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PANEL THREE – IT'S THE ECONOMY: CONSTRAINTS AND INCENTIVES TO REFORM

Moderator:

CARMELO MESA-LAGO
University of Pittsburgh

Presenters:

CARLOS SALADRIGAS
Co-Chairman, Cuba Study Group

ROBERT MUSE
Law Offices of Robert L. Muse

DANIEL P. ERIKSON
Director, Caribbean Programs, Inter-American Dialogue

KIRBY JONES
President, U.S. Cuba Trade Association

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ANDERSON COURT REPORTING
706 Duke Street, Suite 100
Alexandria, VA 22314
Phone (703) 519-7180 Fax (703) 519-7190

PANEL THREE – It's THE ECONOMY: CONSTRAINTS AND INCENTIVES TO REFORM

MR. MESA-LAGO: It is the Economy: Constraints and Incentives to Reform.

After almost 50 years after the Cuban Revolution, 18 years (inaudible). It is crucial to us to assess what is the current status of the economy and the constraints (inaudible).

Last year, the (inaudible) published a very interesting poll conducted on the (inaudible) in Cuba, and their main concern was the economy. It is the economy (inaudible), and this is what we are going to (inaudible).

The (inaudible) that I am going to present to you, 90 percent of it is from the U.S. National and Statistical Office and then a few things from the Economic (inaudible).

After suffering the worst performance in Latin America in the 1990s, we are talking a GDP growth rate of minus 1.4 percent, the (inaudible) economic reforms (inaudible). In 2001, GDP per capita, however, was still 7 percent below the level of 1989, the year before the crisis. We then reversed monetary reforms since 2003 (inaudible) the economy.

In the last three years, GDP grew at an annual average of 10.5 percent. This is the highest rate in Latin America of all time, but that rate has been grossly inflated -- I have written a lot about this -- by two manipulations, the first, (inaudible) the base price from 1981 to 1987 (inaudible) 26 percent over the (inaudible), and the second one (inaudible) free social services and subsidies to prices of goods. In summary, data on GDP on Cuba is virtually worthless.

(Inaudible) of the Caribbean, have not published (inaudible) estimating the last two years. (inaudible) This is unique in Latin America. There are (inaudible) with a cautionary note that these are the figures supplied by (inaudible). It is impossible to do a serious accurate estimate on what the real Cuban GDP is. There is a rough estimate that I have made to suggest that it is about one-half of what is published.

In any event, as Marifeli imparted this morning, an increase in GDP has not resulted in a significant improvement in living conditions in Cuba. I think this is quite important.

Gross capital formation which is a key factor in promoting future economic growth has declined by almost one-half in the period from 1989 to 2007. The fiscal deficit was cut by one-half in that period because of (inaudible). So that is a positive thing (inaudible) tremendous control of price, and you have the price inflation and that (inaudible). However, in the increase of 11 times the (inaudible) rate of 1989 (inaudible) 2007. Another indicator is monetary liquidity as a percentage of GDP which has doubled in the period.

Official data on 20 key goods in Cuba, both for export, key major exports and for domestic consumption, show that most of them have had (inaudible) performance in the period.

Let me start with (inaudible) is in mining where you have significant foreign investment, and the share of mining in GDP has increased significantly. Natural gas has jumped 35 times. You take into account that production in 1989 was very low, but it has increased tremendously, and it shows an increasingly trend

through the whole period.

Oil production increased four times, and nickel increased 62 percent in the period. But in recent years, oil and nickel have decreased and then stagnated. That is (inaudible).

But gas accounts only for 22 percent of the combined (inaudible) and gas, natural gas. So oil is considerably more important.

Cuba only meets about 40 percent of the domestic needs of energy. You will have an excellent paper later on from an expert on these things, so I don't have to go more into this. Sixty percent is imported.

During the (inaudible) period, there was a process of (inaudible) in Cuba which is proved by the sharp decrease of the industrial share of GDP. (Inaudible) the most important (inaudible), manufacturing lines were, in 2007, well below the year before the crisis. For instance, sugar, 86 percent. This year, (inaudible) per capita is at the same level after 18 years (inaudible) fertilizers, anywhere between 38 to 94 percent below 1989. Only cigars output has increased about 38 percent.

The worst performance has been in agriculture. (inaudible) were 24 percent below beef, milk, fish, rice, tobacco leaf, which is quite interesting because you (inaudible) in tobacco leaf.

Eggs, (inaudible) and seafood, the last two were very important export products before the crisis. They were in 2007 anywhere between 12 and 71 percent below the crisis level. Conversely, tubers, which is only (inaudible), were 117 percent above but declining since 2004.

Price increases for food, utilities and other services have surpassed the most increases in salaries and pensions that took place in 2005. Basing that on the Cuban economy, I have estimated that the real salaries in this period from 1989 to 2006 declined by 75 percent in real terms. This is because prices have increased tremendously in the agricultural market, (inaudible), et cetera. Pensions decreased 61 percent. Even with meager pensions, they take 6 percent of Cuba GDP last year. (inaudible) another burden and pensions are miserable.

Poor agricultural performance (inaudible) have resulted in serious (inaudible) of deficiency inside of Cuba that have forced importation of food particularly from the United States. The total amount imported including from the U.S.A. in 2001 is \$2 billion, but these imports are insufficient to meet domestic demand.

Raúl has discussed these very important issues in several of his speeches, and one of the few measures that he has introduced was to increase the price of what is called the (inaudible) the procurement price paid to private farmers and cooperative members. Also, (inaudible) in the central bank, and he paid back debts that are being accumulated by the state to these producers. This has resulted in some modest increase in agricultural production last year. So a small incentive paid off significantly. That can be sort of an indicator of what could be (inaudible) in the future.

Let me go into a final (inaudible) which is quite important because it is one of the constraints of the Cuban economy under Raúl. Export value in 2007 was

20 percent below 1999, after 18 years of (inaudible) period. So, a major reform of Cuba is to enable not only (inaudible). They have not been able to recover the value that they had 18 years ago. Of course, this is (inaudible). On the other hand, imports increased in the period 80 percent.

So, the result of this has been a huge deficit in the trade balance of goods which has reached about \$6 billion, and the deficit in 2007 was twice the deficit in 1989. External debt in (inaudible) currency is about \$15 billion. That, of course, excludes the debt with Russia and Eastern Europe because they have never agreed to what exchange rate (inaudible) that was \$25 billion in 1989 should be.

The number of foreign businesses in Cuba dwindled by one-half in the last five years. The government has shut down several joint ventures, and the Minister of International Economic Cooperation declared that they are only interested in large investment in specific sectors of the economy. Yet, the most important, huge successes of the Cuban economy have been in those areas where there has been substantial foreign investment.

Tourism, that is the most important income of Cuba. The number of tourists jumped 8 times in the period, and gross revenue from tourism increase 13 times, but last year both the number of tourists and gross revenue were 7 percent below the 2005 levels. Even more important, only 47 percent of hotel rooms are occupied, and the trend is a declining trend. These are official statistics from Cuba. This poll was two months ago. Also, the tourists' average daily expenses have declined by 42 percent in the period.

The brightest spot in the Cuban economy is aid and trade provided by

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Hugo Chávez. There has been a discussion this morning about this. I just want to go into two important things. Chávez' huge subsidies in all exports account to about \$2 billion. By the way, there is a big discussion whether Cuba has accumulated a debt or not. I am not going to into that. We don't have enough evidence.

Paying our currency to the Cuban Government for professionals working in Venezuela -- physicians, paramedics, teachers -- generated last year \$5 billion. By the way, originally, those professionals, their salaries were expected to be paid by Cuba, but in the agreement in 2005 (inaudible) in our currency directly to the Cuban Government.

Investment in credits for billions of dollars including the completion last December of the oil refinery (inaudible), and also 36 percent of Cuban (inaudible). Venezuela's help shifted the (inaudible) Cuba's balance of trade from a huge deficit to a small surplus in 2006 and a tiny deficit in 2007. The enormous deficit in the trade of goods, \$6 billion last year, is largely compensated with professional services sold to Venezuela and, to a less extent, tourism revenue.

The relationship we see with China is another story. It is on strict business terms without subsidies. Trade accounted 15 percent last year. China's promise to build a federal nickel plant and exploit a new nickel deposit in San Felipe didn't materialize. Chávez promptly substituted the Chinese on the first one, on the federal nickel plant.

Last year, before Chávez was defeated in the referendum, he then warned

of the first consequences that such events could bring to Cuba. (Inaudible.) reminiscent of the collapse (inaudible). Raúl began immediately to search for other venues as the fiscal deal was (inaudible). But it will be extremely difficult to replace Venezuela if Chávez loses power or oil prices fall significantly as Ramon pointed out this morning.

Raúl, therefore, faces significant problems: severe internal economic flaws and (inaudible) and heavy dependency on Venezuela. His speech last July 26th promised to introduce “structural changes” and the warning that all can’t be solved and don’t expect a spectacular solution. That speech encouraged one of the strongest social economic debates in revolutionary history and has considerably raised the population’s expectations for change. Yet, not one single important reform was approved or even its cost in the National Assembly last December which, by the way, was the shortest in history, leaving us with the perplexing question that was already asked this morning: Why does Raúl raise expectations and then does virtually nothing or very little?

Of course, the common explanation is that while Fidel is alive and sending his (inaudible) to the news media, he could block any significant reform.

The arguments go: Raúl (inaudible) caution because he needs pressure from the people to legitimize the reforms. He is waiting (inaudible) February 24th (inaudible) to hopefully institutionalize his (inaudible). Now if that, in fact, materializes, his best option will be a gradual structural economic reform in the style of China and Vietnam, starting with agriculture and moving to other areas which could increase economic incentives on production while the Party keeps

political control. Conversely, if he makes only marginal cosmetic changes, there would not be significant economic improvement, and frustration of the population could increase.

Thank you.

(Applause.)

MR. MESA-LAGO: We have a distinguished group of panelists that accompany me today, and the first is going to be Carlos Saladrigas. Carlos is the Co-Chairman of the Cuba Study Group which (inaudible) very interesting report of monitoring the prices in Cuba. He is also the Chairman of Premier American Bank, and he was the CEO of the Vincam Group which was listed in 1998 as one of the largest employer companies in the United States and many other merits.

MR. SALADRIGAS: Thank you, Carmelo.

We have spent literally the whole morning, and people like us who spend all this time in Cuba, spend an enormous amount of time reading the tea leaves and trying to predict or forecast what will happen in Cuba and how Cuba will change. What is in many ways humbling to recognize is the fact that how little power and influence we have to cause Cuba to change and to effect those changes on the island.

Three years ago, I was having dinner with a high-ranking official in the Cuban Catholic Church, (inaudible). At that dinner, he tells us. He says, I know just about everyone in the Cuban governing elite, and I know them well. I can

assure you that, without exception, every one of them understands that the system is absolutely broken and useless and that change is necessary. The problem is that none of them know which is to be step number one and, much less, which are to be step number two and step number three and so on.

That's the dilemma that I believe the Cuban leadership finds itself in right now. It's understanding, on the one hand, the enormous need for change and, on other hand, asking the difficult questions: How do we begin, what do we do first, and how do we move forward?

The need for reform is obvious in Cuba, and I think Carmelo has outlined many of the ills in the Cuban economy, but there are three fundamental things that I think are very important. The revolution is failing in the areas in which it has based its own legitimacy. This is providing a successful regime with the difficulty of understanding it is going to draw legitimacy from.

The previous regime under Fidel Castro drew legitimacy, significant legitimacy, from Fidel's own charisma. It drew enormous amount of legitimacy from the confrontation with the United States, and it drew enormous amount of legitimacy from the social goals of the revolution.

Raúl is inheriting this government where he knows he doesn't have Fidel's charisma. He is not willing or able or capable to entertain constant crisis with the United States, and the goals of the revolution, especially healthcare and education, they are crumbling, crumbling because of neglected or deferred maintenance and investments that haven't happened for years. Therefore, he must ask the question: Where am I going to draw legitimacy from?

(Inaudible) only one answer, and that answer is to draw legitimacy to make all the changes that the people are going to perceive as positive and that is going to turn it around the course of (inaudible). That, I think, is the most important movement for change.

Add to that the fact that even studies done in Havana's university show that the level of poverty in Cuba is increasing dramatically and that it's not only poverty. We have malnutrition and hunger prevalent in many sections of the Cuban population. This is a serious issue.

However, this is also a government that is based on the assumption that they want to retain control. Therefore the question, like was dealt with by all the other totalitarian regimes we have seen in Eastern Europe and elsewhere, is the perennial question: How can I change without losing control or how can I change minimizing my loss of control?

Therefore, because they are humans, just like all of us are, we believe and I believe that change is going to go in that direction, in the direction of what can they do that will solve the problems and yet allow the minimal loss of control. I think they understand what we know, that it is impossible to change without losing control. Because of the information, I think they need to understand what they are the risks of changing and what are the benefits of changing.

In many ways, the benefits of changes are the perennial questions of: Well, do we pay now or do we pay later? What is the cost of change today versus what is the cost of change tomorrow? If we delay this for five years, what is going to be the cost of change five years from now?

This is an equation. This is a thinking process that is going into their heads. They are evaluating this sort of thing.

In favor of changing today, you have a number of forces, primarily the fact that they will be changing from a position of strength. Venezuela, as Carmelo mentioned and others mentioned today, is providing Cuba with a significant subsidy. You have a favorable geopolitical wind in the region, being friends with Lula in Brazil, the most important country in Latin America. It's renewing and strengthening relations with Mexico. You have friends in Nicaragua, in Bolivia, in Ecuador. You have a complete left-wing movement that is providing an enormous geopolitical tail wind to this regime.

Raúl and others, who are more pragmatic and even from the military background, understand that change is best effected from the position of strength than to try to deal with change from a position of weakness. So, from this perspective, they are more likely to change now than to change later.

The second factor for change is that there is a whole new generation of change in the Cuban leadership, and these people are fed up with revolution. They want stability. They want stability, and they want long-term stability, and they do not see Hugo Chávez providing that stability. They do not trust Hugo Chávez to be stable. If there is one factor that has been ingrained in their minds, like the branding of a cow on ranch, it's that they promise themselves that never again are they going to go through the difficulties that they underwent in the Special Period. Therefore, they are desperately looking for ways to diversify the Cuban economy and to not allow the Cuban economy again to become

dependent on one state like Venezuela or the former Soviet Union.

They also know another thing. They also know that expectations for change alone will not bring about change. Only when the problem is broken down into pieces do expectations for change become and enable people in the country to become agents for change. Therefore, they know that one way in which change is going to come about and one way in which they are going to gradually lose control is to break down the problem into manageable pieces so that people can become agents of change in those small problems and small pieces. Therefore, they are going to do their best to make this change gradual and clearly as slow as possible.

However, on the other hand, they know that if they go too slow, as Carmelo mentioned, they are not going to produce the kind of results. If they're going to implement significant reforms, they have to be serious, they have to be structural, they have to be fundamental because the most critical element of the Cuban economy is lack of productivity. The only way they are going to turn this program around is to make reforms that enable the Cuban people to become productive in agriculture and in other sectors of the economy.

In other words, they have to open the internal markets of the country. That, I think, is probably what they're going to be facing.

Also, arguing for change is the fact that they've done it before. Been there; done that. They did it in the Special Period, and it worked. (inaudible) Yes, they lost control, and this is what led to the spring of 2004 or 2003, 2002 or 2003. So they know. They know that very well. They know it worked, but they also know

that it created problems and it empowered civil society and it empowered an opposition.

But, for them, I don't think it's a question of choice. I think it's a question of what to do.

On the negative side of change is, of course, Fidel Castro and it's not Fidel Castro in the fact that he's preventing change. I believe that they're past that. I believe that Fidel Castro doesn't matter. What really means Fidel Castro is that they know that if they begin a process of change and a crisis occurs like (inaudible) occurred earlier and others, that they don't have the figure of Fidel Castro to come in and personally solve the problem with gentle fortitude the way he has done before. So this is an issue, and this is significant also. This is significant.

The real issue is, clearly, Cuba is on the path, and I think there is going to be fairly quick significant and fundamental economic reforms. I, personally, believe and I would bet my money that they are going to start with important microeconomic reforms in the agricultural sector, self-employment and others.

The question that it really poses for us in the Cuban American community and the question that it poses for policymakers in the United States is how do we react to that scenario which is probably the most likely scenario to occur Cuba, and it is a process that is going to take several years. Do we take the position that we are not going to engage in any way, shape or form?

Do we take the position that we are going to try to impede or scrutinize those changes in any way, shape or form?

Or, are we going to begin a process of at least partial engagement and begin to anticipate some processes that are really going to help Cuba's future and that are going to empower the Cuban people significantly to then be able to be their own agents of change, which is really what we want to accomplish?

MR. MESA-LAGO: Thank you, Carlos.

MR. MESA-LAGO: The next speaker is Robert Muse experience in U.S. who is a lawyer in Washington with much experience in U.S. laws relating to Cuba. All of his clients are major corporations who engage in international trade and foreign direct investment. He has testified on legal issues involving Cuba before the Senate (inaudible) and other entities.

MR. MUSE: Thank you.

I'm going to be depressing simultaneously on three different problems. I don't think economic or political reforms are realistic or it's realistic to expect them in Cuba anytime soon. I also don't think that the U.S. Congress is going to revise its embargo policy anytime soon.

But I will argue that the new administration coming in less than a year should nevertheless pursue a policy toward Cuba that genuinely reflects the U.S. national interest, and I think that U.S. national interest has to now be seen regionally -- what has occurred in the northern tier of Latin America, in Venezuela, Bolivia, Ecuador. Danny Ortega is back in Nicaragua, for example. We have to think of Cuba in the context of our regional relationship with Latin America as a whole and particularly with northern Latin America. Every

President in my lifetime that's ever come into the White House has talked about an emphasis on Latin America. I think we're finally reaching a point where that emphasis is inevitable.

So I'll give you briefly my reasoning as to why we shouldn't expect economic and political change in Cuba of any fundamental sort, and then I'll get to what I'm really more interested in: what the U.S. reaction should be to stasis in Cuba, whichever is the most likely outcome.

Quickly and going back to my earliest involvements with Cuba in the late eighties and nineties, the frame of reference was post-Cold War. That was the orientation. The embargo was a relic of the Cold War era. The Cold War no longer existed. The embargo should go. It didn't for a number of reasons that could occupy us all day, particularly to do with dynamics within the U.S. electoral system that kept that embargo in place.

We're now beyond the Cold War period, but we've been slow, it seems to me, to grasp that. We're now in a post post-Cold War period where many of the assumptions of 20 years, well, depending when you begin to count -- 1989 in the Eastern bloc and Cuba in 1991 -- are no long operative.

What the Cubans call neoliberalism and we call globalization is the god that largely failed in Latin America. That leaves Cuba just on the political and economic front with far more allies of solidarity. It had essentially none in the early mid-nineties. I would argue that most of its economic openings at that time were tactical -- they reflected that isolation -- and have been largely withdrawn since Cuba's sense of its own security has strengthened with governments like

Chávez and so on in the region.

The reason I don't think there's going to be broad economic change in Cuba is even if the Cuban economic growth is only half of what the CIA is saying it is, at the moment, 10 percent, even if it's 5 percent, that's still double U.S. growth. I think some of the macroeconomic trends involved in Venezuela and nickel prices, et cetera.

Parenthetically, it's ironic that Cuba, which prides itself on an educated population, is converting itself in some ways into a primary commodity in nickel, oil, these sorts of things. It has only substituted these commodities for the old the commodity of sugar, but it hasn't made much progress in extending or rendering any more sophisticated, its basic economy.

With the army in charge and when we talk about Raúl, we have to make that point. Raúl is the army. They control the economy. That means two different things.

I was speaking to someone during lunch, who made the interesting observation that economic reform in Cuba in the form of allowing even small private enterprise -- restaurants, hotels -- immediately come into direct competition with the army. There has been a pattern of closing small restaurants, paladares and so on in order to drive tourists back into the state enterprises operated by the army.

Then there's a psychological resistance by the senior army officer corps to either notions of private enterprise or liberal democracy.

Both of those are messy and essentially uncontrollable dialectics. I see no

evidence the Cuban leadership is going to relent, accordingly won't relent on an economic or political front.

So when a year from now a new President takes office, some of the things he or she is going to have to deal with early on, and I'll limit it to Cuba and then try to broaden it out.

How do they deal with the notion of Cuba? There are some elements of real concern. Earlier, Professor Gomez was talking about an imminent or pending potential immigration crisis. That is a problem that seems to be getting worse.

There are serious issues, environmental issues, as they involve fisheries, reefs and so on in the American southeast and Cuba. Those issues are going to be exacerbated by the fact of Cuban drilling in the Florida straits, deep sea oil extraction. One bad spill in that zone, and it seems the economic zone is 50 miles off Key West. We split the difference between the Cuban coastline and the Florida coastline. They are, under the Law of the Sea, entitled to drill up to 50 miles from the Florida coast. One bad spill is going to have devastating consequences to the U.S.

There are drug interdiction issues.

All of these things ought to properly and ethically be addressed if we have a White House discharging its obligations to conduct the nation's foreign affairs in the national interest.

How would a new President do it, assuming the will existed? Congress has gone some way toward codifying the embargo, and that means they took

what historically was a purely executive branch prerogative. The embargo could be ended with a stroke of the President's pen into placing (inaudible) with things like the Helms-Burton Act that require that Cuba meet a number of milestones in order for the embargo to be lifted.

The resurgence of the Cuban American conservative power in Congress through artful PAC contributions, they should be credited. It was axiomatic a few years ago. I remember the majority leader, Dick Armey, was saying that the embargo. I think he said and somebody will remember. I think he said it in something like 2000 or 2001. He said if the embargo lasts for another year, I'll be surprised.

Those of us who have sought to assail the embargo thought we had two principal opponents blocking progress on that front, Tom DeLay and Jessie Helms. They're both gone, and the embargo is more bipartisan today than it has ever been in the U.S. Government. So the President is going to have to be realistic.

There will not be industry groups that are going to move to lift the embargo. The Cuban market is small, and it's a formidable enterprise because it requires a giant lobbying effort. History teaches us even the farmers won't get involved, as I think Kirby has pointed out occasionally, to protect their markets in Cuba. They're willing to place very little of their influence and capital toward that end. So it's not realistic to think that it's going to be a corporate lifting of the embargo.

A President is going to deal with a very much deteriorated set of relations

throughout Latin America that are going to have to be addressed. Regional trading blocs are forming. Energy blocs are forming. We're going to have to deal with that. I would suggest we put Cuba into that context. Think of it in regional terms.

We address initially within the remaining areas of executive branch discretion. We deal with things like immigration. We begin talking with the Cubans again on environmental issues. We tone down the rhetoric, stop the insults and referring to Raúl Castro as Fidel-lite, as an assistant secretary of state. Deplorably, again, that's just not acceptable. So, tone down the rhetoric.

Then when Cuba, and it will, it's going to introduce. To my mind perhaps, they're going to be largely insignificant economic reforms in Cuba. Praise them extravagantly the way you would a child's fingerpainting. You don't have to believe it's a work of art, but again you're encouraged by it. These all confidence-building exercises might get a White House inclined to follow this path to a position of diplomatic negotiations with Cuba. That's what's going to be.

A global settlement of all outstanding issues which would include claims, and we need a trade agreement with Cuba at this point. When you sever relations for the better part of 50 years, the world moves on. We need investment protection agreements, assuming Cuba wants U.S. investment someday. Intellectual property protections have to be brought up to date. This can only be done in a global diplomatic settlement with Cuba that is then presented to the U.S. Congress for ratification.

It's only an opinion, but it's based largely on my personal experience in dealing with Cuba for several years, and I think it attempts to be realistic about Cuba and recognizing that Cuba is not going to be the dynamic of a changed U.S. policy. That's going to have to come from within, and it's going to have to be a White House-led endeavor at this point.

Thanks.

MR. MESA-LAGO: Our next speaker is Daniel P. Erikson. He's the Director of the Caribbean Programs at the Inter-American Dialogue. He's researching the functions of U.S. foreign policy in Latin America and his current work is focused on U.S. foreign relations. (Inaudible.)

MR. ERIKSON: Great. Thank you very much. I'm happy to be here. As I perceive this panel, I think I'll just probably extend the remarks you've already heard.

To begin with, Carmelo said at the beginning of his remarks, it's the economy, stupid.

I would perhaps put it slightly more delicately in the sense that the economy is really where the action is for a lot of people in Cuba and the way that they're trying to forge their way forward, and I think it's where the action is probably most likely to be when you look at the government and the policymakers in Cuba as they try to figure out the future of their country. So I really want to focus my remarks, a few remarks on the state of the Cuban economy today and then also some of the likely choices that I think people will face in the future.

To begin with, it's been said that it's been 17 or 18 years since the Special Period began in Cuba which was the really profound economic crisis that was precipitated by the clash of the Soviet Union. I think that really it's very interesting that almost two decades later that how Cuba has suffered from the Special Period and it's also trying to overcome the crisis of that period really defined how people see the economy today.

On the one hand, the real world impact of the economic collapse was extremely profound. GDP shrank by about a third. You had a spike in malnutrition. You had a lot of difficulty in the healthcare sector and a lot of scarcity facing the economy. Also, I think it really impacted the perceptions of change and what the economic change looks like from the perspective of the Cuban population.

Of course, the Special Period also produced or the government's response to it produced a series of economic reforms allowing some small scale entrepreneurship, allowing the dollar to circulate freely for a number of years. Of course, you have the famous paladares and other basic episodes of entrepreneurship allowed in Cuba. I think the government is still trying to kind of reconcile that and what the impact has been both on the society and on the levels of equality or inequality within the government.

The economists that I've been following tend to say that it's probably correct that the government GDP has more or less come out of the Special Period, and GDP is today more or less where it was in 1989. They think the standard of living is about half what it was in 1989. Certainly, if you look at the

availability of food on the rations, if you look at the quality of many of the social services, if you look at the cost of living in Cuba, it's just extremely difficult for many people to have their basic needs met.

The Associate Press reporter in Havana conducted an experiment earlier, I guess it was last summer actually, where she decided that she'd lived in Cuba for several and decided she'd go on a ration system for a month to see if she could make ends meet. She ended up losing nine pounds, and this wasn't a heavyset woman to begin with. I think that you really do have a great deal of scarcity still today.

At the same time, the government is experiencing a period of economic growth. They say the figures are around 10 percent a year over the past few years. I think according to the CIA world fact book, it's estimated at 7.5 percent. You can argue how much the growth is, what the rate of growth is, but clearly it's occurring and Cuba is on an upswing of economic growth.

If you look at the overall makeup of what's driving the Cuban economy today, tourism remains extremely important. Remittances, although flows have decreased somewhat with new U.S. restrictions, remain extremely important.

Cuba has made a very big investment in the biotech sector and actually has some licensing agreements with other countries, and even some U.S. companies in California have looked into biotech.

You obviously have nickel where prices have remained relatively high, oil where exploration is ongoing, and Cuba is meeting more and more of its domestic energy needs.

Then the last and probably the most important category is what the Cubans classify as export of medical services. This is, in essence, the oil for doctors swap that Cuba has implemented with Venezuela where you have 20,000 or so Cuban physicians serving in Venezuela and, in exchange for that, the Cubans receiving the subsidy or, rather, the oil from the Venezuelan Government that comes to about \$2 billion a year.

Some very creative economists have actually run the figures on the agreement and said that Cuba is subsidizing Venezuela because you can cost out the amount of services that Cuba is providing and perhaps make that argument. I wouldn't go that far, but clearly there is some sort of (inaudible).

Now, you really have to recognize, I think, Fidel Castro's genius in getting this oil for doctors trade with Venezuela. They signed this deal. It's called (Spanish) in 2000 when the price of oil per barrel was between eighteen and twenty-two dollars a barrel. Today, we're close to \$100 a barrel which is the equivalent of buying Google stock at 100. Fidel, himself, I am sure, is surprised that it's worked out the way that it has. By any measure, it's just a spectacular return on investment.

You also have China which is Cuba today and is the number two trading partner and is playing a very significant role. You have Cuba buying a number of things from China as was mentioned, the buses and so forth, but also selling some goods to China. This is an important, I would argue, stable trade relationship.

Of course, you have the Canadians and the Europeans who are very

engaged in Cuba as well.

Against this backdrop, if you look at the nature of the economic debate in Cuba today, I would break it down along three or four categories. I think the traditional debate tends to be, as we heard a little bit on the previous panel, between shock therapy as was practiced in Eastern Europe and the former Soviet Union versus market socialism or gradualism or the China model as you see in China and Vietnam. I would say -- and I apologize for those of you who have heard me say this before -- I think the Cubans feel like they've had the shock without the therapy, and right now what they're looking for is more therapy and less shock. I think that really advocates for a more gradual approach.

So what you see in the context of the debate is, obviously, there are people who are saying, look, the situation now basically works. We've got Venezuela. We've got China. We don't need to any reforms whatsoever to maintain the current situation.

Yes, their expectations have been raised, but every country in a sense has a long line of raising expectations that haven't been necessarily met. It doesn't indicate a severe crisis necessarily for the government.

Then I think there is maybe a very moderate debate around what they call (Spanish) or, if you prefer, the rectification of socialism, saying we need to stay a socialist state but make this more efficient and somehow have the transportation system work, make the trains run on time and try to perfect the institutional workings of the economy under socialism.

Then you have what I find a very interesting debate about the China

model. One thing that China has done is legitimized a certain aspect of economic debate in Cuba because people can freely discuss the China model and often do. It's been a huge subject of academic studies within Cuba. What's interesting, though, is people who advocate the China model tend to do so under the framework that this is what helps the Communist Party stay in power in other countries and it can perhaps work in this country as well.

There are many Cubans who find the China model appealing as a way to push forward towards greater economic modernization. They think it could really help in the agricultural sector and in other sectors, but they don't necessarily make that argument. They tend to make the more political argument.

Then I think you do have a group of Cubans who the social democratic consensus as it exists in many countries in Europe -- one could argue perhaps to some degree in Canada and other countries -- is very appealing. And so, while you don't have anyone that's really pushing for as much of a neoliberal model or a very dramatic break with the past, you do have some European ideas of social democracy which people find interesting.

Now, when you look at the situation today, when you talk about economic reform and particularly here in the United States, there's a lot of debate. Is it Poland or is Vietnam? Is it China or is it Russia? This type of debate really appeals to all Cubans because most of the countries, particularly China and Russia, are big, important countries. When you compare Cuba to these big, important countries, it also sounds big and important.

However, you can't forget that Cuba is in the Caribbean, and its future

economy will basically be a Caribbean economy. That means that you're going to have some light mineral extraction, perhaps some manufacturing in the future, certainly remittances and tourism, and perhaps Cuba could do more in the educational and health services. But you have a number of countries in the Caribbean today -- Granada, Jamaica and others -- that are engaged in these sectors as well. And so, I think it's important to situate Cuba's economic future in the regional context which is the Caribbean.

To work towards my conclusion, we were asked to talk a little bit about constraints and incentives, and we've heard a lot about those today. Carlos said that Fidel doesn't matter anymore. I think that might be news to Fidel. He might disagree. I don't know.

I would argue that Fidel matters a great bit both because I think he still represents a break on reform in Cuba and to some degree the new group of Cuban leadership needs to figure out how to deal with Fidel's legacy. After 49 years of socialism or communism, what does this mean? What does this mean for the Cuban Government? What does this mean for the average Cuban? Is there a way to modernize the economy without necessarily repudiating Fidel? I think that is a challenge people are grappling with.

There's also another constraint. There is still large a push, I think, in Cuban society for equity and concern about social equity and limited amount of inequality. One of the greatest criticisms of the government's reforms is it really deepened inequality in Cuba. I think that the Cuban people, although they want to build a better future for themselves, they don't necessarily want to see a

hugely unequal society develop as exists in Brazil or in many other countries in Latin America.

Then, of course, you have I think institutional limitations and institutional constraints and that Cuba's technocratic class, although it is very good in some instances, would really need a lot of training and development to prepare for a more open economy.

What are the incentives for reform? One is that Cuba has all this human capital, and it hasn't figured out what to do with it. You have a lot of unemployed, probably people who are really quite well trained in many instances. So the need to generate the types of employment that can have Cuban's human capital be utilized, contribute to the productive capacity of the country and for people to build a future in Cuba is important.

I think that you also have an incentive, a very interesting incentive, set up around the Venezuela phenomenon because with Chávez losing the referendum in Venezuela, his current term, unless he tries a second bite of the apple and tries another constitutional reform, ends in January of 2013. The clock is ticking on that.

The Cubans have learned, both with U.S. pre-1959 and with the Soviet Union during the Cold War, as they say, you shouldn't put (Spanish). You don't put all of your eggs in one basket. I think the Cubans realize that they're going to have to figure a way to move their eggs out of the Venezuela basket, and they can't rely solely on this in the future. The referendum was a big wakeup call for that.

To move on to the U.S., I think there is a lot of debate today about whether the U.S. embargo represents leverage or does the U.S. embargo represent the absence of leverage which is, I think, a key point. There are people who support the embargo and say today and have told me the whole reason we have the U.S. embargo to Cuba is for precisely this moment because it's leverage over the next government.

Well, maybe, but I think we've heard some pretty good arguments that it's actually not leverage or it represents the absence of leverage. That's probably where I would come down on that.

Notwithstanding that point, I think it's important to realize that Cuba's economic future is inextricably bound up with the United States. The United States can have a negative impact. It can have a positive impact. It could have a transformational impact, but there is no denying the fact that although everything that we say about Venezuela and China and the Cubans don't care about the U.S. anymore or they're not going to make the concessions that the United States demands of them are true, that the United States nevertheless is the dominant economic power. Cuba is right off our shores, and I think U.S. actions will have a great deal of influencing Cuba's economic future.

Thank you.

MS. MESA-LAGO: Thank you.

The last speaker in this panel is Kirby Jones. He's the founder and President of the U.S. Cuba Trade Association and serves on the board of the

Center for Cuban Studies in New York. He is currently the President of Panama Associates and is a contributing author to the book, *Subject to Solution: Problems in Cuban-U.S. Relations*.

MR. JONES: Thank you very much. Sometimes it's good to be last, and then it's not so good to be last. We'll see how this turns out.

I made my first trip to Cuba in July, 1974 and made my last trip to Cuba last week with many in between. I want to start off with a personal observation, and then I'm going to get into U.S. trade and U.S. companies.

If you had told me in the seventies or eighties or up to 1990 that I would see the trend we see in Cuba today, I'd say you were smoking pot or worse. The changes that have happened in that country over the last 13 years compared to what it was in the last 30 years have been remarkable. I'm going to come to those shortly.

One of them, not the least of which, is trade with the United States. For almost 40 years, there was no trade with the United States. Now the United States supplies more food and agricultural products to Cuba than any other country. It is a system which developed very rapidly. It started in December, 2001. With \$4.4 million worth of food sales, last year Cuba spent \$682 million on agriculture products and food to the United States.

There was a steady increase in 2001 through the end of 2005 and began leveling off in 2006 and leveled off in terms of quantities of food this year. The higher price is because the prices of food have gone way up. In terms of the quantities of food and the tonnage of food, it has pretty much been level over the

last couple years.

Cuba has done business with 168 American companies in 37 different states and sold 300 different kinds of products to Cuba, everything from wheat, corn, rice, soybeans, limes, chewing gum, railroad ties, utility poles, live cattle, cookies, frozen chicken. It goes on and on, and so it's from the staples to the chewing gum to Wrigley's chewing gum which you can buy in the stores.

Nine million metric tons and the shipping has been largely done by the United States. Seventy-five percent of the trade has been shipped on American carriers. So it has been a good and a surprising, to me, increase in the amount of trade over the last six years. Some American sectors have done very well.

But things are changing a bit, and it changed in the last six months. There is a discernible change in Cuba's attitude toward doing business with the United States, one of the reasons for which is that Cuba views U.S. companies as being unreliable not because the companies themselves are unreliable. Quite the reverse, the Cubans have very good things to say about the efficiency and the quality of the products the American companies are selling, but the system within which American companies have to work is unreliable.

That goes to the regulations and the restrictions on trade that have been put on by the Bush Administration and implemented by the Treasury Department which have caused being in the middle of certain deals and certain transactions and everything has stopped. Cuba has been in the situation where its money is in the United States and the product is in the United States, and they have neither which is the worst case scenario. So they look on the U.S. as not a

particularly reliable source, and they've turned to other countries.

Other countries which saw themselves losing markets to U.S. companies are now beginning to recapture some of them. They're offering credits, particularly from Canada, from China and Vietnam. They're offering long-term credits. One can expect the trend over the next few years, unless the restrictions change, as to be relatively stable.

I want to talk about the business environment a little bit down there. A lot of you have been talking about the changes that have occurred over the last 13 years in which American companies now work and the environment in which they will find themselves should the embargo change to allow an increase in different kinds of activities.

If you take a trip to Havana, you arrive in an airport which was built by the Canadians. You walk outside and get taxis which are Mercedes or Toyotas. You go to a hotel which is managed by the Spaniards or the Germans or the Dutch. In your minibar is a beer which is a product of a joint venture with the Canadians or a bottle of rum which is a joint venture with the French.

You go down to the business center and rent a cell phone which is a joint venture with Italy. You go down to breakfast and have oranges and grapefruits which is a joint venture with Israel which has the largest joint venture citrus plantation in the world. In your bathroom are cosmetics which is a joint venture with a French company.

You look out the window and there's a ship, a container ship, going into the harbor. In the harbor is a container port which is a joint venture with Spain. You

go visit a foreign company that's there that has its office at the Miramar Trade Center which is the largest real estate project in Havana, which is a joint venture with Israel.

You may discuss what we've heard about oil and mining, mining which is a joint venture with the Canadians and oil which has joint venture operations with China, Canada, Spain, Norway, India, Malaysia, Vietnam and now Brazil.

There is not a sector in Cuba which does not have the involvement of a foreign business company other than medical services and education. This development over the last 13 years of the involvement of the foreign business community, I think, is one of the most important changes that have happened. Five hundred companies around the world have offices in Havana. There are 235 joint ventures around the island. If you had asked me, again, 20 years ago would I have seen that, I would have said, impossible.

But there are other changes of equal significance. All of these changes, I have to mentioned, were under Fidel's watch. There's a lot of talk about Fidel and change and he's obstinate and he doesn't want to do this and he doesn't want to do that. But everything I'm about to mention was done under his watch. I'm not ascribing him motives or that he was forced into it or not, but the fact is that it happened.

Diversification: Fidel Castro, almost with a flip of a switch, ended 400 years of dependence on sugar. He was out of the sugar business. They are importing sugar, and it is not significant. It is the opposite of any significant factor in the Cuban economy.

He did this for one simple reason: They were losing money. These old refineries were eating up oil, and the price of sugar at the time was four or five cents. Then why are we in this business?

You look at the source of their income now, and there are sources which didn't exist 15 years ago. The number one source of countercurrency now is nickel. Cuba has the third largest deposits of nickel in the world, \$2.5 billion.

The second is personal services. All these doctors and trainers that Cuba is sending around the world is not a Peace Corps. He is charging money, and it generates income, about \$2.3 billion.

Tourism is third, whether it's up or down, 7 percent or 3 percent for one year, it generates a little over \$2 billion a year in revenues.

Then throw in foreign remittances. Nobody knows the figure. The Cubans don't know the figure. There is no way of tracking it. Estimates are about \$800 million.

Biotechnology, \$350 million. Cigars and rum, about \$500 million. Then the list begins to dribble down, but this is a market diversification in a country which for centuries had been dependent on one crop.

Entrepreneurship, however small it is, again it represents a dramatic change from the sixties, seventies, eighties and beginning of the nineties. The paladares, the private restaurants, and the casas particulares, the bed and breakfasts, and now add in personal services. You talk to Cubans in the street, and they need a plumber or an electrician or a seamstress a car fixed, José down the street will do it for hard currency.

Can José set up a company to do it? No. Does he do it and get paid in hard currency by his neighbors? Yes. So these little personal services are going on which again is a market difference.

The point of all of this is that all of this is institutionalized, and there is a structure, and its functioning does not depend on anybody whose last name is Castro whether it's Fidel or Raúl. If Fidel Castro dies tomorrow, that worker in any of those joint ventures or any of those operations in a company is going to work the next day, and that structured institutionalization will continue. It represents a total difference from what we had in Eastern Europe and the former Soviet Union where the foreign business community was not at all operational.

This foreign business community there in Cuba, among its many objectives, one is going to be very close to the top which is stability and predictability. They're not going to let any chaos or any problems of the nature some have talked about happen in that country because they have too many billions of dollars invested. It is into this business climate that U.S. companies one day will find themselves.

As we look ahead to the United States and the impact of what's going to happen over the next few weeks, people have prognosticated and have been pundits. (Inaudible.) I will give you my two bits.

I think some assumptions are incorrect. That there is going to be a systemic political transition, I don't think that's going to happen. I don't think there's any evidence that there's going to be a profound change in the overall system in Cuba. So when you talk about a transition, I don't believe there's

evidence that it's a transition from Political System A to Political System B.

Second is that change is inevitable. Our political system here is full of the word, change. We're talking about change in Cuba. What most people think about is change to democracy and capitalism. That's our image of change. I think it's going to be a long day before you see in Cuba what could be defined in our terms as democracy and capitalization.

The third assumption that I don't think is correct is the U.S. can play a role. With all due respect to myself and all due respect to the panelists and all due respect to all of you here, what we say doesn't matter one whit in Cuba, and the Cubans, quite frankly, don't care what we say in this room. They have moved on.

Our assumption is that since we're not there the sun doesn't rise and set. Well, Cuba has moved on. Whether it's Venezuela or China or any of the other countries that I mentioned, they are looking at other fish to fry.

They look at the current U.S. system and they look at the current administration and the current election, and they say nothing is going to happen for 18 months. It's going to take a new President, whomever it is, even one inclined to do something, six months to get their act together. There are lots of other priorities in the United States other than Cuba.

This process, this attitude started about a year or year and a half ago. So we're going to have, to the Cuban mentality, two and a half years of the United States doesn't matter to us. The reality is each day that goes on, we do become less and less relevant.

Where I disagree with Dan, their future is not necessarily bound to the United States. They've lived without the United States for 50 years, and they're prepared to do it for another 50. They are, again, looking at China, looking at Brazil, looking at all these other countries that drill the oil 50 miles off our coast. They are looking at other sources and a great diversification of foreign investment which they have achieved. The U.S. is going to walk in and be met with lots of other people who were there before us.

I remember talking to the foreign minister one time, and he said the embargo is your problem now. It's not our problem. We have learned to cope with it. We don't like it. It hurts us in various ways here and there and the other place, but we cope with it and we have other partners, political partners, foreign policy partners and economic partners, and we don't need you now the way we needed you before.

The oil, I set up a meeting between Cuban oil officials and American officials in 2006, the one where the Pope kicked the Cubans out of the hotel, and it took me a year, year and a half to set that up. The principal obstacle was the Ministry of Basic Industry was saying why do we even need to talk to the U.S.? We've got all these other partners. Nothing is going to happen with the U.S. They're not part of our planning.

And so, I think as we look to what the U.S. can do, we have to recognize I think what our position is now.

And, a final word about the quid pro quo, we shouldn't do anything until they do something. That's a refrain that has been on the lips of U.S. foreign

policy for 40 years. Since you are a puppet of the Soviet Union, once you divorce yourselves from the Soviet Union, we'll change the embargo. It didn't happen.

Once you get your troops to Africa, we'll look at the embargo policy. It didn't happen.

Once you stop meddling in Central America, we'll look at the U.S. embargo. It didn't happen.

Now we're saying once you change your internal systems, we'll look at maybe changing the embargo. I don't think there's a Cuban official -- quite frankly, I don't think there's anybody in this room -- who would honestly accept that situation, given the 40 years of background.

So if you're waiting for a quid pro quo, that also isn't going to happen, and we are going to have this embargo in place for another 50 years. By doing so, who is determining U.S. policy towards Cuba? The Cuban Government because if our condition is unless you change.

MR. JONES: My final sentence, I'll make it a long sentence.

If we look, as Bob says, at this issue in terms of the U.S. interest but hang onto the idea that Cuba has to change first, we are letting the Cubans determine what we do which is in our self-interest rather than the deciding this is in our self-interest and we are going to do it because it's in our self-interest, not caring if Fidel Castro or Raúl likes or not.

MR. MESA-LAGO: What I will do, and I think it worked quite well on the first panel, is I will take five questions and then have a round with us and then have another round of questions.

Yes?

QUESTIONER: A comment and a question, Robert, about the PAC and the political will and all of that, are you aware that that PAC, the U.S. Cuba Democracy PAC, is a PAC of approximately less than 1,000 contributors that have put together just a million dollars? It's a million dollars.

I submit to you or would you agree that if this community that wants an end, that wants a change to U.S. policy, were not competing, if we were to compete with that political sophistication, that we could change things?

MR. MUSE: I agree. It's a pitiful amount of funding.

QUESTIONER: That's right. You want to find out who is funding, go to OpenSecrets.org. You can find out who gives the money, who gets the money. It's really shameful that less than 1,000 individual donors have more influence on this issue than anybody else in the Congress, and this is where the change in U.S. Cuba policy must come from.

QUESTIONER: My question was I understand Cuba. Recently, I noticed there were an awful lot of initiatives about the Green movement mainly because when the soviet Union pulled out, they lost 80 percent of their income. So they were forced to have to do things with less.

But I'm talking to folks in the Green movement, at least in Baltimore, and they're giving me examples of what Cuba is doing. I don't read about it in our

papers or anything, and I wondered if any of you have any studies talking about that.

QUESTIONER: Some questions about how to evaluate the Cuban rhetoric about where they're going: My experience in Vietnam is that changes always characterize, at least in the kind of countries, socialist countries, that the change is always characterized as the way to protect the revolution, and it's always characterized as improving socialism until you get to the point that through improving socialism, you have a flourishing market economy.

If you look at stuff that's coming out now about the debate on internal reform, people clearly are talking not just about steps in the agriculture sector but then how do you provide places that people who are earning a lot of money in the agricultural sector can spend it. I think that.

I guess the other question I'd ask is the premise that the U.S. doesn't matter. I mean no country in the world will acknowledge that it makes its decisions based on another country, particularly if that other country for a hundred years has been trying to control them. That doesn't change the reality that, in fact, it does make its decisions based on the large imposing country that can either make its life very difficult or if it changes its attitude, it could offer it all kinds of options that now don't exist.

QUESTIONER: The SIGINT intelligence facility in Lourdes, Cuba was abandoned by the Russians. I understand the People's Republic of China is there. Are they paying and how much?

Cuba produces steel. Where do they get the iron ore and what do they

use the steel for? Do they export it?

QUESTIONER: I am terribly frustrated. I have sat here since 9:00, 9:30 this morning and listened to what I believe is the consensus which is that change in Cuba will be evolutionary and it may have already started. But, guys, give us a plan. What's your plan? What would you like the world outside Cuba to do?

What is A, B, C, D to get the job done, whether it's the U.S. or it's Brazil or anybody else? Let's stop wringing our hands and let's come up with a plan today. Thank you.

QUESTIONER: One question: How come that the most conservative think tank of the United States, with a few exceptions, has said not only that the embargo has not worked but that it's not in the best interest of the United States and yet continues to exist?

QUESTIONER: Thank you. Continuing your comment, how is Cuba financing this international trade? Are they paying cash? Are they getting any (inaudible)?

QUESTIONER: Kirby, as usual, you were very stern with your presentation, but when you suggested essentially the United States is irrelevant, Cuba has moved on, they have all these other relationships and so on. If you look at the rest of Mexico and Central America, overwhelmingly they are more oriented toward the United States and more integrated demographically and economically with the United States, a tremendous amount of tourism and exchange and so on and so forth. Do you really think, looking forward 15 or 20 years the way you look back 13 years, that Cuba will be the unique separation to

the dynamic of the whole region?

MR. MESA-LAGO: Now we are going to have answers.

MR. SALADRIGAS: Well, there were a lot of questions here that were posed. One comment that has been said is Cubans are saying we want to protect the revolution and we want to include socialism. I think that's purely rhetoric.

I think what they are saying is that they have understood one fundamental principle of politics, and that is that for them and for everyone in that kind of a system, equality in poverty is fundamentally, politically stabilizing force. Inequality in wealth is a force, is a factor that brings enormous instability.

So as they think through this problem that we change and assume a degree of stability or that we stay where we are and remain stable, as they move in that function, they fear the inequalities that economic openings are going to create as they did back in the early nineties when they tried the reforms. Wealthy, rich (Spanish), rich entrepreneurs and restaurant owners and other people were starving and very, very poor -- that scenario creates instability.

We talked earlier today about the speech of the President. Where Cuba went completely wrong is he doesn't understand that instability does not produce openness. It is openness that produces instability. This is kind of the equation where we are.

When we talk about the future, what do we do? Open up? When we open up to Cuba, we provide Cuba civil society, and we provide Cuba a position, and we provide people in the Cuban Government who want to be reformers with

opportunities and information.

But, in the end, if Cuba is going to change, it's going to have to be Cubans on the island that do that and that bring about that kind of change. We just need to enable them, and the best way to enable those processes is to open up to Cuba. That doesn't mean that we cannot have economic sanctions. That means that isolation as an element of policy for a totalitarian regime is absolutely counterproductive.

MR. MUSE: Number one, I was asked about the small amounts of money that go to the PAC that have created a largely bipartisan pro-embargo policy for Cuba. Yes, it's a very small amount, and that's what makes it stand even more, that there has never been an offsetting PAC in favor of lifting the embargo.

Pepe Hernandez is here today. Scott Fitzgerald once said that there are no second acts in American lives. The fact that this PAC is modeled very much on what you and Jorge Coskinosa were doing beginning in the early 1980s. So, to me, it's an almost embarrassing slippage in position as an anti-embargo (inaudible.)

The Green movement in Cuba, don't know. The idea of how far the dialogue is going internally in Cuba, (inaudible) about how do we deal with very wealthy farmers and that sort of thing, I would caution that and again I want to make a point.

I'm saying we should decouple U.S. policy from events in Cuba and pursue a regional self-interested national policy, but I think we've been underestimating the degree of self-criticism analysis that seems to be a feature of the Cuban

revolution. In the workplace and elsewhere, they discuss tax laws. I've seen many instances of this. The fact of the discussion, I don't think necessarily presages the action.

Lourdes and the listening station, is the PRC paying for it? They might be. I've always thought that the PRC tries to replicate our support for Taiwan with their support for Cuba. If they can bait us in that way, they're happy to do it.

Steel, to my knowledge, Cuba doesn't produce steel.

Oh, somebody said they were disappointed in all these panels to date and asked us to define the job or how do we get on with the job. I would need further definition of what that job is.

Number seven, embargo hasn't worked, why continue it? There's a sort of ennui or stasis of human affairs. We have Indian reservations which are a national disgrace and have been for 150 years. Just because something is a bad idea, governments are not very much in the business of correcting errors.

(Inaudible.)

MR. ERIKSON: I'll just take a couple. I guess I'll take the Green movement because no one has picked upon that yet. A couple years ago, Fidel Castro declared, every year, the Cuban Government declared every year to have a title. They have the year of the Energy Revolution. (Spanish).

They were doing the rice cooker, and they were doing energy efficient light bulbs and all of this, but that was predicated after a period where they had severe blackouts in the summer because of problems with the electricity grid and so forth. And so, a lot of I think the Green movement, as you describe it, in Cuba

is a pragmatic recognition there is not enough energy to go around and they need to conserve some of it.

Cuba generally has a problem, as anyone who has been there knows, with all these old 1959 Chevys and so forth, driving around. There's just like a lot of old infrastructure. There is a lot of infrastructure in Cuba, not just the vehicles but plants and factories, et cetera, with 1950s, 1960s technology. It hasn't been sufficiently update. So Cuba could probably actually do a lot more to green itself with more resources.

On improving socialism, I agree with the gentleman over there. It's one of those terms that's kind of like a Rorschach test or inkblot test. You can kind of see in it. What you see in it depends on where you stand.

So the reformers say, oh, improving socialism, that means reform. The people who are more hardline say, well, it's jut a way to appease the masses and kind of keep everyone happy for a little period of time. There's real division under that in what improving socialism means, and I think fissures will become increasingly apparent.

Then I just want to say on this whole issue of the U.S. and does it matter, does it not matter and so forth. I think it's clear. I mean no one talks about the impact of the U.S. embargo today because the chances of changing it seem so remote, but it clearly still matters. I mean it has a day to day impact on the lives of people in Cuba and makes it more difficult to access certain goods. It makes things more expensive. It makes Cuba's trade more difficult. Insofar as the centerpiece of U.S. policy is the embargo and the embargo affects the daily life of

Cubans, it matters.

The second point, a little bit to Kirby's point, I think the Cubans think that they are well-equipped for any eventuality. In other words, if the U.S. keeps the embargo, they can manage it. If the U.S. lifts the embargo, they say, well, we have the Malaysians, the Indians, the Spanish, and we can pick and choose our investments or trade deals with the U.S.

I think they're probably overestimating their capacity to manage that process. When you have such a large, diverse country with so many different sectors and industries, I think the Cubans would find it just extraordinarily difficult to really stay on top of that.

In terms of the future, Kirby, I'm sure will be here in 13 more years, and then we can discuss what the impact was with the embargo then. Thanks.

MR. JONES: I'd like to tackle the Green (inaudible).

On financing trade, we're the only country with which Cuba trades to whom Cubans have to pay cash. It's an anomaly. It's not the way foreign trade around the world is done, but Cuba has to pay cash in advance to U.S. companies.

Everybody else works with Cuba in the same way that everybody else works with everybody else. There are bilateral trade credits. When Lula was in Cuba, it was either \$100 million or \$200 million line of credit for agricultural products. Canada has activated its credits. There is trade financing. Cuba works no differently than anybody else around the world in the normal course of doing business. It hurts us because we can't offer those credit terms.

The embargo doesn't work. Albert Einstein said the definition of insanity is

doing the same thing over and over again and expecting a different result. The embargo in terms of why do we continue it, I haven't the slightest idea.

From a logical point of view, it doesn't make any sense because it hasn't worked. It hasn't accomplished a single stated reason in the sixties or seventies for having it. It just hasn't worked.

One thing we now know in terms of will it work going ahead is that Fidel Castro and the Cuban Government do not respond to threats. They just don't and quite the reverse. So if we're threatening them with the embargo or anything else, it's just not going to work.

Then in terms of decisions, to get to Abe's question, it's been my feeling that over the years, Fidel Castro measures. One of the main criteria that he uses to measure whether to do something or not is not what is to be gained or what is to be lost. If you look at his readings and the diaries and the stories in the mountains and whether he was going to attack or not attack this Batista patrol or the other, it was based on how much do we have to lose if we do this.

He went through other decisions, obviously when he took power and the government. It was, what do I lose?

Well, for years, particularly now, if there's a decision to be made and he opens up his book or Raúl does or the staff. If you take Position X, this is the impact on the United States, the page is blank, absolutely blank because the U.S. has done and is doing everything it can possibly do. You can't turn the spigot that's almost all the way off.

MR. MESA-LAGO: I want to say one final word too.

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Cuba produced 287,000 pounds of steel last year and that was way below what it was (inaudible). Those raw materials are (inaudible).

How does Cuba get trade? Well, usually, it's by credit. In the case of the United States, they have to pay what they can afford, et cetera, cash before buying.

One final thing, I will offer on inequality. There is no way that you are going to have economic development in Cuba without increasing equality. Already, there is phenomenal inequality in Cuba, but also there are significant problems of consumption and others that we have discussed here.

What you have to do and if you try to control the trade incentive, then there is not going to be development. So you have to tax this and use other incentives because they have to go together.

Thank you very much.

MS. HUDDLESTON: This was a great panel, but we have a really great panel coming up. So if you'll take just a very short break, I'd really appreciate it.

(RECESS)