

CLIENT ALERT

June, 2015

Investing in Cuba

For decades, Cuba has been a forbidden fruit to US businesses. But if President Obama is successful in his push to end the US embargo, free commerce between the two countries would become possible again. Such an historic change – combined with a recent series of some liberalizing reforms by Cuban President Raúl Castro, and the prospects of diplomatic relations with the US, and that the collapse in oil prices may force Venezuela to end its generous annual subsidy program to the Island – have led many investors to wonder how fast Cuba might abandon its Soviet-style planned economy for a more mixed-economy with faster growth. With over 11m inhabitants, a gross domestic product of \$70bn, but also crumbling infrastructure, Cuba is certainly an intriguing prospect and a true “frontier market” opportunity. What are the biggest investment opportunities in this sleeping economic jewel, both current and future?

- **The new US policy towards Cuba: its mechanics and investment implications**

Mr. Obama’s initiative involves removing clunky US bureaucracy from US-Cuba relations and replacing it with the free exercise of citizen contact. Travel will be expanded. Limits on financial transfers will be removed. Certain US companies, such as telecom equipment providers, will be able to sell goods. How should businesses position themselves in anticipation of an end to the embargo?

- **Cuba’s economic reforms**

Announcement of a revamped foreign investment law has not led to increased economic growth. What economic reforms might come next? And how has the new law changed the highly bureaucratic process of foreign investment approval on the ground? The US embargo may be on its way out, but the Island’s centrally-planned economy still suffers from what some call its “internal embargo”. Is Cuba looking at success stories such as Vietnam to turn-around its economy?

- **Monetary reform: the big one**

There would be no bigger confirmation of Havana’s commitment to liberalizing the economy than if it unified its current multiple exchange rate system. Currency unification would boost efficiency, bring transparency to state-owned enterprises’ accounts, and help attract more investment. But that normally requires financial support from multilateral lenders, such as the IMF.

- **Cuba’s Mariel Free Trade Zone: a glimpse of the future?**

Last year, Cuba opened a new \$900m deep water port on the island’s northern coast. What are Mariel’s prospects, especially if the embargo is lifted?

- **The Cuba diaspora & confiscated properties**

Nearly 500,000 Cuban-Americans visit the island every year, and send an estimated \$2bn a year to their relatives – a source of much-needed cash, and also venture capital-. What economic role might Cuba’s diaspora play in the future? And what about the thorny issue of property rights of businesses and homes confiscated after the 1959 Revolution? The experience of Eastern Europe and Russia suggests it is an issue that will have to be settled at some point.