagging behind world growth significantly," said Aragon, citing world transportation forecasts. "We have to be happy for the gains, but we have to put them in perspective of what is happening globally."

Still, both big and small companies have expanded their global and regional ties.

CPS Logistics, a Guatemalan firm that handles shipments of goods and packages, has expanded into every Central American country as the Central American Free Trade Agreement with the United States starts to take effect.

"This year we have managed to make our business regional," said Karla Mata, chief operating officer at the firm, which is headquartered in Guatemala City.

"Our best year ever was 2006," said Mata, noting that while Guatemala and the rest of the region have yet to see "huge results" from CAFTA, she believes they will after the agreement is fully implemented.

Not only have high prices for Latin American commodities left governments flush with cash, they've also meant windfall profits for a number of Latin American corporations.

Brazil's Companhia Vale do Rio Doce, the world's biggest iron ore miner, spent almost $700 million to buy two coal projects in Australia and is also part of a $1.2 billion coal mine venture in Mozambique in its quest to become one of the top coal producers. The Rio de Janeiro-based company is just one of many Latin American corporations that have achieved world-class size.

Most governments remain steadfastly pro-free markets even as they turn away from the IMF. "They have a different approach, saying 'we do not reject the free market policies, but we are going to complement them with social content,' " Coutino said.

But for many, the paradox of the massive wealth of a few individuals and corporations alongside the poverty of the masses remains Latin America's greatest problem.

Latin America now boasts the richest man in the world -- Mexican telephone mogul Carlos Slim, whose telecommunications empire stretches across Latin America and extends into nearly every economic sector in Mexico.

But even though countries in the region have managed to lower their poverty rates, Latin America is still the most economically unequal region in this part of the world.