

Implications of Lifting the U.S. Embargo and Travel Ban of Cuba

Testimony

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I appreciate the opportunity to address this hearing on “Promoting American Agricultural and Medical Exports to Cuba Act of 2007.”

Opponents of U.S. policy toward Cuba continue to claim that if the embargo and the travel ban are lifted the Cuban people would benefit economically. American companies will penetrate and influence the Cuban market; the Communist system would begin to crumble and a transition to a democratic society would be accelerated.

These expectations are based on several incorrect assumptions. First that the Castro brothers and the Cuban leadership are naive and inexperienced and, therefore, would allow tourists and investments from the U.S. to subvert the revolution and influence internal developments in the island. Second that Cuba would open up and allow U.S. investments in all sectors of the economy, instead of selecting which companies could invest. Third that the Castro brothers are so interested in close relations with the U.S. that they are willing to risk what has been uppermost in their minds for 47 years – total control of power and a legacy of opposition to “yankee imperialism” – in exchange for economic improvements for the Cubans.

A change in U.S. policy toward Cuba may have different and unintended results. The lifting of the embargo and the travel ban without meaningful changes in Cuba will:

- Guarantee the continuation of the current totalitarian structures;
- Strengthen state enterprises, since money will flow into businesses owned by the Cuban government. Most businesses are owned in Cuba by the state and, in all foreign investments, the Cuban government retains a partnership interest.
- Lead to greater repression and control since the Cuban leadership will fear that U.S. influence will subvert the revolution and weaken the Communist party’s hold on the Cuban people.
- Delay instead of accelerate a transition to democracy in the island.

- Allow Castro to borrow from international organizations. Loans will be wasted by Cuba's inefficient and wasteful system, and will be uncollectible. The reason Cuba has been unable to pay back loans to other countries is not because of the U.S. embargo, but because its economic system stifles productivity and the Castro brothers continue to spend on the military, on adventures abroad, and on supporting a bankrupt welfare system in the island.
- Perpetuate the rather extensive control that the military holds over the economy and foster the further development of "mafia type" groups that manage and profit from important sectors of the economy, particularly tourism, biotechnology, and agriculture.
- Negate the basic tenets of U.S. policy in Latin America since the Ford/Carter era, which emphasize democracy, human rights, and market economies, and send the wrong message to Latin American democracies that the U.S. is willing to support a military dictatorship in Cuba and a succession of power to General Raul Castro.
- Send the wrong message to the enemies of the U.S.: that a foreign leader can seize U.S. properties without compensation; allow the use of his territory for the introduction of nuclear missiles aimed at the U.S.; espouse terrorism and anti-U.S. causes throughout the world; and eventually the U.S. will "forget and forgive," and reward him with tourism, investments and economic aid.

Specific considerations:

Tourism:

- If tourists are allowed to visit Cuba, the Castro government will follow the same practices of the Soviet Union and Eastern European countries in the past: tourist would have to obtain visas from the Cuban Interests Section in Washington; their travel would be controlled and channeled into the tourist resorts built in the island away from the major centers of population; and tourists will be screened carefully to prevent “subversive propaganda” from entering the island.
- Tourist dollars would be spent on products, i.e. rum, tobacco, etc., produced by state enterprises, and tourists would stay in hotels owned partially or wholly by the Cuban government.
- The Cuban government would be able to select which U.S. hotel chains will be allowed to invest in the island in joint ventures with the Cuban government.
- The economic impact of tourism, while providing the Castro government with much needed dollars, would be limited. Dollars will flow in small quantities to the Cuban poor; state and foreign enterprises will benefit most and a large percentage of the tourist dollars spent on the island will be sent abroad by the foreign entities operating hotels and nightclubs.
- A large influx of tourists into Cuba will have a dislocating effect on the economies of smaller Caribbean islands such as Jamaica, the Dominican Republic, Bahamas, and Puerto Rico, as well as Florida; highly dependent on tourism for their well being. Careful planning must take place, lest we create significant hardships and social problems in these countries.

- Since tourism will become a two-way affair, with Cubans visiting the U.S. in great numbers, it is likely that many will stay in the U.S. as illegal immigrants, complicating a rather thorny issue in American domestic politics.
- If we honestly believe that tourism can bring democracy to a foreign society we should also encourage Americans to visit North Korea and Iran to democratize those countries.

Trade

- No foreign trade that is independent from the state is permitted in Cuba.
- Cuba would export to the U.S. most of its products, cigars, rums, citrus, vegetables, nickel, seafood, biotechnology, etc. Yet since all of these products are produced by Cuban state enterprises, with workers being paid below minimum wages, and Cuba has great need for dollars, the Cuban government could dump products in the U.S. market at very low prices, and without regard for cost or economic rationality. Many of these products will compete unfairly with U.S. agriculture and manufactured products, or with products imported from the Caribbean and elsewhere.
- Cuban products are not strategically important to the U.S., and are in great abundance in the U.S. internal market, or from other traditional U.S. trading partners.
- There is little question about Cuba's chronic need for U.S. technology, products and services. Yet, need alone does not determine the size or viability of a market. Cuba's large foreign debt, owed to both Western and former Communist countries, the abysmal performance of its economy, and the

low prices for its major exports make the “bountiful market” perception a perilous mirage.

- From the U.S. point of view, therefore, increased commercial ties with Cuba would create severe market distortions for the already precarious regional economy of the Caribbean and Central America. It would provide the U.S. market with products that are of little value and in abundant supply. And, while some U.S. firms could benefit from a resumed trade relationship, it would not help in any significant way the overall U.S. economy. Cuba does not have the potential to become an important client like China, Russia, or even Vietnam.

Investments

- Cuba has promoted investments in tourism as its highest priority and only recently has begun to promote investments in other sectors. Cuba has not permitted greater individual freedom in economic matters. Unlike China, Cuba has not legalized private agriculture or manufacturing.
- Investments are directed and approved by the Cuban government. They would be limited, however, given the lack of an extensive internal market, the uncertainties surrounding the long-term risk to foreign investment, an uncertain political situation; and the opportunities provided by other markets in Latin America and elsewhere.
- The Cuban constitution still outlaws foreign ownership of most properties and forbids any Cubans from participating in joint ventures with foreigners.

- It is illegal for foreign companies to hire Cuban workers directly. Foreign employers must pay the wages owed to their employees directly to the Cuban government in hard currency. The Cuban government then pays out to the Cuban workers in Cuban pesos, which are worth a fraction of the hard currency.
- All arbitration must take place in the corrupt and arbitrary government offices or in the government controlled judiciary, where little protection is given to the investor.
- Foreign investors must also confront political uncertainties that do not exist in many other countries. They must contend with the possibility of the regime's reversing its policies, the legal questions surrounding previously confiscated properties, and potential sanctions against foreign investors that cooperated with the Castro government in the event that an anti-Castro government eventually comes to power.
- Opposition to market reforms will limit the extent to which the private sector emerges and functions effectively, and thereby will slow, if not prevent, attaining a measurable degree of economic recovery. The Castro brothers fear the likely erosion of political power that accompanies the restructuring of the economy along free market rules. Adoption of market reforms may well represent a solution to the economic crisis, but a full-blown reform process carries with it the risk of loss of control over society, as well as the economy, and threatens to alienate some of the regime's key constituencies.

Final considerations:

- The embargo is not the cause of Cuba's economic misery... A failed economic system, similar to what existed in Eastern Europe and the Soviet Union and lack of productivity and incentives is what is stifling the Cuban economy.
- American tourists will not bring democracy to Cuba. Over the past decades hundred of thousands of Canadian, European and Latin American tourists have visited the island. Cuba is not more democratic today. If anything, Cuba is more totalitarian, with the state and its control apparatus having been strengthened as a result of the influx of tourist dollars.
- Cuba's limited economic reforms were enacted in the early 1990s, when the island's economic contraction was at its worst. Once the economy began to stabilize by 1996 as a result of foreign tourism and investments, and exile remittances, the earlier reforms were halted by Castro.
- The embargo and the travel ban should be retained as a negotiating tool with a future regime to accelerate change in the island. If it's given away without meaningful concessions in return, what is the U.S. left with to influence developments in Cuba.
- The travel ban and the embargo should be retained until there is a regime in Cuba willing to provide irreversible concessions in the areas of human rights, democratization and market economics. Providing the Castro brothers unilateral concessions without major changes in the island is a gift they don't deserve and have not earned.

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