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Cuba in its new stage: SWOT Analysis

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On August 14th, 2015, the United States flag was raised in Havana, formally reestablishing diplomatic Relations between the United States and Cuba, which had been interrupted since January 3rd, 1961, some 54 years ago, when Ike Eisenhower was in power in Washington and Fidel Castro in Havana.

The President of the United States, Barack Obama, and his Secretary of State, John Kerry, among many other personalities, have requested the lifting of the economic embargo imposed on Cuba by John F. Kennedy in 1962, in the midst of the Cold War, and in recent days through Havana have come Germans, French, Dutch, and Spaniards to propose bridges to the Island.

The perception is that Cuba, the largest of the thirteen markets in the Caribbean and with the largest population, followed very closely by the Dominican Republic, again opens itself up to international trade and relations.

Overview of the Spanish Antilles

Cuba: 110,860 Km² – 11,031,000 inhabitants – GDP per capita (PPP) **US\$10,200.**

Dominican Republic - 46,670 km² – 10,349,741 inhabitants – GDP per capita (PPP) **US\$12,800**

Puerto Rico: 13,790 km² – 3,620,897 inhabitants – GDP per capital (PPP) **US\$16,300**

For purposes of brevity and objectivity, given the composition of this audience, I'm going to employ the structure of the so-called **SWOT** analysis for contributing to the business decision of investing in that market, refraining from doing so, or awaiting greater clarity and better times. It will not be my function to recommend what should be done, but rather to place certain data and basic elements on the table for decision-makers. They will know what is best for them to do.

The **SWOT** analysis, as we know, lists the positive **Strengths**, the present **Opportunities**, the **Weaknesses** perceived, and the **Threats** detected.

Strengths

1. The thawing announced simultaneously by Presidents Barack Obama and Raúl Castro last December 17th, to which are added the various steps taken by both governments in

the direction of reconciliation, have created an atmosphere of triumphalism regarding the economic future of Cuba loaded with good expectations.

2. According to the surveys, support for Obama's measures is notably of the majority in both the United States and Cuba, but there are reasons to believe that a substantial percentage of Cuban exiles also support it.
3. As part of this approach, it's expected that some or many foreign companies will explore the possibility of investing in the Island. There is significant human capital available in Cuba: over eight hundred thousand university students and a generally healthy and educated populace.
4. The Cuban government, after 56 years of continuous exercise of power, appears solidly in control of the situation, without any person or group whatsoever that visibly challenges its authority with any possibility of success.
5. After Hugo Chávez's election to the presidency of Venezuela at the end of 1998, that oil-producing country transferred to Cuba enormous amounts of resources. The economist Carmelo Mesa-Lago calculates the annual amount of aid at its highest point as thirteen billion dollars.
6. A quarter century after the disappearance of the Communist block, the Castro government, together with North Korea, has shown itself to be the exception to the rule: It has maintained control without renouncing the principles of Marxism-Leninism and the single party system, although cautiously attempting to modify its productive apparatus.
7. In that spirit of "reforms-within-the-system," in April 2010 Raúl Castro presented what are known as Guidelines, outlining his reform of the State, creating spaces for foreign investment and "freelancers."
8. The most important or most visible institutions in Cuban society, such as the Armed Forces and the Assembly of the People's Power, appear to fully support the steps taken by the president, General Raúl Castro, in the direction of a re-encounter with the United States.
9. Some foreign offices of the European Union, such as the Spaniards, the Germans, and the Dutch, look favorably on what is happening, as does the Vatican, which has participated in the secret meetings to bring an end to the conflicts between Cuba and the United States. Pope Francis has announced his upcoming visit to Cuba as a kind of support for the changes.
10. Cuba exercises enormous influence in the countries of the ALBA, and the clear leadership of the group known as the nations of the XXIth Century Socialism: Venezuela, Bolivia, Ecuador, and Nicaragua.
11. To this list we must add the sympathy and solidarity that Cuba inspires in governments such as those of Argentina, Brazil, Uruguay, Chile, and El Salvador. In summary, the Island has never had a more international identification.

Opportunities

1. The country needs to rebuild almost all of its infrastructure. Everything is obsolete or in ruins: aqueducts and sewerage systems, electrical grids, the Internet, bridges and roads, telecommunications, homes and buildings.
2. There is fertile land for the local production of food. Cuba imports 80% of the food consumed by people and animals. Before 1959 the proportion was reversed.

3. The sugar industry, which before the revolution was the backbone of the economy, with an annual average production of six million tons, has dropped to two.
4. Tourism is a very promising field. The Island, very beautiful and with dozens of beaches, has at least 14 points on both coasts that are potentially transformable into ideal sites for building tourism poles similar to Puerto Banús in Spain or Casa de Campo in La Romana, Dominican Republic.
5. Considering the number of researchers in the field of medicine, totally under-utilized, the country would potentially be the perfect partner of large international pharmaceutical industries, to both develop new medications and produce them.
6. Given the prestige (today somewhat reduced) of its health system, Cuba is potentially an excellent site for medical tourism and a place to establish links with the North American insurance systems. Havana is much closer to Key West than Miami is to Orlando in Florida.
7. Whenever relations are really normalized and travel is facilitated and multiplies, Cuba will become an ideal place to retire for tens of thousands of Cuban Americans and North Americans who perceive an average of US\$1,800 a month.
8. Cuba receives some three million tourists every year, and has eleven million inhabitants. In a few years it could receive eleven million tourists and reach the classification of *paradise*. A few daring and intelligent developers could transform the Isle of Pines, in Cuba's south, into the Mallorca of the Caribbean. In the United States there are 300,000 luxury yachts that could visit Cuba and dock in already existing as well as future marinas.
9. If relations between the United States and Cuba continue to deepen, it's possible to foresee a Free Trade Agreement that would allow the Island unlimited exports to the richest market in the world.
10. Because of its geographical position, Cuba is an ideal hub for the distribution of ocean-going and air cargo to North and South America.
11. Cuban-Americans, as occurred in the case of Taiwan and China, could transfer to Cuba their business expertise, their relationships, and the capital they've created, which would integrate the Island into the business and trade world of the United States.
12. The country, as happened in post-Communist Europe, would be the paradise of the best-known North American fast-foot franchises such as MacDonalds, Burger King, KFC, etc..
13. The same thing would occur with department store chains: Zara, Corte Inglés, Macys, Sears, and the rest of the best known establishments.

Weaknesses

1. The government of Raúl Castro doesn't want a regime change but rather an improvement of the Communist model initiated in 1959. According to published and verbal statements, the model foreseen isn't even the Chinese or Vietnamese model, but rather a Military Capitalism of State, where the government reserves the control of the 2,500 largest enterprises in the country, which it exploits directly through the military apparatus or in partnership with foreign capitalists. Cubans will not have access to the means of production, but rather to small service enterprises (small food businesses, beauty salons, etc.).
2. The government of Raúl Castro does not believe, as Deng Xiaoping proclaimed in 1992, that "enriching oneself is glorious." Raúl and Fidel continue to believe that capitalism is

an evil expression of the worst human tendencies, and despite those who practice it. In Cuba, entrepreneurs are not encouraged, but discouraged. Capitalists may be temporarily necessary, but always under the strict control of the political police in order to avoid ideological contamination of the people and the excesses of which they are capable. The government continues to uphold the supremacy of centralized planning over the market, and the virtues of frugality and non-consumption.

3. If an entrepreneur wants to evaluate the country risk before investing anywhere, he looks at the Moody's or Standard & Poor's ratings. According to these risk rating companies, Cuba appears on the most dangerous fringe. There is a very long history of arrests or simply noncompliance with obligations, and of re-financing which has turned out to be useless. They haven't been able to pay their debts due to a serious and basic problem: Cuban society is very unproductive due to the collectivist economic system that they have imposed on it, and because of the size and priorities of public expenditures decided on by the government.
4. The Cuban State lacks substantial reserves, and barely generates sufficient income to survive from month to month. This means that it does not have its own resources to undertake the large public works that it needs, and it requires international loans in order to confront them, which becomes a serious problem because it does not possess reliable credit.
5. In Cuba there are no impartial courts to which one can resort in the case of a dispute of civil law, much less criminal law. There is an absolute legal defenselessness in the face of any conflict with the government or with a state-owned enterprise. The government, according to its needs, arbitrarily pursues, imprisons, or releases any citizen, including foreign businessmen with whom it has a dispute. In other words, the reverse of a true State of Law. That circumstance can be testified to by dozens of persons, including the Panamanian Simón Abadi, the Chilean Max Marambio, or the Canadian SARKIS Yacoubian.
6. Foreign businessmen located in Cuba live under the "not-so-discreet" surveillance of the security forces, always in the paranoid search for the mythical and evil agent of the CIA. Many of the Cuban officials and simple neighbors or potential friends don't dare to link themselves to foreign businessmen out of fear of losing the government's trust, or are forced to inform in writing about any voluntary or involuntary contact they've had with them.
7. Cuba has not resolved the very important problem of currency. Officially, the dollar exchange is approximately on a par with the Cuban peso. On the parallel market it's 24 pesos to 1 dollar. Cubans collect in pesos, but the government sells to them in dollars, which creates significant dissatisfaction and an obvious sense of injustice.
8. Salaries are very low (some US\$24 a month), which determines the nonexistence of a potential market of 11 million consumers. Cubans have the lowest purchasing power per capita in Spanish-speaking America.
9. The banking system is insufficient and primitive. Dollar deposits – as has happened in the recent past – may be frozen at the discretion of the government.
10. Bureaucracy is very slow and insecure. Officials don't dare to make decisions, and the instructions they receive are sometimes contradictory.
11. The hiring of workers is done through a state-owned company that charges investors in dollars and pays in pesos to the Cubans assigned to these jobs. In the transaction, the Cuban State keeps 94% of the salary. That practice contravenes international agreements signed with the ILO.

12. For over half a century, Cubans have been accustomed to stealing from the State in order to survive, by swelling on the black market the product of that theft. These habits are transferred to the private sector, particularly because they have lived under an intense propaganda campaign against the capitalist exploiters. They know that socialism leads to disaster, but they believe that capitalism is an activity of hungry wolves.

Threats

1. A substantial part of the policy of reconciliation between Obama and Raúl Castro depends on the lifting of the embargo. Although there is great pressure from the White House, and surveys showing that the majority of Americans want the sanctions to end, there are no guarantees that this will be achieved during this presidency. Neither can one predict what will happen with the relations between the two countries if the next elections are won by a Republican candidate. Two of the most prominent ones, Jeb Bush and Marco Rubio, have criticized President Obama for his new Cuban policy.
2. The repeal of the 1996 Helms-Burton is one of the key requirements for Cuba to be able to approach the IDB, the IMF, or the World Bank. Without that credit, which requires Cuba's affiliation with these organizations, the Island will have no access to loans to rebuild the costly infrastructure that the country needs. It's a very slow process that will take a great deal of time.
3. Cuba depends in large measures on subsidies from Venezuela, and Chavism is going through a very bad time, which could end up in its destruction and substitution with a government unfavorable to "the Cubans." The disappearance of Chavism in Venezuela would be an economic and political catastrophe for Cuba. Today the popularity of Nicolás Maduro is less than 20%.
4. The political stability of the Cuban regime until now has depended on control by Fidel and Raúl Castro. Fidel just turned 89, and Raúl will be 84 in June. With them the generation of the revolution will come to an end, giving way to younger people, led by Raúl Castro's chosen heir, Engineer Miguel Díaz-Canel, who is 55. What's going to happen then? Could the regime transmit the authority within the Community single-party model without the old leaders who until now have lent shape and sense to the government. Will there arise other candidates with uncontrollable ambitions, presumably young military men, with the intention of taking command? Nobody knows. Nevertheless, Cuban history has been bloody when regimes reach their end. They are replaced by violence.
5. It will be very risky to invest in properties confiscated from their legitimate owners during the first years of the revolution. In both the United States and Spain there are organizations of those injured who are willing to go to court in defense of their rights, and who have hired lawyers to do just that. Originally the victims of the confiscations were North Americans or Spaniards, but over time Cuban-Americans and Hispano-Cubans have been added. Both the United States Congress and Senate and the Spanish Parliament have legislators with these origins.
6. What will probably happen will be something similar to the case of Nicaragua. Nicaraguan exiles, infinitely fewer in number and power than the Cuban-Americans, without congressmen in Washington with their origins, managed to condition American aid to the solution of the confiscations they had suffered during the first decade of the Sandinista government. What's predictable is that the injured Americans, together with

the Cuban-Americans, will manage to halt any American aid or benefit destined for Cuba until their property is returned to them or they are compensated for them.

7. Although in the tourism sector there is an evident possibility of making money in Cuba, it's doubtful that the North American hotel industry, almost all present on the Stock Exchange, subject to North American legislation and union pressure, would lend itself to collaborating with the Cuban counter-intelligence by facilitating eavesdropping/wire-tapping and clandestine filming inside hotel installations, such as today occurs in Meliá and other European chains, violating even Cuban law which supposedly defends the inviolability of privacy. American lawyers are very clear about the high price German companies had to pay when they associated themselves with Nazism, as occurred with Volkswagen and Bayer.
8. Even though this is not a matter of investing in a country living under a dictatorship, but rather of associating oneself with a dictatorial government in order to exploit workers and companies, it's very possible that, whenever the opportunity presents itself, those businessmen linked to the Cuban government are going to be accused in court because of the confiscation of 94% of the salary through the exchange of dollars for pesos and other violations of the rules of the International Labor Organization. Workers' claims will be very high, and there are American law firms willing to bring them in exchange for a percentage of whatever is eventually received.
9. Lastly, two articles of the Cuban constitution profile the inflexibly Communist nature of the regime, and become a permanent threat against foreign investors. Article 5: *The Communist Party of Cuba, Marti-inspired and Marxist-Leninist, organized vanguard of the Cuban nation, is the superior directing force of society and the State.* Article 62: *None of the liberties recognized to citizens may be exercised against what is established in the Constitution and laws, or against the decision of the Cuban people to build socialism and communism. The violation of this principle is punishable.*