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A Political Report on Cuba

CUBA:

**An Assessment of Short Term
Factors and Consequences
Following the Events of
February/March, 1996**

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U.S. Relations with Cuba: Beyond Confrontation

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The Consequences of New Developments in U.S.-Cuba Relations

The downing of two unarmed civilian aircraft by Cuban MiGs on February 24 and the subsequent action by President Bill Clinton on March 12th of signing into law The Cuban Liberty and Democratic Solidarity (LIBERTAD) Act has dramatically shifted the atmospherics of U.S.-Cuba relations.

A review of the new factors and an analysis of the risks and challenges ahead, focusing on the main elements of change and their impact can help us anticipate the consequences of the new developments.

The main conclusion is that the chances for a continued but slow process of reform and build-up in U.S.-Cuba relations is 40% for their remainder of this year as compared to 85% prior to the signing of The Libertad Act, with the prospect of violent change at more than 70% as compared to only 15 percent prior to the signing.

The vast majority of factors favor the road to a sudden, albeit violent transition. The possibility of a civil war cannot be discounted during a violent process to oust Fidel Castro from power. Cuba has a solid military force and a well-trained militia. The ultimate product of violent change is impossible to foresee. The scenario becomes clear after analyzing the most critical new factors:

The New Factors

- **Passage of the Helms-Burton Legislation** codifies the longstanding U.S. embargo against Cuba in an effort to make it impossible for a U.S. President to modify the sanctions without U.S. Congress approval.

The bill contains a number of additional terms and stipulations that require the attention of anyone investing in Cuba or engaging in any commercial or financial relations with Cuba. Among them are the following:





- The Secretary of the Treasury is ordered to "use the voice and vote" of the United States to oppose Cuban membership in the World Bank, International Monetary Fund or any other global financial institution.
- The law discourages assistance from former Soviet states to Cuba by reducing foreign aid to Russia or any other nation that helps Cuba maintain the intelligence post in Lourdes or the unfinished nuclear power plant in Juragua.
- Helms-Burton punishes any nation that imports Cuban sugar by eliminating that nation's US export sugar quotas.
- The bill requires the president to provide congress with a semi-annual report on "payments made to Cuba by any United States person" for telecommunication services to the island.
- Title III of the law allows U.S. citizens to sue anyone in U.S. courts who "traffics" in property they once owned that has since been seized by the Cuban government. By including naturalized Cuban-Americans under this provision, the bill expands the pool of claimants seeking U.S. help for compensation in lost property.

The bill also allows for the imposition of treble liability damages on any foreign company or individual that continues to hold disputed property a month after having received notice of a claim.

- Title IV bars business owners, executives or major shareholders of companies and their families that benefit from expropriated property from entry into the United States.

The sanctions would end if Cuban President Fidel Castro leaves power and Cubans are governed by a "free and democratic government."





- **The Economic Crisis Remains Severe.** The Cuban government has committed substantial civilian and military resources to achieving a sugar harvest of 4.5 million MT as compared to 3.3 million MT last year. Even if the government can meet the numbers (some sugar experts predict a maximum harvest of 3.8 million MT), the over-utilization of equipment and personnel can only mean problems in other productive sectors and/or much more needed cash expenditures to assume an effective sugar harvest next year.

If the Cuban people see their government as an impediment to the development of a better life for themselves, the possibility of a violent upheaval can not be discounted.

- **Dramatic Changes in Spain and European Union's Leadership.** Recently, The Spanish Peoples Party (PP) spokesman Guillermo Gortazar declared "We don't support dictatorships; the political regime in Cuba is immoral. Gortazar's declaration is indicative of the new Spanish government approach to future relations with Cuba. Other members of President Jose Maria Aznar's government have stated in public forums that the time has passed when "The Spanish government's strategy was to give everything while asking nothing in return" from Cuba. And that gone are the days when "The Spanish government appeared to be the Cuban lobby in Europe", in clear reference to Spain's active role in the European community's current negotiations with Havana toward a cooperation agreement.

The European's Community (European Union) dialog with the Cuban government of assistance against positive steps by the Cubans of "Gradual and Calibrated" steps toward Human Rights improvements and democracy is now on hold. Reports from the Executive Director of the Caribbean Council for Europe (David A. Jessop) has stated that the Cubans were so desperate for trade assistance that they had agreed to the E-C terms before the February 24th incident.

- **Lack of International Financing and Contraction of Foreign Investment.** In view of the Helm-Burton bill, potential Cuban foreign investors will begin thinking that twice about placing risk capital or conduct trade with Cuba. Foreign nationals are quite concerned about the Title IV provisions of the Libertad Act which bars





officers and their families from entry into the USA if they are benefiting in any manner from U.S. expropriated property. Foreign nationals concerns will grow vigorously as reports of visa rejections or denial of entry begin to hit the press. The concerns will be accentuated when U.S. claimants begin to litigate against companies operating in Cuba. Even if the act is challenged, the perception of problems "will stay for a long time to come. For instance, one of the sponsor of the bill was recently quoted as saying that "a foreign tourist drinking milk from a Cuban cow from a confiscated farm can be sued".

- **Fewer Options in U.S.-Cuba Relations.** Helms-Burton leaves little room for maneuvering between the U.S. and Cuba. The U.S. will find it very difficult to react to Cuba's market or political openings with positive responses. The Cuban government may find better results with the European Union.
- **Higher U.S. Monitoring of Cuban Affairs.** The many reports required by Congress relative to Cuban affairs increases the attention that top U.S. government officials must give to day-to-day occurrences taking place in Cuba. Having U.S. officials (and congressional aides) looking at Cuba through magnifying glasses implies that Cuba is no longer a "Cuba desk" issue, it is now a National Security Advisors issue.
- **T.V. Marti Moves to UHF and Radio Marti is Upgraded.** Arguably every Cuban will be able to hear Radio Marti and once T.V. Marti moves (funding is still necessary) to UHF many Cubans will be able to see images that may wake-up feelings of freedom. The net effect of this mass education from the USA is difficult to assess, but it can not be good for the repressive type of government.
- **Irrelevance of the 1996 U.S. Elections.** It could be argued that passage of the Helms-Burton bill leaves Fidel Castro without a "favorite candidate". There is very little that he can now do to influence U.S. elections or very little he can say to the Cuban people to create new hope if a certain candidate were to be elected over another candidate.
- **Hardening of Friendly European and Latin American views** toward Castro following the downing of the unarmed aircraft and the clamp-down on Consilio





Cubano will necessitate much damage control. However, the Cuban government will play-up the anti-Helms-Burton bill's sensitivity to their friends in Mexico, Canada and the European Union to help soften the blow.

Government and Political Forces

- **Interior Ministry.** The Ministry has regained substantial strength within the system following the February 24th incident. It is expected that they will now utilize their influence to generate a new "sense of urgency" to build tighter repressory controls.
- **The Armed Forces.** The Military was in the unique win-win position regardless what happened. If the country moved toward peaceful reforms, they would have been the new Cuban entrepreneurs, and if the country moved toward hard line controls they can take a larger chunk of the economic pie because they would need more resources to be ready to act.
- **Reformers.** Economists, NGOs and other reformers have lost substantial strength within the system. Speaking to the Politburo of Cuba's Communist Party, Defense Minister Raul Castro on March 25, 1996 stated that Cuban intellectuals who favor social reform "fell gradually into the web woven by foreign Cubanologists, who are in fact servants of the United States in its effort to foment fifth columnism". Castro referred to some Cuban research and academic think tanks as "trojan horses". It is anticipated that many top level reformists will now be replaced by hardliners.
- **The Hard Line Communist Party Members and Other Orthodox.** It should be noted that not all persons belonging to the Communist Party organization are also orthodox. The incidents that took place during February and March played right into the hands of Castro's hard liners (indeed they created the conditions). This was the time to regain lost ground and political control. This "mad rush" to regain influence could get out-of-control which could fuel violent activities.





Private and Other Internal Forces

- **Dissident Human Rights Organizations.** The small number of publicly known dissidents will now move underground. It is expected that the government will now actively increase human right abuses. The government blames much of the February/March fiasco to the publicity received by Concilio Cubano's attempt to meet on February 24th (Defacto Recognition). The report read to the central committee in late March describes internal dissidents as a "contemptible group of traitors" manipulated by the United States in a plot to justify an invasion of Cuba" their short term future looks very difficult.
- **Religious and Humanitarian Organizations.** One foreign ministry official was recently quoted as saying that "to mention Track II in Cuba right now is to mention the devil in church". Castro himself recently addressed Track II as having subversive objectives designed to undermine the government. However, Cuba needs to keep the floodgates of humanitarian assistance wide open; it is one of the few pressure points that Helms-Burton leaves untouched. Look for the new reformers and human rights activists to be the new communicators to the outside world.
- **Professionals.** This silent and unorganized force that was quietly encouraging the reformers will now become invisible and will wait for the first opportunity to leave the country. They are not the fighters or leaders of movements.
- **General Public.** The political strength of the general public has increased from being mildly influential to influential. The events of the last few months will re-alert the government to be keenly aware of what the people are saying and how they are expressing it. The government must avoid low level insurgence or popular demonstrations which could lead to rioting and confrontations.





Probable Issues to be Dealt With

- **The Immigration Debate.** Castro will now be hard pressed to use the immigration 'Trump Card' as a negotiating tool. Conversely, a large mass immigration toward the USA can be an effective release of internal pressure as new problems develop. How the Cuban government deal with this "tool" while, avoiding an escalation of tensions will be interesting to observe. Reports are coming out of Cuba that there are rafts in various building stages throughout the country. However, the 20,000/yr. visas granted to Cubans represents an immigration buffer of sort.
- **Confidence Level.** A combination of greater Marxist-Leninism rhetoric, contraction of foreign investments and a renewed "scare cry" against possible U.S. military intervention will do little for the Cuban people's confidence level that their worst problems are behind them.
- **Unemployment.** The unemployment rate may reach 30 to 35 percent if and when the government decides to proceed with the 500,000 layoffs it has said are necessary to make the economy more efficient. Introduction of new private businesses may relieve some of the pressure, but Castro's recent insistence that there is no alternative for the country except socialism pose the greatest risk for large unemployment numbers and therefore a large number of idle and hungry general public. Unemployment and hunger pose the greatest risk of social violence. The government may weight the potential social cost heavier than the economic consequences of keeping the workers employed and postpone any action here.
- **Slow Political Changes.** In a speech before the Central Committee of the Communist Party, Fidel Castro stated that "This is the beginning of a strong ideological battle." It is anticipated that the government will be extra-cautious in any area differing from hard line socialist ideology thereby, producing even slower (arguably there were never any) political changes.
- **Economic Recovery.** Potential new investors, foreign companies that export to the USA (using Cuban commodities), and countries with U.S. export sugar quotas will





be more hesitant to participate in Cuba business opportunities; the net effect will be a slow-down or contraction of the Cuban economy, generating new cash flow problems and a severe blow to the already tender economy of Cuba. The more acute and prolonged the crisis, the greater the chances of an explosion.

- **The Threat of U.S. Military Response.** Helms-Burton legislation identifies as "acts of aggression" against the USA activities related to the construction of the nuclear power facility at Juragua and/or any type of activity (including threats) related to mass immigration towards the USA. The Cuban government may not be able to control mass immigration occurrences under varying scenarios.
- **Existence of Small Militarily Anti-Castro Groups in South Florida.** Anti-Castro exile groups represent an ever present "wild card". This is a very important external factor, primarily because Cuba is a priority issue for them. By and large, the exile community simply wants to rid Cuba of communism as soon as possible, but the passage of time will intensify this group's independent activities thereby increasing the probability of new acts of violence or at minimum unanticipated incidents.

Outlook and Possible Consequences

The strong measures taken against the Cuban government by the Helms-Burton act and the series of negative world view of Cuba's Human Right abuses will most likely create a "pressure cooker" atmosphere whereby a series of consequences can now be anticipated. They are:

- new violent incidents such as the recent events are not out of the question
- possible new wave of rafters
- increased internal unrest
- increased repressive action against dissidents
- higher political control
- new forced economic openings
- increased foreign affairs efforts by the government to do damage control
- confiscated tangible assets become a source of negotiations/revenue
- humanitarian aid/religious groups become new source of communications to the outside





- Cuba increases priorities with Iraq, Iran, Libya, Russia and China
- U.S. fugitives in Cuba become a more important negotiating tool
- contraction of U.S. corporate momentum to lobby for a peaceful transition
- contraction of foreign investment deals
- important civil servants could be fired
- a self imposed crisis is not out of the question

Counter Arguments to Short Term Social Violence

There are important counter arguments against the prediction of a violent uprising taking place on the island within the next year and one half. They are as follows:

1. The Cuban government has re-activated the social control mechanisms which have been very effective in the past. The Cuban model has received high praises from former Eastern block repressive organizations as being one of the best in the world. They include:
 - a) Threats, threats and more threats-everywhere. Some of these threats could include loss of jobs, short/long term custody, psychiatrist abuse; charges of political crimes and many others.
 - b) Re-activation of local (city block) defense committees (Comite de la Defensa de la Revolucion-CDR). The committee's surveillance member monitors individual's private activities, provides instructions and reports to superiors.
 - c) High alert by brigades of rapid response to provide quick crowd control under all circumstances.
2. Internal economic and media factors promote passive crowd responses. They include:
 - a) The daily schedule of the typical person in Cuba include a high level of activities related to making-ends-meet (resolver). The government provides food for approximately 16 days of the month,





each person must resort to the free markets, dollar stores, the black market or other to make ends meet. Considering Cuba's transportation problems, the people are just very busy.

- b) The Cuban government has been very careful in providing hope that things will get better to its people. This "Light at the End of the Tunnel" Strategy is accentuated by: the free farmer markets, introduction of cooperatives, farm management programs, de-penalization for the usage of dollars and other. The expectation of being able to earn outside income generates new hope.

In addition, the government's propaganda machine as it relates to local economic news is very effective in providing constant positive news related to agriculture production, specific plant production results and others.

- c) Concerning the media, the official government newspaper Granma has become very difficult to obtain. In any event, the general public does not appear to be too interested in reading government political propaganda due to a credibility gap. In fact, the Cuban people in general have become quite apathetic to politics (both internal and external) while the media of choice has become the television.

Also, the exile radio programs, including Radio Marti (arguably the most heard radio station in Cuba) does not appear to be impacting the younger generations. There seems to be very little difference (in terms of their apathy) to the hard line politics of the Cuban government and the hard line politics of the Cuban exiles.

3. There seems to be an entire "Industry of Hope" being built around the 20,000/yearly U.S. visas. This has turned into the final escape valve for Cubans. That is, if "I don't like it-then I'll just apply for a visa, wait my term and leave the country".





4. The Cuban people do not seem to be interested in searching for new alternatives. The following questions that are commonly asked are: Who will do it?, who will provide the martyr?, who will help?, also for what new programs? There is just a total feeling of helplessness and alienation by the general public. Change seems to be out of the realm of their control.
5. Other governmental messages directed toward increasing the general public's confidence of survival:
 - a) Cuba has plans for various scenarios to meet further decrease in petroleum supplies as an economic crisis may develop. Depending on the depth of the crisis the available supply of petroleum may provide "sufficient" resources for survival.
 - b) The European Union is seen as a provider of fresh help to combat U.S. actions.
 - c) The initial impact of the Helms-Burton bill will be substantially softened in six months or so. Other investors will always be available.

Summary of Arguments Against Short Term Social Violence

The combination of the government's increased controls and survival plans, together with the general public's political apathy and survival objectives point toward a status quo at least through the later part of 1998.





CONCLUSION

The above analysis points toward two different perspectives as it concerns Cuba's future. The first perspective shows a substantially worsening of the current government position and a potential for violence and a short-term downfall of the present government. This analysis is essentially based in increased internal unrest, the hard-liner's lack of ability to steer the economy toward continued improvement, very little foreign support, and a dramatic decrease of actual possibilities of rapprochement with the U.S. government.

The second perspective presents the concept that the Cuban government will be able to dodge the impact of the Helms-Burton bill in the traditional manner. That is, with the increased repression and austerity methods that have been successful during the last several decades.

In my opinion, based on the analysis conducted by Cuba-Caribbean Development, the arguments against the violent uprising scenario have a fundamental flaw. The weakness of this argument consists in the lack of relationships between the many factors participating in the process. For example, how does the government increase repression while avoiding more dissidence?, how does the government create a worsening human rights environment while avoiding negative world views? The argument that the European Union will neutralize U.S. actions by providing fresh help while the Cubans increase their human rights violations, can be considered as merely wishful thinking.

Therefore, I believe that the impact of the Helms-Burton bill could be softened, but it will require "good behavior" on the part of the Cuban government. Further repressions or acts of violence against dissidents will not be acceptable. Further, whereas it is true that other foreign investors will always be available, the scarcity of "good" investors can tempt the Cuban government to accept moneys or other economic support from sources considered by the U.S.A. as outlaws (e.g. new Robert Vescoes, drug smugglers, money launderers, Libya, Iraq, Iran, Russia mafia and others).

How Cuba's urgent need for capital and more repression could be conciliated with face saving alternatives in view of actual enforcement of the Helms-Burton bill is quite enigmatic.





RECOMMENDATIONS

U.S. corporations should be alert to the opportunities that will develop in a pre-emerging market Cuba if a sudden change in government takes place following a short period of revolt.

Strategic plans should be developed in preparation for a sudden change. Smart companies would want to exploit the opportunities inherent in change, but this is only possible if people are aware of the opportunities and the system that are in place to take advantage of them.

Please do not hesitate to contact us to help develop your custom Cuba Business Plan.

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