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## **CUBA: Continuity or Destabilization?**

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## INTRODUCTION

Raul Castro is widely seen as a transitional figure. What are the most probable future scenarios for Cuba's domestic political order during his tenure and beyond? *The Sine Wave Investor* produced this Country Brief on Cuba, setting forth views of recognized experts on political stability within this frontier market.

The Experts Interviewed for this Report:

- \* John Coatsworth, Dean, Columbia University School of International Affairs
- \* Wayne Smith, Senior Fellow at the Center for International Policy in Washington, D.C. and former State Department Cuba specialist
- \* Marvin Zonis, co-author of *The Kimchi Matters*, Professor Emeritus at the University of Chicago Graduate School of Business and Guest Speaker ([www.marvinzonis.com](http://www.marvinzonis.com))

(The percentages published in this report represent the conclusions of *The Sine Wave Investor* and are not attributable to the experts consulted for this report.)

### SCENARIO 1: Gradualism (80%)

Most likely we will see a continuation of one-party Communist rule and incremental policy shifts for the foreseeable future, all three experts agree.

Raul Castro and a cohesive group of other revolutionary-era leaders will maintain their grip on power. "There will not be any overthrow, there will not be any collapse of the existing regime," Smith says. The exiles in Miami who expected the system to crumble as soon as Fidel stepped down were obviously mistaken. The population, while perhaps hoping for more sweeping reforms, generally supports the leadership, Smith says.

A reform process 'within the Revolution' has already begun and will continue. Reforms will bring more opportunities for foreign investors, with Cuba possibly taking some cues from China in this regard, Zonis says. According to Coatsworth, Raul "has already begun to undertake significant changes in the way the Cuban economy is managed." These changes are "intended to improve living conditions and remove irritants," he says. Examples include wider cell phone usage, transportation, access to hotels, and efforts to raise wages. "The objective in the long run is apparently to move to a point where the Cuban peso can become convertible again and economic policy can become much more flexible," Coatsworth says.

### SCENARIO 2: Accelerated Economic Reforms (15%)

Under this Scenario, a new willingness after the Bush Administration leaves office to relax or terminate the American embargo and lift travel restrictions pressures the Cuban leadership to evolve more rapidly in the direction of a market economy. Coatsworth: "Should the United States begin to liberalize in significant ways, then this would challenge the Cuban authorities to respond in ways that would benefit the population, but do so without risking destabilization." In other words, Cuban authorities might be willing to discuss economic matters and selected aspects of the embargo (such as compensation for expropriated American assets and the much larger Cuban counterclaim for damages arising from the embargo), but Cuba's internal political arrangements would be off the table.

Havana would not rush to begin such discussions because the embargo serves its domestic political purposes (i.e., the government can blame the U.S. for any problems). Moreover, Cuban officials would resist any agenda item it perceives would threaten the existing internal order. "They are focused principally on maintaining sovereignty and control," Coatsworth says.

### **SCENARIO 3: Regime Change (5%)**

Zonis: "Many Cuban exiles return. Younger elements of the armed forces don't want to tolerate the socialist system. There are major cracks in the dictatorship and no one quite understands why there's a Communist Party anymore. A transitional regime tries to become more democratic." Under this Scenario, the U.S. would move quickly to aid the transition. One fact militating against this outcome, Zonis notes, is that the exiles may not be ready for it. "There's a lot of disagreement [in] the exile community in the United States about what kind of Cuba they want," he says.

Smith puts the probability of Scenario 3 at zero. Any dissidents left in Cuba may want some changes, but not to overthrow the government. Smith is not aware of any organized group inside Cuba working toward regime change today.

One fact undergirding Smith's view is that dissenters can find their way to Miami. The situation is analogous to Viet Nam, where anyone with different ideas simply pulled up stakes and left the country, bleeding off any energy there might have been for fomenting systemic change. The Cubans who have remained in-country are described as a nation of docile followers mired in a culture of dependency fostered by decades of socialist redistribution. Predictions about them rising up in revolt led to the Bay of Pigs fiasco in 1961 and have been wrong ever since.

But Coatsworth does not dismiss Scenario 3 outright. "We don't know the extent, depth, and support that opposition movements within Cuba might generate over time," he says. The Cuban government does not have perfect visibility on this, either, he suspects. But any U.S. support of indigenous opposition would probably provoke a reaction from the Cuban government, he adds. Such support "would most likely move the Cubans back toward severe constraints and discourage liberalization," Coatsworth says.

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#### ***About the Author:***

Christopher M. Wright regularly interviews CEOs, book authors, and analysts from major Wall Street firms for columns and articles on the stock market in major publications. In 2004, he started his own investment newsletter, *The Sine Wave Investor* (tm) ([www.sinewaveinvestor.com](http://www.sinewaveinvestor.com)). He has made numerous presentations on the stock market to young professionals, academic institution staff, and investor groups. In 2000, Mr. Wright successfully completed the academic portion of the grueling and respected Chartered Financial Analyst (CFA) program. The course of study is equivalent to a finance-focused MBA. Before beginning to write on business and investment topics for national and international clients in 2001, Mr. Wright worked as an attorney for 20 years. He makes his home in Arlington, Virginia.

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