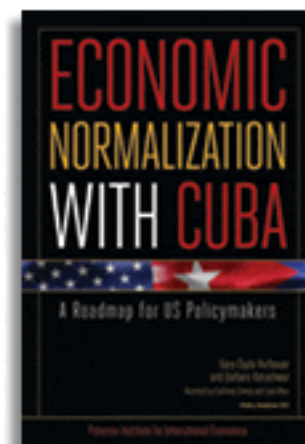
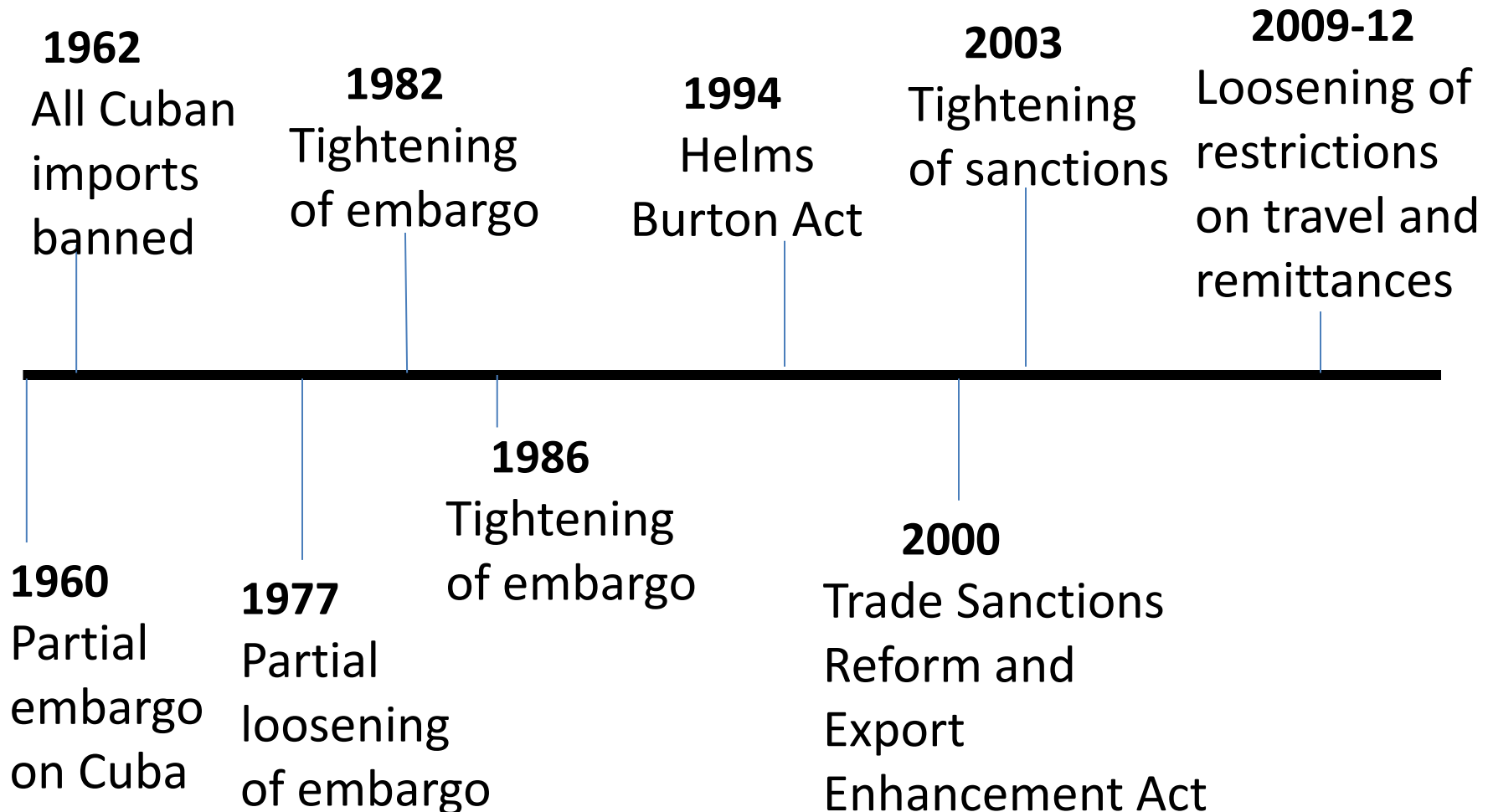


Economic Normalization with Cuba: A Roadmap for US Policymakers

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US Sanctions Against Cuba



A Half Century of Separation

Winds of change seem to be picking up.

- Cuba:
 - Allow sale/rental of property
 - Allow self-employment
 - Loosening FDI restrictions
 - No more exit visa
- United States:
 - Looser restrictions on travel
 - Greater flexibility for remittances
 - Shift in attitudes by new generation

In our study we suggest markers for the path to restoring normal economic relations between the US and Cuba once political normalization is under way.

Scenarios for Normalization

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

Economic Normalization with Cuba

Why not encourage unconditional opening?

- Cuba's best path to economic growth is to embrace all tenets of a market economy.
- Past experience shows that rent seeking is deeply embedded in most transition economies; vested interests strongly resist reduction of barriers to foreign competition.
- Reciprocal negotiation can tilt the balance in favor of greater liberalization.

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.

* In 2013 the Castro government initiated a pilot program for some firms, with exchange rates ranging from CUP11:CUC1 to CUP7:CUC1 and made clear that the CUC would be eliminated. As of this writing, no timetable has been set.

Initial Steps to Normalization

Cuba in the International Economy

- Cuba is a founding member of GATT and WTO.
- Trade and investment relations with most countries in the world.
- Signatory to 61 BITs.

Cuban exports to top destination markets (US\$ millions)

Country	1990	2000	2011
China	282	78	822
Canada	89	275	712
European Union	445	599	655
Venezuela	8	5	343
Guyana	5	19	95
Brazil	90	21	92
Belize	-	18	91
Ghana	1	13	65
Russia	n.a.	277	45
Switzerland	10	16	33
World	1,357	1,566	6,700

n.a. = not available

Note: A dash indicates value less than \$0.5 million.

Source: IMF Direction of Trade Statistics, 2013.

Cuba in the International Economy

FDI by sector, 2011	%
Tourism	40
Other	27
Oil	10
Food industry	7
Construction	5
Mining	4
Beverages/spirits	3
Energy	2
Tobacco	2
Total	100

FDI source	Number of JVs	%
EU	103	42
Canada	23	9
Venezuela	11	4
China	5	2
Mexico	5	2
Brazil	4	2
Russia	4	2
Chile	3	1
Other	87	35
Total	245	100

- Total FDI stock in Cuba around \$500 million.
- Most sectors (except health, education and firms that service the armed forces) are open to FDI under Law 77.

Potential Trade With Cuba

Year	US-Cuba merchandise trade (actuals and within normalization)						US-Cuba merchandise trade (with US-Cuba FTA)	
	Actual trade (US\$ millions)		Potential trade (US\$ billions)		Trade shortfall (Percent)		Potential trade (US\$ billions)	
	US exports	Cuba exports	US exports	Cuba exports	US exports	Cuba exports	US exports	Cuba exports
2008	718	0	3.9	5.2	82	100	7.4	9.8
2009	533	0	3.9	5.2	86	100	7.4	9.8
2010	370	0	4.1	5.5	91	100	7.7	10.3
2011	352	0	4.3	5.8	92	100	8.1	10.8

Sources: US International Trade Commission and authors' calculations.

Initial Steps to Economic Normalization with Cuba

Areas ripe for reciprocal normalization:

- Expand existing trade and travel.
- Waive Helms-Burton Act (based on Presidential decree and Congressional approval of normal commerce with Cuba).
- Steps towards a basic US-Cuba bilateral trade agreement (not an FTA).

Initial Steps to Economic Normalization with Cuba

Areas ripe for reciprocal normalization:

- Support membership in international organizations (e.g., IMF, World Bank, IADB).
- Pleasure and medical tourism.
- Expand access to Cuba's sugar.

Brass Tacks: Deeper Integration

Brass Tacks: Deeper Integration

- Cuba's inward FDI stock low compared to neighbors.

Cuba		Dominican Republic		Costa Rica	
Population	FDI Stock	Population	FDI Stock	Population	FDI Stock
11.2 million	\$500 million	10.2 million	\$17 billion	4.8 million	\$16 billion

- Cuba could attract as much FDI stock as the DR: \$17 billion from the world and \$2 billion from the US.
- Explore possible investment agreements:
 - Joint Commission on Trade and Investment (JCTI)
 - Trade and Investment Framework Agreement (TIFA)
 - Bilateral Investment Treaty (BIT)
- **Reciprocity measures: Cuba should implement reforms to ensure national treatment; and reform labor practices.**

Brass Tacks: Deeper integration

- **Intellectual Property Rights**
 - **United States** should repeal Section 211 to comply with the WTO TRIPS Agreement.
 - **Cuba** should establish a forum for resolving complaints on IPR infringements.
- **Open Skies for Civil Aircraft**
 - **United States** should ease restrictions on licensing for charter flights; US FAA assess Cuba's compliance with ICAO safety standards.
 - **Cuba** should allow US air carriers unrestricted access.
 - **US and Cuba** could expand their 1953 Air Transport Agreement.

Brass Tacks: Deeper integration

- **Movement of People**
 - **United States** might consider creating a special visa for Cubans that would bypass the H1-B quota.
 - **Cuba** should further relax its restrictions on the movement of people.
- **Offshore Oil and Gas Exploration**
 - **Cuba** should give US firms equal footing in the oil and gas sector.
 - **United States** should eliminate content requirements that restrict the use of technology and equipment essential to deep water exploration.

Brass Tacks: Deeper integration

- **Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) Regulations**
 - **United States** should provide technical assistance to help harmonize standards and avoid delays in the movement of agricultural products.
 - **Cuba** should allow US agricultural producers to expand market share in Cuba.
- **Eventually, a US-Cuba free trade agreement?**

Conclusions

Economic normalization must be seen as a reciprocal process. Not doing so could cause two unfortunate results:

- Cuba's economic normalization will likely 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.