

Economic Normalization with Cuba: A Roadmap for US Policymakers

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Ending a Half Century of Separation: USA

- More travel: 12 categories of authorized travel now require only a general license.
 - No need for additional permission from OFAC (but no tourism travel yet!)
 - Business training and support to farmers.
- Travelers may import up to \$400 per person, including \$100 of cigars and rum.
- More remittances: raised from \$500 to \$2,000 per quarter.
- More finance: US citizens can now use US credit and debit cards, and US financial firms can open accounts at Cuban banks and enroll merchants.
 - E.g., MasterCard will start allowing its cards starting March 1, 2015.
- More sales of telecom-related goods and services.



Ending a Half Century of Separation: Cuba

Raul Castro: *sin prisa pero sin pausa*

- 201 private sector activities allowed by the Cuban state.
- Travel ban lifted.
- New foreign direct investment (FDI) law: wish list of 246 projects.
- Dual currency system: Government is preparing conditions for unification.

Cuba's Economic Challenge

Indicator	Approximate value
GDP	\$71 billion
Per capita GDP	\$6,288 (\$250 if measured in CUPs)
Exchange rate*	25CUP = 1CUC = \$1US
Exports of goods	\$6.0 billion
Imports of goods	\$13.7 billion
Estimated external debt	Estimates range from \$17 to \$35 billion, excluding claims
Estimated assistance from Venezuela	About \$10 billion per year

Sources: ECLAC, WTO, Central Bank of Cuba, and Paris Club.

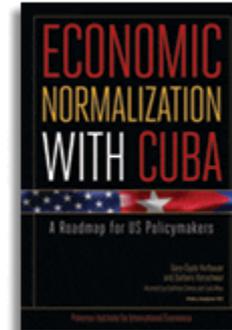
Are Cuba's economic reforms, even with greater US engagement, enough to address its serious economic challenges?

The winds of change may blow slowly

- Helms Burton remains in force
 - More US companies can now sell to Cuba but the ban on financing remains in place.
- The new regulations were published quickly. What about implementation on the Cuban side?
 - The US will now allow sales of telecom equipment and services to Cuba. Will Cuba allow this?
 - Will additional barriers be placed on private enterprise?
 - Cuban government monopoly retained on imports and exports – no mechanism yet for private actors to trade.
 - Cuban state maintains control of employment – most self-employment activities are low-tech and low-skill.

Next Steps

In our book we set out three likely scenarios:



1. Gradualist Normalization

- China and Vietnam
- Step by step reforms
- Significant overlap between political and economic normalization

2. Big Bang with Monopoly Capitalism

- Russia and Ukraine
- Capitalism quickly replaces state ownership
- Monopolies/oligopolies capture economy

3. Big Bang with Market Capitalism

- Poland and Baltic states
- Easiest for US-Cuba relations
- But, least likely

What should US negotiators do to avoid scenario 2? How can they move now to pave the way for greater competition in the Cuban economy (and better chances for US companies)?

Conclusions

- **As we will see in the next presentation, US officials should begin reciprocal economic negotiations now.** Doing so can help Cuba's nascent entrepreneurial class.
- **Not doing so could cause two unfortunate results:**
 - Cuba's economic normalization will proceed at a slower pace, accompanied by greater favoritism to vested interests and greater corruption of public officials.
 - US firms and citizens will be pushed to the back of the line for commercial opportunities in Cuba.