BLUE RIBBON COMMISSION ON THE ECONOMIC RECONSTRUCTION OF CUBA

CORPORATE PRESENTATION

A PROJECT OF THE CUBAN AMERICAN NATIONAL FOUNDATION

7300 N.W. 35TH TERRACE
MIAMI, FLORIDA 33122
TEL: (305) 592-7768
FAX: (305) 592-7889

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CUBAN AMERICAN NATIONAL FOUNDATION

DESCRIPTION: The Cuban American National Foundation [CANF], formed in 1981, is an independent, non-profit institution devoted to providing information on economic, political and cultural issues relating to the Cuban people, both on the island and in exile. The CANF supports the concept of a free and democratic Cuba. The organization's 108 Directors and Trustees, comprised of Cuban American business and professional leaders who donate a minimum of $10,000 and $5000 respectively to the CANF on an annual basis, are actively involved in CANF operations. With more than 50,000 active members and contributors, CANF is by far the largest Cuban American organization in the United States.

The CANF was instrumental in the establishment of **Radio Marti and TV Marti**. These broadcasting operations, administered by the U.S. Information Agency, transmit news and entertainment programs to Cuba which underscore a message of freedom and democracy. The CANF also has established a $2 million **Endowment for Cuban American Studies** which produces research reports on the political economy and culture of the Cuban community and its impact on Florida.

Through its **Cuban Exodus Relief Fund**, the Cuban American National Foundation has coordinated private efforts providing humanitarian assistance and resettlement services for Cuban refugees. Since 1984 this program has facilitated the privately funded resettlement of more than 7000 Cuban refugees, representing a net savings of nearly $50 million to the U.S. government. Another CANF program, **Mission Marti**, trains hundreds of volunteers to aid in the reconstruction of Cuba after Castro. **La Voz**, CANF's short-wave radio broadcast to Cuba keeps the Cuban people informed about the latest news. CANF is a non-profit, tax-exempt, 501-C3 corporation chartered under the laws of Florida. Fed. I.D.# 59-2122621.

BLUE RIBBON COMMISSION ON THE ECONOMIC RECONSTRUCTION OF CUBA

Cuba's current atmosphere of repression and economic crisis has generated powerful pressures for political change on the island. Cuba's transition from communism to democratic capitalism will require major economic, social and legal restructuring. In order to facilitate this transition, the Cuban American National Foundation has created the **Blue Ribbon Commission on the Economic Reconstruction of Cuba**. The Blue Ribbon Commission's Advisory Board is comprised of noted economists, diplomats and political leaders including: Honorary Chairman Malcolm S. Forbes Jr.; Co-Chairmen Jorge Mas [The CANF Chairman] and economist Art Laffer; Senator Bob Graham [D-FL]; Senator Connie Mack [R-FL]; William Doherty [President, American Institute for Free Labor Development]; William P. Clark [former NSC Advisor to President Reagan] and Armando Valladares [former U.S. Ambassador, U.N. Human Rights Commission].

It is the objective of the Blue Ribbon Commission to: 1) develop economic policy guidelines to help a new, democratic government in Cuba initiate Cuba's economic revival. The Commission's Final Report, scheduled for completion in October 1991, will address asset\land claims, monetary, tax and related policy initiatives; 2) engage specialists to compile a comprehensive inventory of available human, industrial and natural resources in Cuba and assess trade opportunities in industry sectors including: agribusiness, air transport, construction, energy, mining, medical products, telecommunications and tourism; 3) foster communication among key U.S. and Cuban economists, businessmen and political leaders regarding post-Castro Cuba's economic reconstruction 4) encourage foreign and domestic investment in post-Castro Cuba.

CANF CHAIRMAN: Jorge Mas, 50, is Chairman of the Cuban American National Foundation. He also serves as President of Church and Tower of Florida, Inc., an engineering and construction firm whose clients include Atlanta-based Southern Bell. Mas was appointed by President Ronald Reagan as Chairman of the Presidential Commission on Broadcasting to Cuba. Mas is Chairman of the Florida Governor's Commission on a Free Cuba. He is the recipient of the Lincoln- Marti Award, granted by the US Department of Health Education and Welfare, for extraordinary and meritorious performance of civic duty in the United States.

BLUE RIBBON COMMISSION ANALYSTS AND ADVISORS: Lazard Freres and Company, a New York-based investment banking and consulting firm is financial consultant to the Commission. A.B. Laffer, V.A. Canto and Associates serves as an economic consultant to the Blue Ribbon Commission. Dr. Arthur B. Laffer, founder of A.B Laffer, V.A. Canto Associates, was a member of the Economic Policy Advisory Board to President Ronald Reagan. Victor Canto, President of Laffer, Canto & Associates and author of numerous books on international economics, received an M.A. and Ph.D. from the University of Chicago. Members of the Commission's Advisory Board providing program research and analysis include: Lawrence Kudlow [Senior Managing Director and Chief Economist, Bear, Stearns & Co.]; Richard Rahn [Chief Economist, US Chamber of Commerce]; and Jose Manuel Casanova [Director, External Review, Inter-American Development Bank]. Manuel Cereijo serves as the Commission's Coordinator for industry sector analysis. Dr. Cereijo, a professor of engineering at Florida International University and an international engineering consultant, received an M.A. from Georgia Tech and a Ph.D. in engineering from Universidad Central, Santa Clara, Cuba. Thomas Cox is Project Coordinator for the Blue Ribbon Commission. Cox was Latin American Affairs analyst and Co-Director of the Mexico Project for the Heritage Foundation.

CORPORATE SPONSORSHIP: Members of the Blue Ribbon Commission's Corporate Board of Sponsors and Participants will be asked to contribute funding for the research and development of industry sector analyses produced by the Commission. All members will be provided with regular updates on political-economic trends in Cuba and receive all technical reports on Cuban trade, investment and industry sector development opportunities produced by Commission and CANF specialists.

CONTACT: Project Coordinator: Thomas E. Cox
Telephone (202) 265-2822; FAX (202) 338-0308

ABOUT THE PROJECT

After more than thirty years, Fidel Castro's socialist experiment has exposed Cuba to the economic turmoil and decay that are the hallmarks of a command economy: stagnation, heavy debt burdens, inefficient industries, declining standards of living, officially unrecognized inflationary pressures and shortages of basic goods.

Cuba's current atmosphere of repression and economic crisis has generated a powderkeg of popular domestic resentment toward the Castro regime. Record numbers of Cuban boat people arriving in Florida provide an indication of discontent brewing in Havana. Change in Cuba is imminent though the nature of such change has not been determined.

Cuba's successful transition from communism to democratic capitalism will require major economic, social and legal restructuring. The development of a market economy that dramatically increases the standard of living of the Cuban people will involve a variety of economic and political challenges. Entrenched bureaucracies, the lack of simple, uniform foreign investment and commercial codes and divisive property ownership disputes are some of the challenges which Castro's democratic successors will confront.

Insights derived from the experience of reform initiatives in Eastern Europe can greatly enhance the effectiveness of reconstruction programs in Cuba. However, successful economic reform efforts in Cuba must be tailored to the particular cultural and political needs of the Island nation and must benefit from a general consensus on fundamental economic principles and policy objectives. The avoidance of protracted debate on these issues during the initial stage of Cuba's democratic transition will enhance dramatically the ability of Castro's successors to reestablish traditional trade ties and generate capital inflows into Cuba which are crucial for implementing emergency relief and macro-economic reform programs.

Recognizing this, the Cuban American National Foundation has formed the Blue Ribbon Commission on the Economic Reconstruction of Cuba to enlist the assistance of a distinguished multinational panel of economic experts, diplomats and political leaders to assess the essential requirements for the reconstruction of Cuba's key industry sectors and to formulate a set of growth strategies for the economic revival of post-Castro Cuba.

The Blue Ribbon Commission has established 17 working groups comprised of Cuban American engineers and other industry specialists to analyze Cuba's key industries. These working groups also benefit from technical analysis and data provided by more than 100 engineers scientists, accountants and other professionals who have arrived from Cuba in the last two years. The initial set of 17 technical reports on Cuba's key industry sectors has been completed and research programs have been initiated to address modernization options in a wider range of commercial activities in a post-Castro Cuba.

In addition, detailed questionnaires addressing political, economic and legal affairs will be issued by the Commission to 100 outside experts selected by members of the Advisory

Board. Those solicited for their views will include journalists, economists, educators, business and labor leaders, private organizations, and analysts in areas of crucial concern such as the environment, human development, housing and emergency relief programs.

A Final Report including macro-economic policy recommendations and analysis of Cuba's key industry sectors will be submitted to the Blue Ribbon Commission later this year. This body of work will provide an analytical framework for the establishment of economic development guidelines recommended by the Commission's Board of Advisors.

The Cuban American National Foundation sponsored the first in a series of meetings for members of the Blue Ribbon Commission in November 1991. These working group meetings will encourage the development of a consensus on fundamental reform principles and economic development options. The Final Report on the economic reconstruction of Cuba is intended to serve as a common reference point for public discussion about Cuba's transition to democracy, economic revival and reintegration to international markets.

A Corporate Board of sponsors serving on the Blue Ribbon Commission is comprised of U.S. and international firms representing a wide cross-section of commercial trade and investment activities.

The agenda of the Blue Ribbon Commission is an ambitious response to the challenge that it addresses. The present crisis in Cuba is more than a passing phenomenon. It represents a defining moment in the economic development and security of the Western Hemisphere. The formation of a comprehensive set of economic recommendations for a new leadership in Cuba will help ensure that this unique opportunity to promote freedom and prosperity throughout the region is not lost.

II. BLUE RIBBON COMMISSION ADVISORY TEAM

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President, Chief Executive Officer
Forbes Magazine

Jorge Mas, [Co-Chairman]
Chairman, Cuban American National Foundation

Arthur Laffer, [Co-Chairman]
A.B. Laffer, V.A. Canto Associates

(in alphabetical order)

Manuel Ayau
Rector, Universidad Francisco Marroquin
Guatemala

Jose Manuel Casanova
President, Casanova and Associates

William P. Clark
Chairman, The Clark Companies
former National Security Advisor to the President

William Doherty
President
American Institute for Free Labor Development

Dante Fascell
U.S. Congressman [D-FL]
Chairman, House Foreign Affairs Committee

Bob Graham
U.S. Senator [D-FL]

Dr. Steven Hanke
Professor of Applied Economics, Johns Hopkins University

Paula Hawkins
U.S. Senator

Tom Kean
President, Drew University

Ambassador Jeane Kirkpatrick
American Enterprise Institute
former U.S. Ambassador to the U.N.

Lawrence Kudlow
Senior Managing Director and Chief Economist
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U.S. Congressman [D-FL]

Ambassador Jose Sorzano
Austin Group
former Deputy U.S. Representative to the U.N.,
former NSC Director, Latin American Affairs

Marty Urra
President, South Florida AFL-CIO

Ambassador Armando Valladares
President, Valladares Foundation
Former U.S. Ambassador, U.N. Human Rights Commission

Economic Consultants:	A.B. Laffer, V.A. Canto & Associates
Financial Consultants:	Lazard, Freres & Co.
Legal Consultants:	White & Case
Project Coordinator:	Thomas E. Cox

Permanent Address:
1000 Thomas Jefferson St. NW
Suite 505
Washington, D.C. 20007
Telephone: (202) 265-2822
FAX: (202) 338-0308

III. ACTION PLAN OF THE BLUE RIBBON COMMISSION

The successful promotion of economic growth in post-Castro Cuba will require the rapid implementation of an integrated system of mutually supportive economic, legal and social arrangements. Foreign investment in Cuba could be facilitated by providing a comprehensive inventory of available resources. To assist in the development of a database on Cuba's industrial resources, as well as a consensus on basic economic principles, the Blue Ribbon Commission will undertake the following studies:

1.0 THE FREEDOM ALTERNATIVE

Objective: To assemble a set of constitutional principles and legal guidelines which may form the legal-institutional framework for the restructuring of the Cuban economic system.

The study will include suggested drafts of the following bills and codes:

1.1 Privatization Law
1.2 Commercial Code
1.3 Banking Code
1.4 Foreign Investment Code
1.5 Tax Code
1.6 Currency and Monetary Guidelines
1.7 Foreign Debt Guidelines
1.8 Relations with International Financial Organizations

2.0 THE CUBAN ECONOMY: BLUEPRINT FOR RECONSTRUCTION

2.1 Objective: To provide a comprehensive analysis of the Cuban economy immediately preceding the Castro regime and at present.

2.2 Objective: To develop a detailed inventory of the main industries in Cuba and review industrial policy alternatives with special emphasis on:

2.2.1 Overview. Selected Facts
2.2.2 Comparative Analysis
2.2.3 Modernization Options
2.2.4 Privatization Potential

2.3 Industries to be analyzed and catalogued for industrial database development include:

2.3.1 Agriculture and Livestock
2.3.2 Automotive
2.3.3 Aviation
2.3.4 Construction & Civil Engineering
2.3.5 Communications
2.3.6 Chemicals
2.3.7 Data Processing
2.3.8 Electric Energy
2.3.9 Fishing
2.3.10 Food Processing
2.3.11 Glass Works
2.3.12 Merchant Marine
2.3.13 Mining & Metal Works
2.3.14 Paper
2.3.15 Petroleum Refining
2.3.16 Transport
2.3.17 Textiles
2.3.18 Tourism
2.3.19 Water & Sanitation
2.3.20 Other

3.0 SOCIAL WELFARE. INSURING SOCIAL PEACE

3.1 Objective: To study the present level of social welfare and public services provided by the State to the Cuban population, specially in the areas of education, health and housing, and to develop alternatives aimed at maintaining and improving such levels of social services during the transition period and beyond.

3.2 The studies to be undertaken will include:

3.2.1 The Cuban Education Problem

3.2.2 The Cuban Housing Problem

3.2.3 The Cuban Health Problem

4.0 THE MILITARY, BUREAUCRATIC COMPLEX. INSURING POLITICAL STABILITY.

4.1 Objective: To provide a comprehensive study of Cuba's bureaucracy and military establishment.

4.2 Objective: To develop a program for demobilizing excess human and capital resources and their controlled transfer to other economic activities.

4.3 Objective: To determine the social costs of demobilizing the military establishment and insuring re-training, employment and social security as well as equal opportunity for all displaced individuals.

5.0 EMERGENCY RELIEF PROGRAM

5.1 Objective: To develop an emergency relief program designed to provide basic assistance, especially food, medicine and fuel to the Cuban population during the first 45 days of a transition government.

- 5.1.1 Food Requirements
- 5.1.2 Medical Requirements
- 5.1.3 Fuel and Miscellaneous Requirements
- 5.1.4 Logistical Plan
- 5.1.5 Financing

6.0 SAVING CUBA'S ECOLOGY

6.1 Objective: To develop a program for the recovery and permanent protection of the Island's environment and ecological system.

CUBA: PAST, PRESENT AND FUTURE

Cuba's rich heritage of dynamic cultural and economic activity was evident in the vibrancy of the Cuban economy before Fidel Castro's rise to power in 1 January 1959. Cuba had the lowest rate of inflation of any Latin American country during the 1950s and the third highest per capita income (behind Argentina and Venezuela). Substantial U.S.-Cuban trade and investment ties were the product of the island nation's proximity and effective monetary and tax policies. Cuba's literacy, life expectancy and infant mortality rates rivalled or surpassed those of its contemporaries in Latin America and the Caribbean.

While other Latin American nations are rapidly improving their ability to grow and compete in the modern international marketplace, Cuba, under Castro's leadership, has not seized the opportunity to build on the nation's socio-economic progress achieved during the first half of this century. **Cuba's faltering command economy has generated zero growth since 1986.** The government extended its rationing program to all consumer goods in 1989 and shortages of spare parts have resulted in the use of oxen and horse-drawn carts for many transportation and crop cultivation needs. Record numbers of Cuban boat people arriving in Florida in 1991 are one indication of the pressures for immediate and dramatic political change building in Havana.

All the ingredients necessary to make Cuba the bellwether economic performer of the region are available in Cuba today. Under a new, democratic leadership that respects individual property rights, fosters economic stability and allows entrepreneurs and workers to enjoy the fruits of their own labor, Cuba would serve as a beacon of prosperity for the Western Hemisphere. The dramatic success of the Cuban community in the U.S. testifies to the economic potential of a free Cuba. These Cuban-Americans, numbering just over 1.2 million, produce twice as much wealth each year as 11 million citizens under Castro's rule. **Cuba, armed with a powerful human and natural resource base, is posed to generate tremendous economic growth, only Castro remains an obstacle.**

THE PAST

The coast of Cuba is only ninety miles south of Key West, Florida. Interestingly, Pan American Airlines began as a 30 minute commuter service between Havana and Key West. Measuring distances between population centers, Miami is only 250 miles from Havana. This extreme proximity, which, during Fidel Castro's reign has been a source of concern to Americans, could well serve as a catalyst for economic development in Cuba providing numerous growth opportunities for the entire region. Cuba, with 44,200 square miles and a population of roughly 11 million, is only slightly smaller in size and area than the entire state of Florida. The island has a spectacular mountain range, the Sierra Maestra, made famous as a refuge for Fidel Castro and his guerrilla band. Elsewhere Cuba's scenic countryside is flat or rolling with phenomenal beaches. The largest concentration of Cubans is in the capital, Havana, with a population of 2 million people. This is followed distantly by Santiago de Cuba with approximately 360,000 people. By contrast, the metropolitan area of Miami contains some 1.8 million people. The ethnic mix of Cuba consists of 51 percent mulatto, 37 percent white, 11 percent black and 1 percent Chinese.

Socio-economic Survey of Pre-Castro Cuba. Before Castro's rise to power on January 1, 1959, Cuba ranked among the best credit risks and business partners in the Western Hemisphere. Havana enjoyed a dynamic human and natural resource base and a history of close trade relations with the United States.

Buttressed by Cuba's liberal foreign investment laws, expanded trade ties with the U.S., and a favorable tax code, Cuba's national income doubled between 1945 and 1958. Cuba's per capita Gross National Product ranked third among Latin American nations in 1953, behind Argentina and Venezuela.

During the post-World War II period, the combination of reduced sugar production throughout Asia and preferential treatment by the U.S. provided the basis for the expansion of the Cuban sugar industry. By 1958, Cuba supplied 38 percent of total U.S. sugar consumption, an amount equal to 58 percent of Cuba's total sugar exports. The market opportunities afforded by the sugar quotas led to the development of close commercial ties with the United States and large U.S. investments in the Cuban sugar industry. As a result of the negotiated arrangements, sugar, tobacco, and rice production were regulated by the Cuban Stabilization Institute.

Agribusiness, construction, mining and tourist industries in Cuba experienced dramatic growth throughout the 1950s. Cuba became the second country in the world to have color television capability. Bolstered by a network of central and secondary highways, 9,000 miles of railroad tracks, 100 private and public airports and tax incentives for hotel construction, Cuba's tourist industry underwent a remarkable expansion. Between 1950 and 1958, the construction of 28 new hotels almost doubled Cuba's existing hotel capacity to 24,000. In 1958, 325,234 tourists visited Cuba.

Prior to Castro, Cuba had a well-educated, healthy population capable of great achievements:

* Life expectancy in pre-Castro was 61.8 years, higher than the Latin American region as a whole.

* Cuba's infant mortality rate in 1958 was 32 per 1,000 births, surpassing the present average of 51 per 1,000 in Latin America.

* In 1953, the date of Cuba's last pre-revolutionary census, literacy rates for those 10 and older was 76.4 percent, a level which rivalled or exceeded other Caribbean or Latin American countries.

* In 1958, Cuba (population 6.6 million) had 6,421 physicians - double the total for all other Caribbean nations combined.

International Trade. Cuba's trade during the first half of the twentieth century was almost exclusively with the United States (Figure 1). However, upon signing the General Agreement on Tariffs and Trade in 1947, Cuba began to expand non-sugar exports, and to develop bilateral trade relations with European nations. During the 1952-58 period, Cuban exports to the United States accounted for 67.5 percent of total Cuban exports while imports from the United States accounted for 92 percent of Cuban imports. By 1958, U.S.-Cuba trade still represented nearly 70 percent (with Germany, Great Britain, Spain and France comprising an additional 20 percent) of Cuba's total trade of $1.3 billion. Cuba's exports accounted for more than 35 percent of GNP.

The Pre-Castro U.S. Investment in Cuba. In 1929, U.S. direct investments in Cuba of $919 million were larger than U.S. direct investments in any other country save Canada. For example, U.S. direct investments in the U.K. were $485 million, $217 million in Germany, $61 million in Japan and $217 million in France. With the price level today almost eight times what it was in 1929, that year U.S. investments in Cuba would be over $7 billion in today's dollars.

By the late fifties, the U.K., Brazil, and Venezuela had passed Cuba in the reported value of the U.S. direct investments. However, Cuba's significance as a magnet for U.S. direct investment was still high. Official U.S. data sources showed U.S. direct foreign investment in Cuba amounting to $1,001 million in 1958 dollars, amounting to $4.5 billion in current 1991 dollars. The officially reported numbers are merely a mechanical summation of historical current dollar net investment accounting data less estimated depreciation. Therefore, direct investment numbers most likely represent a gross underestimate of market values. These numbers are somewhat analogous to the book value data on corporate balance sheets.

From another data source [see Table I below), the invested capital by specific industry categories totalled $3.27 billion at the end of 1957. This total in 1990 dollars would be roughly equivalent to $14 billion. In relation to current GNP, for example, the $3.27 billion in 1957 would be $31.4 billion today. Clearly, Cuba, under stable and democratic leadership, would provide significant opportunities for U.S. and other Western investors.

TABLE I
Foreign Investment in Cuba by Industry in 1957
($ millions)

Sugar cane	1,158.9	Machinery	5.3
Tobacco	56.0	Raw materials	0.3
Cattle	45.4	Food, beverages	76.2
Coffee, cocoa	16.3	Textiles, apparel	73.3
Agriculture industries	60.3	Furniture	8.6
Wood products	16.7	Graphic arts	43.6
Mining	524.8	Paper goods	8.9
Fishing	7.8	Leather	18.3
Fuels and additives	130.2	Toys	2.2
Electricity, gas, water	301.5	Orthopedic, optical	1.0
Transport, communic.	645.4	Jewelry	3.5
Chem., pharmaceuticals	36.1	Glass, ceramics	9.0
Construction materials	17.4	Other industries	1.8
Grand Total	3,268.8		

Source: Mr. Antonio Ricardi, "La Carta Quincenal" No. 60, National Institute for Economic Reform, March 1958, reprinted in Alberto Arredondo, "Cuban Industrialism: Characteristics and Objectives," First Symposium on Cuban Natural Resources, Havana, 1958. For specific qualifications to these data please refer to the original source.

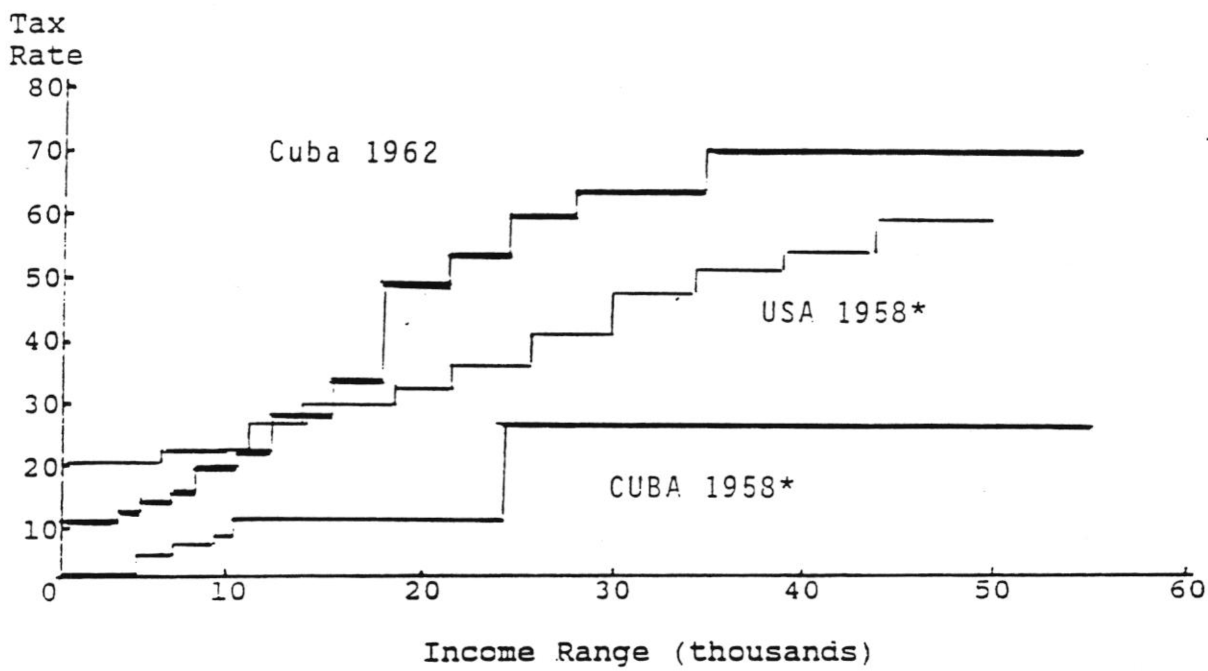
While these data do not suffer from the same accounting biases as the official numbers do, they may still underestimate the true value of invested capital. These figures, for example, don't include the value of land. These numbers reported in Table 1 above, therefore, serve as lower bound for direct U.S. foreign investment in Cuba.

Tax and Monetary Policies in Pre-Castro Cuba.

Cuba had the lowest rate of inflation of any Latin American country during the 1950s. Actually, from 1953 through 1957, the cost of living index for the whole of Cuba fell by three full percentage points. **The reason why Cuba was financially sound in comparison to Latin American countries is simple enough: Cuba effectively used the U.S. dollar as its domestic currency.** In fact, since its independence from Spain in 1902 until Castro's rise to power in 1959, the monetary authority of Cuba was exceptionally disciplined. This core integration with U.S. financial markets provided what must have been seen as low risk in the eyes of potential foreign investors in Cuba.

Tax rates also added a substantial financial inducement to the already attractive direct U.S. investments in Cuba. During the pre-Castro 1950s, Cuba's individual income tax rates were substantially lower than their U.S. counterparts. In the chart below individual personal income tax rates by income class are plotted for Cuba at the end of 1958, the U.S. at the end of 1958 and Castro's Cuba at the end of 1962. The implications for investors are obvious.

FIGURE I
Cuban and U.S. Tax Rates



* **Cuban Tax Rate (1959) increases to 60% over $500,000; US tax rate reaches a maximum of 91% over $400,000.**

Direct investments are but one measure of financial integration. On the same national balance sheets, short term investments (assets that originally matured in less than one year), portfolio investments and official investments also can be of major importance.

Long-term loans to Cuban nationals as reported by banks were about $92.5 million at the end of 1958, already down from their 1957 high. Short-term loans to Cubans, again as reported by banks, stood at $166 million. Banks and other financial institutions, however, not only lend money but they also accept deposits. In the case of Cuba, total deposits were approximately $286.5 million at the end of 1958. Of this, a little more than half were deposits at U.S. banks.

In summary, Cuba's development in the first half of this century

provided substantial economic opportunities, but only scratched the surface of Cuba's potential. Clearly, trade and investment ties between the U.S. and Cuba were extremely close. Low rates of taxation and inflation, economic integration, and the need to rebuild will be a tremendous spur to reinvigorate Cuban-American economic ties.

THE PRESENT

The reforms enacted by Castro effectively eliminated individual property rights and individual incentives. The Cuban economy's ties to its natural markets in the United States, Latin America and Europe were severed and new ties were developed with the Soviet Union. **Economic dependence has not been reduced under Castro one iota. Cuba is now completely dependent on the Soviet Union.**

Castro's leadership has saddled the Cuban economy with a network of administrative bureaucracies. With the 1960 establishments of a Central Planning Board, all economic activity in Cuba was subject to economic program directives implemented under the supervision of the National Bank of Cuba and the Council of State. Cuba's Ministry of Foreign Trade assumed control over foreign exchange transactions and the administration of all foreign commercial agreements.

Castro's Revolutionary Fiscal Law of 1962 created an administrative organization designed to eliminate "multiple benefits to entrepreneurs and investors." This Law established ten national taxes, including a tax on the net income of state-controlled enterprises which represented 56 percent of government revenues outlined in Castro's 1962 budget.

By 1964, 75 percent of Cuba's agricultural land had been nationalized under the control of the newly formed Institute for Agrarian Reform. The Castro government eliminated involvement by private banks and autonomous institutions in all monetary, credit, and banking activities in Cuba and placed Cuba's National Bank under the authority of Che Guevara, the ill-fated Argentinian guerrilla leader.

Soviet Realignment: Castro began to realign Cuba's economic relations toward Moscow in November 1959, by halting dollar transfer payments to U.S. oil suppliers and opting for Soviet crude oil suppliers. In August 1960, Castro nationalized Western refiners in Cuba, prompting the U.S. to reduce Cuba's sugar import quota. Castro then expropriated all U.S. assets. The redirection of Cuban trade toward Moscow took a decisive turn in February 1960, as Cuba and the USSR signed a trade agreement which committed the Soviet Union to purchase annually one million tons of Cuban sugar.

While during the 1950s, the U.S. alone accounted for over 65 percent of Cuban exports and 90 percent of Cuban imports, today the Soviet Union and Eastern Europe account for approximately 87 percent of Cuba's trade. The change in the composition of trade significantly underestimates the increased dependency of the Cuban economy. Trade with the Eastern Bloc is determined by bilateral negotiations between governments. Prices of the commodities are artificial and are intended to subsidize Cuba.

The Winds of Change: Cuba is extraordinarily dependent on the Soviet Union for all sorts of products. In fact, nearly all of Cuba's oil imports in 1989 were from the Soviet Union. Oil and natural gas are also extremely important to the Soviet Union because oil and gas exports account for about 40 percent of Soviet Union hard currency earnings. In these days of economic stress within the Soviet Union and because Castro doesn't pay for the oil in hard currencies, hard currency earnings have taken on a new level of importance. Soviet oil production fell by more than 7 percent in 1990. In April 1991, Moscow announced that Soviet oil exports would be cut by 50 percent. **The Soviet Union's declining oil and gas production dramatically reduces Moscow's ability to sustain an economic lifeline to the Castro regime.**

Soviet oil shipments to Cuba are already starting to decline in volume and increase in cost. A one year Cuba-USSR trade agreement signed on December 29, 1990, set the volume of Soviet oil exports to Cuba at 10 million tons in 1991 at a reduced, though still preferential barter ratio of 2.5 tons of petroleum for each ton of Cuban sugar. The barter ratio previously had been 3.8 tons of petroleum for each ton of Cuban sugar. Under the new agreement Cuba also will absorb one-half of the transport costs of both Soviet cereal and fertilizer deliveries to Cuba.

The new Soviet and East European emphasis on cash-based trade has lowered the value of Cuba's trade transactions with the former Soviet bloc at a time when Havana faces a severe shortage of domestically produced food and industrial goods. In December 1990, Czech President Vaclav Havel informed Cuba that the Czechoslovakian Embassy in Washington D.C. would no longer represent Havana. Soviet officials streamlined Moscow's economic relations with Cuba last January by removing more than 1000 technical advisors from Cuba. Despite devoting a disproportionate share of their economic resources to the military, Moscow and Havana have also fallen hopelessly behind the military technology curve.

Castro's Balance Sheet. Today, Cuba's economic performance stands in sharp contrast to its pre-Castro period:

* **Cuba's economy is more reliant on sugar production than it was thirty years ago.** Sugar production accounted for 83 percent of Cuba's total export earnings in 1989. Despite intensive efforts to boost output, Cuban sugar production for the 1989/90 season fell to 8.04 million tons down from 8.12 million in the previous year. Preliminary reports indicate that it fell another 500-600 thousand tons in 1990-91.

* Between 1986 and 1989, Cuba experienced zero growth in its Global Social Product. By December 1990, Cuba's hard currency

reserves had fallen to approximately $50 million and a government rationing program was extended this year to consumer goods and services.

* Cuba's per capita debt to Western lenders has risen from $31 [measured in 1990 dollars] in 1959 -($45 million total) to $727 in 1990 ($8 billion total).

* Housing is recognized by Havana to be one of the country's most pressing problems. Havana eliminated private contractors and increased the number of government minibrigades devoted to housing construction in 1987. Housing completions in Cuba declined by 5 percent in 1988. The dilapidated state of Cuban cities and towns and the need for 600-800 thousand new houses are proof of Castro's neglect of Cuba's housing needs.

The overall standard of living of the Cuban people by the end of 1958 was among the three highest in Latin America. Today, 32 years after Castro, it is at the lower end among the lowest 5 on the Continent. That, alone, says it all.

THE FUTURE

Under a new democratic, market-oriented leadership, Cuba would rapidly retrieve its place among the most powerful economies in Latin America and restore its tradition of economic integration with the United States and other Western trade partners. The dramatic success of more than one million Cuban exiles in the U.S. testifies to the economic potential of a free Cuba. More than 20 percent of Cuban-American households have incomes of $50,000 or more. The combined income of the Cuban- Americans is larger than the income produced by 11 million Cuban citizens under Castro's political control. The percentage of Cubans in their "peak productivity" age (15 to 65 years) is nearly twice that of Latin America and the Caribbean as a whole and Cuban educational performance, as in the pre-Castro period, compares favorably to other Latin American countries. **Castro's demise not only may remove a significant threat to security in the Western Hemisphere, but also will generate tremendous opportunities for the U.S. business community and allow Cuba to become the anchor for a stable and prosperous Latin America.**

Investment Opportunities in Post-Castro Cuba

A post-Castro Cuba would provide significant investment opportunities. Potentially attractive industries are as follows:

Telephone Company: In 1986, Cuba's telephone system had 540,000 lines. The 1988 fire at Havana's main telephone exchange destroyed half the telephone lines. Today the system comprises approximately 150,000 lines. Since Cuba has not modernized its telephone system, it does not have advanced mobile communications such as cellular communication. The global trend recently has been for national governments to sell their public telephone and telegraph companies. Australia, Chile, Argentina, Mexico, Puerto Rico, and Venezuela have their privatization process on the way.

Selected Public Works: The major public facilities in this sector include the 11 port facilities, 200 merchant vessels and the electricity production facilities. National trade and commerce will be extremely important to the future of Cuba. For the country to achieve its full potential it will require first-class facilities. A modern merchant shipping fleet may be a direct complement to the port facilities used in shipping of products to and from Cuba.

To reduce Cuba's dependency on Soviet oil and foster cash-based trade arrangements with neighboring countries, Cuba is improving its oil refining and shipping capacity. Cuba's first new refinery since 1959 was opened at Santiago de Cuba in July 1989, bringing Cuba's total annual refining capacity to 13 million tons. A Cuban trade proposal, under consideration by Mexico, envisions Mexico's use of a dormant, inefficient refinery in Cienfuegos, Cuba, in exchange for a portion of the gasoline produced there.

The first tanker-barge built in Cuba, with a capacity of 420 tons, was launched this year at the Victoria de Giron shipyard in Cardenas. Cuba is geographically well positioned for oil storage and distribution to Caribbean countries. Cuba's oil production target for 1990 was 3 million tons, barely offsetting Moscow's cutback in 1991 oil shipments to 10 million, down from 13 million in 1989.

Air Transport: Cubana, the air line, operates from Havana's Jose Marti International Airport. However, three other airports can also handle international traffic: Varadero, Holguin and Santiago. Cubana has routes to Brussels, Berlin, Madrid, Moscow, Paris, Prague, and Zurich in Europe. Routes in the Americas include Jamaica, Trinidad, Barbados, Guyana, Canada, Argentina, Peru, Mexico, Panama and Nicaragua. Last November Cubana opened routes to Ecuador and Chile. Several charters also operate to Venezuela and Finland. Cubana has domestic services to Santiago de Cuba, Camaguey, Holguin, Tunas, Baracoa, Nicaro and Nueva Gerona.

Due to Cuba's location, air transport will always be a necessity for Cuba. Furthermore, air traffic will benefit from any economic expansion as trade and commerce expand. International passengers into the island increased at an annual rate of 8 percent from 1985 to 1988. Together with LOT Polish Airlines, Cubana is one of the fastest growing carriers and the most crowded in the world. Its year-round average load factor was 77.5 percent.

Havana is well-situated to serve as a hub for Latin American-U.S. routes.

Tourism: Approximately 85 percent of the 225,000 foreign visitors to Cuba in 1988 were from non-socialist countries, most notably Canada and Sweden. Besides Havana, two other areas could be of interest for tourism development: Varadero and Cayo Largo.

Castro's repressive government has barely scratched the surface of the island nation's revenue potential from tourist trade. Cuba's resort industry lured 250,000 tourists and $200 million in 1990. By contrast, Jamaica's tourist trade earned $550 million during the same period.

Cuba is ideally situated to capture a significant share of the $7 billion tourist trade in the Caribbean region. However, significant amounts of capital and the development of service-oriented management skills that are anathema to command economies, will be required to upgrade Cuba's tourism facilities to the position of that of its neighbors, Jamaica and the Dominican Republic, or even to what Cuba had before 1959. Acquiring and upgrading existing facilities, which are below the standard of other Caribbean resorts, is a plausible investment strategy for hotel chains or individual investors in a post-Castro Cuba.

Agribusiness: Cuba is unlikely to regain all of its 1958 share of the U.S. sugar market. U.S. per capita sugar consumption declined from roughly 115 pounds in 1960 to only 60 pounds in 1985 and U.S. sugar production increased from 4 million tons to 7 million tons during the same period. In 1958, the U.S. purchased 3.2 million tons of sugar from Cuba, roughly the same amount shipped to the Soviet Union in 1990 but far more than the present U.S. sugar import quota of 1.1 million tons. Caribbean nations were allotted a mere 440,000 ton share of the 1990 U.S. sugar market.

Cuba produces roughly 7 percent of world sugar and is the world's largest exporter. Tobacco has traditionally been Cuba's second largest farm export. The 1988-89 tobacco harvest netted 42,900 tons. Roughly 180,000 hectares of land devoted to citrus crops in 1988 yielded more than 530,000 tons, making Cuba the fourth largest exporter in the world.

The U.S. system of import quotas, which, for example, has allowed U.S. sugar producers to capture 90 percent of the U.S. market, will represent a formidable barrier to Cuban sugar producers seeking to reestablish a significant share of the U.S. market.

Without a U.S.-Caribbean free trade regime that includes Cuba, Cuban sugar producers would not only have lower export earnings but would also be less willing to incur the high costs associated with the production of fuel alcohol derived from sugar cane. Clearly, Cuba-based producers of citrus crops, sugar, vegetables, nickel, and seafood will benefit from lower shipment costs afforded by the nearby U.S. market. Freight costs to ship Cuban raw sugar to New York are roughly half as expensive as shipments from Asian suppliers; U.S. citrus imports from Cuba would cost $150 less per ton than citrus imports from Brazil. The volume of cargo movements between Cuba and the U.S. would depend in large measure on trade restrictions involving agricultural goods.

Mineral Resources: With estimated reserves of 19 million metric tons of nickel ore (consisting of 0.8 percent and 1.4 percent nickel content), Cuba has the fourth largest nickel deposits in the world. Production from refineries at Nicaro and Moa Bay totalled 35,400 tons in 1987. Other mineral deposits include copper mines at Matahambre, which yield 3,000 tons of copper concentrate and chrome mines which yielded 37,000 tons in 1986.

Medical Technology: Havana's chief investment in the development of medical technology is an $80 million Center for Biotechnology and Genetic Engineering established in 1986. Foreign sales of Cuban medical products, such as Interferon, as vaccine for meningococcus, and cancer treatment drugs, generated net earnings of 200 million pesos last year. Without significant inflows of foreign capital supporting medical enterprises, similar to that which helped create 500 pharmaceutical firms in pre-Castro Cuba, Havana will lack the resources needed to effectively test, develop, market, and distribute medical technology.

U.S.-Cuban Trade: The range and scope of U.S. trade with a free Cuba will depend largely on the nature of political shifts in Havana and the manner in which the Caribbean region is incorporated in to the North American free trade regime envisioned in President Bush's Enterprise for the Americas Initiative.

In the absence of U.S. trade sanctions against Cuba, U.S. firms will find several areas, particularly in product categories sensitive to the cost-advantages of U.S.-Cuba proximity, where Cuba is a natural market for U.S. goods. For example, U.S. companies will have a distinct competitive advantage over other Western producers of: construction supplies; automotive parts; herbicides; fertilizer; telecommunications equipment; medical products; steel; grain; and food processing equipment. Need for upgraded telecommunications links and air traffic between Florida and Cuba will increase as the reality of a political transition in Cuba demand.

U.S. firms could be expected to replace most of the trade currently conducted by U.S. subsidiaries abroad. Last year, Cuba received goods worth more than $300 million from U.S. companies based in Argentina, Britain, Switzerland, and other Western nations. Products sold to Cuba by subsidiaries of U.S. firms in the third world include:

agricultural pesticides		carpentry tools
cement	telephone equipment	compressors
construction supplies	electrical supplies	fertilizers
engineering services	medical equipment	wheat flour
glass products	micro switches	
pharmaceutical products	power plant equipment	

The U.S. stands to gain a significant share of Cuban-Soviet trade. Cuban trade with the Soviet Union and East Europe, worth approximately $12 billion annually, is now negotiated on a hard currency basis. However, it is still heavily subsidized and involves commercially unsound transport arrangements and thus does not reflect market values.

A conservative estimate of the U.S. share of the Cuban market in the first year of renewed economic relations would be $1.3 billion, or one-third of the $4 billion in annual Cuban trade turnover with Western industrial and developing countries. The percentage of this market captured by the U.S. will be determined predominantly by: U.S. agricultural trade policy; the pace of Cuba's political realignment with the West; and the ability of U.S. businesses, particularly producers of automobiles, tractors, grain and fertilizer, to penetrate the Cuban market.

U.S. exporters of grain and foodstuffs would expect to capture roughly 50 percent of the $500 million Cuban grain market. Competitive advantages of proximity, price and quality over other Western firms could allow U.S. producers to capture virtually all of Cuba's $150 million market in chemical goods, such as fertilizers and pesticides as well as the $200 million market in medical supplies.

Note: Castro's government is presently "on the ropes". **No measure of new foreign investment from Western private investors can change its 32-year record of chaotic management, waste of valuable resources and oppressive social and political behavior.** The Castro regime's rigid command economy cannot provide the conditions for attracting private capital inflows and generating long term economic growth in Cuba.

Clearly, multinationals currently in trade with the Castro regime are taking serious legal and commercial risks. The U.S. trade embargo against Cuba, implemented in 1963, forbids U.S.-Cuba trade in virtually all product categories. The recent federal grand jury indictment of Cargill Inc. for its role in a 1988 sale of Cuban sugar to Venezuela and moves by U.S. legislators to close loopholes in the U.S. trade embargo against Cuba have generated a greater awareness of these risks within the U.S. business community. [A 1975 Amendment to the 1963 Cuban Assets Control Regulations allows foreign subsidiaries of U.S. firms to trade "non-strategic" goods with Cuba upon acquisition of a license. Trade between Cuba and U.S. subsidiaries abroad - totalling $332 million in 1989].

European, Japanese and other Western firms trading with the Castro government are also jeopardizing their access to a dynamic, market-oriented economy in post-Castro Cuba. **A new, democratic government in Cuba is likely to reject as illegitimate any commercial arrangements between foreign investors and Castro's Communist Party.** Castro's successors considering commercial offers from foreign investors also can be expected to weigh the record of trade arrangements providing valuable hard currency and other economic assistance that helped sustain the Castro regime.