Cuba, change and economic opportunity

November 2013

On November 8 2013, President Obama told a group of Cuban American activists that there is a need for Washington to reconsider US policy towards Cuba.

Speaking at a small fundraising event at the home of Jorge Mas Santos, Chairman of the Cuban American National Foundation (CANF), the US President said that it may be time for the United States to revise its policies toward Cuba.

At the event, which was closed to the media but was subsequently reported locally and internationally, President Obama said: “We have to be creative and we have to be thoughtful and we have to continue to update our policies.” “Keep in mind that when Castro came to power I was just born, so the notion that the same policies that we put in place in 1961 would somehow still be as effective as they are today, in the age of the Internet, Google and world travel, doesn't make sense.”

President Obama said that incremental changes in US-Cuba policy have allowed greater communication with people on the island and the transfer of remittances. “A younger generation of US politicians and Americans of Cuban ancestry are,” he said, “likely more open to finding new mechanisms to bring about change on the island.”

For the Caribbean Council through the Cuba Initiative, changing US policy and Cuba’s reform process presents an opportunity and a challenge as both organisations have to determine how much resource should be directly or indirectly expended in relation to Cuba and in the longer term the opportunity it represents.

The opening of the Cuban market also presents other challenges as the present manner in which UKTI organises and delivers promotional services means there is little or no support in the UK for organisations promoting opportunity in markets regarded as being of no priority and no support at all for promoting outward investment.

In February 2013 Cuba’s President, Raul Castro, announced to the Cuban National Assembly that he will step down in 2018. His decision took many by surprise although he had previously made clear that no one in Cuba’s leadership should serve more than two five year terms in office.
Despite this, little attention has been paid to the impetus this is providing to Cuba’s economic reform process; the possible impact it may have on relations with the US; or the longer term implications for the Caribbean region.

As is well known, Cuba has embarked on a series of reforms that aim to liberalise aspects of its economy to give Cubans greater economic freedoms and more materially, all within a planned and managed system that continues to lay stress on its social nature.

As a consequence, since 2012, significant changes in the structure of the Cuban economy have been progressively introduced, some of which have far reaching implications. These include the creation of a self employed private sector; reducing the public sector by up to one million people; the introduction of income taxes; the establishment, initially on an experimental basis, of non agricultural co-operatives offering employment and competition; permitting large state enterprises to take their own commercial and investment decisions and in theory, to be able to fail; and the challenging decision to gradually unify Cuba’s unique dual currency system, over a relatively short time scale.

In order to better deliver these and other changes, Cuba is bringing into government and state enterprises a new younger generation of well educated and committed men and women, with the objective that the country is better managed and led and who can relate economic globalisation to Cuba’s future needs.

What seems to have been little recognised is that to a significant extent this process has to be either complete or ready for consolidation by the time that President Castro steps down in five years. This is because he is the stabilising and driving force, underwriting the progress and authenticity of the reform process against continuing resistance from conservatives fearful or unaccustomed to radical change.

What is clear in all of this is that Cuba has no intention of changing its political system or discussing this with the US or anyone else; which suggests that the emphasis will increasingly be on engaging with the wider world through investment rather than political dialogue.

By indicating that he will be stepping down and handing over to a new generation, Raul Castro would appear to have made easier and less contentious the possibility of future US engagement.

It suggests – when taken together with changing US policy and US electoral politics, Cuba’s willingness to develop pragmatic, multiple and diverse economic relationships that might include the US – that a number of new investment led international relationships might emerge as the nature and style of Cuba’s leadership changes. How the US responds is uncertain, but the implication is that before long it will have a choice as to whether it finds ways to end or administratively circumvent the embargo, the last vestige of the Cold War, or continues with a failed policy.

In this context it would seem that the possibility of change is now greater than before. Altered demographics will likely result in another Democratic administration in the US. There is growing pressure from US business and an interest in not seeing future economic advantage in Cuba all go to others. The Cuban American population is undergoing an attitude change and the influence of its aging lobby is diminishing, as a result of its falling proportion of the Hispanic vote.

In recent days President Obama has recognised in public for the first time the need for a change in US policy. Speaking on November 8 at a small fundraising event at the home of Jorge Mas, Chairman of the Cuban American National Foundation, he said that it may be time for the United States to
revise its policies toward Cuba. At the event, which was closed to the media but was subsequently reported he said: “We have to be creative and we have to be thoughtful and we have to continue to update our policies.” “Keep in mind that when Castro came to power I was just born, so the notion that the same policies that we put in place in 1961 would somehow still be as effective as they are today in the age of the Internet, Google and world travel doesn’t make sense.” Incremental changes in US-Cuba policy have allowed greater communication with people on the island and the transfer of remittances, President Obama is reported to have said. .... “A younger generation of US politicians and Americans of Cuban ancestry are likely more open to finding new mechanisms to bring about change on the island.”

Against this background there are signs that there are already gradual low key steps towards an improved functional relationship: talks continued on migration despite the seizure in Panama of a North Korean vessel carrying Cuban armaments allegedly in contravention of UN resolutions; there are ongoing discussions on resuming postal services; there have been a significant number of US senatorial visits; there is low key co-operation on counter-narcotics interdiction; the possibility of people to people baseball diplomacy is in the offing; Cuban diplomats are now travelling beyond Washington to foster trade and travel to Cuba; the number of licensed US visitors increased to 98,050 in 2012, placing it just after France for arrivals; the US was Cuba’s largest supplier of food and agricultural products in 2012 exporting almost US$465m; and there is growing interest among US companies looking to identify offshore locations in the Caribbean to begin to explore the potential of the Cuban market.

In Cuba, as far as foreign investment is concerned, new announcements are expected towards the year’s end. There is also a new focus on the country’s development zones, especially Mariel. There the opportunities are not just for manufacturing for export but for the domestic economy as well and in the hinterland around the port of Mariel – which involves a US$2billion Brazilian investment – there will be opportunities for leisure activities; hotels; villa accommodation; golf courses; offshore oil services; and perhaps, given its proximity to the US, one day the opportunity to service the southern US market.

While future US thinking is far from clear, the possibility of an altered US position now seems to be driving other nations to change their position on Cuba.

The EU Council of Ministers is expected to agree a negotiating mandate in December for a broad based bilateral EU-Cuba agreement that may include some sort of asymmetrical trade agreement, as Cuba, which is defined as an upper middle income country, will soon be graduated out of its existing preferential arrangements by the EU under the Generalised Scheme of Preferences. It is likely too that development assistance may be on offer. At the same time a number of EU member states have either established or are establishing bilateral agreements covering a broad range of issues irrespective of EU Common position. And for their part Canada, Brazil, Russia, and China are increasing their levels of economic engagement and Mexico and Russia have forgiven or restructured much of their debt.

This has implications for British investment and trade as well as for the Caribbean.

In contrast to other European nations, the UK has been slow in re-engaging with Cuba at a business level. Spain, France, Germany, Italy and other European nations have mounted high level government sponsored delegations to Cuba, and so have other nations including Mexico, Brazil, Canada and nations significantly more remote from the hemisphere.
There are reasons for this: the UK banking system has stopped or is averse to undertaking any business related to Cuba; Government and the private sector in the UK is not joined up in the same way as in continental Europe; British companies tend to view Cuba as a difficult market and are inclined to walk away after initial contacts as a consequence of its slow approach to decision making and bureaucratic approach; there are no credits of insurance guarantees for investments; some companies have been put off by the Cuban government’s decision to arrest and allegedly seize the assets of companies and executives accused of wrong doing.

However the probable signing next year of a bilateral agreement between the UK and Cuba; the likelihood of a major seminar hosted by the Cuba Initiative on the development of Mariel and the Cuban freezones in early 2014; a subsequent high level visit of companies led by Lord Hutton; the gradual progress that is being made by Havana Energy, Esencia and Cubana in moving their investment proposals for Cuba forward; and the substantial Cuban presence and business agreed at the 2013 World Travel Market; all point to the opportunity to again move forward the investment and trade relationship.

What is clear is that opportunity exists for investment in biotechnology and pharmaceuticals; tourism and its allied sectors including hotels, villa accommodation and golf courses; alternative energy in its many forms; offshore services and supply relating to oil and gas; and information technology as well as for the sale and supply of products and services to these and other sectors including agriculture.

Similar opportunities also exist for Caribbean companies to either trade with Cuba or to invest in these and other sectors. It is also likely that the range of investment opportunities for the domestic market will accelerate as the Cuban economy continues its process of liberalisation and the two currencies converge.

One additional opportunity lies in the growing interest of US companies to use Caribbean nations adjacent or close to Cuba as a base for exploring new or future investment opportunities in ways that could involve Caribbean-resident executives eventually to establish operations in Cuba.

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