



From Cold War Warriors to Business Associates:
Cuba-Puerto Rico Relations in the Last Half of the 20th Century

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Introduction

**“Cuba y Puerto Rico, de un pájaro las dos alas...”
(Cuba and Puerto Rico, two wings of a bird...)²**

Despite nearly 40 years of isolation from each other and numerous conflicts resulting from tension between the United States and **Cuba**, Puerto Rican and Cubans still maintain strong bonds. Both islands share enormous similarities in their colonial history, topography, climate, language, music, food, ethnic mix and culture to name a few. The islands were the last vestiges of the Spanish empire in the Americas, and their national flags - the standards of their wars of independence¹ from Spain - share the same basic design and colors.

There are, however, very important differences between the two islands. Key among them is their relationship with Spain and the United States as successive colonial powers. In a relatively bloodless fashion, **Puerto Rico** was able to obtain a form of partial autonomy from Spain and had a peaceful and relatively amicable transition to American rule when it was ceded to the U.S. a part of the war booty of the Spanish American War³. Cuba, on the other, fought two protracted wars of independence and the American occupation of the island that followed independence from Spain caused great resentment. In 1959, a major bifurcation occurred in the shared destinies of the

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² This well known and oft quoted verse was written by Lola Rodríguez de Tió, a Puerto Rico poet who was exiled to Cuba by the Spanish Government in the early 1900s for her political and revolutionary ideals.

³ The name given to U.S. participation in the tail end of the Cuban War for Independence.

islands⁴. While Cuba's revolutionary government sought a development (and political) survival strategy focused on the socialist bloc, **Puerto Rico** used its special relationship with the United States (**Puerto Rico** is a commonwealth of the United States) to strengthen its "bootstrap operation", an economic development model that showcased the virtues of capitalism. Though direct contact between the islands became minimal, ties remained strong, perhaps in part to the large number of Cuban exiles that settled in **Puerto Rico** after 1961.

This paper examines the history of **Cuba- Puerto Rico** relations in the last half of the 20th century and explores possible post-U.S. embargo commercial scenarios. Methodologically, the literature review focuses on Caribbean integration, and on the role of **Cuba** and **Puerto Rico** in this process. Previous studies on the likely commercial relation between a post-embargo **Cuba** and **Puerto Rico** were reviewed and updated through the use of current economic data and of interviews with business people and government officials in both **Puerto Rico** and **Cuba**. The overall aim of the paper is to provide a proper context in which to examine the strengths and weaknesses of **Puerto Rico** as a competitor in the Cuban market. This context takes into account the effects that politics, economics, transitional business strategies and cultural bonds might have in a rapprochement between the islands.

The paper begins with a brief analysis of the diplomatic and commercial relations between **Cuba** and **Puerto Rico** after 1959. General aspects of the political economy of both countries and the trade patterns of each island, particularly within the context of the Caribbean Basin and Latin America are then described. Lastly, an economic and sectoral analysis is conducted in order to uncover the basis of their respective competitive advantages. Findings suggest that there will be both trade and investment diversions, as well as trade creation and new foreign direct investment opportunities. Key sectors might be professional services, tourism, manufacturing, construction, agriculture and small business. The findings also suggest that the behavior of some economic sectors will respond primarily to the demands of globalization, while others might offer a more local focus of control. The paper sheds light on the process of considerable change facing not only the Cuban political-economy, but the Puerto Rican one as well.

Caribbean Cold War Warriors

During the Cold War, and particularly after the triumph of the 1959 Cuban revolution, the U.S. policy of containment of communism in the Caribbean provided both incentives and deterrents to nations in the region. The "carrots" included a vast array of economic incentives such as the Caribbean Basin Initiative (CBI), a program initiated in 1986 with the aim of promoting development through private sector initiatives. The deterrents or "sticks" included the embargo on **Cuba**, the invasion of the Dominican Republic and Grenada, the military and financial support for the Nicaraguan contra rebels, and overt and covert support of numerous other "anti-communist" groups in other countries. **Cuba** became the focus of the sticks, and **Puerto Rico** the focus of the carrots. While **Cuba** was embargoed, invaded, isolated

⁴ See White, B. (1959) for a comparative study of the development paths followed by Cuba and Puerto Rico up to 1959

and politically and economically undermined in a systematic way, **Puerto Rico** received generous financial and technical assistance, welfare benefits, and preferential tax treatments as an incentive for industrialization. As a result of the political-economic polarization brought about by U.S. policy in the region, the relationship between **Puerto Rico** and **Cuba**, in essence, became a “non-relationship” (no trade, minimal official contact, etc.) circumscribed by the narrow parameters of the U.S. embargo, as well as by the strategic and defense interests of the United States.

Given the climate of U.S. hostility towards **Cuba** and towards any real or imagined “other **Cuba**”, it is not surprising that the preeminent objective of **Cuba’s** foreign policy towards the Caribbean⁵ during the Cold War was strategic, and focused on defense (González Nuñez 1991). González Nuñez further suggests that a second set of objectives of **Cuba** policy towards the Caribbean during the Cold War era was based on the achievement of “common” regional goals: 1) freedom from U.S. hegemony; 2) economic and political integration of the Caribbean with Latin America and 3) the struggle to achieve a new international economic order that guaranteed the development of the Caribbean. The cause of Puerto Rican independence was seen by the Cuban government as a strategic component of this set of foreign policy objectives. To the great irritation of the U.S., **Cuba** conducted its diplomatic battles against U.S. colonial influence in **Puerto Rico**, primarily, in two international forums such as the United Nations’ Non-Aligned Bloc (No Alineados - NOAL) and the General Assembly’s Special Committee on Decolonization (Comité Especial de Descolonización de las Naciones Unidas).

The subject of **Cuba** has a large presence in the Puerto Rican media. This, in part, is the result of the impact of the powerful Cuban exile community in San Juan, the second largest exile community after Miami. The 1990 Puerto Rican Census found 19,736 persons born in **Cuba** (a decline from previous Census figures suggesting a net out migration of exiles to the United States). According to Cobas and Duany (1995), this exile group distinguishes itself from the exile groups in United States in number of ways. A smaller and more highly stratified (socially, economically, educationally and racially) segment of the exile community took residence in **Puerto Rico**. By and large the exiles were able to successfully establish themselves in commercial, managerial and professional occupations. Many are self-employed and many hold important positions in exile-owned or foreign firms. Since the Cuban exiles faced less language, cultural and religious differences, they have been able to integrate quite well into Puerto Rican society, though they tend to concentrate in the upper middle classes. The exile level of education and median income is higher than that of Puerto Ricans. However, Cubans in **Puerto Rico**, do not have the political clout that their U.S. based counterparts have. Overall, Puerto Rican-Cuban exile relations have been generally positive, though at times, there has been conflict over the economic competition that the exiles presented, as well as over ideological differences, and the right of Cuban exiles to vote in political plebiscites.

⁵ See also Klinger in Hasham, ed., 1997 for an outline of Cuba’s perception of the possibilities of re-integration the Caribbean.

Cobas and Duany further suggest that both exiled Cuban and Puerto Rican business people have expressed their interest in participating in the re-construction of **Cuba**, though many might do so via investment rather than a return to **Cuba**. In sum, first and second generation Cuban exiles in **Puerto Rico** and their host-nation associates are likely to present considerable competition to similar groups based in the United States (primarily Florida and New Jersey) as managers, investors and entrepreneurs.

The Cuban exile community, like its counterparts in the U.S. mainland, in its majority, vigorously supports the U.S. embargo. Promoting any business contact with **Cuba** while the Castro regime is still in power is a delicate matter in San Juan. The threat of business boycott and of violence against businesses or persons by the Cuban exile community is a reality one must contend with if operating a **Cuba**-related venture (even if legal within the parameters of the embargo) out of **Puerto Rico**.

The U.S State Department no longer considers **Cuba** a military threat to the U.S. or to the region. Thus the fact that the embargo has not yet been lifted, once again suggests that U.S. policy towards **Cuba** is the result of pressure from the Cuban-American lobby to isolate Castro. In sum, **Cuba** and **Puerto Rico** are still playing their parts in the Cold War - a war that is by all intents and purposes, over.

And when the embargo ends - what?

Since the moderate market opening of **Cuba** in the early 1990s, interest in business opportunities in **Cuba** has emerged in **Puerto Rico**, much as it has in other countries. Given that any business dealings with **Cuba** are circumscribed by the U.S. embargo, these discussions focus on post embargo-scenarios. There have been numerous newspaper articles in the Puerto Rican press covering trade and investment news in **Cuba**, some projecting business opportunities for **Puerto Rico** in the future⁶. In 1993, the Puerto Rican government commissioned a study on the "re-opening" of **Cuba** (Govt. of **Puerto Rico** 1994) and in early 1999, it announced plans to conduct an update of this report. The academic literature on the subject is not particularly extensive.⁷ There have been, however, numerous general and sectoral conferences on **Cuba**, as well special panels on **Cuba's** business opportunities⁸ in a number of conferences.

The academic papers and government reports produced in **Puerto Rico** bear some resemblance to those produced in the United States, though the breadth and the depth of knowledge is not as well developed. They also tend to be more economics oriented and thus lack the business-oriented detail of many of the sectoral opportunity analyses produced in the United States. Both US-mainland and **Puerto Rico** based studies do tend to err perhaps on the "triumphalist" side, minimizing the role of the

⁶ See Collins 1996 a and b; US-Latin Trade 1993; Davila 1999.

⁷ See Alegria, Cue and Velez (1992) and Cabarrouy and Cue (1993).

⁸ For example, see Business And Investment In A Free And Democratic Cuba Conference, Caribbean Latin America Action, Puerto Rico, May 1995; and New Waves in the Caribbean Conference, New Waves Foundation, San Juan, Puerto Rico, Junio 12-14, 1997

foreign business enclave already established on the island and of the emerging Cuban managerial class and exaggerating the advantages of its own business establishment. In the case of both sets of reports, the fact that the opportunity analysis is predicated on such unpredictable events as the end of the U.S. embargo, which in turn is predicated on changes within the Castro regime, makes the opportunities, by-and-large, hypothetical. In other words, the time frame for the reports to become "actionable" is unknown.

Despite the embargo, many U.S.-based companies have already staked out their territories in **Cuba** and some are even operating legally either overtly (e.g. AT&T as well as many companies in the information and culture sectors⁹), or covertly through joint ventures in third countries, not to mention those that are in violation of the embargo. Associations such as the U.S.-**Cuba** Trade and Economic Council, the **Cuba**-Caribbean Development Corporation, and Alamar Associates have conducted fairly regular trade junkets to the island and numerous memoranda of understanding have been signed by potential future partners. There have also been a number of formal and informal business delegations to **Cuba**, as well as Cuban delegations which have been invited to attend business conferences held on Puerto Rican soil¹⁰. According to Coto-Ojeda (Casellas 1999), approximately one hundred Puerto Rican business people visited **Cuba** on business trips in 1998, paralleling some of the business development moves of U.S. based firms.

Several Puerto Rican law firms have taken on the **Cuba** business promotion role and are actively encouraging their clients to prepare contingency plans that include actions which they can legally undertake at present within the parameters of the embargo. One such action is to legally register their trademarks. Once certain licenses are obtained from U.S. government agencies, the embargo also permits sales of medical, pharmaceutical health products, information (e.g. books, software, CD's), telecommunications services, humanitarian aid, cultural exchanges and *remesas* (remittances). Companies are also permitted, within certain parameters, to form associations with foreign firms operating in **Cuba**.

The enthusiasm of U.S. and Puerto Rican business people is obviously being fueled by projections of future opportunities. A number of estimates of bilateral U.S.-**Cuba** trade point to possible value of U.S. \$3,000 - 7,000 million in the first few years of the normalization of relations. The minor easing of controls on food and agricultural sales to **Cuba** announced by the Clinton Administration in January of 1999, created a great deal of interest in the U.S. ¹¹and Puerto Rican business sectors¹². Unfortunately, taking advantage of these opportunities in the current political climate of **Cuba** and within the narrow definition of what is allowable by the U.S., will be very difficult.

⁹ See Paternostro (1999) for a good description of Cuba's music industry.

¹⁰ Though they are not always successful in obtaining visas.

¹¹ See Tamayo, February 1, 1999; Cotayo, January 12 1999; and Bussey, January 11, 1999

¹² See Collins March 1999; Casellas 1999; and Diaz 1999.

Though the opportunity analysis of the aforementioned papers and reports produced in **Puerto Rico** in the early 1990s are at this point outdated, their findings are still generally applicable. The next few sections of this research paper will summarize and update their overall findings through primary and secondary research. Overall political, economic and corporate trends are reviewed, trade patterns are highlighted and economic outlooks are up-dated. A sectoral analysis of opportunities and threats is then conducted in this context. It should be noted that most of the opportunity analysis is conducted from the point of view of Puerto Rican investment and trade interests. A post-embargo **Cuba**, accompanied by an economic reform minded government, can only hope to gain from any Puerto Rican trade and investment. On the other hand, the impact on **Puerto Rico** of **Cuba's** re-integration in the region will provide both opportunities and threats.

The Current Situation

Political, Economic and Corporate Trends

Some of the major differences between the **Cuba** of the early 1990s when most of the **Puerto Rico** authored reports mentioned earlier were completed and the **Cuba** of 1999, are that: 1) the Cuban economy has started to show timid signs of recovery and certain sectors have become more market responsive; 2) a moderate set of market reforms has been implemented, though there are no clear indications of further reforms on the horizon; 3) stabilization of the Cuban managerial elite in both business (e.g. joint ventures, state enterprises etc.) and government spheres; 4) competition from other countries has made deep inroads in some of the more attractive sectors of the Cuban economy such as tourism, mining, tobacco, power generation, construction and real estate, and telecommunications; and 5) in a regional context, **Cuba's** trade association obligations with CARICOM (Caribbean Commonwealth Association) and the Association of Caribbean States (ACS) countries are likely to alter the priority ranking of Puerto Rican ventures *vs.* those of other Caribbean Basin partners. In other words, **Cuba** is no longer "virgin territory". There are still opportunities, but they require much more sophisticated niche-oriented strategies and possible partnerships with other foreigners. The largest unknown, of course, is the actual nature of **Cuba's** post Castro political-economy.

Similarly, **Puerto Rico** has undergone changes. Key among these are: 1) heightened national debate over the political status of the island and a strong pro-statehood agenda by the Roselló administration; 2) a hemispheric rather than Caribbean orientation; and 3) the phasing out of the Section 936 program¹³ and concerns over the possible erosion of the manufacturing base of the island.

The increased pace of globalization has also altered the way in which **Cuba- Puerto Rico** competition and cooperation must be conceptualized. In other words, a number of sectors are more likely to respond to the vagaries of corporate global strategy, than they are to any action taken by either local management or government policy

¹³ Section 936 of the US Internal Revenue Code (the Possessions Tax Credit) grants industrial tax incentives and other incentives to US companies based in Puerto Rico.

makers. Tourism and manufacturing offer good examples. **Puerto Rico's** manufacturing base is already facing strong competition not only from other Caribbean Basin countries such as the Dominican Republic, Mexico and Costa Rica, but also from Singapore, Ireland and Chile among others. In terms of tourism, the Caribbean faces strong competition for the U.S. Northeast market from other "sun" destinations such as Florida's Disney World and other family attractions being developed in the U.S. Southeast.

In sum, globalization has changed the nature of competition. Puerto Rican and Cuban strategies aimed at taking advantage of the re-insertion of **Cuba** into the global economy must be looked at not only from a relatively static nation to nation standpoint, but also from that of the dynamic context of globalized corporate strategies. Thus, the increased need for Caribbean business and government leaders to forge regional cooperative strategies to retain sectors such as manufacturing and tourism in the region. Global capital is also becoming a commodity. Countries vying for investment must offer ever improving rates of return, stability and greater manufacturing efficiency. In this light, the trade bloc building activities of the Caribbean nations in the 1990s, to be discussed in a subsequent section of this paper, take on a new and heightened meaning. **Puerto Rico's** relative minor role in these regional associations, might have negative long-term impacts on both the island and the entire region (whether **Puerto Rico** manages to obtain statehood status, or not).

The Caribbean - A Region in Transition

The development of a thriving post-embargo commercial relationship between **Cuba** and **Puerto Rico** will depend, in great part, on the nature of the established trade and investment patterns of each island - where their comparative advantages lie, who their major trade and investment partners are, and so on. The next section of the paper examines these trade patterns with a focus on the commercial relations of both islands with the Caribbean and Latin America.

Intra-regional trade has rarely dominated the trade agenda of Caribbean states. Moreover, Caribbean states have historically maintained different conceptions of the region¹⁴ and have thus maintained different trade patterns¹⁵ and pursued radically different projects of regional cooperation. The end of the 20th Century, however, is presenting a number of considerable challenges to Caribbean nations, which are

¹⁴ These conceptualizations are in part a result of the sharp differences between these island nations. The Caribbean has been described as: An area which is characterized by a multiplicity of territories with varying degrees of formal sovereignty, extreme heterogeneity in size, economies, political systems, culture ethnicity and history (Byron 1998).

¹⁵ Overall, however, the region is characterized by a strong orientation towards the United States (U.S.) market with Puerto Rico, followed by Mexico, being the most highly integrated commercial partners of the U.S. in the region. But there are also wide variations in trade patterns. The United States embargo on Cuba, as well as U.S. pressure to keep Cuba commercially and diplomatically isolated, forced the island nation to orient its commerce towards the COMECON (Soviet bloc trade association) market for over three decades. Within this polarity, the micro-states of the CARICOM continue to derive close to half of their export earnings from the European Union (EU)

resulting in a new conceptualization of the region. On the political side, the end of the Cold War has reduced the strategic importance of the region. Consequently, there is less interest on the part of the United States and of the European Union in either subsidizing the region or maintaining preferential trade agreements. Moreover, neither Russia nor its former allies are in a position to aid **Cuba**, even if it still had any geopolitical importance. On the economic side, the international and hemispheric push for trade liberalization that characterized the 1990s, is also likely to result in the loss of protectionist policies and of preferential trade agreements with the European Union, Canada and the United States. This process is further complicated by the recent neo-protectionism of the United States and the European Union and the confrontation between them over a number of Caribbean-related trade issues such as bananas. On the corporate front, the imperatives of globalization are increasingly resulting in a rationalization in the production of goods and services on a world-wide basis. Thus entire regions must compete with other regions for industrial and financial investment. Singapore or Ireland are now stronger competitors for investment than neighboring Caribbean islands.

In this very difficult context, economic and political integration is seen to offer the likelihood of increased power in numbers (Vazquez Vera, 1999). In other words, regional and sub regional groups are seeking to strengthen their bargaining position in a new world-wide, hemispheric and Caribbean Basin political economy. Presently, there is a formidable array of regional groupings¹⁶. Unfortunately, there are conflicting interests between the regional associations, as well as within the members of each association. For example, countries outside some of the most powerful agreements, particularly those outside of the North American Free Trade Agreement (NAFTA), are scrambling not to be "left-out" - thus the search for NAFTA parity. The litmus test for the strength of the relative bargaining positions of this regional agreement is likely to come with the eventual negotiation of the Free Trade of the America (FTA)¹⁷.

Trade Winds - Cuba

Despite **Cuba's** regional (Caribbean and America-wide) trade creating efforts of the late 1990s, intra regional trade remains low. **Cuba's** most important commercial partners for trade and investment - Canada, Spain and Italy - are outside the region. **Cuba's** diplomatic and trade relationships with its Caribbean neighbors cover the gamut from the non-relationship with **Puerto Rico**, to the direct and indirect confrontation with the United States over Grenada and Nicaragua respectively. In

¹⁶ For example, the G-3 (Mexico, Venezuela and Colombia), CARICOM (British Commonwealth states) and its adjunct Cariforum (CARICOM plus Dominican Republic), the Central American Common Market (CACM), North American Free Trade Agreement (NAFTA), the Association of Caribbean States (ACS), Caribbean (a Canadian program to facilitate trade and investment with Commonwealth countries), the LOME Convention (EU preferential trade agreement with former colonies) and the Free Trade of the America (FTA).

¹⁷ Girvan's (Girvan, in Girvan and Hatton 1998) analysis of the prospects for CARICOM within the Central American Alliance and the implications of the FTA process makes a number of observations which are illustrative of the dynamics discussed in this section of the paper.

1999, **Cuba's** Caribbean trade is significant only with the Dutch Antilles which accounted for 6.2% of **Cuba's** total foreign trade (Caribbean/Latin American Profile, 1999). In terms of the G-3 countries (part of the Caribbean Basin), Mexico and Venezuela each also accounted for 6.9% of **Cuba's** total trade (ibid). Mexico and **Cuba** have maintained good diplomatic relations and a fairly active trade and investment relationship, particularly in the 1990s. Unfortunately, the peso crisis severely strained Mexico's ability to continue its Cuban ventures (see Tsoutouras and Sagebien 1998). Venezuela is currently a large trading partner of **Cuba** mainly in petroleum products.

Cuba's revolutionary government had in many occasions manifested its interest in establishing some sort of link with CARICOM countries. However, it was unable to do so to a great extent because of U.S. pressure to keep **Cuba** isolated (González Núñez, 1991). The 1990s, however, heralded a new era of **Cuba**-Caribbean relations, not due to any change on heart on the part of the U.S., but to the efforts of Caribbean nations, particularly those in CARICOM. **Cuba** attended the 1990 XI CARICOM Summit in Jamaica and a number of delegations exploring possible areas of cooperation and interchange followed.

This movement towards the re-integration of **Cuba** into the Caribbean is concurrent with **Cuba's** efforts to re-insert itself into the hemisphere and into the international order. Caribbean states have been extremely helpful to **Cuba** in achieving these goals. There is now a joint **Cuba**-CARICOM commission, relations with most Caribbean nations have been normalized, and **Cuba** has gained membership in regional organisms such as the Caribbean Tourism Organization and the Organization of American States (Gonzalez Núñez in Tulchin 1997). Caribbean states also helped **Cuba** win observer status under Lome Agreement. Some observers believe that Castro's 1998 tours of Jamaica, Barbados, Grenada and Dominican Republic's Cariforum meeting (ostensibly the mechanism by which **Cuba** would join CARICOM) was in part an expression of gratitude for support given to **Cuba's** effort to re-integrate itself into the region and the world (Tamayo 07/27/99). **Cuba** is, nevertheless, still not a member of the Organization of American States as a result of continuing U.S. pressure to isolate the Castro regime.

Given **Cuba's** size, its highly educated and trainable labor force, and geographic location, it is foreseeable that **Cuba** may try to become a major hub of commercial activity in the region once relations with the U.S. are normalized and the reconstruction of its transportation and industrial infrastructure is undertaken. **Cuba** is also actively pursuing the development of multi-destination tourism involving other Caribbean islands. Ironically, while **Cuba** is beginning to see the Caribbean nations more as economic and commercial partners than as possible political allies in confrontations with the U.S. (Gonzalez Núñez, ibid), for many Caribbean nations, strengthening ties with **Cuba** is a way to counteract U.S. hemispheric commercial and political dominance. **Puerto Rico**, however, is bucking the integrationist trend. Though eligible for associate membership in the Association of Caribbean States (ACS), **Puerto Rico** has not joined, ostensibly because of U.S., as well as its own, opposition to **Cuba** being a charter member of the organization.

There is very little empirical field research focusing on **Cuba's** managerial class given the sensitive nature of this information in the eyes of the Cuban government. However, one study was identified which, though somewhat dated (it took place before the majority of **Cuba** economic reforms were put in place) could act as proxy for the views of Cuban managers on the topics of Caribbean integration and of future commercial relations with **Puerto Rico**. In a study on Cuban *empresarios* (managers) conducted in 1994 and 1995 by Gonzalez Núñez, the author cited a number of perceived obstacles to **Cuba's** integration in the Caribbean. First of all, the *empresarios* thought that their knowledge of Caribbean trade opportunities was limited, and up-to-date and reliable market intelligence sources were not available to them. This might be changing with the regional alliances formed in the past few years. Respondents also pointed out further obstacles to commercial relations such as a lack of commercial infrastructure and maritime transportation, an infrastructure that though much improved is still wanting. The need to modernize and "marketize" the Cuban enterprises model was also mentioned. When queried about countries of interest the majority of Cuban *empresarios* responded that the Dominican Republic and Jamaica would be of most interest to them commercially (though those in Havana tended to favor the western Caribbean while those in Santiago de **Cuba** the Eastern Caribbean).

The Gonzalez Núñez study does not mention **Puerto Rico** as one of the countries mentioned by the *empresarios* when ranking their commercial interest in either in the Caribbean Basin overall or in the Eastern Caribbean. Obviously the U.S. embargo would not permit the actual establishment of trade at this point, but it is interesting to note that while Puerto Rican business people, academics and government official ponder the impact on **Puerto Rico** of **Cuba's** re-integration, Cuban *empresarios* do not seem to think much about it at all. Interviews conducted for this research paper confirm the notion that the relative importance of **Puerto Rico** for **Cuba** is much less than that of **Cuba** for **Puerto Rico**.

Trade Winds - Puerto Rico

Puerto Rico's trading relationship with its Caribbean neighbors has never been particularly important when compared with its trading relationship with the United States. In 1997, for example, total trade between the U.S. and **Puerto Rico** amounted to U.S. \$4.5 billion, accounting for 76% of the island's total trade. The Caribbean island region, in contrast represented only 4.5% of **Puerto Rico's** trade, amounting to U.S. \$2 billion. The Dominican Republic alone accounting for U.S. \$1.6 billion or 80% of **Puerto Rico's** total Caribbean trade¹⁸[18]. The only other significant island trading partners in the region were Trinidad and Tobago and the Dutch Antilles. Trade with the rest of Latin America amounted to only U.S. \$1.3 billion or 2.9% of **Puerto Rico's** total trade (CEPAL 1998). In Latin America, **Puerto Rico** has commercial offices in the Dominican Republic, Mexico, Costa Rica, Panama, Brazil,

¹⁸ A study of the impact of the re-insertion of Cuba into the regional economic space on the Dominican Republic would be a good follow up to this research paper. Puerto Rico's current trade levels and the dynamic of PR-DR "Twin Plant" manufacturing strategies are likely to be affected by the normalization of U.S. relations with Cuba.

Chile and Argentina. Many of these offices are less than five years old and show **Puerto Rico's** new hemispheric trade commitment (Montano 1999).

In general, **Puerto Rico's** Caribbean orientation seems to ebb and flow with the vagaries of U.S. policy initiatives towards the Caribbean, as well as with its own local electoral politics. The status option (Commonwealth, Statehood or Independence) proposed by the party in power in San Juan appears to form the nucleus of **Puerto Rico's** conception of its "foreign" and commercial policy towards the Caribbean, the hemisphere and the world. As succinctly put by Sir Neville Nichols, president of the Caribbean Development Bank "**Puerto Rico** runs hot or cold in its relations with CARICOM, depending on what Party is in power in San Juan" (quoted in Collins 05/98).

The administration of pro-commonwealth Governor Rafael Hernandez Colon was instrumental in "Caribbeanizing" **Puerto Rico's** commercial outlook in the 1980s. During his administration, **Puerto Rico** played a pivotal role in the region, largely due to the policy initiatives of the Reagan Administration. In 1986, the U.S. Congress linked the continued maintenance of Section 936¹⁹ tax incentives to a commitment by **Puerto Rico** that it would make an effort to fund development projects in eligible CBI beneficiary countries. The Federal initiative, managed from and funded out of **Puerto Rico** based financial institutions, established two strategic fronts directed toward investment and economic cooperation with the rest of the Caribbean. One was the availability of 936 funds for investment in eligible projects and, the other, was the "twin plants" model - sharing components in the manufacture of goods. Though it got off to a slow start and funding criteria were revised, by the end of 1995 the programmer had funneled U.S. \$1,200 in funds in 10 countries. In the U.S. Virgin islands alone, CBI-related projects created 20,000 jobs (Collins May 97 and Collins July, 1995). However, in 1996, the U.S. decided to phase out the benefits of section 936 for **Puerto Rico**. In 1999, 936 funds are draining, a number of the U.S. financial institutions that managed 936 funds have left **Puerto Rico**.

In 1999, the U.S. State Department is favoring the passage of a proposed CBI enhancement legislation called, the Caribbean Basin Trade Enhancement Act (CBTEA) designed to provide increased preferences to CBI countries and greater market opportunities for U.S. businesses. In general, the bill will authorize the President to provide enhanced temporary trade benefits to CBI countries for apparel products assembled from U.S. fabric, textile handicrafts, and all non-textile products currently excluded from the CBI program. Along with the increased benefits, the CBI enhancement bill also establishes mandatory and discretionary eligibility requirements. These provisions are meant to encourage the CBI countries to adopt sound trade and investment policies, to maintain high standards of environmental protection and workers rights and to cooperate with the United States in anti-narcotics efforts (Larson 1999).

¹⁹The 936 Funds are the profits retained from U.S. corporations with manufacturing facilities in Puerto Rico.

The current administration of Governor Pedro Roselló has downplayed its association with the Caribbean and has preferred to orient Puerto Rican interests towards free trade in the hemisphere. It has also closely allied itself to the hemispheric interests and strategies of the United States. For example, Governor Roselló accompanied President Clinton as Ambassador at large to the Santiago Summit of the Americas. Governor Roselló also supported the phase out of "corporate welfare" as the Clinton administration termed Section 936. Though **Puerto Rico** still enjoys Observer status in CARICOM, the Governor has not attended a Summit of CARICOM leaders and the relationship is not as strongly advocated as in the past administration. As mentioned earlier, **Puerto Rico** has also declined associate membership in the Association of Caribbean States (ACS) in protest over **Cuba's** membership in the association. Though **Puerto Rico** has a relatively wide policy space in which to make independent trade agreements with foreign nations, the current administration is not exercising its option in this regard.

Governor Roselló, however, has made a number of moves that have brought him closer to the policy followed by many Caribbean Basin nations. He has, for example, supported the pursuit of the NAFTA parity option²⁰.

Some Puerto Rican private sector agents often voice concern over a lack of government sponsored regional initiatives as evidenced by the absence of official representation in many international trade association meetings and conferences (Collins, May 8, 1997). Of particular concern to these Puerto Rican business people is the fact that while Florida, a formidable competitor for Caribbean and hemispheric trade, has a very clear view of its role in the growing hemispheric commercial relations (including a post embargo **Cuba**) **Puerto Rico** does not (Collins Dec. 17, 1998).

Though a Caribbean-wide commercial policy has not been explicitly outlined, the government of **Puerto Rico** has shown repeated interest in the impact of **Cuba's** re-integration in the Caribbean on its economy. Reports have been commissioned in 1993 and 1999 (forthcoming). These will be discussed in a subsequent section of this paper.

²⁰ See Gill 1997 for a discussion of possible Caribbean positions on NAFTA.

An analysis of **Puerto Rico's** and **Cuba's** aforementioned commercial priorities in the Caribbean basin and in the hemisphere, suggests that while **Puerto Rico** is moving away from a Caribbean policy and towards a hemispheric policy, **Cuba** is forging closer relations with both its Caribbean neighbors, as well as with the rest of Latin America (though it could be argued that **Cuba** is willing to join any commercial club that will have it as a member). **Puerto Rico's** hemispheric orientation also stands in sharp contrast to the intense alliance building currently under way in most Caribbean Basin nations. One of the most basic conclusions that this analysis suggests is that Governor Roselló is perhaps dealing with **Puerto Rico's** strategic and commercial interests as if the island were already the 51st state of the United States. Therefore, he does not see the need to align **Puerto Rico** with the interests of Caribbean Basin trading blocs, and would rather align **Puerto Rico** only with the hemispheric partnerships that the U.S. belongs to as a nation (FTA and NAFTA). This policy alignment is perhaps more of a political maneuver aimed more at gaining favor in the United States for Puerto Rican statehood status, than at increasing trade.

Economic Outlook - Cuba

The Cuban economy has been showing signs of recovery since it began registering modest growth in 1995. According to Cuban officials, in 1998, the economy grew by 1.2% (Republic of **Cuba** 1999). This is the lowest rate of growth in four years and well below the 2.5% to 3.5% originally projected for the year. The reasons given for the lower growth rate were, weather which affected sugar and other crops, and the decline in world commodity prices for sugar and nickel. Low commodity prices allegedly caused a decrease in 11% in the value of exports. Imports rose by 6%. Though no official trade balance figure has been published, the commercial deficit is likely to have increased beyond the U.S. \$2,000 million figure reported in 1997. This deficit is affecting liquidity, and foreign traders report a slow down in Cuban enterprises' ability to pay receivables on time. The fact that over U.S. \$11.2 billion in external debt remains to be re-structured further darkens the liquidity and credit picture.

Though a glance at the physical and commercial infrastructure of **Cuba**, particularly Havana, show signs of recovery even when compared to 1997 (not to mention 1993), there are many reasons to believe that the economy is stagnant. Foreign analysts are cautious about the growth figures provided by the Cuban government and suggest that the economy probably did not grow in 1998 (Reuters 1999). Moreover, the process of economic reform has suffered a considerable slow down with no major reforms announced in some time. The recent crackdown on dissidents and the new hardening of the criminal code suggests that hard-liners are again in control in Havana. The embargo-easing measures put in place by the Clinton administration in January of 1999, were perceived fundamentally as "Track Two" initiatives and precipitated the enactment of a "sovereignty protection law" by the Castro regime. The end of the

U.S.-**Cuba** stalemate is, unfortunately, not in sight despite the anti-embargo lobby efforts of the U.S. business sector and of congressional bi-partisan commissions. Ironically, the longer the embargo lasts - the stronger the Cuban enterprise and political systems will be and the deeper the hold of the non-U.S. foreign business sector.

Though the business climate in 1999 is one of caution and guarded optimism, traders and investors are still forging ahead and profits are being made. For example, despite the aforementioned, Canadian exports to **Cuba** increased by 25% in 1998 despite the difficulties mentioned above (DFAIT 1999).

Economic Outlook - **Puerto Rico**

In 1998, **Puerto Rico's** gross domestic product was \$ U.S. 34.7 billion dollars showing an increase of 3.1% over 1997 (Caribbean Business January 21, 1999). This figure reveals the downward trend evident since 1995. The rate of growth is expected to continue declining for the next few years (Villamil 1999). In terms of growth the chart below presents a good summary of growth prospects for a number of sectors.

GROWTH			
	Low (<2.5%)	Medium (2.5% to 3.5%)	High (>3.5%)
S	Big >10% of GDP	Manufacturing	Retail Sales, Public Administration & Misc. Services
I	Medium	Finance, Insurance	Tourism
Z	5% -10% GDP	Real Estate	
E	Small <5% of GDP	Agriculture	Mining

Source: Villamil 1999

In 1998, exports grew by 26.4% with manufacturing (and within that pharmaceuticals) leading the way (ibid).

While public sector investment in infrastructure combined with U.S. Federal recovery money for damages inflicted by hurricane Georges are likely to provide a boost to the economy, there is currently a great deal of debate in Puerto **Puerto Rico** Rico about

the future of the manufacturing sector. In 1998, manufacturing represented 42% of the GDP of the island. Though this is not the largest source of employment²¹ this sector provided well paid jobs that create positive linkages in other sectors of the economy (Trinidad, January 28, 1999). The sector has shown a loss in employment, hours worked and total payroll, as well as a slowdown in new investment. On the upside, there are plans for a number of plant expansions.

The Puerto Rican manufacturing sector is being weakened by a combination of factors. The U.S. has experienced a decrease in industrial production, in part, as a result of increased wage competition from less developed countries. This pattern has also affected **Puerto Rico's** industrial base. For example, Mexico and the Dominican Republic have become strong regional competitors. Another factor affecting the sector is the loss of federal tax incentives for Puerto Rican plants.

In 1996, the U.S. Congress eliminated the tax incentives of section 936 for new investment and fixed a 10 year term to eliminate the benefits to firms which are currently taking advantage of these incentives. This loss of incentives is forcing a re-examination of **Puerto Rico** as an attractive industrial location. There are, however, other incentives in place and new ones are being proposed. For example, **Puerto Rico**-based U.S. firms that export outside of the U.S., can maintain some incentive through existing tax regulations. A new set of industrial incentives is being presented by the U.S. Senate in 1999. One of these incentives would make permanent the tax credit incentives of Section 30A, and the other would extend to **Puerto Rico** research and development credits (Mulero 1999). Local regulations have also contributed to a positive business environment - new regulations have expanded the areas designated as free zones. But the question remains - are the productivity gains that are projected to follow the end of the so called, "corporate welfare", combined with a new set of industrial and tax incentives - enough to preserve and enhance **Puerto Rico's** manufacturing sector? Could new incentives be implemented within the framework of the World Trade Organization rules on subsidies? Can **Puerto Rico** create an attractive manufacturing investment climate by addressing with sufficient vigor its transportation, energy, waste disposal and labor legislation disincentives? Will the Puerto Rican government be able to assure transnational corporations a stable economic, political and social environment?

Yet despite uncertainties, the Puerto Rican economy remains strong. Its new emphasis on diversification of export destinations and support of local exporters should strengthen the growth in exports. Strong competition in the manufacturing sector is also beginning to create a regional cooperation imperative in the minds of many

²¹ For example, in 1997 manufacturing provided 40% of the GDP while it represented only 14% of total employment (CEPAL 1997).

manufacturers (Ruano, Jan 28, 1999). These two trends should help prepare the island for future business with **Cuba**.

Possibilities for Commercial Exchanges in Post-Embargo Scenario

Puerto Rico's Competitive Advantages

The interviews conducted for this study revealed that the general perception of **Puerto Rico's** competitive advantage over other countries, including over their U.S. counterparts, is that Puerto Ricans have a somewhat hybrid business culture - part American part Latin-American. The Latin American part - would give them an edge over their American competitors because Puerto Ricans would share Cubans language, culture and sense of history. The American part would give Puerto Ricans an edge over other Latin Americans because of Puerto Rican managers and entrepreneurs usually speak English, work with U.S. business methods and practices, and have access to U.S. credit institutions.

Vis a vis competition from the Miami exiles, which will be formidable, as mentioned earlier, exiles in **Puerto Rico** are less ghettoized and more integrated into the Puerto Rican business structure. They would, therefore, perhaps be able to take part in Cuban opportunities in mixed (exile-Puerto Rican) teams and thus be perceived as less threatening than their Miami counterparts. In terms of sharing the spoils, there is a perception in Miami that the old Puerto Rican connection with eastern **Cuba** will rebound while Miami-based businesses would concentrate on Western **Cuba** (Babun quoted in Collins Nov. 28, 1996, p.32). The Gonzales Nunez study also suggests a greater interest in the Oriental part of **Cuba** in the Eastern Caribbean. However, interviews conducted for this paper in **Puerto Rico** did not reveal a geographical-historical basis for determining the relative competitive advantages between both sets of exiles, but rather a sectoral one.

A number of factors will affect **Puerto Rico's** competitive standing though. For the first few years after the embargo is lifted (assuming a pro-market Cuban government), **Cuba** will have to focus primarily on a number of questions: 1) how to "digest" the impact of U.S. market forces and U.S. companies vying for Cuban markets; 2) how to manage its re-integration in the world of international commercial credit; and 3) and how to balance its commercial relations with its existing partners. **Puerto Rico** will be only a small bit player in this transition. Another factor affecting Puerto Rican ventures negatively, will be the Cuban predilection for embarking upon large projects and for dealing with large corporate partners (*grandismo*).

Sectoral Analysis

At present, **Cuba** needs everything; can't afford to pay for much; and there are many companies already competing for the business. In a post-embargo scenario, even more

goods and services will be needed; hopefully more money will be available through foreign investment, growth in the national economy and new credits, and; there will be even more competitors. Among them, the most formidable one, the U.S. Thus the analysis of opportunities and threats for **Puerto Rico** presented below restricts itself to the sectors where some clear advantage to **Puerto Rico** -based firms is present. This does not preclude firms in any other sector finding the right niche either directly or indirectly through association with a Cuban or foreign firm.

There is a general consensus that the sectors of most interest to Puerto Rican business people in a post-embargo **Cuba** would be: professional services, construction, manufacturing, small and medium size business, tourism and agriculture²². Most sectors should provide excellent opportunities for Puerto Rican firms participating in **Cuba's** redevelopment - generally a win-win scenario. However, the re-development of **Cuba's** tourism and agriculture sectors could provide a threat to **Puerto Rico**.

a) Professional, technical, financial and managerial services

This is perhaps one of the greatest areas of opportunity for **Puerto Rico**. Puerto Rican white collar workers are likely participate in **Cuba's** reconstruction as managers in either U.S., foreign and Puerto Rican owned firms. Puerto Rican managers enjoy a high level of preparation in a number of sectors that will be in high demand. Moreover, as already mentioned, their American-Latin hybrid business culture should provide a competitive advantage over their U.S.-based and Latin American counterparts for the reasons stated earlier. However, it is not yet clear if the Puerto Rican managerial class could successfully compete with Miami-based exiles and with U.S. and foreign managers, simply, because it has never had to test its mettle against these foreign rivals.

As stated in the 1994 **Puerto Rico** government report, **Puerto Rico** could benefit from its experience in sectors such as "research and development, general and financial consultancy, design and construction of industrial facilities..." (Government of **Puerto Rico**, 1994, p.7). Upper and middle managers, as well as technical and support personnel in all manufacturing sectors and in all areas of ancillary services, are likely to encounter opportunities as Cuban manufacturing and industrial sectors are developed. There will be a great need for the services of professional service firms in areas such as marketing, law, accounting, business and technical services, etc.

There will also be opportunities for small specialized schools that can provide technical, vocational and business training (hair salons, electronic and technological repairs, auto-body shops, secretarial training, etc.).

²² Though mining and fisheries are important sectors in Cuba, they are not important ones in Puerto Rico and have, therefore, been excluded from this analysis.

The financial sector would also stand to gain from a normalized **Cuba**. Banks with already established fund transfer networks in the region could simply open a node in **Cuba** to serve their clients. Puerto Rican clients will also need various kinds of funding for trade and investment purposes in **Cuba** which can be provided by a **Puerto Rico** -based financial institutions. Real estate will offer some of the most attractive opportunities: "the countries needs are clear: infrastructure, housing, hotels, retailing, offices, factories as well as facilities in the new free-trade zones all require major infusions of capital" (Haines 1997). Though there has been some liberalization in this sector and there are a number of foreign financed projects under way, the Cuban government is still quite hesitant to fully open this sector. Moreover, the property claims settlement process with U.S. based claimants cannot take place until the embargo is lifted. The good news for **Puerto Rico** is that there will be many opportunities left when the embargo lifts. The competition however will be fierce and contingency plans that are actionable on short notice are needed.

The telecommunications sector is often cited as one which could offer opportunities for Puerto Rican companies. However, two factors are likely to dampen this enthusiasm. Since the last set of reports and articles were published, the Puerto Rican telephone company has been privatized and now belongs to a U.S. firm. Thus, the key to a Puerto Rican participation in this sector in **Cuba** will be the lobbying efforts of **Puerto Rico** based executives in favor of an expansion strategy managed out of **Puerto Rico** rather than out of the U.S. headquarters (or Miami). Another factor is that major portions of the telecommunications sector are already in the hands of U.S., Italian and Canadian competitors. Nevertheless, these facts would not preclude the provision of ancillary goods and services nor the formation of joint ventures.

b) Construction

Construction and infrastructure development including transportation and power are attractive sectors in **Cuba**. Though there are strong competitors already established in **Cuba** (e.g. Canadian companies built the Havana airport) a major construction boom is likely to occur once international financial institutions (IFIs) begin to finance these kinds of projects. The types of real estate projects described earlier would all have a construction component. The provision of materials for construction could also provide good prospects

Between 1995 and 1998 the growth of the construction sector in **Puerto Rico** has grown by over 50% and it is expected to continue growing (Villamil 1999). This experience combined with that gained from the construction of recent megaprojects (e.g. urban train and super aqueduct) should help position Puerto Rican construction firms well for competition in **Cuba**. While Miami has refurbished a much of its Art Deco architecture, **Puerto Rico** has done a spectacular job of refurbishing its colonial buildings in the Old San Juan area. This experience should be of great value in

bidding for jobs to reconstruct old Havana and many other colonial cities in **Cuba**. However, given the traditional large size of IFI projects, Puerto Rican companies in these sectors would be well advised to begin to search for partners to bid with.

c) Manufacturing

Both **Cuba** and **Puerto Rico** aligned their economies to suit the commercial needs of their respective hegemonic powers. While **Cuba** deepened its monoculture and traded sugar for oil and manufactures with COMECON (Council for Mutual Economic Assistance) countries, **Puerto Rico** developed a strong manufacturing base for export to the U.S. as a result of preferential trade policies and beneficial federal tax structures. The result is that while **Cuba** has a small and generally obsolete manufacturing base (mostly concentrated on light manufacturing and sugar processing), **Puerto Rico** has a large and modern one. Within **Cuba's** manufacturing Jurassic Park, however, the biotechnology sector stands out as a jewel - it is the most advanced in Latin America. Another plus is **Cuba's** labor force since it is as well educated and healthy as **Puerto Rico's**, though in great need of re-training. **Cuba** will need to scrap most of its existing plant, modernize some of it, and diversify into many more sectors. Thus many opportunities will be available.

Cuba is not expected to present a threat to Puerto Rican manufacturers, but rather a number of opportunities. The basic logic that will determine how large Puerto Rican-based U.S. owned firms respond to these opportunities will most likely be that of globalized production, not of inter-island competition or cooperation. Moreover, the future of this sector in **Puerto Rico** once Section 936 benefits are completely phased out, is unknown. What is clear though, is that as Puerto Rican manufacturing specializes ever more on high tech products and wages increase, less skilled production is likely to be transferred out of **Puerto Rico**. But where? **Cuba** will be only one manufacturing relocation contender among many others. Thus the strategy to secure a strong **Puerto Rico -Cuba** axis would require a twofold approach: 1) the Puerto Rican government must devise a new set of corporate incentives that can retain and increase the large U.S.-owned manufacturing base in **Puerto Rico** itself; and 2) **Puerto Rico** -based managers must begin to proactively develop plans for natural manufacturing linkages with **Cuba** that can convince stateside upper management of the merits of the expansion. One of the natural linkage sectors is likely to be pharmaceuticals. The combination of **Puerto Rico** expertise in manufacturing, and more recently in research and development, combined with **Cuba's** strong base in biotechnology could provide opportunities for joint development and production of pharmaceuticals.

There are also opportunities for many smaller and *criollo* -owned (locally owned) firms. For example, there will be many opportunities for companies that supply intermediate products to whatever foreign owned large manufacturing companies

establish themselves in **Cuba**, as they already do in **Puerto Rico**. As the Cuban market itself recuperates, Puerto Rican entrepreneurs could participate in the growth of import substitution opportunities (e.g. food processing, construction materials, etc.). The establishment of export-oriented plants would depend on whether inherent advantages to Cuban production can be found over production in other countries or in **Puerto Rico** itself. In 1999, **Cuba**'s free trade zones are hampered by the lack of a coherent set of incentives, a lack of investment in infrastructure and facilities, and a lack of access to its natural market - the U.S. However, these zones could play a part in the long run in a competitive manufacturing, export or transshipment strategy that involves **Cuba** and **Puerto Rico**.

Whether actual manufacturing plants are established by **Puerto Rico**-based firms or not, there is likely to be a fair amount of Puerto Rican investment participation in firms operated by Cubans or foreign nationals. As mentioned earlier, this is one of the preferred business strategies of Cuban exiles living in **Puerto Rico**. Another variation that affects the Puerto Rican manufacturing base is whether **Cuba** can become an export market for their goods. **Cuba** will need all sorts of inputs for both industrial production and consumer consumption. It is not clear at this point, however, if Puerto Rican produced products would have a competitive advantage over U.S. or foreign manufactured products. The diversification of Puerto Rican trade away from its over-reliance on the U.S. market and towards other Latin American and European markets would be a good preparatory stage for gaining competitive advantages in export markets. The fact that the activities of the Government of **Puerto Rico's** commercial offices abroad will be re-focused towards Puerto Rican entrepreneurs (Montana 1999) should help prepare *criollo* traders. The interviews conducted for this study suggest that Puerto Ricans see opportunities in **Cuba** in the pharmaceutical, chemical machinery and equipment, construction sectors.

In sum - if markets can be secured (in and out of **Cuba**), if credit can be obtained, if Cuban wages and manufacturing costs can remain competitive, and if Cuban market reforms can create an attractive business climate - **Cuba** is a natural place to expand production to. Determining whether specific **Puerto Rico**-based firms have a competitive advantage over foreign firms as manufacturers, investors or traders - is yet to be determined.

d) Small and Medium size Enterprises

Small business has become a main agent economic growth in **Puerto Rico**. As quoted in *Caribbean Business*, small businesses employ 75% of the private sector workforce in **Puerto Rico** and business with fewer than 50 employees represent 94.7% of total business establishments in the island (*Caribbean Business, Supplement* January 14, 1999 and Gigante 1999). Small business are highly represented in construction, manufacturing, services and retail. There are also a number of strong

locally owned medium sized (by U.S. standards) enterprises. Their strength was recently demonstrated by a Caribbean Business exercise (Lozana, November 5, 1998). The publication merged the Hispanic Business Top 500 list of largest Hispanic-owned business in the U.S. with its own Caribbean Business Top 300 list of Puerto Rican owned and based businesses. The result was that 249 of Caribbean Businesses Top 300 firms would have gained a spot in the Hispanic Business 500 list. Many of these firms are in financial services, wholesale and retail, manufacturing and food and beverage distribution. The strength and composition of **Puerto Rico's** small and the medium size companies, along with the fact that they are *criollo* firms, augurs well for a participation **Cuba's** re-development.

Despite a host of new U.S. dollar denominated retail stores, mostly in Havana, **Cuba** desperately needs a modern retail sector. Opportunities for foreign firms in this sector will be moderated by the fact that it is likely to remain a state monopoly as long as the **Cuba** government can keep it that way because the retail sector is a major source of revenue in pesos and foreign exchange for the Cuban state. There is a budding micro-enterprise sector (paladares, vending carts, etc.) which stand in contrast to these large state owned "sociedades anónimas". There is currently some foreign presence in the wholesale sector. There will be great pressure to open the distribution and transportation sector in a post-embargo scenario. Major U.S. retailers will likely establish beachheads as the spending power of Cubans begins to rise, and Puerto Rican managers might find opportunities in this expansion. There will also be a vast number of possibilities for the type of Puerto Rican owned small and medium size enterprises mentioned earlier. These would build up from the micro enterprise sector and down and around the state monopolies. An entire distribution and domestic transportation network for food, consumer and industrial goods will have to be developed. Yet again, the hybrid Latin/U.S. nature of Puerto Rican retailers along with their access to U.S. supply chains and credit, should make expansion to or investment in **Cuba** feasible. Franchise operations - from food and clothing outlets, to gas stations, dry cleaners and copy centers - will also present many possibilities. The time to secure rights to **Cuba** would be now.

e) Tourism

Cuba's tourism assets are formidable. It possesses not only many unspoiled beaches, but also the possibility for many other kinds of tourism such as historical, ecological, mountain, and cultural tourism. By 1998, tourism had become the driver of the Cuban economy, easily surpassing sugar as the main source of foreign exchange. In 1998, 1.4 million tourists visited the island bringing U.S. \$1,800 million in earnings. Tourists came primarily from Canada, Germany, Italy, Spain, France, Great Britain, Mexico and Argentina. Given the cost and number of inputs required, however, some estimates suggests that 75% of tourist earnings are spent on inputs (Alfonso 1999). Moreover, occupancy rates are somewhat low except during high seasons and the

average daily spending is still considerably low at U.S. \$88.4/day (ibid). Despite these obstacles, the industry is expected to continue growing at a fast pace and services and facilities are continually being upgraded. **Cuba** is re-positioning itself away from the low end budget travel segment towards the middle end, and aiming to move higher. Estimates for 1999 show a 20% increase for a total of 1.7 million tourists. **Cuba's** objective is to have 50,000 rooms by 2000. As prices go up, **Cuba** based hotel chains are developing segmented offerings at a range of value levels.

Foreign companies (primarily Canadian, Spanish, Dutch, Italian, Jamaican, French, German) are busily involved in making **Cuba** one of the fastest growing tourism destination in the Americas. These companies are participating in Cuban tourism through direct investment and management contracts and through the provision of services such as airlines and tour operators. Cruise ships already have begun to dock in Havana. Several U.S. companies and hotel chains have plans in place once the U.S. travel ban ends. It is clear that **Cuba** would have to upgrade its facilities in order to meet U.S. standards and guest expectations (e.g. provide face towels). However, considering what **Cuba** has been able to accomplish in less than a decade of tourism development, the advent of true four and five star hotels that would suit American tastes is not far. Moreover, cruise lines would be able to add Cuban ports quickly by deploying much of the in-land tour infrastructure themselves (mini-buses for tours, meals on-board, etc.). Strategies to serve different niche markets at a range of value levels is likely to involve cross referencing of price/service segmentation with country of origin segmentation.

Tourism is also a key driver of the Puerto Rican economy. According to CLAA report (1999), in 1997 stay over and cruise ship arrivals were up at 9.3% and 7.3% respectively. That year, the total inventory of rooms was 10,571. The goal of the government's Tourism Company is to increase that number to 16,000 rooms by the year 2000 (Sosa Pascual 1999). A new convention center is also under development. San Juan has become the largest home port for cruise ships in the Caribbean and the second largest home port for cruise ships in the world (CLAA 1999). Puerto Rican tourism tends to come from the U.S. East Coast, is upscale and frequents on 4 and 5 star hotels. While there is a fair amount of vacationers, and gambling-related tourism, there are also a considerable number of business travelers. The sector is dominated by U.S. hotel chains.

The impact of lifting the U.S. travel ban to **Cuba** on **Puerto Rico's** tourism sector is a great concern to Puerto Rican public and private sector agents. A Price Waterhouse study estimated that as many six million U.S. residents would visit **Cuba** annually if the travel restrictions were lifted (quoted in Haines 1997). It is reasonable to assume that some portion of these six million tourists would have otherwise visited **Puerto Rico**. The allure of forbidden fruit will create enormous demand for visits to **Cuba**

during the first years of the lifting of the travel ban. As mentioned earlier, **Cuba** would have to upgrade its installation to please U.S. guests, particularly if it aims to have repeat visits. Everyday that the embargo is in place allows the **Cuba** government and its foreign partners to prepare a tourism infrastructure that can successfully and profitably receive the influx of U.S. tourists once the travel ban is lifted. Moreover, U.S. companies would be able to pick up some of the large established plant of tourist facilities in **Cuba** and quickly refurbish them. There will enormous pressure on large U.S. hotel chains to compete with these foreign hotel installations and with each other in the pursuit of beachheads the Cuban market. Efforts to develop their **Cuba** product and garner market and margin share are likely to present a diversion of financial and managerial assets away from **Puerto Rico** and other Caribbean holdings.

The silver lining in the cloud that a post embargo **Cuba** would present to **Puerto Rico** is the likelihood that **Cuba**-bound tourism will increase the total number of visitors to the Caribbean. This would create opportunities for longer-stay multi-island destination packages similar to those developed for the European holiday market. The increased interest in the Caribbean in the U.S. market should also help pull into the region some of the visitors lost to U.S. "sun" destinations. As increased demand drive prices in **Cuba** up, **Puerto Rico** could also attempt to penetrate **Cuba**'s current European market, not necessarily through lower prices, but through similar priced offers providing better overall value. This effort would require better air connections to Europe. The catch though, is that these strategies do not happen by themselves. Puerto Rican managers and government officials must take concrete steps to continually improve facilities and services in **Puerto Rico**, and actively pursue joint marketing possibilities.

f) Agriculture

Before the 1959 Cuban revolution, both **Cuba** and **Puerto Rico** grew sugar and tobacco among other crops. Unfortunately, the opportunities for Puerto Rican agricultural exporters that the break in relations between the U.S. and **Cuba** presented did not materialize (Alamo, Almodovar, Dow, no date). The U.S. government provided incentives to Louisiana and Florida sugar producers and substituted cane sugar for beet sugar from other countries. In 1954-55 Puerto Rican and Cuban producers were the major exporters of tobacco to the United States. While tobacco production increased in **Puerto Rico** in the short term with the imposition of the U.S. embargo, the crop was completely eradicated by the 1970s. In 1997, the agricultural sector in **Puerto Rico** accounted for only 1% of the GDP and 3% of employment (CEPAL 97). The decline of the Puerto Rican agricultural sector can be attributed to a number of reasons such as soil erosion and inefficient production practices, but the crucial reason is considered to be to the Puerto Rican government's incentives towards industrialization (as well as the ensuing trend towards urbanization). These incentives pulled resources away from agriculture, raised manufacturing wages and

made agriculture a less attractive employment and investment option (Taylor and Thompson, 1992 a and b).

Puerto Rico's trade in agricultural and food products has been characterized by a perennial trade deficit (Dow, no date) Though the general decline in this sectors is expected to continue, there are a number of niches that have been identified for export growth such as tropical fruits and those were technology can be easily transferred (e.g. tomatoes for the U.S. winter market). These sector though, would be most affected by the end of the U.S. embargo since **Cuba** was a traditional supplier of these products to the U.S. market and could easily develop a competitive advantage again (ibid).

Though **Cuba's** agricultural sector suffered a drastic decline as result of the revolutionary government's policies (Kost 1998), the sector is starting to recuperate, and a number of commodities will likely be exported from **Cuba** to the United States once the embargo is lifted. According to a joint Florida-Havana university study quoted in a report from the Foreign Agricultural Service (1999), these would be: sugar, citrus, vegetables, tropical fruits and fisheries. Some of these products are likely to find themselves on Puerto Rican supermarket shelves. It is also likely that Puerto Rican agricultural producers would create joint ventures with Cuban growers for production or processing of foods.

Agricultural sales to **Cuba** from the U.S. are estimated to be U.S. \$300-1,000 million in the first year alone. U.S. exports would likely be concentrated around rice, grains, beans, wheat and animal products. In addition, the production of **Cuba** crops mentioned above would require imported inputs such as fertilizers, oil and machinery. Unfortunately, **Puerto Rico** is not strong in any of these sectors. In sum, a normalized **Cuba** is expected to add to **Puerto Rico's** agricultural trade deficit.

Conclusion

The end of the 20th Century is witnessing a considerable amount of change in the political economy of both **Puerto Rico** and **Cuba**. For **Puerto Rico**, the main variables of change involve the resolution of the status question and the impact on the manufacturing base of the phase out of section 936 and of the global rationalization of production. For **Cuba**, the main variables for change center around the timing and conditions of the end of the U.S. embargo and the rate at which the Cuban government (with or without Castro) is willing to allow a transition towards open markets and, ideally, a more pluralistic form of governance.

In terms of regional dynamics, while **Cuba** is seeking stronger alliances in both the Caribbean and in the hemisphere, **Puerto Rico** is aligning itself ever more closely with the United States and its hemispheric agenda. This is evidenced by the intensity

or paucity of formal and informal relations with regional associations being carried out by **Cuba** and **Puerto Rico** respectively. In a world of globalized competition, the task of making the Caribbean Basin an attractive manufacturing location and a tourism destination, might require the active involvement of **Puerto Rico**, as either a Commonwealth or a State.

As previous studies have shown, the sectors in a post embargo **Cuba** that held the most interest for the Puerto Rican and Cuban business people interviewed were: professional services, construction, manufacturing, small and medium size business, tourism and agriculture. The analysis revealed that while most sectors should provide excellent opportunities for Puerto Rican firms, a win-win scenario, the tourism and agriculture sectors could provide a threat to **Puerto Rico**.

In order to forestall any negative impacts and fully take advantage of the opportunities that **Cuba** will present will require private and public sector cooperation in a number of ways: 1) the tourism offering must be continuously improved in order to provide more value to visitors and a possible base of differentiation from the Cuban market; 2) the possibility of longer term multiple destination packages should be developed and efforts to capture the European market should be initiated; 3) an attractive manufacturing environment should be maintained through either new incentives and/or improved infrastructure and corporate efficiency; 4) **Puerto Rico** managers of U.S.-owned large manufacturing companies, hotel chains and professional service companies should start lobbying headquarters for Cuban expansion plans that include a **Puerto Rico** base; and 5) the competitiveness of Puerto Rican exports should be improved through the continuation of current efforts to export to new markets.

Plans to update the 1994 Government of **Puerto Rico** study is certainly one step in the direction of achieving the goals outlined above. However, one can only study a market so much. There are many good reports available in the U.S. that accurately specify Cuban opportunities that can be matched to Puerto Rican strengths. What will be needed as a compliment to this analysis are trade missions and individual company visits aimed at developing firm specific contingency plans such as the memorandums of understanding that many U.S. firms have signed. Alliances and joint ventures with companies currently on the ground in **Cuba** should be explored within the parameters of the embargo as well as participation in the plans of U.S. firms with actionable contingency plans. Perhaps then, Cubans and Puerto Ricans can finally go beyond relating to each other as cold war warriors and start becoming business associates.

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Appendix A Interview List

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