

A Free Cuba and the Florida Economy

One of the primary lessons learned from the collapse of the former Soviet Union is the stunning speed with which seemingly impregnable regimes can implode. Could the same thing happen in Cuba, especially in light of Fidel Castro's apparently declining health? Would might a new regime in Cuba look like? What might be the consequences for Florida's economy?

After close to 50 years of severe, despotic communist rule, Cuba's economy is in shambles. Cuba's 2006 per-person GDP, according to the CIA Factbook, stands about \$4,100 – a figure possibly exaggerated. Nonetheless, it is some nine times less than Florida's per capita GDP. Deprivations are evidently widespread and extend beyond the material and economic for the typical Cuban. Yet, with a population in excess of 11 million as well as roughly 2 million more devoted expatriates, a land area about three-quarters the size of Florida, a reported high literacy rate, and an abundance of human, natural and physical resources, Cuba has vast potential to greatly improve the economic well being of its citizenry.

In the simplest sense there is very little – if anything – the Cuban economy does not need: infrastructure of all types, a wide range of technology, housing, a financial system, education, markets for many goods and services, and widespread access to its vaunted health care system. At the top of the list, however, must be a set of laws, rules, institutions and customs which guarantee basic freedoms for all Cubans. Freedoms must exist to participate in fair elections and to seek public office; for free speech; to participate in commerce, engage in market activities and establish businesses; for private property rights to exist and be enforced; and for corrupt practices to be rooted out and penalized.

For a number of years healthy and productive debate, discussion and dialogue have been ongoing about the structure of a post-Fidel Castro Cuba. That's the good news. The bad news is that, owing to repression, this debate has taken place largely outside of Cuba. Unlike some of the former Soviet satellites, voices for change within Cuba have been generally silenced. Instituting meaningful reforms will be all the more difficult as a result.

For a number of years healthy and productive debate, discussion and dialogue have been ongoing about the structure of a post-Fidel Castro Cuba. That's the good news. The bad news is that, owing to repression, this debate has taken place largely outside of Cuba. Unlike some of the former Soviet satellites, voices for change within Cuba have been generally silenced. Instituting meaningful reforms will be all the more difficult as a result.

The powers that be within Cuba might opt for a variation of the so-called "China model." This model is based on a low-cost, export-driven economy with limited market-oriented reforms under the umbrella of authoritarian state control. The relevance of this model arises because in a relatively brief time China has become Cuba's single biggest trading partner. Trade with China now accounts for 16 percent of Cuba's total exports of \$3 billion and another 16 percent of its \$10 billion of total imports. China's influence on Cuba, in light of the size and growth of trade between the two nations, could extend well beyond the strict economic sphere.

The benefits to the national and Florida economies from a post-Fidel Castro Cuba obviously depend on the degree and extent of reform. Researchers have estimated the potential benefits of Cuba's move to a new, free-market economy, but their estimates also vary depending on the types of models and assumptions employed for growth. A summary of these estimates is as follows.

- \$5.1 billion of additional annual trade for the U.S. economy comprised of \$1.65 billion of imports and \$3.40 billion of exports. (McPherson & Trumbull, 2003)
- \$1.2 billion of additional U.S. agricultural exports per year, generating \$3.6 billion of additional GDP and 30,000 new jobs. (Rosson and Adcock, 2001)
- \$1.3 billion of additional GDP from lifting the travel ban to Cuba and the creation of about 20,000 additional jobs. (Robyn, Reitzes, and Church, 2002)
- \$1-2 billion of additional GDP for Florida and about 21,000 new jobs. (Lynch, 2004)

The prospective benefits of meaningful reform are impressive, and over time could vault Florida to a higher sustainable growth path. Moreover, evolving global, national and regional trends may boost the magnitude of the gains and composition (such as industry mix) from genuine reform. Florida's location and economic base, its historic ties to Cuba, and its loyal Cuban-American community provide it every opportunity to be a prime beneficiary from a Cuba libre!



Cuba: Social and Economic Data

Area: 114,524 km²

Population: 11.4 million (2007)

Population (annual growth rate): 0.27%

Life expectancy at birth 77.08 years

GDP (PPP): \$46 billion (2006)

GDP per capita (PPP): \$4,100 (2006)

Labor force composition: Agriculture, 20%; Industry, 19.4%; Services, 60.6%

Natural resources: Cobalt, nickel, iron ore, chromium, copper, salt, timber, silica, petroleum, natural gas, arable land.

Environmental issues: Air and water pollution, biodiversity loss, deforestation.

Exports: \$2.98 billion (2006). Sugar, nickel, tobacco, fish, medical products, citrus, coffee.

Imports: \$10.17 billion (2006). Petroleum, food, machinery and equipment, chemicals.

By Stephen O. Morrell, Ph.D., Florida TaxWatch Senior Research Fellow and Professor of Economics and Finance, Andreas School of Business, Barry University, Miami Shores.

ECONOMIC COMMENTARY is made possible through the support of  WaMu

The TaxWatch Center for Competitive Florida...Resolving issues vital to Florida's global economic competitiveness.

Victoria Zepp, Executive Director, 850-212-5794, vzepp@floridataxwatch.org



Florida TaxWatch Center for Competitive Florida Advisory Board

Mr. John Zumwalt, III
Chairman
President & CEO
Post Buckley Schuh & Jernigan,
Inc.

Mr. John Adams
President & CEO
Enterprise Florida

Mr. Hoyt ?Barney? Barnett
Vice Chairman
Publix Super Markets, Inc.

Mr. Marshall Criser, III
President—Florida
BellSouth

Mr. Moray P. Dewhurst
Vice President, Finance & CFO
Florida Power & Light

Ms. Glenda Hood
Former Secretary
Department of State

Mr. Robert Hudson
(Retired)
President & CEO
AvMed Health Plan

Governor Bob Martinez
Senior Policy Advisor
Holland & Knight

Mr. David McIntosh
Chairman
Trustee—Bluefield Ranch
Mitigation
Bank Trust

Mr. David Smith
President & CEO
PSS World Medical