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The Promise of Cuba

Special Caribbean Report

Cuba's Prosperous Future

A bonanza awaits when U.S. businesses can compete openly in a nearby nation of 11 million consumers.

By Christopher D. Lancette

For more than 40 years, U.S. businesses have waited for the embargo against Cuba to end ... waited for the opportunity to charge in and serve some 11 million people. Although that time has not come yet, experts say the Cuban market will inevitably open. And when it is, the payoff could be quite lucrative for all kinds of companies.

"I would say there's going to be a bonanza of opportunities," says Sergio Diaz-Briquets, president of the Association for the Study of the Cuban Economy, a nonprofit, nonpolitical organization with several hundred members. "Cubans are going to need every kind of product you can think of."

Teo Babun, CEO of the consulting firm Cuba-Caribbean Development Co., says firms throughout the United States stand to make huge gains when the market opens, from the end of the U.S. trade embargo and/or a transition to capitalism on the island. He also sees commerce rising for specific states. Florida will lead the way, with Cuba becoming its largest trading partner within five years — exceeding the several billion dollars in business it does with Venezuela and Brazil, according to Mr. Babun. Louisiana companies would cash in on rice exports and on the importing of nickel sinter. Texas, and Houston specifically, stands to reap rewards from its status as a major player in the design of cargo ports. Illinois would send cattle, while the Carolinas would deal in textiles.

But why pay attention to Cuba now? For starters, foreign investment in Cuba is increasing. According to the New York City-based U.S.-Cuba Trade & Economic Council, foreign investment there has exceeded \$5 billion, provided by more than 100 corporations from 30 countries. Second, the population of a country with the land volume of Pennsylvania would rank it seventh if Cuba were a state. Finally, the Cuban people now have access to U.S. money. Organization president John Kavulich reports that the government of Cuba's U.S. dollar retail stores, where products can be purchased with greenbacks, generated nearly \$1 billion in 1999.



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"Dollars are also flowing in from American remittances to family and friends," explains Mr. Kavulich, who heads a nonpolitical organization with several thousand members. "The Cuban government is also paying dollars as bonuses to workers. It finds doing so increases productivity."

Mr. Kavulich points to a lesser-known reason for turning an eye to the island now — U.S. companies in certain industries can already conduct business there. From October 1994 through December 1999, the total value of permitted business activity was estimated to exceed \$750 million. Legalized market sectors include air charter services, artwork, entertainment, exhibitions, farm supplies, medical instruments, money transfer services, pharmaceuticals, and telecommunications. Mr. Kavulich says it's hard to explain exactly why some commercial activities are permitted while others aren't, but that U.S. government policy generally aims to limit trade that would benefit the Cuban government.

Despite the promise Cuba holds, four decades of Communist rule have crippled the country's economic infrastructure. The per capita purchasing power stands at only \$1,560 (see Cuban map and statistics following this article). That's less than 5 percent of the U.S. equivalent of \$31,500. Productivity still revolves around agriculture, resulting in an annual growth rate of just 1.2 percent. Worse, many of the mechanisms and consumer awareness fostered in capitalism have been lost by the Cuban populace. The good news is that "Cubans have a very high recognition of American companies, and they want their products," according to Mr. Kavulich.

Entrepreneurs with an interest in Cuba need to prepare their strategy now, says Mr. Babun, a Cuba native and author of the book *Business Guide to Cuba*. "If you're interested in preparing for some kind of future in Cuba, you need to draw up a contingency plan now," he warns. "If you don't have some kind of plan, you're going to have a hard time catching up to everyone else."

Mr. Babun says the plan should contain a number of basic elements and address several issues, starting with basic demographics — understanding that the multiracial population (51 percent mulatto, 37 percent white, 11 percent black) is spread out across the island. Though the largest city is Havana, significant blocks of people live in 10 other major cities — Santiago de Cuba, Camagüey, Holguin, Guantanamo, Santa Clara, Matanzas, Bayamo, Cienfuegos, Pinar del Rio, and Las Tunas.

"It's not a tiny island," he says. "You have to know whether you want to target the east, the west, or the whole country."

Another part of the plan, he says, should include details on whether a U.S. company will want to partner with someone local or go it alone. Another section needs to cover what role potential privatization may play for a given firm.

Jose Sirven, a Miami-based lawyer and member of the business organization Cuba Action Team, believes a contingency plan would be even more useful if it contains a solid analysis of existing industry. "If you sell something, find out who's already in the game," he suggests. "Who sells it there? How do they get it to market?"

The last query leads to one of the most troublesome issues surrounding potential investment in Cuba. How do you get products and services to people in a country with a desolated automotive fleet and a transportation network suffering from years of neglect? Answers Mr. Sirven: "Overall, infrastructure presents more of an opportunity than a





liability. People in the logistics business are very creative, and they will find a way to get their goods to the right destination."

Research by Mr. Babun turned up 21,100 miles of highway on the island. Some 6,300 highway miles are paved, while 7,391 have a gravel surface. On the downside, there are only 800 gas stations in the country, with 120 of those in the capital of Havana. Cuba has six international airports, the largest handling more than 700,000 passengers each year. When the market opens to U.S. companies, Mr. Babun supposes, the authorities may be able to take advantage of Cuba's "wild card" — its nine strategically located military airports that could be converted to civilian use. Cuba's coastline offers a total of 70 ports, with 31 of them hosting cargo operations. He also notes that the port system can candle 150,000-ton oil tankers, accept modern roll-on, roll-off vessels, discharge all types of grain and fertilizers in bulk, handle modern 40-foot containers in experimental gantry cranes, and even dock up to six nuclear submarines in state-of-the-art facilities.

The most intriguing infrastructure/transportation feature is the nation's rail car system, Mr. Babun says. It happens to be configured to U.S. standards. That means a railroad car could travel from anywhere in the U.S. and be off-loaded onto Cuban tracks.

Still, some observers say, trains, planes, and automobiles could present headaches. "If Cuba suddenly became open to a nation 10 times bigger than its current biggest player [Canada], you could expect bottlenecks to the extent that trucks and roads are in disrepair," says Max Castro, a research associate at the University of Miami's North-South Center. "But I don't think we're talking about anything that's insurmountable." In addition to logistics, preparation for future business relations with Cuba would have to consider distribution, marketing, and legal questions. Here research won't provide definitive answers until they can be tested on Cuban consumers, authorities, and workers.

"There are all kinds of legal issues that would have to be resolved," Mr. Sirven speculates. "American companies would have to see if Cuba grants monopoly-type situations to certain companies, or if utilities would be opened up to free competition."

When U.S. companies finally arrive on the island, they will have to deal with foreign competitors with years of experience in Cuba. However, Mr. Castro believes U.S. companies will make up ground quickly. "I don't think the turf is going to be all gone," he says. "A lot of companies there now may have a good position but they may be banking on selling out to U.S. interests. I think there will be plenty of opportunities for American companies because they excel in so many things."

Mr. Castro also encourages businesses to look beyond simple exporting. A lot of potential, he says, exists in potential outsourcing by Cuba. Ditto for privatization.

For his part, Mr. Kavulich sees savvy entrepreneurs and CEOs capitalizing on Cuba's import-substitution program. Under the banner of that aggressive campaign, the Cuban government finds foreign companies interested in building plants on the island rather than simply selling them product. That creates jobs for locals and allows companies to sell their products for less.





"It's important for U.S. exporters to know what kinds of products the Cubans are most focused on in terms of limiting their imports and maximizing their productivity," he says. "Companies would better position themselves if they found things they could make in Cuba."

Even today's perfect plan won't match reality at the moment when Cuba opens for business. With the Clinton administration pondering a softening of the embargo, and the aging of Cuba's leadership, CEOs need research, strategy, and vigilance to prosper in a future Cuba.

Christopher D. Lancette is a Georgia-based freelance writer and former managing editor of *Mundo Hispanico in Atlanta*.

Which Industries Will Thrive?

Tourism, service, infrastructure, and food sectors look forward to explosive growth.

Future opportunities in Cuba would occur in virtually every industry. Consultant Teo Babun, author of *Business Guide to Cuba*, has identified these top prospects for Florida-based companies, and these targets apply to the rest of the nation as well.

Tourism: Cuban optimism in the potential of the tourism industry can be gauged by the widely quoted forecast of 2 million visitors in the year 2000, an annual surge of 21 percent. When U.S. companies and tourists can visit Cuba, the market will explode, says Mr. Babun.

Professional services: Accountants, architects, bankers, investment bankers, consultants, and engineers will be in high demand. Lawyers will also figure prominently.

Transportation: Roads need building and fixing. So does infrastructure for ports, airports, warehousing, and rail transport.

Telecommunications: Currently, Cuba has an antiquated system of only 320,000 phone lines in operation (official estimates range as high as 600,000). The island has a severe shortage of international circuits. Installation and repair services lack quality.

Agriculture: Cuba offers unique opportunities to agribusiness investors, owing to fertile soil, the largest agricultural production area of any Caribbean island, and geographic proximity to the U.S. market. The domestic Cuban market possesses an educated and underemployed work force, a pent-up demand for better quality and diversity in food choices, and a growing tourist industry that requires high-end consumer goods.

Cuba Information on the 'Net

The Internet contains hundreds of sites about Cuba, covering art, music, politics, history, and travel. Below are some general business-oriented sites on the Cuban economy.

Association for the Study of the Cuban Economy (www.ascecuba.org): Site features information on the organization's upcoming meeting to take place August 3-5 at the Biltmore Hotel in Coral Gables, Florida.

CIA World Fact Book 1999 (www.cia.gov/cia/publications/factbook/cu.html): Statistics, maps, and brief summary of economic developments.

Cuba First (www.cubafirst.com): British site about current business investment in Cuba with a special focus on tourism.



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Cuba Web (www.cubaweb.com): Calls itself a "clearinghouse for everything you want to know about doing business in Cuba, especially in a post-embargo or post-Castro Cuba."

Giraldilla (www.giraldilla.com): Research and link site on business in Cuba.

U.S.-Cuba Trade & Economic Council (cubatrade.org): Educational site from the nonpolitical, not-for-profit organization.

