

# CUBA AND THE UNITED STATES: THE BILATERAL RELATIONS



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## I. INTRODUCTION

### **What doctrine should guide the bilateral relations going forward?**

As it happens, when an Administration changes, discussions on current policies, whether national or international, are opened in search of new definitions. This always invites those who have a political, economic, or ideological interest in redefining the course of a policy to get involved in the debate to have it change in their favor. The U.S. projection of power and influence towards Cuba has always been a good example of this rule.

In the past, twelve US presidents have had various approaches to the Cuban regime of Fidel Castro and his successors, which in essence can be summarized in three doctrines: Rollback, Containment, and Constructive Engagement.

Joseph R. Biden, the thirteenth U.S. President to face the Cuban situation, before getting lost in the intellectual labyrinth of possible options towards Cuba, has the need to know the nature of the entity he intends to interact with. The negotiating partner in Havana is no longer a revolutionary state or even a "Communist" state. Since the beginning of the new century and the establishment of the strategic alliance with Venezuela, essential transformations have occurred in the political economy of the Cuban system, in its class configuration, and in its power structures that cannot be ignored.

The negotiation intended to be carried out with "the Cuban government" is in fact with a power elite that controls the government, and society as a whole. A military power elite that rules; while the government of Miguel Díaz-Canel just implements, manages, and obeys its decisions.

What is the nature of this Cuban military power elite today? Where does its power stem from?

The current ruling regime, which Cubans on the island tend to simply call "the system," is politically, economically, socially, culturally, and ideologically exhausted. At present, this ruling regime is characterized by a political and cultural totalitarian state, with a widespread economic monopoly in place that suffocates individual initiatives. Inside this bureaucratic state lives another state - which could be classified within the category of a post-Communist Mafia State<sup>1</sup> - controlled by a powerful military elite, which manages for its own benefit all the institutions that generate profits in dollars, is not at all subject to oversight and, furthermore, monopolizes key foreign policy decisions, as well as those of the country's military and intelligence apparatus.

That military elite - not the bureaucratic government headed by Díaz-Canel - is the one that really holds power in Cuba and could change the current ruling regime, if it came to the conclusion that the risks for them are greater if they continue to cling to it. However, today it has renewed its hopes of persuading

the new U.S. Administration in various ways to oxygenate Cuban finances without making any structural reforms in return.

### **The Structural Crisis**

Cuban society today is going through more than a current situational crisis from the impact of the pandemic, the fall in tourism and the effect of sanctions by the previous U.S. administration. For several years, Cuban society has suffered a deep structural crisis that permeates all spheres of reality, not just the economy. With Fidel Castro, its founding leader, dead; with an unproductive economy, financially bankrupt and without patrons like the Soviet Union (USSR) or Venezuela; with its ideological and informational control over the population broken, Cuba faces a new generation that is showing increasing signs of not respecting or fearing governmental authority.

The bureaucratic government managing the governance regime and being its visible face - the designated president Miguel Díaz-Canel and his ministers - cannot replace or transform it, not only because of their ineptitude, but also because the real power elite on the island –a small group of military, and some civilians close to the Castro family– prevent it. Why? Because it is the social group that benefits the most from the current status quo. As a social group they have a marked interest in sustaining their broad privileges and all-embracing power over the rest of the country.

Cuba is no longer a classic Communist state, if it ever was. This elite - which represents less than 0.01% of the population - has transformed the bureaucratic Communist model into a society where a small group of people has a monopoly on violence and controls other key state functions, such as foreign relations and economic policy; maintains a politically totalitarian one-party regime, ignores the social, economic, and cultural needs of citizens, and engages in illicit activities in other countries with similar - state and non-state - autocratic and Mafia groups.

The widely touted "achievements of the revolution" in social security, full employment, education, public health, and others, have been put away by that power elite that only deals with expanding its billion-dollar businesses that no state or non-state entity can control. Poverty grows throughout the country, in contrast to the increase in power and wealth of a few who obstruct any change.

The already unproductive state system is additionally trapped by lack of liquidity, caused by its low productivity, the plummeting fall in its exports, the impact of the COVID-19 pandemic on tourism – with the number of tourists falling by more than 77% in 2020 -- the absence of credit given their chronic habit of not paying their debtors<sup>2</sup> and their severe difficulty in attracting foreign investment. Even Russia has frozen its investments on the island for lack of follow-up on the Cuban side<sup>3</sup>. This general disaster, plus their insistence on keeping state-operated agricultural production, has brought the country to the brink of famine. Never before has the Cuban state depended so much on remittances and payments for telephone services provided by exiles from abroad, as well as on the oil that Nicolás Maduro<sup>4</sup> supplies in reciprocity to the Cuban military and intelligence services that keep him in power.

Under these circumstances, the Cuban power elite has been betting on a rapid rapprochement with the administration of Joseph R. Biden that will allow it to access - without modifying its archaic governance - additional resources to be able to survive this new crisis, which could be more severe than the one that occurred in the 1990s when the USSR fell.

However, beyond the time it would take for the new Biden Administration to reflect on the bilateral issues, the inclusion of Cuba on the list of countries sponsors of terrorism has stalled that aspiration.

The possibility of an immediate settlement with the Biden Administration, while unlikely, has now disappeared from the near-term horizon. However, if Havana wishes to advance bilaterally, it actually has the ball in its court. The Biden Administration does not have Cuba among its priorities and is still metabolizing the lessons of the failed efforts under President Barack Obama. For this reason, it can afford to take its time and wait for the Cuban ruling leadership to move chips, since during the Obama Administration they refused to do so, when the opportunity was propitious for it.

In this regard, it is worth asking, should the current Administration accept the multiple pressures from the sympathizers of the Cuban military power elite to get closer to it again?

The experience with the thaw under the Obama Administration, its successes, and failures, is a good starting point for any analysis by the Biden Administration of the new pirouettes and arguments of the Cuban military to achieve rapprochement.

### **What happened when President Obama extended his hand to Raúl Castro?**

The policy change implemented by President Barack Obama as of December 2014, the so-called “thaw” of bilateral relations between Cuba and the United States, allowed more than 4,000 American businessmen to visit the island in just two years. The Treasury Department's Office of Foreign Assets Control (OFAC) received hundreds of applications for licenses from U.S. companies to do business with Cuba, many of which were granted.

The largest telecommunications companies in the U.S. --AT&T<sup>5</sup>, Verizon<sup>6</sup>, Sprint<sup>7</sup>, T-Mobile<sup>8</sup>-- signed contracts with ETECSA, the Cuban state monopoly that handles telecommunications on the island. The contracts covered the roaming service of their clients, which includes talking on the phone, sending or receiving text messages, surfing the net and using data while in Cuba. A lucrative business that, since then, along with recharging telephones, has generated hundreds of millions of dollars for the coffers of the Cuban government.

One of the largest hotel chains in the US, Starwood Hotels & Resorts, entered the Cuban market<sup>9</sup>. The increase in the arrival of American tourists to the island triggered increased prices in the hotel market. Hotels that sold the night at US\$109 per room began to quote prices that were around US\$250 and US\$300 per night<sup>10</sup>. The entry of Airbnb also skyrocketed the price of private-sector accommodations.

Its database had more than 40,000 rooms on the island. Entrepreneurship around tourism services began to grow<sup>11</sup>.

At the same time, with the release of restrictions on remittances from the U.S. to Cuba the island became the destination with the highest annual growth rate in that market in Latin America<sup>12</sup>. Its amount far exceeded earnings from Cuban exports of rum, nickel, tobacco, sugar, biotechnology, and net income from tourism<sup>13</sup>.

In addition to bilateral flexibility, the Obama Administration made discreet approaches with Cuban creditors to inform them that Washington's new policy towards Cuba made foreign investment less risky and that canceling or restructuring the debts contracted by Havana would be beneficial for all parties. Those constructive messages encouraged the cancellation of billions of dollars of Cuban foreign debt by third-party countries, the restructuring of payments and the injection of new credits to the island.

However, the Cuban government did not take advantage of Obama's red carpet: their mentality proved to be still anchored in the Cold War. The octogenarians in power showed they were unprepared for change. As soon as Air Force One flew Obama back to the U.S. after his historic visit to Havana, the regime froze the reforms, lashed out in the press against Obama's policy towards Cuba, launched a new economic and police harassment against the self-employed, put an end to the approval of new non-agricultural cooperatives, began to demonize entrepreneurs in the press, reinforced repression against opponents and dissidents, and started the sonic attacks on American and Canadian diplomats. Abruptly, after the embassies were reopened, the regime began an accelerated setback in the process of improving relations between the two governments. It also failed to honor its commitments to creditors who had generously canceled and restructured its debts.

If the White House and the State Department assumed that Cuban leaders would see with joy the tide of U.S. businessmen and officials who now visited them, they were wrong. An audio taken in a meeting before the sonic attacks started, in the middle of the thaw, and leaked years later to the press in Florida, shows it. In the recording, an official is clearly heard expressing alarm from the country's leadership and the Interior Ministry at the massive U.S. presence giving strict instructions to senior officials in many economic, academic, and political institutions. No one could allow access to their institutions, or meet with any of them, without first informing and receiving express authorization to do so<sup>14</sup>.

For both the General Directorate of Intelligence (DGI) and the National Directorate of Counter-Intelligence (DGCI), the important thing was not the economic development and well-being that these visits could bring to Cuba, but rather trying to control the circumstances of that exchange or prevent its realization. The criteria and procedures by the secret police - not only those from the administrative bureaucracy - explain not only the limitations in exchanges but also the long process of evaluation and approval of business proposals brought by the visitors. It is the same police obstacle that the extension of modern Internet services has encountered in Cuban society. It is easier for the DGI and the DGCI to

control the country without the Internet, even if it is lagging behind the 21st century. Convenience in carrying out their repressive work precedes national welfare and development in importance.

It is also a curious coincidence that it was after this -official and police- expression of concern and discomfort at the large number of diplomats accredited at the recently opened U.S. embassy, that the so-called “sonic attacks” were initiated against the personnel accredited there. The impact on their health eventually forced the evacuation of more than two dozen diplomats and their families. Under the Trump presidency, which began with a declaration that he did not want to break bilateral relations but rather renegotiate their terms, the attacks escalated, leading to the indefinite interruption of the operations of that diplomatic delegation in Havana precipitating an open confrontation between the two countries.

As a business balance of the "thaw", after receiving thousands of visitors and proposals, Cuba approved less than a hundred. Not many of them did very well either.

The unexpected arrival of Donald Trump to the White House took the Cuban regime by surprise. Sonic attacks on U.S. diplomats became even more frequent. The fragile bonanza of the emerging sector of entrepreneurs which had appeared during the thaw began to disappear due to permanent harassment by the government. The military power elite expanded its control over the business fabric, arbitrarily appropriating most of the dollar-earning sectors of the Cuban economy, including tourism, telecommunications, and remittances.

Donald Trump initially offered to talk about a new agreement, but it was rejected by the Cuban leadership. Meanwhile, the sonic attacks did not stop, which also affected Canadian diplomats. From the scandal over the disclosure of what happened to diplomats, the United States sanctions against the Cuban government were strengthened. The rest of the story to this day is common knowledge.

The opportunities lost by Cuba during the thaw demonstrated that the Cuban government had no interest in making reforms to benefit the Cuban people. The objective was for the United States to urge all the countries with which they had debts to cancel them, to invest on the island, and to promote American tourism so that the military in control of that sector would obtain huge profits from the growth of travel to Cuba. Part of this scheme was the expectation that the U.S. would relax restrictions on remittances to make them one of its main lines of financing at the expense of the Cuban Diaspora. Part of the resources obtained from the thaw process and the creditors were used to reinforce the internal repressive apparatus. At the same time, it continued to support the Venezuelan Mafia with intelligence and military advisers, from whose territory both countries carry out illicit, criminal, and destabilizing activities with state actors such as Russia and Iran and non-state actors such as the FARC, ELN and Hezbollah<sup>15,16,17,18</sup>.



This reality puts in perspective that resuming a rapprochement with Cuba requires a deep analysis of the current situation of the Cuban government (see section II of this document) that allows evaluating how to deal with Havana in the next four years of the Biden Administration, if the lessons of the Obama experience are going to be of any use.

There are too many unresolved issues before moving one step further.

As an example we will cite some of them: the sonic attacks on more than twenty U.S. diplomats; the reluctance to admit the right to fair compensation for properties that were confiscated to Americans; the constant violation of political, civil, economic, social and cultural human rights that the Cuban government continues to commit against its people; the imprisonment of political opponents and the harassment of new social dissidents linked to different movements of popular demands; the monopolization and control of the Cuban economy in the hands of the Cuban military, who constitute one state within another<sup>19</sup>; human trafficking in professionals, especially health workers, being used as forced labor in various countries<sup>20</sup>; the economic siege and financial and police harassment that the Cuban government has imposed on the self-employed on the island; the money laundering business that the military corporation GAE S.A. has set up at the expense of the remittances that Cuban exiles send with much sacrifice to their relatives on the island<sup>21</sup>.

Additional to all this is the interference of the Cuban intelligence services in Venezuela, which has prevented the fall of Nicolás Maduro and has consolidated a narco-dictatorship in power, which has caused the greatest humanitarian crisis ever seen in South America, with around 5 million Venezuelans displaced<sup>22</sup> in addition to working together in regional destabilization to weaken democracy in Latin America and trying to consolidate anti-American governments in other countries in the region. All of these factors are aspects that the Biden Administration must carefully review before taking any step toward a new relationship with the Cuban military power elite.

The Cold War ended, but it was replaced in the new century by a new arc of threats emanating from the alliance between regimes of a new kind: post-Communist states, autocratic regimes, and modern Mafia states, with non-state actors of a terrorist nature and organized crime. It must be taken into account that the malign relationship between the regimes of Havana and Venezuela - in their alliance with other extra-regional actors such as Russia, China and Iran and terrorist and organized crime organizations - represents a threat, not only for the Latin American region, but also for the United States itself. Tons of drugs end up in the U.S. market causing deaths and gang activity. The concertation of these diverse actors is now part of their infinite war against the United States<sup>23</sup>.

In the 21st century, this alliance has acquired the ability to develop asymmetric wars using hybrid tools that combine elements and weapons of conventional warfare with those of irregular warfare, cultural subversion, and wars of disinformation. Some of these states have developed intermediate-range missiles; others have the capacity to produce biological weapons. To look the other way and pretend



that good intentions will change the behavior of these theocratic, Mafia, or simply authoritarian elites is to place the destiny of democracy in the hands of good luck<sup>24</sup>.

It is regrettable that the debate on whether or not Cuba should be on the list of countries that support terrorism has become politicized. The intelligence community agencies did not lie to President Obama when they told him that they no longer saw on the island the subversive training camps, the active guerrillas that always populated it, or the trafficking of drugs and notorious drug traffickers. It was true. They could not find them because the alliance with Chávez allowed Fidel Castro and his brother to displace these types of activities to Venezuelan territory, thus outsourcing the dangers of keeping them in Cuba after the 1989 drug trafficking scandal. Cuba continued more than ever to be involved with dangerous enemies of the U.S. and international security.

A hasty easing of sanctions on the Cuban regime or removing Cuba from that list again under pressure from people of good will, but also from Havana lobbyists and agents of influence, would automatically translate into greater resources to violate human rights in Cuba and also to keep the narco-terrorist dictatorship of Nicolás Maduro in power. These issues are too important to expose them to fluctuating electoral emotions in the United States.

### The Master Spy Corollary

Ana Belén Montes was a genuine master-spy of Cuban intelligence. Given her privileged location at the forefront of military intelligence for Cuba and Central America within Pentagon military intelligence, Montes came to be recognized as “the” most authoritative expert on Cuba in military, intelligence, political, journalistic, and academic circles in Washington, DC. For that reason, the greatest damage she caused to national security was not stealing part of its secrets and sharing them with Cuba - which cost U.S. soldiers their lives - but acting as the most effective agent of influence to shape the perspectives of the U.S. elites on the threat that Cuba may or may not present to the United States. Montes convinced almost everyone that, after the fall of the USSR, with its ruined economy and the end of conflicts in Africa and Central America in which it had been involved, the only danger that Cuba still represented for the United States was that of a massive exodus of citizens trying to escape to their neighbor to the north.

That was the misinformation premise sown by Ana Belén Montes in the first half of the 1990s, which still circulates in certain Washingtonian circles. The corollary from this belief was that the U.S. should lift sanctions and facilitate Cuban access to U.S. capital and markets in order to stabilize the internal situation; that is, facilitate rather than oppose the domination by the military power elite of the Cuban people. Years later, some senior Obama Administration officials privately admitted that the central objective of their new policy toward Cuba was summed up in one concept: **stability**. The Master Spy Corollary lived on many years after she was arrested in 2001. In other words, if the U.S. wanted to privilege stability on the island, it should ignore the fact that the Cuban governance crises responded

fundamentally to an internal cause - the inadequacies and contradictions of its obsolete governance - and it should seek ways to subsidize its maintenance.

The ungovernability on the island that should be avoided, according to Montes' premise and that corollary, was the result of exogenous causes - U.S. sanctions - and not of endogenous reasons: the contradiction of the Cuban system between its totalitarian nature and the unmet needs of the population.

The Master Spy Corollary was still alive in the subconscious of many U.S. officials, who never realized that their perspectives on the island had been manipulated since the 1990s by the Cuban intelligence service. For this reason, they believed they were seeking stability on the island as a national security strategy for the United States, when in reality they were strengthening the Cuban power elite and transforming it into a formidable enemy in the new 21st century.

### **Governance regime: the nexus among stability, human rights and regional security**

To those confusions sown by Havana's deliberate misinformation were later added semantic confusions about the meaning of certain key concepts. The terms "government" and "regime" are increasingly confused and used as if they were the same thing. They are not. Nor does advocating "regime change" mean promoting the international use of military force.

When Obama declared at the Panama Summit that the United States was renouncing *regime change* in Cuba, he must have been understood by the general public as the refusal by the United States to resort to force to overthrow the Cuban government. However, in his speech in Havana, while diplomatic, respectful, and restrained, he reiterated time and again - without explicitly using that concept - that the current *governance regime* in Cuba was a failure, and that Cubans could look to Miami and wonder why their compatriots had triumphed there.

A "governance regime" - what Cubans call "the system" - is the set of laws, institutions and norms that regulate activities and define admissible and inadmissible behavior in a society at any given time. The Cuban governance regime or system is exhausted and does not count on the minimum consensus from the population. Even its operators and officials know it and acknowledge it privately.

This regime is the cause for scarcity, growing destitution, massive emigration, and generalized citizen unrest that generates more and more public protests and could lead to serious situations of ungovernability. Soviet and Venezuelan subsidies could never make room for general prosperity on the island. The sensible thing for U.S. interests is not to artificially prop up that system but to support, always within the framework of international law, the efforts of Cubans to facilitate its replacement. The good news is that the existence of a civil society that demands its rights is already evident in contrast to the submissive front citizen organizations that the totalitarian state has created and used in its favor over decades. Supporting the fight for the human rights enshrined in the Universal Declaration is not an

interference in Cuban sovereignty because that state, although it violates them on a daily basis, is a signatory of this and other international instruments in this field. What is scandalous is not supporting the valued activists associated with multiple causes but rather turning our backs on them.

When the Obama Administration wanted to experiment with Cuba, the belief still prevailed that the Chinese model - political totalitarianism with free market elements - was successful in gradually advancing towards democracy. Many believed then that the United States should encourage Cuban leaders to follow that path by creating an atmosphere of political, military, and economic security for them. Today that proposition has been devalued by events in Cuba and China. On the other hand, the experiment of negotiating with the military the transition to democracy in Myanmar closed on February 1, 2021: a new coup has liquidated those good intentions and has disappeared one of the main protagonists of that bet, Aung San Suu Kyi.

The Chinese caste has grown stronger over the years. Democracy there could not advance - perhaps even regressed. Thus, this country has become, with the resources it obtained from the preferential treatment of many years, a formidable threat - military, intelligence and economic - to the United States, to neighboring countries and to world democracy.

Contributing to the Cuban struggle to replace --not strengthen - the current governance regime in Cuba is the main contribution to the interests of the people on the island that the United States and the American continent as a whole can make. Democratic governance - not authoritarian - and the prosperity that it facilitates is the only one that can guarantee stability on the island and security in the region.

### **The thaw and the blockade that are urgent to lift are internal in nature**

The debate on the thaw with the Cuban government and the lifting of the blockade are false dilemmas.

The Cuban conflict is internal - between the governance regime and the people who reject it - not between Cuba and the United States. The Cuban power elite has sought to internationalize this internal conflict by allying itself with the USSR, and then with Russia, China, and lately Venezuela.

What prevents promoting the prosperity of civil society are not U.S. sanctions against the Cuban state, but the blockade by the power elite to the freedoms (political and economic) of civil society that impede the development of the country. The independent economic activity of civil society is not sanctioned by the *Helms Burton Act* but by the Cuban State.

The war that exists today is waged by the State against citizens and their civil and economic initiatives. The thaw that is urgently required is between the Cuban state and island society. The blockade that needs to be lifted is a domestic one by the State against the private economy, both urban and farming.

## Negotiate with the Cuban government or with the power in Cuba?

The Cuban government does not have the power - although the military elite does - to commit not to attack U.S. bilateral and security interests in the region.

These interests are listed in the references regarding Venezuela –valid also for its Cuban partner– made by Eric Farnsworth, Vice President of the Americas Society and the Council of the Americas in Washington, DC<sup>25</sup>: *What is in the national interest in relation to Venezuela is to protect the U.S. homeland from threats such as drug trafficking, money laundering and other illegal activities; supporting friends and allies, regional and extra-regional, threatened by the export of instability, including revolutionary violence, economic coercion, refugee flows and health emergencies; and reduce the footprint of authoritarian regimes in the Western Hemisphere. The Biden Administration will also find that its desires to protect human rights, mitigate environmental destruction and work more closely with allies find expression in the crisis in Venezuela.*

The big question that the Biden Administration has to ask itself is how to directly help the Cuban people and help the country move towards a democratic transformation that guarantees freedoms and makes the prosperity of Cubans viable. And a second related question, how to avoid that the resources that are eventually released to help the Cuban people are kidnapped by their oppressors and with them strengthen their regime,

**The policy of the United States must be, on the one hand, pressure on the Cuban power elite and, on the other, direct engagement with the Cuban people.**

This time, instead of seeking a thaw in the bilateral relationship between the two States, it must be tried, in a creative and coherent way, to force the Cuban State to begin the thaw of its hostile relationship with citizens and lift the internal blockade on their business initiatives and ventures.

Washington should abandon the state-centered approach to the bilateral relationship and assume a strategy that is directed directly to the Cuban people. To use a phrase by Raúl Castro, while relations between the U.S. and Cuban people can take an immediate positive turn, the improvement of relations between the two states can be assumed "with no pause but no haste either."

The Biden Administration can explain directly to the Cuban people the immediate advantages that they would receive if the military power elite lifted the internal blockade on the private initiative of farmers and urban entrepreneurs and put an end to the repression of basic freedoms such as political and cultural expression, the right of association, freedom of the press, freedom of academic research, free access to the Internet and free movement of citizens, among others.

The power elite, if it really has an interest in improving the bilateral relationship with the United States, must put an end, *de facto* and *de jure*, to the repression of basic civil liberties, unconditionally lift its internal blockade of the productive forces of private farmers and entrepreneurs, and withdraw its military and intelligence advisers from Venezuela.

The lifting of the internal blockade on farmers and urban entrepreneurs would allow those sectors to begin to interact commercially and financially with the U.S. market, which would lead to an immediate increase in the supply of products and services and the creation of hundreds of thousands of jobs.

## II. CURRENT SITUATION OF THE CUBAN MILITARY POWER ELITE

The military power elite and the Cuban government are in the worst of situations since the revolution came to power on January 1, 1959. The country's economy is totally collapsed; its scarce exports have declined dramatically due to poor government management of the economy and finances, the precarious economic model, centralization, the lack of citizen freedoms to generate wealth and the devastating impact of the COVID-19 pandemic.

Internally, the country is currently on the verge of a large-scale social explosion. The level of popular discontent and frustration is the highest in 62 years of revolution. Access to the Internet and the impact of social media have caused the nonconformity level of the population to overwhelm the monopoly and control that the government has enjoyed over the country's press and media for six decades.

The immediacy of any event goes viral in a matter of seconds, and although the government controls access to the Internet and the media, it cannot prevent news and events from spreading almost instantaneously and overwhelmingly counterbalance the entire propaganda machine that the government uses to misinform the population and ideologically subdue it. That advantage is simply over. At present, several information sites on the Internet show the flip of the coin that the Cuban government tried to hide for more than 60 years.

This weakness of the government thanks to technology makes it increasingly vulnerable. A recent report by the Cuban Observatory of Conflicts shows the growing increase in protests in Cuba. The report indicates that in December 2020 there were 122 public acts of protest in the country<sup>26</sup>, almost triple the number that had taken place in September. In January 2021, public protests totaled 137 (compared to 122 in December), of which 79 were political and the rest (58) were related to socio-economic demands<sup>27</sup>. Undoubtedly, these data show how the deterioration of the economic, political, and social situation in the country in the complex context of the COVID-19 pandemic and the willingness of citizens to protest publicly have been escalating and accelerating. See Figure 1.

**Figure 1.** Public acts of protest in Cuba, September-December 2020.

Public acts of protest	JANUARY	DECEMBER	NOVEMBER	OCTOBER	SEPTEMBER	TOTAL
<b>TOTAL</b>	<b>137</b>	<b>122</b>	<b>110</b>	<b>88</b>	<b>42</b>	<b>499</b>
For economic and social reasons	58	26	19	33	16	<b>152</b>
For political and civic reasons	79	96	91	55	26	<b>347</b>

**Source:** Observatory of Cuban Conflicts

The most notorious of the protests was generated by urban youth - iconoclasts and non-submissive artists - of the so-called San Isidro Movement (MSI) and the platform of independent artists known as 27N that supports them, which had a resounding impact in the national and international media, and resulted in a strong debate within the Cuban intelligentsia, even those closest to the government. With

a very varied racial, gender, ideological, and sexual orientation composition, they have put public officials in a tremendous bind, given the challenges to the current system and the call for a change that even appeals to those within the government ranks.

The government's reaction to these events was late and slow, it showed indecision and lack of communication at the command posts, and above all, confusion. The new commanding officers, who were used to always receiving orders from above, did not know how to deal with a situation like this. To show that the government does not have effective operational methods to infiltrate a movement without pyramidal structure, nor a compass to isolate it from the population, has been the great success of these young artists and intellectuals.

This lack of initiative within the heavy bureaucratic structure of the State also explains the economic debacle in which the country is plunged, as a result of the improvised and incoherent measures the government has taken to try to dollarize the economy and eliminate currency duality, aspects we will discuss later.

The events of the MSI and 27N and their impact undoubtedly showed the world two very important aspects to be taken into account for the immediate future: 1. the government for the first time in 60 years has shown extreme dysfunction when taking action in an area that is then negatively reverted to others. 2. Cuban leaders are not prepared to deal with a situation of generalized systemic crisis and growing social conflict, such as the one the country is going through at the moment.

The clumsiness and delay with which the Cuban authorities handled the situation created by the MSI and 27N protests show that Díaz-Canel and even Raúl Castro (who still serves as First Secretary of the Communist Party of Cuba) are not in effective control of the situation. There are significant dysfunctions in the decision-making process that show a lack of efficient leadership on the part of the Cuban power elite.

These great vulnerabilities that were exposed show the unprecedented fragility of the Cuban government and must be taken into account by the new U.S. administration when evaluating a possible negotiation for a rapprochement.

On the other hand, the serious economic situation the country is going through is another factor that the Biden Administration must assess when drawing up its strategies regarding Havana.

In this regard, it should be noted that the Cuban economy is parasitic, which currently survives due to three fundamental sources of income: the free-of-charge oil provided by the government of Nicolás Maduro in exchange for military intelligence assistance and health services; the salaries of medical and paramedical personnel hired abroad, of which the Cuban State steals around 80% with impunity; and the remittances sent by Cuban exiles, of which 51.5% arrive through formal channels controlled mostly



by companies under the business structure of the military, and which go directly to bank accounts in third countries and are never delivered to their final recipients: the Cuban people.

At the moment, the country has three economies competing with each other in a dysfunctional way, the centralized state economy, the monopolist and dollarized capitalist economy managed by the military and the black-market economy, all three tied to the consequences of partisan decisions that make very difficult for the country's economy to function<sup>28</sup>. In these circumstances, the Cuban government is reluctant to free the productive forces and persists in keeping the reforms paralyzed, depriving citizens of the possibility of generating wealth. Reforms are clearly the only viable solution that remains in the hands of the government to be able to get out of the current crisis the country is in. However, the government's actions show that they are not going in the direction of freeing the productive forces, but quite the opposite.

To have a deeper idea of what is happening in the Cuban economy, let's take a look at what is happening internally in its main components, which are key and necessary to understand and evaluate any type of rapprochement with the Cuban government.

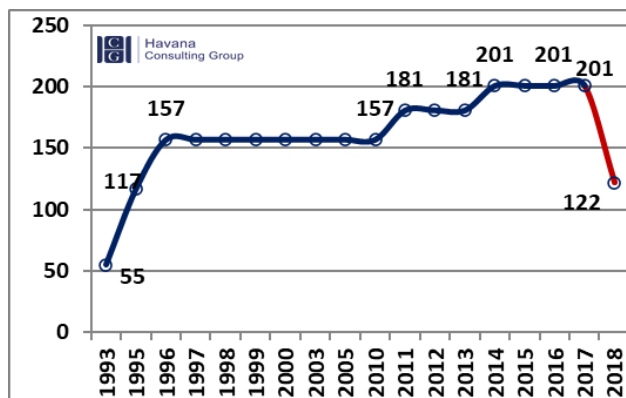
## 2.1 Entrepreneurship

In 2016, in the midst of the thawing process in its relations with the United States, the Cuban government practically halted the economic reforms begun in 2011. Despite being timid and very limited, these reforms had created great opportunities for thousands of Cubans to exercise self-employment and cease to be a burden to the State.

However, the government, far from stimulating the market with new options to extend and expand self-employment, did the opposite. Reality showed an accelerated growth in the movement of entrepreneurs in Cuba, which increasingly competed against state companies, including those controlled by the Cuban armed forces. The sectors with the toughest competition were a) tourism: Entrepreneurs achieved greater accommodation capacity<sup>29</sup> than hotel companies in the hands of the State and the military in tourist centers such as Havana, Viñales and Trinidad; b) transportation: More than 54,350 licenses for taxi drivers<sup>30</sup>; c) restaurants: They surpassed in number and quality of service those run by the State.

In the session of the National Assembly of People's Power held in December 2017, the Cuban government officially pedaled back in order to stop the growth of the private sector. With the pretext that it did not want to allow the concentration of wealth, the number of modalities allowed for exercising self-employment was reduced from 201 to 122. Some categories were eliminated, and others were grouped into a single category; for example, categories such as barber, manicure, hairdresser, and similar ones were unified in a new one called "beauty parlor services". This sharp drop in the number of modalities allowed meant a decrease of 39.3%<sup>31</sup>. See Figure 2.

**Figure 2.** Number of modalities allowed for self-employment, 1993-2017



**Source:** Prepared by Havana Consulting Group from data published by the National Office of Statistics and Information and data published by the Cuban press.

In the case of non-agricultural cooperatives (CNA), the new measures established further restrictions that limit the scope of their operations to only their provinces of origin. For example, a construction cooperative in Havana cannot work in Varadero. On the other hand, the distribution of income among the members of CNAs would be regulated to avoid a large wage gap between them and the workers associated with the cooperative<sup>32</sup>. The new rules established that the maximum wage could not exceed the minimum wage by more than triple<sup>33</sup>. Finally, the new regulations established that no individual could be a member of more than one cooperative or have more than one license to practice "self-employment".

With these measures, the State cut off the investment and entrepreneurial spirit of the Cuban self-employed with one blow. In recent years, hundreds of them were expanding in the market by investing their own capital, unlike during the early years when they had begun to establish their business with the prevailing investments coming from abroad, mostly through remittances.

Under the new rules, a successful self-employed would be unable to expand their business and create new units, which would at first invalidate the possibility that they could create their own franchise or simply expand their operations and create new jobs. Nor could they invest in another type of business even if they had the capital to do so.

Later on, the barriers erected to limit the private sector continued to escalate; they were never granted the much-disputed corporate legal personality, nor were badly needed wholesale markets created; prices were capped, and taxes were raised even more. In addition, small Cuban entrepreneurs are subject to a tax burden of 50% on their earnings, much higher than the average for Latin America, which is 27%<sup>34</sup>. See Figure 3.

**Figure 3.** Comparison of income taxes applied in Cuba with the Latin American average.



**Source:** Prepared by Havana Consulting Group based on information published by ECLAC and ONAT.

Faced with these circumstances, Cuban entrepreneurs, unable to invest in their own country the profits obtained from their efforts, responded by taking an estimated US\$2.39 billion<sup>35</sup> out of the country in search of new opportunities. Most of these entrepreneurs traveled abroad (USA, Panama, Mexico, Dominican Republic, Haiti, Guyana, Nicaragua, Suriname, Russia, etc.) to buy goods and then sell them in the informal market.

Of this capital, one portion goes to the airlines (\$426 million) transporting Cubans to the afore mentioned destinations. Another portion remains in the hands of the owners of stores and warehouses (\$ 1,008 million) where Cubans purchase merchandise to be sent to Cuba. Another part is in the hands of the agencies that pack the products (\$58 million) and take care of the logistics (\$52 million) for the shipment of the merchandise to the island. Another share remains in the hands of hotels, hostels, and owners of apartments, houses, restaurants, and taxis (\$472 million), which provide accommodation, food and transportation to Cubans during their stay in these countries to do their shopping. Finally, an approximate US\$366 million are investments by Cubans abroad, in small businesses and in real estate<sup>36</sup>. See Figure 4.

**Figure 4.** Estimate of financial capital sent abroad by Cuban entrepreneurs, 2017.

Expenses of Cubans traveling abroad (2017)	Amount	%
Purchase of air tickets	\$426,718,200	17.90%
Accommodation, food and transportation expenses	\$472,946,005	19.84%
Goods purchase expenses*	\$1,008,000,000	42.28%
Logistics expenses to pack products	\$58,239,400	2.44%
Logistics expenses to send products to Cuba	\$52,099,250	2.19%
Investment in other countries (business and real estate)	\$366,254,875	15.36%
<b>Total</b>	<b>\$2,384,257,730</b>	<b>100.00%</b>

**Source:** Calculated by Havana Consulting Group from its own sources and reports from different international press agencies and the Cuban press

**Note:** \* Purchase in stores and warehouses in the US, Panama, Mexico, Guyana, Haiti, Dominican Republic, Ecuador, Russia, etc. Last year, the Cuban State, overwhelmed by the liquidity crisis and looking for magic formulas to try to obtain foreign currency, promulgated a new law to allow the import and export of products and services to non-state forms of production (non-agricultural cooperatives, self-employed and farmers).

The draconian formula for merchandise imports and exports that the Cuban State imposes to non-state forms of management is nothing more than the definitive nationalization of the non-state form of production. This process deprives of all autonomy any entrepreneur or form of non-state management that intends to import and export.

Under this magic formula, all the money that is deducted from merchandise imports and exports will go to BFI S.A., the bank of GAE S.A.; that is, the military bank. Producers have no control over anything, not over price, nor over sales management, not even over strategies to select suppliers and export markets. Nor will they have control over the profits obtained, nor will they be able to dispose of the capital in foreign currency from the export transaction, which could only be used to carry out import operations. This mediocre measure implemented by the State constitutes a formal legalization of the apartheid suffered by Cuban citizens, by depriving them from their sovereign right to generate wealth.

The measure in itself kills before birth the "opening intention" of the Díaz-Canel government in its offensive to try to get out of the crisis. It is an anti-commercial measure, which does not stimulate the economic strength of the country in the least, but quite the contrary, it alienates and curtails the spirit of all forms of entrepreneurship; and worst of all, it ruins all hope of a change that will allow the country to be lifted from the miserable destitution in which it is plunged.

Suffice it to compare how the Cuban State treats foreign investors in the Mariel Special Development Zone (ZEDM) to understand how discriminated Cubans are by their own government. See Figure 5.

**Figure 5.** Incentives offered by the Cuban government to foreign investors, as established by Decree Law No. 313/2013 referring to tax exemptions and reductions in the ZEDM.



Source: <http://www.zedmariel.com/es/incentivos>

Figure 5 says it all: for foreigners everything in terms of taxes on profits, sales, use of labor force or imports; nothing for Cubans.

The last-minute strategy of the Cuban government – based on a package of measures that make the dollarization of the economy more extensive, at least in the retail sector, has not implemented structural changes in the economy nor promulgated laws that show true economic openness and a real liberation of the productive forces and without yet recognizing the corporate legal personality of non-state forms of production–, clearly shows that the high hierarchy of the government still clings ideologically to immobility, despite the current critical and volatile circumstances.

Instead of liberating the productive forces and creating a free market based on supply and demand and price liberalization, the Cuban government has launched a strong campaign to demonize entrepreneurs and what they represent. Its actions have been aimed at adding more obstacles to entrepreneurs and damaging their image. For this, it has confiscated several businesses of successful entrepreneurs, while broadcasting reports on radio, television and the press aimed at demonizing them, holding summary trials, and portraying them as corrupt people.

Cuban entrepreneurs do not need a second thaw with the United States: what they need is an internal thaw that removes the obstacles they face today to be able to generate wealth. The emergence of COVID-19 in the midst of the crisis, far from encouraging in the Cuban rulers the spirit of common sense and harmony, has shown them to be more irrational, mediocre and incompetent.

About 35% of the 600,000 entrepreneurs that existed before the pandemic have temporarily surrendered their licenses or have closed their businesses. Given the worsening economic situation, a similar decline is likely to occur in the coming months, if the economy does not open and deep reforms are not made<sup>37</sup>.

The COVID-19 pandemic has entered its third wave in the country and has further aggravated the situation by bringing almost the entire country back into lockdown. The number of cases and deaths from COVID-19 in this third wave exceeds those of the first two waves, which makes the situation more adverse for entrepreneurs. Given this reality and the impact on the market from the Rearrangement Task - the policies and process of currency consolidation -, it will be very difficult to survive as an entrepreneur on the island. This policy is almost a checkmate on the Cuban self-employed<sup>38</sup>.

To make matters worse, the latest step announced by the Cuban government regarding a policy change in the non-state sector has been received by the population and various experts with great reservation. The logic of not making deep structural reforms along a path of economic growth and improved living standards for the population continues to prevail. Instead, opening up a few activities, little by little, and tightening control over others, pretending they are making important changes when, in fact they are only cosmetic, and frank regressions in some cases.<sup>39</sup>

When the daily *Granma* announced on February 6th that the list of 127 activities currently approved for self-employment was eliminated, and that instead that type of economic activity would be allowed in more than 2,000 items included in Cuba's National Classifier of Economic Activities, with the exception of a list of 124 exclusions,<sup>40</sup> several press agencies reported it as something substantially new. Some experts even prematurely categorized the announcement as something truly refreshing and historic. However, the illusion lasted 48 hours.<sup>41</sup> When the government released the list of the 124 prohibited activities, enthusiasm suddenly froze. The government had made it clear that it is not willing to free productive forces.

In the new plan approved by the government there can be no private banks and professionals will not be able to practice their careers independently. In agriculture there is no change: it will be done according to what the Ministry of the branch has stipulated until now; that is to say, nothing new. Production goes to the State-run collecting agency *Acopio*, which will buy 80% of the crops willy-nilly at the price that the State itself sets and then the State sells the products. Lawyers, engineers, and architects will continue as they were before: they will be able to work only in state companies. The farmers who grow sugarcane and tobacco - the two most lucrative exports in Cuban agriculture - can only be just that: simple growers and poorly paid suppliers of raw materials to state companies, whether joint ventures or not, since the State will be in charge of the retail market and exports.

There is no liberation for agriculture. Those who raise cattle will not be able to sell their milk, meat, or cheese in a free market. Everything belongs to the state. Neither can companies be created to build houses, or to produce construction materials. Artists will not be able to have their own galleries or make films, music records or radio independently. Likewise, writers will not have a publishing house of their own. Journalists cannot be independent, publish newspapers, magazines, etc. In short, what the government did was to put a lock on the financial and productive sectors, the news and cultural business, and the workforce itself. Without these four elements, it is impossible to develop a prosperous and efficient economy.

Even if the government has increased the number of activities allowed for self-employment to 2,000, it is very premature to pass a judgment on this. As the Anglo-Saxon dictum goes, “The devil is in the details:” the law has not yet been promulgated or published, so the rules are unknown. Impediments, restrictions, or the level of taxes are unknowns. It should not be ruled out that this is a bait to stimulate a re-thaw of relations with the Biden Administration.<sup>42</sup> For the time being, the measure has captivated neither experts nor ordinary citizens.

Faced with this reality, the future of Cuban entrepreneurs is really uncertain. At the moment, the Cuban government has not given any signal that it intends to free the productive forces of the country, much less of willingness to carry out a profound structural reform of the economic model. The chaotic situation of the economy, which has been further aggravated by the impact generated by the pandemic, has left Cuban entrepreneurs with practically no survival options. Right now, it looks like an economic sector that is literally dead or in a coma, about to go extinct. Any attempt at rapprochement by the Biden Administration should be conditioned on the elimination of the government knots that impede the empowerment of the Cuban people and to promote the actions of entrepreneurs on the island.

## 2.2 Tourism

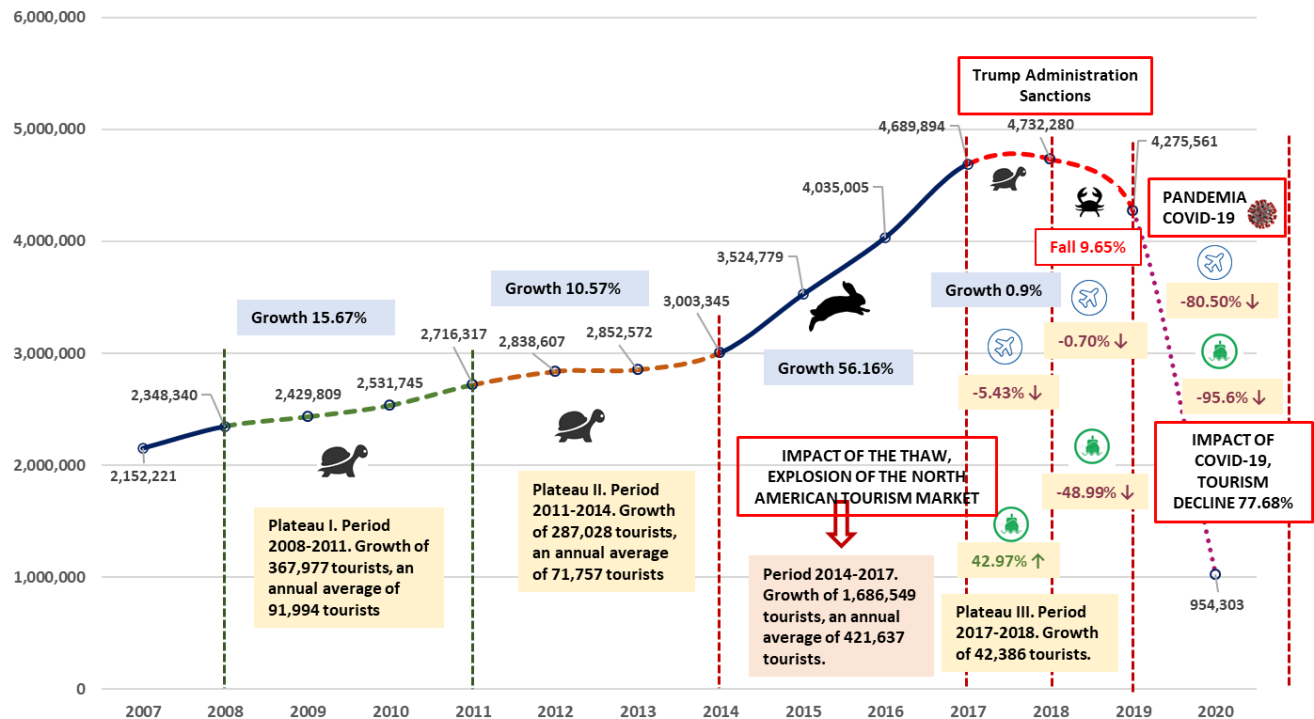
One of the sectors most affected by the current crisis is tourism. During the thaw, the American market became the second largest source of tourists to Cuba second only to Canada. The number of tourists to the island increased by 56.15% in the 2014-2017 period due to the growth of American tourism, including the Cuban American sector. When the U.S. sanctioned the companies that are part of the business conglomerate GAE SA, belonging to the Cuban armed forces, the lodging of North American tourists in hotels belonging to these entities was prohibited, as well as the consumption of restaurant services from this group business.

This was an advantage for the Cuban self-employed, since 65% of the hotels in Cuba belong to the companies Gaviota S.A. and Habaguanex S.A., both properties of GAE S.A. and therefore they were not available to American travelers. From the sanctions against GAE S.A., cruise trips to the island were activated, and American tourists became a majority for this modality, naturally, reducing their consumption of lodging services and restaurants. When the Trump Administration suspended cruiseship trips to the island as punishment for Cuban military interference in Venezuela, the market for cruiseships to the island declined sharply in the last quarter of 2019, thus reducing the number of tourists using taxi services, buying souvenirs, hiring guides, etc. By the beginning of 2020, COVID-19 - not the sanctions - crushed the tourist industry due to the closure of airports and cruise terminals for eight months. In fact, the effects of the sanctions up to that point were not substantial.

The Cuban tourism industry had a strong decline in 2020 as the arrival of tourists fell 77.68% compared to 2019. See Figure 6.



Figure 6. Arrival of tourists to Cuba, 2018-2020.



Source: Prepared by Havana Consulting Group from the statistics published by the National Office of Statistics and Information (ONEI).

This shock has been more than devastating to the island's economy. The country was closed for eight months to international tourism due to the COVID-19 pandemic, which meant a loss of US\$1.842 million in income from international tourism in 2020, a decline of 69.7% compared to 2019.

The COVID-19 pandemic has not only been devastating for the Cuban economy; it has also shed light on realities that had gone unnoticed by millions of Cubans for many years.

Even with the limited transparency allowed by the government to manage its finances and publish its data, it is possible to unravel the hidden movements carried out by the Cuban military elite to control the island's economy and thereby reveal the existence of one state within another in Cuba<sup>43</sup>.

From 2017 to 2019, the addition of 57 new hotels to the country's hotel structure, mostly managed by the armed forces at a cost of US\$2,378 million, uncovers suspicions of an unusual movement of money laundering. There is evidence that the country did not experience a saturation of its accommodation capacity that would justify such investments in this period. At the same time, the participation of foreign investors in these projects is not known, except for the participation of Indian<sup>44</sup> and French workers to complete the facilities.

It is also striking that the profits generated by the Cuban tourism industry are totally insufficient to afford the capital that was required to make these colossal investments. Even less so in a period where the country has experienced an extreme liquidity crisis that has made it impossible to pay its foreign debt to creditors including those of the Paris Club + Russia, which years ago forgave it around US\$42 billion<sup>45</sup>. In addition, the country has not been able to finance imports and faces a chronic shortage of food and medicine.

As if that were not enough, we must add to this adverse scenario, that the country has lost credit lines and, furthermore, investments on the island in the last six years (2014-2020) have not exceeded US\$2.4 billion of direct investments in the Mariel Special Development Zone. To which must also be added the impact of the sanctions imposed by the Trump administration, which have literally crushed investments on the island<sup>46</sup>.

Obviously with this economic outlook, the colossal investment of US\$2.378 million to build 57 new hotels is more than suspicious.

What is new is that there is no money laundering in tax havens, but in the national territory itself, building hotels left and right in the most paradisiacal places on the island - many of them taken by force from their real owners six decades back- under the umbrella of Grupo Gaviota, S.A., whose shareholders or true owners are not even known.

Not surprisingly, the resistance put up by the Cuban military elite to cede the remittance business to other state institutions on the island has been strong, despite the sanctions imposed by the U.S. State Department on companies such as FINANCIERA CIMEX S.A.<sup>47</sup> and American International Services S.A. (AIS S.A.)<sup>48</sup>, both belonging to CORPORACION CIMEX S.A., which in turn are part of GAE S.A. It is obvious that they do not want to lose that considerable source of income, valued at US\$3.7 billion a year in cash, of which about 51.5% is channeled directly through these companies belonging to the military, which in turn are deposited in banks in third countries and never reach their final recipients. This could definitely be one of the main sources financing this suspicious and wealthy money laundering business.

The most painful side of all this process is seeing how this ruling white-collar scourge, with total impunity, converts the sweat and effort of more than a million Cuban emigrants into millionaire profits and assets of great value, while continuing to exploit as slaves in one way or another the 11.2 million Cubans residing on the island.

Dismantling the sanctions that were implemented regarding tourism to Cuba will not make the island's tourism industry recover, since the sanctions were structured to penalize companies that are under the business structure of the armed forces. In this case, they dominate about 65% of the stock of hotels in the country, among them most of the 4- and 5-star hotels.

Likewise, removing sanctions on cruise ships would not bring American tourists back immediately, since cruise companies affected by *Helms-Burton Act* claims are locked in lawsuits that could take several years.

The only viable option at this time would be to reactivate the 12 categories of American travelers who could travel to the island once implemented by the Obama Administration, so that American tourists stay in private hostels and hotels from the self-employed that do not belong to companies owned by the armed forces. In any case, the impact of the COVID-19 pandemic on the world tourism industry will continue to affect this business globally, from which Cuba will not be exempt. Therefore, Cuba would achieve a full tourism recovery at the levels of the 2017-19 period in about three or four years.

### 2.3 Remittances

The issue of remittances is very sensitive, since for many years they have been the main source of income for Cubans<sup>49</sup>. Since remittances were allowed in 1993, one of the emergency measures to save the Cuban economy from the terrible crisis generated by the fall of the socialist bloc and the disappearance of the Soviet Union, the military took control of remittances, through Corporation CIMEX S.A.

This company, created on May 17, 1979, in Panama, with No. Folio 39447, was managed by the MC (Convertible Currency) Department of the Cuban intelligence services, headed by Colonel Antonio de la Guardia. Its mission was to circumvent the American trade embargo and provide all kinds of supplies to the country that could not be obtained through barter with the socialist countries. Through CIMEX S.A. any type of commercial, legal and illegal operations were carried out. Antonio de la Guardia was for several years Vice President of CIMEX S.A.

After the events of the famous Cause I in 1989<sup>50</sup>, for which high Cuban officials of the Ministry of the Interior (MININT) and the Ministry of the Armed Forces (MINFAR) were sentenced to death, among whom were Antonio de la Guardia and Major General Arnaldo Ochoa, the Cuban government transformed Corporación CIMEX SA to take care of the dollarized retail market. Dollarization would boom on the island as of 1993, when the Cuban ruler created a parallel market in convertible currency; in fact, he turned the Cuban exiles into his main source of income in dollars.

To this purpose, the government created in Cuba the Sociedad Mercantil Cubana CORPORACIÓN CIMEX S.A. by deed Number 3205, of August 18, 1995. CORPORACIÓN CIMEX S.A. (CUBA) was registered on September 11, 1995 in Book 138, Folio 30, Page 9934 Section First of the Central Registry of Anonymous Companies and Book 1192, Folio 30, Page 16768, of the Commercial Registry of Havana, currently Central Registry.

From then on, the company FINANCIERA CIMEX SA, also incorporated in Panama in 1984 and subsequently created as a private Cuban company through Deed No. 172, dated May 15, 1995, would be

in charge of processing contracts and establishing relationships with foreign companies to channel remittances to the island.

Likewise, CORPORACIÓN CIMEX S.A. PANAMA created the Panamanian subsidiary American International Services (AIS S.A.) which was registered on April 29, 1988, Folio No. 209034 (S) in the Mercantile Registry of Panama. Years later, this company played an important role in sending remittances to the island from abroad.

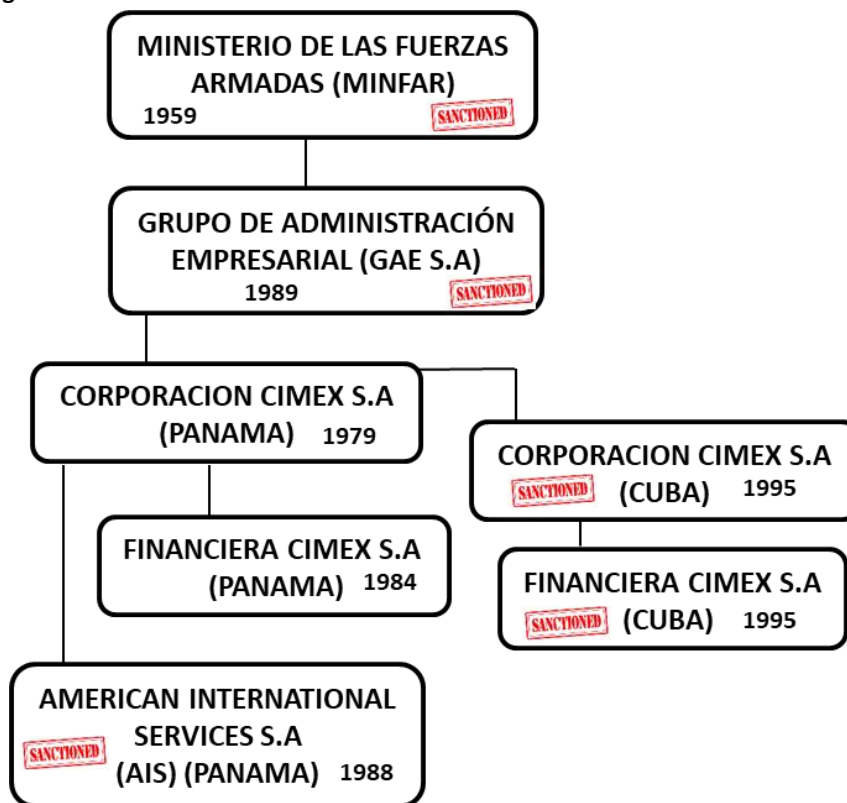
Being Panamanian, AIS S.A. can receive transfers from American banks. In this way, the Cuban government evades the embargo. In addition, this company could process remittance operations directly with clients in the American market through the Internet. It must be remembered that more than 90% of the Cuban diaspora lives in the United States. Therefore, this company operates freely on the Internet platform through its website <https://www.aisremesascuba.com/>. This allows it to channel the remittances sent by Cubans residing in the United States through the use of Visa and MasterCard cards, something that is prohibited by the embargo. The facade of AIS S.A. as a Panamanian company facilitates this type of operation. Finally, this company is used by FINANCIERA CIMEX to operate remittance businesses from the United States, based on the contracts that AIS S.A. has with several companies in South Florida to process remittances to the island. These companies are: Vacuba, CaribeExpress, and Cuba Max. These contracts enable FINANCIERA CIMEX to have AIS S.A. advertise on the websites of these companies to promote the sending of remittances to the island through AIS magnetic cards.

This remittance route is one of several controlled by the *Grupo de Administración Empresarial* (GAE S.A.)<sup>51</sup>, which belongs to MINFAR, through FINANCIERA CIMEX S.A. The other important route is the contract that FINANCIERA CIMEX S.A. has with Western Union (WU), which allows it to send remittances from the United States to all the municipalities on the island through the 502 delivery locations that WU has on the island.

Other routes to channel remittances are established through contracts between AIS S.A. and FINANCIERA CIMEX S.A. with remittance processing companies from other regions of the world, such as Europe, South America, Central America and the Caribbean, Canada, etc.

It must be taken into account that 92% of remittances to the island arrive from the United States<sup>52</sup>; therefore, the routes used by both FINANCIERA CIMEX S.A. and AIS S.A. are the main channels for remittances. To summarize, the business scheme that GAE S.A. currently has for the control of remittances sent to Cuba is the following:

**Figure 7.** Business structure of GAE S.A. to control the remittance business to Cuba.



**Source:** Prepared by Havana Consulting Group from the public records of Panama and other sources.

As shown in Figure 7, the main company that controls the business of sending remittances to the island is CORPORACIÓN CIMEX S.A. (PANAMA), which is the majority owner of the shares under CORPORACIÓN CIMEX S.A. (CUBA). This means that the largest business emporium on the island, CORPORACIÓN CIMEX S.A. (CUBA), with a turnover of US\$2.6 billion a year, is owned by a Panamanian company, whose shareholders are not known.

This detail has been unknown to all Cubans since this corporation was created. The shareholders of the highest-income socialist company in the country are unknown to the Cuban people. In itself, it is a company whose majority shares are wholly owned by a foreign company, as defined by Mali Suris Valmaña, current Legal Director of CORPORACIÓN CIMEX S.A. (CUBA) in paragraph 23 of his affidavit, in the lawsuit filed by EXXON MOBIL against CUPET and CIMEX in U.S. courts<sup>53</sup>.

An irrefutable proof that the business of remittances to the island is managed by high officials of the Cuban armed forces is that all the companies that are registered in Cuba and Panama, having to do with remittances to Cuba, have the same persons on their Board of Directors<sup>54</sup>. This clearly shows that CIMEX CORPORATION and all its subsidiaries, both in Cuba and in Panama, are the same organization.

**Figure 8.** Senior Cuban officers who control the business of remittances to Cuba.



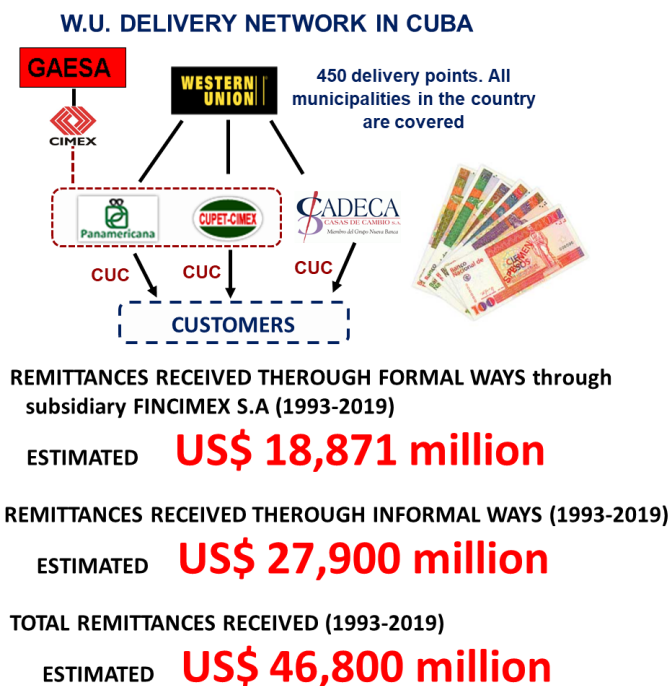
**Source:** Prepared by Havana Consulting Group from the public records of Panama and other sources.

General Luis Alberto Rodríguez López-Callejas, former son-in-law of Raúl Castro's, who was sanctioned by the State Department<sup>55</sup>, is considered the most powerful man in Cuba. Under his command are the most lucrative companies on the island, which control much of the most important and profitable businesses in the country. Among the most prominent are the Mariel Special Development Zone (ZEDM), an enclave created to attract foreign investment, where since its creation, around 37 foreign investors have barely invested just over US\$2.4 billion<sup>56</sup>. He also controls 90% of the dollar retail market through CIMEX S.A. with its subsidiaries, including store chains, a network of gas stations, restaurants, fast food chains, bakeries, and TRD-Caribe shops<sup>57</sup>. In addition, it controls more than 60% of the country's tourism market, since it manages most of the country's hotels, mainly those of high-end quality (4 and 5 stars). Its tentacles also reach the telecommunications business, since it owns 27% of the shares of the company ETECSA, the island's telecommunications monopoly<sup>58</sup>. This company is estimated to earn about US\$80 million per month, just from telephone services in the island paid from abroad (recharges from abroad). Also, under López-Callejas' control is the lucrative remittance business, which is estimated at around US\$ 3.7 billion annually<sup>59</sup>.

It is striking how FINANCIERA CIMEX S.A. keeps in bank accounts in third countries the dollars it collects from cash remittances, through each of the routes established by FINANCIERA CIMEX S.A. and AIS S.A. based on their respective contracts with remittance operators in the United States and other parts of the world<sup>60</sup>. The remittances beneficiary, that is the person to whom the remittances are sent on the island never receives the dollars; what they receive is its equivalent in convertible pesos (CUC), a currency that could only be used in Cuba in dollarized retail stores, also controlled by GAE S.A. This currency has no value abroad. After implementing the recent government edict labeled the Reordering Task and eliminating the CUC, people receive the equivalent of the value of remittances in Cuban pesos (CUP).

This scheme under which the remittance business operates means that in the period 1993-2019 FINANCIERA CIMEX S.A. managed in its accounts in third countries, an income that is estimated to amount to US\$18.871 billion for remittances sent through formal channels. In that period, an estimated US\$27.9 billion arrived in Cuba through informal means. See Figure 9.

**Figure 9.** Estimate of remittances arriving in Cuba through formal and informal channels, 1993-2019.



Source: Havana Consulting Group

This perfect remittance business structure has put a multimillion-dollar capital in the hands of the Cuban military. With that capital, the Cuban military, among other things, buy products in the international market that it subsequently sells in stores under their control on the island's retail market, at a price with a surcharge of at least 240% on the purchase price of the product placed in the Port of Mariel. One



of the products that the companies controlled by the military buy for resale is frozen chicken it buys from American agricultural companies, to whom they have to pay in cash, a condition required by the U.S. to sell products to Cuba.

With this magical formula for every US\$100 in remittances that a Cuban living abroad sends to their relatives on the island, the armed forces pocket US\$74.33, broken down into US\$ 12.92 for a 10% tax on the dollar + the fee for the change of currency to CUC, plus US\$ 61.41 for the sale of products in dollarized stores at a price having a 240% surcharge above the original price of the merchandise. See Figure 10.

**Figure 10.** Breakdown of how much GAE S.A. earns for every dollar that a Cuban resident abroad sends to the island as remittances.



Source Havana Consulting Group.

As the GAE S.A. group is not audited by the Comptroller General of the Republic<sup>61</sup>, its finances lack transparency; so, it is a mystery what happens with all that capital that Cuban emigrants send to their relatives on the island. It is uncertain which other commercial operations benefit from those hundreds of millions of dollars that year after year pass through the business structure of remittances controlled by CORPORACIÓN CIMEX S.A. belonging to GAE S.A.

It is a great mystery whether that enormous capital is used to build hotels for the Gaviota S.A. Company - controlled by GAE S.A. - in Cuban tourism centers, or whether it ends up in the bank accounts of the hitherto unknown shareholders of the company CORPORACIÓN CIMEX S.A (PANAMA).

In June 2020, the U.S. State Department announced the inclusion of seven companies and hotels in the list of entities linked to the Cuban military. One of the companies on the list is FINANCIERA CIMEX S.A.<sup>62</sup>, a subsidiary of the company CORPORACIÓN CIMEX S.A., controlled by the conglomerate of military companies GAE S.A. This company is in charge of “handling and processing remittances to Cuba” and is the representative of the Western Union Company on the island, through which hundreds of thousands of Cuban emigrants send money to their families<sup>63</sup>.

The news generated an earthquake that was felt both in the streets of Miami and in the armchairs of the Cuban government. The blow went directly to the business structure run by the Cuban military that controls remittances to the country. As mentioned, in these difficult times its impoverished economy is going through, today remittances are the main financial support of the Cuban government, embedded in a medieval model that refuses to be transformed.

It is worth mentioning that the U.S. State Department did not take action to deprive Cubans of remittances, but to remove the Cuban military from control of that business<sup>64</sup>.

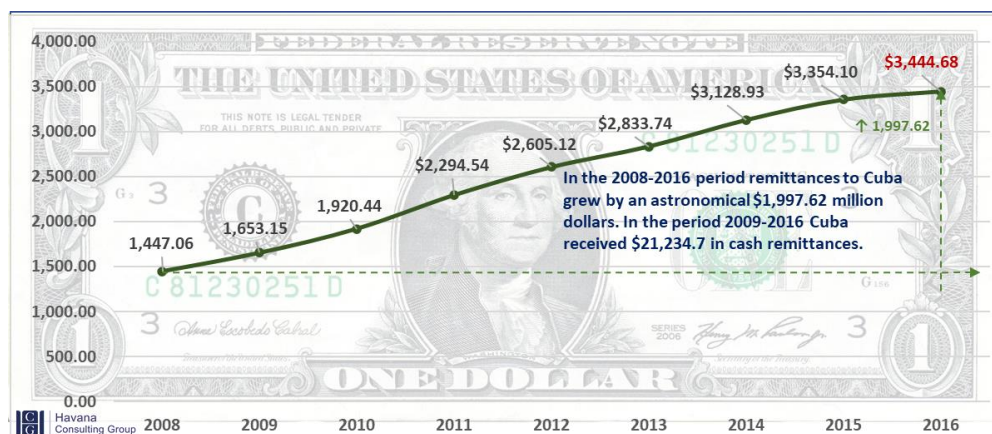
When President Barack Obama released remittances and travel to Cuba during his first term (in 2009) with the aim of empowering the Cuban people and the self-employed, his administration regrettably did not do the due diligence to find out how the remittance business to the island was channeled. Thus, he inadvertently put billions of dollars a year in the hands of the Cuban military leadership, remittances that never actually ended up in the hands of their true owners, the people of Cuba<sup>65</sup>.

During the two periods of Barack Obama’s presidency, the policy change implemented towards Cuba considerably increased remittances to the island. Obama removed remittance restrictions that only allowed each sender to send US\$300 every four months, raising the value of remittances, first to US\$5,000 a day and later to US\$10,000 a day.

This policy change generated an accelerated growth in remittances until 2016. That is, from US\$1,447.06 million sent in 2008, it went to US\$3,444.68 million in 2016, for an average annual growth of US\$221.96 million. See Figure 11.

No item in the Cuban economy experienced such spectacular growth in the period of time analyzed. The main driver of remittances to the island was the massive Cuban emigration of the last 15 years (2002-16), motivated by the lack of opportunities on the island and the systemic restrictions on its citizens. The policy change implemented by former President Barack Obama by eliminating restrictions on remittances and travel to Cubans residing in the United States, and the modest opening to the private sector implemented by the Cuban government as of 2010, opened a window that allowed financing thousands of businesses in the private sector<sup>66</sup>.

**Figure 11.** Cash remittances to Cuba (in millions of dollars), 2008-16.



Source: Havana Consulting Group

What the Obama Administration failed to verify was whether these remittances actually reached the hands of Cuban recipients residing on the island or bank accounts of companies managed by the Cuban military in third countries. In the period of time under consideration, Cuba received US\$21,234.7 million in remittances. That voluminous capital ended up with the Cuban military. In other words, the Obama Administration, in its policy of trying to empower the Cuban people, did not verify that remittances in dollars reached their recipients. The result was that he empowered the Cuban military leadership with 21,234.7 million dollars, and nobody knows their destination.

The Cuban military did not understand, or ignored, the message that the State Department sent them when announcing the recent sanction to FINCIMEX: to get out of the remittances business and put it in the hands of companies that were not controlled by the military. In this regard, they continued with their plan to appropriate the foreign currency sent by the diaspora by creating new stores in which the products could only be purchased with an AIS card issued by AIS S.A. However, in the Cuban government's plans to raise foreign exchange with the opening of new dollar stores one detail was forgotten: the determination of the Donald Trump government to prevent the money sent by Cuban emigrants from going to companies controlled by the military<sup>67</sup>.

The company AIS S.A. was immediately sanctioned by the State Department<sup>68</sup>. With this sanction, a very clear message was sent to the leadership of the Cuban military: that the impunity with which they had stolen billions of dollars in remittances sent by the diaspora to their relatives in Cuba over the years had ended.

Finally, on October 27, 2020, the U.S. Treasury Department published a new sanction that prohibits American companies from transacting remittance businesses with Cuban companies belonging to the business structure of the Cuban armed forces and that are on the State Department's restricted list<sup>69</sup>.

This measure forced the Cuban government to remove the military from control of remittances and offered the Western Union Company a new route to channel remittances to the island, through a company that did not belong to the business structure of the armed forces<sup>70</sup>.

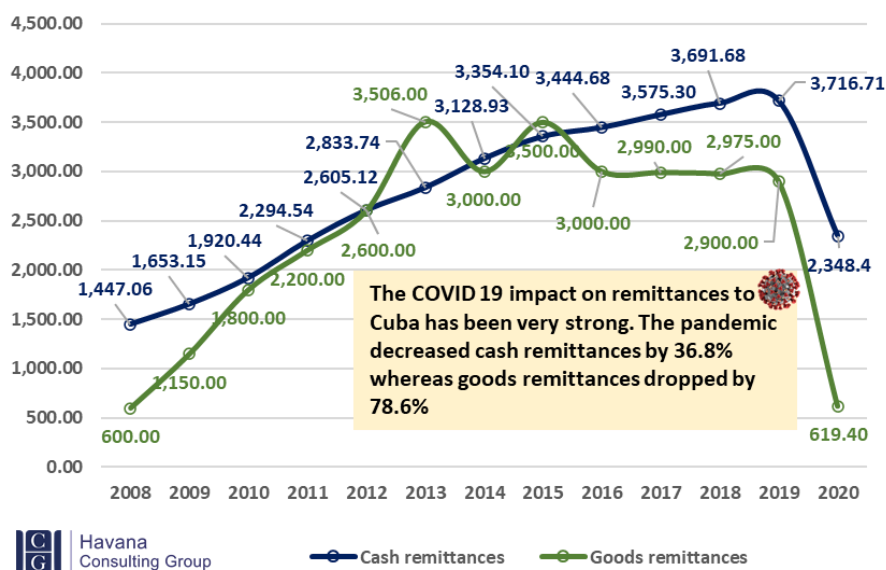
As the Cuban government did not offer Western Union that alternative, the American company stopped operating in Cuba at the end of November<sup>71</sup>.

On November 27th, Cuba's Central Bank published a resolution in the *Official Gazette* in which a new company is authorized to process remittances to Cuba<sup>72</sup>. This company is named Servicios de Pago Red S.A. (REDSA) and is a non-bank financial entity that belongs to the Central Bank of Cuba. So far, Western Union has not commented on whether it will re-enable these shipments to Cuba through this new route.

Apart from this situation, the sanctions implemented by the State and Treasury Departments on companies that operate remittances to Cuba under the business structure of the armed forces did not affect remittances to the island in 2020; the true scourge on remittances was the COVID-19<sup>73</sup> pandemic.

Remittances in cash declined by 36.8% in 2020 when their total value was estimated at US\$2,348.4 million, while remittances in merchandise amounted to US\$619.4 million, which represented a sharp 78.6% decrease. See Figure 12.

**Figure 12.** Series of remittances in cash and merchandise to Cuba, 2008-2020



Source: Havana Consulting Group

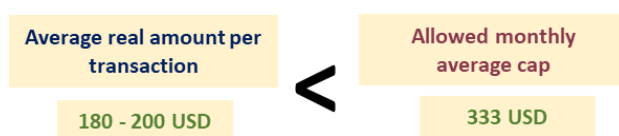
The first restriction on sending cash to the island imposed by the Trump Administration was to cap remittances at US\$1,000 every three months<sup>74</sup>, which is equivalent to a US\$333 monthly average. This

new rule abolished the possibility, allowed until then, to send up to US\$10,000 a day established by the Obama Administration.

In fact, the average monthly sum sent to the island through official channels ranges between US\$180 and US\$200 per remittance, a value well below the average of US\$333 a month calculated on the basis of the US\$1,000 limit allowed every three months established by the Trump Administration<sup>75</sup>.

Therefore, it is easy to understand that this established limit to allow US\$1,000 every three months does not really affect remittances to the country. See Figure 13.

**Figure 13.** Remittances to Cuba. Average remittance per transaction vs. allowed remittance cap.



**Source:** Havana Consulting Group

In addition, there is no system in the United States that allows verifying how much each person has sent if they use different agencies to make their remittances. So, the US\$1,000 remittance cap every three months does not prevent a person from using different ways to do it and exceeding the total allowed. In other words, the limit established of US\$1,000 to Cuba as remittances is inconsequential and does not affect the amounts in remittances sent to the country, as the island's government repeatedly complains and as reported by some press outlets and exile organizations favorable to the Cuban government or inclined to extol rapprochement with the island's government. See Figure 14.

**Figure 14.** Ways to send remittances to Cuba from the United States.



**Source:** Havana Consulting Group

The main cause of the drop in remittances to Cuba in 2020 was the closure of Cuban airports for eight months<sup>76</sup>. It should be noted that 48.5% of all remittances arrive on the island through informal means, with exiled Cubans who travel to visit their loved ones.

In 2019, cash remittances were estimated at US\$3.716 billion and merchandise remittances at US\$2.9 billion, for a grand total of US\$6.616 billion. Suffice it to remember that in 2019, 623,972 Cubans living abroad traveled to the island, of which 552,895 traveled on 12,989 flights (regular and charter) that originated in the United States.

As a result of the pandemic, in 2020 only 2,532 flights originated in the United States to the island, which represents 19.49% of those made in 2019. The COVID-19 pandemic not only caused cash remittances to fall due to the closure of airports and reduction of travelers, but also shattered the “mule” business<sup>77</sup>.

During the first month of 2021, the situation created by the pandemic has continued, with a very strong limitation on flights to Cuba. The current third wave of COVID-19 on the island has been stronger than the first two, which is why several provinces of the country have returned to the lockdown phase<sup>78</sup>. Therefore, the main port of entry for remittances, which is the informal route, is very limited<sup>79</sup>. As we mentioned earlier, the Central Bank of Cuba authorized the company Servicios de Pago Red S.A. (REDSA) with the corresponding licenses to participate in the remittance business. However, it did not remove the company FINCIMEX S.A. from the remittance business, which shows that the military remain in control.

As we have shown, GAE S.A.’s main financing source is the remittances sent by Cuban emigrants. Therefore, the great challenge for the Biden Administration is to find a mechanism so that those dollars the Cuban Diaspora sends to the island with so much sacrifice actually reach their families on the island.

To achieve this, it would be essential to create legal mechanisms that oblige American companies to guarantee that the dollars sent by Cuban exiles reach the hands of their relatives and friends on the island. It would be a legal mechanism based on consumer protection. This would avoid that the Cuban military profit from the remittances and ensure that Cuban citizens on the island would decide what to do with the dollars they receive. This would be the most effective way of approaching the Cuban people and achieving their empowerment by providing the economic support they need to achieve their freedom and support entrepreneurship. Another option would be to ensure that remittance transactions are made through payment outlets outside the control of the companies that are part of the business conglomerate of the armed forces, which would always guarantee that the dollars reach their intended recipients.

If this objective is not achieved, the Cuban government will continue trying to evade sanctions and will continue to use remittances as its main financing source.

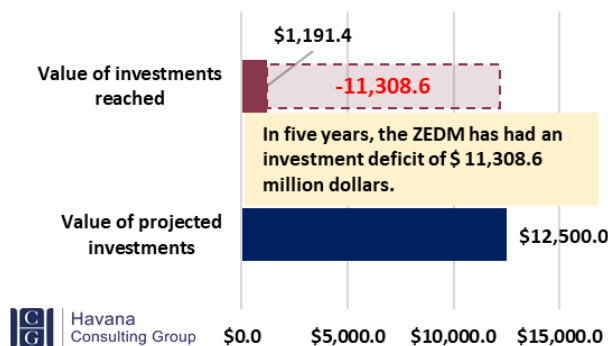
## 2.4 Foreign investment

Foreign investment in Cuba has two major limitations: 1. An unattractive Cuban market due to the barriers that the Cuban government imposes with its internal blockade, both to Cubans on the island and to Cubans abroad, in addition to the legal limitations, the lack of legal certainty, the State mediating in the hiring of labor, the centralization of the economy, the lack of liquidity, growing foreign debts, non-payment of debt services, and many other barriers; 2. The U.S. embargo and the activation of Title III of the Helms-Burton Act.

Of the two points mentioned above, point one has the greatest weight, since before Title III of the *Helms-Burton Act* was activated, the Cuban government in five years failed to attract the amount of foreign investment intended, even with the benefits and synergy generated by the thaw with the United States.

A fact that corroborates this statement is that at the end of 2018 there were only 43 companies approved in the Mariel Special Development Zone (ZEDM), of which 16 were in operation and 27 in the investment process. Since its inauguration, more than a dozen presidents from different countries have visited the industrial zone accompanied by countless companies and executives from their respective countries on exploration missions, especially as a consequence of the domino effect caused by the announced thaw between governments of Cuba and the United States in December 2014<sup>80</sup>. However, from its inauguration until the end of 2018, the ZEDM was only able to capture investments of US\$1,191.4 million, compared to the US\$12.5 billion they had planned at a rate of 2.5% per year. It was a poor 9.5% compliance compared with the plan drawn up<sup>81</sup>. See Figure 15.

**Figure 15.** Investments reached vs. planned investments in the ZEDM (in millions of dollars), 2014-18.



Source: Havana Consulting Group

Point 2 has always been conditional on the Cuban government consistently being reluctant to negotiate claims for confiscated U.S. property. In this regard, they lost two opportunities to negotiate these claims and turn them into investment projects. One was under President Obama when the thawing process took place between the governments of Cuba and the United States, and the other, later, with President Donald Trump.



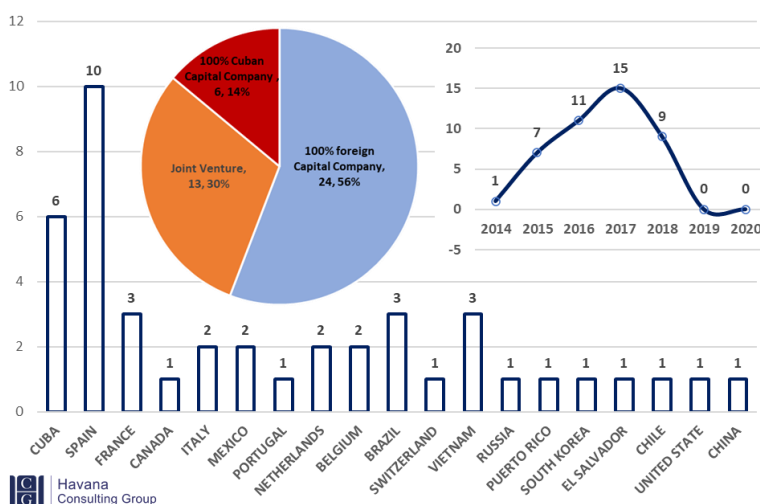
When President Donald Trump activated Title III of the *Helms-Burton Act*, the Cuban market automatically lost however little attractiveness it had left. For investors who were already immersed in this process, a real nightmare ensued. For the Cuban government it meant a stranglehold that has shaken its foundations.

In its initial stage, the impact of this activation was more powerful than the effect the demands themselves have had to date. Quite a few foreign investors stopped in their tracks their intention to invest on the island. Some backed out of contracts signed in advance, fearing sanctions. Such is the case of the French-Italian company Avions de Transport Régional, the French company Bouygues Batiment International<sup>82</sup> and the National Society of French Railways (SNCF)<sup>83</sup>.

As a consequence of the nationalizations and expropriations that took place in the early years of the revolution, there are 5,913 claims certified by the Foreign Claims Settlement Commission and another 200,000 not certified that have not received compensation from the Cuban government. So far, 32 claims have been made public under Title III of the *Helms-Burton Act*, of them 11 referring to certified properties and 21 that are not certified. In these lawsuits, more than 150 lawyers working for 51 law firms and more than 80 plaintiffs have been involved in one way or another<sup>84</sup>. There are dozens of other lawsuits in progress but have not yet been made public.

The impact of the activation of Title III of the *Helms-Burton Act* has been felt very strongly in the Mariel Special Development Zone (ZEDM). The investment projects in the ZEDM did not grow in 2019 and neither in 2020. Only the 43 projects that were already present in 2018 remain. The only thing that has happened is that some were in the construction phase and have moved to the operational phase; however, no new investment projects have joined in the last 2 years (2019-20). See figure 16.

**Figure 16.** Investments in the Mariel Special Development Zone (ZEDM), 2014-2020

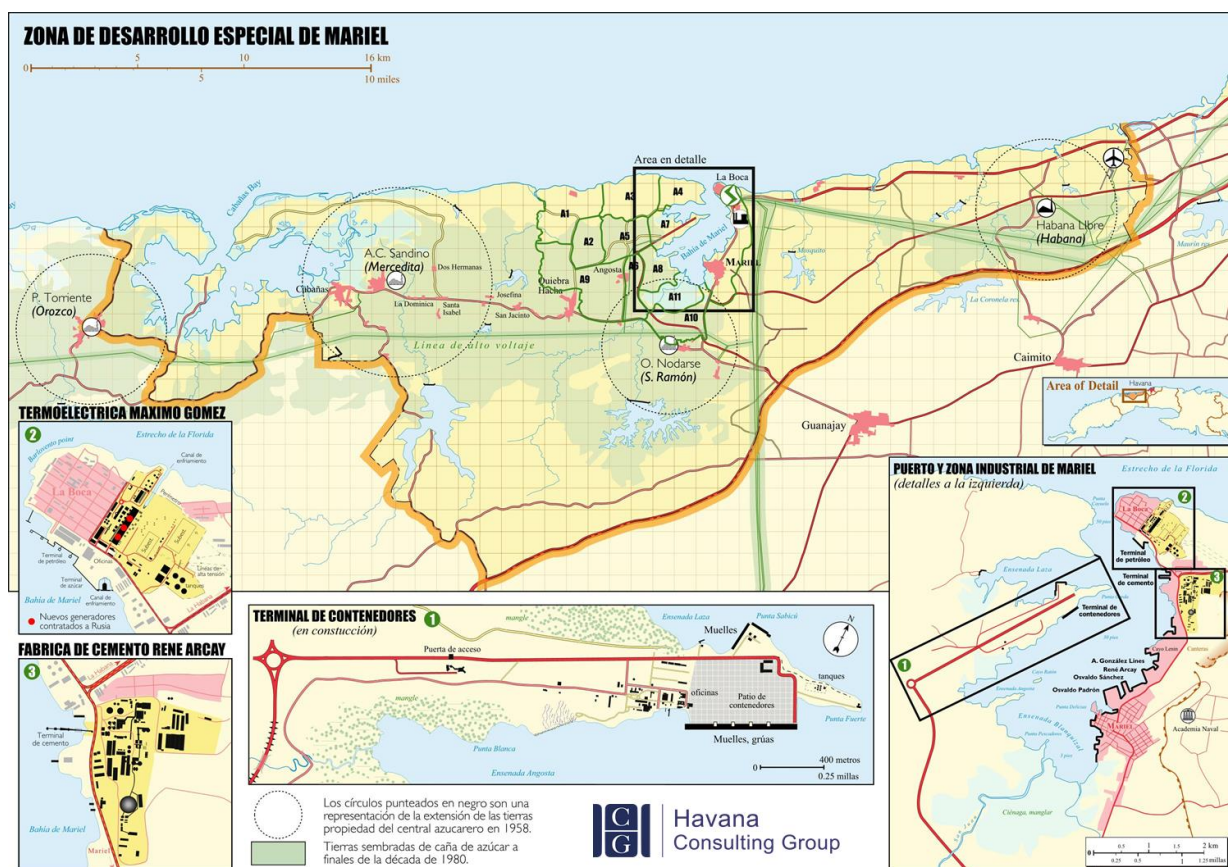


**Fuente:** Havana Consulting Group

It can also be perceived that some of the signed and announced projects came to a halt. In this status, for example, is the project for the joint venture Salado Resort, which has as partners the Spanish company GLOBADIA, represented in this case by the company EL SALADO RESORT S.L. (Company legally incorporated in Palma de Mallorca, Spain) and CUBAGOLF S.A. (Mercantile Society belonging to the Extrahotel Palmares S.A. de Cuba)<sup>85</sup>. The project aims to build an 18-hole golf course, a 250-room five-star hotel and another 500-room four-star facility, a convention center, a spa, a shopping center, and 3,000 apartments for sale. However, after eleven years of intense negotiations to reach an agreement to create the joint venture, the entire project remains just a wish.

In the area where the ZEDM is located, there were four sugar mills and other companies that were confiscated and not compensated after the revolution. The last two lawsuits brought to court have to do with the ZEDM, both related to the Central San Ramón, located in Mariel, owned by the Blanco family. The two defendant companies are Crowley Maritime Corporation and Seaboard Marine, both based in Florida and with revenues of several billion dollars in 2019<sup>86</sup>. The four sugar mills within the perimeter of the ZEDM were Orozco, Mercedita, San Ramón and Habana. See Map 1.

**Map1.** Mariel Special Development Zone. Current investment area and location of the sugar mills that were confiscated after the revolution.



Source. Havana Consulting Group.

Foreign companies based in the country find it very difficult to repatriate the capital created by their operations on the island due to obstacles established by the Cuban government, which has increased the level of mistrust and has generated a climate of uncertainty that is not well appreciated by the few investors present in the country and by potential investors. Due to lack of liquidity and payments in the country, many foreign companies that supply products have stopped selling to Cuba. Such is the case of the 56 companies in the Canary Islands that exported around 40 million euro to Cuba in 2012, and of which, today only 15 do so, with a turnover of 5.5 million euro<sup>87</sup>. Something similar has happened with Chinese suppliers of raw materials and products, which has generated a deep crisis in the Cuban pharmaceutical industry and other sectors of the economy. In 2020, imports from China fell by 40%<sup>88</sup>, continuing a decline that has worsened since 2019, which was 28%.

The government team headed by President Miguel Díaz-Canel, instead of adopting a renewed strategy and applying an opening formula to release the productive forces, has preferred ideological entrenchment and the continuity of the status quo as a strategy to maintain power. In his speech and action, a commitment to the change of model is not perceived, but quite the opposite.

The activation of Title III of the *Helms-Burton Act* was an ideal opportunity for a change in strategy on the part of the Cuban government. It would have been more strategic to negotiate and turn possible demands into investments, than to entrench themselves and try to give life to a model that is economically and politically dead.

However, the Cuban government has never been willing to look at this issue from this perspective, quite the contrary. Even in the years of the thaw, this issue was sparingly discussed on a couple of occasions that did not bring any type of progress, and clearly showed that the Cuban government was not interested in negotiating this issue.

*The Helms-Burton Act* remains a great opportunity to turn claims lawsuits into investments, and this is the one strategy that the Biden Administration should push forward. Obtaining compensation for the confiscated properties and forcing the Cuban government to respect the rules of international trade would be a good first step to begin rapprochement.

## 2.5 Foreign Debt

The Cuban government's economy is in one of the most difficult moments in the last 60 years. After having renegotiated its foreign debt with the Paris Club and other creditors in 2015, in 2020 it could not pay the commitments it had acquired. This not only generated more distrust in creditors, but several lines of credits were also lost, including from its political partners China and Russia.

Lack of payment to the creditors of the Paris Club is not only a true reflection of the Cuban government's lack of financial resources, but also clear proof of poor management of the economy in the last five years, first by Raúl Castro and more recently, by his successor president Miguel Díaz-Canel.

The Cuban government's lack of liquidity is chronic: it is not a recent affair nor is it circumstantial. The capricious, medieval, and stubborn mentality of a group of octogenarians to keep the country under a centralized and inefficient state-run economy is the main cause of this debacle.

The Cuban government has tried to justify its non-payment to creditors with the effects of the embargo and sanctions by the Trump administration. However, the truth is that the communist government of the island has not taken a step forward to transform its economy. Before Trump came to the White House, the government of Raúl Castro had frozen economic reforms<sup>89</sup> given the push and accelerated growth experienced by private entrepreneurs on the island, who had displaced state-run companies in various sectors of the economy<sup>90</sup>, such as tourism, transport, restaurants, shoe production, import of products<sup>91</sup>, etc.

The major factor in this crisis has been the government's lack of strategic vision and the unwillingness to make structural changes in the economy that involve the liberation of the productive forces and the opening to a market economy and free enterprise. This situation has been further complicated by the COVID-19 pandemic.

In December 2015, the Cuban government reached an agreement with the Paris Club and managed to have US\$8,500 of the US\$11.1 billion of outstanding debt forgiven. The remaining US\$2.6 billion was structured to be paid over 18 years. The first payment of about US\$40 million, was made in October 2016<sup>92</sup>. According to the agreement with the Club, a percentage of the money owed would be used for development projects.

Before the agreement reached with the Paris Club creditors, the Cuban government had successfully restructured its foreign debt with commercial creditors from Japan, Mexico, Russia, China<sup>93</sup> and Uruguay, and had achieved a substantial reduction of 81.6%, which meant the forgiveness of US\$42,089.9 million<sup>94</sup>. The balance of the debt payable was US\$9,466.1 million, of which US\$2.6 billion correspond to the debtors grouped in the Paris Club, already mentioned above. See Figure 17.

**Figure 17.** Value of the debt forgiven by various creditors to Cuba.

Creditors	Total Debt (Millions USD)	Forgiven (Millions USD)	%	Outstanding (Millions USD)	%
Russia	\$32,200.0	\$29,000.0	90.1%	\$3,200.0	9.9%
Mexico	\$487.0	\$340.9	70.0%	\$146.1	30.0%
Japan	\$1,750.0	\$1,400.0	80.0%	\$350.0	20.0%
China	\$6,000.0	\$2,830.0	47.2%	\$3,170.0	52.8%
Uruguay	\$35.0	\$35.0	0.1%	\$0.0	0.0%
Paris Club	\$11,084.0	\$8,484.0	76.5%	\$2,600.0	23.5%
<b>Total</b>	<b>\$51,556.0</b>	<b>\$42,089.9</b>	<b>81.6%</b>	<b>\$9,466.1</b>	<b>18.4%</b>
Venezuela*	\$11,367.0				
Brazil*	\$350.0				

\* Value of the debt of Venezuela and Brazil in 2010; In the case of Brazil, it would be necessary to add the debt corresponding to the investment in ZED Mariel.

**Source:** Prepared by Havana Consulting Group from the reports of various financial institutions and international press agencies.

It is important to note that the Cuban foreign debt forgiveness agreements did not include debt with private creditors and with countries such as Venezuela and Brazil, which in 2010 was estimated at US\$11.3367 million with Venezuela and US\$350 million with Brazil<sup>95</sup>. In the case of Brazil, it should be necessary to add the almost US\$700 million loans that it granted for the project to build the port and infrastructure works in the Mariel Special Development Zone (ZEDM).

Thus, Cuba has not only defaulted on its debt with the Paris Club, but has also quadrupled its debt with Spain in just five years<sup>96</sup>. The foreign debt Cuba has contracted with Spain amounts to 1,970.66 million euro, which represents about two-thirds of the total debt of Latin America with Spain, 3,086.68 million euro.

As if this were not enough, in an unexpected move the Argentine government demanded that the island's government pay the debt of US\$2.7 billion that dates from the 1970s<sup>97</sup>. This debt dates back to 1973 and today amounts to US\$4,805 million.<sup>98</sup>

The London Club also demanded that Havana pay its debt. In 2018 the Club made an offer that included a substantial cut in debt. The lawsuit is for the non-payment of US\$1.4 billion.<sup>99</sup>

With certainty, this situation of not serving payments with creditors will continue in the coming years, since there are no indications that the government has concrete plans to improve its economy, to which should be added the impact of the pandemic. Thus, the Cuban foreign debt will continue to increase, and the credit situation will become increasingly critical.

To this should be added the effects caused by the strong sanctions by the United States, which have resulted in millions of fines to several international banks and have forced others to close accounts with Cuban companies to avoid the sanctions<sup>100</sup>.

In the last 18 months, two banks canceled the accounts of Cuban companies that received transactions derived from trade with their agents in the United States. The first of them was the Panamanian bank Multibank<sup>101</sup>, which in October 2019 canceled the accounts of several companies related to Cuba, when it was bought by the AVAL Group of Colombia<sup>102</sup>. The second was the French bank Credit Mutuel,<sup>103</sup> which canceled the accounts of companies AIS SA, (a subsidiary of CORPORACIÓN CIMEX SA, registered in Panama and managed by Grupo GAE SA in the hands of the Cuban military), CELIMAR and CUBAPACK, in which the transactions generated by the remittances from the United States to Cuba were deposited, as well as the billing of the procedures for shipments of goods made by the CUBAPACK agents in the United States, up to the dividends generated by the sale of tickets to 552,816 Cubans residing in the United States who traveled to Cuba<sup>104</sup>.

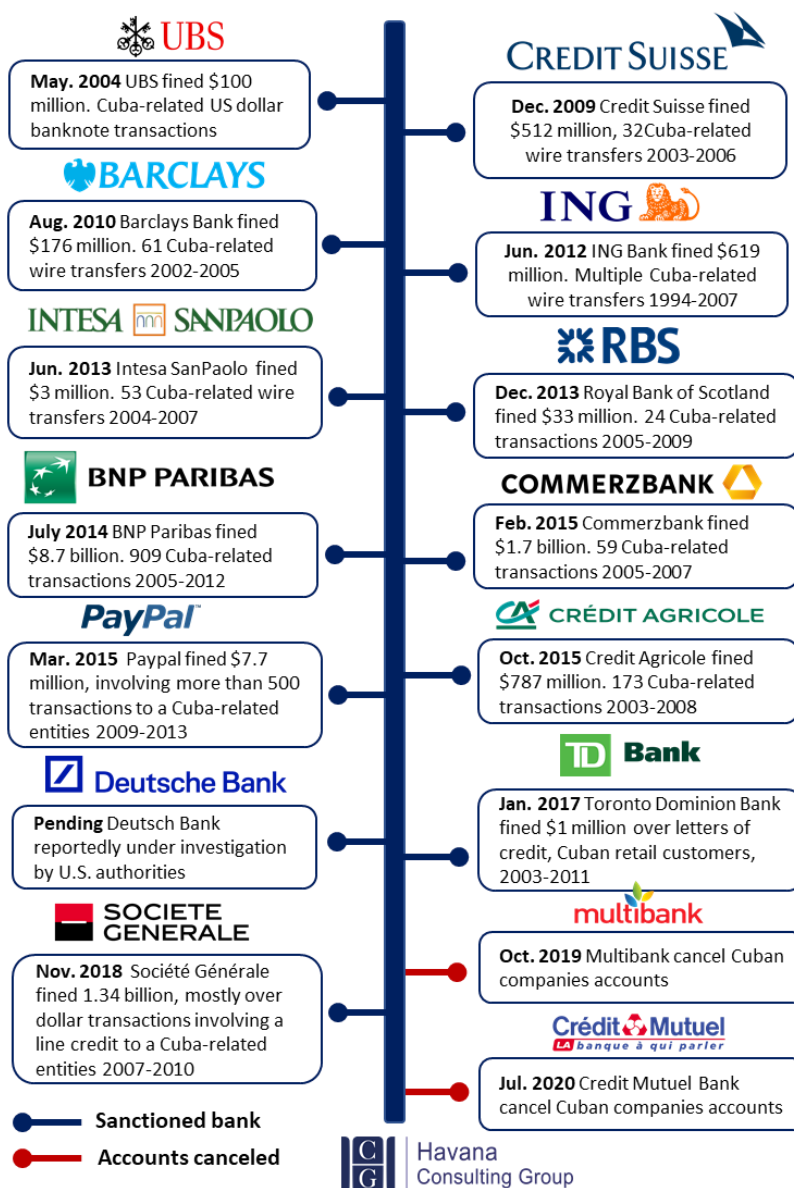
Previously, in November 2018, the French bank Societ  General (SG), the largest in France, had been penalized with US\$1.34 billion<sup>105</sup>, as part of the financial siege imposed by the American authorities on



the Cuban government and other countries sanctioned by the Department of the Treasury, which complicated and made it more difficult to obtain loans, in addition to increasing the level of risk for companies that traded with the island's government.

In the 2004-2018 period, the fines imposed by the U.S. authorities on 13 financial entities for making transactions with Cuban companies reached US\$14,002 million. In those 14 years, the annual average sanction was a little more than US\$1 billion. See Figure 18.

**Figure 18.** Fines imposed on banks for violating the embargo on Cuba, 2004-2018



Source: Prepared by Havana Consulting Group from press reports from various sources.

Under this panorama, it is easy to understand that the financial situation of the Cuban government is critical, its foreign debt is growing at a galloping pace and the available credit lines are becoming increasingly scarce.

In the future, it will be more difficult for the Cuban government to find suppliers of imports both in terms of consumer goods and intermediate inputs or raw materials. And neither China nor Russia<sup>106</sup> offer credit to the Cuban government. A U.S. rapprochement with the Cuban government that allowed trade between the two countries would generate many problems for U.S. companies, since many of them would be involved in problems of defaults and debts with Cuban government companies. We know how these stories end: they never pay. Suffice it to look at what is happening with current creditors to see that doing business with the Cuban government is highly risky.

The non-fulfillment of the payment obligations agreed with the Paris Club, Russia and the rest of the creditors that renegotiated the debt in 2015, has left the country practically without access to international credits.

Given these facts, the Biden Administration must be extremely careful when approaching Havana. Commercial activities that could potentially be involved in a hypothetical rapprochement should not include the granting of loans to companies belonging to the Cuban government. It is advisable to continue with the policy of payment in cash and in advance that has worked until now with the products American farmers sell annually to companies on the island. The Cuban government is unable to pay political partners such as Russia, China, and Venezuela, so it would care even less for the United States.

## 2.6 Agriculture

Although the reforms undertaken in agriculture in 2008 brought some changes, the results showed they were insufficient. Significant setbacks are observed in the private sector with the prohibition of street vendors, prices capped on a number of agricultural products, high prices in dollars in the markets set up by the government for the purchase of farming tools and inputs and the high rate of crop losses in the field.

The results of abandoning a consistent policy to develop agriculture are clearly reflected in the national statistics on exports and imports of food in various stages, from the times of relations with the USSR and the socialist bloc, the drastic reduction of the sugar industry, the alliance with Venezuela, until today.

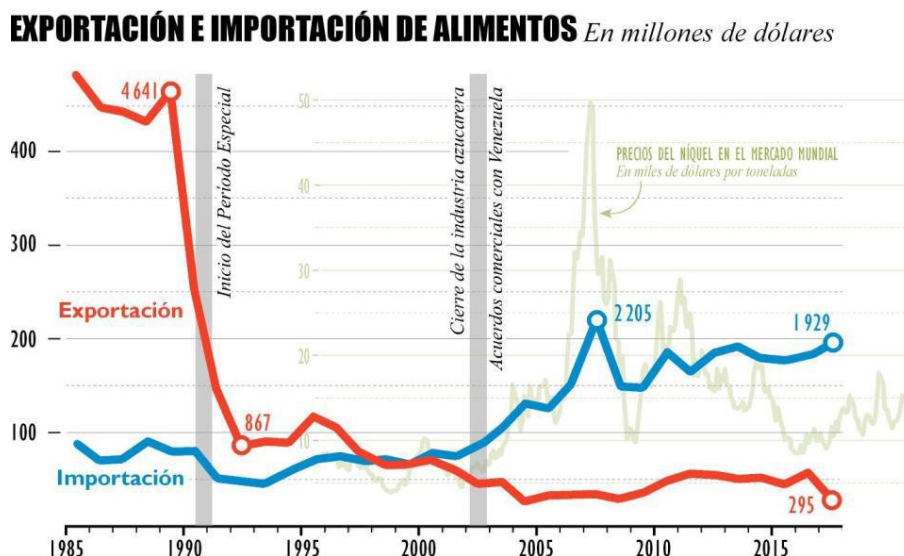
Broadly speaking, Figure 19 clearly reflects the steep drop in food exports (red line) and the sustained increase in imports (blue line). From exporting food for US\$4.641 billion and importing about US\$100 million in 1990, thirty years later they are exporting just US\$295 million and importing US\$1.929 billion.

The reforms and incentives used to revitalize food production have yielded very poor results; and it is obvious that the administrative structure of the agricultural sector is not adequate to satisfy domestic



needs. The result of this policy shows a chronically undersupplied market, whose solution the government has sought by importing food instead of encouraging domestic development to generate an increase in productive capacities.

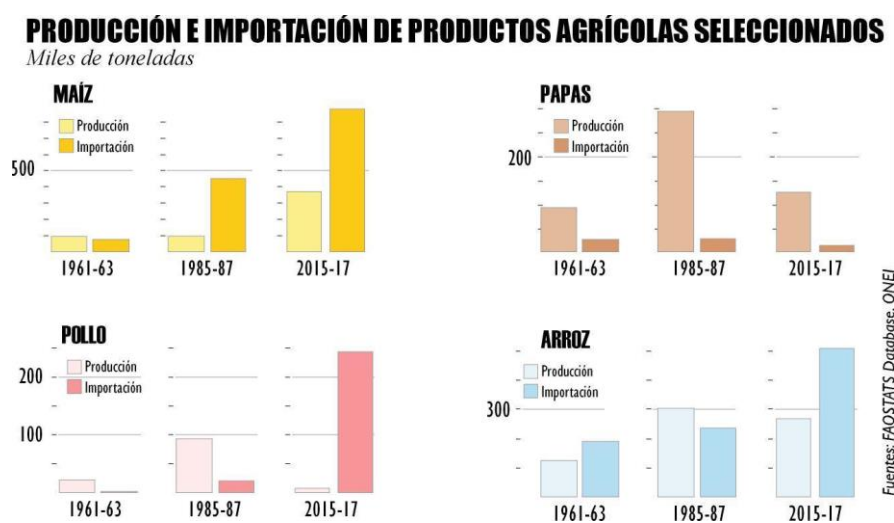
Figure 19. Food exports and imports, in millions of dollars, 1985-2018.



Source: National Office of Statistics and Information. ONEI.

Suffice it to compare the production and import volumes of some items to get an idea of how big the problem is, and the great level of dependence that the country has on food imports. See Figure 20.

Figure 20. Production and imports of corn, potatoes, chicken, and rice, in thousands of tons, 1961-2018.



Source: National Office of Statistics and Information. ONEI.

The graphs clearly show that, with the exception of potatoes, in the period 2015-2017, imports exceeded domestic production. But even with the predominance of imports, supply is insufficient, and shortages continue to be present. In other words, the market demand is not supplied even by resorting to imports. It is easy to understand then that, in the current scenario, without financial resources and the productive forces imprisoned in a model that does not allow their development, the availability of food is going to be very critical.

The limited capacity to produce food on the island has no natural causes. The disaster of Cuban agriculture rests on the precarious economic model prevailing and on the government's incompetence to change an economic scheme that for 60 years has proven to be totally inefficient and unproductive<sup>107</sup>.

In today's scenario, the country essentially needs a profound reform in an economic model that has already proven useless. The first sector to be reformed all around is agriculture. It is a fact that all the measures and regulatory changes implemented over time in Cuban agriculture have not worked. Cuba, an eminently agricultural country, has ceased to be a food exporter to become a large importer. Suffice it to consider some examples to understand how inefficient that model is. In 1958, Cuba exported 60,000 tons of coffee, 60 years later it barely exports 6,000 tons<sup>108</sup>. In the 1950s, Cuba was the world's leading sugar exporter. Today the country imports sugar<sup>109</sup>. In 1958, the country was self-sufficient with beef, milk, tropical fruits, coffee, tobacco, and even exported surpluses. It was also self-sufficient in fish and shellfish, pork and chicken, tubers, vegetables, and eggs. With more than 6.7 million heads of cattle, one cow per inhabitant, Cuba tripled the world average of 0.32 cattle per capita according to the FAO<sup>110</sup>. Sixty years later, most of these products are imported.

Today the country has to urgently solve the serious problem of food shortages; not only does it not produce enough food, but it no longer even has the resources to import enough food. Hence the urgent need to profoundly reform the economic model that has prevailed in the country for more than 60 years. To do this, it is essential to release the productive forces, establish a free market based on supply and demand, and enact laws that allow free enterprise and price liberalization.

The process of distributing land in usufruct to peasants who wanted to work it began in 2008. According to the approved Law, said distribution was subject to a number of restrictions, including: (a) the maximum amount of land to be granted per beneficiary was 13.42 hectares; (b) the beneficiary could not build houses and other structures on the land; (c) ownership of the land remained with the State, and the beneficiary only had the non-transferable right to use the land (usufruct) for 10 years (20 years for cooperatives); (d) the beneficiaries had to sell much of their production (60-70%) to the state purchasing entity ACOPIO; and (e) the grant could be terminated if the beneficiary did not comply with the legal obligations established in the contract<sup>111</sup>.

In 2008, Cuba had an agricultural area of 6,600,000 hectares and the idle land fund was about 1,800,000 hectares. In the period 2008-11, some 1,313,396 hectares of idle land were given in usufruct, which went to the hands of 146,816 individual usufruct holders, which represented 97% of the total applications received by the Government until December 2011<sup>112</sup>. Most of the idle lands distributed in usufruct were allotted to livestock (53%), followed by various crops (25%), rice (8%) and other lines such as coffee, tobacco, sugar cane and fruit trees<sup>113</sup>.

In response to criticism that the usufruct period was not long enough for new farmers to recoup their investment in land improvement and conditioning, in mid-2017, the Ministry of Agriculture approved new regulations that doubled the duration of the usufruct from 10 to 20 years for individuals<sup>114</sup>, with the possibility of renewal, while for cooperatives it was extended indefinitely. The new regulations also opened the usufruct of vacant lands previously used for commercial cattle ranching and doubled the amount of usufruct lands that would be granted to new applicants to the program<sup>115</sup>.

The granting of land in usufruct continued to grow and at the end of 2016, 1,917,000 hectares had been granted, representing 31% of the country's agricultural area<sup>116</sup>. However, even with this large amount of land given in usufruct, agricultural production did not increase. The country continued to import 80% of the food it consumes at a cost of 2 billion dollars a year. According to data from the Ministry of Agriculture, 60% of the food purchased abroad could be produced in the country<sup>117</sup>.

Despite some changes achieved from 2008 reforms in agriculture, the results turned out to be insufficient. MUNDOBAT, a Non-Governmental Organization for Development Assistance (NGDO) based in the Basque Country, linked to Cuban institutions, reported that 57% of the crops in the field were lost because they were not harvested on time<sup>118</sup>. The most recent case recorded was the loss of 2,600 tons of mangoes from the 2017 harvest in the province of Guantánamo<sup>119</sup>.

There are still many structural problems that impede the speedy and sustainable development of the agricultural sector. Among the main problems that exist today are the following:

- a. Limited productivity due to the low prices the State imposes on products farmers have to sell to the state-run collecting company ACOPIO.
- b. Absence of a free market based on supply and demand.
- c. ACOPIO's deficient collection, storage, and conservation of the products.
- d. Absence of a private wholesale market.
- e. Lack of infrastructure to store and preserve products.
- f. Price control by the State.
- g. Limitations to the private sales.

In 2020, the Cuban government, in the heat of an improvised dollarization process<sup>120</sup> undertaken to obtain foreign currency at all costs, implemented new measures that, far from encouraging agricultural

production, had the opposite effect: Farmers would have to buy <sup>121</sup> inputs to grow their crops in dollars, something practically impossible since they market their products in pesos.

Faced with this situation, the League of Independent Farmers and the Cuban chapter of the Latin American Federation of Rural Women (FLAMUR) published a letter addressed to the Cuban government demanding immediate economic freedom to contain the famine, poverty and massive unemployment that was being created<sup>122</sup>.

Cuban farmers are deprived of directly marketing their products with foreign companies. Whoever wants to do so have to use state intermediary companies. Any import or export operation must be carried out through a state intermediary. With the added risk of aggravating the already critical shortage of food in the market, the current model of food production and distribution prevents raising and sustaining agricultural production and reducing imports.

An approach by the Biden Administration to Cuba should be conditioned to the liberation of productive forces on the island, under a scheme of entrepreneurial freedom, a free market based on supply and demand, and to favor direct commercial exchanges between Cuban farmers and US agricultural companies.

## 2.7 Public Health

The public health system has become one of the main financial supports of the Cuban government. Although internally the infrastructure of the domestic public health system is in dismal shape due to the lack of resources to maintain medical units such as hospitals, polyclinics, dental clinics, pharmacies, etc., the Cuban government has set up a lucrative business based on the export of thousands of professionals, who provide medical services in more than 30 countries around the world and generate billions of dollars annually according to official figures published by the media and Cuban government entities.

These publications show that in 2016 alone, the export figure for medical services was US\$11,543 million<sup>123</sup>. The 2018 report by the National Office of Statistics and Information (ONEI) admitted that the figure had fallen to US\$6.399 million, a decline by 44.35% in just two years. See Figure 20.

In 2019, it is estimated that income for this concept barely reached US\$3 billion, a 74% decline from 2016. Despite these multimillion-dollar revenues, the shortage of medicines on the island is increasingly chaotic, its hospitals are in dismal conditions and the lack of supplies to offer a good service to Cuban citizens is increasingly chronic.

The fall in the exports of medical services has been one of the factors that has caused the Cuban government's lack of liquidity, which has generated food shortages in the dollarized retail trade networks, a transportation crisis, and fuel shortages for cars and for cooking, lack of drugs in

pharmacies, failure to pay the foreign debt to the creditors who canceled Cuba's debt a few years ago<sup>124</sup>, as well as to international suppliers of raw materials and products.

**Figure 20.** Value of foreign trade in exported services by divisions, 2018

<b>Value from foreign trade of exported services by divisions (Thousands of pesos)</b>	
<b>Total</b>	<b>11,289,821.1</b>
Retail trade services	279,428.9
Accommodation, food and beverage supply services	970,425.8
Passenger transport services	280,114.9
Cargo transport services	90,796.0
Transportation support services	235,009.1
Financial and related services	156,014.2
Legal and Accounting Services	10,437.8
Other professional, scientific and technical services	14,281.6
Telecommunications, transmission and supply of information services	722,162.9
Support Services	1,319,072.2
Maintenance, repair and installation services (except construction)	24,620.2
Teaching Services	250,085.2
<b>Human Health and Social Care Services</b>	<b>6,398,538.8</b>
Association Services	28,512.0
Recreation, Cultural and Sports Services	60,549.3
Other Not Selected Services	449,772.2

**Fuente:** Oficina Nacional de Estadística e Información

In full decline is Cuba's master plan to export medical services while hiding the treatment of Cuban medical and paramedical personnel as slaves, which has been denounced as such before the UN Human Rights Commission<sup>125</sup>. In the last 24 months, Cuba has definitively lost very important strategic markets from which considerable income was obtained from the export of health services, such as Brazil, Ecuador and El Salvador, to name the most notorious cases. To this must be added the decrease by more than 50% of Cuban medical and paramedical personnel in Venezuela, which has meant the loss of hundreds of millions of dollars to the Cuban economy.

The two markets that contributed the most revenue and had the largest number of contracted physicians were Venezuela and Brazil. In Venezuela, the number of Cuban medical and paramedical personnel decreased from 45,000 to 21,000. In addition, the Venezuelan government has been unable to serve the payments for these services due to the worsening economic, political, and social crisis in the country and the drastic reduction in oil production and exports (in 2011 Venezuela produced 3.2 million barrels per day (bpd), while in December 2019 it only produced about 650,000 bpd<sup>126</sup>), which has caused the Venezuelan economy to collapse.

As it is known, Cuba withdrew its medical personnel from Brazil at the end of 2018 (more than 8,200 doctors<sup>127</sup>), as a result of the demands by President Jair Bolsonaro that Cuban doctors had to do a revalidation exam, their salaries be paid in full and the Cuban government should authorize their relatives to travel to Brazil and stay with them for the duration of the mission. Cuba failed to earn about US\$330 million a year due to the cancellation of the agreement with this country. The government forced the Cuban doctors to abruptly abandon their patients and imposed exile for eight years on the doctors who decided to stay in Brazil. With this, Cuba made it clear that it was not a humanistic mission in solidarity with the Brazilian brothers and sisters but rather a system of forced labor to generate super-profits at the expense of the Cuban doctors.

The losses caused by the termination of the mission in Brazil and the reduction of more than 50% of the Cuban health personnel in Venezuela should be added to the impact of the Cuban doctors leaving El Salvador<sup>128</sup>, Ecuador<sup>129</sup> and Bolivia<sup>130</sup>. The Cuban State received 75% of the salaries of these doctors<sup>131</sup>.

These millionaire losses have been combined with strong complaints about human trafficking in relation to Cuban medical missions abroad<sup>132</sup>, since the government pockets between 75% and 80% of the salary that countries pay for the services of hired Cuban experts. In November 2019, two United Nations rapporteurs sent a letter to the Cuban government inquiring about these assertions, but the Cuban authorities have not responded<sup>133</sup>.

Several Cuban doctors who participated in medical missions in various countries have reported practices to the UN and other international organizations that are consistent with slavery as carried out by the Cuban government with total impunity. Some of these missions were promoted by the Pan American Health Organization (PAHO), which caused an international scandal.

A group of Cuban doctors who worked in Brazil filed a lawsuit against PAHO for acting as an intermediary for Brazil's "More Doctors" program, through which the island's government kept most of the money earmarked as the doctors' salaries, withheld their passports as a way of limiting their mobility and kept part of the little salary they were paid frozen in accounts on the island, which they would not be able to access until they finally returned from the mission, and on condition that if they incurred in any indiscipline this money would never be paid to them. Furthermore, PAHO, as the intermediary entity facilitating the project, earned 5% per year of the value of the contract for the work of each doctor<sup>134</sup>. The lawsuit has been accepted by a federal court in Washington, D.C. The judge in this case decided that PAHO's immunity as an international organization did not amount to impunity.

It is a practice of the Cuban government, for all missions abroad, to appropriate at least 75% of the health workers' salary, retain their passports and deposit a portion of their salary in a bank account on the island. It is a way of extorting doctors, avoiding desertions, and having total control over the movements of health workers in the countries where they are hired.

Apart from being deprived of 75-80% of their salary, there are quite a few cases of the doctors and health personnel travelling abroad - especially women - who are extorted by their "*responsables*" (handlers). Pressures have often included demanding sexual favors in exchange for them to be assigned to areas with a low risk of criminal and violent activity<sup>135</sup>. Those who refuse are sent to remote and high-risk places.

The altruism and goodness that the Cuban government proclaims in its official media, extolling its medical missions and showing them to the world as armies in white coats that help poor countries, is a political propaganda plan that actually hides a great business involving human trafficking, forced labor and money laundering. With impunity, these missions violate the individual rights, of each Cuban professional who is hired abroad, established by the World Labor Organization.

Beyond the juicy financial dividends for the Cuban government, the concept of exporting medical services has always been a project based on political convenience. Armed only with their white coats and their political training, the medical personnel were always an effective weapon of Fidel Castro's to sow the ideas of revolution in all corners of the world<sup>136</sup>.

Several Cuban doctors have revealed to the press their role as political weaponry in Venezuela<sup>137</sup>. The Cuban government ordered many of them to go door to door in poor neighborhoods to give away medicines and warn residents that their access to medical services would be cut off if they did not vote for Maduro or his candidates<sup>138</sup>.

Currently, more than 30,000 Cuban doctors and health personnel continue to work abroad under the conditions of slavery that have been denounced to the United Nations. A U.S. approach to Havana should be subject to the Cuban government ceasing the application of these slave labor conditions, totally out of context in the 21st century, and allowing the free hiring of Cuban health personnel wherever they want to go to provide their services.



### III. POSSIBLE AGENDA OF THE CUBAN POWER ELITE AND U.S. PRIORITIES

Much has been speculated about the cards that the Cuban government could have when trying to negotiate a rapprochement with the United States that would give it access to the financial oxygen it is desperately seeking to save it from the perfect storm that has been created due to the economic crisis in the country and the impact caused by the COVID-19 pandemic.

The objectives of the Cuban government are the same as always: measures that open long-term soft loans, which it will never pay, as those that were restructured in 2015 are not being paid.

Additionally, they could claim other concessions such as the following:

1. Remove Cuba again from the list of countries sponsoring terrorism.
2. Definitively bury the issue of the sonic attacks on U.S. diplomats.
3. Deactivate Title III of the *Helms-Burton Act*.
4. Cancel the blacklists of Cuban persons and entities sanctioned by the State Department and the Treasury Department.
5. Accept the right of Cuba to intervene in the internal affairs of Venezuela.
6. Allow the return of Western Union to Cuba and eliminate the money transfer limits set by the Trump Administration.
7. Reactivate the 12 categories of travel to Cuba for American tourists that were frozen by the Trump administration.
8. Reactivate regular and charter flights to all Cuban airports (9) that were eliminated by the Trump Administration.
9. Reactivate cruise trips to the island.
10. Reactivate immigration agreements and consular procedures.
11. Reactivate bank triangulations.
12. Retract the U.S. complaint on human trafficking of forced labor in the hiring of Cuban doctors abroad.
13. Suspend USAID, DRL, and NED support to Cuban civil society groups.

Traditionally, when the Cuban government has attempted a rapprochement with the U.S. government, its first card has been the issue of political prisoners. For the Cuban government, prisoners have always been the bargaining chip they have used to negotiate a first step. It serves two purposes: negotiate and activate a release valve. In general, the negotiation focuses on the forced departure abroad of political prisoners released by Cuba. The government prefers them outside, exiled; in this way it cancels opposition activity within the country.

However, the wear and tear of using this resource over the years in the dispute between the governments of Cuba and the United States - which was effectively used by dictator Fidel Castro in his negotiations with Carter, Clinton and Pope John Paul II to name a few, and more recently by his brother

Raúl in the negotiations with Barack Obama with great coverage in the American press and as spearhead of the lobby in favor of the Cuban government in the United States – has rendered it no longer an attractive enough tool for a thaw.

The only recourse left for the Cuban government is to propose to negotiate with the United States the elimination of the internal blockade that it has imposed on Cuban citizens for 62 years in exchange for the U.S. government lifting the embargo. But the Cuban government must make that concession unconditionally to its people, not to the United States. The Cuban government must also be accountable to its people for how the productive forces would be opened and future reforms started, so that a few senior military do not end up appropriating the centralized companies and productive resources in a turn towards uncontrolled privatization.

In any case, it remains to be seen how pragmatic the Cuban government could be in the current circumstances. The cards the Cuban government has are scarce, as are its financial resources when facing a possible crisis of famine and social outbreak.

If the Cuban government wanted to persuade its US counterpart that this time it has a real determination to improve the bilateral relations and replace its current governance regime, these would be some preliminary steps it could take:

1. Negotiate the 5,913 claims certified by the U.S. government for confiscation of properties of US citizens and another 200,000 non-certified claims that have not received compensation from the Cuban government.
2. Liberate the productive forces of the country by allowing a transparent system of free enterprise and giving Cubans on the island and residents abroad the same investment opportunities that they offer foreign investors. For this, they would have to implement a business company law that guarantees and promotes these conditions.
3. Establish a free market based on supply and demand and with prices set by the market. Restore to the State and civil society their role of strengthening public institutions to ensure equal opportunities and respect, and transparency in legality over the interests of specific groups.
4. Grant the lands in perpetuity and not in usufruct to peasants who work them.
5. Allow farmers to commercialize their products without State mediation both in the domestic market and for exports.
6. Allow the free hiring of the workforce both within the country and for the export of services, including health professionals.
7. Open the entire retail market to the private sector.
8. Cancel the regulations that make Cubans living abroad second-class citizens without rights on the island.
9. Allow the delivery of remittances in Cuba in the same currency they were sent.
10. Encourage investment by Cuban exiles and Cuban residents.

11. Unconditionally release all political prisoners.
12. Put a *de facto* and *de jure* end to the persecution of dissidents and opponents.
13. Put an end to the system of human trafficking and exploitation of forced labor of Cuban professionals and doctors.
14. Withdraw its military and security advisers from Venezuela and other countries in the region.

However, although these measures - if accepted and implemented - would rapidly and considerably improve the living conditions of Cubans and would ensure the legitimate interests of the United States, a complete normalization of bilateral relations would entail the lifting of all sanctions prescribed by the Helms-Burton Act. This would only be possible if Cuba, in addition to complying with the requirement to compensate the companies that were arbitrarily confiscated, advances towards its full democratization, including holding pluralistic, free, and internationally supervised elections.

## IV. CONCLUSIONS AND RECOMMENDATIONS

### CONCLUSIONS

1. **To solve a problem you have to understand it. Cuba is no longer a revolutionary or Communist state in the classical sense. Its alliance with Venezuela has promoted a transition towards a repressive post-Communist state of criminal nature that ignores the social and economic security of its citizens.** There is a new political economy, with new social classes, sources of inequality and distribution of wealth. The bureaucratic state inherited from communism only manages obsolete institutions and companies and appears accountable for the disaster. The so-called achievements of the revolution (guaranteed health, education, employment, and social security) are in shambles and the state ignores them. What remains of communism is only the denial of freedoms and the human rights of its citizens.

Parallel to the bureaucratic shell of the old communist state, a post-communist mafia state operates. Therein, an elite of military power monopolizes the armed and foreign institutions for their own benefit and has a holding company (GAE SA) that controls and manages -outside of any independent state control- all companies that generate convertible currencies and is involved in illegal international activities.

2. **In Cuba, the military power elite is in command; Miguel Díaz-Canel and the government obey and implement their guidelines.** Negotiating with the government without obtaining guarantees from the power elite will not lead to a stable transformation of the bilateral relationship.
3. **U.S. policy must distinguish and prioritize the bilateral relationship with the people vs that of the power elite.** The real possibility of building a U.S. rapprochement with Cuba must have a well-defined practical objective: to build and promote a better relationship of the U.S. government with the Cuban people. It is necessary for Washington to give Cubans guarantees that they will have the support of the United States to achieve a luminous future in the short term if they fight and transform the current system into an open, democratic, market society, in which human rights are respected. And that they will also have the support of the US in that fight for democracy and human rights within the framework of international law. In contrast, the development of the government relationship with the Cuban State must be, as per Raúl Castro's dictum, *with no pause but with no haste either*.
4. Cubans know that the system condemns them to backwardness, that the government is responsible for their dire situation, but they still doubt whether they will be able to achieve a better future if the situation changes. The United States can and must contribute to changing their skepticism. The Cuban people should know that to achieve this future shortly, they can count on the United States. Prosperity is at hand if Cubans transform the system. The first step

in this process should be the lifting of the internal blockade on the development of the genuinely private, rural, and urban sector, which is not sanctioned by the *Helms Burton Act*. On the other hand, while the *Helms Burton Act* is in force, the normalization of a full relationship with the Cuban State may not take place until the requirements codified in that Law are met, including the holding of pluralistic, free, and internationally supervised elections.

5. **U.S. policy towards Cuba must cease to be state-focused.** The United States must direct its bilateral relationship, first of all, in a constructive and direct way, towards Cubans, their wishes and needs.
6. **The roadmap for the bilateral relationship must go from the most complex to the simplest.** Regarding the bilateral relationship between the two states, a negotiation with the government of Havana would have to gradually undo the knots, from the thickest to the thinnest. Resolving one entails the resolution of the next; that is the only way to build a solid, effective, and guaranteed rapprochement. Otherwise, the dispute between the governments of Cuba and the United States would remain stagnant over the years, full of ups and downs, with no possible solution, with 11 million Cubans in Cuba and 2.4 million Cuban exiles trapped in this complicated and heartbreaking maze.
7. **Without a radical economic transformation, no foreign aid will save the day.** The Cuban government knows perfectly well that its lack of a true economic model is a burden that does not work, and that it is an irreformable and not viable way of managing society. Therefore, its number one priority is to save the economy. But this time it has to accept that it has to make a radical reform towards a market economy and not assume that another patron will save it from this crisis. That is its responsibility.
8. **The current situation is going to get worse. Any credit granted to Cuba will not be paid nor will its interests be honored.** As we have seen throughout this document, the Cuban government has practically no access to international credits. Its acute liquidity crisis, the default on its foreign debt payments and its precarious and obsolete economic model, has led to a complex bankruptcy, to the point that even its closest political allies such as Russia and China have stopped investments on the island. Obama rolled out a red carpet of economic opportunity that the military power elite despised. Those are the consequences now.

Thanks to the Obama Administration, Cuba was able to renegotiate its debt with the Paris Club, which forgave it US\$42 billion in debt and extended the remaining payment until 2033. But since the country did not make any real political or economic reforms, it fell into the debt black hole again. Cuba paid neither its debt nor the interests renegotiated with the Paris Club in October 2019 and the latter has imposed a penalty of 9% interest on its balance. Cuba also defaulted on

the renegotiated debt with Russia, which suspended its investment projects in December 2020, and China has just done the same.

According to the renowned economist Carmelo Mesa Lago, under these conditions the fiscal deficit in 2021 is expected to increase to 23.3%, the highest since the 1990s.

9. **The current Cuban crisis is the complete responsibility of the military power elite. It would be incomprehensible if Washington now rewarded it by releasing it from the current sanctions.** That would be an award for having deepened its involvement with criminal and terrorist elements via Venezuela and having refused to transform its obsolete economic system<sup>139</sup>.
10. **The U.S. must encourage the Cuban government to shake off tutelage from and obedience to the power elite that controls it and look forward to the future for the good of its citizens.** No country in the world is going to support Cuba as the former USSR did 30 years ago and as Venezuela has in the last 15. It is simply not conceivable that these relations will be repeated. The elimination of the internal blockade that the Cuban government has imposed on its citizens would allow the generation of wealth and economic improvement. Consequently, it would create a favorable environment to begin negotiating a rapprochement with the United States.
11. **It is not logical for the United States, after learning the experience accumulated under the Obama Administration, to re-empower the military power elite with hasty concessions that end up being one-sided.** The only thing that would be achieved in this way is for it to continue clinging to the obsolete system that oppresses Cubans economically and politically and sinks them into destitution. What makes sense is to help this time to empower the Cuban people to achieve by themselves those political and economic transformations that they have been demanding from their government.
12. **The Cuban people must be clearly informed by Washington that once the internal blockade is fully lifted by the Cuban government, their sector of private entrepreneurs will be able to interact freely with the U.S. economy.** This would translate into the creation of thousands of product and service companies, abundance of food products and the creation of millions of jobs for the unemployed and underemployed. The biggest aid that the Cuban economy could receive at this time is called a national market reform. Once that step is taken, the interaction of this private sector with the United States will be decisive: the reasons do not need to be explained, they are obvious. But for this complementary external aid to arrive and to remain stable there must be a radical change in the behavior of the Cuban government.
13. **Three previous circumstances must be claimed and combined in order for the U.S. to move forward in the bilateral relationship:**

- a. the immediate cessation – *de facto* and *de jure* - of the repression of the freedoms of opinion, expression, press, academia, demonstration, movement and association, and the release of political prisoners.
- b. the complete elimination of the internal blockade on the development of the urban and farming entrepreneurial sector, including the free access of the incipient Cuban private sector to international credits and trade, the legal registration of their lands and businesses, and the freedom to set prices for their products and services.
- c. the withdrawal of military and intelligence personnel from Venezuela.

The first two would contribute to initiating a transformation of the governance regime that would immediately alleviate part of the internal conflicts, empower the Cuban people, prevent famine, and facilitate that, although the sanctions against the Cuban State provided for in the *Helms Burton Act* remain, interaction with the private sector is possible to help it improve living conditions on the island. All this would result in a decrease in Cuban migratory pressure.

The third would be an important step in distancing Cuba from alliances with state and non-state actors involved in criminal and subversive activities in the region, which would allow Cuba to be removed from the list of countries associated with terrorism.

The idea of seeking internal stability on the island by betting on strengthening its power elite and the current governance regime proved to be unsuccessful.

**14. This time Cuba should initiate, facilitate, and provide reasons for a rapprochement between the two countries, not the United States.**

## RECOMMENDATIONS

**1. The Cuban people must be clearly informed by Washington that once the internal blockade is fully lifted by the Cuban government, their genuinely private sector of farmers and entrepreneurs will be able to interact freely with the U.S. economy.** This would translate into the creation of thousands of companies offering products and services, avoiding famine with an abundance of food products, and creating millions of jobs for the unemployed and underemployed.

**2. Three circumstances are required to advance the bilateral relationship:**

- a. **Respect for basic human and labor rights.** Among them is the immediate cessation – *de facto* and *de jure* - of the repression of freedom of opinion, expression, press, academia, association, demonstration, the end of trafficking and exploitation of forced labor of Cuban professionals and doctors, and the release of political prisoners.



- b. The complete elimination of the internal blockade on the development of the urban and farming entrepreneurial sector,** including free access without intermediaries for the incipient Cuban private sector to credits, foreign investments and international trade, the legal registration of their lands and businesses, and the freedom to set prices for their products and services as required by the market.
- c. The withdrawal of Cuba's military and intelligence personnel from Venezuela and the cessation of their joint regional interference,** using the latter's territory as a base<sup>140</sup>.
- d. The clear and definitive assumption of responsibility by the Cuban government for the damage caused by the so-called "sonic attacks" - whether it was by commission, omission, or both - to the US diplomats at the US embassy in Havana and a full guarantee that they will not to be repeated.**

The first two would contribute to initiating a transformation of the governance regime that would immediately alleviate internal conflicts, avoid famine, make it easier for the US to interact with the private sector, even if sanctions remain, and help it to improve living conditions on the island. All this would result in a decrease in Cuban migratory pressure.

The third would be an important step in distancing Cuba from alliances with other states and non-state actors involved in criminal and subversive activities in the region. Without this prior step, forcing Cuba out of the list of countries associated with terrorism would be obviously arbitrary.

**3. Cuba must this time be the one to initiate, facilitate and provide reasons for a rapprochement between the two countries, not the United States.**

The Cuban government should be informed that any conversation on truly bilateral issues will take place –as Raúl Castro would say– “with no pause, but no haste either”.

## V. ON THE AUTHORS



### Emilio Morales (Cuba, 1969)

Has a degree in Engineering in Automated Management Systems (SAD in Spanish) from the José Antonio Echevarría Superior Polytechnic Institute in Havana (1993). He obtained an MBA from the Higher School of Marketing in Madrid, Spain (2000), and a Master's Degree in Marketing and Communication from the University of Havana (2002). As a professional in Cuba, he worked for more than 15 years in market research, was the author and co-author of dozens of market studies for government and foreign companies on the island. He was a consultant for companies such as Habanos, SA, Tecnoazúcar, Palmares S.A, Servimed S.A, Cubanacán S.A, Tiendas Universo S.A, Bravo S.A, Cubacel S.A, ETECSA, CORACAN S.A, among others. He worked in the Marketing Department of Corporación CIMEX S.A for six years (2001-2006).

During his professional life on the island, he worked for the Cuban government on a variety of bilateral projects in South Africa, Argentina, Canada, and Mexico. He immigrated to the U.S. in 2007.

He is currently CEO and President of the company Havana Consulting Group (THCG and Tech LLC), based in Miami, Florida. He is the author of the books ***Cuba: ¿Transición silenciosa al capitalismo?*** and ***Marketing without Advertising, Brand Preference and Consumer Choice in Cuba***, Series: ***Routledge Advances in Management and Business Studies*** He has written more than 150 articles on various sectors related to the Cuban economy, among which the following stand out: remittances, self-employment, tourism, cell phones, energy, foreign debt, foreign investments, biotechnology, real estate, agriculture, sugar industry, dual currency, tobacco, rum, brand positioning, etc. Morales has advised dozens of companies from the United States and other countries interested in obtaining market intelligence information on the Cuban economy.

He is the main editor of the THCG BUSINESS REPORT, a Newsletter specialized in monitoring and analyzing everything concerning the commercial and business environment in the complex Cuban market. Due to his experience, he is frequently consulted and referenced by prestigious press and media agencies in the U.S. and other countries such as: *WSJ*, *NYT*, *Bloomberg*, *The Economist*, *Financial Times*, *El Nuevo Herald*, *Miami Herald*, *WLRN-NPR News*, *CNN*, *Reuters*, *AP*, *AFP*, *EFE*, *BBC*, *El País*, *El Mercurio*, etc.

**Dr. Juan Antonio Blanco (Cuba, 1947)**

Has a doctorate in the History of International Relations from the University of Havana and a postgraduate degree in Conflict Transformation from the United Nations University of Peace.

In Cuba he worked as a university professor. Later he served as a diplomat within the framework of the United Nations, where he acted as a facilitator of negotiations between the so-called Non-Aligned Countries during the conferences of that multilateral institution. His last assignment with the Cuban government was as main analyst of US-Cuban relations for the America Department of the Central Committee of the Communist Party of Cuba. He resigned from that position in 1991. In 1993 he founded the independent organization Centro Félix Varela. He was finally able to leave the island in 1997.

After settling in Canada, Blanco was able to develop intensive human rights work with the regional civil society. He was appointed Director of Latin American Programs for Human Rights Internet, an international human rights organization based in Ottawa. In that position, he was in charge of preparing the Vienna +5 (1998) world conference on human rights, which elected him coordinator for the period after the event. Dr. Blanco was a member of the coordinating team of the regional conferences against racism held in Quito (2001) and Brasilia (2006). He was also an advisor to the Network of Afro-descendants of the Americas. At the request of the first democratically elected government of Mexico, he organized the first dialogue between that government and the community of human rights NGOs in that country. Also, while residing in Canada, he advised various Cuban-American organizations on how to establish consensus to strengthen the effectiveness of their fight for rights in Cuba.

In 2009 for family reasons, he settled in the United States, where he has served as Interim Assistant Director at the Cuban Research Institute of the Florida International University, as Executive Director of the Miami Dade College Center for Initiatives for Latin America and the Caribbean, and later as Director of the Foundation for Human Rights in Cuba and the Cuban Observatory of Conflicts.

In his career as an analyst and academic, Dr. Blanco has published numerous articles and essays and has been invited to make presentations at prestigious universities and institutions in the United States and Europe, such as the Council on Foreign Relations in New York, the Inter-American Dialogue, the Rey Juan Carlos University and the Madrid's Elcano Royal Institute. Dr. Blanco also serves as a *pro bono* expert in Cubans' asylum application trials in various countries.

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The sociological definition that emerges is the following: Mafia states are those in which an oligarchic social group takes over the state and uses it in illicit and criminal international actions for its exclusive service and outside of any independent oversight."  
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 “The ideal time to make (reforms) unification and reduce, or at least better control its adverse effects, would have been between 2012 and 2016, when the economic situation was more buoyant. The relationship with Venezuela was at maximums and was equivalent to 22% of Cuban GDP; the sale of professional services exceeded US\$8 billion annually (the first foreign exchange income), foreign

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remittances were US\$3.445 billion 14 annually (the second), the normalization process with the U.S. under Obama's presidency induced a considerable increase in U.S. tourism and gross income from tourism was US\$3.185 billion (the third). In 2015, GDP grew by 4.4%, the best performance since 2007. There was a deflation of -2.9% and Cuba was successfully conducting the negotiation with the Paris Club.

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