

By George Friedman and Reva Bhalla

Strange statements are coming out of Cuba these days. Fidel Castro, in the course of a five-hour interview in late August, reportedly told Jeffrey Goldberg of *The Atlantic* and Julia Sweig of the Council on Foreign Relations that "the Cuban model doesn't even work for us anymore."

Once that statement hit the headlines, Castro backtracked. Dressed in military uniform for the first time in four years (which we suspect was his way of signaling that he was not abandoning the revolution), he delivered a rare, 35-minute speech Sept. 3 to students at the University of Havana. In addition to spending several minutes on STRATFOR's Iran analysis, Castro addressed his earlier statement on the Cuban model, saying he was "accurately quoted but misinterpreted" and suggesting that the economic model doesn't work anymore but that the revolution lives on.

Castro, now 84, may be old, but he still seems to have his wits about him. We don't know whether he was grossly misinterpreted by the reporter during the earlier interview, was acknowledging the futility of the Cuban model and/or was dropping hints of a policy shift. Regardless of what he did or did not say, Castro's reported statement on the weakness of the revolution was by no means revolutionary.

Sustaining the Revolution

There is little hiding the fact that Cuba's socialist economy has run out of steam. The more interesting question is whether the Cuban leader is prepared to acknowledge this fact and what he is prepared to do about it. Castro wants his revolution to outlive him. To do so, he must maintain a balance between power and wealth. For decades, his method of maintaining power has been to monopolize the island's sources of wealth. All foreign direct investment in Cuba must be authorized by the government, the most important sectors of the economy are off-limits to investors, foreign investors cannot actually own the land or facilities in which they invest, the state has the right to seize foreign assets at any time and foreign investors must turn to the government for decisions on hiring, firing and paying workers. Under such conditions, the Cuban leadership has the ultimate say on the social welfare of its citizens and has used that control to secure loyalty and, more important, neutralize political dissent.

But that control has come at a cost: For the revolution to survive — and maintain both a large security apparatus and an expensive and inefficient social welfare system — it must have sufficient private investment that the state can control. That private investment has not been forthcoming, and so the state, unable to cope with the stresses of the economy, has had to increasingly concern itself with the viability of the regime. Since Soviet subsidies for Cuba (roughly \$5 billion per year) expired in the early 1990s, Cuba has been seeking an injection of

capital to generate income while still trying to leave the capitalists out of the equation in order to maintain control. There is no easy way to resolve this paradox, and the problem for Castro in his advanced age is that he is running out of time.

Many Cubans, including Castro, blame the island's economic turmoil on the U.S. embargo, a politically charged vestige of the Cold War days when Cuba, under Soviet patronage, actually posed a clear and present danger to the United States. There is a great irony built into this complaint. Castro's revolution was built on the foundation that trade with the imperialists was responsible for Cuba's economic turmoil. Now, it is the supposed lack of such trade that is paralyzing the Cuban economy. History can be glossed over at politically opportune times, but it cannot so easily be forgotten.

What many seem to overlook is how Cuba, in spite of the embargo, is still able to receive goods from Europe, Canada, Latin America and elsewhere — it is the state-run system at home that remains crippled and unable to supply the island's 11 million inhabitants. And even if U.S.-Cuban trade were to be restored, there is no guarantee that Cuba's economic wounds would be healed. There are a host of other tourist resorts and sugar and tobacco exporters lining the Caribbean coastlines aside from Cuba, which has largely missed the boat in realizing its economic potential. In other words, the roots of Cuba's economic troubles lie in Cuba, not the United States.

But Cuba is in the midst of a political transition, and Fidel will eventually pass the revolution on to his (not much) younger brother, Raul. If Fidel is the charismatic revolutionary, able to sustain a romanticized political ideology for decades in spite of its inherent contradictions, Raul is the bureaucratic functionary whose primary purpose at this point is to preserve the regime that his brother founded. This poses a serious dilemma for 79-year-old Raul. Not only does he lack the charisma of his older brother, he also lacks a strong external patron to make Cuba relevant beyond Cuba itself.

It must be remembered that the geographic location of Cuba, which straddles both the Yucatan Channel and Straits of Florida, gives it the potential to cripple the Port of New Orleans, the United States' historical economic outlet to the world. If these two trade avenues were blocked, Gulf Coast ports like New Orleans and Houston would be, too, and U.S. agricultural and mineral exports and imports would plummet.

Cuba has been able to pose such a threat and thus carry geopolitical weight only when under the influence of a more powerful U.S. adversary such as the Soviet Union. Though the Castros maintain relations with many of their Cold War allies, there is no middle, much less great, power right now with the attention span or the will to subsidize Cuba. Havana is thus largely on its own, and in its loneliness it now appears to be reaching out to the United States for a solution that may not hold much promise.

While Fidel has been making statements, Raul has been fleshing out a new economic strategy for Cuba, one that will lay off 500,000 workers — 10 percent of the island's workforce. The idea is to develop private cooperatives to ease a tremendous burden on the state and have implementation of this plan in progress by March 2011. This is an ambitious deadline

considering that Cuba has little to no private industry to speak of to absorb these state workers. The feasibility of the proposed reforms, however, is not as interesting as the message of political reconciliation embedded in the plan. Alongside talk of Raul's economic reforms, Cuba has been making what appear to be political gestures to Washington through the release of political prisoners. But these gestures are unlikely to be enough to capture Washington's attention, especially when Cuba is neither a significant geopolitical threat nor a great economic opportunity in the eyes of the United States. Cuba needs something more, and that something could be found in Venezuela.

The Cuban-Venezuelan Relationship

Cuba and Venezuela face very similar geographic constraints. Both are relatively small countries with long Caribbean coastlines and primarily resource-extractive economies. While Venezuela's mountainous and jungle-covered borderlands to the south largely deny the country any meaningful economic integration with its neighbors, Cuba sits in a sea of small economies similar to its own. As a result, neither country has good options in its immediate neighborhood for meaningful economic integration save for the dominant Atlantic power, i.e., the United States. In dealing with the United States, Cuba and Venezuela basically have two options: either align with the United States or seek out an alliance with a more powerful, external adversary to the United States.

Both countries have swung between these two extremes. Prior to the 1959 revolution, the United States dominated Cuba politically and economically, and although relations between the two countries began to deteriorate shortly thereafter, there were still notable attempts to cooperate until Soviet subsidies took hold and episodes like the 1961 Bay of Pigs fiasco sunk the relationship. Likewise, until the 2002 coup attempt against Venezuelan President Hugo Chavez, Venezuela had long maintained a close, mutually beneficial relationship with the United States. With U.S. urging, Venezuela flooded the markets with oil and busted the 1973 OPEC oil embargo, helping bring about the fall of the Soviet Union. That energy cooperation continued with the U.S. sale of Citgo in the 1990s to Venezuela's state oil firm PDVSA, a deal designed to hardwire Venezuela into the U.S. energy markets. Venezuela obtained a guaranteed market for its low-grade crude, which it couldn't sell to other countries, while the United States acquired an energy source close to home.

For most of the past decade, Cuba and Venezuela have found themselves in a unique position. Both now have adversarial relationships with the United States, and both lack strong allies to help them fend off the United States. As a result, Cuba and Venezuela have drawn closer together, with Cuba relying on Venezuela primarily for energy and Venezuela turning to Cuba for its security expertise.

In trying to rebuild its stature in the region, Cuba has taken advantage of the Venezuelan regime's rising political and economic insecurities as it set about entrenching itself in nearly all sectors of the Venezuelan state. Cuban advisers, trainers and protectors can be found everywhere from the upper echelons of Venezuela's military and intelligence apparatus to the ports and factories. Therefore, Cuba has significant influence over a Venezuela that is currently struggling under the weight of stagflation, a precarious economic condition that has been fueled

by an elaborate money-laundering racket now gripping the key sectors of the state-run economy. With the country's electricity, food, energy and metals sectors in the most critical shape, power outages, food shortages and alarmingly low production levels overall are becoming more difficult for the regime to both contain and conceal. This might explain why we are now seeing reports of the Venezuelan regime deploying military and militia forces with greater frequency, not only to the streets but also to the dams, power plants, warehouses, food silos and distribution centers.

Venezuela's open-door policy to Cuba was intended to bolster the regime's security, but Cuba's pervasiveness in Venezuela's government, security apparatus and economy can also become a threat, especially if Cuba shifts its orientation back toward the United States. Cuba may now be in a position to use its influence in Venezuela to gain leverage in its relationship with the United States.

Washington's Venezuela Problem

The list of U.S. complaints against Venezuela goes well beyond Chavez's diatribes against Washington. Venezuela's aggressive nationalization drive, contributions to narco-trafficking (in alleged negligence and complicity) and suspected support for Colombian rebel groups have all factored into the United States' soured relationship with Venezuela. More recently, the United States has watched with growing concern as Venezuela has enhanced its relationships with Russia, China and, especially, Iran. Venezuela is believed to have served as a haven of sorts for the Iranians to circumvent sanctions, launder money and facilitate the movement of militant proxies. The important thing to note here is that, while Cuba lacks allies that are adversarial to the United States, Venezuela has them in abundance.

For the United States to take a real interest in signals from Havana, it will likely want to see Cuba exercise its influence in Venezuela. More precisely, it will want to see whether Cuba can influence Venezuela's relationship with Iran.

We therefore find it interesting that Fidel Castro has been making moves recently that portray him as an advocate for the Jews in opposition to the Iranian regime. Castro invited Goldberg, an influential member of the Jewish lobby in the United States, to his hacienda for an interview in which he spent a great deal of time criticizing Iranian President Mahmoud Ahmadinejad for his insensitivity to the Jewish people and their history. "I don't think anyone has been slandered more than the Jews," Castro said. "I would say much more than the Muslims. They have been slandered much more than the Muslims because they are blamed and slandered for everything. No one blames the Muslims for anything." He added: "The Jews have lived an existence that is much harder than ours. There is nothing that compares to the Holocaust." Then, Castro asked Goldberg and Sweig to accompany him to a private dolphin show at the National Aquarium of Cuba in Havana. They were joined by local Jewish leader Adela Dworin, whom Castro kissed in front of the cameras.

Following Fidel's uncharacteristically pro-Jewish remarks, Chavez, who has echoed his Iranian ally's vituperative stance against Israel, held a meeting with leaders of Venezuela's Jewish community on Sept. 18 in which he reportedly discussed their concerns about anti-Semitic

remarks in the media and their request for Venezuela to re-establish diplomatic relations with Israel. That same week, Venezuela's state-run Conviasa Airlines, which has had an unusually high number of accidents and engine failures in recent days, cancelled its popular Tuesday roundtrip flight route from Caracas to Damascus to Tehran. This is a flight route frequented by Iranian, Lebanese, Syrian and Venezuelan businessmen and officials (along with other sorts trying to appear as ordinary businessmen). The route has come under heavy scrutiny by the United States due to a reinvigorated U.S. sanctions campaign against Iran and U.S. concerns over Hezbollah transit through Latin America. When STRATFOR inquired about the flight cancellations, we were told by the airline that the cancellations were due to maintenance issues but that flights from Caracas to Damascus would be re-routed through Madrid. The Iran leg of the route, at least for now, is out of operation. Whether Cuba is intending to reshape Venezuela's relationship with Iran and whether these Venezuelan moves were taken from Cuban cues is unknown to us, but we find them notable nonetheless.

A Chinese Lifeline for Caracas?

Each of these seemingly disparate developments does not make much sense on its own. When looked at together, however, a complex picture begins to form, one in which Cuba, slowly and carefully, is trying to shift its orientation toward the United States while the Venezuelan regime's vulnerabilities increase as a result. An insecure and economically troubled Venezuela will need strong allies looking for levers against the United States. Russia will sign a defense deal here and there with Venezuela, but it has much bigger priorities in Eurasia. Iran is useful for hurling threats against the United States, but it has serious economic troubles of its own that rival even those of Venezuela. China so far appears to be the most promising fit, although that relationship carries its fair share of complications.

China and Venezuela have signed a deal for Beijing to lend \$20 billion to Caracas in exchange for crude-oil shipments and stakes in Venezuelan oil fields. The two are also discussing multibillion-dollar deals that would entail China investing in critical areas, such as Venezuela's dilapidated electricity grid. China doesn't have much interest in paying the exorbitant cost of shipping low-grade Venezuelan crude halfway around the world, but it is interested in technology to develop and produce low-grade crude. In many ways, China is presenting itself as the lifeline to the Venezuelan regime. Whether all these deals reach fruition remains a big question, and how far Beijing intends to go in this relationship with Caracas will matter greatly to the United States. A Chinese willingness to go beyond quid pro quo deals and subsidize Venezuela could lead to Chinese investments threatening existing U.S. energy assets in Venezuela, potentially giving Beijing leverage against Washington in the U.S. backyard. But subsidizing countries is not cheap, and China has not yet shown a willingness to take a more confrontational stance with the United States over Venezuela.

After claiming to have received the first \$4 billion installment of the \$20 billion loan from China, Chavez said China is lending the money because "China knows that this revolution is here to stay." Like Cuba, Venezuela may not have the economic heft to back up its revolutionary zeal, but it is finding useful friends of the revolution in China. In this time of need, Venezuela's challenge lies in finding allies willing to cross the threshold from economic partner to strategic patron.

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