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CUBA AND THE TRUMP PRESIDENCY: THE GUESSING GAME



Dianna Melrose was UK High Commissioner to Tanzania and Ambassador to Cuba. Before joining the Diplomatic Service, as Oxfam GB Policy Director, she played a key role in making Oxfam a leading force in advocacy on international development and humanitarian issues. As Head of the Foreign & Commonwealth Office's Policy Planning Staff, she led a team producing innovative policy thinking on political, security and economic issues for the Foreign Secretary.

Unpredictability is deeply embedded in the DNA of the Trump Presidency. Mixed signals from President Trump make future policy decisions on Cuba hard to call.

Responding to Obama's rapprochement with Cuba, Donald Trump broke ranks with other Republican presidential contenders in September 2015 when he said: *"50 years is enough. The concept of opening with Cuba is fine."* But three days after Fidel Castro's death on 25 November 2016, President-elect Trump tweeted ominously: *"If Cuba is unwilling to make a better deal for the Cuban people, the Cuban American people and the US as a whole, I will terminate deal"*.

Will President Trump continue Obama's opening to Cuba? Or will he rescind some of Obama's Executive Orders relaxing sanctions? Or might he drastically curtail US citizens' travel to Cuba and economic activity, including re-imposing tighter limits on Cuban Americans' cash remittances? A comprehensive review of President Obama's Executive Orders on Cuba has been promised by Secretary of State Rex Tillerson.

US Business interests

President Trump, the businessman will be aware of untapped opportunities for US companies in Cuba's expanding tourism sector. He'll be under pressure from governors and trade associations keen to increase US (embargo-exempted) agricultural and other exports to Cuba. Before the 1960 trade embargo, 74% of Cuban imports were from the US. Now Canada, China and Venezuela are Cuba's lead trading partners.

An 'America First' policy argues for continuing President Obama's rapprochement with Cuba to enable US companies to pursue trade and investment opportunities. One example is biopharmaceuticals. Thanks to a strategic investment by Fidel Castro, Cuba has a cutting edge biotech and pharma sector innovating with treatments for cancer and diabetes that US customers want. An Obama Executive Order in October 2016 freed up US pharmaceutical companies to collaborate with Cuban biotech companies. There are other opportunities in tourism, energy, agrifoods, infrastructure and telecoms.

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US Security

The US and Cuba have been cooperating successfully on maritime drug interdiction and people smuggling for years. Under Obama the Pentagon valued wider collaboration. Last month sixteen retired military officers wrote to National Security Adviser Lt Gen McMaster urging the Trump Administration to “continue the process of normalization with Cuba and not let the momentum fade”. They argued that Cuba’s location makes it a “strategically valuable partner on issues of immediate concern, including terrorism, border control, drug interdiction, environmental protection and emergency preparedness”. Cuba also played a helpful mediation role in successful peace talks between the Colombian government and FARC rebels.

Given President Trump’s tough stance on migration, it’s hard to conceive of him reversing Obama’s stop to the ‘Wet Foot, Dry Foot’ policy that enabled thousands of illegal Cuban migrants to become legal residents if they made it onto US soil.

With the grain of public opinion: A Pew Research poll in December 2016 found 75% of Americans (including 62% of Republicans) support restoring diplomatic relations with Cuba. 62% of Republicans (and 73% overall) were in favour of ending the embargo. Despite assertions of the need to maximise pressure on Cuba to win votes in Florida, a 2016 Florida International University poll found 63% of Cuban Americans support lifting the embargo.

The embargo is increasingly seen as a failed policy. It hasn’t brought democracy to Cuba. The one party state has now outlived ten US Presidents’ Administrations. But the embargo has given the Cuban government a convenient scapegoat for all the hardships inflicted on 11 million Cubans by tight state control and lack of political and economic freedoms.

During the Obama Administration it was hard to find any official prepared to defend US sanctions against Cuba and the extra-territorial reach of the ‘Helms-Burton’ Act penalising third country companies doing business in Cuba. In an unprecedented development in 2016, even the US abstained on Cuba’s annual UN General Assembly resolution condemning the US embargo.

But a small group of Cuban American Republican and Democrat hardliners in Congress (including Senator Marco Rubio) wield inordinate power over Cuba policy and have made it a domestic issue. They are implacably opposed to Obama’s rapprochement and moves to end the embargo like the draft Cuba Trade Act tabled in February by Republican Senator Jerry Moran.

President Trump needs Congressional support on his agenda. It seems improbable that he will expend political capital on Cuba. Trump will be under pressure to roll back some, if not all, Obama’s measures and might do so in trade-offs for support on his priorities.

Waiting Game in Cuba

What President Trump won’t get is concessions on democratic freedoms from Raul Castro. Raul is due to stand down as President in 2018. He is focussed on implementing economic reforms to shore up the one-party state and social gains of the revolution. Speaking to the April 2016 Communist Party Congress, Raul said that being pressured into a multi-party system would be the “beginning of the end”.

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Important achievements are Cuba's life expectancy and infant mortality rates - on a par with the US. Well-trained Cuban doctors have been rated in emergencies like Ebola and are providing medical services to poor communities in Venezuela in exchange for heavily subsidised oil. Cubans are highly educated, but the country is held back by the straightjacket of heavy state control.

At last year's Party Congress, Raul criticised slow implementation of the economic reform 'Guidelines' adopted in 2011 to reduce the state payroll, increase productivity and efficiency. GDP growth averaging 2.8% (2011-2015) had been insufficient. He attacked "archaic prejudice" against foreign investment which Cuba badly needs to create jobs, boost exports, access technology and build entrepreneurial skills.

Raul's reforms have enabled Cubans to set up small businesses. Family remittances from Cuban Americans, freed up under Obama, have injected vitally needed start-up capital (over US\$3bn in 2016). Cubans can now buy and sell property. But the current leadership will only tolerate very small businesses to avoid concentration of property and wealth that might threaten their hold on power.

The government has held back from addressing serious distortions in the economy like the dual currency. This props up inefficient state enterprises and means a state employed neurosurgeon (paid in non-convertible national currency) earns in a month what a waiter in the tourism sector can earn in a night from tips in convertible currency.

Cubans are impatient for reform. A 2015 poll published in the Washington Post showed 79% were dissatisfied with the economic system (compared with 53% with the political system, with 75% admitting to being careful about what they say in public). They will be hoping that the pace of reform speeds up next year with power transferring to a younger generation of more technocratic reformers, not the more ideological wing of the Communist Party. First Vice President Miguel Diaz-Canel is Raul's likely successor. But there are other powerful figures like Raul's son-in-law Gen Luis Alberto Rodriguez Lopez-Callejas who runs the large state conglomerate GAESA, giving the military a big stake in the economy.

For the Cuban government, the most immediate challenge is not the uncertainty of the Trump presidency, but fuel shortages caused by political and economic meltdown in Venezuela. Cuba had been benefitting from around 115,000 barrels per day of heavily subsidised Venezuela oil for domestic use and re-selling the excess on the international market. But a drastic reduction in oil shipments from Venezuela and low oil prices contributed to the Cuban economy shrinking in 2016 for the first time in 20 years. Cuba needs new sources of supply and more foreign investment in oil exploration and renewable energy.

Waiting Game for Investors

There are some successful joint ventures between Cuban state enterprises and Canadian Sherritt International (nickel), Imperial Tobacco, BAT's Brazilian subsidiary, Nestle and Sol Melia hotels. Unilever is back with a factory being constructed in the new Mariel Port Special Economic Development Zone. Chinese investment is growing, including a US\$500m golf resort, bio-electric plants and port facilities.

But Cuba remains a challenging business environment, with opaque and slow government decision making. On the plus side, some projects are getting signed after 1-2 years rather than 5 years or more previously. But the requirement all foreign entities contract local staff through a state employment agency

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raises wage costs without incentivising productivity, as the state – not the workers - takes the lion's share. Lack of judicial independence and arbitrary arrests also raise investor concerns. The Cuban market is not for the faint-hearted: as British businessman Steven Purvis' book "*Close But No Cigar*" illustrates graphically.

The unpredictability of what President Trump might do on Cuba means that some investors are holding back for fear of repercussions on their business in the US.

Conclusion: It's a waiting game for Cubans and foreign investors and a guessing game on what President Trump might do. There are plenty of pressing foreign and domestic policy issues on his agenda. What might bring Cuba policy to the fore is the unrelenting Cuban American congressional lobby extracting conditions for supporting President Trump on one of his priorities. He could rescind some of Obama's Executive Orders. Best case: the review concludes that US engagement and remittances have achieved positive change in Cuba, whilst sanctions have failed and disadvantaged US business. The mould-breaking President might conceivably champion an end to the failed embargo after Raul Castro stands down from the Presidency next year.

For further information please contact:

Tracey Stewart

Business Development Manager

tracey.stewart@ambassadorllp.com