

# CUBA

## The Next Financial Frontier



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The Cuba's Next Revolution Webinar focused on 6 main points; diplomatic relations with the United States, Cuban infrastructure, telecommunications, pharmaceuticals, energy, and freight and shipping.

As of December 2014, the United States has restored diplomatic relations with Cuba and loosened the Cuban trade embargo. American travel and tourism has expanded and financial services have been facilitated. Cuban debit and credit cards are now legal for US citizens to use in the United States. The US can now send exports to Cuba as long as they improve living conditions and support private enterprise, strengthen civil society, or improve communications.

Cuba is currently facing a serious infrastructure problem. The government's large role in business and its arbitrary and ambiguous regulatory practices make it difficult for foreign businesses to operate in Cuba. Cuba has limited experience with private enterprise, it has a large trade deficit, and its dual exchange rate creates massive distortion in the economy. However, the future of the private sector in Cuba is looking upwards. In January 2013, Raul Castro allowed Cuban nationals to leave the country without a permit, loosened property laws, and announced the end of the dual exchange rate currency system.

Cuba's biggest goal moving forward is improving telecommunications. Cuba is one of the least penetrated countries in the world in regards to telecommunications because of its weak infrastructure and unavailability of local services. Increased relations between Cuba and the United States has allowed American companies to legally sell consumer and communications technology to Cuba. This new communication link will improve internet connections and the quality of service in Cuba as well as lower the price of service. US companies are now able to set up mobile and fixed broadband network infrastructure in Cuba and T Mobile US has already stated its interest in Cuban communication. In the past, policy has kept Cuba from doing business with the rest of the world. ETECSA, a government subsidized communications network, holds a monopoly on Cuban communication. Cuban policy will have to change in order for telecommunication liberalization to occur. Significant developments in the telecommunications sector are not expected to occur until Raul Castro steps down in 2018.

Medical tourism is expected to increase in coming years. Cuba has extremely well regarded services and significantly cheaper treatment and procedures. Heberprot P, a drug used to treat diabetes, is currently in clinical trial around the world and has sparked a particular interest in the United States. In combination with increased trade relations, Cuba's innovation in biotechnology will attract investors and lead to market development.

In late 2014, Cuba unveiled an energy renovation project that would use biomass, wind, solar, photovoltaic, and small hydro energy sources to more effectively generate energy for Cuba. This project is estimated to require 600 million dollars in financing from foreign investors. The United States is in the approval process to export items for environmental protection including items that would increase energy efficiency.

In the next few years, Cuba will be well positioned to become one of the leading regional transshipment hubs in the Caribbean. The completion of the Panama Canal in 2016 and the renovation of the Port of Mariel are expected to increase trade with Asia, Latin America, and the

United States. In 2014, new foreign investment laws opened Cuba to greater investment lowering the profit tax from 30% to 15%. Investors in the Port of Mariel project will be exempt from taxes for the first 8 years after its completion.

Looking towards the future, we should expect growth in both the telecommunications and medical tourism industries. The rejuvenation of Cuba's energy and freight and shipping organizations will drive foreign investment and stimulate the Cuban Economy. Within the next three to five years, we should expect a large shift in Cuban foreign policy increasing trade and foreign investment. The most impactful changes will occur when Raul Castro is expected to step down in 2018.

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