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STRATEGIC REVIEW

Cuba: Part of the New World Order For American Business?

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Since 1985, the world community has felt the political and economic impact of the centrifugal changes which have taken place within the former U.S.S.R.; the Eastern, Central and European regions; the Middle East; on the continent of Africa, and throughout Asia, the Caribbean, Central and South America. While scholars will argue as to whether the changes are revolutionary, variational, transitional or innovative, few will challenge the notion that the changes are extraordinary. Some countries have divided to become nations; and some nations have combined to become countries.

The decline and ultimate failure of the centrally planned economic and political archetype as forged by the former U.S.S.R. during the past 74 years has caused a new, and some would argue renewed, sense of urgency in the world community. A battle of ideologies has ended: Adam Smith versus Karl Marx and Thomas Jefferson versus Vladimir Lenin. A war of politics has been settled by economics—the way in which a country's wealth is manage, produced, distributed and consumed.

The new sense of urgency in the world community is over the question of the velocity at which democratic and economic powers should direct their resources towards the new and renewed nations and countries. Must democratic principals be quantified and free market principals be qualified? At what point in a nation or country's metamorphosis from a restrictive to a free society do established democratic economic powers shift from being observers to supporting, intervening, rescueing or preventing political and economic decisions taken by a particular country or nation?

The Republic of Cuba may have begun its metamorphosis.

Current United States Policy

There are two schools of thought with respect to U.S. policy towards Cuba. According to the first school, the political and economic isolation of President Fidel Castro Ruz will force him to a) resign from office and/or b) institute democratic reforms and free market principals. The second school believes that by re-establishing diplomatic and economic relations with the current government of Cuba, the U.S. can have a greater impact on the direction and speed of democratic and market reforms.

Since 1962, the U.S. has upheld a political and economic blockade of Cuba—an island of almost 11 million people, located just 93 miles south of Key West, Florida. Most United States citizens are prohibited from spending money in Cuba in connection with recreational or business visits. Exceptions include U.S. Government or United Nations officials; news gatherers; scholars whose work is specifically related to Cuba; individuals visiting relatives, guests of Cuban institutions (no U.S. dollars can be spent during the visit), and individuals who receive a special license from the U.S. Department of the Treasury who can legally visit Cuba and spend money on necessities. U.S. citizens can spend U.S. dollars to purchase information on Cuba during visits to Cuba.

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U.S. businesses are prohibited from engaging in trade with Cuba, but their foreign-registered units are not. Switzerland, Argentina, United Kingdom, Canada and France lead the list of countries from which foreign registered units of U.S. businesses trade with Cuba. In 1990, according to the U.S. Department of the Treasury's Office of Foreign Assets Control, U.S. businesses—on behalf of their foreign-registered units—applied for permission to sell goods to Cuba which were valued at US$533 million, up from US$169 million in 1989. About US$500 million of the valued goods were for grains and consumables; and the remaining US$33 million were for durables. Cuba's exports (mostly sugar) to the foreign- registered units of U.S. businesses increased to US$172 million from US$162 million in 1989.

The Mack Amendment

U.S. Senator Connie Mack, a Florida Republican, has introduced legislation which would prohibit trade with Cuba by foreign-registered units of U.S. businesses. The amendment was approved by the House of Representatives but has yet to be voted upon by Senate. The Bush Administration opposes the Mack Amendment based on the argument that the U.S. has no authority to regulate the commerce of businesses not registered within the U.S. but not because the amendment conflicts with Bush Administration policy towards Cuba.

The Mack Amendment may hasten the pace by which Cuba institutes democratic reforms and market principals, but it is unlikely. There are, however, valid concerns which have been raised by the U.S. business community. Is it beneficial to continue a restriction of U.S. businesses from commercial relationships with Cuba while other countries, particularly U.S. allies, continue to trade and pursue new ventures in Cuba? Prior to 1960, the U.S. was Cuba's largest trading partner; but since that time, bilateral trade has been negligible. According to published Cuban trade figures, the country had a positive trade balance in 1990 with Canada, France, Japan, Sweden, Switzerland and the United Kingdom. It is interesting to note

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that Canada, France, Switzerland and the United Kingdom are leaders on the list of countries from which foreign-registered units of U.S. businesses trade with Cuba. In addition, Cuba has strengthened its trade ties with the People's Republic of China. Bilateral trade in 1990 increased by 20% from 1989; and in 1991, Cuba ordered 700,000 bicycles from the People's Republic of China to make up for drastic decreased in petroleum, vehicles and spare parts which had been supplied mainly by the former U.S.S.R.. Finally, given the current constriction of the U.S. economy, should an identified and qualified export market of 11 million people continue to be closed to U.S. businesses?

Changes in Cuba's Trade Relationships

The political and economic changes which have taken place throughout the former U.S.S.R., Hungary, Poland, Romania, Czechoslovakia, German Democratic Republic, Bulgaria, and Albania have crippled the Cuba economy. These countries had been Cuba's principal trading partners—accounting for 85% of Cuba's foreign trade. All of the countries were members of the Council for Mutual Economic Assistance (CMEA), a now-defunct Moscow-based organization linking the U.S.S.R. and other communist countries. Virtually all of the trade between the members was done on a barter basis. Now, Cuba's principal trading partners no longer have communist governments, no longer belong to the CMEA, and no longer must preserve trade relationships which are not based upon convertible currencies and world market pricing.

The rush by former communist governments (most of which have non-convertible currencies) towards foreign trade based upon convertible currencies and world market prices, faces significant obstacles. The most evident being that while these countries wish to earn convertible currencies for their exports, their principal trading partners have no convertible currencies to pay for imports. The reason is that few manufactured products meet Western quality requirements, and most exportable commodities are needed for domestic consumption. The result is barter transactions based on convertible currencies at an agreed upon price.

The Lithuanian Example

The Republic of Lithuania's trade ties with Cuba illustrate the hurdles facing both communist-led Cuba and independent Lithuania, which had been a part of the centrally planned political and economic model of the former U.S.S.R.. Lithuanian exports to Cuba (primarily light industrial products) accounted for 15% of Lithuania's foreign exports in 1989. Cuban exports represented less than 6% of Lithuanian imports, but Cuban sugar (84,000 tons in 1988) was an important element in Lithuania's processed food industry. Since 1990, Cuban sugar exports to Lithuania have been dramatically reduced, causing a severe sugar shortage. The lack of convertible currencies by Lithuania and Cuba have forced the countries to explore an arrangement based on a "dollar clearing system," using hypothetical dollar prices to determine the rates for barter transactions.

Cuban Trade Challenges

The internal economic necessities of Cuba's former communist-led principal trading partners has created additional trade challenges for the country. Wood, sheet metal and steel beam imports from the former U.S.S.R. are down by 30%. The Czech and Slovak Federated Republic and Romania suspended the export of vehicle tires. A multi-year agreement that brought 200,000 gallons of milk, 23,000 tons of powered milk and 16,000 tons of butter from the German Democratic Republic was canceled after German reunification. Other products and commodities which have become unavailable in Cuba due to the difficulties in trading with former communist-led governments include: fats and cooking oil, frozen chicken, canned meats and vegetables, cheese, cereals, grain and antibiotics.

The lack of basic food products has altered the Cuban people's diet. Instead of bread, they must eat more rice, instead of meat and poultry, more tubers, such as yucca. Even domestically produced Cuban products and commodities such as sugar, citrus fruits, tobacco, bottled liquid gas and seafood are being rationed. The "parallel" food markets, where non-rationed items had been sold at free prices, have been closed. Any surplus food production is being collected by the government.

Primary Exports and Imports

Cuba's primary exports have been sugar (7% of the world output, and world's largest exporter), tobacco, citrus fruits and concentrate, minerals (mainly nickel), seafood, rum, agricultural produce, pharmaceuticals and oil. Primary imports have included mineral fuels, transport equipment, grain, machinery, pulp, paper, dyeing agents, ink and oil.

Cuba's arrangement with the former U.S.S.R. created a situation whereby Cuba became both an importer and exporter of oil. The former U.S.S.R. delivered oil to Cuba at a fixed price (estimated at two to three times less than the world market price). The discount would be treated as a grant. Cuba could resell that amount of oil which was not required for domestic needs and retain the difference in price.

Until 1991, the former CMEA members would pay Cuba four to five times the world market price for its sugar. Instead of the approximately US$450 per ton for each of four million tons of sugar that the former U.S.S.R. imports in 1992 Cuba will be offered (in exchange for oil) the approximately US$200 per ton world market price for sugar. The result, combined with reductions made by other former CMEA members, will be that Cuba's oil ration may be reduced by 50%—to five million tons—although the estimated minimum requirements for Cuba are ten million tons annually.

Foreign Debts

Most of Cuba's US$6 billion foreign debt is owed to former CMEA members, although there is a significant amount owed to Western government in the form of trade credits. Cuba rescheduled its Western debt in 1983, 1984, and 1985; but in 1986, Cuba unilaterally suspended payments of principal and interest. Cuba has recently begun to once again discuss its debt with members of the Paris Club. Cuba reached an agreement in 1991 with Mexico whereby approximately US$350 million of overdue debt may be repaid from profits generated by Cuban-Mexican joint ventures in the areas of tourism, production of construction materials and citrus fruits.

Fighting Back—Socialism with Joint Ventures

The chairman of the Cuban Chamber of Commerce, Mr. Julio Garcia Olivera, has a written a booklet which is available in Spanish and English. It describes potential joint venture in Cuba for Western business; a distillery which wants to bottle 1.5 million liters of exportable rum but requires bottles which can meet international standards; an automobile battery factory; a men's underwear producer. But of all of the joint venture possibilities, the tourism sector has had the greatest successes.

In 1989, foreign visitors to Cuba were estimated at 326,000, a which surpassed for the first time pre-revolution tourist visits and left convertible currency earnings of US$260 million on the island, all despite the U.S. embargo. In 1991, Cuban officials estimate that 340,000 foreign visitors will spend time and money on the island. The tourists are mainly from Germany, Canada, Spain, and from throughout Central and South America. the Cuban state tourism company, Cubanacan S.A., has negotiated eight joint venture with European and

Canadian businesses which should add 30,000 hotel rooms in Cuba by 1995. The value of the investments are estimated at US$500 million.

Fighting Back—U.S. Pressure

In April of 1991, *The Wall Street Journal* reported that VASP, the Brazilian airline, was negotiating to purchase a majority stake in Cubana de Aviacion, Cuba's state-owned airline. Soon after the report was published, VASP and Cubana de Aviacion both denied that any discussions had taken place. According to a report in September by *The Wall Street Journal*, the U.S. government "threatened to embargo VASP's projected purchase of U.S. aircraft. Last week, a VASP spokesman said the story was correct, but on the following day the statement was retracted."

In a similar case, Tabacalera S.A., the Spanish state-controlled tobacco company ended its plans to invest in a Cuban resort after the U.S. threatened to restrict Tabacalera's trade with the U.S..

Final Analysis

Cuba has begun its metamorphosis, and the U.S. must recognize that fact. The transformation is primarily a result of the political and economic changes which have taken place within the former U.S.S.R., which fuelled similar changes throughout Eastern, Central, and Middle Europe. It can be argued that it was the political will and primarily economic power of the U.S. that created the foundations for the changes.

The New World Order was born in 1985, when Mikhail Gorbachev became General Secretary of the Communist Party of the U.S.S.R. The ideological battles—manifested in conflicts in Afghanistan, Angola, Cambodia, Iraq, and Yemen—were settled through cooperation between East and West. But in each of those cases, the conflict resolution left political institutions and economic foundations weakened.

The world community can learn from the process of reconfiguration of the former U.S.S.R., and Eastern, Central and Middle European regions that it is not in the best interests of the established democratic and economic powers to allow a centrally planned economic and political system to establish a foundation whereby the cost of removing it becomes almost impossible to pay. While the Cuban economy has been crippled. Cuban political institutions are shifting in a direction which would be acceptable to the U.S..

From 1985, analysts, scholars and politicians continually voiced their suspicions as to whether Mikhail Gorbachev's concepts of glasnost and perestroika were real. Many felt that they were only a Potemkin Village, which would hide from view the continued expansionist ideologies of Marx and Lenin. President Gorbachev, while attempting to change almost 70 years of the country's ideology, often said one thing and did another. This was necessary, in part, because both he and the Soviet people needed change with dignity.

The current government of Cuba might be following the same path as did the former USSR. U.S. businesses should be allowed to explore opportunities in Cuba, as they have always been allowed to do in the U.S.S.R.—both prior to and during its time of change.

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