

Nudging Cuba Towards a Market Economy and Satisfying Historical Claims

Gary Hufbauer
Senior Fellow

January 29, 2015

Key Lessons from 55 Years of Sanctions

- Even tough and prolonged sanctions do not reliably deliver political change.
- But carefully designed carrots may nudge Cuba step-by-step towards a market economy and the satisfaction of historical claims.

Strategic Economic Goal: Trade & Investment Agreements

US and Cuba should share the goal of a basic US-Cuba bilateral trade agreement (not an FTA) and a Bilateral Investment Treaty (BIT) as Cuba embraces the tenets of a market economy.

Guiding Principles for Reciprocity

- Quickly allow US firms to EXPORT for CASH consumer goods and intermediate inputs.
- Condition EXPORTS of CAPITAL GOODS and FINANCE on enumerated market economy reforms.
- Apply a STRICT FILTER on IMPORTS from Cuba: insist on meaningful concessions and compensation.
- Insist that World Bank, IDB and IMF finance be shaped to advance the market economy agenda.
- Be sparing on the retention of sanctions for political goals. Ask the question: would parallel sanctions be applied to China?

Reciprocity Menu

- As it amends Helms Burton, Congress should give the president a menu of *quid pro quos*.
- Illustrative suggestions follow, but Congress should allow the president to mix and match.

Reciprocity Menu (continued)

- Return of Guantanamo to Cuba could be conditioned on creation of a compensation fund for justified historical claims.
- US pleasure tourists to Cuba could be subject to a strict first-come, first-allowed quota. Enlargement of quota should be conditioned on: (1) licenses for US hotels and resorts to operate in Cuba; (2) Cuban payment of \$100 per tourist into a compensation fund.
- Cuba could be assigned a sugar quota in exchange for defined payment (e.g., 2 cents/pound) to the compensation fund.

Reciprocity Menu (continued)

- US firms could be permitted to finance defined projects provided Cuban construction workers are paid a reasonable minimum wage.
- Exports of US capital goods could be conditioned on most-favored nation (MFN) and national treatment in respect of dealings by Cuban state-owned enterprises (SOEs).

Reciprocity Menu (continued)

- Bulk imports of Cuban cigars, rum, and agricultural produce could be conditioned on MFN access by US firms to the production of such goods.
- US Medicare and health insurance payments could be made to approved Cuban clinics provided US-owned clinics are allowed to be established in Cuba.