

The 'Final Frontiers' Series: Biden victory won't alter Trump's Cuba-Venezuela policy

June 26, 2020



Despite campaign promises to the contrary, it is not likely that former US Vice President and putative Democratic Party 2020 presidential candidate Joseph Biden will adopt a softer policy towards Cuba and Venezuela than President Donald Trump. For 36 years as a US senator, and as chairman of the Senate Foreign Relations and Judiciary Committees, Biden supported a muscular foreign policy towards Latin America. Biden's own private official views on Cuba/Venezuela lie distinctly to the right of his former President Barack Obama, who favored a thawing of relations. With the conservative Cuban ruling communist party increasingly assertive vis-a-vis a relatively constitutionally dis-empowered president, a reversal of Trump's policies on Cuba and Venezuela in a Biden presidency are not likely. Cuba faces the convergence of the negative global effects of the spread of Covid-19, challenging domestic economic situation suffocated by the U.S. embargo. The survival of the Cuban and Venezuelan regimes have over the past few years become co-dependent. Venezuela provides Cuba with cheap oil, Cuba provides highly trained military staff to help prop up the embattled government of Nicholas Maduro. Each regime needs the other to survive.

Each one of the main sectors of economic activity in Cuba have been under-performing in recent years: professional services, remittances, tourism, and export of mining products, primarily nickel and cobalt. Agriculture production is declining, representing just an average of 3.8% of the GDP between 2007 and 2018. The failure of Cuban state bureaucracy to implement the program of reforms approved by the Congress of the Communist Party in 2011 combined with Trump's aggressive Cuba-Venezuela policies have contributed to the current malaise. Biden is unlikely relax the Trump pressure campaign.

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The non-state sector in the Cuban economy, has absorbed workers dismissed by the state (almost a third of workers are employed in the private sector), but private-sector expansion continues to be slow and limited by a very strict fiscal and regulatory framework, due to the government's wariness of the destabilizing effects of liberalization.

Political and Socioeconomic Outlook

Cuba is in the middle of a planned generational transition that started with the elevation of Miguel Díaz-Canel Bermúdez to the presidency of the Republic in April 2018. The changes have been codified in a new constitution approved by popular vote in February 2019. Although Raul Castro still holds the leadership of the Communist Party and is understood to be the ultimate decision maker. The military continues to be an important political and economic powerbroker.

Domestic dissent has become more visible and has increased beyond traditional political activism. Mainly as a result of the expansion of independent media outlets, new technologies and the emergence of a community of entrepreneurs and private businesses. Due to a growth of dissatisfaction with socioeconomic conditions, migration patterns have augmented in recent years and an important “brain drain” persists. Cuba has an aging population and has been under the replacement rate since 1978.

Key weaknesses of the Cuban economy

-An ageing population, net emigration and "brain drain" / -Poor infrastructure / -Over dependency on importations / -Lack of statistical transparency / -Lack of access to international finances / -Effects of natural disasters, especially hurricanes / -Tendency to high fiscal deficit / -Primitive tax collection system / -U.S. sanctions.

Key strengths of the economy

-Qualified and unexpansive workforce / -Strong evidence of entrepreneurial potential / -Geopolitically attractive position to the US/ -Low crime rates/ -Universal health care and free education / -Strong social security system.

Visible future trends and opportunities

-Uncertainty regarding the result of the U.S. election in November 2020 and risk of a sustained or more aggressive American policy towards Cuba, and its main allies in the region, will grow over the next year.

-Cuba will continue to diversify political and economic international relations, strongly depending on the Nonaligned Movement, with a **robust collaboration with China and Russia**.

-**Title III of the Helms Burton Act**, which permits US nationals to sue companies "trafficking" in confiscated properties in Cuba, will continue to solidify a shadow over Cuban economy in the short term. However, there is little evidence suggesting the actual viability of these lawsuits. (Biden supports this law).

-**Environmental risks** will continue for the island, especially when the Caribbean region enters hurricane season (June 1st – November 30th)

-The current global health crisis could accelerate certain trends within Cuba and authorities might become more pragmatic in their approach to economic reforms.

-**New law of associations** that could transform fundamental basis of ownership and civil society participation is likely to pass in 2022.

-The government will build on the existing framework of reforms, in a cautious pace for economic liberalization.

-The process of "**Digitalization of Cuban Society**" will continue, presenting significant investment opportunities in infrastructure development, telecommunications and mobile payments.

-Expected monetary policy reform is unlikely to happen this year or in the first quarter of 2021.

-An expansion of **temporary transfer of government land to private farmers to boost production** can be expected in the next few months. The new coronavirus crisis has consolidated the notion that domestic agriculture production should be the primary source of food security instead of imports.

-The government will continue to attract foreign direct investment, especially in areas of transportation infrastructure, biotechnology and real estate development for touristic purposes.

Contact DaMina for a more detailed briefing from our risk analysts:

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