



**Cuba Transition  
Project**

**THE ROLE OF THE  
CUBAN-AMERICAN COMMUNITY  
IN THE CUBAN TRANSITION**

**By**

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# Cuba Transition Project – CTP

The Cuba Transition Project, at the Institute for Cuban and Cuban-American Studies (ICCAS), University of Miami, is an important and timely project to study and make recommendations for the reconstruction of Cuba once the post-Castro transition begins in earnest. The transitions in Central and Eastern Europe, Nicaragua, and Spain are being analyzed and lessons drawn for the future of Cuba. The project began in January 2002 and is funded by a grant from the U.S. Agency for International Development.

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# **THE ROLE OF THE CUBAN-AMERICAN COMMUNITY IN THE CUBAN TRANSITION**

Prepared for the Cuba Transition Project (CTP)  
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## **Executive Summary**

The Cuban-American community is well-placed to be a positive factor in both Cuba's transition and in its economic development in the long run. The community is large, relatively well-off in economic and educational terms, and politically influential — characteristics that endow it with the capacity to make substantial economic contributions and political transformations in Cuba. Under a different political regime in Cuba, the Cuban-American community could contribute to the transition not only through continuation and even expansion of economic interventions, including private transfers known as remittances, but also through its ability to influence U.S. foreign policy toward Cuba as well as policy development in Cuba.

Over more than four decades, some 1.5 million people have emigrated from Cuba and settled in neighboring countries, mostly the United States. By 2000, the Cuban-American population had reached 1,241,685 living in 474,258 households with a median income of \$30,084. This translates into a total household income of \$14.2 billion. In 1997, the 125,182 Cuban-American-owned businesses, 30,203 of them with paid employees, had sales and receipts in excess of \$26 billion. Transnational conglomerates and publicly traded but Cuban-American controlled enterprises generated many more billions of dollars in sales and receipts.

While it is difficult to estimate the precise net wealth of the Cuban-American population, it appears to be considerable. In 2000, Cuban-American household net wealth may have been as much as \$20 billion, much of it tied to home ownership. By adding household and business ownership net wealth, it can be estimated that the Cuban-American community may have assets worth as much as \$40-50 billion. Thus, even if a relatively modest share of the combined assets of Cuban-American firms were to be invested in a post-transition Cuba, they would dwarf the estimated less than \$2 billion in foreign investment received by the country since the Special Period began in the early 1990s.

The Cuban-American community could assist with the reconstruction of a post-transition Cuba in many other ways. It could accelerate the

establishment of commercial and economic linkages between the U.S. and Cuban economies and facilitate the island's integration into world markets. Particularly during the transition, business networks between the Cuban-American community and counterparts in Cuba could help overcome informal barriers that inhibit trade, such as weak enforcement of international contracts and inadequate information about trading opportunities.

Arguably, the overseas Cuban community that has settled in the United States and in other nations of the Caribbean Basin could form the basis for a transnational business network that could have a favorable impact upon the island's economy. The Cuban-American business community could do much to energize the small business sector in Cuba. Cuban-American firms and their owners are found across practically all U.S. industrial categories, from services to manufacturing. They possess management, production, and technical know-how that, if properly marshaled, could inject life to an emerging Cuban small business sector over a relatively short period of time. By virtue of their presence in and knowledge of the United States market, in South Florida and elsewhere, U.S.-based Cuban-owned firms could act as conduits for new export lines produced in the island and help channel business opportunities such as tourism to Cuba once the U.S. embargo is lifted.

Cuban-American firms have sufficient financial resources to support the emergence of small firms in Cuba by providing start-up as well as operating capital until the new firms become self-sufficient. Furthermore, U.S.-based Cuban-owned firms should be able to find potential business partners to create business networks that could promote trade in Cuba among self-employed workers or citizens experienced in conducting black market transactions. Cuban-American firms could also play the role of "first movers," investors who could enter the Cuban market early in the transition and, by their presence and example, change market expectations and advance the flow of foreign direct investment from more conventional sources.

During the transition, remittances could help fill the gap in the balance of payments that is likely to occur as a result of the restructuring and modernization of Cuba's economic base. To the extent that the Cuban-American community maintains and even increases remittance levels, additional breathing room to financial authorities managing the transition

will result. To place the magnitude of these flows in perspective, the total value of Cuba's exports of products of the sugar industry in 1998 was 599 million pesos; in 1999, 463 million pesos; and in 2000, 453 million pesos. In 2000, remittances exceeded sugar export revenues by almost 60 percent. Moreover, the nearly 4 billion pesos in cumulative remittances during 1995-2000 dwarf the 1.3 billion pesos in cumulative foreign direct investment that flowed into the country during that same period.

In the 1990s, tourism was Cuba's engine for economic growth. Cuba's extensive international tourism infrastructure, catering mainly to "sun and sand" tourism, is severely underutilized for at least half of the year. International tourist arrivals in Cuba are highly seasonal. The Cuban-American community could be targeted as a source of tourists that would travel to the island during the periods when the flow of foreign tourists ebbs, thereby occupying idle facilities and maintaining year-round employment for tourism workers. Cuban-Americans who wish to visit the island for cultural or family reasons may be more flexible with respect to the time of year they travel to the island.

Senior citizens and retirees who have a great deal of flexibility in arranging their schedules are particularly desirable tourism and resettlement targets. An attractively priced vacation package that includes the option of renting additional rooms for relatives on the island would ensure that members of the Cuban-American community travel to the island and use the tourism facilities rather than crowd the overtaxed private housing stock. The ability to travel from Florida to Cuba in a personal automobile would be appealing to many travelers. Reestablishing an auto ferry from two or three locations in both Florida and Cuba might also be an incentive to stimulate travel.

To facilitate the return to the island of the overseas community, a post-transition government in Cuba would have to modify laws and regulations. First, impediments to travel and temporary return to the island by émigrés must be removed. The government must deal with similar impediments affecting permanent return, especially the legal status of returnees in the island. A potent return incentive would be to permit Cuban emigrants to hold double citizenship.

The Cuban-American community can exert a positive influence on the island's transition by using its considerable familiarity with the U.S. political system and knowledge about the free-market to influence U.S.

policies toward Cuba and economic development policies in a post-Castro regime. As the transition progresses, the Cuban-American community can be instrumental in persuading the United States to take policy actions that support a democratic, free-market Cuba over the longer term. It could persuade the U.S. government to act quickly to extend to Cuba the same preferential trade benefits granted to other countries of the Caribbean Basin. This might include most favored nation or normal trade relation tariff treatment, eligibility for loans from the Export-Import Bank, investment guarantees by the Overseas Private Investment Corporation, eligibility for agricultural exports to the United States, a bilateral free trade agreement, and a bilateral investment treaty, if the latter were determined to be a useful tool for promoting U.S. foreign investment in the island. The Cuban-American community could also support that, as a democratic and market-oriented country, Cuba be given a seat at the table in the negotiations for a Free Trade Area of the Americas (FTAA). The potential for FTAA to materialize increased significantly with the passage by the U.S. Congress of the Trade Promotion Authority legislation in August 2002.

The Cuban-American community should also encourage the United States to assist a transitioning Cuba by supporting a request for readmission, or admission, as the case may be, into global and regional international financial institutions that could help Cuba in financing its future development, including the World Bank, the International Monetary Fund, and the Inter-American Development Bank. Access to the expertise and financial support of these institutions will be of critical importance to a democratic and market-oriented Cuba. Complementing its activities within the United States to support a transition in Cuba, the Cuban-American community can also exert a positive influence on the transition by closely following economic policymaking in Cuba and seeking to be involved in it when necessary.

## Introduction

Although Cuba's government survived the dissolution of the socialist bloc and has managed to resist the movement toward democratic pluralism and market economies that swept the former socialist world, it is only a matter of time until these changes occur on the island. Over the last decade, the Cuban government has pursued a single objective: *resistir*. As such, it has not had a positive program to address the social and economic problems that affect the average Cuban citizen and has failed to provide avenues for the population to express its views openly about the problems that affect the nation.

How and when the *status quo* in Cuba will change is a matter of speculation. The transition will be shaped by how it happens — preferably through a peaceful process of negotiation and concertation rather than through a violent struggle — and when it happens — preferably soon, with the departure rather than natural death of the current leadership. Analysts have developed numerous transition scenarios for Cuba based on the experiences of other nations and the peculiarities of the Cuban system. This paper does not speculate about the form or timing of Cuba's transition to democracy and market orientation because, in our view, the Cuban-American community will play an important role in that transition irrespective of how and when it occurs.

Over approximately the last four decades, more than 1.5 million people have emigrated from Cuba. Their motivation for departing has varied. In some cases it was strictly or mainly political opposition to the authoritarian socialist regime in Cuba and the lack of basic freedoms, in others a desire to improve economic well-being and opportunities. The vast majority of these emigrants settled in the United States and, over time, have concentrated in the state of Florida.<sup>1</sup> The economic capacity of this community is quite significant in its own right and more so when compared with the struggling Cuban economy. In 1999, based on U.S. Census Bureau data, it can be estimated that the income of the Cuban-American community was \$14.2 billion; Cuban-owned businesses in the United States had receipts of over \$26.5 billion in 1997 according to a U.S. Census Bureau survey. If all Cuban-American-controlled businesses, including publicly traded businesses, were included in the estimates, receipts might be as high as \$50 billion.

The Cuban-American community is well placed to be a positive factor

in Cuba's transition and the country's economic development in the long run. The community is large, relatively well-off in economic and educational terms, and politically influential, characteristics that provide capacity for a substantial contribution to economic and political transformation on the island. Under a different political regime in Cuba, the Cuban-American community could contribute to the transition not only through continuation and even expansion of private transfers known as remittances and other economic interventions, but also through its ability to influence policy — U.S. foreign policy toward Cuba as well as policy development in the island.

It bears noting that the Cuban-American community's ability to influence the Cuban transition does not presuppose a monolithic or organized community in the United States. While convergence of views among Cuban-Americans could help influence the U.S. political system devise concrete ways to assist Cuba, many of the interrelationships that we foresee developing are likely to be unorganized and spontaneous, resulting from coethnic business and social networks and not requiring direction from a central point.

The role that the Cuban-American community actually plays in the transition will depend, to a large extent, on the policies and actions of the Cuban government. A Cuban government in transition could take many promotional, regulatory, and legal actions to either facilitate or impede involvement by the Cuban-American community. Important among these is the possibility of granting dual citizenship to individuals of Cuban birth and their descendants who have acquired another citizenship, a measure taken in recent years by Mexico, Colombia, and several Central American countries to promote a more full integration of émigré communities into their economies and societies.

## **The Cuban-American Community and its Financial Resources**

The financial contribution of the Cuban-American community to Cuba's reconstruction is a function of many variables, including how the transition occurs and the country's political and economic conditions. Key determinants, however, are the Cuban-American community's economic wherewithal and the extent that the community is willing to remit or invest a portion of its financial resources in Cuba. The financial

resources of the Cuban-American community can be approached from two perspectives: 1) by estimating its assets; or, 2) by estimating its annual household income and revenue streams from businesses. The approaches complement each other since the size of financial streams has a major bearing on wealth accumulation.

One potential source of information on the assets of the Cuban-American community is robust. Estimates of household net wealth from the Federal Reserve Board's triennial Survey of Consumer Finance (Kennickell et. al. 2000) contain detailed data on family net worth in terms of financial assets including transaction accounts, certificates of deposit, savings bonds, bonds, stocks, mutual funds, retirement accounts, and life insurance; non-financial assets such as vehicles, primary residence, other residential property equity in nonresidential property, and business equity; and unrealized capital gains. Net worth estimates are obtained by deducting debt such as outstanding mortgage balances, installment loans, credit card balances, and other lines of credit from the value of assets. In the case of these surveys, the expression "family" closely corresponds to the census definition of "household."

Family net worth estimates by the Federal Reserve Board, however, are only available for the general population and selected broad subgroups — White non-Hispanic and Nonwhite or Hispanic — but not for more narrowly circumscribed ethnic population subgroups, such as Cuban-Americans. This shortcoming can be partially overcome by examining other data sets and estimating selected dimensions of Cuban-American wealth circa the year 2000. In this paper, we focus on the home ownership component of wealth. Based on this estimate and a key assumption that the extent to which the housing component accounts for overall wealth in the total U.S. population is mirrored in the Cuban-American population, we derive wealth estimates for that population. As will become evident, these estimates in all likelihood underestimate the actual extent of Cuban-American wealth since it is not possible to account accurately for many other types of financial and non-financial sources of wealth such as bonds, stocks, mutual funds, other residential property, and business equity.

Similar limitations raise concerns about the reliability of the income and revenue estimates of Cuban-Americans we present below. The estimates only reflect sources of income that are readily measurable, ignoring other potential sources that may not be accurately reflected in official

statistical compilations. Income statistics are notorious for their tendency toward downward bias, due largely a result of the unwillingness of respondents to provide candid reports about their finances. While firm revenue reports are generally more robust, it is difficult to differentiate the revenue share that would accrue to principal shareholders versus other shareholders in public companies controlled by Cuban-Americans.

We begin with a summary description of the principal demographic and socioeconomic characteristics of the Cuban-American population culled from various sources. This is followed by the presentation of the housing wealth component and overall wealth. We next consider overall household income: 1) in 1999 and annual revenues of Cuban-American-owned businesses as portrayed by the 1999 survey of Minority-Owned Business Enterprises; and 2) for the better capitalized Cuban-American-owned businesses by the 2002 survey of some of the largest Hispanic businesses conducted annually by the magazine *Hispanic Business* and other sources. Some of the largest Cuban-American-owned enterprises, particularly those that are publicly owned, are excluded from the Minority-Owned Business Enterprises Survey but are captured in other data sources. At the end of this section, we offer a snapshot of the economic capacity of the Cuban-American community and of Cuba.

### *Statistical Profile of the Cuban-American Community*

The Cuban-American community is defined as individuals born in Cuba and their U.S.-born descendants. According to the 2000 U.S. Census (2002), the size of this community increased by 188,488 people or 15.3 percent between 1990 and 2000, up from 1,053,197 in 1990 (U.S. Census 1993). While detailed statistics are not yet available from the 2000 census to differentiate the U.S.-born component from the island-born component, in 1990, 298,481 people (28.3 percent) were U.S.-born. This share declined in the intercensal period for two reasons. Mortality is higher than average among the relatively old Cuban-born component, with a median age of 46.8 years in 1990, and Cuban-American fertility rates are quite low. Also, immigration increased. According to Immigration and Naturalization Service statistics (2002, 27), between 1990 and 1999, 160,645 Cuban immigrants were admitted to the United States. These figures suggest that close to 80 percent of the growth of the

Cuban-American population during the last intercensal period resulted from the resumption of large-scale immigration following the 1994 U.S.-Cuba Migration accord.

The 2000 U.S. Census also reveals that 18.5 percent of the Cuban-American population, or 230,325 people, were 18 years of age or younger, a share almost exactly matched by the percentage above 65 years of age, 18.4 percent, or 228,677 people. The working age population accounted for the balance, with 63.1 percent or 782,683 individuals. Across all ages, men outnumbered women slightly, with 100 males for every 99.6 females. However, sex ratios differ significantly by age. The number of men outnumbered women up to age 59. Between ages 25 and 49, the number of males exceeds that of females by a wide margin; in some five-year age groups (30-34 and 40-44) there are 116 males for every 100 females. In all likelihood, this sex ratio imbalance is the result of selective emigration, particularly during the Mariel and Balsero outflows. For older age groups, the reverse is true, with women increasingly outnumbering men, a result of higher female life expectancies. For age 55 to 59, there were 95.1 males for every 100 females, and for age 70 to 74, 83.3. There were 59 at ages 80 to 84.

An overview of the evolution of the Cuban-American population between 1990 and 2000 is presented in Table 1, which shows comparable indicators drawn from the 1990 U.S. Census and the 2000 Current Population Survey (CPS) (U.S. Census Bureau 2001) updated with selected data thus far released from the 2000 census. During the decade, the Cuban-American population continued to grow older, its median age rising from 38.9 to 40.1 years. At the same time, educational attainment appears to have improved significantly. The percentage of the population 25 years of age and over with less than completed high school declined from 43.4 percent in 1990 to 27 percent in 2000. Consistent with this improvement in educational attainment was an increase in the percentage of the population 25 years of age and over with a college education or higher: according to the CPS, in 2000, 23.1 percent of the Cuban-American population was highly educated as compared to 9.4 percent in 1990.

Table 1 - Selected Characteristics of the Cuban-American Population,  
1990 U.S. Census, 200 Current Population Survey and 200 U.S. Census

	<b>1990 Census</b>	<b>2000 CPS</b>
<b>Population</b>	1,053,197	1,241,685 (a)
<b>Median Age</b>	38.9	40.1 (a)
<b>Education (25+)</b>		
Less than High School (%)	43.4	27
College Degree or higher (%)	9.4	23.1
<b>Labor Force Status (16+)</b>		
In Labor Force (%)	65	61.3
<b>Employment Status (16+)</b>		
Employed (%)	92.5	94.2
<b>Occupation (16+)</b>		
Managerial and Professional (%)	23.2	23.5
Technical, Sales and Adm. Supt. (%)	34.1	34
Service Occupations (%)	13.2	13.5
Prec. Production, Craft, Repair (%)	11.7	11.1
Operators, Fabricators, Laborers (%)	16.5	17.3
Farming, Forestry, Fishing (%)	1.3	0.6
<b>Number of Households</b>	392,200	474,258 (a)
<b>Household Income</b>		
Less than \$14,999 (%)	28.7	28.9
\$15,000 to \$24,999 (%)	16.7	13.4
\$25,000 to \$34,999 (%)	14.7	13.1
\$35,000 to \$49,000 (%)	16.8	12.2
\$50,000 to \$74,000 (%)	13.9	13.3
\$75,000 and above (%)	9.2	19.1
<b>Median Income</b>		
Household	\$27,741	\$30,084
Family	\$32,417	\$39,432
<b>Poverty Status (Families)</b>		
Below Poverty Level (%)	11.4	15

(a) Data from the 2000 U.S. Census

Source: U.S. Census Bureau, 1993, Persons of Hispanic Origin in the United States, 1990, CP-3-3; U.S. Census Bureau, 2001, *The Hispanic Population in the United States*, Current Population Reports, March 2000, P20-535, Washington, D.C.; and U.S. Census

In 2000, 61.3 percent of the Cuban-American population 16 years of age and over was in the labor force, a percentage somewhat lower than in 1990 (65 percent). A higher percentage (94.2 percent) was employed, however, than in 1990 (92.5 percent), a reflection of the late 1990s' prosperity. Occupationally, the distribution of Cuban-American workers did not change appreciably between 1990 and 2000. The most pronounced changes were a relative increase (5 percent) in the percentage of workers engaged in the most unskilled occupational categories (operators, fabricators, and laborers), and a substantial decline (54 percent) in the percentage holding farming, forestry, and fishing occupations.

Between 1990 and 2000, the number of Cuban-American households increased from 392,200 to 474, 258. In 2000, 72 percent (341,587) were family households, and 28 percent (132,671) non-family households. The latter included 104,298 householders living alone, of which 45,101 were over 65 years of age. Average household size was 2.77 individuals, as compared to 3.22 persons for average family size. More than half of Cuban-American households (57.6 percent or 273,123) owned the housing units they occupied in 2000.

The percentage of Cuban-American households earning less than \$35,000 a year declined from 60.7 percent in 1990 to 55.4 percent in 2000, while the percentage of households with incomes above \$75,000 per year more than doubled, from 9.2 percent in 1990 to 19.1 percent in 2000. This trend is consistent with economic prosperity during the 1990s and Cuban-American educational attainment gains, although not in line with the large-scale entry into the labor force of recent immigrants lacking English-language skills and U.S. labor market experience. Median income increases were also significant: household median income rose by 8.4 percent from \$27,741 in 1990 to \$30,084 in 2000. The corresponding 21.6 percent increase in median family income, from \$32,417 in 1990 to \$39,432 in 2000, was much greater than for household median income.

Four out of every five Cuban-Americans (82.7 percent), according to the CPS, lived above the poverty line in 1999. Poverty was most prevalent among the old, with 28.9 percent of those 65 years of age and older with income below the poverty level, as compared to 20.2 percent for those under 18 years of age, and 12.2 percent in ages 18 to 64. Fifteen percent of families were below the poverty level. Married couple families were the best off, with only 10.3 percent with income below the poverty level. For families headed by a male householder without a spouse present, 19.8 percent were poor; the share nearly doubles (33.8 percent) for female-headed families without a spouse present.

## *Housing Component of Cuban-American Wealth*

Xiao Di (2001) has examined in detail the role that home ownership plays as a component of household wealth in the United States. He notes that, although housing values are highly cyclical, home appreciation often has a major impact on household wealth. Such was the case between 1995 and 1998 when the value of primary residences rose by 20 percent, from \$7.8 to \$9.4 trillion. Despite rapid growth in stock ownership value during the 1990s, home equity value was still the primary source of wealth for most American households in the late 1990s, with more than two-thirds of American households owning their homes, although most held a mortgage. Xiao Di cites statistics showing that “those most able and inclined to accumulate wealth almost invariably own their homes” rather than live in rental housing (2001, 13). In several surveys, the U.S. Census Bureau has found that “home equity constitutes the largest share of net worth (Eller 1994, vii).” In both 1988 and 1991, 43 percent of total household net worth was accounted for by home ownership.

The disparity in household net wealth for different socioeconomic and demographic groups is quite significant; cutting across age, ethnicity, and income level, homeowners always accumulate substantially more wealth than renters. In 1998, for example, according to statistics culled by Xiao Di from the Survey of Consumer Finances, homeowners’ median net wealth was \$132,130 compared to \$4,200 for renters. Among Hispanics, the difference was just as significant, with the median net wealth of homeowners, \$70,000, 35 times that of renters, with a median net wealth of \$2,000. Among Hispanics and other minorities, home equity is a dominant component of household net wealth. In 50 percent of Hispanic households, home equity accounts for 70 percent or more of net wealth.

Xiao Di suggests that housing ownership has several important functions in the accumulation of wealth within households. It acts as an equalizer, given that housing wealth is more equitably distributed than household net wealth. It also acts as a secular wealth accumulator; despite the ups and downs of the housing market, some indicators suggest that between 1970 and 2000, home value appreciated between 5 percent and 10 percent per annum, depending on home location (Oliver and Shapiro 1997, cited in Xiao Di 2001, 20). Housing ownership also acts as wealth cultivator when homeowners use the net value of their home as collateral for borrowing to finance business ventures, investments, or education. Finally, fixed-rate mortgages behave as wealth protectors since they

behave as a brake against increases in housing costs. Conversely, home ownership can interfere with wealth accumulation in several ways. By holding assets in housing, potential investors could be prevented from achieving better returns elsewhere. Also, buying or selling a home at the wrong time during the housing cycle can be costly.

In general, however, the analysis and the statistics provided by Xiao Di clearly indicate the significance of home equity as a yardstick to assess the potential wealth of any segment of the U.S. population, Cuban-Americans included. Although detailed statistics by specific ethnic communities are not available, it is possible to estimate the wealth of Cuban-American households within reasonable margins by combining data from the 2000 U.S. Census with statistics from the 1999 American Housing Survey for the United States (U.S. Department of Housing and Urban Development 2000).

The 2000 U.S. Census includes statistics on the number of Cuban-American households and the number of homeowners among those households. Data on home median purchase price,<sup>2</sup> median total outstanding principal balance,<sup>3</sup> and median estimated current value,<sup>4</sup> and data for various housing value intervals ranging from less than \$10,000 to more than \$300,000 can be directly obtained for homes owned by Hispanic householders, though not for Cuban-American households. From the figures above it is possible to estimate median net value and median appreciation. The figures are also presented for four main geographic subdivisions, namely Northeast, Midwest, South, and West. Home ownership figures for Cuban-American households for the country as a whole and for particular states are available from the 2000 U.S. Census.

By utilizing several assumptions and combining the data in various ways, we obtained a range of gross estimates of the component of Cuban-American wealth in 1999 associated with home ownership. In our calculations, we assume that the value of Cuban-American home ownership is distributed normally, that is, that median values correspond to mean values.<sup>5</sup> Thus, while the estimates presented may accurately reflect the overall net value of Cuban-American household home ownership, home ownership can only be regarded as a partial predictor of Cuban-American household net worth.

We also assume that Cuban-American home ownership values are the same as those for the Hispanic population as a whole. To simplify calculations, we further assume that all Cuban-American owned households not located in Florida (the South) are in the Northeast, the region of the country second in Cuban-American concentration to Florida.<sup>6</sup> The resultant estimates are shown in Table 2.

Table 2 – Household Home Ownership Wealth Component; Cuban-American Community, 1999.

	<u>Median Purchase Price</u>	<u>Total Outstanding Principal Amount</u>	<u>Current Median Value</u>	<u>Net Value</u>	<u>Appreciation</u>
United States	\$63,773	\$65,411	\$98,749	\$33,338	\$34,976
South	46,624	50,450	73,137	22,687	26,513
North East	86,979	77,152	122,724	45,572	35,745

**Estimates of Cuban-American Households Home Ownership Wealth Component**

United States Cuban-American household owned homes		Median Net Value of homes			
<u>Estimate 1</u> -					
273,123	X	\$33,338	=		<b>\$9.1 billion</b>
<u>Estimate 2</u> -					
South					
199,396	X	\$22,687	=		\$4.5 billion
Northeast					
73,727	X	\$45,572	=		\$3.4 billion
			=		<b>\$7.9 billion</b>

Sources: U.S. Department of Housing and Urban Development, 2000, Tables 6-14 and 6-15, pp. 347-348 and 352-353; and U.S. Census Bureau, 2002.

Of the 474,258 Cuban-American households in 2000, 57.6 percent owned their homes. Of these Cuban-American owned homes, 199,396 were in the state of Florida. Net home ownership values — the difference between estimated current value and total outstanding principal amount — for all Hispanic households in 1999 was \$33,338 for the U.S.; \$22,687 for the South; and \$45,572 for the Northeast. Home appreciation was estimated by subtracting from the current median estimated home value the median purchase price. As expected, there is a close correlation between estimated median current value and estimated appreciation, particularly for the national estimate.

If we assume that median net values for Cuban-American-owned homes correspond to the median for the country as a whole, it can be estimated that Cuban-American wealth associated with home ownership reached some \$9 billion in 1999. The estimate is somewhat lower when

it is based on census statistics indicating that 73 percent of all Cuban-American households who own homes reside in the South, with the balance in the Northeast. Under these assumptions, the estimate is approximately \$8 billion. Thus, a reasonable range is between \$8 and \$9 billion.

If it is further considered that net home ownership wealth represents between 43 percent (all U.S. households) and 70 percent (all Hispanic households) of all household wealth, it can be concluded that in 1999 Cuban-American household wealth ranged from \$11 to \$21 billion. Given such a broad spread, it is problematic to allude to potential underestimates, but given some of the issues discussed above, this possibility ought not be dismissed.

### *Household Income in 1999*

By multiplying the 1999 estimated median household income of \$30,084 by the total number of Cuban-American households enumerated in the 2000 census, an estimate of total household income of \$14.2 billion is derived. This amount understates the true magnitude since it is based on median household income. Because the median minimizes the weight of high-income outliers, it yields an estimate lower than what would be obtained had a mean household income estimate been available. It is assumed that this estimate includes salaries and other recurrent sources of income such as Social Security payments, pensions, public assistance, and other.

### *Revenues of Cuban-American Owned Businesses*

Enterprises in the United States experienced phenomenal growth between 1969 and 1997, increasing 2.5 times, from 8.05 to 20.8 million. Meanwhile, the number of Hispanic-owned firms, together with other minority-owned firms, grew 12 times, rising from 100,000 in 1967 to 1.2 million in 1997. During the nearly three decades spanning from 1969-1997, the number of firms owned by Cuban-Americans, as shown in Table 3, grew at an even faster pace than those owned by the overall Hispanic population. During this period, the number of Cuban-American-owned firms<sup>7</sup> increased by a factor of 30, growing from 4,237 to 125,182. The number of firms with paid employees, after first appearing to decline in the 1970s, began to rise sharply in the early 1980s.<sup>8</sup> By 1997, 24 percent of all Cuban-American-owned businesses, or 30,203, had paid employees. Many of the firms without paid employees were concentrated in the services sector, a broad category that includes from workers offering unskilled personal services to professional services.

## Selected Trends for Cuban-owned Firms in the United States, 1969 to 1997

<u>Census Year</u>	<u>1969</u>	<u>1972</u>	<u>1977</u>	<u>1982</u>	<u>1987</u>	<u>1992</u>	<u>1997</u>
<b>All firms</b>	4,237	10,640	13,915	36,631	61,470	93,096	125,182
<b>Firms with employees</b>	1,360	2,652	2,684	5,215	10,768	17,839	30,203
<b>Percent with paid employees</b>	32	25	19	14	18	19	24
<b>Firms per 100,000 population</b>							
<u>All firms</u>			3,650				9,952
<u>Firms with employees</u>							2,401
<b>Sales and receipts</b>							
<b>in current dollars (in 1,000s)</b>							
<u>All firms</u>	162,667	545,222	1,868,441	2,149,198	5,481,974	15,568,045	26,492,208
<b>Sales and receipts in</b>							
<b>1997 dollars (1,000s)</b>							
<u>All firms</u>	711,392	2,093,489	4,948,566	3,574,546	7,744,933	17,808,286	26,492,208
<b>Firms with employees</b>	429,537	1,202,966	3,772,693	2,321,260	5,971,997	15,284,913	23,873,193
<b>Percent sales and receipts</b>							
<b>by firms with employees</b>	60.4	na	76.2	64.9	77.1	85.8	90.1
<b>Percent corporations</b>	3.4	na	6.1	5	8.9	18.3	25.4
<b>Percent of firms in Miami-Dade</b>	41.6	6.3	52.7	56.8	56.6	50.4	57.8

In constant 1997 dollars, total sales and receipts for Cuban-American-owned firms increased from \$711 million in 1969 (a figure that understates to an unknown degree the actual volume) to 26.5 billion in 1997.<sup>9</sup> The one-quarter of firms with paid employees accounted for 90 percent of the total.

### *Revenues of Selected Large Cuban-American Owned Businesses*

Aside from the mostly small and medium-sized Cuban-American-owned businesses identified by the U.S. Census Bureau, quite a number of large firms, both privately owned and publicly traded, are associated with individuals of Cuban origin. *Hispanic Business* magazine annually publishes a list of the 500 largest Hispanic-owned businesses in the United States based on annual revenues the prior year. While this list is far from comprehensive — inclusion is partly dependent on self-reporting — it complements U.S. Census data. There is certain to be some double counting, however, particularly of small to medium size businesses.

One problem with the *Hispanic Business* list, for our purposes, is that it does not provide the ethnicity of the owner(s) or controlling shareholder(s). It is possible, nevertheless, to identify many of the Cuban-American-owned firms because they are concentrated in the states of Florida and New Jersey and because their ownership is well known in the community. Based on 2001 revenues, these two states ranked among the top ten states by number of large Hispanic-owned firms in 2002 (“Best of the Best” 2002). The 135 firms in Florida and New Jersey had combined annual revenues of \$9.3 billion. Among these firms were the second and third largest Hispanic-owned firms in the country listed by *Hispanic Business*: MasTec Inc., with revenues of \$1.2 billion in 2001, and Codina Group Inc., with \$783 million in revenues for 2001, both South Florida-based and controlled by Cuban-Americans. Between 20 and 25 other firms also based in Florida ranked among the top 100 and are also presumably controlled by Cuban-Americans. We conservatively estimate that, of the 500 firms listed, Cuban-American-owned or controlled firms accounted for at least a quarter of the \$23.5 billion in 2001 revenues, or about \$6 billion. We are aware of others that would have qualified among the top 500 but do not appear in the list.

The so-called largest Hispanic owned businesses do not make reference to family controlled enterprises with individual annual revenues into the hundreds of millions of dollars, such as Bacardi-Martini Rossi or the Fanjul sugar conglomerate, or to fortunes accumulated by the likes of reputed billionaire Alberto Vilar, president of Amerindo Investment Advisors (Reveron 2002; O'Brian and Lucchetti 2002) or the Goizueta family, the descendants of the former Chairman of Coca-Cola, said to be worth in excess of \$1 billion. This list could be expanded by adding an undetermined number of publicly traded firms established by Cuban-Americans, valued in the billions of dollars, or the fortunes made in other countries by Cuban families currently based or residing in the United States, such as the Cisneros — owners of a Latin American telecommunications giant headquartered in Coral Gables, Florida — or the former owner of Spain's Telepizza.

Although it is impossible to determine the actual value of Cuban-American-owned or controlled enterprises, it is certain to be in the tens of billions of dollars, with annual revenues to match. Thus, it appears that even if a relatively modest share of the combined assets of Cuban-American firms were to be invested in a post-transition Cuba, they would dwarf the estimated less than \$2 billion in foreign investment received by the country since the Special Period began in the early 1990s.<sup>10</sup>

### *The Cuban-American Community and Cuba: Tentative Comparisons*

Comparing the economic capacity of the Cuban-American community and of Cubans on the island in a meaningful way is difficult for numerous methodological reasons. Perhaps the most challenging one is the difficulty of establishing income levels in a common currency that would permit comparison. As we have shown, the Cuban-American community is rich in assets, with household and business assets running into the tens of billions of dollars. Furthermore, in 1999, Cuban-American households had a total income of some \$14 billion, while the revenues of Cuban-American-owned businesses may have been as high as \$40 to \$50 billion annually.

According to Cuban government official statistics, the island's gross domestic product (GDP) in 2000 amounted to 27.635 billion pesos and

GDP per capita to 2,468 pesos (ONE 2001).<sup>11</sup> The Cuban government maintains that the value of the Cuban peso is at par with the U.S. dollar; that is, one peso is equivalent to one U.S. dollar. At the same time, the Cuban government has established an official network of exchange houses to service tourists and nationals that operated with an exchange rate of about 26 pesos for one U.S. dollar in the first half of 2002. If the rate in exchange houses represented the real value of the peso, it would be clear that the official rate overvalued the Cuban currency by a factor of more than 25. The importance of which exchange rate to use to measure the size of the Cuban economy in U.S. dollar terms is obvious. At the official exchange rate, Cuban GDP in 2000 was \$27.6 billion and per capita GDP was \$2,468, a per capita income level that would place Cuba within the range of lower middle-income developing countries, close to Jamaica (\$2,440) and Latvia (\$2,860).<sup>12</sup> However, at the rate used by exchange houses, GDP in 2002 would be about \$1.1 billion and per capita GDP about \$96,<sup>13</sup> placing Cuba at the bottom of the range for low-income developing countries in the world, behind the Democratic Republic of Congo (\$100) and Burundi (\$110). For comparison, Haiti's GDP per capita was \$510.

Another set of issues revolves around whether the appropriate way to make cross-border income and product comparisons is to use nominal exchange rates or purchasing power parity (PPP) exchange rates (Marer 1985). The latter are generally believed to make more meaningful international comparisons because nominal exchange rates do not always reflect international differences in relative prices. PPP exchange rates are derived from national price surveys conducted by the International Comparisons Project, a joint endeavor of the United Nations and the World Bank. Unfortunately, Cuba is not one of the 118 countries for which PPP exchange rates have been developed (World Bank 2001, 244).

In conclusion, regardless of difficulties in making the comparisons, the Cuban-American community generates substantial annual revenues that may be higher than current day Cuba's GDP. This suggests that the financial resources of the Cuban-American community can have a major impact on the economic reconstruction of a post-transition Cuba.

## **The Cuban-American Community and the Cuban Transition**

The Cuban community in the United States is quite large and has the technical and economic wherewithal to make a positive contribution to a democratic, free-market Cuba. Not only could Cuban-Americans contribute positively with their technical skills and the know-how they have acquired in working in market economies, but they may also have the resources to invest in the island's reconstruction. Cuban communities elsewhere — Venezuela, Mexico, Spain — no doubt have similar attributes but the focus of this paper is the Cuban community that resides in the United States.

Under a different political regime in Cuba, the Cuban-American community could contribute to the transition through continuation and even expansion of remittances and also through the establishment of business relationships, foreign direct investment, increased travel to the island, and transfer of professional and managerial skills. The Cuban-American community could also influence public policy in the United States to help Cuba during the transition and in Cuba to ensure that the proper policies are put in place to promote market orientation and self-sustaining growth.

The rest of this paper assumes that the Cuban-American community is able to behave *vis-à-vis* Cuba in the same manner that the average U.S. citizen, resident, or ethnic group is able to behave with regard to any other foreign country. That is, the paper assumes that the ban on U.S. citizens traveling to Cuba and rules and regulations that impose a U.S. trade embargo on Cuba will be lifted altogether, or at least suspended, and normal commercial and investment relations between the two nations will exist.<sup>14</sup> In addition to its material impact, the act of lifting of the U.S. Department of the Treasury restrictions on financial and commercial transactions by Americans with Cuba, including limits on remittances, might be seen as a symbolic trigger for the Cuban-American community to become more engaged in the reconstruction of a democratic, free-market Cuba.

### **Business Linkages**

The Cuban-American community could accelerate the establishment of commercial and economic linkages between the U.S. and Cuban

economies and facilitate the island's integration into world markets. Particularly during the transition, business networks between the Cuban-American community and counterparts on the island can help overcome informal barriers that inhibit trade, such as weak enforcement of international contracts and inadequate information about trading opportunities (Rauch 2001, 1177).

The entrepreneurial proclivity of Cuban-Americans is well established. Locay and Sanguinety (1996) have advanced the notion that the policies pursued by the Cuban socialist government that impelled many would-be entrepreneurs to leave the country are responsible for the high incidence of entrepreneurship among Cuban-Americans. Their hypothesis, for which they found preliminary support through the analysis of self-employment microdata from the 1990 U.S. Census, was "that emigration from Cuba has tended to select out persons with higher than average entrepreneurial skills" (Locay and Sanguinety 1996, 324). If this is correct, it might help explain — combined with other more conventional factors — high business ownership rates among Cuban-Americans. In their analysis, Locay and Sanguinety also considered alternative explanations. They postulated, for example, that for some Cuban-Americans, especially those facing difficult economic conditions in the Miami area after arriving as part of the Mariel sealift, high self-employment rates might have represented an adaptive labor market economic survival mechanism in a high-unemployment setting. While this may have been true during the 1980s when informal self-employed activities were highly visible in South Florida, it is less likely to have been so in the 1990s, as the number of properly registered Cuban-American-owned firms exploded with the booming economy.

Apparently, among the Cuban population residing on the island, the strong appeal to be self-employed or to own small businesses is similar to the one felt by their Cuban-American counterparts. The wide range of black market activities in Cuba is testimony to this. For more than four decades, Cubans have risked the wrath of the socialist state by engaging in what in any other national setting would otherwise qualify as market-driven activities, albeit unregulated and often involving the appropriation of resources of the ubiquitous state for personal benefit (Pérez-López 1995). Consistent with this entrepreneurial drive, an overwhelming response followed the government announcement in September 1993 that

self-employment would be legalized. In a little more than a year, 208,000 Cubans became registered self-employed workers (Smith 1999). This number declined with the imposition of prohibitive fees and taxes intended to curtail the sector's growth. The number of registered self-employed workers fell to 157,000 by the end of 1996 and has remained roughly at this level through the end of 1999 (CEPAL 2000, 266), although it appears that many self-employed workers simply shifted away from official self-employment into black market activities. While many Cubans undoubtedly chose to engage in black market and self-employment activities to improve their economic situation during the Special Period, their decisions suggest that, with the proper policies in place, Cubans would give free rein to their entrepreneurial spirit within the formal economy.

*Small Business Development.* The Cuban-American business community could do much to energize the small business sector in Cuba. Cuban firms and their owners are found across practically all U.S. industrial categories, from services to manufacturing. They possess management, production, and technical know-how that, if properly marshaled, could inject life to an emerging Cuban small business sector over a relatively short period of time. By virtue of their presence in and knowledge of the U. S. market, especially in South Florida, U.S.-based Cuban-owned firms could act as conduits for new export lines produced on the island and help channel business opportunities such as tourism to Cuba once the U.S. embargo is lifted.

With 1997 sales and receipts in excess of \$26 billion and perhaps as high as \$50 billion, U.S.-based Cuban-owned firms have sufficient financial resources to support the emergence of small firms in Cuba by providing start-up as well as operating capital until the new firms become self-sufficient. Furthermore, U.S.-based Cuban-owned firms should be able to find potential business partners in Cuba among self-employed workers or among citizens experienced in conducting black market transactions to create business networks that promote trade. The majority of small firms in the United States begin as private ventures of self-employed individuals. Those that prove to be more successful eventually graduate into the category of firms with paid employees, a concept alien to Cuba's current political leadership. More heavily capitalized Cuban-

American firms also have considerable potential as investment partners for start-up Cuban firms.

Arguably, the Cuban community that has settled in the United States and other nations of the Caribbean Basin could form the basis for a transnational business network that could have favorable impact on the island's economy, particularly the large Cuban-owned or controlled transnational corporations that already operate on a worldwide scale. Podolny and Page (1998, 59) define a network as "any collection of actors ( $N \geq 2$ ) that pursue repeated, enduring exchange relations with one another and, at the same time, lack a legitimate organizational authority to arbitrate and resolve disputes that may arise during the exchange."

*Trade.* Empirical studies of the United States, Canada, and the United Kingdom have established the positive effects of immigration on trade between immigrants' host and home countries. Gould's (1994) analysis of U.S. bilateral trade with 47 trading partners for the period from 1970 to 1986 found that U.S. immigrants' links to their home countries enhanced bilateral trade between the United States and the migrants' home country. Head and Ries (1998) found a similar relationship in their analysis of Canada's trade with 136 trading partners during the period 1980-92. Finally, Girma and Yu (2000) analyzed the impact of migrants from Commonwealth and non-Commonwealth countries on U.K. trade for the period from 1981 to 1993 and found that immigration from non-Commonwealth countries had a positive effect on U.K. trade.

Perhaps the largest, and certainly the most widely studied, transnational network in the world is the overseas Chinese. Their centuries-old business network originates from the long-standing practice of Chinese merchants establishing themselves away from their home country — in Malaysia, Thailand, and Indonesia — while remaining culturally Chinese. Kinship, dialect, or a common origin provided the Chinese a basis for mutual trust in business transactions, even if conducted at great distances (Weidenbaum and Hughes 1996, 28-29). The network promotes trade by providing market information as well as matching and referral services, utilizing coethnic business societies to keep knowledge of network members' characteristics fresh (Rauch 2001, 1186). The network has been responsible for a great deal of China's recent economic growth. As of the mid-1990s, it was estimated that two-thirds of foreign invest-

ment in China originated from Hong Kong's Chinese entrepreneurs; these investments extended over 17,000 businesses and 25,000 factories employing over 6 million Chinese. As two China experts put it, "China is the factory, and Hong Kong is the storefront" (Weidenbaum and Hughes 1996, 65).

*Leadership.* Following Freinkman (2001, 335), Cuban-American firms could also play the role of "first movers." As investors who enter the Cuban market early in the transition, by their presence and example, they could change market expectations and advance the flow of foreign direct investment from more conventional sources. The dynamics of a transition are characterized by great uncertainty and high economic risks, and "first movers" are important because they provide behavioral models for the rest of the economic agents and consolidate reform coalitions that push the government to undertake further reforms. The business and social networks between Cuban-Americans and local entrepreneurs would reduce overall investment risks for Cuban-American "first movers," giving them the opportunity to become leaders and partners of the local private sector.

Were the requisite political changes and a favorable market-oriented environment tolerant of property rights and business competition to emerge, it is likely that a positive, spontaneous response from the Cuban-American business community would be forthcoming and transborder business networks would materialize quickly. Much can be done to encourage Cuban-American firms to form partnerships with budding Cuban entrepreneurs or establish new firms. Measures could include:

- establishing a bilateral office to promote joint business ventures;
- offering tax incentives in the United States, Cuba, or both countries to encourage U.S.-based firms to explore business opportunities in Cuba; and
- regularly conducting investment fairs in different U.S. locations.

In addition, Gayoso (1999, 62) summarizing the work of others, has provided a list of policies that a future Cuban government could implement to promote the growth of the small business sector; these should prove equally attractive to Cuban-Americans and Cuban entrepreneurs. They include a macroeconomic environment aimed at stability and growth, sound and transparent fiscal policies, and efficient markets that

foster competition. A legal setting that defines and protects private property rights, adequate regulatory frameworks, business development institutions, and an efficient system for disseminating markets and policy information is also important.

The experience of the Small Business Administration (SBA) in promoting the growth of this sector in the United States could be of great utility in a post-transition Cuba. For example, joint programs between the U.S. Agency for International Development (USAID) and SBA could bring together the financial wherewithal of the former with the technical expertise of the latter to encourage the establishment and growth of the small business sector at the national, regional, and local level. These programs could be conducted jointly with expatriate entrepreneurs willing to transfer skills and make investments in Cuba. They could also capitalize on the significant flows of emigrant remittances entering the island.

### *Remittances*

Remittances, the funds that migrants send to their relatives and friends in the home country, are a critical source of foreign exchange for developing countries. According to estimates by the Inter-American Development Bank, flows of remittances to the Latin American region reached an estimated \$23 billion in 2001 (IDB 2002). Remittances represent a massive transfer of funds to the economies of Latin America, including Cuba.

How much is remitted from one country to another is a function of a complex array of factors. These include the number of emigrants abroad, the length of time they have lived abroad, the closeness of connections with family in the home country, the wages they earn, the overseas community's disposable income, and economic conditions in host countries. Political and economic developments in home countries are also implicated in the remittances behavior, as are exchange rates, perceptions regarding the certainty of receipt by beneficiaries, and the ease with which remittances are sent.

Cuba does not publish official statistics on the value of remittances. Using a combination of data from the U.S. Bureau of the Census regarding the demographic and socioeconomic characteristics of Cuban-Americans in 1990 and a number of assumptions, Díaz-Briquets (1994)

estimated that remittances in the early 1990s from Cuban-Americans to the island probably were \$300 to \$400 million annually. This estimate is consistent with the estimate by Cuban economist Monreal (1997, 50) of about \$500 million per annum in remittances in the mid-1990s.

More recently, the Economic Commission on Latin America and the Caribbean (Comisión Económica para América Latina y el Caribe — CEPAL) has estimated remittances to Cuba, beginning in 1995 and based on balance of payments statistics provided to that organization by Cuba's National Statistical Office (Oficina Nacional de Estadísticas — ONE) and the Central Bank of Cuba (Banco Central de Cuba — BCC). These estimates are 537 million pesos in 1995, 630 million pesos in 1996, 670 million pesos in 1997, 690 million pesos in 1998, 700 million pesos in 1999, and 720 million pesos in 2000 (CEPAL 2000, 2001). The higher remittance estimates are consistent with resumed emigration from Cuba since 1994 that led to the entry of 160,645 new arrivals in the United States during the 1990s. The high estimates are also consistent with the tendency of recent arrivals to remit a higher proportion of their disposable income, even though their average income levels are lower than those of longer-standing migrants (Díaz-Briquets and Pérez-López 1997), and with the increasing willingness of emigrants to assist their relatives in Cuba. According to a public opinion survey of the Cuban-American community in South Florida conducted in April 2002, 65 percent of respondents favored the U.S. government permitting the sending of remittances to Cuba. In addition, 53 percent believed that no restrictions should be placed on the amount of remittances, and 48 percent claimed to be sending remittances already (Bendixen and Associates 2002).

To place the magnitude of these flows in perspective, the total value of Cuba's exports of products of the sugar industry in 1998 was 599 million pesos; in 1999, it was 463 million pesos; and in 2000, 453 million pesos (ONE 2001, 137). Thus, in 2000, remittances exceeded sugar export revenues by almost 60 percent. Moreover, the nearly 4 billion pesos in cumulative remittances during the period between 1995 and 2000 dwarf the 1.3 billion pesos in cumulative foreign direct investment that flowed into the country during that same period.<sup>15</sup>

*Maintaining and Increasing Remittances Flows.* It is clear that the Cuban-American community already makes a significant positive contri-

bution to the Cuban economy and to the well-being of the Cuban population through remittances. During the transition and immediately following, some who have been sending remittances might choose to return to the island, thereby reducing remittances flows, although they might convert their remittances into direct investment. Others who have not been sending remittances to Cuba because they did not wish their foreign exchange remittances to prop up the Cuban socialist regime, for example, may be persuaded to send remittances once a more politically open, free-market government rules the island. This group might include a disproportionately large share of people who have been in the United States for a long period of time who may have the adequate financial means to be significant sources of remittances or investment.

In a Cuba in transition, remittances could help fill the gap in the balance of payments that is likely to occur as a result of the restructuring and modernization of the economic base. To the extent that the Cuban-American community maintains, and even increases, remittances levels, this would provide additional breathing room to financial authorities managing the transition.

The government of a Cuba in transition could take numerous actions to attract remittances from the United States. Among them is outreach to the Cuban-American community through programs that promote remittances and channel them to social development projects in needy areas of the home country.<sup>16</sup> Another way to attract remittances is through financial instruments such as remittances bonds and foreign currency accounts among others.

*Channeling Remittances to Productive Purposes.* A future Cuban government could also work with the international financial institutions such as the World Bank and the Inter-American Development Bank as well as bilateral development agencies, particularly USAID. The considerable experience these institutions have gained while implementing programs to assist with the development of the small business sector may prove helpful in identifying policy measures to channel a greater proportion of remittance inflows to capitalize new and small businesses (for some of the related issues, see Díaz-Briquets and Weintraub 1991). The idea would be to use remittance inflows as seed capital to be complemented by internationally backed loans to establish viable commercial enterprises. Such initiatives

are not hinged on support of emigrant entrepreneurs.

A related notion worth exploring is the establishment of remittance banks to pool emigrant resources to capitalize larger and potentially more viable and profitable firms. The creation of a well-regulated Cuban stock market with an investment facility specifically designed for the intake of remittance inflows may constitute a novel approach to encourage such investments. In addition, charitable organizations within the Cuban-American community such as Catholic Charities and Protestant churches could raise funds within the community and within the U.S. population at large to be used for worthwhile reconstruction and welfare activities in Cuba.

*Reducing Transaction Costs.* Generally speaking, the transaction costs associated with remittances tend to be relatively high compared to the amount of funds remitted: currently \$7 to \$26 for a \$200 transfer from the United States to a country in Latin American or in the Caribbean (Orozco 2002). For transfers to socialist Cuba, the transaction costs seem to be in the same range or perhaps even higher if the funds are sent through a third country such as Canada.<sup>17</sup> When U.S. restrictions on remittances to Cuba are lifted — senders in the United States are currently limited to \$300 per quarter — the Cuban-American community could negotiate with remittances senders to lower fees and therefore maximize the amount of remittances that is received by persons in the island.

### *Travel and Tourism*

In the 1990s, tourism was Cuba's engine for economic growth. Over the period from 1991 to 98, Cuba invested more than 3.5 billion pesos in the tourism industry, with more than 73 percent directed at the expansion and refurbishing of accommodations, primarily hotels, and 27 percent at other forms of infrastructure supporting tourism, such as construction of airports and of stone causeways (*pedraplenes*) joining the mainland with tourism facilities in nearby cays and small islands (CEPAL 2000, 516). From 1990 to 2000, Cuba built 103 new hotels and motels and more than doubled both the number of rooms in hotels and motels suitable for international tourists (from 18,565 to 37,178) and the daily lodging capacity for tourists in these facilities (from 37,740 to 75,869).

Cuba has entered into numerous joint ventures with hospitality firms

from Spain, Italy, France, Canada, Mexico, and other nations to develop tourism facilities. In 2000, 30 such joint ventures were in operation and 17 foreign multinational hospitality companies were responsible for managing 50 hotels located throughout the island (BCC 2001, 37-38). The number of international visitors to Cuba grew rapidly in the 1990s, from 619,000 in 1994 to over 1 million in 1996 and nearly 1.8 million in 2000 (ONE 2001, 248). Meanwhile, the occupancy rate of Cuban tourist lodging facilities rose from under 60 percent in the first half of the 1990s to over 70 percent in the second. In 2000, the occupancy rate was 74.2 percent (ONE 2001, 256).

Cuba's extensive international tourism infrastructure, catering mainly to "sun and sand" tourism, is severely underutilized for at least half of the year,<sup>18</sup> as international tourist arrivals in Cuba are highly seasonal. Based on monthly tourist arrival statistics for the 1993-2000 period, it is clear that Cuba has a well-defined peak tourist season — December to March — that coincides with winter in the northern hemisphere. During this four-month period, international tourist arrivals run 15-20 percent above the average of monthly arrivals for the year as a whole. There is also a shorter, and less intense, summer season in July and August that coincides with the traditional school vacation period in the northern hemisphere, when arrivals are 4-5 percent above the average of monthly arrivals for the year. Particularly in the months of May-June and September-October, tourist arrivals drop off significantly, falling to as low as 75-80 percent of the monthly average.

*Encourage Tourism by Cuban-Americans.* The Cuban-American community could be targeted as a source of tourists that would travel to the island during the periods when the flow of foreign tourists ebbs, thereby occupying idle facilities and maintaining year-round employment for tourism workers. Cuban-Americans who wish to visit the island for cultural or family reasons may be more flexible with respect to the time within the year when they travel to the island.

Cuba could also stimulate travel and tourism by the Cuban-American community by marketing to this community special cultural, religious, and historical events celebrated throughout the year.<sup>19</sup> Among these are the *carnavales* traditionally held at different times in different towns, patron saint day celebrations of towns, and national religious and patriotic

holidays. Because they would be held throughout the island rather than in La Habana or Varadero — the two locations most frequently visited by foreign tourists — these events would have the added advantage of promoting tourism in the interior of the nation. Other events that might attract travel from the Cuban-American community are cultural events (music, dance, plastic arts, literature, and other topics) and sports events. Special occasions such as cultural or religious festivals, to coincide with traditional festivals, could be designated at the municipal level to encourage emigrant tourism (Baez 1975). At first with external technical and financial assistance, municipalities in Cuba could establish special promotional units to work with associations of Cuban municipalities in the United States to identify and promote local tourist attractions to the émigré community as well as to the American public at large.

Finally, professional associations based in the United States that deal exclusively or importantly with the study of Cuba and Latin America could be encouraged to hold meetings and conventions in the island.

*Senior Tourism and Resettlement of Elderly Cuban-Americans.* Particularly appealing tourism and resettlement targets are senior citizens and retirees who have a great deal of flexibility in arranging their schedules. An attractively-priced vacation package that included the option of renting additional rooms for relatives in the island to also enjoy the facilities (recall that Cuban citizens by and large have been kept out of these facilities under the government's tourism "apartheid" policy) would ensure that members of the Cuban-American community who travel to the island use the tourism facilities rather than crowding the over-taxed private housing stock. The ability to travel to Cuba from Florida with a personal automobile by reestablishing an auto ferry from two or three locations in Florida and in Cuba might also be an incentive to stimulate travel.

Elderly tourists, however, also give some thought to medical needs since many suffer from chronic conditions and want to be reassured that they will be within easy access to adequate health care facilities that could address their medical needs at reasonable or no cost. Thus, a policy initiative might be for the Cuban-American community to lobby the U.S. Congress to grant a waiver for Medicare services to be provided in Cuba, perhaps through existing South Florida-based health maintenance organ-

izations (Díaz-Briquets 2001). This would be an incentive for the more than 220,000 Cuban-American senior citizens — the majority of whom are Medicare and Social Security recipients — to visit Cuba as tourists and, in many cases, to resettle there to spend their Golden Years with relatives in familiar surroundings. In the process, and while not too far from their relatives in the United States, they would enjoy a much lower cost of living. Cuba would benefit from the medical services provided and by the spending of retirement incomes in the country that would lead to the creation of service jobs. It goes without saying that this option might also be a great attraction to non-Cuban-Americans who, if assured of proper and affordable medical care, might also choose Cuba for extended vacations or as a retirement destination.

### *Return Migration*

The overseas Cuban community can be estimated at about 1.4 million persons, of which over 1.2 million persons reside in the United States. This estimated overseas population of 1.4 million persons represents 12.5 percent of the island's 2000 population of 11.2 million persons. Their educational and work experiences abroad have provided them with a range of skills, including management skills, that would be sorely needed in a Cuba in transition and beyond.

Based on the experiences of other post-socialist transitions and of developing countries with the so-called brain drain, it is quite unlikely that a significant return flow of the overseas community would occur.<sup>20</sup> In fact, developing countries actively seek the return of skilled persons and professionals that have migrated to developed countries, often using a variety of return incentive programs (Rogers 1981; Pastor and Rogers 1985). To date, developing countries and countries in transition have been relatively unsuccessful in generating significant return migration flows.

For members of the Cuban-American community, the decision to return is likely to be a complex one, encompassing personal, political, and economic variables as well as an assessment of expectations of how conditions might develop in the host and home society. Since 1991, the Institute for Public Opinion Research (IPOR) of Florida International University has conducted periodic public opinion surveys of the Cuban-American community in Miami. In all, IPOR has conducted six surveys,

the first in March 1991 and the most recent in October 2000.<sup>21</sup> In each of the surveys, the investigators asked the sample of respondents the following question: “What if Cuba changed to a democratic form of government? How likely is it that you would return to Cuba to live — would you say very likely, somewhat likely, not very likely, or not at all likely?”

Table 4 shows the responses to this question in each of the six surveys. Using “very likely” and “somewhat likely” as indicators of a proclivity to return and “not very likely” and “not at all likely” as indicators of the opposite tendency, the responses are remarkably stable for the period 1991-97: approximately 30 percent of respondents indicated an intention to return to Cuba if a democratic government were installed in the island and about two-thirds indicated the intention not to return. The results for the most recent survey, taken in October 2000, show a considerably higher share of respondents (almost 38 percent) indicating an intention to return, while the share of respondents indicating the intention not to return falls to under 60 percent.<sup>22</sup> There is no breakdown of the data that would allow an examination of the responses on intention to return according to age, income or time away from the island.

**Table 4. Intentions of Cuban-Americans to Return to Cuba**

Response to Question: What if Cuba changed to a democratic form of government. How likely is it that you would return to Cuba to live - would you say very likely, somewhat likely, not very likely, or not at all likely?

(Percent )

<b>Response</b>	<b>March 1991</b>	<b>October 1991</b>	<b>June 1993</b>	<b>March 1995</b>	<b>June 1997</b>	<b>October 2000</b>
Very Likely	15.7	18.0	17.5	15.7	14.0	21.2
Somewhat Likely	11.2	12.7	11.1	12.9	14.7	16.5
Not Very Likely	17.0	15.4	18.8	17.8	18.3	18.6
Not At All Likely	50.7	50.0	50.1	49.8	51.1	40.7
Don't Know/No Answer	5.5	3.8	2.5	3.9	1.9	3.1

Source: FIU/Cuba Poll, conducted by Cuban Research Institute, Institute for Public Opinion Research, School of Journalism and Mass Communication, and Center for Labor Research and Studies, Florida International University, at <http://www.fiu.edu/orgs/ipor/cuba2000/index.html>

*Removing Legal Disincentives to Return.* To facilitate the return to the island of the overseas community, a post-transition government in Cuba would have to take a number of steps to modify laws and regulations. The first steps may be to remove impediments to travel and temporary return to the island by émigrés. A second set of steps may deal with similar impediments affecting permanent return, especially the legal status of returnees in the island.

Presently, the Cuban Constitution provides that Cuban citizenship is lost by becoming a citizen of a foreign country,<sup>23</sup> and holding a dual citizenship is not allowed. Thus, unless a new constitution or other transition period statute provides otherwise, those persons who once held Cuban citizenship and have become naturalized citizens of other countries, including the United States, would have to renounce the other country's citizenship and apply for reinstatement of their Cuban citizenship (Travieso-Díaz 1998, 81-82). This would be a disincentive to return for persons who lived abroad for extended periods of time and own property abroad or are eligible for retirement benefits that are affected by citizenship from the country in which they settled. Other countries — Mexico, Colombia, and the Dominican Republic — have addressed this practical problem by allowing dual citizenship, but there may be other ways as well.

Another set of issues may have to do with potential impediments to work in the island or practice a profession because of the lack of credentials (*colegiatura*) that are accepted by the regulatory organizations. These concerns can normally be addressed through mutual recognition of qualifications (*reválidas*) or other arrangements.

*Creating Incentives to Return.* To stimulate return to the island of the Cuban-American community, the Cuban government might implement some incentive measures, among them duty free entry of household goods and personal property including an automobile and services to assist in finding housing and adapting to life in the country. Professional associations in Cuba and in the United States with the support of universities and think-tanks could enter into arrangements to bring Cuban-American professionals to Cuba for limited periods of time with the expectation that some of them might wish to resettle in the island permanently. Business and labor organizations and non-governmental organizations (NGOs) could do the same. U.S. federal, state, and local govern-

ment agencies could detail some employees to assist their Cuban counterparts in building and strengthening public institutions essential for a democratic society and sustained economic growth and development.

### *Policy Influence*

The Cuban-American community can exert a positive influence on the island's transition by using its considerable familiarity with the U.S. political system and knowledge about the free-market to influence U.S. policies toward Cuba as well as the economic development policies of a post-Castro regime.

*Influencing U.S. Policies vis-a-vis Cuba.* The Cuban-American community can encourage the U.S. Government to adopt economic policies that support a peaceful transition in the island. Early in the transition, these policies might have an important foreign assistance component aimed at meeting critical humanitarian needs such as emergency food to relieve social hardship and initiate the reactivation of the economy. This might be followed by aid to help the Cuban people and the transition government build essential democratic institutions and to establish the policy, institutions, and legal reforms necessary to stimulate the domestic private sector (USAID 1997). The Cuban-American community should engage the executive and legislative branches of the U.S. government not only in highlighting the priority of assisting a Cuba in transition, but also in determining the most effective use of the assistance.

As the transition progresses, the Cuban-American community can be influential in persuading the United States to take policy actions that support a democratic, free-market Cuba over the longer term. The Cuban-American community could encourage the U.S. government to act quickly to extend to Cuba the same preferential trade benefits granted to other countries of the Caribbean Basin. This might include most favored nation or normal trade relation tariff treatment, eligibility for loans from the Export-Import Bank, investment guarantees by the Overseas Private Investment Corporation, eligibility for agricultural exports to the United States, a bilateral free trade agreement, and a bilateral investment treaty, if the latter were determined to be a useful tool for promoting U.S. foreign investment in the island. The Cuban-American community could also support that, as a democratic and market-oriented country, Cuba be

given a seat at the table in the negotiations for FTAA. The potential for the FTAA to materialize increased significantly with the passage by the U.S. Congress of the Trade Promotion Authority legislation in August 2002.

The Cuban-American community should also encourage the United States to assist a transitioning Cuba by supporting a request for readmission or admission, as the case may be, into global and regional international financial institutions — the World Bank, the International Monetary Fund, and the Inter-American Development Bank — that could assist Cuba in financing its future development. Access to the expertise and financial support of these institutions will be of critical importance to a democratic and market-oriented Cuba.

*Influencing the Cuban Transition Government.* Complementing its activities within the United States to support a transition in Cuba, the Cuban-American community could also exert a positive influence on the transition itself by closely following economic policymaking in the island and seeking to be involved in it when necessary.

Analyzing the Armenian transition experience, Freinkman (2001) argues that the Armenian overseas community lost the opportunity to play a positive role in the transition because it remained disengaged from active, day-to-day participation in economic and political life in Armenia. Freinkman notes that while the Armenian diaspora was very successful in providing a major inflow of humanitarian aid and private transfers to an Armenia in transition and successfully lobbied the U.S. government for an expansion of foreign assistance to Armenia, the overseas community did not protest the hostile attitude of entrenched insiders toward the commercial activities of the overseas community, did not protect its members against business abuses, and overall failed to contribute to strengthening the Armenian private sector and improving the opportunities for long-term growth. Freinkman concludes that

a massive program of humanitarian assistance not complemented by an active business support and investment program, is not sustainable. It eventually fuels emigration and concentration of economic power. It does not help (but just delays) resolution of the most important challenges of the transition (2001, 340).

Freinkman further argues that involvement of the overseas community in the design and monitoring of foreign assistance is essential in order to prevent mismanagement, abuse, fraud, and outright theft and corruption. This role could be played in the Cuban transition by professional organizations, NGOs and individual businesses and individuals from the Cuban-American community who have knowledge and expertise in different areas of activity.

Particularly in the case of a “non-entirely democratic and liberal” transition, Freinkman (2001, 340) argues for a “tough love” attitude on the part of the overseas community toward the transition government. He makes the following recommendations, which are applicable to a Cuban transition irrespective of whether the transition is entirely democratic and free-market-oriented or falls short in some aspects: the overseas community should 1) refrain from unconditional political and financial support and be willing to criticize the regime as appropriate; 2) demand liberalization that fosters the formation of small and medium-size businesses; 3) deemphasize humanitarian aid and give priority to assistance that promotes investment and future economic growth (infrastructure rehabilitation rather than food handouts); 4) support private business organizations that are independent of the government; and 5) support practical business and managerial training of new business owners and managers in new companies that will partner with Cuban-American businessmen overseas. The Cuban-American community should support, in addition, efforts by concerned citizens in Cuba and by the international community to prevent widespread malfeasance and corruption, as occurred in other former communist countries as they entered into their political and economic transitions. Neglecting the latter proved quite costly and derailed the transition process in several countries.

## **Concluding Remarks**

The Cuban-American community is well placed to be a positive factor in Cuba's transition to democracy and market orientation and in the consolidation of democracy and economic development of the island in the longer term. The community is large, relatively well-off in economic and educational terms, and politically influential. These characteristics endow it with the capacity to make a substantial contribution to economic and political transformation in the island.

The role that the Cuban-American community actually will play in the transition will depend, to a large extent, on the policies and actions of the Cuban government. As has been discussed throughout this paper, there are many promotional, regulatory and legal actions that a Cuban government could take to empower the Cuban-American community to play a positive role in the transition.

Under a different political regime in Cuba, the Cuban-American community could contribute to the transition in a number of important ways. In the economic arena, it could build business networks, stimulate trade and investment relations, provide a source of foreign income and direct investment, generate travel and tourism revenues and provide highly skilled professionals familiar with the operation of a market economy. Beyond the economic arena, the Cuban-American community can also influence U.S. foreign policy toward Cuba as well as serve as a backstop to ensure that policies implemented by the Cuban government are sound and contribute to a democratic, market-oriented economy that is able to generate sustainable growth.

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## NOTES

<sup>1</sup> According to the 2000 United States Census of Population, 1,241,865 Cubans or persons of Cuban origin resided in the United States; 74.2 percent of these persons lived in the U.S. South (U.S. Census Bureau 2001).

<sup>2</sup> “The purchase price refers to the price of the house or apartment and lot at the time the property was purchased. Closing costs are excluded from the purchase price, and for mobile homes, the value of the land is excluded.” U.S. Department of Housing and Urban Development, 2000:A-21.

<sup>3</sup> Median total outstanding principal balance is “the total amount of principal that would have to be paid off if the loans were paid off in full on the date of interview. The formula used to calculate the outstanding principal amount does not take into account the fact that some households make additional principal payments... The data include all regular mortgages but exclude home equity loans.” U.S. Department of Housing and Urban Development, 2000:A-25.

<sup>4</sup> “Value is the respondent’s estimate of how much the property (house and lot) would sell for if it were for sale. Any nonresidential portions of the property, any rental units, and land cost of mobile homes, are excluded from the value.” U.S. Department of Housing and Urban Development, 2000:A-27.

<sup>5</sup> On the basis of findings from several other recurrent surveys, this appears to be an oversimplification. Several of the Federal Reserve Board’s Survey of Consumer Finances (Kennickell et. al., 2000:7) have found that family mean net worth estimates (including net home ownership values) exceed by a considerable margin (by close to 4 to 1) family median net worth estimates, since these surveys make special attempts to “survey respondents who are likely to have high incomes or to be wealthy.” In contrast, the U.S. Census Bureau’s Household Wealth and Asset Ownership Survey’s (and presumably other surveys as well) “sample frame contains few observations for high-income households” (Eller 1994, v; see also Kennickell et. al. 2000, 2).

<sup>6</sup> This assumption should not affect the calculations significantly since median home values for Hispanic household-owned homes do not vary as much in the Northeast (\$122,724), Midwest (\$101,425) and West (\$131,919), as they do in the South (\$73,137). The average median value for the first three was \$118,689.

<sup>7</sup> Including part-time and full-time employees.

<sup>8</sup> Interpretations regarding the trends shown in the table can only be cautiously made for the earlier years. During the 1960s and 1970s the methodology of minority-owned business surveys was in its infancy. As time went by, survey data quality appears to have improved as methodological advances were achieved and added importance was assigned to the collection of minority populations’ ownership data in the business censuses. Definitional changes from survey to survey often also make data analysis difficult. These caveats must be kept in mind when analyzing trend data in particular.

<sup>9</sup> This conclusion is based on the examination of 1967 data. In numerous instances (by industry group, by form of organization), gross receipts (rather than sales and receipts) estimates are not provided, often to guard the confidentiality of information. The 1967 survey, unfortunately, does not provide an inclusive table summarizing all relevant receipts information for the totality of Cuban-owned firms.

<sup>10</sup> According to balance of payments statistics of the Cuban Central Bank (Banco Central 2001) and its predecessor, the Banco Nacional de Cuba, cumulative foreign direct investment in the island through 2000 amounted to \$1.96 billion.

<sup>11</sup> Of course, GDP and GDP per capita would have been lower without the large dollar remittances from the Cuban-American community that served to ease the severe balance of payments pressures facing the island’s economy.

<sup>12</sup> The World Bank (2001, 241) segments countries of the world with regard to GNP per capita in the following categories: low income countries, \$755 or less; lower middle income, \$756-\$2,995; upper middle income, \$2,996-\$9,265; and high income, \$9,266 or more. Individual GPD per capita estimates for 2000 are from the same source, (232-233).

<sup>13</sup> The estimates use the 26 pesos for 1 U.S. dollar exchange rate.

<sup>14</sup> For a discussion of the laws and regulations that govern U.S. economic relations with Cuba see, for example, Travieso-Díaz (1997), particularly Chapter 2.

<sup>15</sup> The cumulative remittances are from CEPAL (2000), (2001). The cumulative direct investment figure is computed from the annual net flow of foreign direct investment in Cuban official balance of payments statistics, as reported in ONE (2001, 128).

<sup>16</sup> There are several examples, based primarily in the Mexican experience, among them Mexico's Program for Mexican Communities Living Abroad, Home Town Associations, and Sister City or Adopt a Community programs. See, for example, Orozco (2002b).

<sup>17</sup> For example, Western Union began in July 1999 a service that charges \$29 for a transfer of up to \$300 (Western Union 1999). It is also possible to send remittances through companies located in Canada. For example, Duales, Inc., a Canadian company, advertises in the internet that it charges a fee of \$15 for delivering \$1-\$200 to Cuba, \$30 for \$201-\$500, etc. (<http://weweb.com/duales/fees.html>); Canadian company ICC Corp.'s Cash2Cuba program advertises a fee of \$12.50 for delivery of \$50, \$17.50 for \$100; \$27.50 for \$200, and \$37.50 for \$300 (<http://www.cash2cuba.com/eng/rates/jsp>) and Canadian company Transcard offers a debit card usable in the island to which funds can be added from abroad. The fees for adding dollars are \$10 for addition of \$1 to \$50.99, \$13.90 for \$51 to \$250.99 and \$19.90 for \$251 to \$500.99 (<http://www.transcardinter.com>)

<sup>18</sup> Cuba is also trying to develop other segments of the tourism industry, such as cultural tourism; ecotourism; conventions and congresses; sailing, fishing, and scuba diving tourism; medical tourism; and cruise ship services. The bulk of the tourism infrastructure is aimed at the demand by tourists that visit the island to vacation in the island's beaches.

<sup>19</sup> Mexico's *Paisano* program, which facilitates the return of Mexicans abroad and makes the overseas community aware of events that are going on in the country, might be an interesting model to evaluate. See <http://www.paisano.gob.mx/>

<sup>20</sup> The literature suggests that return migration was not a significant issue in the Eastern European and Soviet transitions. A decade after the transitions away from communism began, the critical migration issues for the counties of Central and Eastern Europe and the republics of the former Soviet Union are not related to the voluntary return of migrants but rather to the potential for large emigration flows and the forced return of persons that migrated illegally to Western Europe (Laczko 2000). Returning Chilean exiles faced substantial personal economic and social challenges in readapting to Chilean society, but there is no evidence that they caused significant displacement of employed persons in Chile or that in the aggregate they adversely affected the Chilean labor market (Llambias-Wolff 1993).

<sup>21</sup> The surveys were conducted in March 1991, October 1991, June 1993, March 1995, June 1997 and October 2000. See, <http://www.fiu.edu/orgs/ipor/cuba2000/index.html>

<sup>22</sup> There is no ready explanation for this change in attitude in 2000 regarding return to the island.

<sup>23</sup> According to Travieso-Díaz (1998, 81), Cuba's constitutions — both pre- and post-revolution — have been consistent in providing that a Cuban citizen who becomes a citizen of another country loses his or her Cuban citizenship.

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## **Programs and Activities**

The Institute undertakes a variety of programs and activities, including sponsoring and hosting public lectures and seminars. The Institute's Information Center provides current and historical information on Cuba and responds to requests from the academic, business, media and government communities. ICCAS publishes research studies and occasional papers, sponsors original research, and coordinates interdisciplinary courses at the University of Miami. The Institute also organizes art exhibits, musical programs, and an annual film festival.

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