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## Business with Cuba won't bring democracy. And U.S. companies can find better markets

BY JERRY HAAR

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For American companies that aspire to do business in Cuba, the recent crackdown by the Cuban government on mass protests now places that hope not on the back burner but *off* the burner altogether.

Nevertheless, there remain those who believe that doing business with Cuba — mainly through the U.S. lifting the trade embargo and permitting American investment on the island — will help bring about democratic political change. However, history will note that economic liberalization does not lead to political liberalization. If it did, China and Vietnam would be like Switzerland and Singapore.

Politics aside, the case for doing business in and with Cuba is not a compelling one.

To begin with, the nation is an economic basket case (11% contraction in 2020, 160% inflation rate). For companies, the main criteria for market entry are market size, purchasing power, composition of the market and the business environment.

Cuba's *market size* is extremely limited — the entire country of 11 million people is roughly half the population of São Paulo, Brazil. For consumer packaged goods companies, it seems hardly worth the effort to make a major commitment to service such a small market.

As for *purchasing power*, the Cuban minimum wage is US \$17 per month, less than the price of one Cohiba Lancero cigar. Salaries and purchasing power are so low that many physicians, engineers and other professionals work as taxi drivers or seek government assignments abroad where they earn more than they would at home in their jobs. Even receiving remittances from relatives in the U.S., they do not constitute a viable market for products from Nike, Under Armour, Levi's or Ralph Lauren.

As for the *composition* of the market, tourism, sugar, tobacco mineral fuels, and nickel are the country's leading exports. The nation increasingly depends on tourism for hard currency. European chains dominate in joint ventures with the Cuban government. Construction and infrastructure are big but financed with soft loans from European and Chinese governments whose engineering and

construction firms perform the work. (Chinese companies have played a key part in building Cuba's telecommunications infrastructure, a system the regime uses to control its people, just as the CCP does within its own borders.)

As for the *business environment*, any foreign company operating in a totalitarian political system must be concerned about legal issues such as investor protection, contract enforcement, construction permitting, repatriation of profits and dividends and intellectual property protection. In the case of Cuba, there are operating impediments such as the inability of foreign investors to hire directly and pay workers in convertible currency, few foreign banks for financing, and heavy competition from Cuba's military companies that account for 70% of the economy. GAESA, the largest Cuban holding company with more than 50 companies and 40-50% of Cuba's foreign exchange earnings, dominates the market.

Admittedly, a number of European multinationals such as Nestlé, Unilever and Pernod-Richard, and several banks such as BBVA and Banco Sabadell, along with Canadian mining giant Sherritt International, the largest investor in Cuba, have found business with Cuba to be worthwhile. In fact, the EU and Cuba do €2.6 billion in trade on an annual basis and more than 1.2 million Canadians visit the island each year. Nevertheless, poor IT infrastructure, weak broadband and complex bureaucratic procedures and regulations remain serious impediments to doing business in Cuba.

The big question for American companies that aspire to trade and invest in Cuba is *opportunity cost* — there are greener pastures elsewhere. Since tourism is Cuba's ace in the hole, that sector can be easily matched in the Caribbean for history and culture, architecture, cuisine, beaches and music by Puerto Rico (Old San Juan), the Dominican Republic (Punta Cana), Colombia (Cartagena) and Mexico (the Riviera Maya).

As Mark Twain observed: "There is charm about the forbidden that makes it unspeakably desirable." Such may be the case with Cuba, but market economies with democratic governance are the better bet for the bottom line.

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*Jerry Haar is a professor of International Business at Florida International University, a Global Fellow of the Woodrow Wilson International Center for Scholars, and a board member of The World Trade Center Miami.*