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## FEATURED Q&A

# How Much Can Russia Keep Cuba's Economy Afloat?



Cuban President Miguel Díaz-Canel met Oct. 29 with his Russian counterpart, Vladimir Putin, at Putin's residence outside Moscow. // Photo: Cuban Government.

**Q** Dozens of shops selling items in U.S. dollars reopened in Cuba in October as the cash-strapped government struggles with a liquidity crisis of tradable currency needed to purchase imports and pay debts. Meantime, President Miguel Díaz-Canel traveled to Russia to meet with his counterpart, Vladimir Putin, as well as with other Russian officials, to discuss expanding cooperation and boosting economic ties. How bad is the economic situation in Cuba? What other tools does the government have in order to deal with the liquidity crisis and a worsening economy, both in the short and long terms? In what ways can Russia help Cuba with its financial predicament?

**A** Vicki Huddleston, retired U.S. ambassador and former chief of the U.S. Interests Section in Havana: "During Cuban President Díaz-Canel's late October meeting with Vladimir Putin, Russian state newspaper Rossiyskaya Gazeta proclaimed the visit symbolic of Russia's 'Return to Cuba.' Russian trade with Cuba has doubled to \$500 million since 2013, Russian oil company Rosneft has begun drilling on Cuba's shelf and military aid and cooperation is under discussion. Putin praised 'friendship, mutual support and help' between the two countries, while Díaz-Canel claimed that U.S.-Cuba relations 'are returning to Cold War rhetoric.' In the early 1990s, the Soviet Union dissolved into chaos, it abruptly ended its \$5 billion in annual assistance and withdrew its military and most of its diplomats from Cuba. Today, it is rebuilding that relationship, which provides both countries with geopolitical advantages. Russia once again gains a foothold close to the United

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## TODAY'S NEWS

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## Bolivia's Morales Resigns Amid Demonstrations

Bolivian President Evo Morales, who had been in office nearly 14 years, resigned after the head of the country's military suggested he do so amid violent protests.

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### BUSINESS

## CIBC to Sell Majority of FirstCaribbean

The Canadian Imperial Bank of Commerce has agreed to sell a majority stake in its Caribbean unit for \$797 million to GNB Financial Group, which is owned by Colombian billionaire Jaime Gilinski.

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### POLITICAL

## Brazil's Lula Freed From Prison After Court Ruling

Former Brazilian President Luiz Inácio Lula da Silva, imprisoned since April 2018, was released after the country's Supreme Court ruled that defendants cannot be imprisoned before their appeals are exhausted.

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Lula // Photo: Lula Institute.

## POLITICAL NEWS

## Bolivia's Morales Quits Amid Protests, Voting Fraud Claims

Bolivian President Evo Morales, who had been in office since 2006, resigned Sunday and fled La Paz amid continuing protests following the country's disputed Oct. 20 election, which election monitors say was tainted by fraud, The Wall Street Journal reported. Morales announced he was resigning after the head of the country's armed forces, Gen. Williams Kaliman, suggested that he step down. In a televised address from Chimoré, in the lowland Chapare region, Morales said he was leaving power to bring peace to the country and also struck a defiant tone, saying he was the victim of a coup. "I'm resigning so that our brothers don't continue to be persecuted. I really lament this civilian coup," said Morales. "I want to tell you that the fight doesn't end here ... This isn't a betrayal of the social movements, the fight continues. We are the people." Vice President Álvaro García also resigned, saying "dark forces have destroyed democracy." Jeanine Áñez Chávez, the Bolivian Senate's second vice president and the leader of a conservative coalition, appeared to be next in the presidential line of succession, The New York Times reported. On Sunday, Áñez said she would assume the presidency on an interim basis and would call the Legislative Assembly into session today. This morning, Áñez appeared on television as she boarded a plane for La Paz. "Bolivia doesn't deserve this, all these deaths and destruction," she said, adding, "it is absolutely necessary to return to democracy." Áñez said she would seek new elections. "I assume this challenge with the only objective to call new elections," she said. "This is simply a transitional phase." A member of the opposition Democratic Union party, Áñez is a former news executive. On Sunday, the Organization of American States, which the Bolivian government had invited to observe last month's election, said its audit had shown "clear manipulation" of the voting system, The Wall Street Journal reported. The audit showed

that ballots at one polling station were filled out by one person who belonged to Morales' Movement Toward Socialism party. The international body said that 100 percent of the votes at other polling stations had gone to Morales. Hours later, Morales said he would allow new elections to "lower the tension," but then resigned. Carlos Mesa, who finished second in last month's election, had demanded that Morales step down and not participate in the new election. A former president, Mesa said Sunday morning that the OAS audit showed that there had been "gigantic fraud here." Later on Sunday, Mesa celebrated Morales' resignation by marching with demonstrators carrying Bolivian flags through La Paz. "I will never forget this unique day," said Mesa. The streets of the capital were chaotic on Sunday as police officers refused for hours to engage as people looted stores, broke into violent scuffles and set fires, The New York Times reported. When heavily armed police did take action, crowds cheered them as they sought to restore order. [Editor's note: See related [Q&A](#) in the Oct. 23 issue of the Advisor.]

## Brazil's Lula Released From Prison in Wake of High Court Ruling

Former Brazilian President Luiz Inácio Lula da Silva was released from jail pending appeals on Friday, a year and several months into a long corruption sentence that prevented him from running in last year's presidential election, The Wall Street Journal reported. Lula, who had been imprisoned in April 2018 after being convicted of graft and money laundering, was freed Friday afternoon from a jail in the southern city of Curitiba, where supporters who were camped outside greeted him as he walked out. On the sidewalk outside the jail, Lula raised his fist and thanked his supporters. They gathered around him, chanting, "Lula, I love you," The Wall Street Journal reported. His release came a day after Brazil's Supreme Court ruled that defendants cannot be imprisoned before all their appeals are exhausted. Lula, who was serving an eight-year sentence, has long

## NEWS BRIEFS

## Piñera Acknowledges 'Abuses' in Handling of Chilean Protests

In an interview published Saturday, Chilean President Sebastián Piñera recognized "abuses" in the handling of massive social protests in recent weeks but did not blame police or the military, El Mercurio reported. The president said any act of abuse would be investigated and prosecuted, adding that his government, the police and armed forces "have always had a commitment" to respect human rights. Chile's public ministry announced last week that it would open a probe into allegations of torture against 14 police officers, Reuters reported.

## Some 100 Members of Mormon Community Flee Mexico After Massacre

About 100 members of a Mormon community based in northern Mexico left the country in an 18-vehicle caravan on Saturday, nearly a week after nine members of the community were killed in an ambush, The Guardian reported. In the attack, three women and six children were killed after they had set out driving to visit family members in Sonora state. The families have been based in northern Mexico since the 1950s.

## Peru's Central Bank Anticipates Cut to Growth Forecast

Peru's central bank on Friday said it intends to cut its economic growth forecast for 2019 in an upcoming inflation report, Reuters reported. It would be the third reduction this year, as the economy and public investment take a hit amid political upheaval and slowing global growth. The current project is 2.7 percent growth this year. The new forecast will be announced in December, the bank's central economic studies manager, Adrián Armas, said in a conference call, the wire service reported.

denied the charges against him. He was also sentenced to almost 13 years in a separate corruption case and still faces a half dozen corruption trials. He could appeal his charges all the way to the Supreme Court, which could take years, *The Wall Street Journal* reported. On Saturday, the former president delivered a fiery speech for nearly an hour attacking President Jair Bolsonaro. “[Bolsonaro] was elected to govern for the Brazilian people and not to govern for the militias in Rio de Janeiro,” Lula told supporters at the union in São Bernardo do Campo, near the city of São Paulo, *Agence France-Presse* reported.

## BUSINESS NEWS

### CIBC to Sell Majority Stake in FirstCaribbean Unit

The Canadian Imperial Bank of Commerce, or CIBC, has reached a deal to sell a majority stake in its Caribbean unit to a Colombian billionaire and his financial firm for \$797 million, the Canadian bank said Friday, the *Calgary Herald* reported. GNB Financial Group, owned by Colombian billionaire Jaime Gilinski, will acquire 66.7 percent of CIBC FirstCaribbean shares, leaving CIBC with a nearly 25 percent stake in the Barbados-based bank. The sale values FirstCaribbean at approximately \$1.2 billion, lower than the \$2.9 billion when CIBC took over most of the business in 2006, *Bloomberg News* reported. “The Caribbean is a low-growth market that presents idiosyncratic risks to the banks, (e.g., hurricanes),” Gabriel Dechaine, an analyst at National Bank Financial, said in a note to clients, *Bloomberg News* reported. He said the transaction was a “positive” one from a risk standpoint. “At the risk of being flippant, the only time we hear about the Caribbean is when there’s a problem,” he added. The deal is expected to close next year, pending certain approvals, the *Calgary Herald* reported. The sale is expected to boost CIBC’s common equity tier 1 capital ratio by more than 40 points, the bank said in the statement.

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States, and Cuba gets some respite from the ravages of the Trump administration’s sanctions, which have turned the 60-year-old embargo into a battering ram aimed at destroying the Cuban economy. Does this sound all too familiar? In the early 1960s, President Eisenhower imposed an embargo on Cuba and began preparations for an exile invasion. The Bay of Pigs debacle, which President Kennedy authorized, pushed Cuba into the arms of the Soviet Union and brought the world to the brink of a nuclear holocaust. Today, another Republican president has imposed new and more devastating sanctions against Cuba, which once again has turned to Russia. Does this return to the past also foretell another crisis with Russia? Russia is definitely back—having returned not just to Cuba but also to its old ally, Nicaragua—and much more importantly—to Venezuela.”

**A** **Otto Reich, president of Otto Reich Associates LLC and former U.S. assistant secretary of state for Western Hemisphere**

**Affairs:** “What Cuba faces is not a liquidity crisis, but rather the logical result of the forced imposition of Marxist economics, which brought similar ruin to the Soviet empire and everywhere it was tried. The ‘new’ government stores sell only in hard currency, while a Cuban’s monthly salary is less than \$30. With few exceptions, only that portion of the population that receives exiles’ remittances is able to buy in government stores that resemble the abusive ‘company stores’ that exploited rural Americans a century and more ago: the companies set the workers’ salaries and also the goods’ prices, just as the Cuban regime does today. A Cuban who dares to produce, buy or sell outside the official structure is punished. How is it that foreign tourists lack nothing while most Cubans lack food, medicine, electricity and water, which is distributed to working-class neighborhoods by government trucks twice a week? Cuba’s economic base,

including its sugar industry, was destroyed by Castro; Cuba even ended up purchasing foreign sugar. Most income today comes from abroad: thousands of doctors sent overseas as indentured labor, who receive

“**What Cuba faces is not a liquidity crisis, but rather the logical result of the forced imposition of Marxist economics.**”

— Otto Reich

less than 10 cents of each dollar that foreign governments pay Cuba for their services; tourism and exile remittances; and Venezuelan oil (as earlier Soviet subsidies). Cuba is bankrupt because Cubans have no freedom: to produce or to decide their own fate. When Cubans on the island gain their freedom, they will be as productive as their brethren who have fled abroad, and the current nightmare will end.”

**A** **Julio M. Shiling, director of Patria de Martí:** “Going from a developing country in the 1950s with showcase statistics, such as infant mortality, calorie consumption and physicians per capita, among others, highlighting modernization trends that in many instances surpassed first-world European powerhouses, Communist Cuba has descended into a basket case of shortages and misery. Empirical evidence demonstrates that the Castro regime has avoided greater calamities because of a very fine-tuned ability to parasitize. First the Soviets, the Western banks (Paris Club), business schemes cuddled under state capitalism and then the Venezuelans, as well as a medical army leased to foreign bidders in exploitative conditions. The diplomatic opening with the United States offered hope that credit and American investment would

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flood Cuba. It never happened. Trump's presidency has effectively reversed all the alms Obama rendered. Even Cuba's successful leap into the state-driven mercantilist China model (albeit more market sensitive) seems remote. Deng received the support of the Chinese diaspora from Hong Kong, Taiwan and Macao to launch its brand of socialism. The Cuban nation in exile has not accommodated the Communist regime's desire that democratic aspirations be forgone. Putin's Russia is unable to inject the kind of capital infusion Cuba needs. The Cuban regime will, no doubt, double down on tempting investment offers for risk-seeking foreign speculators. The absence of the rule of law in Cuba, however, will assure that the numbers remain low. Cuban communism's liquidity is indeed in a bind. It seems that there remains no substitute for profound systemic changes and democratic institutionalization."

**A Carmelo Mesa-Lago, distinguished service professor emeritus of economics and Latin American studies at the University of Pittsburgh:** "Russia can somewhat help Cuba's economy, but it's unlikely that it will fully replace the value of Cuba's economic relationship with Venezuela. Cuba is now suffering the worst economic crisis since the 1990s after the collapse of the Soviet Union. At its peak in 2012, Cuba's relationship with Venezuela reached \$16 billion and, even with the decline it has endured, it was \$8 billion in 2017 (latest data available), tantamount to 22 percent and 8 percent of Cuba's GDP. In 2018, Russia was Cuba's seventh-largest trading partner, its goods trade was only 3.3 percent of Cuba's total exchange and its trade deficit

amounted to \$430 million. Also, Russia does not buy Cuban professional services that are the principal source of the island's hard currency. It is impossible for Cuba to pay for the value of Russian imports because production of sugar, nickel, citrus, tobacco

**“Russia does not buy Cuban professional services that are the principal source of the island's hard currency.”**

— Carmelo Mesa-Lago

and fisheries—which constituted Cuban basic exports to the USSR in the 1980s—have declined sharply, and it is improbable that Cuba will compensate for Russian oil with exports of doctors and other professionals (involving a heavy subsidy), who would have to learn Russian. Agreements signed with Moscow and Havana at the end of 2018 and last September deal with electricity and steel production, renovation of railroads, exploration of bituminous oil deposits and oil land prospecting, citrus production and military equipment. Although helpful to Cuba at this difficult economic juncture, which has been aggravated by Trump's tightening of the embargo, the published amount of Russian aid committed through 2020 is \$343 million, or 4.3 percent of Venezuelan total aid in 2017. Finally, Russia's economic slowdown makes it harder for it to fully replace Venezuela."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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