RELIABLE PARTNERS, NOT CARPETBAGGERS

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Three years ago, Cuba's Minister of Foreign Affairs, Bruno Rodríguez, at a meeting in New York, explained, and insisted, that what Cuba needed and was promoting in terms of foreign investments, was investors representing big capital from well-established firms. The approach was questioned and criticized by foreign experts, suggesting that the whole idea was nothing but day-dreaming, a too far-fetched possibility.

Such experts did not realize that after 25 years of dealing with foreign investors, Cuban authorities were sick and tired of dealing with all sorts of two-bit carpetbaggers from Western Europe and/or the Western Hemisphere, ready to sell all kinds of cheap junk and low quality merchandise, speculating with prices, and engaging in all kinds of scams and corruption schemes. Lack of government control and supervision, a low level of institutional accountability, an outdated banking system, and the absence of independent audits created fertile ground for all kinds of swindlers. The Tokmajkian case was perhaps one of the best examples. Former Vice President Carlos Lage and former Minister of Economy and Planning José Luis Rodríguez, could share many stories of deals in which Cuba came out as net loser negotiated under the desperate circumstances of the 1990s and early 2000s. The flip side of the coin was, however, that when deals were made with big and well-established companies, the results were completely the opposite and a relationship of mutual trust and benefits prevailed.

CUBA'S PREFERENCE FOR FOREIGN INVESTMENT PARTNERS

Large and well-established companies have a strong record that speaks for them when it comes time for the Cuban authorities to decide whether or not to accept their offers. Their credentials are impeccable and they are trustworthy; they can provide fresh capital for large projects and also bring to the table innovative technologies, access to international markets, and bigger numbers in terms of employment. The carpetbaggers that flooded Havana in the 1990s or later did not have any of these key attributes. Some of them were not even cottage industries; for the most part, they were like international hawkers, seeking to take advantage of the lack of knowledge and experience of Cuban officials, trying to take advantage of officials inclined to participate in corruption schemes, the absence of effective economic controls, no serious auditing experience and lack of efficient banking services. Some of the carpetbaggers were part of major scams, that seemed very profitable when presented but at the end resulted in big losses for Cuba.

This does not mean that, going forward, the Cuban government will reject all small and medium size investors. Small and medium size investors from Spain, Italy or Mexico have been operating for many years in Cuba. Their operations have proven to be honest, productive, and useful. Cuban authorities are very much aware of the need for and role of future investment by small and medium size enterprises (SMEs or PYMES), both private and in the form of coops. Cuba has learnt about dealing with SMEs from experts from Spain, Italy, France, Sweden, and other countries, and various investment initiatives are well underway or under serious consideration. But when it comes to major investments, they should come from the large and well-established companies or corporations. This is an unquestionable priority in the Cuban context.

So far, Bruno Rodríguez was not day-dreaming at all at that meeting in New York. After Cuba's enactment of a new investment law in 2014 and the announcements made by presidents Obama and Raúl Castro on December 17, 2014, scores of top executives and experts of major U.S. companies have visited the island, exploring potentials, opportunities, and obstacles of the Cuban market. Western European companies and a few from Latin America have been even more proactive, and have started earlier on a path toward the implementation of important big projects on the island. The far-fetched possibility—as deemed a few years back by most foreign experts—is becoming a more tangible possibility.

Right now we find all kinds of assessments and predictions about Cuba as a potential market. In May 2015, real estate billionaire Stephen Ross, chairperson of The Related Companies, after a short visit to Cuba, came up with a report emphasizing most of Cuba's economic and institutional shortcomings. His perception was that "Cuba is not ready for real estate investors." By way of concluding remarks he stressed that, "I didn't find there were a lot of great opportunities. It was like going back in time."

Shortly after Ross' report, a similar report with some really gloomy overtones was issued by the renown commercial real estate firm Jones Lang LaSalle (JLL). Published in June 2015, their report concluded that any "integration with the island"—even if the embargo were lifted completely—"will take decades." Sheer optimism! If they show up to make business deals "decades" from now, their market opportunities are going to be limited to selling lollypops and hamburgers (most Cubans prefer "pan con lechón"). According to Steve Medwin, managing director of JLL, "there are so many barriers that is it is rather a wait and see where things shake out."

JLL's report points out the following shortcomings of Cuba as a location for foreign investment: (a) lack of a sound banking system; (b) very deficient infrastructure; and (c) lack of openness of the country to conduct business. And, of course, the U.S. embargo and its many constraints. At the same time, a tricky dosage of fear was added: the report highlights how the Florida Farm Bureau Federation has serious concerns over Cuba's agricultural threat as a competitor to Florida's agribusiness. Similar concerns—sotto voce until now—are already running high in other quarters regarding the tourism industry. This is why the JLL report underlines that any possibility of flow of U.S.tourists to Cuba will require important congressional legislative action for U.S. companies to legally invest in the creation of a "solid hotel infrastructure." Such developments—according to the report—are only conceivable in the long term.

The report also discusses some short term opportunities such as telecommunications and the construction materials industry, while in the long term—together with tourism, as already pointed out—they see potential in various options in the services sector, such as air and maritime transportation. Yet it seems that the authors of the report are not aware of the several initiatives from U.S. companies already in existence. Other sectors like biotechnology, pharmaceuticals, mining, energy, not to mention rum, tobacco, fisheries, sugar, and even medical services, are not even referenced.

THE GLASS: HALF EMPTY OR HALF FULL

There are many ways to display pessimistic reports about Cuba, using the half empty glass metaphor. Others prefer to look at it as the half full glass. Let us look at the Ross and JLL reports from the perspective of the half full glass. Ross states that there is no ground for real estate business, but in addition to the flourishing domestic dynamics in Cuba in the field of real estate businesses, foreign investors are beginning to get involved in big numbers. This is the case of London & Regional, which is about to start a major $500 million project including an 18-hole golf course, a 100-room luxury hotel, and more than 1,000 beach front condominiums and villas to be sold to private buyers. Ian Livingstone, co-executive chairman, said that construction will start in the first quarter of 2016. He stressed that the existing trend shows that "People are desperate to buy in Cuba, but they need some reassurance at this stage and that means a reputable company such as ours."

In contrast, Steve Medwin of JLL said that "there are too many barriers…" Yet, after a recent visit to Cuba, Marriott International CEO, Arne Sorenson, came up with an entirely different assessment. He stated in an interview for skift.com that, "even though U.S. does not allow Marriott to do business in Cuba, we are ready to start right now." He added that it is time to do business with Cuba and compete with the many European and Latin American companies who have been operating in Cuba for decades and are planning, under the new context, to expand and grab the best of the Cuban market before U.S. companies have a chance to compete. Marriott could, he stressed, provide jobs for hundreds if not thousands of Cubans. Furthermore, he said that if Congress should lift the existing travel restrictions, as many as five million tourists from the U.S. could be visiting Cuba in a few years. There already are—he highlighted—JV projects and contracts waiting to be signed with U.S. companies. By way of a question, he made his point very clearly asking: "shouldn't we get going?"

A similar perspective was provided not long ago by one of the most seasoned foreign companies operating in Cuba, Canadian company Sherritt. Sean MaCaughan, Sherritt's Vice-President for Investor Relations, stated that "We would tell others that Cuba is a great place to do business."

Another view is expressed by Alexander Carpenter, Co-President of Brazilian cigarette-maker Brascuba, which operates in the island. He states that "there are foreigners who come here with an attitude of superiority. In other words, 'We are going to show the Cubans.' In general, these are the ones who fail spectacularly." Another Brazilian executive, Mauro Hueb, head of Oderbrecht's operations in Cuba (Oderbrecht has already invested $900 million in Mariel's Special Economic Zone), points at some of the advantages of operating in Cuba: an educated, low cost workforce and low logistical costs. He also states that "to take advantage [of the Cuban market] a company needs to learn and respect local customs." This may sound like a little bit of rhetoric, but a U.S. prestigious professor and former national security adviser to the Obama administration, Richard Feinberg, had underlined the importance of this issue years back when he concluded that, "A new Cuba will host a rainbow of international investors who will be respectful of Cuba's political sovereignty."

More recently, what New York Governor, Andrew Cuomo, said and did seems to disagree completely with the Ross and JLL reports, and has encouraged several important companies in his state to engage in different projects with Cuban entities. Google, Cargill, Airbnb and others are on the same track. Even former Secretary of Commerce under the George W. Bush Administration, Carlos Gutiérrez, is advocating for investments now, not decades down the road. Other U.S. governors and mayors have visited or are expected to visit Cuba. Scores of federal lawmakers, have also visited the island and are encouraging a process of normalization, including lifting the embargo and promoting investments. Are they not aware of the risks and difficulties pointed out by JLL? Of course they are, but they believe is worth the gamble for a number of other reasons and previous precedents. Indeed, a very opposite course of action to the one suggested by Ross and JLL.

Some of those reasons and precedents can be found, and some useful lessons can be drawn, from the success of Canadian company Sherritt and its diversified portfolio in Cuba for 25 years. Also with 25 years of successful partnership is the French company Pernod-Ricard. Major European giants like Unilever, STET, Nestlé, Anheuser-Busch, Bouygues, Imperial Tobacco/Altadis, and several others, including banks, have established themselves and operated in Cuba for more than 15 years or 20 years. Altadis' CEO, Juan Arrizabalaga, has highlighted that the possibilities for Cuban tobacco products to reach the U.S. market (the U.S. market represents two thirds of the world's consumption of cigars) "is a very good opportunity." Current reports indicate that Unilever and Davidoff are planning to come back to the Cuban market, while French company CMA-CGS plans to become a major player in the development of Mariel's container terminal.

China's growing involvement in the Cuban economy does not need further elaboration. China is already Cuba's second trading partner and it is involved in some multi-million dollar projects. And Russia is already making its comeback.

JLL's depressing comments on tourism do not coincide at all with the 25-year experience of Spain's Meliá, which operates dozens of major tourist hotels and resorts in the island, including a growing number of luxury facilities, an experience followed by other major companies from Europe and Canada. U.S. potential investors in this field cannot continue to ignore or bypass a market that already is second in the Caribbean to the Dominican Republic and closing in fast.

At the same time, the two major economies of Latin America, Mexico and Brazil, are moving into the Cuban market. Already some 100 Mexican medium size companies and projects are in place, including several of them in Mariel's Special Zone; Mexico's trade surplus with Cuba increased from $486 million in 2012 to $527 million in 2014, according to an interview with Jaime Torres Escuén, chairperson of the Mexico-Cuba Entrepreneurial Committee. Torres stressed that in the context of normalization of relations with the U.S., Cuba "will become an investment destination enormously appealing." Brazil, in addition to its multimillion investment in Mariel, is also involved in several big projects in Cuba's sugar industry, some major agricultural projects, as well as several medium size investments. Brazil and Mexico are thus promoting investments in the island, with Cuba's help, by trustworthy SMEs—rather than by the carpetbaggers of the recent past—in addition to Cuba's quest for big capital investments.

Is it not sufficient evidence to challenge, or at least provide some balance, to the assessments by Ross and JLL? Are these big corporations successfully operating in Cuba for 15, 20 or 25 years not aware of the risks and difficulties involved? Is Marriott's CEO completely wrong in his assessment? These businessmen do not ignore the challenges and risks, but also consider that rewards and profits are quite tangible. Why then do Ross and JLL choose not to mention or explore these many positive views and experiences and are absolutely dismissive of what the executives and experts of these companies and corporations have to say about the current potential of the Cuban market and its interactions on a regional and international scale, including the U.S. at some distant future? Ross stated that his visit to Cuba was like traveling back in time, that is, to a country still caught in its past. The companies and corporations already operating in Cuba and those that are showing a growing interest in getting involved are not looking at the past but at the future.

A more recent example seems also to challenge the gloomy remarks in the Ross and JLL reports. In the second week of July 2015, a delegation from Spain headed by José María Soria, Minister of Industry, Energy, and Tourism, visited Cuba. He was accompanied by Secretary of Commerce, Jaime García-Legaz (it should be recalled that he had traveled to Havana six months earlier and announced ample official and banking support to Spanish companies operating in Cuba). The delegation consisted of nearly 90 large and medium size companies. They stated that the Bank of Spain and the Compañía de Financiamiento al Desarrollo (COFIDES) have opened new lines of credit to back new and already existing Spanish investments in Cuba. It was underlined by Minister Soria that, "an extraordinary increment of financing will now be available." He also highlighted that bilateral relations "have entered an entirely new era."

That same week, a delegation of 150 Italian SMEs visited Cuba, headed by the Italian Deputy Minister of Economic Development Carlos Calenda, together with a group of government officials and experts from two important insurance companies providing financial support to Italian firms already operating in Cuba and those considering investing in the island. This is the second Italian delegation in less than a year promoting SMEs in the Cuban economy. Mr. Calenda emphasized the notion that "The path initiated by Cuba is very much respected."

Either these two European countries and their respective business communities and institutions have gone mad or are absolutely blind in understanding Cuba's opportunities, or what Ross and JLL have concluded is inconsistent with the views about the economic potential of investments of other governments and companies with hands-on experience in the island. Not long ago, Harvard Professor, Jorge Domínguez, characterized such potential as capable of transforming Cuba into the "Singapore of the Caribbean."

Finally, U.S. corporations looking for a piece of the Cuban cake, should heed a recent remark by Reuters correspondent in Havana: "U.S. companies that want to do business in Cuba will have to play by Cuba's rules." Take it or leave it. A host of successful experiences is available to prove Cuba's opportunities and rewards for big companies, and for credible and effective SMEs, although not for XXI century carpetbaggers.