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Cuba ripe for economic change

By Kevin G. Hall

McClatchy Newspapers

(MCT)

WASHINGTON - For most of the past 47 years, Fidel Castro's Cuba has largely been shut out of the global economy by his fervent opposition to capitalism and the U.S. trade embargo.

But now, with Castro surrendering power to his brother and facing an uncertain medical future, change for the first time in years seems likely. In a post-Castro world, Cuba could become a land of opportunity.

Cuba's gross domestic product - the value of its annual production of goods and services - is about \$39 billion, according to the CIA. That's about the size of Kenya's, a tad larger than El Salvador's. Export commodities including sugar, nickel, tobacco, fish, citrus and coffee drive the Cuban economy, aided by tourism.

Planned and directed by the government for almost a half-century, Cuba's economy is largely isolated from market forces, and its industry and agriculture are notoriously inefficient. Yet against the odds, Cuba's pharmaceutical sector and its scientific research are on par with global leaders.

The island's 11.3 million inhabitants have an enormous pent-up consumer demand and a 97 percent literacy rate. That makes Cuba's workforce of 4.6 million presumably hungry to work and full of potential.

Post-Castro Cuba offers a promising export market for U.S. farmers and a potential investment venue for many U.S. companies.

"From the standpoint of a company looking to locate there, the prospects are quite good of having a well-educated, highly trainable workforce. That will not only result in more trade, but attract more investment," said C. Parr Rosson III, an agricultural economist and Cuba expert at Texas A&M University-College Station.

Rosson believes that Cuba will rapidly transition out of its current low-skill, labor-intensive sectors to light manufacturing and high-tech jobs. That would allow Cuba to be competitive in a number of sectors.

Evidence of that came in July 2004 when the U.S. Treasury Department allowed California-based CancerVax Corp. to enter a licensing agreement for three experimental anti-cancer drugs being developed by Cuba's Center for Molecular Immunology. It followed a 1999 move by the U.S. government to allow SmithKline Beecham to conduct clinical trials on a Cuban experimental vaccine for meningitis B.

If Cuban pharmaceuticals hold promise, U.S. farmers already see Cuba as an important new market. In January, for the first time ever, the entire board of directors of the U.S. Grains Council traveled to Havana. There, they inked a memo of understanding in which Cuba committed itself to purchase 700,000 metric tons of U.S. corn during the 2006/2007 growing season.

Cuba also committed to purchase an unspecified amount of distilled dry grains, a mash that's left over when corn is fermented and made into ethanol for fuel. The mash is used to feed swine, poultry, cattle, even fish like tilapia.

"When you have this proximity, it would just make sense that they are an important market to us, if things turn out that way" in post-Castro Cuba, said Cheri Johnson, spokeswoman for the grains council in Washington, D.C.

The Cuban purchase of U.S. corn is still a fraction of the 5.76 million metric tons imported by Mexico in the 2004/2005 season. But the average import tariff around the globe for farm products is 60 percent, and Cuba erects no such barrier to farm products it desperately needs. It's also becoming a promising market for U.S. exports of fresh meats,

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especially poultry.

New Orleans did more business with Cuba, primarily imports of Cuban sugar, than any other U.S. port before Castro seized power in 1959. Gary LeGrange, president and CEO of the Port of New Orleans, traveled there in 2004 to begin preparing for a post-Castro world.

"Without predicting when that may be, when it does happen we see a lot of possibilities and a lot of hope for the future," LeGrange said.

Cuba also offers potential in the energy sector. It has forged production-sharing agreements with Canadian and Spanish companies and is actively extracting offshore oil and natural gas about 90 miles from Florida.

The U.S. Geological Survey in 2004 confirmed the existence of large quantities of quality crude oil and natural gas in the North Cuba Basin just east of Havana. Energy companies from India, Norway, China, Spain and Canada are now involved in drilling for oil in Cuba's territorial waters.

The upper range of prospects suggests there may be 9.3 billion barrels of crude and 21.8 trillion cubic feet of natural gas recoverable off the Cuban coast. That's three times the natural gas expected to be tapped from the Gulf of Mexico off the coastline of Florida and Alabama, as authorized this week by the U.S. Senate.

For all Cuba's potential, there's much unfinished business. Since Castro effectively nationalized the entire economy, the day Cuba rejoins the global economic order, an army of lawyers is sure to invade to fight over property ownership rights and trademarks for rum and cigars. Castro owes creditors about \$14 billion.

"Do expect lawsuits," said Anthony Villamil, a former U.S. undersecretary of commerce.

For now, all eyes are on Cuba to gauge the gravity of Castro's illness and what might come next.

"There are probably more opinions on what is going to happen after Fidel dies than there are people in Cuba," cautioned Jerry Haar, a business professor at Florida International University in Miami.



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