



BabunGroup

BabunGroup Consulting, Inc.

CUBA CHANGE NEWS ALERT

EXCLUSIVE NEWS OF POTENTIAL INTEREST TO OUR CLIENTS & FRIENDS

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SITTING, WATCHING, & WAITING

On July 31, 2006, Fidel Castro's staff secretary made an announcement: Fidel, just days away from his 80th birthday, had undergone major surgery and turned over "provisional power" to his 75-year-old brother, Raúl, and six senior officials. Now, the question on the table is whether the Cuban government can survive Castro's death -- and in either case, what course Cuba will follow.

Fidel did not appear at the series of extraordinarily important (Cuban) activities from November 30, 2006 through January 2, 2007. This absence demonstrated without any doubt, that Castro's health is at best very frail. The consensus is that his health may be critical and possibly terminal.

The situation in Cuba "begs" for some critical questions to be answered:

Critical Question: Can the regime survive without Fidel?

The Communist regime, as we have known it, cannot possibly survive Castro's death. To be sure, Fidel's brother Raul will take over leadership; the Cuban Communist Party, the military and intelligence system, and the government ministries will continue to rule. But the regime that Castro created will be dead. It will be dead because Castro (as Stalin, Franco, Trujillo and other long time rulers) will be dead, and whatever survives him cannot be called the same regime. It will have been fundamentally transformed.

Critical Question: Who is in charge now?

Raúl assumed Fidel's top job, that of first secretary of the Central Committee of the Cuban Communist Party. Fidel's other posts were distributed temporarily to other top government officials including Carlos Lage, the country's top Administration official (de facto a Prime Minister), Ramiro Valdes, Julio Casas and Fernando Ramirez de Estenoz..

There is no question that a post-Fidel transition of power within the Cuba government has already started. Power has been successfully transferred to a new set of leaders, whose priority is to preserve the system.

Critical Question: Is Raul like Fidel?

No. Raúl is not as charismatic as his older brother is, and he does not command the same kind of loyalty among average Cubans as Fidel does. As head of the armed forces and security apparatus he earned a reputation for ruthlessness dating from the early days of the revolution, when he allegedly ordered hundreds of summary executions. Raúl has maintained loyalty among top military officers and has appointed some of them to prestigious jobs heading state-run companies.

Raul is widely believed to be more pragmatic and efficiency-minded than his ailing brother, Fidel Castro. Raul Castro has a clear understanding of the failure of the “Socialist” system, mainly insights from his ex-Soviet Union and East – German military colleagues, some of them living in Cuba now. Many analysts do not expect major policy changes while Fidel is still alive. And once Raul takes full control, the expected changes are anticipated to be slow and modest but meaningful none the less. His first target will be increase the household standards in foodstuffs, power and other utilities, public transportation and other practical steps.

Critical Question: Why does the new Cuban government need to introduce any changes?

A post-Fidel regime must fill a very large vacuum. It must also respond to pent-up demands for more democratic participation and economic opportunity. Experts have warned that Raul Castro, who turns 76 in June, must act quickly to improve living standards and win public support before he hands over power to a new generation of leaders.

Cubans are anxious for economic changes, and although they recognize that any changes will be gradual, many have their hopes focused on: decentralizing control, expanding the power of managers at privately owned agricultural cooperatives, extending private ownership to other sectors, boosting investment in infrastructure and increasing incentives to workers; they want a better quality of life and they want it soon.

Critical Question: What are some possible solutions for the new government?

Issues Faced by Raul Castro	Anticipated Counter Actions
<ul style="list-style-type: none"> • He must address the fact that Cuba has emphasized for 45 yrs that the US embargo is the main reason for their economic failure (actual and perceived). • He needs to boost productivity and growth. • He inherits from Fidel policies such as a one party system, indifference human rights, marginal religious activities, and no promotion of individual activities. • He must deal with the fact that the Cuban exile community will not accept any change with him in power. 	<ul style="list-style-type: none"> • Some opening in its political structure (to allow the US to save some face). This may include allowing a token second political party (an opening to democracy). • Improve the average Cuban’s household economy. • Dismantle some of the structures created by Fidel Castro (decentralizing control over state enterprises and increasing investment in infrastructure.) • Show some steps in improving human rights and tolerate dissident voices. This may include the liberation of all

<ul style="list-style-type: none"> • He must tackle an urgency to improve the quality of life of the Cuban people. • He must re-visit the issue of American confiscated properties. • He must create laws for properties rights, and in depth Judiciary reform. • He must negotiate Cuba's external debt. • He must change the image of a repressive State. 	<p>the 300 political prisoners in one or several batches.</p> <ul style="list-style-type: none"> • Provide better transportation and electrical power (cheaper) for the general public. • Better the entertainment value offered to the general population. With better music, movies, etc. to help improve the quality of life of the Cubans. • Income per capital must be improved. • Reverse back to a currency system based on dollars and do away with the two currency system. • In-depth improvement of the legal system to allow protection of private foreign investments. • Provide Cubans with the same rights as foreigners' have-at least at restaurants & hotels.
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Critical Question: Who is “in” in a Raul Castro’s regime?

Carlos Lage, Gen. Alvaro Lopez Miera, Gen. Julio Casas Regueiro, Gen. Rigoberto Garcia, Fidel Castro Diaz Balart, Georgina Barreiro, Marcos Portal, Otto Rivero Torres, Fernando Ramirez de Estenoz .

Critical Question: What is the risk of transforming the economy?

For the regime to survive, Cuba must transform its economic life, but to do that, it risks the survival of the regime -- for the regime's control of the economy is one of the instruments of stability. Raul is not a man who is about to redefine the country, but he must try. However, it may take Fidel’s death, or at least, a public declaration that he is permanently incapacitated, to give Raul the confidence to institute even modest economic changes.

But following something like a China economic model would require far more decentralization and acceptance of private markets than Cuba has ever permitted. And, since Raúl Castro lacks his brother's commanding presence, and needs to move cautiously to broaden support, he appears to be trying to do so by allowing an economic debate to proceed.

Cuba's leaders will struggle to find an acceptable balance between much-needed economic development and subsidies to social programs. There is also concern about the need to avoid the chaos that has characterized some eastern European market reforms. And the regime continues to focus efforts on ensuring that socialism remains a lasting legacy irrespective of the inevitable leadership succession or change in the US-Cuba relationship.

Critical Question: What is their “worse case” scenario?

Although mostly a remote possibility, there could be a civil unrest that could conclude with the ending of the communist regime. For example, the people of eastern Cuba have the reputation and the history for taking the necessary initiatives to claim and defend the rights of the whole Cuban people against tyranny and injustice-they have been the Island’s soul. At the same time, because of their defiance, their demographics and their geography, the people from eastern Cuba have been paying a higher social price, so their dynamism following the death of Fidel Castro cannot be ignored. Many there feel that once Fidel is dead their commitment with the revolution will end.

In the event that scenario takes place, it can be predicted that an eastern European type transition model could be established in the island. Such a model could create accelerated opportunities for investors as the country moves rapidly towards a western type market system and full democracy.

Critical Question: What should we do for now?

In the words of one of our clients...”now we are just sitting, watching, and waiting”. It may be a good idea to also add the words “learning & preparing” to that list.

For More information

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BabunGroup Consulting, Inc. is regarded as one of America’s largest providers of strategic services related to Cuba. Since 1991, BGC has been engaged by a number of companies who are planning to expand or who for competitive or strategic reasons need to know more about future opportunities in a post-transition Cuba.