CUBA'S TRADE POLICY AFTER CASTRO

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I was invited to talk because I am reasonably well versed in U.S. and international trade policy, and not because I am an expert on Cuba. My focus, as suggested, will be on the post-Castro period. Put differently, I was asked to speculate because none of us knows what the political or economic structure will be at that time.

THE CURRENT TRADE CONTEXT

It is useful to first set forth some of the main trade policy developments taking place in the United States, in the Western Hemisphere, and in the world so that developments in Cuba can be put into context. These include the following:

- Omitting Cuba and a few other countries, the U.S. market is highly open to imports and this fact, coupled with the high U.S. economic growth rate of recent years, is sucking in goods and services in amounts never before experienced. The U.S. current account deficit is estimated to reach $420 billion this calendar year.
- Economic integration in the Western Hemisphere is moving forward at a pace unprecedented in the modern era. There are active integration agreements — free trade areas (FTAs) or customs unions (CUs) — in the Caribbean, Central America, the Andes, the Southern part of South America, and the mother of them all, NAFTA. In addition, FTAs cut across hemispheric sub-regions, such as those of Mexico with almost every country in sight, plus Canada and Chile, and Mercosur flirting with the Andean countries
- A provisional FTA between Mexico and the European Union (EU) went into effect on July 1, 2000, and Mexico is discussing an FTA with Singapore and is even talking with Japan about this — although trade progress with Japan is typically made slowly and deliberately.
- The negotiators looking toward a Free Trade Area of the Americas (FTAA) will have a preliminary text of the agreement, undoubtedly full of brackets to indicate points still in contention, by the end of this year. The deadline for concluding an FTAA, as agreed among the 34 participating nations, is 2005. The principal impediment to concluding this agreement is the lack of fast-track authority from the U.S. Congress to the president and this is certain to become an issue in the new administration. If fast-track authority is granted, the FTAA negotiators will be able to move to the end-game of reaching specific deals.
- The European Union (EU) continues its preferential treatment for imports from countries in Asia, Africa, and the Caribbean.
- Asian countries, those from Southeast and Northeast Asia, are discussing how to move toward free trade. Australia and New Zealand have free trade with each other.
- Finally, even though the ministerial meeting of the World Trade Organization (WTO) collapsed in disarray in Seattle late last year, global trade negotiations continue in agriculture and services, and the attempt to begin a comprehensive trade round is certain to be renewed.

The foregoing listing is by no means complete. My point, nevertheless, should be clear. Countries all over the world are negotiating preferential trade arrangements regionally, subregionally, cross-regionally. Efforts are simultaneously under way to revive global, nonpreferential trade negotiations. The EU is enlarging beyond the current 15 to include former socialist countries of Eastern Europe. China will shortly become a member of the WTO. So, too, will Russia and many of the other states of the former Soviet Union. Vietnam just signed a trade agreement with the United States under which Vietnam will open its market to imports of goods and services and in return receive most-favored-nation trade treatment (now called normal trading relations) from the United States.

Where is Cuba? It is outside all the main trade initiatives going on in the world, except in the most tenuous way with the Association of Caribbean States. This isolation is not completely Cuba's fault. After all, the United States does maintain an embargo against most trade with Cuba. However, Cuba also isolates itself. It does this by the nature of its socialist structure, the uncertainty of its judicial process, and the unpredictability of its regulations. China remains a dictatorial, communist country politically, but its internal economic policies are light years ahead of Cuba's in the sense of encouraging market initiatives. Cuba will never prosper as a trading nation if its internal economic procedures remain unchanged. It is by now inevitable that Cuba will be forced to play catch-up with its neighbors in the hemisphere — and the sooner this process begins, the less arduous it is likely to be for the Cuban population.

THE PROCESS OF TRANSITION

There are signs, still tentative, still partial, still inadequate, that a transition is taking place in Cuba's thinking about trade. Similarly, there are indications that the United States is beginning to think about the transition, even though Castro remains on the scene.

The transition in Cuban trade and related policies to which I refer is better known to all of you who follow this matter more closely than I do. The actions include decriminalizing the holdings of hard currencies by Cubans; opening foreign currency exchange houses; introducing a convertible peso; expanding the scope for foreign investment; creating export processing zones; permitting foreign banking within Cuba; ending the state monopoly for carrying out foreign trade; and publishing statistics on economic relations with the rest of the world more fully (although not completely so, to be sure) than had been the case earlier. Many of these changes took place after the breakdown of the trade and aid relations with the Soviet Union and the Council for Mutual Economic Assistance. These changes by no means have brought Cuba into the mainstream of modern trading relations, but they do represent the beginnings of a transition. The transition is most unlikely to reach the logical conclusion of a market economy while Castro remains in power, but what is happening may facilitate the movement to market processes after his departure.

Changes in U.S. economic policy toward Cuba also have been taking place. These include the legalization of remittances from the United States, greater tolerance of visits to Cuba by U.S. citizens, and legislation in Congress to permit more sales of foodstuffs and medicines to Cuba. The prohibition against providing credit to facilitate these sales may make the initiative inoperable in light of Cuba's high external indebtedness, but both those who support and those who oppose such sales are probably correct that transitions happen one step at a time.

Each individual action taken by itself is limited in scope. What is more important in a policy sense is the accumulation of measures intended to broaden U.S. economic relations with Cuba — cautiously, to be sure. This, I think, is evidence of misgiving by many in the Congress about continuation of past policy. I don't know fully what is stimulating these changes in U.S. sentiment, whether the lobbying by U.S. agricultural export interests, the anomaly of giving permanent normal trading relations (PNTR) to China but not to Cuba, the attention devoted to the Elián González case, and the frustration with a unilateral trade embargo that has lasted so long even as Castro remains in power — or, more likely, all of these together.

My purpose here is not to take a position on U.S. policy toward Cuba, but rather to state my impression that many U.S. lawmakers and senior officials in the executive branch are already thinking about the transition to a post-Castro Cuba and wondering whether this would be smoother if some economic transitions begin now.

There are substantial reasons for treating China differently from Cuba. China is vastly more populous and the potential market much more significant. China took the initiative to open deeper economic relations with the United States out of a desire to develop a more competitive economy. But China is not the only country that is being treated differently from Cuba. Normal trade relations are soon to begin with Vietnam. Talks between the United States and North Korea, the archetype closed society, are taking place and it would not surprise me if this led to more open trading relations.

In each of these cases — China and Vietnam in particular — the argument made by U.S. supporters of economic engagement is that the stirrings of a market economy will promote corollary political changes. I do not wish to push this argument too far. Democracy exists *only* in market economies, but markets do not by themselves assure democracy. I certainly do not wish to push the market/democracy connection in Cuba while Castro remains in power, but this surely will be a key consideration once he is gone.

Perhaps the most interesting country to examine for the interplay between market economics, trade, and political change is Mexico. It is next door to the United States, as is Cuba. Mexico's politics cannot be compared with Cuba's (or with politics in China or Vietnam for that matter). Mexico has long had an authoritarian regime, but not a repressive dictatorship in the Cuban mold. Mexico, however, was hardly a democratic nation as the West defines democracy. Despite this, the United States (and Canada) joined with Mexico in NAFTA. Mexican trade has since skyrocketed such that it is now the seventh most important trading entity in the world (counting the EU as one entity). And, just last month, on July 2, Mexico went through a democratic transformation by toppling the party that had been in power for 71 years. The economic transformation in Mexico was by no means the sole reason for the political transformation that occurred — but it surely contributed significantly to this progression.

LOOKING AHEAD

One of the papers presented at your meeting last year, that by Ernesto Hernández-Catá, dealt systematically with the kinds of issues I am addressing here — the transition and the effects of globalization on the Cuban economy. His informed guess was that the transition to a market economy in Cuba can take place relatively rapidly. I agree. Hernández-Catá had two caveats: the need for peace in Cuba; and sound economic policies. I accept this. Learning to shift from a constricted, inward-looking, controlled economy, whether of the type that exists in Cuba or, say, the Ukraine, to one that can thrive in a globalized world structure, is not simple. I am convinced, however, that Cuba is better situated to make this transition than was the Ukraine. This has much to do with neighborhood.

Outside influences come to Cuba mostly from the Western world. Castro has been in power for a long time, but it is unlikely that he has erased all the earlier cultural conditioning. The countries in the former Soviet Bloc that fared best, the Czech Republic and the Baltic states, for example, had comparable Western influences before Stalin. The states that made up the former Soviet Union had fewer Western influences and their conditioning from the harsh Soviet system penetrated more deeply in their thinking — into their souls. It will take repression to hold back Cuban initiative once Castro leaves the scene.

The other reason for my guarded optimism is that if Cubans can avoid internal conflict after Castro departs, much investment there is likely to come from the United States. The Ukraine did not have as prosperous an exile community right next door to help in the transition. Instead, it had the more or less bankrupt Russia as a neighbor.

The central issue of the current debate on U.S. policy toward Cuba is whether the movement toward a peaceful post-Castro structure is better facilitated by beginning a modest transition now or by retaining a thoroughly hard-line policy until Castro dies. I will not tackle this question head on. One reason for this is that I am less informed than all of you about how the Cubans in the streets of Havana and other cities think. Yet, I believe it is fair to say that one reason for the change in U.S. congressional sentiment is the conviction that increased economic engagement now is more likely to deter later strife in Cuba than waiting until Castro dies before engaging.

This is a particularly strong motivation of those who favor eased regulations to allow U.S. citizens to travel to Cuba. Cuba's tourism earnings are likely to grow in the future in light of the U.S. action. If Cuba erupts in internal conflict after Castro's death, tourism will surely decline to the detriment of many Cubans. Is this a good argument, that vested interests in growing tourism earnings will dampen the ardor for internal conflict once Castro dies? What I can say in answering this question is that it is an important part of the case that is made by those who favor beginning the U.S. economic policy transition now — to temper the temptation for violence after Castro departs the scene.

Jorge Pérez-López presented an informative paper two years ago on Cuba's external sector in the 1990s. I benefited considerably in understanding Cuba's trade picture from reading this publication. Cuba, based on data from the U.S. Directorate of Intelligence, is not much of a trading nation. Its total trade in 1998 — for the whole year — was roughly $5 billion. This is less than five days of current two-way U.S. trade with Canada, and about 10 days of current U.S. trade with Mexico. Cuba had a merchandise trade deficit in 1998 of more than $1.5 billion.

These data are not representative of what Cuban trade could be under different circumstances. If Cuba were prepared to join the global structure after Castro's death, some of the following actions would be necessary:

A rapprochement would be needed with the United States, the natural market for Cuba, as it is for Canada, Mexico, and just about all the other countries in the Caribbean Basin.

Such a rapprochement would also stimulate U.S. investment in Cuba for exports of manufactures, such as biotech products, fruits and vegetables, and services. It is unlikely that sugar, still Cuba's most important export by value, will ever regain its former position in the U.S. market. It is unlikely that Cuba, if it were incorporated into the global economy, would want sugar to dominate its exports.

Cuba's exports to countries in the Western Hemisphere, other than Canada, are low. There are limits to the potential of hemispheric markets for Cuba — other than to Canada and the United States — but Cuba has not even begun to approach these limits. A globalized Cuba would surely want to participate in regional and subregional economic integration arrangements.

Cuba's biggest market is still Russia — for sugar. Canada takes mining products, as does the Netherlands (nickel) for re-export to other destinations. These are attractive markets for Cuba based on its current trading structure, but they would be dwarfed quickly if Cuba were able to enter the U.S. market. This would particularly be the case if free trade in the Americas were achieved, and if Cuba were part of this process.

The countries that have made most foreign direct investment in Cuba (as of May 1998, based on Pérez-López) are Canada, Mexico, Italy, Spain, and other European countries. The total as of that date was less than $2 billion. Investment from the United States could quickly overtake other sources, assuming rapprochement and the establishment of a system in Cuba friendly to foreign investment.

CONCLUDING REMARKS

Cuba attracts much attention in the world, largely because of U.S. policy and the irresistible attraction this provides for some countries to make a political statement of a foreign policy independent of U.S. hegemony. This is particularly the case for Canada and Mexico. As beneficial as actions of these and other countries have been for propping up the Cuban economy following the alteration of the relationship with the former Soviet Union, they cannot provide the basis for meaningful economic development in

Cuba. Given its small population, Cuba cannot prosper without more intensive trade. And the most promising countries for thriving Cuban trade in goods and services are in its own neighborhood — especially the United States.

Cuba is almost surely not equipped to move immediately from its largely controlled economy to competing in the global market. Cubans do not have mastery of most modern technology and the country's communications network will need updating. Current producers under the closed system will want protection against more competitive imports, at least for a time. There is no safety net for those Cubans who will be made redundant by moving to a market structure and something will have to be devised.

Despite these problems, there undoubtedly will be many Cubans — perhaps a majority, at least among those who have had experience with the outside world — who will see the need for change in order to bring Cuba into the mainstream of world economic activity. Global engagement offers a potentially bright economic future for Cubans to replace the constrained economy that has prevailed under Castro. The conflict will be between Cubans who think this way — who think the way most Czechs, Poles, Hungarians thought once freed of the Soviet yoke — and those who will want to retain the political-economic dominance of the state as it existed under Castro. My view is that Cuba, if it is to prosper in the post-Castro period, has to join the modern trading world. I don't know how many Cubans share this judgment. That is a key question whose answer we may discover in the not too distant future.