



## BCI's Monthly Credit Spotlight: April 2016

### **Cuba: What to Expect** **My insights: by Byron M. Shoulton**

#### **CONTRIBUTING SOURCE:**

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The recent improving relations between the U.S. and Cuba, begs the question: what will this mean for trade, investment, tourism and overall economic ties between both countries going forward? The answer: there's great potential but it's still early and there are many areas of clarification that are needed before we'll see doors open, American tourists arriving and the flow of goods, services and investment across borders begin to take off. Both sides will have to first get to know each other and develop trust.

Over the short-term, there will be a lot of 'exploring' by both sides in search of opportunities to engage and, more importantly, establishing the rules of the game going forward. On this score it should be clear that it will take some time for both sides to work toward and find common ground. That process is underway but progress will be gradual. It should be well known that the Cuban people are smart, industrious, creative, sufficiently educated and hardworking; which will make them extremely adaptable to advanced technology and to modernization. Cubans are prepared to make the most of access to mechanization, information technology and robotics to improve industrialization, farming and commerce.

Also, the revolution has taught Cubans that the country is theirs to protect and defend from being overwhelmed by foreign interests, whether political or economic. The current and future leadership, (no matter the temptations otherwise), will in all likelihood, remain firmly nationalistic and patriotic given the country's recent history and the role of the trade embargo in stifling the economy over the past 50 years. We expect the U.S. trade embargo to be eventually removed. This should be a mutual requirement for both sides. Most U.S. business interests will await the ending of the trade embargo before committing to investing in Cuba, while some trade transactions could proceed prior to the lifting of the embargo. Trade transactions can be successfully completed as soon as orders are placed and payment mechanisms are negotiated. This will be on a case by case basis and be driven by individual companies gaining confidence in negotiations with their counterparts in Cuba. No doubt, the Cuban bureaucracy will oversee these negotiations and seek to vet deals to ensure that they meet government regulations. To this end, we believe new regulations (covering trade, investment, money transfers, etc.,) are being put in place and will be fine-tuned over the coming months and years.



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With a population of 11.3 million and deprived of normal trade relations for an extended period, Cuba is today ripe for an expansion of demand and improvements in all areas of commerce, investment and technological transfers. The Cuban economy is in need of fundamental overhaul and deep-seated infrastructure improvements. Housing, roadways, airport and port facilities are just a few areas of potential engagement. The restoration of diplomatic and trade relations with the U.S. will be a net positive for both sides.

In addition to trade, tourism and agriculture are two of the largest potentially attractive sectors of engagement between both countries. Investing in either sector could potentially attract keen interest. Opening up Cuba to U.S. tourism once again will no doubt be widely explored. Equally, the Cuban authorities are well aware of the economic potential in these sectors and will be tough negotiators aiming to reach the most advantageous agreements that bring maximum returns to Cuba.

Below are some strengths and weaknesses that currently impact the Cuban economic and the business environment.

**Strengths:**

- High-quality medical sector
- Tourism and mining (nickel, cobalt) sectors
- Agricultural potential: sugar, tobacco, organic farming
- Skilled and low-cost workforce
- Low crime; good control of corruption.

**Weaknesses:**

- External vulnerabilities: raw material prices; dependence on preferential Venezuelan oil pricing
- Limited access to external financing
- Low levels of investment; underdeveloped infrastructure
- Rationing of food and other basic necessities; price controls
- Low productivity in public and agricultural sectors

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